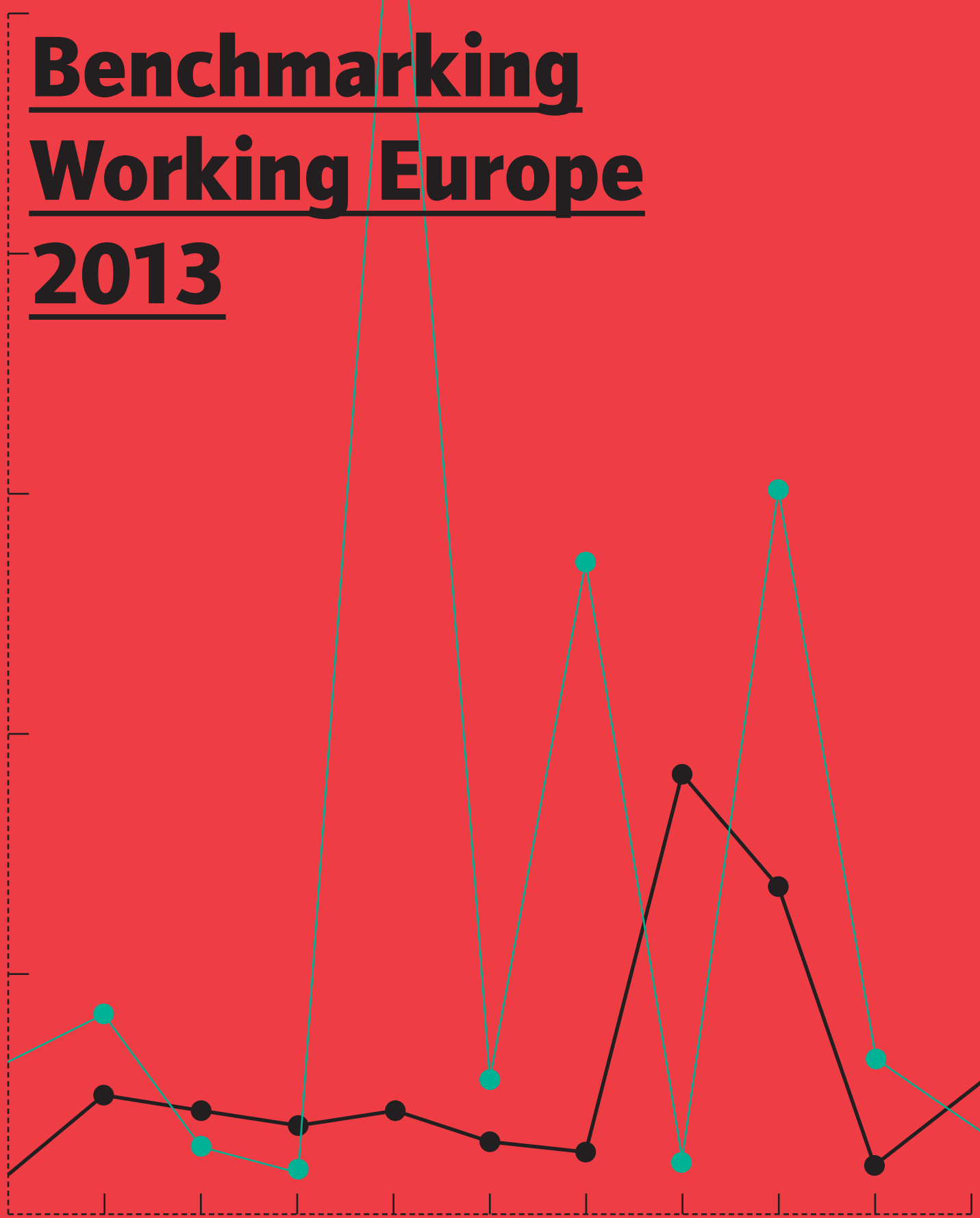


Benchmarking Working Europe 2013



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2013

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Foreword

Five years into the great recession, the economic as well as the social outlook remains very bleak indeed. The current response to the recession, characterised by a strong focus on the tightening of public finances and flexibilisation of labour markets in order to adjust to idiosyncratic shocks, has contributed only to a worsening of the economic and social situation affecting Europe as a whole and its southern countries in particular. Furthermore, this narrow agenda of deregulation and pro-cyclical economic policies seems to have launched the European Union on to a path of diverging economic and social trends, imperilling the fundamental prerequisites and original purposes of European integration.

For the fifth consecutive year, unemployment has risen; economic growth is going into recession (yet again) and social distress has risen to alarming levels. As this economic, employment and social situation generates ever increasing concern with regard to both short- and long-term trends, an additional worry is starting to emerge, namely the diverging trend in real output growth, growth models and social developments. The crisis of 2008 represented a break in the long-run convergence trends in the European Union, with a loss of convergence dynamics and, in some cases, an actual reversal of convergence, as parts of Europe began to drift away from each other through their differing experiences of the impact of the crisis itself and of the effects of the ensuing adjustment policies. This divergence with regard to key variables for promoting the fundamental objectives of European integration, such as economic progress, increased economic and social cohesion, and the creation and maintenance of an economic and monetary union, is of great concern as these variables are inherent in all the aspirations and thinking relating to European integration to date. Furthermore, due to the close interdependence with the rest of the EU member states, the divergence between eurozone insiders and outsiders is likely to become even more pronounced.

Ill-conceived policy responses have contributed to exacerbating weaknesses in the economies, thereby setting the European Union on a path of diverging economic regimes, ultimately jeopardising the very existence of the single currency as well as the continuing pursuit of European integration. The pushing through of adjustments (including austerity policies and competitiveness-enhancing measures based predominantly on wage cuts) is having differing implications for individual economic models, so that what we see currently is a 'patchwork Europe' with fault lines zigzagging around among a variable combination of country groups. The practices imposed in the context of the adjustments are affecting the so-called 'deficit countries' asymmetrically, as these are the countries suffering a loss of national sovereignty as a result of interference from European institutions, such that an accompanying feature of this development is a democratic deficit. Hence, the convergence of policies in the field of wages and collective bargaining towards an approach of internal devaluation aimed at an increased (downward) flexibility of wages as a means of closing the competitiveness gap between 'surplus' and 'deficit' countries has, rather than creating a more level playing field, served to reinforce the already existing divergent trends in the field of economic regimes, wages and collective bargaining. This situation gives rise to major concern with regard to the future of European integration and the fundamental objective of increasing the wellbeing of all citizens in the Union.

There are thus several reasons to justify a belief that this awareness of divergence both across and within countries should form the centrepiece of all endeavours to redress the current situation and to redirect the European Union along its original path of economic and social convergence. All policy proposals should, accordingly, reflect this awareness and this concern. A forward-looking approach would be one that supported and reinforced policies and institutions designed to ensure an alternative approach to getting Europe out of the crisis. One element could be the establishment of a European structural investment programme that would help deficit countries to upgrade their economic and industrial structure, as well as serving to consolidate and develop the social *acquis* which is currently under threat. Building a common future only on austerity and deregulation, and thereby laying the ground for a vicious down-

ward spiral of deteriorating social and labour rights, is certainly not the right way to move in the direction of the prosperous and more egalitarian Europe, which was the goal of the founding fathers of European integration.

Benchmarking Working Europe, which first appeared in 2001, represents a key contribution to the monitoring of the European Union, by providing a genuine benchmarking exercise applied to the world of labour and social affairs and grounded in effective labour and social rights. It aims at establishing what progress – or lack of it – has taken place in selected areas of importance to the trade unions and of significance for a social Europe. This year's edition of *Benchmarking Working Europe*, in choosing to focus on the recent blatant trends of divergence across Europe, encompasses developments in a wide range of areas extending from standards of living, institutional settings, the role of trade unions, the development of growth models and the labour market situation. While raising serious concerns as to the direction as well as the outcome of the current austerity cure, and no less with regard to the attacks on social and labour rights in the European Union, this report points also to ways in which policies, institutions, along with the political will to correct market forces, can promote upwards harmonisation and a convergence of social and labour rights and outcomes more likely to ensure that a positive strategy for the future of the European Union is reintroduced and will form the basis for future policy formulations and actions. The current trend towards exacerbating economic as well as social differences across the European Union cannot form the basis for the future of European integration; it is time that European leaders woke up to the demands of the European population for a better future for all, and not only for the few.

We hope you will derive both interest and benefit from your reading of this year's edition of *Benchmarking Working Europe*.

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Introduction

Survival of European integration threatened by growing divergence

Rereading today what the political leaders said in the immediate wake of the economic and social crisis in 2008, you could be forgiven for thinking you were dreaming. The priority, once the crisis had hit, was, according to French President Sarkozy (2008), to rebuild capitalism 'on new foundations' because 'the notion that markets always know best was quite insane'. It was necessary, claimed Commission President Barroso (2008), to support the economy by 'making maximum use of the flexibility offered by the stability and growth pact'. Above all, he argued, it was essential to avoid all risk of recession and, to that end, to boost demand, in particular in those countries that 'had room for manoeuvre' and which 'should use it'. The priority according to US Republican presidential candidate McCain (2008) was to fight against the excesses of the market including 'carelessness, corruption and unbridled greed'. Barroso was of the same opinion: 'no financial institution', he said, 'should remain exempt from regulation or supervision' because it was time for 'transparency, cross-border supervision, and reform of the international financial institutions'.

Now, in 2013, every day continues to deliver its new stock of revelations about the malpractices of the financial industry – abuse of the market, manipulation of stock exchange indexes, tax evasion, and so forth – while this same industry is exerting intense pressure on the legislature to block or to water down any attempt at regulation (liquidity ratio, transparency, financial transactions tax, a ceiling on dividends). The political discourse, meanwhile, has completely changed its tack. It is now a question, says the European Commission (2013), of 'restoring trust in the markets' and, according to internal market Commissioner Michel Barnier (2012), of encouraging the capacity of banks to finance the economy, regaining investor credibility and 'ensuring the financial viability of banks' thanks to recapitalization amounting to hundreds of billions of euros. As to the member state governments, they are urged by the European Council (2013) to speed up the process of 'adjustment' and embark on 'structural reform' of pension, wage formation, unemployment and health care systems', because, says European Central Bank President Mario Draghi (2012), the current European social model is 'obsolete'. Thanks to these reforms, governments will be able, says the Council (2013), to 'improve financing conditions for investors' and 'encourage the entry and efficient use of capital'.

It would seem that we have moved, in the space of four years, from a financial capitalism judged non-compliant with the demands of democracy to a democracy judged non-compliant with the demands of the financial markets. Economic governance and social models are to be tailored, from now on, to investors' needs. The solutions to a situation that was diagnosed – and correctly so – as a crisis of the banking and financial sector are today linked less to altering the operation of this sector than to an adaptation of the economy, public finances and social models to the financiers' injunctions: to reduce public expenditure, to freeze or reduce wages, to lighten the 'burden' represented by social security, to get rid of labour market 'rigidities', and so forth.

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The aim of this publication is not to explain the reasons underlying and the instruments used to effect the paradigm shift that has just been described but to conduct a detailed examination of the situation that represents its outcome, in 2013, in terms of social impact. In the run-up to such an examination, it appears useful, nonetheless, to remind readers, by way of introduction, that it is political choices that have led the European Union into the situation in which it finds itself. This is a situation characterized, in the first instance, by increased inequality and, at the same time, by a weakening of the institutions and structural instruments that have been devised and put in place by the member states, mainly since World War II, to reduce this inequality (see the 2012 edition of *Benchmarking Working Europe*) (ETUC and ETUI 2012); and, in the second instance, by a path of divergence, which is the logical and ongoing consequence of the growth in inequality. The divergence affects, as shown by this publication, not only the countries of the European Union (Germany, Greece or Portugal, for example) and

its different areas (eurozone core, eurozone periphery, non-eurozone countries, etc.) but also the situation of specific social categories (young people, women, migrants, elderly workers) and the stance able to be adopted by the social partners (depending on whether or not the country is subject to an adjustment programme).

Austerity, recession, an increase in socio-economic divergence and non-negotiated structural reforms are the ingredients that produce the various currently emerging forms of anti-European populism. While trust in the EU has plummeted in public opinion (from 57% in 2007 to 33% at the end of 2012)(Eurobarometer 2012), while increasing numbers of Europeans thus clearly believe that they have nothing to gain from EU membership, euroscepticism is becoming stronger and is gaining ground almost everywhere. While such scepticism undoubtedly represents a perfectly legitimate opinion in a democracy, it starts to become problematic when it is accompanied by a discourse expressive of hatred for ‘other’ Europeans. While it surely goes without saying that these forms of neo-populism are to be vigorously combated, it is necessary, at the same time, to point to the blindness of a large majority of leaders who allow themselves to be seduced by misguided discourse about the benefits of generalized austerity, the urgency of ‘structural reforms’ and the presentation as an indispensable prerequisite for growth of the need for national democracies to become compliant with the markets. Such blindness, what is more, goes hand in hand with a loss of memory about the political purpose underlying the pursuit of European integration in the first place.

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The rest of this introductory chapter is structured around the following sequence of observations:

- generalized austerity fuels recession;
- recession and structural reforms exacerbate social and economic divergence;
- such divergence fuels an acute sense of social injustice among the increasingly numerous ‘collateral’ victims of the crisis (young job-seekers, workers who have lost their jobs, retired persons lacking adequate resources, etc.);
- no project intended to foster European unity, that is founded on such feelings, can prove enduring.

We will close this introduction by recalling the purpose of European integration, which is a project for socio-economic *convergence* and not competitive *divergence*. Such convergence is the outcome of political will and effort and not a mechanical consequence of the fable about ‘market forces’. This distinction should be sufficient to indicate the weight of responsibility currently on the shoulders of European political leaders. And also to indicate how vital it is to remedy the democratic deficit that is becoming increasingly entrenched in the new European economic governance.

1. Austerity fuels recession

The discourse concerning the need for austerity bases its main argument on the supposedly lax budgetary stance adopted by European governments and the apparent inability of democracies to cope with the problems of excessive public debt. This discourse takes inspiration also from the analogy between managing a household and managing a state: we should not be ‘making our children pay the price’ of the debts contracted by ‘irresponsible leaders’ but should behave, on the contrary, as ‘responsible heads of household’ (but is anyone in Europe actually calling for an increase in the deficits and indebtedness of states?). The analogy is, however, a sophism, for a household, unlike a state, comes into being for a period that is, in the nature of things, essentially limited, and this factor entails differences in behaviour in terms of, in particular, savings and

investment. The sophism thus presents as a matter of basic common sense an argument that is, in actual fact, ideological.

The discourse about budgetary laxness suffers from at least two diagnostic errors, the first being in the area of political diagnosis. In 2007, i.e. the year before the financial crisis erupted, only two eurozone countries, namely, Greece and Portugal, were guilty of infringing the rules of the stability and growth pact in relation to public deficits. If we adhere then to the argument about budgetary laxness, what can be the logic of drawing from it the general policy conclusion that there is a need to introduce austerity programmes throughout Europe, including in countries like Spain and Ireland that were star pupils of the stability and growth pact? Why is it, what is more, that this argument was not brought into play in the early days of economic and monetary Union when Germany was itself in a state of chronic and excessive deficit for a period of five years (from 2001 to 2005)?

The second error relates to the economic diagnosis: the budgetary question emerged, so it is claimed, on account of ‘extreme indebtedness frequently accumulated over many years’ according to German chancellor Angela Merkel (Le Monde *et al.* 2012). According to Paul De Grauwe of the London School of Economics ‘it has been claimed that, in the absence of external controls, the national budget debts and deficits could no longer be kept under control. What we see in actual fact is that during the last half century, when the stability and growth pact did not even exist, there were no cases of major government debt crisis. Democracies are capable of reacting against increasing indebtedness’ (OFCE 2006). Is it really appropriate to speak, moreover, of extreme indebtedness when the public debt of the eurozone, immediately before the financial crisis, amounted to around 66% of gross domestic product? The level of indebtedness was, in actual fact, to become unsustainable only when it became necessary to socialize the debts of private banks. Paul Krugman (2010), economics Nobel Prizewinner, has quite correctly pointed out that the European governments were not overspending before the crisis but that they found it necessary to get into debt in order to rescue their banks and prevent economic collapse. As has also been stated by Martin Wolf (2011), ‘what is at the origin of this crisis is not lack of budgetary discipline. The lack of discipline of the financial sector, and, more generally, of the private sector, including lenders from the eurozone core, played an even more important role’.

The argument based on the claim of European budgetary laxness does not therefore stand up to analysis. Yet his argument underpins the whole approach adopted for forging the instruments of the new European economic governance (Degryse 2012). Meanwhile, the regulation of the financial sector is being devised and put in place at a veritable snail’s pace and is becoming less ambitious by the day under pressure from the banking lobby. It would appear that this argument is, in actual fact, being used to conceal a fully-fledged programme to achieve deregulation of the European social model (see chapter 7). After issuing accusations of laxness, Europe is responding not with a responsible form of stringent discipline but with outright austerity, with a grueling and strictly administered weight loss régime imposed at a pace that defies all reason and under threat of sanctions (see chapter 3). This is the beginning of an unprecedented attack on the European social model – or what remains of it – in particular in the countries currently governed by memorandum. All aspects of enlightened social governance have been brought under this stringency regime: wages, collective bargaining, unemployment benefits, health care and even fundamental social rights.

In spite of numerous warnings, the elite that governs Europe still refuses to see that this enterprise of dismantling the social model has the conjoined effect of placing a long-term brake on growth, principally on account of the inevitable collapse in do-

‘The argument based on the claim of European budgetary laxness does not therefore stand up to analysis. Yet his argument underpins the whole approach adopted for forging the instruments of the new European economic governance.’

mestic demand (see chapter 2). Between 2008 and 2013, Greece experienced six years of recession, Italy, Spain and Portugal four, and Ireland three, in spite of the tax competitiveness practices that make it the European bridgehead of the North American multinationals. As numerous political leaders have indeed pointed out, the European institutions did not themselves cause the crisis. However, the situation into which the economy of the Old Continent was plunged by financial capitalism has only been exacerbated by their obsession with austerity.

Today, there is a growing consensus among economists and within international organisations that the concerted imposition of austerity plans at an utterly unsustainable pace resulted in a recession that is much more extreme than was predicted by the economic models (Blanchard *et al.* 2013). These recessionary effects have aggravated, rather than remedying, the public debt crisis, on account of the denominator effect – when GDP diminishes, the debt as a percentage of GDP increases arithmetically – and this will continue to be the case in the eurozone until at least 2014, according to the Commission's latest forecasts (European Commission 2013).

The losses then are particularly heavy and the balance sheet still shows a deficit: the public debt crisis has not been remedied; the economic crisis is worsening; the social model is being dismantled; unemployment has exploded; a whole generation is 'lost'. According to a study by the European Foundation for the Improvement of Living and Working Conditions (Eurofound 2012), the cost to the member states of this lost generation, which represents 14 million 'neets' (young persons not in employment, education or training), is likely to amount to some 153 billion euros a year (The Guardian 2012). Yet the markets, declare the Commission, the ECB and the European Council with some self-satisfaction, are regaining confidence. What clearer statement can there be than this that Europe is seeking its salvation by adjusting its economic and social governance to the demands of investors?

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'What clearer statement can there be than this that Europe is seeking its salvation by adjusting its economic and social governance to the demands of investors?'

2. Recession and adjustment policies exacerbate the divergence

As is demonstrated in detail in this 2013 edition of *Benchmarking Working Europe*, the result of the crisis and of the policies implemented over almost four years is ever growing divergence among member states, specific categories of the population and national social actors.

In the Nordic countries, which were less deeply affected by the crisis, wages and collective bargaining systems have remained relatively stable, though it has indeed been possible to observe a trend towards decentralization of collective bargaining and changes in labour law that do not appear justified by any specific problem that has arisen in these countries (see chapter 7). In the new member states, trends have been particularly uneven. In some countries, such as Poland or Bulgaria, wages have risen – or it might perhaps be more exact to say that they have just begun to catch up, given how very low they were to start with. In other countries, such as Lithuania or Estonia, they have, on the contrary, fallen steeply. All in all, however, in these 'new' member states taken as a group, the crisis served as the pretext for an increase in labour market flexibility and non-standard working practices and for the option of retaining extremely fragmented and decentralized collective bargaining systems.

Another group of countries is of course those currently subject to adjustment programmes – namely, Greece, Ireland, Portugal, Romania – together with Spain and Italy. It is in these countries that attacks on collective bargaining systems have been the most virulent, whether inflicted by national governments or directly by European institutions. Direct political interventions have led to a generalized reduction in wages, a dismantling of collective bargaining and wage formation institutions (with the apparent exception, as regards the latter point, of Italy).

These developments have served, in particular, to lead the countries of the south to converge – but it is a case here of *downward* convergence – with the countries of central and eastern Europe in terms of income, collective bargaining systems and social cohesion. The result is a proliferation of new fault lines between old and new member states, between countries of the south and countries of the east, between the eurozone core and its periphery, between lending countries and borrowing countries, etc.

The divergence that appears the most clearly, however, is that between the heart of the eurozone and this periphery, consisting of the countries of southern and eastern Europe, that is described by some observers as becoming increasingly ‘Chinese’. What is more, in certain companies located in the rich eurozone heartland, the most shocking and shameful social practices are to be found. Romanian and Bulgarian workers have been ‘detached’, are paid extremely low wages, subjected to very long working hours, accommodated in barracks, and deprived of social insurance (in March 2013 one such case was the subject of a complaint against Germany lodged by the Belgian government with the European Commission). European competitiveness is accordingly being sought henceforth less in innovation, research and development (ETUC and ETUI 2012: 70–82) than in the reduction of wages, deregulation of the labour market, lowering of collective standards, deregulation of social protection systems, and weakening of trade unions and social institutions. All of this constitutes an operation, unprecedented in the history of the EU, designed to undermine workers and the organisations that represent them.

In the countries subject to ‘adjustment programmes’ the internal devaluation policies are based on the wager that it will be possible to relaunch growth by means of exports. The reason that this constitutes a wager is that the domestic conditions for such a relaunch are not always present. To date, the main result of these policies is the collapse of domestic demand which still has not been able, four years later, to offset the weak and uneven growth in exports. It may indeed be true that a wager of this kind might, with perseverance, be won in the long term. But it would, in this case, be nothing but a Pyrrhic victory accomplished upon a field of social and democratic ruins. The implementation of such a policy indeed reveals a divorce between the elites, who are convinced that priority must be given to gaining the confidence of markets, and the citizens and workers. The Frankfurt-Brussels consensus seems perfectly blind to any consideration of the democratic and social sustainability of the recipes it is advocating and enforcing.

The extent to which citizens feel the pull of this process of divergence depends on the social categories to which they belong. At the level of the labour market, three broad categories have been the most harshly affected, namely, youth, migrants, and the low-skilled (see chapter 4). It is to be noted, first of all, that during the period before the crisis the labour market experienced a slow but steady rising trend in employment rates, in accordance with the Lisbon Strategy targets. This trend was attributable, in particular, to the increase in non-standard forms of employment, including part-time work (which, in far too many cases, is involuntary rather than chosen), fixed-term con-

‘The divergence that appears the most clearly, however, is that between the heart of the eurozone and this periphery, consisting of the countries of southern and eastern Europe, that is described by some observers as becoming increasingly “Chinese”.’¹

‘The Frankfurt-Brussels consensus seems perfectly blind to any consideration of the democratic and social sustainability of the recipes it is advocating and enforcing.’¹

tracts, or self-employment. Even so, this rising trend had, to some extent, contributed to a gradual reduction in long-term unemployment and youth unemployment.

The financial crisis did away with this trend and created, for young people in particular, a situation that was even worse than before. The year 2008 marked the beginning of a period of strong growth in unemployment, but also in inequality. At the present time, no less than 23% of European citizens are at risk of poverty or social exclusion (Eurostat 2012).

Since 2008 unemployment has risen in all EU countries except Germany and Luxembourg. In 2012 rates varied between approximately 4% in Luxembourg and Austria to 24% or more in Greece and Spain. This increase has taken the worst toll on young people, migrants and the low-skilled. Young persons aged 15-24 have an unemployment rate of more than 21% in the EU as a whole, but very much higher in individual countries like Greece (55%) or Spain (54%). When young persons do have a job, it is, more often than not, temporary. Among non-European migrant workers, meanwhile, the unemployment rate rose by 7.3% between 2008 and 2012.

Long-term unemployment has also begun to rise again: between 2008 and 2011, almost 4.7 million persons came to lengthen the list of long-term unemployed, bringing the European total up to almost 11 million persons, the equivalent of the whole population of Belgium. When one becomes aware of the extent of the social challenges posed by long-term unemployment, then one also realizes the tremendous difficulties that will be faced in the coming years by European governments in dealing with this problem. In this respect too, needless to say, the paths observed in different countries and groups of countries are highly divergent.

There has been a strong increase in involuntary part-time work since 2008 in Greece where, in 2012, 61% of part-timers did not choose this status, an increase of 16 percentage points; in Spain the equivalent figure is now 55%, a 20-point increase; in Italy 54%, a 13-point increase; in Ireland 38%, a 25-point increase; in Bulgaria 58%, a 7-point increase. The percentage is rising in many other countries too, whereas in Luxembourg, Austria, Belgium, Germany and France it remained stable or, in some cases, fell. It is better, similarly, to be a female job-seeker in Lithuania, Finland, Sweden or Denmark than in Malta, Italy or Greece where the difference between the male and the female employment rates is as high as 20%.

Of course, say the European institutions, Europe will, in due course, reach the end of this recessionary stage in its economic cycle and will, thanks to recovery, once again experience a few percentage points of growth. There is, alas, little chance that the new cohort of long-term unemployed will benefit from any such recovery, and the same goes for the young people and the large numbers of emigrants – often skilled – who have decided to turn their backs on Europe and try their luck elsewhere (the Portuguese mainly in Brazil or Angola, the Greeks in the United States or Australia, the Irish in Canada, New Zealand or Australia, the Spanish in South America, Germany or Sweden (The Guardian 2011, Le Monde 2012a, Le Monde 2012b), as well as for all those low-skilled or elderly workers who have lost their jobs during one of the numerous waves of restructuring in the steel, motor or finance industries, etc. A high degree of callousness is accordingly required to take satisfaction from the idea that the economy will react with a time lag to the policy measures taken today (European Council 2013), in full knowledge that the groups currently most affected by the fall-out of the crisis would undoubtedly not be those to benefit should the economy indeed pick up at some point in the future.

'A high degree of callousness is accordingly required to take satisfaction from the idea that the economy will react with a time lag to the policy measures taken today (European Council 2013), in full knowledge that the groups currently most affected by the fall-out of the crisis would undoubtedly not be those to benefit should the economy indeed pick up at some point in the future.'

It is thus that the recession has exacerbated social fragmentation in Europe by causing an increase in unemployment among migrants, the low-skilled, and women, as well as an explosion in the numbers of young people who are neither working, being educated or undergoing training, and a steep rise in the incidence of long-term unemployment. All this will entail a high cost in terms, in particular, of policies to counter poverty and social exclusion, of a slowing of demographic growth, as well as pressure on retirement pension levels and an increase in social unrest. Meanwhile, the process whereby the new member states were slowly catching up and the Mediterranean countries converging with northern Europe has come to grief on the crisis, the immediate effects of which have been exacerbated by the adjustment programmes and austerity measures. The Manifesto drawn up by a network of academic trade union rights' experts at the beginning of 2013, supported by the ETUI and signed by more than 500 European labour and social lawyers, is a denunciation of the fact that fundamental social rights have, de facto, been used as an adjustment variable for macroeconomic imbalances, in particular in the eurozone periphery. The political leaders have adopted measures to foster labour market flexibility; they have made changes to national labour law and embarked upon fundamental reforms of social law; they have adopted structural reforms in the fields of pensions, health care, and unemployment, including by circumventing the mechanisms for consultative participation with the social partners, in particular the trade unions. This is a situation that leads the labour lawyers to the following conclusion:

'The present European Commission, together with the Troika, is currently failing to respect the basic elements of the European Social Model and the spirit of the Philadelphia declaration. Accordingly, the social model is suffering – in virtual silence – its complete deconstruction, and ultimately, perhaps, its destruction. If the European social model fails, how can the European project as a whole succeed?, (ETUI 2013).

'Meanwhile, the process whereby the new member states were slowly catching up and the Mediterranean countries converging with northern Europe has come to grief on the crisis, the immediate effects of which have been exacerbated by the adjustment programmes and austerity measures.'

3. Divergence and structural reforms fuel social injustice

In a globalized world constructed in particular to facilitate the free movement of capital, it has become more difficult to achieve an increase in revenue than to reduce expenditure. The EU governments have all made available some particular form of tax incentive designed to attract investors: in some cases, corporation tax rates have been lowered, while in others capital gains tax has been abolished; other formulae involve the proliferation of tax loopholes, absence of inheritance tax, existence of banking secrecy, or the condoning of numerous tax havens specializing in money laundering. Because they have lacked the political courage to construct a transparent and equitable 'tax Europe', the European leaders have placed themselves in a situation characterized by rivalry to attract multinationals and investors and have, in so doing, taken the requisite steps to tailor the situation to their demands. It does seem that some leaders are now finally beginning to wake up to this situation, and not always those of whom one might have expected it: Mr David Cameron's Conservative government in the United Kingdom has become concerned at the excessively low rates of tax paid by the multinationals operating on UK territory. Even in Switzerland, questions are being raised about the extent of the pay gap between top executives and workforces.

'Because they have lacked the political courage to construct a transparent and equitable 'tax Europe', the European leaders have placed themselves in a situation characterized by rivalry to attract multinationals and investors and have, in so doing, taken the requisite steps to tailor the situation to their demands.'

In the face of this situation, meanwhile, the many instances of trade union mobilisation, strikes, and social action, the movement of the *Indignados*, and the particularly tragic phenomenon constituted by the suicides of unemployed and socially desperate persons (BMJ 2012; Eures 2012) represent numerous indications that the European Union has forfeited the support of its citizens. Nor is this because its peoples are facing adversity, for History provides ample testimony that these same peoples possess the resilience to overcome periods of intense suffering and hardship. What is much harder to overcome, by contrast, is a sense of social injustice, in particular in a context in which the future seems to hold out no promise or possibility of improvement.

Is it not perfectly evident that this feeling is today spreading through Europe like wildfire? What people experience as injustice is not the need to reduce their standard of living during a period of crisis; the feeling stems rather from an awareness that the harshest measures are hitting the most vulnerable sectors of the population and that the political and economic elites are managing to remain outside the structures that organize solidarity, thereby undermining its effectiveness where it is brought into play. The feeling of injustice stems also from the apparent powerlessness of democracies to find any effective means of opposing the unbearable increase of inequality in its many forms: precarious jobs and unemployment for low-skilled workers of both sexes and an explosion of pay increases and bonuses for the financiers who cream off all the wealth and for the captains of globalized industry who, in their own best interests, scrap local jobs and employment opportunities.

The recent debates, particularly in the United States, but also in Europe, concerning the ‘richest one per cent’ of the population are evidence of the rise of this intense feeling of injustice in western societies. The discussions aimed at limiting pay and bonuses in the financial industry are part of the same phenomenon, as are those on subjects such as tax evasion and fraud, money laundering, tax optimization by multinationals, financial speculation, manipulation of stock exchange indexes, enrichment without creation of wealth, etc. These are just some of the subjects dealt with by the countless commissions of enquiry set up and parliamentary reports drafted to elucidate the causes of the financial crisis and highlight the practices of this industry (in addition to the current enquiry on the manipulation of LIBOR, see, among others, SIC 2010; FCIC 2011; FSA 2011a; FSA 2011b; Sénat 2012). No political project is able to withstand the rise of such a feeling of social injustice.

4. Social injustice exacerbates anti-European populism

The last sequence in this austerity-recession-divergence-social injustice chain development is the way it translates into politics. Over the last two years of crisis general elections have been held in no less than 17 EU member states. In the majority of cases the outcome was an ousting of the previous government by the electorate whose votes brought an opposition party to power (Ireland, Portugal, Denmark, Spain, Slovenia, France, Lithuania, Malta). Yet in some cases the elections gave rise to the emergence of more worrying developments, whether in the form of historically low turnout rates, as in Cyprus (even though voting in that country is compulsory), in Poland or in Portugal, or of the rise of extreme political groups with radical, nationalist or populist leanings, as in Finland, Greece, Latvia or Romania (see inter alia Bartlett *et al.* 2011).

Discourse opposed to the European Union currently has the wind in its sails, whether in the countries subject to adjustment via ‘injunctions from Brussels’ or in the ‘virtuous’ countries which express their resentment at the ‘profiteers from the south’. It is thus that the newly developing form of convergence may be said to be populism, a political trend that betrays growing criticism of ‘the others’ and recriminations against ‘outsiders’. How is Europe to be constructed on such a basis?

‘It is thus that the newly developing form of convergence may be said to be populism, a political trend that betrays growing criticism of “the others” and recriminations against “outsiders”.’

This last sequence of the chain represents an additional scourge in an increasingly divergent Europe where the tensions between peoples are growing, and where the most highly skilled citizens and workers are tempted to seek their future elsewhere. This is a Europe that has witnessed, until now in silence, the development of different categories of member state: the first class members, who are the rich lending and exporting nations of the eurozone, and the ragamuffins who form the eurozone’s second class and who have become obliged to follow the orders of their betters; then there are also the members belonging to the third category who are sitting out there in the euro waiting room and no longer have much say with regard to the current direction of European integration. Not to mention those states which are making it more or less clear that they want nothing more to do with the EU.

The lost awareness of a shared destiny and the destruction of solidarity among peoples could well bring the European project to grief. This observation is the measure of the responsibility borne by the European institutions. Destruction requires much less time than construction. In the absence of a qualitative political leap, this project will lose the support of NGOs and trade unions. The ideal to which these social forces chose to adhere is that of a European Union set up to forge progress and growing equality by means of investment, solidarity, and sustainable development policies. Convergence via the market was, on the other hand, what the architects of the euro believed in but we see only too well today the extent to which market forces, left uncurbed, serve to unleash and continue to fuel this downward spiral of divergence.

‘In the absence of a qualitative political leap, this project will lose the support of NGOs and trade unions.’

The European Union must, as of now, set to work on re-establishing convergence by devising and introducing structural investment programmes designed to prepare the low-carbon economy of tomorrow (see chapter 6); and by the provision of aid to strengthen the economic and industrial structures of the peripheral countries, so as to allow them to specialize in specific sectors and niche markets and to make their economic structures more resilient to shocks and less dependent on direct foreign investment.

It must not be forgotten that one of the purposes of the EU is to promote economic, social and territorial cohesion and solidarity among the member states (articles 3 TEU and 174 TFEU). The European Union and its member states must strengthen and not dismantle the social dimension of the European project and should remember that

‘The Union and the member states, having in mind fundamental social rights such as those set out in the European Social Charter signed at Turin on 18 October 1961 and in the 1989 Community Charter of the Fundamental Social Rights of Workers, shall have as their objectives the promotion of employment, improved living and working conditions, so as to make possible their harmonisation while the improvement is being maintained, proper social protection, dialogue between management and labour, the development of human resources with a view to lasting high employment and the combating of exclusion’ (Article 151 of the TFEU).

Active adherence to these objectives is the price of the continuing support of citizens and workers for the European project.

Macroeconomic developments and policy responses in diverging Europe

Introduction

The global financial and economic crisis that was so dramatically unleashed in 2007 propelled into the limelight the divergence in macroeconomic developments among the eurozone member states that had been taking place as a result of the gradual build-up of macroeconomic imbalances between 1999 and 2008. The failure to take appropriate and timely steps to reverse these imbalances was also a root cause of the new series of difficulties that broke out in the eurozone as from 2010 in the form of a sovereign debt and banking crisis. These developments did not fail to affect also non-eurozone countries. Several of them faced balance-of-payments problems in 2007-2008 and few managed to avoid the slowdown – if not slump – of their output growth.

The EU/eurozone response involved the provision of financial support to member states facing sovereign debt and/or balance-of-payments crises, in exchange for strict conditionality programmes as well as a series of economic governance reforms, the purpose of which has been to prevent the re-occurrence of similar crises in the future. At the heart of this approach has been an emphasis on fiscal austerity and, where necessary, the correction of any external deficits.

The debate on whether this approach has been optimal is on-going (see also Chapter 2), especially as, in most cases, the recovery that was expected to follow the fiscal stimulus in 2009 was stopped dead in its tracks. Instead of showing signs of recovery, those member states that found themselves initially most affected by the crisis have now plunged into major recessions – unprecedented in the post-war era – which, on account of the close integration of the national economies within the EU, have begun to take their toll on the EU economy as a whole; at the same time, the crisis has been spreading instead of being contained across members states and their banking systems.

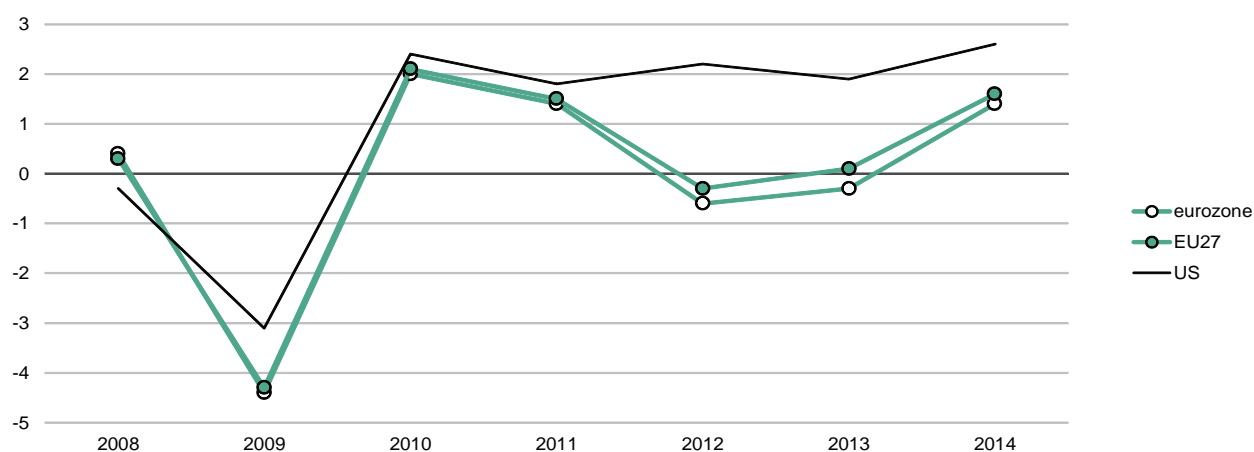
This chapter takes a look at the macroeconomic developments and policies of 2012 in an attempt to spot any divergent trends in important real macroeconomic variables. It also asks whether the policy responses to the crisis have proved effective in containing divergent developments or whether they contributed to fuelling them still further.

Topics

> <i>Economic developments: divergence and double-dip recession</i>	18
> <i>Economic developments: adjusting economic imbalances</i>	20
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> <i>Looking ahead: is the observed divergence likely to dissipate?</i>	26
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Economic developments: divergence and double-dip recession

Figure 1.1 Real GDP growth EU27, eurozone, US, 2008-2014(f), annual data



Source: own calculations based on AMECO (2012).

Europe's double-dip recession in contrast to the US

Both the European and the US economy experienced a deep slump in 2009, with the EU faring worse than the US. Yet the European economies managed to narrow their gap with the US in real GDP growth in 2010, whereas up until 2012 there was no differentiation on average between EU and eurozone member states (Figure 1.1).

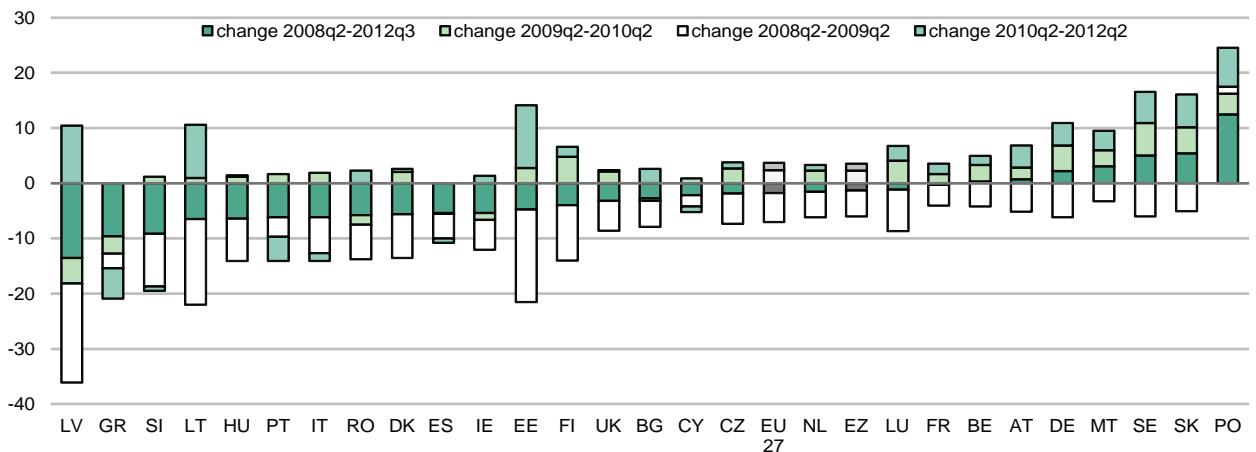
However, this situation changed from 2012 onwards. Following a slight slowdown in 2011, the US economy started growing modestly and is forecast to continue on that path until 2014 (see Figure 1.1). The European economies, on the other hand, in 2011-2012 experienced an accelerating drop in their real output growth, thus diverging from the US economy. 2010 was the year when the sovereign debt crisis broke out in the EU and when the dramatic attempts to rein in government budget deficits and public debt, by means of fiscal austerity, began. At the same time, there developed a slight divergence on average between the EU and the eurozone, with the member states of the latter experiencing a deeper slowdown.

The European Commission's latest forecasts (2012) suggest that positive output growth is on the cards from 2013 onwards; however, on the Commission's own admission, this projection is subject to substantial downside risks that are conditional upon the effective resolution of the eurozone crisis. Even if these downside risks were not to materialise – a big 'if' given current developments – the relative loss in output, both in absolute terms and in comparison with the US, especially following a recession as deep as in 2009, is substantial.

Moreover, even the optimistic version of these forecasts suggests that employment losses will continue well into 2014 in Europe (see Chapter 2). If productivity per worker were to grow by 1.2 % per year and population were to increase by 0.4 % per year – that is, their long-term averages before the crisis – output growth would not be sufficient to generate new jobs in Europe, let alone make up for the losses incurred since the onset of the crisis. This would add a further dimension of divergence in recovery between the European and the US economies, with implications for the long-term growth potential.

Economic developments: divergence and double-dip recession

Figure 1.2 Change in real GDP, 2008Q2-2012Q2



Source: own calculations using Eurostat (2012).

Divergence in real growth within Europe

The EU economy did not diverge only on average in comparison to the US, for divergent trends are concealed also beneath this average, i.e. within the EU. As seen in Figure 1.2, the losses in real output between the second quarter of 2008 – when the recession following the global crisis started – and the second quarter of 2012 have varied widely, and there have even been several member states, both within and outside the eurozone, whose real output actually increased during this period. While the average loss in output in the EU as a whole and within the eurozone was 1.8%, member states such as Latvia experienced a loss of nearly 15%, whereas many others lost three times as much output as this average. The biggest losers were member states that experienced either a balance-of-payments crisis outside the eurozone or a sovereign debt crisis within it (see also Chapter 2). The fact that, among these member states, most are either new member states (NMS) from Central and Eastern Europe (CEE) or former ‘cohesion countries’ from within the EU15,

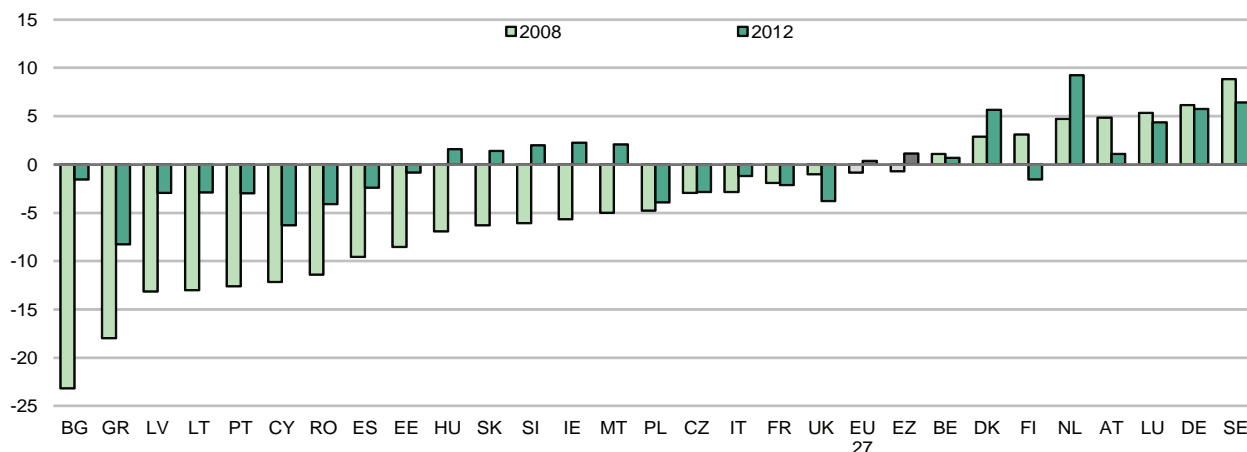
suggests that any convergence in real per capita income that had been achieved during the earlier years of EU membership has at best stalled if not been reversed (see ETUC and ETUI 2012: 19). On the other hand, among the member states whose output losses were smaller than average, or which experienced positive growth rates, one finds some of the richest EU/eurozone member states, but also Slovakia and Poland. Thus, we see that, contrary to hopes that EU accession would boost convergence for NMS12, the crisis has in many cases brought about divergence rather than convergence (see also Chapter 2).

The recession of 2008-2009 did not hit all member states to the same extent. The divergent trends of that period were alleviated during 2009-2010 when coordinated fiscal stimulus policies were pursued across Europe (Figure 1.2). However, diverging trends in real output growth subsequently re-emerged between 2010 – when the sovereign debt crisis in the eurozone started and the switch to austerity policies took place – and 2012. On average the EU/eurozone’s real GDP grew by 1.3-1.4 % during that period. However, the member states most hit by the debt crisis – Greece, Portugal, Italy, Spain – saw output losses that ranged from almost double to more than four times these rates. On the other hand, the Baltic States, which experienced some of the biggest losses in output after

2008, have experienced a strong growth rebound since 2010, which nevertheless has not completely made up for their earlier losses. Other eurozone member states, such as Germany, Austria and Slovakia, have managed to recover the output growth losses of 2008-9. Poland is the only EU member state not to have suffered any real losses in output growth since 2008.

Economic developments: adjusting economic imbalances

Figure 1.3 Current account balances (as % of GDP) EU27, 2008, 2012(f)



Source: AMECO (2012).

Asymmetric rebalancing of external positions/ current account imbalances

The divergence in macroeconomic developments between 1999 and 2008 manifested itself in sizeable current account imbalances. Given that, as Figure 1.3 shows, the current accounts of the eurozone and of the EU27 as a whole have remained almost in balance, the imbalances among member states reflected mostly divergent economic developments within the EU/eurozone rather than with regard to the rest of the world. Figure 1.3 also shows that the variation in external positions, that is, in current account balances, of EU member states was substantially reduced between 2008 and 2012, with most of the adjustment having been borne by those member states which found themselves experiencing current account deficits. In that sense, the divergence in current account balances has been reduced since the onset of the crisis. The interesting question, however, is how this result has been achieved.

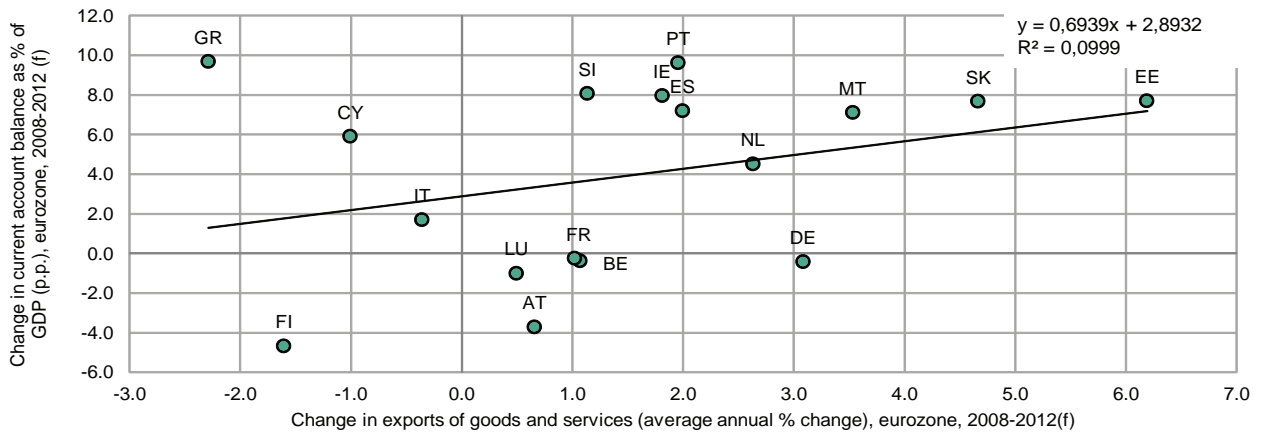
Current account balances are often interpreted as reflecting the difference between a country's exports and imports, with deficits indicating higher imports than exports. It follows that an improvement in competitiveness (that is, the real exchange rate or the relative prices) of an economy could, other things being equal, lead to a decrease in current account deficit. Within the eurozone, the efforts of member states to rebalance their current account deficits have thus involved a strategy of 'internal devaluation', that is, the slowdown in their wage and price growth in an attempt to improve their competitiveness relative to member states with current account surpluses and thereby boost their exports relative to their imports.

In a world with rigid prices and nominal wages and, in the case of the eurozone, in the absence of a nominal exchange rate, improvements in competitiveness achieved through an 'internal devaluation' are typically painful, as they involve cuts in salaries and employment. They can, what is more, take time. The effectiveness of internal devaluation is also questionable when the strategy is followed by a large number of member states at the same time. On the one hand, competitiveness is a relative concept and therefore, when too many economies try to improve it against each other, ever greater efforts are required; on the other hand, attempts to achieve internal

devaluation also take a toll in domestic demand, which in turn affects demand for imports, which are also the exports of other trading partners, often the countries which are trying to reduce their current account deficits through an export expansion. Moreover, such a strategy can undermine attempts at reducing government budget deficits because of the recession it is likely to generate. An alternative route to rebalancing current account deficits is to reduce the demand for imports by reducing domestic demand; or, as the other way of interpreting the current account balance goes, to increase domestic saving (public and private) over investment. This can be a no less painful and even less sustainable process than the internal devaluation option, except that it can sometimes be engineered relatively more quickly. Fiscal austerity measures contribute to its achievement.

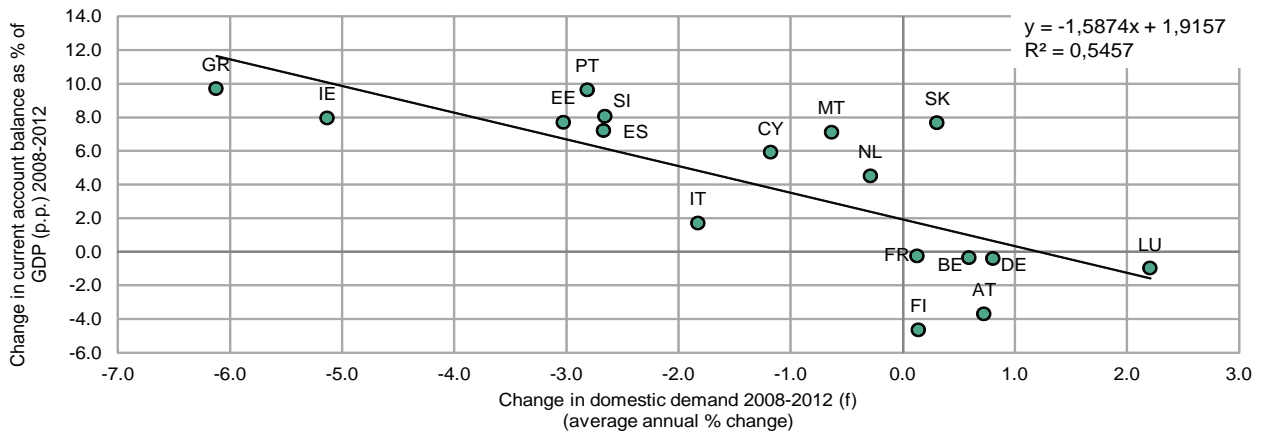
Economic developments: adjusting economic imbalances

Figure 1.4 Exports and the current account balance, eurozone member states, 2008-2012 (f)



Source: own calculations using AMECO (2012).

Figure 1.5 Domestic demand and the current account, eurozone member states, 2008-2012



Source: own calculations using AMECO (2012).

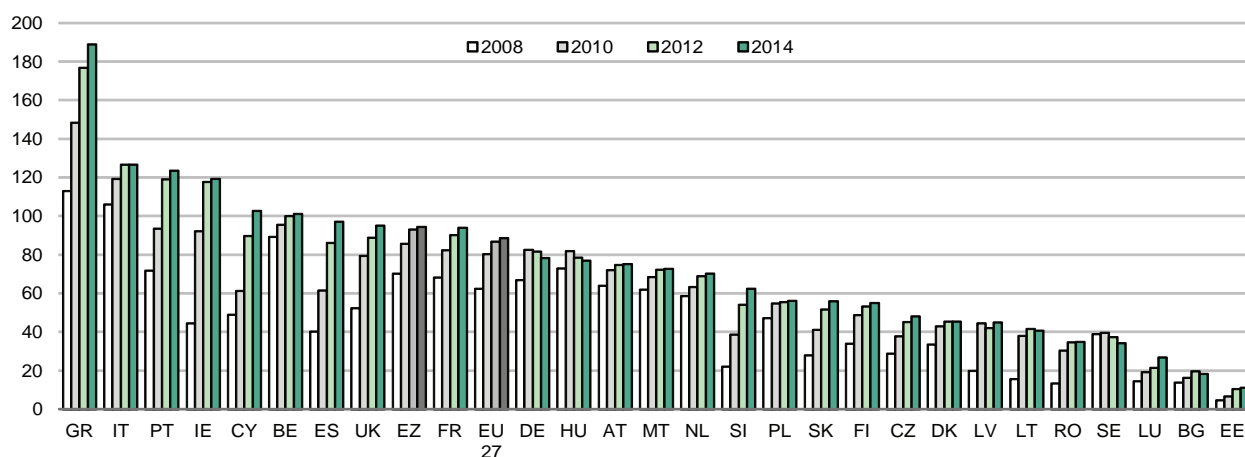
Domestic demand rather than exports accounting for correction of imbalances

Figures 1.4 and 1.5 suggest that domestic demand developments accounted for a far larger part of the adjustment in current account imbalances within the eurozone – and especially in member states with current account deficits – between 2008 and 2012 (estimated values), than did changes in export performance. The respective associations for the EU member states (not illustrated here) suggest that actually exports accounted for a higher but still relatively small part of the current account imbalance than did developments in domestic demand.

This situation is actually not much different from what happened during the period 1999–2008 when divergence in current account imbalances in the eurozone was a far more important factor for the rise of current account imbalances in the eurozone than was divergence in export performance (European Commission 2009: 27). While the extent of divergence in current account balances that was evident in 2008 has now been reduced, this adjustment process has taken place in ways that fuelled divergence in other real variables, most notably real output growth.

Economic developments: adjusting economic imbalances

Figure 1.6 Gross public debt as % of GDP in the EU27, 2008, 2010, 2012, 2014



Source: AMECO (2012).

Sovereign debt and banking crises: the lethal feedback loop

The public finances of individual countries, as measured by the gross-debt-to-GDP ratio, started deteriorating soon after the onset of the global financial crisis in 2008, partly due to the recession that followed it and partly due to the fiscal stimulus measures undertaken in 2008-2009 to counteract it. In the EU, from 2010, the policy direction changed towards fiscal austerity. However, this deterioration was not evenly distributed. Member states that saw the biggest increases in their gross-debt-to-GDP ratios are also those which saw the worst reductions in their real output growth, most notably Greece, Ireland, Portugal, Spain, Cyprus, Slovenia, but also the UK, Romania, Latvia and Lithuania. These were also the member states that had faced sovereign debt and/or balance-of-payments crises in the markets since 2007 and which, in response, had pursued the toughest austerity programmes, whether or not as a condition for receiving financial help from the EU and the IMF (see also Chapter 2). Of these, only Greece, before the crisis started and the

austerity policies were adopted, had a debt/GDP ratio that was high enough to have a potentially adverse effect on output growth (cf. Reinhart *et al.* 2012).

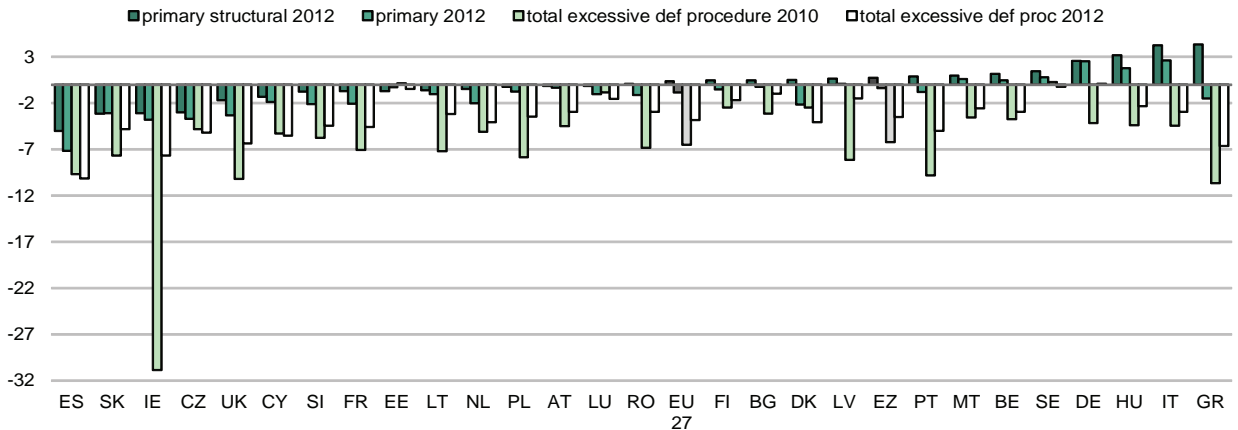
The debt-to-GDP ratios are forecast to increase or remain at higher levels in 2014 in all but a handful of countries, namely Germany, Hungary, Lithuania and Sweden, but, even in these latter cases, any decrease is likely to be small. Rather than boosting confidence in the sustainability of public debt, austerity policies and their adverse effects on real output growth have undermined it, leading to persistently higher debt-to-GDP ratios.

The deep recession experienced by several member states and the worsening sovereign debt crisis were further reinforced by and fed into the crisis of banking systems in Europe. The value of assets of banks, especially in affected countries, was reduced by the combination of recession – which made numerous loans unserviceable – and the sovereign debt crises, given that banks are among the biggest holders of government bonds of the country in which they are based. These losses in asset value generated concerns about the capacity of banks to operate on a sound basis. The potential need for bank bail-outs would put further pressure on troubled governments' balance sheets, thus further worsening expectations about the sustainability of their public finances. Moreover,

the exposure of banks to the potentially unsustainable debt of sovereigns was not restricted by national borders. Thus the sovereign debt crisis generated problems in banks across Europe. In this way, with the spread of the sovereign debt crisis, the lethal loop between sovereign debt and banking systems came more prominently to the fore in 2012.

Economic developments: adjusting economic imbalances

Figure 1.7 Government budget deficits: Total, primary (excl. interest) and primary structural (cyclically adjusted excl. interest) (% of GDP) EU27, 2012



Source: AMECO (2012).

Austerity undermined public finances

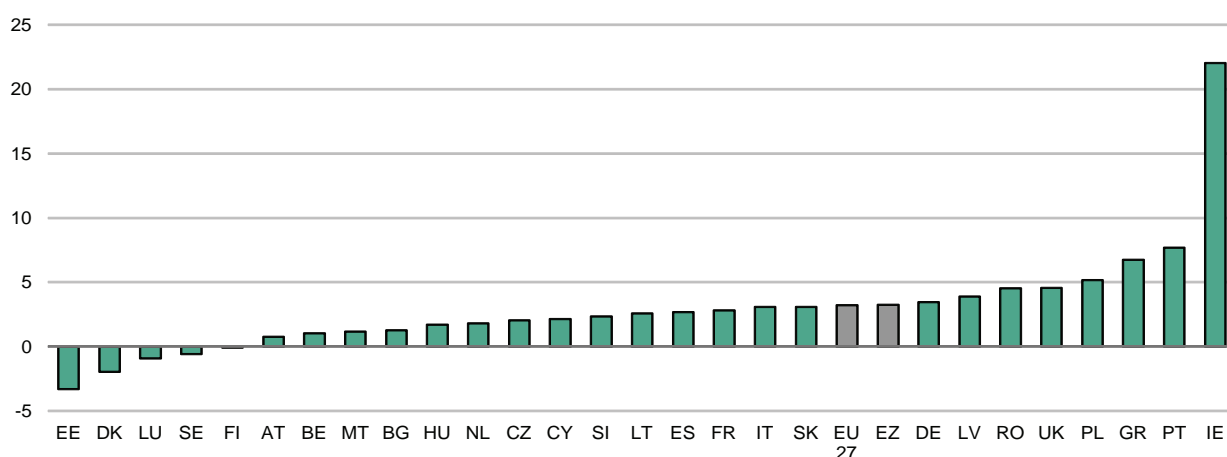
The reversal of government budget deficits, which soared after 2008-9, has been a painful process since 2010, especially for those member states whose governments faced sovereign debt crises in the financial markets. It was in these countries that austerity policies were most severe and that, in most cases, they deepened the recessions that undermined the purpose of fiscal consolidation. As Figure 1.7 above shows, Greece, Italy and Portugal, that is, countries which undertook some of the most sweeping austerity measures, had among the biggest government budget surpluses if the interest payments, which soared due to the crisis, are excluded and the effects of recession on government revenues and expenditures are netted out. Yet the total budget balances of their governments are expected to register some of the highest deficits in 2012. This discrepancy underlines the detrimental effects of austerity on real output growth.

Recent research by the International Monetary Fund (IMF 2012) has suggested that the adverse effects of

fiscal austerity on economic activity (as summarised by the ‘fiscal multiplier’) were likely to be much greater than had been assumed when the adjustment programmes were designed, especially for those member states that received financial support in exchange for conditionality programmes. The reasons for these larger-than-expected effects are to be found in the set-up of the eurozone but also in the specific circumstances of the crisis. The effects of fiscal consolidation on economic activity in the short to medium run are likely to be less adverse if fiscal austerity measures can be combined with an accommodating and effective monetary policy that allows interest rates to fall. In the eurozone this has not been possible, both because monetary policy is not set depending on the needs of specific member states and because interest rates have been very close to zero; as such, there was no scope for large reductions. Moreover, the interconnection between sovereign debt and banking crises has meant that the growth of credit from banks to households and firms, especially in the member states that have been most affected by these crises and recession, has been heavily constrained. Therefore, in addition to undermining fiscal consolidation, austerity policies have also been driving divergence in real output growth in the eurozone.

Macroeconomic policy responses

Figure 1.8 Change in structural government balance (as % of GDP-excl. interest payments), EU27, 2010-2012(f)



Source: AMECO (2012).

Uncoordinated fiscal austerity

Divergence was observed in the stance of fiscal policies within the EU and the eurozone in particular. Figure 1.8 shows the change in primary structural government balance (that is, the difference between revenues and expenditure excluding interest payments once the business cycle, that is, the state of the economy, has been taken into account) in the EU27 between 2010 and 2012. The change in this balance can be thought of as an indicator of discretionary fiscal policy stance in the EU27. We see that, on average both in the EU and the eurozone, discretionary fiscal policy stances were tightened, that is, public spending was cut and taxes were raised. In other words, fiscal policies have been tilted towards (financial) austerity in spite of the double-dip recession facing the EU.

Beneath these averages, we also see that only a handful of member states did not tighten their discretionary fiscal policies, namely Estonia, Denmark, Luxembourg, Sweden and Finland. eurozone member states which received financial support in exchange for conditionality programmes of fiscal and current account adjustment tightened their

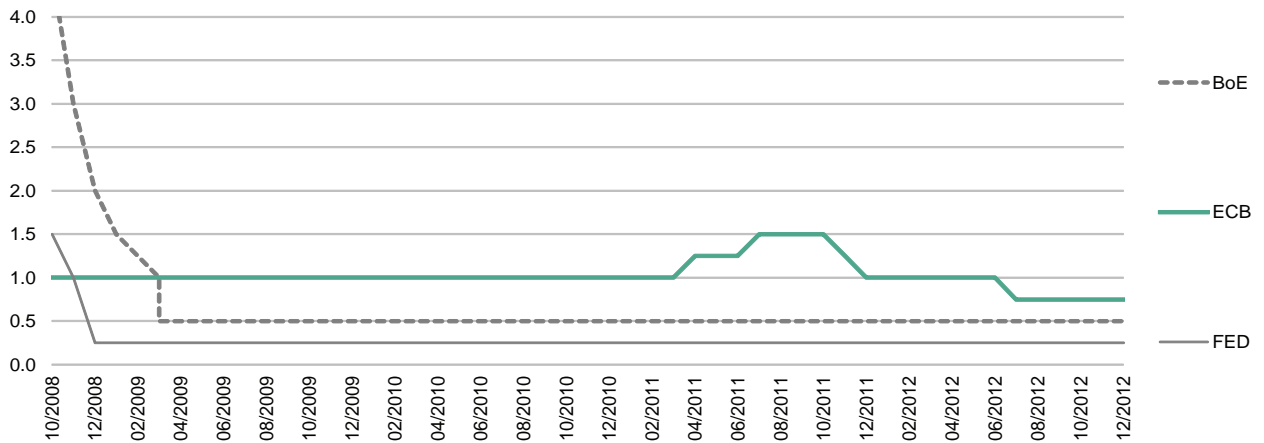
policies the most, along with the UK, Romania, Latvia and Germany, which tightened them by more than average in the EU. Of these, Romania and Latvia have also been under EU and/or IMF surveillance. On the other hand, in the UK and Germany the change in policy stance has been dictated more by the views of the respective governments which adhere to fiscal rectitude in spite of macroeconomic conditions than by market pressures, especially in Germany. Other large EU economies, such as France, Italy, Spain and Poland, have also tightened their discretionary fiscal policy effort almost as much as the average in the EU.

These developments, when considered together with the real output growth pattern in the EU, are reasons for concern about the appropriateness of the European response to the sovereign debt crisis in the eurozone. For one thing, member states like Spain and Italy have been drawn into the crisis even though their fundamentals at its onset did not suggest that they were insolvent. For another, these stances reveal the absence of a sense of coordination across individual member states' fiscal policy efforts, so that those whose governments have not been facing problems of confidence in the markets use their fiscal policies with a view to stimulating aggregate demand in the area as a whole. As Figures 1.6 and 1.7 suggest, the aggregate EU27 and

eurozone debt and government-budget-deficit-to-GDP ratios are not excessively high, especially given the double-dip recession experienced in the area. In other words, the public finances of the EU and the eurozone as a whole are not unsustainable. Yet as these graphs also suggest, the problem loads are unevenly distributed across member states and this would appear to make coordination of policy stances ever more important both for overcoming the crisis and for doing so in a way that avoids further divergence in output growth.

Macroeconomic policy responses

Figure 1.9 Central Bank policy rates, ECB, BoE, FED, 2008-2012



Source: Own compilation based on Bank of England, European Central Bank, Federal Reserve.

Monetary policy: masterstrokes or muddling through?

The European Central Bank (ECB) undertook a series of policy initiatives towards the end of 2011 and in 2012. In autumn 2011, it announced the launch of its Long-Term Refinancing Programme towards banking institutions of the eurozone. The move was intended to provide means of alleviating the sovereign debt crisis by channelling liquidity to the banks which could then buy distressed government bonds and thereby help reduce the spreads in interest rates of the affected sovereign bonds over those of Germany. Although there were signs of effectiveness, in practice this move intensified the vicious link between sovereign debt and banking crises as the sustainability of public debt in several countries did not improve (see above in this chapter).

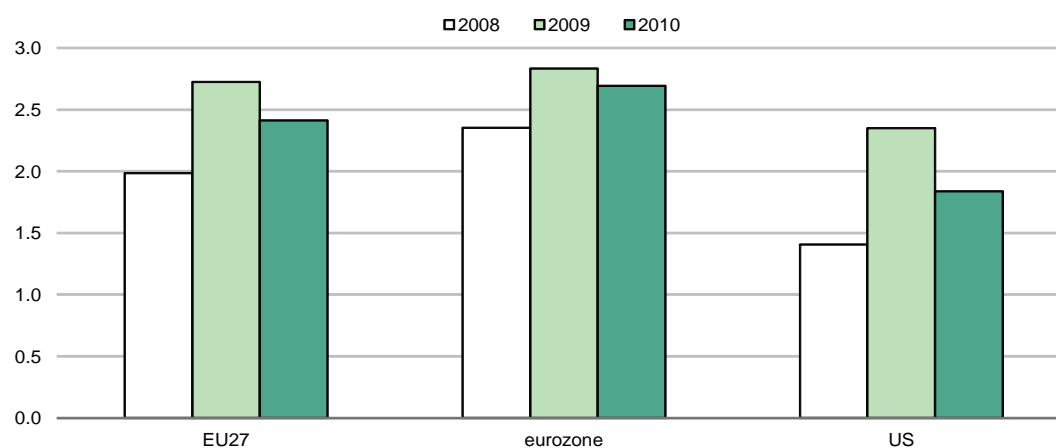
In the summer of 2012, Mario Draghi announced in public that the ECB would do 'whatever it takes' to avert the dissolution of the eurozone as a result of a government defaulting on its debt and re-introducing its own currency. A condition for that would be that the government facing distress in the sovereign debt

markets would have to apply for support from the ESM and sign up with the EU, the ECB and the IMF for a conditionality programme in exchange. This move also appeared to have impressed sovereign debt markets. However, to the extent that the EU approach of uncoordinated fiscal austerity continues to dominate the philosophy of the conditionality programmes attached to EMS support, and as long as the feedback loop between sovereign debt and banking crises is not broken by the creation of an adequate banking union, the medium-term effectiveness of the ECB's commitment to averting the breakup of the eurozone is questionable.

Last but not least, in July 2012, there was a reduction in the bank's main refinancing rate from 1% to 0.75%, which nevertheless kept it above the respective main rates of both the Bank of England and the US Federal Reserve (FED; see Figure 1.9).

Looking ahead: is the observed divergence likely to dissipate?

Figure 1.10 Long-term real interest rates (deflator GDP), EU27, eurozone, US, 2008-2010



Source: own calculations using AMECO (2012).

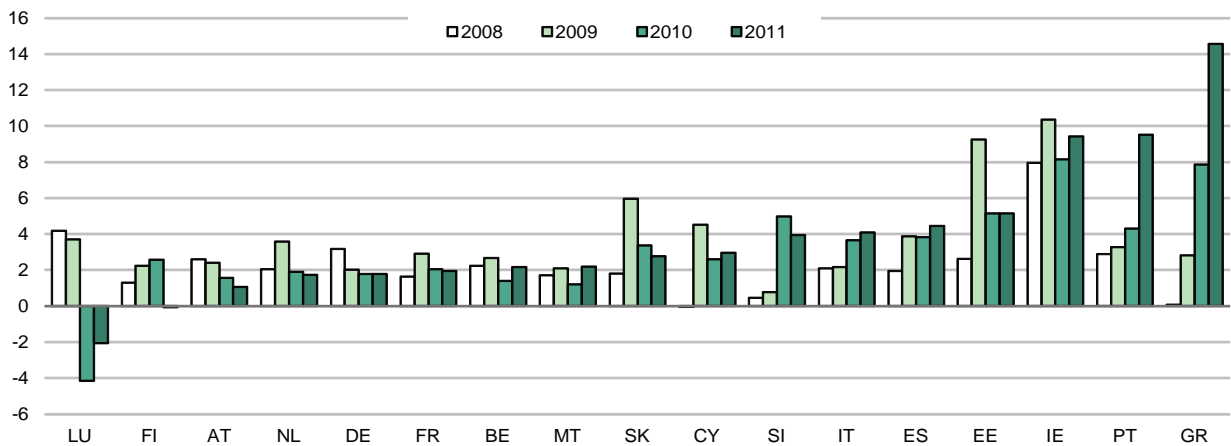
Long-term real interest rate divergence: Europe vs. the US

As Figure 1.10 shows, long-term real interest rates remained on average higher in Europe than in the US between 2008 and 2010, as they also declined by less between 2009 and 2010. These interest rates are important determinants of investment decisions in an economy and, by implication, of its growth prospects and public finance sustainability, with higher interest rates having a detrimental effect. They are calculated using the interest rate on long-term government bonds adjusted for expected inflation. Given the advanced degree of financial integration, divergence in real interest rates among financially integrated countries reflects, to a large extent, divergent financial risk premiums across them. Common underlying causes of the size of such premiums are the investors' perceived risk of default, in turn a function of the perceived sustainability of a government's fiscal position, expected market volatility and uncertainty about future inflation developments, at the root

of which we may also find unsustainable debt paths. Given these factors, the difference between the EU27 and eurozone averages in 2010 is even more striking and a sign of divergent developments that are likely to last, with eurozone member states being on average more adversely affected than the EU. Although the sovereign debt and banking crises have mostly affected the eurozone, while it has also been the failure to tackle these crises effectively within the eurozone that has fuelled the divergence in long-term real interest rates with the EU27. Rather than being a source of stability, eurozone membership has, in actual fact, generated more turbulence for its members under the current circumstances.

Looking ahead: is the observed divergence likely to dissipate?

Figure 1.11 Long-term real interest rates (deflator GDP), eurozone, 2008-2011



Source: own calculations using AMECO (2012).

Eurozone real interest rate divergence continued

When we look beneath the eurozone average, we also see a large divergence in long-term real interest rates among member states. Long-term real interest rates rose most in the eurozone periphery, in those member states that have been (on the verge of) facing sovereign debt crises, namely Greece, Portugal, Ireland, Spain, Italy, but also Slovenia. In all these countries, with the exception of Ireland, the upward trend in interest rates continued in 2011, that is, after the EU's approach to dealing with the crisis had been revealed. This development is a reversal of what had happened up to 2008. As is well known, divergent inflation rates between the core and the periphery had led to lower real interest rates in the latter, in spite of the common monetary policy of the ECB. This is illustrated in Figure 1.11 (2008 data). However, after the onset of the crisis, this situation was reversed to reflect the heightened market perceptions of the risk of sovereign default and currency conversion (that is, of a

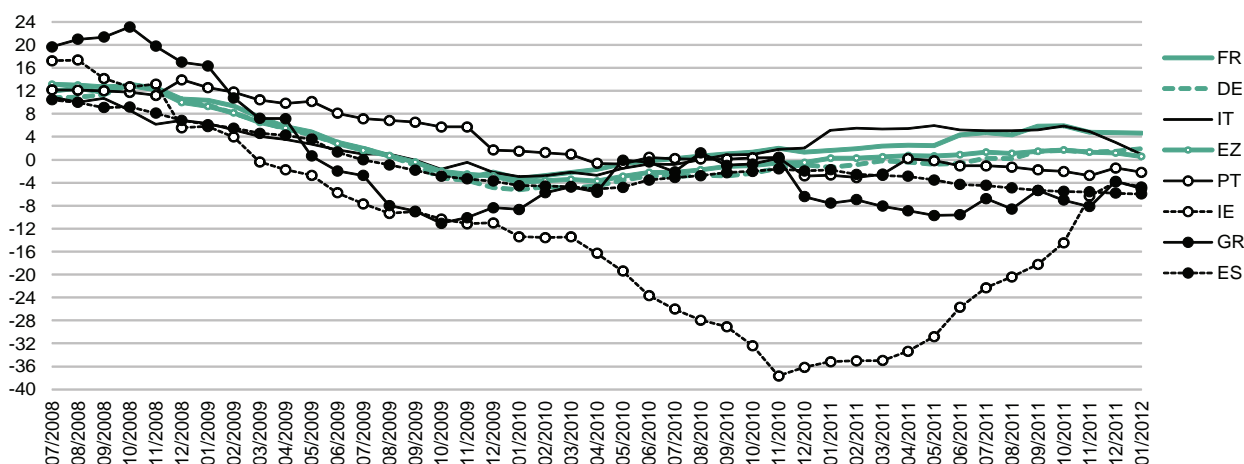
country deciding to leave the eurozone) in the periphery member states that were affected. In fact, this reversal has led to a far more dramatic divergence pattern in long-term interest rates and the implications of such divergence in terms of demand and output growth are not difficult to grasp. Up until 2008 divergence had been much more limited and yet had led to substantial current account imbalances which were largely accounted for by divergence in domestic demand conditions (European Commission 2009).

This is a clear sign that the policy responses to the eurozone crisis are unlikely to stem the divergent trends in output growth that were documented in a previous section, as they have failed to fundamentally dispel fears about the break-up of the euro or to restore confidence in the sustainability of the public finances of several member states and the solidity of the banking systems in the eurozone. On the one hand, the insistence on strategies of unabated fiscal austerity across the area in the face of fast spreading faltering macroeconomic conditions and the unbalanced focus on attempts to prove fiscal rectitude as a means of restoring market confidence and avoiding issues of moral hazard that could follow from bail-outs and, on the other hand, the uncoordinated, unilateral approach to re-balancing current account imbalances through strategies of 'internal devaluation' in the eurozone,

have perpetuated the economic slump and deteriorated expectations about debt sustainability.

Looking ahead: is the observed divergence likely to dissipate?

Figure 1.12 Monetary Financial Institutions loans to non-financial corporations



Source: OECD (2012).

The breakdown of the ECB's monetary policy transmission mechanism

Moreover, strong political resistance to the creation of an effective banking union, on the grounds that it would imply the pooling of banking risks at the eurozone level and the loss of national control over banking systems within the EU, has further reinforced the lethal feedback loop between sovereign and banking crises. This loop has also contributed to the breakdown of the ECB's monetary policy transmission mechanism. As the access of banks to liquidity in the eurozone is no longer determined by the ECB's interest rate policy alone, but rather by their perceived viability by market actors, which in turn is linked to their exposure to the sovereign debt of the country in which they are based, and as the collapse of confidence in the banking systems of several periphery member states has led to massive outflows of savings towards banking institutions in the EU core, the ECB's policy initiatives become ever

less effective. This in turn contributes to increasing the size of fiscal multipliers, making the effects of fiscal austerity, especially in the most ill-affected member states, even graver, because any monetary policy tools, which have anyway been operating near the zero lower bound, become even weaker as they do not affect liquidity across the eurozone, whereas households and firms become even more credit-constrained. As Figure 1.12 above shows, there has been a substantial divergence in the flow of loans from monetary financial institutions to non-financial corporations between core and periphery member states.

Conclusions

Unresolved eurozone crisis fuelling divergence

The developments presented in this chapter suggest that the current economic crisis which has hit, primarily, the eurozone, and the policies launched in response to this crisis, have been driving substantial divergence trends within the eurozone itself and beyond, in particular with regard to real output growth, a variable which remains crucial for promoting fundamental objectives of European integration such as economic progress, increased economic and social cohesion, and the creation and maintenance of an economic and monetary union. Due to the close interdependence with the rest of the EU member states, these trends are likely to be even stronger between eurozone insiders and outsiders.

Oversights in the initial institutional construction of the eurozone, such as the absence of a fiscal and a banking union, and failure to foresee the potential implications of certain risks inherent in its operation, such as the persistent build-up of current account imbalances, the destabilising effects of a single monetary policy, and the existence of a feedback loop between sovereigns and banks, all of which operate in a cumulatively destabilising fashion, have fuelled the current crises, while ill-conceived policy responses have contributed to their expansion, ultimately jeopardising the very existence of the single currency.

It has now been documented that fiscal austerity could, and should, have been expected to have far more adverse effects on growth than originally calculated, while the efforts to rebalance current account imbalances seem to have relied more on depressing economic activity in those member states with deficits than on expanding these countries' export performance. On the other hand, it has been acknowledged, at least in some quarters, that, due to the increased integration of banking systems

in Europe, the resolution of banking crises should not rest with national governments but, instead, should be pooled at the supranational level.

While, at least at the level of rhetoric, some steps have been taken to address these shortcomings, the responses so far leave a great deal to be desired. Fiscal policies and any attempts to coordinate them are still fashioned on the assumptions that what is necessary to resolve the current and avoid a future crisis is stronger adherence to fiscal prudence and that tackling questions of 'moral hazard' in exchange for supporting troubled governments is more important than taking steps that would decisively help member states put their public finances on to a sustainable path and end the crisis once and for all. Moreover, rather than coordinating the re-balancing of current account imbalances across member states with deficits and surpluses, unilateral strategies are pursued. Last but not least, while it has been acknowledged that a banking union is necessary, the proposals put in place suggest a merely curtailed version of what would be an effective set-up, entailing, as they do, transfer to the ECB of control of only a part of banking institutions, while omitting all provision for a pan-European guarantee of deposits.

As we have seen in this chapter, inadequate responses have led to prognostication of a breakup of the eurozone. Predictions along such lines have catastrophic effects for the economies of the member states that have been facing debt crises, as they raise long-term real interest rates and dampen investment, even in the face of improved fundamentals, while at the same time contributing to a breakdown of the single monetary policy's transmission mechanism and essentially weakening, if not actually cancelling out, any effects it can have in those eurozone economies that most badly need them. Putting the right policy responses in place is therefore essential for avoiding further divergence in Europe and rescuing the project of European economic integration itself.

A downward-spiralling multi-speed Europe

Introduction

While the term ‘two-speed Europe’ was first coined simply to distinguish between the member states displaying a faster pace of integration and those managing to move forward only at a rather slower pace, the emphasis in this respect has recently shifted to a commitment to more integration. The new distinction became particularly apparent with the conclusion of the Euro-Plus Pact in March 2011 and the Fiscal Pact agreed at the EU Summit in December of the same year (European Council 2012). It is as a consequence of the eurozone crisis that the call for a closer degree of European integration has been reiterated, with the current focus being on economic governance and even fiscal union. Such deeper integration would, in the first instance, involve members of the Economic and Monetary Union (plus any non-EMU member states that join voluntarily) and would thus result in a two-speed Europe not in quantitative terms alone but in terms of a more qualitative form of political and institutional integration.

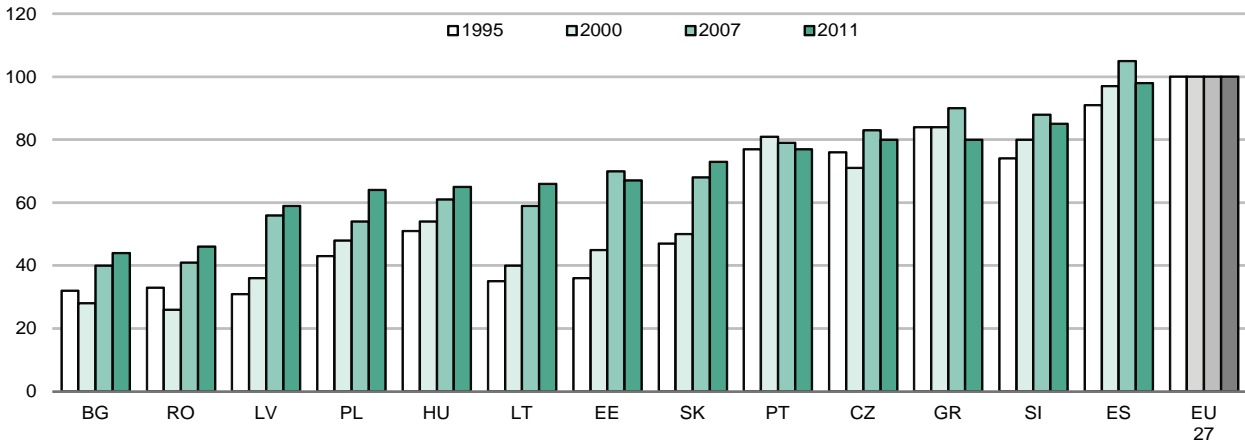
In this chapter, we examine various aspects of European economic integration in the specific fields of trade, finance and production regimes. Our focus, in so doing, will be on the prospects for growth and development of the European ‘periphery’ which encompasses the previously ‘converging’ countries of eastern and southern Europe that have been particularly harshly affected by the crisis of 2008 and its still ongoing consequences. Here it is a question not merely of different economic growth rates among member states but of differing economic models that were differently affected by the crisis of 2008. The adjustments that came in the wake of this crisis (including austerity policies and competitiveness-enhancing measures based predominantly on wage cuts) also had differing implications for individual economic models, so that what we see currently is a ‘patchwork Europe’ with fault lines zigzagging around among a variable combination of country groups. The practices imposed in the context of the adjustments are affecting the so-called ‘deficit countries’ asymmetrically, as these are the countries suffering a loss of national sovereignty as a result of interference from European institutions such that an accompanying feature of this development is a democratic deficit.

Topics

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Patchwork Europe: old and new divisions

Figure 2.1 Income gaps and convergence: GDP/capita as percentage of EU27 total for selected years and countries (based on market prices at PPS)



Source: Eurostat (2012).

Note: data for BG and RO: latest year 2010.

An end to convergence in Europe?

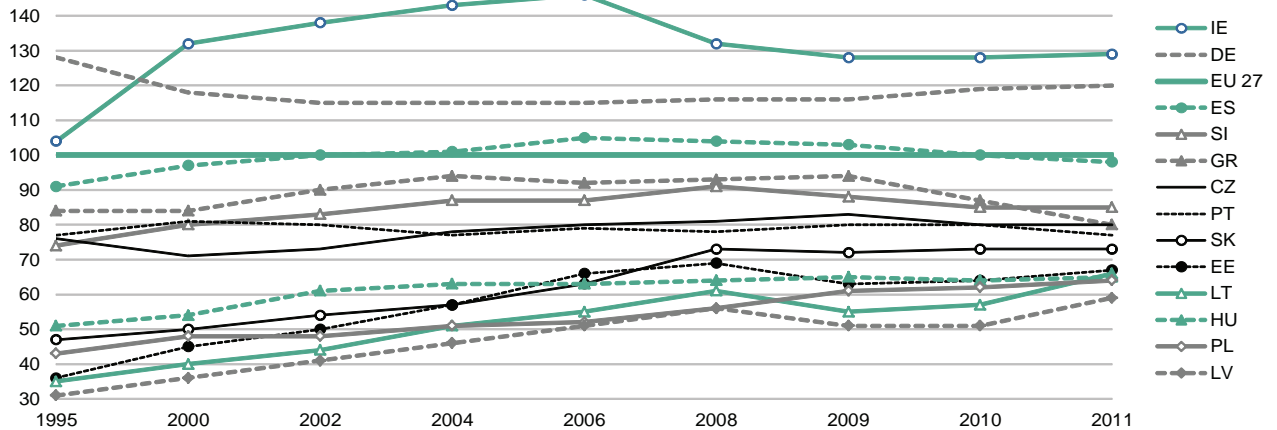
The promise of income convergence – between poorer and richer member states and among the poorer and richer regions within them – has been an underpinning feature of European integration from the outset. In this respect, a glance back over fifty years of EU history up to the crisis provides confirmation of an unprecedented feat. As stated in a recent World Bank (2012) report: ‘The European convergence in consumption levels in the last four decades is unmatched. Except for East Asia, the rest of the world has seen little or no convergence’. Indeed, already by the early 1990s the incomes of more than one hundred million people in the poor south – Greece, southern Italy, Portugal, and Spain – had grown and moved closer to those of the more prosperous areas of Europe. Similarly, between the late 1990s and the mid-2000s, the income levels of one hundred million people in Central Eastern Europe were dynamically converging towards levels in the richer part of the continent. Figure 2.1. offers a first historical glance at the economic divide in Europe, showing

that Central Eastern European countries still have substantially lower per capita GDP levels (at PPS) than the EU27 average. The data also indicate milestones in the last fifteen years, showing the varying convergence dynamics characteristic of individual countries in the different periods. Most of the convergence took place between 2000 and 2007, after which it lost momentum or even went into reverse. It is apparent also from the graph that Greece and Portugal stand out as having displayed no convergence whatsoever over the whole fifteen-year period. These are, what is more, the two EU15 countries that were subsequently overtaken by the most developed Central Eastern European member states.

The year 2008, with the onset of crisis, marked a halt in these processes of convergence achieved via a catching up of the less prosperous countries and regions, placing a question mark over the continuing sustainability of some of the progress achieved in the earlier phases of European integration (see also ETUC and ETUI 2012: 19).

Patchwork Europe: old and new divisions

Figure 2.2 Relative income levels: gross domestic product at market prices as a % of EU27 total (based on PPS per inhabitant)



Source: Eurostat (2012).

A case of 'reverse convergence'

The main trends observed in terms of GDP for the whole period 1995–2011 are shown in Figure 2.2. Although 2008 was a common point of fracture for both East and South, the experience of these two regions was significantly different. While convergence ground to a definite standstill in Southern Europe, in the Central Eastern European (CEE) countries the much stronger impetus towards convergence came to a more abrupt halt which, in some cases, nonetheless proved no more than temporary. Indeed, in most CEE countries – and particularly those with the lowest per capita GDP levels – a rapid process of catching up had been observable in the years before the crisis. In Southern Europe, however, the picture had been more mixed, even during the boom period, with Spain having achieved significant convergence, while Greece and Portugal had tended to stagnate. Latvia and Lithuania, the two countries which suffered the most dramatic falls in output in 2009 (17.7% and 14.8% respectively), nonetheless showed still impressive overall convergence for the 1995–2011 period as a whole, with per capita GDP levels relative to the EU27 rising

from 31% to 59% for Latvia and from 35% to 66% for Lithuania. What is also particularly noteworthy in relation to both these countries is that, after temporary drops in 2009 and 2010, they had by 2011 exceeded their pre-crisis relative income levels. Most other CEE countries also still preserved their pre-crisis relative income level in 2011, with Poland having significantly improved it (from 56% in 2008 to 64% by 2011).

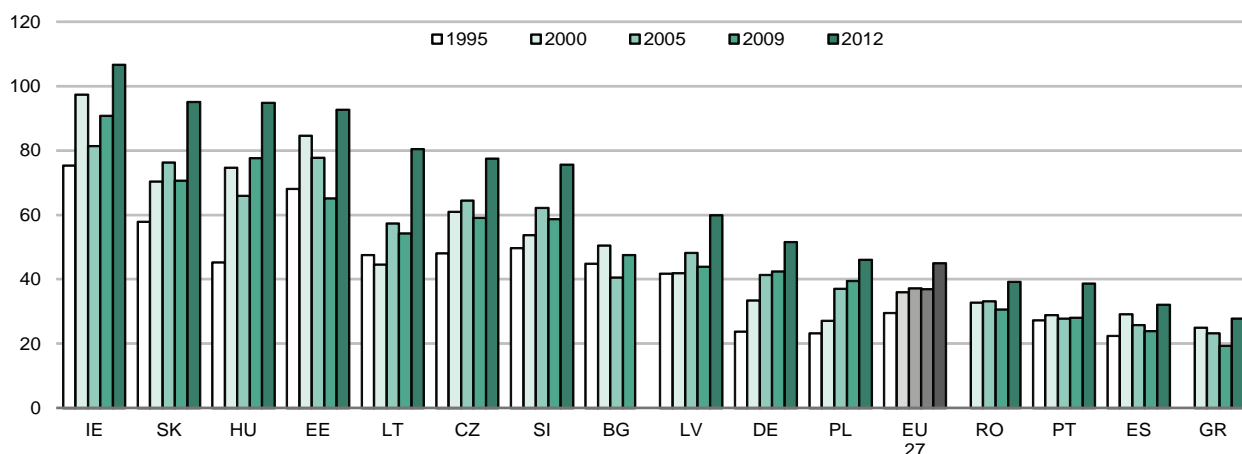
The picture for Southern Europe is much bleaker: between 1995 and 2011 the region showed no convergence – in the case of Greece and Portugal – or, in Spain, only limited convergence to EU27 levels. Thus, while Spain still achieved some convergence over these 16 years, from 91% to 98%, Portugal saw none over the entire period (77% in 1995 and still in 2011), while Greece actually suffered a loss of convergence (from 80% in 1995 to 77% in 2011). All three countries suffered significant setbacks in the wake of the crisis, most particularly Greece with a 14%-point drop in its relative income level between 2008 and 2011.

As a result of these setbacks, both Portugal and Greece have been overtaken by Slovenia in terms of per capita GDP expressed in purchasing power standards (PPS), while the Czech Republic has overtaken Portugal and very nearly caught up with Greece. Sadly, however, this apparent progress cannot be attributed to reinforced convergence for, although the

former EU15–EU12 gap has indeed narrowed, this result is attributable less to the catching up of poorer countries than to the deep recession suffered by Greece and Portugal. The development constitutes, in other words, what we might call a case of 'reverse convergence'.

Patterns of economic integration

Figure 2.3 Exports of goods and services (% GDP)



Source: Eurostat (2013).

New divisions on top of old ones

The two-speed experience in the catching-up process described in previous sections (see also ETUC and ETUI 2012: 19) is the result of a number of underlying structural differences among European countries that have affected their respective paths towards economic integration. In the following sections we examine four important drivers of economic integration: exports; the balance-of-payments situation and its structure; reliance on foreign direct investment (FDI); and the role of credit flows. The differences observed along these fault lines will be seen to be of relevance for understanding the differing degrees of vulnerability to external shocks that we have observed also since 2008.

The most pronounced division to appear recently is that between 'surplus' countries and 'deficit' countries, as determined by their balance-of-payments position (cf. Chapter 1) within the eurozone, with the core 'surplus countries' clustered around Germany and the 'deficit' ones around the Mediterranean. A similar distinction applies beyond the eurozone, with Eastern Central European countries belonging to the 'surplus'

core (e.g. the Czech Republic and Poland) and the more peripheral Eastern European crisis-ridden countries (e.g. the Baltic states) falling into the 'deficit' group. This division between surplus and deficit countries thus cuts across the historical and more traditional division between the East and the West of the continent characterised, on the one hand, by a substantial income gap between the old and the new member states and, on the other, by less established political institutions and economic structures to the East.

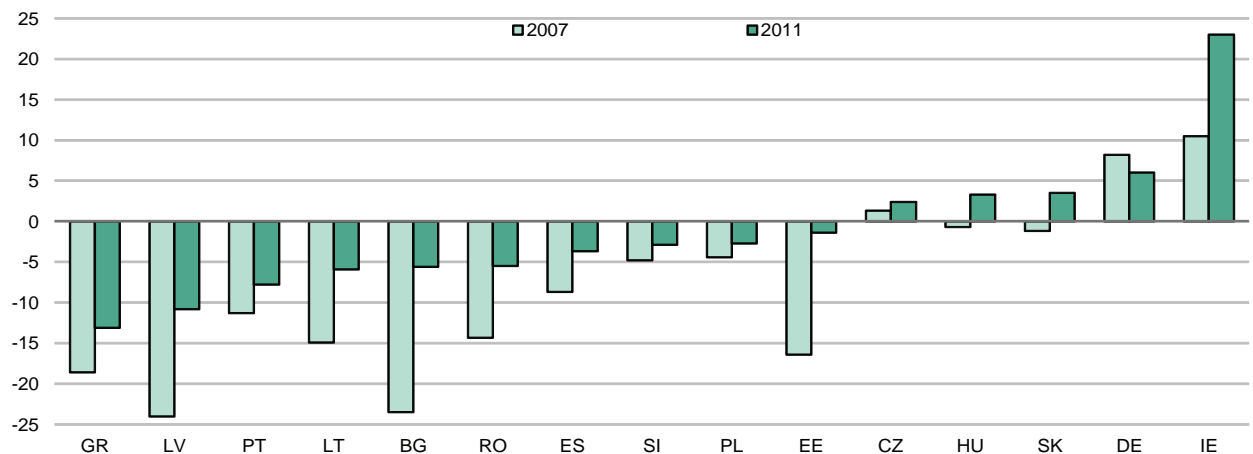
The countries dependent on exports and FDI (most prominently the Czech Republic, Slovakia and Hungary) suffered from the sharp drop in export demand in 2009, particularly in cyclical sectors such as the automotive and electronics industries. Exports of most CEE countries then recovered relatively rapidly, though their further growth remained sluggish given the overall condition of the eurozone. While FDI also dropped to some extent after the crisis, this did not appear to represent a major factor of instability. The major source of vulnerability was the reliance on private credit expansion (see Chapter 1), particularly when it was associated with the weak ability to adjust by balancing of the current account (see also Figure 2.8. in this chapter). While the terms of the East-West division in relation to income and wage levels overlap to some extent with another division in terms

of economic openness and the importance of export-oriented sectors, a new division is being created by the fact that Eastern European countries are among the most export-oriented economies in Europe, whereas the Southern European countries have failed to develop strong export-oriented sectors.

As shown in Figure 2.3, 2011 export shares in GDP amounted to over 90% of GDP in Estonia, Hungary and Slovakia, while they were as low as 27.8% in the case of Greece and only 38.6% in that of Portugal. Accordingly, openness and trade integration with the rest of Europe can be seen to be more pronounced in the case of CEE countries than of the Southern European crisis states. This situation is clearly visible from a glance at the export shares within output given in Figure 2.3.

Patterns of economic integration

Figure 2.4 Balance of payments component: trade in goods (% of GDP)



Source: Eurostat (2012).

Europe's new surplus-deficit faultline

The surplus-deficit divide refers to the different balance-of-payments situations across Europe. In the period preceding the crisis, balance-of-payments problems were a common factor of vulnerability not only in the South but also in a number of 'peripheral' Eastern European countries, including the Baltic States, Bulgaria and Romania. These peripheral countries were most heavily affected by the crisis as they were dependent on financial flows from abroad (mainly other EU member states) to finance their balance-of-payments deficits (for more details see Chapter 1 of this publication). Although the surplus-deficit divide cuts across the Eastern European region, the limited ability of the Southern countries to adjust to the crisis is a factor that sets these deficit countries apart from those in the East.

Figure 2.4 complements the balance-of-payments data presented in Chapter 1. The balance of payments includes all of a given country's financial flows with the outside world, including trade in goods and services, various

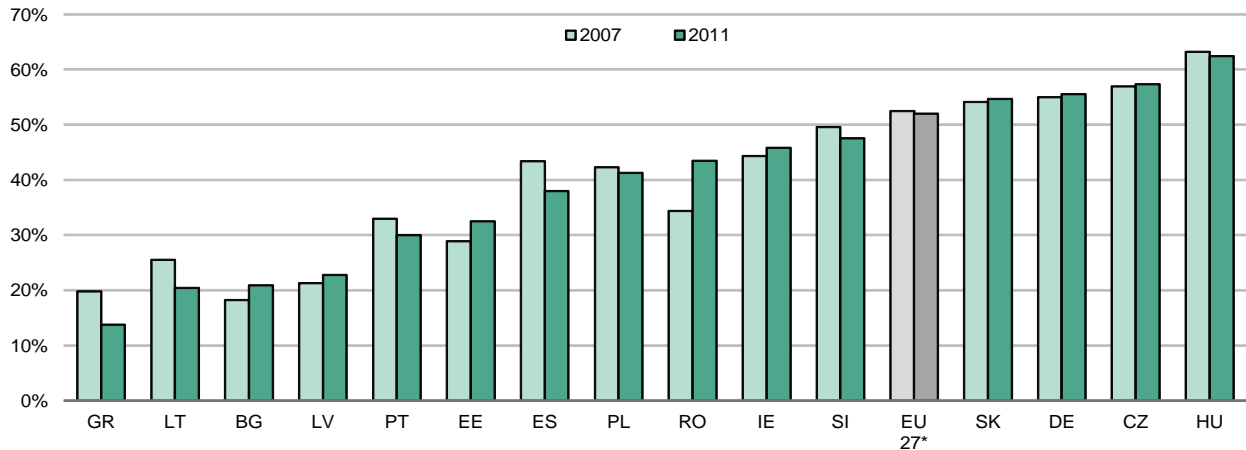
forms of capital, asset and income flows and credits. We present here two components that played a crucial role for deficit countries both before and during the crisis, namely, balance of trade in goods and services and, later, private credit flows. This section focuses on the balance in the trade of goods in 2007 and 2011 and reveals, in this respect, substantial differences between individual member states. A negative trade balance means that a country imports more than it exports and that the difference has to be financed. Persistent deficits not financed from other transactions within the balance of payments create debt, as happened in the cases of Latvia, Bulgaria and Greece, as shown in Figure 2.4. The data also allow assessment of the degree to which countries were able to adjust to the crisis of 2008. The Czech Republic, Hungary and Slovakia had broadly balanced trade even before the crisis, whereas Latvia, Bulgaria, Greece, Romania and Portugal were, during this period, having to contend with persistent and double-digit trade deficits. During the crisis most CEE countries were able to adjust by cutting their deficits substantially or by achieving a positive trade balance. In most cases, this happened through the decrease in imports that was a consequence of slowing growth or even recession. A balancing act achieved by the 'deep-freezing' of certain types of activity (such as, consumption, investments

and imports) can produce signs of fast adjustment, but cannot be regarded as a long-term solution. Moreover, it is still an open question to what extent adjustments in CEE deficit countries (for example, the Baltic States) have a longer-term structural impact. Greece and Portugal, in any case, even after having absorbed a large dose of measures for a 'deep-freeze', continued to show high trade deficits still in 2011, thereby revealing a much more limited ability to adjust in either of the abovementioned ways.

In an attempt to explore some of the reasons behind this divide, we examine, in the next sections, further structural features of the economies in question.

Patterns of economic integration

Figure 2.5 Share of complex sectors in the exports of individual member states (%)



Source: calculated from the COMTRADE database (<http://comtrade.un.org>). Complex sectors: (SITC 7, 54, 87, 88).
* EU27 exports to the rest of the world.

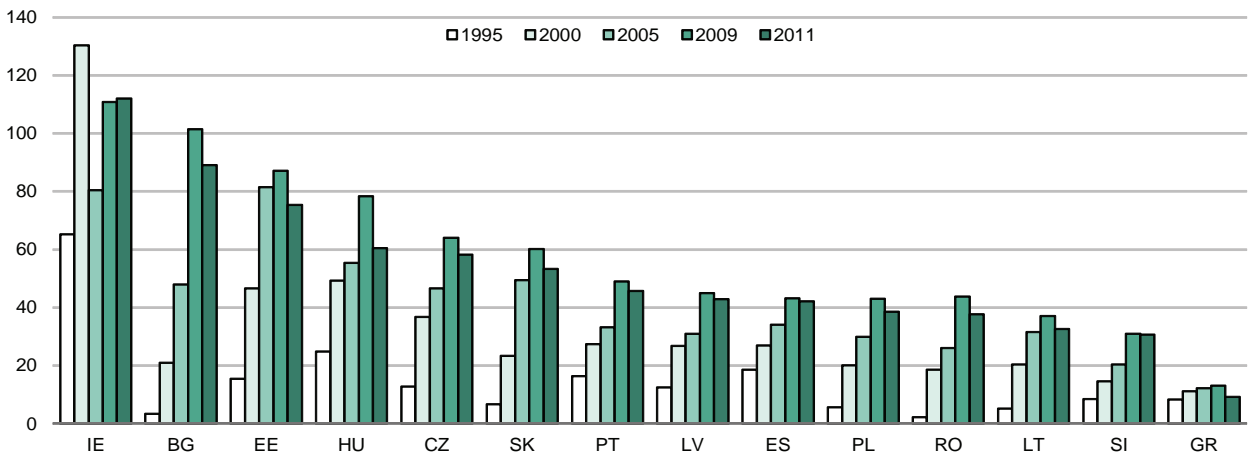
The structure of exports matters

The deficit-surplus divide roughly corresponds to the qualitative differences in export profiles of individual countries. Figure 2.5 shows the share of ‘complex sectors’ within the total exports of individual member states. The classification of export structures according to Standard International Trade Classification (SITC) categories corresponds roughly to the level of technological sophistication of the products being exported. Accordingly, the ‘complex sectors’ include machinery and transport equipment, pharmaceuticals, scientific instruments. The classification is merely indicative, insofar as it does not take into account the role of the country in the division of labour within the sector or its R&D or innovation content. In terms of sectoral composition, Hungary and the Czech Republic thus had a higher rate of export complexity than Germany with a share of complex sectors of around 60% of their total exports (with their high export share this corresponds to close to 50% of their GDP). Greece had the lowest share of complex sectors in its exports (13.8% in 2011), while Bulgaria, the Baltic States and Portugal also had comparably low

shares (between 20 and 30% in 2011). During the four years of the crisis a further downgrading of what were already, in terms of complexity, relatively low export profiles took place in Greece, Lithuania, Portugal, and Spain. By contrast, Romania, Estonia, Bulgaria, and Latvia were able to upgrade their export profiles during this period. Export complexity thus supplies a further indication of the role of countries in the division of labour in Europe, and small peripheral countries with scarce domestic capital – like most of the CEEs – can achieve high export complexity through foreign direct investment (FDI), as we will show in the following section.

Foreign direct investment (FDI)

Figure 2.6 Inward foreign direct investment stock in selected years within the period 1995-2011 (% of GDP)



Source: UNCTAD (2012) World Investment Report 2012, United Nations, New York and Geneva (available at: <http://www.unctad-docs.org/files/UNCTAD-WIR2012-Full-en.pdf>).

FDI as a driver of convergence?

Economic integration achieved by means of foreign direct investment (FDI) was the major driver of the process whereby lower-income regions and countries were able to begin to catch up economically with the more prosperous ones (Bijsterbosch and Kolasa 2009). FDI played a universally important role in both Southern and Eastern Europe, but there are important differences between countries in the two areas (see Figure 2.6). Five Eastern European countries (Bulgaria, Estonia, Hungary, the Czech Republic, and Slovakia) have accumulated the highest stock of FDI in Europe (between 90 and 55% of their GDP), second only to the exceptional case of Ireland. Greece, by contrast, has, over the years, accumulated less than 10% stock of FDI.

Foreign direct investment, if directed into the tradable sector (industry sectors whose output in terms of goods or services are traded internationally) of low- and medium-income countries, constitutes these countries' most valuable potential in terms of GDP and export generation. However, a large part of FDI stock in the Baltic States and Bulgaria was in the non-tradable sectors and

became associated with the unsustainable expansion of borrowing described in the next section (see Figure 2.8).

For CEE countries (especially for the Czech Republic, Hungary, Poland and Slovakia) high levels of intra-industrial trade (the share of which within total manufacturing trade grew from scratch to the level of the EU15 within the decade up to the mid-2000s), a high share of FDI inflow into manufacturing, and soaring manufacturing exports, were the main features characterising the qualitative shift in the structure of their economies from raw materials, semi-finished or agricultural products towards higher-value-added industrial goods, and these developments led to a new division of labour between the west and the east of Europe (Broadman 2005).

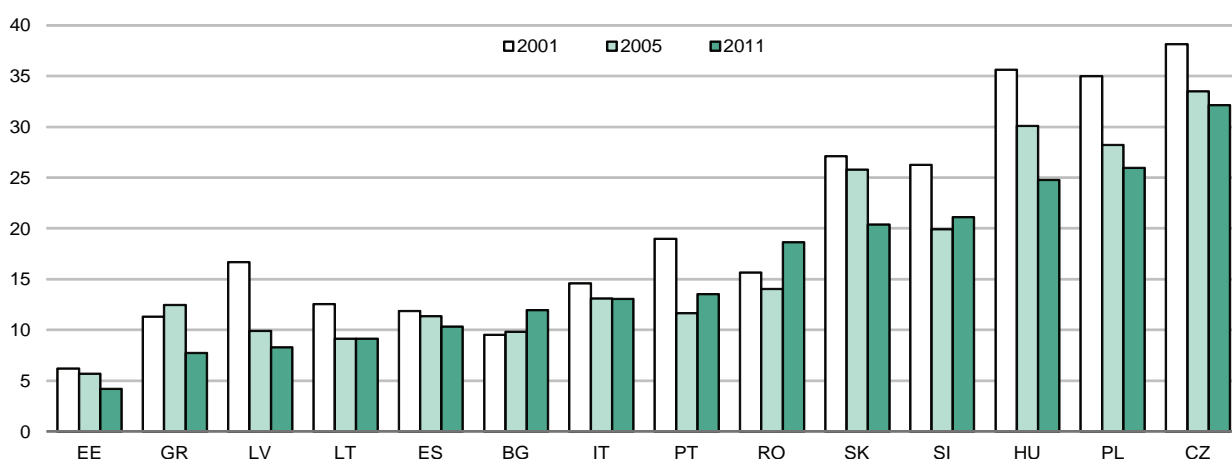
In Central Eastern European countries (CEE), a new automobile-industry-centred industrial core had been built up, offering opportunities for further upgrading in terms of value creation.

In CEE recipient countries the sustainability of this form of the division of labour and production model had not, before the crisis, been called into question. In recent years, however, the huge impacts of the crisis on Central Eastern Europe have raised some doubts as to the wisdom of this model. The nature of the new industrial landscape in Central Eastern Europe, which focuses on highly cyclical branches such as automobile

assembly and the production of electronic components, proved to be a risk factor at the time of a heavy downturn in 2009. As long as the German export machine in the world functions, CEE subcontracting deliveries also enjoy a safe background. Rebounding exports from 2010 and the crisis at the southern periphery of the eurozone showed that a solid FDI-based export sector is a factor more of strength than of vulnerability. At the same time, as the German export offensive was part of the problem in the eurozone imbalances and as CEE suppliers deliver a substantial part of its cheap inputs, CEE countries find themselves on the side of Germany rather than in the same position as the southern European deficit countries. This is one major aspect of a new division within Europe.

Geographical orientation of exports

Figure 2.7 Share of exports to Germany in total exports (%)



Source: calculated from International Trade Centre Trade Map, <http://www.trademap.org/>

Links with Germany: remaining on the safe side?

It is not just the size and composition of trade and foreign direct investment that matters but also the geographical orientation of exports, especially in the context of the current economic divisions across Europe. As Germany currently represents the economic core of Europe, it is worth looking here at the share taken by it in the exports of individual countries. This is shown in Figure 2.7.

Hungary, Poland and the Czech Republic have one quarter to one third of their exports directed to Germany, with a slightly decreasing trend over the years. Greece and the Baltic states, meanwhile, have values of below 10%. Three further CEE member states (Slovakia, Slovenia and Romania) had a German exports share of around 20%, while the rest of the countries examined (including Portugal and Spain) have values closer to 10%.

As regards foreign trade characteristics, the following trends emerge from the data: Central Eastern European exporters tend to have balanced

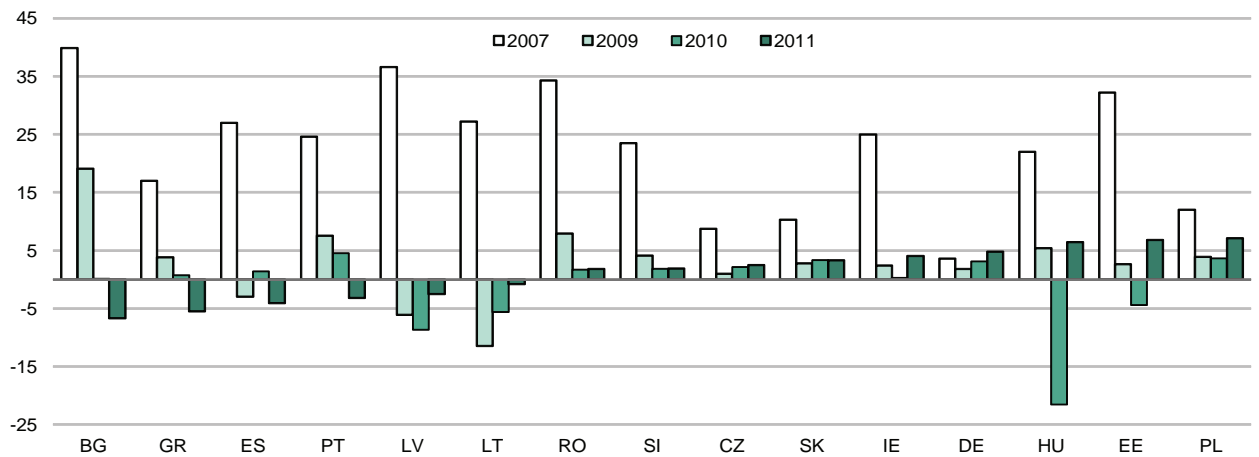
trade or even trade surpluses; they have a high share of their GDP generated by exports and, in the case of the Czech Republic, Slovakia and Hungary, a substantial part of their exports consists of complex products, while a high proportion of their exports is oriented to Germany. These countries also have high FDI penetration in their tradable sectors, with much of their manufacturing FDI originating from Germany (automobile, components and electronic sectors). On the other hand, the Baltic states and the Southern European states examined here show lower export shares, varying levels of trade deficit, low levels of export complexity and limited trade relations with Germany. All of this supports the view that, among the different fault lines in crisis-ridden Europe, one decisive division is between the surplus and the deficit countries, with core CEE countries (in this context the Czech Republic, Slovakia and Hungary) being part of the Germany-centred core region in terms of trade and investment patterns within the European division of labour.

Within this framework, Western (mostly German) multinationals have benefited from cheap sourcing from Central Eastern European locations and have used this to strengthen their market positions and competitiveness on a global level. The longer-term sustainability of this model poses serious questions, however. It can be maintained only if CEE

subcontracting activities become higher-value-added in terms of both R&D and local value-added content. Though signs of such a trend were apparent in the mid-2000s (see Broadman 2005), the process was interrupted by the crisis and nowadays (e.g. European semester) the mainstream adjustment strategy is focussed on low-wage competition. This is anything but promising for the future.

The role of cross-border lending

Figure 2.8 Expansion of bank credits: annual private credit flow in % of GDP (non-consolidated)



Source: Eurostat (2012).

Convergence cannot rely on credit expansion

One of the major areas of vulnerability during the crisis resulted from cross-border credit expansion in the private sector (business and household sectors) in many of the economies that enjoyed high growth and convergence before the crisis.

Subsidiaries of Western European banks in the CEE region (that make up the majority of the banking sector in those countries) were active in providing cheap credits to the population and the enterprise sector, often denominated in foreign currencies (EUR, CHF and even Japanese Yen). The final key distinction to be considered here is the one we see between countries that experienced credit bubbles in terms of huge credit expansion that was followed by credit crunch and recession and those which, having known such excesses, subsequently experienced a more balanced development. The credit expansion underpinned the current-account deficits in the South and in the deficit countries in the East. Foreign direct investment turned out to represent an alternative

means of balance-of-payments deficit financing (see previous sections).

Although, as mentioned above, the sustainability of FDI as a driver of convergence can in any case be questioned, the excessive credit expansion was clearly not sustainable. With the credit crunch and the accumulated high debt, short-term growth and convergence effects achieved through credit expansion evaporated all of a sudden and turned into their reverse, exposing the unsustainability – indeed the mirage! – of credit-driven convergence in Europe.

Figure 2.8 shows annual private-sector credit flow to the respective countries before and after the crisis. Only Germany shows a low and balanced level of credit flows over the years, followed by the Czech Republic, Slovakia and Poland, i.e. countries without excessive debt developments. All other countries show excesses with signs of credit bubbles that burst during the crisis. A credit expansion in Bulgaria of close to 40% of GDP in 2007 represents the peak, while the credit outflow from Hungary in 2010, amounting to 21.6% of GDP, constitutes, by contrast, the negative record. The Baltic States, Greece, Spain, and Portugal, were all heavily affected by both the pre-crisis credit expansion and, subsequently, by the credit crunch during the crisis. Credits also need to be paid back and this deleveraging process reduces economic demand and deepens

the recession. These observations allow the conclusion to be drawn that financial integration through uncontrolled cross-border lending can, if not managed and regulated, indeed result in turmoil. One significant division in Europe has definitely been between those countries that had credit bubbles before the crisis and those that did not.

Productivity and wage levels

Figure 2.9 Key indicators for selected central, eastern and southern European countries (Germany being the reference), 2010

Country	Gross yearly wage per employee, business sector (EUR, PPS)	Wage level in business sector at PPS in % of Germany	Labour productivity, total economy, Germany = 100	Real effective exchange rate, % difference from long-term average
Czech Rep	15,575	38.5	68.5	41.5
Hungary	16,737	41.4	67.1	13.0
Greece	31,784	78.7	93.6	12.8
Germany	40,364	100.0	100.0	-5.8
Portugal	20,371	50.4	70.7	8.7
Slovakia	16,316	40.4	75.2	54.2

Source: European Commission (2011); Eurostat (2012).

Cost competitiveness has its limits

Export dependence as a risk factor during the 2009 crisis in Central Eastern Europe had raised doubts about the sustainability of these countries' export-based and FDI-driven growth model, whereas the case of Southern European countries in the 2010 eurozone crisis showed that the lack of such an export potential leads to even bigger problems. Apart from the fiscal element of their difficulties (see Chapter 1), Greece and Portugal suffer from a longer-term lack of export competitiveness that is also apparent from the accumulating imbalances within the rest of the eurozone. During the last ten years these two countries were losing competitiveness vis-à-vis Germany, as their unit labour costs rose substantially higher than in Germany (with wages increasing faster than productivity). Chapters 1 and 3 illustrate this divergence, showing also that New member states (NMS) in Central Eastern Europe have seen even greater increases in their relative unit labour costs compared to Germany.

While some Southern European crisis states may have a long-term

competitiveness problem, this is not the case for most Central Eastern European countries. Figure 2.9 shows some key competitiveness indicators based on the European Commission's Annual Growth Survey (European Commission 2011) and on Eurostat data. It focuses on the relation between gross wages in the business sector and productivity at the level of the economy as a whole (both measured at purchasing power standards, PPS), and it sets these figures in relation to Germany. The figures reveal that wage levels relative to productivity are lower in all of the examined countries than in Germany (their relative wages are lower than their relative productivity).

The real effective exchange rate – the key indicator of competitiveness in the eyes of the Commission – shows the combined effect of exchange rate, inflation, nominal wages and developments in productivity (a higher positive figure shows a loss of competitiveness). What we see here is that Slovakia and the Czech Republic seem to have lost cost competitiveness on the largest scale, followed by Hungary. Greece and Portugal, according to this indicator, also show a loss of competitiveness but to a smaller extent. All Commission analyses of competitiveness take only yearly changes into account with the underlying assumption that the year of reference (usually 2000) was a 'golden year of harmony' and equilibrium. In terms of yearly changes in the real

effective exchange rate (REER), both the Czech Republic and Slovakia indeed lost cost competitiveness to a certain degree, but this does not necessarily mean that they became non-competitive, given also that their wage levels – also in relative terms to productivity – are still low. Both their trade balances and growth in market shares show that this was not the case.

Southern European crisis states, on the other hand, appear to have an enduring competitiveness problem, as deficits in trade and market share losses show. This is not necessarily a cost-competitiveness problem, as shown by the comparison of wage and productivity levels in Figures 2.9 and 2.10 respectively.

Productivity and wage levels

Figure 2.10 Wage-adjusted productivity in manufacturing in selected countries, 2009

Country	Apparent labour productivity*	Average personnel costs	Wage-adjusted productivity (%)
(EUR 1000 per employed)			
EU27	46	34.5	132.1
Czech Republic	22	14.0	154.6
Hungary	23	11.7	199.6
Greece	42	28.0	150.6
Germany	57	47.2	120.7
Portugal	23	15.8	146.7
Slovakia	17	12.3	134.7
Spain	48	35.1	137.2

Source: Eurostat (2012) http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Manufacturing_statistics_-_NACE_Rev._2
 *apparent labour productivity is defined as value added at factor costs divided by the number of persons employed.

Is cost competitiveness indeed the issue?

Figure 2.10 offers an alternative indicator of wage-adjusted productivity across EU member states by taking the ratio of apparent labour productivity and average personnel costs in manufacturing in cross-country comparison. The first feature demonstrated by these data is that divergence in levels is much smaller here than what the evidence based solely on unit labour cost developments would suggest over time. The second interesting result is that Germany shows the lowest value in wage-adjusted productivity compared to the countries examined here. What this means in concrete terms is that in German manufacturing with 1000 EUR wage costs 1207 EUR value added was produced, while in Hungary the figure was 1996 EUR and in Greece 1506 EUR.

Combining these two factors into the wage-adjusted labour productivity ratio shows that value added per person employed was equivalent to 132.1 % of average personnel costs per employee in manufacturing in the EU27.

One of the lessons that can be drawn from the above evidence/data

is that, while these 'peripheral' countries were, due to increasing labour unit costs, gradually losing cost competitiveness over time, this does not necessarily mean that their competitiveness was dwindling to nothing; for they remain competitive by virtue of their relatively low income (and wage) levels, and this is particularly true of CEE countries. Though Slovakia has, in recent years, been losing cost competitiveness at a record level (see real effective exchange rate (REER) in Figure 2.9) within the EU, it retains, nonetheless, a reasonable level of competitiveness, as can be seen from its relative wage-adjusted productivity levels, but also from its trade surplus and its export performance. And if some Southern European countries do undoubtedly show signs of a lack of competitiveness, the data on relative wage and productivity levels at least suggest that underlying this shortcoming are a number of structural reasons (as seen in the previous sections), over and above any mere cost factor. Although tackling these structural problems through cost adjustment (wage and spending cuts) can deliver temporary results in cost competitiveness at the price of a dramatic increase in poverty and unemployment, in the end these inevitable side effects also jeopardize the success of the entire adjustment. Cost adjustment is simply not an adequate way of addressing the longer-term structural problems (such as

the share of manufacturing in the whole economy, export shares, qualitative composition of exports, place in the international division of labour, etc.). As we have seen above, these countries are not competing on export markets with Eastern Europe or Germany. The problem, to put it bluntly, was not that consumers in the surplus countries had been buying less olive oil and port wine due to rising unit labour costs in Greece or Portugal. In other words, the cure chosen to date is one that tackles the symptoms but not the causes of the problem.

Conclusions

What prospect of economic model convergence in Europe?

This chapter has analysed the changing dynamics of economic convergence trends in a 'multi-speed Europe'. The crisis of 2008 represented a break in the long-term convergence trends. In its wake we have witnessed a loss of the convergence dynamics and, in some cases, a reversal of convergence, seeing individual parts of Europe drifting away from each other as they experience differing effects of both the crisis and the ensuing adjustment policies. Is it then possible that convergence, a value believed until now to be inherent in the process of European integration, is ultimately turning out to be a myth, a dream or a lost opportunity?

The crisis has highlighted the diversity of economic models and of their sustainability during hard times and external shocks in the European 'peripheries'. While divergence in the economic catching-up processes, particularly after 2008, showed an East-South division, the multiple fault lines characterizing the diversity of political and economic structures can be shown to cut across historical and geographic country groups. The credit crunch of 2008 highlighted the division between the countries with current account surpluses, the European 'core' around Germany including also the Eastern Central European exporters, and the 'deficit' countries, including the Mediterranean countries, Ireland, and a number of countries in Eastern Europe. Given the lack of effective adjustment mechanisms in the eurozone, the surplus-deficit divide quickly turned into the difficult creditor-debtor relationship. The 'debtor' countries then experienced a prolonged agony of negotiated and imposed adjustments in the context of crisis-driven eurozone institution-building. Given the unequal power relations

between debtors and creditors, the concerns of the latter inevitably came to dominate the nature of the adjustment efforts made. This economic divide thus quickly translated into political tensions that may well place the process of European integration in severe jeopardy.

In Central Eastern Europe, the crisis has highlighted the fragility of the integration model that had previously helped countries to achieve a considerable degree of convergence towards Western Europe in the pre-crisis period. FDI-driven export-based growth, concentrated in cyclical industries, did indeed prove to be a risk factor during the downturn, but the quick rebound in exports following the crisis also appears to indicate a relative resilience of this economic model. The major challenge for these countries is to develop innovation and knowledge-intensive activities that would allow them to sustain the convergence trend in the long term. The complex exporters in Central Eastern Europe in particular cannot continue to rely on cost competitiveness, given, among other things, the competition from the large pool of cheap labour in the South-Eastern European countries. To overcome this challenge may require an 'institutional catch-up', by, for example, increased public investment in education and research and improvement in the quality of the institutional environment.

The eurozone crisis demonstrated also that, in the absence of competitive export sectors, Southern European crisis countries are in a more difficult situation. There are limits to what can be achieved by adjustment through wage costs alone in those countries where export demand and manufacturing in general play a much less important role. The weakness of the competitive position of crisis-ridden Southern European countries is primarily structural in nature and related to their position in the European division of labour (in terms of trade and investment). Moreover, finding a place for these countries in the international division of labour is particularly challenging, given the cost competition from Eastern Europe, the wider Mediterranean, and also China. The evidence presented above indicates that the root

cause of this weakness does not lie in cost factors (meaning relative wage and productivity levels) and that an exclusive focus on cost-cutting (predominantly via wage cuts) will therefore not deliver enduring results. Such a focus carries a high price, what is more, in terms of recession, unemployment and social tensions. Not only are we currently witnessing a social disaster in some of the Southern European countries, but we are in error if we regard the suffering that is being inflicted as the collateral damage of an otherwise promising correction. The therapy that has been applied so far addresses the symptoms – the current account deficit – but points in the direction of a rather unfortunate solution, one that would entail cutting imports on grounds of impoverishment. Such therapy will inevitably delay even further any prospect of a lasting solution based on higher exports, for such an outcome would be possible only with the development of competitive export structures.

Austerity policies and the changing context of collective bargaining in Europe

Introduction

The austerity policies currently pursued by governments throughout Europe in order to resolve the sovereign debt crisis have fundamentally altered the collective bargaining landscape in Europe: they have targeted not only bargaining outcomes, by putting direct pressure on wages, but also bargaining procedures, by pushing for more flexible (i.e. decentralised) wage-setting arrangements. This has been particularly the case in the so-called ‘deficit countries’, in which supranational institutions such as the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF) imposed a policy of cutting wages and decentralizing wage-setting arrangements in return for either financial rescue packages or intervention on sovereign bonds secondary markets. However, the fact that, in 2012, 17 out of 27 EU member states received a country-specific recommendation on wage policy from the European Commission indicates that it is not only deficit countries that are subjected to political pressure to reform their wage-setting arrangements (see Janssen 2012a for an overview of country-specific wage recommendations). The austerity approach pursued by national and supranational policy-makers therefore marks a paradigm shift from the support for (or at least acceptance of) free collective bargaining guaranteed by article 153.5 of the Treaty on the Functioning of the European Union, which explicitly excludes wage-setting and collective bargaining from the realm of EU policies, to direct political intervention in national collective bargaining outcomes and procedures (Schulten 2012a; Schulten and Müller 2013).

This chapter will address the implications of this political interventionism in three distinct spheres. The first part deals with the procedural aspects, illustrating how the austerity-induced political interventionism led to fundamental changes in national wage-setting and collective bargaining institutions; the second part focuses on the implications for the actual outcome of negotiations in terms of wage developments; and the third part traces recent trends in income inequality as a key component of social cohesion.

Topics

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Supranational intervention in collective bargaining

Figure 3.1 Forms of supranational intervention in national wage-setting and collective bargaining systems

Form of supranational intervention	Actors applying the measures	Countries affected
New European system of economic governance sanctioning non-compliance of member states with European policy recommendations	European Commission	All EU member states
Memorandums of understanding and stand-by arrangements demanding wage cuts and collective bargaining reforms as a precondition for financial assistance	'Troika': European Commission, European Central Bank and International Monetary Fund International Monetary Fund	Greece, Ireland, Portugal Romania, Latvia and Hungary
ECB intervention on the sovereign bonds secondary market in return for 'voluntary' reforms of collective bargaining systems	European Central Bank	Italy, Spain

Source: authors' compilation.

Growing EU influence on national wage policies

In order to understand the impact of the austerity policies on wages and wage-setting arrangements, it is useful to have a closer look at the underlying rationale of the austerity measures advocated, since the onset of the crisis, by the European Commission's DG ECFIN, the ECB and the IMF. At the heart of the austerity approach lies the belief that the current crisis is essentially a crisis of (cost) competitiveness caused by the asymmetrical development of wages – or more specifically of nominal unit wage costs (as a measure of nominal wages divided by a volume measure of productivity) – in the eurozone (Janssen 2011a: 1). Since the EMU by definition rules out exchange-rate devaluation as a solution to competitiveness problems, wages became policy-makers' key focus as an economic adjustment mechanism. Thus, a policy of internal devaluation was proposed as a 'functional substitute to currency devaluation' (Armingeon and Baccaro 2012: 256) in order to close the

competitive wage gap between 'surplus' and 'deficit' countries. Following this direct link between unit wage costs and competitiveness, the key objective of the internal devaluation approach has been to increase the (downward) flexibility of wages and – in order to achieve this – to decentralize existing collective bargaining arrangements in order to ensure that wages stay in line with productivity developments (Janssen 2011a: 3).

The implementation of the internal devaluation strategy rests on the three pillars of supranational interventionism outlined in Figure 3.1. The first form of interventionism, which potentially applies to all EU member states, is the new European system of economic governance put in place by the EU and its member states towards the end of 2009. With its newly introduced mechanisms for monitoring, sanctions, and increased coordination (Degryse 2012: 6), the new system shifted economic decision-making powers increasingly from the national to the European level. The implications of the various elements of the new system of economic governance will be dealt with in more detail below. The second form of interventionism addresses those crisis-ridden countries which rely on financial assistance from the EU or the IMF. These countries, as a precondition for financial assistance, were required to introduce far-reaching labour market reforms, which were laid down either in so-called

'Memorandums of Understanding' with the Troika (in the case of Greece, Ireland and Portugal) or in 'Stand-by Arrangements' with the IMF (in the case of Hungary, Latvia and Romania). The third form of intervention is the ECB's practice of making the purchase of government bonds conditional on 'voluntary' policy reforms, including reforms of collective bargaining institutions (Meardi 2012a, b). This approach was first pursued unofficially in the cases of Italy and Spain, but became quasi-official in autumn 2012 when the ECB announced that it would buy state bonds without limits if the affected countries agree on certain political reforms (Schulten and Müller 2013).

Despite the differences in method and addressees, the implications of all three forms of interventionism are the same: each of them decreases national actors' discretion over policy choices and, in so doing, creates the framework for imposing the desired austerity measures in the field of wages and collective bargaining.

Supranational intervention in collective bargaining

Figure 3.2 The new European system of economic governance and its impact on wages and wage-setting arrangements

Element of economic governance system	Impact on wages and wage-setting arrangements
European Semester	On the basis of the annual growth survey, European policy-makers propose country-specific policy recommendations on – amongst other things – wage policies and the reform of wage-setting systems.
Euro-Plus Pact	In the context of the broader objective of intensified economic policy coordination, the signatory states commit themselves to promote competitiveness by ensuring that wages stay in line with productivity increases, by way of reviewing wage-setting arrangements and by monitoring public sector wage agreements.
Six Pack	Pressure on wages through: (1) the introduction of asymmetric alert mechanism based on scoreboard of economic indicators which explicitly includes unit wage costs; and (2) the introduction of quasi-automatic sanctions in case of non-compliance with debt and deficit criteria or with country-specific recommendations.
Fiscal Pact	Strengthening of the austerity approach by obliging signatory states to enshrine balanced budget rule (including an automatic correction mechanism) in national law. Strengthening the European policy-makers' competences by obliging countries in excessive deficit procedure to submit their economic and structural reform programme (which potentially also covers the area of wages and collective bargaining) for control and endorsement.

Source: authors' compilation.

Step-by-step tightening the grip on wages

Up until the outbreak of the global economic crisis in 2008, EU-level initiatives in the field of wages and collective bargaining were largely restricted to broad economic policy guidelines, which in practice had little impact on national systems of industrial relations (Busch *et al.* 2013: 8). This situation changed fundamentally with the adoption of the various elements of the new European system of economic governance, which successively tightened the EU's grip on national wage policies (see Figure 3.2). The first step in this process was the adoption, in June 2010, of the 'Europe 2020' strategy which introduced the European Semester as a new EU-level tool of intensified economic policy coordination (European Council 2010: 5). This new mechanism also includes wages and wage-setting arrangements as one policy area to be covered by its staged economic surveillance procedure, leading from the formulation of the annual growth survey to the issuing of country-specific recommendations. However, since the European Semester process still remained at the

level of policy recommendations, European policy-makers saw the need for a more solid legal basis to ensure the implementation of austerity policies. This was swiftly accomplished with the adoption, in March 2011, of the Euro-Plus Pact (also known as the 'Competitiveness Pact') which, in the field of wages and collective bargaining, explicitly committed the 23 signatory countries to foster competitiveness by ensuring that wages develop in line with productivity. For this purpose, the states are obliged to review the degree of centralisation of wage-setting arrangements and the indexation mechanism, as well as to ensure that public sector wage settlements do not undermine competitiveness efforts in the private sector (European Council 2011: 16). The so-called 'Six Pack' adopted in December 2011 represents the next turn of the screw of EU-level interventionism. The most important innovation introduced by the 'Six Pack' with respect to wages and collective bargaining is the establishment of a new system of enhanced fiscal and macroeconomic surveillance, through an alert mechanism for the early detection of macroeconomic imbalances based on a 'scoreboard' of economic indicators that explicitly includes unit wage costs. Since this early warning system only detects unit wage cost developments in excess of the maximum growth rate allowed (9% over a period of three years for Euro-area countries), it entirely ignores the

problem of potential deflationary pressures resulting from stagnating or even falling wages during a period of economic downturn; this new mechanism thus further increases the pressure on wages (Janssen 2011b: 2). In addition, the 'Six Pack' introduces an automatic procedure for imposing financial sanctions on those countries that fail to comply with the deficit and debt criteria or with the recommendations issued on the basis of the alert system. The impact of the 2012 Fiscal Pact on wages and collective bargaining is more indirect but nonetheless far-reaching. Since the Fiscal Pact is an intergovernmental treaty without an exit clause, the obligation to enshrine the rule of balanced budgets in national law can be interpreted as an attempt to make the austerity approach (with its detrimental effects on wages) irreversible (Konecny 2012: 389). The stipulation that every signatory countries subject to an excessive deficit procedure has to submit a structural reform programme for the correction of its excessive deficit to the Council and the European Commission for endorsement and monitoring of the implementation provides the European policy-makers with far-reaching competences which can also be used to attain legal competence over national wage-setting (Janssen 2012b: 2).

Supranational intervention in collective bargaining

Figure 3.3 Decentralization of collective bargaining systems in countries subject to direct supranational intervention

Changes implemented	GR	IE	PT	IT	ES	HU	LV	RO
More restrictive criteria for extension of collective agreements								
Facilitating derogation of firm-level agreements from sectoral agreements or legislative (minimum) provisions								
Suspension of favourability clauses								
Promoting bargaining capacities of company-level actors to negotiate firm-level agreements in addition to or independently from trade unions								
Reducing the period of validity of an agreement after its expiry								

Sources: Clauwaert and Schömann (2012); Schulten (2012a); Szabó (2013); Trif (2013).

Collective bargaining institutions under attack

Although the current economic crisis reinforced the tendencies towards the decentralisation of collective bargaining systems in many EU member states (Glassner *et al.* 2011), this process was most pronounced in those countries subject to direct supranational intervention. Figure 3.3 provides an overview of the measures introduced as part of the national labour market reforms in return for financial support programmes (or, in the cases of Italy and Spain, as a precondition for financial market intervention through the ECB). The figure shows that the 'one-size-fits-all' approach of the supranational institutions led to a convergence of policies, shifting the main focus of collective bargaining from multi-employer towards company-level arrangements. However, within this broader context of converging collective bargaining frameworks, the various decentralisation measures were mixed in a country-specific way. Thus, depending on the degree of centralisation before

the reforms were carried out, and on the country-specific mix of measures applied, it is possible to observe varying outcomes in terms of the magnitude of procedural change.

Against this background, three groups of countries can be distinguished. The first group comprises Ireland and Romania, which before the reforms were characterised by a comparatively high level of bargaining centralisation involving national cross-sectoral agreements which defined the terms of reference for lower-level negotiations (Visser 2011: 41). In these two countries, the austerity-driven changes led to the complete breakdown of multi-employer bargaining. In Ireland this was the result of the government's withdrawal from negotiations over a reform of the public sector in the light of deteriorating public finances in 2009, which after 22 years of cross-sectoral wage determination brought the return of company-level bargaining (O'Kelly 2010; Doherty 2011). In Romania, cross-sectoral bargaining was essentially abolished by the government's unilateral introduction of the Social Dialogue Act in 2011 (Trif 2013). Further pressures towards decentralisation resulted from a tightening of the rules on the extension and application of sectoral agreements, and an increase in the threshold for the representativeness of trade unions as a precondition to negotiate agreements. The second group of countries consists of

Greece, Portugal and Spain, all of which have a long tradition of sectoral bargaining arrangements. Although these multi-employer bargaining structures remained formally intact, their scope and actual operation was increasingly undermined by the various legal changes introduced in response to the demands of supranational institutions (Schulten 2012a: 53). The third group of countries comprises Hungary and Latvia, where the industrial relations system – as in the majority of CEE countries – is characterised by fragmented, single-employer bargaining. Since in these two countries approximately 70% of employees are already covered by local or company-level agreements (Keune 2011: 129), there was not much scope for further decentralisation. While in Latvia the brunt of austerity measures was borne by the public sector in the form of extensive wage cuts (Kallaste and Woolfson 2013: 6-7; see next section), legal changes introduced in Hungary were primarily aimed at weakening the bargaining power of trade unions, for instance by curtailing the right to strike in public services, abolishing the only tripartite national forum for discussing recommendations on wage increases, and allowing works councils to negotiate company-level agreements if no trade union is present at the workplace (Szabó 2013: 11).

Supranational intervention in collective bargaining

Figure 3.4 Wage policies in countries subject to direct supranational intervention

Changes implemented	GR	IE	PT	IT	ES	HU	LV	RO
Minimum wage cuts								
Suspension of automatic wage increases								
Wage freeze or wage cuts in the public sector (incl. bonuses and extra payments)								

Sources: Karnite (2012); Kallaste and Woolfson (2012); Karnite (2012); Schulten (2012a), Szabó (2012); Trif (2012).

Austerity-induced pressure to cut or freeze wages

Procedural changes and modifications to collective bargaining laws, implemented in compliance with the externally-driven rescue programmes, were often accompanied by wage freezes and/or salary cuts. The two main areas of direct political intervention were cuts and/or freezes in public sector pay and in minimum wages. Both areas were easy targets for direct political intervention because in most countries both public sector pay and minimum wages are determined not by collective agreements but by law, thus enabling national governments to impose pay cuts and freezes unilaterally (Schulten and Müller 2013). Further political support for direct intervention in public sector wages was provided by the Euro-Plus Pact, which explicitly requires the EU member states to 'ensure that wage settlements in the public sector support the competitiveness efforts in the private sector' (European Council 2011: 16).

As Figure 3.4 illustrates, all the countries under economic surveillance by the Troika or the IMF introduced public sector pay cuts and/or freezes in

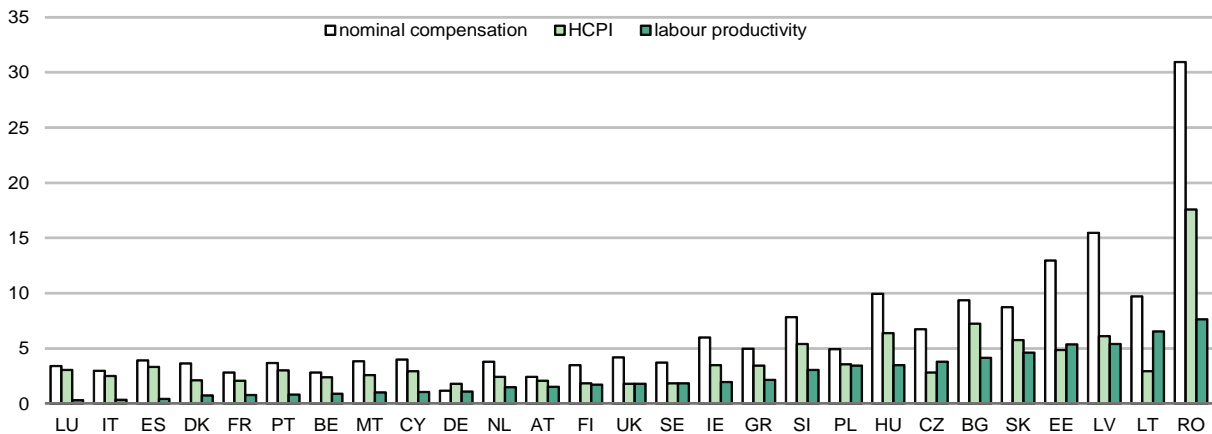
an attempt to reduce public spending in order to stabilize government finances and to reassure bond markets (ILO 2013: 20). The most drastic cuts in public sector pay have been introduced in Romania, Latvia and Greece. In Romania, public sector pay was cut by 25% for the period between June and December 2010. However, since the government simultaneously raised VAT and also introduced cuts in bonuses and additional payments (such as food allowances and rent subsidies), the effective wage decrease of public sector workers was close to 50% (Glassner 2010). In Greece, real wages of many public sector employees are now 40% lower than in 2009 as a result of two successive wage cuts – 14% in 2009 and up to 17% between 2011 and 2013 – in combination with the introduction of a new pay scale (LRD 2012: 16). In Latvia public sector wages were cut by 15% in 2009 followed by a pay freeze between 2010 and 2012 (Schulten and Müller 2013). Direct cuts usually went hand in hand with the cancellation of bonuses and extra payments such as the '13th-month' salary (in Portugal, Romania, and gradually in Hungary), compulsory unpaid leave (in Latvia, Romania, but also in Lithuania and Estonia), and/or the increase in working time without additional compensation (in Spain) (LRD 2012: 16).

The second key area of direct political intervention was minimum wages. Here, three divergent trends are

discernible. Some countries subject to supranational interventionism cut the minimum wage as an integral part of their austerity programmes. Greece went the furthest in this respect, decreasing the minimum wage by as much as 32% for workers below 25 years of age, and by 22% for the rest of the working population. Under pressure from the Troika, Ireland cut its minimum wage by €1 per hour in February 2011, which represented a 12% decrease (Schulten 2012a: 54). However, after a change of government, this cut was retracted and the original rate re-established in July 2011. Other states temporarily froze minimum wage levels. In Latvia, the minimum wage was not raised in 2010 and 2012, while increases in other crisis years remained far below collectively agreed long-term plans (Karnite 2012). In Spain and Portugal, the annual minimum wage increase mechanism was suspended in 2012, with the two countries retaining the 2011 rates (Schulten 2012a: 54).

Wage developments before and during the crisis

Figure 3.5 Nominal wages, prices and labour productivity in the EU, 2000-2008



Source: authors' calculations based on AMECO (2012).
Note: annual %-change, averaged over the 2000-2008 period.

CEE countries catch up before the crisis

Figure 3.5 indicates the averaged changes in nominal compensation (per employee, total economy), prices (measured as the harmonised consumer price index - HCPI) and productivity (measured as GDP at 2005 market prices per person employed) for the period 2000-2008. With regard to the average nominal wage increase, the data shows a clear regional divide between central and eastern European (CEE) countries and the rest of the EU. With the exception of Poland, which just missed the 5% mark, all CEE countries registered an average annual increase in nominal wages of well above 5%, ranging from the Czech Republic (6.71%) to Latvia and Romania (15.47% and 30.94% respectively). Amongst the western European countries, Ireland (6%) and Greece (4.98%) showed the highest average growth rates. All other western European countries stayed at 4% or below. Germany recorded the lowest average growth with 1.16% followed, at some distance, by Austria (2.42%), France (2.81%) and Belgium (2.82%).

Although one could speak of a catching-up process in the CEE countries

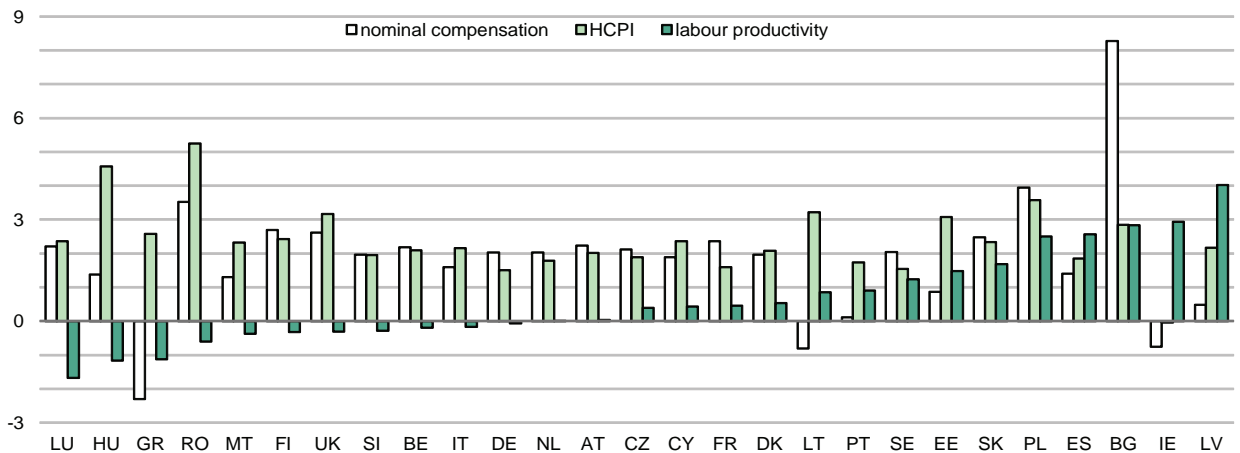
before the onset of the crisis, nominal wage increases are difficult to interpret for two reasons: firstly, nominal wage increases mask the extent of wage differences in absolute terms; i.e. despite the substantial nominal wage increase in most CEE countries, in absolute terms wages in CEE countries are still lagging far behind those in western European countries and even – probably with the exception of Portugal – the Mediterranean countries. Secondly, nominal wage increases are difficult to interpret when not related to other variables. From a supply-side perspective, productivity growth is a relevant variable because the difference between the growth of nominal wages and labour productivity – i.e. nominal unit labour costs – is taken as an indicator of a country's cost competitiveness. In this respect, the data illustrate divergent developments during the pre-crisis period. At one end of the scale are Romania (23.3%), Latvia (10.07%) and Estonia (7.63%), where nominal wages increases heavily outpaced growth in productivity, leading to a strong increase in nominal unit labour costs. At the other end of the scale are Germany (0.06%) and Austria (0.89%), where nominal wage growth more or less remained in line with productivity developments.

However, wages are not just a cost factor. They also play an important role in creating or stabilizing internal demand. Against this background, two

relationships are of importance: first, the development of real wages as the difference between nominal wages and inflation (see below), and, second, the comparison between the development of nominal wages and the wage-setting distributive margin, defined as the sum of the changes in inflation and productivity. The latter corresponds to the traditional concept of a 'productivity-oriented' wage policy, according to which nominal wage agreements should cover not only inflation but also productivity increases in order to ensure that workers share proportionally in the general rise in prosperity (Schulten 2002). Figure 3.5 shows that 14 out of the 27 EU member states over-exploited the distributive margin; i.e. nominal wage increases were larger than the sum of inflation and productivity. The best achievers in this respect were those countries which also registered the highest increase in nominal unit labour costs: Romania (5.71%), Latvia (3.95%) and Estonia (2.8%). The most negative distribution balance was seen in Poland (-2.08%) followed by Bulgaria (-2.02%), Slovakia (-1.62%) and the two western European countries Germany (-1.74%) and Austria (-1.16%); in these countries, nominal wage increases remained below the sum of inflation and productivity. In the rest of the countries, the distribution balance stayed within the margins of +/- 1%.

Wage developments before and during the crisis

Figure 3.6 Nominal wages, prices and labour productivity in the EU, 2009-2012



Source: authors' calculations based on AMECO (2012).

Note: annual %-change, averaged over the 2009-2012 period.

Wage moderation throughout crisis-ridden Europe

Since the onset of the crisis, the growth of nominal wages in Europe was much more modest than in the pre-crisis period (see Figure 3.6). In Greece, Lithuania and Ireland the average annual growth was even negative. The decreasing nominal wages in Greece (-2.3%) and Ireland (-0.76%), together with the bare increase in Portugal (0.11%), illustrates the great pressure placed on wages in the crisis-ridden eurozone countries. The main reason for these developments are the substantial wage cuts in the public sector introduced in fulfilment of the Memorandum of Understanding with the 'Troika' which, to a growing extent, influences developments in the private sector (Schulten 2012b: 454; LRD 2012). The only exception to the trend of shrinking nominal wage increases was Germany, where nominal wages grew on average by 2.03%, compared to 1.16% in the pre-crisis period.

The comparison between developments in nominal wages and productivity shows that countries with moderately increasing (or even decreasing) average

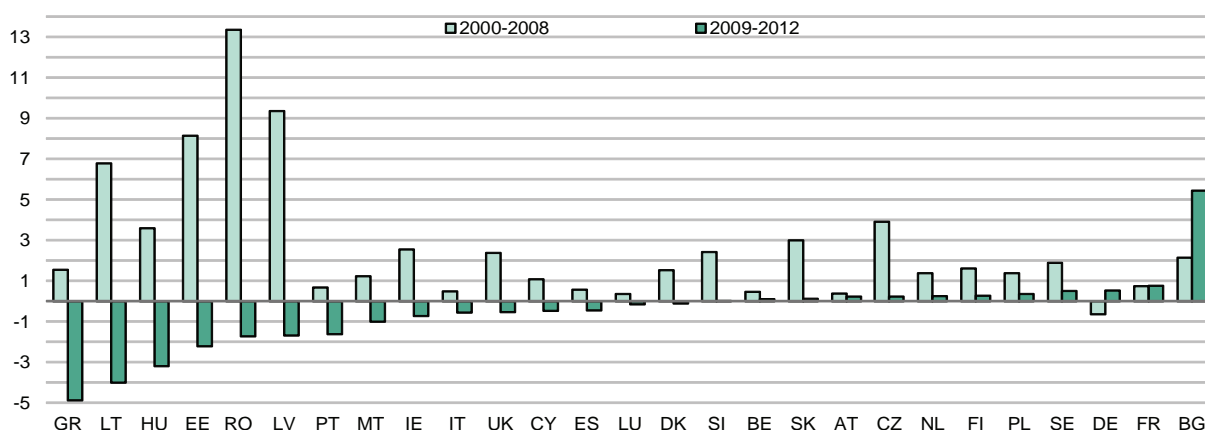
annual growth rates in nominal wages also recorded falling unit labour costs. This applies to all three Baltic states as well as to all GIIPS countries (Greece, Ireland, Italy, Portugal and Spain) with the sole exception of Italy, where the average growth in nominal wages during the crisis-period exceeded that of productivity by 1.77%. Thus, from a supply-side perspective, one might argue that the labour market reforms yielded the desired results: by lowering nominal unit labour costs, they improved cost competitiveness relative to other eurozone countries.

However, neither in the Baltic States nor in the GIIPS countries did nominal wage increases exploit the wage-setting distributive margin. The Baltic States record the most negative distribution balance. Within the eurozone, Greece (-3.75%), Ireland (-3.65%), Spain (-3.02%), and Portugal (-2.52%) show the most negative distribution balance. The exception here is again Italy with an only marginally negative average annual distribution balance of -0.39% during the crisis period. Since a negative development of the distribution balance adversely affects internal demand, these results raise the question of whether the increases in these countries' relative cost competitiveness due to the restrictive wage policy during the crisis period have been (over)compensated by falling internal demand. A recent discussion note

published by DG Employment, Social Affairs and Inclusion points to the risks involved in such a strategy of cutting wages in deficit countries during an economic downturn: 'the scope for restoring competitiveness through wage adjustment is limited by the risk that this may trigger a deflationary wage spiral across the EMU – thereby simultaneously leaving their international competitiveness unchanged and depressing domestic demand in all member states concerned and in the Union as a whole' (European Commission 2012a: 3). This, in turn, means that 'unless surplus countries allow for more wage-based consumption on both domestic and imported goods, the result could be a protracted period of economic stagnation, or even recession' (ILO 2012: 62).

Wage developments before and during the crisis

Figure 3.7 Real wages in EU27, 2000-2008 and 2009-2012



Source: authors' calculations based on AMECO (2012).

Note: annual %-change, averaged over the 2000-2008 and 2009-2012 periods.

Falling real wages in most EU member states

Figure 3.7 illustrates the drastic change in real wage developments from 2000 until now. The pre-crisis period was marked by more or less pronounced real wage increases throughout Europe. The only country which recorded an average annual decrease in real wages during the pre-crisis period is Germany (-0.64%), where, in particular between 2004 and 2008, nominal wages persistently lagged behind inflation. Reflecting the economic catching-up process during the pre-crisis boom period, some CEE countries showed the strongest average annual increases in real wages. The by far strongest performer in this respect was Romania (13.35%) followed by the three Baltic States Latvia (9.35%), Estonia (8.14%), and Lithuania (6.79%). With the two exceptions of Ireland (2.54%) and the UK (2.37%), all western European countries recorded a modest average annual increase below 2%.

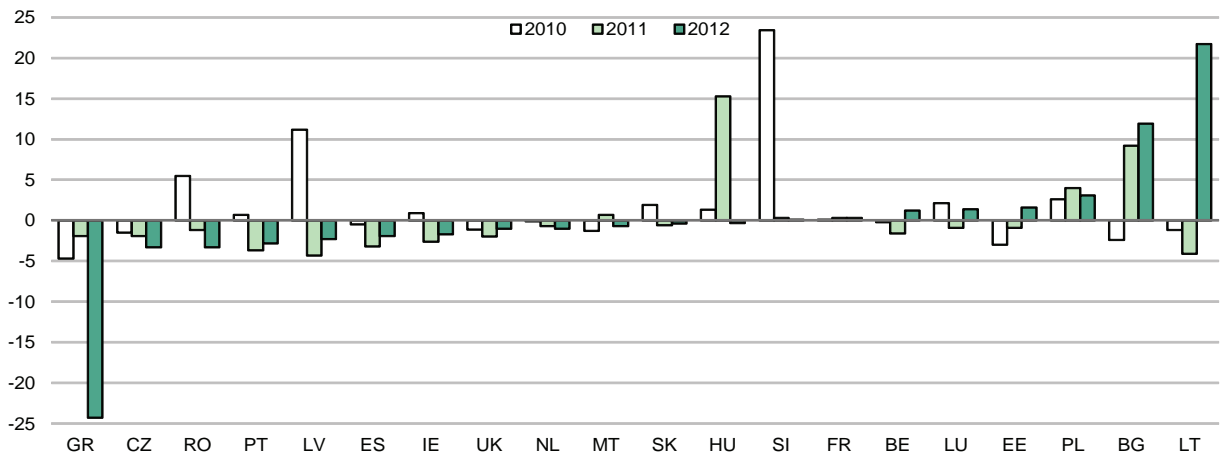
Since the onset of the crisis, this picture has been turned on its head. Between 2009 and 2012, the majority of countries (15 out of 27) recorded falling

real wages. The highest average annual loss in real wages in the crisis period was in Greece (-4.88%) followed by Lithuania (-4.02%), and Hungary (-3.19%). As a matter of fact, all the crisis-ridden countries that were subject to financial bailout programmes suffered falling real wages with potentially detrimental effects for consumption and aggregate demand. The only countries recording average annual growth rates above 0.5% are Germany (0.53%), France (0.76%), the Netherlands (1.25%), the outlier being Bulgaria with 5.43%.

The reasons for the decline in real wages in the majority of countries are manifold. One important explanation is that, in response to the economic crisis, many governments reacted with freezes or even cuts of public sector wages and statutory minimum wages in order to directly cut public expenditure and to set an example for private sector wage developments. Another explanation is that the rising unemployment and the concomitant higher pressure for concession bargaining in order to safeguard employment considerably weakened the bargaining position of trade unions (Schulten 2012b: 455). Last but not least, there is the overarching impact of the direct political intervention in wage-setting as a consequence of the Memorandums of Understanding, which in the crisis-ridden countries led to a sharp decline in real wages.

Wage developments before and during the crisis

Figure 3.8 Changes in real hourly minimum wages in the EU, 2010, 2011 and 2012



Source: WSI Minimum Wage Database (2013).

Note: annual %-change in relation to the previous year. For countries outside the eurozone, calculations are made on the basis of national currencies.

Restrictive minimum wage policy during crisis

Figure 3.8., which charts the development of real hourly minimum wages over the past three years for the 20 EU member states with a statutory minimum wage, shows the direct link between supranational interventionism and a decline in real hourly minimum wages. Greece recorded the most dramatic result with a 24.3% cut in 2012. Romania, Portugal, Latvia, Spain and Ireland have also witnessed drops – albeit less pronounced – in real minimum wages during the last two years. The only exception amongst those countries which were dependent on international financial aid programmes is Hungary, where real minimum wages increased substantially (15.3%) in 2011. This, however, has to be seen as a one-off measure compensating low earners for the introduction of a 16% flat-rate personal income tax from which only top earners benefitted (Szabó 2013).

Figure 3.8 also illustrates the generally weak development of real minimum wages in 2012. The only two countries

with a substantial increase were Lithuania (21.7%) and Bulgaria (11.9%). In absolute terms, however, they still have one of the lowest minimum wages of all European countries with a statutory minimum wage, so that a comparatively small increase in absolute terms makes a fairly big increase in relative terms. According to the most recent figures of the Minimum Wage Database of the Wirtschafts- und Sozialwissenschaftliches Institut (WSI), in January 2013, the hourly minimum wage in Bulgaria was 0.95€ and in Lithuania 1.76€ (Schulten 2013).

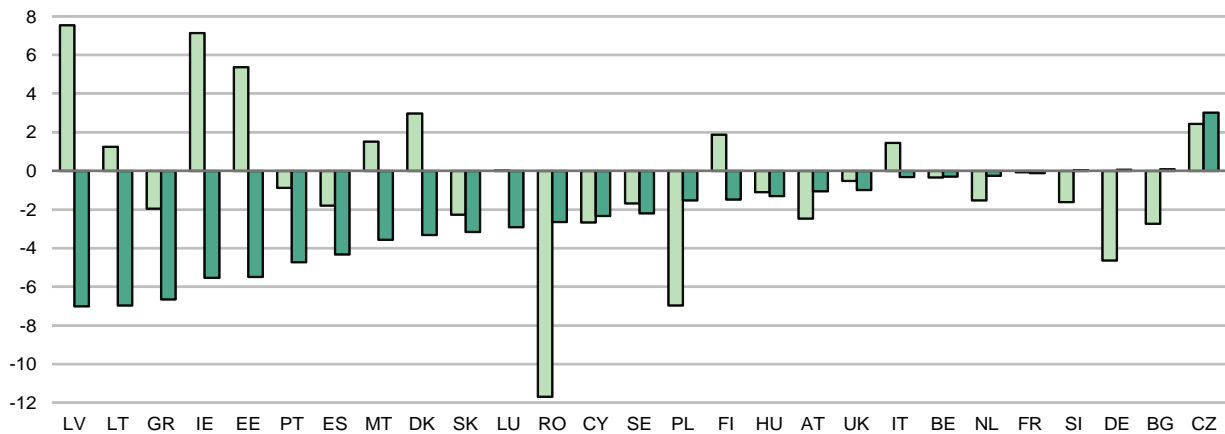
In all other EU countries, the development of nominal minimum wages stayed more or less in line with inflation, resulting in stagnating real minimum wages. Belgium and Luxembourg, for instance, recorded slight increases of 1.2% and 1.4%; this, however, merely made up for the decrease of roughly the same magnitude the year before. Only Poland has persistently recorded slight real minimum wage increases over the last three years.

The restrictive minimum wage policy pursued in most EU member states is part of the overall strategy of internal devaluation which views minimum wages primarily as an obstacle to the (downward) flexibility of wages, which in turn is seen as a central prerequisite of restoring competitiveness (Janssen 2012c). This corresponds with the European Commission's view that minimum

wages should be set at an appropriate level, be sufficiently adjustable to reflect overall economic developments, and be differentiated in order to uphold labour demand (European Commission 2012b: 9). While the Commission refrains from defining what it considers to be an appropriate level, the implicit message is to keep up the pressure on minimum wages. This is confirmed by the fact that, in the Commission's 2012 wage recommendations, France, Slovenia and Hungary were explicitly asked to control or avoid growth in minimum wages in order to improve competitiveness. The ILO, the OECD, the IMF and the World Bank argue in the same direction by suggesting 30 to 40 % of median wages as the appropriate level of minimum wages (ILO *et al.* 2012: 12). However, in a more recent report published by DG Employment, the European Commission also acknowledges the important demand-side function of minimum wages in an economic downturn: by sustaining aggregate demand, by boosting wage equality and by buoying prices, they help to reduce the risk of deflation (European Commission 2012c: 333).

Income distribution and inequality

Figure 3.9 Change (in percentage points) in the adjusted wage share in EU member states, 2000-2008 and 2009-2012



Source: authors' calculations based on AMECO (2012).

Wage share drops as austerity bites

Figure 3.9 presents changes in the adjusted wage share in the period preceding the recent economic downturn (2000-2008), and during the crisis (2009-2012) in 27 EU member states. The adjusted wage share measures compensation per employee (i.e. both wages and employers' social contributions) as a percentage of GDP, and is usually used to assess the distribution of national income between labour and capital. For the pre-crisis period, the data illustrates a divergent development of adjusted wage shares in the European countries. The highest increase was recorded in Latvia (over 7.5%), followed by Ireland (7%), and Estonia (5.3%) where real compensation of employees considerably outpaced the development of labour productivity. However, the experience of Poland and in particular Romania shows that wage growth does not necessarily go hand in hand with an increasing wage share. Between 2000 and 2008, these two countries recorded the highest drop in the adjusted wages share (by 7% in Poland and almost 12% in Romania), despite growing nominal and real wages (see Figures 3.5 and 3.7). In western

Europe, the adjusted wage share fell, in particular in Germany as a consequence of the combined effect of a sustained policy of wage moderation and labour market reforms, which facilitated the extension of a low wage sector based on a marked increase of part-time and other forms of atypical employment, such as the so-called 'mini-jobs' (ILO 2012: 46).

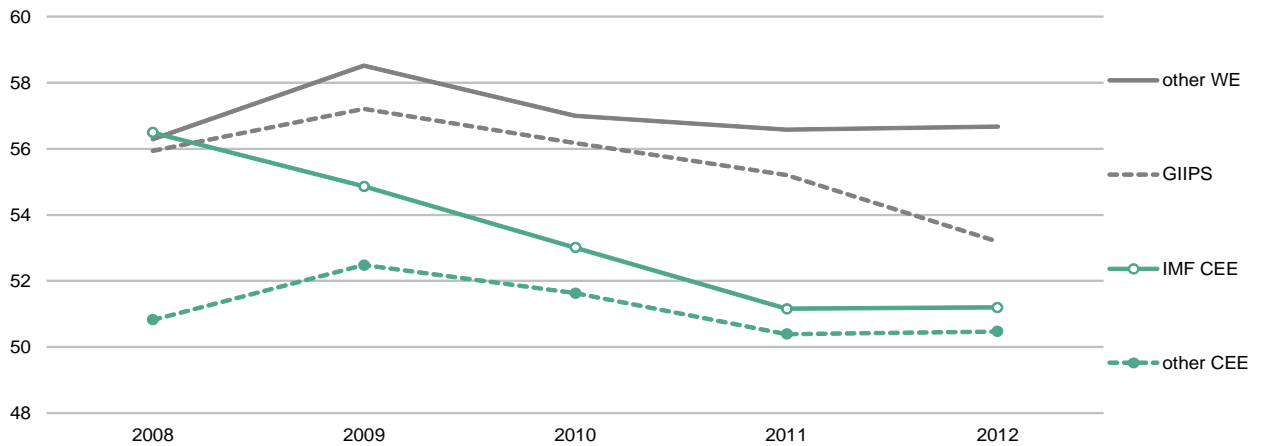
During the recent downturn, the adjusted wage share has been consistently falling in most EU member states. Between 2009 and 2012, many of the previous trends have been reversed: for instance, the Baltic States and Ireland – the champions of wage share growth in the pre-crisis period – have recorded one of the highest wage share decreases in the EU27. Substantial drops in the adjusted wage share also occurred in those countries that were in need of external financial assistance from supranational institutions. These have been the central and eastern European countries that negotiated Stand-by Arrangements with the IMF (Latvia, Romania and Hungary), and those countries making use of European Commission and ECB assistance instruments (Greece, Portugal, Spain and – to a lesser extent – Italy).

The adjusted wage share is a complex variable, which in the medium and long term is influenced by a wide range of factors, such as changes in relative factor prices, the rate of technological progress, relative bargaining power of

capital and labour, and the presence/absence of wage moderation policies (for an overview see Arpaia and Pichelmann 2008). However, despite this complexity, it is fairly safe to conclude that the substantial wage share decreases in these two groups of countries have resulted in large measure from wage restraint in the private sector, as well as from substantial cuts in public sector wages and benefits implemented as part of, or parallel to, the externally-driven assistance programmes (see Figure 3.4).

Income distribution and inequality

Figure 3.10 Adjusted wage share, country group averages, 2008-2012



Source: authors' calculations based on AMECO (2012).

Note: simple average of annual %-change by groups of countries. 'Other WE' encompasses BE, DK, DE, FR, CY, LU, MT, NL, AT, FI, SE and UK. 'Other CEE' refers to BG, CZ, EE, LT, PL, SI and SK. 'IMF CEE' states are RO, LV and HU. 'GIIPS' countries are GR, IE, IT, PT and ES.

Free-falling wage shares in southern Europe

Figure 3.10 presents the development of adjusted wage share between 2008 and 2012 for different groups of countries. It separates IMF-assisted central and eastern European countries (Hungary, Latvia and Romania) from the remaining 'new' EU member states, and the GIIPS countries (Greece, Italy, Ireland, Portugal and Spain) from the rest of western Europe. The graph shows that in most countries, the wage share increased briefly between 2008 and 2009 at the beginning of the economic crisis – following the typical countercyclical character of the wage share because wages tend to be less volatile than profits during an economic downturn. However, what also emerges from Figure 3.10 is that, since then, wage shares in IMF-assisted CEE countries and the GIIPS countries seem to be heading towards a (very low) common denominator set by the remaining CEE states. The adjusted wage shares have remained relatively high and stable only in the rest of western European countries ('other WE').

The effect of falling labour income shares on economic growth very much

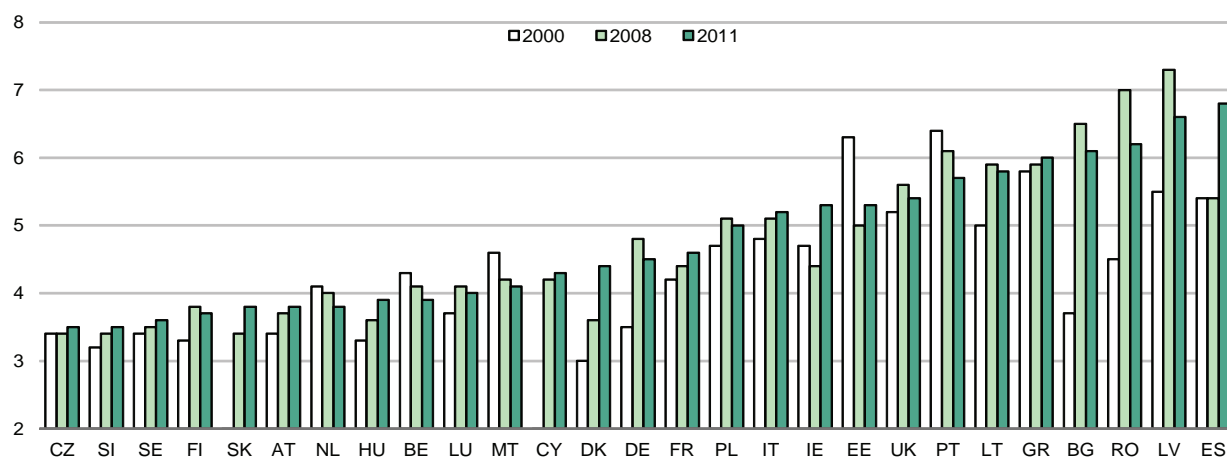
depends on the specific economic conditions of the country under investigation. A recent ILO analysis shows that from a demand-side perspective, falling labour wage shares are associated with lower private consumption and hence lower internal demand (ILO 2012: 55). However, the same study also showed that, from a supply-side perspective, falling labour income shares are associated with a higher share of net exports – i.e. an increase in international competitiveness. Which effect in the end prevails – the negative impact of decreasing internal demand or the positive impact of increasing competitiveness – very much depends on the growth strategy pursued in the country in question. In countries with an export-driven growth strategy, the positive effect of a falling labour share in terms of a strong export growth may (over)compensate the negative effect of falling labour income shares on internal demand. The question remains whether such a model is sustainable in the long run because, as the ILO points out, 'export-led growth strategies based on trade surpluses are often only possible in combination with the debt-driven consumption in deficit countries' (ILO 2012: 62).

However, in countries with a less export-oriented growth strategy (such as the GIIPS countries) and in which internal demand plays a much stronger role for growth, the impact of the austerity

measures in terms of falling real wages and labour income shares actually inhibits economic growth. An important lesson to be learned from these developments should be that the 'one-size-fits-all' austerity approach currently pursued by national governments under pressure from international institutions might work in one country but have the exactly opposite effect in another country. In its recent global wage report, the ILO highlights the risks of such a 'one-size-fits-all' approach by carefully suggesting that 'a presumption that wage moderation is always beneficial for economic activity would be misguided' (ILO 2012: 56).

Income distribution and inequality

Figure 3.11 Inequality of income distribution (80/20 income quintile share ratio) in the EU, 2000, 2008 and 2011



Source: Eurostat (2012).

Note: for CZ, DK and SE, figures refer to 2001 data. For SK and CY, no data is available for 2000 and 2001.

Divergent trends in income inequality across EU27

Wage share trends discussed in the previous section tell us little about the (absolute) levels of income inequality within EU member states. To assess developments in this respect, it might be instructive to look at changes in the income quintile share ratio. Also known as the S80/S20 ratio, it is calculated as the ratio of total income obtained by the 20% of the population with the highest income to that obtained by the 20% of the population with the lowest income. The higher the ratio, the larger the income discrepancy between the richest and the poorest quintile.

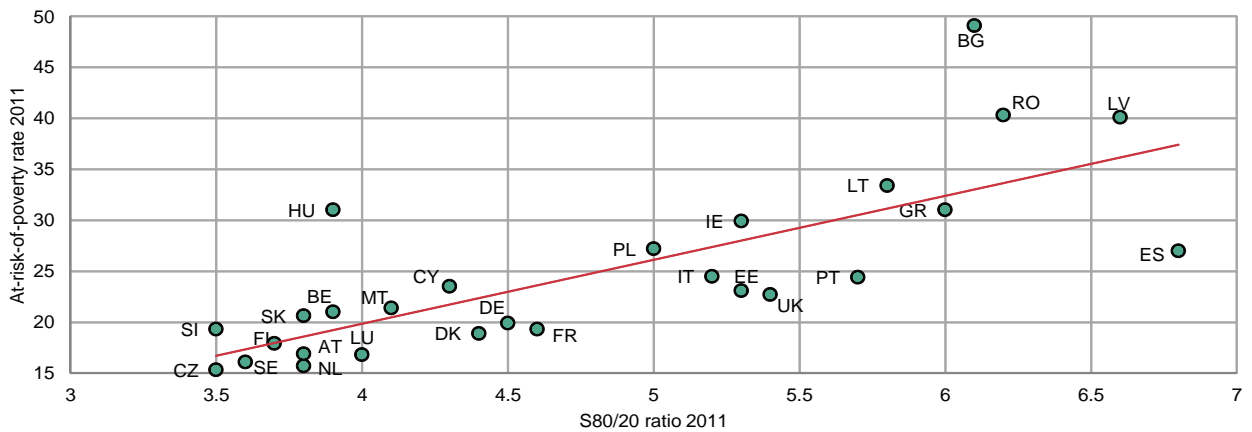
Figure 3.11 shows that the extent of income inequality varies significantly across the EU. In 2011, incomes were most equally distributed in the Czech Republic and Slovenia (both countries with the S80/20 ratio of 3.5). Among old EU member states, the three Scandinavian countries Denmark, Sweden and Finland, together with Austria and the Netherlands, traditionally display the lowest income inequality rates (in all these countries, S80/20 ratio remains

below 4.0). At the other end of the scale, Spain and Latvia were the most unequal countries in 2011 (with, respectively, 6.8 and 6.6 values of the S80/20 ratio), followed by Romania (6.2), Bulgaria (6.1) and Greece (6.0).

It is noteworthy that the most egalitarian west European countries are also characterised by inclusive wage-setting systems and high collective bargaining coverage rates. This would suggest that comprehensive collective bargaining systems, which cover substantial parts of the workforce and spread productivity increase premia among different occupational groups and/ or sectors, contribute to a more equal distribution of income within the population (ETUC and ETUI 2012: 68). However, relatively low levels of income inequality rates in some central and eastern European countries, in which collective bargaining does not play a prominent role, suggest that other variables are also important for mitigating income inequality. In the case of the so-called Visegrád countries (Poland, the Czech Republic, Slovakia and Hungary) and in Slovenia, social transfers and benefits have been an important income-equalising factor (Bohle and Greskovits 2012).

Income distribution and inequality

Figure 3.12 At-risk-of-poverty rates and S80/20 ratios per country in the EU, 2011



Source: authors' calculations based on Eurostat (2012), following Atkinson *et al.* (2010).
Note: S80/20 figures for CZ, DK and SE refer to 2001 data. For SK and CY, no data is available for 2000 and 2001.

High income inequality increases risk of poverty

As far as changes in income inequality over time are concerned, Figure 3.11 displays divergent developments across the EU27 with regard to the risk of poverty. Three broad tendencies are discernible:

- 1) Countries featuring very dynamic increases in income inequality in the period preceding the recent downturn, in particular Romania, Latvia and Bulgaria, recorded a drop in the S80/20 ratio between 2009 and 2011 – i.e. they became slightly more equal in respect of income levels.
- 2) States where income inequalities have risen during the crisis, in line with a steady increase trend already identifiable before the downturn. This group comprises the Czech Republic, France, Italy, Hungary and Austria. A special case here is Spain, where income inequality was relatively stable before the crisis but skyrocketed between 2009 and 2011 (see below).
- 3) EU member states in which income inequality decreased during the crisis,

in line with a pre-crisis decreasing trend: Belgium, Malta, the Netherlands and Portugal.

The absence of a unified trend in income inequality among EU27 indicates that the impact of crisis on income distribution is not clear-cut. The developments may vary depending on the main channel through which the crisis affects the less-skilled part of the workforce: if the low-skilled suffer predominantly from job cuts and declining employment opportunities, the reduction of the pool of less qualified, less-paid workers might lead to the decrease in the extent of income inequality (de Beer 2012). In addition, the crisis might have an equalising effect if the profits of the richest fall faster than wages and social entitlements of less affluent parts of the population (Dauderstädt and Keltek 2012: 2); this might have been the case in the Baltic and southeast European states following the burst of the construction and/or financial markets' bubble. To the contrary, if the low-skilled retain employment, but their wages are cut, income dispersion might further widen. Finally, there is a general consensus that a growing unemployment rate across all societal groups results in increasing income inequality (de Beer 2012). The Spanish story best illustrates the latter trend; as a result of rapidly growing unemployment, the country has surpassed CEE states and is currently characterised by the most unequal income structure in the EU.

Figure 3.12 illustrates the relationship between income inequality and the proportion of poverty risks in individual EU member states. The latter is assessed on the basis of the at-risk-of-poverty rate, defined as a share of the population whose income after social transfers lies below 60% of the median equalised disposable income. Figure 3.12 above shows that, in 2011, the two variables were closely correlated (with S80/20 ratio explaining 76% of variation in the poverty rate). This means that in EU member states featuring high levels of income inequality poverty risks tend to be high as well (cf. Atkinson *et al.* 2011: 112-113). Importantly, all crisis-ridden countries that had recourse to supra-national assistance can be located at the upper end of the income inequality/poverty risk scale. The only exception is Hungary, which scores relatively low on the income inequality scale thanks to its relatively dense social safety net (Bohle and Greskovits 2012).

Conclusions

The failure of internal devaluation and austerity

The economic crisis and the concomitant austerity measures reinforced the already existing dominance of competitiveness as the central frame of reference for wage policies. The result was the convergence of policies in the field of wages and collective bargaining towards an approach of internal devaluation aimed at an increased (downward) flexibility of wages as a means to close the competitiveness gap between ‘surplus’ and ‘deficit’ countries. However, our analysis suggests that, rather than creating a more level playing field, the austerity measures introduced in the ‘deficit’ countries reinforced the already existing divergent trends in the field of wages and collective bargaining in the EU. Specifically, one can observe the emergence of three distinct trends that cut across traditional typologies of national industrial relations systems established, for example, by Ebbinghaus and Visser (1997) or Kohl and Platzer (2004).

The first trend concerns the Nordic states and the central west European countries (France, Germany, Austria and the BeNeLux countries) which were not that severely affected by the economic and financial crisis and where, as a consequence, wage levels and collective bargaining institutions remained relatively stable. If anything, the crisis seemed to have accelerated already existing processes of a more or less controlled decentralization of bargaining arrangements without, however, endangering the dominant role of sectoral-level bargaining arrangements (Keune 2011: 143/144).

The second trend concerns the new EU member states which were not in need of financial aid programmes by the EU and/or the IMF. In these countries, wage developments were very uneven; some countries, like Poland and Bulgaria,

experienced relatively high real wage increases while others, such as Lithuania and Estonia, recorded a substantial fall in real wages. Even though in most of the countries the crisis was used as a pretext for an increased flexibilization of the labour market, often without the involvement of the social partners, the changes tended to be path-dependent without major disruptions of existing already highly decentralized and fragmented bargaining arrangements (Glassner 2013).

The third trend can be observed in the GIIPS states and the CEE countries that concluded Stand-by Arrangements with the IMF. In these countries, the direct political intervention from the supranational and national levels led to a decline in wages but also to a ‘frontal assault on articulated, multi-employer bargaining’ (Marginson 2012: 9). In countries characterized by a comparatively high level of bargaining centralization, the austerity-induced reforms led to a dismantling of existing wage-setting arrangements, either by completely abolishing institutions of cross-sectoral wage coordination, such as in Ireland or Romania, or by continuously hollowing out existing sectoral bargaining arrangements, which is what happened in Greece, Spain and Portugal. The exception in this respect is Italy, where wage developments – at least compared to the other GIIPS countries – remained relatively stable, and where the trade unions (so far) have been able to fend off the most radical procedural reforms of the traditional system of co-ordinated bargaining (Meardi 2012b).

Overall, our analysis shows that the austerity-driven reforms have contributed to the growing diversity of social standards in Europe. In particular, they have made the southern European countries move closer towards new EU member states’ standards in terms of incomes, wage-setting arrangements and social cohesion, thus widening the gap between the ‘core’ and the ‘periphery’ of the eurozone and the EU.

Looking beyond the direct implications in the field of wages and collective bargaining, this chapter demonstrates the need for a critical reassessment of the internal devaluation approach currently

pursued jointly by supranational institutions and national governments. There is, however, a growing consensus about the negative impact of austerity measures on economic growth during an economic downturn. Several more recent studies show that not only was internal devaluation ineffective in addressing the problem of macro-economic imbalances but it actually aggravated the debt problems of deficit countries (Holland 2012; Horn *et al.* 2013). Even the IMF recently admitted that large and rapid fiscal consolidation may lead to unintended economic consequences for growth and employment (Blanchard and Leigh 2013; IMF 2012). However, as Armingeon and Baccaro point out, ‘this emerging consensus has so far had little impact on European policymakers, who continue to emphasize the need for the GIIPS countries to implement austerity and structural adjustment programmes’ (2012: 263).

The problem of this one-sided fixation on austerity and improving cost competitiveness through (downward) wage flexibility is that it a priori precludes any thinking in political alternatives. Such an alternative could be the establishment of a European structural investment programme in order to help deficit countries to upgrade their economic and industrial structure, which would enable them to specialize in certain sectors and niche markets in order to produce new goods to generate revenue, jobs and wages to repay existing debts (for instance in the field of sustainable energies). This would also reflect the real lesson to be learned from the German case, which is often portrayed by European policymakers as the example to be followed. The real foundation of Germany’s strong competitive position is not wage moderation but its specialization in high-technology and high-quality niche markets in which German companies enjoy high pricing power (Felipe and Kumar 2011; Janssen 2012d). The subordinated role of wage moderation for Germany’s competitive position can be seen in the fact that German industry did not use the reduction of unit labour costs and the productivity efforts extracted from its workers to lower the prices of manufacturing, but instead turned them into higher profit margins.

Labour market inequalities and divergence

Introduction

The European Union is slowly emerging from a deep economic recession. The economic and labour market recovery is far from secure, as evidenced by the fact that total employment in the EU27 fell between the second quarter of 2011 and the second quarter of 2012. Although performance has differed markedly between countries, the current picture is one of on-going difficulties and there remains some concern that the situation may deteriorate again. The situation has to be viewed also in the context of the ambitious Europe 2020 Strategy targets to increase the EU27 employment rate for 20-64 year olds to 75 per cent by 2020 (see also ETUC and ETUI 2011: 21-22).

This chapter investigates the equality aspects of changes within the labour market both in the recession and over the longer term. Inequalities in the labour market are persistent in good economic times and bad ones – however they are often deepened during periods of recession as the experiences of groups and countries diverge.

There are a number of different aspects to labour market inequality. Inequalities can relate to differences between member states, some of whose labour markets remain far healthier than others; and there is indeed current evidence of a divergence in trajectories between member states in the recession and early recovery. Inequalities can also relate to the way that employment opportunities are unevenly distributed according to a number of characteristics, such as age, gender and skill levels. These differences in employment opportunities influence the likelihood of being in work (versus being out of work). They also influence experiences once in employment – including aspects such as wage levels, type of work, form of employment contract, and hours of work.

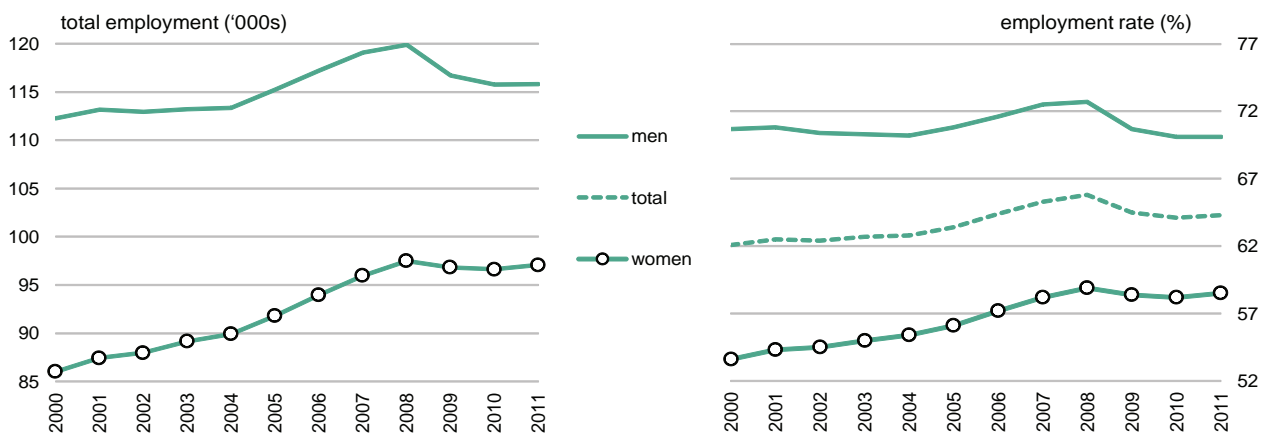
We begin by examining the period since 2000 and some of the longer-term trends in employment and unemployment across Europe, as well as describing how these trends have been radically altered by the onset of the recession. We then show how the impacts of recession have been felt quite differently across member states, with some suffering much more substantial damage to their labour markets than others. We also consider how the recession has impacted differentially on sub-groups within labour markets, and provide a detailed description of the particular challenges faced by younger workers in accessing employment.

Topics

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Labour market developments over the Lisbon period

Figure 4.1 Total employment ('000s) and employment rate (EU27)



Source: Eurostat (2012).

Pre-crisis improvements in employment widely spread

The aim of this section is to show the evolution of a number of key labour market indicators over the Lisbon period. The Lisbon targets have recently been replaced by a new strategy – Europe 2020 – which sets new targets including an employment rate of 75 per cent for 20-64 year olds and a target to lift twenty million European residents out of poverty (see ETUC and ETUI 2011).

Taking a longer-term view, prior to the economic crisis of 2008 the employment performance of Europe was moving in the right direction. The period between 2004 and 2008, in particular, was one of growth in the labour market (see Figure 4.1 which provides annual averages of employment total and rate from 2000 to 2011). Total employment in the EU27 countries grew by 19 million between 2000 and 2008 (annual averages), while the employment rate rose from 62.1 per cent in 2000 to 65.8 per cent in 2008, an increase of 3.7 percentage points.

Within this overall pattern there were pronounced country differences.

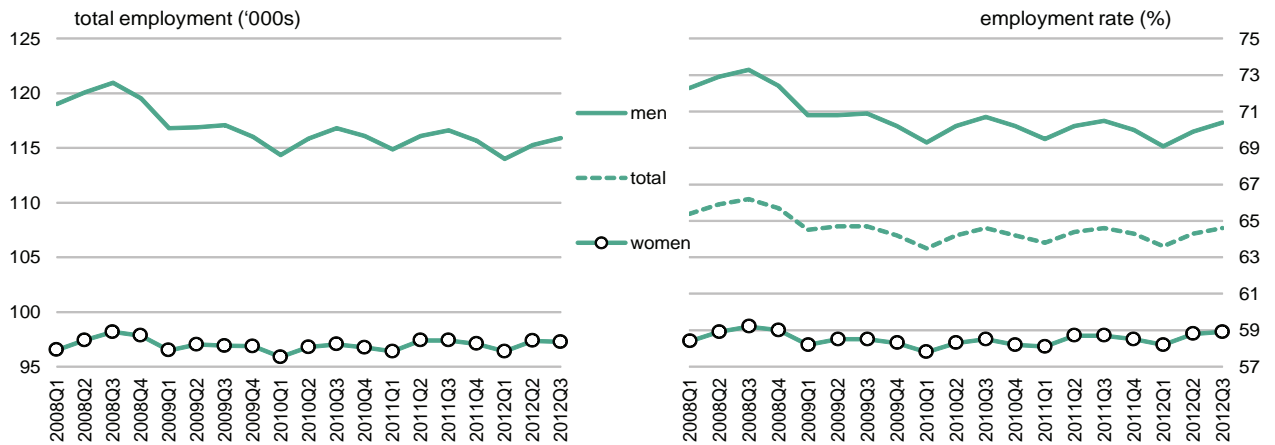
The BELL countries (Bulgaria, Estonia, Latvia, Lithuania; Georgieva, 2012) did especially well, with three of them (BG, LV, ES) seeing the highest rises in employment rates across the EU (though from a relatively low base – Bulgaria was still only 19th across the 27 countries in 2008, despite employment rates having risen by over 12 percentage points from 2000). Male employment rates for the EU27 went from stagnation to growth between 2000 and 2008, although this average hides a good deal of difference: Bulgaria, Latvia and Estonia once again witnessed the largest increase, while there were small declines in the UK, Ireland, and Belgium, and somewhat larger ones, of more than two percentage points, in Portugal, Malta, Luxembourg and Romania. Female participation developed comparatively well across the EU27 (country experiences of the gender employment gap are discussed below). Across the EU, an additional 11.5 million women entered employment over the period 2000 to 2008. Growth in the female employment rate was noticeably slower in the Czech Republic, Hungary and the UK; it was negative in Romania.

While the employment performance of the EU did improve, particularly in the middle of the decade, it consistently remained significantly short of the Lisbon target for 2010 of a 70 per cent employment rate. Furthermore, part of the employment improvement was

attributable to the increasing number of individuals in non-standard forms of employment, including part-time work, temporary contracted work, and self-employment, all of which expanded between 2000 and 2008 (see Figure 4.3).

Labour market developments over the Lisbon period

Figure 4.2 Total employment in the EU27 and employment rate, 2008-2012 (15-64, quarterly estimates)



Source: Eurostat (2012).

Crisis increases labour market divergence

considerably, with the performance of some a cause for major concern (for more details see the following section).

The gradual improvement in the labour market came to an abrupt halt with the onset of economic recession in 2008. Figure 4.2 shows the detailed quarterly data for the employment rate since 2008. This period has witnessed the stagnation of female employment rates (from a peak of 59.2 in Q3 2008 to 58.3 in Q2 2010 and recovering partially to 58.8 in Q2 2012). For men there has been a sizeable decline in employment rates from 72.9 in Q2 2008 to 70.2 in Q2 2010, with a further decline to 69.9 in Q2 2012.

For the EU as a whole, therefore, 2011-2012 was another difficult year, with total employment in the EU27 actually declining slightly between Q2 2011 and Q2 2012. The unemployment rate in Q2 2012 was 10.4 per cent, far higher than its Q2 2008 level of 6.9 per cent. For men the rate is 4.0 percentage points higher than pre-recession, for women it is 2.9.

This stagnation is worrying in itself, but it also conceals large variations between the member states. Since the 2008 recession, the paths of national labour markets have diverged

Labour market developments over the Lisbon period

Figure 4.3 Developments in labour market indicators, EU27



Source: Eurostat (2012).

Part-time work growing

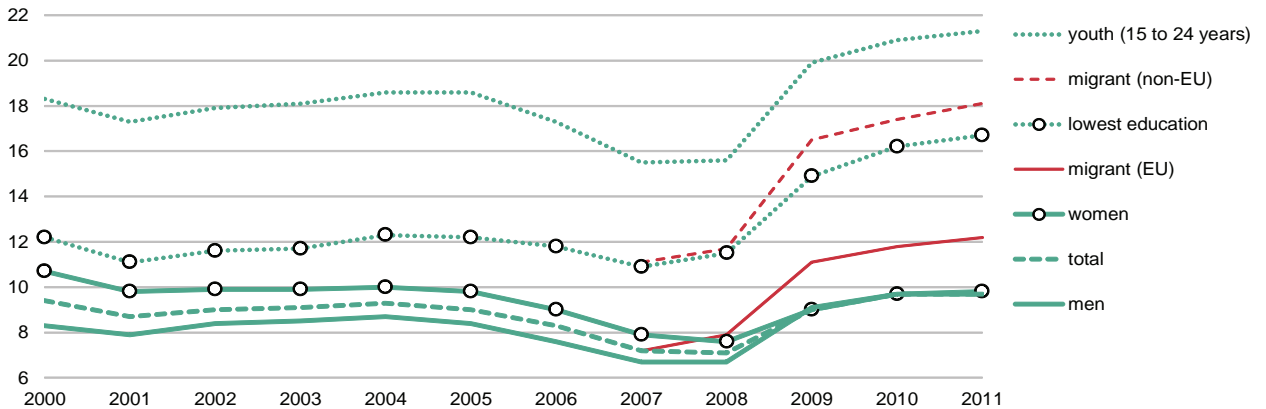
Given that the Eurostat Labour Force Survey definition of employment is just one hour of work in the reference week, the increase in both the number of people employed – and the employment rate – fails to tell us much about the substance of this employment and whether or not it allows people to meet their needs. During the recession there has been a growth in part-time relative to full-time employment. Part-time employment as a percentage of total employment grew by 1.2 percentage points between 2008 and 2011 (see Figure 4.3). This is part of a longer term trend, but one which accelerated during the recession – in the three years prior to 2008, part-time work as a proportion of total employment increased by only 0.3 percentage points, though there were differences between countries in respect of this trend. Over the same period, ten countries saw a decrease in part-time work expressed as a proportion of all employment; Poland in particular bucked the trend, with falling part-time employment as well as the greatest rise in full-time employment between 2005 and 2008.

EU wide, there are now just over 41 million people in part-time employment

– an increase of slightly more than 2.5 million since 2008. Germany alone accounts for a fifth of this increase, with just over 500,000 additional part-time workers; the UK is second with just under 250,000. Only four countries (Poland, Sweden, Denmark and Bulgaria) have seen a reduction in total part-time employment since 2008. Furthermore, the evidence suggests that for men much of this growth is in involuntary part-time working. Some 37 per cent of men and 23 per cent of women report that their main reason for being part-time was because they could not find a full-time job. This reflects a growing problem of under-employment. Other forms of non-standard employment, including temporary contracts or self-employment, have seen little change since 2008, although their trend has been towards growth over the past decade. This overall picture again conceals significant national variability – an issue examined later in the chapter.

Labour market developments over the Lisbon period

Figure 4.4 Unemployment rate, EU27



Source: Eurostat (2012).

Inequalities in unemployment persist

Figure 4.4 shows what has happened to different population groups since 2000. The chart shows the extent to which different groups are disproportionately likely to experience unemployment.

The overall unemployment rate was on a downward trajectory for much of the 2000s, declining from 9.4 per cent in 2000 to 7.2 per cent in 2007. For men, the unemployment rate fell from 8.3 to 6.7 per cent over the same period. For women, it fell from 10.7 to 7.9 per cent. The unemployment rate in 2011 remained at its 2010 level, close to 10 per cent. In 2011 male and female unemployment rates were almost identical.

The group with no qualifications fared less well over the decade, with a decline between 2000 and 2001 followed by a period of only very slight improvement to 2008. The gap in the unemployment rate between the low-qualified group and the total was 2.8 percentage points in 2000, 4.4 in 2008 and 7 percentage points by 2011.

The youth cohort also experienced little reduction in unemployment over

the period, though there was a noticeable fall between 2005 and 2007. The youth unemployment rate has been consistently higher than that of other subgroups, and the difference between youth and overall unemployment rates since 2008 has widened from 8.5 to 11.6 percentage points. This is a particularly worrying trend given the debilitating effects of youth unemployment. Research has demonstrated the very damaging effect that youth unemployment can have on longer-term earnings and well-being (Hammarstrom and Janlert 2002; Dieckhoff 2011; Bell and Blanchflower 2011).

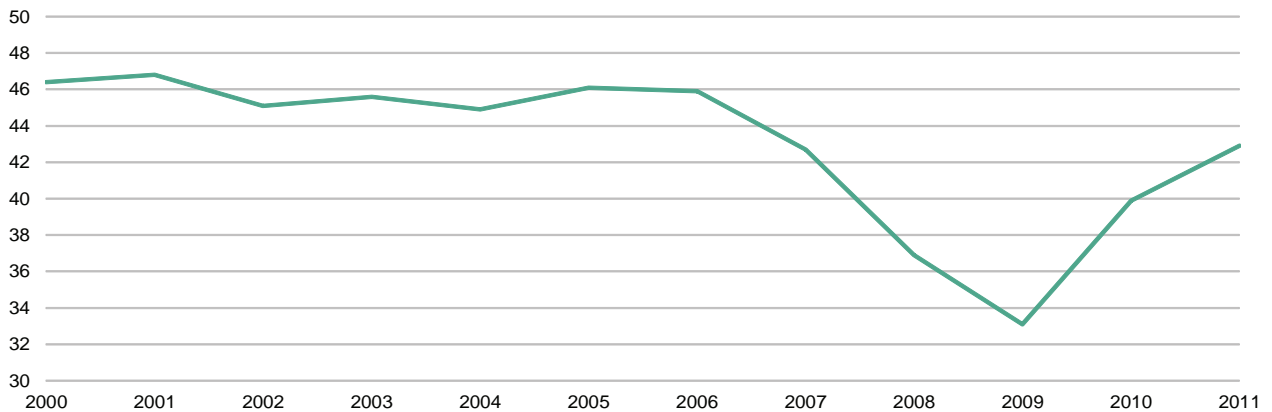
Groups of migrant workers have also experienced high unemployment rates. EU migrants have seen their unemployment rate rise from 7.9 to 12.2 per cent between 2008 and 2011, while non-EU migrants have seen the biggest rise of all – from 11.7 to 18.1 per cent between 2008 and 2011. The gap between migrant unemployment rates and the average has also grown.

While unemployment rose for all groups in the period of recession, between 2010 and 2011 the incidence of total unemployment has levelled off. However, all the disadvantaged groups (i.e. the low skilled, youth and migrants) have seen unemployment rates continue to rise between 2010 and 2011 (albeit at a much slower rate), indicating a relative deterioration in their position. These differences are examined in greater detail

below where the analysis is extended to include the most recently quarterly data from 2012.

Labour market developments over the Lisbon period

Figure 4.5 Long-term unemployed as % of unemployed (EU27)



Source: Eurostat (2012).

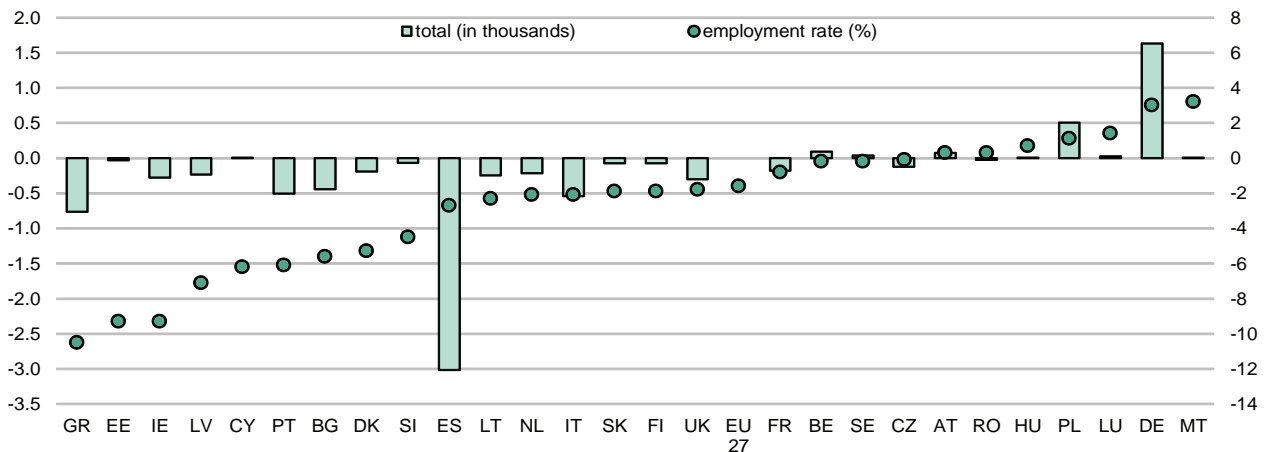
Long-term unemployment also growing

long-term unemployment differ significantly between member states and this is examined in more detail later in the chapter.

The rate of long-term unemployment, expressed as a proportion of total unemployment, had remained relatively steady, albeit also relatively high, for much of the previous decade. Between 2000 and 2006 the figure was at, or around, 46 per cent. From 2006 this proportion had begun to fall, as declining overall levels of unemployment fed through to better outcomes for the long-term unemployed. After a sharp drop in the proportion of long-term unemployed during the financial crisis of 2008 – driven by large increases in the number of newly unemployed people – currently 43 per cent of persons unemployed across Europe have been out of work for 12 months or more (Figure 4.5). This is worrying because of the negative health and career outcomes which are associated with extended periods of unemployment (European Commission 2012a). At the present time some 10,878,500 people in the EU27 are long-term unemployed (Q2 2012 aged 15-64); in 2008 the figure was 6,132,500 (an increase of 4.7 million). Levels of

The labour market in recession and recovery

Figure 4.6 Change in total employment and in employment rate by country - 2008-2012 (15-64) (quarterly estimates)



Source: Eurostat (2012).

Diverging experiences of country employment

The focus in this section is on the differing experiences of member states in the period since the recession, in an effort to assess the extent to which national labour market trajectories are diverging. Figure 4.6 shows how the total employment and the employment rate have changed for each country since 2008.

Germany has been by far the most successful at creating jobs, with employment increasing by 1.6 million between 2008 and 2012. This is also reflected in this country's rising employment rate (up 3.0 percentage points) and falling unemployment rate (down 2.4 percentage points). Poland has also seen significant increases in employment (of around half a million), and a rise in the employment rate of 1.1 percentage points. Between 2008 and 2011 Poland created just over 370,000 full-time jobs, and lost almost 50,000 part-time jobs. Malta and Luxembourg have also seen rising employment rates with increases of 3.2 and 1.4 percentage points respectively. Other

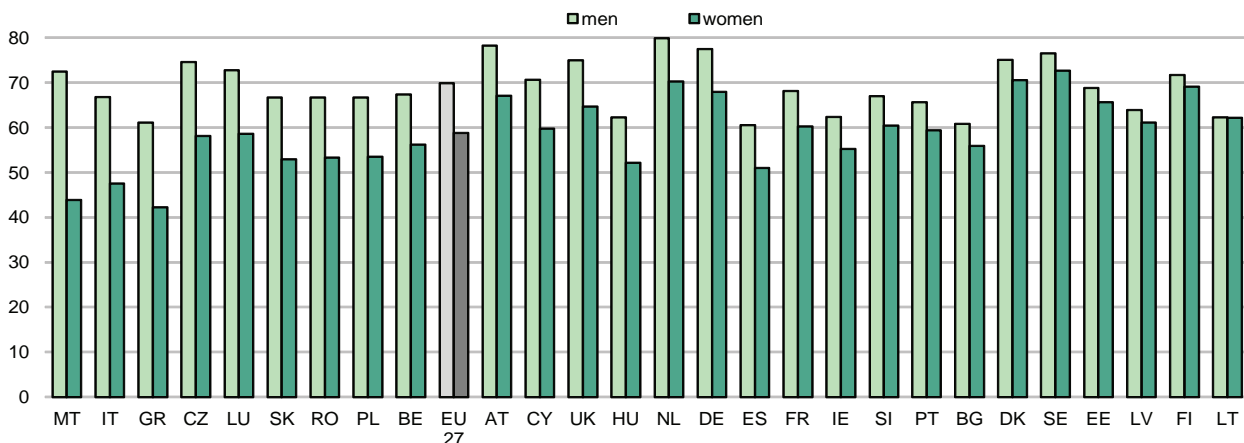
countries which have seen their employment rates improve since 2008 include Hungary, Romania and Austria. Another group of countries where the employment rate remains slightly below the 2008 peak includes the Czech Republic, Sweden, Belgium and France.

Other countries, meanwhile, still have total employment levels that are significantly below their pre-recession peaks. In Spain the fall has been particularly dramatic, employment having fallen by around three million between 2008 and 2012, and the unemployment rate having risen by more than 14.3 percentage points. This is in part due to the relatively unrestrictive rules on temporary contracts in Spain, and the relatively low dismissal costs of such contracts (Bentolila *et al.* 2010). Greece and Italy have also experienced large falls in total employment. The largest reductions in employment rates have been in Greece (10.5 percentage points), Spain (9.3 percentage points), Ireland (9.3 percentage points) and Latvia (7.1 percentage points). Overall, the country differences demonstrate that different European economies have experienced very different recessions, in terms of the scale of employment impact but also the speed of recovery (more on various economic models' capacity to confront the crisis in Chapter 2). A particular factor influencing the depth of the recession was whether it also triggered the bursting of a property bubble at the

national level, resulting, in turn, in large job losses in the construction sector. The present situation is that, while some countries are experiencing growth in the labour market, those worse affected by recession have, so far, experienced little or no discernible recovery.

The labour market in recession and recovery

Figure 4.7 Employment rates by gender, arranged by difference



Source: Eurostat (2012).

Falling differences between genders

Across the EU27 the gender employment gap has declined over the past decade. The gap was 17.1 percentage points in 2000, and this had narrowed to 13.8 percentage points in 2008. There are also sizeable differences in employment trends by gender between individual countries (Figure 4.7).

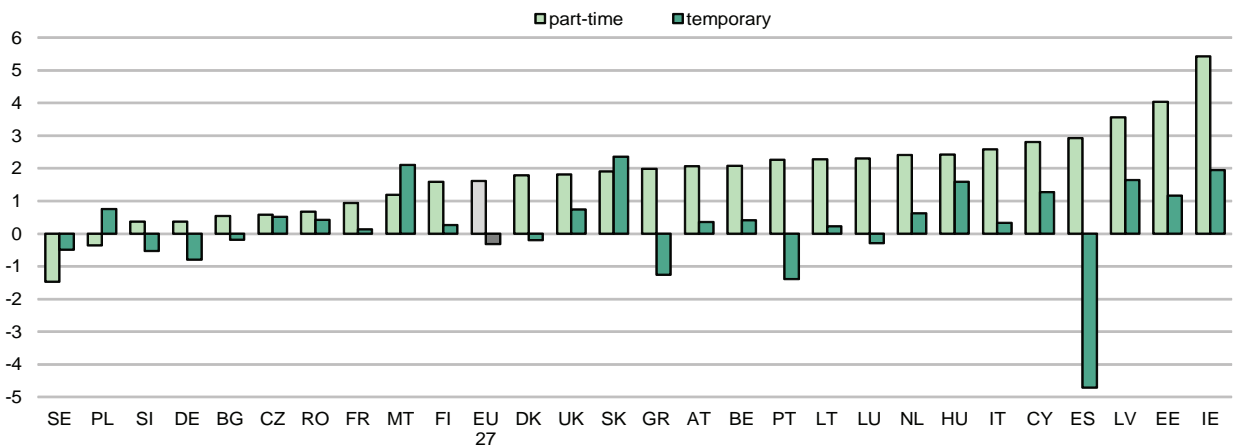
Lithuania has the smallest difference in employment rates between men and women, with a gender employment gap of just 0.1 percentage points. The Nordic countries are also characterised by low gender employment gaps which, in this case, are the result of comparatively high employment rates for both genders. Finland, Sweden and Denmark all have a less than 5-percentage-point difference between male and female employment rates. Having said that, Sweden is one of the few countries to have seen a rise – of 1.6 percentage points – in the difference since 2000.

The Southern European countries, by contrast, are characterised by much larger differences, in these countries, the male-breadwinner labour market model remains more prevalent (Tavora 2012). Malta, Italy and Greece all have

around a 20-percentage-point difference in employment rates between men and women. There has, however, been significant change in this respect over the last ten years, all three countries having seen around a ten-percentage-point decrease between 2000 and 2011. Spain is striking because of the rapid increase in the female employment rate from 41.2 to 54.9 per cent (although this remains below the European average). Bulgaria, Latvia and Estonia have all experienced rapid growth in the employment rates of both men and women.

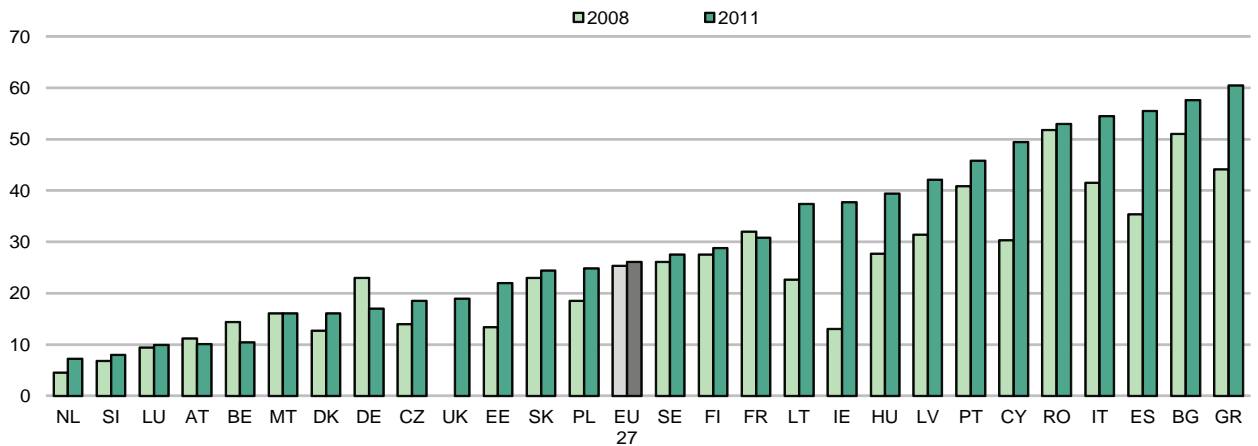
The labour market in recession and recovery

Figure 4.8 Percentage point change in temporary and part-time work in 2008 Q2 to 2012 Q2



Source: Eurostat (2012).

Figure 4.9 Involuntary part-time as a proportion of all part-time employment by country 2008-2012 (15-64) (quarterly estimates)



Source: Eurostat (2012).

Involuntary part-time employment growing

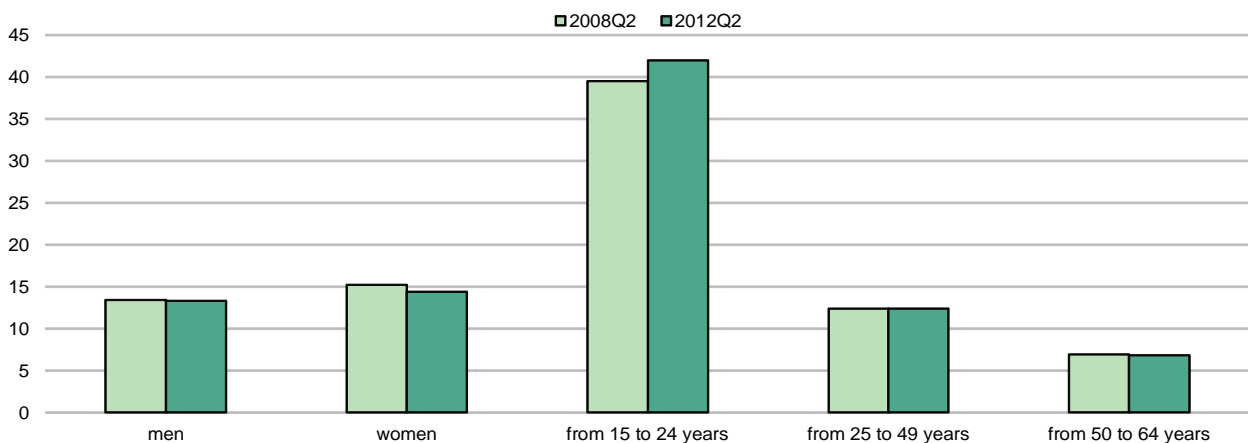
Many countries across Europe have seen some changes in the structure of their labour market since 2008, with a general trend towards part-time or temporary work (Figure 4.8). Looking at two

economies, namely Spain and Ireland, that have been particularly hard hit since 2008, we see very different dynamics. In Spain, temporary employment as a proportion of total employment has fallen by more than 4 percentage points, which is, on the whole, the result of temporary staff losing their jobs (or not having their contracts renewed). Ireland, meanwhile, has seen an increase in temporary employment and the largest increase in part-time employment (as proportions of total employment) across Europe. The extent to which part-time employment

is considered to be a problem also varies across countries (Figure 4.9). Over 50 per cent of those who are employed part-time in Greece, Italy and Spain are involuntary part-time workers but in The Netherlands, Luxembourg, Austria and Belgium this rate is around no more than 10 per cent. In the Netherlands, moreover, part-time work is now an established route into the labour market which is supported by a flexicurity system (Crowley *et al.* 2013).

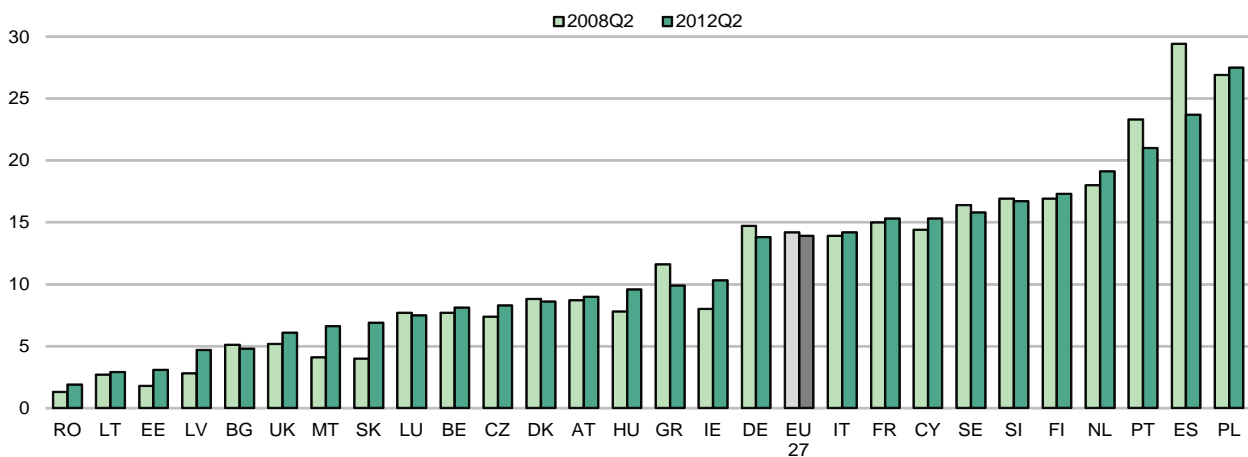
The labour market in recession and recovery

Figure 4.10 Temporary employees by age and gender, EU27, 2008-2012 (15-64) (quarterly estimates)



Source: Eurostat (2012).

Figure 4.11 Temporary employees as a percentage of total employees by country (15-64) (quarterly estimates)



Source: Eurostat (2012).

Young people are often in temporary jobs

Temporary working has also been growing. Women are somewhat more likely to be in temporary employment than men (14.4 per cent of female employees in temporary jobs compared to 13.3 per cent

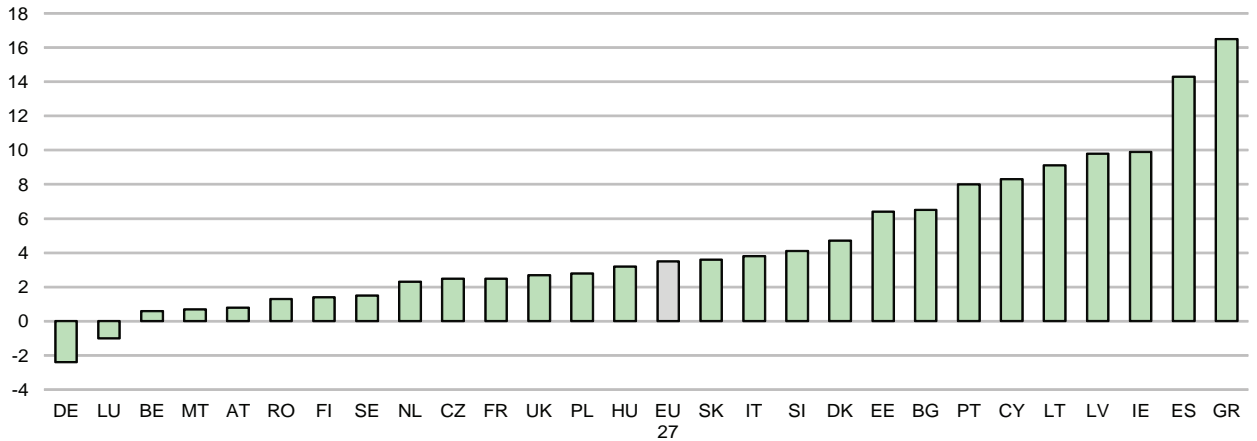
of men), although for men the proportion employed in temporary jobs grew during the recession and subsequently, while for women it declined (Figure 4.1). Young people are also much more likely to be in temporary work (42.0 per cent) compared to 25 to 49 year olds (12.4 per cent).

The overall incidence of temporary employment continues to vary significantly across countries largely as a result of historical differences in labour market structures and regulation. In Spain and Poland around a quarter of employees work in temporary jobs, and high rates

are observed also in the Netherlands and Portugal (19.1 per cent and 21.0 per cent respectively). Much lower incidences are observed in a range of other countries including the Baltic States, the United Kingdom and Slovakia (see Figure 4.11).

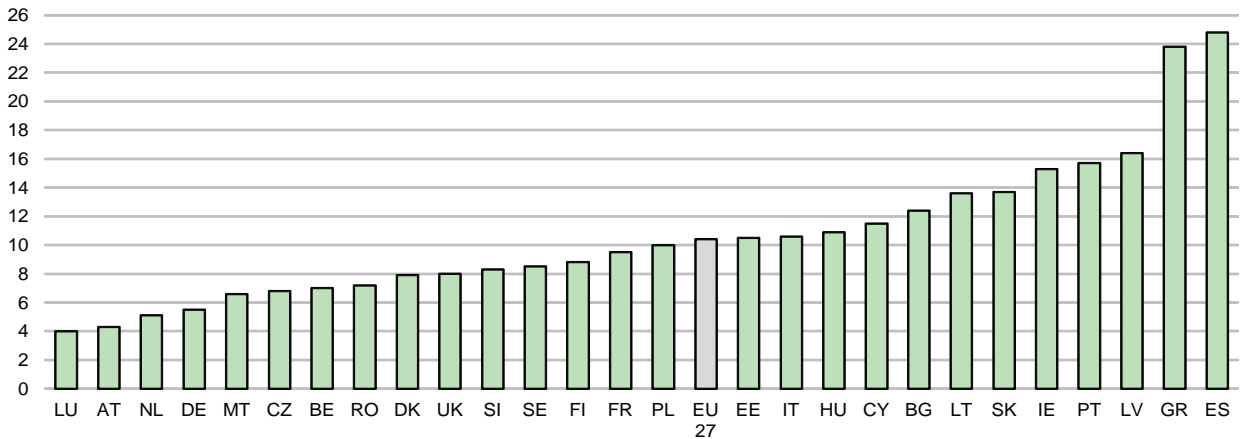
The labour market in recession and recovery

Figure 4.12 Change in unemployment rates (percentage points) by country, 2008-2012 (15-64) (quarterly estimates)



Source: Eurostat (2012).

Figure 4.13 Unemployment rate by country 2012 Q2 (15-64) (quarterly estimates)



Source: Eurostat (2012).

Huge variation in unemployment across member states

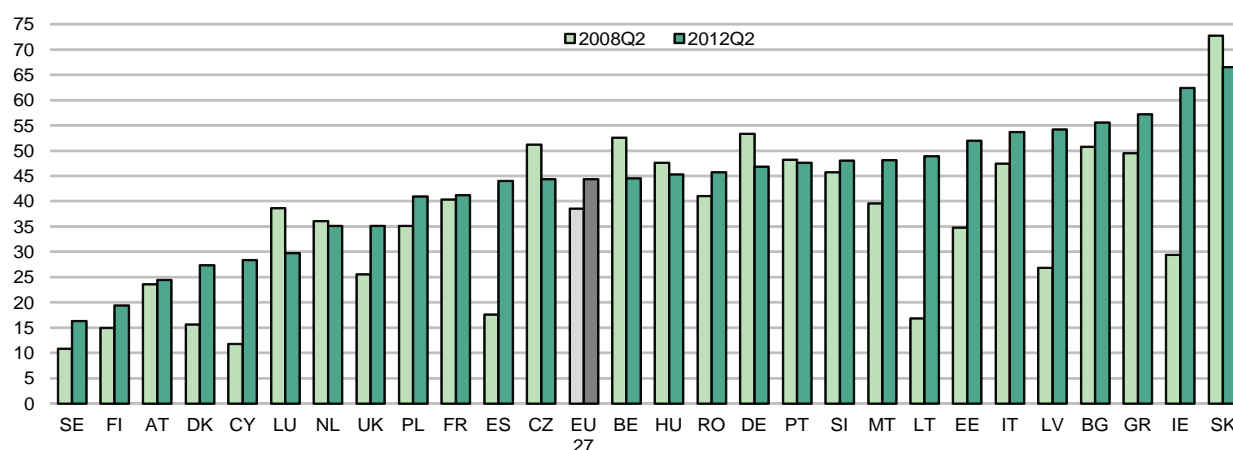
As detailed in the previous sections, most countries have seen a fall in the total employment level, which in most

cases has been matched by an increase in the unemployment rate (see Figure 4.12). Germany and Luxembourg are the only countries with unemployment rates below pre-recession levels (while Belgium, Austria and Malta have rates only slightly above pre-recession levels; see also Figure 4.13). A variety of factors have contributed to the German resilience, including the employment shortfall that had arisen before the crisis, wage moderation and the widespread adoption of working time accounts (Burda and Hunt 2011). Countries which have experienced

the biggest rises in unemployment rates include Spain, Greece, Lithuania, Ireland and Latvia, all of which have experienced increases of more than 8 percentage points between 2008 and 2012.

The labour market in recession and recovery

Figure 4.14 Long-term unemployment as a percentage of total unemployment 2008 Q2 to 2012 Q2



Source: Eurostat (2012).

Growing divergence in long-term unemployment

There remain huge country variations in the total unemployment rate (see Figure 4.13 on previous page). In Greece and Spain rates are pushing one quarter, and in Ireland, Portugal and Latvia too they are above 15 per cent. By contrast, rates are as low as 5 per cent in Austria, the Netherlands and Germany. The evidence suggests that the Netherlands has experienced labour hoarding over the recession, supported by the fact that firms entered the recession with strong finances, a situation that has led to lower than average increases in unemployment (CPB 2011).

Long-term unemployment is also a large and growing problem. Between 2000 and 2008, most countries saw a decline in the proportion of long-term unemployed, although even in 2008 the EU27 average proportion was as high as 37 per cent (Figure 4.14). Latvia and Lithuania saw the greatest fall, both of around 30 percentage points. Slovakia and Luxembourg were the only countries

to see the proportion of long-term unemployment rise by more than 5 percentage points, Slovakia having experienced the greatest rise of almost 15 percentage points.

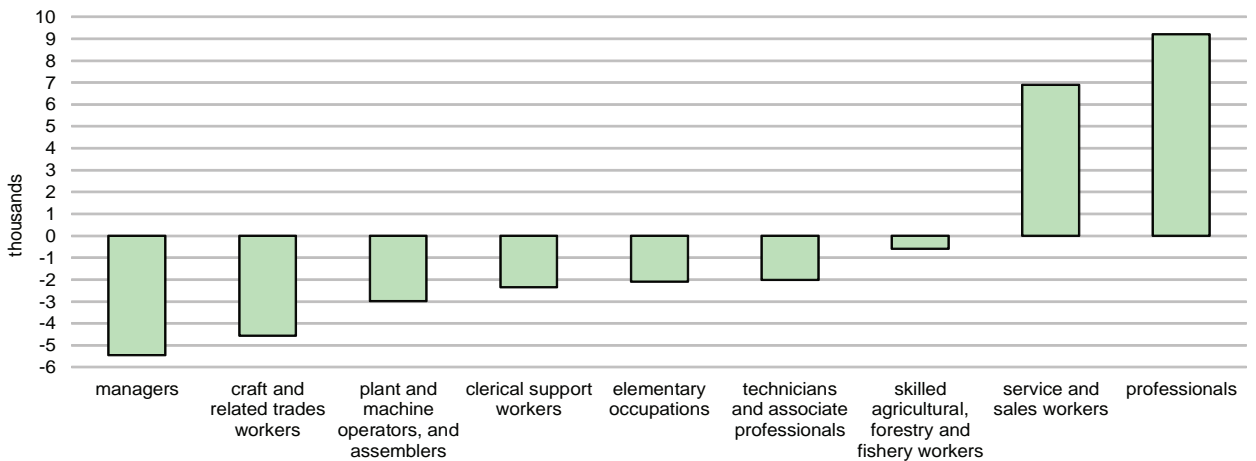
In 2008, the average proportion of unemployed people who were long-term unemployed fell sharply in the short term, as a result of the financial crisis and the associated reduction in employment generally. However, the worrying fact is that many countries now have a higher proportion of long-term unemployment than they did in 2008 (as well as much higher levels of total unemployment) (Figure 4.14). This indicates that many of those who were made unemployed between 2008 and 2010 have become increasingly distant from the labour market.

Again, Spain and Germany are at the opposite ends of the spectrum when looking at overall rates of change in long-term unemployment since the recession. Spain has seen the proportion of long-term unemployment relative to total unemployment rise from 17.6 per cent to 44.0 per cent between 2008 and 2012 as growing total unemployment has been making it more difficult for the long-term unemployed to access work. Germany, on the other hand, has seen long-term unemployment fall from 53.3 per cent to 46.8 per cent (as total unemployment has also fallen). Slovakia, in spite of a small fall, still has the highest long-term unemployment as a percentage of the

total unemployment rate in the EU. This problem is compounded by the fact that it also has a relatively high total unemployment rate, of nearly 14 per cent. Ireland has also seen an increase of over 30 percentage points, while Lithuania has seen the rate more than double to nearly 50 per cent.

Different groups in recession and recovery

Figure 4.15 Change in employment by occupation, EU27, 2008 Q2 to 2012 Q2 (15-64) (quarterly estimates)



Source: Eurostat (2012).

Labour markets continue to polarise...

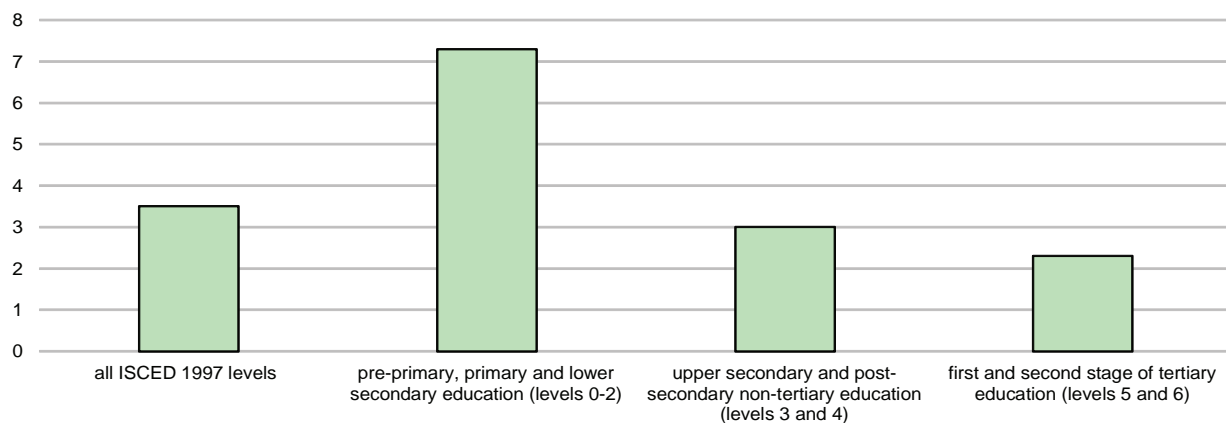
It is well known that different groups of workers tend to experience recessions very differently. Young workers, for example, tend to be the most adversely affected (for more details see further in this chapter), while it has been shown also that some ethnic minorities are particularly hard hit (Heath and Li 2008). In this section we assess the experience of different types of workers through the recession and in its wake in order to investigate where inequality in outcomes is most prevalent. We begin by examining the change in occupational groups, before assessing the importance of skill level (using a person's highest qualification as a proxy). We then go on to explore patterns by age and migrant group.

Between 2008 and 2012 there was a decreasing number of employees in almost every job class (Figure 4.15). Employment in managerial posts has fallen the most (by 5.4 million); craft and related trades have also fallen significantly, with 4.6 million jobs lost over the three years. Other mid-level occupations have also suffered, with the number

of technicians and plant and machine operators both falling by over 2 million. The only classes to have expanded are the professional sector and service and sales workers, which have grown by 9.2 million and 6.9 million respectively. That such employment growth as has taken place has been concentrated in comparatively more highly skilled and highly paid occupations (professionals) as well as in lower-skilled and lower-waged work (service and sales workers) suggests that the recession may have served to speed up some of the underlying structural changes in the economy which are associated with increasingly polarised employment opportunities (Cedefop 2011).

Different groups in recession and recovery

Figure 4.16 Percentage point change in unemployment rate by qualification level, EU27, 2008 Q2 to 2012 Q2 (15-64) (quarterly estimates)



Source: Eurostat (2012).

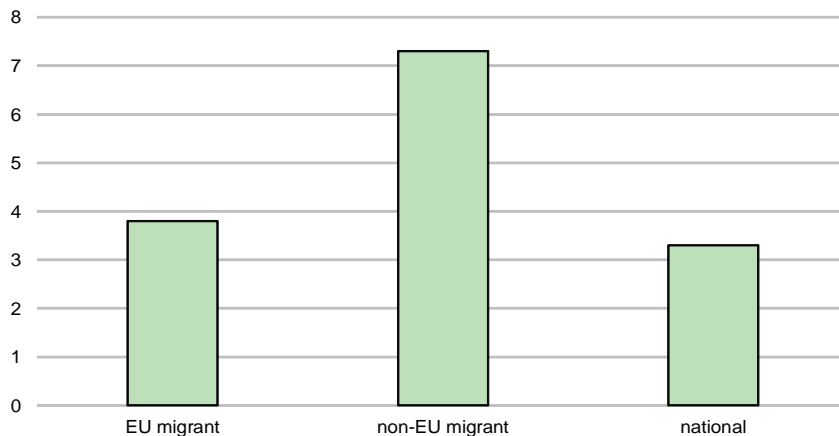
...but, lowest skilled hit hardest

The fact that low-skilled jobs have done comparatively better does not mean that lower-skilled workers have done so well. Figure 4.16 shows the percentage points change in the unemployment rate for workers with different levels of qualification for the EU27. The figure clearly shows that labour market experiences have been strongly influenced by qualification levels – with lower qualified workers being the most affected. The unemployment rate of those with higher-level qualifications – at the first and second stage of tertiary education (levels 5 and 6) – increased by 2.3 percentage points between 2008 and 2012. This is markedly less than the change in the unemployment rate for all workers. Those with an upper secondary and post-secondary non-tertiary education level (levels 3 and 4) have seen their unemployment rate increase at around the average (growing by 3.0 percentage points). For the lowest qualified workers the trend has been quite different – growing by 7.3 percentage points. This is more than twice the average growth and leaves the unemployment rate for low-skilled workers at 18.7 per cent. The figures show that, while the

crisis began in the banking sector, workers with the lowest qualifications have subsequently been disproportionately affected by its impact.

Different groups in recession and recovery

Figure 4.17 Change in unemployment rate by migrant status, EU27, 2008-2012 (15-64) (quarterly estimates)



Source: Eurostat (2012).

Huge variation in unemployment across member states

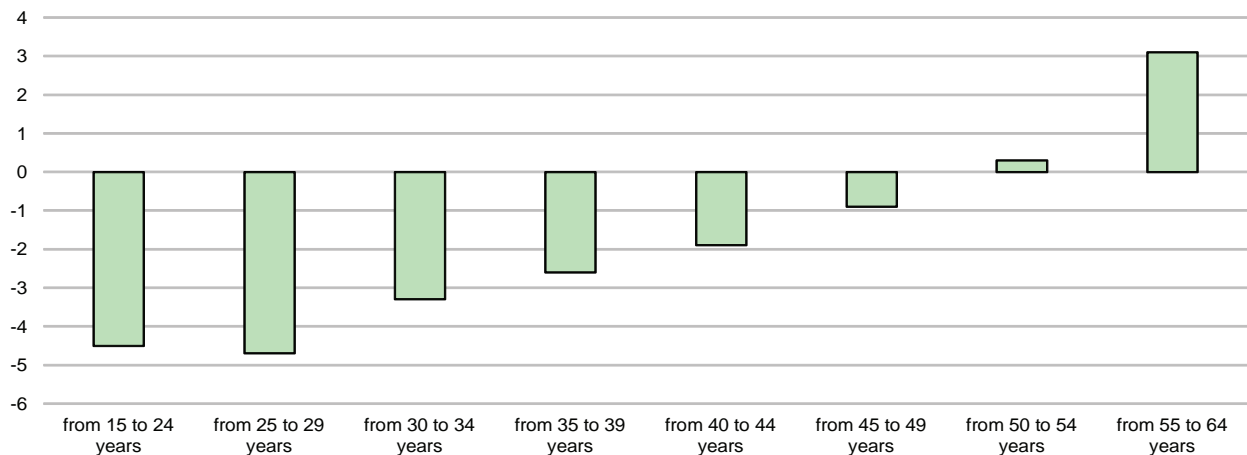
Migrant workers have also suffered significantly as a result of the recession. Non-EU migrants have seen their unemployment rates rise by 7.3 percentage points between 2008 and 2012 to reach 21.3 per cent (Figure 4.17). This is far higher than the 3.3 percentage-point rise experienced by within country nationals. EU migrants have also seen their unemployment rates increase somewhat more quickly than average, by 3.8 percentage points between 2008 and 2012.

If we look at migrant employment by country we see that in Greece, while unemployment rates have increased significantly for all sections of the population, there are large discrepancies. The unemployment rate among EU migrants has increased by 7 percentage points since 2008 to just over 15 per cent in 2011; for non-EU migrants, however, it has shot up by over 16 percentage points to 23 per cent. The unemployment rate for nationals in Greece has meanwhile increased by just over 9 percentage points. In Spain

too the unemployment rate of nationals has increased by just over 9 percentage points (to 19.3 per cent), whereas for non-EU and EU migrants it increased by 15.4 and 13 percentage points respectively (data on unemployment among migrants is not fully comprehensive – it covers only 17 countries for EU migrants, and 19 for non-EU migrants).

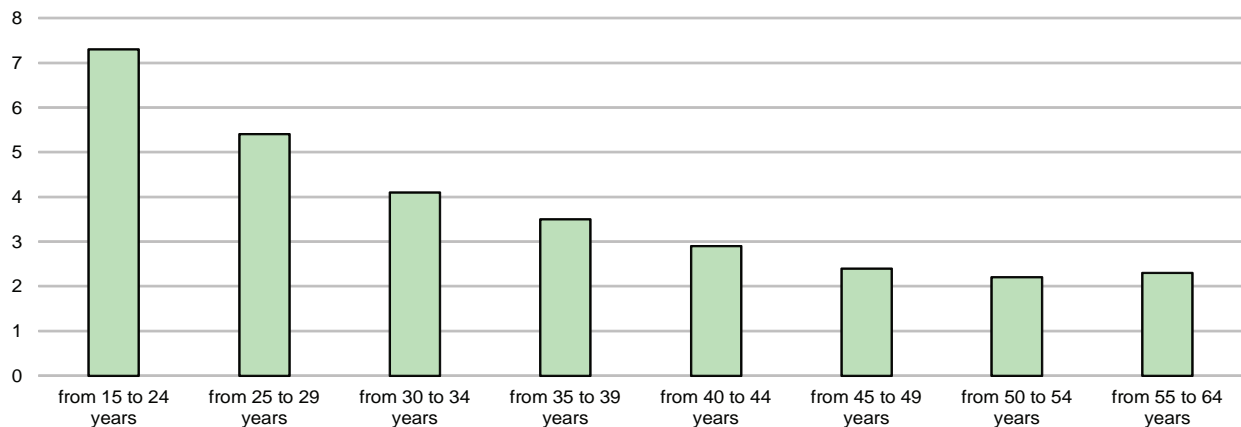
Different groups in recession and recovery

Figure 4.18 Percentage point change in employment rate by age, EU27, 2008 Q2 to 2012 Q2 (15-64) (quarterly estimates)



Source: Eurostat (2012).

Figure 4.19 Percentage point change in unemployment rate by age, EU27, 2008 Q2 to 2012 Q2 (15-64) (quarterly estimates)



Source: Eurostat (2012).

Older workers see employment growth

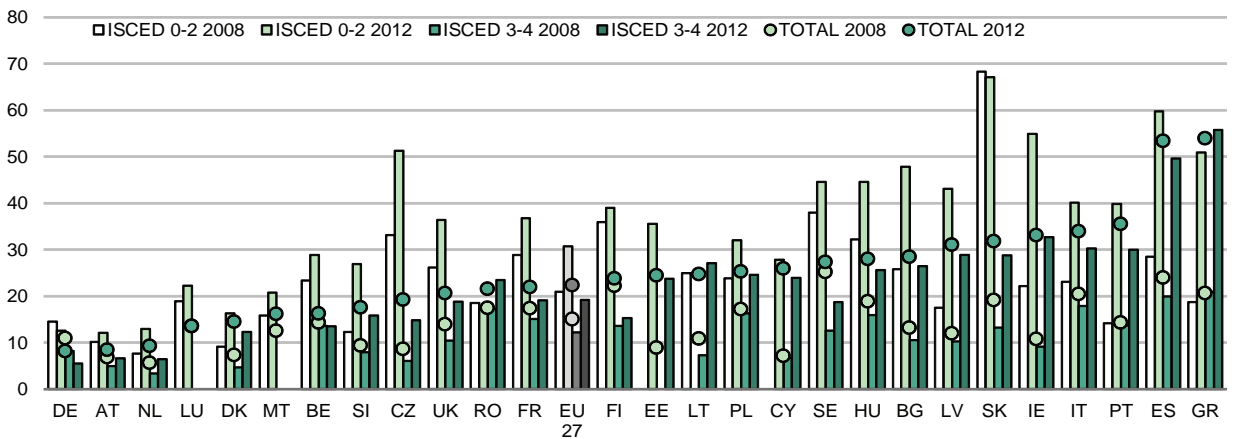
The employment prospects of young workers (15-24) have been damaged during the recession more than those of any other age group. Figure 4.18 provides information on changes in the

employment rate for different worker age groups between 2008 and 2011. The fall in the employment rate is most pronounced for younger workers, around 4.5 percentage points for those aged 15-24 and 4.7 percentage points for those aged 25-29. Young workers have also experienced the biggest rise in their unemployment rate – some 7.3 percentage points (Figure 4.19). For those aged 30-34 and 35-39 drops in the employment rate are significant but more modest than those experienced by younger workers (3.3 and 2.6 percentage points respectively).

For those aged 40-44 and 45-49 falls in the employment rates were experienced but they were lower than for younger age groups (1.9 and 0.9 pp). Older workers have, meanwhile, fared comparatively well and the employment rates of those aged 50-54 and 55-64 have actually increased over the last few years (by 0.3 and 3.1 percentage points respectively). These two groups have also seen the smallest increases in unemployment rates.

Youth, crisis and the labour market

Figure 4.20 Youth unemployment rate by highest level of education attained (ISCED 0-2; 3-4, 2008 2Q-2012 2Q)



Source: Eurostat Labour Force Survey (2012).

Note: ISCED levels 0-2 include pre-primary, primary and lower secondary education. ISCED levels 3-4 include upper secondary and post-secondary non tertiary education.

Struggling youths

Youth unemployment has become one of the most topical social and economic issues on global, European and national agendas. The impact of youth unemployment is extremely high in social, individual and economic terms. Among other consequences, young people have limited opportunities to become socially and economically independent and, in several member states, they are increasingly exposed to the risk of poverty and social exclusion insofar as their employment opportunities are liable to be restricted to precarious and low quality jobs (European Commission 2012d; Ministère des Affaires sociales et de la Santé 2012). Hence, in the long run, they will be more likely to suffer from the 'scarring effect' (Scarpetta *et al.* 2010), meaning – from a labour market perspective – that they will experience, among other things, reduced earning opportunities, less stable working careers, and reduced pension benefits.

In the light of the above implications, the figure of more than 5.5 million young people aged between 15 and 24 experiencing unemployment in 2011 is alarming. Even worse, the latest figures on unemployment show no significant improvement in the situation for youth,

in addition to which there is an increasing risk of their being trapped in precarious jobs which do not ensure full integration in the labour market (Chung *et al.* 2012).

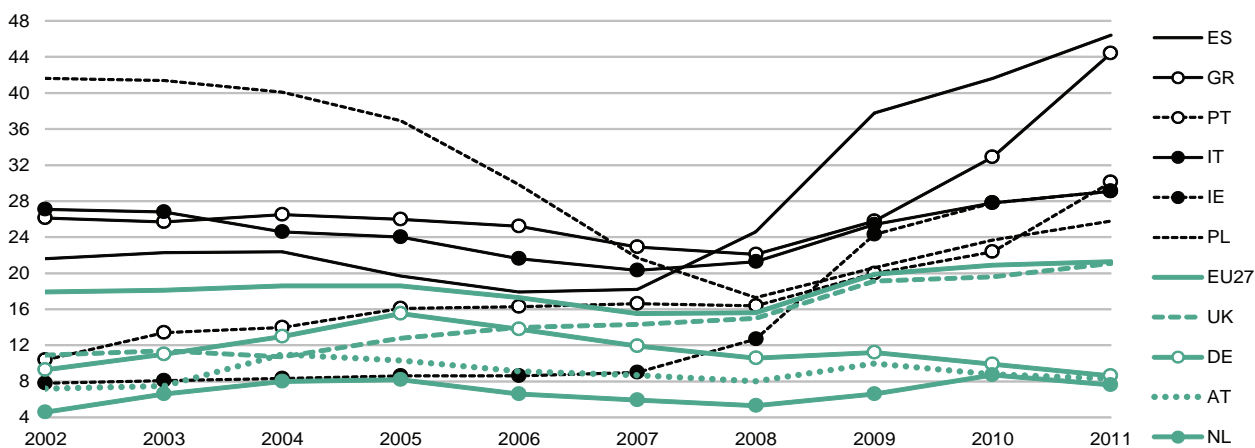
Figure 4.20 presents developments in the rate of youth unemployment between 2Q 2008 and 2Q 2012, broken down also by educational attainment. During the last quarter in question, 22.4% of active youths were unemployed at the EU level, the figure having increased by 7 percentage points compared to the same quarter in 2008. The highest increase in most countries was recorded in 2009 (not shown), particularly in those member states most affected by the sovereign debt crisis, namely, Ireland, Spain, Latvia, Estonia, and Lithuania. Portugal, Greece and Italy achieved their highest rates (between 33.9% and 53.9%) in the first quarter of that year. This was mainly due to the worsening general economic situation and austerity measures which, for example in Greece, made dismissal of workers with lower productivity more cost-efficient (Tubadji 2012 for Greece). These figures diverge substantially from the rates of Germany, Austria and the Netherlands, the only three member states with a total youth unemployment rate lower than 10%.

When comparing the rates of youth unemployment by educational level (bars in Figure 4.20), unemployment rates for low-skilled and medium-skilled young

people diverge significantly (young people with tertiary education are not compared, due to data limitation). Data show that low-skilled young people generally experience higher levels of unemployment compared to the medium-skilled (i.e. young people with upper secondary education). Rates of unemployment among the low-skilled increased dramatically in the second quarter of 2012 compared to the same quarter of 2008. At the European level this increase was nearly 10 percentage points. The rate for medium-skilled youths increased less but still by 7 percentage points. This situation appears most dramatic in the Czech Republic, Hungary, Latvia, Ireland, Italy, Portugal, Spain and Greece. The risk of unemployment for young people with low skills cannot, however, be attributed exclusively to skills mismatch and the increasingly high-skilled knowledge-based economy, for it is caused in the main by job losses in some of the sectors most seriously affected by the crisis, namely construction, manufacturing and the retail sector (European Commission 2011b; ETUC and ETUI 2012), but also – at a later stage – the public sector which has seen major contractions in staff.

Youth, crisis and the labour market

Figure 4.21 Youth unemployment rate, ten selected countries, yearly rates 2002-2011



Source: Eurostat, Labour Force Survey (2012).

Growing different

As pointed out by the European Commission (ESDE 2012:18), the unemployment rate over the last ten years shows increasing divergence among countries – after a period of convergence at the beginning of the 2000s – particularly between countries in the Northern or Southern part of the eurozone. Figure 4.21 shows youth unemployment trends over the ten last years for ten selected countries. As might be expected, the trend towards divergence is stark also in the case of youth unemployment, for the crisis, job losses and limited new job opportunities have generally pushed unemployment levels upwards, reshaping and polarising the youth unemployment panorama compared to 2002. Portugal and the UK, for example, respectively doubled and tripled their figures in 2011 compared to 2002. With the same increasing trend, Italy reached higher levels of youth unemployment than 10 years ago.

Meanwhile, even despite some rising and fluctuating trends, The Netherlands, Germany and Austria remain at the bottom of the unemployment spectrum. Central and Eastern European countries, including Poland where rates had earlier decreased, are facing a strong increase. Finally, Spain and Greece are

experiencing the harshest consequences of the crisis. In 2011, 37.8 percentage points separate the highest (Spain) and the lowest (The Netherlands) national rates of youth unemployment.

The activity rate of young people is another relevant factor in evaluating the situation of youth on the labour market. The activity rate includes all members of the national workforce, i.e. people who already have work or who are offering their labour. Eurostat data (not shown) show that the youth activity rate differs greatly across the EU countries, ranging from 24.7% in Hungary in 2011 to almost 70% of the whole youth population in The Netherlands. Differences are also due to the different education systems (apprenticeship and on-the-job training contribute to an increase in activity rates as young people are simultaneously in education and on the labour market) but also to the more or less widespread combination of studies with jobs (often part-time). Between 2008 and 2011 youth activity rates decreased markedly in Spain (-6.8pp) and Ireland (-12.6). Activity rates fell also in The Netherlands (-4.4) and in Denmark (-5.1) but these countries initially high rates kept them at the top of the EU ranking. It should be pointed out that a fall in the activity rate is not always a negative sign as it can mean an increase in participation in education and training.

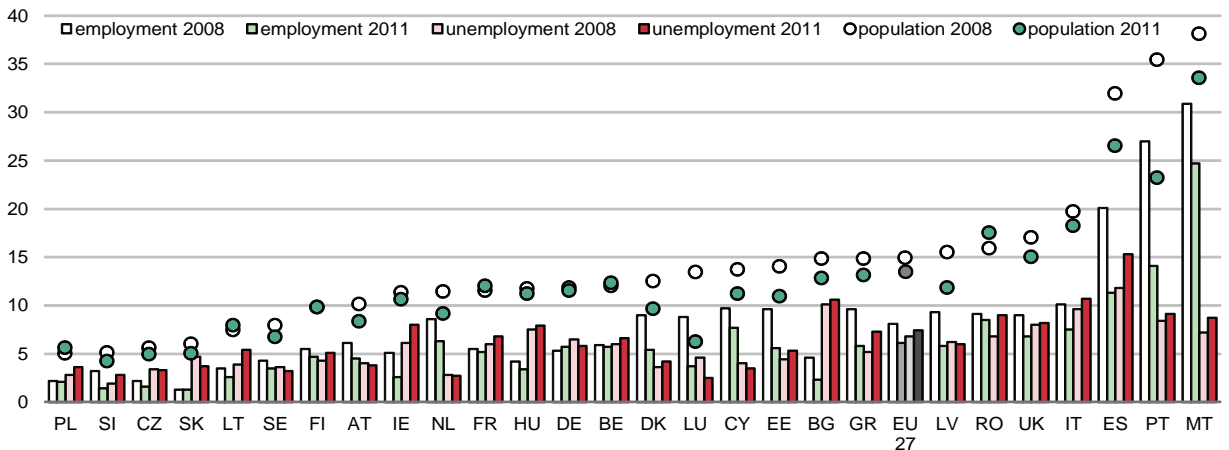
Good educational attainment is indeed a predictor of young people's

labour market situation and the indicator on early leavers from school and training (ESL) provides the requisite information. Early leavers are those employed and unemployed young people with, at most, lower secondary education. The ESL rate is monitored at the European level because young people with at most lower secondary education are more likely to be in unemployment or in precarious employment, generally earn less, and are more likely to depend on social welfare support, while facing a higher risk of poverty (European Commission 2011a: 85). The rate of ESL is one of the five Europe2020 headline targets and it is set at 10% (it does not, however, apply to the UK) (European Commission 2012b).

Since the year 2000 when first ESL figures were recorded, there has been a decreasing trend in most European countries, attributable to the fact that participation in education has generally increased and jobs increasingly require higher skills.

Youth, crisis and the labour market

Figure 4.22 Early leavers from school and training by labour market status, yearly rates 2008-2011



Source: Eurostat, Education and Training (2012).

Longer in education: better equipped?

Figure 4.22 shows data on ESL by employment status in the years 2008 and 2011. At the European level, the rate of young people with low educational attainment decreased by 1.4 percentage points, from 14.9 to 13.5, representing 5.6 million young people aged between 18 and 24 (European Commission 2012c). Less than a half of these 5.6 million young early leavers from school and training are in employment. The share of early leavers in employment has decreased by 2 percentage points – from 8.1 to 6.1 – over the last three years (2008-2011). Contrary to employment trends, young early leavers not in employment increased in the same period by 0.4 percentage points, and they represent 54.8% of total early leavers (Eurostat 2012). Thus, even if in general terms ESL rates have fallen, early leavers are increasingly exposed to the risk of not finding employment as the share of unemployed young people in 2011 was proportionally higher.

Figure 4.22 allows of two main observations. The first is that there are huge differences among countries: a first

group of eleven countries have shares lower or equal to the European benchmark; a second group (11 member states) have rates of between 10 and 15% while five countries – Romania, Italy, Portugal, Malta, and Spain – have rates ranging between 17% (Romania) and 33.5% (Malta). There are 27.9 percentage points between the rates for Poland (5.6%) and Malta (33.5%). Even if Portugal, Spain and Malta are considered as outliers, and comparison is made with Italy, i.e. the first country following these three countries on top, the gap is still very significant (12.6 pp).

The second observation is that some countries – Spain, Portugal, Malta, Italy, Latvia, Estonia – have lowered their ESL rates quite markedly since 2008 compared to the rest of member states. This achievement has been attributed to the strong impact of the crisis in these countries. Young people are in fact more likely to stay longer in education – a significant increase has been registered for vocational education and training schemes (European Commission 2012e) – and thus postpone their entry to the labour market. This is also confirmed by data from Eurostat (not shown) measuring the participation rate of young people in formal or non-formal education and training. For instance, between 2008 and 2011, the participation rate increased by 6.7 percentage points in Spain; in Ireland by 8.7 percentage points; in

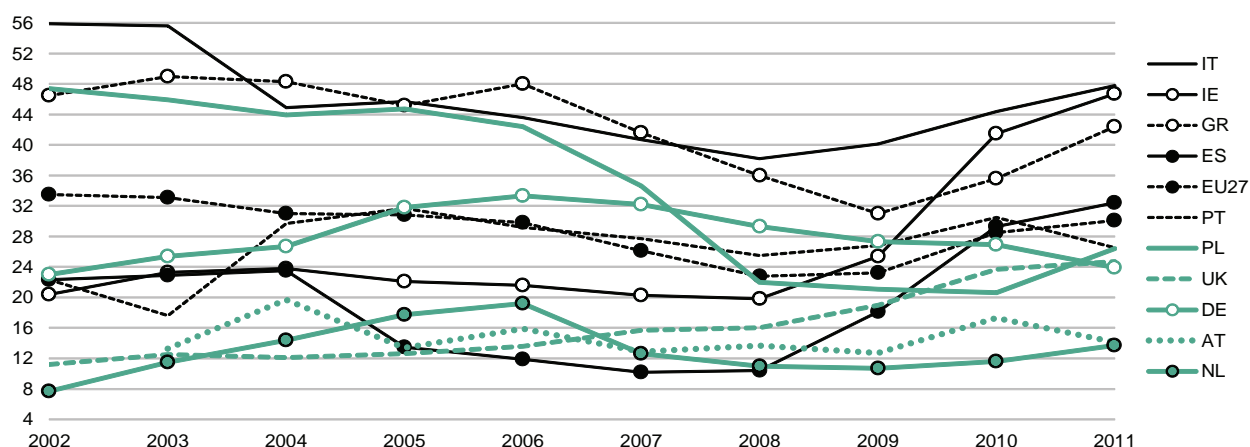
Portugal by 7.2 percentage point. These increases are significantly higher than the EU27 average increase (0.5 pp). The crisis has indeed forced young people to change their education and labour market choices. If return to school or training might be considered a positive effect of the crisis, no clear improved job opportunities seem available in the near future once young people complete their studies. Despite the skills and competences acquired, they might not be able to find a job or they might be obliged to accept one for which they are over-skilled, thus fuelling the vertical skill-mismatch problem.

Moreover, despite the call for and need to support a long-term education strategy as well as young people's increased interest in staying longer in education, the EU Commission and the Council have announced (European Commission and Council 2012) that national education budgets will not be raised in the near future, mainly because of fiscal consolidation.

The alternative to work, education and inactivity (including non-remunerated but socially useful activities) is emigration, to which large numbers of people seem to have resorted in some severely hit countries such as Spain, Italy, Ireland, Poland and Hungary (Math 2011; Eurofound 2012b), with some countries, notably Germany, having explicitly welcomed young Southern European immigrants.

Youth, crisis and the labour market

Figure 4.23 Youth long-term unemployment (% of the total unemployment), ten selected countries, yearly rates 2002-2011



Source: Eurostat, Labour Force Survey (2012).

Rising youth long-term unemployment: an issue to tackle

Figure 4.23 shows youth long-term unemployment trends as a part of the overall youth unemployment rate in ten selected countries. Differences among the selected countries were very significant in 2002. Signs of convergence appeared around 2007. However, the share of young long-term unemployed rose at a different pace across Europe, after an important injection of newly young unemployed during the crisis which served to reduce the relative weight of the long-term unemployed. The most dramatic increases are recorded in Italy, Greece and Ireland (rates higher than 40%), but also in Spain, the UK, and Portugal, with shares of between 32.4 and 24.7%. This means that the high increase in temporary unemployment has, for a large share of young people, become chronic. With the aim of tackling of youth unemployment and preventing long-term detachment from the labour market, both preventive and correcting measures have been presented at the

EU level. Two examples include apprenticeship and youth guarantee schemes (European Commission 2012f).

Firstly, apprenticeships are, as mentioned earlier, a well-established and effective secondary educational road, particularly in Germany and Austria but also in Denmark. Apprenticeships and dual learning have been praised as one major contributor to the low rate of unemployment because of the close link forged between formal and on-the-job training and their potential for reducing school drop-out rates. However, these systems are not immune to the crisis. Cedefop (2011) has stressed that the German system of apprenticeship, one of the most developed, responded well during the crisis because of the general better economic situation of the country which meant that a decline in apprenticeships was able to be averted. In worse affected countries, there has been a reduction of places available for apprenticeships, such as in Denmark (24 percentage-point reduction in 2009 compared to 2008), France, and Estonia (European Commission 2012e; IBW 2012; Meilland 2011).

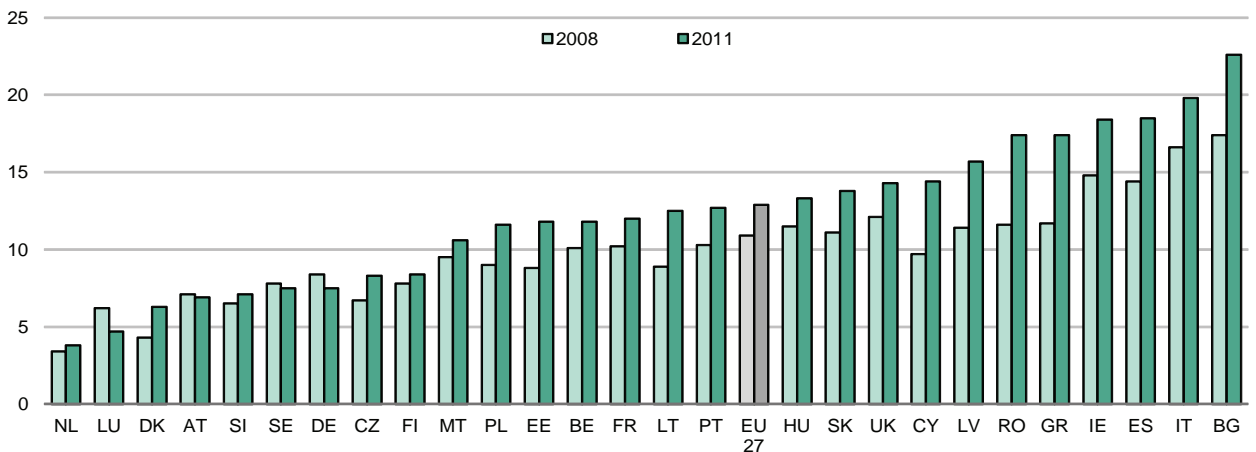
The second policy initiative is the creation of youth guarantee schemes such as are already in place in some Nordic countries and Austria (European Commission 2012f; Eurofound 2012b). Youth guarantees are meant to ensure a good quality offer of employment, continued education, an apprenticeship or a

traineeship within four months of having left school or of becoming unemployed (European Commission 2012a).

Both these solutions need strong support and to be included in wider youth and labour market strategies, especially in those countries where public employment services are still not able to centralise labour market supply and guidance services, and where active labour market policies for the unemployed are still poor (e.g. Southern European countries). At national level, other measures reducing the labour costs of young people, particularly for the low-skilled, were approved (e.g. Belgium, Hungary, Latvia, Portugal, European Commission 2012f). Attention should be paid, however, to the deadweight and substitution side effect. In addition, temporary incentives for the low-skilled are, if not coupled with employment opportunities, likely to contribute to job-churning and precariousness of the low-qualified.

Youth, crisis and the labour market

Figure 4.24 Young people not in employment and not in any education and training (NEET), yearly rates 2008-2011



Source: Eurostat, Education and Training (2012).

NEETs: more than a social labour market problem

The NEET (young people aged between 15 and 24 years 'Not in Employment Education or Training' – NEET) yearly rates given in Figure 4.24 show trends before and during the crisis. While it may be claimed that the NEET rate facilitates a statistical grasp of those young people who are not engaged in any employment or educational or training activities, this indicator does not in fact cover any homogeneous 'inactive and disengaged young population' but, instead, represents an umbrella category for heterogeneous groups of young people whose inactivity stems from numerous different causes (Injuve 2011).

In 2011 there were 7.5 million young NEETs aged between 15 and 24 years old. At the EU level this corresponds to 12.9% of this age cohort, being 2 percentage points higher than in 2008. Data from Eurostat also show that in 2011 an additional 6.5 million NEETs were aged between 25 and 29 years old (Eurofound 2012b), meaning that a much wider age cohort is experiencing precariousness and social and economic difficulties.

As might be expected, the NEET rate increased particularly in those countries where unemployment increased the most. At the same time, discrepancies may be observed between country rankings based on unemployment rates and those based on NEET rates. This is due to the fact that the NEET rates are based on the whole youth population of the reference age, whereas unemployment is based on the share of youth in the labour force (unemployed and employed).

Divergence among countries is once again quite marked and Southern and Eastern European countries still report the highest rates of NEETs. Bulgaria recorded 22.6%, in other words, more than one young person in five is not in employment education or training in this country. Italy, Spain, Ireland, Romania and Greece all have high rates of somewhere between 15 and 20%.

Northern, but also Central, European countries have the lowest rates, with the Netherlands reporting the lowest share (3.8%), followed by Luxembourg, Austria, Denmark, Slovenia, Germany, Sweden, and the Czech Republic, with around or less than 10%. A recent Eurofound study (2012b) calculated the public finance and missed earning costs of the NEETs compared to the non-NEETs: the costs of the exclusion of young people (aged 15-29) at the EU level is estimated at €153 billion in 2011 (€120 billion in 2008). In terms of GDP, this represents

1.21% of EU GDP. Once again, the bill at the country level differs substantially, Italy having the highest bill with more than 32 billion euro, followed by France, the UK and Spain (Eurofound 2012b). In Bulgaria and Greece the costs correspond to 3.3% and 3.28% of GDP respectively (Eurofound 2012b). These gaps are due to the highly divergent shares of NEET, but also to the current social and economic structure. Being a NEET increases the likelihood of being excluded from the labour market for longer periods. Labour market and education policies need to be coupled with social interventions. Some individual factors that, together with macro-country features, are more predictive of becoming a NEET also include: suffering from disability, living in remote areas, having an immigrant background, belonging to a low-income household, and living in a difficult family environment (Robson 2008; Eurofound 2012b). The situation as a whole calls for horizontal and multilevel social interventions. Unfortunately, the relevant budget lines have suffered increasing cuts in several member states, and, even where social expenditure may have increased (mainly in 2009), it is unable to keep pace with a deteriorating social situation. The OECD (2012a) reports that social expenditure in real terms declined sharply in Greece, while in Portugal, Italy, and Hungary the average increase was lower than the average increase in the OECD.

Conclusions

Recession fuels divergence

This chapter has shown that there are sizeable inequalities within Europe which affect both the likelihood of individuals being in work and their experiences of work once they are in employment. While these differences often persist in both good times and bad, they have been exacerbated by the recession. At a member-state level, those countries that were relatively strong in 2008 have generally proved able to weather the storm more successfully than others.

The chapter has demonstrated that 2011/2012 cannot be presented as a year of labour market recovery; the EU-wide picture is one of zero employment growth, while the general picture is of a struggling, and at the same time increasingly divergent, labour market.

There are large and deeply ingrained inequalities in the performance of the labour markets of different member states. Some member states have high employment rates underpinned by high levels of economic activity among both men and women – these include Sweden, Denmark, Finland, Germany and the Netherlands. Women's employment rates in particular show huge levels of variation and are particularly low (50 per cent or less) in a number of southern European countries. Furthermore, the way that individual countries have experienced the recession has been very different. In a number of countries, notably Germany and Poland, employment figures have improved since 2008 (although we are not able to comment in detail on the quality of this increased employment). Other countries – including Austria, Hungary, Sweden and Belgium – have employment rates around or marginally below where they were in 2008. However, a number of countries have experienced severe recessions and are still experiencing employment rates very significantly below pre-recession levels. These countries include Greece, Ireland and Spain, all of which currently

have employment rates that are more than 6 percentage points below their 2008 levels. As such, there has been a significant divergence between those countries where labour markets have begun to recover and those that have seen little or no discernible recovery. These differences in performance are likely to continue to be compounded by the severity of austerity measures in a number of the most poorly performing countries.

The recession has also exacerbated the labour market disadvantage experienced by certain groups of workers. Lower-skilled workers have been hit particularly hard by the recession, with their EU-wide unemployment rate increasing by more than 7 percentage points and currently standing at more than 18 per cent. Young workers have also had their prospects damaged by the recession. The youth unemployment rate across Europe stands at 22 per cent; in Greece and Spain the figure is more than 50 per cent, and in Portugal, Italy and Ireland it is above one third. These very high rates of youth unemployment represent a significant cause for concern because of the negative longer-term health and career outcomes which are associated with youth unemployment, not to mention the various social consequences, including costs to public life and finances. Non-EU migrants have also seen a steep rise in their unemployment rates.

A further concern is the continuing growth in long-term unemployment. There are 10.9 million long-term unemployed across the EU27. Once again, there are some notable country differences, with the Scandinavian states, as well as Austria (countries typified by comparatively high spending on active labour market policies) witnessing a significantly lower incidence than other countries of long-term unemployment as a proportion of total employment.

Meanwhile, challenges remain also for those in work. Non-standard forms of employment have been growing over time, with increasing numbers of workers in part-time and temporary positions, and many of those working part-time reporting that they would prefer a full-time job.

The European divide in clean energy and fuel poverty

Introduction

2012 was a 'black' year for the planet. Progress towards a more sustainable production and consumption model had been stalled and no end to the resource-depleting practices of the past was visible on the horizon.

Despite efforts to keep global warming, by the end of the century, below a 2°C rise above the pre-industrial climate, higher levels of warming are increasingly likely. In order to meet the target in question, climate policy commitments based on the Kyoto Protocol aim at a 50 per cent reduction of global greenhouse gas emissions (ghg) by 2050, including an 80% ghg reduction for industrialised countries, based on the reference year of 1990. Scientists agree that countries' current United Nations Framework Convention on Climate Change emission pledges and commitments would result in additional warming of 3.5 to 4°C (World Bank 2012). According to the 2012 Emissions Gap Report of the United Nations Environmental Programme (UNEP), the estimated emissions gap in 2020 is 8 to 13 GtCO₂e (Gigaton CO₂ equivalent) compared to what would be needed for a 'likely' chance of being on track to remain below the 2°C target. This forecast gap is now two GtCO₂e higher than calculated for the latest report in 2010 (UNEP, 2012). This means that, on the basis of current policies and their implementation, the gap between where we should be in 2020 and where we are heading on the basis of present performance is now equivalent to approximately 20% of total global emissions in 2010 (49 GtCO₂e) and is still growing. This increasing shortfall is what constitutes the real bad news.

Nor is any binding global agreement on emission reductions within sight.

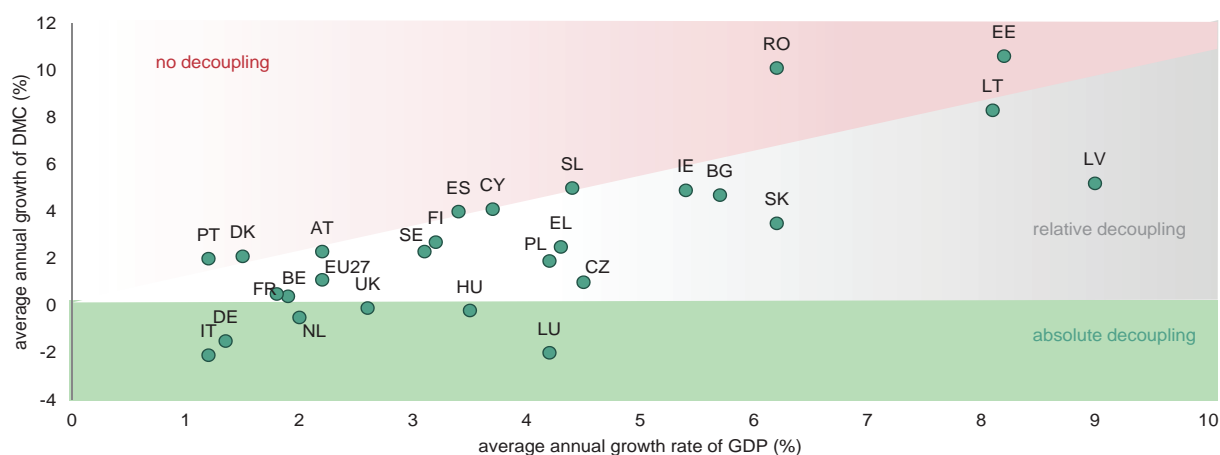
The most worrying fact of all is that a widespread resignation is gaining ground based on acceptance that the 2°C target cannot be met and that the best we can now do is adjust to the severe consequences of this failure. Both in Europe and globally climate policy ambitions seem to be fading away as policy efforts become focused on crisis management and austerity. New illusions appear in relation to pseudo-solutions for prolonging the age of fossil energy in forms such as shale gas extraction and a possible renaissance of coal. A new policy focus seems to be emerging in favour of affordable energy, irrespective of the effects on the climate, giving rise to a conflict between the financing required to develop renewables and the demand that energy remain affordable. Political uncertainty and cuts in green subsidies meant that 2012 was the first year in a decade to see a drop in global clean energy investments.

Topics

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Decoupling economic growth from resource use

Figure 5.1 Yearly average change of domestic material consumption and GDP between 2000 and 2007 by member state



Source: Eurostat (2011).

No breakthrough in sight

It is abundantly clear that past trends of material and resource use cannot be continued on into the future. If mankind wishes to preserve economic and social development, the impact on the planet of such development – in terms of expenditure of materials and resources – is going to have to be limited and indeed decreased. If economic growth is to be maintained, the only way forward is to 'make more out of less', in other words, to decouple economic growth from resource use.

Annual changes in domestic material consumption (DMC) of member states against GDP growth rates for the period 2000 to 2007 show that decoupling GDP growth from resource use has been taking place, if at all, at only a very sluggish pace. Stable or decreasing DMC has so far tended to be observable only where GDP growth is low or in the case of recession. High GDP growth rates are accompanied by higher material use, in better cases involving only moderate increases. Between 2000 and 2007, absolute decoupling of resource use from economic growth (decreasing DMC) occurred in only six out of 27 EU member

states (Luxembourg, Italy, Germany, the Netherlands, Hungary and the UK) as shown in Figure 5.1. Eleven member states showed relative decoupling, with DMC increasing at a slower rate than GDP. No decoupling, effectively signifying a deterioration of the situation, was the outcome in the ten remaining countries, where DMC increased faster than GDP, indicating that resource productivity actually declined in those countries during 2000 to 2007. This group of the worst performers is rather heterogeneous, consisting of cohesion countries from the East (Estonia, Romania and Slovenia), from the South (Portugal, Spain and Cyprus), interestingly also Denmark, while Sweden, Finland and Austria have growth rates of material use close to GDP growth such that they are on the border between relative decoupling and no decoupling (i.e. also failing to perform well).

In the 2012 and 2011 Benchmarking reports (ETUC and ETUI, 2012, chapter 6; ETUC and ETUI, 2011: 52-53) we showed that a division in terms of resource productivity has become apparent among member states in Europe. There was a clear divide in terms of resource efficiency, as new member states had much lower values with an almost 20-fold gap between the worst performer in this respect, Bulgaria, and the best performer, Luxembourg. Meanwhile, in terms of per capita greenhouse

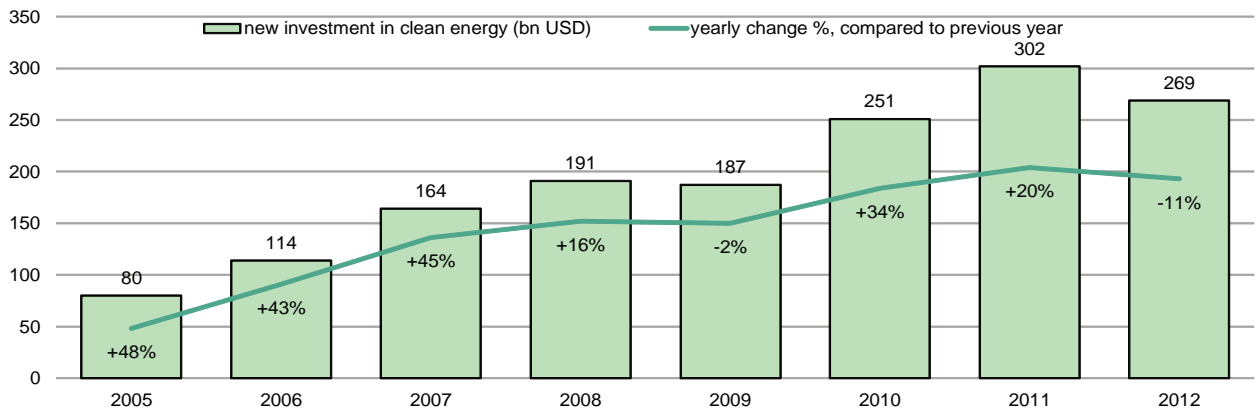
gas (ghg) emissions, the divide was just the opposite, with Luxembourg (as the richest country in the EU) having by far the highest per capita emissions, while poorer CEEs had low values.

As thus described, decoupling trends show an extremely mixed picture (see also ETUC and ETUI 2012: 82) with no visible trend in terms of a possible 'green' convergence between member states. The lack of progress in decoupling trends also shows that we remain light-years away from the normative target known as 'Factor Five' – which means improving resource efficiency five times (produce current GDP with one fifth of resource input) – that had been set as a target for 2050 (von Weizsäcker *et al.* 2009).

This highly ambitious and yet necessary transformation can take place only in the presence of policies based on hard incentives for economic actors to optimise activities on improvements in resource productivity, such as they have already done in relation to labour productivity (such measures are mostly linked to price incentives, such as the effective carbon price for enterprises /e.g. via carbon tax and or emissions trading, but the price of other resources is also relevant).

Investment in clean energy down

Figure 5.2 Global total new investment in clean energy (2005-2012)



Source: BNEF (2013).

Austerity and policy uncertainty take their toll

After eight years of rapid growth, total clean energy investment (private and public) worldwide suffered a setback of 11 per cent in 2012 (BNEF, 2013; Figure 5.2). This is a very sudden and serious trend break, as the world saw double-digit growth in this respect throughout the years of the previous decade, and still in 2010 a 34% jump in clean energy investments was recorded. In 2009 when world trade and investments suffered a demand shock, investment in renewable energy did not suffer seriously (a mild two per cent decrease). The main reason for the large drop last year was that many governments in industrial nations slashed subsidies for technologies ranging from wind turbines to solar power and biomass installations in the framework of austerity measures and due to 'changed' priorities (most notably in Italy and Spain). At the same time, clean energy investments in emerging economies (e.g. China) grew rapidly, albeit not sufficiently to offset the negative trend triggered by developed economies (see also Figure 5.3).

The declines are thus due primarily to the debt crises in the United States and Europe, with huge cuts in incentives to bolster energy transformation, but also to a 24 per cent decline in solar panel prices last year.

All segments of the renewable energy industry experienced a drop in investment. Solar energy investments made up the largest part with overall investments of \$142.5 billion in 2012, a 9 percent decline from the previous year. The amount of total wind energy investments was \$78.3 billion, down by 13 per cent from the previous year. Investment in energy-smart technologies, such as smart grid, energy efficiency and electric vehicles, fell by 7 per cent to 18.8 billion.

This trend change in green investments is a dire message for the future, further deepening the already grave concerns about attainment of the 2050 climate policy goals (see ETUC and ETUI 2011, Chapter 5).

Investment in clean energy down

Figure 5.3 New investment in clean energy 2012 (USD bn), 2012/2011 change (%)

Country	New investment in clean energy (bn USD)	Yearly change %, compared to previous year
World	268.7	-11
China	67.0	+20
USA	44.2	-32
Germany	23.0	n.a.
Japan	16.3	+75
Italy	14.7	-51
South Africa	5.5	Cca +5000
Spain	3.0	-68

Source: BNEF (2013).

Austerity affects green investment

Above we have shown global trends in clean energy investment over the last eight years (Figure 5.2), including the disturbing setback suffered last year.

We now turn to look at the composition of clean energy investment and especially the changes by geographical region in 2012. What we see is a dramatic gap between industrialised developed economies and emerging economies. The divide can also be interpreted as being between countries and regions experiencing an austerity trap and those that have refrained from adopting this self-defeating therapy.

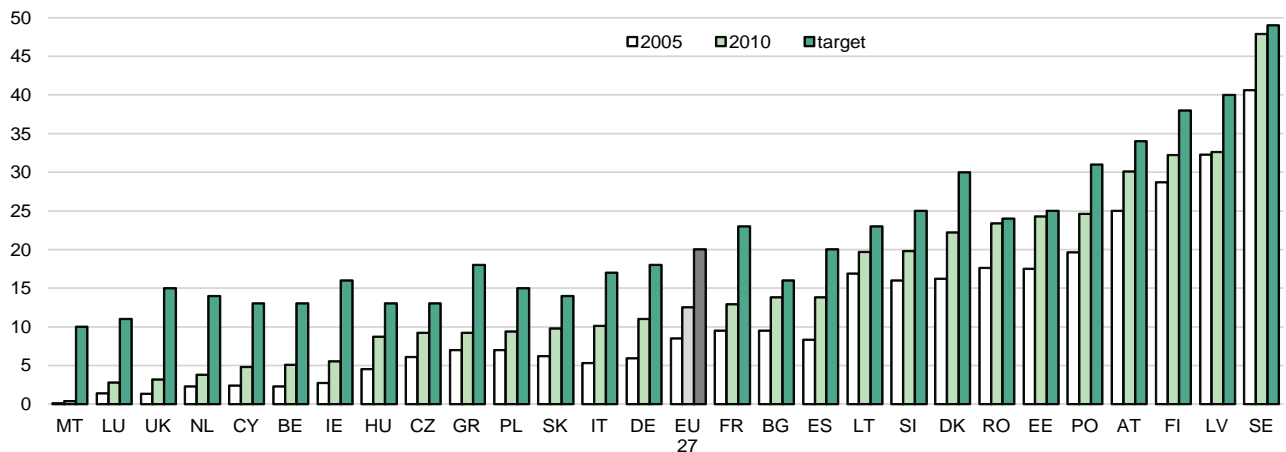
As Figure 5.3 shows, in 2012 investment in clean energy fell by 32 per cent in the United States, by 51 per cent in Italy and by 68 per cent in Spain. Italy and Spain used to be leading investors in solar energy in Europe; after huge cuts in previously available subsidies, however, the markets of these countries collapsed, with huge implications for Europe as a whole. While for Europe as a whole there were no aggregate figures available for the year 2012, the third quarter showed a devastating 29 per cent drop in clean energy investment compared to the same period in 2011.

On the other hand, China's total clean energy investment in 2012 surged by 20 per cent to a record \$67.7 billion, making this country now by far the largest investor in clean energy in the world. In 2012 investment in clean energy in China was more than 50 per cent above the U.S., the second largest clean energy investor in the world with \$44.2 bn.

South Africa saw an exceptional investment surge to \$5.5 billion from 'a few 10s of millions in 2011' as a result of its wind and solar tender. Japan's new subsidy programme helped investment rise as much as 75 per cent to \$16.3 billion in the wake of the Fukushima disaster. In Europe, especially its southern states, due to widespread cuts in public spending, were to be found the worst performers with substantial cuts of more than 50% of green investment compared to the previous year. It is essential to emphasize that this trend break in clean energy investments in 2012 is a new phenomenon and does not yet appear in longer-term performance (for renewable energy trends of the period 2005-2010 with national targets for 2020, see Figure 5.4. and the next section). It constitutes, nonetheless, a strong warning signal as to the grave potential impact of austerity and policy uncertainty.

The share of renewables and 2020 targets

Figure 5.4 Share of renewable energy and target (% of total energy generation)



Source: Eurostat (2012).

More ambitious countries also perform better

The EU target for 2020 is to achieve a 20% share of total energy consumption from renewable sources. Targets were set for all member states by the 2009 Directive on renewable energy (European Parliament and Council 2009). Factors such as the different starting points, renewable energy potential and economic performance of each country were taken into account in setting the targets.

As regards the share of renewable energy achieved within the energy mix of individual member states, Figure 5.4 gives an overview of trends, showing actual shares in 2005 and 2010 (latest available year) and national targets for 2020. We see a divided picture, as regards both ambitions (targets) and actual performance. The Baltic and the Nordic countries have the highest targets, with Austria and Portugal also in this ambitious group. Slovenia and Romania also have rather high targets (25 and 24% respectively) with good proportional fulfilment. The highest national targets have been set for Sweden (49%) and Latvia (42%). For these two countries the overwhelming majority

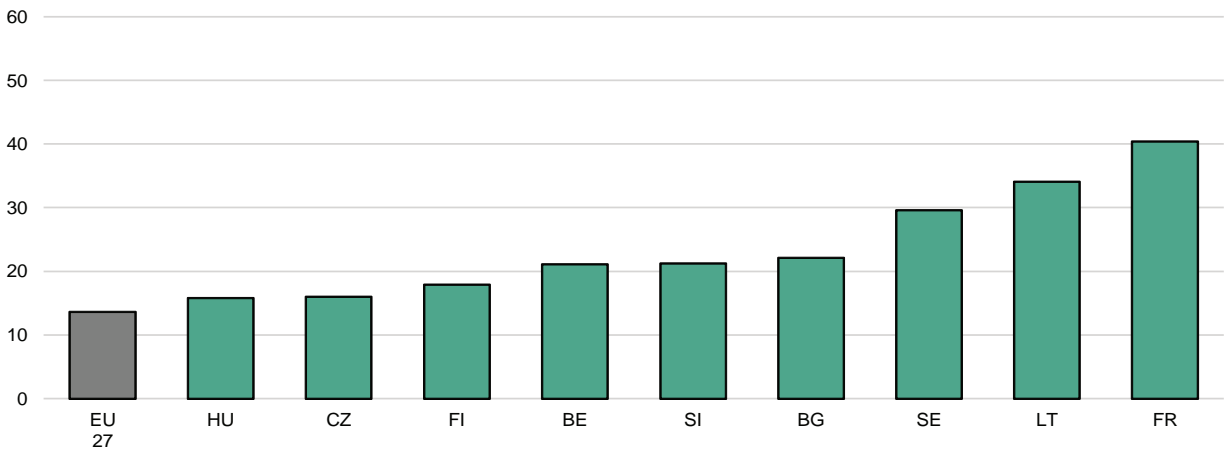
of renewables comes from hydro-energy. Regarding performance, Sweden had almost reached its ambitious 2020 target already in 2010 and Latvia is also not far from having achieved its target. Relatively high fulfilment ratios are characteristic of most of the countries in the upper range of ambitious targets.

Not so in the group of countries with less ambitious targets. Ireland, with a 16% target, had just over 5% renewables in 2010. For countries such as Belgium, Cyprus, the Netherlands and the UK, targets are below 15% with 2010 fulfilment at 5% or below. The extreme laggards are Malta and Luxembourg with targets of 10 and 11% respectively and fulfilment of between 1 and 3%.

It is quite apparent from the above data that there is no observable pattern as regards what country or group of countries has ambitious targets and how fulfilment proceeds. We see the 'wildest' combination of country groups. This suggests that a country's progress in terms of energy transformation depends not on its geographical location, on whether the country is poor or rich (Latvia performing second best, Luxembourg second worst), on whether a country is hit by the crisis (Portugal is making good progress) or not so (The Netherlands is a poor performer). What does matter is policy and determination.

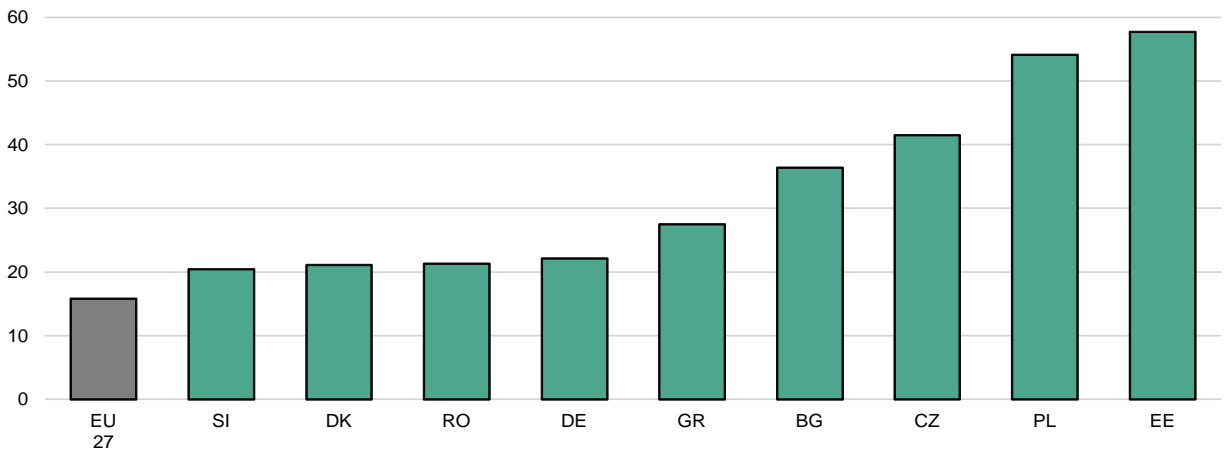
The share of 'old energy' in the energy mix of member states

Figure 5.5 Share of nuclear energy in energy generation, % - for MS above EU27 average (2009)



Source: Eurostat (2011).

Figure 5.6 Share of coal in energy generation, % - for MS above EU27 average (2009)



Source: Eurostat (2011).

Europe's energy divide: the laggards

Figures 5.5 and 5.6 list those member states that have a higher than average share in two controversial forms of energy generation, namely, nuclear and coal. Figure 5.5 shows that France has the highest share of nuclear energy with 40.4%, followed by Lithuania (34.1%)

and Sweden (29.6%). Bulgaria, Slovenia, Belgium (21-22%), Finland and the Czech Republic (15-18%) also have above average shares. The EU27 average share of nuclear energy in energy generation was 13.6% in 2010.

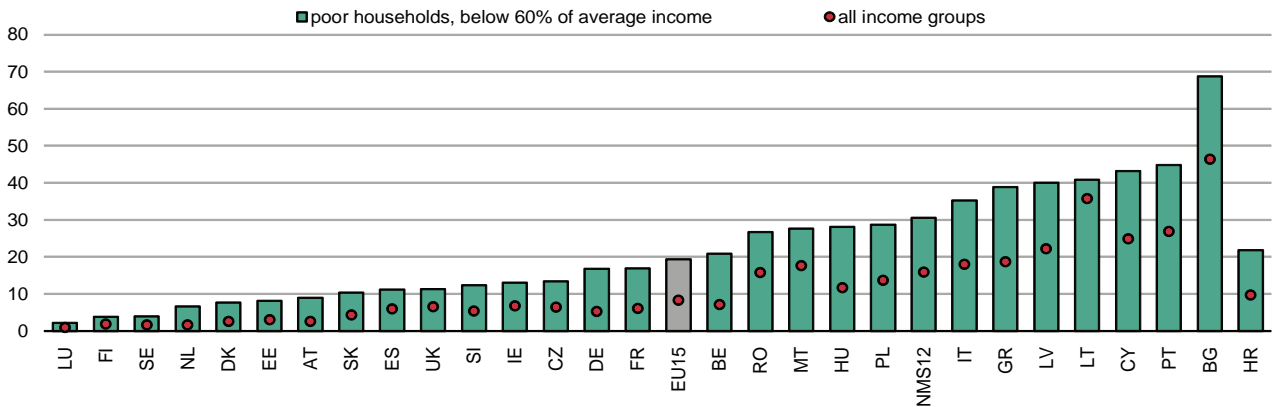
The role of coal and lignite in energy generation is a throwback to the past and with its high CO₂ emissions it represents a major threat to the global climate. Yet it continues to retain a high share in a number of EU member states and, due to its low extracting costs, it is enjoying a late renaissance. While coal

has an average share of 15.6% in EU27 total energy generation, Estonia has the highest share among member states with 57.7% followed by Poland (54.5%) and the Czech Republic (41.5%). Alongside a number of new member states, Greece (27.5%), Germany (22.1%) and Denmark (21%) are also part of the energy generation laggards' club of coal-based energy.

Coal-based energy generation is, in a number of member states (e.g. Poland), still a major source of employment such that a rapid restructuring would raise the risk of mass unemployment.

Fuel poverty

Figure 5.7 Share of the population who cannot afford to keep its home warm if needed, 2011 (%)



Source: Eurostat EU SILC database (2012).

High and getting worse...

The term fuel poverty (sometimes called 'energy poverty') is not an exact measure of poverty as such and cannot be compared to general poverty rates. It is, however, one indicator of material deprivation and the term is used in the Survey on Social Inclusion and Living Conditions by posing the question 'Can you afford to keep your home warm, when needed?' (Eurostat, 2012). The share of positive responses is then expressed as a percentage of the total population, or in the share of particular income groups in society.

Fuel poverty in Europe was a significant problem (ETUC and ETUI 2012: 85) and hit alarming levels in 2011 (the latest available year) with huge differences among individual member states, as Figure 5.7. shows. Particularly new member states and crisis-ridden southern European countries are exposed to the threat of growing fuel poverty.

Bulgaria is the most alarming case with nearly half (46.3%) of the total population (red dot in Figure 5.7) unable to keep their home warm if needed. Among the poor segment of the population with income levels below 60% of national average, the share of those experiencing

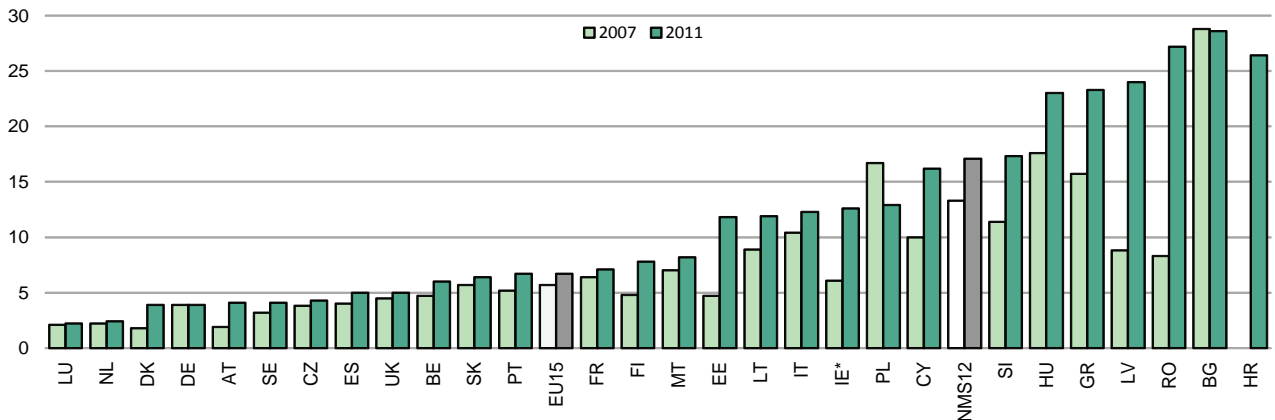
fuel poverty is a dramatic 68.7% (blue bar), more than two thirds of low-income groups. In Greece, Latvia, Lithuania, Portugal and Cyprus between 40 and 45% of the low-income population suffers from fuel poverty. The gap between the new member states (EU12) and the EU15 is persistently high, as for the new member states fuel poverty for the two groups is 15.8% and 30.6% respectively, while for the EU15 these values are 8.3% and 19.3%. The main pattern seems to be that new member states in general are more affected and from within the EU15 only southern European crisis states are included in this group. On the other hand, a number of new member states perform well (Slovakia, Slovenia and the Czech Republic have more favourable values than Germany). Interestingly, Spain is also in a relatively good position. These latter cases indicate that fuel poverty is not an unavoidable plague suffered by crisis-ridden countries but that its existence depends also on social policies and compensation mechanisms.

The overview of countries in regard to their progress in energy transformation, the energy mix profiles, and then the distribution of fuel poverty, indicates that the latter is in no way related to progress towards clean energy. The risk factors were low income levels in general linked also to a low level of social protection (historically this is the case of new member states with notable exceptions)

on the one hand and the effects of austerity measures on the other (southern European countries), the latter being a more recent phenomenon.

Fuel poverty

Figure 5.8 Utility bill arrears in EU member states (2007 and 2011, in % of total population)



Source: Eurostat, EU SILC database (2012).
* Data for IE: 2007 and 2010.

Gap between EU15 and NMS is huge and growing

We referred to the phenomenon of utility bill arrears in the Benchmarking report of 2012 (ETUC and ETUI, 2012: 86) and, with the availability of new data, we are in a position to demonstrate the effect of the crisis here. For a number of countries the result is depressing indeed. In Romania the share of households with utility bills in arrears more than tripled between 2007 and 2011 (from 8.3% of the population to 27.2%; figure 5.8). In Latvia too an almost threefold increase was recorded, while Greece also suffered a huge increase, from 15.7% in 2007 to 23.3% in 2011. The case of Bulgaria also indicates that this country's problem is truly chronic, insofar as it had the highest level of payment arrears in the EU in both 2007 and 2011 (with 28.8 and 28.6% respectively). Poland, on the other hand, was the only country that experienced a fall in utility bill arrears between 2007 and 2011 (from 16.7% to 12.9%), though it still has rather high levels. The gap between the EU15 and the new member states is huge and growing during the period (with arrears of 5.7 and 6.7% for

the EU15 and with 13.3 and 17.7% for the NMS respectively). The Czech Republic and Slovakia are now again performing well with shares below the EU15 average. Interestingly, according to this indicator, Spain and Portugal are also faring relatively well. This trend is more indicative for the longer-term (historical) income differences between countries, signalling, to some extent, an earlier sluggish rate of income convergence.

It is also important to emphasize that neither of the two measures of energy-related social stress shows any correlation with the progress of clean energy and with the share of renewable energy generation. Sweden, with the highest share and progress in renewables, is one of the countries with the lowest fuel poverty and utility bill arrears. Other countries seen to be performing well in the green transformation of energy generation also do relatively well in social terms. Energy poverty was more linked to general income levels and to lower levels of social protection on the one hand (NMS) and to the effects of the crisis and austerity on the other (some NMS with dramatic levels of fuel poverty and some of the southern European crisis states).

Conclusions

No conflict between social and environmental objectives

No essential conflict between environmental and social objectives exists, even if populist and market radical groups, assisted by the climate-change sceptics, do their utmost to suggest the opposite. These groups' main narrative – an approach that has now spread dangerously into mainstream opinion – is that energy transformation is not affordable, that renewable energy is too expensive, that it leads to fuel poverty and to a competitiveness problem for the industry, as proclaimed, for instance, by the German lobby organisation 'Initiative Neue Soziale Marktwirtschaft' (c.f. Aktionsbündnis Energiewende, 2012). In this chapter, we have sought to show that the conflict lies elsewhere. The spectacular break in progress towards clean energy and the rising incidence of fuel poverty actually share common ground in the form of widespread austerity policies and a policy shift away from long-term sustainable actions and priorities towards short-term contingency strategies. Investment in clean energy (wind and solar, as well as energy efficiency) suffered a huge setback in countries that were hit by the debt crisis and, most notably, those that introduced severe austerity policies (especially Italy and Spain). Yet it has to be stressed that not just public but also private investment in clean energy suffered serious setbacks in these countries, indicating that the drop was caused not by short-sighted and ill-designed austerity measures alone but also by an inappropriate reshaping of incentive systems and policy priorities. This is probably the most worrying message for the future, with the growing attention paid to coal-based and fossil-fuel energy generation (shale gas) representing a severely regressive feature of current developments.

It is shocking to realize that these regressive trends and policy changes are frequently based on the fake argument that renewable energy is not affordable and that it leads to fuel poverty (Süddeutsche Zeitung, 2012). The German Environment Ministry, for instance, has proposed to amend the law on renewable energy by freezing the price subsidy for renewables for two years in order to prevent further increase in the electricity price (BMU, 2013). We have shown the alarming trends in fuel poverty, in terms of both households' inability to afford to heat their homes and/or their tendency to fall into payment arrears. The composition of countries most affected by these adverse phenomena has nothing to do with their ambitions or progress towards clean energy. The risk factors observed were low income levels and low level of social protection (new member states) on the one hand and the effects of austerity measures on the other (southern European countries). Austerity thus has had a double bite, entailing a negative effect on clean energy investments but also on households' ability (especially among low income groups) to finance their energy needs. Austerity is self-defeating, as we have already learned in respect to its broad economic impact (Chapter 1 of this publication); in regard to environmental and social consequences, this is even more obviously the case. What is particularly cynical is to play off the two victims of austerity against each other and to claim that environmental and social progress are to be set in opposition to one another. For trade unions too it is of the utmost importance to resist any temptation to argue along such lines. The social crisis is caused neither by excessively ambitious environmental progress nor by attempts to promote non-affordable renewable energy generation. On the contrary, investment in energy efficiency and clean energy can create jobs and make energy use more sustainable, and even affordable.

Workers' rights, worker mobilisation and workers' voice

Introduction

In his address to the European Parliament on 14 September 2011, ILO Director-General Juan Somavia declared that 'respect for fundamental principles and rights at work is non-negotiable: not even in times of crisis when questions of fairness abound. This is particularly important in countries having to adopt austerity measures. We cannot use the crisis as an excuse to disregard internationally agreed labour standards.'

This warning is clearly not being heeded. As will be elaborated in the first section of this chapter, the labour reforms proposed or initiated by the EU and the Troika have indeed had detrimental effects on workers' rights and working conditions. The austerity regime has forced a convergence towards deregulation by means of far-reaching liberalisation of working time regulations, atypical employment standards, rules on redundancies and industrial relations structures and processes.

The second part of this chapter examines the consistency of strike activity in Europe; by and large, despite – or indeed because of – the crisis and the impact of the austerity regime, the volume of strikes and their patterns have not greatly changed in past decades. The politicising effects of collective action should not be underestimated.

The third part of this chapter turns to the company level, assessing the degree of convergence or divergence evident in the actual application of EU legislation which was designed to promote a transnational, genuinely European approach to workers' participation. The spread, quality, and development of EWC and SE agreements and actual practice indicate that workers and their representatives increasingly recognise the European company level as a crucial transnational arena in which to come to terms with ever-deepening integration.

Topics

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Workers' rights under the austerity regime

Figure 6.1 Announced and/or adopted changes to IR/CB systems and certain aspects of labour law

	AT	BE	BG	CY	CZ	DE	DK	EE	ES	FI	FR	GR	HR	HU	IE	IT	LT	LU	LV	NL	NO	PL	PT	RO	SE	SI	SK	UK
Reform of Industrial relations and collective bargaining systems (incl. decentralisation of CB)		●	●	●				●	●	●	●	●	●	●	●	●		●		●		●	●	●			●	
Changes to individual/ collective dismissal rules		●		●	●			●	●		●	●	●	●		●	●		●	●	●	●	●	●		●	●	●
Changes to working time legislation	●	●			●	●	●		●		●	●		●	●	●	●	●	●	●	●		●	●	●	●	●	●
Changes to rules on atypical contracts	●		●		●	●	●	●	●	●	●		●	●	●	●	●		●	●		●	●	●	●	●	●	●
Creation of new types of contract in particular for youth		●	●		●	●		●	●		●	●	●	●		●	●	●	●	●		●	●	●	●	●	●	●

Source: ETUI own research.

EU austerity measures: towards less protection for workers

Since the economic crisis gathered pace towards the end of 2008, European public authorities and national legislators have initiated or adopted a range of measures designed to boost enterprise flexibility, including in many cases far-reaching amendments to national labour law. This section outlines the background to, and effects of, these measures on workers' rights and working conditions. Despite variations in the nature and depth of the changes enacted, their origins lie in the starkly deregulatory approach thrust upon them by the austerity regime.

In some cases, general labour law reforms were initiated prior to the economic crisis with the professed aim of 'modernising' labour law. In other countries, such as Hungary, a change of government accelerated drastic changes in labour law, even bypassing participatory consultations with, among others, the social partners (for example in Estonia, Hungary and Slovakia). In other instances – in Spain, Greece, Ireland and

Portugal – these structural reforms have been required or indeed forced upon these member states by the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF) – i.e. the so-called 'Troika'. Additionally, the European Union, together with the IMF, has undertaken 'missions' to EU member states experiencing economic difficulties, as well as reviews of the economic programmes of the member states receiving financial support.

Many member states justify the labour law reforms by arguing that enhancing labour market flexibility is one of the best responses to the crisis (European Commission 2010). In some countries, measures are only piecemeal, albeit highly deregulatory (AT, BE), while in others they amount to far-reaching overhauls of the whole labour code (HU).

Four main areas of labour law changes can be identified: working time, atypical employment, rules on redundancy, and industrial relations structures and processes, which affect social dialogue and collective bargaining. These reforms tend to be (more) permanent, putting workers in a more precarious and unprotected situation both in general and in the workplace.

With regard to changes to working time, measures tend to increase the maximum lengths of shift periods, increase the amount of potential overtime hours

to be negotiated into the salary (CZ), extend possibilities for overtime and night work (PL), and change compensation for overtime (PT).

Moves towards more flexible conditions for atypical work include the extension of maximum lengths of fixed-term work contracts (CZ, ES, GR, PL, RO, SI), the extension of the number of permissible renewals (SK, PL), and the creation of 'new' types of less protective contract for target groups (CZ, ES, GR, PL, SK). For the latter, evidence shows that in several member states, these new contracts often offer less protection than do normal employment contracts and/or are targeted at specific groups of workers, such as young people, who are already among the most vulnerable as regards labour market entry, progress and retention (see also Chapter 2).

Changes to redundancy rules in the member states range from lowering the severance pay entitlement (CZ, PL), shortening the periods of notice (SK), adding new justifications for individual dismissals (ES, PT), altering thresholds for simplifying collective redundancy procedures (LT) and simplifying administrative procedures in case of individual dismissal (FR).

Workers' rights under the austerity regime

Figure 6.2 European Commission Country-specific recommendations 2012-2013 (social field only)

		AT	BE	BG	CY	CZ	DE	DK	EE	ES	FI	FR	HU	IT	LT	LU	LV	MT	NL	PL	SE	SI	SK	UK
Wages	reviewing wage indexation		●		●											●		●						
	reviewing wage-setting system - align with productivity developments		●				●				●	●		●				●		●	●	●		
EPL	adjusting Employment Protection Legislation							●				●		●	●				●	●	●	●		
Labour Market participation	enhancing participation of women	●				●	●					●	●					●		●			●	●
	enhancing participation older workers, promoting active ageing, LLL	●	●							●		●						●	●			●		
	reducing tax disincentives for second earners						●												●					
Youth employment	facilitating transition school to work by incentives for companies to hire young people									●	●												●	●
	facilitating transition school to work through apprenticeships and work-based learning						●	●	●	●		●		●	●	●	●	●			●	●	●	●
	reducing school/education 'drop outs'	●					●	●	●	●		●	●				●							●
Pensions	explicit link between pensionable age and life expectancy	●	●		●					●	●							●	●	●	●	●	●	●
	reducing early retirement	●	●	●		●		●			●						●		●	●	●	●		
Vulnerable	ensuring the adequacy and coverage of social protection systems				●				●															
	access to quality social services			●																				
Child poverty	better targeting social assistance			●					●						●		●							
	making child support more effective									●														
Tax	facilitating access to childcare services			●																				●
	shift away from labour, with focus on low income earners	●	●			●	●			●		●	●				●							●

Source: European Commission Country-specific recommendations 2012-2013; note that GR, IE, PT and RO did not get specific recommendations but were in general recommended to implement their respective Memorandums of Understanding (incl. eventual subsequent supplements).

The EU doggedly pursues its austerity regime

The pressure for further structural reforms is far from waning. While other Troika institutions, in particular the IMF, have admitted that some of their proposed structural reforms – in particular regarding wages – have not only failed to give the envisaged boost, but have even had adverse effects (Blanchard and Leigh 2013), the European Commission continues to bark up the wrong tree by pressing for further austerity measures.

The European Commission's 'Country Specific Recommendations' for 2012-2013 are a case in point. Explaining that labour market reform needs to be driven by more concrete measures if the EU is to return to growth, create jobs that will raise labour standards, alleviate poverty and ensure more sustainable growth, the Commission insists that its recommendations, as endorsed by European Council Decisions, are to be implemented as a matter of priority (European Commission 2012a; 2012b).

The depth of intervention of these proposed measures is unprecedented. No less than 16 out of 27 member states

are advised to rework their wage-setting systems in order to allow alignment with productivity development and/or to review their wage indexation system. Furthermore, the Commission considers the minimum wages in some countries to be too high, claiming that they pose obstacles to growth and employment (BE, SE).

Perhaps as a spoonful of sugar intended to help the bitter medicine of its intrusive demands on wage-setting go down, the Commission has also proposed an EU-level tripartite monitoring system for wage-setting. In the light of the strong tradition of social partner autonomy in wage-setting across Europe, this offer may well turn out to be a poisoned chalice for the European trade union movement – although it may still be preferable to be at the table rather than outside the room.

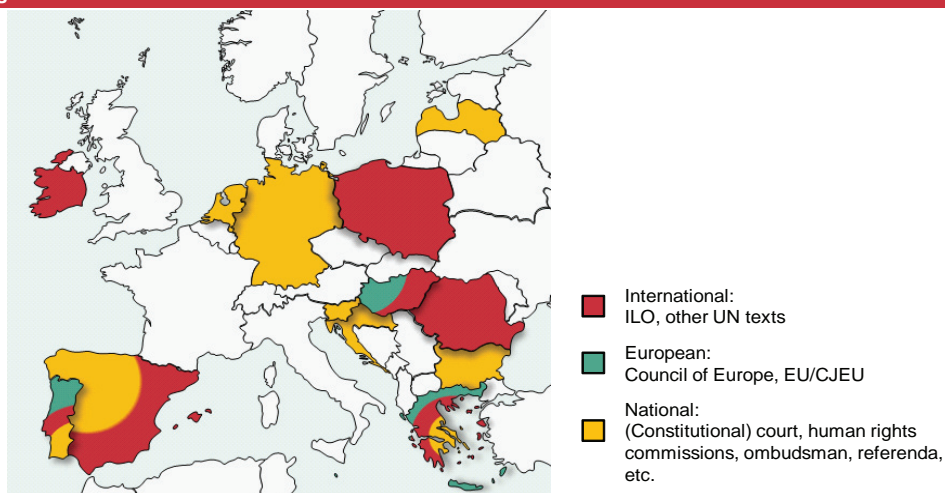
Other member states are advised to adjust their employment protection legislation, in particular to loosen their 'too rigid' regulation of atypical contracts of employment, such as fixed-term, part-time and temporary agency work (CZ, SI, LT). Such further flexibilisation is likely simply to exacerbate the plight of those workers who are already among the most vulnerable. And there remains of course the pressure by the Troika to further implement the reform programmes agreed under the Memorandums of Understanding (ES, GR, IE, PT).

What is known in sporting circles as 'no pain, no gain' thus translates into 'no pain, no rescue' – clearly not an easy position from which member states could resist the proposed reforms, even if in many cases they serve only to worsen workers' protection and social welfare.

As long as DG ECFIN sets the tone, the dogma of liberalisation and flexibilisation of labour markets will remain the tireless mantra. This is clearly shown by the recent DG ECFIN report on 'Labour market developments in Europe 2012' (European Commission 2012c), in which reforms that systematically decrease worker and social rights are deemed to be 'employment-friendly'; such reforms range from measures that decrease notice periods and levels of severance pay, and loosen the limitations to the use of typical contracts, to measures reducing constraints on minimum working time. Also rated '*employment-friendly*' are 'measures that decrease statutory and contractual minimum wages (...)' and government interventions that 'decrease the coverage (...) of collective bargaining' and 'result in an *overall* reduction in the wage-setting power of trade unions' (ibid.; italics as in original).

Workers' rights under the austerity regime

Figure 6.3 Trade union litigation actions



Source: ETUI own research.

Trade unions say: 'See you in court!'

Alongside the traditional responses of demonstrations and collective action, trade unions and workers have recently taken a new tack by filing formal legal complaints at national, European and international levels in order to insist on their countries' adherence to fundamental (social) rights instruments.

In November 2012, the ILO Committee of Freedom of Association examined complaints submitted by several Greek trade unions with the support of the International Trade Union Confederation (ITUC) concerning the austerity measures taken within the framework of the international loan mechanism agreed upon with the Troika. The Committee found that the Troika's request to suspend and/or derogate from collective agreements and to decentralise collective bargaining violated ILO Conventions 87 and 98. Spanish trade unions have adopted the same course of defence in relation to measures contravening these Conventions as well as ILO Convention 158 on dismissal protection.

In Greece, Romania, and Hungary, trade unions triggered high-level ILO assistance missions to examine whether

measures introduced or announced are compatible with fundamental labour rights. In other cases trade unions approached the UN, such as the Irish application to the UN Human Rights Council Universal Periodical Review, or the filing by the Portuguese education trade unions of allegations that the measures taken violate ILO/UNESCO Recommendations concerning the Status of Teachers (1966) and of Higher-Education Teaching Personnel (1997).

In two recent cases, the European Committee of Social Rights (ECSR), the main supervisory body of the (Revised) Social Charter of the Council of Europe, examining complaints on austerity measures taken in Greece, concluded that a range of fundamental social rights of the Revised European Social Charter had indeed been violated, such as the right to fair remuneration, the right of young persons to protection, and the right to social security. Five more complaints by Greek trade unions regarding recent pension reforms enacted at the behest of the Troika are still pending. Trade unions in Portugal and Italy are also considering similar complaints to the ECSR. In Hungary, more than 8000 individuals, acting with trade union support, filed cases to the European Court of Human Rights, alleging that recent pension reforms violated the European Convention of Fundamental Rights. On 12 June 2012, the Council of Europe

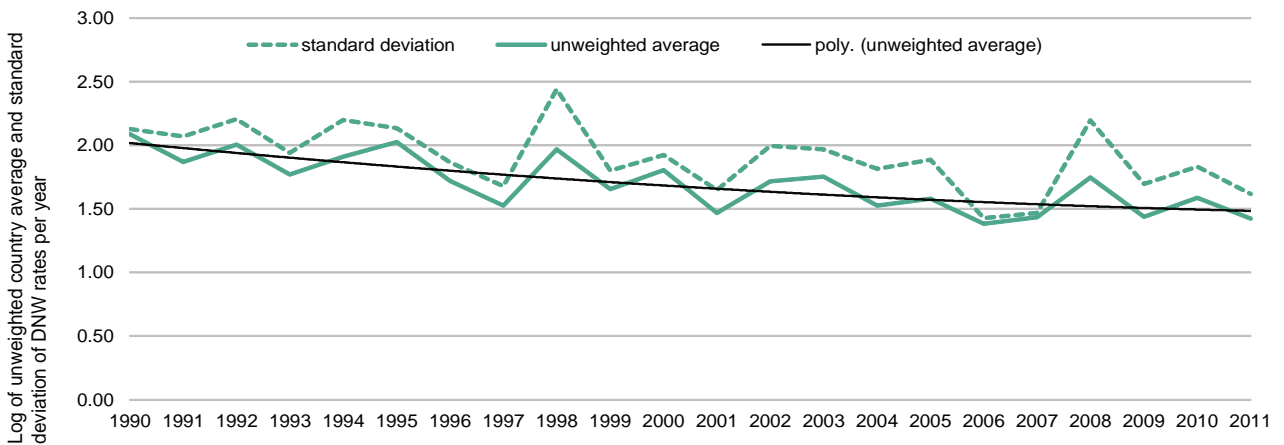
Parliamentary Assembly adopted Resolution 1884 on 'Austerity measures – a danger for democracy and social rights'; a further resolution on the impact of the crisis on the right to collective bargaining is in preparation.

At EU level, and in addition to an increasing number of cases submitted to the CJEU on labour law reforms on fixed-term and part-time work in particular (GHK 2012), Portuguese trade unions in the banking sector have submitted a case to the CJEU contesting the validity of public sector salary cuts against the EU Charter of Fundamental Rights. In 2012, the EP Employment Committee adopted a critical own-initiative study on the enforcement of fundamental workers' rights following the austerity measures introduced in seven countries (FR, GR, IT, NL, HU, SE, UK) (European Parliament 2012).

At national level, trade unions are also increasingly applying to constitutional courts (ES, DE, GR, NL, PT, EE, other (labour) courts (PT), human rights commissions (GR), or are striving to abolish proposed reforms by triggering national referendums (SI).

Strikes and worker mobilisation in Europe

Figure 6.4 Smoothed values of average country DNW rates, 1990-2011



Source: Eurostat and national statistical offices. See Vandaele (2011).

Note: maximum 24 countries included: AT, BE, CH, CY, DE, DK, EE, ES, FR, HU, IE, IT, LT, LU, LV, MT, NL, NO, PL, PT, RO, SE, SK and UK. For correcting for systematic variances in the official cross-country strike data, the logarithm is used for measuring the overall strike trend.

Is labour lying low?

In the early 1960s it was predicted that strikes would 'wither away' (Ross and Hartman 1960) in most of the advanced capitalist societies, mainly due to institutional reforms which facilitate dispute settlement. Yet a massive offensive strike wave internationally, with *mai 68* in France and the *autunno caldo* in Italy a year later being its quintessential examples, highlighted the 'resurgence of class conflict' (Crouch and Pizzorno 1978). In the late 1970s and early 1980s, times with high and rising unemployment levels, the strike volume declined substantially in western Europe (Shalev 1992). Later studies on the strike volume in the 1990s and early 2000s found evidence for a continued pattern of declining but still diverging strike rates across western Europe (Edwards and Hyman 1994; Scheuer 2006). This is also the strike picture that was painted up until the first two years of the current recession (Gall 2012; Vandaele 2011). The strike volume continued to decline in western Europe on an even wider scale than before, although less sharply than in the previous decades. Meanwhile, considerable cross-country differences in strike levels remained intact. Equally, in central and eastern Europe, the strike volume stood

at a low level in the 2000s but national strike patterns persisted (Bohle and Greskovits 2012).

Has the strike volume fallen further after the austerity drive of the European governments? In seeking to answer this question here, the most recent data on the strike volume are used. It should be noted here that authorities underestimate the amount of strike activity. The reporting is sometimes inadequate and authorities use different inclusion criteria which can, moreover, change over time. Generally, the strike volume (days not worked (DNW) due to strikes per 1,000 employees) is considered the most reliable indicator for comparing countries over time.

The thick line in Figure 6.4 looks at the overall annual trend in the relative strike volume in at most 24 European countries from 1991 to 2011 – for lack of data, not all countries are included for each year. The strike volume clearly continues a downward trajectory since the 2000s; a stable set of countries for which all strike data is available in every single year – not depicted here – confirms this trend.

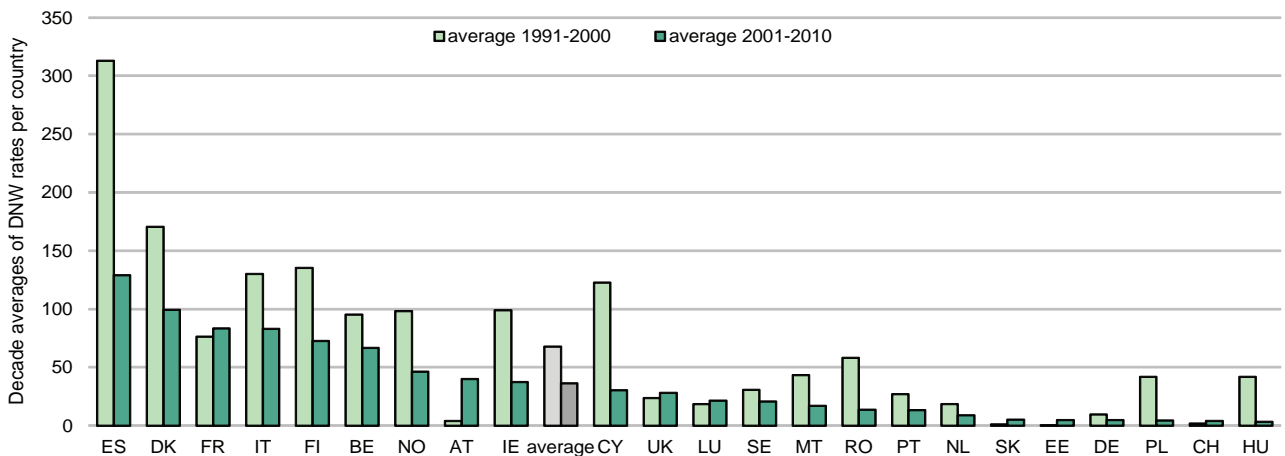
However, the extent of the decline in strike volume should not be overstated. A notorious statistical problem is that official data on strikes often exclude strikes in the public sector and general strikes; this makes the data increasingly less reliable since it is precisely these

kinds of strike which have been on the rise in various European countries in the 2000s (Gall 2012; Hamann *et al.* 2012). Thus, the exclusion of strike action in the public sector and of general strikes from official strike statistics contributes to the further underestimation of the strike phenomenon.

Furthermore, the broken line shows the standard deviation, which measures how far the strike volume of each country is dispersed from the average. The broken line thus depicts the variation between the countries. The broken line of the standard deviation runs largely in parallel with the thick line of the average. This suggests that countries are moving along the same trajectory – labour quiescence – but that there is no outspoken convergence trend. Country variation is still apparent and this variation particularly escalates in case of extraordinary peaks in the strike volume of certain countries.

Strikes and worker mobilisation in Europe

Figure 6.5 Comparing 1990s to 2000s average of DNW rates per country, unadjusted DNW rates



Source: Eurostat and national statistical offices. See Vandaele (2011).

Note: sorted by 2000s data. CZ, GR, LT, LV and SI are excluded owing to the only partial availability of data.

Strikes on the rise in France and the UK only

To what extent does labour quiescence vary by country? The bars in Figure 6.5 depict the strike volume in 23 European countries in the 1990s and the following decade. The graphs illustrate that in Norway and in most EU member states, the average strike volume fell further in the 2000s compared to the previous decade.

There are several countries which pose exceptions to the downward trend in strike activity, however. In seven out of 23 countries (Austria, Estonia, France, Luxembourg, Slovenia, Switzerland and the UK) the average strike volume rose in the 2000s compared to the previous decade. There is no data available after 2008 for Luxembourg and Switzerland.

In the cases of Austria, Estonia and Slovakia – all countries with a low strike volume – single union mobilisation events have clearly contributed to this exceptional status. All those mobilisations took place, by coincidence, in 2003. In Austria, unions mobilised against the unilateral government decision to enact a major state pension reform, and there was also an exceptional railway strike

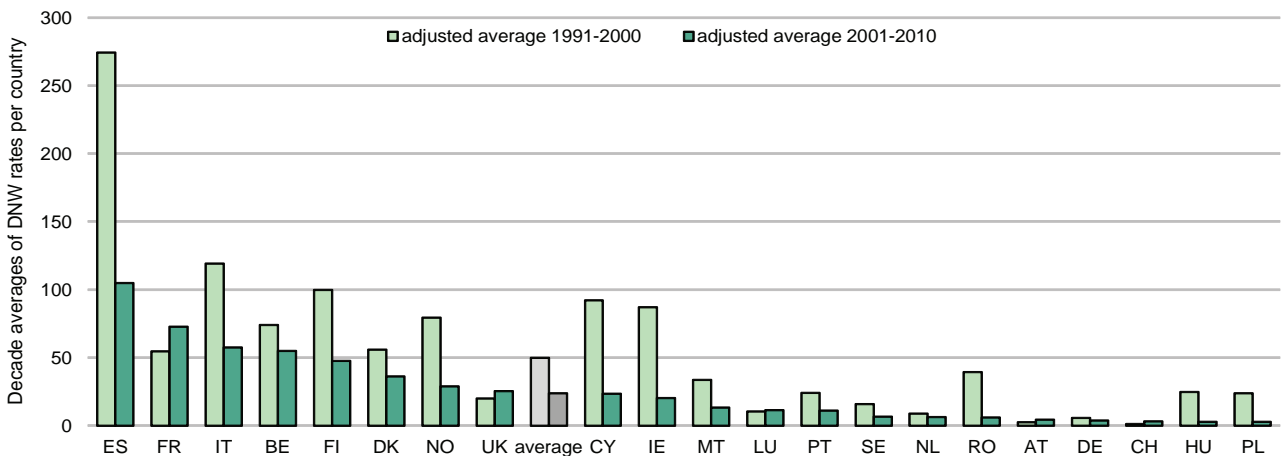
against its restructuring (Adam 2004). Both Estonia and Slovakia saw their first real strikes since they gained independence: Estonian unions protested against the government's public sector wage policy (Kaia Philips 2003), whereas the Slovakian railway union opposed restructuring and closures of regional rail lines (Munková 2003). Once these extraordinary one-off peaks in strike volume are accounted for, however, it is clear that Austria, Estonia and Slovakia confirm the trend of falling strike volumes over time.

All in all, this leaves only France and the UK as true exceptions to the trajectory of 'labour quiescence'. As in Austria, Estonia and Slovakia, mass strikes at the sectoral or national level have undoubtedly contributed to the increase in strike volume in France and the UK. But whereas adjusting for the year with the highest strike volume (by replacing it with the average of that particular decade (cf. European Commission 2011)) makes it clear that the increase in the strike volume in Austria, Estonia and Slovakia can be attributed to one single union mobilisation, this is not entirely the case for France and the UK. The increase of the average strike volume in the 2000s, compared to the previous decade, can also be attributed to the enduring or rediscovered militancy of certain unions in both countries, although radical political unionism is still a minority phenomenon (McIlroy 2012).

That France and the UK should both buck the trend of labour quiescence is quite remarkable, since these two countries' industrial relations systems are very different from one another and their union identity and strike traditions are quite distinctive. The coincidence thus illustrates that strike activity must be understood in its economic, political and institutional context: its meaning changes within time and between countries.

Strikes and worker mobilisation in Europe

Figure 6.6 Comparing 1990s to 2000s average of DNW rates per country, adjusted DNW rates



Source: Eurostat and national statistical offices. See Vandaele (2011).

Note: sorted by 2000s data. CZ, GR, LT, LV and SI are excluded due to the only partial availability of data.

Spain still leading the league

As shown in the previous section, adjusting the volume by replacing the outlier year (i.e. the year with the highest strike volume) with the average of that particular decade makes it possible to better detect the middle-term trend of the strike level around which strike action fluctuates in that particular country. In other words, a more accurate idea of the degree of variation amongst countries can be obtained by comparing the unadjusted with the adjusted strike volume. As the countries are ranked by their average volume in the 2000s to indicate their relative position in the 1990s, the values in Figure 6.6 suggest substantial continuity in the overall strike volume 'ranking' of the countries. At the same time, regardless of the downward trend and the high volatility of strike activity, the cross-country variance is sustained.

Spain has clearly led the European strike 'league table' for the past two decades. However, one should keep in mind that Greece was certainly at the top of the league in the 1990s (Algisakis 1997). Unfortunately, Greece is excluded here, since strike data for Greece are no longer available after 1998. No official reason is

given, but it seems likely that the Greek government is embarrassed at the high strike statistics (Wallace and O'Sullivan 2006).

Denmark, Italy and Finland have also been relatively steadily near the top of the league table in both decades, but in the case of Denmark this is the case in the 2000s only for the unadjusted average.

Visibly France, but to a certain extent also Belgium, have moved to the upper part of the league table of European strike propensity in the 2000s. Norway has remained in the same place, whereas Ireland and Cyprus have moved downwards towards the middle of the league table in the 2000s, having been in the upper part of the table in the previous decade. Most of the other countries that were in the middle or at the bottom of the league table in the 1990s have more or less maintained their positions in the following decade. Romania and particularly Poland are notable exceptions, however, since these two countries have dropped several places in the ranking.

Strikes and worker mobilisation in Europe

Figure 6.7 Types and characteristics of strikes

Type	Sectors	Workers' power resources	Strike size
Tactical strike	Single branch or sector in private or public services	Workplace bargaining power	Small
Industry-wide strike	Single branch or sector in industry or private or public services	Marketplace bargaining power	Large
Political mass strike	Public sector or all sectors in certain regions or whole economy	Organisational power	Large

Source: authors' typology based on Bordogna and Cella (2002), Gall (2012) and Silver (2003).

The rise of the mass strike

Besides explanations drawing on common structural socio-economic and political-ideological transformations towards a neo-liberal europeanisation and the impact of enduring organisational and institutional differences (Brandl and Traxler 2010; Piazza 2005), two common trends shed additional light on our understanding of the current strike volume.

First of all, the decline of the strike volume at the aggregate level might hide shifts in strike activity at the sectoral level, particularly the shift from industry towards private services and, especially, public services. This goes hand in hand with a transformation in the logic of strike action (Bordogna and Cella 2002): because the workplace bargaining power of workers in services, although unevenly spread, is associated with greater potential social disruptiveness, they can use the strike weapon more tactically – involving less workers and a shorter duration of strikes. This rather tactical use of the strike weapon might explain why strikes rates in services have not counterbalanced the decline of strike activity in industry – see Figure 6.7.

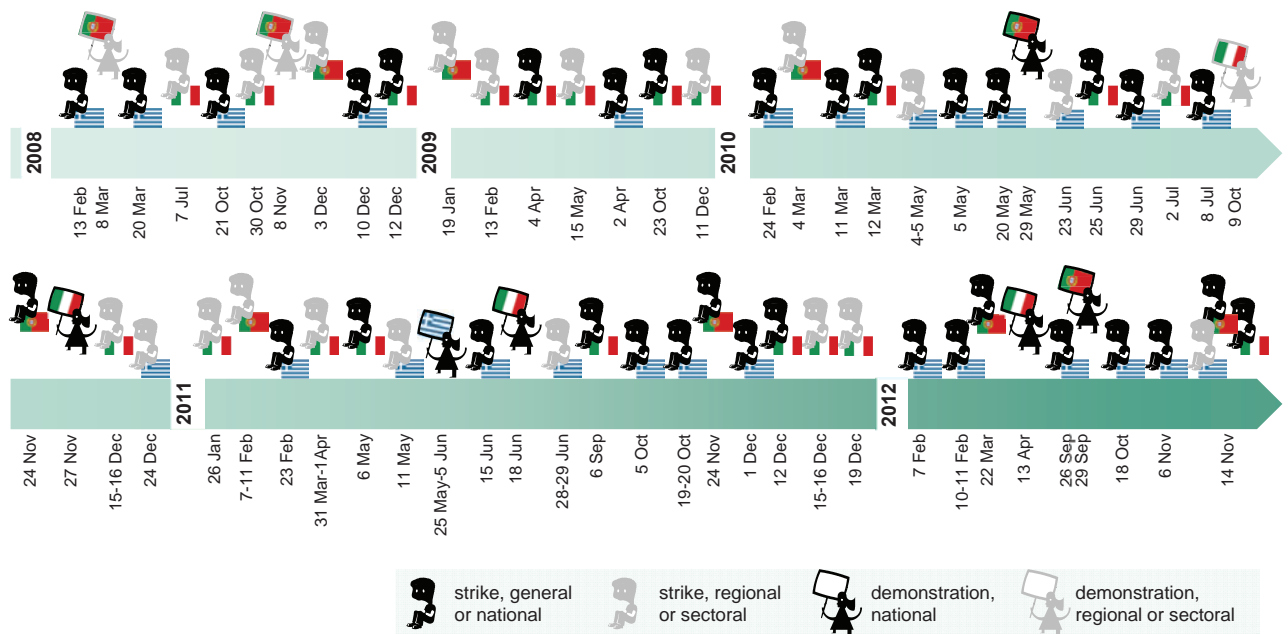
Secondly, general strikes have been on the increase in the last decades (Hamann *et al.* 2012; Gall 2012). Although some other European countries have occasionally seen general strikes in their streets, such strikes tend to be geographically concentrated in the southern part of Europe (including France), albeit to a lesser extent in Portugal; this partly explains the persistent cross-country variation in strike rates. General strikes, mostly against government policy proposals to alter employment protection in particular and labour market policies in general, as well as pensions and other welfare system issues, tend to distort strike volume averages.

As illustrated in Figures 6.5 and 6.6, the difference between the unadjusted and adjusted ten-year average strike volume of certain countries is likely to be explained by the impact of a small number of mass strikes. Similarly, other types of mass strike – either a short strike involving a large number of workers or a long strike by a relatively small number of workers – are also likely to have a strong impact on the average strike volume. For that reason, a distinction is made between industry-wide strikes and political mass strikes (Gall 2012) – see Figure 6.7. Industry-wide strikes are strikes within a single economic branch or sector, whether in the private or public sector, which have as their primary objective the imposition of economic costs

on the employer to enforce the workers' demands. Political mass strikes are either generalised public sector strikes or generalised strikes for the whole economy or certain regions, the purpose of which is to put pressure on the government to concede and compromise. Certainly, political mass strikes have been more directly associated with responses to the European sovereign debt crisis and the workers' protest against the austerity regimes of European governments.

Strikes and worker mobilisation in Europe

Figure 6.8 Political mass strikes since 2008 in Italy, Greece and Portugal, 2008-2012



Source: authors' compilation based on www.bbc.co.uk, EIROOnline, ETUI Collective Bargaining Newsletter and Planet Labor.

General strikes: embarrassment among authorities?

It is worthwhile to investigate whether there has been an overall rise in (political) mass strikes in Europe since the onset of the recession in 2007/2008 by looking at annual developments in the strike volume (Godard 2011); it also enables a closer look beyond the year 2010. There are also historical reasons for doing this, since strikes have shown a strong tendency to occur in waves in the past (Kelly 1998).

There is, however, no generally agreed definition of a 'strike wave'. The definition used here is that the strike volume should exceed the mean of the preceding five years by at least 50 per cent (Shorter and Tilly 1974). The (relative) strike participation would be an alternative and perhaps more valuable measure for grasping workers' willingness to act, but the currently available data do not

provide enough information for such an analysis for all countries.

However, it must be noted that there is no data at all available for important crisis-hit countries. This is the case for Greece but data is also missing for the most recent years for Italy and Portugal. The Greek, Italian and Portuguese authorities are apparently embarrassed by recent strike statistics; one can suspect that the public outcry against the austerity measures provides a compelling disincentive for systematically collecting or publicising this data.

However, despite the lack of systematic data, societal conflict and strikes are apparently enduring tactics, even in times of austerity. There is little doubt that political mass strikes in Greece, Italy and Portugal have affected the respective strike volume to such an extent that they meet the criteria for being considered strike waves – see Figure 6.8. Important company strikes against restructuring decisions, such as the Italian strike 2009 in response to closure of the Fiat plant in Termini Imerese, or the 2011 steel workers' strike at the Hellenic Halyvourgia plant in Aspropyrgos in Greece add to the strike volume.

Furthermore, in some other countries, such as Belgium, the Czech Republic or Slovenia, the authorities seem equally to have lost interest in collecting strike data, although alternative sources are, luckily, sometimes available. Likewise, it should be noted that strike statistics for the majority of EU member states have no longer been updated since 2008 by Eurostat, the Directorate-General of the European Commission responsible for issuing statistics (so that national statistical offices have to be contacted directly).

Strikes and worker mobilisation in Europe

Figure 6.9 Accounting for strike waves in Europe excepting Greece since 2008

	Industry-wide strikes	Political mass strikes
Single-employer bargaining	2008: HU, LV, LT and PL 2009: MT	2009: EE and IE 2011: CY and UK
Multi-employer bargaining	2008: DK and NL 2010: FI and NO	2010: FR 2011: BE

Source: Eurostat and national statistical offices. See Vandaele (2011). Author's calculation.

Note: no calculation possible for CZ, GR, LU, PT and SI; years missing for FR (2011), HU (2010-11), IT (2010-11), LV (2010-11), LT (2011), RO (2010-11), SK (2011) and CH (2009-2011).

The resurgence of the political mass strike

For analysing possible strike waves, a more detailed analysis of the quantitative data or other sources serves to categorise the wave or at least the main strikes producing the wave, such as industry-wide strikes or political mass strikes. A further distinction is made between single- and multi-employer bargaining systems, since collective bargaining systems tend to influence strike patterns (Clegg 1976).

Figure 6.9 provides an overview of countries where a strike wave has occurred since 2008. According to the definition used here (strike volume exceeds the mean of the preceding five years by at least 50%), six waves took place in 2008, and three waves have been discerned every year since 2009. Yet, some waves must be seen as an arithmetical artefact in some relatively low-strike countries, such as Malta (Rizzo 2011) and the Netherlands (Grunell 2011). The 2008 strike waves in Lithuania and Poland were largely the result of various teachers' strike over a pay increase and other demands (Blaziene 2010) and of several strikes in public sector, particularly in the education and postal services

sectors (Sroka and Sula 2010). But it is also sometimes difficult to attribute a wave to one single strike, such as those which took place in Hungary (Neumann *et al.* 2010) and Latvia (Karnite 2010).

Furthermore, industry-wide strikes tend to be located in the multi-employer bargaining systems of Nordic Europe. The other waves are undoubtedly caused by political mass strikes, mostly affecting the public sector. Typical examples are the general strikes and demonstrations in opposition to the government's pension reform plans in France in 2010 (Jean 2010), and the general strike over a similar issue which hit its neighbour Belgium the following year (Gracos 2012).

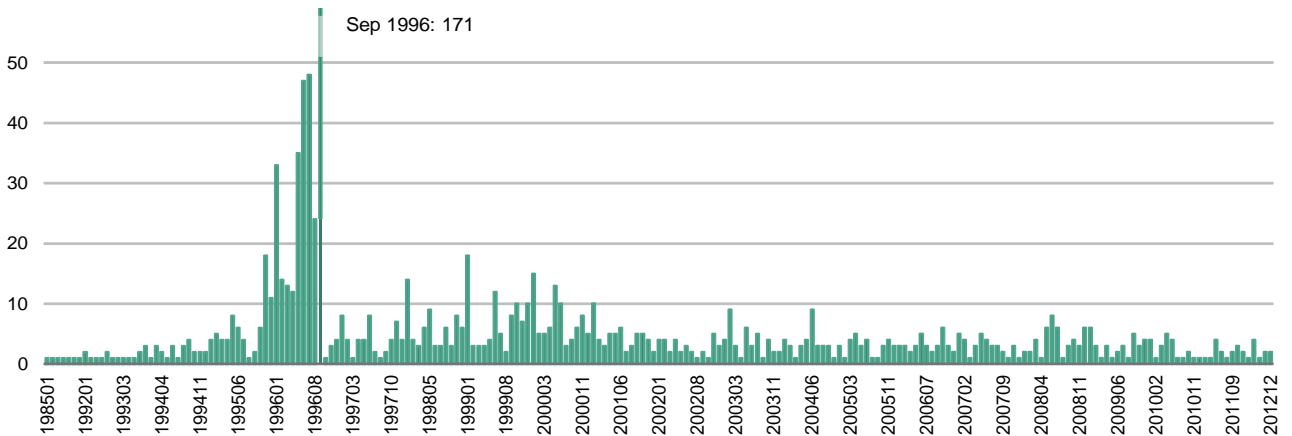
Turning to the single-employer bargaining systems, where industry-wide strikes are almost by definition less likely, the occurrence of political mass strikes is not precluded. Although strike action is overall largely negligible in Estonia, the union protest in June 2009 against the content and implementation of the new Employment Contracts Act caused a very modest (mathematical) strike wave; more importantly, however, the strike was held despite the fact that the employers contended that it was illegal (Nurmela and Osila 2009). The 2009 strike wave in Ireland can be clearly attributed to a 24-hour national public service strike held in protest at the government's pay cuts (Dobbins 2011). In the UK, the two large public sector unions coordinated strikes over

public service pension reform in June and November 2011, the latter being the largest strike for thirty years according to the Trades Union Congress (Hall 2011; 2012). In that same year, in Cyprus, the public servants' strike (against a two-year pay-freeze and austerity measures) was the first massive public service strike in ten years.

To conclude, the evidence shows that political mass strikes are no longer dormant in single-employer bargaining systems; almost everywhere, they were prompted by the governments' austerity measures. Although the effectiveness of the mass strikes in terms of alleviating the austerity packages has been largely questioned in the mainstream media, participation in strikes and collective action in general may change 'the ways in which people think about the economy, about the role of governments and markets and about their own interests, as employees, consumers and citizens' (Kelly 2012:26).

Workers' voice at company level

Figure 6.10 Agreements establishing EWC bodies, per month (1985-2012)



Source: European Trade Union Institute, EWC database (www.ecwdb.eu), January 2013.

EWCs still proliferating

The idea that the increasing europeanisation of multinationals' activities must be accompanied by a parallel europeanisation of workers' participation is over 40 years old. It was in the 1970s that the first proposals for employee representation at the European level via supervisory boards and/or European Works Councils were introduced (Jagodzinski 2013). For decades, European legislators grappled in vain with the dilemma of accommodating the very diverse range of national workers' participation arrangements in a single piece of legislation. Meanwhile, it was not until the late 1980s that the first pioneer voluntary agreements and informal practices aimed at closing the gap between interest representation at the national levels and the European level were launched.

The adoption of the EWC Directive in 1994 turned the option of voluntarily negotiating company-specific arrangements into a right which was firmly embedded in a legal framework. It is here that the EWC success story began. The prospect of binding rules governing the negotiation and operation of such arrangements fostered a surge

of negotiations to establish 'voluntary' EWCs before the new legislation took effect on 22 September 1996: 397 new bodies were established in 1996 (and 171 in September 1996 alone). The condition that such so-called Article 13 EWCs would be exempt from the requirements of Directive 94/45/EC provided a powerful incentive to set up EWCs before its entry into force.

Since the EWC Directive took effect in 1996, the establishment of EWCs has continued unabated (Figure 6.10). With occasional peaks (e.g. in consequence of the extension of the EWC Directive to the UK in 1999) the establishment of new EWCs has been maintained at a steady pace throughout the 2000s (see also ETUC and ETUI 2011: 92). By January 2013, a total of 1020 EWCs were known to be in place (European Trade Union Institute, EWC database, 11/2012). Nearly two decades after being founded, the so-called voluntary or pre-Directive (Article 13) EWC Agreements still make up 43% of the total, compared with 49% of post-directive (Article 6) bodies (*ibid.*) As more and more EWCs are established following the procedure laid down in Article 6 of the EWC Directive, this proportion will steadily decrease.

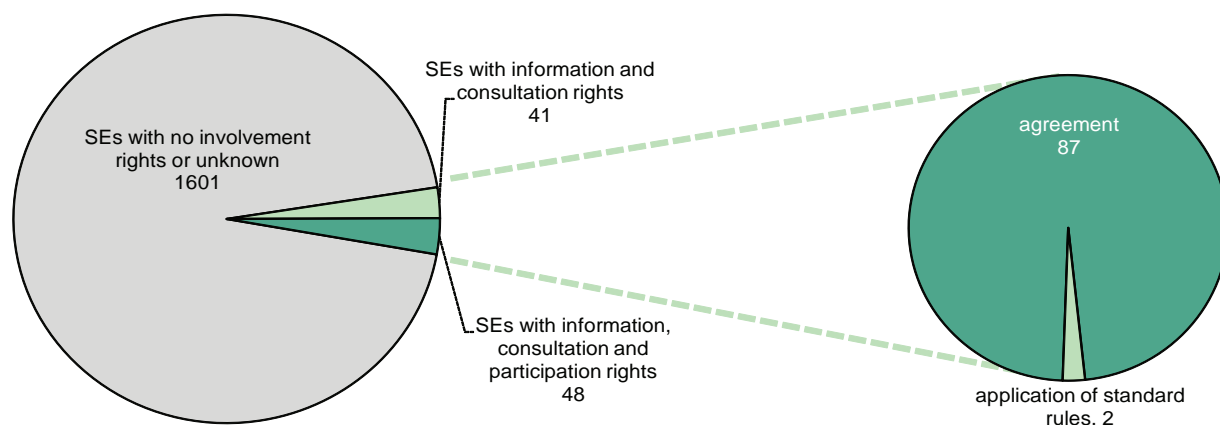
As the above data demonstrate, binding legislation which allows company-level negotiation partners to find tailor-made solutions to accommodate their internal diversity, while at the same

time ensuring a robust basis for those negotiations by the provision of rules for their negotiation and operation, has fostered the impressive spread of EWCs across all countries and sectors. The Recast EWC Directive of 2009 further refined several elements of this recipe for success (Jagodzinski 2009), and preliminary evidence suggests that the employees of smaller and medium-sized companies operating on a European scale will increasingly take advantage of the opportunities provided by the EWC legislation.

Over the past two decades, the EWC legislation has fostered the emergence of a genuinely European institution for the information and consultation of employee representatives on transnational matters in a way which is suited to building a bridge between workers' representation at the local and national levels in a total of at least 1020 companies – plus at least a further 61 currently in negotiation.

Workers' voice at company level

Figure 6.11 Worker involvement and the European Company (SE)



Source: ETUI (2013).

SE Directive: a patchy record

Since October 2004, companies have had the possibility to incorporate as a European Company (SE) in one of the 30 EEA member states. The original idea of the SE project was to promote integration and convergence by creating uniform European rather than national rules. In the end, however, the compromise finally agreed gave rise, instead, to 30 different national SE legislations.

With regard to employee involvement, the EU also failed to define a single European model applicable to all SEs. Although the SE Directive (2001/86/EC) aims to safeguard existing participation rights at board level and to ensure information and consultation procedures at transnational level, it adopts the approach found in the EWC legislation: it lays down a negotiation procedure and a set of fallback provisions which apply only if management and employee representatives fail to reach agreement.

Looking back on a decade of practical experience with SEs (see also Cremers *et al.* 2013), it seems that the SE Directive has cemented or at least contributed to divergence rather than fostering convergence in matters of worker participation:

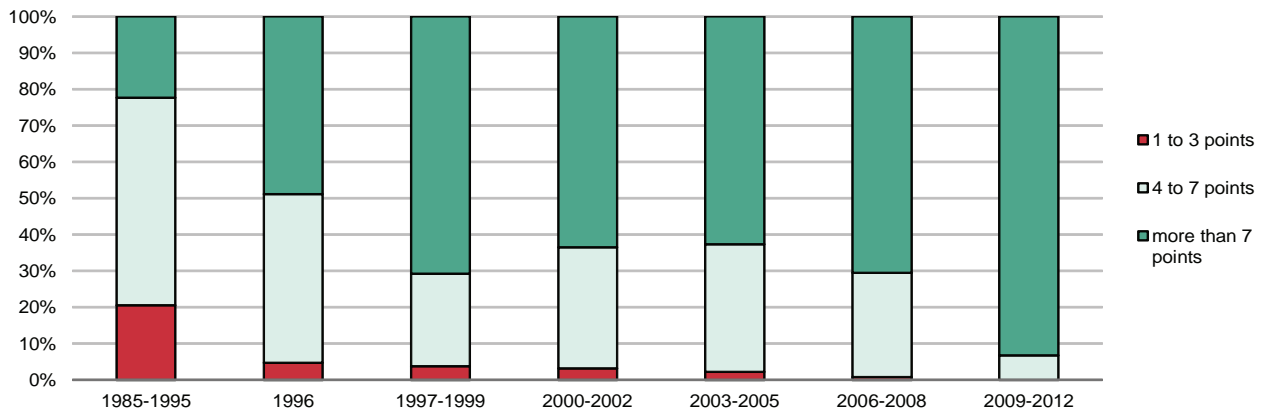
1. The geographical distribution of SEs is strikingly uneven: 81% of the 1601 SEs registered by 1 January 2013 are concentrated in either the Czech Republic (66%, see also Cremers and Carlson 2013) or Germany (15%). The remaining 19% have been set up in as many as 23 EEA member states, suggesting that the SE Directive has failed to meet its target of providing a genuinely European corporate form widely embraced in the EEA.
2. Employee involvement in SEs has also clearly become the exception rather than the norm. Of the 1601 existing SEs, a scant 89 are known to have provided for employee involvement (see also ETUC and ETUI 2012: 108). 41 of these 89 SEs have agreed transnational information and consultation rights by means of an EWC-type Representative Body or a procedure for informing and consulting the workforce in the absence of a standing body. In the remaining 48 SEs, the workforce is additionally represented on the SE's administrative or supervisory board. In all these cases, participation rights had already existed before the company acquired SE status, thus illustrating the impact of path dependency in relation to arrangements within SEs. In 87 SEs, the negotiating parties have signed an agreement (only two companies applied the fallback provisions). The

overwhelming predominance of such tailor-made agreements almost by definition increases heterogeneity (Keller and Werner 2012). However, as is the case for EWCs, the negotiated solutions found tend to converge around the fallback provisions, albeit with significant outliers.

3. The SE Directive sows the seeds of divergence even within countries. SEs have started to make use of their flexibility with regard to corporate governance by departing from established (national) traditions. In the Netherlands, for example, about half of the registered SEs have opted for a monistic board system (with no separate supervisory board), an arrangement which had been hitherto unknown in Dutch corporate governance. Given the primacy of negotiations, the SE legislation also opens the door to permanently undermining existing national standards. Specific employee-involvement models installed – in particular as regards (board-level) participation rights – will remain in place even, for example, after employee thresholds enshrined in national law have been surpassed (Stollt and Kluge 2011).

Workers' voice at company level

Figure 6.12 Agreements establishing EWC bodies, per month (1985-2012)



Source: European Trade Union Institute, EWC database (www.ewcdb.eu), January 2013.

Note: Point System: for agenda items: 0.5 point per agenda item listed in fallback provisions; 1 point for items going beyond fallback provisions.

For other issues: 1 point for: provision of translation and interpretation; at least one regular meeting per year, the right to extraordinary meetings upon request, and access to experts.

The EWC Directive: a blueprint for negotiations

The first European Works Councils (EWCs) were based on voluntary initiatives by workers' representatives and the managements of multinational companies (MNCs) in the 1980s and early 1990s. While these EWC pioneers forged ahead, each defining their own particular approach in order to meet the company's specific needs, cultures, and structures, European legislators were still grappling with the task of coming up with a 'one-size-fits-all' solution. The breakthrough finally found at the European level was to ensure the primacy of negotiated, tailor-made solutions, while at the same time guaranteeing that certain standards be upheld in the event that negotiations fail.

Whether or not this was intentional, the fallback provisions contained in the EWC Directive thus amount to a basic blueprint for EWC agreements towards which EWCs have steadily converged (Figure 6.12). The variability of company profiles and the influence of highly diverse national systems and traditions of industrial relations have given rise to very wide-ranging practice. Nonetheless,

over the years, the basic architecture of rights and the practical arrangements found in EWCs have become increasingly similar. In other words, while all but 23 EWCs are based on agreements rather than the application of the fallback provisions, they have nonetheless increasingly adopted the provisions laid out in the fallback rules. Figure 6.12 illustrates this remarkable convergence by attributing points for the fulfilment of the provisions contained in the Directive's fallback regulations.

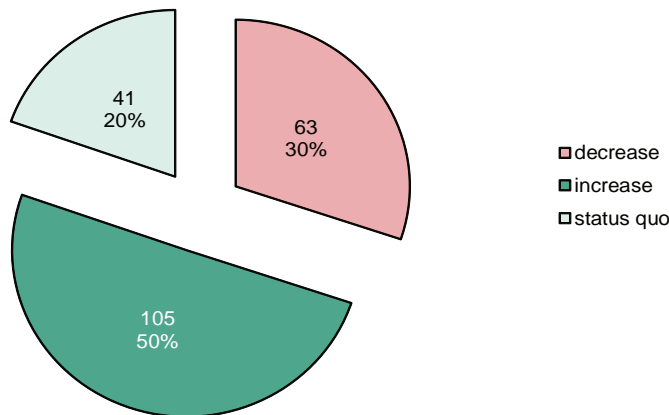
It is clearly visible that over the course of time, the Directive's EWC blueprint (i.e. the fallback provisions laid down in the Annex) has been increasingly applied in negotiated agreements. Compared to the 1985-95 period, the share of agreements in force in 1996 which fulfilled all (or nearly all) basic provisions of the Directive (green field) rose from 23% to 49%, while the share of lowest-standard agreements in the respective periods dropped from above 20% to approximately 5%. Between 1997 and 1999, the share of high-standard agreements rose even further and remained roughly consistent until 2009, when the new recast Directive on EWCs (2009/38/EC) was adopted. For the final period, even before the entry into force of the new legislation in 2011, the share of highest-standard agreements rose again from 71% to 93%, meaning that close to all newly signed agreements follow the

Directive's lead. Remarkably, in the most recent period since 2009, there are no agreements meeting the lowest standard, and the share of medium-quality agreements has shrunk to a marginal 7%.

The above data demonstrates that the existence of fallback provisions has clearly strengthened employee representatives' position in negotiations, enabling them to effectively 'bargain in the shadow of the law' (Bercusson 1992: 185). It also suggests a very strong learning effect: successive generations of negotiators have not only learned from mistakes made but have also built upon the successes of their colleagues in other companies. Without a robust fallback position, it is highly unlikely that such a steady improvement would have been achievable across the board; it is also proof of the responsibility that rests with the EU legislators in defining such standards.

Workers' voice at company level

Figure 6.13 Evolution in minimum competences



Source: European Trade Union Institute, EWC database (www.ewcdb.eu), January 2013.

Renegotiating EWCs: learning by doing

Drawing upon the recently completed analysis of all EWC agreements collected in the ETUI database, it is possible to take an even closer look at the development of standards within a single EWC over the years. By looking at the set of 209 EWCs for which both the original installation agreement as well as its renegotiated versions are available, and by comparing changes in their quality (again by means of weighted components of the agreements; see Figure 6.12 for details), one can examine more closely the convergence or divergence of contractual standards of operation for EWCs.

Figure 6.13 shows that, out of the analysed cases, 50% of EWCs (or 105 cases) managed to improve their agreements, for example by extending their area of competence, securing the right to extraordinary meetings upon request, or gaining adequate access to translation, interpretation, and expertise.

20% of the tested agreements (or 41 cases) retained their formal status quo; this, however, does not necessarily mean that their practice did not improve. In

many cases, the standards set in the initial agreement may well have been considered sufficiently well-defined for the successful operation of the EWC in question, while informal standards and practice evolved further without being reflected in the formal agreements. Moreover, in many cases (especially in Nordic MNCs), an EWC agreement is regarded as a contract designed to cover no more than the basic essentials; it represents merely the formal proof of establishment, and has no ambition to record all the practical arrangements, facilities and guarantees for EWC members, unlike the formal and exhaustive nature of agreements that are based in other (national) standards or cultures of worker representation rules.

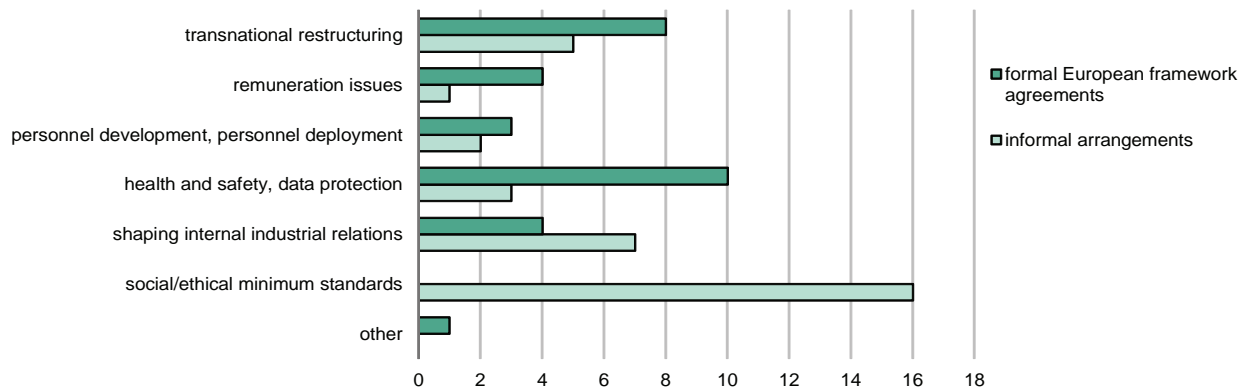
Finally, in 30% of cases (or 63 instances), a newer agreement scored fewer points than did its original version. While this group deserves further investigation, one explanation is that some of the EWCs in this category were taken over by another company whose EWC met lower standards (in total, 11 cases of those 63 were involved in a merger, acquisition or a spin-off). Without the right of renegotiation accorded by the 2009 Recast EWC Directive, it was the lower of the two standards which was applied more or less automatically for the new EWC. A further explanation might be that the catalogue of topics to be dealt with by the EWC was reduced to reflect the actual needs of the EWC in practice:

experience may have shown that focussing more thoroughly on a shorter list of issues was more effective in meeting the needs of the EWC than dealing more superficially with the original and more wide-ranging catalogue.

All in all, the data demonstrate a process of continual improvement of contractual arrangements for EWCs. There is an evident convergence towards higher EWC standards both within individual EWCs as well as across the board.

Workers' voice at company level

Figure 6.14 Subjects of informal arrangements and formal European framework agreements reached by EWCs



Source: Müller *et al.* 2013 (forthcoming).

Negotiating off the record?

EWCs were originally intended as fora for information and consultation about issues or measures with transnational implications. EWCs function as a transnational bridge between national worker participation arrangements but, as a rule, the main locus of negotiation remains the local or national level.

In many cases, however, the growing europeanisation and indeed global integration of companies' activities has given rise to new instruments of negotiated regulation (Hauser-Ditz *et al.* 2010; Rüb *et al.* 2013). In the absence of a legal framework, European company-level framework agreements have been concluded on a growing scale (119 agreements between 2000 and 2011) (Rüb *et al.* 2013). This development has been paid close attention by trade unions, policy makers and academics alike (EMF 2006; European Commission 2008; Jagodzinski 2012).

Exploratory research conducted in the metalworking sector, however, has also revealed the striking emergence, over the past five years, of informal arrangements between EWCs and transnational management that seek to

harmonise company policy on a wide range of issues, chiefly transnational restructuring, remuneration, health and safety policies, and shaping industrial relations arrangements within the company (Müller *et al.* 2013).

Unlike framework agreements which have been negotiated with EWCs and/or trade unions, such informal arrangements agreed between EWCs and management are not laid down in formal agreement texts, but instead are documented in the minutes of meetings, or letters of understanding, or in some cases are agreed only verbally.

As can be seen in Figure 6.13, both formal framework agreements and informal arrangements struck in the metalworking sector cover roughly the same spectrum of subjects. However, informal arrangements more frequently cover key issues which are normally within the remit of trade unions or local works councils, such as restructuring, remuneration and the protection of health and safety. Most importantly, trade unions may have not been a party to the negotiation of such arrangements with the EWCs, which raises far-reaching questions about both the political impact and the legal status of such arrangements.

While such arrangements, which serve to define standards or harmonise approaches within the company, may not have a legal status, they nonetheless have important practical and political

implications for the activities and room for manoeuvre of employee representatives and trade unions at the local or national level. The procedures, measures, or benefits agreed transnationally between the EWC and central management may well confront local unions or employee representatives with a 'deal concluded' that they are powerless to influence, whether legally or politically.

That such regulatory impulses should operate in a top-down direction is evidence of the fact that there is obviously a need to harmonise company policy and employee representatives' strategies on a growing range of issues. This phenomenon deserves close attention by trade unions, since its potential impact on collective bargaining and interest representation at the local level should not be underestimated.

Conclusions

Heed the warnings, take responsibility

This chapter has taken a closer look at the dramatic impact of, and responses to, labour law reforms introduced under the European austerity regime. The analysis of strikes in Europe reveals that, even when seen across a span of two decades, the propensity to worker mobilisation has retained its basic patterns. Turning to the company level, the chapter has examined the contribution of EU legislation and practice towards a growing europeanisation of company-level workers' participation.

In the climate of anxiety caused by the crisis, the deregulation of labour law has been cast as inevitable – and yet the unprecedented depth and scale of the reforms across Europe suggest a degree of opportunism at work as well. What we are witnessing is a forced convergence towards deregulation of labour markets across the EU.

Two aspects deserve critical attention. The first is that the reforms are being foisted upon the member states with little or no regard for a (European or national) democratic underpinning for the reform process itself. The coercive strategy pursued by the EU, the ECB and the IMF is particularly worrying: even where they have no policy-making authority, these institutions have ruthlessly made aid dependent upon the fulfilment of their demands – thereby indirectly wielding regulatory authority where none has ever been granted. They have obviously overstepped their mark. Indeed, in some cases it is doubtful whether some of these rules and contracts are compatible with European Directives, in particular those on fixed-term and part-time work. In this respect, it is particularly heartening to see trade unions pursuing a new strategy to defend workers' rights by going to court to force member states to abide by the commitments they have made to uphold international labour standards, for example.

Secondly, the insistence upon a stark one-size-fits-all strategy of deregulation and flexibilisation, which puts workers' rights under such severe pressure, undermines the acceptance of Europe's economic and political integration. Such flexibilisation erodes workers' security at a time when they need it most. Measures which make working time longer and even more erratic, which erode protective rules on atypical work and collective redundancies, and which change industrial relations structures and processes, cut to the very root of labour security and workers' rights. Furthermore, such reforms exacerbate the position of vulnerable or precarious workers in particular.

Warnings against this austerity course are getting louder. The warnings take many different forms: they are expressed in the decisions of various international, European, and national legal institutions; they are the root cause of growing nervousness in national elections across Europe; and, lastly, they can clearly be heard on the streets and in the workplace.

It is clear that the austerity policies and the lack of genuine democratic participation are adding fuel to the fire of disillusionment about European integration among the general public. The more Europe's citizens feel they are being squeezed, the greater is the threat to the European project as such.

The impact of 'Europe' on the company level looks slightly less bleak. Social progress and important steps towards the development of genuinely European workers' voice in companies have been achieved – but only thanks to minimum standards laid down in European legislation and the pioneering spirit of the actors involved. Overall, however, problematic variation in the standards actually implemented remains. The SE Directive, originally established with the aim of creating a single European company law standard, in effect serves not only to cement existing diversity but has also increased heterogeneity both between as well as within member states; more worryingly, the application of the SE legislation has actually opened the door to erode or

bypass national standards entirely. We are thus a long way away from a transparent and uniform European system of information, consultation and board-level worker representation which is regulated by minimum standards set by law, rather than being open to negotiation. While the Recast EWC Directive has closed some of its predecessor's more damaging loopholes, the SE Directive still lags behind, and new legislative proposals threaten to lead to even more fragmentation.

What is more promising however, has been the actual experience of employee representatives and trade unions. Responding to a compelling process of europeanisation within companies, they have taken up the instruments available to them and pushed for the development of credible European institutions of industrial democracy. The steady increase in the establishment of new EWCs and the continuous improvement in the content of the agreements themselves testify to this. The convergence of the rights and obligations at company level around the standards which are defined in the fallback provisions of the EWC and SE legislation, however, makes it very clear that robust minimum standards are essential. Workers' rights must be enshrined in, and secured by, law. This is an enormous responsibility resting on the shoulders of European policy-makers. The more recent development of EWCs engaging in cross-border negotiations and reaching informal arrangements with central management in a legal vacuum calls for vigilance, however. Insofar as such developments have an impact – whether intended or not – on local bargaining rights, they must be governed by a system which ensures that the relevant actors and bargaining parties are able to play their democratically legitimated roles.

The EU Commission, the ECB and the IMF would do well to re-think their strategy. The need now is for clear-sighted strategies for growth, rather than ruthless austerity. What is required of these institutions is a resolute shouldering of their responsibility to achieve a Europe which meets the needs and concerns of its citizens.

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List of abbreviations

BELL countries	Bulgaria, Estonia, Latvia and Lithuania (as opposed to PIIGS countries)
DMC	domestic material consumption
DNW	days not worked
ECB	European Central Bank
ECSR	European Committee of Social Rights
EPL	Employment Protection Legislation
ESL	Early School (and training) Leavers
ETUC	European Trade Union Confederation
ETUI	European Trade Union Institute
EU	European Union
EWC	European Works Council(s)
EZ	Eurozone
FDI	Foreign Direct Investment
GDP	gross domestic product
Ghg	greenhouse gases
GtCO_{2e}	Gigaton CO ₂ equivalent
HCPI	harmonised consumer price index
ILO	International Labour Organisation
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
ITUC	International Trade Union Confederation
NEETs	not in education, employment or training' (young people aged between 15 and 24 years old)
NMS	New member states
PIIGS countries	Portugal, Italy, Ireland, Greece, Spain
Pp	percentage point
PPS	purchasing power standards
REER	real effective exchange rate
SE	European Company (Societas Europea)
SITC	Standard International Trade Classification

The Benchmarking Group

Foreword

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Chapter 6

Workers' rights, worker mobilisation and workers' voice
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