



## Austerity, labour market and international treaties Cases of four EU countries in receipt of financial assistance

**SUMMARY** *Due to the global financial crisis and the European sovereign debt crisis several European countries (in particular Greece, Ireland Portugal and Spain) were forced to ask for financial assistance. In return they had to commit to implement so-called austerity measures aimed at reducing their budget deficits. These countries also agreed to implement structural changes such as labour market reforms in order to improve their competitiveness. The most recent case is Cyprus which concluded bailout negotiations in April 2013.*

*Structural reforms of labour markets aim at increasing flexibility with regard to wages, and to hiring and dismissal of workers. Some argue that they exacerbate the negative effects of the crisis while others claim that undertaking these reforms is necessary and will pay off in the longer term.*

*Furthermore, austerity measures have been criticised for having a negative impact on social dialogue and collective bargaining and human rights. There is also a growing number of observations and recommendations on their conformity with international treaties to which the countries are party, particularly the Conventions of the International Labour Organisation and the European Social Charter.*

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### Context

Since the global financial crisis and ensuing European sovereign debt crisis commenced, several EU countries (Greece, Ireland, Portugal and Spain) have adopted special measures to reduce their levels of debt. These so-called austerity programmes were preceded by negotiations with the International Monetary Fund (IMF), European Central Bank (ECB) and the European Commission (EC)<sup>1</sup>, which were based on the principle of conditionality: in return for financial assistance these countries are to follow budget-reduction policies and carry out a series of reforms to improve their competitiveness. In April 2013 Cypriot authorities also concluded negotiations on financial assistance – its case is discussed separately below<sup>2</sup>.

Economic research [concludes](#) that all but eight countries in the world have contemplated some budget-reduction strategies. It also points to the fact that all four countries discussed in this briefing are considering the whole spectrum of possible measures: eliminating or reducing subsidies (e.g. on fuel, electricity), cutting or capping public wage bills, increasing consumption taxes on goods and services (such as VAT), reforming pension systems (increasing contribution rates, raising retirement age, cutting benefits), reducing spending on social safety nets and welfare benefits, and reforming healthcare (raising fees and



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payments for patients). All have also undergone extensive labour market reforms, on the basis that increasing flexibility would encourage employers to hire more workers and boost economic growth. Such reforms include revising the minimum wage, limiting salary adjustments, decentralising collective bargaining and facilitating the ability of employers to lay off workers. The OECD has considered the structural reforms to be particularly [strong](#) in all four countries. In public opinion, austerity and reform programmes are generally [unpopular](#) as they tend to [lower wages](#) and reduce the quantity and quality of public services and benefits.

## Labour market reforms

Some argue that the present crisis is perceived as a [crisis of competitiveness](#) which can be resolved through more flexibility in labour markets and lower labour costs, leading to the gradual achievement of comparative advantage. Structural reforms on the labour market are therefore aimed at reducing employee protection and increasing flexibility of employment, particularly through changes to wage policy and the structure of collective-bargaining systems. [Critics](#) say this will lead to a model which depresses wages while increasing corporate profits.

In 2011, the Commission [recommended](#) that Member States (MS) revise their wage-setting systems to better reflect changes in productivity. Unit labour costs in the euro area are specifically monitored under the [Euro Plus Pact](#) which each of these four

### The austerity debate

The [proponents](#) of austerity argue that high fiscal deficits undermine market confidence, while fiscal consolidation increases expectations of reduced future tax liabilities, interest rates, and currency values and therefore boosts the confidence of bond-holders and investors. This in theory should lead to economic growth through stimulating consumption, investment and exports and increasing confidence in the financial markets.

The opposite view, often called Keynesian, is that fiscal consolidation in a context of recession exacerbates the downturn, due to the negative effect of falling demand and the reduction in investment stemming from low business confidence. Efforts to reduce the deficit should therefore only be taken once the economy has recovered because it is only when economic growth returns that such measures are likely to be successful.

countries agreed. Concerning the effects of austerity, economic research [indicates](#) that for every 1% of GDP in fiscal consolidation, inflation-adjusted wage income decreases by 0.9%. In particular, the four countries implemented direct freezes and cuts in public-sector wages, which has an important [signalling effect](#) for the private sector. [Minimum wages](#) were cut in Greece and Ireland<sup>3</sup> and frozen in Portugal and Spain. Consequently, in the period of austerity (2010-12), real wages have

shrunk<sup>4</sup> in all of them, with a record-high 20% reduction in Greece.

A 2013 [overview](#) of labour market reforms gives other examples. Portugal and Greece have relaxed the regulations on fixed-term employment, so promoting temporary work contracts and agency employment. Furthermore, new contracts with less job security were introduced in Spain and Greece, which also shortened the notice periods making it easier to fire workers.

A 2012 mapping exercise by the European Trade Union Institute [shows](#) that Spain, Greece and Portugal introduced atypical contracts with less employment protection, legal changes facilitating dismissals, and new working-time arrangements. Greece also removed special employment protection of civil servants. In all but Ireland, severance pay has been trimmed to facilitate termination of employment. In Spain and Greece obligations for mass layoffs have also been reduced.

Some [argue](#) that these deregulation policies fail to boost growth and employment in the

short term – which is essential in a crisis situation – because the employment effects of labour-market reforms depend heavily on the business cycle. In the present recession, more flexible regulation may lead to more redundancies without simultaneously supporting job creation. Others however [argue](#) that MS (particularly those most vulnerable to crisis) should address rigidities in their product and factor markets (all factors of production, including labour) with credible and ambitious strategies for structural reforms, which will bring gains (increased GDP) within a medium-term time horizon. Furthermore, some [economists](#) argue that reforming employment-protection legislation while undergoing fiscal consolidation is not necessarily detrimental in the medium term.

## Social dialogue

Among observers and stakeholders there appears to be [consensus](#) that austerity measures have [weakened](#) social dialogue and [collective bargaining](#) in all four countries.

**Selected austerity measures affecting social dialogue**

Decentralising collective bargaining	
Elimination or suspension of national collective agreements	IE
Suspension of favourability clause	EL, ES
Approval of exceptions and divergences	EL, ES, PT
Weakening of collective bargaining	
Suspension or reduction of extension procedures	EL, ES, PT
Limitation of "after effect" of collective agreements	EL, ES
Reduction in number of workers covered	ES, PT
Facilitating derogation of firm-level agreements from sectoral agreements	EL, ES, PT
Weakening of trade unions	
Promotion of alternative forms of employee representation	EL, PT
Possibilities to conclude company agreements with a non-union group of employees	EL, PT, ES

Sources: [Intereconomics](#), ILO, [ETUI](#)

EL: Greece, ES: Spain, IE: Ireland, PT: Portugal

The European Trade Union Institute [argues](#) that the crisis has seen the use of a new tool: abrupt de-collectivisation and de-centralisation of collective bargaining in "problem countries".

The [rationale](#) of the EC, ECB, IMF and governments was similar to that with labour market reforms: loosening the industrial relations framework aims to increase wage flexibility, which would presumably lead to private sector-led growth. In particular, Greece, Spain and Portugal have had highly [developed](#) sectoral agreement structures which covered 80 to 90% of the workforce.

In 2011, the European Council specifically [asked](#) for a review of the degree of centralisation in the bargaining process. Accordingly, the International Labour Organisation (ILO) made assessments in its recent country-specific reports, as follows:

- [Greece](#): "weakening of collective agreements has not contributed to the resolution of the issue of competitiveness of the Greek economy. More effective social dialogue could have prevented social instability. There is a need to strengthen social dialogue at the bargaining table and to promote a forward looking negotiating culture at all levels".
- [Ireland](#): "to improve social dialogue requires an institutional reconfiguration. But it remains unlikely that the government will legislate for a right to collective bargaining".
- [Spain](#): "the external imposition of economic and fiscal measures and market pressures may have rendered the Government's external economic reputation more important than internal social legitimacy".
- [Portugal](#): "wages and working conditions are increasingly determined by direct negotiation between management and individual workers. Downward pressures on wages and working conditions may be difficult to resist. This may further weaken domestic demand and postpone recovery".

## International treaties

### *International Labour Conventions*

ILO Conventions are legally binding international treaties which establish labour standards. During the crisis, the ILO made a number of observations and direct requests for application of its conventions.

#### *Ireland*

Ireland was called upon to re-examine differentiation of the [minimum wage](#) based on age, restrict the scope of "inability to pay" (wage) clauses and pursue [active employment](#) policy as a major goal.

#### *Spain*

Spain was called on to report on measures ensuring that employment services are sufficiently [staffed](#) – after the budgetary cuts – to serve employers and work-seekers throughout the country. Furthermore, it was asked to urgently bring national legislation into conformity with Convention 94 (on inclusion of [labour clauses](#) in public contracts). The ILO also asked the government to report on coordination of social and employment [policies](#), noting that they are the responsibility of one ministry. It added that application of such a model often results in a focus on making labour legislation more flexible, without providing corresponding protective social security measures. In view of the precedence given to economic/fiscal policy objectives and the worsening employment situation, the ILO asked the government to report on measures [alleviating the impact](#) of the crisis, (such as pursuing an active employment policy).

#### **The case of Cyprus**

In its country-specific recommendations, the Commission repeatedly called on Cyprus to reform the system of wage bargaining and wage indexation. Furthermore, under the [agreement](#) with its creditors, Cyprus committed in November 2012 to reform its wage adjustment system. The first [assessment](#) by the Commission reported the suspension of both the [Cost of Living Allowance](#) (COLA) in the public sector (until the end of the programme) and wage indexation in the private sector (until 2014). The difficulties of serving the growing number of unemployed with public employment services were also mentioned.

In a 2012 [overview](#) Cyprus was also reported as changing the individual and collective dismissal rules (with a view to simplifying the process). The 2013 [data](#) and Commission [report](#) say that reform of the private-sector wage adjustment system is under deliberation. No changes to minimum wages are being considered.

Furthermore, the ILO asked for information on the extent of the use of social dialogue when devising new employment policy measures and measures taken to facilitate the return to the market of the long-term unemployed. The ILO reiterated that setting of [minimum wages](#) in times of crisis should involve social partners, called for increased

[social dialogue](#) and noted that a substantial increase in the number of cases processed by the [wage guarantee fund](#) was not matched by an increase in staff.

#### *Portugal*

Portugal was called upon to provide information on government measures which address the decrease in [wages](#) and warned that austerity measures reducing [social expenditure](#) will push workers below the poverty threshold. Furthermore, the ILO called for the government to undertake consultations with employers and workers' organisations regard-

ing the readjustment of [minimum wages](#) and called for a report on the [effect](#) of austerity measures on the principle of gender equality and on balancing work and family responsibilities.

#### *Greece*

In November 2012, on the [basis](#) of a visit to the country by a high-level ILO Mission, the ILO [called](#) on Greece to respect Conventions 87 ([Freedom of association](#)) and 98 ([Right to organise](#)) pointing to an extensive deficit of social dialogue in the austerity measures taken. The ILO highlighted the need to promote and strengthen the institutional framework to respect these safeguarded

rights. Furthermore, the ILO expressed serious concerns regarding the [cumulative effects](#) of austerity measures on workers' income levels, living standards and wage protection. The ILO also urged the government to make every effort to prevent any new curtailment of workers' rights in respect of wage protection, and to attempt to restore the drastically diminished purchasing power of wages. In addition, the ILO demanded detailed information on the [gender gap impact](#) of the new pay-scale, grading system and dismissals in the public sector. It also expressed concern over the disproportionate impact of new flexible forms of employment on women's pay. Furthermore, the ILO asked the government to monitor the impact of austerity on remuneration of men and women in the private sector. The ILO observed that [pension cuts](#) have put a large part of the Greek population in instant poverty. It noted the impact of [pension reform](#) on poverty was not addressed in discussions with the EC, ECB and IMF.

Furthermore, the ILO considered that "ordinary people" bear a disproportionately large share of the burden of austerity measures through direct cuts in wages and pensions. In addition, the ILO regretted the application of an exclusively financial solution to the crisis, as it caused a collapse in internal demand and the social functioning of the state. Consequently, the ILO requested Greece to assess the redistributive effects of benefit cuts and the impact of austerity measures on the sustainability of the social security system. The government was also asked to specify

how [employment policy](#) measures implemented under the economic adjustment programme relate to the objectives of full productive and freely chosen employment. Other information requested concerned the impact of the current restructuring of the [labour administration system](#) on effective performance of its functions. Regarding [social partners](#), the ILO stressed the need for an extraordinary mechanism enabling them to reach agreements on reforms taken in times of crisis. The ILO also recalled the uneven sharing of child and family-care responsibilities between men and women, and noted that the burden on women increases as a result of austerity measures. Finally, the ILO argued that austerity programmes have a disproportionate impact in lower wages of some groups of workers (e.g. working women) and are likely to lead to an increase in employment discrimination.

### Austerity and human rights

In its November 2013 report, the Council of Europe [argues](#) that many austerity measures are characterised by public expenditure cuts, tax hikes which disproportionately affect lower income groups, reduced labour protection and disadvantageous pension reforms. As such they affect the whole spectrum of human rights, e.g. rights to decent work, adequate standard of living and social security. The Chair of the United Nations (UN) Committee on Economic, Social and Cultural Rights argues that austerity is a [disincentive](#) to economic growth and as such hampers the realisation of economic and social rights. Furthermore, the UN has [seen](#) austerity measures as excessively affecting the disadvantaged groups and causing regression in economic, social and cultural rights (e.g. in Spain). A UN expert [stated](#) that austerity measures in Greece undermine basic human rights, such as access to jobs, health, water and energy.

### European Social Charter (ESC)

The [ESC](#) is a Council of Europe (CoE) Treaty which protects social and economic human rights, and is legally binding for countries which have [ratified](#) it: all four have ratified the 1961 Charter, and Ireland and Portugal also its revised version. In a 2012 [resolution](#), the CoE Assembly states that, "in the face of continuous austerity policies", Greece and Spain should be urged to "ratify the revised Charter and respect a minimum level of social

standards in any decision taken subsequent to the crisis".

The resolution adds that the bailout to Greece was granted on condition that it implement a round of austerity measures

(such as a decrease in minimum wages, making 150 000 civil servants redundant by 2015, and the prohibition of collective wage negotiations) which are inconsistent with the rights granted by the ESC and ILO agreements. Violation of the ESC has been [determined](#) in a number of collective complaints about austerity measures that have been lodged against Greece since 2011 (concerning legislation which reduces [pensions](#) primarily in the public sector and measures relating to [remuneration](#) and [working conditions](#)). Furthermore, insufficient spending on active labour measures contributed to [non-conformity](#) of Greece with Article 1 ESC (policy of full employment). The Commission [recognised](#) that in the case of Greece "important budgetary measures are likely to be challenged in courts".

For Spain, the Council of Europe assessed that austerity measures [increased](#) poverty, with particularly grave consequences for vulnerable groups such as children and the disabled. The low level of family benefits had not been in line with the ESC before the austerity era. The CoE expressed [concerns](#) about further reductions in these benefits due to austerity policies, and called on Spain to accede to the revised ESC and its mechanisms for collective complaints.

Ireland has been non-conformant with the ESC for too low a level of [maternity benefits](#) in 2011. The government is planning further [cuts](#) to these levels. The CoE's 2011 [report](#) expresses concerns that the budgetary cuts may be detrimental to the protection of

human rights, have a severe impact on society and that the connected risks should be avoided especially regarding vulnerable people (especially children, Irish Travellers and the disabled).

In Portugal, the minimum wage level was too low in 2010, leading to [non-conformity](#) with the ESC. Freezing wages as an austerity measure maintains this status. In its 2012 [report](#) the CoE expressed concerns about the impact of austerity measures on social and economic rights and their adverse effects particularly on children, the elderly and Roma people.

## Main references

European Trade Union Institute, [2013 country reports](#).

Intereconomics Forum, [Convergence in the EU](#), 2013.

[Normlex](#), Information System on International Labour Standards.

The European Social Charter [country factsheets](#).

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## Endnotes

- <sup>1</sup> Spain has been given [financial assistance](#) by euro area Member States. Austerity programmes are implemented under the [Excessive Deficit](#) and [Macroeconomic Imbalances](#) procedures.
- <sup>2</sup> Because austerity measures in Cyprus are very recent there are only limited data available at the moment. Its case is therefore discussed separately; otherwise the countries concerned are Greece, Ireland, Portugal and Spain.
- <sup>3</sup> The minimum wage cut was [temporary](#) in Ireland.
- <sup>4</sup> Economic data [show](#) that Greece, Portugal, Cyprus, Ireland and Spain recorded the highest decreases in the EU (together with Hungary).