ITUC Background Paper: Labour Market Deregulation Measures in IMF Loan Conditionality and Policy Advice for European Countries

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Introduction

1. Most of the IMF loan programmes and policy advice for European countries in economic difficulty have had a heavy focus on labour market reforms, all going in the direction of reducing regulations and decentralizing collective bargaining. The measures taken have led to a sharp drop in collective bargaining coverage and contributed to the lack of recovery through compression of aggregate demand. In the longer run, even if one believes the IMF's optimistic projections about the impact of labour market deregulation, the measures will have no more than a slight impact in improving countries' growth rates. However by reducing workers' protection and bargaining power they will worsen income inequality, a tendency which is already evident in recent economic data. The severe weakening of collective bargaining institutions will also make it difficult or impossible to develop the cooperative approaches for overcoming the crisis and creating jobs that proved successful in other European countries.

2. The IMF should recognize the damage that its approach on labour market reforms in Europe is causing both in the short and longer terms, especially as regards the impacts for worsening inequality, which recent IMF research shows will lead to greater economic instability and lower growth. The IMF should support a strengthening of labour market institutions that will contribute to a more sustainable and cooperative approach for economic recovery.

IMF European Department's Approach

3. Loan conditions or recommendations for labour market reforms became a major feature in loan programmes or policy advice for European countries in economic difficulty starting in 2010; in some countries they started earlier. Examples for eight countries are presented below. In June 2012 the IMF's European Department released a paper, *Fostering Growth in Europe Now* that presents the rationale behind the Fund's approach in Europe. The paper has been cited by the IMF as showing that "large-scale reforms of labor, product and service markets could boost GDP by 4½ per cent over five years" in euro-zone countries and that the reforms "should be implemented without delay".[1]

[1] IMF, *IMF Survey Online*, 18 June 2012

4. What the IMF paper actually states about the impact of labour market reforms is considerably more modest and nuanced than what the statement in the previous paragraph implies. *Fostering Growth in Europe Now* presents the following findings:

- In the short run, labour market reforms may actually increase unemployment, for example when dismissal costs are reduced and firms shed labour;
- Reforms need to be complemented by policies that boost aggregate demand if they are to increase growth potential;
- Even in the longer run, labour market reforms will only have a small impact on growth, 0.5 per cent after five years according to a figure on page 15 of the paper;
- The paper mentions reforms' "potentially high social costs" but does not quantify these nor does it discuss their impact on inequality.[2]

5. The *Fostering Growth in Europe Now* paper contains an Annex 1 that presents colour-coded "Structural Reforms Gaps" with OECD benchmarks for ten euro-zone countries, including most of the crisis countries. Not a single country is identified as having a "red" (large) gap for labour regulations, that is employment protection regulation; in fact none larger than Germany's. Some of the largest gaps identified are in the areas of legal institutions, infrastructure, training, goods market efficiency, credit markets and innovation. It may be added that the assessment of IMF research that labour market deregulation measures would have an insignificant or modest impact on growth concurs with findings of the World Bank's *World Development Report 2013: Jobs* and the OECD's *Divided We Stand* (2011).

6. Despite acknowledging the limited importance of labour market issues relative to others, *Fostering Growth in Europe Now* asserts that reforms are required "in particular" in labour markets. They are also at the top of the agenda in almost all of the 17 countries for which detailed proposals are presented (Annex 2 of the paper), which it states are based on "IMF recommendations on reform priorities for each country".[3] There is a clear divorce between IMF analyses of the relatively minor obstacles to growth created by labour regulations and institutions, and the emphasis on labour market deregulation in IMF country programmes and policy advice. Additionally, no attempt is made in the paper to assess the impact on inequality or social cohesion in the longer run

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[2] IMF, *Fostering Growth in Europe Now,* 2012
[3] Ibid

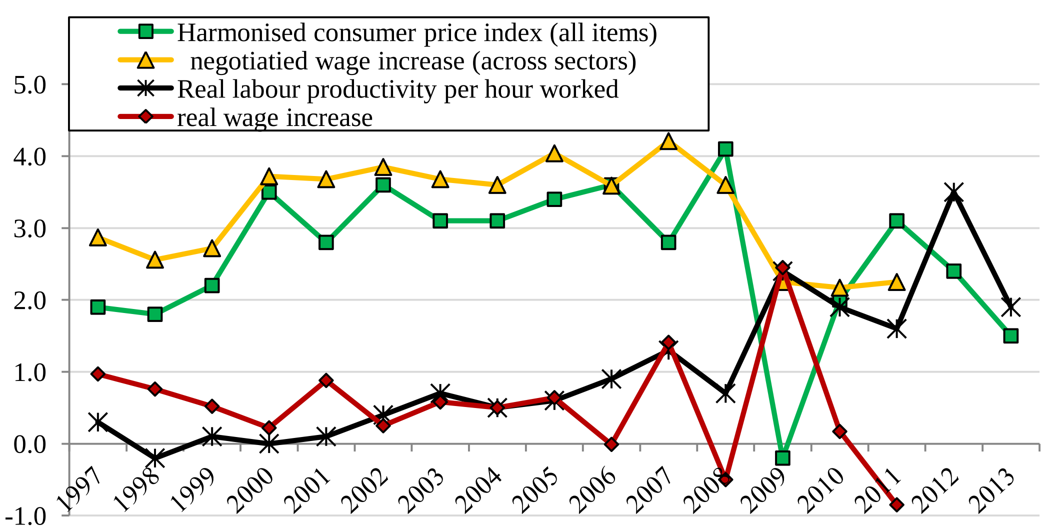
of reforms that weaken collective bargaining institutions. Some recent examples of labour market reforms recommended in IMF country reports follow.

Spain

7. The IMF's Article IV reports for Spain have attributed the sharp drop in employment relative to a milder decline of GDP to rigidities of wages and working conditions and duality in the labour market. It would have been helpful if the IMF had paid attention to the main cause of Spain's crisis: the collapse of the labour-intensive construction sector after the bursting of the debt-fuelled real estate bubble. The reports overstate the role of labour market rigidities and ignore the challenge of recycling huge numbers of construction workers into other sectors. The reports' calls for an end to wage indexation, lower wages and decentralized collective bargaining will contribute to further compression of demand and increase wage dispersion and inequality.

8. The IMF has argued that Spanish wages were out of line with productivity in the pre-crisis years, but this is not supported by evidence. As Figure 1 shows, real wages were closely aligned or even below changes in productivity (per hour worked) since 2002; since 2007 annual increases of wages have been less than or equal to growth of productivity.

Figure 1: Spain – Changes in wages (real and nominal), inflation and productivity



Source: Instituto National de Estatisticas for negotiated wage increases (http://www.ine.es/jaxi/tabla.do) and for the remaining variables Eurostat.

9. Identifying centralized bargaining in Spain as a source of “rigidity” is inaccurate. In fact, trade unions have shown a great degree of flexibility, agreeing to suspend indexation of wages in 2010 and 2012. The 2013 Article IV report acknowledges that “wages in the public sector and large firms have fallen”. The same report blames industry-wide collective agreements for the fact that hours per employee increased since 2007, but in fact no increase of working hours was negotiated. The increase of hours is due to employers’ prerogative and would seem to justify stronger agreements to limit overtime and reduce working hours. However agreements to reduce working hours in other countries, for example in Germany at the start of the 2008-2009 crisis, have only succeeded through widespread sector-level bargaining, precisely what the IMF wants to eliminate in Spain.

10. The 2013 Article IV report called for “an agreement between workers and unions [with] employers committing to significant employment increases in return for unions agreeing to wage reductions”. Assuming that such an agreement is an appropriate response to current circumstances, the IMF does not explain how this can be achieved if collective bargaining, as is the Fund’s aim, is completely decentralized. Only in countries with a high level of collective bargaining coverage and coordinated bargaining practices have similar agreements been negotiated and implemented throughout the economy.

11. As the Table 1 shows, the number of workers covered by a collective bargaining agreements actually declined since the beginning of the crisis, falling by more than half since 2008; the sharpest reduction took place between 2012 and 2013, with a drop of 37 per cent. As for the total number of collective agreements, they fell by more than half between 2012 and 2013, and the most dramatic drop was for company-level agreements despite the fact that new legislation was supposed to favour more decentralized bargaining. A Supreme Court decision, which might rule parts of the 2012 labour reforms unconstitutional, is pending.[4]

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[4] *El Periodico*, “El Constitucional inicia una tensa deliberación de la reforma laboral”, 26 May 2014

Table 1: Collective Bargaining Coverage in Spain

	2008	2009	2010	2011	2012	2013
Sector agreements	1,448	1,366	1,265	1,163	982	543
Company-level agreements	4,539	4,323	3,802	3,422	2,781	1,281
Coll. agreements (total)	5,987	5,689	5,067	4,585	3,763	1,824
Employees covered by coll. agreements (in millions)	12.0	11.6	10.8	10.7	9.1	5.7

Source: ETUI (2014) forthcoming.

12. Despite the IMF's announcement that Spain's economy is growing again, the unemployment rate edged up two percentage points to 25.9 per cent in the first quarter of 2014. Not reflected in this rate is involuntary part-time employment, which according to the OECD, increased as a percentage of total part-time work from 37 per cent in 2007 to 67 per cent in 2012. The Gini coefficient of disposable income increased from 32 in 2008 to 35 in 2012, which is one the highest in Europe. According to Eurostat, in 2012 29.9% of children were threatened by poverty, which is considerably above European average. The ILO noted in an assessment published in September 2013:

> "The inability of three labour market reforms in two years to maintain employment levels and halt the increase in unemployment confirms that labour market regulations are not directly responsible for the deterioration in labour market performance."[5]

13. The IMF has argued that lower wage costs are necessary in order to "rebalance" the European economy as a whole by making countries such as Spain more competitive. Spain's current account is now in surplus, although this is in part due to a recession-induced decline of imports. But in 2012 the EU accounted for just 67 per cent of exports versus 73 per cent in 2007, showing that the intra-European rebalancing has not yet taken place and probably impossible to achieve in a context of continued stagnation across the region. The IMF forecasts that domestic demand in Spain will continue to shrink until the end of 2016.

14. On 1 April 2014 the ILO's Committee on Freedom issued a finding that Spain's reformed 2012 labour law violated freedom of association and collective bargaining rights:

[5] Oscar Molina and Fausto Miguelez (2013) "From negotiation to imposition: Social dialogue in austerity times in Spain", ILO Working paper No. 51, September, p. 6.

> "The elaboration of procedures systemically favouring decentralized bargaining of exclusionary provisions that are less favourable than the provisions at a higher level can lead to an overall destabilization of the collective bargaining machinery and of workers' and employers' organizations and constitutes in this regard a weakening of freedom of association and collective bargaining contrary to the principles of Conventions Nos 87 and 98."

15. The IMF should support a restoration of collective bargaining rights that respects international principles and that encourages the use of sector or regional bargaining with the objective of achieving working-time reduction and new hiring agreements between unions and employers. In addition, the IMF should ensure that the pace of fiscal consolidation does not lead to further compression of aggregate demand and force Spain back into recession.

Portugal

16. IMF's first loan report for Portugal in May 2011 acknowledged that the "front-loaded" fiscal adjustment programmes would suppress domestic demand and contribute to recession and that the "payoff" from structural reforms would only come gradually. Later, in October 2012, the IMF admitted that fiscal multipliers in Portugal have been higher than previously estimated, meaning that the recessionary impact of austerity policies was stronger than it expected.

17. The Fund's reports encouraged a weakening of sector-level bargaining despite their recognition (April 2012) of a "promising agreement" between social partners and the government that made working time more flexible, reduced overtime pay, reduced paid holidays, eased restrictions on dismissals for redundancy and reduced unemployment benefits and severance payments. Another report, in July 2012, stated that "labor shedding has been accompanied by more wage adjustment than expected".

18. Decentralization of collective bargaining took place, as noted in IMF reports issued in 2013, with the power of negotiation delegated to works councils (rather than trade unions). But in November 2013 an IMF report insisted that "more effective decentralization of wage bargaining was needed" and in January 2014, another report complained about "downward wage rigidity" (contrary to what had been stated in July 2012; see previous paragraph).

19. Data published in 2013 revealed that collective bargaining coverage in Portugal had fallen from 1.9 million in 2008 to 300,000 in 2012 (see Table 2). One reason for the fall was that the increase of the threshold for the extension of collective bargaining to the whole sector from 30 to 50 per cent of the labour

force in the sector, which even the employers' associations considered too restrictive.[6] As in the case of Spain but with even more dramatic results, the "decentralization" of collective bargaining promoted by the IMF in Portugal resulted in a sharp decline in the number of agreements and the number of workers covered. Since the strong majority of Portuguese workers are no longer covered by collective agreements, the "downward rigidity" of wages that the IMF criticizes cannot be attributed to collective bargaining.

Table 2: Collective Bargaining Coverage in Portugal

	2008	2009	2010	2011	2012
Sector agreements	200	164	166	115	46
Company-level agreements	95	87	64	55	39
Coll. Agreements (total)	295	251	230	170	85
Number of extension of coll. Agreements	137	102	116	17	12
Employees covered by coll. Agreements (in millions)	1.9	1.4	1.4	1.2	0.3

Source: ETUI (2014) forthcoming

20. The IMF has optimistically been predicting that economic growth would become positive in 2014, but Eurostat announced that in the first quarter of 2014 the unemployment rate surged to 17.6 per cent, more than two percentage points higher than in the previous quarter. Involuntary part-time employment had already increased to over 60 per cent of total part-time employment in 2012.

21. The situation of families with children has deteriorated considerably because of the austerity and reform programmes, with 85 per cent of the unemployed having children to support. Expenditure cuts have led to 500,000 losing entitlement to child benefits.[7] Coverage of unemployed by unemployment benefits declined from 50.3% in July 2008 to 43.7% in July 2013 disproportionately affecting women.[8] The lack of employment and of social benefits no doubt explains the sharp rise in emigration. In 2012 alone 120,000 left the country, mainly young and skilled workers.[9] Eurostat data show that

[6] FES Report (2014), http://library.fes.de/pdf-files/id/10722.pdf p. 18.

[7] http://www.euronews.com/2014/04/30/deep-austerity-cuts-in-portugal-see-children-hardest-hit/

[8] http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_228208.pdf, p.22

[9] Raphael Minder, "Bailout Is Over for Portugal, but Side Effects Will Linger", *New York Times*, 5 May 2014

inequality of disposable income has grown, the Gini coefficient increasing from 33.7 in 2010 to 34.5 in 2012.

22. In any case, Portugal's external trade balance on goods and services moved into surplus in 2013 and is expected by the IMF to reach 3.0 per cent of GDP in 2014 (up from a deficit of 7.2 per cent in 2011), which would seem to indicate that external competitiveness is no longer an issue. On the other hand, the lack of domestic demand continues to be a problem. The IMF predicts that private consumption will increase by only 0.1 per cent in 2014 while public consumption will continue to decline because of austerity measures, such that compressing wages further will certainly not help sustain a recovery.

23. As in Spain, the IMF should support a restoration of collective bargaining rights and institutions that encourage the use of sector or national bargaining with the objective of achieving viable agreements on wages and working conditions between unions and employers. In addition, the IMF should ensure that the pace of fiscal consolidation does not lead to further compression of aggregate demand and force the Portuguese economy back into recession.

Greece

24. The IMF's loan programme in Greece, which began in May 2010, has been a story of one failed adjustment package after another with workers as the main victims, something that the most recent IMF reports have finally acknowledged. The first loan report in 2010 announced that unemployment would "peak at nearly 15 per cent in 2012"; in fact by late 2013 the unemployment rate reached almost 28 per cent.

25. The government acceded to IMF demands for more flexible wage-setting mechanisms and a "less rigid labor market", even though the initial loan document (May 2010) stated that the level of wages in the private sector was not a major problem. In 2011, however, the IMF called for greater wage flexibility and the government took the decision to suspend the extension of sector-level agreements. The number of sector agreements had already fallen by more than half, from 202 in 2008 to 91 in 2010. After 2010, the collapse of sector bargaining was almost complete, with only 14 agreements concluded in 2103 (see Table 3).

26. As in other European countries, the IMF and its Troika partners supported a decentralization of bargaining to the firm level, and initially the number of company-level agreements quadrupled between 2011 and 2012 (following three years of decline). However in 2013 the number of firm level

agreements fell by more than half. Given that 84.8 per cent of Greek employees work in small and medium enterprises (compared to the EU27 average of 66.4 per cent), the combination of almost total elimination of sector bargaining and a sharp drop in firm-level bargaining can only mean a very high loss of collective bargaining coverage.[10]

Table 3: Collective Bargaining agreements in Greece

	2008	2009	2010	2011	2012	2013
Sector agreements	202	103	91	55	31	14
Company-level agreements	462	347	352	241	978	408

Source: ETUI (2014) forthcoming

27. By March 2012 the IMF stated in a loan report that hourly wages had fallen by 10-12 per cent over the previous two years. Despite that, it called for further labour market liberalization and "nominal wage reductions", and endorsed the government's decision to reduce the general minimum wage 22 per cent; the reduction for those under age 25 was 32 per cent. The same report acknowledged that wage reductions had contributed to the "deep recession [which] works directly against efforts to improve the fiscal position and financial stability" and that "labor market reforms … represent a drag in the near term, as incomes fall".

28. The March 2012 IMF report also acknowledged that the idea of achieving "internal devaluation" – aimed at making the Greek economy more competitive within the euro zone – without major job losses was a pipe-dream: "Private sector corporations are more likely to cut employment than to fully adjust wages, even in fairly flexible labor markets (Latvia)."

29. Data have confirmed the dramatic job losses. Employment declined by 18.6 per cent between beginning of 2010 and the end of 2013, and has been particularly strong in manufacturing (30 per cent decline), indicating a de-industrialization of the Greek economy. Even with the very slight decrease in unemployment announced for April (0.1 percentage point less than the previous month), at 26.8 per cent the unemployment rate remains higher in Greece than in any other EU country.

30. But wages for those still having jobs also fell dramatically: between 2010 and 2013; average nominal earnings declined by 16.3 per cent.[11] In June 2013,

[10] http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/greece_en.pdf

[11] http://www.eurofound.europa.eu/eiro/2013/12/articles/gr1312019i.htm

the IMF acknowledged in an Article IV report that there "has been the weak and delayed response of prices to wage reductions [which] has led to a substantial erosion in real incomes and demand and placed a disproportionate burden on wage earners relative to the self-employed and the corporate sector". The report could have added the impact in terms of unemployment, the destruction of collective bargaining and increased inequallity.

31. Greece was already among the most unequal countries in the EU before the crisis, with only Romania, Portugal, Bulgaria and Latvia having a higher Gini coefficient of disposable income in 2007. The crisis has clearly increased equality in Greece; according to Eurostat. The Gini coefficient of disposable income increased from 32.9 in 2010 to 34.3 in 2012. Also according to Eurostat, the net market income (including pensions) of the poorest half of the population declined by over 25 per cent in real terms between 2009 and 2012.

32. According to the Troika's logic, the impoverishment of Greece was the price that had to be paid to bring the public debt under control, restore competitiveness and get the economy growing. None of these goals has been achieved. Eurostat data indicate that the first quarter of 2014 was the 23rd consecutive quarter of GDP decline, with the economy roughly 25 per cent smaller than before the crisis. Government debt stands at 174 per cent of GDP, as compared to 115 per cent in 2009 before the first Troika loan programme. Greece's "successful" return to the financial market at interest rates of 4.95% was principally due to the ECB's implicit guarantee of the new bonds.[12]

33. The share of the population at risk of poverty doubled between 2009 and 2012 from 16.2 per cent to 32.3 per cent, with 23.1 per cent already living in poverty in 2012 according to SILC data. The groups considered particularly vulnerable to falling into poverty were single-parent households with dependent children (66.0 per cent) and unemployed males (52.1 per cent). One notable feature of the Greek crisis has been the rapid decline of health care. The number of people who have lost health insurance coverage is estimated to be between 1.9 to 3 million people or 20-30 per cent of the population.[13] Expenditures for health care have declined by 40 per cent, as a result of which some hospitals lack even basic equipment.

34. Despite the fall of labour costs already noted and a temporary bump in exports that took place in the global recovery year of 2010, real exports of goods

[12] http://www.levyinstitute.org/publications/levy-economics-institute-president-dissects-the-myth-of-the-greek-success-story

[13] http://greece.greekreporter.com/2014/04/25/greeces-success-story-is-killing-people/

and services remain 17 percentage points below their level of 2008 (see Figure 2).[14] Manifestly, the slashing of labour costs has not created the export-led growth model promised by the proponents of internal devaluation. As of March 2014, the current account balance remains negative according to national statistics.[15]

Figure 2: Greece – Year-on-year change of imports and exports

Source: Hellenic statistical authority http://www.statistics.gr/portal/page/portal/ESYE/PAGE-themes?p_param=A0902

35. The IMF should encourage a return to sector-level bargaining with the object of encouraging new hiring, in part by limiting working hours. It should also ensure that workers no longer assume the main burden of adjustment measures and rebalance towards, for example, more progressive taxation.

Romania

36. The IMF has been encouraging Romania to undertake labour law reforms for at least a decade in Article IV and loan reports. On at least two occasions, including as recently as 2010, the IMF invoked Romania's labour market "rigidity" as measured by the *Doing Business* labour market index, even though the World Bank suspended this index because of methodological problems and told its own staff to stop using it in 2009.

37. In 2011 the Romanian government enacted a new Labour Code and Social Dialogue Code, which the IMF welcomed in a June 2011 loan report

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[14] http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do
[15] Hellenic statistical authority http://www.statistics.gr/portal/page/portal/ESYE/PAGE-themes?p_param=A0902

because they would make employment contracts, working hours and the wage-setting process more flexible. However the IMF acknowledged that the new social dialogue law – which abolished national bargaining, severely restricted sector bargaining and also created new obstacles for firm-level bargaining – was "controversial".

38. The new law resulted in a sharp drop in collective bargaining coverage. The ITUC's Romanian affiliates estimate that coverage fell by two-thirds between 2010 and 2013. In addition, the ILO's Committee of Experts on the Application of Conventions and Recommendations issued an observation in 2012 that the 2011 law violated ILO Convention 98 on the Right to Organize and Collective Bargaining.

39. Romania remains one of the poorest countries in the European Union with a net median income of €2,116 in 2012, which represents slightly less than 12 per cent of the EU 15 average. From an already low level, net market income including pensions of the poorest half of population declined by over 25 per cent in real terms between 2009 and 2012. 22.2 per cent of the population was considered poor in 2012; the child poverty rate was 30.6 per cent, an increase from 25.0 per cent in 2010. The in-work poverty share in 2012 was 18.6 per cent, the highest in the EU. The Gini coefficient of disposable income has increased since 2010.

40. In mid-2012 a new coalition government in Romania announced its intention to modify the restrictive 2011 labour laws so as to facilitate collective bargaining and comply with international labour standards, and engaged in consultations with the social partners for this purpose. The government prepared changes to the law that had been agreed by the trade union centres and most business organizations, with the exception of the American Chamber of Commerce in Romania. The IMF and European Commission objected to the proposed changes and informed the government in writing.[16] Among other points, the IMF and EC objected to a restoration of national wage bargaining, wished to reduce protections of union representatives against firing and wanted to place limits on the right to strike.

41. In a July 2013 loan report the IMF reiterated that the government should resist "efforts to undo progress made in labor law legislation" and implied that no changes to the 2011 laws should be made unless they had the consent of "all

[16] The IMF-EC recommendations to Romania are available here:
http://www.ituc-csi.org/romania-draft-emergency-ordinance

stakeholders". Given the support for the 2011 laws from the American Chamber, the Fund essentially told the government it should grant the latter a veto right and not change the law. It is worth noting that the IMF expressed no such stipulation about the need for unanimous consent for the 2011 labour law revisions, which were strongly objected to by all the trade union centres and also some employers' organizations.

42. Pressure from the IMF may explain why the government abandoned its plans to revise the 2011 social dialogue law, thus leaving intact those provisions that violate ILO Convention 98. Shortly after the government dropped its amendment plans, the IMF announced a renewed loan to Romania in September 2013. The IMF's latest loan report (April 2014) states that the government plans to renew the social dialogue law by end-2014, but the IMF has not indicated whether it will change the stance it enunciated in 2012 and 2013 of opposing a restoration of national and sector bargaining.

43. The IMF should cease its objections to changes to the labour and social dialogue laws that the government tried to implement in 2012 and encourage the government to move quickly to correct the laws' provisions, particularly those that violate international labour standards and are responsible for the collapse of collective bargaining. The drastic decline in bargaining coverage experienced by Romania will not be reversed until the changes are made, with intensifying impacts on wage dispersion and inequality.

Ireland

44. The IMF's database shows Ireland's emergency loan with the IMF that began in December 2010 to have been the first lending from the Fund to the country. Ireland requested IMF and EU assistance after its debt/GDP ratio quadrupled following the government's decision in late 2008 to take over all private bank liabilities. The banking sector found itself on the edge of insolvency after a collapse of the real estate bubble that the banks had done much to create. The EU institutions agreed to extend a loan of €45 billion and the IMF €22.5 billion.

45. Part of the strategy to bring down public debt involved the selling-off of assets owned by the failed banks that the government took over; assets sales totalled €15 billion in 2011. "Fiscal consolidation" through substantial reductions in the number of public-sector employees and their wage and non-wage costs, and savings in social programme expenditures would make up most of the efforts to reduce the government's deficit.

46. In the area of social programme reforms, the IMF's loan review reports commented on the "weak job search conditionality" of unemployment benefits and what it deemed to be overly generous child allowances and benefits for the elderly. The Fund advised "a more targeted use of the state's resources to support … low-income families", and overall, "a more means-tested" approach to benefits.[17] The Fund also supported the government's intention that "sanctions will be used to strengthen incentives for participation" in training schemes for the unemployed.[18]

47. Another important element of the IMF's lending programme for Ireland concerned changes to sector-level collective bargaining agreements. A Fund loan review document described the changes made at the EU's and IMF's behest:

> "The authorities have published draft legislation to reform Employment Regulation Orders (EROs) and Registered Employment Agreements (REAs), which together had set minimum wages and conditions in a number of sectors, including those most affected by the crisis such as construction. Streamlining the employment conditions and the number of wages set under EROs, ensuring that wage setting under EROs and REAs takes economic conditions and competitiveness into account, and increasing flexibility to vary from ERO and REA terms under adverse conditions should help facilitate job creation and adjustment across sectors."[19]

48. As in other countries, wage "flexibility" was supported by the IMF as a supposed means to facilitate hiring, although no explanation was provided about how much increased hiring could take place in the context of a shrinking economy.

49. Fifteen months after the loan programme in Ireland began, the IMF declared it to be a success because the government had achieved the conditions set by the Fund and EU to bring the fiscal deficit down to 10 per cent of GDP in spite of the huge debts it took over from the collapsed private banks. However after declining in 2010, GDP was stagnant in 2011 and the unemployment rate almost reached 15 per cent in the first quarter of 2012 but subsequently began a gradual decline, reaching 11.8 per cent in May 2014. While an improvement, the current rate is still more than double Ireland's pre-crisis unemployment rate of 4.6 per cent in 2007.

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[17] IMF, *Ireland: Fifth Review Under the Extended Arrangement*, March 2012, p. 20
[18] Ibid, p. 21
[19] Ibid, p. 21

50. The reductions in child allowances and benefits for the elderly that the IMF supported will likely increase income inequality as well as hinder the possibility of a demand-led recovery. The increased flexibility of wage-setting mechanisms, leading to greater variations in wage levels, will also add to this development.

Italy

51. Even prior to the 2008-2009 global recession, the Italian economy experienced slower growth than the EU average, and with the onset of the crisis the level of public indebtedness led to increasing costs for issuing public bonds in the private market. The IMF supported sharp austerity measures in order to bring down the deficit. As in other European countries, these measures were a contributing factor to Italy's double-dip recession: the recession years of 2008 and 2009 were followed by slow but positive GDP growth in 2010 and 2011, but the economy entered into a renewed decline in 2012 and 2013. For 2014 the IMF predicts 0.6 per cent GDP growth.

52. IMF Article IV reports for Italy since 2008 have attempted to explain Italy's slow growth both before and during the crisis and, judging from the amount of space devoted to the topic it is obvious that the IMF considers labour market institutions to be a major culprit. "Labor market rigidities" were analysed in the main text and in a special annex on "Reforming Italy's Labor Market" of the Fund's 2008 Article IV report for Italy; each subsequent annual Article IV report came back to the theme. Interestingly, the 2008 report for Italy acknowledged that "permanent EPL appear comparatively low according to the OECD indicators" and that "on some dimensions Italy actually appears less regulated than the EU average".[20] Despite this acknowledgement, the IMF report considered that "employment protection is too high overall [and] it is specifically its asymmetry that causes additional distortions".[21]

53. Some deregulatory measures were taken by the Italian government and a subsequent IMF Article report recognized the negative impact of the resulting "improved" labour market flexibility:

> "While the deregulation of fixed-and part-term contracts in recent years has improved labor market flexibility, it has also resulted in more 'atypical' employment, contributed to stagnant labor productivity, and

[20] IMF, *Italy: 2008 Article IV Consultation—Staff Report*, February 2009, p. 62-63
[21] Ibid, p. 65

> exposed workers to increased employment risk without commensurate improvements in the social safety net…. The contrasting movements of labor and total factor productivity may be partly an (unwanted) effect of sweeping labor market reforms."[22]

54. The 2011 Article IV report went further and stated that labour market liberalization "may have undermined investment in human capital and innovation".[23] But rather than question the wisdom of the deregulatory measures taken, IMF reports called for a "second generation of reform" of the labour market that would address the aforementioned "asymmetry" in labour market regulations and institutions. A key item in this agenda would be decentralization of collective bargaining:

> "Only a comprehensive reform package can deliver growth.… Promoting decentralized wage bargaining would allow wages to be better aligned with productivity, providing firms with stronger incentives to invest. Harmonizing labor contracts and employment legislation between permanent and temporary employment would reduce labor market dualism and raise employment."[24]

55. Since the previous deregulatory reforms had led to decreased labour productivity among those in "atypical" employment relations, i.e. precarious workers, one can presume that the proposal to align wages more closely to productivity would increase wage disparity and income inequality. This and other IMF reports for Italy spoke favourably of formulas whereby firm-level negotiations take priority and participation in national negotiations would become optional.

56. The IMF's Article IV report for Italy for 2012 repeated these suggestions, but for the first time after several years of pushing for extensive deregulatory labour market reforms, the report revealed the very modest impact the Fund expected they would have. A table in the report showed that in the "long run", a comprehensive package of labour and product market reforms would increase Italy's GDP by 10.5 per cent. Only one-sixth of that increase (1.8 per cent) was expected to come from labour market reforms, a fact that accompanying text stated could be "explained in part by a relatively smaller gap with best practice cases".[25]

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[22] IMF, *Italy: 2010 Article IV Consultation—Staff Report*, May 2010, p. 27
[23] IMF*, Italy—Staff Report for the 2011 Article IV Consultation*, July 2011, p. *27*
[24] Ibid, p.31
[25] IMF, *Italy: 2012 Article IV Consultation*, July 2012, p. 16

57. Similar to the IMF paper *Fostering Growth in Europe Now* quoted earlier, there is an evident lack of balance between the high level of priority and weight given to deregulatory labour market reforms and the modest impact IMF staff expect the reforms to have relative to other policy initiatives. And, it should be added, the Fund's modest expectations as to the positive economic impact of the labour reforms tend to be on the high end in comparison to academic literature or more in-depth studies carried out by the other institutions.

58. Additionally distressing is that the IMF's reports appear to pay no attention to the negative impacts of labour market deregulation until after they have happened. In the case of Italy, the IMF's reports did not foresee the negative impact of deregulation on productivity until the reforms had been implemented. Although IMF research papers allude to possible economic contraction due to decreased buying power when labour regulations are weakened, no mention of that effect is made in the reports for Italy. As noted above, the country fell into the second half of a double-dip recession in 2012.

59. Likewise, while IMF reports strongly support a substantial weakening of national collective bargaining arrangements in favour of firm-level negotiations, no mention is made of the successful use of national arrangements in other countries to mitigate the impact of the crisis on workers and on the economy as a whole. If Italy were to continue weakening these collective bargaining structures, it may become even more difficult to arrive at national consensus on the steps to take in order to put Italy back on a sustainable employment-creating growth path.

Germany

60. Germany emerged relatively unscathed from the crisis, generating a huge trade surplus and not requiring IMF support. But it is interesting to examine IMF labour market recommendations for Germany over the past several years because they show a remarkably similar pattern to what one sees in the crisis countries: end of "burdensome" labour regulations, more fixed-term contracts, more flexibility, easier firing rules, decentralized collective bargaining, greater wage differentiation and, until recently, wage moderation and opposition to a minimum wage. They give the impression that the IMF truly follows a "one-size-fits-all" approach as far as labour issues are concerned.

61. Presciently, German government representatives told the IMF the following in 2000, as reported in an Article IV report:

> "… a sustained strategy of wage moderation in Germany could in the medium term result in diverging labor cost developments in the euro area countries, with attendant problems for formulating a euro-area wide monetary policy."

The IMF report shows that the Fund's mission to Germany ignored this warning.

62. Instead, the IMF's Article IV reports in 2001, 2002, 2003, 2004 and 2006 harped on the need for more wage moderation and other deregulatory measures such as more fixed-term contracts, more flexible hiring and firing and "reducing remaining central controls on wage bargaining". In 2006 the IMF report added that "minimum wages [which were then under consideration] would be a serious policy error". This was repeated in 2008 when IMF staff members are cited in an Article IV report as cautioning the government about "a misplaced focus on minimum wages".

63. In July 2011, almost three years into the global crisis and by which time several euro-zone countries were in severe economic difficulty, the IMF told the government that "raising German wages [was] neither analytically nor pragmatically sound". The IMF finally relented a year later, four years into the crisis, and timidly agreed that "a pick-up in wages … should be seen as part of the process of private sector-led rebalancing" (July 2012 Article IV report). In August 2013, the IMF's report for Germany stated that "it would not be inappropriate for real wages to rise, and therefore help improve the labor share of national income".

64. Only recently, in its May 2014 Article IV report, did the IMF firmly endorse increased German wages as a means to stimulate economic growth in the euro zone: "Private consumption should benefit from solid wage and employment growth, while business investment should continue to strengthen." The report further supported higher public investment, among other reasons to contribute to "rebalancing" of the euro-zone economy:

> "Higher public and private investment and services sector reform in Germany would raise medium-term output, reduce the large and persistent current account surplus, and generate appreciable positive demand spillovers to the rest of the euro area, thus helping rebalancing within the monetary union."

65. However the IMF has yet to express strong approval for the government's intention to introduce a statutory minimum wage in January 2015, even though Germany was among a small number of advanced-economy countries not to have one until the recent decision. While acknowledging the

positive distributional role, the IMF asserts without supporting evidence that a minimum wage could increase unemployment:

> "The new nationwide minimum wage will help reduce growing wage inequality, but it risks exacerbating unemployment in some regions. Expert estimates suggest that the proposed minimum wage will be binding for about 20 percent of workers in some federal states where unemployment is already relatively high. While the employment effects of changes in minimum wage regulation are notoriously difficult to predict, sizable adverse effects in these areas could materialize…. [A]lternative ways to achieve income redistribution could usefully be explored."[26]

A review of economic literature carried out be the World Bank in 2012 found that most studies found minimum wages had no or only a modest impact on employment.[27]

66. The IMF's promotion of wage moderation, weakening of employment protection rules and decentralized collective bargaining in Germany over many years contributed to the declining labour share in national income and reduced collective bargaining coverage. Fortunately the IMF did not succeed in dismantling the basic structure of sector-level bargaining, and the adoption of widespread reduced working time agreements ("Kurzarbeit") through sector agreements was subsequently credited, even by the IMF, as having played an important role in preventing a sharp increase of unemployment during the 2008-2009 recession. But the IMF's persistent encouragement of Germany to reduce labour costs and increase its export competitiveness as the expense of other European countries was undoubtedly a factor contributing to the serious imbalances within the euro area that came to the fore after the 2008 financial crisis.

Sweden

67. Sweden's economy recovered from the crisis very quickly.[28] GDP, investment and exports rebounded strongly in 2010 and remained strong thereafter. Exports are a main pillar of growth; they accounted for 45.8% of GDP in 2013. Most of the export products range in high-tech segments such as

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[26] IMF (2014) Germany—2014 Article IV Consultation Preliminary Conclusions, 19 May 2014, available at http://www.imf.org/external/np/ms/2014/051914.htm\

[27] World Bank, *World Development Report 2013: Jobs*

[28] All data in this chapter are drawn from the EU Commission (2014) Eurostat Database.

machineries, motor vehicles, and chemicals but also include paper products, pulp and wood, iron and steel products. However, Sweden also had strong domestic demand, which remained very stable during the crisis. The real growth rate of domestic demand increased by 6.5 per cent and 3.2 per cent in 2010 and 2011, compared to an EU 15 average of 1.5 per cent and 0.6 per cent.

68. Sweden's balanced growth model managed to navigate the crisis much more successfully than most other European countries. GDP rebounded after only one year of contraction and is now roughly 6 percentage points above its pre-crisis peak. At 8 per cent, Sweden's unemployment rate is below the European average of 11 per cent.

69. The Swedish experience demonstrates that there is no contradiction between high labour standards, healthy wage growth, strong trade union participation and very elaborate collective bargaining institutions on the one side, and strong growth and a vigorous and competitive export sector on the other.

70. Despite attacks against the Ghent system (trade union administration of unemployment benefits) and a decline of membership numbers in recent years, trade union membership and collective bargaining coverage is still very high. It is estimated to stand at 88 per cent.[29] Given this high density, there is no formal process for extension of collective agreements and from a purely legal perspective they are only binding for those signing them. However, there is an unwritten social agreement that the closest collective agreement should be considered as guiding the work relationship and outside parties frequently apply an existing agreement to their work relationship.[30]

71. In 1997 the current framework of industrial cooperation and negotiation agreements was adopted. It regulates cooperation and bargaining procedures including the agreement on timeframes for negotiations, rules for the request of mediation and arrangements for terminating negotiations. Collective agreements are normally negotiated for three years with the option to re-negotiate already one year before the agreement expires. After 2010 some agreements were reached for a shorter period due to the high economic

[29] ETUI (2014) Collective Bargaining in Sweden, available at: http://www.worker-participation.eu/National-Industrial-Relations/Countries/Sweden/Collective-Bargaining

[30] Jonas Malmberg (2009) The Collective Agreement as an Instrument for Regulation of Wages and Employment Conditions, Stockholm Institute for Scandianvian Law, p. 208, available at: http://www.scandinavianlaw.se/pdf/43-7.pdf

uncertainty but social partners have gone back to the three year cycle in recent agreements of 2013.[31]

72. Sweden's collective bargaining system is dominated by the sector level with a substantial role given to the company level. This lower-level bargaining emerged over the past 15 years and has been the result of joint agreement between the social partners, who gradually delegated the power of wage and working time negotiations. In 1997 the model underwent substantial changes, strengthening coordination between different levels. The manufacturing industry emerged more and more in the role of the normative and dominant sector in terms of wage-setting taking into account the wage development in other European countries in this sector.[32]

73. While currently there is no wage bargaining at the national level, it is still an important platform for the Swedish social partners, the union confederations and the main employers' association. A number of non-wage framework agreements have been reached at the national level. For example the social partners agreed in 2006 on a new national agreement on pensions.[33] While the sector level is the predominant level today, it must be stressed that this is a consensual decision by social partners that could be reversed. This happened in 2011 in Finland, when social partners felt the need to reverse a trend of decentralisation of wage bargaining and negotiated a framework agreement on the central level again.[34]

74. In its Article IV reports for Sweden the IMF has been very cautious with comments on the collective bargaining system. However some related comments are worthwhile mentioning. In 2004 and 2005 the IMF criticized the high wage compression. In 2004 it stated: "In the mission's view, easing the high wage compression would facilitate the absorption of low-skilled immigrants into the labor force."[35] This was repeated in 2005 when the reports found that "[h]igh tax wedges and a relatively compressed wage structure continued to weigh on the labor market."[36] However, no such comment appears in

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[31] ETUI (2014) Collective Bargaining in Sweden, available at: http://www.worker-participation.eu/National-Industrial-Relations/Countries/Sweden/Collective-Bargaining

[32] http://www.eurofound.europa.eu/eiro/2014/02/articles/se1402039i.htm

[33] ETUI (2014) Collective Bargaining in Sweden, available at: http://www.worker-participation.eu/National-Industrial-Relations/Countries/Sweden/Collective-Bargaining

[34] Eurofound (2011) Social partners agree national pay settlement, December 09, available at: http://www.eurofound.europa.eu/eiro/2011/10/articles/fi1110011i.htm

[35] IMF (2004) Article IV Consultation—Staff Report, 04/244, p. 14, available at: http://www.imf.org/external/pubs/ft/scr/2004/cr04244.pdf.

[36] IMF (2005) Article IV Consultation—Staff Report, 05/343, p. 6, available at: http://www.imf.org/external/pubs/ft/scr/2005/cr05343.pdf.

proceeding years as Sweden revealed great resilience during the crisis. However, in 2010 the IMF noted that "with 70 percent of workers unionized, future wage setting mechanisms need to maintain flexibility".[37] In 2011 it argued that "the increased coordination of wage formation"[38] would be beneficial in terms of overall labour market outcome.

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[37] IMF (2010) Article IV Consultation—Staff Report, 10/220, p. 32, available at: http://www.imf.org/external/pubs/ft/scr/2010/cr10220.pdf.
[38] IMF (2011) Article IV Consultation—Staff Report, 11/171, p. 51, available at: http://www.imf.org/external/pubs/ft/scr/2011/cr11171.pdf.