

Collective wage bargaining and the adoption of the Single Currency: a comparison of Germany, Spain, France and Italy

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In the 1990s, the wide dissemination of technological innovations, changes in models of production and the organization of work and the extension of the process of European integration led social stakeholders to adapt the national systems of collective bargaining and to anticipate the effects of the introduction of the Euro. In so doing, they opened the way for a certain number of institutional reforms. Several movements took place in parallel: a marked slowdown in wage increases, inter-professional summit agreements that gave the signal for decentralisation of negotiations, improved articulation between branches and enterprises, multi-dimensional bargaining, and the increasingly important part played by the variable components of remuneration. In this context, the weight of the branches in wage negotiations has diminished, and that of enterprise, directly subject to international competition and the process of European integration, has increased.

During the 1990s, the collective wage bargaining systems in Germany, Spain, France and Italy were often called into play by an international environment that was undergoing profound transformation, by the wide dissemination of technological innovations

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that brought about significant changes in the model of production and the organization of work, and by the advancement of the process of European integration with the signing of the Maastricht Treaty, the adoption of the Stability and Growth Pact and the implementation of the new European Monetary System (*box 1*).

Structural evolutions transform bargaining systems

Since the signing of the Maastricht Treaty in February 1992 and the Stability and Growth Pact in December 1996, the four countries in question have seen major changes in their bargaining systems. However, these modifications are not exclusively the result of the creation of the single currency. They are part of an already long process of change which began after the second oil crisis.

In a context of intensified international competition, industrial restructuring and externalisation of activities, the reduction of the weight of the manufacturing industries as compared to the tertiary sector, the decrease in the proportion of blue-collar and white-collar workers in the total workforce as compared to middle and upper management and the strong increase in unemployment have all contributed to significantly reducing the rate of unionisation and weakening the bargaining power of trade unions. Conflict has greatly diminished, while the rate of coverage by wage conventions is increasing or remaining stable over the long term because the States intervene to guarantee extension of the collective-bargaining

Box 1

Methodological note on the international comparison project

Since the ratification of the Maastricht Treaty and the implementation of the single currency, the countries of the European Union have a smaller number of instruments of regulation of economic imbalances. In the absence of possibilities of adjustment via the traditional instruments of economic policy, such as exchange rates, it is to some degree toward wages – and indirectly towards the institutions that are the basis of their structure – that the capacity of the different countries to react to external shocks and macro-economic imbalances is likely to turn. However, the dynamic of wages in the different countries of the European Union is still determined today by institutions and systems of negotiation that are strongly marked by national traits.

In this context, the Wages and Wage Agreements Department of the Dares decided, as part of its program of work for 1999, to launch an international comparison of systems of collective wage bargaining.

The project was aimed at analysing the form and the content, over the past ten years, of the systems of negotiation in Germany, Spain, France and Italy, and observing their evolutions during the most recent period.

The main goal of the study was to identify, beyond the great disparities that still characterise the four systems of negotiation, the evolutionary traits they share in common in the context of Economic and Monetary Union.

In each country, the multidisciplinary study was conducted under the responsibility of a team of several researchers and/or functionaries, which commissioned the study, assisted by a local monitoring committee made up of experts from management and labour.

To co-ordinate the overall project, a steering committee was set up, comprising the project manager (Carlos Yakubovich, Dares), other members of the Wages, Labour and Professional Relations Sub-Directorate and the Economic Analysis unit of the Dares, as well as representatives of the Labour Relations department of the French Ministry of Social Affairs, Labour and Solidarity, the Forecasting department of the Ministry for Economy, Finance and Industry and the Institute for Economic and Social Research (Ires, France).

The research teams were:

For Germany: Mr. Reinhard Bispinck of the WSI, Düsseldorf, Ms. Anni Weiler of the Institute for Social Research of the University of Göttingen and Mr. Reinhard Bahnmüller of the Institut Arbeit und Technik of the University of Tübingen;

For Spain: Mr. Lluís Fina of the Department of Applied Economics of the Autonomous University of Barcelona, Mr. Francisco González de Lena, Labour and Social Affairs Inspector and Mr. José Ignacio Pérez Infante of the University Carlos III of Madrid;

For France: Ms. Françoise Lozier and Mr. Pascal Ughetto of the Iris, University of Paris 9 Dauphine and M. Antoine Haag of the University of Paris Nanterre;

For Italy: Mr. Michele La Rosa, Mr. Paolo Minguzzi and Mr. Stefano Grandi of the Department of Sociology of the University of Bologna.

The complete by-country studies, together with a comparative synthesis study worked out by the project manager, have been published in the collection *Cahiers Travail et Emploi* of the Dares.

agreements entered into in the different branches to all enterprises and all employees.

The rapid transformations in the corporate world have also resulted in changes in collective bargaining and in employees' status. Many activities, now subject to outsourcing and relocation, are now excluded from the sphere of influence of bargaining systems.

In addition, as a consequence of the sharp slowdown in growth and the relative weakness of the trade unions, the decline in bargaining issues related to redistribution of income weighs on the long-term evolution for sharing of value added. After the second oil crisis in 1979, the share of wages in the value added of most European countries declined.

Finally, it was during the 1980s that policies of disinflation and wage moderation, that held sway due to concerns for preserving competitiveness and the interdependence of bargaining issues, progressively became major issues in collective bargaining, both at the branch and the enterprise level.

The 1990s: Monetary union on the horizon

The social stakeholders and the governments mobilised heavily in all the countries, from the early 1990s, to try to adapt the national systems of inter-professional relations and anticipate the effects of the single currency.

Certain countries changed the way in which collective bargaining was carried on by signing

centralised accords or social pacts covering the different levels of negotiation simultaneously, via direct or indirect interventions of the State with the social partners, with the goal of seeking durable compromises as regards wage increases, employment and competitiveness.

Generally, the major inter-professional summit accords are characterised by:

- *significant wage moderation*

These agreements address the need for reducing inflationist tensions, improving competitiveness, and encouraging employment through long-term wage moderation conventions and a closer link between remuneration and performance indicators in the enterprises.

- *regulatory centralisation and improved branch-enterprise articulation*

Rather than true centralisation of negotiations, a central piloting entity is put in place to better contain the tendency towards decentralisation of collective wage bargaining – which has been predominant since the 1980s – by motivating the social stakeholders to co-ordinate via social concertation as a complement to co-ordination by the market. Branch negotiation generally concerns increases in the conventional minima, often granted as a function of an anticipated inflation rate, and the safeguarding of the purchasing power of wages. Enterprise-level negotiation, for its part, adjusts the increases of these minima via the variable components of remuneration not covered by the latter as a function of results and the attainment of the goals of the enterprise.

- *multi-dimensionality of collective bargaining*

The social partners agree on a wage moderation that is significant by comparison to the past at the level of the branch and of the enterprise, in exchange for a broadening of the scope of bargaining topics, which run from union representation to information for employees and include workweek reduction and work organization, job creation, ongoing training, technological change and modulation of wage increases as a function of the situation and of the companies' profitability prospects. Compared to the past, these multi-dimensional agreements are also characterised by longer durations in all the countries where they have been entered into.

- *a more important role for the variable components of remuneration*

The weight of the variable components of remuneration is growing systematically. We are seeing a gradual reduction of fixed wages via the addition of variable components to certain conventional bonuses (for example, seniority bonuses and the 13th and 14th months), increasingly large bonuses linked to performance, and profit-sharing systems. The dissemination of these systems is becoming generalised with the improvement of the branch-enterprise articulation. They are closely associated with the process of reorganisation of work: working in teams, multi-disciplinarity, and externalisation of certain activities. In the enterprises, the concept of yield associated with each employee loses some of its importance since it is no longer the commitment or the individual effort of the employees that

determines yield, nor their quantitative or qualitative result per unit of time within each company. The work done is often defined and assessed beginning with the end of the chain of the productive process – that is, the market. Accordingly, scales of evaluation of yield vary as a function of sales and profits, and the remuneration actually received by the employee depends more on factors having to do with the evolution of the markets.

Significant differences between countries regarding the style of concertation

Despite these close similarities, there are significant differences between the institutional reforms implemented in the countries of the Monetary Union during the 1990s.

The first concerns the period of implementation of these agreements. Italy, faced with inflation and monetary crises in the recent past, implemented institutional reforms and a social pact largely in the first half of the decade, with the goal of internalising the macro-economic constraints related to the Maastricht Treaty. Spain, also with a significantly inflationist past, began instituting legislative reforms in 1994, aimed at creating greater flexibility in its labour market. However, the social pact between trade unions and management introducing reforms of the collective-bargaining system was not signed until 1997. On the other hand, in Germany and in France, where the process of disinflation has gone on for many years, the implementation of the new collective agreements and social

Box 2

The levels of negotiation in Germany, Spain and Italy

In *Italy* as in *Spain*, the pacts stipulate a clear separation between levels of negotiation and improve the articulation between them. However, their character differs. In *Italy*, the pact of July 1993 is a significant break with the past. It is more centred on the social partners, with the State playing a two-fold role of guarantor and mediator. In addition, this pact formalized the definitive end of automatic indexation of wages (the *scala mobile*). In branch negotiations, increases in the conventional minima are limited to a single order of magnitude: the rate of inflation anticipated by the government. As for enterprise negotiation, it complements the increases in the minima for the branches by manipulating the variable components of remuneration, taking financial results into account.

In *Spain*, on the other hand, the reforms of 1994 and 1997, aimed at changing the operation of the labour market and the system of collective negotiation, seem less robust, since the State does not participate directly. The branch agreements are now supposed to set guideline criteria on the wage structure in each sector, and leave other aspects such as setting wage increases to the conventions and agreements entered into at the provincial level or at the level of the enterprise.

In *Italy*, the wage moderation stemming from the agreements is conceded in exchange for better information of employees in the companies, improvements in representation and the negotiating capacity of the union delegates and better concertation as regards the organization of work and technological change. In *Spain*, on the other hand, despite the reforms of 1994 and 1997, branch agreements stipulating wage increases at the national or provincial level as a function of the predicted inflation rate are still widely predominant today – with the possibility, however, for enterprises in difficulty to

have recourse to clauses of exception. In this situation, the agreement made at the provincial level or at the level of the enterprise generally introduces clauses requiring transformation of precarious jobs – very widespread in *Spain* – into more stable jobs in exchange for wage moderation.

In *Germany*, the branch collective-bargaining agreements always lead the way as regards the collective definition of standards for work and remuneration. However, this system of negotiation is progressively losing its power of co-ordination and its capacity for articulating between branch and enterprise. *Germany's* reunification, the extension of the process of European integration and the slowdown of growth during the first half of the 1990s have progressively amplified the movement towards decentralisation, introducing clauses of exception which allow enterprises experiencing economic difficulty to deviate from the increases stipulated in the branch agreements. This freedom of decision is limited, however, since the social partners reserve the right to examine and approve each case.

In this context, in the mid-1990s – despite the strong tradition against direct intervention of the State in the system of negotiation –, the first evidence of Chancellor Kohl's desire to put in place structures for broad concertation aimed at overcoming the structural difficulties of the German economy and creating a climate of confidence was the institution of an employment pact. However, this pact was broken in the Spring of 1996 by the trade unions. In 1999, in a context of economic recovery, after years of wage moderation and reduction of wage costs, the labour unions took an attitude towards wage negotiations that was summed up in the slogan "An End to Modesty." The position of the trade unions then gradually evolved. The recommendations adopted as part of the employment

pacts, while they have different formal structures in the two countries, took place more in the second half of the 1990s. Their essential aim – preserving wage moderation and improving job performance – tended to take shape in the context of the recovery of economic activity that came about at the end of the decade.

A second difference has to do with the role played by the State in the implementation of the accords. In France and in Italy, government played a very active role in re-launching the social dialogue; in Spain, on the other hand, after having played a very important role of mediation and leadership during the 1980s, the State attempted to distance itself partially from the agreements entered into during the 1990s. Conversely, in Germany, the State has always deliberately stayed out of social negotiations. It did attempt, however, in the late 1990s, to intervene more actively toward the implementation of an employment pact at the summit, without however profoundly affecting the traditional autonomy of its social partners regarding wages at the branch or enterprise level.

Finally, a third difference has to do with the impact of institutional reforms. The mode of intervention of the State and the type of social pact put in place differ, and the dynamic of wages in each country is still strongly influenced by its institutions and its particular style of negotiation (*box 2*).

In France, institutional change and the evolution of collective bargaining stand out from those of the other European countries. Nevertheless, while France did not explicitly introduce a social pact at the summit, as was the case in Italy, Spain and later in Germany, the introduction of new structures of concertation based on workweek reduction and reorganisation over a longer time frame can be compared to the experiences of the other countries who entered into a social pact. It was in the second half of the 1990s that the French Public Authorities intervened via legislation, launching the negotiations on workweek reduction and the outline of a new multi-dimensional compromise in the areas of wage moderation, employment and the length of the workweek. The branches

began negotiations in 1996, initially dealing only in part with the topics mentioned in the inter-professional agreement of 31 November 1995, since that agreement only marginally covered the issue of employment and that of compensation not at all. Generalising a process set in motion by the Robien law, the law of 13 June 1998 (known as the “first Aubry law”) on the reduction of the workweek from 39 to 35 hours resulted in a major wave of branch agreements on the workweek and moved enterprise bargaining to a new level. Workweek reduction thus became the essential pillar of governmental action on employment (see *for further information*: Travail et Emploi No. 83, July 2000).

In the final analysis, these laws have:

- re-launched bargaining at the level of the branch and of the enterprise;
- allowed small and very small enterprises who have no union representative to benefit from the accords and from assistance by introducing mandating, a new form of collective representation of their employees in negotiation;
- introduced a broader range of topics into the legislative texts and the bargaining procedures, contributing to the beginnings of a compromise between reduction and reorganisation of the workweek and wage moderation and/or job creation.

Compensation for the workweek reduction is done in the majority of cases via an increase in hourly wages, when the monthly remuneration is maintained in whole or in part. This choice results in an increase in the total payroll.

Box 2

pact were to guide the negotiations of the year 2000. Responding to an initiative of Chancellor Schröder, the management and labour organizations, in January 2000, signed a declaration in favour of a “contractual policy favourable to employment over a longer time period.” Wage increases based on the progression of productivity alone, collective-bargaining agreements with longer validity (at the request of management) and measures facilitating early retirement of employees (at the request of labour) were to be included in the major collective-bargaining agree-

ments. The chemical industry, followed by the steel industry, signed accords including a high degree of wage moderation. Wages were to increase in two stages (between 2 and 3% in mid-2000 and on the order of 2% one year thereafter) in exchange for the possibility of early retirement in the form of part-time work and a certain flexibility of collective-bargaining agreements, with starting wages lower than the conventional norms for long-term unemployed persons in chemistry and margins of flexibility for hours and wages as part of local employment pacts.

4 Wages and labour conditions

However, its long-term evolution is contained by a freeze or a moderation of wage increases for a more or less long period. In this situation, and with the help

of financial aid from the State, the workweek reduction can create jobs provided that the social partners negotiate and arrive at a reorganisation of work and a

controlled progression of wages in order to maintain per-unit labour costs, production capacities and the competitiveness of the enterprises.

Box 3

The wage drift

When systems of negotiation are characterised by good articulation between their different levels, wage negotiations normally take place in two stages.

Negotiation at the level of the industry branches: the organisations representing the company heads and the employees in the branch agree on a system of classification and set minimum wage increases or wage schedules in keeping with the conventions in force in each branch. Frequently, they also include clauses increasing certain conventional bonuses: bonuses for seniority or age, for difficult work, night work, overtime pay, the 13th and 14th month, etc.

Once the increases are set at the level of the branch, another round of negotiations is held, this time at the level of the enterprises. It can concern base wages, but more frequently concerns extra-conventional bonuses, in particular those related to yield and productivity and to the form of employee participation in turnover and profit, which is added to the base wages determined based on the increases stipulated for the branch. This is the case above all with medium or large enterprises and those which have employee representatives or employee councils.

In certain circumstances, this round of negotiations may not take place, in particular when the enterprises are very small and have no bodies representing their personnel. If the head of the company is a member of a management federation which is a signatory of the branch agreements or if there is "administrative extension" of the agreement to the company, the rules for minimum wage increases stipu-

lated by the agreement are applied. The company heads can also grant their employees bonuses keyed to results, which are added to the increases in the minima for the branches.

In practice, however, each country is confronted with very complex realities, and though it is true that branch negotiations still play a relatively important role in the four countries studied, it is nonetheless also true that the degree of constraint of the collective rules they set and the practical repercussions they have on the enterprise-level bargaining that determines the wages actually paid differ greatly from one country to another.

Wage drift measures, at a given moment in time, the gap between the variation of the wages actually paid to employees and the variation of the conventional wages negotiated at the branch level.

Wage drift =

$$\left(\frac{wp_t - wp_{t-1}}{wp_{t-1}} - \frac{wn_t - wn_{t-1}}{wn_{t-1}} \right) \times 100$$

where

$$\frac{wp_t - wp_{t-1}}{wp_{t-1}}$$

represents the relative variation of the wages actually paid between the periods (t - 1) and t.

and

$$\frac{wn_t - wn_{t-1}}{wn_{t-1}}$$

represents the relative variation of the wages negotiated at the branch between the periods (t - 1) and t.

The wages actually paid to workers depend on a large number of parameters that are very difficult to manage and to predict from the bargaining table at the branch level. This is so because when moving from the branch to the enterprise level, the wages actually paid depend on the size of the enterprise, on whether or not it belongs to a group, on its performance, and on the different characteristics of the employees such as age, seniority and skill.

Further, the aggregated wage drifts pose serious problems of estimation. When drifts are estimated for the economy as a whole or for a major sector over very long periods, they are often subject to significant composition effects. Thus the change in the socio-professional structure of employment - to the detriment of blue-collar and white-collar workers and in favour of middle and upper managers - in the industrialised countries contributes to reinforcing the weight of increases in extra-conventional bonuses in the evolution of the mean remuneration actually paid, and thus to overestimation of the drift. On the other hand, the change in the inter-sectoral structure of employment to the detriment of the manufacturing industries, the growth of the rate of feminisation and the increase in the frequency of part-time and temporary jobs can contribute to attenuating the wage drift.

From negotiated wages to actual wages: what changed in the 1990s?

Given the important role played by institutional change, to what degree has the passage from wages negotiated at the branch level to the wages actually received been influenced by the social stakeholders' integrating sectoral and macro-economic parameters in the different levels of negotiation and by the type of interaction exercised between those levels over time?

An analysis of one specific point, "wage drift," and its evolution over time, can point to answers (box 3).

In the four countries covered by this study, the evolution of wage drift changed profoundly during the 1990s. In the 1960s and 70s, bargaining at the micro-economic level tended more to

amplify the wage increases negotiated at higher levels. If a wage moderation agreement was made at the central or branch level, very often the negotiation at

enterprise level could cause wages to "drift" towards higher increase rates, thus losing a part of the moderation that had been taken for granted.

Figure 1 - Germany: increases in conventional wages, actual wages, and wage drift for the economy as a whole (1961 - 1993)

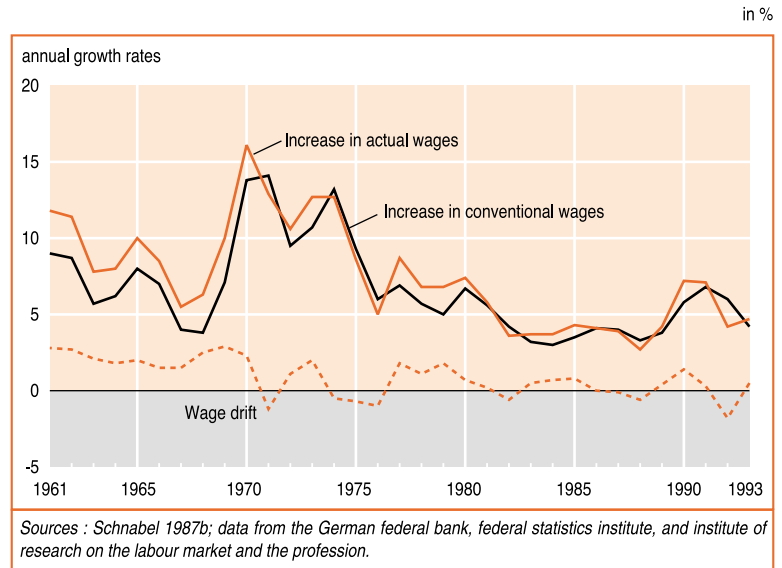


Figure 2 - Germany: evolution of conventional and actual wages for the economy as a whole and for manufacturing from 1991 to 1998

Year	Economy as a whole						Manufacturing (including construction)					
	Level of conventional wages				Actual wage per employee		Level of conventional wages				Actual wage per employee	
	Hourly		Monthly				Hourly		Monthly			
	Index ¹	% compared to previous year	Index ¹	% compared to previous year			Index ¹	% compared to previous year	Index ¹	% compared to previous year		
1991	76.7	...	78.6	...	81.8	...	73.4	...	76.9	...	77.6	...
1992	85.8	11.9	87.2	11.0	90.5	10.5	82.8	12.9	85.9	11.7	88.4	13.9
1993	92.2	7.5	92.9	6.5	94.6	4.6	90.6	9.3	92.0	7.1	92.3	4.4
1994	95.3	3.4	95.6	2.9	96.7	2.2	94.3	4.1	94.8	3.0	96.1	4.1
1995	100.0	4.9	100.0	4.6	100.0	3.5	100.0	6.1	100.0	5.5	100.0	4.1
1996	102.7	2.7	102.4	2.4	101.8	1.8	103.8	3.8	102.9	2.9	102.9	2.9
1997	104.2	1.5	103.9	1.5	102.6	0.8	105.8	1.9	104.6	1.7	104.7	1.7
1998	106.1	1.9	105.8	1.8	104.1	1.4	107.7	1.8	106.4	1.7	106.4	1.6

1. Base 100 in 1995.
Source: German federal bank.

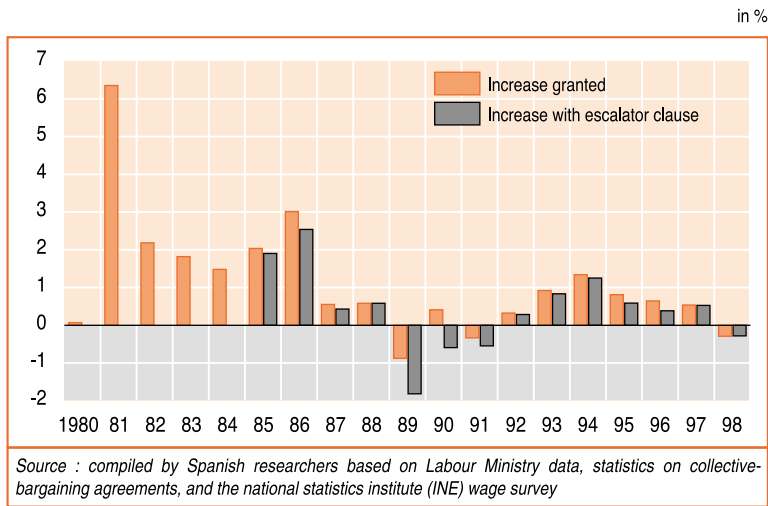
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The drift, in this context, was systematically positive. Such is the case with Germany during the 1960s and through the mid-1970s (*figure 1*). But it is also the case in most countries that were undergoing rapid growth in the post-war period.

Conversely, the decade of the 1980s is characterised by fluctuations and a downward trend. In enterprises, more directly exposed to economic difficulties and international competition, the social partners seem to react more quickly than their

counterparts at the branch level. Bargaining issues, gradually diversifying and becoming interdependent, became more and more difficult to negotiate at the branch level, thus reinforcing the trend towards decentralisation of negotiation towards the enterprises.

Figure 3 – Spain : aggregated wage drift

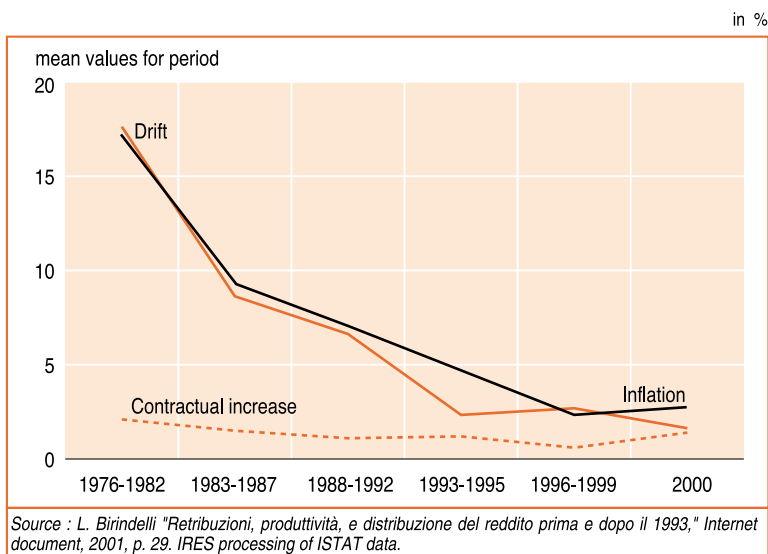


In this context, branch agreements were increasingly less adhered to. The wage drift, at the end of the 1990s, shows fairly low values, and is very frequently negative or near zero in the four countries (*figures 2, 3, 4 and 5*).

Prospects for evolution and open questions

Now that the third phase of Economic and Monetary Union (EMU) is in place with the institution of the single currency, what is the future of the social pacts and agreements made in the 1990s?

Figure 4 – Italy: increases in contractual wages, wage drift and inflation (economy as a whole)



It is true that instead of immediate wage increases, multi-dimensional negotiations affecting a longer period have been put in place, based on relative consensus as regards wage moderation. But will this consensus, obtained in a fairly exceptional period in the history of the four countries, be durable? Or might it weaken over time, now that the third phase of EMU – that of the single currency – has been reached? These compromises could be called into question if the recovery of economic activity becomes durable. In this case, it is not impossible that the branch might again become the central locus of bargaining and wage regulation, all the more in a context where the borderlines of enterprises are becoming more and more indistinct with restruc-

turings, mergers-acquisitions and relocations.

A second question concerns the level and the scale of wage regulation. For the four countries analysed (and for all the other countries belonging to the Monetary Union), the co-ordination through social concertation that arose from the experiments with wage moderation remains limited to the national territories. The euro was put into place without any project of coordination of social policies in a European framework. The issue of concerted regulation of the evolution of income within the euro zone therefore takes on a degree of importance comparable with that — more often cited — of coordination of budgetary

policies (for further information: Maurice J., 1999).

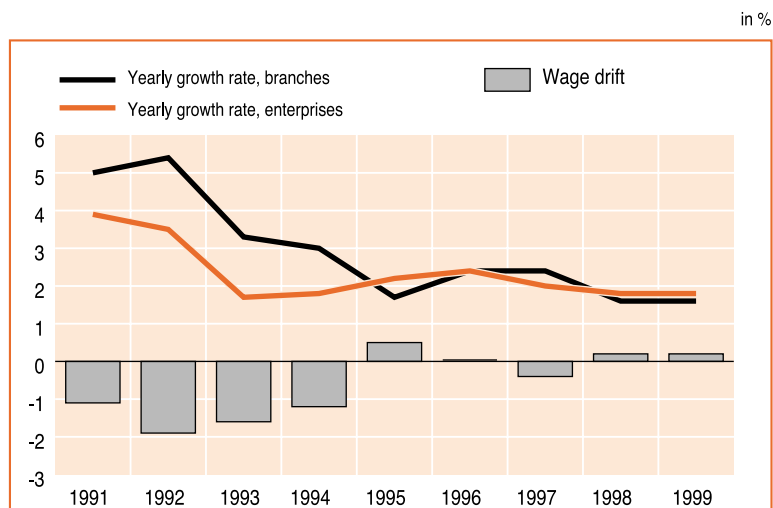
In a long-term perspective, a third question arises regarding the duration of wage moderation. In terms of sharing of value added, we note that during the 1980s — with the slowdown of growth, disinflation and the relative weakening of the trade unions —, real wages evolved less rapidly than labour productivity, while the share of wages in the value added of most European countries decreased almost systematically until the end of the 1990s, attaining a lower level than that of the mid-1970s.

In the 1990s, in a context of institutional reforms aimed at accentuating wage moderation, the

rate of growth of real wages remained significantly lower than the rate of growth of labour productivity and the share of wages in value added continued its decline in the European Union.

This situation could nevertheless change if economic recovery becomes durable. ■

Figure 5 – France: wage drift



Field : Estimation for all Banking-Insurance, Apparel, Transportation, and Chemistry-Plastics branches.
Source: Estimation by the French team of researchers based on DRT and Dares data.

For further information

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