



COLLECTIVE BARGAINING IN THE EUROPEAN METAL INDUSTRY

EUCOB@N REPORT 2010

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1 Introduction and Overview

The economic situation in Europe is still dramatic. There is high unemployment, more and more precarious work, low wage increases (if any) and a massive amount of restructuring.

It is more important than ever before to send information to the EMF regarding collective bargaining, both as a part of the day-to-day reporting system and the annual survey. Normally the more detailed information should be emailed as soon as possible to the Eucoban network while the main points are included in the annual survey based on our questionnaire.

The questionnaire has been simplified this year. We chose to replace the digital survey by a word document containing nine questions. Some questions from the former survey were left out. We also translated the questionnaire into German and French and gave the affiliates the option to answer in all 3 official EMF languages. Despite this participation was not higher in 2010 than in 2009. A supplementary survey for the steel sector was also conducted in 2010. It will be evaluated in the EMF steel committee meeting.

This year's report is somewhat shorter and simpler than previous ones. Equally, the appendix has been reduced and simplified slightly. The macro-economic chapter focuses this time less on economic growth and employment and more on wages, prices and productivity. Thus the 3 parts of the report are better interlinked this year. Hopefully we will reach more readers.

While we have been working towards an improved report which is hopefully more explanatory, the EMF has also strengthened its coordination and dialogue with other European federations.

Bart Samyn
Deputy General Secretary

Erlend Hansen
Policy adviser

2 Collective bargaining 2009/2010

2.1 New agreements

This Eucoban report explains the duration, the demands and the results of new agreements in Belgium (SETCa), Bulgaria (Metallicy), the Czech Republic, Finland (Metalli and Union of Salaried Employees), France, Germany, Norway (Fellesforbundet), Spain (provincial agreements) and Sweden (IF Metall and Unionen).

The duration of the new agreements vary. Most of them are valid for 1-3 years. Some agreements are crisis agreements with a limited duration. Most agreements are erga omnes meaning they apply to all workers, see table 2.1 in the appendix.

We have also received lots of answers to question 9 of the survey about the next round of collective bargaining. Some affiliates state that it is too early to tell what the demands will be as the formal decisions have yet to be taken.

Those who already know what their next priorities will be cite wage increases and minimum pay. Pensions, early retirement, precarious work (EMF campaign) and protection against redundancies are mentioned. Few affiliates have mentioned training so far, see table 2.2 in the appendix.

2.2 Bargaining levels

The second question in the survey was about collective bargaining levels. The respondents could tick 5 boxes. Did they negotiate at the national level and were the negotiations sectoral or intersectoral? Or did they negotiate at the regional level and were the negotiations sectoral or intersectoral? The last of the five boxes referred to company level negotiations which are the same as local negotiations. The respondents could tick more than one box.

As many as 25 of the 33 affiliates who participated in this year's survey stated that they negotiated at the national level. However, this does not necessarily mean that they negotiated in the actual period this Eucoban report covers. Most of the unions negotiated only at the national sectoral level. Some negotiate both at the sectoral and the intersectoral levels. Norwegian white collar unions NITO and TEKNA and Swedish IF Metall negotiate at the national level, but only intersectorally.

Negotiations at the regional level take place in Belgium, France, Germany, Slovakia and finally Spain where they are conducted both at the sectoral and intersectoral levels. Company level negotiations took place in almost all countries with those in Croatia and Switzerland the only negotiated at

the local level. This also applies to Danish white collar union IDA, see table 2.3 in the appendix.

3 Demands 2009/2010

In this section of the report a summary of the demands will be presented. In each paragraph there is a reference to the corresponding table in the appendix.

CO Industry from Denmark introduced a new strategy; instead of presenting the employers with a list of demands, the employers started the round by stating what they were willing to give. The minimum levels were therefore known from the start and so the bargaining for better results could begin. This is why there are no references to CO Industry in the demands section.

3.1 Wages

Wage demands have been higher in 2010 than in 2009 since the crisis' grip has loosened. In Bulgaria there was actually a demand for a 10% increase. In Slovakia there were demands for 6% and 5.5%. But most demands were more moderate - around 2-3 % (just a little higher than the expected inflation rate). IG Metall demanded at least inflation adjustment and no wage freeze. Some employers proposed decreased average nominal wages, as in the electrotechnical industry in the Czech Republic.

In Norway, Fellesforbundet wanted parts of the collective agreement to be made generally applicable, see table 3.1.

3.2 Working time

No radical demands in the field of working time were tabled in 2009 or 2010. Working time is of course the subject of a big political debate in Europa as the Commission aims to revise or replace the current working time directive. No changes or minor reductions were the norm. But SMH in Croatia demanded a 32-hour working week as a measure against the recession.

IG Metall demanded new regulations on short-time work (Kurzarbeit). Skei (Slovenia) wanted working time to be better adjusted to family life. Fellesforbundet in Norway demanded a new regime for rotation schedules, see table 3.2.

3.3 Training

Training was the focus of first EMF common demand which was adopted in 2005. The first common demand was not replaced by the second common demand which was decided in 2009 - they both apply today.

Demands for better training rights were put forward in 10 or 12 countries. In Belgium, France and Spain unions called for the right to individual training leave. Training during unemployment and lay-offs was a key issue in several countries. FNV, CNV and De Unie (the Netherlands) demanded 5 days of individual training and also career coaches, see table 3.3 in the appendix.

3.4 Older workers

There has also been a big political debate on the topic of pensions in Europe in 2010. The Commission presented its green paper and many states hiked up the retirement age and cut pensions as part of their austerity measures.

Little has happened in the field of old age and collective bargaining in the last period. Few demands were put forward, see table 3.4. Protection against redundancies 3 years before retirement and protection against release were bargaining topics in Bulgaria and Slovakia respectively.

3.5 Equal treatment

Metallicity of Bulgaria demanded equal treatment for all irrespective of sex, age, nationality etc. Others like white collar union IDA in Denmark demanded just statistics on wages. Gender equality and equal pay were issues in Slovenia and Sweden as can be seen in table 3.5

3.6 Precarious work

Precarious work is the focus of the second common demand and in this context a series of demands etc is being presented to the political authorities, the employers and the public.

The second common demand was adopted during the EMF collective bargaining conference - the 2009 or 2010 rounds were the first to take place after the conference. Ambitious demands were submitted in many countries, in particular regarding temporary agency workers (TAW). Affiliates aimed to limit the number of contracts, to limit the percentage of TAWs and to transform TAWs into permanent workers. Equal pay for

TAWs is also relevant and the issue will be addressed in the new EU directive to be implemented in 2011.

3.7 Other items

The demands in table 3.7 are those which do not fit into the other categories, for example improved trade union rights. Health and safety and harassment are other possible items.

4 Results 2009/2010

4.1 Wages

Very few affiliates managed to increase the wage levels of their members over the last few years. Norwegian white collar union NITO was one of the exceptions with 6.9% in 2008 and 2.9% in 2009. Other unions experienced wage freezes or even cuts like for example in Croatia.

The general picture, however, is minor improvements between 1 and 3 per cent, just above the inflation rate. Lump sum increases were agreed on in several countries because of the uncertainty generated by the crisis. It is unlikely lump sum increases were demanded by any trade union. But employers are obviously anxious that the profits they are making in 2010 will only be temporary. Therefore they are reluctant to grant permanently higher wage levels, see table 3.8.

4.2 Working time

As stated above, no radical demands were tabled in the field of working time in the last round. The most spectacular result was accomplished in Germany where Kurzarbeit schemes were included in several major collective agreements. IG Metall has sent detailed reports for the Eucoban website and also made an English PowerPoint presentation on "Future in Work" available.

In Croatia the weekly working time was cut to 32 hours in 5 agreements. In Denmark "Constitution Day" will now be a holiday also for white collar workers. Elsewhere there were no changes or only minor ones, see table 3.9.

4.3 Training

As mentioned before, training and education has had high priority among the European metal unions also after the introduction of the second common demand.

Results were reached in more than 10 countries. In Germany social partners combined partial wage reductions with qualifications as part of the new agreement "Future in qualification".

Metallicy achieved results in the field of qualification and requalification for foreign languages and key competences. Unionen from Sweden informed about special training rights for employees returning after long periods of sickness and also a new training system in order to avoid future lay-offs.

The new training rights for metalworkers are often individual rights. In some countries working groups have been set up or plan are being laid for improved competences, see table 3.10.

4.4 Older workers

Slovak affiliate OZ KOVO reported about improved protection against dismissal of employees who are fewer than 5 years shy of the retirement age. SETCa in Belgium explained that age scales are replaced by scales on professional experience.

CFDT, CFE-CGC, CFTC and FO in France achieved improvements for workers over 55: valuation of senior employment, career advice and inclusion of competence and experience of seniors in career development.

The collective agreement called "FlexU" in Germany was prolonged, see table 3.11.

4.5 Equal treatment

Quite a few improvements were achieved in particular regarding maternity and paternity leave in Nordic countries like Denmark, Sweden and Finland and also in Spain where the leave also covers care for dependant people.

Bulgarian union Metallicy focused on a broader range of aspects linked to equal rights including age, nationality etc. In Croatia the latest improvements in this field have been made via labour legislation, see table 3.12.

4.6 Precarious work

Demands linked to precarious work issues were tabled in a series of countries in the context of the EMF second common demand.

The strongest focus has been on temporary agency work as mentioned above in paragraph 3.6. Metallicy's new agreement stipulates that no more than one temporary contract can be signed; the second should be a permanent one. In Denmark the new TAW directive will be implemented in the collective agreement after approval by the parties. A preliminary agreement for the TAW sector has been agreed upon by the Norwegian confederation and its counterpart.

Three Dutch federations gave an example of a good result: equal pay for TAWs in the Netherlands. Percentage limits for TAWs were introduced in Slovakia (OZ KOVO). OS KOVO in the Czech Republic reported about a general implementation of the second common demand through cooperation between the parties.

Not all federations achieved results. In Spain the employers refused to include precarious work in the social dialogue. Reports from France and Croatia are also negative (in this round).

Metallicy also explained in its reply that all requirements regarding occupational health and safety and social insurance payments should be observed in cases of subcontracting, see table 3.13.

4.7 Other issues

This question is designed for results which do not fit in under any other category, like trade union rights, health and safety, and so on. Unfortunately the "Other issues" category is used too often.

An interesting report came from CO Industri in Denmark where severance pay has been introduced for the first time in a collective agreement. In case of dismissal severance pay from the employers will reduce the difference between the former wage and the unemployment benefits.

One French union (FTM-CGT) said that the last bargaining round resulted in a national debate on industry. The other French affiliates described in detail a new branch social agenda with new tools for management of employment and skills, see table 3.14.

5 The steel survey

For the first time the EMF has conducted a special supplementary survey for the steel sector. This survey was initiated by the EMF steel committee

in the spring of 2010. The questionnaire is slightly different. For instance it does not specify both demands and results. It only asks about topics of the agreement.

We received 20 replies to our steel questionnaire, of which 3 concern one industrial group, ArcelorMittal. In appendix 2 tables refer to the steel survey (tables 5.1 and 5.2). A PowerPoint presentation of the steel survey has been made by Uwe Fink of IG Metall.

Table 5.1 is a collective bargaining calendar which gives information about the new agreements, periods of application, their structure, coverage and so on.

Table 5.2 explains what the negotiation levels are and what the negotiation topics were in the last round. Steel unions negotiate both at the national, branch, region and company level.

Minimum wages are concluded at the national level. There were few wage increases in the last round. The most positive developments were registered in Germany and Sweden. Other important negotiation issues were precarious work, redundancies, relocation of staff and health and safety.

6 The wage co-ordination rule and the VOWA

The EMF affiliates have adopted a wage coordination rule which basically states that each organisation should seek compensation for inflation and also a fair share of the productivity increase (50%). This rule was adopted in the late nineties when people could not foresee the dramatic changes which occurred towards the end of the last decade.

If for example the wage increase on an annual basis is 3% and the inflation rate is 1%, then the real wage increase is 2%. If productivity increases by 4%, the real wage increase will represent half of it.

In the Eucoban surveys the affiliates are asked to calculate the Value of the Whole Agreement (the VOWA). They should include non-wage elements if possible. After deduction of the inflation according to commonly recognized European figures, we get the Offset Inflation Rate (OIR) which is a real wage increase in per cent which also includes some non-wage elements like training and pensions. After having deducted also the productivity, one gets the Balanced Productivity Participation Rate (BPPR).

In 2008 and 2009 productivity fell in a lot of European countries, but obviously, this did not lead to unions demanding reductions of the wage

levels. In these countries the BPPG was higher than the OIR which is a strange situation. BPPGs of 7 and 8% occurred in more than one country.

In 2010 the situation is a bit back to 'normal'. We have seen comparatively low wage increases, but productivity is increasing again. But since wage increases are so low, wages fall behind productivity.

The changes from 2009 to 2010 (tables 4.3 and 4.4) are abnormal.

7 Summary and conclusions

The participation level in this year's survey was almost exactly the same as in 2009. However, as long as only half of the countries send in replies to our questionnaire, the coverage of the Eucoban report is lower than we want it to be.

The current report shows that the economic development is more positive than in 2008 and 2009. Productivity is on the increase again. Wage increases are small and several unions had to accept lump sum increases in the last round.

EMF affiliates are following up the two common demands actively and loyally in their national bargaining rounds. The fight to limit temporary agency work is a key issue for metal unions in Europe.

Macroeconomic trends and their impact on collective bargaining in Europe

Introduction

The economic crisis that hit Europe in 2009 was caused by an unprecedented demand shock, triggered by the financial crisis that culminated in autumn 2008. The previous abundance of liquidity suddenly turned into a credit crunch. The ensuing financial deadlock has paralysed the banking system and blocked the supply of credits for consumption and investment. The impact of the financial crisis on the real economy has involved a deep and sudden contraction of output in manufacturing activity and construction.

After a certain delay, unemployment has also started to grow. In addition to its social consequences the sharp rise in unemployment has also had a negative effect on domestic demand, further deepening the crisis. The overall unemployment rate has returned to double-digit levels in Europe, even though the full effect of collapsing economic activity on labour markets has been partly cushioned. Governments and social partners have taken a wide range of measures to protect and promote employment and safeguard workers' purchasing power in most European countries. In a number of member states, however, a steep increase in unemployment has followed, resulting in a further strain on public budgets.

More recently, the debt crisis in the Eurozone has pushed governments in a number of high-debt and/or high deficit countries, such as Ireland, Italy, Greece, Portugal and Spain, to apply draconian austerity measures. Under pressure from the financial markets countries with low debt ratios, such as Germany and France, have also adopted far-reaching consolidation programs. This marked an abrupt farewell to stimulus packages and the expansionary fiscal policy that had helped to keep the

European economy afloat during the crisis. Now a new wave of austerity and belt-tightening measures threatens to sweep away the hesitant and fragile recovery in Europe. Cuts in wages (mostly in the public sector) and pronounced wage restraint against the background of the picking up of prices are expected to further shift the distribution of income between wages and profits towards the latter. Real wages – after a short period of growth in the crisis year of 2009 – are expected to stagnate or grow only moderately throughout Europe and thus endanger a sustainable economic recovery.

This chapter provides an overview of macroeconomic developments in Europe since the onset of the economic crisis, focusing on wage, price and productivity increases. The aim is to present the economic context in which collective bargaining took place in Europe in 2009 and 2010. The core indicators considered are gross domestic product (GDP), industrial output (by type of activity) and unemployment. We also examine trends in labour productivity, inflation, nominal and real wages and the distribution of income between capital and labour (that is, wage share) which are of crucial importance with regard to collective bargaining. We draw on two comparative data sources, namely Eurostat and AMECO. It must be noted that data for 2010 (and later) are forecasts and should be regarded with caution.

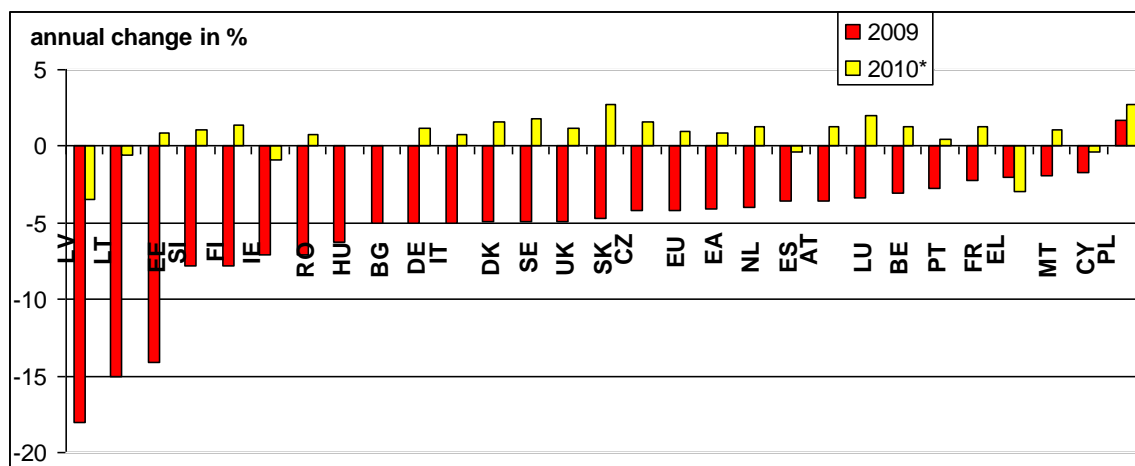
Macroeconomic developments in Europe in 2009 and 2010

The overall economy: GDP trends

Europe as a whole felt the full effects of the crisis in 2009, some member states being particularly hard hit. The economies of the Baltic states were already beginning to shrink in the last quarter of 2007 and in Ireland the peak of GDP growth was reached as early as the first quarter of 2007 (O'Farrell 2010). The sudden and severe downturn was felt in the whole of Europe in the last two quarters of 2008. In the first half of 2009 the crisis gained momentum (EMF CB Report 2009). **Figure 1** provides an overview of GDP growth in 2009 and estimates for 2010. In 2009, GDP declined dramatically in the Baltic countries, i.e. by 18 per cent in Latvia and by 14–15 per cent in Lithuania and Estonia. GDP declines clearly below the EU-27 average of of –4.1 per cent were recorded in Slovenia (–8.6 per cent), Finland (–7.8 per cent), Ireland, Romania (both –7.1 per cent) and Hungary (–6.3 per cent). In countries such as the Netherlands, Austria and Spain the decrease in GDP was slightly below the EU average. Only in Poland did GDP growth remain positive (+1.7 per cent).

On the basis of the European Commission's May 2010 forecast (EC 2010) GDP is expected to grow (annual average) by 1.0 per cent in the EU-27 and by 0.9 per cent in the Eurozone in 2010. In countries such as Slovakia and Poland, GDP growth is expected to pick up (2.7 per cent) while growth rates are expected to be fairly moderate in most of Europe. In Latvia, Greece, Ireland, Lithuania and Spain GDP will continue to shrink. Zero growth rates are expected in Hungary and Bulgaria.

Figure 1: Real annual changes in GDP, 2009 and 2010*



Source: * Forecast EC 2010.

New data from national sources indicate that the recovery took on greater momentum in some countries in the second quarter of 2010. Germany in particular showed unexpectedly dynamic development with a 3.7 per cent year-on-year increase of GDP in the second quarter of 2010 (Handelsblatt 2010). This has also pulled the performance of the Eurozone upwards with year-on-year GDP growth of 1.7 per cent (instead of the forecast 1.4 per cent) in the second quarter of 2010 (Eurostat 2010) and helped smaller EU countries with a high export share to Germany to improve their performance. The current upswing was driven by a surge in German exports that were mostly boosted by the weak euro in the first half of 2010.

Labour market trends

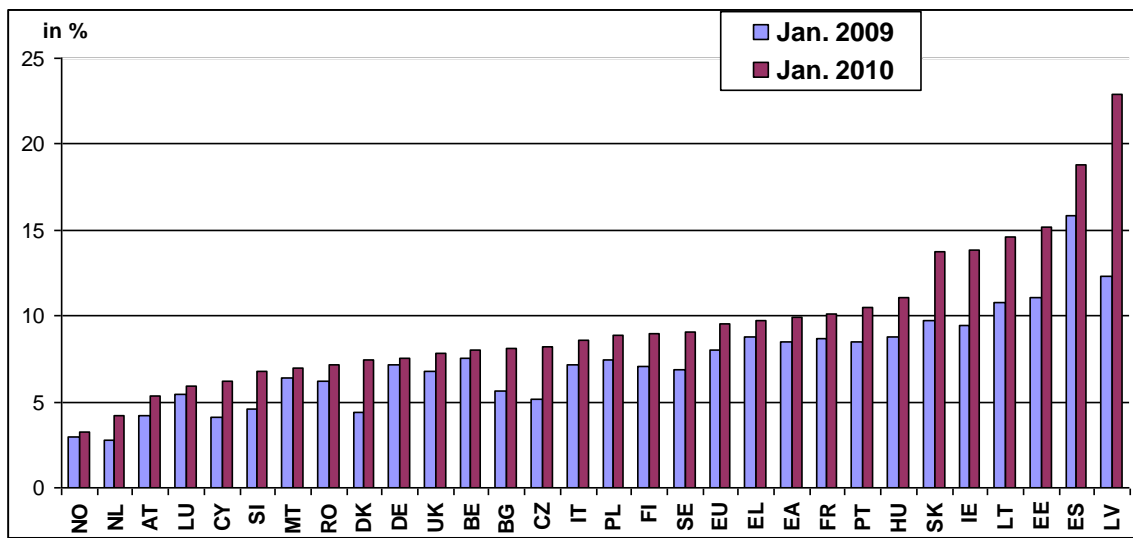
The 'output crisis' has also had a serious impact on European labour markets. The effects were transmitted with some delay and some of the output shock was absorbed by labour market measures. For the one-year period between the second quarter of 2008 and the second quarter of 2009, GDP in the EU-27 shrank by 5 per cent, while employment fell by 1.2 per cent and unemployment rose by 2 per cent (ETUI 2010). Differences between individual member states were enormous, with

Germany representing an extreme case at one end of the spectrum, where a substantial drop in GDP was still accompanied by a slight increase in employment, and Spain standing at the other end of the spectrum, where a more moderate GDP decrease resulted in a dramatic fall in employment.

Unemployment in Europe thus increased further in 2009 in comparison to the previous year and reached 8.9 per cent in the EU-27 and 9.4 per cent in the Euro area. For 2010, the average EU-27 unemployment rate is expected to be 9.8 per cent, with 10.3 per cent in the Euro area. **Figure 2** shows the increase of unemployment in percentage points (p.p.) for the period January 2009 and January 2010. The largest rises were recorded in Latvia (+10.6 p.p.), Estonia, Ireland and Slovakia (around +4 p.p.), while unemployment remained fairly stable (that is, below an increase of +0.5 p.p.) in Belgium, Germany, Luxembourg and Norway.

In January 2010, the highest unemployment levels were recorded in Latvia (22.9 per cent), Spain (18.8 per cent), Estonia (15.2 per cent), Lithuania (14.6 per cent), Ireland, Slovakia (both around 14 per cent) and Hungary (11.1 per cent). Comparatively, the lowest levels of unemployment were reported for Norway (around 3 per cent), the Netherlands (around 4 per cent), Austria (around 5 per cent).

Figure 2: Unemployment rate in European countries, January 2009 and January 2010



Source: Eurostat 2010

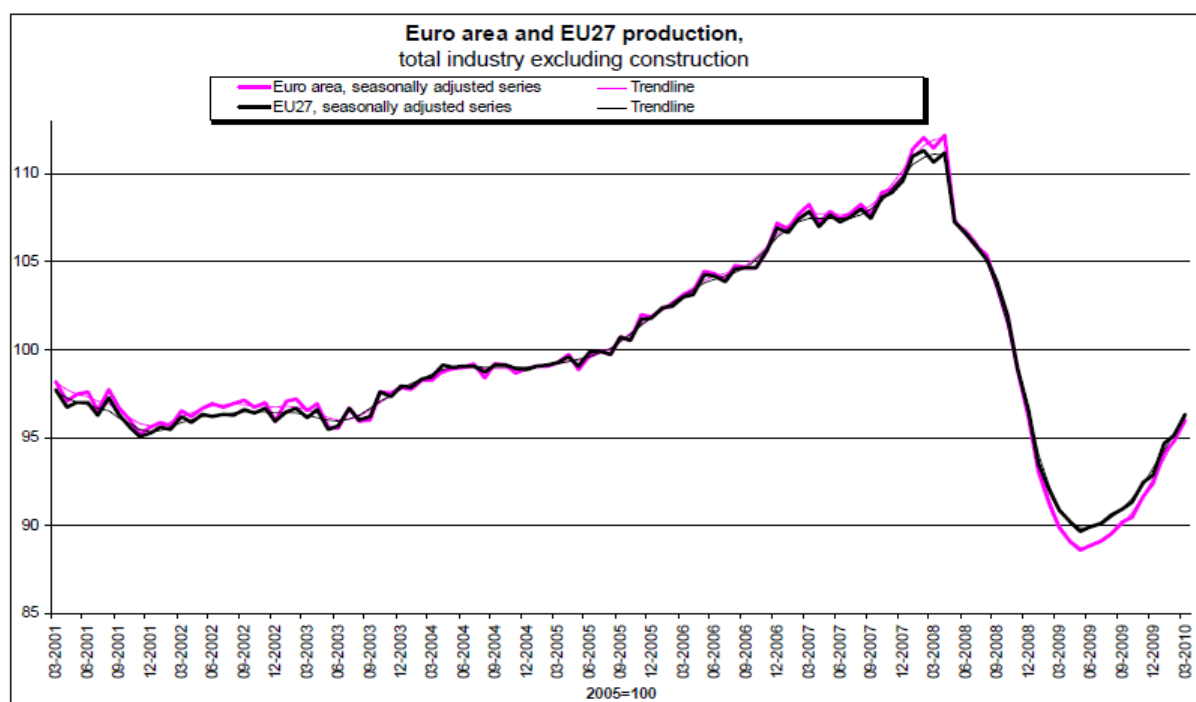
The most recent Eurostat data indicate that in 2010 labour markets continued to be tight, with unemployment still rising but its growth slowing down – for example in the EU-27 by 0.7 percentage points between June 2009 and June 2010. Unemployment continued to grow during this period in the Baltic countries, Slovakia and Bulgaria (around +3 to 6 percentage points) while it declined slightly in countries such as Austria, Germany and Luxembourg (around -1 to -0.5 percentage points).

Economic trends in industry

The longer term development of industrial output (that is, between March 2001 and March 2010, excluding construction) indicates that after reaching its decade peak in the first half of 2008, it suddenly collapsed by 20 percentage points in the following 12 months. **Figure 3** indicates the quarter-on-quarter changes of industrial production in the EU-27 and the Euro area for the period. It shows that the one year crisis period has driven industrial activity below its 2001 level and it was only the current recovery that allowed it to climb back to that level.

We should also emphasise that the 20 per cent decrease in manufacturing activity during the worst period of the crisis was accompanied by a 6 per cent decrease in manufacturing employment in Europe (cf. EMF 2009). On the one hand, this shows the effectiveness of the measures implemented by the social partners and the state to cushion the impact of the output shock on employment (Glassner and Galgóczi 2009; Glassner and Keune 2010). On the other hand, this also limits potential employment growth in the current period of recovery, as firms may tend to exploit productivity reserves instead of recruiting new workers.

Figure 3: Industrial production index, total industry (excluding construction), Euro area and EU-27, quarter-on-quarter changes (March 2001 to March 2010)



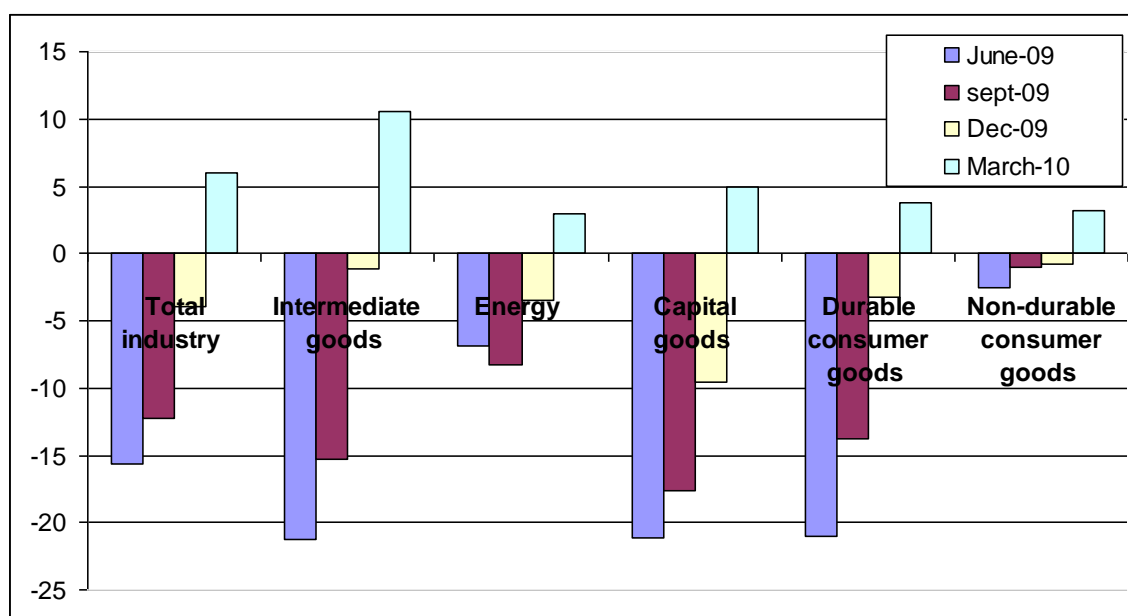
Source: Eurostat 2010a.

Figure 4 depicts year-on-year growth rates in industrial output by different product groups for the period June 2009 to March 2010. In June 2009, the largest decline in output (in comparison to the same month of the previous year) was recorded for capital goods, intermediate goods and durable consumer goods (around -21 per cent), compared to a decrease in total industrial output of nearly 16 per cent in the same

period. These categories comprise the backbone of the broader metal sector, such as machinery, the automotive industry and electronic component suppliers. These sectors are the ones mainly affected by the output crisis that hit Europe in the period between autumn 2008 and spring 2009 (cf. EMF 2009).

Industrial output shrank to a smaller extent in energy (-7 per cent) and non-durable consumer goods (-2.6 per cent). In the second half of 2009, the year-on-year decline in output remained largest for capital goods (-17 per cent in September and -7 per cent in December 2009). A turnaround can be observed with regard to industrial output in March 2010 in comparison to output in the same month of the previous year. In the first quarter of 2010 (as compared to the same quarter of the previous year) output in the EU-27 grew most for intermediate goods (+11.6 per cent), compared to an increase in total industry output of 6 per cent. Output grew by 4.9 per cent in capital goods, 3.8 per cent in durable consumer goods, 3.2 per cent in non-durable consumer goods and 2.9 per cent in energy in the same period.

Figure 4: Industrial production, year-on-year changes



Source: Eurostat 2010a.

Trends in productivity, inflation and wages

After the overview of the main trends of the European economy, we turn our attention to processes that have a direct impact on the bargaining climate in Europe. Developments of productivity, inflation and wages are of crucial importance in this regard and will be presented in the next sections. We use harmonised data from the European Commission AMECO database updated in May 2010. This means 2010 figures are based on forecasts made in May 2010 and may deviate from figures that appear in national statistics at a later stage. We still think such an overview of comparable data is useful to depict the main trends.

Labour productivity

It is not surprising that productivity, on average, has decreased during the crisis as falling output has not necessarily been followed by a corresponding reduction of the workforce. **Figure 5** shows a decline in labour productivity, measured in terms of real GDP per person employed, of 2 per cent in the EU-27 in 2009. Although differences between countries are large, a considerable decrease in productivity was the major overall trend.

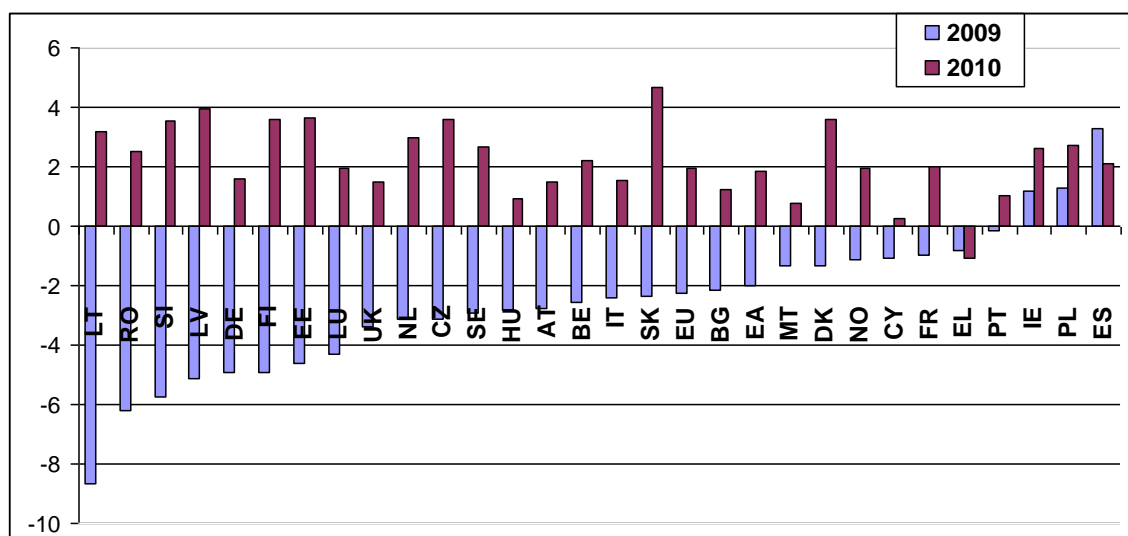
On average, in 2009 annual labour productivity plummeted by almost 9 per cent in Lithuania, by around 6 per cent in Romania and Slovenia, and by around 5 per cent in Estonia, Finland and Germany. In countries such as Austria, Belgium, the Czech Republic, Hungary, the Netherlands, Sweden and the UK, labour productivity decreased by 3–4 per cent, in comparison to an EU-wide decline of around 2 per cent. In Ireland and Spain, labour productivity increased by 1 per cent and 3.3 per cent, respectively, mostly due to the steep increase in unemployment. In Poland, which has not been hit by the output crisis, labour productivity grew by more than 1 per cent in 2009.

Figure 5 also shows the 2010 forecast for the annual changes in the rate of labour productivity. It indicates a clear reversal of the temporary fall in

productivity during the crisis that began in the second half of 2008 and continued in 2009 (AMECO 2009). It should be noted that the figures for 2010 are forecasts and must be regarded with caution.

Forecast growth rates in productivity are highest for Slovakia (4.7 per cent) and the Baltic countries: that is, around 4 per cent in Latvia and Estonia and around 3 per cent in Lithuania. Dynamic productivity increases are also expected in the Czech Republic, Denmark and Slovenia (around 3.5 per cent), as well as in Ireland and Poland (around 3 per cent). In the Baltic countries the growth in labour productivity is most probably due to the continued increase in unemployment. In Austria, Bulgaria, Hungary and the UK, labour productivity is expected to grow by between 1 and 1.5 per cent in 2010. A decline in productivity is expected only in Greece for 2010 (–1 per cent).

Figure 5: Annual change in labour productivity in the EU-27, 2009–2010* (%)



Note: * Forecast.

Source: AMECO 2010.

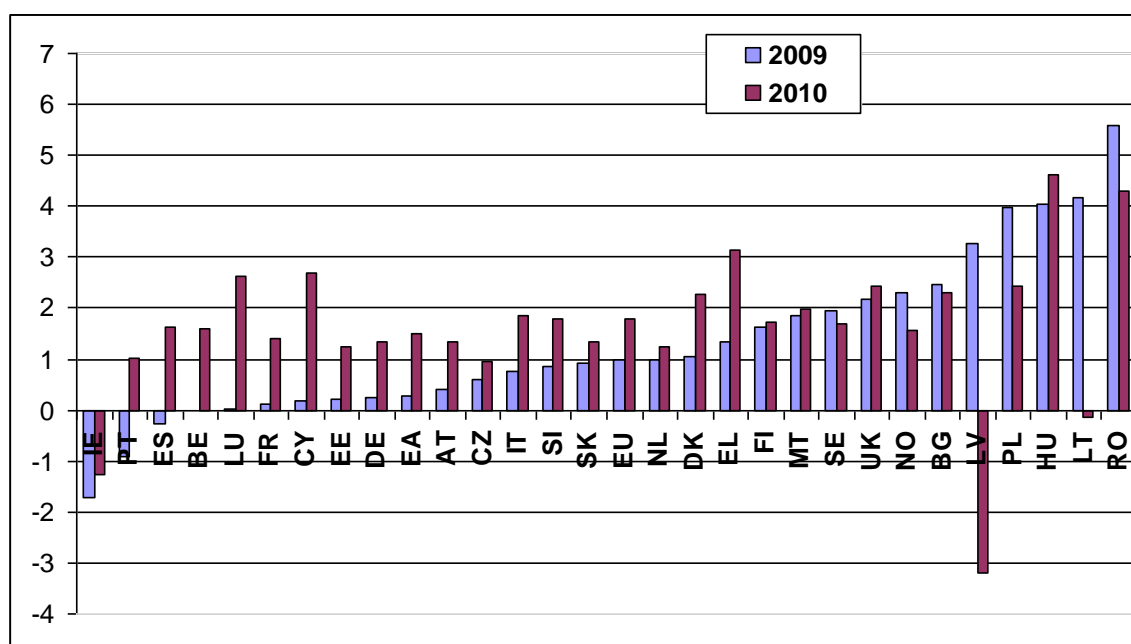
Inflation

Annual changes in inflation for 2009 and (forecast) for 2010 are indicated in **Figure 6**. Price developments were very moderate in 2009 (measured

in terms of harmonised consumer price indexes), although they showed some divergence between the 'old' EU-15 and the 'new' member states of central and eastern Europe. Thus, the average annual inflation rate for the EU-27 was higher (at around 1 per cent) than that of the Euro area (0.3 per cent). While the Euro area even dipped into deflation for a period during 2009, inflation grew by 5.6 per cent in Romania, and by around 4 per cent in Hungary, Lithuania and Poland. In Belgium, Estonia, France and Spain prices remained largely stable in 2009. Prices have decreased in Ireland (-1.7 per cent) and Portugal (-0.9 per cent), however.

For 2010, prices are going to pick up in Europe but will still remain below the 2 per cent target of the European Central Bank. A levelling trend of price developments between the EU-15 and the central and eastern European member states can also be observed. This is mirrored in the annual average inflation rate for the EU-27 (1.8 per cent) and for the Eurozone (1.5 per cent). The largest price increases are expected in Hungary (4.6 per cent) and Romania (4.3 per cent). The negative inflation rate of over 3 per cent expected for Latvia gives cause for concern. Nominal wages in Latvia plummeted by more than 11 per cent between the third quarter of 2008 and 2009 (Figure 7).

figure 6: Inflation rates, 2009–2010*



Note: * Forecast.

Source: AMECO 2010.

Wage developments

Figure 7 shows the development of nominal wages in 2009 and expected nominal wage trends for 2010 for the whole economy, based on AMECO data.

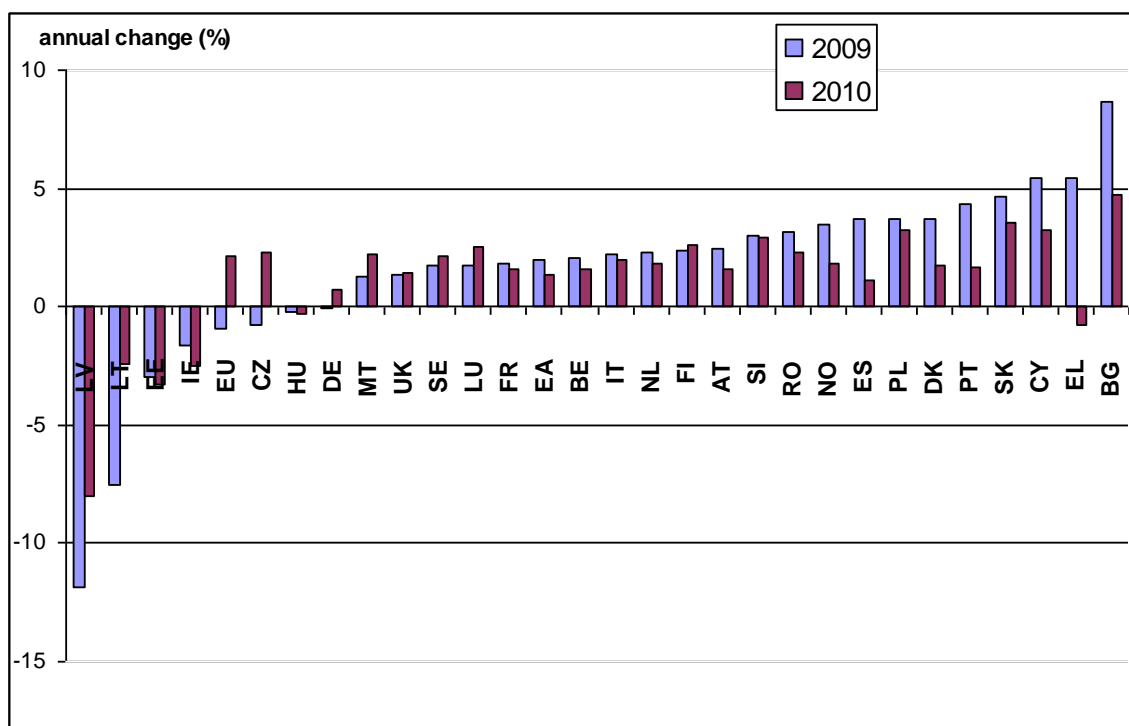
For 2009, the picture is mixed as different effects simultaneously impacted on wages. This promoted further differences between individual member states that were already quite pronounced at an earlier stage.

The impact of the economic crisis has affected wages with a time lag. The negative effects on wages appeared at first in those countries where the crisis started early and/or where it was particularly deep, as in the Baltic states and Ireland.

The nominal wage decrease in Latvia reached 12 per cent in 2009. There is strong evidence that the decline in nominal pay was linked to austerity measures and wage cuts in the public sector that were applied at an early stage. Lithuania, Estonia and Ireland also saw a substantial fall in nominal wages.

In Germany, the biggest EU economy, nominal wages stagnated in 2009 due to a variety of factors. Early on, nominal wages were still growing relatively fast due to the higher inflation in the previous period when most collective agreements were concluded. With the deepening of the crisis this initial wage dynamic began to erode. This was due to the adoption of new collective agreements concluded at a lower level, and often allowing for (temporary) deviations from higher-level agreements in case a company faces a strained economic situation. Furthermore, the short-time work benefits undermined workers' effective take-home pay. The overall effect of these contradictory tendencies that were felt by the end of the year was that the average nominal wage increase for the whole year became slightly negative. For other countries these trends also apply but to a different extent and with different results by the end of the year. For those countries where explicit wage cuts were applied, such as the Baltic countries and Ireland, the situation was even worse, as Figure 7 shows.

Figure 7: Nominal compensation per employee, 2009–2010*



Note: * Forecast.

Source: AMECO 2010.

Twenty one EU member states still had a nominal wage increase in 2009. In Bulgaria and Greece, wage growth was exceptionally high, at +8 per cent and 6 per cent, respectively. Likewise, in the majority of EU countries, wage growth remained positive during the period under consideration, with nominal wage increases of between 2 and 4 per cent in Austria, Belgium, Luxembourg, Portugal, Slovakia, Slovenia and Spain. This was due mainly to the fact that, in a number of countries, wage increases were settled in collective agreements concluded prior to the onset of the crisis in autumn 2008.

However, the effect of 'pre-crisis' agreements was not enough to keep nominal wage growth in positive territory, on average, in the EU-27; nominal pay decreased by 0.9 per cent in 2009.

For the Eurozone, however, nominal wages showed an increase of almost 2 per cent, despite the poor performance of Germany.

The forecast for 2010 expects some re-balancing of the differences between countries. Accordingly, nominal wages, on (EU-27) average, are expected to grow by close to 2.2 per cent, while nominal wage growth in the Euro area is likely to slow down to 1.3 per cent. For individual countries this means that in most cases wage dynamics in 2010 will be more moderate, with both increases and decreases being smaller.

Real wage developments and the relation of wages to productivity

The decisive question is what these trends finally mean for real wages. It is also interesting to see how wage developments relate to productivity, even if this was of limited importance during the crisis in the short term. The overall picture for 2009 is that real compensation (per employee) on EU-27 average has increased by 0.55 per cent and by 0.88 per cent in the Euro area (AMECO 2010). Germany saw a decrease of the average real wage by 1.5 per cent. The situation was worst in Latvia and Lithuania, where real wages declined by 11 and 5 per cent, respectively, resulting

from a large fall in nominal wages. In 2009, Bulgaria, Greece and Slovakia recorded the highest real wage increases, at around 4 per cent in the former two countries and + 6 per cent in the latter country.

Expectations for 2010 are not much more favourable, either. According to AMECO real wages are likely to grow slightly in the EU-27 by 0.37% % and in the Eurozone by 0.61 per cent. Greece, Hungary, Estonia and Romania are expected to be in the worst situation with real wages falling (- 3.6, -2.7, - 2.2 and - 2.1 per cent, respectively). The UK and Ireland are also expected to suffer real wage decreases (by around 1 per cent) in 2010. In Spain and Germany real compensation is expected to slightly increase (by 0.5 and 0.8 per cent, respectively).

A full review of the components of the wage formula – nominal wages, inflation and productivity (based on AMECO data¹) – is given for the *Euro area* in **Figure 8**.

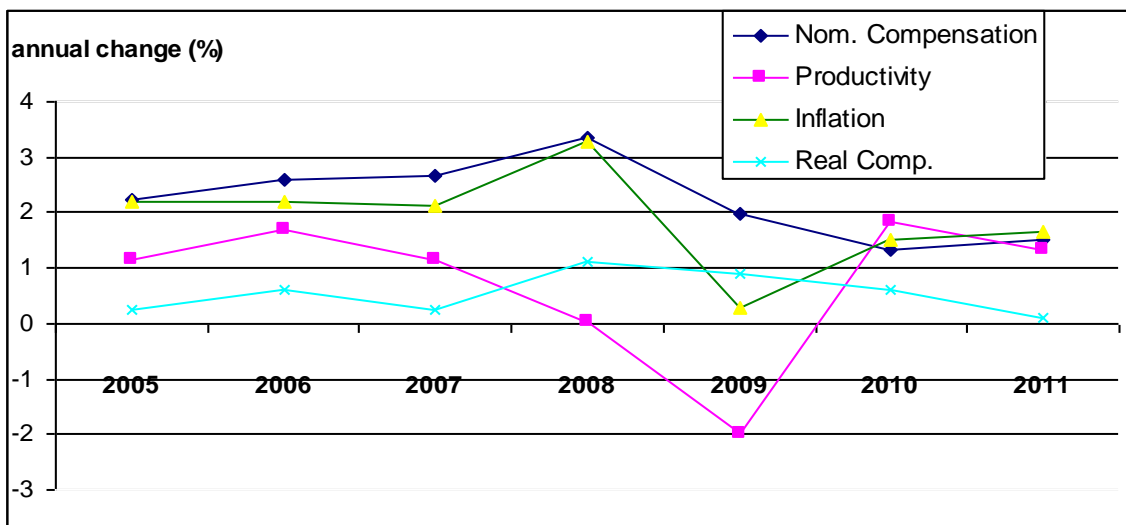
Due to the temporary setback of productivity growth in 2009 (by -2 per cent), the 0.9 per cent real wage increase means that, at least formally, the wage formula 'over-performed' in that year. This was not the case in the EU-27, however, where both productivity and real wages decreased by 2 per cent on average in 2009.

The forecast for 2010 for the Euro area expects a lower real wage increase (that is, roughly 1.5 per cent) than that of productivity (almost 2 per cent).

For the EU-27 (for which comparative figures are not available) the negative deviation from the wage formula in 2010 is likely to be 1.6 per cent, with a productivity increase of 2 per cent and a real wage increase of 0.4 per cent.

¹ It must be noted that AMECO data on real wages deviate from the data presented in the Commission's Spring Economic Forecast on real compensation. The deviation stems mostly from the different deflators used to estimate real compensation. AMECO data is based on the GDP deflator whereas the Commission's forecast for real compensation is based on compensation per employee corrected by the consumer price deflator.

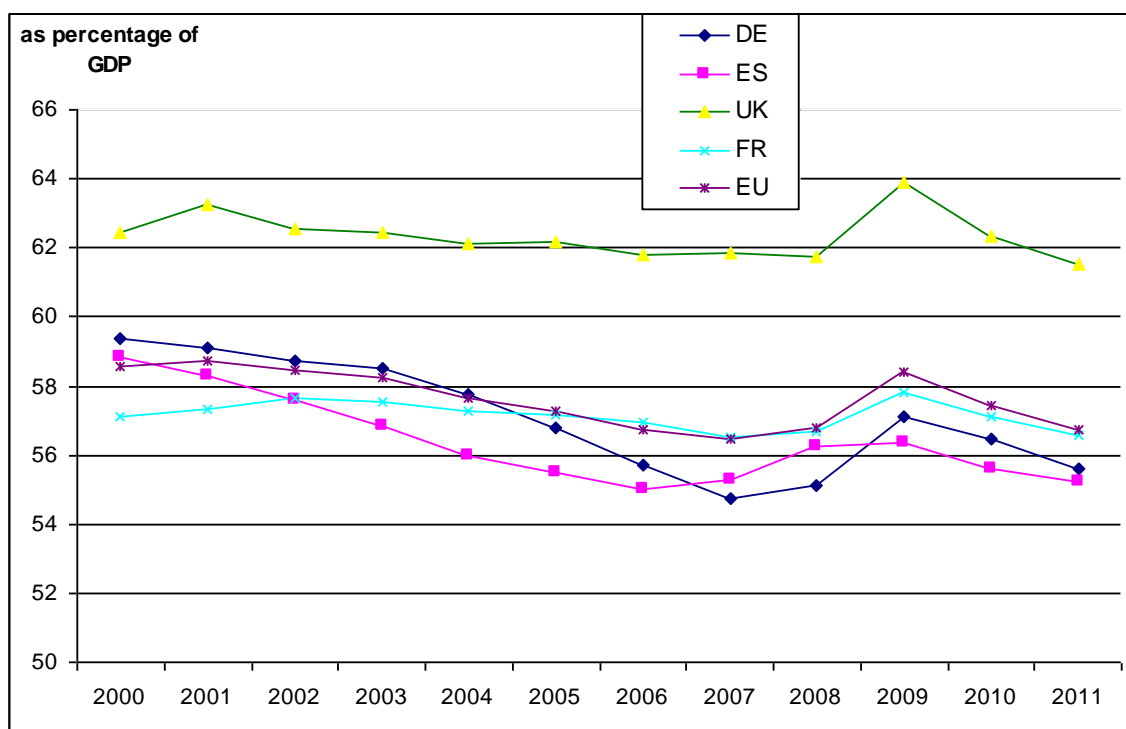
Figure 8: Nominal/real compensation, inflation and productivity 2005–2011 (Euro area)



Source: AMECO 2010.

Figure 9 puts these trends into a broader perspective and shows the wage share of GDP for individual countries and the EU-27 for a longer period (2000 to 2011). The share of wages in GDP indicates the extent to which employees participate in the accumulated wealth of the country or region. Figure 9 shows that employees have received a continuously shrinking share of the produced wealth over the whole decade, with the exception of the crisis year 2009. This is a rather automatic correction, as profits in the crisis shrank substantially and wages did not fall to the extent of the drop in GDP. The expectation of the Commission is that this correction will be eliminated in the next two years and the low pre-crisis levels of the wage share in GDP will be restored. This is a negative scenario for workers and means that real wages are expected to grow more slowly than productivity. Thus, the aim of collective bargaining should be to counterbalance this development in the coming years.

Figure 9: Adjusted wage share, EU-27 and selected countries, 2000–2011



Source: AMECO 2010.

Conclusions

Based on the macroeconomic developments and trends presented above, the major risks of the current macroeconomic situation in Europe for economic recovery and implications for collective bargaining can be summarised as follows.

Even though there are clear signs of recovery, such as increasing industrial output in Europe in the first two quarters of 2010, there are a number of factors that give cause for concern regarding the sustainability of the recent economic upturn. The one-off effects of government stimulus packages have had some effect on economic growth in 2010. The unexpectedly positive developments in the German economy were mostly due to the temporary effect of the weaker Euro, which will probably not continue. There are signs of a loss of momentum with regard to the recovery of the US, Japanese and Chinese economies. This would

have a clear negative effect on export activity, the engine of European growth in the coming period.

More importantly, the sudden turn of European economic policy towards austerity measures aimed at curbing public spending threatens investment and consumption and fundamentally undermines the domestic base of economic growth in Europe. The 'Greek' and later 'Euro' crises have prompted governments and European institutions, largely under pressure from the financial markets, to pursue a mono-focused policy of debt reduction and budget consolidation.

There is a danger not only in highly indebted countries but for the whole of Europe that the fragile recovery might end rapidly in a forced budget and debt consolidation policy.

However, there are further risks with regard to wage developments, even if the scenario of a continued recovery becomes a reality. Even against the background of positive economic development the labour market will be under pressure for a long period. With order books filled, firms prefer to improve performance by exploiting productivity reserves. The phasing out of short-time working arrangements in the majority of EU countries in 2010 and 2011 does not leave much room for new employment either, and one can only speculate about possible negative effects on employment in those countries where economic growth remains rather weak.

Pressures on future wage developments are thus manifold and, most importantly, are due to the uncertainty of recovery, the depressed labour market situation and the potential impact on the private economy of wage cuts in the public sector.

The forecast of the European Commission also reckons with very moderate wage increases in Europe in the next few years. Wage developments are expected to fall behind productivity growth. Therefore, it is essential that collective bargaining actors take a proactive stance and

aim at a balanced development of wages in line with the renewed momentum of productivity increases. A productivity-orientated wage policy is not only in the interest of employees but favourable for the European economy as such. Future economic growth in Europe will not merely be based on export performance to the rest of the world. As recent developments have shown, the strengthening of internal demand is crucial for a sustainable and balanced economic upturn.

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