THE POLITICS OF ECONOMIC ADJUSTMENT IN EUROPE: STATE UNILATERALISM OR SOCIAL DIALOGUE?

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6.1 INTRODUCTION

This chapter depicts the process of design and implementation of austerity policies aimed at reducing public deficits and debt in eight European countries [1] and the role of social dialogue in this context. It is argued that, as governments are shifting policy priorities from economic stimulus towards fiscal consolidation and debt reduction, social dialogue and tripartism are given a less prominent role compared to the first phase of the global economic crisis, during which they played a significant part in devising crisis responses. Austerity policies are presented as being inevitable and non-negotiable. This may not be surprising, considering that the current structural adjustment promoted by the international financial institutions (IFIs), and lately the European Union (EU), is based on Washington Consensus policies which usually exclude public deliberation. The chapter argues that social dialogue should remain part of policy design and implementation even in times of crisis, and highlights several ways of rebalancing the negotiating powers of actors in the real economy to enable them to influence policy choices.

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1 Greece, Ireland, Italy, Latvia, Portugal, Romania, Spain and United Kingdom.

6.2 SOCIAL DIALOGUE: A KEY COMPONENT OF CRISIS RECOVERY STRATEGY IN 2008–2009

In 2008 and 2009 the world experienced the worst economic crisis since the Great Depression of 1929. Workers have paid a heavy price in job and income losses, while employers have experienced a dramatic drop in demand for their products and services (IILS, 2009b, 2010). Governments saw their revenues diminish while at the same time they had to face a dramatic increase in public expenditure brought about by the implementation of stimulus packages and the bailout of financial institutions.

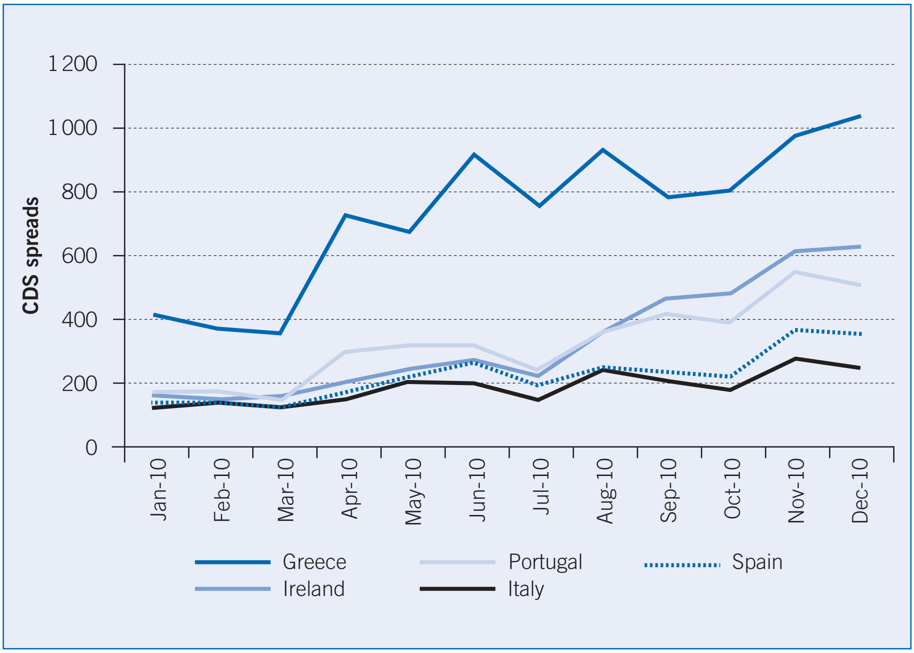
By the autumn of 2008 governments realized that the financial crisis was being transmitted to the real economy and that the challenges could not be addressed by public authorities alone engaged in unilateral decision-making. On the contrary, the crisis called for effective tripartite cooperation between governments and the social partners.

ILO assessments of crisis-related responses by member States show that the combination of social dialogue instruments and state intervention in many countries during the period 2008–2010 helped to accelerate recovery (ILO, 2010i). The positive spill-over of social dialogue in times of crisis has been explained elsewhere (Freyssinet, 2010; Glassner and Keune, 2010; Rychly, 2009; Ghellab, 2009; Baccaro and Heeb, 2010; Papadakis, 2010). These recent studies have documented various successful experiences of national social dialogue in the context of the economic downturn. It goes without saying that all did not go right in 2008–2009: social dialogue faced challenges even in countries with a long-standing tradition of social partnership, such as Ireland and Spain. However, social dialogue generated effective cooperation at national and enterprise levels and created the conditions for the smooth management of national economies until recovery returns (ILO, 2010i).

6.3 FISCAL CONSOLIDATION MEASURES ADOPTED SINCE 2010 AND THE DANGERS OF FINANCIAL-MARKET-DRIVEN DECISION-MAKING

In 2010, while global recovery was still fragile and unemployment remained high or was still rising, governments in several European countries became increasingly alarmed by mounting fiscal deficits and public debt ratios, and abruptly shifted the focus of public policy from the stimulation of the economy to cutting public spending in order to restore fiscal balance. Most of these governments, in particular those in southern

Figure 6.1 Pressure of financial markets: The evolution of credit default swaps (CDS), selected European countries, January–December 2010



Source: Authors' calculations, based on Bloomberg Finance LP.

Europe, have come under strong pressure from financial markets to start reducing deficits sharply and immediately.

Since the eruption of the financial crisis in 2007, two technical terms, "spreads"[2] and "CDS"[3] (two indicators used by large investment banks), suddenly became the indicators most watched when it came to assessing the health of national economies and deciding additional measures of austerity (figure 6.1). The shift of the main focus of public policy-makers, away from traditional macroeconomic indicators to indicators measuring financial risk, denotes a de facto departure from a "political economy" crisis-response approach (where dialogue institutions have a role to play), towards a "financial-market-driven" approach, a trend related to the financialization of the real economy and workers' personal income – a major systemic transformation of the capitalist economy (see for example Lapavitsas, 2009).

[2] Spreads: the extra interest rate required when investments are seen as risky.

[3] Credit default swaps (CDS): the price to insure against default on the sovereign debt.

In engaging in the implementation of severe austerity plans following pressure from the financial markets, European governments relegated social dialogue to a less prominent role compared to the period of recession in 2008–2009, during which social dialogue had gained momentum. This has not come as a surprise since austerity, privatization and liberalization in a context of little or no democratic deliberation have been the four major pillars of structural adjustment policies based on the Washington Consensus. For a more detailed discussion of the Washington Consensus see Williamson (2004); Fraile (2009); Stiglitz (2002); Krugman (2010).

Historically, the negative impact of structural adjustment measures on democratic institutions, including social dialogue, has been notorious, with further adverse consequences on citizens' welfare and countries' political stability. Moreover, as Stiglitz has demonstrated, while Washington Consensus policies have had a negative impact on real economy actors by generating recession spirals and enormous social costs, they have been rather beneficial for financial market actors. In the case of the latest crisis, just as public austerity measures were reducing wages and pensions, billions of euros were made available in staggering amounts as rescue funds for banks. In at least three countries (Greece, Italy, Spain) the amounts of savings reportedly anticipated through the austerity plans roughly correspond to the size of the rescue funds made available, in the form of guarantees, to the banks operating in these countries. In the case of Ireland, guarantees for banks are three times higher than actual savings.

6.4 AUSTERITY MEASURES ADOPTED SINCE 2010 AND THEIR SOCIAL IMPACT

The austerity measures implemented in the eight countries under review involved tough adjustment aimed at the reduction of fiscal deficits by lowering public expenditure, gradually eliminating various subsidies, raising prices of utilities, freezing or reducing public-sector pay, and capping pension payments and social benefits.[4] These measures have been presented as inevitable and non-negotiable by the governments concerned in order to restore fiscal balance and to reduce public debt.

Among other effects they have had a direct impact on terms and conditions of employment, notably wages (particularly of those working in the public sector)[5] and pension entitlements. Also, they have affected

[4] For further details of how governments have responded to the financial crisis, see IILS (2010).

[5] For more information on how the crisis has affected the public sector, see ILO (2010j); Glassner (2010).

societies' most vulnerable groups (ILO, 2010j). The main components of these measures are summarized in table 6.1.

Table 6.1 Austerity measures: Main components related to public-sector adjustment and pensions, selected European countries

	Public-sector adjustments			Pensions		
Country	Employment reduction	Pay cut	Pay freeze	Pension cut or freeze	Other changes	Increase in retirement age
Greece	X	X	X	X	X	X
Ireland		X	X		X	
Italy			X		X	X
Latvia		X		X		
Portugal		X	X	X	X	
Romania	X	X				X
Spain	X	X	X	X		X
UK	X		X			

Source: Authors, drawing on Bloomberg; EIRO; EurActiv; *Financial Times*; ITUC; SETimes.

In some countries the austerity plans have been accompanied by measures aimed at restricting the scope of collective bargaining. In Greece, for instance, the main legislative piece of the austerity plan (Law No. 3845/2010) contains provisions that can dramatically modify the regime of collective bargaining. Among other things, it enables professional and enterprise collective agreements (signed by enterprise unions, the establishment of which is facilitated) to deviate (downwards) from sectoral collective agreements. Also, it includes provisions that allow territorial pacts to set wages below sectoral agreements (Papadakis, forthcoming).

In Romania, the Government tabled a proposal in December 2010 aimed at amending the labour code and the social dialogue laws, with a view to, inter alia, restricting the scope of collective bargaining in the public sector and modifying the rules on representativity of social partners. The Economic and Social Council (ESC) rejected the Government's proposals. In early March 2011, the Romanian opposition filed a no-confidence motion against the Cabinet, after the Government decided to initiate an emergency procedure to pass the new law amending the labour code (see chapter 7 in this volume for more details).

Developments in all eight countries examined are ongoing and it is still too early to anticipate and evaluate the changes that are being introduced.

Using the results of past research based on the Latin American experience regarding the impact of the Washington Consensus, it is possible to make some predictions about the new employment and industrial relations landscape that will emerge once the changes have been fully implemented. These trends are summed up in table 6.2.

Table 6.2 Labour market flexibilization measures, selected Latin American countries, 1980s–1990s

Changes through…	Argentina	Bolivia	Brazil	Chile	Mexico	Uruguay
Legislation or government action						
Easier or cheaper dismissals	X	X		X		
Atypical contracts	X	X	X	X		X
Lower payroll taxes	X	X		X		
Lower work accident costs	X					
End of wage indexation	X	X	X	X		
State withdrawal from private sector wage bargaining	X	X	X	X		
Bargaining decentralization	X			X		X
Wage flexibility through profit-sharing	X		X			
Working-time flexibility	X		X	X		
New restrictions on unions, collective bargaining and strikes	X			X		
Collective bargaining						
Bargaining decentralization	X	X	X	X	X	X
Drop in bargaining coverage	X	X		X	X	X
Work-time, functional, wage flexibility	X		X		X	X

Source: Fraile (2009).

6.4.1 Austerity without social dialogue?

The process of design and implementation of austerity programmes took place in a very tense social climate in all eight countries examined. Industrial action and protests have been organized by trade unions as well as other groups in all these countries in an attempt to forge alliances against austerity policies imposed by governments.

In four countries, namely Greece, Italy, Romania and the United Kingdom, there has been very little or no consultation between the governments and the social partners on austerity plans. Some governments have used fast-track procedures to pass the measures. In Greece, Law No. 3845/2010 of 5 May 2010 provides for the possibility to modify conditions of work and terms of employment through presidential decree (the Government decided not to have recourse to presidential decrees in order to avoid complaints filed by unions with the Council of State before the law was passed). In Romania, the austerity plan announced by the President of the Republic on 6 May 2010 has not been subject to consultation with the social partners and was adopted and implemented without a vote in Parliament. In Italy, the Government adopted the Manovra Tremonti austerity package on 31 May 2010 in the form of a law decree. The day before enacting this law, the Government invited the social partners to an ad hoc meeting where it outlined the main measures due to be passed the following day.

In Portugal there has been some consultation, which was however not effective and did not deliver its expected outcomes because social dialogue was perceived by the Government merely as a means to get the austerity plan – already decided – endorsed by the social partners. Finally, in Ireland, Latvia and Spain social dialogue did play a role and delivered some outcomes (agreements, joint statements); however, it failed to bridge the differences between the tripartite partners on specific issues such as labour law reform in Spain, or further cuts in spending in Ireland and Latvia. Table 6.3 summarizes these trends.

6.4.2 Social partners' positions and expected impact on industrial relations

The available evidence points to a split among social partners as to the necessity of the austerity measures. In general, trade unions have rejected austerity policies put in place by the governments in the countries examined, on the grounds that they are counterproductive and unfair. Also, they have strongly criticized government haste, the lack of social dialogue on the policy choices and the permanent nature of these measures. However, their mobilization has produced no visible results so far, for example in Greece, Portugal and Romania.

In cases where the government did reach out to the social partners, consulting them on the content of the austerity plans and making concessions (no further spending cuts, a fair distribution of sacrifices, measures in favour of vulnerable groups), trade unions have endorsed the austerity plans, albeit reluctantly. This was the case in Ireland with the conclusion

Table 6.3 Austerity package and social dialogue, selected European countries, 2010

Country	Consultation	Agreement
Greece	No	No
Ireland		
Jun-10	Yes	Yes
Dec-10	No	No
Italy	No	No
Latvia	Yes	No
Portugal		
Mar-10	Yes	No
Apr-10	Yes	No
Sep-10	No	No
Romania	No	No
Spain		
May-10	No	No
Jun-10: labour legislation reform	Yes	No
Jan-11: pension reform	Yes	Yes
United Kingdom	No	No

Sources: Authors, based on various primary sources; Baltic Course; EIRO.

of the so-called Croke Park Agreement signed in June 2010. However, when additional austerity measures were introduced unilaterally by the Government in November 2010, social dialogue was at a stalemate. Similarly, in Latvia, when the Government engaged with the social partners on a plan to reduce public spending, the social partners agreed in June 2009 to a 500-million lats (LVL) emergency cut in the 2009 budget. When the Government proposed further spending cuts in the budget of 2010 and rejected the counterproposals of the social partners, the latter refused to endorse the Government's plans (Kolyako, 2009).

Broadly speaking, employers' organizations have approved government moves towards the implementation of an austerity policy, but in many cases they have expressed reservations about specific measures. One may argue that, while the austerity measures appear to benefit large export-led enterprises, small and medium-sized enterprises (SMEs) are likely to suffer as direct and indirect taxes increase, consumption goes down and the market in "hot money" dries up. In Greece, for instance, two employers' organizations, the National Confederation of Hellenic Commerce (ESEE) and the Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE), representing mostly SMEs – which account for more than 80 per cent of businesses in the country – adopted a critical stance vis-à-vis the austerity plan and even marched along with unions in demonstration against these measures on the day of the adoption of Law No. 3845/2010 (Patras, 2010). In Romania, employers' organizations distanced themselves from the Government's plans after initially supporting them. In Latvia, the Employers' Confederation of Latvia (LDDK), after having supported spending cuts in the 2009 budget, argued that the new budget (for 2010) would decrease the competitiveness of Latvian business in the Baltic market (Curkina, 2010).

In the absence of social dialogue, in some cases trade unions had recourse to legal action and appealed to the courts in order to get their voice heard. In Romania, for instance, five trade union confederations set up a Crisis Committee and allied themselves with the main opposition party – the Social Democratic Party (PSD) – to challenge in court the Government's plan to cut public wages and pension payments. On 25 June 2010, the Romanian Constitutional Court ruled that the 15 per cent reduction of pensions was unconstitutional. In the United Kingdom, the Public and Commercial Services Union (PCS) challenged in the High Court the agreement between the Government and five trade unions on reducing the maximum redundancy compensation for civil servants, and won the case (Hall, 2010). In Latvia, the Constitutional Court found that pension reform was unconstitutional and contrary to the principle of legitimate expectations (Constitutional Court of the Republic of Latvia, 2009). In Greece, legal action by the General Confederation of Greek Workers (GSEE) is pending before the Council of State. Furthermore, GSEE filed in July 2010 urgent observations with the ILO Committee of Experts on the Application of Conventions and Recommendations for non-observance by the Greek Government of 11 Conventions ratified by Greece (ILO, 2011c).[6]

There are indications that some governments have already become concerned about the disruption of dialogue with the social partners and the long-term impact of this on industrial relations. In order to reverse this trend, they have been trying to reach out to the social partners once again. In Portugal, the Government has announced an ambitious agenda for 2011 which focuses on growth and employment. In Spain, the Zapatero Government reached an agreement in January 2011 with the social partners which focuses on growth, jobs and the sustainability of public finances. In engaging with the social partners, it secured the support of the main trade unions in raising the retirement age from 65 to

[6] The Committee of Experts on the Application of Conventions and Recommendations constitutes the cornerstone of the ILO's supervisory system on international labour standards

67. These initiatives show that social dialogue can constitute a credible alternative to state unilateralism.

Many countries have implemented fiscal consolidation plans in the past, and those experiences can be instructive. For example, the successful experience of Canada in eliminating its public deficits of 1994–1999 shows that an open and inclusive approach is an important condition for the success of such a project. Both spending and revenues must be on the table to have any hope of a grand bargain in which all sides have an incentive to negotiate a comprehensive reform package. Similarly, the Irish experience of the late 1980s showed that there is no credible alternative to social dialogue and tripartism to deal with socioeconomic challenges such as the elimination of huge fiscal deficits and the promotion of a sustainable recovery.

6.5 CONCLUSIONS

Promoting a sustainable recovery and eliminating fiscal deficits is no ordinary public policy exercise; it is a societal project that requires broad consultation and careful preparation (Bourgon, 2010). Three reasons make social dialogue essential, even in times of austerity: (a) it provides policy-makers with all the necessary information for effective policy design; (b) it improves the chances of buy-in (ownership) and therefore effective implementation of such policies; (c) it improves the chances of maintaining balance in such policies by mitigating their adverse effects on the most vulnerable groups. Most important, reinforcing institutions of social dialogue and collective bargaining is fundamental if the solution for a sustainable recovery lies in "income-led growth" models – that is, the growth of real wages in a way that reflects productivity gains and reduces the need for sustaining consumption through recourse to private debt or government subsidies (Torres, 2010a; IILS, 2010).

If social dialogue plays its role, not only is adjustment likely to follow "the right sequence and pace", it could also help to promote alternative policy choices which are fairer for all and more sustainable, thus effectively reversing one-size-fits-all policy decisions, which are often presented as "inevitable" by the financial markets. For this to happen, there is a need to strengthen the voice and rebalance the negotiating capacities of the social partners in times of structural adjustment. One possible way of doing so is to build alliances between the social partners and also between them and social movements. Examples of such alliances include the historical precedent of South Africa, where trade unions have, at times, sided with social movements representing the interests of the unemployed, youth, women and the poor. A recent example is provided by the events currently unfolding in the Arab States where unions have sided with social movements which did not have a traditional leadership structure and were not headed by a specific leader, making it difficult for the public authorities to strike social pacts to end their mobilization. Finally, the unprecedented case of Greece, where employers and workers marched together in protest against austerity measures, is another example. As a complement to such alliances, the capacity of trade unions to mobilize at cross-border level may emerge as an important way of rebalancing bargaining power, not only at EU level, where this issue has been the subject of extensive discussion, but also at the global level (Bercusson, 2008).

Another important way of strengthening social dialogue is to build the capacity of the social partners and especially Labour Ministry officials to enable them to fully participate in the design and implementation of austerity measures on an equal footing with representatives of the Central Bank, the Ministry of Finance, the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and the EU. Such participation can help to re-politicize the question of austerity measures, which are usually presented as a technical response to which there is no alternative and in which there is no room for political deliberation (Stiglitz, 2002; Supiot, 2010).

In this context, the role of international institutions such as the ILO, which draws its legitimacy from its tripartite structure and its constant connection with the real economy, may be key, not least in assisting in the promotion of policy coherence at the national and international levels. It is important that the ILO initiate a dialogue with the IFIs and the EU institutions with regard to desirable models of social dialogue and industrial relations, including in light of the 2007–2008 European Court of Justice rulings (*Laval, Viking, Rüffert and Commission v. Luxembourg*) which brought about significant changes in the European social model(s) (see for example Höpner, 2008). Such a dialogue should also be maintained with the IMF and the OECD, which do not seem to have interpreted the recent collapse of financial markets as calling into question the long-standing conventional policies.