



# ITUC

## FRONTLINES REPORT SUMMARY 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*



# CONTENTS

Introduction .....	4
IMF Attacks on Collective Bargaining .....	7
Labour Costs, Competiveness and the Economic Crisis .....	12
Conclusions and Recommendations .....	15



# ITUC FRONTLINES REPORT

## APRIL 2013



### 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’.<sup>1</sup> 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.<sup>2</sup>

### **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.

## 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.<sup>3</sup> 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.”<sup>4</sup>*

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.”<sup>5</sup>*

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 than 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.<sup>6</sup>

The “corporatist” literature of the 1970s and 1980s first suggested that highly synchronised collective bargaining sys-

tems and national level social dialogue would have a positive economic impact.<sup>7</sup> 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.<sup>8</sup>

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”.

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.

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

**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.

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”



Photograph: Damienne Caron

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.<sup>9</sup>

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

**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

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.

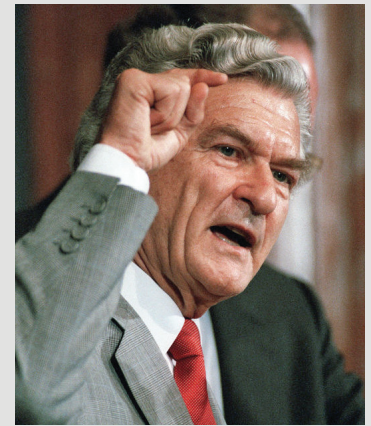
We’ve seen what happens when market forces have free reign and no regulation.

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 viciously 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.”



Photograph: ALP

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 competi-

tiveness 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.<sup>10</sup> 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

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

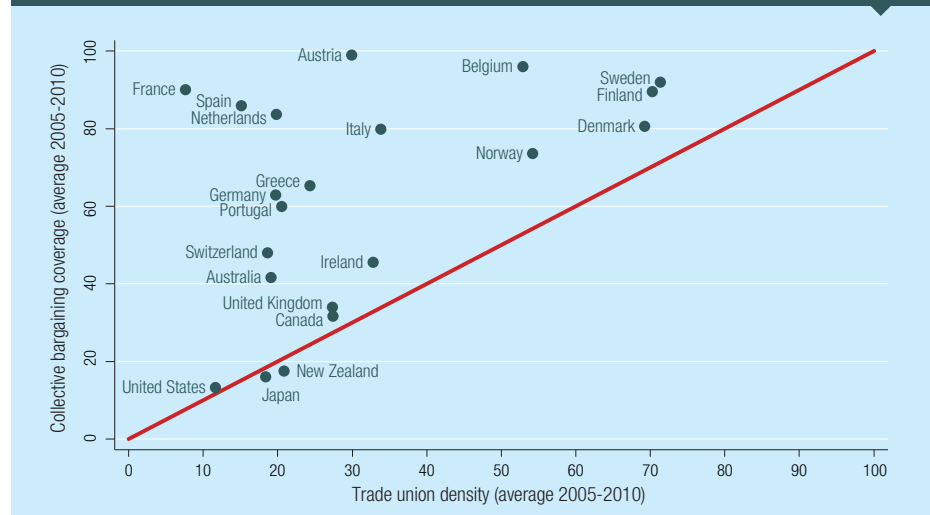
“I work at T-Mobile USA and we don’t have a union. We’re owned by Deutsche Telekom in Germany where workers have legal rights, guaranteed wage increases. While in the United States, we have no voice at the collective bargaining table.

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



Sources: 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

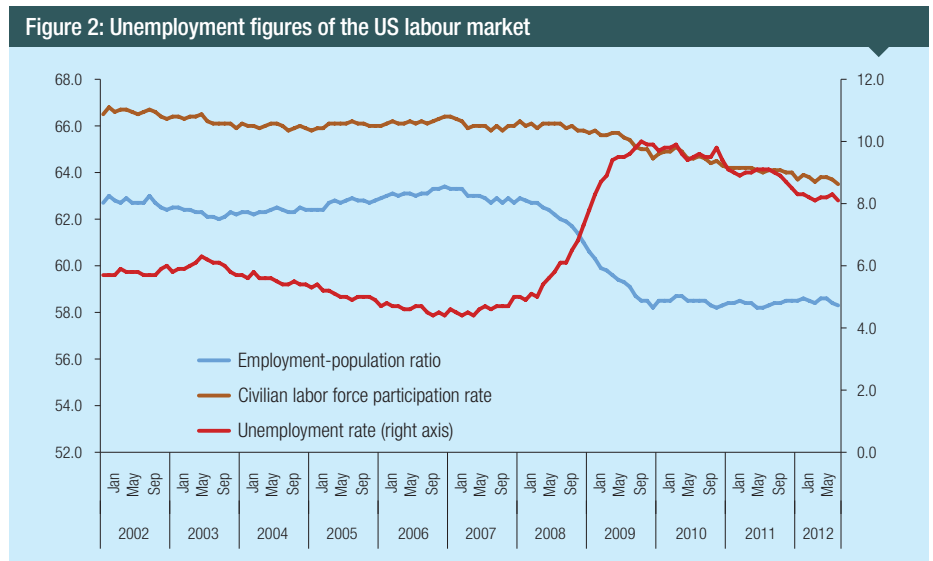
prevail in Finland, Sweden or Denmark. Instead the institutions promoting reforms have taken drastic action to rapidly move collective bargaining and employment relations in the opposite direction. Countries with reasonably high collective bargaining coverage but modest to low trade union density are 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”.<sup>11</sup> In these simulations “best practice”, according to the Fund, corresponds to the weak labour institutions that can be found in the United States.<sup>12</sup>

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





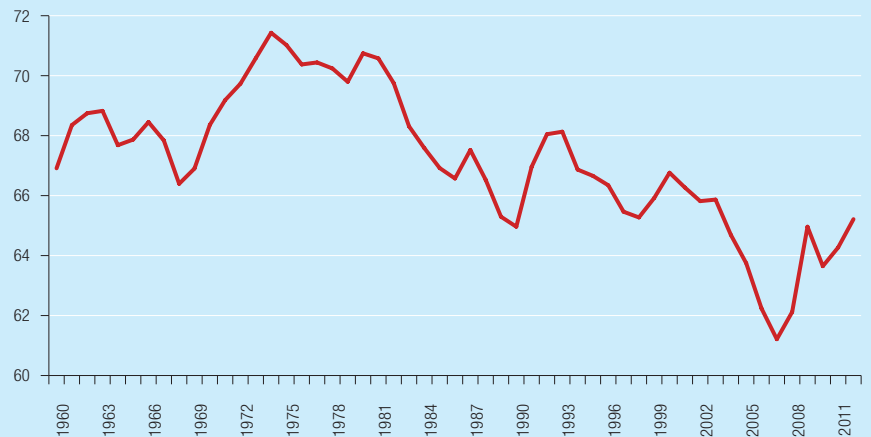
# Labour Costs, Competitiveness and the Economic Crisis

## 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

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.

industries, average 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.<sup>13</sup> 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

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.<sup>14</sup> 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.<sup>15</sup> 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.<sup>16</sup>

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.

“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

## 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.”<sup>17</sup>*

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.”<sup>18</sup>*

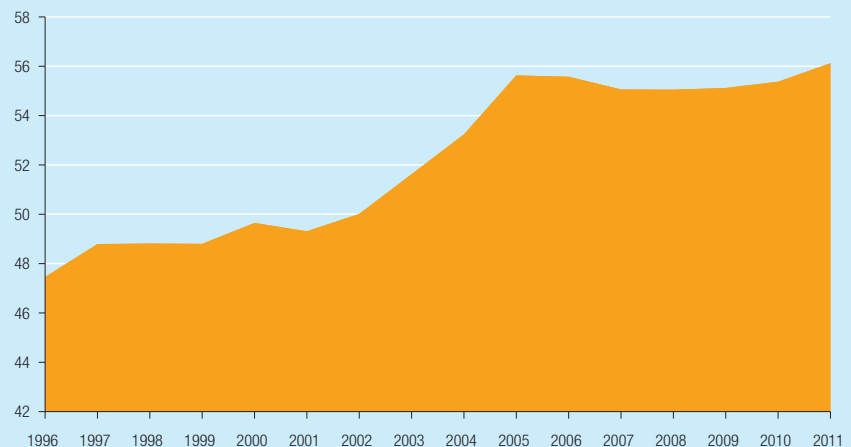
Despite this the IMF reiterated their objection to raising wages in Germany and described such suggestions as “neither analytically nor pragmatically sound”.<sup>19</sup> But after more than a decade of strong resistance to any wage increase in Germany, the IMF appears to have softened their position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

### 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.

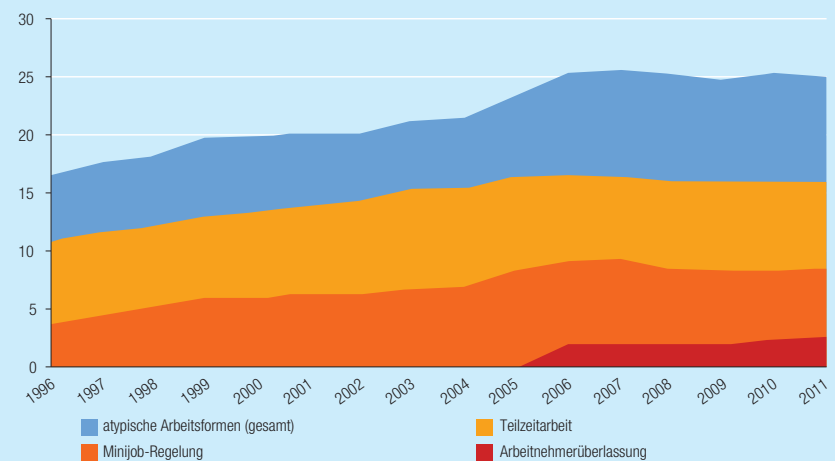
To a large degree this reflected catch-up pressures for a high degree of real wage restraint in the previous two decades. As can be seen from Figure 7, for most of the period between 1980 and the early

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



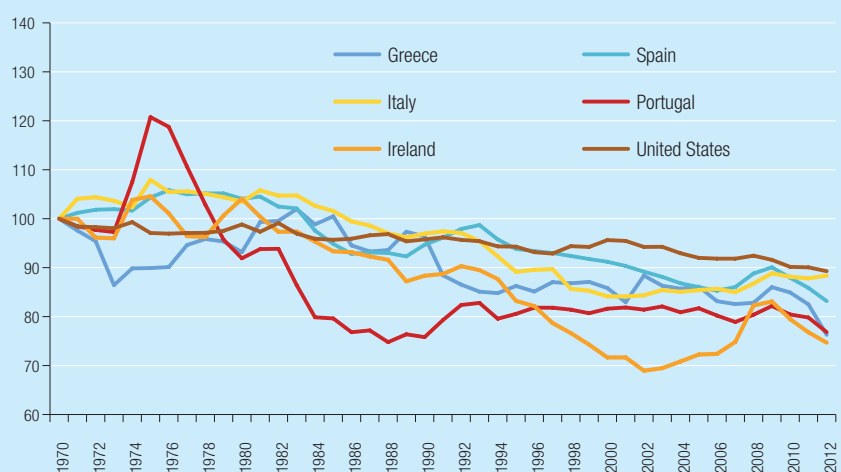
Source: Federal Statistical Office of Germany, 2013.

Abbildung 6: Atypische Arbeitsformen und ihre verschiedenen Komponenten als Prozentsatz aller Beschäftigten in Deutschland



Quelle: Statistisches Bundesamt, 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 than 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.

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.”



Photograph: ITUC

**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 rate also 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.

## 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.

**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.**

### 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 “representativity” 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.

**Throughout Asia, many countries need to re-boost domestic demand by rebalancing economies.**

## 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



**“Globalisation, and the unbalanced way it has been pursued, has shifted bargaining power away from workers: firms can threaten to move elsewhere, especially when tax laws treat such overseas investments so favourably.”**

**Joseph Stiglitz**

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.

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.

**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 than wages set unilaterally by employers.<sup>21</sup>**

# 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>
- 2 ILO, Report of the Committee on Freedom of Association, November 2012, GB.316/INS/9/1
- 3 Blanchard, O. "Is There a Viable European Social and Economic Model?", Tilburg University, 2006.
- 4 Ibid, p. 12.
- 5 Ibid, p. 12.
- 6 Wallerstein, M. "Wage-setting institutions and pay inequality in advanced industrial societies", *American Journal of Political Science*, Vol. 43, 1999; Hayter, S. and Weinberg, B. "Mind the Gap: Collective Bargaining and Wage Inequality", in "The Role of Collective Bargaining in the Global Economy: Negotiating Social Justice", ILO Geneva, 2011.
- 7 See for example Headey, B.W., "Trade Unions and National Wage Politics", in *Journal of Politics*, Vol. 32, 1970; Cameron, D. "Social Democracy, Corporatism, Labour Quiescence and the Representation of Economic Interests in Advanced Capitalist Countries" in Goldthorpe, J.H. "Order and Conflict in Contemporary Capitalism: Studies in the Political Economy of Western European Nations. Oxford, 1984, p. 143-178; Rowthorn, B. "Corporatism and Labour Market Performance" in "Social Corporatism: a Superior Economic System?", Oxford, 1992, pp. 82-131.
- 8 Freeman, R.B. "Unionism and the Dispersion of Wages" in *Industrial and Labour Relations Review*, Vol. 34, 1980, pp. 3-23.
- 9 Fajertag, G. and Pochet, P. "Social Pacts in Europe – New Dynamics", ETUI, Brussels, 2000.
- 10 Traxler, F. and Brandl, B. "Collective Bargaining, Inter-Sectoral Heterogeneity and Competitiveness: A Cross-National Comparison of Macroeconomic Performance", *British Journal of Industrial Relations*, Vol. 50, March 2012, pp. 73-98.
- 11 IMF, "Unemployment and labour market institutions: why reforms pay off", *World Economic Outlook*, April 2003. See also IMF papers prepared for the G-20 Mutual Assessment Process.
- 12 In these exercises the IMF considers the impact of reforming a range of labour market institutions so that they are brought into line with standards applying in the US. The institutions include: the generosity of unemployment benefits, employment protection legislation, taxes on labour, union density rates, and the system of collective bargaining.
- 13 For example see the following IMF, Germany - Article IV, Report No. 00/141, 2000, p. 25; IMF, Germany - Article IV, Report No. 01/202, 2001, p.17; IMF, Germany - Article IV, Report No. 04/341, 2004, p. 30; IMF, Germany - Article IV, Report No. 06/16, 2006, p. 6, p.7 Box 1, p. 33; IMF, Germany - Article IV, Report No. 08/80, 2008, p. 20.
- 14 IMF, Germany - Article IV, Report No. 00/141, 2000, p. 17.
- 15 Brenke, K. and Wagner, G. "Ungleiche Verteilung der Einkommen bremst das Wirtschaftswachstum", *Wirtschaftsdienst*, Vol. 93, February 2013, p. 115.
- 16 *Financial Times*, "Plight of low-paid overshadows German labour market", March 1, 2013.
- 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 *Survation UK Employees Survey* 6 February 2013 on behalf of Unions21.









Publisher responsible in law:

**Sharan Burrow**, General Secretary

**ITUC**

5 Bld du Roi Albert II, Bte 1, 1210-Brussels, Belgium

Tel : +32 2 224 0211 Fax : +32 2 201 5815

Email : [press@ituc-csi.org](mailto:press@ituc-csi.org) Web : [www.ituc-csi.org](http://www.ituc-csi.org)