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Social partner responses to the economic crisis in Europe: Why collective bargaining makes a difference

by Vera Glassner

The second year of the economic crisis has had severe effects on the European labour market. The annual total unemployment rate for 2009 in the EU27 is estimated to be 9.1 %, with large differences between countries. The latest Eurostat figures (March 2010) indicate that total unemployment is highest in Latvia (over 22%), 19% in Spain, around 15% in Estonia and Lithuania and 13% in Ireland. This contrasts with comparably low levels of unemployment – between 4 and 6% – in the Netherlands, Austria and Luxemburg. A clear divide has also emerged with regard to unemployment growth in the course of 2009. Whereas in Latvia unemployment skyrocketed by almost 11 percentage points between January 2009 and 2010, and in Estonia and Ireland grew by 4.4 percentage points, in countries such as Germany, Belgium, Austria, France, Italy and Poland it remained rather stable, with increases of 0.3 to 1.4 percentage points during this period.

In tackling the economic crisis in Europe, government and social partner responses, in the form of collective bargaining between unions and employer associations, have been multifaceted and included a wide range of policy measures. Leaving aside governmental recovery pacts, and focusing on social partners' responses to protect and promote employment and to safeguard workers' purchasing power, two major observations can be made: First, statutory, i.e. law-based, provisions for short-time working and partial unemployment (as in Austria, Belgium, the Netherlands, Germany, France, Italy, Bulgaria, Romania, Slovenia, Poland and Hungary) have served as a buffer to mitigate negative employment effects resulting from the contraction of output. Such short-time working or partial unemployment schemes aim at maintaining employment through temporary working time reductions and at protecting wages by fully or partly compensating workers, by the provision of wage subsidies, for losses in income resulting from a reduction in hours worked. Insofar as they contribute to companies' goals of increasing organisational and working-time flexibility, protect human capital and company-specific skills by avoiding redundancies and – at the same time – guarantee the social security entitlements and social welfare rights of employees as well as maintaining their purchasing power, short-time working arrangements have been widely welcomed by both unions and employers' associations.

Second, the implementation of statutory short-time working provisions is carried out through collective bargaining at the national or sectoral and – in particular – at the company level. In countries such as Austria, Belgium, Germany and the Netherlands, provisions on the implementation of short-time working schemes have been established in a number of sectoral collective agreements. In other countries, mostly in the central and eastern European countries (i.e. Bulgaria, Hungary, Poland, Romania and Slovenia) where statutory short-time working schemes have been introduced (or, as in the Netherlands, re-introduced) as a response to the crisis, law-based provisions are implemented almost exclusively at the enterprise level. As a consequence, the role of company-level social partners in finding tailor-made responses to deal with the decline in industrial orders has increased.

Such 'negotiated' responses by social partners via collective bargaining differ considerably with regard to negotiation processes, their outcome, and the instruments and measures included in such 'crisis-related' collective agreements (Glassner and Keune 2010). Four factors account for the 'character' of a negotiated response made against the particular background of the crisis. First, the national system of industrial relations strongly determines the balance of power between organised labour and business. Inclusive multi-level bargaining systems allow for the conclusion of 'higher-level' agreements that set the framework for bargaining units at the company level. Thus, the bargaining process is highly coordinated, and basic standards are guaranteed and implemented in a flexible and decentralised way that allows appropriate responses to the specific requirements of the firm. Secondly, the deteriorating economic situation of companies (or sectors) sets limits on the negotiating leverage and tends to force unions and employee representatives into a defensive position. Thirdly, the role of the state is decisive in providing a supportive legal-institutional framework (as in the form of short-time arrangements) and in promoting collective bargaining as an instrument to deal with the crisis. And fourthly, although institutional and economic conditions determine the room for manœuvre of bargaining actors, the outcome of the collective agreement is strongly shaped by their strategies and their capacity to find innovative solutions and arrive at a 'balanced' compromise.

With regard to the content of collective agreements concluded in response to the crisis, the flexible reduction of working time has been the most important instrument in dealing with the temporary suspension of business activity. In countries where arrangements for short-time working already existed or have been introduced, losses in income borne by workers have been limited. However, the extent of compensation differs considerably between countries and sectors. In some countries, social partners – in particular in the metal sector – agreed on top-ups to statutory minimum short-time working allowances or – as in Germany – introduced even more flexible procedures to implement working time reductions in the company. Furthermore, it is mostly workers in the manufacturing industries, in particular the metal, automotive, chemical and ICT sectors, that are covered by short-time working and partial unemployment schemes, service sector workers having been included in such measures to a lesser extent.

Another important issue addressed in collective agreements is the flexibilisation of wage-setting. In a number of companies, mostly in the automotive sector, in electro-technics and engineering, and in particular in Germany and the Nordic countries, collective agreements include opening clauses that allow for phased wage increases that may be suspended should the company face temporary economic difficulties. Similarly, training and skill enhancement has been an important issue, in particular in relation to the flexible reduction of working time. In a number of countries short-time working arrangements include incentives (such as exemptions from income tax and/or social security contributions as in Germany, Slovenia and Romania) for employers and employees to offer/participate in training programmes.

When it comes to assessing the impact of the economic crisis on industrial relations, two questions arise. First, have governments' and social partners' responses given rise to a trend towards 'decentralisation' of collective bargaining? In general industrial relations systems have proved rather stable and sufficiently flexible to respond to the current economic conditions. This is particularly true in those countries where bargaining coordination is centralised at the national and/or sectoral level. In countries where collective bargaining is widely decentralised with the enterprise as the predominant level – as in the majority of the central and eastern European countries and in the United Kingdom – the conditions for enabling social partners to arrive at negotiated responses have been less favourable. So far, only in Ireland does it appear that a decentralisation of collective bargaining may be on the way, as a result of a lack of state support and the threat of the largest employers' association to withdraw from collective bargaining. Secondly, has the increased use of opening clauses opened the door for an undercutting of norms set in higher-level collective agreements? The large majority of agreements, in particular in Germany (a country often referred to in relation to the danger of 'hardship clauses'), is a result of a rather balanced exchange of interest, albeit with wage restraint as a central feature. Wage concessions are often made in return for employment guarantees or the extension of employee participation rights. The downside of the social partners' priority of safeguarding jobs is a further deceleration of wage dynamics that is particularly felt by employees working in companies strongly affected by the crisis and where resources to compensate for income losses due to short-time work are limited. In general, however, social partners have played a decisive role in drafting and adopting a wide range of measures aimed at increasing companies' internal flexibility, limiting labour cost growth, maintaining employment, and improving skill levels, and in this way they contribute to creating the preconditions for sustainable recovery. For unions, meanwhile, it is vital to ensure that deviations from collectively set standards are in line with higher-level agreements and that they are temporary in nature. Equally important is the fight against wage restraint – in Germany gross wages in 2009 decreased (for the first time in the post-war period) by 0.4% – and the re-enforcement of a productivity-orientated wage policy. Unions should intensify the coordination of collective bargaining policies across borders in order to counter the pressure on wages and working conditions that is expected to continue even once the output crisis has been overcome.

Vera Glassner is a researcher at the European Trade Union Institute

Reference

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