

# **THE IMPACT OF THE EURO CRISIS ON WAGES AND COLLECTIVE BARGAINING IN SOUTHERN EUROPE ECONOMIES: SPAIN, PORTUGAL AND ITALY**

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# THE CONTEXT: CRISIS AND *NEW ECONOMIC GOVERNANCE*

- SITUATION BEFORE THE CRISIS: NO SIGNIFICANT FISCAL PROBLEMS

(YEAR 2007)	PUBLIC DÉFICIT	PUBLIC DEBT
ITALY	- 1.6 % GDP	103.3 %
SPAIN	+ 1.9 % GDP	36.3 %
PORTUGAL	- 3.1 % GDP	68.4 %

# THE CONTEXT: CRISIS AND *NEW ECONOMIC GOVERNANCE*

- IMPACT OF THE CRISIS (PERIOD 2008-2010)

- GOVERNMENT DEFICIT + PUBLIC DEBT DUE TO:

- A. INCREASE IN SPENDING: AUTOMATIC STABILIZERS AND BAILOUTS OF FINANCIAL SYSTEMS

- B. FALL IN INCOMES: SLOWDOWN IN ECONOMIC ACTIVITIES

+ STRUCTURAL PROBLEMS: IMPORTANT CURRENT ACCOUNT IMBALANCES (SPAIN AND PORTUGAL) SINCE THE ESTABLISHMENT OF THE EMU: TRADE DEFICITS WITH THE EU-CORE ECONOMIES (COMPLEMENTARITY OF EUROPEAN ECONOMIES)

CURRENT ACCOUNT DEFICIT: **-10 %** SPAIN AND PORTUGAL AND **-1.3 %** ITALY (2007)

## SOVEREIGN DEBT CRISIS

# **THE CONTEXT: CRISIS AND *NEW ECONOMIC GOVERNANCE***

**\_DIAGNOSIS BY EU-INSTITUTIONS (AND SOME CORE-EU GOVERNMENTS)**

- A. FISCAL IMBALANCE: MAIN REASON OF SOVEREIGN DEBT CRISIS
- B. CURRENT ACCOUNT DÉFICITS: **COMPETITIVENESS PROBLEM** DUE TO FAST GROWTH IN **UNIT LABOR COSTS**

**\_PROPOSED SOLUTION: STRICT FISCAL AUSTERITY AND WAGE ADJUSTMENTS**

# THE CONTEXT: CRISIS AND *NEW ECONOMIC GOVERNANCE*

## HOW TO IMPLEMENT THIS SOLUTION? *NEW ECONOMIC GOVERNANCE* AND STRUCTURAL REFORMS

- **External intervention:** influence of the EU in policies adopted by governments (more intense in southern economies with debt problems)
- Intervention consolidated by adopting instruments that strengthen EU capacity to monitor national economic policies: **institutionalisation of austerity measures**
  - . EUROPE 2020/European semester/national reform plans/ESFS/SIX-PACK/EURO-PLUS PACT/FISCAL COMPACT

# THE CONTEXT: CRISIS AND *NEW ECONOMIC GOVERNANCE*

- FUNDAMENTAL ECONOMIC POLICIES IMPOSED TO PERIPHERAL COUNTRIES:
  1. Fiscal consolidation is the priority of any economic policy
  2. Balance of payments deficits reflect competitiveness problems and should be corrected by reducing wages:

Institutional Framework of EMU – currency devaluations are not possible- *internal devaluation* as the only solution- **wages as the main adjustment variable** to tackle macroeconomic imbalances

# LABOUR REFORMS AND WORK DEREGULATION IN PRIVATE AND PUBLIC SECTOR

- . EU-Institutions **diagnosis**: competitiveness problems are the result of excessive growth in unit labour costs caused by **institutional rigidities** in labour markets.
- . Proposed **solution**: wage reductions (internal devaluation) to recover competitiveness
- . Proposed **strategy**: **labour market reforms** - lowering minimum wage; more flexible dismissals; erosion of C.B; limitation of contractual capacity of Unions.

# LABOUR REFORMS AND WORK DEREGULATION IN PRIVATE AND PUBLIC SECTOR

- Reforms from 2010 in Portugal, Spain and Italy: intense *deregulation of the institutional framework* + reduction of wages in public sector
- . Decentralization of C.B
- . Reduction of the regulatory scope and duration of C.Agreements
- . Facilitation of opting-out rules to deviate from regulation in C.A
- . Reduction of firing costs
- . Strengthening of unilateral powers of employers



# LABOUR REFORMS AND WORK DEREGULATION IN PRIVATE AND PUBLIC SECTOR

- REDUCTION OF WAGES IN PUBLIC SECTOR
- Result: labour reforms + reduction of wages in p.s: severe devaluation of wages in S.E economies during 2010-2014

SPAIN	5% cut (average) in public wages (June 2010) + Christmas bonus abolished in 2012. M.W is frozen in 2012 and 2013
PORTUGAL	Public wages frozen (2010) and 5% cut (2011) + annual bonus payment eliminated 2012 and 2013. M.W frozen
ITALY	Public wages frozen 2012

# MAIN COMMON ANTI-CRISIS STRATEGIES ADOPTED

To sum up:

- A. Measures aimed at reduction of public spending:
  - Suspension of adjustments of pensions
  - Reduction in the wages of public employees
  - Replacement rates of civil servants fixed on 0% or 10% (health, education and army) maximum
  - Increment of working time for public employees
  
- B. Legislative reforms affecting C.B
  
- C. Both have an impact on evolution of wages- internal devaluation

# FOCUS: COLLECTIVE BARGAINING REFORMS

- **Context: common features of C.B in S.E countries**
- **C.B plays an essential function** in regulation of labour relations
- **High C.B coverage rates** (extension mechanism: Portugal and Italy. *Erga omnes* effect of C.B under certain conditions in Spain)
  - . C.B coverage rates (2008): 80% Italy; 71-80% Portugal; between 80-85% or 74.5 % (depending on the source) in Spain
- **Frequent resource to strike**
- Tradition of **national level social dialogue**
- **Importance of sectoral level of C.B**

# FOCUS: COLLECTIVE BARGAINING REFORMS

## Main lines of reforms affecting C.B

- A. Opting-out of the sectoral (but also company in Spain) C.A in concrete issues on grounds of *economic, technical or productive reasons*
- B. Preference of company C.A over sectoral agreements in some (broad) working conditions
- C. Restriction of the time period a C.A can remain in force after it has expired (setting of a maximum period for the negotiation, establishment of compulsory systems of arbitration)

# FOCUS: COLLECTIVE BARGAINING REFORMS

## . IMPACT OF C.B REFORMS

A. Growing C.B de-centralization

B. Non-application of C.A: internal devaluation goal. *Flexibility before the crisis / unilateral employer decision on non-application after the reforms (Spain)*

C. Limitation of C.A validity and duration

# FOCUS: COLLECTIVE BARGAINING REFORMS

## DATA (SPAIN)

	2011	2012	2013
Nº of Company Agreements	708	835	1.361
Nº of non-application	_____	748 (29.352 workers)	2.512 (159.550 workers)

# FOCUS: COLLECTIVE BARGAINING REFORMS

## . **Results of the reforms on C.B:**

- Decrease in C.B coverage rates (no negotiations and expiration of validity)

- Intense precarization of Labour relations

  - . C.B losign effectiveness as a regulatory instrument to balance the interest of the parties

  - . Reinforcement of unilaterally productive organization decisions by the employers (affecting C.B efficacy)

  - . Increase in (pasive) productivity

BUT... after several years: no creation of (quality)employment.  
Internal devaluation: negative impact in economic growth and social cohesion

# FOCUS: EVOLUTION OF WAGES IN S.E COUNTRIES

- 1. First period (2008-2009):** increase in gross nominal wage.
  - Destruction of employment started with temporary work
  
- 2. Second period (2010-2013):** decrease or weak increase of wages
  - Influence of the cuts in the public sector
  - Impact of the reforms on C.B



# FOCUS: EVOLUTION OF WAGES IN S.E COUNTRIES

## FACTS AND FIGURES

**Table 1. Nominal and real compensation per employee in EU-28, Spain, Italy and Portugal, 2008-2013 (in % of the previous year)**

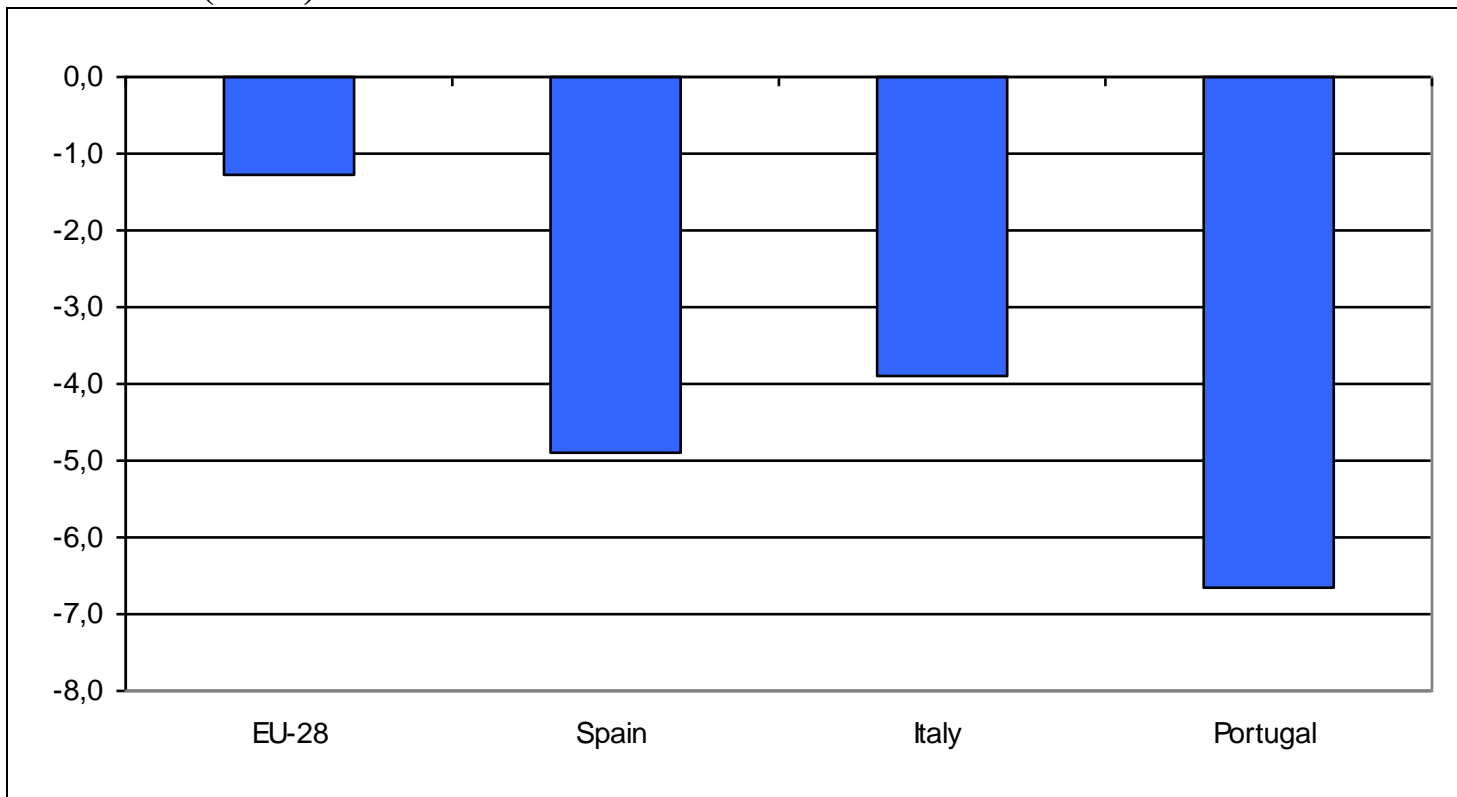
	2008	2009	2010	2011	2012	2013
<b>Nominal compensation per employee</b>						
EU-28	0,7	-0,9	3,7	2,1	3,1	0,8
Spain	6,8	4,2	0,4	1,3	0,2	0,5
Italy	3,7	1,7	2,8	1,3	1,0	1,3
Portugal	3,1	2,8	2,0	-0,6	-2,0	2,7
<b>Real compensation per employee (HICP)</b>						
EU-28	-3,0	-1,9	1,6	-1,0	0,5	-0,7
Spain	2,7	4,4	-1,6	-1,8	-2,2	-1,0
Italy	0,2	0,9	1,2	-1,6	-2,3	0,0
Portugal	0,4	3,7	0,6	-4,2	-4,8	2,3

Real compensation per employee = nominal compensation per employee adjusted by the HICP.

Source: Calculations based on AMECO and Eurostat, 2014.

# FOCUS: EVOLUTION OF WAGES IN S.E COUNTRIES

**Figure 1. Real compensation per employee in EU-28, Spain, Italy and Portugal, 2010-2013 (in %)**

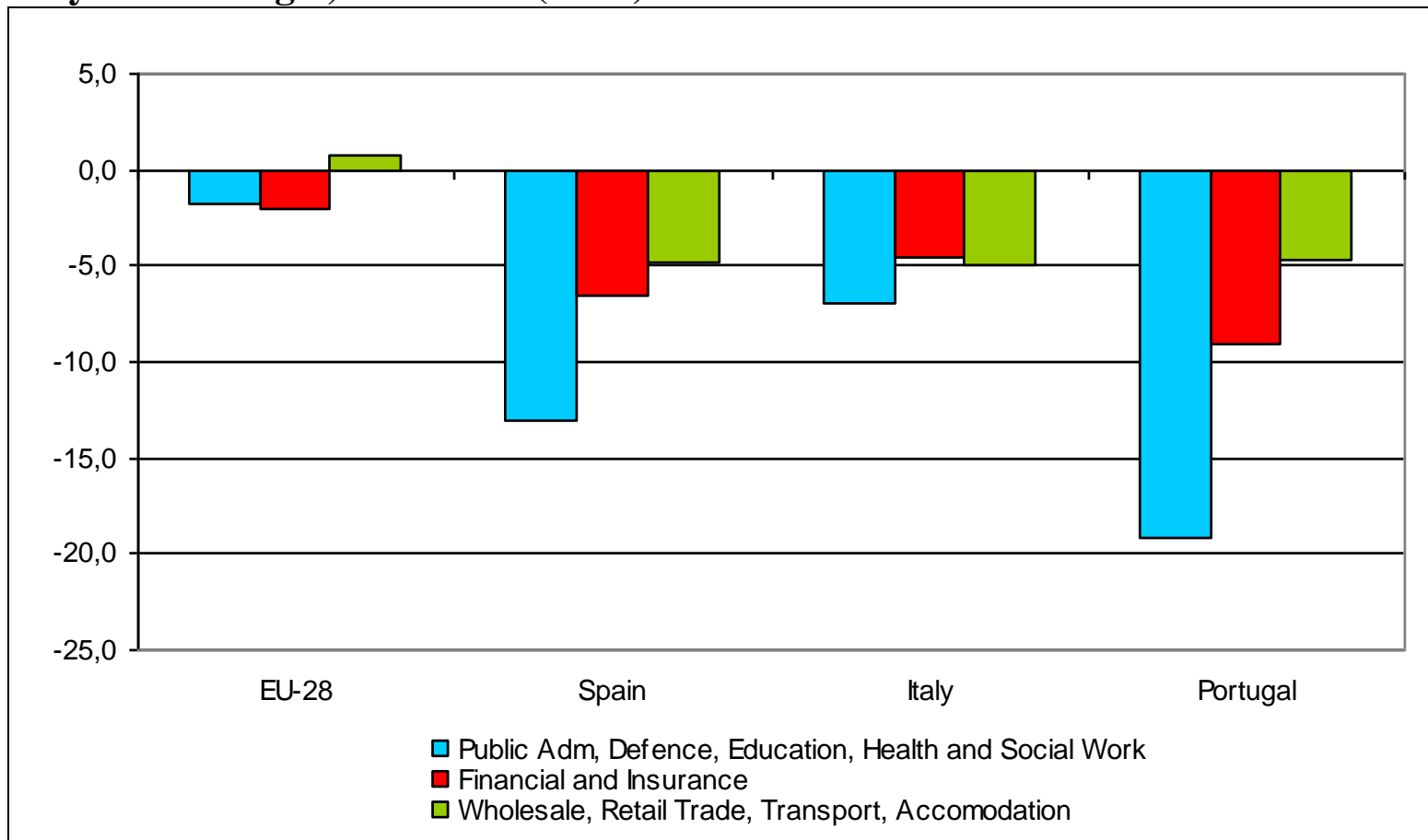


Real compensation per employee = nominal compensation per employee adjusted by the HICP.

Source: Calculations based on AMECO and Eurostat, 2014.

# FOCUS: EVOLUTION OF WAGES IN S.E COUNTRIES

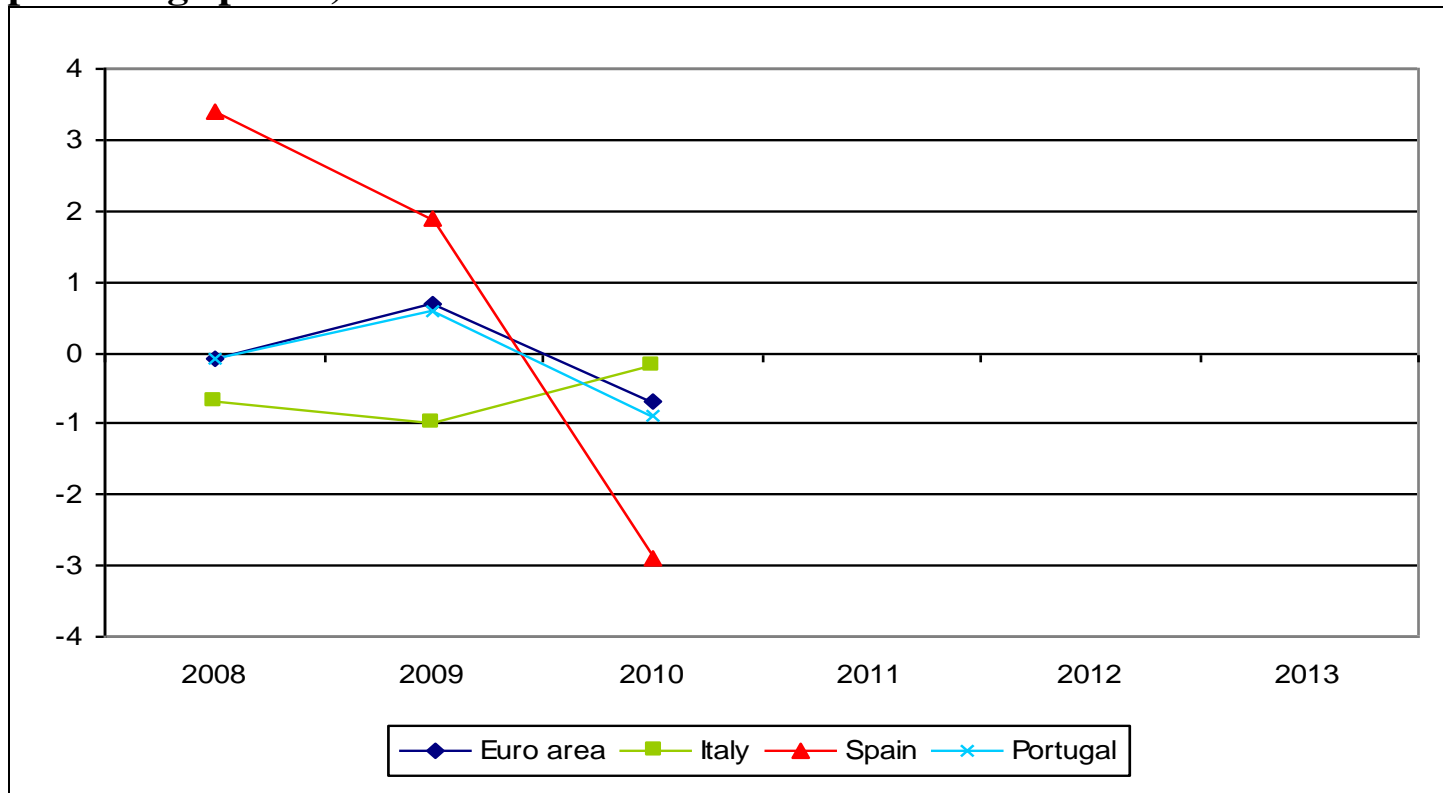
**Figure 2. Real compensation per employee by economic sector in EU-28, Spain, Italy and Portugal, 2010-2012 (in %)**



Source: Calculations based on National Accounts, Eurostat, 2014.

# FOCUS: EVOLUTION OF WAGES IN S.E COUNTRIES

**Figure 4. Wage drift in Euro-area, Spain, Italy and Portugal, 2008-2013 (in percentage points)**



Source: CAWIE Database, 2014.

\*Euro-area: country selection of the Cawie Database.

# FOCUS: EVOLUTION OF WAGES IN S.E COUNTRIES

## . **Other factors to take into account regarding wage evolution**

A. Productive specialization of the economies

B. Quality of employment

- Impact of reduction of t. employment in the first period
- Increase of part-time employment

C. Pressure of mass unemployment on wage developments

D. Benefits and inversions

# FOCUS: EVOLUTION OF WAGES IN S.E COUNTRIES (conclusions)

## **. Impact of the wage evolution in S.E economies:**

- Negative impact of the real wage evolution in SE economies
- Reduction in wages (austerity policies) from 2011 led to a drop in economic activity as a consequence of the sharp decline of aggregate (internal) demand. Increase on productivity had no significant impact in non-export economies.

# FOCUS: EVOLUTION OF WAGES IN S.E COUNTRIES (concluions)

. The economic and social outcomes of the internal devaluation

**Table 6. Poverty and Inequality indicators in southern Europe countries, 2008-2012**

	2008	2009	2010	2011	2012
<b>People at risk of poverty or social exclusion (18 and over; in %)</b>					
EU-28			22,7	23,5	24,0
Spain	23,2	23,4	25,4	26,5	27,0
Italy	24,4	23,8	23,6	27,3	29,1
Portugal	25,0	23,9	24,5	23,5	24,6
<b>Gini coefficient (scale from 0 to 100)</b>					
EU-28			30,5	30,8	30,6
Spain	31,9	33,0	34,4	34,5	35,0
Italy	31,0	31,5	31,2	31,9	31,9
Portugal	35,8	35,4	33,7	34,2	34,5
<b>Inequality of income distribution (income quintile share ratio)</b>					
EU-28			5,0	5,1	5,1
Spain	5,7	6,4	7,2	7,1	7,2
Italy	5,1	5,2	5,2	5,6	5,5
Portugal	6,1	6,0	5,6	5,7	5,8

Source: EU-SILC, Eurostat, 2014.

**THANK YOU FOR YOUR ATTENTION**

QUESTIONS ARE WELCOMED

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