

COLLECTIVE BARGAINING IN EUROPE

1998-1999

Edited by Giuseppe Fajertag

ETUI

EUROPEAN TRADE UNION INSTITUTE



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European Trade Union Institute (ETUI)

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in Europe
1998-1999**

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Foreword

In 1998 the European Union and in particular the euro-zone were no more than mildly affected by the international crisis. As a result, GDP growth across Europe averaged 2.9% in 1998 and the slowdown for 1999 appears to be temporary. Inflation remained strictly under control for the whole of 1998, not exceeding 1.5-1.6% on average. The effects of the 1997-98 recovery contributed to a reduction of unemployment levels in the EU where the total unemployment figure fell by one million from a total of 18.7 million in 1997.

During 1998 wages in Europe followed the general trend that has characterised pay developments since 1993-1994: moderate, or extremely moderate, nominal increases against a background of generally strengthened social dialogue. As was the case in 1997, real wages in the euro-zone registered no growth despite economic recovery and falling inflation rates. Real wages actually fell in Italy and Luxembourg and rose by a modest 0.5% in Germany.

This year we asked the members of the ETUI collective bargaining research network to analyse the implications of wage moderation policies for trade union bargaining strategies in their respective countries (13 in total). It is clear from these reports that wage moderation frequently has its origins in policies already agreed upon or unilaterally imposed upon the trade unions during the previous decade. All wage moderation policies adopted in the various European countries during the 1990s appear also to have as a common element the attempt to secure and improve national competitiveness by keeping labour cost growth under control. Wage moderation however has had quite different implications in the various countries, resulting in substantially different outcomes in real wages and purchasing power trends.

The most important macroeconomic development of 1999 in Europe was the launch of the third stage of Economic and Monetary Union with the euro as a single currency as from January 1999. This implied a strict co-ordination for the economies of the eleven countries of the euro-zone which had to respect the general parameters and rules fixed in the Stability Pact, while for the other four EU countries, which either did not meet the EMU criteria or had opted out, economic performance was closely pegged to the euro-zone.

Under EMU the evolution of aggregate wages and wage differentials has substantial implications for inflation, growth and employment. The European Commission continues to give a quite positive assessment of recent national wage developments. On the unions' side, collective bargaining under EMU implies, as stressed by the 9th ETUC congress that took place in Helsinki in June 1999, the need to develop a European system of industrial relations and co-ordination of bargaining policies. This has also affected the European sectoral level, with the European Metalworkers' Federation adopting the so-called "co-ordination rule" as a guiding principle in its collective bargaining policy. At the supra-national level, the Doorn declaration by representatives of trade union organisations in Germany, the Netherlands, Luxembourg and Belgium adopted the principle that future wage claims in each country should be based on a formula consisting of the sum total of cost-of-living changes and improvements in labour productivity.

As from this year, our publication will also cover bargaining and industrial relations developments in selected central and eastern European countries. Information is provided in this issue for four countries (Poland, Hungary, the Slovak Republic and Bulgaria). This new edition of the ETUI collective bargaining report thus monitors collective bargaining developments in 20 countries, including, for the first time, Luxembourg.

We would like to thank, as usual, all the members, old and new, of the ETUI collective bargaining network who have provided the information, analysis and insight for this publication and are constantly contributing to improvement of its quality and scope.

Reiner Hoffmann
Director

Giuseppe Fajertag
Senior Research Officer

Brussels, December 1999

The 1998-99 collective bargaining round in Europe.

Giuseppe Fajertag, ETUI, Brussels

1. ECONOMIC AND SOCIAL BACKGROUND

The general background against which collective bargaining developed in Europe during 1998 did not significantly worsen despite the pessimistic outlook at the end of 1997. Economic growth was slightly higher than expected, even if Member States of the European Union intensified their attempts to fulfil the convergence criteria for monetary union (EMU) by cutting public expenditure and maintaining strong pressure on prices and wages growth. However, reduction of public deficits had a lower impact on activity as domestic demand led by private consumption and stockbuilding coupled with low interest rates were driving the economic growth, while external demand shrank under the influence of a deteriorating international environment.

In fact, with Japan facing an output contraction of 2.6% of GDP in 1998, the crisis in Asia deepened and spread to Russia. World GDP and trade growth were cut by half in 1998 compared to 1997, to 2% and 4.7% respectively. The US dollar that had been relatively stable vis-à-vis EU currencies since the beginning of 1998 weakened considerably after August. Its depreciation of approximately 10% by mid-October 1998 led to an appreciation of EU currencies that weighs on export growth.

Despite a sharp deceleration of world output and trade, and increased uncertainty and volatility in international financial and exchange markets, the European Union and in particular the euro-zone were only mildly affected by the crisis. As a result, GDP growth across Europe averaged 2.9%. The slowdown in European growth expected for 1999 is likely to be only temporary and conditions for sustained economic growth and job creation should remain intact.

At the same time, inflation – thanks to falling unit labour costs due to wage moderation, low commodity prices and the slow pace of economic recovery – remained strictly under control: its level for the whole of 1998 did not exceed 1.5-1.6% on average.

As indicated in Table 1, the effects of the 1997-98 recovery reduced unemployment levels in the EU by 0.7 percentage points, which means, compared to 1997, one million unemployed less out of a total of 18.7 million.

Developments in selected central and eastern European countries

Starting from this year, our publication will gradually cover collective bargaining and industrial relations developments in central and eastern Europe. Information is provided this time for four countries: Poland, Hungary, the Slovak Republic and Bulgaria.

Over the last few years Poland has recorded high economic growth rates. GNP growth in 1997 was 6.6%, but fell to 4.8% in 1998, and is currently estimated at 4% for 1999. Inflation, which for years was a major problem for the Polish economy, decreased from around 30% in the early 1990s to 8.6% in 1998 and should not exceed 6.2% for 1999. Unemployment in 1998-99 is oscillating between 11-12%.

In Hungary, economic recovery was triggered by the "Bokros programme" in 1995, which reduced the budget deficit and foreign debt by using the revenue from privatization for debt service and introduced a predictable currency devaluation regime. Since then, Hungary's economy has been growing steadily (GDP grew by 5.1% in 1998 and growth in 1999 is estimated at around 4%), but GDP is still below its 1989 level. Even though Hungary is not in a position to join the EMU within the next few years, fulfilling the Maastricht criteria has become an expected goal of the country's economic policy. Inflation decreased from 17% in 1997 to 14.2% in 1998 and is estimated at around 10% in 1999. The unemployment rate also fell from 8.9% to 8% between 1997 and 1998 and should not exceed 7% in 1999.

In Slovakia, GDP growth was 4.8% in 1998 but should not exceed 2% in 1999. Inflation also increased sharply between 1998 and 1999, rising from 5.6% to around 13%. The 1990s have seen a steep rise in unemployment, which increased from 2% in 1990 to 15% in 1998 and is still increasing in 1999. The average unemployment rate by mid-1999 was already close to 17%, with strong regional differentiation: while in the area of the capital unemployment is around 5-6%, in some regions it is approaching 30%.

In Bulgaria, the economic situation, despite some remarkable improvements in 1998, remains quite dramatic. GDP has been falling during most of the 1990s: in real terms, on an index base 1990=100, its level was only 70 in 1997 and 73 in 1998. Hyperinflation was tamed and reduced in 1998 from 1082% to around 22%. Unemployment levels remain at around 15-16%.

Outlook for 1999

The most important macroeconomic development for 1999 in Europe is the launch of the third stage of Economic and Monetary Union (EMU) with the euro as a single currency since January 1999. The economies of the 11 countries of the euro-zone are strictly co-ordinated and obliged to respect the general parameters and rules fixed in the Stability Pact, while in the other four EU countries which either did not meet the EMU criteria or opted out (Greece, Denmark, Sweden, and the UK) economic performance is closely pegged to the euro-zone countries.

The 1999 collective bargaining round is expected to take place in a moderately positive environment – particularly in the second half of the year – even if, as a consequence of the output contraction in Japan and the carry-over effects of the crisis in Asia, Russia and Latin America, GDP growth is expected to register a moderate slowdown.

2. THE LABOUR MARKET: UNEMPLOYMENT STILL HIGH BUT SOME IMPROVEMENTS

Total employment in Europe grew by 1.2% in 1998. But this improvement in the labour markets was not generalised and it should be noted that total employment levels in Germany and Italy failed to register any improvement whatsoever in 1998.

Unemployment in Europe remained at or above the 10% mark (10.8% in the euro-zone) even though decreasing from 10.7% in 1997 (see Table 1). The fact that unemployment rates in the eleven countries of the euro-zone are one percentage point above the EU average from 1996 to 1998 appears a clear indication that the austerity packages and rigid monetary controls adopted in order to meet the targets defined in the Treaty of Maastricht had a negative impact on the labour markets.

Some of the countries which were experiencing extremely high unemployment rates in recent years benefited from the economic recovery: this was the case for Spain, where unemployment fell from 20.8% to 18.9%, Finland (from 13.1% to 11.6%) and Ireland (from 10.1% to 8.7%). All other countries (the UK, Netherlands, Denmark, Belgium, Norway and Sweden in particular) registered more or less significant improvements.

Youth unemployment (people aged less than 25) in the EU ranged between around 5.4% in Austria to more than 30% in Italy and Spain. The average for the 15 EU countries was 18.7% (19.3% in 1998) and 20.0% (21.1% in 1998) in the euro-zone.

Table 1: GDP growth, inflation and unemployment in 1997, 1998 and forecasts for 1999 in western Europe, USA and Japan

Country	GDP ^(a)			Inflation ^(b)			Unemployment ^(c)		
	1997	1998	1999f	1997	1998	1999f	1997	1998	1999f
Austria	2.5	3.3	2.3	1.2	0.8	1.0	4.4	4.4	4.3
Belgium	3.0	2.9	1.9	1.5	0.9	1.0	9.2	8.8	8.3
Denmark	3.3	2.7	1.7	1.9	1.3	1.7	5.6	5.1	4.6
Finland	5.6	5.3	3.7	1.2	1.4	1.0	12.7	11.4	10.1
France	2.3	3.2	2.3	1.3	0.7	0.6	12.4	11.9	11.5
Germany	2.2	2.8	1.7	1.5	0.6	0.6	9.9	9.4	9.0
Greece	3.2	3.7	3.4	5.4	4.5	2.1	9.6	9.6	9.4
Ireland	10.6	11.9	9.3	1.2	2.1	1.6	9.8	7.8	6.0
Italy	1.5	1.4	1.6	1.9	2.0	1.5	12.1	12.2	12.2
Luxembourg	3.7	5.7	3.2	1.4	1.0	0.8	2.8	2.8	2.7
Netherlands	3.6	3.7	2.3	1.9	1.8	1.6	5.2	4.0	3.6
Norway	4.3	2.1	0.6	2.5	2.6	2.6	4.1	3.2	3.5
Portugal	3.1	4.0	3.2	1.9	2.2	2.1	6.8	4.9	4.7
Spain	3.5	3.8	3.3	1.9	1.8	1.8	20.8	18.8	17.3
Sweden	1.8	2.9	2.2	1.8	1.0	0.6	9.9	8.2	7.8
Switzerland	1.7	2.1	1.2	0.6	0.2	0.6	5.2	3.9	3.0
United Kingdom	3.5	2.3	1.1	1.8	1.5	1.5	7.0	6.3	6.5
Eur 15	2.7	2.9	2.1	2.1	1.5	1.3	10.6	10.0	9.6
Eur 11	2.5	3.0	2.2	2.0	1.5	1.2	11.5	10.8	10.4
Bulgaria	-6.9	3.5	..	1082	22.3	..	15.0	16.0	..
Hungary	4.6	5.1	3.8	17.0	14.2	9.9	8.9	8.0	7.0
Poland	6.9	4.8	3.5	14.7	11.5	7.0	11.2	10.6	11.4
Slovakia	6.5	4.4	2.0	..	5.6	13.0	11.6	12.0	15.0
USA	4.5	4.3	2.7	1.7	0.9	2.0	4.9	4.5	4.7
Japan	1.4	-2.8	-1.3	1.4	0.4	-0.5	3.4	4.1	4.7

- Notes: a) Real GDP, percentage variation over the previous year;
b) Consumer prices, not seasonally adjusted, percentage variation;
c) Registered unemployment, Eurostat figures for EU countries.
d) Figures in bold indicate a worsening of the situation over the previous year.

Sources: CEC (1999), OECD (1999) and Eurostat (1999)

Table 2: Nominal and real wage growth in 1995-1997 and forecasts for 1998 in western Europe, USA and Japan

Country	Nominal ^(a)				Real ^(b)			
	1996	1997	1998	1999f	1996	1997	1998	1999f
Austria	1.7	0.6	2.9	2.5	-0.8	-1.1	2.2	1.9
Belgium	1.5	-0.3	2.3	1.8	-1.3	-1.9	1.5	0.6
Denmark	3.1	3.8	3.0	4.3	1.0	1.8	1.2	2.1
Finland	3.1	1.4	5.1	3.5	1.6	-0.5	3.5	2.1
France	2.9	2.1	2.4	2.1	0.8	0.6	1.4	1.3
Germany	2.5	1.4	1.4	2.6	0.6	-0.3	0.5	1.9
Greece	11.5	12.4	5.8	4.3	2.8	6.5	1.0	1.9
Ireland	3.2	4.3	5.3	6.0	0.9	1.8	1.5	2.9
Italy	6.1	4.2	-1.5	2.3	1.1	1.6	-3.7	0.6
Luxembourg	1.8	2.8	0.5	1.9	0.2	1.1	-1.1	1.0
Netherlands	1.8	1.8	2.6	3.7	0.6	-0.3	0.8	1.4
Norway	2.5	4.8	7.1	5.1	1.0	2.3	4.5	2.8
Portugal	6.3	4.0	3.7	5.3	3.3	1.8	0.8	3.0
Spain	3.8	2.5	2.9	2.4	0.3	0.0	0.8	0.1
Sweden	6.5	3.7	3.2	3.4	5.2	1.3	2.3	2.7
Switzerland	0.7	2.7	0.5	1.5	-0.4	2.1	0.8	0.7
United Kingdom	3.5	4.6	5.5	4.8	1.6	2.1	3.4	3.2
EUR 15	3.5	2.7	2.3	3.0	0.8	0.5	0.6	1.6
EUR 11	3.1	2.1	1.5	2.5	0.6	0.1	0.0	1.2
Bulgaria					-17.6	-19.1	23.7	
Hungary	23.1	20.4	17.9	9.6	-5.0	4.9	3.5	
Poland	32.4	21.3	16.8	10.5	5.7	7.3	5.1	
Slovakia					7.2	6.6	2.7	
USA	2.5	4.0	4.9	4.0	0.8	2.1	4.3	2.4
Japan	2.5	1.2	-0.1	-0.5	2.2	-0.2	-0.6	-0.2

^{a)} Nominal compensation per employee; total economy

^{b)} Real compensation per employee, deflator private consumption; total economy

Sources: CEC (1999), OECD (1999) and Eurostat (1999)

3. WAGES

During 1998 wages in Europe followed the general trend characterising pay developments since 1993-1994: moderate, or extremely moderate, nominal increases against a background of generally strengthened social dialogue (incomes policy agreements, social pacts or “social concertation”) allowing national governments to implement tight budgetary policies in an EMU perspective with a maximum of social consensus.

A detailed overview and analysis of wage moderation policies during the 1990s and of their impact on trade unions’ bargaining strategies in 13 European countries is provided as a special feature in the following section of this annual collective bargaining report.

As was the case in 1997, real wages in the Euro-zone (see Table 2) failed, despite economic recovery and falling inflation rates, to record any growth. Real wages actually fell in Italy (-3.7%) and Luxembourg (-1.1%) and rose by a modest 0.5% in Germany.

In the other countries of the European Union, real wages grew by 3.4% in the UK, by 2.3% in Sweden and by around 1% in Denmark and Greece.

Forecasts for 1999 are generally more optimistic with an average real growth set at 1.6% in the European Union and at 1.2% in the euro-zone.

Wage developments in central and eastern European countries

In Poland, real wages decreased by around 28% between 1990 and 1994. Though they gradually started to increase again from 1994, they have not yet returned to the 1990 levels. Real wage growth was 7.3% in 1997 and 5.1% in 1998. Labour productivity in industry is estimated to have increased between 1992 and 1997 by around 80%.

In Hungary, except in the election year 1994, real wages continued to fall between 1989 and 1996. 1997 represented a turnaround with a 5% real wage increase, which was followed by a 3.6% increase in 1998.

In Slovakia, both nominal and real wages have increased steadily over the past few years, although the rate of this increase has been tailing off to some extent: average real wages grew by 6.5% and 2.7% respectively in 1997 and 1998. Average real wages still did not reach a level comparable to the real wage level in 1990 (in 1998 it was approx. 90% of the 1990 figure). Nominal and real wages in 1999 are expected to slow down further compared to the previous year.

In Bulgaria, the collapse of incomes and living standards at the end of 1996 and beginning of 1997, as a result of the deep crisis in the economy and society, marked the lowest levels for the whole “transition”. Average monthly salaries in the public sector dropped by 80% from 1995. Although in 1998 and 1999 the trend was reversed and wages registered steady growth, the overall result is still below previous years. Compared to an index 1990=100, real wages in 1998 had fallen to a level of 44.2 (36.1 in 1997).

Table 3: Labour productivity in Europe, the USA and Japan 1986-1998

Country	1996 ^(*)	1997 ^(*)	1998 ^(*)	1999 ^(*)	1986-90 ^(**)	1991-95 ^(**)
Belgium	1.0	2.5	1.9	1.2	1.9	1.9
Denmark	1.6	0.7	0.5	0.7	1.0	3.1
Germany	2.6	3.7	1.8	1.5	1.9	2.3
Greece	1.8	3.0	0.3	2.7	0.5	0.7
Spain	0.8	0.8	0.3	0.7	1.2	1.8
France	1.5	2.5	2.0	1.3	2.2	1.2
Ireland	4.5	5.6	3.7	4.2	3.5	2.6
Italy	0.5	1.4	0.6	1.3	2.3	2.1
Luxembourg	0.5	1.8	0.6	1.1	3.2	2.7
Netherlands	1.4	1.1	1.2	0.9	0.8	1.0
Austria	2.4	2.7	1.9	1.7	2.4	1.5
Portugal	3.0	1.8	0.9	2.4	4.4	2.3
Finland	2.6	3.8	3.6	2.0	3.0	3.4
Sweden	1.8	2.9	1.2	1.3	1.2	2.8
United Kingdom	2.0	1.9	1.0	0.8	1.5	2.3
EUR 15	1.7	2.3	1.3	1.3	1.8	2.0
EUR 11	1.6	2.4	1.4	1.3	2.0	1.9
USA	1.4	1.5	2.8	1.6	1.1	1.2
Japan	3.4	0.0	-2.2	-0.8	3.6	0.7

(*) Real GDP per occupied person (percentage change on preceding year)

(**) idem, percentage change at annual rates

Source: CEC (1999)

Productivity growth, as indicated in Table 3, has slightly declined in Europe during 1998. It is difficult to separate cyclical effects from more durable movements when assessing labour productivity accelerations (as in the case of the US) or decelerations over a period of a couple of years. Since labour productivity is defined as real GDP per employed person (a more reliable

measure would be output per hour), a decrease can also be imputable to positive factors such as reductions of working time or a decrease of the rate of substitution of labour by capital that can be stimulated by a reduction of relative wage costs. As indicated in Table 4, real unit labour costs in the EU have been constantly decreasing by an annual average of 0.8% since the beginning of the decade.

What clearly emerges, moreover, is the fact that the average real wage growth in the European Union remained also in 1998 below the level of productivity growth.

Table 4: Real unit labour costs^(*) in Europe, the USA and Japan 1991-1999

Country	1991-95	1997	1998	1999f
Austria				
Belgium	0.2	-2.1	-0.5	-0.2
Denmark	-1.1	1.0	0.3	1.1
Finland	-2.0	-3.0	-1.2	-0.4
France	-0.5	-1.0	-0.6	-0.2
Germany	-0.2	-1.6	-1.4	0.2
Greece	-2.3	1.6	0.6	-1.6
Ireland	-1.1	-3.9	-3.9	-1.2
Italy	-1.7	0.1	-4.8	-1.0
Luxembourg	-0.6	-4.3	-1.6	-0.8
Netherlands	-0.3	-0.8	-0.5	0.7
Portugal	0.0	-0.8	-1.2	-0.8
Spain	-0.8	-0.6	0.2	-0.9
Sweden	-1.5	-0.5	0.9	0.7
United Kingdom	-0.9	0.4	1.9	1.0
EUR 15	-0.8	-0.8	-0.9	-0.1
EUR 11	-0.7	-1.1	-1.5	-0.3
Bulgaria	..	0.7	38.1	..
Hungary	..	6.1	-0.2	..
Poland	..	6.9	6.9	..
Slovakia	..	6.9	-0.1	..
Usa	-0.4	-0.1	1.2	0.4
Japan	0.3	0.7	1.7	0.4

(*) Nominal unit labour costs divided by GDP price deflator

Source: CEC (1999)

4. EUROPEANISATION OF INDUSTRIAL RELATIONS

In the new European economic scenario following EMU, the overall macroeconomic policy mix results from the interaction of the common monetary policy on the one hand with the average budgetary developments and wage trends in the participating countries, on the other. The single monetary policy in the euro-zone is under the responsibility of the independent European Central Bank and European System of Central Banks; budgetary policies remain the responsibility of national governments but subject to the rules of the Treaty and the Stability Pact (national governments will have to co-ordinate their budgetary policies in the framework of the Broad Economic Policy Guidelines); finally, wage-setting remains the responsibility of the social partners at the various levels.

It is however clear that in EMU the evolution of aggregate wages and wage differentials has substantial implications for inflation, growth, employment and the employment-content of growth.

The European Commission (CEC 1999a) continues to give a quite positive assessment of recent national wage developments and is stressing the fact that social partners should continue to pursue a responsible course and conclude wage agreements in line with four general principles: a) nominal wage increases consistent with price stability (within the price stability objective of the ECB); b) real wage increases in relation to labour productivity growth should take into account the need to strengthen and maintain profitability of investment, whilst allowing a steady increase in purchasing power and private consumption; c) wage agreements should take into account differentials in productivity levels (qualifications, regions, sectors), and d) convergence of nominal and real wages across countries and regions in the euro-zone should not be in advance of productivity.

The ETUC Congress: Towards a system of European industrial relations

The 9th ETUC congress that took place in Helsinki in June 1999 emphasised the importance of the development of a European system of industrial relations and co-ordination of bargaining policies.

The Congress adopted a specific resolution on the europeanisation of industrial relations which stresses the need for the European trade union movement to act swiftly to put in place instruments and procedures to promote co-ordination of collective bargaining now that the euro-zone is a reality. The sectoral dimension will be essential in collective bargaining co-ordination and this

requires the European Industry Federations to create the requisite structures and instruments, adapted to the needs of the sector concerned. The ETUC will be competent for overall co-ordination, providing the necessary framework to guarantee the overall coherence of the process. To this end an ETUC Committee for collective bargaining co-ordination has also been created.

The Resolution introduces important framework guidelines in the fields of pay and collective bargaining co-ordination in Europe. It states in particular that:

“Promoting real growth, taking into account productivity levels and ensuring that they contribute to real wage increases and social regulation is particularly important to counter the danger of social dumping within the European Monetary Union. In addition, further discussion is required to devise a European solidaristic pay policy intended to counter the growing income inequality that in some countries is quite substantial, thereby contributing to a reduction in disparities in living conditions and to effective implementation of the principle of equal treatment of the sexes.

The European co-ordination of collective bargaining needs to be developed where appropriate at sectoral and/or cross-sectoral level. The recent trade union initiatives in the field of cross border and sectoral collective bargaining point the way forward and must be extended first to the entire euro-zone and to all the countries concerned. Differentiation of co-operation along sectoral lines, on the basis of European rules for co-ordination, to be agreed jointly, will enable account to be taken of specific economic conditions and the different collective bargaining systems. A European collective bargaining policy should also extend to coverage of qualitative aspects. Life-long learning, training and further training, occupational health and safety, equal treatment and working conditions are the most important areas in this respect. In this process the trade unions will retain their autonomy and will be responsible for making use of the available room for manoeuvre, and its optimal distribution among pay, employment, working time, etc.(.)”. (ETUC 1999)

European sectoral developments

At the European sectoral level, the 1st Congress of the European Metalworkers' Federation (EMF) which was held in Copenhagen in June 1999 confirmed the so-called “coordination rule” adopted in December 1998 (Fajertag 1999) and

declared the objective of European co-ordination to be a guiding principle in its collective bargaining policy. In the work programme for 1999-2003 it is stated that:

“The central focus and yardstick for trade union wage policy everywhere must entail keeping up with the rate of inflation and ensuring the balanced participation of worker incomes in productivity increases. (...) Only if this objective is achieved throughout Europe – as measured against the respective local conditions – can wage dumping be counteracted and any further redistribution of income at the expense of workers be halted. Meanwhile, the trade unions remain completely independent and bear full responsibility for the way in which they use this leeway for income redistribution to secure improved wages and salaries, for job-creating measures such as training and reducing working time, for a new form of work organization, for fostering equal opportunities, for taking early retirement, or ensuring equal treatment” (EMF 1999).

The EMF is also supporting initiatives regarding regional and bilateral bargaining networking and the exchange of collective bargaining observers. In March 1999, as an example, metalworking unions from Austria, the Czech Republic, Germany, Hungary, Slovakia and Slovenia adopted a joint memorandum on interregional collective bargaining policy, stating their will to prevent possible “wage dumping” strategies through closer co-ordination of bargaining. IG Metall has also invited union representatives from neighbouring countries to observe the bargaining rounds in some regions.

In June 1999, Euro-FIET, the European Federation of Commercial, Clerical, Professional and Technical Employees adopted an action plan for a euro bargaining network which foresees the promotion of a co-ordinated bargaining strategy.

Other European sectoral initiatives in 1999 included the adoption of an internal sectoral protocol on collective bargaining coordination strategy by the ETUF-TCL (the European Trade Union Federation – Textiles, Clothing and Leather) and the adoption of a declaration on co-ordinating bargaining at EU level by the European Graphical Federation (EGF).

The Doorn process in progress

In last year’s report we provided information about the so-called “Doorn declaration” adopted in 1998 by representatives from both the confederal and

the sectoral trade union organisations from Germany, the Netherlands, Luxembourg and Belgium. The Doorn declaration of September 1998 adopted the principle that future wage claims in each country should be based on a formula consisting of the sum total of cost of living changes and improvements in labour productivity. An information network to monitor the course of future bargaining was also put in place, with mutual invitations to participate as observers at the meetings of the “wage settlements committee” of the national trade unions.

What has now come to be known as the “Doorn process” has not been an isolated episode but in fact marks a stage in a process intended to enhance and strengthen the position of the trade unions in the negotiations at the national level in order to avoid any wage dumping.

A third meeting of the Doorn group took place in Haltern (Germany) in September 1999 mainly to evaluate the national bargaining trends in the light of the declaration. It was also decided to create a technical group that should meet during the interval between the annual “political” meetings in order to prepare the agenda for the meetings and exchange information.

5. WORKING TIME

The 9th Congress of the ETUC confirmed working time policy as one of the priority areas in the fields of both labour market policy and work organisation and stressed the importance of innovative working time policies as an instrument in the fight against unemployment and for a redistribution of work. The priority demand for European workers is the establishment of the 35 hour working week through negotiations at the appropriate level, though trade unions will continue to pursue more ambitious working time policy goals (e.g. 32-hour/4-day week), taking account of specific regional and sectoral conditions. The ETUC has also stressed that working time should be regarded in relation to total lifetime working hours which means taking account of voluntary periods of part time work, time out, early retirement or progressive early retirement. Taking all the various elements into account, and recognising the need to reconcile work and family life, lifetime working hours could be reduced to below 50,000 as an average.

The most important national developments that took place during 1998-99 in this field are the following.

In Belgium, weekly working time laid down by legislation was reduced from 40 to 39 hours on 1 January 1999. The 1990-2000 central agreement makes

provision for the evaluation of this transition to the 39-hour week. In the sectoral agreements for the 1999-2000 period it was mainly the central white-collar workers' organisations which put forward the subject of the collective reduction of working time. However, after the final deadline of the official bargaining period (mid-May 1999) and as the result of employer obstruction, very few sectors have made any progress regarding the reduction of working time.

In Denmark, most settlements concluded in the first half of 1999 include greater flexibility with regard to working time systems. There is a major trend to change the normal 37-hour working week to a working week which can vary largely from enterprise to enterprise and from employee to employee. In other words, centrally established, uniform rules for everyone are being replaced by flexible arrangements at a decentralised level.

The agreements concluded in the agricultural and forestry area, together with the public sector, contain an extension of free time in the form of three additional holiday days. This development places the introduction of a sixth week's holiday high on the agenda of the scheduled private sector negotiations at the start of the year 2000. This has already been singled out as an almost invariable demand by LO negotiators.

In France, collective bargaining during 1998 and 1999 has been affected by the adoption of the law of 13 June 1998 (*loi Aubry*) on the reorganisation and reduction of working time. The introduction of this law has had an impact on both the volume of bargaining, its content – since negotiations on working time touch on almost all collectively agreed matters – on the players' bargaining strategies and on the relations between the players themselves.

The law adopted on 13 June 1998 encourages bargaining on the reduction of working time. It ushered in a period of negotiations lasting eighteen months, due to conclude at the end of 1999 with a vote on a new law laying down new rules on working time, to apply to all companies with more than twenty employees as from 1 January 2000. Companies with fewer than twenty employees may wait until 2002. The purpose of this bargaining phase, according to the government, was to enable the two sides of industry to reach agreements among themselves, which would serve as a basis for the new law. During this lapse of time bargaining could take place at both sectoral and company level; companies were entitled to receive financial assistance if they concluded "offensive" agreements (working time reduced in exchange for new

recruitment) or “defensive” ones (working time reduced in exchange for the safeguarding of jobs under threat) (Dufour 1998).

The bargaining round has been complicated not only by the range of issues to be handled, but also by uncertainty about the future status of the negotiations: the future law may render inapplicable measures drawn up at sectoral or company level, and the extension of sectoral agreements could invalidate decisions taken at company level.

On 5 May 1999 the Ministry of Employment listed 69 sectoral agreements within 180 national sectors. These cover almost 8 million employees, or approximately 60% of all employees in the commercial sector concerned. According to the Ministry, 80 sectors were engaged in talks at that time.

It is more difficult to assess the results in terms of content. Working time agreements tend to reorganise working conditions in their entirety, from the determination of wage criteria to the organisation of working time.

Over 4,000 company agreements were also concluded up to May 1999. This represented a success, in that it has produced a multiplicity of potential models of good practice during discussion of the second law. It has been less of a success for a law offering substantial financial incentives where job-creating agreements are reached. Most of the agreements reached have been concluded in “eligible” companies which receive government subsidies; where larger companies have decided to embark on talks they have not reached agreements, at least not by the date of the interim assessment.

In Greece, the most important issues in the period examined, were the introduction of innovative measures regarding the annualisation and the rearrangement of working time and the union campaign for the introduction of the 35-hour week. Concerning the annualisation, a new law stipulates the calculation of working time over a longer period (6 months), so as to reduce overtime costs and to adjust production outputs to demand fluctuations. According to this law, the rearrangement of working time is regulated by the following measures. The annualisation of working time was the most controversial of the policy measures of the labour market reform bill. Trade unions are still opposed to a flexible rearrangement of working time claiming that the most appropriate measure would be the reduction of working time and the generalised introduction through legislation of the 35-hour week. The government is hesitant to pursue such an initiative through legislation. However, it is in favour of a “voluntary” implementation through company or

industry-wide collective agreements, encouraging initiatives on the part of social partners.

In Italy, the issue of working time was in fact the principal cause of the difficulties surrounding the renewal of the metalworkers' agreement. The solution found, in June 1999, after eight months of negotiations and with the aid of a mediating proposal from the Minister for Employment, guaranteed on the one hand a reduction of eight hours per year for night and weekend shifts, the right to sixteen hours off (which could previously be remunerated) and the introduction of "time savings accounts" for overtime; and, on the other, greater flexibility, by raising the maximum annual amount of overtime by 50 hours, raising it from 150 hours to 200 (250 for companies with fewer than 200 employees), as well as the possibility of annualised hours calculated over a period of several weeks in the case of seasonal production work, whereby working time may be extended by a maximum of 64 hours per year (eight hours per week). The introduction of the "time savings account" enables workers to claim time off in lieu of overtime exceeding 32 hours per year.

The new collective agreements in the Italian public sector have reduced the current 36-hour working week to 35 hours, and have at the same time laid down a series of measures to make working time more flexible, to reduce the use of overtime (a very widespread, normal practice in the sector) and to extend opening hours for public access to services.

In the Netherlands, in 1998 and 1999 the collective reduction of working time was no longer a point for co-ordination on the trade union side. The average working week is 37 hours in the Netherlands. In the mid 1990s the 36-hour week was introduced in a large number of collective agreements, combined with a more flexible scheme for performing those hours of work. The debate on the flexible organisation of working time has gone further in the course of 1999 without any trade union claims for the reduction of average working time. In an increasing number of collective agreements the possibility is now being created for all or certain categories of worker to work shorter or longer hours than the average working week of 36 to 38 hours.

In Portugal, the law on the introduction of the 40-hour week (1996) has become a reality to a large extent – now that the dispute in the textile industry has been settled. It is only in the garments industry, which, with 120 000 employees, is one of the largest sectors, that employers are continuing to stipulate that, if the 40-hour week is introduced, the short breaks, which have counted as working time hitherto, will no longer count as part of working time.

The CGTP textile workers' union has always rejected this employer demand, pointing out that it has been guaranteed by collective agreement that the above breaks count as working time. The transposition of the EU directive on the organisation of working time in November 1998 strengthens the trade union position, and the garment employers are now practically completely isolated in their position.

Both trade union confederations advocate the 35-hour week, but it cannot yet be said that there is any broad social and political movement geared to achieving that objective. Bargaining progress towards the reduction of working time was limited during 1999 to a few major undertakings (Post Office: 39 hours; Telecom and Petrogal: 38 hours; state radio RDP: 35 hours).

Alternative models for organising working time (time accounts, etc.) have not yet been an issue in Portuguese collective bargaining policy.

In 1999 the unions in Spain called for the 35-hour week as an objective. This had a positive and dynamic effect on reducing working time in most agreements, but there is still a long way to go before this objective is achieved. The UGT and CC.OO. therefore feel that legislation has an essential role to play in achieving a general reduction in working time and in terms of job creation. Trade unionists involved in collective bargaining should use the most varied possible formulae to reduce working time, linking the reduction and reorganisation of working time with job creation. Legislative initiatives should not only deal with measures to reduce working time, but should also introduce regulations covering incentives, monitoring and control.

Despite the trend towards a reduction of working time, there are still only a few Spanish collective agreements that have achieved a 35-hour working week or the annual equivalent. Only 369 agreements (covering 343,726 workers) provide for contractual annual hours of less than 1,600. Most of these agreements are for workers in local councils, municipal companies, education and mining.

6. CONCLUSIONS

Despite a sharp deceleration of world output and trade, increased uncertainty and volatility in international financial and exchange markets, the European Union and in particular the euro-zone were only mildly affected by the crisis. As a result, GDP growth across Europe in 1998 averaged 2.9%. The slowdown in European growth expected for 1999 is likely to be only temporary and conditions for economic growth and job creation should remain intact.

Inflation, thanks to falling unit labour costs due to wage moderation, low commodity prices and the slow pace of economic recovery, did not exceed 1.5% on average.

Total employment in Europe grew by 1.2% in 1998. But this improvement in the labour markets was not generalised (in particular, employment levels in Germany and Italy did not register any improvement). Unemployment in Europe was 10% and at 10.8% in the euro-zone. Some of the countries which were experiencing extremely high unemployment rates in recent years benefited from the economic recovery: this was the case of Spain, Finland and Ireland. All other countries (the UK, Netherlands, Denmark, Belgium, Norway and Sweden in particular) registered more or less significant improvements.

Wage developments during 1998 and 1999, while remaining generally moderate in nominal terms, were characterised by a more positive trend, with increases in real terms that have been for most countries the highest of the decade. Wage growth was satisfactory also from the European Commission's point of view, since it reflected not only the price stability objective advocated by the monetary authorities but also allowed for sufficient real wage increases to fuel private consumption.

Social pacts and social concertation continued to be a common feature of industrial relations in several European countries. It is important, however, to stress that the new season of social pacts started in 1998 is clearly experiencing more difficulties than was the case at the beginning of the 1990s. Recent developments in Italy, Germany and Finland seem to indicate that finding a consensus between the social partners becomes more difficult when the objective to be achieved is no longer related to economic austerity and inflation control. Conflicts in this respect can also appear, as in the case of Italy, between sections of the labour market and even between trade unions.

Europeanisation of industrial relations made a remarkable step forward with the adoption of a specific resolution at the ETUC Congress in Helsinki in June

1999. Progresses in the same direction have been made both at the European sectoral level and at the supra-national level (Doorn).

The ETUC Congress contributed also to the improved articulation of European trade union strategies concerning the reduction and re-organisation of working time, by associating the objective of the 35-hour week with more ambitious working time policy goals and with the overall objective of reducing total lifetime working hours from the present level of 70,000 to 50,000.

The 35-hour week was a central issue for collective bargaining in France at both the sectoral and the company levels. The agreements reached over the two-year period 1998-99 represented a point of reference for drafting the second law on the 35-hour week that was finally passed by the Parliament in January 2000.

The 35-hour week is also a trade union claim in Spain, Portugal and Greece while, on the contrary, the draft legislation of 1998 in Italy was never adopted.

Important results have also been achieved during 1999 in several countries concerning negotiated flexibility of working hours.

The most important macroeconomic development in 1999 in Europe was the launch of the third stage of Economic and Monetary Union (EMU) with the euro as a single currency since January 1999. The economies of the eleven countries of the euro-zone are now strictly co-ordinated and obliged to respect the general parameters and rules fixed in the Stability Pact, while in the other four EU countries which either did not meet the EMU criteria or opted out (Greece, Denmark, Sweden, and the UK) economic performance is closely pegged to the euro-zone countries.

The 1999 collective bargaining is expected to take place in a moderately positive environment, particularly in the second half of the year, even if, as a consequence of the output contraction in Japan and the residual effects of the crisis in Asia, Russia and Latin America, GDP growth is expected fall to around 2% on annual average.

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Wage moderation in the 1990s and its impact on trade union bargaining strategies

Generalised wage moderation represented the prevailing trend of wage developments in a large majority of European countries during the 1990s. Generally speaking, this was the result of one or more of the following factors:

- For most EU countries, the economic and financial convergence criteria defined in the Treaty of Maastricht and the 1998 deadline by which it had to be decided which countries were eligible to join a single European currency by 1999 led to the need to keep inflation low and maintain (labour) cost competitiveness with other European countries;
- In most cases, attempts to establish a trade-off between wage moderation and job creation, generally resulted in the signature of “social pacts” or incomes policy agreements (Italy, Ireland, Finland, Portugal, the Netherlands);
- In other countries (Germany in particular, but also France to some extent), wage moderation did not represent a strategic element of trade union policy but was mainly attributable to economic recession and the associated reduced ability of the trade unions to push through their claims.

It should also be noted that, for several countries, wage moderation in the 1990s finds its origins in, and represents a projection of, policies already agreed upon (or imposed unilaterally upon the trade unions as in the case of Belgium) during the previous decade. This is the case for Denmark, Finland, Ireland, the Netherlands and Norway.

All wage moderation policies adopted in the various European countries during the 1990s appear to have an important element in common: the attempt to secure and improve national competitiveness by keeping labour cost growth under control.

The term “wage moderation” or “wage restraint” appears to have quite different meanings and implications in the various countries with consequent totally different patterns in real wage and purchasing power trends. The following examples can help to illustrate the four major prevailing models.

- Wage moderation in Belgium has entailed various wage freezes unilaterally imposed by the government since the early 80s and, later, a government-imposed maximum wage norm referred to weighted average hourly wage costs in the neighbouring countries.
- Wage moderation in Italy since 1993 is the result of a tripartite formal social pact and is intended to mean that wage growth (as defined in national sectoral agreements) must be in line with the government's inflation forecasts.
- In other countries, e.g. Denmark, wage restraint is a relatively non-committal declaration of intent by the social partners to allow for decent real pay increases without affecting national competitiveness.
- In the Netherlands on the contrary, wage restraint since 1982, even if not formalised in any official document, has always been an element of more general bargaining packages on working conditions. In this way, wage restraints in the Netherlands have always been the result of choices made by the social partners that have used the margin for pay increases for agreements on issues other than wage improvements (working time, training, long-term unemployment, etc.).

The following notes, which have been drafted by the members of our network of national experts, are mainly intended to provide an overview and analysis of wage moderation approaches and, more generally, wage determination policies during the 1990s in the industrial relations systems of 13 European countries.

BELGIUM

Jean-Paul Delcroix, Rafael Lamas and Sandra Rosvelds

Wage restraint has been in effect in Belgium since 1982, with an interruption during the period from 1988 to 1992 (see Table 1 below).

In Belgium, wages are by tradition negotiated essentially at the sectoral level with the possibility of negotiating supplements within the undertaking. The national central level did not deal with wage bargaining, with the notable exception of the establishment of the guaranteed minimum wage (*revenu minimum mensuel moyen garanti*).

Table 1 - Wage restraint in Belgium 1982-2000

- 1982-1986	wage freeze and no automatic adjustment of wages to the consumer price index;
- 1986-1988	bargaining freedom restored but under supervision;
- 1989	law of 6 January 1989 on competitiveness imposing a posteriori control of wage development based on the development of wage costs per person employed in the private sector in Belgium's 7 main trading partners;
- 1993-1996	after the failure of negotiations for a social pact the government introduced a " <i>Plan Global</i> " (overall plan) instituting a 3-year wage freeze (except for the automatic adjustment of wages to the consumer price index and the wage drift) based on the 1989 law on competitiveness;
- 1996	again as a follow-up to the failure to reach a new social pact (contract for the future of employment) the government had three framework laws passed, one of which was a new law known as the "Employment Promotion and Preservation of Competitiveness Act", which imposed a maximum wage norm in reference to the weighted average development of hourly wage costs in Germany, France and The Netherlands;
- 1997-1998	since no agreement was reached on the wage norm, the social partners did not sign the inter-trade agreement and the government set the wage norm unilaterally at 6.1% for the 2-year period;
- 1999-2000	the social partners signed the inter-trade agreement, which indicated a wage norm of 5.9%, but which can be exceeded if the conditions of efforts in the fields of training and job creation are fulfilled.

Wage restraint based on wage development in other countries really started in 1989 with the first law known as the “Preservation of the Country’s Competitiveness Act”. It required the Central Economic Council (the negotiating body) to assess the competitiveness of the Belgian economy every six months in relation to the seven main trading partners (Germany, France, the Netherlands, the UK, Italy, the United States and Japan) and to present an annual report. If the report observed any deterioration in the competitive position of the Belgian economy the social partners sitting on the Central Economic Council could either decide on their own initiative to take corrective measures or recommend that the government do so. If the negotiations failed the government was authorised to take the decisions of its own accord.

It will be observed that the entire discussion of wage formation has always taken place in Belgium under the concept of competitiveness. It was thus possible to institutionalise the concept of competitiveness as a component part of wage bargaining and to cause confusion in public opinion – deliberately fostered by the government and employers – by reducing the complex concept of competitiveness to the sole aspect of wage costs for undertakings.

In 1993, after the failure of the discussions on a social pact, the government unilaterally put in place a “*Plan global*” (overall plan), which was based on the 1989 Act and froze wages until 1996. In the course of 1996, the government, which had (finally!) realised the deficiencies of the 1989 Act, invited the social partners to devote attention to the reform of wage formation within the framework of a new social contract.

When these negotiations failed yet again, the government decreed the new law known as the “Employment Promotion and Preservation of Competitiveness Act”, which changed the corrective measures into preventive measures. This law left it to the Central Economic Council to draw up the technical report on wage margins, but the discussions on the choice of margin were henceforth held from the preventive perspective and within the framework of the negotiations for the conclusion of the two-year central agreement.

The 1996 law thus instituted a new framework for wages with a narrower margin for the establishment of agreed wages between the social partners. The agreed pay rises for the forthcoming two years were henceforth to be negotiated within a margin whose lower limit was formed by estimating income adjustments and wage-scale increases and whose ceiling was equivalent to the weighted average of anticipated pay rises in Belgium’s three main trading partners – Germany, France and the Netherlands.

Following the imposition by the government in July 1996 of the wage norm which must now be included in the negotiations for the conclusion of a central agreement, the social partners failed in their bargaining round to conclude a 1997-1998 agreement, whereupon the government laid down a wage norm of 6.1% for that period on its own authority.

At the macroeconomic level the 1997 and 1998 annual technical reports of the Central Economic Council established that the wage trend in Belgium did not exceed the average trend in the three main neighbouring countries.

The social partners managed to sign a central agreement in December 1998 in which it was stated that the wage norm for the period from 1999 to 2000 was 5.9% but that it would be possible to exceed that rate if efforts were made to provide in-company training or if jobs were created – an important factor for the trade unions and one which explains to a very large extent why they supported the agreement.

The current wage norm is thus an “external norm” based on developments in the three main neighbouring countries and, more specifically, on the criterion of the hourly wage cost. It does not officially take account of productivity. On the other hand, adjustment of wages to the cost-of-living index and pay increments based on years of service are guaranteed.

The 1996 law on competitiveness which instituted the wage norm concerns the private sector only. The sectors are required to adhere to the wage norm in their negotiations, and since the norm does not take account of productivity there can be no sectoral differentiation.

This wage restraint has in fact resulted in the necessity for greater coordination of wage bargaining, since the fixing of the wage norm and a posteriori control fall within the field of competence of the social partners at the central level. However, the new inter-trade agreement allows for greater bargaining freedom in the case of sectors which can henceforth exceed the wage norm under certain conditions (efforts to provide training for workers and to create jobs).

DENMARK

Jesper Due, Jørgen Steen Madsen and Carsten Strøby Jensen

Collective bargaining in Denmark in the 1990s was again marked by pay restraint. Both employers' and employees' negotiators were agreed that pay in Denmark should be kept down to a level which would improve, or at least maintain, Denmark's competitiveness, while remaining high enough to maintain and also gradually improve real pay levels. The starting point was the anti-inflation policy – with the resulting low price rises – which has marked Danish economic policy since the early 1980s, and which all parties in Parliament and the labour market organisations have gradually taken on board.

The starting point for this joint basis of values underlying collective bargaining was the Joint Declaration of 8 December 1987. At the time the then Conservative-led government had lost control of wage developments due to rising growth and falling unemployment, including a boom in the building and construction sector; and perhaps also due to the very strict political intervention in the 1985 negotiation round, in which annual pay frameworks of around 2% were dictated. However, the government lacked the courage to intervene directly in wage negotiations at enterprise level. The result was that local trade union representatives who did not consider themselves bound by the government intervention pushed for and obtained the increases which the market conditions made possible. This had repercussions during the next round of negotiations in spring 1987. Following large rises in the private sector the government had to allow equivalent rises in the public sector, the result of which was to shatter the balance of the Danish economy. The government had already intervened with a tax reform and the so-called “potato cure” in 1986, and when these efforts proved very effective in the course of 1987, the result was stagnation, with rapidly rising unemployment in its wake. It was only at the start of the 1990s that this development was able to be reversed.

In December 1987 the government and several of the large central organisations agreed on the so-called joint declaration out of a concern to restore the balance. This took place in conjunction with committee work, among other things on labour market pension reform. The government expressed its support for the organisations' wish to structure pension schemes, whilst in return the organisations agreed that “decisive emphasis has to be placed on making sure that cost developments at home do not exceed those abroad”.

The DA and the SALA on the employers' side and the LO and the FTF on the employee side committed themselves, together with the government, to a wages policy which would help to improve competitiveness. Since then the AC has also signed to the Joint Declaration. This provided the basis for the subsequent collective negotiations, whilst in 1989 and 1991 labour market pension schemes were implemented in the public and private sector respectively. Implicit in the three-way agreement was the idea that wage restraint would allow room for a policy which in the longer term would remove high unemployment. As formulated by the LO, the negotiating rounds would lead to permanent jobs and not to permanent wage levels.

This remained a generally accepted basis for the collective negotiations right through the 1990s. It also brought tangible results – even if the organisations had to wait until the mid-1990s for the reduction of unemployment to become a fact.

The success of the wage restraint policy can be measured in particular by the fact that, despite reducing wage increases, it proved possible not only to maintain real pay levels, but also to continuously achieve real wage increases for most groups of employees. In its prognosis the Economic Council has calculated that total real wages will have increased in Denmark by a good 19% between 1990 and 2000. According to the DA's international pay statistics, only Norway comes close to the Danish increase.

This increase will have accelerated in recent years up to the year 2000, but already in the early 1990s there were decent real pay increases – also higher than in most other countries. However, unlike at the end of the 1990, the increases occurred without affecting competitiveness. Until 1996 it proved possible – barring one single year – to keep to the objectives of the wage restraint policy: to secure at one and the same time Denmark's competitiveness and smoothly rising real pay despite modest nominal pay increases. But in 1997 and 1998, according to the DA's international wage statistics, the control began to slip, so that wages are now permanently rising faster in Denmark than abroad. The most recent comparative figures are those for the second quarter of 1998, when wages were growing in Denmark by an annual 4.1%, compared with 2.7% abroad, i.e. a good one third less.

Accordingly, it is essentially from 1997 onwards that there have been problems with the wage restraint policy. Real wage rises have certainly been maintained, but ultimately this has indeed been achieved at the cost of competitiveness, which, in the long term, can have negative effects on both real wages and employment. This negative development can undoubtedly be ascribed largely

to the fact that it is easier to conduct a policy of wage restraint in a period of high unemployment, but much more difficult to do so when the economy begins to get wind in its sails and unemployment falls substantially, as happened in Denmark in the second half of the 1990s.

To this must be added the fact that the 1987 three-way agreement on wage restraint is a relatively non-committal declaration of intent, lacking precise criteria governing the content of such a policy, and without tools for responding to any unwelcome developments, for example in specific sectors or in particular in areas where the economy is running so strongly that this can lead to wage pressure. The parties have committed themselves to securing wage increases that are lower than in Denmark's main competitor countries, in particular Germany and Sweden. However, developments since 1997 have shown that it is difficult to live up to such loose intentions without more powerful tools in a market-controlled economy, once this moves into higher gear. The fact that things have not yet got out of control is due therefore not to the main income policy line to which the parties are committed, but more to the active labour market policy, which has been strengthened in the same period, and which has contributed to avoiding the worst bottlenecks.

The trend towards decentralised wage negotiations is contributing to making it more difficult to maintain wage restraint. It is only the superordinated frameworks which can be set by the recurrent renewals of the central agreements, and there is no ceiling on local wage negotiations. These have not existed since the first half of the 1990s in the private sector but in the new decentralised public sector pay system there is in principle no ceiling on local wage increases. Certainly the first time round negotiations took place in practice almost everywhere as if a framework had existed. But the question is whether wage control can be maintained if, as expected, the manpower shortage in the public sector grows in the coming years.

The problem has probably also been compounded by the fact that the negotiating rounds have been out of step from 1995 onwards. Since then agreements in the various areas have not been renewed simultaneously. Of special significance here is that the two largest areas, the LO/DA area in the private sector and the public sector, have become divorced. This falling out of step appears to create lever effects and increase employees' levels of expectations. In the short term this can be an advantage for employee organisations. But in the long term it can be a problem, and it makes things difficult for negotiators who would like to stick to wage restraint. If they accept

settlements that are too low they are in danger of being voted down more often by members, since the pressure of expectations has grown.

This is the horror scenario for all parties in the negotiations, that of once again ending up in the situation of the mid-1980s, when wage increases ran out of control, and the economic reins had to be drawn so tightly that unemployment shot up. As the presidency of the Danish Economic Council has stated, one of the prerequisites for maintaining a healthy economy is to once again increase competitiveness. Various factors can contribute to this, but it can probably not be achieved without a certain dampening of the speed of pay increases.

How can one secure support for such a strengthening of a policy of pay restraint in a negotiating system with partners who have differing interests? One solution could be to reach agreement between the labour market parties on a new joint declaration, committing the partners to a tight economic policy, which secures at one and the same time competitiveness, real wage increases and the high level of employment. The LO broke away from the 1987 Joint Declaration following the government intervention in spring 1998 – not out of opposition to this type of three-way work, but more in order to speed up the advent of a new and binding agreement. The key question in 1999 is whether the government and the DA are interested in entering into such an agreement.

FINLAND

Pekka Sauramo

The 1990s have been a very exceptional period in Finnish economic history and an essential item has been wage moderation. This is most clearly seen in the development of the functional distribution of income. Labour's share has fallen drastically. Even though increases in real wage costs may have been higher than in many other European countries, they have not led to a rise in labour's share, because labour productivity has grown even faster than real wages.

Rapid labour productivity growth reflects at least two special features. During the depression and the early phase of the recovery, the Finnish economy experienced a period of business restructuring, which was most clearly seen in manufacturing. The essential feature of the restructuring was that a lot of plants with a less than average level of productivity disappeared. Meanwhile, the plants with an above average level of productivity increased their labour input share. As a result of this process, labour productivity grew rapidly even during the depression, and did not conform to the usual pro-cyclical pattern. The

Finnish depression can therefore be characterised as a period of creative destruction, a characterisation used by Joseph Schumpeter in describing the phenomenon of recession. Furthermore, the 1990s have also been the period of downsizing, which has accelerated productivity growth temporarily. Because labour productivity increases have not been matched by equal increases in real wages, the result has been a marked fall in labour's share.

It is not easy to distinguish the importance of the main factors which have contributed to the realised increases in real wages. Two factors may, however, be the most important ones: the seriousness of the unemployment problem and the Finnish corporatist tradition.

Mass unemployment has weakened the bargaining power of trade unions, but the outcome cannot be explained by a weakening of bargaining power alone. Concern about unemployment is a part of Finnish corporatism. In the 1990s this has meant that trade unions operating even in those sectors where labour productivity growth has been above the average have been ready to accept moderate wage increases. Of course, this has not been unproblematic, because it can be argued that, especially in some manufacturing sectors, the fall of the share taken by labour has been almost untenable. The developments of the 1990s cannot be understood without taking into account the history of solidaristic wage policy and the tradition of wage moderation.

In Finland, wage moderation was an issue well before the 1990s. The main aim of centralised incomes policy agreements has traditionally been to safeguard increases in purchasing power by not accelerating wage inflation excessively. Nevertheless, there is a big difference between the 1990s and, say, the 1980s.

In setting wage claims, the aim to keep labour's share constant (at a normal level) has usually been explicitly taken into account. This has been done by making use of the so-called Scandinavian model of inflation. The scope for raising wages is determined by the open sector, and is defined as the sum of projected labour productivity growth in the open sector and changes in export prices.

Clearly, this rule has not been followed in the 1990s. Had it been followed, wage claims would have been much higher. Traditionally it was supposed to be followed in "normal" times, but the 1990s are not a good example of such times. A major difference between the 1990s and 1980s is that, in the 1990s, the aim to keep labour's share constant has not been a major criterion in setting wage claims. Discussion about criteria which are taken into account when wage claims are set has been alive also during the 1990s. The birth of EMU has, of course, affected the discussion. In the discussion, the following norm for wage

claims has been proposed: the scope for wage increases is defined as the sum of the projected average growth of labour productivity in the economy as a whole and the inflation target of the European Central Bank. When a wage claim is set, wage drift must be taken into account. As before, the aim of this norm is to keep labour's share constant.

This norm, too, is supposed to be followed in "normal" times. However, because the fall of labour's share has been so sharp, it is not easy to estimate what a new "normal" labour share in Finland would be.

Without a detailed study, it is difficult to assess how wage moderation has affected earnings differentials in Finland in the 1990s. Given the fact that labour productivity has grown very unevenly in various sectors of the economy, the widening of earnings differentials may turn out to be surprisingly small. The figures for 1998, for example, give support to this kind of interpretation.

Nor is it easy to characterise how wage moderation has affected trade unions' bargaining strategies. During the past few years, earnings developments have been largely determined by the two centralised incomes policy agreements. (This is true at least when one measures earnings developments by the index of wages and salary earnings.) In this sense, major social partners have been able to control pay developments, and wage moderation has been an essential part of the corporatist strategy, which, first of all, has aimed at reducing unemployment.

The strategy has been supported by the three central trade union confederations (SAK, STTK, AKAVA). It has also been supported by major trade unions, but not without reservations. For some trade unions operating in the sectors where labour productivity has increased rapidly in the 1990s, the acceptance of the Incomes Policy Agreement of 1997 was difficult. Given the developments of labour's share and competitiveness, this is understandable.

Even though the social partners have been able to agree upon two successive centralised incomes policy agreements, one underlying trend has been that possibilities for local bargaining have been increased in the 1990s. Furthermore, the use of various bonus and payments-by-results schemes in earnings determination has become more popular in the 1990s, which has, in principle, weakened the possibilities to control pay developments by collective agreements. It is not easy to assess the role of wage moderation as a potential contributory factor to these developments, but it has hardly played a major role.

GERMANY

Reinhard Bispinck

The 1990s brought the most overwhelming changes to collective bargaining policy since the war. The unification of the two Germanies and the ensuing process of transformation of the new *Länder* faced the trade unions and their collective bargaining policy with major challenges with which they have not yet come fully to grips. The end of the unification boom plunged the (western) German economy into its hitherto deepest recession, bringing in its wake a further dramatic rise in unemployment. This collapse took place simultaneously with the continuous process of an increasing internationalisation of the economy and globalisation of competition. At company level the continuing collapse of labour, production and organisation systems led to an intensification of the process of rationalisation with contradictory consequences for the working conditions of employees and the terms of action open to their representatives at company level. The deregulatory policies conducted by the Conservative/Liberal federal government were the final nail in the coffin where opportunities for successful collective bargaining policy were concerned.

Pay policy in the 1990s shows a contrasting outcome: though the trade unions in the old *Länder* proved able, in a prospering economy, to win significant increases in real pay, the onset of crisis led to a “turnabout” in collective bargaining policy for which the employers’ federations had long wished.

1993 saw the deepest recession of the post-war period in the (old) *Bundesländer*. The economy shrunk, GDP was 1.9% down on the previous year, leading to drastic shedding of workers in nearly all sectors of the economy, with the numbers of registered unemployed rising to more than 2.5 million, more than half a million more than a year earlier. The depth of the recession, which made the collective bargaining conditions ever more difficult for the trade unions, was compounded by growing political pressure on the parties to collective bargaining (i.e. the trade unions) to take account of the difficult situation by concluding “moderate” pay agreements. This was also connected with the controversy at the beginning of 1993 over the “solidarity pact”, by means of which the federal government wished to commit all social finances to the idea of developing eastern Germany and restoring the state finances to better health. Though the trade unions attempted to extricate the collective bargaining process from involvement in such an approach, the political discussion did not fail to exert an influence on public opinion and workers’ expectations. As the gravity of the economic recession was gradually

recognised, there developed also a new discussion about Germany's viability as a production site, which on the employers' side was conducted almost exclusively in terms of arguments about labour costs. They attempted to account principally for the "costs crisis" of the German economy by reference to the steep rises in unit labour costs since the beginning of the 90s. All in all, 1993 showed a declining collective bargaining curve. In the economy as a whole and on an annual average real pay levels were not secured by collective agreements.

The 1994 collective bargaining round one again took place, in the old *Bundesländer*, under the continuing impact of the deepest recession in the post-war period. It is true that in the course of the year the economy underwent a sudden unexpected upturn, but on the labour market the negative developments continued. On annual average the unemployment figure was up 300,000 on the previous year. Therefore the trade unions' collective bargaining policy was conducted under growing pressure not from the employers alone but from broader sections of political opinion. The demand was for a policy geared to pay restraint, with productivity developments representing the upper limit. The employers' campaign for a turnabout in collective bargaining gathered momentum. Indeed, for the first time the employers openly demanded a reduction in agreed pay levels. Unlike in the previous year the employers' federations linked their demands to the question of principle concerning continuation of the collective bargaining system. Only if, with the help of cost reductions, it proved possible to curb the allegedly dramatic deterioration of the competitive position of companies and, by means of flexibility (of working time in particular), to give individual companies more freedom of action and room for manoeuvre, did the regional collective agreement – so the employers' argument went – have any enduring chance of survival.

As a result of this configuration, in 1994 the trade unions were compelled to accept collective agreements which in previous rounds would have been deemed completely unacceptable. Rates of settlement significantly below inflation, widespread freezing or reduction of collectively agreed special annual bonuses, renegotiation – and in some cases deterioration – of working time arrangements (still in force!) are concessions that become understandable only in the light of the hopelessly defensive position in which the trade unions found themselves at the end of 1993/beginning 1994. That they also managed to secure some gains, particularly in relation to job preservation, lightens the gloom somewhat but is not enough to make the very mixed collective bargaining outcome into a positive sign of collective bargaining policy reform and influence.

Whereas in 1995 the employers hoped to continue along their – from their own point of view – successful course, the expectation of employees and trade unions after three lean pay years was rather different. From these extremely different attitudes and expectations on the two sides of industry there emerged one of the most conflict-ridden bargaining rounds in recent years. After an 11-day strike in the Bavarian engineering industry at the end of February and beginning of March, *IG Metall* achieved a collective agreement in the metalworking industry which, in terms of volume, was once again, for the first time, significantly above the rate of inflation. After one-off payments for the first four months, there was a 3.4% increase from May and a further 3.6% from November 1995 to run to the end of 1996. This agreement represented an important pacesetter for other sectors too. Instances of industrial action in a number of other bargaining sectors showed that employees in both the old and the new *Länder* were prepared to put up a fight. This palpable renaissance of strikes for higher pay, which many observers had already written off as an antiquated instrument for the settlement of disputes, not only led to some very tangible results but undoubtedly also represented a gain for the trade unions in terms of credibility and ability to push through their demands. In the employers' camp, however, the engineering agreement unleashed a violent discussion and wave of internal remonstrations. The actual conduct of the bargaining in question, but also the collective bargaining system as a whole, were in the line of fire of increasingly radical criticism from economic, political and academic commentators.

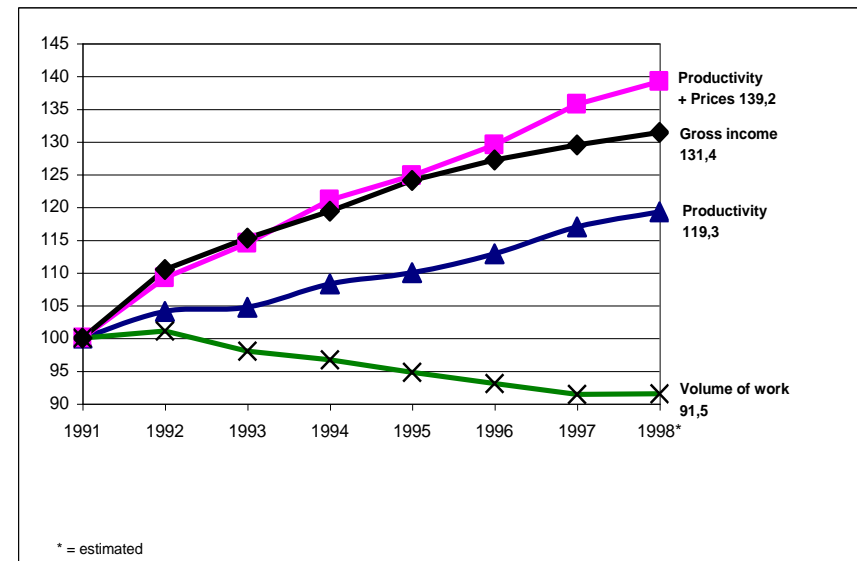
At the end of 1995 *IG Metall* president Klaus Zwickel issued his proposal – initially aimed at the engineering industry – for an “employment alliance” which offered employers a policy of pay restraint in return for guarantees that no workers would be made redundant and that 300,000 jobs would be created. Although this rapidly turned into a political initiative launched by the trade union movement as a whole in the direction of the government, it then promptly foundered on the unwillingness of both the government and the corporate sector to become involved in a concept of cooperative action to combat unemployment. The collective bargaining and social climate hardened, as evidenced by the dispute in the autumn of 1996 over the cut in the 100 per cent statutory sickness pay. Results of the 1996 pay round were very modest with settlement rates of 1.5 to 2%.

1997 was marked by a persistent and increasingly acute employment crisis. On the collective bargaining front, the (successful) campaign to preserve sickness pay was in the forefront of concerns. In return a number of pay and collective bargaining compromises had to be made, the outcome of which was another round of low pay settlements. Over the economy as a whole, for the first time in many years, pay developments fell behind the rise in the cost of living. Yet the resulting demand for “an end to modesty” issued by the *IG Metall* chairman were unable to be translated into pay bargaining reality in 1998. The ratio of pay to GDP fell to an all-time low.

Against this background, a distribution policy balance sheet of the 90s hardly looks very positive. Workers’ income in the 1990s rose 8% less than labour productivity and consumer prices. Gross per capita income per worker in Germany (west and east) between 1991 and 1998 rose by 31.4%, while the (cost neutral) room for distribution (productivity plus prices) rose, during the same period, by 39.2% (see Figure 1). This moderate income development did not, however, pay off in policy terms: the volume of labour in the economy as a whole fell by 8% in the period 1991-98, from 50.4 billion to 46.2 billion hours.

The policy of pay restraint conducted since the 1992-93 recession accordingly did not represent a strategic element of trade union policy but was substantially attributable to the economic recession and the associated much weakened ability of the trade unions to push through their claims. The only successes gained by the unions during this period were in the field of employment preservation. Thus in the 1994 bargaining round agreements were for the first time concluded in several sectors allowing the possibility of a reduction of agreed working hours (for a fixed term) although this was not achieved without some loss of pay (in certain cases less than proportionate). In return, companies were required to guarantee that there would be no redundancies. In the autumn of 1993 *IG Metall* and Volkswagen agreed on the company-wide introduction of the four-day week (28.8 hours), albeit accompanied by a corresponding drop in earnings. In recent years there were many more instances of such agreements which also spread to other sectors.

Figure 1 - Productivity, prices and income developments 1991 - 1998 in Germany (Index 1991 = 100)



GREECE

Katerina Christofi

In the 1990s wage policy was set within the framework of an overall anti-inflationary policy, according to the EMU nominal convergence criteria. The harmonisation of wage policy with overall economic policy, in particular with the target of reducing public deficits, and with the monetary policy pursued, was considered necessary for a faster fall in the inflation rate. In this context, only moderate wage increases were recorded, so that labour remuneration did not always follow in symmetry with productivity changes. Generally speaking, therefore, in the period 1990-1998 one can observe (see Table 2) an accelerating trend of productivity changes (from -2.2% in 1990 to 3.3% in 1998) and a decelerating trend of change in the rate of average nominal earnings in the total economy (from 17.9% in 1990 to 6.3% in 1998) as well as of minimum wages and salaries in the private sector and of wages in the public sector (see Table 3).

Table 2: Productivity, earnings and unit labour costs in total economy, 1990-1999 (annual percentage changes).

	Average nominal earnings	Average real earnings**	GDP per employed	Unit labour cost
1990	17.9	-2.5	-2.2	20.6
1991	15.4	-4.1	5.0	9.8
1992	11.8	-4	-0.6	12.6
1993	9.8	-4.6	-2.5	12.7
1994	10.8	-0.1	0.1	10.7
1995	12.9	4	1.2	11.6
1996	11.8	3.6	1.1	10.6
1997	11.0	5.5	3.6	7.1
1998	6.3	1.5	3.3	2.9
1999*	4.1	-	2.9	1.1

* Estimations

** average nominal earnings of this table minus average annual inflation rate of Table 3 (with an inflation rate for 1998 4,8%).

Source: NSSG and Ministry of National Economy in: *Trends – Greek Economy 1999*, special annual edition (February 1999), p. 20.

More specifically, in the total economy and in the period 1990-1993 average nominal earnings increased less than inflation and this resulted in an accelerated downward trend in the real indices, so that real earnings decreased more than productivity. In 1994 the trend changed and there was an upward trend of the increase rate of average real earnings and from 1995 to 1997 real earnings increased more than inflation and productivity change.

Table 3: The evolution of minimum wages and salaries in the private sector (according to NCLAs) and of wages in public sector, 1990-1999.

private sector		Duration of operation (from-to)	Basic daily wage	Increase rate	Basic monthly salary	Increase rate	Change rate of annual nominal earnings***	Average annual inflation rate	Change rate of annual real earnings	Year	Increase rate of civil servants' wages
NCLA 1990	1/1-31/8/90	2911	7.6%	65105	7.6%	18.4%	20.4%	-1.6%	1990	5.8% + 7.1% = 12.9%	
	1/9-31/12/90	3118	7.1%	69727	7.1%				1991	4% + 4% = 8%	
NCLA 1991	1/1/91	3315	6.3%	74121	6.3%	13.02%	19.5%	-5.4%			
	1/7/91	3501	5.6%	78272	5.6%				1992	0% + 0% = 0%	
1992	1/1/92	3721	6.28%	83160	6.24%	11.3%	15.8%	-3.8%			
	1/7/92	3870	4%	86487	4%				1993	4%	
NCLA 1993	1/1/93	4081	5.45%	91206	5.45%	11.8%	14.4%	-2.2%			
	1/7/93	4411	8.08%	98568	8.07%				1994	5% + 5% = 10%	
NCLA 1994	1/1/94	4632	5%	103497	5%	12.6%	10.9%	+1.53%			
	1/7/94	4934	6.5%	110225	6.5%				1995	3% + 3% = 6%	
1995	1/1/95	5132	4%	114634	4%	9.41%	8.9%	+0.46%			
	1/7/95	5336	4%	119220	4%				1996	2.5% + 2.5% = 5%	
NCLA 1996	1/1/96	5531	3.5%	123520	3.5%	7.75%	8.2%	-0.41%			
	1/7/96	5753	4%	128460	4%				1997	8%	
1997	1/1/97	6000	1+3.25%	133962	1+3.25%	8.05%	5.5%	+2.4%			
	1/7/97	6195	3.25%	138315	3.25%				1998	2.5%	
NCLA 1998	1/1/98	6364	0.2+2.5%	142056	0.2+2.5%	5.39%	5%*	+0.37%**			
	1/7/98	6492	2%	144897	2%				1999	2% (1/1/1999)	
1999	1/1/99	6609*	0.4+1.4%	147505*	0.4+1.4%	4.15%	3%*	+1.1%**			
	1/7/99	6702*	1.4%	149570*	1.4%						

* Elaborated data, taking account that the final adjustment rate was 0.4%.

** Estimations. The final average inflation rate was in 1998 4.8%.

*** 12 months earnings

Source: a) for private sector elaborated data from Triantafyllou Chr., INE/GSEE, October 1998. b) Ta Nea, 29 August 1998, p. 18.

In 1998, despite the fact that earnings increased more than inflation, this increase was less than productivity change. Generally, the real increases since 1995 (+14.6%) did not counterbalance the real losses of the period 1990-1994 (15.3%).

Regarding the evolution of minimum wages and salaries, which were determined by National Collective Agreements (see Table 3), it was observed that from 1990 till 1993 there was a net loss of real earnings in the private sector. Since 1994, there was a net increase (except in 1996) but it did not counterbalance the real losses of the previous period (1990-1993) and did not exceed the productivity change rate. In the public sector (see also Table 3), the decreasing trend of real wages was stronger than in the private sector: during the period 1990-1998, except 1997, wages increased less than the inflation rate.

As Ioannou notices, “in the private sector the National Collective Labour Agreements (NCLAs) had to set the pace for wage moderation. In the public sector, policy implementation has been easier. Civil servants had the right to unionise and to strike, but did not have the right to bargain and to contract collective agreements”¹. It is worth noting that, in the early 1990s, the collective bargaining process was reformed, with the abolition of state-controlled compulsory arbitration in the private sector and the public sector utilities (the public sector remained under state-controlled arbitration). Under the new system, the minimum wage is determined by representatives of employers and workers in a national collective agreement, which acts as a floor for lower-level agreements.

In this context, throughout the 1990s, the government’s influence on the outcome of bargaining for the NCLAs relied on political persuasion and political links between the PASOK party-government and the PASOK party-faction in the GSEE leadership, as well as on labour market factors (i.e. unemployment, inflation, de-industrialisation, expansion of informal labour market). The abolition of direct government intervention in 1990 was replaced by indirect methods of centralised wage moderation through the founding of OMED, an independent institution for mediation and arbitration. After six years of operation the Mediation and Arbitration Organisation (OMED) proved a helping hand for trade unions lacking bargaining power, awarding to them wage increases above 0.5%-1% of the NCLA rates, but not an institution with

¹ Ioannou C. (1998) ‘EMU and Hellenic industrial relations’, in Kauppinen, T. (ed.) *The impact of EMU on industrial relations in the European Union*, Finnish Industrial Relations Association, publication n. 9, 11th World Congress of IIRA, 22-26 September 1998, Bologna

authority to influence wage formation in important sectors (with bargaining power and wage-leadership roles). In this context, the wage-drift can be considered the outcome of industry, occupational and company collective agreements that follow the bargaining round for the NCLA.

As Table 2 shows, despite the general decreasing trend of earnings between 1993 and 1998 in the secondary and tertiary sectors, the rates of increase vary among sectors. As a result, the lowest rates of increase in 1998 can be observed in manufacturing and in wholesale trade, while the highest rates are in mines and in electricity and water supply as well as in banking.

IRELAND

Paula Carey

Trade unions have supported a strategy of wage moderation combined with tax reform measures throughout the 1990s. The combination of tax reform and wage increases has been particularly successful in raising the standard of living for most, though not all, Irish workers. The problem of low pay still exists, particularly in the services sector. Unions in this sector have argued that the wage moderation policies have militated against significant improvements in these sectors. Unions have also argued that the flat-rate increases secured in the agreements made little impression on the problem of low pay. However, these sectors did not do well under the period of free collective bargaining in the 1980s either. While the commitment to tax reform has gone some way to improving living standards, it has been clear and strongly argued by a number of unions that a more effective response to low pay will be the introduction of a properly enforced minimum wage.

In other parts of the private sector, there is an 88% adherence to the basic pay increases. Surveys have shown that unions have taken advantage of the broader aspects of the pay agreement and have been successful in negotiating additional basic pay, sick pay, pension coverage and a range of gain-sharing/profit-sharing agreements.

Public service pay agreements have, for many years, contained provisions for two elements – standard rounds or cost-of-living and special increases (local bargaining). Productivity featured and was integrated into the special increases. The PCW included two important concepts in relation to public service pay developments: adherence to certain cost parameters and support for public service change/modernisation. The concepts were refined in Partnership 2000

to provide for an explicit 2% Local Bargaining Clause and a commitment to on-going co-operation with change.

The emerging pay variation gave rise to some groups of public servants using the situation to correct long-standing inequities. The groups include many workers providing essential services, e.g. nurses, police, the defence Forces, craft workers, fire brigade and paramedics. These groups have long argued that their pay has been kept down vis-à-vis civil servants who enjoy set pay rates. Conflict has arisen between unions regarding the settling of restructuring claims under the former National Programme (PCW). Considerable divergence emerged between early settlers of the restructuring claim and those, under threat of industrial action, who settled later. The difference is of the order of 9% where nurses settled the claim at 14.5% and the executives in the Public Service settled at 5.5% at a much earlier date, having full regard to the industrial peace clause. The resolution of the conflict is particularly difficult as any renegotiations for the early settlers will have implications for the other groups. The Public Service is roughly evenly divided between early and late settlers. For the Government's part the settlement of all claims is linked to the introduction of the Strategic Management Initiative throughout the Public Service. These difficulties are under negotiation in this context.

ITALY

Giuseppe D'Aloia and Angelo Gennari

Wage moderation – which ensured that the purchasing power of pay held up at the end of the first five-year term of the 1993 Agreement – was the result of a tripartite “social pact” between the social partners and the government. The main goal of this pact was entry into the euro and, hence, compliance with the economic criteria set out in the Maastricht Treaty, from which Italy was particularly distant.

The key change brought about by the Agreements of July 1992 and July 1993 was the move away from a bargaining model and wages policy based on partial indexation of pay (this system had already been modified in the 1980s due to a decree law and Agreement – not signed by the CGIL – in February 1984 and, thereafter, the Agreement of 1986 which reintroduced a partial differentiation in the increments awarded under the *scala mobile* wage indexation mechanism and a lowering of its degree of inflation coverage). The new system took inflation forecasts – issued by the government, but on the basis of tripartite consultations – as a guide for determining wages policy.

Under the 1993 Agreement, the redistribution of productivity gains over and above those distributed by virtue of national bargaining was to take place through second-tier bargaining, at company and/or territorial level. One of the most significant effects of the incomes policy established by the July 1993 Agreement was a large-scale attenuation of the differences in pay trends between and within sectors which had been characteristic of the 1980s.

The second half of the 1980s was a period of widening pay differentials, especially between sectors protected from and sectors exposed to international competition; these differentials narrowed markedly in the 1990s.

The purpose of the July 1993 Agreement – like the pacts in other countries – was to bring inflation under control, overhaul the economy and make it more flexible, as a precondition not only for ensuring compliance with the constraints imposed by entry into EMU but also for launching policies designed to boost the economy and employment. It was no accident that both the July 1993 Agreement and thereafter the 1996 Pact for Employment assumed job creation to be dependent not so much on traditional recipes for growth but on structural modernisation: research, training, local development, etc.

Looking at Italy's track record, we can distinguish clearly between the economic policies which accompanied the 1983 and 1984 Agreements and those arising out of the 1990s model of tripartite consultations. The specific features of these two experiences can also be largely identified.

A process of disinflation was carried through in the 1980s too, but it was accompanied by policies designed to boost domestic demand, mainly through an increase in the public deficit and the volume of government debt, a massive redistribution of income due to a raising of interest rates, a widening of pay differentials in favour of protected sectors of the economy (public sector, major services – public and private, State shareholdings) and, in part, higher job grades, above all thanks to discretionary awards by companies.

In the 1990s, by contrast, the policy was one of radical cutbacks in public spending (affecting both investment and current expenditure) and in domestic demand – balanced by an export-led model driven by a devaluation of the lira –, containment (and often reduction) of the growth in pay and inter-sectoral differentials (affecting both wages and welfare benefits), and cuts in interest rates and debt-servicing costs.

While the July 1993 Agreement formed the new “constitutional framework” for industrial relations and the model of tripartite consultations, it generated a series of budgetary, fiscal and labour market policies as well as reform of the social security system, in which the trade unions played a key role. This process consisted of the following stages: the pensions reform of 1995, the Pact for Employment of September 1996 – putting in place a number of measures to step up labour market flexibility – and further additional wage flexibility due to “Territorial Pacts” and “Area Contracts”; and, finally, yet another modification of the pension system in 1997. It was the combination of all these policies which culminated, in May 1998, in Italy successfully joining EMU.

The first four-year term of the 1993 Agreement resulted in a model, or system, of industrial relations which has been described as “centralised decentralisation”. Indeed, contrary to the fundamental assumptions of the traditional literature on “neo-corporatist” pacts, the distinctiveness of this system seems to lie in its capacity to combine centralised co-ordination of collective bargaining with decentralised industrial relations at micro level, yet within a context of goals shared by the players in tripartite consultations (inflation forecasts, productivity/competitiveness, overhaul of the Italian economy, etc.) and with the trade unions’ stamp of approval arising from the new rules on representation and from democratic procedures (consultations and referendums) not envisaged by neo-corporatist theories.

The first term of the Agreement brought about a stabilisation of this new system of industrial relations and rules on collective bargaining, notable for the co-operative nature of relations between the two sides of industry (no longer adversarial as in the past, as was proved moreover by the dramatic fall in the number of disputes, continuing into the first few months of 1998). Some observers have even deemed this to be the most significant result of the July 1993 Agreement, over and above the scope for new-style bargaining rules and practices in the future.

Even in national – and more so in local – collective bargaining, the Agreement proved to be relatively flexible and capable of adapting to the specific circumstances of sectors and companies. In many cases – particularly in the public service (where wage trends have been extremely restrained since 1990) and in sectors which have experienced sectoral crises (construction, agriculture) – there have been considerable delays in renewing national collective agreements, and wage rises have often not been sufficient to maintain purchasing power; furthermore, many major collective agreements have been drawn up to cover periods longer than the four years envisaged.

These outcomes demonstrate the capacity of national bargaining to adjust to the specific nature of relations between the social partners.

Decentralised, or second-tier, bargaining is notable firstly for having greatly extended performance bonuses (the Italian equivalent of UK/US models of profit- or gain-sharing, or financial participation), even though attention is drawn to their modest proportions compared with actual wages; secondly for its significant capacity to differentiate between the models and content of solutions negotiated according to the traditions and structural features of different sectors and even firms; and thirdly for confirming that the reorganisation and flexibilisation of working hours, already attempted in the second half of the 1980s, can be negotiated. These were described at the time as “adaptive micro-consultations”.

On the whole, second-tier bargaining cannot be described as predominantly acquisitive, but has proved capable of balancing the demands of workers with those of companies. It is an important tool for organisational innovation in firms, for the handling of labour relations, and for achieving a more collaborative and participatory approach to collective bargaining and industrial relations.

Moreover, the 1993 Agreement has been successful in propagating at local level the model and practices of tripartite consultations concerning growth and ways of promoting it through negotiation. It has done so by fostering Territorial Pacts and Area Contracts, as well as by expanding local bargaining in the craft sector and in a number of industrial zones (and also provincial bargaining in agriculture and construction), together with bilateral arrangements and practices, particularly in the fields of training and labour market measures. In fact, a wealth of experience with such practices already existed (management of work/training contracts, national and regional Employment Commissions, etc.).

Under Territorial Pacts and Area Contracts, the most representative trade union organisations may introduce waivers to the terms of national collective agreements, where appropriate, by negotiating concrete development projects involving all the relevant social and institutional players. In our opinion these developments are not dissimilar to the “opening clauses” inserted into sectoral collective agreements in Germany, which – in a crisis where jobs are under threat – provide for the possibility of derogating from the collectively agreed minima, subject to precise rules, on the basis of an accord with the trade unions concerned.

Experience would, however, seem to indicate a need for central strategy co-ordination, both of growth policies and of consultation practices themselves. There seems to be a risk that this model of propagating collective bargaining at territorial level will implode, or at least become deadlocked. Without any clear strategy decisions and guidelines at national level, local decision-making could boil down to a miscellaneous array of choices, devoid of any strategic focus. Furthermore, without national co-ordination of local options, the trade unions in different local areas could themselves fall into a downward spiral of competition with one another.

By the same token, the contribution of earned income to the national income reveals a trend similar to the one we have seen for wages: in manufacturing industry, in particular, after having peaked at the start of the decade, it fell by roughly five percentage points between 1993 and 1995 (the two-year period when purchasing power also declined), but picked up again from 1995 to 1998 and almost returned to the 1993 maximum. The curve for the economy as a whole has a similar shape, but the post-1993 recovery is less strong – obviously affected by circumstances in the service sector – and the ratio of earnings to the national income remains well below the all-time high of 1991.

These fluctuations in the rate of distribution are attributable not so much to the trend in wages – which have maintained their real value, as we have seen – as to that in employment and productivity. The trend in real wages lies well below that in productivity, and this largely explains the progression in the rate of distribution.

The two tiers of bargaining and the management of incomes policy within a context of substantial wage moderation have enabled the purchasing power of wages to hold up in the main. The price paid for the radical overhaul of Italy's economy and the process of disinflation has been lower growth than in other countries, together with a decline – despite signs of recovery over the past couple of years – in earned income as a proportion of GDP.

LUXEMBOURG

Jean-Claude Reding and André Wantz

Since 1995, wage increases have been, on average, slightly below the increase in national productivity. The representative trade union confederations accepted the principle of gearing wage policy to the need for Luxembourg enterprises to remain competitive in the face of growing international competition and productivity.

A change in attitude was announced in the autumn of 1998 when the two confederations affiliated to the ETUC adopted the Doorn declaration². However, it must always be borne in mind that the extremely decentralised character of the wage negotiations limits the direct value of any national agreement on the subject.

NETHERLANDS

Jan Peter van den Toren

Wage restraint has been a component of policy on working conditions in the Netherlands since the Wassenaar Agreement in 1982. In the first half of the 1980s, wage restraint meant that nominal wages remained virtually at the same level and real wages thus decreased, a decrease which was otherwise combined with a reduction of working time. Through this drastic break with the trend of previous years, and by abolishing the automatic adjustment to the consumer price index in most collective agreements, it was possible to break the wage-price spiral and inflation rate dropped sharply. The point of departure for wage restraint has changed over the years. In the early 1990s, after the acceleration in economic growth as of 1989, union wage claims were never more than 1% above the anticipated rise in the price index. Only a small minority of collective agreements – namely in the construction industry and in the agricultural and food sector – still included automatic adjustment to the price index; that adjustment disappeared from most collective agreements in 1982. The rapidly deteriorating economic situation in 1993 resulted in a sharp decline in the wage trend after an agreement reached in the Economic and Social Council. In the agreements concluded in 1993 wages actually remained nominally at the same level or even dropped³. From 1995 onwards, wage formation under normal to even favourable economic conditions had once again returned. The union wage claims exceeded the anticipated rise in the price index by a maximum of 0.75%. In addition, the percentages were always related to proposals in the employment field. In agreements on the reduction of working time or employment for specific groups the ultimate wage increase could be lower.

² For a detailed analysis of the Doorn declaration, see the report on Belgium in the present volume.

³ In the majority of collective agreements there was actually a time lag on the basis of previously concluded agreements: at the beginning of the year part of the wage increase or even the entire increase had already been fixed. The final wage increase thus amounted to 0.8% in 1994 based on wage level or 1.5% on an annual basis.

This wage restraint was always the result of choices made by the social partners, the trade unions in particular thereby emphatically opting for this commitment. In 1982 and 1993 (with a sudden downswing in the economic cycle) the government threatened in the background with wage intervention, but this was averted on both occasions with a central agreement between the employers' and workers' confederations, in which the decentralised social partners were recommended in concrete terms to forego any increase in wages.⁴ Once the 1993 general agreement (*A new course*) had resulted in a rapid decline in wage increases, government threats and concrete recommendations by the social partners could be dropped. There is obviously adequate consensus over the importance of controlled wage development. This consensus is promoted by annual spring and autumn negotiations, in which the government and the social partners exchange views on their analysis of the economic situation and agree on the efforts to be made in social and economic policy and in bargaining on working conditions. After 1993 the trade union confederations also strengthened their hold on decentralised collective bargaining on working conditions. Although the official freedom of the individual unions has increased and a number of unions allow some differentiation between sections of sectors, coordination between the confederations and the individual unions is so strong that percentage guidelines are followed and upper limits are barely exceeded. This is also due to the fact that the decentralised negotiators have become more sensitive to the general economic situation. Proposals are also exchanged and there is some concertation between the larger unions and several employer umbrella organisations at the intermediate level.

One of the factors through which wage restraint comes about is the fact that social partners – and in particular the trade union movement – have since 1982 been using the margin for pay increases for agreements on issues other than wage improvements. These can include shorter working time but also policy on the long-term unemployed, training, forms of leave, employability and so on. The classical formula of the margin for wage increases has thus lost significance. The margin is determined by setting productivity against inflation, the FNV thereby using a more detailed formula since 1994. Factors such as the profitability of businesses, earned income quota and the margin in the public sector play a role in actual practice. This can be seen in the table 4

⁴ Visser, J., and A. Hemerijck, *'A Dutch miracle' Job growth, welfare reform and corporatism in the Netherlands*. Amsterdam University Press, Amsterdam 1997.

below, which shows the margin for wage increases and its components as well as the actual wage claim and wage increase. The classical formula for the margin for wage increases has been included because it is also cited as a coordinated percentage for the European trade union movement. Where the Dutch trade unions no longer use the classical formula for the margin for wage increases, it is reintroduced for European coordination.

Table 4 - Margin for wage increases, wage claims and wage increases 1988-1999

Year	Anticipated price index	Anticipated productivity	Margin for wage increases	Wage claim/coordinated percentage	Average wage increase (based on level)
1988	0.75	1	1.75	0.75 (min)	0.63
1989	0.8	1.75	2.6	decentralised	1.94
1990	2	2	4	2 (min)	3.50
1991	2	1.5	3.5	2 (min)	4.07
1992	2.75	1.75	4.5	2.75 (min)	4.55
1993	3.75	2	5.75	3.75-4.5	2.49
1994	2.5	1	3.5	2.5 (max)	0.74
1995	2.75	2.5	5.25	2.25 (max)	1.73
1996	2.25	0.75	3	3 (max)	2.47
1997	2.5	1.75	4.25	3 (max)	2.74
1998	2.25	1.75	4	3.75 (max)	2.8
1999	1.75	1.5	3.25	3.25-3.5 (max)	2.7

Source: C. van Rij en M. Royer, "Follow the leader?". *Een analyse van volging en coördinatie van afspraken over loonstijging in cao's*. SZW, The Hague 1998 (up to 1997); CPB, SZW.

There has been solidaristic wage development in The Netherlands since 1982. What is sought is wage development which is comparable to a certain extent in the various sectors. What is prevented is that wage increases which would be possible in highly productive and profitable sectors have undesirable follow-my-leader effects in other sectors.⁵ It was demonstrated recently that at all

⁵ This margin must not be overestimated. Productive sectors are often exporting industrial sectors where price competition is keen.

events no such follow-the-leader effects have been registered since 1988.⁶ This is the effect of coordination; collective bargaining partners can delay the conclusion of agreements where pay rise pressure is heavy so that any follow-my-leader effect is limited. Furthermore, claims are coordinated on a relatively low percentage; in sectors and undertakings where the margin is wider this is demanded by the unions through rules on profit-sharing, non-recurrent payments and so on. Negotiations in the public sector are a problem with this policy on solidaristic wage development. Officially, there is collective bargaining freedom in the public authorities and in the care sectors: the public authorities cannot lay down working conditions unilaterally. However, the authorities are still the main financiers and at the same time the party which lays down the extent of job responsibilities or provision of services. In the public authorities the margin for wage increases is even included in the annual budget. The margin in the public sector is fixed so low year after year that it is proving to be extremely difficult to reach an agreement. There have been more strikes by public employees in the past few years than by workers employed in industry.

NORWAY

Kristine Nergaard

Norway has pursued an incomes policy based on co-operation during most of the 1990s, in order to secure moderate wage increases (actually from 1988 until today). The aim has been to strengthen Norwegian competitiveness, and thereby secure increased employment. Both in relation to the period 1993–1997 and to 1999, the basis for the moderate wage policy pursued at the time was laid in public committees, with broad representation of the two sides of industry. Compliance with an incomes policy of moderation has been voluntary based, and wage negotiations have been carried out without interference or direct participation by the authorities. The government has, however, contributed to the various social reforms that have been on the agenda during negotiations. An active labour market policy on the part of the government has also been a precondition for complying with incomes policy during the 1990s.

⁶ C. van Rij and M. Royer, “*Follow the leader?*” *Een analyse van volging en coördinatie van afspraken over loonstijging in cao's*. SZW, The Hague 1998.

THE "SOLIDARITY ALTERNATIVE" 1993-1997

In 1987/1988 it became clear that Norwegian economy faced serious problems. In 1988 and 1989 the Government secured moderate wage increases by making the LO/NHO agreement into an Act. The Wage Act was a precondition set by LO, who wanted to secure that all groups in working life were committed to the moderate wage increases agreed in the manufacturing sector. The legal interference was criticised by organisations outside LO, although moderation was a principle accepted by most actors. In the autumn of 1991 a public committee was established (the Kleppe-committee), with the mandate to establish the basis for the 'Solidarity Alternative'⁷. The committee proposed a 5-year strategy to increase employment, which was to be achieved, among other things, by means of moderate wage settlements⁸. The committee recommended an annual real wage growth of 0.5 per cent in the period 1993-1997. Other measures included a reduction in public transfers and an active labour market policy. The general belief was that such a policy would help to reduce unemployment from 5.9 per cent in 1992 to 3.5 per cent in the year 2000. The committee did not suggest changes to the national bargaining system, but argued that the principle of moderation had to be applicable to all.

THE ARNTSEN COMMITTEE 1999

At the end of the period of the Solidarity Alternative, there was a general willingness to carry on the main principles of the incomes policy. The 1997 National Congress of the Norwegian Confederation of Trade Unions (LO) adopted a resolution in support of the pact's main objectives, i.e. moderate wage settlements and an active employment policy⁹. Similarly, the Confederation of Norwegian Business and Industry (NHO), the most dominant employer organisation in the private sector, also pledged its support for the continuation of a centralised system of wage formation. However, the 1997 change in government led most probably to uncertainty within LO about the government's future support of the social pact, and as such its support of incomes policy trade-offs between wage increases and social benefits. LO has traditionally had a much closer relationship with Labour governments than with conservative and liberal

⁷ NOU 1992 26 (1992): *En nasjonal strategi for sysselsetting i 1990-årene*. (The Kleppe-committee).

⁸ Kleppe, Per (1999) *Solidaritetsalternativet – fortid og framtid*. Fafo-rapport 279.

⁹ Nergaard, K. and Torgeir Aarvaag Stokke (1998) "Norway" in Giuseppe Fajertag (ed.): *Collective Bargaining in Western Europe 1997-1998*. Brussels: ETUI.

governments. Although the new government signalled early on that alterations to existing incomes policy was not part of its agenda, it was not enough to prevent the 1998 wage settlement producing a higher wage growth than expected.

During the summer and autumn of 1998 it was evident that the growth in the Norwegian economy was slowing down, and that unemployment would once again increase. Within this economic context new life was given to the co-operative venture on incomes policy which had marked much of the 1990s. At a conference in December 1998 the labour market parties and the government agreed to establish a committee for the discussion of issues of relevance to the 1999 wage settlement. The committee was thus to highlight the economic situation prior to the 1999 wage settlements, with special attention given to price, wage, and cost developments, as well as developments in relation to employment. The committee was also to consider the incorporation of the training reform into the 1999 wage settlement negotiations. The committee was given a neutral chairman. The committee's other members were representatives from the main confederations on the employee side, and representatives from the main organisation on the employer side, all of which were represented by their organisational leaders.

The committee's report was presented in advance of the 1999 wage settlement¹⁰. The report points to the fact that, due to the economic situation, a joint effort by the labour market parties and the government is needed to revitalise the positive elements of the 'Solidarity Alternative'. As such the government's contribution must be, as before, an active labour market policy and a continuation of the present monetary policy. The labour market parties, on the other hand, must contribute to a reduction in the level of costs. The ambition is to lower the wage growth rate to the same level as Norway's trading partners. In order to accomplish this objective the committee argued that the wage growth from 1998 to 1999 must not exceed 4 ½ percent, and in so doing wage growth will be at the level of Norway's trading partners some time in the year 2000 (estimated by the OECD to be 3 ½ percent).

A central feature of wage formation during the 1990s is the general willingness and ability of the main confederations to co-ordinate negotiations and wage formation. This includes co-ordination within LO and NHO, normally setting precedence for the rest of the wage settlement, and the way in which the structural framework generated by their activity is made applicable to other

¹⁰ NOU 1999:14 (1999) *Forberedelse av inntektsoppgjøret 1999* (The Arntsen-committee).

agreement areas. The national industry subject to international competition, and indeed the manufacturing industry in general, have traditionally been wage leading, despite the fact that some groups in the private sector have witnessed more favourable wage developments than blue-collar workers in manufacturing industry. LO has criticised NHO, and its member associations, for the fact that groups of white-collar workers have experienced better wage developments than ordinary industrial workers. NHO has also on several occasions asked their member companies to keep wage developments for this group of employees within the framework agreed in collective agreements. In 1997 and 1998 statistics concerning management salaries were improved, which is another group at which focus has been directed for not keeping within the limits set by an incomes policy of moderation.

An important element of the policy of moderation has been to gain control of wage drift, and this has been accomplished relatively successfully. LO and NHO agreed early in the 1990s on four basic criteria, on which company level negotiations are to rest; the financial situation of each individual company, their productivity, their future prospects and their competitiveness. There is also a greater focus on the agreement areas covered by local wage formation, as opposed to those which are not. During the 1990s it became more common to grade central increases in such a way as to give lower central increases in agreement areas with the right to local negotiations, compared to typical low wage groups and agreement areas without the right to local negotiations. This has had the effect of moving focus towards the right to local negotiations, and as a result more agreement areas have been allowed to incorporate into their agreements the right to local wage formation. NHO has on several occasions threatened to fine member companies in which high local increases have been given, without being able to support these increases according to the four criteria mentioned above.

The public sector has witnessed wage developments similar to that of blue-collar workers in the manufacturing sector. Wage policy within this sector has received greater attention in the latter part of the 1990s. There is a concern that some groups are lagging behind, and that this has implications for recruitment to the public sector.

In looking at the formal organisation of the wage settlements during the 1990s there are few indications to suggest a strong element of centralisation. In 1990 LO and NHO had to resume the central wage negotiations, after the first draft had been rejected by LO members in a ballot. The wage settlements of 1994, 1996 and 1998 were all carried out as industry-level settlements. The wage

settlements in 1996 and especially 1998 also produced higher wage growth than expected. Yet, compared to earlier periods during the 1970s and 1980s, the industry level settlements during the 1990s were carried out in a relatively disciplined manner within a central framework, with the possible exception of 1998.

Nominal wage growth during the 1990s has been relatively low compared to the 1980s. At the same time the real wage growth rate has been much higher during the period of the ‘Solidarity Alternative’ (1993–1997), than in the period of decentralised wage formation in the 1980s (see Table 5). In the period 1993–1997 annual real wage growth was approximately 1.5 per cent, and not 0.5 per cent as envisioned in the ‘Solidarity Alternative’. One explanation for this may be that the growth in the Norwegian economy was greater than expected and that the employment situation improved much faster than predicted. Figures by the Technical Calculating Committee on Income Settlement (TBU) show, however, that the improvements in Norwegian competitiveness mainly took place before 1993, and so much not during the period 1993–1997.

Table 5: Wage growth and price growth 1980-1999 in Norway.

	Wage growth per year	Price growth (CPI) per year
Average 1980-1987 ⁽¹⁾	9.1	9
Average 1988-1992	6.1	5.3
Average 1993-1997	3.5	2.0
1998	6 ¼	2.3
Estimate 1999	4.5 - 5.0	2.25 - 2.5

⁽¹⁾ 1980-1988 wage growth figures concerns employees in the manufacturing industry. The figures for 1989, up to present time, concern all groups of employees. Source: Technical Calculating Committee (TBU), Statistics Norway (SSB) and the Bank of Norway’s Inflation Report.

An important aspect of incomes policy in Norway is the state contributing to social reforms. In 1988 and 1989 a voluntary retirement scheme was introduced as part of the wage settlement. There was also an extension of the scheme for parental leave. As part of its income policy ambitions during the 1990s, the government has promoted a gradual development of the voluntary early retirement scheme. The government’s contribution includes among other things adjustments to the national taxation system and to the public pension

system. In the last few years (1998–1999) the most important issue has been the government's contribution to the training reform.

The 1990s have not seen significant cuts in central welfare arrangements in the labour market, which have been important to the employee organisations. Sick pay and unemployment benefit schemes remain unchanged. There has been a general consensus throughout the period about the need for maintaining a high employment rate, the implication of which has been a more restrictive practice with regard to the granting of disability pensions and other social benefits.

Generally speaking, it may be argued that the government's role has been less direct and less comprehensive than during the previous period of income policy co-operation during the 1970s. The issue of government contribution has usually been debated in advance of negotiations, but has only been put into concrete terms at the end of the negotiations. There are also reasons to believe that the government's financial contribution has been less comprehensive than on previous occasions.

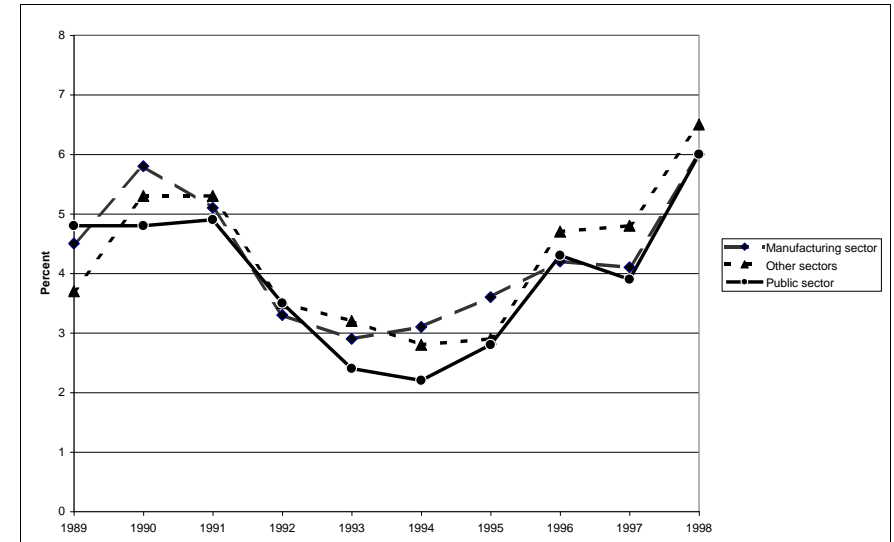
As a small and relatively open economy, the issue of competitiveness is a central issue in relation to Norwegian incomes policy. Both the 'Solidarity Alternative' and the 1999 committee report measure wage increases in terms of securing Norwegian competitiveness, the main reason for this being a wish to retain employment and activity in so-called traditional industries, which means manufacturing branches outside the oil-related industry. And there is a consensus about the fact that industries subject to competition must be wage leading vis-à-vis wage developments in other sectors.

According to the 'Solidarity Alternative', the ambition was to make sure that Norwegian wage increases in the period 1993-1997, were 2 per cent lower per year than wage increases among Norway's competitors. After this period cost developments must be at the level of our trading partners. This is followed up in the 1999 committee report, where the ambition is "to bring the wage growth in Norway down to the same level of growth as our trading partners within the next few years. To accomplish this objective the committee believes that the average wage growth for 1998 to 1999 must be approximately 4.5 percent. Once this has been accomplished the wage growth must be retained at the level of our trading partners".

Throughout the 1990s Norway has by and large experienced stable wage relations between the main sectors of the economy, i.e. private/public sector and exposed/protected sectors (Figure 2). However, there are concerns about the extent to which some groups, among others management and white-collar

workers in private sector, have enjoyed more beneficial wage developments than other groups.

Figure 2: Wage developments according to main sectors. 1989-1998.



Source: The Technical Calculating Committee

There has been a slight, although not strong, reduction in the average wage differentials between men and women, both in total and within each sector. Reports also indicate that substantial groups of public sector employees with higher education (college/university level) have lost their relative position vis-à-vis other groups in the public sector, and to private sector employees with higher education¹¹.

With the exception of a few years during the 1980s, the idea of moderate wage increases and centralised bargaining combined with social reforms has been a strong element in Norwegian wage settlements for the last thirty years. The incomes policy of the 1990s has not meant significant changes to the role played by the main confederations in the post-World War II period.

¹¹ Høgsnes, Geir (1999) *Krone for krone. Lønnsforhandlinger og -fordelinger*. Oslo: Ad Notam Gyldendal.

Generally speaking, LO and NHO have been the dominant actors for most of the 1990s, and the position of the central confederations has been strengthened during the period. NHO has so far chosen to retain its involvement in central negotiations, and on public committees and advisory councils. Although NHO principally wants to see a more decentralised system of wage formation, it has contributed constructively to the present model of incomes policy, and has centralised rather than decentralised power within its own organisation. Substantial discontent with incomes policy during the 1990s has also been absent within LO. Many settlements have beyond doubt been typical low pay settlements, but at the same time there have been no formal limitations on the local negotiations taking place in the manufacturing industry. The 1998 wage settlement, however, made evident the limitations of a policy of voluntary moderation in a tight labour market situation. The leadership of LO decided to support the demand for industry-level negotiations, rather than propose an industry-wide settlement, despite the fact that a majority was probably in favour of the latter model.

During the 1990s the organisations outside the realm of LO and NHO have become more influential with regards to incomes policy. Most organisations in the labour market have given their support to the 'Solidarity Alternative' and the recommendations issued by the Arntsen committee in the spring of 1999. The organisations outside the NHO/LO area, however, have become increasingly more reluctant to support the national incomes policy and what is regarded as domination of the national bargaining system by LO and NHO. The organisations are dissatisfied with their restricted access to public bodies, and believe that the NHO/LO agreement area is too influential vis-à-vis other sectors of the economy. Some professional groups in the public sector have also expressed major dissatisfaction with the general profile of wage increases. In spring 1999 the coalition government followed up its intentions to include more organisations in incomes policy related bodies. The national bargaining system, future policies on employment and the creation of values, are issues being deliberated by public committees with broad representation from the labour market organisations.

The driving force behind the co-operative venture on incomes policy during the 1990s has been employment growth, and its instrument has been wage moderation. The goals set in 1993 have been accomplished. In the period 1993–1998 Norwegian employees witnessed a real wage growth of 1.9 per cent per year, while unemployment was reduced from 6 per cent to 3.2 per cent. Furthermore, there is a broad consensus about the importance of incomes policy co-operation, and indications during the summer of 1999

suggest that it will continue into the new millennium in some form or another.

However, two comments seem appropriate at this point. Firstly, it is uncertain whether positive developments in the Norwegian labour market are derived from voluntary co-operation on incomes policy, or from equally positive developments in the national as well as international economy, coupled with Norway's significant profits from its oil and gas reserves. Some economic analysts suggest that, given the present employment situation, the wage growth figures would probably have been the same without a co-operative venture on incomes policy. Others argue that such an analysis of the situation is a simplification, and that co-operation on incomes policy has been vital to the positive developments witnessed in the Norwegian economy¹².

Secondly, co-operation on incomes policy has been based on flexibility and voluntarism. The negotiations have by and large been pursued according to normal procedures, and the government has been less interventionist than during the 1970s and the late 1980s. Thus, the labour market parties have been able to decide for themselves the extent to which they exercised moderation. Thus, the restrictive effects of such a policy of moderation on employees and their respective organisations may be questioned. A marked improvement of the employment situation has taken place, with significant growth in real wages, and at the same time important welfare arrangements are maintained.

¹² Kleppe Per, 1999, cit.

PORTUGAL

Reinhard Naumann

In view of the enormous losses in purchasing power of the Portuguese currency in the 1970s and 1980s, the topic of “fighting inflation” soared to the top of the political agenda at the time. In the tripartite “Permanent Council for Concertation”, set up in 1984, several agreements on incomes policy were reached which introduced an inflation-curbing factor into collective bargaining policy. It was very much due to the UGT that collective bargaining policy was increasingly geared to the anticipated inflation rate, whereas the CGTP invariably pursued (and still pursues) a policy of demands which rejects tripartite agreements on incomes policy as a fundamental principle and which is based primarily on the losses in purchasing power, i.e. on past, rather than anticipated, inflation.¹³ In the current circumstances, where the inflation rate is practically stagnating at a very low level, this difference is no longer of any particular significance.

Controlling incomes policy has gained greater significance in the context of the preparations for the European Monetary Union. The positive results which the Portuguese population expected from the progressing European integration progress paved the way for the relatively successful translation of the agreements on incomes policy at the macrolevel into collective bargaining reality. In the circumstances of an already difficult balance of power the CGTP was unable to carry its arguments for the approximation of Portuguese wages to the European level to a successful conclusion.

Portugal’s accession to the euro zone, which was surprising for external observers – as well as for the majority of the Portuguese themselves – gave the policy of wage restraint legitimacy after the event.

The agreements on incomes policy generally made provision for pay rises on the formula of “anticipated inflation plus a share of increase in productivity”. Those who advocate wage restraint argue that this formula is now more valid within the Monetary Union than was previously the case, because in the euro zone direct competition, which cannot be manipulated through monetary mechanisms, would immediately “penalise” wage increases above the increase in productivity with unemployment.

¹³ Cf. the 1997-1998 edition of the ETUI collective bargaining report.

Wage restraint has certainly intensified the wage drift and has thus restricted the possibilities for a trade union wage policy based on solidarity. In these circumstances the national minimum wage gains greater significance. Under the socialist government the legal minimum wage has been cautiously and continuously raised in proportion with the collectively agreed wages.

The opposing strategies of the CGTP and UGT regarding agreements in incomes policy and wage restraint have certainly considerably restricted the possibilities of success of the two umbrella organisations' policies. Nor is any rapprochement to be expected in the near future given the far-reaching differences between the two organisations as regards ideology, programme and practice.¹⁴ Their disagreement is reflected in a contradictory public image of the trade unions: "CGTP on the street and UGT in the writing room" has been a punchy headline in *Público*, the Lisbon daily.

The inclusion of the trade unions in public and semi-public institutions – where they generally have an advisory role – has been extended and intensified in the context of macroconcertation. Disagreement amongst the trade unions and between the unions and employers has so far been an obstacle to any decisive progress towards self-regulation of working conditions.

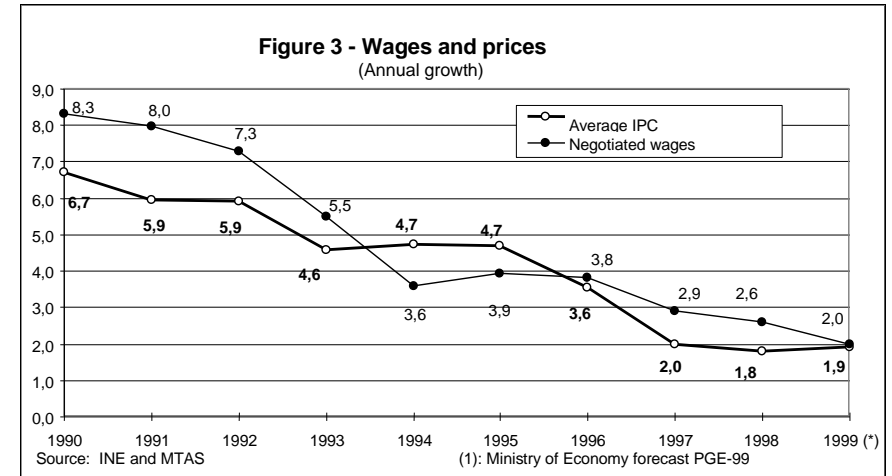
SPAIN

Elena Gutiérrez and Carlos Martín Urriza

The trade union confederations have had and still have significant influence over general wage trends in Spain. They use that influence in the course of collective bargaining.

Trade union negotiators generally use the government's inflation forecast as their reference point when it comes to negotiating wages. However, negotiators are fundamentally concerned with increasing the purchasing power of wages.

¹⁴ The connections of the two Portuguese trade union umbrella organisations with the political parties are often quoted as the primary cause of the incompatibility of their positions. It would seem to me, however, that certain structural features of the two organisations are of even greater significance, namely the special structure of the power resources which they have at their disposal. In my opinion it is primarily the specific composition of the "power resource mix" which marks the respective policies of the umbrella organisations in a very specific way and prevents any rapprochement between the CGTP and the UGT.



During 1998, trade unionists debated whether it would be appropriate to use indicators other than the Retail Prices Index (IPC). This debate was provoked by two developments:

- The low increase in prices compared to sales and company profits.
- The loss of autonomy in monetary and exchange policy as a consequence of the introduction of the euro and the impact this might have on future wage trends.

The beginning of the 1990s witnessed significant gains in purchasing power (see Figure 3 above). Negotiated wages grew two points above the IPC, despite the fact that in 1991 the Spanish economy was already starting to show signs of recession. The crisis that began in 1992 caused losses in purchasing power in 1994 and 1995 and destroyed a significant number of jobs. The situation stabilised at the end of the crisis, as from when wage rises became more moderate. This wage restraint resulted from a change in attitude on the part of the unions. This was due to:

- Very moderate increases in prices, much lower than had been the case earlier in the decade.
- Very fast growth in employment. This made more modest gains in workers' purchasing power more acceptable as wages increased as a proportion of the National Income.

- Support – although critical – for the process of convergence prior to entering the euro zone.

This allowed the unions to restore practically all the jobs and purchasing power lost during the crisis. This new policy was the product of a process of reflection within the trade union confederations and was not a result of the kind of tripartite incomes policy that was so common up until the middle of the 1980s.

The prospects for 1999 are not so good. The government's inflation forecast (which has been used as a key reference point during collective bargaining) seems to be underestimating the real trend in prices, with the result that many workers could lose some of their purchasing power in 1999. Moreover, the growth in employment is becoming less elastic in relation to the GDP. These developments could have a bearing on trade union attitudes to wage restraint in the coming period.

SWEDEN

Katarina Magnusson

The question of whether Swedish pay increases are too high has long been the subject of debate. In the mid-1990s, the so-called Edin Group, which was composed of various representatives of the trade union movement, agreed on a norm for pay increases which stated that the level of pay increases in Sweden should not exceed that in the rest of Europe.

The Government's view was that the level of pay increases was too high. In 1996, Prime Minister Göran Persson invited the central organisations to discuss the problems associated with the Swedish pay-setting process. One of the reasons for the need for consensus was, according to the Prime Minister, that the internalisation of the economy has made it impossible to compensate for higher pay costs through devaluation. The Prime Minister wanted the social partners to declare whether they thought there were problems with the pay-setting process and, if so, what solutions they could offer to these problems.

The partners were given until the spring of 1997 to respond, but the answers they presented reflected little consensus. There was general agreement that the pay-setting process could be improved, but while LO felt that collective bargaining on pay should be more centralised and co-ordinated, SACO and TCO spoke about the need for greater decentralisation.

The concrete effect of Göran Persson's initiative was the so-called Industrial Agreement, which was signed by eight employee organisations and twelve

employer organisations in the industrial sector in March 1997. It includes, among other things, regulations on how collective agreements should be negotiated. Various measures to avoid industrial action and stoppages have been taken and a negotiating procedure and an agreement on how collective bargaining should be carried out have also been agreed upon. An economic council and an impartial chairperson take part in the negotiations to help things run as smoothly as possible. The Industrial Agreement was tested during the negotiations held in 1998 and can be said to have been a success in that pay increases were reasonable, no industrial action was taken and, in most cases, new agreements were signed before the old ones expired.

The Government saw the Industrial Agreement as a step in the right direction, but still felt that it covered far too small a part of the Swedish labour market. In April 1997, therefore, the Government appointed a commission of enquiry with the task of presenting proposals on how to strengthen the national conciliation body. This task included uncontroversial areas such as proposals on how to strengthen the body's organisation, forms of work and resources, but the enquiry was also commissioned to review the body's duties and powers. The enquiry was also asked to submit proposals on how to improve the pay-setting process.

The enquiry issued its first report in November 1997. One of the proposals contained in this report was that the present National Conciliation Office should be replaced by a new conciliation institute. It was not stated what the exact powers of this institute should be, but according to the report it should play a more active role in the pay-setting and collective bargaining processes than the old National Conciliation Office. The task of the institute would be to ensure an effective pay-setting process. Proposals that the committee of enquiry said it was considering including in its final report included giving the institute powers to impose restrictions on industrial action. TCO and SACO, above all, were negative towards the proposals of the enquiry as they felt that they involved the risk of a national incomes policy. Several of the trade unions affiliated to LO were also critical. SAF adopted a wait-and-see policy while awaiting more concrete proposals.

The final report of the committee, which filled in the details of the outline presented in the first report, was presented at the end of November 1998. Approximately one month before this, possibly with the aim of forestalling the report, the employers and the three central trade union organisations announced that they had begun discussing setting up an "alliance for growth". This discussion concerned the pay-setting process, a possible tax reform, a decision on the issue of Swedish membership of the EMU and so on. However, this alliance

collapsed just before Christmas 1998, mainly as a result of different views about the structure of the pay-setting process in the future. Neither SAF, TCO or SACO were prepared to contemplate a more centralised system, while the creation of such a system was a precondition for LO's interest in the alliance.

All of the social partners were sorry to see the alliance collapse, not least because the final report of the enquiry on a stronger conciliation body contained elements that were difficult for all of them to accept. The report proposed that a new and stronger conciliation institute should be set up with greater powers than its predecessor, the National Conciliation Office. The new institute would, for example, be able to postpone industrial action and the parties to a dispute would be forced to attend meetings called by the institute. On the other hand, there was no mention of the institute being given powers to force the parties to accept a conciliation offer.

The enquiry also proposed stricter rules for industrial action. These rules would involve being able to judge the proportionality of industrial action in the Labour Court and a ban on industrial action aimed at one-man businesses or family businesses. The enquiry also felt that an annual report on the state of the economy and the preconditions for pay increases should be drawn up in order to help create a common view of the actual background situation prior to collective bargaining.

The enquiry suggested that collective bargaining in areas regulated by agreements similar to the Industrial Agreement should not be affected by the enquiry's proposals. In practice, the enquiry's proposals acted as a call to the social partners to conclude agreements similar to the Industrial Agreement. In this way the partners would avoid State intervention.

The response from the social partners was once again negative. In a joint submission, TCO and SACO stated their opposition to the whole idea of a more powerful conciliation institute, still largely because of the fear of a national incomes policy. LO was not as negative about the proposals as a whole and accepted the idea of a new and stronger conciliation institute with wider responsibilities and powers. On the other hand, LO rejected all of the proposals involving restrictions on the right to take industrial action, longer or postponed periods of notice for industrial action or compulsory conciliation. SAF's submission was almost the opposite of LO's, the employers' organisation rejected any increase in Government control but supported all the restrictions on the right to take industrial action.

The social partners thus remained as divided on these issues as they had ever been. The ministers responsible, Mona Sahlin and Björn Rosengren, expressed great disappointment about the collapse of the alliance for growth and about the fact that the partners were unable to agree on important matters such as pay-setting, taxes and the EMU. In order to get the discussion going again, the Government appointed mediators in order to help the social partners reach consensus on the pay-setting process. One of the mediators, Ingvar Carlsson, is a former Prime Minister, which says something about the importance the Government attached to this question. In their report on their assignment, which was issued in mid-March 1999, the mediators noted that there was still a considerable gap between the social partners on the pay-setting issue. The final report of the mediators was a watered-down product containing little that was of real weight.

At the time of writing, the Cabinet Office is preparing a bill on how the pay-setting process should be carried out in the future. This bill will be presented in the autumn of 1999. It is likely that the bill will propose some form of conciliation institute with wider powers, but exactly what these powers will be is still very uncertain.

Belgium

Jean-Paul Delcroix, Rafael Lamas (FGTB/ABVV Research Department) and *Sandra Rosvelds* (CSC/ACV Research Department), Brussels

1. GENERAL BACKGROUND INFORMATION

1.1. Social, political and economic context

The 18 months from January 1998 to June 1999 were marked by two major events in the industrial relations field. The first was the signing of a central framework agreement (*accord interprofessionnel*) for 1999-2000 in a social context which was still marked by an external constraint on pay formation. The second was the Doorn Conference in September 1998, which brought together Belgian, Luxembourg, Dutch and German trade unionists from both national trade union confederations and sectoral federations.

Social climate

After the failure of negotiations on an agreement for 1997-1998, the social partners met again in September 1998 to try to reach a new agreement for the 1999-2000 period. That agreement was signed in December 1998 after intense negotiations, and it lays down the bargaining framework for sectors and undertakings. The sectors were given until 15 May 1999 to sign the collective labour agreements, after which the negotiations could be brought down to the company level (30 June being the deadline).

The FGTB and the CSC organised a national demonstration on 11 September 1998 to demand that certain social benefits be raised in order to combat social exclusion.

Political climate

The government, which at that time had been in power since 1995, was a coalition of four parties uniting two political families: the French-speaking and Flemish-speaking socialist parties (PS and SP respectively) and the French-speaking and Flemish-speaking social-christian parties (PVC and CVP respectively, the latter party holding the office of Prime Minister (at that stage Jean-Luc Dehaene).

Government stability was accompanied by considerable ministerial instability. Many members of the government had had to resign: the Minister of Justice and the Minister of the Interior resigned after Marc Dutroux, a dangerous paedophile, escaped from jail (he was captured several hours later); the new Minister of the Interior resigned in September 1998 after a young Nigerian, Sémira Adamu, died of asphyxia in the course of her expulsion; and, lastly, the Ministers of Agriculture and Health resigned after the affair where it was discovered that chickens were contaminated with dioxin. Furthermore, the two socialist parties had been centrally involved in the Agusta-Dassault case for corruption, and several former leaders had been convicted as a result.

A poll combining federal, regional and European parliamentary elections took place on 13 June. The outgoing coalition was heavily penalised by the electorate. The green parties were undoubtedly the winners, whereas the liberal opposition became the leading political family in the country. However, this liberal victory was more the result of the decline of the other political families (social-christian and socialist) than of any significant advance of the liberal parties. The nationalist and racist Flemish far-right (Vlaams Blok) unfortunately consolidated its position obtaining 15% of the votes of the Flemish electorate (10% at the national level). Forming a federal government was to be a complex procedure due to the splintering of the political landscape.

Economic climate

In May 1998, Belgium was granted admission to the monetary union along with 10 other countries – an event which could by no means be taken for granted in a country where the national debt is still around 115% of GDP:

Economic policy continues to be dominated by measures to rehabilitate public finances. The government is maintaining a primary balance – that is to say, exclusive of the charge of the interest on the national debt – of over 6% of GDP. With this budgetary policy the national debt can be considerably reduced, even if it is still very high compared to the European average.

Although economic growth slowed down in the last half of 1998 due to the economic and financial crisis in Asia as well as in several Latin American countries and Russia, it nevertheless reached a rate of 2.9% in 1998 but was expected to slow down again to a certain extent in 1999 to a rate of 2%.

Employment grew by over 50,000 in 1998 and was expected to grow by a further 40,000 in 1999. However, this progression is not due solely to market forces; it is also the result of the distribution of the existing volume of employment through measures to develop part-time work and of various government measures (schemes for integrating the unemployed, measures to activate unemployment benefits, and action to reduce social security contributions in the social sector).

The unemployment rate (as defined by Eurostat) dropped to 8.8% of the working population in 1998 and was expected to be around 8.3% in 1999. However, this positive result conceals diverging trends. For the number of unemployed who are not job-seekers, i.e. older unemployed persons who are not included in the calculation of unemployment rate, is actually rising.

1.2. Position of the various actors

The priority demands of the trade unions

The FGTB and CSC placed emphasis on the following issues in their joint catalogue of demands for the negotiations for the 1999-2000 central agreement:

Employment:

- general introduction of the 38-hour week;
- extension of the existing measures for high-risk groups;
- end of career: action to maintain the existing full-time and part-time early retirement schemes;
- part-time employment: entitlement to part-time employment and improvement of social status;
- better integration of the handicapped;
- measures to combat clandestine employment:
 - action to improve the instruments for combating undeclared employment, and in particular that the obligation to declare employed workers immediately, which has been in effect since 1 January 1999 for the building, transport and temporary-employment sectors, should be extended to all sectors;
 - assessment of undeclared work and of the recent measures introduced since 1996;

Purchasing power:

- measures to raise the minimum wage in either gross or net terms;
- action to guarantee the financing of blue-collar workers' holiday bonus by obtaining the refund from the public authorities of the loans granted by the sector in the early 1990s and by taking a series of structural measures to balance the system;

Equality between men and women: revision of job classifications;

Approximation of "blue-collar" and "white-collar" worker status: longer periods of notice for blue-collar workers, particularly for the benefit of older workers and workers who are made redundant by firms but who have not been given inadequate training; the current legal periods of notice range from 28 days for workers with less than 20 years' service to 56 days for workers with more than 20 years' service.

Job quality

- sectoral prevention and safety plan;
- measures to combat stress: a sectoral body should be set up to conduct surveys in undertakings;

Social and economic democracy:

- application of the legislation on safety in undertakings where there is no union delegation;
- participation in SMEs: general application of the experiment carried out in the retail trade, which consisted of setting up external negotiating bodies for SMEs;

Child-minding: measures to raise the social contribution intended for financing child-minding services.

In addition to the negotiations for the central agreement, the CSC and FGTB organised a large-scale national demonstration on 11 September 1998 with the support of the christian and socialist mutual insurance associations, the pensioners' movements and the liberal trade union CGSLB to call for measures to improve social welfare allowances and to combat social exclusion. The trade unions were demanding:

- that social allowances should be linked once again to pay movements;
- that the minimum social allowances for invalids, pensioners and the unemployed should be raised; and
- that health care should remain accessible for all (no increase in the patient's contribution, that is to say, the part paid by the patient after the refund by the health insurance body).

The attitude of employers

Contrary to the trade unions, which have developed regional wings within their structures, the regional employer structures are completely independent of FEB, the federation of Belgian enterprises. Thus, in view of the scarcely veiled threats of the Flemish employers (*Vlaams Economisch Verbond*) of conducting collective bargaining at the regional level if the central negotiations failed again, there was strong pressure on the FEB to reach an agreement.

As the joint position issued by the FEB and the three regional employer organisations on 20 April 1999 indicates, concertation between the federal and the regional level played an important role in negotiations on the elaboration of the 1998 Belgian action plan for employment and on the 1999-2000 central agreement.

It is also to be noted that the joint declaration of April 1999 states clearly that the creation of a framework for the setting of pay and working conditions falls within the field of competence of the federal organisations, whereas the actual bargaining is the responsibility of the sectoral organisations. Thus, all of the employer organisations are against any form of regionalisation of collective bargaining.

The role of the government

Although the government officially expressed its satisfaction at the signing of the central agreement, the general trend which has emerged over the past few years has continued. The government is a party to certain social negotiations and imposes its agenda.

Two examples illustrate this trend:

- In 1996, the government set up the High Council for Employment (*Conseil Supérieur de l'Emploi*), an academic body (which, however, is influenced by the government through the mechanism of appointments); it is designed to establish government decisions but it bypasses the social partners and the traditional negotiation bodies. The subjects tackled by the High Council for

Employment fall completely within the areas that are the responsibility of the social partners. The government is trying in this way to orient, or even to provide a framework for, the discussions and, where necessary, to impose its point of view on the social partners.

- In the 1999-2000 central agreement the social partners undertook to study the possibility of increasing the net minimum wage by reducing tax burdens. Reducing tax pressure in the case of workers earning the minimum wage obviously requires government approval. But the government preferred to make recourse to the “parafiscal” approach, i.e. reducing the workers’ social insurance contributions. After lengthy discussions, the government imposed its point of view and it was the social insurance field that was chosen as the channel for making the adjustment, despite the fact that the social partners were unanimously in favour of fiscal measures.

2. WAGES AND PURCHASING POWER

In December 1998, the social partners signed a new central agreement covering the period from 1999 to 2000. This agreement falls within the European context of employment guidelines and focuses on wage formation, job creation and efforts to train the workforce. The “external wage norm” is set at 5.9% for the 1999-2000 period, but it is possible to exceed it if the sector or the undertaking endeavours to create jobs and/or to train personnel.

The central agreement thus presupposes both the centralisation/co-ordination of collective bargaining (establishment of the wage norm, subsequent control of wage development, employment and training) and greater bargaining freedom for the sectors in which the wage norm can be exceeded under certain conditions.

2.1. Pay rises and average earnings

Pay rises

In 1998 unit wage costs in the private sector grew by 2.3%. Hourly wage costs registered a 2.1% increase, while wage costs per unit of product went up by a modest 0.7%.

Wages costs per full-time equivalent (1998)	2.3%
Hourly wage costs (1998)	2.1%
Wage costs per unit of product (1998)	0.7%

Sources: Banque Nationale de Belgique and Conseil Central de l’Economie

Belgium has a system of automatic indexation of wages and salaries to the consumer price index, but the introduction of a new indicator for the application of the adjustment mechanism resulted in a loss of purchasing power of approximately 2% in the period from 1994 to 1997. This is because the government had decided in 1994 that, rather than basing the calculation of the adjustment to the index on the development of the consumer price index, it would henceforth base it on a “light” index (from which tobacco, spirits and petroleum products were excluded) known as the “health index”. Since the prices of these products usually rise more rapidly than those of other products, the health index rose less rapidly than the consumer price index, lagging 2% behind. In 1998, however, following the drop in oil prices the health index rose faster than the consumer price index, overtaking it by 0.3%. In other words, the adjustment of wages based on the health index resulted in a pay rise in 1998 of the order of 0.3%! So the system in fact backfired.

2.2. Changes in pay systems

In March 1998, a new law laying defined the conditions in which profit-sharing is not taken into account in the calculation of wage cost development. These conditions are as follows:

- profit-sharing must not replace or convert existing pay, bonuses or advantages;
- profit-sharing must be provided by a collective agreement which has been concluded within the undertaking and which must furthermore be bound by an agreement for employment and must show a net increase in employment.

In March 1999, the government decided (in the context of the law on the 1998 Belgian plan of action for employment) to promote the development of company schemes making shares available to employees at reduced prices as well as the system of stock options.

These two sources of remuneration are now governed by a very favourable tax and levy system (under which they are not subject to social contributions and are either scarcely taxed or completely tax-exempt). However, as the result of trade union pressure, the tax revenue obtained from the flat-rate taxation of stock options (a system which now only exists in the Netherlands and which is in fact currently being called in question due to instances of abuse of the system) will be allocated to the alternative financing of social security.

3. DEVELOPMENTS IN THE FIELD OF WORKING TIME

Legislation on 39 hours as of January 1999

Weekly working time laid down by legislation was reduced from 40 to 39 hours on 1 January 1999. The 1999-2000 central agreement makes provision for the evaluation of this transition to the 39-hour week.

In the sectoral agreements for the 1999-2000 period it was mainly the central trade union organisations which put forward the subject of the collective reduction of working time. However, after the final deadline of the official bargaining period – 15 May (although certain sectors were still negotiating at the time of writing) – and as the result of employer obstruction, very few sectors have made any progress regarding the reduction of working time.

As stated in the last report, the government has introduced a large number of measures to reduce social contributions including two measures where these contributions are reduced in the event that working time is reduced. One measure is designed from a “defensive” perspective, in other words with a view to safeguarding employment in undertakings which are undergoing restructuring. The other, which is still at an experimental stage, is more “offensive” in design, in that it aims to create jobs. However, the defensive measure is the only one which has been a (relative) “success” so far, only one firm having availed itself of the offensive measure.

Reduction of individual working time

The 1999-2000 central agreement extended all of the existing possibilities for *full-time or part-time early retirement*:

- continuation of the general regulations governing full-time early retirement as of age 58 with the possibility of negotiating retirement from age 56 when the workers fulfil certain conditions;
- continuation of the general regulations governing part-time early retirement, where age 58 is laid down as the minimum age and the possibility of negotiating retirement from age 55 is maintained.

The 1998 National Action Plan for employment increased the allowance granted in the event of parental leave and laid down the minimum values which can be extended and consolidated by sectoral agreements negotiated between the social partners:

- the allowance granted in the event of parental leave was enhanced and brought up to +/- 20 000 BEF (+/- 496 euros) on 1st October 1998 if the worker takes full-time leave and to +/- 10 000 BEF (248 euros) if the worker takes part-time leave;
- the percentage of employees to whom the employer is required to grant a *career break* when a worker applies for such a break was raised from 1% to 3% as of 1 January 1999. This career break entitlement does not apply, however, to the personnel of SMEs employing less than 10 workers; it is valid for periods of 3 months to 1 year with a maximum of 3 years accumulated throughout the worker's career;
- limited entitlement to leave for providing assistance or care for a member of the household or family who is seriously ill and/or for providing palliative care has been introduced as of 1 October. The same exception in the case of SMEs employing less than 10 workers applies here.

4. EUROPEANISATION OF COLLECTIVE BARGAINING

In September 1998, the Belgian, German and Dutch trade unions met for the second time in succession to discuss coordination, and at the second meeting the group was extended to include the Luxembourg organisations. The meeting was held in Doorn (in the Netherlands) and was attended by representatives from both the confederal and the sectoral trade union organisations. The final declaration stated the following:

- the principle that future wage claims in each country should be based on a formula consisting of the sum total of cost of living changes and improvements in labour productivity ;
- establishment of an information network to monitor the course of future bargaining ;
- mutual invitation to participate as observers at the meetings of the "wage settlements committee" of the national trade unions.

A third meeting was scheduled for September 1999 in Haltern (Germany), and the national trends were to be evaluated in the light of this declaration. The FGTB and CSC were set to present a request at that meeting for the group to be extended to include the French trade unions.

It was agreed that a technical group would meet during the interval between the "political" meetings in order to prepare the meetings and exchange information.

What has now come to be known as Doorn thus has not been an isolated episode but in fact marks a stage in a process intended to enhance and strengthen the position of the trade unions in the negotiations at the national level in order to avoid any wage dumping.

Thus the 1999-2000 central agreement which was signed by the social partners in December 1998 contains an explicit reference to the wage trend in the three main bordering countries, but the comparison of Belgium with these three neighbours goes further than that; the agreement also refers explicitly to:

- levels of vocational training expenditure, with the commitment on the part of the social partners of reaching the average level of the three neighbouring countries in 6 years' time with an effort of 0.2% of wage costs for the period covered by the agreement – in other words, of progressing from 1.2% to 1.4% of wage costs during the 1999-2000 period;
- job creation measures;
- levels of employer social insurance contributions, with the commitment (subject to conditions) of reducing employer contributions from 108 billion BEF within 6 years in order to achieve the average level of the three neighbouring countries.

Employment policy will obviously in future be shaped in part by the outline provided by the European guidelines.

Furthermore, since 1998 the social partners in the Central Economic Council have decided to issue initiative opinions on European economic issues in order to be able to take part in the adopting of the Belgian government's position within the European Council. For example, in May 1999 the Central Economic Council issued an initiative opinion on the draft European Pact for Employment which was proposed by the German Presidency. And lastly, the trade union representatives in the National Labour Council have requested that the same approach be adopted in the case of European social issues.

5. FLEXIBILITY AND DECENTRALISATION

Flexible arrangements

The 1998 Belgian Action Plan for employment, and in particular its "adaptability" principle, gave rise to a debate on action to further develop the existing flexibility measures, and the 1999-2000 agreement heralded a number of discussions between the social partners with a view to improving the

organisation of work while at the same time improving the working conditions of the workers concerned. Thus,

- the status of part-time workers has been improved (access to educational leave with pay for certain part-time workers) and general reductions of social contributions have been introduced which make the recruitment of part-time workers more favourable compared to that of a full-time worker, The social partners at national (*interprofessionnel*) level have announced that they intend that the National Labour Council should undertake a study looking at those areas where the status of part-time workers makes them still subject to discrimination. They also want administrative simplifications to be examined in the National Labour Council.
- Workers who are given employment within the local employment agencies scheme will in future be given an employment contract with a number of rights and protections, which, however, are still below the level of those granted to workers with ordinary employment contracts.
- The percentage of employees to whom the employer is required to grant a *career break* when a worker applies for such a break has been raised to 3%, and specific rights have been created or improved in the case of leave for providing palliative care, parental leave, or leave for looking after a member of the family who is ill. Sectoral and company agreements can exceed the 3% level.
- The measures to activate unemployment benefits (the so-called “Smet Jobs”) have been expanded and consolidated, despite the trade unions’ criticism of this system, which is liable to eliminate proper employment and encourage sub-status jobs which are heavily subsidised and have no trade union backing.
- The social partners have also undertaken to make efforts within the National Labour Council to examine whether it would be appropriate and possible to extend the system where an employer makes employees available to another employer.
- Since 1 April 1999 the government has been experimenting with the introduction of vouchers in a limited sector (painting and wallpapering in private persons’ homes). This experiment, which will run for 2 years, will be evaluated regularly. The trade union organisations, which were not consulted at any time on this measure, have expressed misgivings as to the impact of a system of this nature in job-creation terms compared to the budget which has been appropriated to the scheme.

- A sectoral agreement has just been concluded in the temporary employment sector, which, while extending the authorised length of contracts of temporary employees (new tasks, exceptional work, training or accompaniment projects, performance of specialised tasks), makes these extensions subject to the prior approval of the union delegation. A number of improvements can be obtained through this agreement regarding contract security (limitation of one-day contracts), income security, coverage of travel expenses, and greater efforts in the training field.
- As regards social dialogue in SMEs, the social partners at the central level have underlined the experiments carried out in several sectors with regard to worker representation and negotiating bodies external to the undertaking and have asked the sectoral organisations to devote efforts in their negotiations to examining whether it would be appropriate to extend these experiments to their respective sectors taking account of their specific features. The regional bodies which have been set up were to be evaluated at the end of 1999.

Decentralisation

The key message of the central 1999-2000 agreement is that it restores collective bargaining freedom of the sectoral organisations thereby relying of course on their sense of responsibility by asking them:

- to take account of the technical report of the Central Economic Council on the available wage margins as the frame of reference for wage development;
- to conclude agreements on employment and training.

The central agreement adheres very much to the tradition of the Belgian bargaining model, in which the sectors are the driving force, and confirms the three bargaining levels – the national (*interprofessionnel*), sectoral and company levels.

6. GENDER ISSUES IN CURRENT COLLECTIVE BARGAINING

With regard to job classification, the social partners committed themselves in the 1999-2000 central agreement to eliminating wage inequalities between men and women by means of an analytical revision of job classifications or a system which they consider to be equivalent. Agreements will be evaluated in order to check to what extent this objective has been achieved. The social partners undertook furthermore to place emphasis in the sectoral training agreements on equality between men and women, particularly where occupations are concerned in which women are under-represented.

The new Action Plan which Belgium at the time of writing had to present for the implementation of the 1999 guidelines will have to include the new approach of “gender mainstreaming”, and the draft plan which has been submitted to the social partners confirms the predominant role of the sectors in the field. The evaluation of the agreements concluded will focus on the gender dimension in the case of aspects such as job classification, the adaptation of working time and the organisation of work according to the combination of work and family commitments, measures for protecting pregnant women, measures for protection against sexual harassment at work, etc.

7. THE MAIN RESULTS OF THE SECTORAL BARGAINING ROUND

Once the central agreement had been signed at the end of 1998 the sectoral organisations had until 15 May to sign an agreement for the 1999-2000 period. The main trends observed in an initial analysis are as follows:

Employment and working time:

- most of the sectoral organisations either merely renewed existing measures (early retirement, etc.) or developed the measures provided in the National Action Plan in further detail (part-time career break, etc.);
- weekly working time was reduced in several sectors: 35 hours in the major part of the distribution sector, 38 hours in the socio-cultural sector, 38½ hours in the coach-building sector, 37 hours in the transport sector;
- in addition to consolidating the continuing education for which provision was made in the national agreement, several sectoral agreements also mark progress as regards training for high-risk groups (training for young people in the construction industry, etc.).

Purchasing power: the nominal wage margin of 5.9% should be adhered to by the sectoral organisations. In addition to the real increases generally expressed in lump sums, the agreements concluded also contain other types of increase in purchasing power such as an increase in the trade union bonus (the only negotiated factor which concerns only unionised workers) or in various other bonuses.

Equality between men and women: the revision of job classification is included in several sectoral agreements, although the dimension of promoting equality is not stated clearly.

Approximation of “blue-collar” and “white-collar” status: the period of notice for blue-collar workers has been extended in certain sectors from 1 to 2 weeks

depending on years of service (metal industry, retail trade, garages, agriculture, horticulture).

Job quality: only a few sectors (textile and garment, building and metal industries) seem to take account of this aspect, which is developed in the central agreement.

Mobility: urged by new legislation which aims to impose mobility plans on undertakings, the employers have agreed to negotiate on this issue in the sectors (measures to encourage the use of the bicycle, action to promote public transport through a refund of part of the costs, etc.).

8. FUTURE OUTLOOK FOR THE SECOND HALF OF 1999 AND THE YEAR 2000

The second half of 1999 and the year 2000 are the period covered by the central agreement and the period in which that agreement will have to take concrete form. Whereas practically all of the sectoral organisations had finalised their negotiations (15 May being the official deadline – cf. preceding point), negotiations were still to be held at the company level (30 June being the official deadline).

On the basis of the content of the agreement, the central social partners have to carry out a number of studies on specific subjects within the two “concertation” bodies, the National Labour Council and the Central Economic Council, with a view to elaborating agreements, if possible. The social partners in the Central Economic Council submit a technical report every year in September on the wage margins which are feasible for the next two years and analyse the development of wages, employment and vocational training in Belgium.

Although the social partners have already reached agreement on raising the minimum wage and measures to combat stress at work, many other agreements on the following topics have yet to be given concrete form:

- period of notice for blue-collar workers;
- pitfalls of employment;
- extension of the system where an employer makes personnel available to another employer;
- evaluation of the immediate declaration of engagement of labour in the building, transport and temporary employment sectors;
- evaluation of the external negotiating bodies for SMEs;

- improvement of the regulations on working conditions;
- evaluation of the transition to the 39-hour week as of 1 January 1999;
- evaluation of part-time-worker status;
- harmonisation of the measures to promote the handicapped and steps to activate the benefits granted to those persons.

Bulgaria

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On 30 June 1999 Bulgaria officially announced the “end” of the economic reforms, which also implies that the process of transition has in general been accomplished. As part of the process the government had to solve the problem posed by the loss-making and debt-accumulating state-owned companies – the majority of the largest companies in the country. In real terms the options had been limited to either privatisation or closure. Progress in this area helped the government to hit the other two key targets –making the private sector the dominant form of ownership in economy and obtaining additional resources for filling the gaps in the balance of payments, a vital condition for the stability of the currency board arrangement. The government had not much choice but to succeed because the continuation of financial support within the three-year agreement with the IMF was tightly conditioned on the June 1999 deadline. In general, the picture provides an idea of the nature of the events and the pattern of interactions that have shaped Bulgarian transformation since 1990.

1. GENERAL BACKGROUND

1.1. Political developments

In the period of socialism Bulgarian society did not develop a dissident tradition of the type characteristic of Central Europe or the former Soviet Union. Over the years there were individual instances of dissent, but these were easily suppressed by the authorities. The first signs of awakening of civil society became evident in the second half of the 1980s, especially in the last two years. The major issues were a sharp deterioration in the ecological situation in some places and the protection of basic human rights of the Turkish population in Bulgaria. These impulses produced the first “informal” trade union – Podkrepa – some organisations and clubs for support of democracy. They also produced retaliation by the authorities – leading to the detention of activists and a wave of people from the Turkish minority leaving the country for Turkey – a couple of hundred thousand in two to three months.

The effect of the start of a sharp economic decline compounded by the rising civic/political tension in the country led to a crucial shift within the ruling communist party elite. On the 10 November 1989 the head of the party and state, Todor Zhivkov, was replaced by a faction that was more moderate and

more open to the West. This turn of events led to two major although contradictory consequences, which still influence the transformation process:

- the road for deeper and true changes in society had been opened up;
- the process of change, including the formation of the new political forces and their social base, was to be shaped within the communist party, declining but still in power.

In Bulgaria, unlike in most of the other Eastern European countries, the communist party did not dissolve to provide a chance for a modern left to emerge. It simply renamed itself Bulgarian Socialist Party (BSP) and in the first years remained the biggest and better organised political force in the country.

The second major political player, the Union of Democratic Forces (UDF) appeared in December 1990 as an amalgamation of the new organisations and re-emerging old political parties – from social democrats to christian democrats. As the name suggests the role of this political formation was to be a motor of change towards democracy. One of the founding members was the trade union Podkrepa – a very fast growing organisation, which provided a lot of the social base and effective structures of the UDF in the initial years.

Another significant pillar of the new democratic order appeared in the Movement for Rights and Freedoms – designed as a broad liberal formation but in reality recognised as the political voice of Turkish minority. In the first couple of years the MRF developed in close co-ordination and acted jointly with the UDF.

Along with these main actors there always have been a number of smaller liberal/centre-left organisations. Parties, big and small have changed in number, composition and political affiliations over time, in line with different coalitions and unions but the UDF and the BSP have retained their role as the real reference points for almost any activity within the political process. The approach inevitably tends to marginalise all other players and to build extremely high barriers to new entrants into the political system in the period of transition to democracy.

The first democratic elections in 1990 brought success to the BSP. It needed a general strike, declared by Podkrepa and later joined by KNSB in November 1990, to bring down the socialist government and give a new chance to the reform effort.

The period since 1990 has been marked by the coming and going of a series of governments of all types (party governments, coalition government, expert government), based on all shades of the political spectrum. In total, for the last nine years there have been five elected governments and two caretaker governments to prepare preliminary elections. Until the current government (mid 1999) none of the elected governments were able to complete their term of office and faced either a no confidence vote or were forced to withdraw under the pressure of outside protest – often a combination of both.

The tendency came to a peak in the “winter of discontent” in 1997 when political parties, trade unions and other civic organisations took to the streets to force the resignation of the then socialist government (1995-1997). Key enterprises undertook industrial action, including stoppages in major transport systems and the students started building barricades on the streets of Sofia. With a hyperinflationary spiral developing at the same time, the danger that the situation might get out of control and turn into disaster forced the government to capitulate and resign.

For the first time since 1991 all political forces were able to reach consensus and sign a joint declaration on the national priority policies in the transformation process. The strategy for development was directed clearly and unconditionally towards joining the EU and NATO. The key to resolving the crisis was found in immediate parliamentary elections and the introduction of a currency board arrangement as the only possible instrument for running the economy – something which the IMF also insisted on.

This period of the “reformers’ majority” policies continued for less than a year. The efficient operation of the currency board and the accompanying financial measures produced the necessary macroeconomic stabilisation but further steps towards restructuring the economy were delayed and what had been achieved did not translate into reliable economic growth in 1998 and 1999. Difficulties in the economic field were further complicated by the strategies for marginalisation and neglect of the role of both opposition parties in Parliament and other political and social forces. With creeping corruption and nepotism rapidly becoming key issues, specific government actions, even when correct in terms of their general direction, began to build up new centres of tension in society and cut the government’s support base.

The emerging situation triggered a process of consolidation among the opposition parties, in and out of Parliament. The first initiatives were undertaken among the left and centre-left (social democratic) parties. Later on the process extended to the liberal democratic block, involving the Movement

for Rights and Freedoms. The first tangible effect came in January 1999 when this wide constellation of opposition agreed to begin joint work on the major task in hand –constructing a new alternative for the country’s development to challenge government policies. However the war in Yugoslavia disrupted the whole process and threw it back to the initial stages in the face of forthcoming local elections in the autumn of 1999.

In general, several key factors have had formative impact on the political development throughout the period. They have influenced the development of industrial relations and will play a role in the future:

- **Bi-polarity of the political system with an “empty” centre**, which generates pressure on every significant player or action to identify itself or be identified as either “red” or “blue”. This maintains persistently high levels of polarisation in society, unnecessary politicisation of public life and internally erodes civil society structures and initiatives. It makes the ground for trade unionism quite slippery.
- **A simultaneous restructuring of political and economic systems**. Political forces appear first as leading groups and then build up a social and economic base. In this process, a period in office and involvement in economic reform, especially privatisation, often provide the major resources for guaranteeing the future of the political entity involved.
- The nature of the transformation process itself, compounded by such political events seems to dictate an irresistible **drive towards neo-centralisation of decision-making and governance** that no government has managed to escape.

The main result throughout the years has been the inherent instability of the political process. It is indicative that the trajectory of government support has followed a similar curve irrespective of political differences. Each term of office begins well with a high degree of legitimacy across society and across social and business groups. But within a year governments face a growing isolation from local elements and rely on closed internal groups and outside sources for legitimacy, above all the IMF, an omnipotent cover for promoting party interests under the guise of general reform policies.

The current government is no exception from the trend but for the first time the two-year psychological “threshold” has been passed and the government is still reasonably stable. However, after the autumn of 1998 with economic indicators becoming increasingly negative and the war in Yugoslavia the government had to face the necessity of taking deeply unpopular decisions. In key moments

these involved pushing the Constitution to its limits and beyond and taking positions against the will of the majority of the people (in the case of the war about 70-80 %).

1.2. Economic transformation

Unlike some other CEE countries economic transformation in Bulgaria developed or failed under the close supervision and following the prescriptions of the IMF from 1991 onwards. The pattern of the process has been one of recurring crises and stabilisations, each one more complicated than the last. The IMF reform programmes followed the philosophy of tight monetary and fiscal policy, based on the so-called anchors – foreign exchange rate and inflation control, which automatically leads to strongly restrictive incomes policies. All these have exerted a significant impact on the formation, or rather deformation and malfunctioning of the industrial relations system and social dialogue.

Real economic reforms in Bulgaria started in February 1991, following an agreement for a government of a broad coalition of all major parties, an Agreement for Social Peace with the trade unions and support from the IMF. The core of the policy was based on the “shock therapy” approach and involved liberalisation of majority of prices, interest and exchange rates and removing the monopoly of the state in many areas including foreign trade.

The first wave of liberalisation was included in its main targets. Inflation jumped to about 90% monthly in the beginning but was held down to about 4% by August 1991. Incomes and living standards fell by more than the 35% level set in the Agreement for Social peace but trade unions continued the support of the policy in general.

With the stabilisation effect came a new government – the first elected democratic government of the UDF. The new policy continued with the reform efforts but changed the priorities and the direction of the transformation process. The logical further stages to deepen the reform – privatisation and restructuring were postponed and replaced by a decision to meet restitution claims (first of all nationalised urban property). Thus Bulgaria became the only country in Central and Eastern Europe with a developed system of restitution laws – more than nine.

The overall effect was the loss of the initial achievements, a loss momentum in the transformation of the economy as a whole and persistent “delay” of inevitable changes. Key negative factors had a mounting impact over the years. They included:

- Loss of major traditional markets with the disintegration of the COMECON system, which left many enterprises stuck with products, idle capacities and “buried” investments, accumulating as “bad loans”.
- The operation of enterprises under conditions of soft budget constraints, which transformed company debts into government debt. Often it was followed by new debts – a substantial part of which was for paying wages.
- Systematic decapitalisation of state owned enterprises, through transfer of profits to emerging private businesses within joint operations or transactions of deliberate unequal exchange.
- Draining the banking system through inefficient enterprises and refinancing of commercial banks by the central bank, in the end with taxpayers and people’s savings.
- Constantly increasing the social costs of the reforms both for the population and for the government.

The combined operation of these and other mechanisms led to constant instability in the system and periodical crises. Reactions to these deteriorating conditions included the new “shocks” – in 1994 and the introduction of the currency board arrangement in 1997. This followed the hyperinflationary pressure and sharp devaluation of the Lev at the beginning of 1997. The following table of key macroeconomic indicators illustrates the ups and downs of the process and the general difficulties over time.

Despite the contradictory nature of the transformation the private sector of the economy continued to grow throughout. By 1998 its share of overall value added had reached 63.7%. The other positive aspect of the process has been the growing orientation of private businesses towards industrial production – 19.9% in 1998. However, the changes in the structure of the contribution of the private sector are unstable and are characterised by considerable input from agriculture – 32.4% in 1998. The share of services is also on the rise and reached 47.7% at the same time.

Table 1 - Key macroeconomic indicators 1991 - 1998 (In Bulgarian Lev (Lv))

	1991	1992	1993	1994	1995	1996	1997	1998
GDP-current prices (bn. Lv.)	135.7	200.8	298.9	525.6	880.3	1748.7	17055.2	21577.0
net exports	5.8	-11.8	-22.8	-3.3	-14.0	54.1	943.6	-228.0
GDP-real growth rate (%)	-11.7	-7.3	-1.5	1.8	2.9	-10.1	-7.0	3.5
Investment (%)		-7.3	-17.5	1.0	16.1	-21.2	-23.9	16.4
Consumption (%)	-8.3	-3.1	-3.6	-4.5	-1.9	-6.7	-15.1	7.5
Inflation (%) – annual average	338.5	91.1	72.8	96.0	62.0	123.0	1082.2	22.3
Exchange rate (Lv/US\$) annual average	17.8	23.3	27.6	54.1	67.2	177.9	1765.2	1760.4
Base interest rate– annual (%)	57.1	61.1	60.9	86.6	65.2	161.8	74.1	5.4
Unemployment-end of period (%)	11.1	15.3	16.4	12.8	11.1	12.5	13.7	12.2
FDI net mn US\$	55.9	41.5	40.0	105.4	82.5	80.5	504.8	401.3

Source: Joint Assessment of Bulgaria's Medium-Term Economic Policy Priorities, Brussels, 31 May 1999

Privatisation started late – in the middle of the 1990s and proceeded in ebb and flows. Much hope was placed on the wave of mass privatisation in 1995/1996 to overcome delay but the in the event it involved only slightly more than 6% of the state owned assets. The following year – 1997– recorded a peak in the process and added another 20%. The momentum however was lost in 1998 with only 4.8% of assets transferred to the private sector, which made a total of 31%. 1998 also witnessed an important shift in the policy of privatisation with more than 70% of the cases achieved through management-employee buyouts. The pressure of the deadlines in the IMF agreement for 1999 led to an official statement that in the first half of the year already 60% of all assets had been transferred to private hands.

Developments in the financial sector have been always an occasion for government pride. The introduction of the Currency Board Arrangement in 1997 certainly had a rapid stabilising effect on the whole economy and the accumulated foreign reserves are at an unprecedented level. These can support

the board for at least one year, provided there is no sharp deterioration of the situation, for example of the type that occurred as a result of the situation in Kosovo. The lack of growth in industry, decline in exports and imports, insufficient foreign direct investment are constantly exerting pressures that have produced the first cracks in the currency board.

The banking system maintains a relatively stable state of operation mainly due to its extremely cautious policies and the fact that banks act more as savings than credit institutions. Avoiding their major function is a clear signal that the risk is too high in the current conditions where there are tight financial constraints and limited prospects of recovering money from bad debtors.

The tendencies in the industrial sector have been clearly of continuous decline over the whole period of transition. Industrial output, including construction in 1998 has diminished to 45.7% of the level in 1989 with a period of slowing down of decline in 1994-1996. Capacity utilisation of state enterprises has been in continuous decline also and reached less than 57% in operation in 1998. Private sector figures indicate a slightly better situation but still at a low level.

All these developments had a controversial impact on employment levels, incomes and living standards. Again the general trend has been one of a growing burden of the social costs of the reforms both for the people and for the government policy. In this sense “transition” in Bulgaria has turned out to be a real industrial and social “minefield” and trade unions found themselves in the centre of it.

1.3. Situation 1998/1999

How did the trends, described above shape the processes and outcomes in the period 1998- mid 1999? The picture will focus predominantly on the developments linked to collective bargaining, the sources of the dynamics of the process and the roles of the actors.

The operation of the currency board marked the whole of this period, beginning with the success of macroeconomic stabilisation in the first year of operation until the summer of 1998 and with the rising shadows of the depressing effects of the board later on. The key developments are set out below.

- The remarkable drop of inflation from 578% (end of 1997) to less than 1% (end of 1998) involved periods of negative values becoming longer and more stable, which continued well into 1999.

- The tight financial constraints of the currency board and the “national” bank induced a strong conservative strategic approach within the banking system, which rendered access to credit more difficult for companies.
- The impact of the lower prices on international markets for vital exports – metals, chemicals, etc. and the financial crisis in Russia further amplified the negative pressure.
- The level of the internal debt and interfirm indebtedness started rising very quickly in the autumn of 1998 and reached about 66% of GDP in the spring of 1999 according to expert assessment.
- Foreign direct investment, of vital importance for stability of the currency board declined and the pace of privatisation was significantly slowed down in 1998.
- Industrial output (see Table 2) shrank at a higher speed and foreign trade deficit expanded to US\$ 315 million in 1998 and had already surpassed US\$ 500 million by the middle of 1999.

Table 2 - Indices of industrial output and labour productivity

Previous year = 100

	1997	1998
At current prices	901.8	98.7
At constant prices	90.1	87.3
Labour productivity	92.5	94.8

Source: National Statistical Institute, Ministry of Labour and Social Policy.

1.4. Estimates of Institute for Social and Trade Union Research

These results revealed that stability and discipline imposed by the currency board at macroeconomic level do not easily and automatically produce the same processes at lower levels and that they contain serious disincentives to industrial growth and development.

As a result the first cracks in the currency board appeared and were soon followed by decisions to transfer part of the debts of big enterprises to the state to facilitate their privatisation. In 1999 another crucial step was taken – to take over the debts of the national monopoly Bulgargas, which in practice legitimates non-payment of debts by its clients. In effect the budget showed that some companies were more equal than others.

The unemployment curve began to move upwards again, a trend which continued in 1999. The level of 16% registered by the National Statistical Institute in November 1998 was already significantly higher than the figure for previous year. With the necessity for intensive privatisation and optimisation of personnel in the new companies it is likely that 1999 will see the same situation. It has also become clear that the emerging private sector and especially the small and medium enterprises, the supposed motor of new employment have been facing mounting problems and that their potential for absorbing people from privatised and restructuring companies is far below the expectations of the policy-makers.

These factors and conditions would create an extremely complicated and controversial bargaining situation on all levels of the industrial relations system anywhere. In the Bulgarian context however the mechanisms for wage determination, imposed by the IMF extended and deepened the effects by ignoring the actual results and conditions on the ground.

2. WAGES AND PURCHASING POWER

The collapse of incomes and living standards in the end of 1996 – beginning of 1997 as result of the deep crisis in the economy and society marked the lowest levels for the whole process of “transition”. Average monthly salaries in the public sector dropped by 80% from 1995 and reached at some points as low as US\$ 13 for the budgetary sector (those paid directly by the state) and US\$ 28 for state enterprises. Although in 1998 and 1999 the trend was reversed and wages registered steady growth, the overall result is still below previous years.

Public sector settlements still play a role as a reference for the whole bargaining process and for the pay levels in the private sector. The dominant effect through the years has been to drag down the rate of wage growth in all sectors due to the government incomes policies following the requirements of the IMF. The Prime Minister unconditionally declared at the beginning of his term that low wage costs would attract the vitally needed foreign direct investment to keep the currency board and stability. Later on the policy was elaborated on the premise of “slow but steady” growth in the area of wages and incomes. One of the best illustration of the outcome is that demands of unions in multinational companies for renegotiation of pay levels are usually met with the argument “We are already paying much more than the average for the country”. In the conditions of rising unemployment and problems with productivity such an argument starts to sound like a threat.

The policy of predetermined outcomes of wage bargaining inevitably leads to constant erosion of the content of the process of social dialogue. The government, however, adds to the process with its own contribution of tactical “tricks”, for example it distributes the draft of the annual budget and asks for comments and recommendations within one or two days. Such patterns of interaction permeate all relationships within the tripartite framework and frequently lead to the marginalisation of the social partners, especially trade unions in the decision making process. This approach has been criticised by the representative trade unions – both KNSB and CL Podkrepa and at the end of 1998 Podkrepa handed in a memorandum threatening withdrawal from tripartite bodies. After a meeting with the two confederations the Prime Minister confirmed the low quality of the social dialogue and promised more serious attitude of the government for the future. 1999 did not witness any significant changes for the better in the area of collective bargaining.

Table 3 - Nominal and real average monthly wage

	1989	1990	1992	1993	1994	1995	1996	1997	1998
Nominal Wage, in Lv									
<i>Average monthly wage¹</i>	274	378	2047	3231	4960	7597	13042	125163	187438
<i>Minimal monthly wage²</i>	140	163	735	1238	1772	2477	3825	33914	51233
Ratio - %									
<i>Minimal wage as % of the average wage</i>	51.1	43.1	35.9	38.3	35.7	32.6	29.3	27.1	27.3
Index 1990 =100									
Nominal wage									
<i>Average wage</i>		100.0	541.5	854.8	1312.2	2009.0	3450.3	33111.9	49586.8
<i>Minimal wage</i>		100.0	450.9	759.5	1087.1	1519.6	2346.6	20806.1	31431.3
Real wage									
<i>Average wage</i>		100.0	68.8	69.6	57.1	54.0	44.5	36.1	44.2
<i>Minimal wage</i>		100.0	57.3	61.9	47.3	40.8	28.3	21.2	26.2
In US\$									
<i>Average wage,</i>			87.7	116.8	91.4	113.1	74.2	74.7	106.4
<i>Minimal wage,</i>			31.5	44.8	32.6	36.9	21.8	20.3	29.1

¹ Women on maternity leave are not included.

² Calculated as the average of the different minimal wages over the months of the year.

Source: NSI

At the beginning of every year there are Decrees of the Council of Ministers that fix the mechanisms for wage fund formation in the various public sector organisations. These regulations define the timing and size of each step of the incomes policy for the budgetary sector and state-owned enterprises (SOEs). The overall thrust of the policy has been aimed at curbing the growth rate of wages in the public sector with exemption of budgetary organisations where the drop of incomes has been most severe.

2.1. Budgetary sector

The scheme for the budgetary sector is based on preserving the fiscal balance and the need to compensate employees for losses. Pay rises have been guaranteed over the period and scheduled by quarters. A key element in the scheme is the possibility of additional one-off payments at the end of period when there is a surplus in the budget. These are important positive steps and they have their impact on the purchasing power at the time, especially the “thirteenth month salary” at the end of the year but they are uncertain. The demands of the unions to link these payments with the basic rates have been rejected.

As a result the growth rate of nominal salaries for 1998 was 22% and real wages grew by 20% compared to end of 1997. For 1999 the increases involve a 10% rise from 1 January and another 7.5% from July. These positive developments however have been accompanied by the requirement to reduce the number of personnel by 10% across the board in 1998 and by 4% at the beginning of 1999.

2.2. State-owned enterprises

In the non- budgetary sector the aims over the period have been to tighten further the constraints on the budget of the State owned enterprises. The regulation linked the increases in the wage bill to the financial performance of the enterprise and distinguished three categories:

- Companies that are profitable, servicing their financial obligations and having no arrears have full freedom to set their wage bill.
- Loss-making enterprises, with improving financial performance and servicing their obligations can increase the wage bill on the basis of their financial performance and rise in productivity (measured by sales per employee).
- Loss-making companies with no improvement of financial performance cannot increase their wage bill.

- Real wage growth in 1998 reached 19%. In 1999 however regulations introduced further limitations on the wage growth:
- For profitable companies growth of productivity became an additional condition for a pay increase. For those of them that have obligations to meet, a wage increase is allowed only if these obligations are not growing.
- Companies in the second category are permitted a pay rise only if they systematically reduce their losses in the course of three consecutive quarters.
- Enterprises that suffer higher losses and where sales per employee go down are forced to reduce wage bills by 0.75% for each percentage point of loss.
- And in the end, 100 companies from a special list were directly prohibited from increasing their wage bill in the first two quarters of 1999 above the level of third quarter of 1998 because of their violation of the regulations.

Table 4 - Average Wages by Quarters 1998-1999 (in Levs)

SECTORS	Quarter IV 1998	Quarter I 1999	Quarter II 1999	Indices for Quarter II 1999	
				Quarter IV = 100	Quarter I = 100
<i>Public sector</i>	205631	208613	221032	107.5	106.0
<i>Mining</i>	283879	280859	297133	104.7	105.8
<i>Manufacturing</i>	242240	240884	250018	103.2	103.8
<i>Budget organisations</i>	145830	154772	171009	117.3	110.5
<i>Private sector</i>	155633	158695	163357	105.0	102.9
<i>Total (Public and Private)</i>	185985	188299	196877	105.9	104.6

Source: Ministry of Labour and Social Policy

2.3 Estimates of Institute for Social and Trade Union Research

It is indicative that during the period of implementation of these regulations the number of loss-making companies has significantly increased. From the state enterprises monitored by the National Statistical Institute 2411 completed the year in 1997 with positive results. Of these, in 58% the size of the profit has been moderate. At the same time 905 companies (26.7%) reported losses. In the first quarter of 1998 the number of profitable companies fell to 1700. One year later (first quarter 1999) 54% of the enterprises recorded losses and had no real possibility of even thinking about pay rises. It is no surprise also that the

amount of unpaid salaries at the end of 1998 reached at least 63 billion Levs (about US\$ 37.7 ml).

The wage situation in the private sector is extremely diverse, complicated and most of all unclear. Despite the efforts of the National Statistical Institute in the area available data are extremely unreliable. Some of the major reasons are not statistical but explained by the way labour is employed and are consequences of the interlinkages with the “shadow” economy.

The problems start with the official figures for the average monthly wage in Table 4 above for 1998 – 1999. As a rule average wage levels in the private sector are lower than the average for the country and significantly below the average for industrial sectors.

In this sense the private companies have to be divided at least in three key groups according to size, nature of operations and the way industrial relations function.

The first group is represented by the big, usually privatised state companies and multinational companies. In such companies collective agreements and individual contracts have been preserved as a standard with the “normal” difficulties and conflicts. Much more problematic are the other two groups – medium-sized foreign and local investors and, in the third group, small companies and the huge number of micro companies, mainly family businesses. The level of employment in this last group – 94% of all private sector establishments – is typically between one and two persons.

The “normal” pattern of employment in the last two groups oscillates along the unclear line between the open and “shadow” economy. The normal practice in such cases is employment without labour contracts, fixed term contracts or contracts on the minimum wage for the country. For many of those with formal contracts additional money is paid “in hand” in order to economise on social security taxes – health, and pension contributions and to increase the money available to the worker through minimising general income tax.

These and other forms of effective coincidence of the interests of employers and employees have been gradually penetrating all sectors of the economy and types of company including the state sector. Sometimes they lead to types of antisocial coalitions, which can also involve trade unions. This produces at least two major problems. First, private sector members of the National Social Security Institute account for more than half the total but their total contribution to the pension fund is less than 10%. The second problem is the expanding practice of simply not paying social taxes. Large state companies are the leaders in this area and owe tens of billions of Levs to the social funds.

Thus it is no surprise that since August 1998 the pension fund has been virtually in the “red” and paying pensions is a problem each month.

Over the years incomes policies have demonstrated numerous faults and inconsistencies despite the continuing efforts to “tighten the screw”. The big problem, however, is that they do not deliver the expected results. It has been recognised, even by the international financial institutions that wages have not been a factor producing inflation since 1994. But it was in 1997 that the economy faced the full horror of hyperinflation.

The internal thrust of the policy has been of course to press management, trade unions and employees to support and facilitate privatisation and restructuring of the economy in order to free wage bargaining for real negotiations in independent private companies. The trade union strategy has been to support this and from the beginning of “transition” the unions have pressed for the process to start and be accelerated. However, as it had been described, in the beginning of 1999, when the law for privatisation formally expired, denationalisation had reached less than one third of state assets. The government, therefore, hastily put a “for sale” sign on the so-called “pearls” of economy, often for one dollar, to secure the next stand-by loan from the IMF.

The most noticeable results of the incomes policy can be seen in the field of personnel and wage policy. This is the combined effect of shedding labour (to achieve productivity improvements) and depressing wage growth – the carrot for outside investors. After ten years in “transition” and two years in currency board arrangement the economy at present is losing its dynamism. In the opinion of major international financial institutions and multinational companies the investment climate in the country is “unhealthy” and the economic processes marked by uncertainty.

2.4. Trade Union Policies

Since the beginning of transition the strategic choice of both representative trade union organisations – KNSB and CL Podkrepa has been:

- support for the reform process on the condition that trade unions are involved in its shaping in areas of concern to trade union;
- developing a system of industrial relations and representative democracy on the principles of the European Social Model and in line with Bulgarian conditions.

Following this policy framework trade unions have provided more than enough space for governments to implement changes and have given due consideration

to the controversial nature of the process. At the same time major industrial conflicts and rising social tension have led to actions and events, including change of governments, which inevitably have delayed the reform process and made the social burden of transition heavier.

The acceptance of the policy of reforms was accompanied with severe criticisms of the economic logic of the IMF programmes in terms of its implementation, especially in the area of wages and incomes. Unions have not opposed the necessity of a balanced budget and macroeconomic stability but have called for a more flexible approach to particular situations in order to create opportunities and incentives for economic growth to motivate people to achieve higher productivity and labour competitiveness. In 1998/1999 trade union estimates indicated that the rate of increase could have been higher and the process more systematic but in the end the government effectively carried on with its proposals unaltered. The KNSB accepted the results since they guaranteed the improvement of the situation but CL Podkrepa refused to share responsibility for the results.

This pattern of reactions persisted over the whole period. This was the first time since 1994 that the two confederations had had such a persistent tactical disagreement. The final result of this for CL Podkrepa was the Memorandum (a kind of ultimatum) in favour of leaving social dialogue structures. Despite strong rhetoric from time to time and declarations of criticism from both confederations, social dialogue continues to function predominantly on the principle of “negative involvement” of trade unions within a “permissive” regime of operation, defined by the government.

2.5. Collective bargaining problems

Up to 1998 the key feature of wage settlements – the core of collective bargaining was its compensatory character and its main motor was inflation. In the conditions of periodic heavy falls in incomes and a constant decline of living standards trade unions were able demand a lot but still not recover the losses incurred.

The introduction of the currency board along with the restrictive incomes policy nullified the main trade union argument. The new, complicated and unfavourable conditions created a peculiar vacuum in the normal environment of trade unions and their approach to the issue of pay. The reforms and schedules, agreed with the IMF have been introduced mechanically while the management of wage policy remained still highly centralised and dependent on abstract macroeconomic requirements.

At the same time the claims for higher wages put forward in trade union forums and promoted through industrial action have been predominantly based on the linkage of incomes with impoverishment and rarely referred to production issues – such as productivity, efficiency and profits. There is no question that, with more than 70% of the population below the social minimum, poverty is a priority area and growing problem for trade unions. However, making this approach as the main policy line in wage bargaining is unlikely to produce serious results in future.

At the same time the mismatch in the dynamics of growth between productivity and wages, which has been a feature of the situation since 1994, continues until the present. The growth of wages in 1998/1999, in a period of serious industrial decline, with productivity and sales falling and a sharp increase in company debts indicates controversial trends and suggests a deepening differentiation between sectors, industries and individual companies based on influences which are not simply economic. The reverse situation – falling wages with a continuous rise in productivity – has occurred in the past.

This leads to the next feature of the linkage – the increase of productivity usually precedes wage growth. Such a sequence can be a healthy feature if events happen in a clear framework of interdependence. Present circumstances, however, indicate a quite free movement of both indicators with the time lag between them so long that any feeling of connection is largely lost. This outcome is further strengthened if we take into account that the main source of productivity increase is through reductions in personnel. The overall effect has been a strong and persistent erosion of the rational connection between productivity and real wages and of the power of remuneration as an instrument for individual evaluation and motivation for work.

2.6. Sectoral wage differentiation

After a decline of 17.1% in 1997 wages in industry increased by 13.8% in 1998. Nevertheless in some industries real wages fell – mainly in mining of ore – by 8%, chemicals and chemical products – by 2.5%.

On the other hand in some industries there was a significant increase in real wages: electricity, gas and water supply – up by 32.5%; pulp, paper and paper products, printing and publishing – up by 29.55% and coke, refined petroleum products and nuclear fuel – up by 16.2%.

The trend of growing wage differentials between industrial sectors has continued over the period. The ratio of the highest wage (in coke, refined

petroleum products and nuclear fuel) to the lowest wage (clothing) was 4:1 in 1998 as against 3:1 in 1996.

There are significant differences in 1998 in the wage levels in individual industrial sectors in relation to the average wage in industry:

- ten industrial sectors (out of 38) were below the average industrial wage in industry (with levels from 55.9% to 97.2% of the average wage. These sectors, however, employ 70.3% of total number employed on labour contracts in industry;
- eight industrial sectors have wages above the average industrial wage (with wages from 113.9 to 235.1%).

This more detailed analysis highlights specific features that may be indications for the future. Among the high-wage companies one can find the biggest, state owned, sometimes subsidised companies, often in monopoly position and usually among the biggest contributors to the internal state debt and social funds' deficits. Most of these companies are facing privatisation in 1999 or soon after and will undergo major restructuring in the near future.

The other key group consists of some industrial sectors in light industry – clothing, shoes and knitwear, which have recorded the best performance, even in a period of industrial decline, and have a growing share of exports (17% of the total in the first half of 1999 and 46% of consumer goods). These are totally privatised companies and they pay the lowest wages in industry. Moreover, since labour costs are the biggest single cost factor for these products there will be persistent pressure to avoid wage growth in order to preserve the main competitive advantage and so safeguard markets and jobs.

2.7. Purchasing power

The positive change in the trend of wage growth in 1998/1999 and the low inflation, actually falling prices for substantial part of the period, provided a good basis for similar improvements in purchasing power of wages. As the table below indicates, the upward trend of purchasing power is still significantly below the achievements of previous years. The situation becomes even more complicated when these technical correlations between figures are placed in their social context.

Table 5 - Purchasing power of the average wage 1989-1998

Products	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Bread "St. Zagora" - kg	559	756	385	460	472	467	485	259	230	327
Rice - kg	274	291	140	185	218	221	148	127	113	166
Pork cutlet(leg of pork), kg	52	69	47	55	55	41	37	42	24	33
Chicken - kg	85	115	59	71	73	56	63	58	33	55
Frankfurt sausage - kg	70	96	46	53	56	48	49	55	32	47
Milk - l	830	1145	462	555	453	467	351	403	345	328
Yoghurt—500g	1191	1643	657	793	647	628	484	494	395	408
Cow's milk cheese - kg	88	123	55	70	61	54	52	53	38	48
Hen eggs	2283	2908	1425	1473	2032	834	1831	1257	963	1329
Sunflower oil - l	181	249	114	142	137	124	149	165	126	114
Dry beans - kg	197	195	126	205	237	132	117	144	96	107
Patatoes - kg	856	411	312	544	479	450	372	323	265	331
Sugar - kg	184	252	111	178	254	177	193	159	131	187
Apples - kg	517	415	307	327	322	197	190	271	265	250

Source: Calculations of ITSUR of CITUB based on data for the average wage and prices, reported by the National Statistical Institute

The situation is similar for the minimum wage, which also provides an indication of the purchasing power of pensions, as these fluctuate around a level at or below that of the minimum wage.

Table 6 - Purchasing power of the minimum wage

Products	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Bread "St. Zagora" – kg	286	326	209	165	181	167	158	71	62	89
Rice – kg	140	125	76	66	83	79	48	35	31	45
Pork cutlet(leg of pork), kg	27	30	25	20	21	15	12	11	6	9
Chicken – kg	43	50	32	25	28	20	21	16	9	15
Frankfurt sausage – kg	36	41	25	19	21	17	16	15	9	13
Milk – l	424	494	251	199	174	167	114	110	93	90
Yoghurt—500g	609	709	356	285	248	224	158	135	107	112
Cow's milk cheese – kg	45	53	30	25	23	19	17	14	10	13
Hen eggs	1167	1254	773	529	779	298	597	344	261	363
Sunflower oil - l	93	107	62	51	52	44	49	45	34	31
Dry beans – kg	101	84	68	74	91	47	38	39	26	29
Patatoes – kg	438	177	169	195	183	161	121	89	72	90
Sugar – kg	94	109	60	64	97	63	63	44	35	51
Apples – kg	264	179	166	117	123	70	62	74	72	68

Source: Calculations of ITSUR of CITUB based on data on the average wage and the prices, reported by the National Statistical Institute

The results of the quarterly surveys of the Institute for Social and Trade Union Research show that the level of the "social minimum" in the period 1998 to the first half 1999 is around Levs 220,000- 225,000 per person in a family of four. Compared to quarterly wage levels in the end of 1998-beginning 1999 by sectors (see above) it is clear that employees in only mining and manufacturing can rely on their salaries to secure the minimum necessary for a decent life.

2.8. Changes in incomes structure

The erosion of real wages over the years has produced constant pressure for a new structure of incomes. There has been a decrease in the proportion of total income provided by wages, down from 57.3% of the total income in 1990 to 37.9%, in 1995, but recovering slightly to 40.1% in 1998. Correspondingly the share of income coming from non-monetary sources – from household production – has increased from 14.1% in 1990 to 27.6% in 1995, but down again to 20.7% in 1998.

The combined effect of all the above mentioned processes explains the phenomenon of “working poor” and a situation where the majority of the population are living below the “social minimum”. This leads to a gradual shrinking of the internal market due to the total disappearance of people as consumers and their reliance on subsistence activities. Paradoxically enough, in the years of the most intensive efforts to implement reforms and foster market relations one of the main outcomes is the expansion of primitive non-market forms of survival and exchange.

3. WORKING TIME

Working time is a growing problem in daily life and extremely difficult to monitor and control in the current conditions of economic development and uncertainty in companies. It has been long recognised as important by the trade unions but as a priority issue it has been overshadowed by privatisation, job preservation and wage policies.

Bearing in mind the typical patterns of employment relations described above, any figures concerning particular aspects of working time must be treated very cautiously. Statistical data in the area cannot overcome these difficulties since the data that companies have to report to the National Statistical Institute only refer to “hours worked”, which are then used to establish estimates of workdays, weeks, etc. Overtime is accounted for only in money terms and these cannot be reversed into their time equivalents once they have been aggregated.

The available information reflects the growing problems for companies and the under-utilisation of company capacity but in very general terms. The average number of workdays per month in 1998 was 18.38, declining to 18.26 in the first quarter of 1999 (first quarter of 1998 – 18.56). The fluctuations over the course of the year are significant ranging from 16.3 days in August to 19.4 in October, partially reflecting seasonal variations. The work month in the public

sector in 1998 was 18.02 days and in the private – 18.85. These “smooth” figures are completed by the average number of hours worked by one person in a workday – between 7.9 and 8.0 hours for 1998 and 1999 in both public and private sector.

It is not easy to make serious decisions on this basis far less to develop policy lines in the area of working time. The campaign for fundamental rights at the workplace of KNSB confirmed evidence that in the small and medium enterprises workdays have no formal limitations and continue for 10 even 12 hours in the extreme cases. Some establishments work virtually day and night if the nature of the business permits this – shops, coffee bars, Internet clubs, etc. The main principle of work organisation in construction is an amount of work for a sum of money, which again leads to work pattern close to exhaustion since the rates paid are quite low and the next job not guaranteed. In addition there are long slack periods in state enterprises, which in many cases end up with virtual closures. In this sense the figures tend to raise more questions than answers and lead to the next big issue – non-registered work.

The size of shadow economy is considered to be about 40% of GDP by the World Bank¹ and more by some Bulgarian experts. The main form of participation of the ordinary people in it is through work. A survey of non-institutionalised employment in 1996² concluded that one third of the employed labour force has been in the shadow part of the economy and that more than 23% of employed workers are engaged in additional activity – with another employer, household/family business, etc.

As it can be expected, one of the main reasons for the search of additional work has been an insufficient income from the formal one. Below is a table of how long it takes to earn enough to purchase some goods in the formal economy.

¹ Poverty in Transition. Republic of Bulgaria, 1998, ILO, Geneva.

² Y. Hristoskov, G. Shopov, I. Beleva Neinstitutionalizirana zаетost i samonaetost, Institut za pazarna ikonomika, Sofia, 1996, unpublished.

Table 7 - Working time necessary for purchase of foodstuffs and other items - June 1999 (In hours and minutes)

June 1999	White bread " St.Zagora "	Veal with bones - kg	Chicken - kg	Milk - l	Autumn potatoes - kg	Rice - kg	Sugar - kg	Natural juices - l	Cigarettes packet	Cotton Shirt with long sleeves	Casoline A91unlead lt
Average for the country	0h38m	4h 41m	2h 60m	0h 38m	0h 23m	1h 10m	0h 45m	1h 48m	0h 54m	24h7m	0h 53m
Mining industry	0h 27m	3h 18m	2h 6m	0h 27m	0h 16m	0h 49m	0h 31m	1h 16m	0h 38m	16h59m	0h 37m
Food, beverages, and tobacco	0h 37m	4h 33m	2h55m	0h 37m	0h 22m	1h 8m	0h 43m	1h 45m	0h 53m	23h 28m	0h 52m
Textiles	0h 47m	5h 45m	3h 41m	0h 47m	0h 28m	1h 26m	0h 55m	2h 13m	1h 6m	29h 41m	1h 5m
Wearing products	0h 54m	6h 34m	4h 12m	0h 54m	0h 32m	1h 38m	1h 3m	2h 31m	1h 16m	33h 53m	1h 15m
Chemical products and man-made fibres	0h 29m	3h 30i	2h 15m	0h 29m	0h 17m	0h 53m	0h 33m	1h 21m	0h 40m	18 h 5m	0h 40m
Basic metals except casting of metals	0h 23m	2h 47m	1h 47m	0h 23m	0h 14m	0h 42m	0h 27m	1h 4m	0h 32m	14h 21m	0h 32m
Electrical and optical equipment	0h 39m	4h 48m	3h 4m	0h 39m	0h 24m	1h 12m	0h 46m	1h 50m	0h 55m	24h 45m	0h 54m
Construction	0h 39m	4h 48m	3h 4m	0h 39m	0h 24m	1h 12m	0h 46m	1h 50m	0h 55m	24h 43m	0h 54m
Communications	0h 29m	3h 32m	2h 16m	0h 29m	0h 17m	0h 53m	0h 34m	1h 21m	0h 41m	18h 13m	0h 40m
Education	0h44m	5h 26m	3h 28m	0h 44m	0h 27m	1h 21m	0h 52m	2h 5m	1h 3m	27h 60m	1h 2m
Health and social work	0h 50m	6h 5m	3h 54m	0h 50m	0h 30m	1h 31m	0h 58m	2h 20m	1h 10m	31h 22m	1h 9m
Sewage and refuse disposal, sanitation and other services	1h 3m	7h46m	4h 58m	1h 3m	0h 38m	1h 56m	1h 14m	2h 59m	1h 30m	40h 1m	1h2 8m

Source: Data from NSI and ISTUR. Estimates of ISTUR

Another focal point for union concern in the period has been the expanding practice of using fixed-term contracts and even more the transformation of permanent contracts into fixed-term ones as a result of concealed pressure and threats from employers. Trade unions have condemned this practice on numerous occasions and KNSB attempted to introduce in parliament a draft

with amendments of the Labour code aimed at banning the use of consecutive contracts for the same job.

The reactions to the union proposals suggest that one of the core aspects of this issue is the fact that this approach is very convenient for government policy as it begins administrative reform and faces the necessity of personnel reductions among civil servants and public employees. Among the first to implement fixed-term contracts apart from private sector, were state banks, medical establishments, tax authorities and schools. The cynicism of such policies is reflected in the fact not only that they are an easy way to get rid of excessive personnel but also to avoid due payments for job severance in a number of cases.

4. EUROPEANISATION OF COLLECTIVE BARGAINING

The first report of the European Commission on Bulgaria concluded that development of social dialogue in 1997 was still in its initial stages. In this context the Europeanisation process refers not to the problems of joint approaches that Western European trade unions face. Rather it is linked with putting in place structures, mechanisms and creating the culture of promotion of the European social model. The period witnessed several steps in that direction.

In the autumn of 1998 the government signed the European Social Charter which then had to be ratified. Both trade unions openly supported ratification and KNSB organised discussions in its leading bodies to present specific recommendations for the process. The conclusion reached stated that the economic situation did not provide enough objective conditions to demand the ratification of the whole of the Charter. Instead it was considered necessary to insist on the ratification of the greater part of the obligatory articles.

The proposals of KNSB involved 8 articles and in case of step by step approach these were ranked articles 1, 5, 6, 12, 13, 20, 16 and 7. As for the additional parts of the Charter the preferences were arranged:

- in the area of employment and unemployment – articles 10, 24 and 29
- in the area of social security – articles 14, 15, 23 and 30
- in incomes protection – articles 4 and 25
- in health and safety – articles 2, 3, 8 and 11
- in social dialogue – articles 21, 22 and 28

The second initiative, completed in September 1998 was the creation of a Joint Consultative Committee as an supporting body of the Association Council between EU and Bulgaria. It is supposed to facilitate and promote co-operation between the groups, representing social and economic interests in the EU and Bulgaria. There are to be six representatives of the ECOSOC and six Bulgarian representatives including KNSB and Podkrepa on this committee. Since the formal act of its inception there is no further evidence that this body has started working.

The fate of the third structure of this type – the Economic and Social Council of Bulgaria has been even more dismal. Despite a lot of rhetoric and virtually final blueprints for implementation, developed within the project PHARE – Social Dialogue – at the end of 1996/beginning of 1997, the idea is still at the stage of drafting the legislative texts. Its completion was planned for 1999 in the joint action programme, signed by KNSB and the government.

5. FLEXIBILISATION OF WORKING CONDITIONS AND DECENTRALISATION OF COLLECTIVE BARGAINING

Within the system of industrial relations established through the Labour Code in 1993 collective bargaining can be undertaken at all levels, although agreements at the lower level can only replicate or improve those reached at higher levels. In fact the major levels are the national and the workplace. The national level is supposed to work on tripartite basis but as it has been described it is more quadripartite. If in previous years IMF has been referred to as “shadow partner” since the introduction of the currency board has moved clearly into the light.

In 1999 an initiative for a revision of the Labour Code was started. One of the key ideas the unions are pressing for concerns the strengthening of the importance of industry/sector level bargaining. The first formal reactions of employer organisations and government showed a favourable attitude but there are serious structural and other problems on the way.

Almost certainly the key difficulty is the unclear situation on the employer side of such an interrelationship and whether possible structures at these levels will be able to “sell” and push decisions down to the individual employers. The still continuing process of restructuring so far has reshaped exclusively ownership structures. Changes in other areas – in products, technology, organisation and so on – are at present to be found predominantly among multinational companies. The existing industry and sectoral chambers of employers are remnants from the previous situation after 1993 and are based on state owned

companies over which ministries could exert pressure. The evidence from some industries that have already been privatised and are quite settled internally is not very encouraging from the point of view of the adoption of centralised forms of bargaining. In cement production and beer brewing industries there are well-organised structures for industry/sectoral policies but so far they have refused to take on bargaining functions.

In 1998 KNSB started an initiative to facilitate social dialogue in the newly privatised enterprises. The confederation concluded agreements with some privatisation funds for consensual and co-operative relations in the companies. The aim was to create a joint committee for representation of company organisations in the corresponding structure of the fund or holding management. The move has not made any significant difference so far but the idea may be taken up with the push for industrial/sectoral negotiations.

6. FUTURE OUTLOOK FOR SECOND HALF OF 1999 AND YEAR 2000

One of the characteristic features of transition is that forecasts are rarely borne out, especially positive ones. So, any remarks about the future should be treated extremely carefully.

By the middle of the year it had already become clear that important macroeconomic indicators would be much below expectations. Key external expert opinion started lowering their figures for the expected real growth rate of GDP – IMF from 3.7% to 1.5%; OECD predicted 0% or negative growth; The Economist reduced its forecast from 3% to 1% for 1999 and from 4% to 3% in 2000³. At the same time the reforms of areas of health and pension systems were set to start and taxation pressure on companies and individuals was set to mount constantly from July 1999 onwards. The problem on one side would be the need to cover social funds' deficits, while on the other there would be a growing trade deficit and balance of payment problems.

The hole in the budget, expected as a result of the deficits and the war in Yugoslavia in 1999 was expected to be covered by the revenues from privatisation and budgetary balance saved as well as foreign debt payments. However, if the lack of dynamism and growth in industry persists into 2000 the government could face similar challenges but without the reserves from privatisation. In any case the conditions for tight budget constraints and restrictive incomes policy will provide the framework of the main policy line

³ "Pari", 9 June, 1999

and depress the whole process of collective bargaining. It will also continue to encourage managers often with the co-operation of employees to look for alternative and shadowy ways to avoid taxation. Neither the government's nor the IMF's approach indicate that a decisive and non-orthodox breakthrough in taxation policy will be attempted.

As far as the structure and levels of bargaining are concerned, the real clash over the changes can be expected in mid autumn probably after the local elections in mid October 1999. Despite some reassuring statements, trade unions will find it very hard to make progress with their ideas. In fact for the first time they will face the organised policy of the multinational companies, although probably this will not be clear in public.

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1. THE ECONOMIC AND SOCIAL BACKGROUND IN 1998

1.1. Introduction

The government's intervention in May 1998 to end the industrial action in the dominant LO/DA bargaining area in the private sector, with the introduction of additional holidays and days off for families with children, set the tune for subsequent negotiations in the public sector, in the farming and forestry industry and in the financial sector in spring 1999. A difficult negotiating round looked to be in store, on the one hand because employees were refusing to accept lower results than those obtained through the political intervention in 1998, and on the other hand because employers were looking for a tighter settlement as the economic outlook worsened in the course of 1998.

The situation in 1998-99 illustrated the problems caused by the lack of a common rhythm in negotiations in the main areas. Until 1995 negotiations took place for the whole labour market every second year. However, owing to internal disputes between employers, the agreements concluded in 1995 covered different periods. The fact that agreements are now renegotiated in different years appears to have had a sort of lever effect, with one year's results rubbing off on the next – even if the economic conditions have changed in the meantime.

That proved also to be the case during the 1999 negotiation round, where both public and farming and forestry employers were forced to give additional time off corresponding to that introduced in 1998 in the LO/DA area. One of the main players on the employers' side in the public sector, Finance Minister Mogens Lykketoft, was in this way compelled in the final instance to give extra free days, which he had strongly argued in public that he was not ready to do. In return he succeeded in getting the employees' negotiators to accept an increase in working time flexibility. This gave, overall, a result that was acceptable for both parties.

What at the outset looked like being a zero sum game, turned during the negotiations into a plus sum game, with *flexibility* as the key word. At the same time, with the extension of the agreement to three years in the public sector, an

opportunity was created for restoring the simultaneous timing in the two main areas, thereby overcoming the leverage effect of previous agreements.

In this way a difficult negotiation situation found a satisfactory solution for by far the largest portion of employees involved in the spring 1999 negotiations. The process was not, however, without problems, because two groups voted no in the ballot on the settlement proposals in the county and local government sector. These were nurses and *folkeskole* (combined primary and lower secondary school) teachers. In the nursing area this ended with industrial action, which was halted through political intervention after a week, whilst in the school area a new settlement was reached with the help of the Conciliation Board in the face of an impending strike. A conciliation proposal was put forward, which was sent for a new ballot, which ended on 3 June. The outcome was a limited but clear majority of 55% in favour and 45% against.

The conflict in the nursing sector concerned dissatisfaction about wage levels. This illustrates the problem of the traditionally lower grading of typically female groups.

The teachers' no in the first round was due to dissatisfaction with a reform of the working time rules. This illustrates the problems surrounding the decentralisation of negotiations and increased flexibility.

1.2. Economic background

The collective bargaining negotiations were complicated by the uncertain economic climate which to a certain extent marked Denmark in the course of 1998. But at the same time a series of key basic economic figures remained positive, and this helped keep employees' expectations up.

In 1998 overall growth fell, but at 2.9% was still not far under the 1997 level. At the same time, inflation, at 1.7%, remained at the same low level as the year before. This meant that most employee groups had still experienced a year of rising real salaries.¹

The overall government surplus almost doubled in 1997 to DKK 8.6 billion, with a prospect of a surplus of the order of DKK 20 billion in the following year. This means that in the coming years there will finally be a significant

¹ Det økonomiske Råd: *Dansk økonomi, forår 1999*, Copenhagen, May 1999, Ministry of Economics: *Økonomisk Oversigt*, Copenhagen, May 1999. Danish Employers' Confederation: *Arbejdsmarkedsrapport 1999*, Copenhagen, June 1999. The DA calculated the rise in real incomes in 1998 at 3.6% after tax, DA 1999, p. 281.

reduction in public borrowing, which will fall from almost 70% of GNP in 1995 to just 56% in 1998 and 50% in the year 2000².

Average unemployment continued to fall strongly, down to 183,000, equal to 6.3% of the labour force in 1998. In the course of 1999 unemployment is expected to reach a temporary low point of around 165,000, though the upturn in the year 2000 will, according to the prognoses, still be very modest. It looks as if Denmark will also in the coming years be able to maintain a relatively low level of unemployment. This can be described as almost full employment. In 1998 there was also real growth in employment, primarily in the private sector. In this way the total number of persons on labour market policy schemes, including special leave of absence schemes, fell in 1998. The development of this transitional labour market played an important role in reducing unemployment from 1993 onwards, but in more recent years falling unemployment has been due to the creation of real jobs.³ In fact, economists are expecting an increasing shortage of labour during the coming decade, as the babyboomers of the 1940s begin to withdraw from the labour market, to be followed by the children of less populous years. For this reason the government tried in 1998 to change the early retirement pension rules in order to raise the retirement age.⁴

Despite the continuing positive figures in a number of areas, there are also major indications of problems. A decisive factor in this connection is the fact that for the first time since the beginning of the 1990s the balance of payments ran into the red in 1998 with a deficit of DKK 15.9 billion, owing to falling competitiveness and low growth in export countries.

The most important indicator of increasing economic difficulties is, however, the fact that economic growth will be at least halved in 1999 from just under 3% in 1998, and could still end up under 1%. Apart from the already mentioned low growth in our main export countries, this is also due to the fact that the government is also attempting to hold the reins tight, in order to maintain a tight grip on economic development. As part of this effort the government introduced the so-called *Whitsun package* in spring 1998 in an

² Ministry of Economics: *Økonomisk Oversigt*, May 1999.

³ Det økonomiske Råd: *Dansk Økonomi*, May 1999, Ministry of Economics: *Økonomisk oversigt*, May 1999. Measured by the EU's definition, unemployment in 1998 was 5.1%. This was expected to fall to 4.7% in 1999, and thereafter to rise to 5.0% in the year 2000, according to the *Økonomisk Oversigt*.

⁴ See below in the paragraph about the political background.

attempt to place a brake on private consumption, and has also undertaken a certain tightening of public consumption and public investments. Public investment fell by a good 5% in 1998 and is expected to be maintained at the same level thereafter. At 2.6% the rise in public consumption was in 1998 only a little under overall growth. However, this is expected to be tightened to around 1 to 1.5% in 1999, a situation which will be continued in the following year.⁵

The government's objective is, by steering a tight course, to get the balance of payments back into surplus, at the same time as maintaining the other key economic indicators positive, not least for employment. Whether this exercise will succeed, or whether the coming years will be marked by a new period of decline similar to the late 1980s and early 1990s, it is still difficult to say. But in any event the result will be of major importance for collective bargaining in the coming years.

1.3. Political background

As mentioned in last year's report, a Social Democratic/Social Liberal government was re-elected in March 1998. The government, a minority one with support from the left wing in the *Folketing*, has since sat with a majority of just one vote. In any event the government is solidly placed, and able to reach settlements with both the right and the left. 1998 was nonetheless a turbulent year for the government with its reform programme the subject of violent controversy. The Social Democratic Party nose-dived in public opinion polls, dropping at the end of 1998 to around 20% from around 36% at the elections. At the same time the largest opposition party, the Danish Liberal Party, climbed to around 35%. For this reason it was no longer impossible that there could fairly quickly have been a majority against the government. Spring 1999 – together with rising opinion poll figures for the Social Democratic Party, above 25% and rising – stabilised the political situation. The government was strong, and we seemed once again in a situation, as it existed immediately after the elections, in which, despite the skimpy majority, it would be difficult to topple the government. This means that it could well last the full legislative period, i.e. until March 2002.

The first serious task for the new government was to intervene in the large-scale industrial action in May 1998. As mentioned in last year's report, the

⁵ Det økonomiske Råd: *Dansk Økonomi*, May 1999, Ministry of Economics: *Økonomisk oversigt*, May 1999.

intervention itself followed the rules of the game that have been built up around the Danish bargaining model. This model is based on the principle that it is the social parties who themselves settle wage and labour conditions through collective agreements. At the same time there has grown up a tradition of political intervention in conflicts which appear to have got stuck.⁶

It could perhaps be interpreted as a break with the Danish model that the intervention came relatively early. It was a clear break that the government weighed in to improve on the solution which was emerging, when the government observed that the parties could not get any further on their own. In this way the government went one better than the concessions that the employers had made in the final round. This it did presumably out of a desire to live up to the expectations which it had created, among other things in the context of the election campaign, for an improvement in the conditions of families with children. It also did so not least in order to help get a positive result in the forthcoming vote on the Treaty of Amsterdam.

The government and the other pro-EU parties were afraid of a repeat of the Danish no to the Maastricht Treaty in the first vote. For this reason it intervened relatively quickly, and the population was bribed a little. In the short term the intervention was also quite popular, and this gave the desired result, with a certain, albeit relatively modest, majority saying yes to the Treaty of Amsterdam.

On the other hand, with its intervention the government created expectations of improvements for the two large groups, among them not least public employees, which were due to negotiate in the first months of 1999. These expectations were to be in conflict with the government's policy. Already at the beginning of 1998 the government had signalled that there was no room for further improvement. Danes would rather have to work more, if social welfare levels were to be maintained. In this way the intervention ran counter to the government's policy, whilst at the same time jeopardising the government's own forthcoming negotiations with public service employees.

In this way the conclusion of the industrial action further fuelled worries about the economic future. Most economists believed the solution to be expensive, and with government intervention rather than agreements between the parties

⁶ Cf. Jesper Due, Jørgen Steen Madsen and Carsten Strøby Jensen. 1993. *Den danske Model*. Copenhagen: Jurist- og Økonomforbundets Forlag. English edition, Due et al. 1994: *The Survival of the Danish Model*. Copenhagen: DJØF Publishing.

creating the danger that it would now be even more difficult to hold down the level in the subsequent wage negotiations, which for 85% of employees take place at company level. This also produced a rise in the rate of wage rises, which in the last quarter of 1998 reached 5%, a whole percentage point higher than the year before, and higher than the corresponding wage increases in Denmark's industrial competitor countries, not least among them Germany.

Following on the intervention and the Amsterdam vote the government tried to tighten the reins in order to hold its economic course. The first intervention was the so-called *Whitsun package*, aimed specifically against major price increases in the housing area. The effect, in the form of a tightening of the home owning economy, appeared to be being highly effective in spring 1999, and for this reason, in the government's view, there was to be no need for further financial policy intervention before the situation was again assessed with the reading of the 2000 Budget at the end of 1999.

Similarly the government entered into an agreement with the county councils and the local authorities in the early summer 1998 on local and county government financing, pruning real growth to no more than 1% a year in the coming years. Both the Whitsun package and the tightening of the local and county government financing contributed to creating problems for the government, as many people saw them as conflicting with the statements made by the government during the election campaign, to the tune that there was no need for a tightening of the financial reins, and where promises had been made to improve welfare payments, not least in the health sector. Such improvements are difficult to secure with such little real growth.

In late summer 1998 the two main confederations of the social actors, the LO and the DA, were in agreement with the government for a new *labour market reform* in order to promote the number of people in work and to combat bottlenecks that were starting to appear. The suggestions received the support of the large non-socialist parties in the Folketing, with the Danish Liberal Party in the lead, and was converted almost unchanged into law. In this way the reform represented a direct strengthening of the Danish model with its traditional involvement of the social partners, with legislation of direct significance for the bargaining system and the social parties based on the principle of consensus. The principle is that legislation of this type should be introduced only when agreement exists on its content between organised labour and employers. This involvement of the different parties has otherwise been relatively limited under the socialist-led governments of the 1990s.

The labour market reform also produced political difficulties by leading to a sharp internal disunity within the LO. The reverse side of the increased number of people in employment was a cut in the length of the unemployment benefit entitlement from five to four years. This resulted in the LO's second largest federation, the SiD, withdrawing from the agreement after originally saying yes to it. The SiD has a relatively large number of unemployed persons among its members, and this explains the resistance at the grass roots level, that quickly forced SiD leadership to back off.

The turbulence and the fall in the Social Democrats' opinion poll ratings continued when the government, as part of an accord on the 1999 budget, reached an agreement with a series of parties, including the Liberal Party, in November 1998, on a reform of the *early retirement pension scheme*, aimed at raising the retirement age and therefore reducing the trend towards a labour shortage, as a consequence of sharply reduced unemployment. This proposal led to serious political difficulties. The government forfeited its credibility, as the change came unexpectedly. But it did not waver, and the tightening was carried out in spring 1999.

The pension reform was an example of social actors being involved only when the political parties had a completely ready reform on the table. In terms of content the employers could not be totally unsatisfied with the political settlement, and understanding could also be found in the LO for the need to draw in the reins. But on the other hand, both the LO leadership and its member organisations were massively dissatisfied with the way in which such a major change in the welfare system had been carried out, that is without any prior consultation with the population and without involving the social partners.

The LO and its allies could complain about the fact that it was precisely a Social Democrat-led government – with its tradition of co-operation with the trade union movement – that in this way had broken with an essential principle of the Danish model. In return the government could dismiss the criticism with reference to the labour market reform, where the SiD's "no" in the second round could be seen as a sign of the LO's inability to deliver the goods, that is, create the necessary backing for a reform as the price for being able to influence its content.

2. THE 1999 BARGAINING ROUND

The collective bargaining negotiations that came to a head in the first months of 1999 covered three areas with together almost one million employees. This

was considerably more than were involved in the major conflict in the LO/DA area in spring 1998, which should have renegotiated the agreements on pay and work conditions. The LO/DA area covers around 600,000 employees.

By far the largest negotiating area at the start of 1999 was the *public sector*, involving all told some 840,000 employees, of whom around 640,000 are at county and local authority level, and just under 200,000 are at the state (that is national) level. Officially these are two independent negotiating areas, but in fact there is close coordination, in particular on the employers' side. Traditionally the Ministry of Finance is the main negotiator on the state side, which together with the employees' negotiating association, the CFU, sets the overall level. In the local government area, the local authorities' organisation (KL), the county authorities' organisation (ARF), and the two capital municipalities Copenhagen and Frederiksberg form a joint negotiation delegation. On the trade unions' side, its counterpart is the KTO negotiation cartel.

Also in the *finance sector*, covering around 80,000 employees, agreements were up for renewal at the start of 1999. In the bank area, negotiations are carried out between the FA, the Danish Employers' Association for the Financial Sector, and the Financial Services' Union (Finansforbund), the largest FTF member organisation in the private sector. The Financial Services Union is one of those unions which covers the whole range of employees in an industry. Negotiations in the insurance industry take place between the FA and the Danish National Association of Insurance Employees.

The third main area in the 1999 bargaining round was *agriculture and forestry*, with agreements covering at least 60,000 employees (slaughterhouses, dairies, growers, etc). The various employers' organisations belong to SALA, which coordinates the negotiations. Like FA in the financial sector, SALA is outside the major employer confederation, DA, which covers all other branches of the private sector. On the unions' side, the most important counterparts of SALA are the LO's federations SiD and NNF (National Union of Food and Allied Workers).

In the financial sector additional free time had already been given in earlier rounds, and for this reason the question of longer holidays was not a central issue in contacts between parties in this area. People were looking for quiet negotiations, which could end in a settlement without major problems. However, in both the agriculture and farming and the public sector the demand arose for additional free days. The main demand was for a sixth week of holidays, but at the same time it was observed that an acceptable solution

would be precisely the same increase in the number of free days that had been given in the political intervention in spring 1998. This was a clear illustration of how the direction-giving LO/DA area is also decisive for demands in the other areas. The problem as the 1999 negotiation rounds drew near was that the economy was looking less bright than in the spring. For this reason a solution which had been very expensive in the past was now simply unacceptable to employers. In particular public employers, led by the finance minister, were hesitant. The problem was further complicated by prospects of a labour shortage in the coming years. The finance ministry simply launched an information campaign, pointing out to Danes that they would have to work more and not less, if social welfare services were to be maintained in the future. As their starting point the employers therefore simply rejected the demands for extra free days.

This now meant that negotiations would be difficult. The same amount of free time as granted in the 1998 negotiating round was an absolutely incontrovertible demand by the employees' organisations. Most of them would have to put any settlement to a ballot of their members, and it would be impossible for them to get a yes vote for anything less. The precondition for a solution was therefore that employers, with the minister of finance at their head, would have to give way.

Clearly, the threat of conflict was attached solely to the question of free days. To this was added a special problem in the area of education, where both primary and secondary school employers were calling for a change in the strict working hour rules, set mostly by negotiations at the national level. Changes which the two organisations in the area, the Danish Teachers' Union (DLF) and the National Union of Danish Upper Secondary Teachers (GL), viewed to different degrees with scepticism.

In this way the scene was also set for difficult negotiations on working time, an area which could very likely in its own bring down the negotiations. The three employer organisations, the ARF, KL and the Finance Ministry, made a mutual commitment that there would be no general settlement without a solution to the working time problem. At the same time politicians in parliament were committed in the budget agreement to introduce a declaration of intent to introduce greater working time flexibility in the coming negotiations both in the schools area and the hospital area. This was something new, and was therefore seen by the organisations as an ill-timed intervention in labour market parties' rights to conclude their own agreements. On the employees' side the common commitment was perhaps less unanimous, but it was nonetheless

established that no general agreement would be signed in a situation in which the employers virtually dictated conditions to the teachers.

In the run-up period to and at the start of the negotiations, the situation looked pretty much like a zero sum game – at least in the public sector. During January and in early February, on the other hand, negotiations had gathered speed in the agriculture and forestry area, in that the employers' association SALA took the line that it would not be possible to offer employees in this area less than what had been given the year before when the government had intervened in the LO/DA area. At the same time it was stressed that at the end of 1998, the pace of pay increases in the DA area – as a result of local, company-level wage negotiations – was reaching 4.7%.

On this basis it was possible to enter into a series of agreements, converting the days of holiday leave and the days of leave for family reasons, which had been the result of the state's intervention the year before, into three days holiday leave for all. On top of this came the extension of the pension schemes by 2 x 0.9% in the two years of the agreement, bringing the overall pension contribution typically to 7.5% of salary. Another element common to the new agreements in the SALA area was two weeks' additional paternity leave for fathers as an extension of mothers' maternity leave. The hourly wage rates were also raised by DKK 2.25 in the first year and DKK 2.20 in the second year. The parties were agreed that the total cost amounted to 4.0% in the first year and 3.5% in the second year.

Agricultural employers considered the agreements to be on the high side, but were satisfied that the second year was lower than the first. This was the best possible solution in a negotiating situation in which both sides in fact had their hands tied. The employees' organisations, the SiD and the NNF, could be pleased that their members had received the same number of days leave as had LO/DA employees the year before, and that a major step had been taken in the direction of a sixth holiday week.

The agreement in the agricultural and forestry area placed additional pressure on the public employers' and employees' negotiators. If it had been difficult beforehand, it was now impossible to obtain a solution which gave less in terms of additional days of leave than the 1998 round.

At first sight it look as if the situation had run aground, but the negotiators succeeded in the course of January to turn what was looking like a zero sum game into a plus sum game. This was achieved by making flexibility into a code word, so smoothing the way to an agreement in the county and local

authority area and the state area on 25 and 26 February respectively. The agreements stated that employers, in return for giving another three days, would get more flexible working time, allowing for locally agreed departures from the centrally set rules, also that in future overtime could in general be paid in cash instead of giving free time in lieu. To this was added an extension of the agreement period from two to three years, opening the way for the two largest agreement areas, the LO/DA area in the private sector and the public sector negotiations, to fall back in step. This was also a major desire of the public employers.

In this way a classical compromise was reached, with which both parties could declare themselves satisfied. The settlement also contained wage increases totalling 7.55% over the period together with the continuation of a rule that ensures that public employees will obtain 80% of the wage increases given on the private labour market. At the same time the development of a more locally based remuneration system was extended, and two weeks' parental leave with full pay in the 25th and 26th week was introduced.

The path towards an overall solution was also made easier by the fact that the parties succeeded, in the difficult negotiations on the working time rules for *folkeskole* teachers, in moving towards a compromise acceptable to both sides. The direct connection that existed hitherto between teaching time and preparation time, with one hour of teaching automatically entitling teachers to one hour of preparation, was removed. Instead, teachers received a guaranteed preparation time of 400 hours, with the rest to be negotiated locally. In addition there came a pool averaging 125 hours, to be used for work development (e.g. introducing new methods of teaching) and teacher cooperation, to be distributed at the individual schools. Thus was brought about a decentralisation, giving schools greater flexibility and at the same time placing an emphasis on training and teacher cooperation. With the settlement the teachers also moved over to the new remuneration system, which is built on local negotiations based on qualifications and functions. And in this context they received a pay increase, in the same way as those groups which had already shifted in 1997 to the new system.

The third major area in the collective bargaining round, the finance sector, was the last to complete negotiations. At the beginning of March 1999 an agreement was reached for employees in insurance companies and in banks and mortgage credit institutions. The agreements are for a general two-year period and contain an overall 6.5% framework, most of which goes on pay increases. In addition to, among other things, insurance covering critical illness

and death, broader frameworks were introduced for local agreements on flexible working time, including the possibility of introducing a 4-day week.

2.1. Problems in individual areas

In this way, the 1999 bargaining round ended – despite the difficult odds – with an overall peaceful results, i.e. a demonstration of the ability of the collective bargaining system to produce solutions in conflicts of interest between parties on pay and working conditions. But it quickly became clear that members' influence on the decisions, through ballots on the settlements, was not just a matter of form. A part of the problems observed in the negotiations had not apparently been overcome sufficiently through the settlements. In any event, members returned a no vote in certain key areas.

The consequences of this expression of dissatisfaction varied due to the differing voting rules in the various areas of negotiation in the public sector. The upper secondary teachers' union's (GL) members voted massively against, but remained, in spite of this, covered by the overall yes-majority returned by their central organisation, the AC, where academics are balloted right across the state, county and local government sectors. This grouping expresses the fact that everyone is in any event bound by the centralised negotiating system, but the reverse of the coin has been that individual organisations have been able to say no to settlements without cost to themselves.

This situation may have been one reason why neither the GL or the ARF negotiated sufficiently realistically on the employers' demand for a reform of working time in upper secondary schools. This ended up with a situation where the AC chairman had, in the final phase, to go in and negotiate an agreement which met with massive resistance from secondary school teachers. The agreement contains a certain decentralisation of teachers' preparation time, whereas in the first round a quarter of the preparation time was to be agreed locally.

At the state level there is also a joint vote, but it is divided up among the central organisation groups according to the "musketeer principle", so that each of the four central trade union federations (the *StK*, which is attached to the LO, *CO II* and *TOK*, which are affiliated to the FTF, and the AC) needs to produce a yes majority for the overall results to be endorsed. This gives a form of voting, where individual groups are subject to the community decision in the recognition of the centralised negotiating structure, but where at the same time there is a pressure to reach a settlement which is approved by all the large

central groups. When all negotiate together from top to bottom, no one major central group can be threatened by the others.

In the local government area the same principle applies in the KTO negotiation coalition with the same negotiating procedure, where each of the main organisational groups, the Danish Confederation of Municipal Employees (DKK), which is a LO cartel, the FTK-K and the AC, each have their own right of veto. Agreement is required right across the board before a settlement is approved. After this each area negotiates its own special conditions. A ballot is then held, covering both these special conditions and the general agreement. In principle this ballot takes place in each of the 62 member organisations separately. Some of them have nonetheless arranged joint voting. This means that the whole settlement can be voted down where there is a majority against it in one of the main central organisation groups. Where individual organisations vote against, they are not included in the overall result. This can cause conflict according to the prevailing main agreements, and their conditions are accordingly clarified separately.

In the Central Organisation of Teachers' Unions (LC) there was an overall no-vote on the settlement. But the result was on a knife-edge. 51% of members voted no and 49% voted yes. The difference between no and yes was 800 votes. Participation, at around 80%, was very high, showing the importance that *folkeskole* teachers attach to the question of working time reform.

The no vote is probably explained by prevailing scepticism among teachers as to the local authorities' intentions. They were afraid that a more locally based distribution of working time would be misused to increase the number of teaching hours without accepting correspondingly more preparation time. On top of this there was the problem of a continuing deep scepticism among members about decentralisation as a whole, and in this connection also resistance among several members to signing up to the new and more locally based remuneration system.

The day after the publication of the ballot result the LC announced industrial action in the schools area. This meant that a strike could be a reality in one month's time.

There was also a no majority among members of the Danish Nurses' Organisation (DSR) and the General Danish Association of Midwives. But here the no vote was a direct protest against the results on the wages front and against the whole framework of the settlement.

Following the practice that has developed on the public labour market, subsequent negotiations were transferred to the Conciliation Board. But the task was doomed to failure in advance, as the nurses' industrial action related to the general agreement. On the other hand there was a certain prospect of reaching a new agreement on working time in the *folkeskole* area – precisely because this did not involve the settlement, but only teachers' special working time conditions.

For this reason the Conciliation Board's attempt to mediate between the parties in the health sector was to no effect. In May it was clear that the parties were getting nowhere. The employers offered a limited additional pay increase in return for greater flexibility. But the nurses' union saw no possibility for continuing further on this path, and industrial action had become a reality.

The strike by midwives was called off, and the negotiators here went along with the flexibility line, allowing them to reach a settlement with a modest pay increase. This outcome was a recognition of the limitations that midwives faced in organising an effective strike. Midwives cannot refuse to be present at births, and so it is only the preparations for childbirth and the like which can be hit by strike action.

With the nurses too it was also necessary to safeguard vital functions through the use of emergency staff. This limited the extent of the strike and also meant that the employers gave up any idea of extending the industrial action with a lockout. As a result, from an economic point of view, the conflict could be kept going almost permanently.

For this reason it was possibly at all not surprising that after just one week the government and parliament elected to intervene and to make the rejected settlement proposal into law. The result was considerable frustration in the nursing profession, which interpreted this as saying that its right to take industrial action and with it the Danish model of collective bargaining had been virtually scrapped.

At the *folkeskole* level, the intervention of the Conciliation Board made it possible to get negotiations restarted, and at the eleventh hour before industrial action was about to begin on 19 May a settlement was reached, which was put forward by the conciliation officer as a compromise proposal. This consisted of an adjustment within the framework of the first settlement proposal. The guaranteed individual preparation time was reduced from 400 to 375 hours. The rest was pooled for work development and teacher cooperation together with a further five hours being paid in return for a reduction of a pay supplement which

was part of the first proposal. This placed an average of 155 hours per teacher in this pool, which, unlike in the first proposal, could also be used for individual preparation.

A decisive change in this context was the introduction of a *right to make agreements* between the management and the trade union representative at individual schools. Where it was not possible to reach agreement at the local level, there was also a central fall-back clause, according to which 125 hours were to be distributed by management alone, but the remaining hours would be given to those teachers with a high number of teaching hours – proportionally to their number. This guaranteed that the interests of precisely this group were taken into consideration.

The intention nevertheless remains that it is the local negotiations that should be the norm. This settlement has brought about a decentralisation that will give the trade union organisation direct influence not only on the distribution of working time, but also the distribution of hours for work development and cooperation.

This was an attitude that was changing, under the influence of the general decentralisation of the collective bargaining system in the public sector. The vote on the new settlement proposal therefore became a key test of whether teachers – as almost the only remaining group – would hold fast to the centralism of the old civil service system, or whether they were on the way to following most other public officials in getting the best possible deal out of the employer-initiated decentralisation.

The outcome of the ballot was a relatively moderate but clear yes vote, with 55% voting yes and 45% no. The total number of votes fell slightly, but at just under 75% was still very high. However, one contributing fact was probably that the industrial action would quickly have run into the general summer holiday period, where it would not have had any effect.

With the second teachers' vote, the collective bargaining round in the first half of 1999 ended with a result which offers a very long-term perspective. This supports the trend towards decentralisation of the agreement system, but it is a decentralisation which is taking place not against, but with the cooperation of the established trade union movement.

3. PAY AND PURCHASING POWER

Pay levels in Denmark generally accelerated in the course of 1998 from an already relatively high level in earlier years. From just under 4% in 1996 and 1997, this rate of increase rose in 1998 to over 4.5%. In the fourth quarter of 1998, pay in the DA area on the private labour market was rising by an average of 4.7%. At the same time, pay was rising slightly faster in the public sector, with state employees' pay rising at 4.8%, and that of county and local authority employees reaching 5.4%. The latter figure reflects that fact that the counties and local authorities had come furthest with the introduction of the new pay system, with considerable weight placed on local negotiation.

In this way pay developments have further contributed to reducing business competitiveness. In its latest report the Economic Council presidency concludes that the rate of pay increases in Denmark is unsustainable. The Council foresees that the rise in wage costs will certainly fall from 4.6% in 1998 to 4.2% in the following two years but that – if one regards the rate of inflation and productivity rises in Denmark and in the countries that have signed up to EMU – there is probably only room for average rises of 3.5% a year, if competitiveness is not to be further undermined.⁷

Provisional calculations of the development in local level pay negotiations in the DA area in the first half of 1999 are indicating that the rate of pay increases will again decrease, presumably as a result of weakening growth and the relatively negative expectations for the future in the private business sector. It is still too early to see how far this is a trend that will become generalised, and in this case whether it will continue.

Faster rising wages in 1998 have contributed to securing a record rise in real pay levels, given that at the same time the rate of inflation was held at the same level as the year before, i.e. under 2%. Looking at the part played by pay rises in the growth of labour costs in the private sector (DA area), this was 4.4% in 1998. This represents a 2.6% rise in real pay. Added to this is a positive effect of the change in the tax system, which means that real after-tax pay rose by 3.6%. With one year's exception, this is the highest rise in the

⁷ Dansk Arbejdsgiverforening: *Arbejdsmarkedsrapport 1999*, Copenhagen 1999. Det økonomiske Råd: *Dansk økonomi, forår 1999*, Copenhagen, May 1999.

past decade. This is a more positive development than in most other countries.⁸

3.1. Continuing pay reform in the public sector

A general reform of pay systems has taken place in the Danish collective bargaining system in the direction of increased decentralisation, in such a way that a rising share of pay is established directly in the individual enterprises. The number of bargaining groups where pay is set at the enterprise level, amounted to 66% of all those private sector in 1989 and to 84% in 1997, whilst the share of agreements without centrally set pay rates rose from 4% to 17%.

As a result of this change in the weighting between the pay systems, an ever-growing portion of overall wage costs are also agreed directly at enterprise level between management and the workforce. The figures are 64% in 1998 as against 56% in 1989.

At the national level negotiations take place mainly between the direct bargaining parties at sectoral level. This in itself is a decentralisation compared with the traditional bargaining system as practised from the early 1950s till the end of the 1970s, where the two central organisations, the LO and the DA, decided on the dividing up of the general substance of the agreements. In 1998, 25% of wage costs were distributed at the sector level and just 1% at the central organisation level. To this must be added the portion of the cost developments which are set through national legislation. According to the DA's calculation, this amounted in 1998 to 10%. This amount includes the additional days leave for families with children and the additional days holiday leave, which were contained in the legislation introduced to put an end to industrial action in spring 1998.⁹

Only in the last decade have changes in pay systems begun to impact the public sector. In this area there have been smaller pools for local distribution since 1987, but only with the renewal of the agreement in 1997 was a real reform implemented, which will lead to a more market-based pay system in which pay negotiations will mainly take place locally.

⁸ Dansk Arbejdsgiverforening: *Arbejdsmarkedsrapport 1999*, Copenhagen, June 1999. Dansk Arbejdsgiverforening: *Arbejdsmarkedspolitisk Agenda*, no. 1 1999, Copenhagen, January 1999. Det økonomiske Råd: *Dansk økonomi, efterår 1998*, Copenhagen, December 1998.

⁹ Dansk Arbejdsgiverforening: *Arbejdsmarkedsrapport 1999*, Copenhagen, June 1999.

With the 1999 negotiations key groups which remained outside this renewal the first time round have also gone over to the “new pay” system. These are *folkeskole* teachers, education staff at day care centres, upper secondary school teachers and others. In this way around 96% of county and local authority employees are covered by the new pay scheme. At the state employee level, where the new pay system has been introduced on a trial basis, managers are expecting to attain a corresponding result in the coming years – despite a number of start-up difficulties. In this way the new system should be fully in place when the next negotiations take place in 2002.

4. WORKING TIME

Most settlements concluded in the first half of 1999 include greater flexibility with regard to working time systems. There is a major trend to change the normal 37-hour working week to a working week which can vary largely from enterprise to enterprise and from employee to employee. In other words, centrally established, uniform rules for everyone are being replaced by flexible arrangements at a decentralised level. As this concerns flexibility and decentralisation, this question is examined closer in the section devoted to it below.

As mentioned, the agreements concluded in the agricultural and forestry area, together with the public sector, contain an extension of free time in the form of three additional days holiday leave. This development was a consequence of the political intervention in May 1998, and places the introduction of a sixth week's holiday high on the agenda of the scheduled private sector negotiations at the start of the year 2000. This has already been singled out as an almost invariable demand by LO negotiators.

The additional days of holiday leave in fact run counter to the government's economic policy objectives. The government's own analyses are showing that Danes will, on the contrary, have to work more, if the current level of Danish welfare system benefits is to be maintained. It was therefore with great hesitation that the finance minister, as the main negotiator in the public sector bargaining system, accepted the holiday extension. Only the simultaneous introduction of the possibility of more flexible, locally negotiated working time arrangements could legitimate the employers' concessions on this item.

Discussion here is not over. It has been taken up by the employers' confederation DA, which analyses the development in Danes' working time in its 1999 Labour Market Report (*Arbejdsmarkedsrapport 1999*). Compared with other countries – and with Germany as the single exception – Denmark has the

shortest contractually agreed working time, at just under 1700 hours a year. In the view of the DA, this places further pressure on Danish competitiveness, and makes it dangerous to introduce further reductions. Jockeying for positions for the year 2000 negotiations has already begun.¹⁰

4.1. Reform of the early retirement pension scheme

In the eyes of the LO, a change in the system of retirement from the labour market may perhaps help create room for longer holidays. The DA does not consider this possible, but the parties are agreed that this is an important factor in the attempt to make sure that there will be enough available labour. For this reason one can also say that the most decisive change in the effort to increase available labour in the future was the introduction of the early retirement pension reform in spring 1999. The reform was presented to the population – as mentioned above in the chapter on the political background – as a *fait accompli* in connection with the budget negotiations in November 1998. An overwhelming majority in Parliament, led by the government parties and the Liberal Party, backed a tightening of the system.

The trend towards a gradually lower retirement age, which had reduced to around 61, had to be reversed. For this reason the rules were tightened, so as to make people retiring already at age 60 less economically well off in the future. These reductions can be avoided by waiting until age 62, whilst people remaining on the labour market until age 65 receive an additional economic bonus. At the same time the state pension age was reduced from age 67 to 65, and a special contribution introduced, to be paid on top of the unemployment due, which until now has been sufficient in order to secure the right to take early retirement.

Very few people questioned the need for this reform, but it nonetheless caused a huge stir, perhaps not least because the Social Democrat prime minister, Poul Nyrup Rasmussen, had expressed himself, both during the spring 1998 election campaign and later, in a way which could be interpreted as guaranteeing that nothing at all would be changed with regard to the early retirement pension.

This political upheaval did not, however, remove the change in the new early retirement rules, which were also supported by a very large majority in Parliament when finally passed in spring 1999. Confidence that the system would not at a later date be further hollowed out by the politicians, remained very low in the population. But the worst dissatisfaction was eliminated when,

¹⁰ Dansk Arbejdsgiverforening: *Arbejdsmarkedsrapport 1999*, Copenhagen, June 1999.

shortly before the final passing of the bill, a rule was introduced allowing individuals, in the event of any further changes in the system, to dispose of their own contributions and to transfer the money to other forms of pension savings. This was a demand that the LO had already made in autumn 1998, but which was not granted by the parties to the settlement until the last minute. An earlier concession might have eliminated much of the negative response.

Even with the implementation of the new rules the number of persons taking early retirement will rise in the coming years. The government itself has calculated that the number of early retirees (including persons taking partial early retirement and the now abolished so-called transitional payment for people in their 50s) will rise from 176,000 in 1998 to 180,000 in 1999 and 183,000 in the year 2000. According to the DA's calculations the number of persons taking early retirement – with the post-war baby-boomers reaching age 60 in the coming years – will rise considerably from around 140,000 in 1998 to peak at a good 250,000 in around 2010. How much this number will be reduced by these new rules it is right now too difficult to foretell. But it has to be assumed that there will be a further tightening, if there is not a relatively strong cut in the numbers.¹¹

5. EUROPEANISATION OF COLLECTIVE BARGAINING NEGOTIATIONS

There is generally broad support for various forms of EU labour market regulation from the Danish social parties. Fundamentally, the trade union movement and the government believe that EU cooperation in the areas of social and labour market policy is appropriate and necessary in the light of the current political and economic integration in the EU. Among Danish employers we also generally find support for cooperation in social and labour market policy. At the same time a certain scepticism exists towards certain of the initiatives that have been introduced at the European level. In a number of areas employer organisations in Denmark find that the stream of regulations is becoming excessive.

The general support for social and labour market policy cooperation does not alter the fact that there are certain contrasts between the traditional forms of regulation in Denmark and the forms of regulation which are applied in the EU.

¹¹ Det økonomiske Råd: *Dansk økonomi, forår 1999*, Copenhagen May 1999. Ministry of Economics: *Økonomisk Oversigt*, Copenhagen May 1999.

In Denmark, industrial relations are regulated fundamentally by means of collective agreements. In the EU, regulation – despite the provisions of the Social Protocol concerning the contribution of the parties – takes place largely by means of legislation. Correspondingly rights at the EU level are largely directed at individuals, whereas rights in Denmark are overwhelmingly directed at collective groups of employees.

The question of the significance of the EMU is becoming an increasingly pressing one for the social partners, even though Denmark, as is well known, remains outside the EMU. In 1998 and 1999, conferences have been held and discussions initiated on the possible effects of the EMU on industrial relations. Discussions have been directed both at developments at the EU level and at developments in Denmark. A question running through all this has been, how far the EMU is leading to greater political integration in social and labour market policy in the EU. Will the EMU lead to a situation where coordinated employment policy will be more necessary and appropriate? Government circles have argued for the appropriateness of such a development, also that from the Danish side there is a desire for greater coordination in the area of employment policy.

Social dialogue at the European level has in recent years resulted in a series of agreements between the social partners (UNICE, ETUC and CEEP). These agreements have included one on part-time work, which was concluded following the procedure outlined in the Social Protocol. During the collective bargaining negotiations in Denmark in 1999 this agreement on part-time work was incorporated into a series of collective agreements, among them the agreement concluded at the county and local authority level between the KTO (the trade union negotiation cartel in the county and local authority area) and the county and local authority employers, covering 640,000 public sector employees.

The coming into effect of the Treaty of Amsterdam on 1 May 1999 has also brought the question of changes in the Danish model onto the table. The Treaty of Amsterdam lays the scene for more intensive social and labour market policy cooperation in the EU. As is known, the Social Protocol has been made into a part of the same treaty, with efforts to improve employment specifically prioritised. Of direct significance for the Danish labour market are also the new provisions on discrimination. In a number of areas the Treaty of Amsterdam gives the EU authority to initiate initiatives to prevent discrimination. Gender, race and age are some of the areas in which the EU is able to take initiatives. Denmark already has legislation forbidding discrimination in respect of sex and

race. On the contrary there is right now no legislation against age discrimination on the labour market (e.g. in job advertisements). Potential future Commission initiatives directed at age discrimination can therefore be expected to have consequences for the Danish labour market, where right now extensive age discrimination exists, for example in job advertisements.

6. GREATER FLEXIBILITY AND DECENTRALISATION OF NEGOTIATIONS

Fixed working time of 37 hours a week is hardly any longer the general picture for Danish employees. Overall working time has not been increased, but the trend towards a more flexible handling of working time was reinforced in the collective bargaining negotiations, which from mid-January to mid-March 1999 resulted in a series of settlements.

In the future working time will in most areas be calculated over a longer time span. In this way employees may, for example, work 30 hours one week and 42 hours the next. Typically the fluctuations will probably remain fairly small, but there is a possibility to increase and decrease working time according to the individual worker's or management's needs.

This is a trend that has already been accepted for a number of years, for example in the pace-setting industrial area, where most recently the 1998 agreement included a clause that general working time per week can be departed from, and that the 37 hours will apply only on a yearly average. In the agreements concluded in the public sector in February 1999 flexibility was increased by giving the possibility for agreeing locally on departures from the centrally set rules. The assumption is, however, that employees are willing to accept this type of departure. Employees cannot be compelled to accept a new work schedule.

This means that the possibility for greater labour market flexibility goes hand in hand with *local agreements*. The same applies in the industrial area. The decentralisation process – or centralised decentralisation – where key decisions on pay and working time are shifted to the local level within frameworks that continue to be set centrally, does not as such typically mean a weakening of the “Danish model”, but simply a shift in the negotiating authority.

The new agreement concluded in the financial sector in March 1999 also introduced greater flexibility, allowing departures from the standard 37 hours a week within a range of 31 to 41 hours. However, the average working time will continue to be 37 hours a week over a four-week period.

A very important result in this context is the *folkeskole* teachers' working time rules which, as mentioned earlier, were radically changed by the 1999 bargaining round. This is also why two rounds were needed before the members of the Danish Teachers' Union (DLF) and the other organisations in the schools areas approved the outcome in the second ballot. The result is more flexible working time rules, which to a greater degree than previously are set in local negotiations at the individual school. The introduction of a special agreement on the distribution of the pool for work development, teacher cooperation and supplementary individual preparation is also seen as confirmation that the decentralisation of the Danish bargaining system is taking place in cooperation with the employee organisations. The turbulence surrounding the introduction of the new rules can, however, bring problems at the local level. However, the way the agreement is implemented will be decisive in whether the positive effects of the new working time rules can be accepted, or whether their many critics are right in saying that this is just a way for employers to squeeze more teaching hours out of teachers. The difficult process of implementation is likely to be even harder in upper secondary schools, where teachers, despite massively rejecting the deal, have had the rules imposed on them because their organisation is bound here to the agreement negotiated in the AC area.

7. THE QUESTION OF EQUALITY

The settlements in the first months of 1999 contained a series of concrete improvements incorporating an equality perspective. These included, for example, the new agreements in the agricultural area, which typically contained two weeks' additional paternity leave for fathers and additional maternity leave for mothers. In the public sector two weeks' parental leave on full pay were introduced in the 25th and 26th weeks.

In addition a change was introduced in the county and local authority area to the existing system which entitled employees to a total of 10 care days per child. This system was changed into a right to two care days a year per year, until the child is 5 years old. From April 2001, this right is being extended until the child is 8 years old.

The collective bargaining negotiations also showed that it can be difficult to include specific improvements that promote equality. One example is the so-called days of leave for families with children, which were introduced when the government intervened to halt industrial action during the 1998 negotiating round. Criticism of such systems was raised by employees who

stand to gain nothing from them, for example those without children at an age which entitles them to the additional days of leave. According to this approach solidarity between employees can evidently only be maintained if everyone gets to benefit from the various systems, in other words that these are general improvements.

This is a viewpoint which won the day when the parties in the agricultural and forestry area converted the leave for families with children to one additional day of leave for everyone in the new agreement. Both before and since signals have come from the trade unions within the LO, that they would like to do the same in order to achieve more speedily the goal of securing a sixth holiday week for everyone – and not just only for families with children.

This does not, however, change the fact that there will continue to be a series of provisions in the agreements that are specifically directed at solving the problems of individual groups. This applies for example to the provisions for full pay during maternity leave and – as we saw in 1999 – the extension of the possibility for fathers' to take paternity leave.

A general question of equality was brought onto the table with the nurses' rejection of the settlement in their area. The no vote probably has something to do with tough working conditions, but, when all is said and done, it is rooted in a basic dissatisfaction with a too low basic pay grading compared with comparable groups. This is a pay grading that goes back to the 1969 Civil Service Reform, and can probably only be explained by the fact that employee groups which consist to a large extent of women have traditionally been lower paid than groups with more men. The reasons have been given that men have been seen to be and also in practice in most cases have functioned as the main family breadwinner. Today this situation has changed and the question is whether or not nurses can get discussion going about their pay grading based on this concern for equality. One could, for example, imagine a sort of job evaluation for various employee categories in order to secure an equal basic pay grading for work of equal value.

If this does not happen, this may be due to the fact that this contradicts today's more market-based wage negotiation practice. However, the effect of market forces is no argument for discriminatory wage practice. This has been seen earlier in practice in a series of legal cases relating to the principles of equal pay, which have been brought with reference to the EU directives in this area.

8. OUTLOOK FOR 1999-2000

At the start of 2000 trend-setting collective bargaining negotiations will once again start between member associations of the LO and the DA in the private sector. The directions taken by negotiations in 1999 and the result of the last LO/DA negotiations in 1998 set the scene for a situation in which the sixth holiday week will be the main demand on the employee side. The DA has stated that Danes cannot afford more free time. This was also the position of the government up to the 1998 negotiations in the public sector, but nonetheless the finance minister as the main negotiator in the public sector had to give way. The government itself had made this almost inevitable with its intervention in the industrial action in May 1998. Here the government had to give three extra days of leave, thereby helping pave the way towards the sixth holiday week. It is hard to see how DA member organisations will be able to avoid making concessions in this area.

This development can be seen as a result of the lever effect which is demonstrably due to the tradition of simultaneous collective negotiations for the whole labour market being broken in 1995 owing to conflicts on the employer side. The lack of a common rhythm, with negotiations now taking place more or less every year in one or more sub-areas, has upped employees' expectations and made it more difficult to reach a settlement which can obtain majority backing.

This certainly strengthens the employees' hand, but it can be a disadvantage to those negotiators who want to hold the line on wage restraint which has applied since 1987. This has provided improvements in real pay and also, in recent years, a sharp fall in unemployment, but since 1997 it has been difficult to hold wage increases at a level that can maintain competitiveness and in this way in the longer term provide a solid basis for continued growth in real pay. For this reason there has been a desire on both sides, and especially since the 1998 negotiating round, to return to the usual rhythm.

This continues to be difficult in respect of the financial sector and agriculture and forestry, which agreed to renew the agreements in the usual 2-year manner. But with the concluding of a 3-year agreement in the public sector, it will be

possible, with the negotiations in the LO/DA area at the start of 2000, to restore the rhythm between the two more important collective bargaining areas on the Danish labour market. This can help to restore stability in the collective bargaining system, which is a little shaken by the major industrial action in 1998 and the subsequent conflict in the health sector in 1999.

The rhythm will be restored if the organisations under the DA banner conclude the usual two-year agreement at the start of 2000. There has been talk of possibly extending the agreement period, as frequent negotiations at the central level are difficult in a system in which more and more is being negotiated directly at local level. With continuing low inflation the overall frameworks are modest, and if wages are to be decided at the enterprise level, there is little to be gained from central negotiations every two years at sectoral level. This may have been one of the reasons for the no vote in 1998, and for this reason consideration is being given to longer agreement periods. If this idea is realised, one could well conceive a four-year agreement period, including the possible restoration of the rhythm between the two main areas.

In the public sector the employers gave, as a concession, the possibility for increased working time flexibility negotiated at the local level. This confirms the trend towards a more decentralised and more flexible agreement system, but it also confirms that decentralisation is being carried out with and not against the employee organisations. The negotiations at the central level will not be changed to local decisions dictated by the employers, but to negotiations between the parties at the local level. This is not a deregulation process undermining the position of the organisations, but a centralised decentralisation, where influence is shifted from the central to the local level – within certain centrally established frameworks.

The LO in particular has brought up the question of a new joint declaration between the main labour market organisations and the government. Both the DA and the government have been hesitant or directly against such a declaration of intent, but in the opinion of the LO is to hardly possible to secure such a low rate of wage increases and maintain and preferably increase competitiveness in the absence of binding agreement between the parties, including the implementation of political reforms and an economic policy which maintains the low level of unemployment. There is therefore a strong likelihood that the parties will be able to agree next year to renew the solidarity behind the wage restraint policy. Discussions concerning Denmark's accession to the EMU are likely to result in this issue being given even greater emphasis.

The whole course of the negotiations in 1998 and 1999 has raised the question in public debate of whether the Danish bargaining model still has a future. The Danish model is founded on the principle that it is the parties themselves who agree on pay and working conditions. The risk of strikes and lockouts are an essential part of this structure to secure the concessions that can reconcile parties with conflicting interests.

With an intervention in the large-scale industrial action in 1998 after 11 days and an intervention in the nurses' action after less than one week, it has to be said that the warning lights are flashing. Certainly political intervention has, since the 1930s, been an integral part of the Danish agreement model. But interventions must continue to be the exception and not the rule, if the model is to work as intended. If, on the other hand, the parties are certain that a conflict will be stopped by a direct intervention, it is not possible for them to make the necessary concessions, and it is not possible to create a sustainable settlement.

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Abbreviations used

AC	Akademikernes Centralorganisation. (The Danish Confederation of Professional Associations). Central organisation for higher educated groups in both the public and private sectors. Includes both employees and self-employed persons. It is the largest employee group in the public sector. It is a central organisation within the CFU.
ARF	Amtsrådsforeningen i Danmark. (The Danish Federation of County Councils). Looks after, among other things, county councils' interests as employers, together with the other local authority associations.
BUPL	Forbundet for pædagoger og klubfolk. (The Danish Federation of Early Childhood and Youth Education). A member organisation of the FTF.
CFU	Centralorganisationernes Fællesudvalg. (The Danish Central Federation of State Employees). A negotiating confederation for national central organisations and their affiliated trade unions.
CO II	Statstjenestemændenes Centralorganisation II. (The State Public Servants Trade Union – Central Organization II). Negotiating federation in the national civil service area. Collectively affiliated to the FTF.
CO-industri	Centralorganisationen af industriansatte. (The Central Organization of Industrial Employees in Denmark). A negotiating federation of LO unions. The negotiations between CO-industri and DI have often set the standard for the rest of the labour market.
DA	Dansk Arbejdsgiverforening. (Danish Employers' Confederation). The central organisation of Danish employers – apart from the public sector, agriculture and the financial sector.
Dansk Metal	Dansk Metalarbejderforbund. (The National Union of Metalworkers). An LO member organisation with a central place in CO-industri.
DI	Dansk Industri. (Confederation of Danish Industries). A confederation of industrial employers, covering employer, labour market policy and business policy interests. DA's largest member organisation.
DJØF	Dansk Jurist- og Økonomforbund. (The Danish Lawyers' and Economists' Association). A member organisation of the AC.
DKK	Det Kommunale Kartel. (The Danish Confederation of Municipal Employees). A federation of LO trade unions in the local authority area.
DLF	Danmarks Lærerforening. (The Danish Teachers' Union). A member organisation of the FTF. Affiliated via the LC to the FTK-K and KTO.
DSR	Dansk Sygeplejeråd. (The Danish Nurses' Organisation). A member organisation of the FTF. Affiliated to the FTF-K and KTO.

FA	Finanssektorens Arbejdsgiverforening. (Danish Employers' Association for the Financial Sector).
FF	Finansforbundet. (Financial Services' Union). FTF's largest member organisation on the private labour market.
FOA	Forbundet af Offentligt Ansatte. (Danish Trade Union of Public Employees). Union affiliated to the LO, DKK and KTO. The largest organisation in the local authority area.
FTF	Funktionærerne og Tjenestemændenes Fællesråd. (The Confederation of Salaried Employees and Civil Servants in Denmark). Central organisation strongly represented in medium-educated, medium-pay groups in both the private and public sectors. Operates primarily in the public sector and the financial sector.
FTF-K	Negotiating federation for FTF organisations in the municipal area. (FTF-Municipal).
GL	Gymnasieskolernes Lærerforening. (National Union of Danish Upper Secondary Teachers). A member organisation of the AC.
HK	Handels- og Kontorfunktionærernes Forbund. (Union of Commercial and Clerical Employees in Denmark). Affiliated to the LO. The largest union in the LO.
HK/ Kommunal	A sectoral organisation in the HK/Trade Union (HK/Municipal). Affiliated to the DKK and KTO.
HK/STAT	A sectoral organisation in the HK/Trade Union (HK/State). Affiliated to the StK
IDA	Ingeniørforbundet i Danmark. (The Society/Union of Danish Engineers). A confederation of technical and civil engineers' organisations. Affiliated to the AC.
KL	Kommunernes Landsforening. (The National Association of Local Authorities in Denmark). An association which, among other things, looks after Danish local authorities' interests as employees.
KTO	Kommunale Tjenestemænd og Overenskomstansatte. (The Association of Local Government Employees' Organizations). A negotiating federation for trade unions in the local government sector.
LC	Lærernes Centralorganisation. (The Central Organization of Teachers' Unions). Negotiating organisation for teachers' unions, dominated by the DLF. Together with the OC makes up the TOK federation, which is

	affiliated to the CFU. In the local authority area teachers are represented in the FTF-K and KTO via the LC.
LH	Ledernes Hovedorganisation. (Organisation of Managerial and Executive Staff in Denmark). Federation of managerial staff.
LO	Landsorganisationen i Danmark. (The Danish Confederation of Trade Unions). Central organisation of both public and private sector trade unions. The major player for decades among skilled and unskilled workers' trade unions on the private labour market, but with a growing constituency of clerical and public employees.
NNF	Nærings- og Nydelsesmiddelarbejder Forbundet. (The National Union of Food and Allied Workers). Member of the LO. The largest organisation in the SALA area.
OC	Overenskomstansattes Centralorganisation. (The Central Organization of Agreement-covered Employees). Federation of FTF-affiliated organisations in the national civil service area. Together with the LC makes up the TOK.
SALA	Sammenslutningen af Landbrugets Arbejdsgiverforeninger. (Danish Confederation of Employers' Associations in Agriculture). Covers gardening, forestry, agriculture and affiliated industries, e.g.; dairies and slaughterhouses.
SiD	Specialarbejderforbundet i Danmark. (The General Workers' Union in Denmark). The LO's second largest trade union for skilled and unskilled workers in both the private and the public sectors. Operates principally in the private sector.
StK	Statsansattes Kartel. (The Association of Danish State Employee Organizations). Affiliated to the LO, but includes a number of organisations outside the LO. The StK is a central organisation and provides political and secretarial management in the CFU.
TOK	Tjenestemænds og Overenskomstansattes Kartel. (The Association of Danish Trade Unions for Public Servants and Agreement-covered Employees). Negotiating federation in the national civil service area with connections to the FTF.

Finland

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1. GENERAL BACKGROUND INFORMATION

The 1990s will be remembered as a highly exceptional decade in the Finnish economic history. The reason, of course, is the deep economic crisis of the early 1990s. Not only did it shape economic and political developments during the years of the depression, it also has strongly affected the economic and political climate in which Finnish trade unions have taken their actions during the late 1990s. Obviously, the main reason has been unemployment, which rose to a record height during the depression and which has remained as the most important economic and social problem also during the years of the recovery.

Mass unemployment has had a strong impact on the behaviour of trade unions and, consequently, on wage claims. Improving the employment situation has been their main target. The concern raised by the unemployment problem has been reflected, for example, in opinion surveys which have been performed during the past years by SAK (the Central Organisation of Finnish Trade Unions) and which reflect the opinions of its members. According to the surveys, the main concern of the members has been the high level of unemployment. It should also be remembered that in Finland a typical unemployed person belongs to a trade union, which means that, for a trade union, a typical unemployed person is not an outsider.

During the latter half of the decade nominal wage increases have largely been determined by two centrally negotiated incomes policy agreements. Most of the current collective agreements are based on the second one, the Incomes Policy Agreement of 1997, which was settled in December 1997. It was set to expire in January 2000.

The coalition government of Prime Minister Lipponen, which was appointed in 1995, supported tripartite cooperation which has traditionally been the building block of Finnish corporatism. The Government resigned after the general election held in March 1999. The election did not bring about major changes in the composition of the Parliament. Therefore the parties which formed the previous government decided to continue their cooperation with Mr. Lipponen as the Prime Minister.

The new Government announced that it also supported tripartite cooperation. In its program, the Government emphasised the importance of reducing unemployment. Increasing the employment rate (the number of employed persons as a percentage of population between 15 and 64 years) to 70% was set as its main target. The target is ambitious because it would mean the creation of about 200 000 new jobs. If the target were achieved, the rate of unemployment would decrease to 5 - 7%.

During the past few years GDP growth has been buoyant. The recovery of the economy has been export-led, with exceptionally good competitiveness being the main factor contributing to the strong growth in exports. In 1998 GDP grew by 4.7%. Beside exports, domestic demand also boosted economic growth. Private consumption increased by 4.5%, which above all reflects the improved economic situation of private households. Households' need to restore their balance sheets was a major reason for the long duration of the depression. Strong GDP growth has pushed down the unemployment rate, even though it has also increased the supply of labour. At the time of writing, the unemployment rate had almost reached the average level of the Euro-zone.

Prospects for the near future are more favourable than in most other EU countries. However, because of the export-led growth, the share of exports in GDP has risen strongly, which has increased the vulnerability of the Finnish economy to foreign shocks. Adverse foreign shocks may therefore hurt the economy badly even though domestic demand is a major factor that will boost GDP growth in the near future.

From the beginning of 1999 Finland has been a member of Economic and Monetary Union (EMU), which certainly will shape economic developments in the years to come.

Table 1. Key economic indicators of the Finnish economy 1995-98

	1995	1996	1997	1998	1999f
GDP	3.9	4.1	5.5	4.7	3.8
exports	8.7	6.1	14.2	8.3	3.3
private consumption	4.3	3.5	2.6	4.5	4.2
employment	2.2	1.3	2.0	2.4	2.7
employment rate	61.1	61.9	62.9	64.1	65.5
unemployment rate	15.4	14.6	12.7	11.4	10.2

Source: National Accounts and Labour Force Survey, Statistics Finland. Forecasts for 1999 are by the Labour Institute for Economic Research.

Note: Figures for the first four rows are average annual percentage changes. Employment is measured by the number of employed persons.

2. WAGES AND PURCHASING POWER

The centrally negotiated Incomes Policy Agreement of 1997 played a decisive role in the determination of recent wage increases. In 1998, average wages, as measured by the index of wages and salary earnings, rose by 3.7%. The rise of real wages was almost 2.5%. Even though these figures are above the EU average, this has not weakened competitiveness, because labour productivity has also risen faster than in most of the competing countries.

The index of wages and salary earnings describes average changes taking place in gross earnings for regular working hours. Overtime pay or bonuses, for example, are not included in earnings for regular working hours. If such measures of average hourly wages which are obtained by utilising figures about the wage bill and hours worked in the economy are utilised, one gets higher figures for recent pay increases. This is one indication of the fact that, nowadays, earnings for regular working hours may not be a completely satisfactory measure of wage developments.

As seen from Table 2, wage drift has not had a major influence on recent wage developments. This also reflects the wide coverage of the Incomes Policy Agreement of the 1997. Moreover, sectoral differences in pay increases have been very small. For example, in the private sector average earnings rose by 3.9% in 1998, while the rise was 3.3% in the public sector.

Table 2. Wages and purchasing power - 1995-1999

	1995	1996	1997	1998	1999f
Average wages, of which: (A)	4.7	4.2	2.4	3.7	2.6
-negotiated wages	3.6	3.1	1.3	2.7	1.6
-wage drift	1.1	1.1	1.1	1.0	1.0
Consumer prices (B)	1.0	0.6	1.2	1.4	1.0
Real earnings (A-B)	3.7	3.6	1.2	2.3	1.6
Real disposable income	7.6	0.7	5.4	4.2	4.0
Private consumption	4.3	3.5	2.6	4.5	4.0

Source: National Accounts and Index of Wages and Salary Earnings, Statistics, Finland. Forecasts for 1999 are by the Labour Institute for Economic Research.

Households' real disposable income has risen somewhat faster than average wages (Table 2). This mainly reflects relatively strong employment performance and rapidly increasing non-wage income. Recently, tax cuts have had only a minor influence on households' purchasing power.

It has been projected (for example, by the Labour Institute for Economic Research) that, in 1999, average wages will rise by about 2.5%. Despite the fall in unemployment the labour market will not be so tight in the near future that one would expect wage inflation to accelerate. In 1999, the contribution of wage drift will be about 1 percentage point.

3. WORKING TIME DEVELOPMENTS

The depression and mass unemployment have affected working-time developments in the 1990s even though changes have not been drastic. The most recent general reductions in working time were in the late 1980s.

During the depression paid overtime work decreased, but unpaid overtime work increased. After the depression both paid and unpaid overtime work has been increasing, and overtime hours have increasingly been accumulated among the same people.

The need to cure unemployment has, of course, induced calls to share work. However, this debate has not been so lively in Finland as in some other European countries (such as France or Germany). One reason for this might be that Finnish trade unions have not pursued the policy of shortening working

week as actively as trade unions in some other countries. For Finnish trade unions it has been an important way of shortening working time, but they have also supported other working-time arrangements which reduce the number of working hours over a working career

The previous government led by Prime Minister Lipponen took some actions which were consistent with that kind of emphasis. In 1996, a specific job-rotation scheme was launched. Its purpose has been to give employees more possibilities to undertake studies and to take leave for family reasons. The scheme is based on a voluntary agreement between the employer and a full-time employee. The employee can take unpaid leave for a period of three to twelve months. The employer is obliged to recruit an unemployed job seeker for the same period, but not necessarily for the same job. The person on job rotation leave receives compensation amounting to 70% of the appropriate unemployment allowance. In 1998, 12 200 employees (0.7% of the total number of employees) utilised the scheme.

As already mentioned, the new government has set a very ambitious employment target – raising the employment rate from 64% to 70%. For the Government, this means that the average retirement age should be raised. There is therefore a strong pressure to undertake policy measures which would rather lengthen than shorten the average career-long working time. Because of various early-retirement schemes, the average retirement age is nowadays 59 years.

4. EUROPEANISATION OF COLLECTIVE BARGAINING

In Finland, central trade union confederations and employers' organisations have both emphasised the need to strengthen the existing negotiation system going as far as to pass common resolutions on the issue. They both accept the possibility of reaching centralised collective agreements even in era of EMU. However, on the Europeanisation of collective bargaining, there seems to be a clear disagreement between the social partners.

Representatives of employers' organizations have rejected the idea of European-level collective agreements as counter-productive.

Representatives of central trade union confederations, on the other hand, are sympathetic towards Euro(pean)-level collective agreements. According to this view, they can complement national collective agreements without threatening their existence. (There are, of course, differences of opinion also within trade union confederations.) However, complementarity would not be achieved

without difficulties. If the Europeanisation of collective bargaining were to lead to a co-ordination of wage claims at the sectoral level on the basis of sectoral productivity developments, this would weaken the possibility of pursuing a solidaristic incomes policy at the national level. Obviously, this kind of tendency will be strengthened even in the absence of formally negotiated European-level wage agreements.

Within various trade unions, the state of the debate varies. The Metal Workers' Union has accepted the guidelines presented in the statements of the European Metal Workers' Federation. But the union has supported a loose interpretation of the critical notion of wage co-ordination: it should not be overly binding. In the public debate, the discussion about European level collective agreements has so far been subdued.

5. GENDER ISSUES

During the 1970s and 1980s gender wage gap narrowed in Finland. This was mainly due to increased educational attainments among women. During the 1990s narrowing has, however, stopped even though the need to narrow the gap has been one of the objectives in incomes policy negotiations.

The latest two centrally negotiated incomes policy agreements have included special pay increases for sectors where the majority of employees are female. However, the increases have been so modest that they may have had only a marginal impact on the wage gap. In the mid 1990s the gap amounted to about 25%.

Even though gender wage gap has been a permanent issue in incomes policy negotiations, it can not be seen to have been a major issue in the 1990s. The need to push down mass unemployment has been the main objective which has undermined the discussion about other important issues.

6. FUTURE OUTLOOK: THE NEXT BARGAINING ROUND

Collective agreements which are based on the centrally negotiated Incomes Policy Agreement of 1997 were set to expire in January 2000, with the nature of future collective agreements being settled in the autumn of 1999. The critical question is: will the next collective agreements also be based on a centrally negotiated incomes policy agreement or not? Answering this question is (in June 1999) far from easy.

Employers' attitude towards a third successive centrally negotiated incomes policy agreement is likely to be positive. The last two centrally negotiated

agreements have been the main determinants of moderate pay increases during the late 1990s. For employers, the sectoral-level agreements of 1994 were much more costly.

On the employees' side, attitudes may be much more diverging. For some trade unions, the acceptance of the 1997 incomes policy agreement was not straightforward. Because of the moderate pay increases, this was understandable. As seen from Figure 1, the fairness of the current distribution of national income can be questioned. It should also be remembered that labour productivity has grown very unevenly in various sectors of the economy. It is not very surprising that, for example, the representatives of the Paper Workers' Confederation have been skeptical towards a third successive centrally negotiated incomes policy agreement.

Figure 1. Share of wages and salaries plus employers' social security contributions in value added in the private sector 1980-98.



Source: National Accounts, Finland.

Of the three central trade union confederations, representatives of SAK, which is the biggest one representing first of all blue-collar workers, have given support to a centrally negotiated incomes policy agreement. They have, in particular, emphasized the positive effects the centrally negotiated agreements have had on employment. On the other hand, representatives of AKAVA (the Confederation of Unions for Academic Professionals), which represents employees with university-level, or other high-level training, have been somewhat hesitant. This may reflect the fact that wage moderation has also moderated pay increases among highly skilled employees. AKAVA has paid special attention to the relatively low wages among highly educated female employees.

As one partner of tripartite cooperation, the new Government has announced that its tax policy is aimed at supporting wage moderation. Even though it is too early to say which this will mean, it is highly likely that the Government will have a role when the possibilities to achieve a new centrally negotiated incomes policy agreement are being considered.

Not very surprisingly, employers' representatives have already suggested that income tax cuts, and not nominal wage increases, should be the essential determinant of increasing purchasing power. Trade union organisations have not yet specified their wage claims but, for example, SAK has declared that, as a determinant of purchasing power, the role of wage increases must be more important than the role of tax cuts.

Trade unions have emphasised the need to increase employees' purchasing power, but, unlike the situation in Germany, none of them has explicitly demanded for an end of wage moderation. Nevertheless, achieving a centrally negotiated framework agreement which major trade unions would accept will highly likely be more difficult than in 1997.

In addition to contractual wages, there are some specific issues which will probably be discussed in the coming negotiations. One is the general applicability of collective agreements. In sectors with a high proportion of unorganised employees, there have been disputes about the applicability of some collective agreements. Trade unions aim at widening the applicability of collective agreements, while employers attempt to resist this kind of development.

Another topical issue is related to decentralisation of wage bargaining and to the growing popularity of firm-specific payment-by-results schemes. Trade unions have not opposed this kind of development. However, the general rules which govern the implementation of these schemes at the local level are underdeveloped. Making the rules more specific is likely to be one issue in the negotiations.

Even though nobody knows the outcome of the next negotiation round, those macro-economic forecasts which contain projections for the year 2000 also contain forecasts for pay increases. According to these forecasts, nothing very special will take place in 2000. Representative forecasts for negotiated wage increases are 2.5 – 3% and 3.5 – 4% for average wage increases. These figures indicate only a mild acceleration of wage inflation. Because inflation, as measured by increases in consumer prices, is also projected to accelerate slightly, real wage increases for 2000 are almost the same as for the year 1999. Typically, these forecasts are based on the projection that economic conditions in the European Union countries improve in 2000, which sustains relatively strong GDP growth in Finland.

These forecasts are, of course, conservative and may turn out to be wrong. Nevertheless, they reflect well the Finnish economic climate in spring 1999.

France

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During 1998 and 1999 collective bargaining was affected by the adoption of the law of 13 June 1998 (*loi Aubry*) on the reorganisation and reduction of working time. Only a partial assessment of this hotly debated measure can be made. The introduction of this law has had an impact on both the volume of bargaining, its content – since negotiations on working time touch on almost all collectively agreed matters –, on the players' bargaining strategies and on the relations between the players themselves.

This unfinished episode in France's labour relations has taken place during a phase of substantial economic growth, in a sustained break with the previous trend.

We shall begin with a brief description of the main economic and political features of the period running from January 1998 to June 1999. In the second section we shall analyse sectoral and company bargaining in the context of the June 1998 law. The third section will touch on other aspects of collective bargaining during this same period.

1. POLITICAL AND ECONOMIC SITUATION IN 1998 -1999

1998 was the first full year following the return of "cohabitation" to France, with the President of the Republic coming from the right of the political spectrum, and the parliamentary majority and government in the hands of left-wing parties dominated by the Socialists.

France experienced a period of healthy growth in 1998. Over the year as a whole its GDP grew by 3.2%, a figure significantly higher than that of previous years (2.0% in 1997). Growth did however slow down during the last quarter of 1998, following the crises originating in south-east Asia. Although the forecasts for 1999 are less favourable than the results for 1998, they exceed those of most of France's European partners.

Throughout this period, sustained consumer demand was one important factor underpinning economic activity. The maintenance of private demand at high levels is attributed to "psychological" factors: a slow but continuous fall in unemployment seems to have encouraged consumers to spend. Transfers of social security contributions made in early 1998 also strengthened the

purchasing power of direct wages, as did the 4% rise in the minimum wage (*SMIC*) in July 1997.

From summer 1998 onwards France experienced a weakening of external demand. But a cutback in economic investment in the countries directly affected by the crisis limited the decline in trade surpluses, which remained at a high level throughout this period.

The growth in economic activity was accompanied by an increase in the workforce in the market sector. At the end of the first quarter of 1999 there was a total of 270,000 more jobs than during the same quarter of the previous year, i.e. a growth of 2% over one year (over the same period 97-98 the growth was 236,400, or 1.8%). This increase mainly took place in the tertiary sector. But this difference between production sectors is difficult to interpret because of the amount of temporary employment, counted as service activity. Quarterly variations point to a slowdown in job creation from September 1998 onwards, which correlates with a fall in the growth rate, and indicate that when the crisis hit it was tertiary employment that underwent the greatest variation over this time-span of five quarters.

Table 1 - Trend in paid employment to the first quarter of 1999

	Employees (thousands) at					% variation at 31 03 99 over	
	31-3-98	30-6-98	30-9-98	31-12-98	31-3-99	3 months	12 months
All relevant sectors	13,628	13,705 (+ 77)	13,788 (+ 83)	13,840 (+ 52)	13,901 (+ 61)	+ 0.4	+ 2.0
Industry without construction	4,076	4,081 (+ 5)	4,080 (- 1)	4,081 (+ 1)	4,069 (- 12)	- 0.3	- 0.2
Construction	1,116	1,114 (- 2)	1,111 (- 3)	1,113 (+ 2)	1,115 (+ 2)	+ 0.2	+ 0.0
Tertiary	8,437	8,509 (+ 72)	8,597 (+ 88)	8,647 (+ 50)	8,717 (+ 70)	+ 0.8	+ 3.3

Source: INSEE, based on ACEMO survey, cited in DARES, *Premières informations*

During 1998 and 1999 the government pursued its policy of creating jobs for young people in the public services and administration, the aim still being to create 350,000 posts in five years. In contrast, there was no further mention of introducing incentives for the creation of an equivalent number of posts in the private sector.

Unemployment is coming down. Although the scale of this decline is small, the political and psychological impact of the reversal of the trend here seems to have been strong. Falling unemployment is the product of the deliberate job-creation policy embarked on in 1997 with the provision of jobs for young people in the public services (by the start of July 1999 200,000 such jobs had been created), together with the creation of jobs due to the economic upturn, new-style conditions of employment (part-time and temporary work), and agreements on the reduction of working time. The Ministry of Employment estimates that over 110,000 jobs have been created as a result of working time reductions introduced pursuant to the Robien and Aubry Laws.

Table 2 - Job-seekers registered with the ANPE
(National Employment Agency)

in thousands	April 1999	monthly variation	annual variation
Job-seekers at end of month (category 1)	2,848.9	- 0.6 %	- 4.9 %
Job-seekers at end of year (categories 1 to 6)	3,364.2	- 0.4 %	- 3.5 %

Source: *Premières Synthèses et Premières Informations*, no. 23-1, 1 June 1999, Ministry of Employment and Solidarity

Inflation was just 0.6% in 1998; at the end of May 1999 its annual rise was confined to 0.4%. Interest rates remain at very low levels, and new credit facilities for individuals at the start of 1999 triggered a significant upsurge in employment in the construction industry.

2. BARGAINING ON THE INTRODUCTION OF THE JUNE 1998 LAW (LOI AUBRY)

2.1. General context

The negotiations on working time which began in France around mid-1998 followed an episode of several years culminating in the collapse of a multi-industry agreement aiming to promote sectoral and company-level bargaining (1995), followed by the unexpected start of bargaining on the basis of a law passed in 1996 (*loi Robien*) encouraging the reduction of working time in return for new recruitment or the safeguarding of jobs.

The law adopted on 13 June 1998 encourages bargaining on the reduction of working time. It ushered in a period of negotiations lasting eighteen months, due to conclude at the end of 1999 with a vote on a new law laying down new rules on working time, to apply to all companies with more than twenty employees as from 1 January 2000. Companies with fewer than twenty employees can wait until 2002. The purpose of this bargaining phase, according to the government, is to enable the two sides of industry to reach agreements among themselves, which will serve as a basis for the new law. During this period bargaining can take place at both sectoral and company level; companies are entitled to receive financial assistance if they conclude “offensive” agreements (working time reduced in exchange for new recruitment) or “defensive” ones (working time reduced in exchange for the safeguarding of jobs under threat) (Dufour, 1998).

The bargaining round was complicated not only by the range of issues to be handled, but also by uncertainty about the future status of the negotiations. There was concern that the future law might render inapplicable measures drawn up at sectoral or company level, and the extension of sectoral agreements could invalidate decisions taken at company level. Signatories at all levels have gambled on the likelihood that agreements will hold. In companies, the start of negotiations aiming to create jobs in return for a reduction in working time presupposes acceptance of an extensive reorganisation of internal arrangements. The government’s financial incentives appear to have been insufficient to overcome the deadlock in this area.

The Ministry of Employment carried out an interim assessment at the beginning of May 1999. Consultations were opened between the Ministry of Employment and the various trade union and employers’ organisations to consider what form the new law might take. But the terms of the new law will

derive from decisions taken by the government and parliament, and not from direct bargaining between the two sides of industry.

2.2. Sectoral bargaining

Volume and status of sectoral agreements

On 5 May 1999 the Ministry of Employment listed 69 sectoral agreements within 180 national sectors. These cover almost 8 million employees, or approximately 60% of all employees in the commercial sector concerned. According to the Ministry, 80 sectors were engaged in talks at that time.

The agreements concluded in 32 sectors have been extended by the Ministry of Employment. 4.1 million employees are covered by these 32 agreements, which already apply in companies within these sectors if they contain an immediate implementation clause. In a number of cases not specified by the Ministry, the extension of agreements is being held up by reservations about certain clauses, or by their rejection where they have no legal basis or conflict with current legislation. This situation is not in itself surprising, in view of the request made that negotiators should come up with innovative solutions. In several cases the employers' side has sought to compromise by indicating the direction they would wish the future law to take, knowing full well that they would face legal opposition at a later stage.

Agreements concluded in 24 sectors, affecting 3.55 million employees, have not been extended. Some are awaiting extension; others are bound to be refused an extension (e.g. metalworking sector); others still are being subjected to legal challenge from non-signatory trade unions (chemicals, etc.). Refusals to extend can themselves be challenged in court.

Twelve sectors, covering just 0.5 million employees, are in an "other" position (extension not yet requested, etc.).

The strictly quantitative results of sectoral bargaining are indisputable: the law has, unexpectedly, produced a flurry of activity at this level in a manner not achieved by the national multi-industry agreement of October 1995 on the same subject.

Assessment of key points

It is more difficult to assess the results in terms of content. Working time agreements tend to reorganise working conditions in their entirety, from the determination of wage criteria to the organisation of working time. Thus it is very difficult to establish a basis for our analysis. On the one hand it is not easy

to compare the terms of agreements, since these need to be related both to existing practice and to previous agreements. On the other hand opinions differ widely on the consequences of these agreements: presumably in several cases they are “testing the waters” pending legislative action. Since the government remains in the driving seat, the negotiators have attempted to establish a framework within which companies can negotiate for themselves, and to indicate to parliament and the government – on the basis of their own situation – the confines within which they would like the forthcoming law to operate.

It is exceptional for bargaining to result in conditions which grant companies in a sector direct access to the government’s offer of funding where jobs are created in return for a reduction in working time. This phase of the negotiations is usually left up to companies themselves, both because of the employers’ positions of principle in this area¹ and because of the technical difficulties of such negotiations.

One large hurdle facing a number of sectors and employees relates to the uncertainty surrounding the minimum wage (*SMIC*) following the second law. The minimum wage is determined by an hourly rate, and at present the monthly wage is calculated on the basis of a statutory 39-hour working week. The question as to whether compensation will be paid for a reduction in working time remains totally unresolved. The government, which made no proposal in this field before voting through the first law, has said that it wishes to take account of agreements already reached when putting forward an across-the-board solution. In fact the negotiators must have worked on the assumption that reducing the monthly earnings of those on the minimum wage would be politically unacceptable. Having briefly contemplated a “double *SMIC*”², which came in for sharp criticism, the government is now expected to propose under the new law a system for lowering social security contributions if working time is reduced by agreement, whereby the government itself would foot the bill for additional labour costs caused by full wage compensation, up to a level of approximately 1.8 times the *SMIC*.

¹ 18 agreements, for companies with fewer than 50 employees, contain the overall conditions for subsidised agreements. These somewhat disparate sectors employ almost two million workers.

² Employees recruited prior to the 1998 law would not have suffered a cut in their monthly wages (35 hours, 39 hours’ pay), but new recruits would have been paid according to their actual hours (35 hours, 35 hours’ pay).

The key points of the negotiations can however be inferred from the interim assessment by the Ministry of Employment.

- a) In Article 5 of the law, parliament has defined what is meant by “actual working time”: it is “time during which the employee is at the employer’s disposal and must carry out his instructions without being able to attend freely to his own affairs”. But bargaining provides an opportunity to reopen the whole debate about **earlier methods of calculating and remunerating working time**. Often there is renegotiation of whether or not to take account of public holidays (only one day is official, ten or so are normally given with pay, eighteen are allowed for in some agreements and practices), and of how to count breaks: this has led to a good deal of friction between trade unions and employers and among the unions themselves.
- b) According to this document, “a large majority of the [sectoral] agreements address the issue of reducing working time in the form of additional rest days, coupling this where appropriate with the adjustment” of hours (p. 40). **Hourly adjustments** are often one of the main sources of conflict between the negotiators: the idea behind them is to allow weekly, monthly or annual fluctuations in the rate of work to be tailored to different categories of employees in the sector. The question of annualised hours is central to the negotiations in many cases.
- c) Another theme at the heart of the talks is **overtime** – its volume and frequency, remuneration and the conditions governing its use. It is often linked to the method chosen for adjusting working hours. The statutory amount of overtime authorised before the works inspectorate intervenes is 130 hours; the quota incorporated in collective agreements ranges from 60 to 230 hours per year. The effect of these negotiations on employment levels will depend partly on how this matter is resolved.
- d) **Wage compensation**, in other words maintaining pay levels when working time is reduced, is another point at issue. Most sectoral agreements enshrine the principle of compensation, by means of a compensatory allowance. In some cases the principle of maintaining collectively agreed minimum wages has been established. One single case, being challenged before the courts, provides for the wages of employees in the sector to be cut in order to fund new recruitment. The issue of the minimum wage has been raised above.

Table 3 - Some examples of collectively agreed overtime quotas beyond which authorisation is required from the works inspectorate

	Signatories *	Quota with adjustment			Quota without adjustment			Gap2-1
		By sectoral agreement	Extra if by company agreement	Total 1	By sectoral agreement	Extra if by company agreement	Total 2	
Metalwork	CFTC, CGC, FO	150 h	25	175	180	25	205	30
Banking	CGC	145		145	145	35	180	35
Chemicals	CFDT	90		90	130	20	150	60
Quarrying	FO	145		145	145	35	180	35
Textiles	CFDT, CFTC, CGC, CGT, FO	130		130	130	45	175	45
Furniture	CFTC, CGC	130	25	155	150	25	175	20

* in all cases meaning sectoral federations belonging to these confederations.

Source: MTS, *Bilan...*, p. 42

- e) **Wage compensation**, in other words maintaining pay levels when working time is reduced, is another point at issue. Most sectoral agreements enshrine the principle of compensation, by means of a compensatory allowance. In some cases the principle of maintaining collectively agreed minimum wages has been established. One single case, being challenged before the courts, provides for the wages of employees in the sector to be cut in order to fund new recruitment. The issue of the minimum wage has been raised above.
- f) Calculating the **working time of managerial staff**³ is another stumbling block. The difficulty for this category of personnel consists in finding a basis for calculating working time other than hours worked, which is considered unsuitable, and in not accepting service regulations which fail to

³ The concept of managerial staff is a vague one. It relates to employees in positions of responsibility and/or who have a degree of autonomy in organising their working time; they may also carry out assignments where the hours worked are not monitored. This status is not conferred by a specific income level, but it can nevertheless be assumed that few staff earning less than EUR 2,000 per month would qualify.

refer to working time⁴. Discussion of this subject played a large part in the refusal to sign and seal the landmark negotiations in the metalworking sector. A range of solutions has so far been found: it appears that one collectively agreed solution likely to influence the forthcoming legislation is to count the days, rather than hours, worked in a year, distinguishing according to the nature of the work and hierarchical status of managerial staff (this solution has no legal basis at present).

- g) The **calculation of training time** is also under discussion. In several collective agreements a proportion of vocational training time falls outside of agreed working time. One in two sectoral agreements mention **time savings accounts**, and in certain cases these can be used for training.

Agreements and trade union negotiators

French law allows any representative organisation⁵ to sign a sectoral agreement and to call for its extension to cover all the employees concerned. Subject to certain legal conditions, however, non-signatory representative organisations may go to court to challenge the validity of agreements where they infringe legal principles, or where a signatory trade union does not have a sufficient presence in the sector concerned.

This legal rider, coupled with the multiplicity of trade union organisations, leads to differences of opinion as to the scale of bargaining activity. The Ministry of Employment keeps a record of the percentage of agreements signed (column A of the table below), which shows that four confederations have a similar tendency to sign. “Four of the five main representative trade unions (have) each signed over 60% of the total” (CFDT, CFTC, CGC, CGT-FO) (MTS 1999, p. 20). In actual fact only eight sectoral agreements have been signed by all four organisations listed in this way, six of them extended, one not extended and one “other”; these eight agreements affect 463,000 employees in total, or only just over 5% of those covered by all the agreements.

⁴ Several managerial staff organisations from various confederations united to adopt a joint stance reminding their organisations of the large numbers of employees they represent and of their specific problems.

⁵ Five organisations are representative nationally (CFDT, CFTC, CFE-CGC, CGT and CGT-FO), and their sectoral federations are regarded as legally representative in their respective sectors. A few non-confederate sectoral organisations are considered representative, but will not be dealt with here. The conditions for mounting a legal challenge on representativeness and working time were laid down in 1982.

If we add a weighting for the size of sectors in terms of the numbers employed, the propensity to sign takes on a different dimension. The CFDT has signed in a number of numerically less significant sectors and has refrained from doing so in leading sectors with large proportions of the workforce. The propensity to sign, measured by the numbers of employees concerned, looks rather different (column B of the table below).

Table 4 - Relative proportion of sectoral agreements signed by each trade union, and relative numbers of employees in those sectors

	A - % of agreements signed	B - % of employees affected
CGT-FO	61.8	80.0
CFTC	60.3	77.7
CGC	67.6	83.2
CFDT	63.2	35.1
CGT	13.2	5.9

Source: based on MTS, *Bilan d'étape de la loi du 13 juin 1998, 13 juin 1998 – 5 mai 1999*

A table summarising these agreements according to their status in early May 1999 (extended, not extended or “other”), based on the coalitions of signatories and numbers of employees concerned, illustrates the complexity of the bargaining scene.

Only one agreement involves all five federations affiliated to the representative confederations (textile sector), for 1.5% of the employees covered by the totality of agreements. There are considerably more agreements with four federations, but they affect only 16% of the workforce. The bulk of agreements has been signed by three federations. The configuration CFTC, CGC and CGT-FO is found in only 15% or so of agreements, but it concerns more than half of the employees affected by agreements. Those signed by this configuration include three “heavyweight” agreements involving numerous employees: Building and Public Works (with 1.4 million employees) and Food (0.5 million), both extended, and Metalworking (1.8 million employees), not extended. The CFDT, included in the other three-way configurations, has signed 17 such agreements, covering a total of 1.1 million employees. The interplay of coalitions is in itself difficult to analyse, since the decision to sign may be attributable both to the content of an agreement and to the relative position of each organisation within a sector.

Table 5 - Types of coalition and their effects, according to the number of sectoral agreements and employees affected

Type of coalition	No. of agreements	No. of employees (thousands)	% of agreements	% of employees affected
Five-way signature				
CFDT, CFTC, CGC, CGT, CGT-FO	1	140	1.5	1.7
Four-way signature				
CFDT, CFTC, CGC, CGT-FO	8	453	11.8	5.4
CFDT, CFTC, CGC, CGT,	3	155	4.4	1.9
Subtotal	11	608	16.2	7.3
Three-way signature				
CFTC, CGC, CGT-FO	10	4238	14.7	50.8
CFDT, CFTC, CGT-FO	4	725	5.9	8 ;7
CFDT, CFTC, CGC	8	292	11.8	3.5
CFDT, CGC, CGT-FO	3	109	4.4	1.3
CFDT, CGT, CGT-FO	1	6	1.5	Ns
CFDT, CGC, CGT	1	2	1.5	Ns
Subtotal	27	5 372	39.7	64.4
Two-way signature				
CGC, CGT-FO	3	512	4.4	6.1
CFDT, CGC	2	365	2.9	4.4
CFDT, CFTC	1	165	1.4	2.0
CFTC, CGC	4	155	5.9	1.9
CGC, CGT	1	115	1.4	1.4
CFDT, CGT-FO	6	133	8.8	1.6
CGT, FO	1	55	1.4	0.7
CFTC, CGT-FO	2	17	2.9	0.2
Subtotal	20	1 517	29.4	18.2
Single signature				
CGT-FO	3	138	4.4	1.7
CGT	1	6	1.4	Ns
CFDT	4	313	5.9	3.8
CGC	1	250	1.4	3.0
Subtotal	9	707	13.2	8.5
TOTAL	68	8344	100	100

Source: based on MTS, *Bilan d'étape de la loi du 13 juin 1998, 13 juin 1998 – 5 mai 1999*. Our count of the signatures per trade union differs by a few units from that of the Ministry (shown in brackets in the next table) but does not alter our conclusions. Moreover we have left out five signatures by "other" trade unions. The total number of employees exceeds by 0.17 million those counted by the Ministry, since some duplication was unavoidable in our calculations.

Table 6 - Sectoral bargaining on the June 1998 law. Number of agreements, legal status of these agreements and employees affected according to origin of signatures

	Agreements extended		Agreements not extended		Other agreements		TOTAL	
	Number of signatures	Number of employees	Number of signatures	Number of employees	Number of signatures	Number of employees	Number of signatures	Number of employees
CGT-FO	25	4051	12	2 421	5	62	42 (43)	6 534
CFTC	20	3 600	14	2 317	7	431	41 (40)	6 348
CGC	23	3 706	16	2 821	7	267	46 (45)	6 794
CFDT	20	1 330	13	1 061	10	475	43	2 866
CGT	6	398	1	55	2	26	9 (10)	479
TOTAL	32	4 119	24	3 552	12	498	68	8 169

Source: based on MTS, *Bilan d'étape de la loi du 13 juin 1998, 13 juin 1998 – 5 mai 1999*. Our count of the signatures per trade union differs by a few units from that of the Ministry (shown in brackets) but does not alter our conclusions. Moreover we have left out five signatures by "other" trade unions.

Employers' sectoral strategies

As they made known in October 1997 when the drafting of this law was first announced, the employers' organisations flatly refused to negotiate on job creation. The succession of arguments put forward to justify this stance included a refusal of principle to reduce working time, the inappropriateness of reducing working time to create jobs, the risks for the country's economic performance, the increase in wage costs, the risks for the low-paid, and the inadvisability of conducting such talks at sectoral level. Yet the employers very soon grasped the advantages for them of negotiations on reorganising working time, and revised their initial attitude of rejecting talks outright. The Association of Metalworking and Mining Industries (UIMM), the federation encompassing the metalworking employers, surprised observers by agreeing to an early start to bargaining. The metalworking employers threatened to terminate all collective agreements in the sector unless an agreement was concluded rapidly. The trade unions took this threat seriously when deciding whether or not to sign the agreement reached in July 1998 (CFTC, CGC and CGT-FO). The declared aim of this strategy was not to allow sectoral or company-level bargaining, which could have set a precedent, to develop without involvement of the largest employers' federation. Threatening to terminate collective agreements was

likewise a bargaining strategy used by the employers in department stores and banking. In the latter case they did terminate the collective agreement up front, and only one union organisation (CGC) was willing to conclude an agreement in the context of bargaining on the June 1998 law. In both cases the non-signatory trade unions denounced the agreements signed and went to court to appeal for their abrogation. In the case of the metalworking sector, the Minister for Employment soon announced her refusal to extend the agreement in its existing form on the grounds that it contained clauses deemed unlawful.

Sectoral bargaining flourished to an unexpected degree during the ten months between the adoption of the law and the assessment made with a view to drawing up the terms of the second law. This increase is in itself indicative of the relevance of this level of bargaining, since not all the employers' federations opted to follow the example set in the metalworking sector. But caution must be exercised when analysing the scope of the negotiations held: the employers seem more to have played on the legal possibility of concluding agreements to influence the content of the law than to have chosen to engage in negotiations of substance with the unions, considering it more important to feed into the legislation than to attempt to free collective bargaining from government decisions. Once sectoral bargaining is over, the government retains a good deal of scope for decision-making. The trade union organisations are in disarray, and considerable discord exists on diverse issues. Whereas the specific circumstances have brought about a proliferation of sectoral bargaining, there seems to be no departure from the French tradition of keeping independent negotiations between the social partners to a minimum. Sectoral bargaining does not take place in the context of a neo-corporatist exchange. The government and legislator remain responsible for proposing how working time should be organised. The consultations prior to the drafting of the second law were conducted bilaterally by the Minister's cabinet with the different organisations concerned.

One of the side-effects is to have triggered a debate within the union movement about the concept of trade union representativeness, regarded until now as taboo.

2.3. Company-level bargaining

Under the French system of bargaining, and especially in the period between the two Aubry Laws, company-level bargaining can be dissociated from sectoral bargaining. The government's intention was to use this as an opportunity to side-step the deadlock anticipated at sectoral level.

More specifically, during this phase, the purpose of company bargaining was to provide examples of “good practice” in terms of working time reorganisation, job creation and wage adjustment, while at the same time seeking to create jobs as a direct result of reducing working time.

Volume and status of company agreements

Over 4,000 company agreements have been concluded over these ten months. This represents a success, in that it has produced a multiplicity of potential models of good practice during discussion of the second law. It has been less of a success for a law offering substantial financial incentives where job-creating agreements are reached. Most of the agreements reached have been concluded in “eligible” companies⁶ which receive government subsidies; where larger companies have decided to embark on talks they have not reached agreements, at least not by the date of the interim assessment.

Table 7 - Company agreements concluded under the law of 13 June 1998, as at 5 May 1999

	Total	Subsidised agreements in eligible companies	%	Unsubsidised agreements in eligible companies	%	Ineligible company agreements	%
No. of agreements	4 076	3 818	93.7	253	6.2	5	NS
Employees covered	1 142 426	364 074	31.9	354 614	31.0	423 739	37
Creation or maintenance of jobs	56 766	30 321	53.4	13 126	23.1	13 320	23.5
Average no. of employees affected	280	95		1 402		84 748	

Source: MTS, in *Bilan d'étape de la loi du 13 juin 1998, 13 juin 1998 – 5 mai 1999.*

⁶ Not all companies are “eligible” to receive financial assistance from the government if they reach agreements on recruitment and working time reduction. Public sector companies are excluded: if they have conducted negotiations on working time reductions during this period they are regarded as “ineligible”. Some “eligible” companies have chosen not to take up the government’s subsidies, because of the strings attached, and thus count as “not subsidised”. This generally applies to larger companies.

The small average size of “eligible” companies having concluded subsidised agreements is surprising. Almost half of the agreements or conventions concluded relate to companies with fewer than twenty employees, which in principle do not fall within the scope of the law scheduled for 1 January 2000. One hypothesis may be that such companies come forward because they are economically dynamic establishments which had been intending to recruit more staff, and are making the most of the subsidies on offer to do so at lower financial risk.

Overall, the numbers affected by companies concluding subsidised agreements are small: under 0.37 million individuals. Consequently the jobs created or safeguarded are relatively few in number: in subsidised companies alone they scarcely exceed 30,000. This figure is open to two conflicting interpretations. Its low absolute value would indicate that the measures to reduce working time by creating jobs are inefficient. This argument is reinforced by the fact that the general economic situation is buoyant and has generated the creation of a much larger number of jobs (see section 1), and that the “windfall effect” of the measures to reduce working time is no guarantee that the jobs registered under these agreements would not in any case have been created. At the same time, in relation to the workforce of the companies concerned, the rate of job creation is substantial: almost 8% of the initial workforce. This is likewise proof that bargaining on the reduction of working time is not restricted to large establishments; on the contrary, it is small businesses above all that offer job openings.

A considerably smaller number of jobs has been preserved or created in larger companies which have concluded agreements during this period without drawing on government subsidies, or which are excluded from access to these subsidies. But overall they have achieved a threshold of 5% new jobs as compared with the initial workforce.

**Table 8 - “35-hour conventions” concluded,
by size of signatory establishment (%)**

10 or fewer employees	38.1
10 to 20 employees	12.7
20 to 50 employee	19.9
50 to 200 employees	20.9
200 to 500 employees	5.6
500 or more employees	2.8
Total	100

Source: MTS, *Bilan d'étape...*p.30

On the strength of these data the Ministry of Employment considers that “the initial results of the June 1998 law are in line with the positive version of previous scenarios” (MTS 1999: 59), and envisages that 500,000 to 600,000 jobs could be created in this way in the space of a few years. This means extrapolating to all companies the results obtained over the past ten months in a relatively large number of companies, representative of different company categories, but self-selecting.

Negotiators of company agreements

A direct comparison of negotiating conditions in sectors and in companies cannot be made, neither in terms of bargaining methods nor content, and even less so in terms of “selecting” establishments likely to become involved.

Company bargaining under the specific terms of this law and on this matter seems unlikely to begin unless the employers are fairly certain of finding a virtual consensus within the establishment on the reforms introduced. The adversarial configuration of sectoral bargaining, with its designs to influence legislative decisions, does not play a major role⁷. Rather, the dominant factor is a desire to optimise production conditions on the basis of a locally managed social exchange. This prerequisite for “social control” over the outcome of bargaining might perhaps partly explain why so few companies have embarked on negotiations⁸ in spite of the financial incentives.

Before examining the key points of company bargaining, we should dwell briefly on the players in the negotiations. Many negotiations have taken place in companies without a trade union presence and for which a specific mechanism, known as “mandating”, was agreed.

Trade union players in company bargaining

Where negotiations are opened, the trade union side is normally prepared to sign, as suggested by the table showing the “proportion of agreements concluded by a trade union where one is present”. According to the data collected by the Ministry, “few texts are not signed by all the delegates who negotiated them: only one in ten are exceptions to this rule. This situation arises most often in large establishments where a relatively high number of

⁷ Over this entire period labour conflict was at one of its lowest levels in France’s industrial history, with strikes taking place mainly in the public services.

⁸ On bargaining in small companies with mandating and prerequisites for negotiations, see Dufour et al. (1999), IRES, for DARES.

delegates are involved in bargaining, and where one of them decides not to sign the agreement” (p. 20).

Table 9 - Proportion of agreements signed by a trade union where one is present (as a %)

	Agreements, 13/6/98 law (Aubry), with trade union delegate	Agreements, 11/6/96 law (Robien), with trade union delegate
CFDT	95.4	97.4
CGC	95.2	96.0
CFTC	92.8	96.2
CGT-FO	89.6	89.7
CGT	86.5	77.1
Other	94.1	90.3
Agreements signed by all trade union delegates, 98 law		
Agreements		89,6 %
Employees affected		75,1 %

Source: MTS, *Bilan...*, p.21

To obtain a subtler picture of the situation, therefore, the agreements need to be weighted according to the number of employees affected. Moreover, we should count only companies where competing trade unions exist. The overwhelming majority of small and medium-sized firms, which constitute the bulk of those having negotiated agreements, do not in fact have more than one union represent.

It is noteworthy above all that only a third of all agreements have been negotiated with trade union delegates⁹. This third nevertheless represents 81% of the employees affected by company agreements.

⁹ The trade union delegate is an employee nominated to represent his union within the company where he works. There may be several trade union delegates in a company, representing several unions. The threshold above which the nomination of a trade union delegate is permissible by law is 50 employees.

Table 10 - Trend in number of agreements signed and status of signatories

	June-September 1998	October-December 1998	January-March 1998	Total, law of 13/6/98	
Agreements					
TU delegate	53.0	33.5	32.1	35.5	
Mandated employee	47.0	66.5	67.9	64.5	
Total	100	100	100	100	
Employees					
TU delegate	93.4	81.2	70.6	81.3	
Mandated employee	6.6	18.8	29.4	18.7	
Total	100	100	100	100	
Signature of agreements by mandated employee (%)*					
CFDT	CFTC	CFE-CGC	CGT	CGT-FO	Other
49.6	16.8	4.4	16.5	13.9	0.3

* Multiple mandates are possible; thus the total is over 100.

Source: MTS, in *Bilan d'étape...*, p.22.

Technique of mandating employees

The numerous companies having no trade union representation are not legally entitled to conduct negotiations, since there is no trade union side to authorise the signature of agreements. In 1995, to make up for this shortcoming, the trade union and employers' confederations devised the system of mandating an employee. A trade union grants a company employee a temporary right to negotiate and sign an agreement on its behalf. This avoids moving to a more critical stage, namely conferring bargaining rights on bodies elected by the entire workforce, without any external point of reference (see below, Elections to works councils). The June 1998 law incorporates this collectively agreed provision, authorising trade unions to mandate company employees directly, without any previous sectoral agreement.

This measure, which was criticised by the CGT and CGT-FO when it was first proposed in 1995, has ultimately been used – if not accepted – by all trade union organisations in the context of the new law. The mandating system mainly affects small establishments wishing to negotiate reductions in working

time. Normally, after a phase of internal deliberations, a draft agreement is submitted to a trade union for it to give its opinion, suggest amendments and finally to award a mandate to the employee designated by his colleagues in accordance with the various procedures for signing the agreement in its final version. Where they are able to intervene early enough in the bargaining process, the trade unions operate a “dual mandate”: the first mandate covers discussion of the agreement, and the second the signature itself.

Table 11 - Conventions¹⁰ and agreements on work-time reduction, by sector of activity

As a %	Conventions	Agreements
Agriculture, forestry, fisheries	1.4	1.3
Industry	34.1	31.6
Construction	10.0	9.8
Services	54.5	57.3
Total	100.0	100.0
As a % of employees affected		
Agriculture, forestry, fisheries	0.4	0.2
Industry	56.1	39.6
Construction	5.2	1.5
Services	38.3	58.7
Total	100.0	100.0

Source: MTS in *Bilan d'étape*, p.31

The reservations of both trade union organisations and the government concerning the mandate system are based on fears that employers will exercise too much influence over negotiations conducted in this way (Barisi 1998). An investigation into this matter, carried out by IRES in spring 1999, reveals that these fears ought to be qualified in the specific context of bargaining under the June 1998 law (Dufouret al. 1999). The agreements concluded are not of

¹⁰ Not all *agreements* concluded in companies result in *conventions* concluded with the Ministry of Employment to benefit from government subsidies. Large companies, particularly in the public sector, have not been able to benefit from State subsidies (Electricité de France, Gaz de France, Post Office, etc.), and some in the private sector prefer not to.

poorer, but better, quality than those ratified in the sectors covering the companies operating the mandate system. This finding is mostly explained by the good economic health and the specific social conditions of companies having engaged in bargaining and used the mandate system. It still remains to be proved that mandating can act as a means of entry for trade unions into companies with no union representation.

Key aspects of company agreements

It is as difficult to draw conclusions about company bargaining as about sectoral bargaining, albeit for different reasons. We could postulate that companies deciding to play the government's game are not necessarily representative of companies as a whole, even though the argument could be skewed in this direction by surprise about their size. It could be that ailing companies have not volunteered for bargaining ("offensive" agreements represent over 90% of agreements but only 65% of employees); nor have companies where industrial relations are poor.

- a) The **reduction in working time** achieved through agreements and conventions is approaching the 10% mark which triggers access to subsidies and permits the transition from 39 to 35 hours on average (or 1,600 hours per year). In roughly a third of cases weekly hours have been brought down below 35.
- b) Working time has been reduced by a wide variety of means, the use of differentiated **hourly adjustments** increasing in step with the size of establishments. Most companies combine a number of solutions: variations depending on workload and a weekly reduction of a day or half day (49%); extra days off over the year (43%); shorter days (40%); alternating short and long weeks (25%); extra long weekends or public holidays (7%).
- c) Most agreements make reference to an **annual workload framework** to determine the new organisation of work.
- d) Larger companies generally operate **time savings accounts**; these affect 28% of the employees covered by agreements.
- e) Almost half of **managerial staff** have had their working time reduced in specific ways. They normally receive extra days off over the year, sometimes on the basis of annualised working time. Calculations are often based on the working day, sometimes with a basic number of hours per day.
- f) **Part-time employees** are not always covered by these agreements. Where they are included, they are often faced with a choice: continuing to work part-time on a pro-rata basis, moving to full-time or an intermediate position.

- g) In most cases **new recruits** enjoy the same pay conditions as existing employees. Thus, in the main, the “dual status” solution has not been adopted.
- h) 84% of the employees covered by agreements receive **wage compensation** to maintain existing pay levels. This may be accompanied by a clause imposing a wage freeze for a longer or shorter period, perhaps with renegotiation dependent on criteria such as productivity gains or inflation levels.

Outstanding issues

The Ministry quotes a survey demonstrating that 85% of employees affected by agreements on working time reduction are satisfied with their new working conditions. Certain major issues still need to be discussed before the transition to the second law.

The monthly SMIC is to be maintained, but the question of how it will evolve in future years needs to be resolved, to avoid the risk of a double SMIC or a drop in the purchasing power of those on the minimum wage in coming years in order to compensate for the increase in the hourly minimum rate. Overtime will probably be subject to a ceiling of 130 hours, but the rate of remuneration from the 36th hour onwards has not yet been laid down. Hourly adjustments, their extent and methods of annualising hours where appropriate are still being hotly debated. There also remains the question of the timetable for implementing the new law: the government is proposing a transitional period to allow time for bargaining, a matter which divides the trade union movement.

The actual means of implementation are themselves uncertain. What will be the respective roles of employers' decisions and bargaining? What will happen to company or sectoral agreements which depart from the terms of the new law?

Bargaining on working time will also leave its mark on the negotiating camps themselves.

The issue of a legal basis for the representativeness of employee trade union organisations has been raised in various quarters, including within the unions' own ranks. It has sometimes been suggested that the validity of agreements should be weighted according to the signatories' electoral results: this would constitute a substantial shift in the trade unions' positions of principle, and would raise highly complex legal and technical problems.

Table 12 - Elections to works councils – results for each round

	1985-86	1994-95	1995-96	1996-97
CFDT	21.2	20.7	21.1	21.2
CFE-CGC	6.8	6.0	6.1	6.1
CFTC	4.4	4.7	4.8	4.8
CGT	27.4	22.0	21.7	22.1
CGT-FO	13.5	12.2	12.2	12.1
Other unions	5.4	6.5	6.8	6.6
Non-union ticket	21.3	27.9	27.4	27.1

Source: *Premières informations* DARES, 99.05 no. 19.1

The question of the links between companies and their sectoral federations has also cropped up yet again. The main employers' organisation has changed course more than once recently, resulting in particular in a change of name (the *Confédération Nationale du Patronat Français*, CNPF, has become the *Mouvement des Entreprises de France*, MEDEF). These developments, which have not yet settled down, confirm a desire to devolve responsibility for labour relations to companies. This has also been reflected in threats to pull out of the joint administration of employer-employee institutions (see below).

Finally, the issue of reducing working time in the civil service, where the trade union movement has its strongest foothold, has been raised, although no precise decisions have yet been taken. A report has been commissioned and debated (Roché 1999), taking stock of circumstances in the different public services. Both its conclusions and its proposals have been roundly criticised by the trade unions, in whose opinion the report makes sweeping statements based on partial observations when asserting that the statutory 39-hour working week is not being respected in several departments and establishments. The report does not suggest an across-the-board reduction in working time. The Civil Service Minister has announced a framework for negotiations: it refers to improvements in service to the public, on-going training for officials, a differentiated wage scale according to hierarchical categories and a draft schedule for increasing the value of salary points, but not to working time. Bargaining was due to begin in autumn 1999.

3. OTHER BARGAINING THEMES

Negotiations on working time have overshadowed other areas of bargaining, especially since many other bargaining topics are encompassed by the issue of reducing working time, such as wage trends.

3.1. Wages

When, in October 1997, the government announced its measures to reduce working time, the employers' organisation CNPF/MEDEF refused to engage in any bargaining whatsoever. A number of its federations threatened to terminate all collective agreements as a way of putting pressure both on the negotiations and on the government.

Table 13 - Basic hourly wage index for manual workers and all employees in 1997, 1998 and first quarter (q.) of 1999

	1 st q. 1997	2 nd q. 1997	3 rd q. 1997	4 th q. 1997	1 st q. 1998	2 nd q. 1998	3 rd q. 1998	4 th q. 1998	1 st q. 1999
Manual workers									
All sectors	0.7	1.0	0.5	0.4	0.5	0.7	0.5	0.3	0.5
Industry (ex. Constr.)	0.7	0.9	0.5	0.4	0.5	0.6	0.5	0.2	
Construction	0.4	1.1	0.5	0.3	0.3	0.7	0.5	0.3	
Tertiary	0.7	1.0	0.6	0.3	0.5	0.8	0.5	0.3	
All employees									
All sectors	0.6	0.8	0.5	0.2	0.4	0.6	0.4	0.3	0.5
Industry (ex. Constr.)	0.6	0.8	0.4	0.3	0.4	0.5	0.3	0.2	
Construction	0.4	0.9	0.5	0.2	0.3	0.8	0.4	0.3	
Tertiary	0.6	0.7	0.6	0.1	0.5	0.6	0.4	0.3	

Source: ACEMO survey, MES-DARES

Only once the official figures are available will we know to what extent these threats have been carried out. As concerns wages, it appears likely that negotiations on working time have put sectoral bargaining on hold. Since sectoral minimum wages have often been close to – if not below – the SMIC, the “automatic” hourly increase in the SMIC (+ 11.4%), anticipated where working time is reduced from 39 to 35 hours, means that there is no knowing as yet what will happen to wage rates lying above the SMIC. All companies have declared that wage rises are subject to measures required during 1999 or 2000 in terms of reducing working time.

In the civil service, wage rises in 1998 were the result of earlier negotiations.

The data available indicate a slowdown in wage increases between 1997 and 1998. It is not easy to interpret these data, since account must be taken of the knock-on effect of the SMIC increase in July 1997 as well as the low rate of inflation, to which wages in France often tend to be geared.

3.2. Early retirement

The employers threatened specifically not to renew age-related measures negotiated nationally by the two sides of industry, which allow employees aged over 57 to take early retirement, as long as they have paid at least 40 years of contributions and their departure is made up for by the recruitment of a new employee (*ARPE* measures). It did nevertheless prove possible to negotiate a renewal of these measures, which have been endorsed by the five representative confederations.

In parallel with these agreements, implemented by unemployment insurance funds run jointly by employers' and employees' organisations, the employers have threatened several times to break off the joint (employer/employee) arrangements which play a major role in the field of social protection and vocational training. It is still difficult to distinguish between the rhetoric behind this threat and its reality. This matter is very controversial among the employers themselves, many of whom seem keen to hand over as many aspects of collective bargaining as possible to individual companies.

3.3. Pensions

Although no bargaining has yet begun on this matter, the question of pension rights has arisen once again. A report drawn up by the Commission for the National Plan (Charpin report) has been submitted to the Prime Minister, who says that he intends to introduce measures before the end of 1999. The question here has to do with balancing the budgets of the different pension schemes; the debate is about estimating funding needs based on demographic projections and levels of activity. Adjustments relate both to the period of contributions required for a full pension, the level and progression of pensions, and whether or not these should be topped up by supplementary personal schemes. Now that private sector employees have had their contributory period extended to forty years, whereas in 1995 civil servants managed to ward off any change to their service regulations in this respect, the question of equal treatment for both types of employee compounds the technical complexity of the problem, particularly for the trade unions.

ANNEX

According to incomplete information available in late June, which is subject to revision, the draft of the second law contains the following points:

The definitive arrangements on **overtime**, as from 1 January 2002, are to be arrived at in stages: by that date the number of hours granting entitlement to time off in lieu will be set at 130. 25% extra pay will be due for overtime from the 36th hour onwards; part (2/5?) of this increase will go into a social fund serving to reduce social security contributions or finance unemployment. 50% extra pay will continue to apply from the 48th hour onwards.

The **average working week** of 35 hours will be calculated after deducting weekly rest periods, paid leave and eleven statutory public holidays. Total annual hours must not exceed 1,600. Hourly adjustment agreements concluded prior to the second law will remain in force.

If the reduction of working time is calculated in days off, a collective agreement will need to be reached.

Managerial staff are divided into “senior” managers (whose working time is unlimited), managers who are “an integral part of a work team” (falling under the same agreements as other employees) and “other” managers. As for this last group, if their annual working time is calculated in days it must not exceed 222 days per year (but this threshold is under discussion and could come down).

Employees who so wish may use some of their extra days off for purposes of **training** “intended for employees’ personal development”.

Where sectoral or company agreements introducing a 35-hour week are reached, **social security contributions** will be lowered. The reduction will be phased from FF 21,500 per year for the SMIC to FF 4,000 per year for 1.8 times the SMIC.

Agreements may only be signed in companies where the signatory trade unions obtain a **majority of votes** at elections for staff representatives, or where the agreement is accepted in a **ballot** of the workforce.

Agreements already concluded will have one year to fall into line with the new law, except as concerns overtime.

The **SMIC will be maintained** and compensation made in the form of a “differential wage supplement”. New recruits will be subject to the same wage conditions as existing employees.

Part-time work is redefined, and guarantees are provided concerning the spread of working time across the year.

Table 14 - Coalitions of unions signing extended sectoral agreements

	No. of agreements	Employees affected (thousands)	% of agreements	% of employees affected
CFTC, CGC, FO	7	2 400	21.9	55.5
CFDT, CFTC, FO	2	495	6.3	11.5
CGC, FO	2	462	6.3	10.7
CFDT, CFTC, CGC, FO	6	418	18.8	9.7
CFDT, CFTC, CGC, CGT, FO	1	140	3.1	3.2
CFDT, CFTC, CGC, CGT,	2	135	6.3	3.1
CGC, CGT	1	115	3.1	2.7
CFDT, FO	5	106	15.6	2.5
CFDT, CGC, FO	1	22	3.1	0.5
CFDT, CFTC, CGC	2	12	6.3	0.3
FO	1	8	3.1	0.2
CGT	1	6	3.1	0.1
CFDT, CGC, CGT	1	2	3.1	0.04

Source: Calculated on the basis of MES data in *Bilan d'étape...*

Table 15 - Coalitions of unions signing sectoral agreements not extended

	No. of agreements	Employees affected (thousands)	% of agreements	% of employees affected
CFTC, CGC, FO	2	1818	8.3	51.5
CFDT, CGC	2	365	8.3	10.3
CFDT	2	280	8.3	7.9
CGC	1	250	4.2	7.1
CFDT, CFTC, FO	2	230	8.3	6.5
CFTC, CGC	3	152	12.5	4.3
FO	2	130	8.3	3.7
CFDT, CGC, FO	1	86	4.2	2.4
CFDT, CFTC, CGC	4	65	16.7	18.4
CGT, FO	1	55	4.2	15.6
CGC, FO	1	50	4.2	1.4
CFDT, CFTC, CGC, FO	1	35	4.2	1
CFTC, FO	2	17	8.3	0.5
TOTAL	24	3 533	100	100

Source: Calculated on the basis of MES data in *Bilan d'étape...*

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Germany

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1. THE 1998 COLLECTIVE BARGAINING ROUND AT A GLANCE

The 1998 collective bargaining round in Germany was characterised throughout by three features:

1. The pay bargaining round, accompanied by high hopes on the part of workers, led to substantially moderate pay settlements which, though higher than in the previous year, still failed to fully exploit the available room for manoeuvre. The numerous agreements geared to employment and social policy goals focussed in the main on improvement of training provision and the arrangements governing part-time work for older workers.
2. The change of government resulting from the elections to the *Bundestag* on 27 September led not just to the repeal of some earlier measures designed to dismantle welfare state provision¹, but also to a repeat attempt to place the “Alliance for Jobs” on the agenda, with implications for the collective bargaining process.
3. In the run-up to introduction of the euro at the beginning of 1999, the German trade unions also paid more attention than in the past to the prospect of the Europeanisation of collective bargaining. Their central concern in this respect was to achieve better coordination of national wage policies with a view to preventing transnational efforts to use the bargaining process to undercut pay in the effort to improve competitiveness.

After years of moderate pay developments, which invariably represented reductions in purchasing power, it was intended that the 1998 pay round should rise above mere compensation for inflation. Though the slogan “an end to modesty” (“*Ende zur Bescheidenheit*”) launched by IG Metall leader Klaus Zwickel set the tone for the whole round, the results fell very far short of expectations, in spite of favourable developments in the economy at large. For 1998 the economic research institutes had forecast real economic growth of

¹ The cut in sickness benefit from 100% to 80% was reversed, thereby transferring to the workforce as a whole the success of efforts deployed in the collective bargaining arena.

2.8% – as against 2.2% in 1997 and 1.4% in 1996 – while corporate profits had in many cases continued to show significant improvement in 1997. Another undoubtedly positive factor was that conduct of the pay round was not affected by other bargaining disputes running in parallel, as had been the case in 1997 with the controversy over sick pay.

Initial pacesetting for the 1998 bargaining round was established very early on because, in a number of sectors (including banking, insurance and steel), the two sides of industry had reached settlements by the summer of 1997 that were to run to the end of 1998 and in some cases beyond (see Table 1). In addition, the 1997 round included a certain number of two-year agreements that provided for phased increases for 1998 and which also operated to some extent as pacesetters (engineering, textiles and clothing). In the 1998 round proper, the public service agreement was one of the first to be concluded. Here, after a difficult arbitration procedure, the ÖTV settled for a 1.5% pay increase to run for 12 months. There can be no doubt that this modest settlement – measured against the overall economic situation – had a dampening effect on subsequent bargaining in other sectors; even so, in the end this agreement did not set the trend for others because the economic situation in some sectors was simply too good. This applies in particular to the flourishing West German chemicals industry where IG BCE secured a 3%² increase. All in all the range of pay settlements was significantly broader than in previous years.

In East Germany the process of equalisation of pay with western levels continued to make some progress. Over 1998 pay levels in some sectors were raised in a series of small steps to the western levels. As a result the overall East/West pay ratio is now 90.8%.

The controversy over the further development of the regional sectoral collective agreement (*Flächenvertrag*), which had raged in the immediate past, particularly in the engineering sector, calmed down to some extent. In March 1998 the employers' organisation *Gesammetall* made *IG Metall* an offer for a "new partnership" and a summit meeting between the two organisations was held on 30 September. In September, well in advance of the 1999 bargaining round, an agreement was reached between the two sides that the bargaining results in western Germany would be taken over by the East German sector. Meanwhile, the trend towards differentiation and decentralisation of collective bargaining procedures and gains continued. Large numbers of multi-employer

² Pay increase of 2.4% for 14 months plus one-off supplementary payment of 1.1% of annual pay.

or company-level agreements either renewed hardship, opening or differentiation clauses or introduced such clauses for the first time. However, the actual content of such agreements and the mode of settlement continue to display considerable variety and the real significance of such provisions in industrial and workplace relations practice ranges between a symbolic policy stance and regular use.³ It is to be noted also that in a growing number of cases it is the trade unions which succeed in securing respect for collectively agreed provisions and the renewal of the corresponding agreements. Amendments and company-level agreements clearly have an important role to play here.

The coalition agreement between the SPD and Alliance 90/Greens gave prominence to a new “Alliance for jobs and training”. A statement issued after the first meeting on 7 December included the following commitment:

“There is a need for effective contributions from the state, from the corporate sector and from the trade unions, as well as for restraint by the social partners. It has been jointly accepted that actions agreed between parties to the alliance – e.g. the social partners and the government – will be directed towards the goals of the Alliance and will support the agreements concluded in this context.”

Any practical consequences entailed by this statement for the 1999 bargaining round remained a matter of controversy among participants, and even within the trade unions opinions tend to diverge.

2. COLLECTIVE BARGAINING RESULTS : SOME FIGURES AND FACTS

2.1. Pay

The DGB trade unions concluded, over Germany as a whole, pay agreements covering a total of 13.2 million employees. Of these 10.8 million are in the old *Bundesländer* (former West Germany) and 2.4 million in the new (former East Germany). For a further 5 million employees, increases agreed in 1997 or even earlier now came into force. Some 2.2 million employees whose pay agreements expired in 1998 had not (yet) had them renewed by the end of the year.

³ For more detail see Reinhard Bispinck, WSI-Tarifarchiv, Tarifliche Öffnungsklauseln 1998, Elemente qualitativer Tarifpolitik, Nr. 37, Düsseldorf, February 1999.

Table 1 : Selected pay agreements in East and West for 1998

Date concluded	Sector	Pay settlement for 1998	
		Increase	As from for how long
<i>Agreements from 1996/97 including (phased) pay increases for 1998</i>			
12/96-3/97	Metal industry West and East	2,5 %	1.4.98 for 9 months
09.01.97	Woodworking Westphalia	1,7 %	1.4.98 for 12 months
17.01.97	Textile and clothing West	2,1 %	1.7.98 for 11/10 months
28.05.97	Banking West	2,0 %	1.12.97 for 13 months
24.06.97	Volkswagen AG	2,5 %	1.8.98 for 12 months
04.07.97	Insurance West	2,0 %	1.12.97 for 13 months
20.10.97	Steel industry NRW, Lower Saxony, Bremen	2,6 %	1.3.98 for 12 months
<i>Agreements 1998</i>			
08.01.98	Steel industry East	2,6 %	1.1.98 for 13 months
10.02.98	Motor industry NRW	2,4 %	1.3.98 for 12 months
20.03.98	Motor industry Saxony	1.3/0.8 %	After 3 zero months 1.4.98/1.1.99
16.03.98	Textile industry East	2.25/1.0 %	1.3./1.11.98
27.03.98	Public services	1,5 %	1.1.98 for 12 months
25.06.98	Energy and public utility sector (AVEU) East	1.75 % ¹	1.5.98 for 12 months
04.05.98	Foreign trade Bavaria	2,5 %	After 2 zero months 1.5.98 for 11 months
09.05.98	Chemicals West	2,4 % ²	1.3.98 ³ for 14 months
16.04.98	Construction industry West	1,5 %	1.4.98 for 12 months
13.05.98	Printing industry West and East	2,0 %	1.4.98 for 12 months
17.05.98	Deutsche Bahn AG West and East	1,5 % ⁴	After 1 zero month 1.6.98 for 11 months
20.05.98	Construction industry East	1,5 %	1.10.98 for 6 months
10.06.98	Rubber industry West East	2,0 % ⁵ 3,0 %	1.7.98 for 12 months 1.11.98 for 14 months
17.06.98	Paper processing West	1,75 % ⁶	After 6 zero months 1.10.98 for 6 months
22.06.98	Retail trade Bavaria	2.1–2.5 %	After 2 zero months

			1.7.98 for 10 months
22.06.98	Foreign trade Saxony-Anhalt	2.5 %	After 2 zero months 1.7.98 for 10 months
21.08.98	Rhine coal industry	1.4 %	After 2 zero months 1.9.98 for 12 months
02.09.98	Hotels and catering Bavaria	1.8 % ⁷	1.9.98 for 7 months
01.12.98	Chemical Industry East	3.7/2.3 % ⁸	1.1.99/1.1.00 for 6 months

- 1 125 DM a month for 3 and 4/98.
- 2 Additional one-off payment of 1.1 % of annual pay.
- 3 In individual regions as from 1.4. and 1.5.
- 4 East: from 86 to 87 or 88 % as from 1/99 or 1/00.
- 5 Additional single payment of 12 % of monthly pay.
- 6 Plus pay adjustment for 1-hour working time reduction as from 1.4.98.
- 7 200 DM single payment for 4 to 8/98.
- 8 Single payment of 60 DM for each of 10 and 11/98.

Source: WSI collective bargaining archive 1998

The average rate of settlement – in the old *Bundesländer*⁴ – was 1.9%. This figure does not include various forms of one-off payment, but it does include increases taking effect later than 1998. If account is taken only of the increases coming into effect in 1998, the average rate of settlement becomes 1.8%.⁵ Actual figures range between 1.5% in the building trade, financial services and public services and 2.4% in the trading sector.

In 1998 “zero months”, that is months without a pay increase, once again played a significant role in collective agreements. Some 5.2 million employees – i.e. just half of those covered by new agreements – suffered delays in the implementation of settlements. Some 35% had to wait for 1-2 months and 12% for 3-6 months before receiving the agreed regular pay increase. By way of compensation for the delays, the trade unions negotiated special payments on behalf of about a quarter of these workers, amounting to an average of DM 67 a month.

The average duration of the pay agreements in the old *Länder* is slightly more than a year (12.7 months), significantly shorter than in the previous rounds

⁴ For the new *Bundesländer* the calculation was not made because the combination of independent new agreements, phased increases and taking over of western agreements make comparison extremely difficult.

⁵ Here too one-off payments are excluded from the calculation.

(1997: 16.8 and 1996: 16.2 months). For 9.7 million workers (81.3%) the agreements run for one year, for 1.3 million (12.4%) for 13-14 months, while the rest are of varying durations.

A more useful figure than the rate of settlement is the annual collectively agreed pay increase, since this can more easily be compared with other economic data (e.g. prices, productivity). Calculation of this indicator involves adjusting the rate of settlement figures in the light of the duration of the agreement, which rarely overlaps precisely with the calendar year, and also taking account of any increases resulting from agreements concluded in earlier years and any special payments negotiated to compensate for delays in the implementation of settlements. The average annual pay increase thus calculated, i.e. increase in 1998 as against 1997, amounted to 1.8% for Germany as a whole. The highest annual increase was 2.3% in the wholesale and retail trade sector and the lowest was 1.3% in the building trade. Average rates were 1.7% for western Germany and 2.5% for eastern Germany. The figures for 1997 were 2.7% (East) and 1.4% (West).

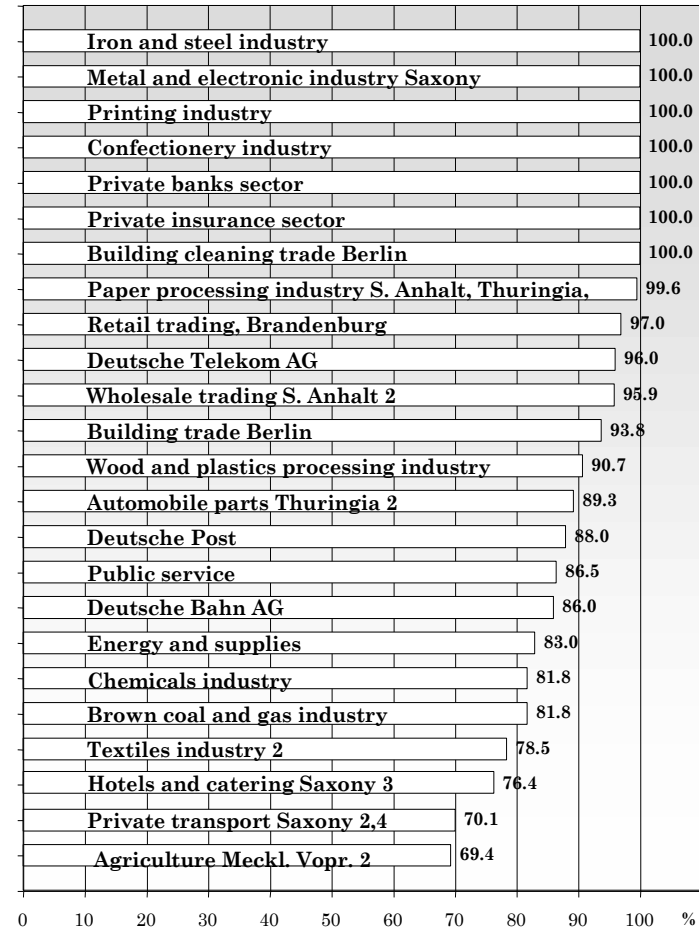
Table 2 : Annual collectively agreed pay increases for 1998 ¹

Sector	East		West		Total	
	WF	%	WF	%	WF	%
Horticulture, agriculture and forestry	102	2,5	105	1,7	207	2,0
Energy and water supply, mining	73	2,6	244	1,2	317	1,5
Raw materials and capital goods	74	2,2	1.006	2,0	1.080	2,1
Investment goods energy	405	1,8	4.060	1,8	4.465	1,8
Consumer goods industry	134	2,1	1.145	1,5	1.279	1,6
Food and tobacco industry	40	5,9	530	1,7	570	2,0
Building trade	426	0,8	1.032	1,5	1.458	1,3
Wholesale and retail trade	488	3,7	2.805	2,0	3.293	2,3
Transport and communications	186	4,3	921	1,5	1.107	2,0
Banking and insurance	53	3,1	649	1,4	702	1,5
Private services to businesses	332	1,6	1.396	1,5	1.728	1,5
Local authorities and social security	820	2,9	2.280	1,5	3.100	1,9
Whole economy	3.133	2,5	16.173	1,7	19.306	1,8

¹ Annual increase in 1998 as compared with 1997. Size of workforce covered (WF) in 1000.

Source: WSI collective bargaining archive 1998

Level of East/West pay equalisation in %



* average group, final level
 1 average western pay
 2 wage only
 3 initial levels
 4 new agreement not yet concluded
 Situation 31.12.98

WSI
 Collective bargaining

The stage reached in the approximation of agreed wages to the western German level can be demonstrated first of all by the trend in agreed *basic* pay. Taking 31.12.1998 as the reference date, the following picture emerges on the basis of the selected core sectors (see chart below): the top groups with 100% (for some time already virtually unchanged) are the iron and steel industry, engineering, printing, building cleaning industry Berlin, paper processing (manual workers 99.6%), insurance and banking. Way ahead are also the confectionery industry (98.8%), retail trade (97%), the building trade (93.8%) and wholesale trade (manual 95.9%, non-manual 91.7%). A considerable number of sectors lie somewhere between 80 and 90%, including public services (86.5%), the chemicals industry (81.8%), the brown coal and gas industry (81.8%). In the lower third of the list are sectors such as hotel and catering in Saxony (76.4%), textile industry (wages 78.5%), private transport Saxony (wages 70.1%) and agriculture in Mecklenburg-Vorpommern (69.4%).

In some sectors further pay increases had been agreed for 1999 in the framework of the phased plans. In the chemicals industry pay levels were to rise at the beginning of the year to 84.8%; in the woodworking industry in Saxony they rose on 1 April to 92.4% (manual) and 77% (non-manual). In retail trading wages and salaries rose to 100% (from 1 April). The railways (Deutsche Bahn AG) increased pay at the beginning of 1999 to 87%, the post office (Deutsche Post AG) to 90%⁶ and telecom (Deutsche Telekom AG) to 100% (from October 1999).

Taking 31 December 1998 as the reference date, the average rate of equalisation in the 22 bargaining sectors or branches was 90.8%. At the end of 1997 the East/West ratio was 89.8%; at the end of 1996 88.7%; at the end of 1995 86%. These figures do not take into account the extent to which the agreed pay provisions are actually observed.

Contrary to what had been expected a year earlier, the average annual increase in collectively agreed pay for Germany as a whole in 1998, 1.8%, was higher than the inflation rate of 1%. Accordingly, trade union collective bargaining policy was successful in achieving more than keeping pace with the rising cost of living. Even so, the full room for manoeuvre – consisting of price increases (0.9%) plus productivity increases (2.8%) totalling 3.7% – was once more far from exhausted.

⁶ To rise to 100% by 2002 in two further stages.

Looking at actual pay developments in Germany as a whole, the following picture emerges: the gross pay bill per worker increased in 1998 by 1.6%; adjusted to take account of rising prices, the increase was 0.7%. The net pay bill grew at a nominal rate of 1.5%. The real net income per worker increased by 0.6% in the last year. Given the significant productivity gains (2.8%), unit labour costs fell by 1.3% and in eastern Germany by 1.8%.

Table 3 : Income distribution, Productivity und unit labour costs in 1998

- Percentage change in comparison with previous year -

	Total	West	East
Gross pay bill per worker	1.6	1.6	1.4
Net pay bill per worker	1.5	1.4	2.2
Real pay bill per worker	0.7	0.7	0.5
Real net pay per worker	0.6	0.5	1.0
Labour productivity per worker	2.8	2.8	2.5
Unit labour costs	-1.3	-1.1	-1.8

Source: Federal Statistical Office

2.2. Working time

In terms of collectively agreed weekly working time there was little change on the virtual standstill recorded also in the previous year. Average weekly working time in 1998 in Germany as a whole was 37.7 hours (West 37.4 and East 39.2). At the end of 1998 17.9% of collectively covered workers in Germany had a working week of 35 hours, 52% of between 37 and 38.5 hours and 15.4% of 39 hours. That leaves 11.3% with a working week of 40 hours or more (see Table 4 below).

At the end of 1998 some 3.7 million employees in Germany had benefited from a working time reduction in the form of 1.9 days off. This form of working time reduction is particularly widespread in some sectors, e.g. energy and water supply, mining and transport and communications.

Average holiday entitlement in Germany as a whole is 29.1 days (West 29.2 and East 28.3). Basic entitlement varies between 24.4 days in horticulture, agriculture and forestry and 30 days in banking and insurance. Total holiday entitlement ranges between 27.9 and 30.1 days, with an average of 30.0 days.

Table 4 : Average collectively agreed working time in 1998

Collectively agreed provision	East	West	Total
Weekly working time (hours)	39.2	37.4	37.7
<i>Percentage of workers (in %) with:</i>			
35	-	21.9	17.9
36 – 37	5.1	12.5	11.1
37.5 - 38.5	26.5	47.9	44.1
39 – 40 and more hours	68.3	17.6	26.7
Days off	1.4	2.1	1.9
Holiday (working days) ¹	28.3	29.2	29.1
Annual working time (hours)	1,735.5	1,643.2	1,659.5

¹ Average holiday entitlement

Source: WSI collective bargaining archive Situation: 31.12.1998

If collectively agreed annual working time is computed on the basis of these and other components, the average for Germany as a whole is 1,659.5 hours, for western Germany 1,643.2 hours and for eastern Germany 1,735.5 hours.

In terms of equalisation of other collectively agreed entitlements and gains (e.g. holiday and Christmas pay, profit related bonuses), some progress has been made on a number of different points.

3. MAINTAINING AND EXTENDING COLLECTIVE BARGAINING GUARANTEES

Public discussion about recent collective bargaining trends has focused predominantly on the signs of crisis and tendency towards erosion displayed by the established system. Failure to respect collectively agreed provisions and a reluctance by employers to retain membership of employer federations and engage in bargaining are rife. Even so, it should not be overlooked that, despite all the unmistakable signs of crisis, regulation by means of multi-employer or regional collective agreement remains the overwhelmingly prevalent approach to the fixing of working and pay conditions in the Federal Republic. The figures to emerge from the survey of companies conducted by the Labour Market and Occupational Research Institute (IAB) show this quite unequivocally. In western Germany in 1998 47.7% of workplaces and 67.8%

of workers were covered by a sectoral pay agreement. For eastern Germany the figure was 25.8% of workers and 50.5% of employees. Actual levels differ significantly from one sector to another. Additional coverage is provided by company-level agreements (in western Germany for 4.8% of workplaces and 8% of employees and in eastern Germany for 7.6% of workplaces and 12.7% of employees) (see Table 5).

Table 5 : Trends in collectively agreed regional coverage of workplaces and employees

Sector	West Germany				East Germany			
	1995		1998		1996		1998	
	Companies	Employees	Companies	Employees	Companies	Employees	Companies	Employees
Agriculture	44.6	65.0	48.6	71.6	13.7	29.3	24.9	24.3
Mining/Energy	89.3	81.5	62.6	76.4	63.6	90.2	58.1	87.3
Processing of raw materials	61.4	80.2	51.0	75.2	21.7	50.6	24.4	48.8
Capital goods	58.8	81.0	60.3	74.0	34.7	49.5	27.8	40.0
Consumer goods	68.7	79.1	60.4	75.9	37.4	50.1	32.2	38.2
Building trade	79.3	91.0	70.6	83.0	38.9	52.1	39.5	50.3
Wholesale and retail trade	52.7	70.8	48.5	64.6	23.0	45.8	19.0	40.7
Transport/Communications	54.9	54.3	32.6	52.5	26.2	47.0	28.2	39.3
Banks/Insurance	68.8	91.2	62.2	85.5	49.2	90.6	66.0	90.0
Other services	40.5	57.8	37.2	55.2	17.4	51.2	15.5	45.6
Non-profit-making organisations	50.3	63.7	39.6	57.1	44.0	45.8	36.2	39.8
Local authorities/Social insurance	88.1	88.6	76.4	88.7	94.7	92.1	90.9	90.0
Total	53.4	72.2	47.7	67.8	27.6	56.2	25.8	50.5

Source: IAB-Betriebspanel, 3. Welle West 1995, 1. Welle Ost 1996, 6. Welle West/3. Welle Ost 1998.

Even if for western Germany taken as a whole a regressive trend is observable⁷, there are movements in the opposite direction. In many – and in some cases important – individual instances, the trade unions have also successfully managed to secure and extend collective bargaining guarantees. In

⁷ No corresponding data is available for eastern Germany.

other cases the controversy has so far led to no outcome. The following examples illustrate the diversity of procedures and results.

- **Ravensburger AG**

The toy manufacturer Ravensburger AG introduced, in May 1997, an “alliance to strengthen competitiveness and safeguard the production location”. This involved – in contravention of the collective agreement – an unpaid two-hour increase in weekly working time from 36 to 38 hours. After individual questioning by supervisors, 90% of the workforce voted in favour of this arrangement. Soon afterwards the company left the employers’ federation. In the works council elections held in the following spring, *IG Medien* managed, after intensive preliminary canvassing, to win 7 out of 15 seats on the works council. The union then called on the company to engage in collective bargaining procedures. However, in May 1998, just before a workplace collective bargaining committee was due to be elected, the company offered to sign a company agreement in which it (once again) recognised the regional agreement for the paper industry.

- **German airport companies**

In compliance with EU legislation the ground services at airports, previously the exclusive preserve of the airport authorities, have been opened up to tender from other suppliers.⁸ Since the beginning of 1998 handling services may be supplied by the airport companies and since the beginning of 1999 they may also be sub-contracted. This has brought rates of pay for airport employees under considerable pressure. After several rounds of bargaining on behalf of employees in the German airport companies, who were covered by the agreement for the public services, the ÖTV and the employers’ side concluded an agreement on employment guarantees and preservation of competitiveness. Basically it contains provision for opening clauses which become effective only after the conclusion of additional local agreements.

- **Sinitec**

In May 1997 it became known that Siemens-Nixdorf AG planned to hive off services, to shed its commitment to collective agreements and, having done so, to extend working hours from 35 to 40 a week, among other changes. After protracted negotiation – accompanied by demonstrations, national action days

⁸ These services include luggage preparation, refueling and cleaning planes, provision of passenger facilities, and other services supplied inside or in the proximity of the airport buildings. Currently the value of the market totals DM 5 billion.

and token strikes by the employees concerned – in June 1998 *IG Metall* succeeded in concluding with the regional employers' federations an additional collective agreement. This preserved collectively agreed coverage for all (hived off) Sinitec companies. Its provisions include a 37-hour week (diverging from the multi-employer agreement) and a guarantee of no redundancies for the period of the agreement until October 2001. Before the agreement runs out, talks are to be conducted to ascertain whether working time can be adjusted to comply with the framework agreement for the engineering industry.⁹

- **Debis**

After months of negotiations *IG Metall* concluded with the employers' federations and Debis AG, a subsidiary of Daimler Chrysler, an additional collective agreement which extends collective bargaining coverage from 2,400 to some 5,000 employees. The agreement guarantees previously covered workers and also regular shiftworkers a 35-hour week. Other workers have a 40-hour week.¹⁰ Pay is based on an annual target salary which is dependent, among other things, on an assessment of performance and achievement of planned output. The agreement also includes provisions covering further training, protection against dismissal and income security.

4. COLLECTIVE BARGAINING POLICY AND THE EURO

In relation to the introduction of the euro an intensive discussion took place in 1998 among the European trade unions concerning the possible nature of a European perspective on the hitherto strictly national collective bargaining policies.¹¹ Since the introduction of the euro removes the possibility of the buffer function performed by exchange rate adjustments, the pressure on national labour and pay standards will increase. The obvious conclusion is that

⁹ Cf. On the collective bargaining situation in the information and communications sector in general see the contribution by Armin Schild and Hilde Wagner, 'Auf dem Weg zur Tarifbindung im Informations- und Kommunikationssektor. Ein Beispiel der Tarifpolitik der IG Metall im Bereich industrieller Dienstleistungen', *WSI-Mitteilungen* 2/1999.

¹⁰ Between the ages of 40 and 54 this is gradually reduced to 35 hours. In addition, all workers who have been with the company for at least ten years are entitled to a 35-hour week without loss of pay.

¹¹ Cf. on what follows Bispinck, R. Schulten, Th., 'Gewerkschaftliche Tarifpolitik in Europa – zwischen nationaler Konkurrenz und internationaler Solidarität', *Blätter für deutsche und internationale Politik* 2/1999 and Schulten, Th. and Bispinck R. (eds.) *Tarifpolitik unter dem Euro. Perspektiven einer europäischen Koordinierung: das Beispiel Metallindustrie*, Hamburg 1999.

without cross-border coordination of pay bargaining, it will be impossible to prevent competitive undercutting in pay policy. Already in the 1980s a fundamental change in the collective bargaining paradigm could be observed virtually everywhere in Europe. This change could be described as the transition from a collective bargaining policy geared to productivity to one geared to competition. Since then the European trade unions have succeeded in rare instances only in exhausting the “cost-neutral” room for manoeuvre resulting from productivity gains. The result has been a massive shift in distribution from labour to capital income and a general reduction in the share of wages in GDP. German collective bargaining policy is no exception to this picture. The long-term development of unit labour costs in Germany is, on the contrary, far lower than the average for the other industrialised countries.

In this situation, the recent trade union initiatives designed to achieve close European coordination of national collective bargaining policies are of the utmost importance. One of the most significant examples is the cooperation among the Belgian, German, Luxembourg and Dutch trade unions which found expression in the “Doorn declaration”.¹² On 4 and 5 September 1998 leading representatives of the confederations and sectoral unions from these countries met in Doorn in the Netherlands to discuss the future prospects for and background to collective bargaining after introduction of the euro and the possibilities for closer cooperation. The resulting “Doorn declaration” contains the first concrete points of guidance for a transnational coordination of collective bargaining policy. The trade unions involved aimed for collectively agreed pay gains corresponding to the sum of price developments and growth in labour productivity. This was a way of simultaneously seeking a strengthening of overall purchasing power and job preservation measures (e.g. by working time reductions). The formula is intended to give clear guidance on the appropriate level of pay increase, in a manner flexible enough to allow for differences between countries. The goal is to forestall, among the countries concerned, the employers’ wish to achieve competitive undercutting of collectively agreed rates of pay. This pay policy coordination can be viewed as a step on the path to European cooperation in the collective bargaining area. It thus provides, for the first time in this form, a yardstick that can serve as the basis for a systematic discussion of the cross-border effects of national pay

¹² See J. Kremer-de Fries, ‘Tarifkooperationen der Gewerkschaftsbünde DeNeLux-Deutschland: Die Erklärung von Doorn’ in Schulten and Bispinck 1999:186 ff.

policies. How such a first step can be taken further is shown by the example of the European Metalworkers' Federation (EMF).

Ever since the 1970s the EMF has been reiterating the need for a coordination of national collective bargaining policies. In 1993 it formulated its discussions and activities for the first time in a fundamental collective bargaining statement and in 1995 decided on a first series of measures to implement its coordination (including development of an information system on collective bargaining developments, regular meetings of tax experts, involvement of foreign trade unionists in national collective bargaining, synchronisation of national collective bargaining, development of European campaigns on specific topics).¹³ In its collective bargaining policy guidelines of 1996 binding regulations were decided for the areas of pay and working time, providing for example that member organisations faced with reductions in real earnings in three consecutive years must report to the EMF. In its working time charter of June 1998 it formulated a European minimum standard with a maximum annual limit on working time of 1750 hours. Finally, at its 3rd collective bargaining conference held in Frankfurt in December 1998, the EMF adopted a "European coordination rule" according to which all metalworkers' unions in Europe undertake to make compensation for inflation and the equal participation of workers' income in productivity gains into a collective bargaining policy guideline.¹⁴

An important instrument for implementation of this coordination rule is meant to be the further development of cross-border collective bargaining partnerships at regional level. A current example of such cross-border collective bargaining cooperation is the cooperation between *IG Metall* in North Rhine Westphalia and the Dutch and Belgian metalworkers' unions.¹⁵ All together it is quite evident that in this three-country region communication and cooperation between the metalworkers' unions has increased in volume and intensity. This corresponds to the underlying philosophy contained in the EMF coordination rule, which thus represents an attempt to broaden the

¹³ Schulten and Bispinck 1999: 489ff.

¹⁴ European Metalworkers' Federation (EMF) 'Collective bargaining with the euro', Resolution of the 3rd EMF collective bargaining policy conference held on 9 and 10 December 1998 in Frankfurt.

¹⁵ Cf Harald Schartau, 'Von den nationalen Interessenvertretungen zur Euro-Gewerkschaft', *Frankfurter Rundschau*, 8 October 1998 and J. Gollbach, Th. Schulten, 'Grenzüberschreitende Tarifpartnerschaften – am Beispiel der deutsch-belgisch-niederländischen Metallindustrie', *WSI-Mitteilungen* 7/1999.

foundation for joint collective bargaining positions and to give their practical implementation a more binding character.

5. THE 1999 BARGAINING ROUND

The 1999 round represented a significant turning point in collective bargaining developments. For the first time in many years it brought agreements that were in all cases significantly above the inflation rate and in most cases also came close to fully exploiting the productivity-linked room for manoeuvre (see Table 6).

The 1999 collective bargaining round differed from its predecessors in many respects. Thus, once again, but differently from in 1998, the engineering industry played a leading role because the pay agreements ran out at the end of the year and the negotiations had begun in December 1998. Then there were the banking and insurance and public services whose agreements also ran out at the end of 1998. These were followed at the end of February by the West German steel industry and, a month later, the building trade, the printing industry, part of wholesale and retail trading and a series of further bargaining sectors. In the chemicals industry the agreements expired at the end of April or May.

In the major collective bargaining sectors the trade unions' pay demands ranged between 5.5% (ÖTV) and 6.5% (IG Metall, HBV). For the building sector IG BAU announced a lower claim, not least because there were also other matters on the bargaining agenda (e.g. bad weather payments, pension questions). The ambitious claims put forward, for example by *IG Metall*, were also based on the explicit argument that after the lean bargaining results of earlier years, which led to perceptible drops in purchasing power, the prospective room for distribution of 1999 should not simply be used up but also that the missed opportunities for distributive gains in past years should be at least partially made good.¹⁶

¹⁶ IG Metall (ed.) *Tariffunde 1999 – Sozialökonomische Rahmenbedingungen*, Frankfurt/Main, September 1998, p. 15.

Table 6 : Selected pay agreements in West and East for 1999

Date	Sector	Terms of pay agreement for 1999		
		Increase	Date implemented and duration	One-off payments
01.12.98	Chemicals industry East	3.7 %	1.1.99 for 12 months	
18.02.99	Metal industry Bad.-Württemberg Pilot agreement	3.2 %	1.3.99 for 12 months	350 DM for January and February 1999 ¹
25.02.99	Automobile trade NRW	3.0 %	1.3.99 for 12 months	
27.02.99	Public service	3.1 %	1.4.99 for 12 months	300 DM (West), 259,50 DM (East) f. Jan. – March 1999
19.03.99	Iron and steel industry Lower Saxony, Bremen, North Rhine-Westphalia	3.3 %	1.6.99 for 12 months	500 DM for March to May 1999
19./20.03.99	Insurance trade	3.2 %	1.4.99 for 12 months	350 DM for January to March 1999
30./31.03.99	Energy supply industry North Rhine Westphalia	3.1 %	1.6.99 for 12 months	350 DM for April and May 1999
13.04.99	Confectionery industry	3.0 %	1.4.99 for 12 months	
21./22.04.99	Building trade	2.9 %	1.4.99 for 12 months	
06.05.99	Printing industry	3.3 %	1.4.99 for 12 months	
01.06.99	Chemicals industry North Rhine Pilot agreement for West Germany	3.0 %	1.6.99 for 12 months	200 DM for May 1999

¹ additional one-off payment of 1 % of annual pay.

Source: WSI collective bargaining archive 1999

The engineering employers did not only – as expected – reject these demands out of hand, but they made it clear, at the same time, that they were aiming for a new differentiated structure for a collective agreement. They wanted to agree, alongside percentage pay increases for all workers, a one-off payment which at company level, with the consent of the works councils, could be reduced or not paid at all.¹⁷ In addition, the amount of the Xmas bonus was to be linked to the profit situation of the company. *IG Metall* rejected such ideas from the outset because in this way the basic function of regional collective agreements, namely to define uniform pay levels for the whole pay sector, would be gradually eroded. After a major token strike *IG Metall* reached agreement in mid-April.

The 1999 collective bargaining round was significantly complicated by the fact that it was overshadowed by the parallel talks between government, workers and trade unions on an alliance for jobs. While the employers demanded that pay policy questions should be included in the talks for an alliance, the majority of the trade union representatives rejected this demand and the 1999 collective bargaining round was in fact conducted without pay policy being discussed in the talks for the alliance. Pay increases in most sectors were between 3 and 3.3% and the duration of agreements was between 12 and 15 months.

¹⁷ On 22 January they offered, in the course of the negotiations, 2% pay increase and a one-off payment of 0.5% of annual salary.

Greece

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1. GENERAL BACKGROUND INFORMATION

1.1. The social, political and economic climate in which agreements have evolved

During 1998, despite the instability and fluidity of the international economic environment, the Greek economy showed considerable stability and continued to improve the macroeconomic aggregates and to pursue a strict financial policy, in order to achieve the main target of the political and economic policy: the fulfilment of the nominal convergence criteria of Maastricht Treaty and the full entry of Greece into the European Monetary Union on 1/1/2001. The devaluation of the national currency in March 1998 and its entry into the European Exchange Rates Mechanism (ERM) led to a revision of the Convergence Programme of the Greek economy. The new "*Convergence Programme 1998-2001*" aims to reinforce the present economic policy by further reducing the inflation rate and continuing the financial discipline.

The 1999 Budget set out even tighter criteria than the convergence programme. The deficit target was 1.9% of GDP rather than 2.1% of GDP in the Convergence Programme. The adjustment effort was to focus on austerity in current expenditure (the current expenditure was to rise by 4.5% in comparison with 5,2% in 1998) and a tight public sector incomes policy (see following section). As for the fiscal policy, no new direct taxes were envisaged. In addition, and with a view to dampen inflation, the Government reduced indirect taxes on cars, fuels and electricity.¹

As for the Maastricht's nominal convergence criteria, the Greek economy further improved in 1998 its macroeconomic indicators, and is just a whisk away from complying with the five EMU convergence criteria. The *inflation rate* was 4.8% (against 5.5% in 1997) and still continues its downward trend (2.4% in May 1999). Despite the devaluation of the drachma, the *public*

¹ Gasoline taxation was reduced by 30% in October, the special excise tax on cars was reduced by 20-25% on November and the VAT on electricity bills was reduced from 18% to 8% from January 1999.

debt/GDP ratio was also brought down to 106,1% (against 108.6 in 1997). Significant improvement was recorded in the *general public deficit* which was brought down to 2.4% of GDP (against 4.2% in 1997), mainly because of the increase of the public revenues and the policy of holding down public spending.

The *balance of payments* also showed signs of a significant improvement. The current accounts deficit was cut down by US\$ 1.2 billion from the previous year, bringing it to US\$ 3.6 billion or 3% of GDP. In addition, the *annual growth rate* continued its upward trend to reach 3.7%, mostly as a result of the persistence of the high rate of investment growth (gross domestic asset formation rose from 9.6% in 1997 to 9.8% in 1998), the increase of exports by 9.2% (against 5.1% in 1997), and the decelerated increase of private consumption in comparison with 1997 (1.8% against 2.5%).²

The *1998-2001 Convergence Programme* is based on the increase of public investment, continued wage moderation, an increase of public receipts and a further reduction of public spending, as well as a wide structural reform programme, which incorporates the existing reform measures concerning the public sector³ and gives a European dimension to national policy. The implementation of this reform programme, which includes the labour market reform, the privatisation, elimination or merging of public utility enterprises, corporations and state banks, and the reform of the social security system, was at the centre of the attention – in the period currently under consideration (summer 1998 to spring 1999)- of both the government and the social partners.

In this context, the major issues that the government initiatives had to address and that were in the agenda of social consultation between the social partners, were the intensification of the privatisation process, the flexibilisation of the labour market, the reduction of working time, the modification of the institutional context of labour relations, and incomes policy.

Despite the general strike that was called in December 1998 by GSEE against the restrictive economic policies, it seems that, generally, labour relations and collective bargaining were characterised by a mild and stable climate. According to the Ministry of Labour, 292 collective labour agreements were

² For all the macroeconomic aggregates see: Bank of Greece, 1999, *Annual report of the Governor 1998*.

³ See A. Mouriki's previous year's report in G. FAJERTAG (ed.) 1998 *Collective Bargaining in Western Europe 1997-1998*, Brussels, ETUI, pp. 167-168).

signed in 1998 (against 286 in 1997), whilst the number of working hours lost because of strikes remained stable (1.5 million hours, the same more or less as in 1997).⁴

The improvement of the macro-economic environment in 1998, increased the confidence in the future of the Greek economy and created a positive climate in the business circles. It is worth noting that, the composite share price index recorded a spectacular growth of 85% in 1998 (as compared to 58.5% in 1997 and to 2.1% in 1996) and still continues to grow. However, despite the positive economic environment and the general optimism that the Greek economy will succeed in joining the European Monetary Union and stable labour relations, the situation in the labour market and the labour force seems to be affected negatively by the persistence of high unemployment rates. It seems that the increase of the annual growth rate has not led to an equivalent increase in employment. According to estimates of the Ministry of National Economy, unemployment rate stood at 10.1% in 1998 (against 10.3% in 1997).⁵ However, this figure does not correspond to the ones given by other sources. According to EUROSTAT, the unemployment rate in Greece was 11.5% in March 1998.⁶ The Employment Manpower Organisation (OAED) points out that the number of registered unemployed has increased by 35.6% in 1998 and the registered unemployment rate rose from 7.9% in 1997 to 9.9% in 1998.⁷

1.2. Trade unions' priority demands. Employers' attitude. Role of the Government.

The unions maintained a cautious attitude towards the government's financial policy. GSEE considers reinforcing the competitiveness of the national economy to be necessary but it also maintains that the government policy has reversed the hierarchy of the financial policy targets, giving priority to the improvement of the macroeconomic aggregates and not to full employment and the decrease of unemployment. These are no longer targets of economic policy but targets of an autonomous framework of employment policies. The main characteristic of

⁴ BANK OF GREECE, 1999, *Annual Report of the Governor 1998*, Athens, Bank of Greece, p. 128.

⁵ Noting that, ESYE (National Statistical Service of Greece) has not yet published the unemployment rate for the year 1998.

⁶ *TO VIMA*, 16 May 1999, p. D16.

⁷ BANK OF GREECE, *Bulletin of Conjunctural indicators*, n. 24, March 1999, p. 53.

this framework is its subordination to the economic policy, resulting from the fact that it accepts a priori the already pre-ordained economic policy.

The principal demands of GSEE and ADEDY focused on the following issues:

- The reduction of working time must be based on a “standard” working week and a “standard” working day (35-hour week and 7-hour day), with no loss in pay, and not on enhanced flexibility. This is the only way to increase employment and safeguard the employees’ income as well as the collective character of negotiations. Specifically, GSEE proposes a gradual reduction of working time, so that the 35-hour week could be realised in 3 years.
- Increased social spending in the state budget and particularly reinforcement of policies combating unemployment and dealing with the problems of unemployed. In this context, GSEE demands an increase in unemployment benefit which should represent 80% of the basic wage (and not 55%) and the increase of its duration beyond the 12 months limit.
- Privatisations create new problems for employees, and threaten the tenure of public sector employees.
- The reform of fiscal policy and the taxation system, which must take into account the following demands: a) a more equal distribution of the burden of taxation, b) a more effective policy against tax evasion, c) reversion of the proportion between direct/indirect taxes, d) indexation of the tax scale, e) increase in the tax-free allowance to the level of Dr 2 million.

The employers’ attitude is more positive (compared to that of the unions) towards the main targets of the financial policy. However, they consider that the financial adjustment as well as the structural reform of the public sector is progressing slowly progressed and they call for more drastic measures.

Generally speaking, employers’ attitudes towards union demands and government policies centre on the following positions:

- The financial restructuring requires a more drastic reduction of public spending.
- State monopolies need to be abolished (i.e. electricity, natural gas, telecommunications and transports).
- The restructuring of the public administration and the privatisation of a large number of state-owned enterprises must be accelerated.

- Greater labour market flexibility and a far-reaching reform of the labour legislation are necessary. In this context, they support that individual rather than collective negotiations is the only way to ensure flexibility.
- Reduction of the taxation of the productive activities as well as the reduction of labour costs, via the reduction of indirect labour cost.
- The introduction of the 35-hour week with no loss in pay will result in an increase in unit labour costs and will constitute a disincentive to new recruitment. In addition, in the present situation it will constitute a major threat to the competitiveness of Greek enterprises taking into account that this measure has not yet been introduced in the other European economies. This is the reason why the three main employers' organisations (SEV, GSEVEE and EESE) consider the introduction of a 35-hour working week with no loss in pay as impossible or, at any rate, as premature. From their point of view, they propose a flexible rearrangement of working time that takes into account labour productivity and international company competitiveness.

The government's major concern is the need to implement the restructuring policy. To this end, there has been an acceleration of the privatisation process. Between June and the end of 1998 the following privatisations were carried out: the Public Oil Corporation (DEP), the Bank of Central Greece, the Bank of Crete, the third packet of shares of the National Telephone Company (OTE). In 1999 the privatisation programme includes 11 public enterprises.

In the same context, the privatisation of all small state-controlled banks has been pursued and, despite strong union opposition, the medium-sized Ioniki Bank was privatised in March 1999. As a result, the balance of power between private and state-owned banks has changed at the expense of the state-owned banks, damaging the cohesion of the trade union movement in the banks, according to the trade union representatives there. It is worth noting that following the privatisations, the number of employees in private banks has doubled (41% against 24,3% in 1997).⁸

In the area of the labour market, a new labour law was introduced in August 1998 (law 2639/98), despite the objections on behalf of unions as well as employers, which caused a climate of tension between the government and the social partners. The new law gives a legislative form to the long-expected

⁸ KATHIMERINI, 4 April 1999, p. 65.

reform of the labour market and aims to increase the flexibility of the labour market structure and to regulate more flexible relations between social partners (see sections 3 and 5 for details).

In the area of social security a two-stage reform of the social security system has been announced. The first stage of the reform reflects agreements between social partners in the social dialogue on pension reform and provides for:

- reduction in the large number of funds (e.g. merging of subsidiary insurance funds), which had produced a complex structure,
- reduction in the evasion of insurance contributions,
- regularisation of illegal foreign workers and the payment by them of social security contributions ,
- cutting down administrative and medical-health expenses,
- restrictions on the employment of pensioners,⁹

However, it worth noting that the social security changes in 1999 are mostly of an organisational nature (law 2676/99 for the “organisational and operational reform of the social security system”) and they leave for the future the solution of substantial social security issues, such as the retirement age (which on average is quite low in Greece), the relation between pensions and revenues, etc.

As regards the illegal foreign labour force, the long-anticipated regularisation process became a reality during 1998.¹⁰ About 373,000 non-registered illegal migrants applied for the provisional “White Card” during 1998; of these, only two thirds, i.e. around 230,000 people applied for the “Green Card” which

⁹ Starting in 2001 pensioners who work and are below the age of 55 will not receive their pension, while those who are above the age of 55 will receive only 30% of their pension for the amount of pension exceeding Dr 250.000 per month (see law 2676/99).

¹⁰ This process took place in two stages. During the first stage, the non-documented workers were registered and granted a temporary residence permit, the “white card”, that gives him/her equal working rights and obligations. During the second stage, the worker who had obtain the white card and who could demonstrate that he/she had worked the equivalent of 40 days of non-qualified labour could then receive the “green card” (a residence permit of limited duration). The green card could be valid for a period of one to three years and could be renewed, for one or more times for two year periods, at each time. Under certain conditions, there are also provisions for granting five year permit.

legalises their presence in Greece. It is estimated that this number represents less than 40% of all non-documented migrants (whose precise figure is not known but it certainly exceeds 600,000).

In order to combat unemployment, to increase the active labour market policies and to bring government policy into line with the requirements of the EU employment policies, the government submitted in June 1998 the first National Action Plan for Employment. This constitutes a general framework of the main employment policy measures¹¹, incorporating the four pillars of the unified European employment strategy (pillar 1: improving employability, pillar 2: developing entrepreneurship, pillar 3: encouraging adaptability of businesses and their employees, pillar 4: strengthening equal opportunities policies for women and men). However, according to a report of the Ministry of Labour, mentioned in the press¹², serious problems and weaknesses have been identified regarding the effectiveness of measures in the action plan. In particular, the two principal programmes entitled “Young people in active life” and “Back to work”, which cover all the age groups of unemployed, had a low level of effectiveness, as the number of beneficiaries was limited to 25,000, while the target was 60,000 beneficiaries.

2. WAGES AND PURCHASING POWER

2.1. Pay rises in basic rates and average earnings

In the whole economy the increase of the average gross earnings slowed down in 1998 in comparison with 1997, as a result of the deceleration in the rate of increase of average wage outlays in public sector and the simultaneous slowing of the rate of increase of average gross earnings in private and public enterprises and in banks. Real average gross (before taxation) earnings increased in 1998 by 2% (as compared to 4,7% in 1997). In the public sector, the average gross earnings of white-collar workers grew by 9,3% in 1998 (in comparison with 13,5% in 1997), while in public enterprises growth was 7,2% in 1998 (in comparison with 11,0% in 1997). In the private sector, average gross earnings increased by 6,2% in the same year (in comparison with 8,8% in 1997), while real basic earnings increased by 0,6% (in comparison with 2,4% in 1997)¹³.

¹¹ See report by A. Mouriki in last year's edition of the ETUI collective bargaining report.

¹² *To Vima*, 16 May 1999, pp. D16-D17.

¹³ BANK OF GREECE, 1999, op. cit., p. 125.

Looking at the average earnings in some industry sectors during 1998, one can note (see Table 1) that earnings' increases range from 5,9% to about 16%. The higher increases (over 11%) are observed for the white-collar workers in mines and banks and for the blue-collar workers in electricity and water.

Table 1: Earnings increases in selected industries, 1993-1998
(changes in % over previous year).

		1993	1994	1995	1996	1997	1998
1. Manufacturing	Monthly earnings of white-collar workers	13,1	13,0	13,2	9,4	9,8	6,4*
	Hourly earnings of blue-collar workers	10,5	13,1	13,2	8,6	8,9	4,8*
2. Mines	Monthly earnings of white-collar workers	10,4	12,9	11,3	11,7	14,3	16,1*
	Weekly earnings of blue-collar workers	9,1	15,3	14,0	12,7	12,2	7,2*
3. Electricity and water	Monthly earnings of white-collar workers	6,8	11,0	11,2	14,0	9,9	9,0*
	Hourly earnings of blue-collar workers	11,6	16,0	15,8	8,7	10,4	11,9*
4. Retail trade	Monthly earnings of white-collar workers	12,0	13,3	12,8	9,7	12,0	10,5*
5. Wholesale trade	Monthly earnings of white-collar workers	15,1	15,3	15,3	9,9	10,5	5,9*
6. Banking	Monthly earnings of white-collar workers	10,9	17,1	17,5	10,1	11,3	11,6**
7. Insurance	Monthly earnings of white-collar workers	13,2	17,1	16,5	10,2	9,6	9,7***

* Change in January-June 1998 in comparison with the respective period 1997.

** Change in April 1998 in comparison with April 1997

*** Change in second trimester 1998 in comparison with second trimester 1997.

Source: a) For 1993 and for insurance's data: Elaborated NSSG's data in: BANK OF GREECE, *Bulletin of Conjunctural indicators*, n. 24, March 1999, table III.3.

b) For the rest: Elaborated NSSG's data in: BANK OF GREECE, 1999, *Annual Report of the Governor 1998*, Athens, Bank of Greece, table IV.3.

Regarding wages evolution in 1999, and according to the National Collective Labour Agreement for the years 1998 and 1999, the statutory minimum rates of basic daily wages and salaries will increase in 1999 by 3.8% and it will be given in two instalments of 1.4%. The first instalment was given on 1 January 1999, plus a +0,4% adjustment rate for the exceeded inflation rate in 1998 (which the agreement had anticipated at 3.5%). The second instalment (+1.4%) was to be given on July 1999. Thus, as from 1-7- 1999 the basic daily wage goes up to 6,702 drs and the basic monthly salary to 149,570 drs.

In the public sector, pay increases have slowed more than in the private sector. The total monthly earnings of public white-collar workers increased by 2% on 1.1.1999 (against 2.5% in January 1998). So, the minimum wage is now 191.250 drs. As was noted for 1998, this increase means a net loss in real wages, given that the inflation rate was 2.8% in April 1999.

2.2. Purchasing power

Taking into account the evolution of wages, the estimates for 1998 and the forecasts for 1999 suggest that the purchasing power of employees has been safeguarded despite the slow down in the rate of increase of annual earnings. However, this increase is limited, considering the improved macroeconomic environment. Thus for 1998 it is estimated that real earnings increased by 0.37%, while the annual growth rate reached 3.7% and the productivity (defined as GDP per employed) increased by 3.3%. For 1999, it is estimated that real earnings will increase by 1.1%, while the increase rate of productivity is estimated at 2.9%.

On the other hand, in the whole economy, the increase in the disposable income of employees showed a slowdown: in 1998 the average real disposable income increased by 2%, while in 1997 it had increased by 4.7%¹⁴. According to the Bank of Greece and the Annual Report of the Governor, this limited increase led to an increased resort to consumer credit.¹⁵ So, despite the fact that total private consumption slowed in 1998 (1.8% compared to 2.5% in 1997), consumer credit continued its upward trend and reached in 1998 946,2 billion drs (outstanding balance), which represents a 37.5% change over the previous year¹⁶.

¹⁴ *Ibidem*, table IV.3.

¹⁵ *Ibidem*, p. 113.

¹⁶ BANK OF GREECE, *Bulletin of Conjunctural indicators*, op. cit, table IV.6.

It is expected that in 1999 this amount will exceed the one trillion billion drs. threshold (around 30 m. Euro)¹⁷.

In addition, the employees still pay a disproportionate share of direct taxes¹⁸.

Table 2: Distribution of direct taxes, 1998.

Professional category	number of taxpayers	total declared income (billion drs)	average declared income (drs)	average tax (drs)	participation rate to direct taxes
Real estate property	495 953	606.3	1 222 648	95 862	4.6%
Commercial & manufacturing firms	657 042	2 600	4 032 788	344 647	22.1%
Agricultural activities	363 609	423.6	1 165 081	33 123	1.2%
Employees	1 585 776	6 300	3 987 145	289 935	44.9%
Liberal professions	128 096	866.5	6 764 534	938 563	11.7%
Pensioners	1 043 270	2 900	2 855 446	151 927	15.5%
Total	4 275 746	13 800	3 240 588	239 751	100%

Source: KEPYO, Finance Ministry in: *Kathimerini*, 11 October 1998, p. 49.

As we can see in table 2, employees who make up 37% of taxpayers pay 45% of total direct taxes. If one also adds the pensioners, employees and pensioners together pay 60.4% of total direct taxes.

3. WORKING TIME DEVELOPMENTS

The most important issues in the period examined, were the introduction of innovative measures regarding the annualisation and the rearrangement of working time and the union campaign for the introduction of the 35-hour week.

¹⁷ *Ta Nea*, 17 February 1999.

¹⁸ See A. Mouriki in last year's edition of the ETUI collective bargaining report.

Concerning the annualisation of working time, the new law 2639/98 (see also section 5), stipulates the calculation of working time over a longer period (6 months), so as to reduce overtime costs and to adjust production outputs to demand fluctuations. According to this law, the rearrangement of working time is regulated by the following measures:

- expressing working time as a quarterly, biannual or annual figure, up to a limit of a 9-hour working day (in the first two cases) and a 10-hour day (in the third case), with a limit of 48-hour week.
- To offset the longer working day, a proportionate daily rest period is provided, or a proportionate increase in annual paid leave.
- The greater flexibility in working time has to be based on a company level agreement (normally a collective agreement, or an agreement between the employer and the works council).

As stressed in the 1998 report on collective bargaining trends in Greece,¹⁹ the annualisation of working time was the most controversial of the policy measures of the labour market reform bill. For their part, employers claim that, despite the introduction of more flexible working time arrangements, the fact that a collective agreement is a compulsory precondition negates the substance of the measures. Under current legislation small firms, who make up the bulk of Greek firms, are not required, and usually do not have organised representation. Under the new legislation, in enterprises with up to 20 workers, the employers can agree with groups of workers (at least 5) to increase working time to 9 hours per day for 2 months at normal pay, if these hours are made up in the following 2 months.

On the other hand, trade unions are still opposed to a flexible rearrangement of working time claiming that the most appropriate measure would be the reduction of working time and the generalised introduction through legislation of the 35-hour week. The government is hesitant to pursue such an initiative through legislation. However, it is in favour of a “voluntary” implementation through company or industry-wide collective agreements, encouraging initiatives coming from the social partners.

¹⁹ See A. Mouriki in last year’s edition of the ETUI collective bargaining report.

In this context, some companies have already signed collective agreements with workers' representatives. In September 1998 the agreement signed between HOCHTIEF, which is carrying out the project of the new Athens airport, and the union representatives of construction workers, introduced the 7-hour working day. The agreement stipulates that the workers will receive the same daily wage for 7-hour work (as against previous 8-hour daily work), but they can work 8 hours if they want or if the company requires them to. In addition, workers will work 5 hours on Sundays²⁰. However, the 35-hour week has not been explicitly introduced. Thus, it can be said that, the reduction of the working day is an indirect way to increase overtime pay, rather than decrease the total volume of working hours of each employee.

The firm INTRAKOM, one of the leading telecommunication companies with 1.800 employees, was the first to introduce the 35-hour week in March 1999, thus providing the first important impulse for the discussion of this issue between the social partners and government and further enhancing the already good relations between the company and its employees. GSEE found an unexpected backer in the government, which started to support this kind of initiative. The most negative reactions came from the part of the Federation of Greek Industries (SEV), who claimed that this kind of decision would increase pressures on other enterprises which could not afford similar measures²¹.

However the most important development took place in the banking sector. According to the 2-year collective agreement between the social partners of the banking sector, signed in May 1998, a pilot implementation of the 35-hour week has been agreed with a simultaneous extension of the transactions and of the working schedule by 2 hours. This pilot implementation period will last 8 months, starting from 1.8.99 in 2 outlets and one unit of each bank, with full-scale implementation possible after the spring of 2000²².

²⁰ For the one additional hour they will obtain an additional hour's earnings paid as normal without any supplement. On Sundays they will obtain a supplement of 75% for the 5-hours worked.

²¹ The introduction of the 35-hour week was realised through the the reduction by 20 minutes of daily work, without any reduction of earnings. It is worth noting, that no trade-offs were demanded, in the form of increased flexibilisation of labour relations.

²² As concerns the working schedule, according to the agreement:

- The daily working hours of each employee will not exceed the already applied daily working hours.
- The daily working schedule will be continuous rather than staggered.

4. EUROPEANISATION OF COLLECTIVE BARGAINING

As G. Kouzis and E. Soumeli from INE/GSEE notice, the europeanisation of collective bargaining is an issue of a somewhat minor interest for the social partners in Greece. On the theoretical level, some initial thoughts and views are being set forth in discussions taking place at the European level, a practice which involves the trade unions almost exclusively, rather than employer organisations. On the practical level, the few initiatives there have been only involve collective bargaining at the national level and do not concern the period currently under consideration. At other levels (confederal, industry-wide and company) there are no official or unofficial records of agreements or initiatives regarding the Europeanisation of collective bargaining. However, recently one can detect an increased interest regarding the implications of the EMU on industrial relations.

The positions of social partners regarding the europeanisation process are the following:

As GSEE sees it, in Greece, as in the other EU countries, there is a mosaic of many different bargaining levels with regard both to wages and to other labour rights, which may move towards convergence through a process of collective bargaining at the European level, either at the cross-national or the industry-wide level. However, the objective should be the creation of the conditions for divergence which exist today. This may be achieved through the introduction of minimum standards at the European level and the reinforcement and enhancement of those standards at the national level.

As far as the employer side is concerned, the SEV has reservations about the issue of the Europeanisation of collective bargaining, because in its view industrial relations are the result of the industrial culture and national characteristics of each member state (principle of subsidiarity). In addition, countries' economic circumstances result from their economic situation, productivity and competitiveness, as well as the financial policies of the national governments. Any outside intervention, especially on wage issues, could prove to be counter-productive and could exert a negative influence on a country's economic development. In this framework, SEV believes that the content of collective bargaining and the social dialogue at the European level should be centred on institutional issues. Here the European organisations should make ad hoc decisions, with the objective of concluding framework agreements containing general principles, so that the member states have the leeway to implement them with the necessary adaptations.

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- Any eventual changes in the working schedule presuppose the agreement of the employee.

5. FLEXIBILISATION OF WORKING CONDITIONS AND DECENTRALISATION OF COLLECTIVE BARGAINING

Following the provisions of the “Confidence Pact between the Government and the Social Partners in view of the year 2000” signed in November 1997, a new labour law for the “regulation of industrial relations” (law 2639/98), was introduced in August 1998. It aimed at implementing the long-expected reform of the labour market and establishing a more flexible legislative framework. This law was based on the bill examined in the previous report²³.

As Kouzis notes, the new law was the result of pressures exerted by financial circles to increase flexibility, and of unions’ concern to control flexibility, against the unilateral implementation by employers. However, he adds, that “the unions are critical of the increase in labour market flexibility, and the employers are critical of the timidity which characterises its content regarding the need for radical measures to promote flexibility. But regardless of this development, these measures are seen as first steps in the outlook for more radical changes in the area of labour legislation in view of Greece’s entry in the EMU” (Kouzis 1998: 116).

²³ It worth noting the main innovations introduced with this law, which were described as a bill in the previous report:

- The annualisation of working time (see section 3 too).
- The introduction of employment contracts based on the national minimum wage in pre-determined geographical areas of high unemployment
- The promotion of part-time employment by eliminating barriers to its use and its introduction in the wider public sector
- The introduction of the new supervisory body, the Labour Inspectors’ Service, to ensure enforcement of the labour legislation in private and public companies.
- The authorisation of private employment agencies.
- The introduction of provisions for “atypical” forms of employment (i.e. teleworking, homeworking, etc.), in order to legalise illegal flexibility.

See A. Mouriki in last year’s edition of the ETUI collective bargaining report.

Owing to the critical stance taken by unions and employers alike regarding the bill, the government introduced two changes, in order to satisfy the unions' demands as well as the employers' concerns. The two provisions of the bills, which were reformed, concern the re-arrangement of working time, and part-time employment.

- As mentioned above in section 3, the increase or reduction of daily working time has to be based on a company level agreement. In the previous version of the law, the increase of daily working time could be the result of a unilateral decision by employers. The present clause partly satisfies union demands.
- No upper limit is introduced in the number of part-time workers per enterprise. In the previous version it was stipulated that the share of part-time workers could not exceed 20% of the full-time workers in a company. The employers strongly reacted to this clause.

It is also worth noting that, at last, the establishment of private job placement agencies is becoming a reality, after long hesitations. These private agencies will provide services to employers for certain job categories and will be placed under state control. According to a draft Presidential Decree (already formulated but not yet put into force) the private agencies will initially cover 10 occupational categories: employees in construction and technical works, artists, management employees and directors, accountants, office-cleaners, models, tourist guides, nurses, personnel for nursing old-age people, domestic helpers. The fees will be paid by the employer (10% of the annual earnings of the employee).

Significant changes in the collective dismissals procedures were introduced in June 1999, in line with the relevant clauses of the new law 2639/98. The overall frame of the new regulations is included in a Presidential Decree (not yet put into force), which harmonises the national legislation on collective dismissals with the EU legislative norms. This decree provides a safety net for employees by establishing more complicated procedures for collective dismissals. According to the new procedures, the employer is obliged to consult with the employees' representatives before implementing the plan for the reduction of personnel. The consultations may concern the possibility of reducing or avoiding lay-offs, as well as the pursuit of accompanying measures

to reduce social impacts (i.e. early retirement, re-training in new qualifications, etc.)²⁴ .

On the other hand, this decree offers the possibility of putting up the limit for collective dismissals from the current 2% of the total personnel of an enterprise to 10%. More specifically, the decree ratifies the recommendation of the European Commission (98/59), which determines as “collective dismissal” the dismissal of up to 10% of the personnel of an enterprise per month or the dismissal of 20 employees every 3 months, regardless of the overall number of workers employed.

An important evolution concerning the decentralisation of collective bargaining is the imminent introduction -with considerable delay- of free collective bargaining procedures in the public sector. Public servants are to obtain the right to collective negotiations on working conditions. This right applies to all the salaried civil servants in the public sector, the local authorities (first and second grade), and legal entities of public law. The bargaining process leads to the signing of a collective labour agreement, which covers issues such as: a) placements, transfers, and secondments, b) education and training, c) safety and health at work measures, d) the social security issues, at the exception of pension rights, e) union rights, f) leaves, and, g) working time. It is worth noting that negotiations on issues concerning wages, pensions, qualifications, ways of recruitment could result in a collectively-agreed arrangement, without constituting a collective labour agreement per se.

The collective agreements can be of a limited or an indefinite duration. Regarding the bargaining levels we can distinguish between: (a) the general collective agreements concluded between representatives of the third-level union organisations of public servants (ADEDY) and the central administration, and (b) the specific collective agreements concluded between representatives of the second-level union organisations (federations) and the competent public actors.

²⁴ Before consultations, the company is obliged to inform the employees’ representatives of the reasons for the dismissals, the number, the category and the selection criteria of the persons who will be dismissed, the planned period of dismissals and the possible additional severance payments.

6. GENDER ISSUES IN CURRENT COLLECTIVE BARGAINING

In Greece, gender equality still remains a “marginal” issue on the collective bargaining agenda. The law plays the key role in seeking to achieve equality. On the other hand, it seems that gender policy is a consequence of the European Union’s initiatives, as for example the incorporation in the government employment policy and the National Action Plan, of the fourth pillar of the European employment strategy (strengthening equal opportunities policies for women and men).

As pointed out in the previous report²⁵, the relative absence of gender issues in the collective bargaining processes is not surprising, if we take into account the lack of female representation in decision-making structures and trade union bodies. According to the data presented to the third conference of female trade unionists in the GSEE, held in February 1998, the position of women in the labour market (where they make up over 38% of the labour force) is not reflected in positions of responsibility in the trade union movement, in collective bargaining or in social dialogue. Of 2,067 elected members of the administrations/executive committees of union federations and labour centres, only 133 are women. In the executive committees of 58 labour centres and 44 federations there are no women at all. It is also worth noting that only 3 out of the 45 members of the GSEE executive are women, while at the GSEE’s 29th Congress held in 1998, only 20 out of 520 delegates were women – the lowest percentage for a union confederation in the whole of Europe.

7. FUTURE OUTLOOK FOR 1999-2000

Economic policies designed towards EMU convergence are expected to continue to be restrictive, in order to bring down the public deficit and the public debt as well as the inflation rate, as the Greek government endeavours to become eligible for entry in the EMU by 2001. In this context, the government’s macroeconomic policy moves towards a ongoing reduction in public expenditure, through the continuation of the privatisation process. It seems that this process will be intensified, as the economic authorities have recently confirmed that public revenues for the year 2000 will be below the

²⁵ See A. Mouriki in last year’s edition of the ETUI collective bargaining report.

expected target.²⁶ However, the government has announced (but has not yet put into force) several tax reductions²⁷. The basic macroeconomic targets are the following:

Table 3 - Basic macroeconomic indicators, 1999-2001 (annual change %)*

	1999	2000	2001
GDP	3,7	3,9	4,5
Inflation	2,5	1,9	1,7
Public revenues	38,9	38,8	38,6
Public expenditure	38,9	38,1	36,6
Public deficit (% GDP)	2,1	1,7	0,8
Public debt (% GDP)	105,8	102,5	99,8

* Target performance according to the revised convergence programme.

Source: Convergence programme 1998-2001.

Collective bargaining issues that will be at the centre of the debate in the coming months include:

- The second stage of the reform of the Social Security System, which aims at an overhaul of the public pay-as-you-go pension system.
- Working-time reductions, and especially the issue of the 35-hour week.
- The reform of the taxation system (i.e. probable indexation of the tax scale and probable increase in the tax-free allowance).

Moreover, it seems that, the issue of unemployment will be one of the main discussion targets of social dialogue, as it is estimated that the unemployment rate if it has not increased, it certainly remains high, despite the implementation of the first National Action Plan for Employment.

²⁶ *KATHIMERINI*, 23 May 1999, p. 65.

²⁷ *KATHIMERINI*, 16 May 1999, p. 61.

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ABBREVIATIONS

EESE: Association of the Commercial Unions of Greece

GSEE: Greek General Confederation of Labour

GSEVEE: General Confederation of Greek Professionals and Artisan Traders

NCLA: National Collective Labour Agreement

NSSG: National Statistical Service of Greece

INE/GSEE: Institute of Labour of the GSEE

SEV: Federation of the Greek Industries

Hungary

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This paper presents an overview of the historical development of the forms and role of collective bargaining in Hungary and gives a picture of recent developments and an overview of the 1999 bargaining round. The first part surveys the post-war development of collective bargaining and describes the institutional collective bargaining setup in post-socialist Hungary. The second part of the paper analyses the role of tripartite dialogue at the national level and bargaining at the sectoral and company level in the 1990s in the context of the economic restructuring process. The third part describes the 1999 bargaining round in a political environment increasingly hostile to unions and to social regulation of the terms and conditions of employment.

1. POST-WAR DEVELOPMENT OF COLLECTIVE BARGAINING: FROM NEO-CORPORATISM TO PLANNED ECONOMY AND BACK

1.1. Post-war development of collective bargaining

In the immediate post-war period a kind of neo-corporatist system of industrial relations emerged. A National Wage-Setting Commission (*Országos Bértmegállapító Bizottság*) and complementary joint wage-setting committees were set up in each sector of the economy. The national and sectoral wage-setting committees set the wage level and agreed on the terms and conditions of employment. The agreements thus reached covered all employees in a given sector (527000/1945 IpM. sz. rendelet MK. 1945.V.10. 26. sz.). Moreover, the National Economic Council (*Országos Gazdasági Tanács*) was also set up as a forum for consultation on national political issues, together with several sectoral councils with various rights ranging from information to the redistribution of certain government funds. The neo-corporatist system, however, became increasingly a government tool for controlling the economy due to the fact that the Communist Party, which controlled key economic ministries, also shaped the strategy and policy of trade unions. In 1947/1948, the Communist Party gained political power and began to build up a Stalinist dictatorship through mock elections and to establish a coercive state. The

construction of the state-owned planned economy began in parallel with the shift to dictatorship. The introduction of planning went hand in hand with the centralisation of economic management and direct and tight government control of all production. In March 1948, all companies employing more than 100 workers were nationalised. Further waves of nationalisation extended state ownership to the very small micro-companies, leaving only a few percent of the population working as private entrepreneurs. Nationalisation of industry and commerce was accompanied with the forced collectivisation of agricultural production, a process which was not fully completed until the early sixties. Planning was accompanied by the strict control of wages by central authorities and the introduction of a strict national wage-scale system. After the height of the Stalinist period in the early fifties there was a gradual shift to control wage outflow by placing the locus of regulation on companies' gross wage budgets. This brought on the one hand the gradual easing of national wage scales and the building up of internal company labour markets. The forming of these markets opened up a plethora of informal and formal negotiations between workers, groups of workers, workplace-based trade union sections and management. The introduction of the so-called New Economic Mechanism in 1968 entailed a kind of quasi-market wage regulation combining administrative control and taxation measures to direct companies' human resource strategies. The parallel re-introduction of mandatory company-level collective bargaining between local management and workplace union section further expanded the role of internal company labour markets and the scope of formal and informal bargaining within the limits of the controlled annual gross company wage budget.

The increasing delegitimisation of central control, the gradual marketisation and the increasingly palpable dysfunction of central wage control led to intense discussions on the reform of wage control in the mid 1980s. A policy paper prepared by the Labour Research Institute of the Ministry of Labour, which advocated the elimination of central wage control and parallel measures to build up wage bargaining between employers' associations and trade unions played a pivotal role was in the debate. Although the concept was severely criticised by a group of economists who feared that in a context of state-owned companies and imperfect market regulation the elimination of central wage control would only fuel inflation, it gained strong support from both trade unions and employers' associations and obtained currency amongst political decision-makers. The gradual reform and elimination of central administrative control of companies' wage budgets began in 1987, and the taxation of profits and personal income was introduced.

1.2. The birth of the post-socialist institutional collective bargaining environment

The transition towards a pluralist democratic system opened up the area for establishing the institutional setup of the wage bargaining system in 1988 and 1989. The last communist government set up the first national-level tripartite consultative body, the National Interest Reconciliation Council – OÉT (*Országos Érdekegyeztető Tanács*) in December 1988. The OÉT was created to replace the regular Government-SZOT (*Szakszervezetek Országos Tanácsa* – National Council of Trade Unions) meetings of the former regime and to provide an institutional framework for national tripartite negotiations which also included employers' organisations. However, the government invited only the SZOT and those employers' associations which were part of the socialist regime and did not offer participation in the body to the newly established alternative organisations which had been set up on both the management and the labour side. The selective composition of the OÉT made it illegitimate, and with the completion of the transition it ceased to exist. In the wage bargaining field the OÉT played a crucial role in the elimination of central wage regulation and its replacement with wage negotiations amongst the social partners and the government at the national level. The government delegated the authority to fix the national minimum wage and issue recommendations to company-level bargaining negotiations on the annual minimum and maximum level of wage increases. At the same time, a Labour Code amendment re-institutionalised sectoral collective bargaining between trade unions and employers' associations, which had not existed in the socialist regime.

The new freely elected government took the initiative of setting up a new national tripartite council, the Interest Reconciliation Committee – ÉT (*Érdekegyeztető Tanács*) in the summer of 1990. This time, all associations representing employees' and employers' interests which claimed a national role were invited to the forum, and the ÉT became the venue for permanent negotiations between the government and the social partners. Soon after its creation, the ÉT gained momentum by becoming the forum which worked out a compromise and thus peacefully resolved the so-called 1990 taxi blockade, which blocked the streets of Budapest for a weekend after the sudden announcement of steep increase in petrol prices. The political lessons which were learnt by political parties were that there was a need for constant consultation with the social partners on economic policy and economic measures in the tripartite council and thus to seek social legitimacy for government policies.

Both trade union and employer confederations called for the suspension and elimination of government wage control and for free collective bargaining. Eventually, the OÉT's earlier practice of acting as the forum of quasi-national collective bargaining, since it had the authority to fix the annual minimum wage level and to issue recommendations for two-party bargaining provided a basis for developing social rather than government regulation. The revision of the Labour Code in 1992 further broadened the vision of comprehensive social regulation by instigating the extension of multi-employer collective agreements by the Ministry of Labour. Great hopes were placed in complementary three-channel social wage regulation including, first, the fixing of the national minimum wage and recommendations for two-party bargaining among the social partners and the government in the ÉT and, secondly, collective bargaining at the sectoral level between trade union federations and employers' associations and, thirdly, company-level collective bargaining.

Both the 1990-1994 MDF-led right-wing coalition government and the MSZP-led coalition in the period from 1994 to 1998 saw the tripartite forum as a major instrument for handling social questions. The very frequent meetings of the council served to discuss all major social-economic measures and draft legislation concerning the state budget, taxation, the social services, labour, labour market policies and labour market institutions. A practice evolved where the government would propose a certain compromise, certain social policy measures, as a trade-off in exchange for acceptance of a government initiative. Closely connected with macro-economic issues, the tripartite council became a locus of quasi-national collective bargaining by annually fixing the national minimum wage and issuing recommendations for the annual wage bargaining rounds by establishing recommended percentages for minimum, average and maximum wage increases in a given year. A plethora of tripartite consultative institutions developed around the Council, covering specific issues such as unemployment policies, vocational training, public service employment regulation, privatisation etc. These tripartite bodies were, in a formal sense, consultative bodies, but actually many of them worked as co-decision-making bodies. A further set of tripartite bodies was established, which were to oversee and re-distribute state funds in certain social services. The tripartite governing bodies for the national pension fund, the national health insurance fund and the national labour-market fund were of particular importance. These bodies actually governed a sizeable portion of the state budget and their decisions had far-reaching implications for any government economic policy.

The building up of a neo-corporatist environment facilitated the dismantling of government wage control and the restoring of free collective bargaining.

The ÉT became the venue for negotiations between employers' associations and trade unions with the government pushing for the suspension of wage control. In 1991 a tax-based scheme was introduced for penalising companies granting excessive wage increases, which was much less stringent than in previous years. In December 1991, the ÉT reached an agreement on provisionally suspending governmental wage determination for 1992 (Tóth, G. 1992); in its communiqué the ÉT called upon the employers' and employees' organisations to begin to conclude multi-employer collective agreements (MCAs) on their own mutual initiative as soon as possible and to make every effort to open wage negotiations as soon as possible (Magyar Közlöny, 1992/5). On the basis of the positive experience gained, the ÉT agreed in November 1992, on the initiative of trade unions, that there was no longer any need for government wage regulation (Tóth, G. 1993). The ÉT communiqué once again called on the bargaining partners to establish MCAs. In its recommendation the ÉT emphasised that there was no time to wait for wage bargaining to develop spontaneously; rather, deliberate initiative and organising work was required immediately in order to establish and stabilise the wage-bargaining system at the multi-employer level (Tájékoztató 1992). Since 1992, the main channel for fixing wages in the so called competitive sector of the economy is either collective bargaining or unitary wage-setting by employers, which is influenced by the annual fixing of the national minimum wage and the annual recommendations for wage increase issued by the ÉT.

Contrary to the deregulation in the competitive sphere of economy, wage-setting in the public sector moved towards a centralised system for which the foundations were laid by the 1992 legislation regulating the sector: three different laws established three different types of employment in that sector. Employees in the public administration (public servants) are persons who work for government offices, local authorities and/or social security institutions, and their employment is governed by Act XXII of 1992 (Ktv). The employees of public services in the fields of education, research, health services and similar activities come under Act XXIII (1992) (Kjt). Officials or employees of the military, police, fire brigades and customs service come under Act XLIII (1996) (Szjt).

A separate tripartite forum was set up at the national level for each section of the public sector. The Interest Reconciliation Council of Budgetary Sector Institutions – KIÉT (*Költségvetési Intézmények Érdekegyeztető Tanácsa*) was established for consultation and negotiation on issues relating to the employment of public service employees covered by the Ktv. In 1992, there were 650.000 public service employees in Hungary, but this figure had decreased to 577.000 by 1996. Some time later, in July 1993, the Public Servant Interest Reconciliation Forum – KÉF (*Köztisztviselői Érdekegyeztető Fórum*) was set up for consultation and negotiation on issues relating to the employment of public administration employees covered by the Kjt. There were 110.000 public servants in Hungary in 1992, and 98.000 in 1996 (Berki, 1997, 55). However, there is a major difference between the KIÉT and the KÉF: the KIÉT has become the forum for negotiating the wage scales of public sector employees, whereas the KÉF does not have any bargaining role for public servants. The wage negotiations for public servants have taken place in the KIÉT to date or in two-party talks between ministers and individual unions. (Berki, 1997, 58). In addition to the KIÉT and KÉF, an interests reconciliation committee was set up at ministry level in each ministry supervising a budgetary sector for consultation on issues concerning employment in the public institutions under the supervision of the ministry.

The importance of the KIÉT grew after the autumn of 1995, which saw the first widespread demonstrations of public sector employees against the drop in their real wage level caused by restrictive governmental measures. 1996 saw the shift from consultation to negotiations between unions and government over the wage scale of public sector employees and led to a 3-year wage agreement.

2. COLLECTIVE BARGAINING TRENDS BETWEEN 1989 AND 1998

2.1. The economic and labour market environment of collective bargaining in the 1990s¹

Hungary entered the post-socialist period with a controversial legacy resulting from a reform process that started in the late 1960s. On the one hand, it had a comparatively liberalised economy, including an already significant private entrepreneurial sector. It could also rely on a varied pattern of foreign trade, and state-owned firms had developed close contacts

¹ This part of the paper is based on Keune-Tóth 1999.

with a number of western companies. But on the other hand it also had the heaviest *per capita* debt burden, some US\$ 2000 (ILO-CEET 1997), which placed a considerable constraint on government policy in the 1990s. All post-communist governments based their economic policy on three main pillars: privatisation, liberalisation and stabilisation, going on record with a clear commitment to service their debt as well. In this way, the country tried to gain the confidence of Western investors and to attract foreign capital to finance the restructuring and upgrading of the economy. In 1989, a profound institutional transformation of the economy began, and by 1991 price and trade liberalisation had made great advances. Such measures in conjunction with a drastic cut in budgetary subsidies for domestic companies created a very competitive open market.

During the first years of transformation, the economy went through what can best be described by the widely used term of ‘transition recession’ (Kornai 1997). In this period, the inflation rate was between 20% and 30%, a fact which brought real wages and purchasing power down. The initially positive trade balance turned negative in 1991 and the trade deficit grew to US\$ 3.9 billion in 1994. The government tried to promote economic stabilisation through “shock therapy” – restrictive monetary, fiscal and wage policies. However, this also led to a decrease in domestic demand, aggravating the negative effects of the sudden decline in external demand caused by the break-up of the CMEA. The result was a marked decline in GDP.

Table 1 - Main economic indicators 1990-1997

	1989	1990	1991	1992	1993	1994	1995	1996	1997
GDP (1989=100)	100	96.5	85.0	82.4	81.9	84.3	85.5	86.6	90.4
Real gross industrial output (1989=100)	100	90.7	74.1	66.9	69.6	76.3	79.8	82.5	91.7
Consumer prices*	17.0	28.9	35.0	23.0	22.6	19.1	28.5	23.6	18.4

* Annual average percentage change over preceding year.

Source: UN-ECE, 1998.

Almost one million jobs have been eliminated, most of them in agriculture and the manufacturing industry. Sectors such as coal mining, metallurgy and textiles have virtually disappeared, their current employment level being at best only one-fourth to one-fifth of the level at the outset of transformation. The employment losses have only partially been reflected in official

unemployment levels, which peaked at 13.6% in February 1993. An important part of declining employment has been the decreased economic activity of the working age population. Between 1990 and 1995 the number of inactive persons increased from 949,100 to 1,686,700, a rise of almost 78%. This may be attributed partly to the growing number of young people enrolled in educational programmes, and partly to early retirements, which are often an alternative to outright redundancy (ILO-CEET 1997). Furthermore, there has been explosive growth in the informal sector (including the shadow economy), which was already sizeable under the socialist regime.

Table 2 - Employment and unemployment, 1990-1997

	1990	1993	1994	1995	1996	1997
Total employment (1989=100)	96.9	75.6	73.9	72.6	72.6	72.8
Registered unemployment (1000)	101	632	520	496	479	464
Registered unemployment (%)	1.7	12.1	10.9	10.4	10.5	10.4

Source: UN-ECE, 1998.

Economic recovery was finally triggered by the “Bokros programme” in 1995, which reduced the budget deficit and foreign debt by using the revenue from privatisation for debt service and introduced a predictable currency devaluation regime. Since then, Hungary’s economy has been growing steadily (see Table 1), but GDP is still below its 1989 level. The success of stabilisation and growth is clearly reflected in the main economic indicators in the country. Even though Hungary is not in a position to join the EMU within the next few years, fulfilling the Maastricht criteria has become an expected goal of the country’s economic policy. The following data show where Hungary stood in 1998 in this connection: in that year, Hungary had a budget deficit of 4.5 %, while the foreign debt was over 70% of GDP.

2.2. The role of social regulation in wage setting

The economic crisis and the subsequent decline in employment had negative effects on the wages and wage inequalities of the Hungarian population in the first half of the 1990s. Except in the election year 1994, real wages continued to fall between 1989 and 1996. 1997 represented a turnaround with a 5% real wage increase, which was followed by a 3.6% increase in 1998. Parallel to wage decline, the period from the 1980s onwards saw a marked increase in

wage differentials (Galasi-Kertesi). The growing wage differentials were reflected in the decreasing minimum wage/average wage ratio and the increasing differentiation between the budgetary sector and the competitive sector, also within sub-sectors of the competitive sector (Ladó 1995). The minimum wage/average wage ratio, however, also began to increase after 1997. Commentators emphasise, that nominal wage outflow regularly reached or sometimes even exceeded the upper wage bargaining ceiling recommended by the ÉT (Munkaügyi Minisztérium 1998, p.62.).

Table 3 - Development of nominal wages in the competitive sphere of the economy in %²

Year	minimum wage (in Ft)	ÉT recommended average wage increase (%)	ÉT recommended upper ceiling for wage increase (%)	Real nominal wage growth (%)	Planned annual inflation (%)	Real inflation (%)
1992	8000	123	128	126,6	120-125	123,0
1993	9000	118	125	125,1	114-117	122,5
1994	10.500	117-119	121-123	123,4	116-122	118,8
1995	12.200	no agreement	no agreement	119,7	120	128,1
1996	14.500	119,5	124	123,2	120	123,6
1997	17.000	117,5	122	121,8	117-119	118,3
1998	19.500	-	116		113-114	114,3

Source: KSH, MŰM

² <http://www.datanet.hu/mmsz/hir98maj.HTM>

Table 4 - Wage increases 1996-1998

	1996	1997	1998
Monthly nominal salary in Ft	46 837	57 270	67 764
Monthly net salary in Ft	30 544	38 145	45 162
Inflation, 1 year previously =100	123.6	118.3	114.3
Real wages, 1 year previously =100	95.0	104.9	103.6
GDP	101.3	104.6	105.1

source: KSH

2.3. Sectoral and company level collective bargaining

Sectoral level collective agreements, in general, did not prove to be an effective mechanism for regulating terms and conditions of employment in Hungary as had been expected by the social partners in the early 1990s. First of all, sectoral collective agreements proved to be only multi-employer agreements binding only certain members of voluntary employers' associations. Normally, those companies who joined a sectoral agreement can find a local union and probably one which also has a local collective agreement. That is to say, multi-employer collective agreements have barely any binding force for companies in the non-unionised sector. Secondly, after the wave of agreements in 1991 and 1992, the coverage of multi-employer collective agreements decreased substantially and only a minor circle of employers was involved covering only 10% of employees. Multi-employer collective agreements certainly did not fulfil earlier expectations, which hoped that they could help to overcome the weakness of company union sections by relocating the focus of bargaining above the enterprise level. The actual influence of multi-employer agreements on employment has been minor. Their real effect has been a rather indirect, atmosphere-improving, pattern-setting influence on local-level agreements, which has improved the atmosphere, on the one hand; they may thus have contributed to the legitimisation and stabilisation of organisations representing the interests of employees and employers. In this sense, multi-employer collective agreements have had more influence on the politics of industrial relations than on the actual regulation of employment. Practice has shown that such agreements have relatively weak binding force in setting the minimum wage level. In its survey of the 1992-1993 wage-agreements, the Wage Department of the Ministry of Labour pointed out that most of these agreements were merely recommendations and did not have binding force. Six

out of 24 wage agreements signed in 1992 stipulated a higher minimum wage level than the national minimum wage. One agreement recommended a higher minimum wage level than the national level and two stipulated higher levels covering 11,000 employees (*A kollektív bérmegállapodások*, 1993). Even in cases where a multi-employer collective agreement stipulated a higher minimum wage level than the national level, there were minor differences between the various industries. Multi-employer collective agreements normally contain a wage scale. These scales, however, contain only a very broad job grade prescription for the following 4 grades of blue-collar workers: unskilled worker, semi-skilled worker, skilled worker, multi-skilled worker (master); and only a minority of agreements elaborate more detailed and tailored wage scales specific to the industry. When one compares the wage scales of various agreements, it is evident that the differentials in wage scales do not reflect the real wage differentials between industries (Tóth, A. 1997).

Company-level collective bargaining has remained the major field of the social regulation of wages. According to the statistics, around 600 companies annually conduct wage negotiations with local unions. Those negotiations cover about 30% of employees (Munkaügyi Minisztérium 1998, p. 63.)

2.4. Wage bargaining for the budgetary sector

1995 marked a decisive year. The government stabilisation measures in March 1995, the so-called “Bokros programme” included a 14% limit for wage increases in budgetary institutions and state-owned companies in the context of an inflation rate of approximately 30% in order to redress the balance of the budget and restore the competitiveness of the Hungarian economy. Widespread demonstrations and protests by public service and public utility unions in the late autumn and early winter led to the partial suspension of wage control measures, and the government entered into negotiations with public service unions to improve the wages of employees in that sector, which led to agreement on a 19.5% wage increase in January 1996, bargained in the KIÉT. That agreement was followed by a – year agreement concluded in the KIÉT in March 1996, which covered wages in the budgetary sector and included an agreement on cooperation between the government and the unions with regard to the necessary reform of that sector. In line with the 3-year agreement, the 1997 wage agreement stipulated wages increases, and it was also agreed that a new 10-grade wage scale would be introduced for public servants. In 1998, a 16% wage increase agreement was also reached in the KIÉT before the government submitted the budget to Parliament. However, despite the wage increases negotiated, the differentials between the wages of employees in the

competitive sector and those in the budgetary sector increased considerably (see table below).

Table 5 - Ratio between per capita wages in the competitive and the budgetary sectors in %)

	1994	1997
Competitive sector	100	100
Budgetary sector	71.5	65.8

Source: Munkaügyi Minisztérium (1998. p. 66)

3. THE 1999 BARGAINING ROUND

3.1. The political and economic environment of the 1999 bargaining round

The collective bargaining environment has been shaped by two processes: first, a major shift in the government standpoint concerning social regulation of wages and, secondly, a slowdown of the economic boom and the emergence of negative tendencies in the budget balance, due primarily to the unfavourable change in the world economy, and in particular the Russian economic crisis and the subsequent Kosovo crisis.

The May 1998 elections were won by a coalition of right-wing parties. The new government adopted a policy aiming to break with the former practice of neo-corporatist dialogue. By eliminating tripartite bodies the government also sought to destroy the political background of the state-socialist cadre elite, claiming that different fractions of that elite produced the key cadres of both the *Magyar Szocialista Párt* (Hungarian Socialist Party – MSZP) and the unions, and that the tripartite bodies thus served as a institutionalised forum for the internal deals of that elite. The government entering into office immediately disbanded two major tripartite bodies, the National Pension Board and the National Health Insurance Board and placed those social security funds under direct government control. The government also refused negotiations in the ÉT and strictly confining itself to providing information and refusing to negotiate with the social partners. The government refused in general to consider proposals put forward by the social partners concerning the 1999 budget and the 1999 tax law. The fact that, breaking with earlier custom and practice, the government submitted an amendment of the Labour Code without reaching a consensual agreement in the ÉT and, obviously, against the expressed protest of unions was a matter of great concern to the latter. Due to the change in

political climate, the previous rather friendly relations between the government and the unions turned into a cold war.

At the same time, the government put forward a plan for disbanding the ÉT, reducing it to an information forum, and for establishing two separate bodies – one for macroeconomic consultation and one for dealing with matters strictly limited to the industrial relations field. Despite strong criticism and reservations expressed by both social partners, the government carried out its plan and in early 1999 ÉT ceased to exist and two new bodies were set up: the OGT and the OMT.

The *Országos Gazdasági Tanács* (National Economic Council - OGT) is for macro-economic consultation. It is a body with much wider participation than the ET on two scores. First, civil associations representing different areas of society were also invited into the council, and, secondly, a much wider range of associations was invited on the employer side than was the case with the employer participants on the ÉT. That is to say, the organisations of multinational companies, chambers of commerce and industry, and other types of employer associations which had not been represented on the earlier body were now invited to participate. On the whole, the social partners welcomed the broadening of the employers' side through the inclusion of the associations of pivotal economic actors. The unions, however, still had reservations, fearing that the OGT would merely be an annual talking-shop, meeting on two or three occasions, rather than a real consultative body.

Parallel to the OGT, the government set up the *Országos Munkaiügyi Tanács* (National Labour Council - OMT) which basically continues the tradition of tripartite consultation on issues related to industrial relations, including pre-legislative consultation, the setting of the minimum wage and recommendations for two-party bargaining. These changes will make the complex bargaining over wage increases, tax law and pensions and health contributions, which formerly characterised the work of the tripartite body and had an impact on the annual wage bargaining rounds, impossible. The all-out attack of the government on the trade unions does not stop at dismantling the tripartite neo-corporatist system; it also further undermines the unions' power in the industrial relations field. The government has proposed a Labour Code amendment, which would authorise works councils to conclude a labour agreement in the absence of a representative union at the workplace, which would replace the collective agreement. This change would further complicate relations between the works council and the unions and would further undermine the unions' legitimacy at workplace level.

The government also changed the former policy on public sector wage-setting in the KIÉT, deciding to break with the earlier practice of wage scale raises determined by that body and refusing to commit itself to negotiation of wage increases: it decentralised wage negotiations to the ministries and to local authorities and institutions.

The tax law amendments proposed by the new government were of particular importance for the 1999 bargaining environment. That amendment aimed to redistribute tax burdens benefiting the higher-paid strata of the working population and placing a heavier tax burden on workers in the lower income groups. The government's political philosophy was that the reduction of taxes on employees in the higher income brackets would strengthen the middle classes of Hungarian society³. The effects of the new tax law are shown in the following table.

Table 6 - Changes in net wages due to changes in the tax regime⁴

Nominal monthly wage (in Ft)	Net wage December 1998	Net wage January 1999	Change in net wage due to the tax regime
24 688	21 455	19 627	- 1839
49 375	35 813	35 711	-102
54 313	38 541	38 649	+108
79 000	51 354	53 338	+1984
158 000	87 783	90 026	+2243

source: MSZOSZ.

³ The fact that the government did not respond either to the unions' criticism or to the alternative tax-reform schemes they proposed is characteristic of the new style of dialogue at the national level.

⁴ Népszabadság, 1999. május 24.

The MSZP estimates that, despite a 13% wage increase, the real wage of an employee earning a monthly nominal wage of 25.000 Ft., would decrease by 6% with an inflation rate of 11%. Accordingly, the same 13% wage increase and 11% inflation rate would mean a 2% drop in real wages for employees with a nominal wage of 45.000 or 80.000 Ft.⁵

Despite the political changes which were not propitious to collective bargaining, the continued upswing in the economy constituted a more permissive environment for union wage claims than had been the case in previous years. The government projected an economic growth rate of 4-5% and a slow but continuing decrease in unemployment. The impact of the Russian crisis and the outbreak of the Kosovo conflict, however, put a strain on the budget, which limited the government's scope for negotiating with the public service unions. In parallel with the budgetary constraints, the government's intention to reduce inflation rate to 9-10 % in the course of 1999 further limited the government's leeway for seeking compromise with the unions, which were demanding wage increases well above the inflation rate.

3.2. The 1999 national minimum wage and wage recommendation negotiations in the ET⁶

The government's new attitude changed the climate of negotiations. It was characteristic that the meeting of the ET on November 27 1998, at which the 1999 wage round was the top priority on the agenda, began with a complaint from the workers' side that the government was jeopardising peace in industrial relations by refusing to negotiate.

In addition, both the unions and the employers' associations complained that the government had not submitted the 1999 budget for consultation until the Parliament had concluded the debate on the bill. The major issues of the 1999 wage round had already emerged in the debate on the 1999 budget: the government had not incorporated an increase in the budget sector wage scale in the budget; rather, it had decreased the budget sector wage bill by allowing for a lump-sum decrease for public service and public government employees. Moreover, the budget was based on 2-3% increase in real wages. The unions in turn demanded i) a 5 % real wage increase in parallel with the planned 5 % growth in GDP, ii) an increase in the wage scale for employees in the

⁵ Népszabadság 1999. március 25.

⁶ <http://www.meh.hu/szcsm/et/ETIRmain.htm>

budgetary sector in addition to the 5 % wage claim, and iii) the maintaining of the lump-sum regulation favourable for employees. But the government refused to accept the trade union claims arguing that it would adversely affect the balance of the budget by 1% and, in general, harm the competitiveness of the economy.

Parallel to the debate on the budget, negotiations were opened on the fixing of the minimum wage and the recommendations for wage bargaining in the competitive sector. The government put forward a proposal for a 13% increase, while the employers proposed 11% and the unions 16.5 %. Referring to the need to harmonise wage levels in Hungary with the average level in the EU, however, the *Autónom Szakszervezetek Szövetsége* (Federation of Autonomous Unions – ASZSZ) insisted on a much higher increase. Similarly, the proposals for the 1999 minimum wage varied widely. The unions advocated 25500 Ft, the employers for 21500 Ft, while the government proposed 22600 Ft. Negotiations continued at the next meeting of the ÉT on 4 December 1998, at which employers and unions closed the gap between their initial proposals to some extent by talking about and increase of 11-12 % and 15-16 % respectively, while the union side went down to 25.000 Ft. for the minimum wage. The employers' side, however, did not make any new offer but argued that whatever the new level its introduction in the agricultural sector should be postponed. At the next bargaining round on 11 December 1998 the gap was closed further when the unions advocated a 12-16 % increase and the employers proposed 11-15 %, while the government maintained its point of reference of 13 %. In the negotiations on the minimum wage the unions brought their claim down further to 24.500 Ft., while the employers went up to 22.500 Ft., with the exception of the agricultural sector. The government and the social partners finally reached agreement at the next meeting of the ÉT on 22. December 1998, at which point the government also maintained its original proposal of 22.600 Ft. It was recommended that a 12-15 % wage increase be observed in the two-party wage bargaining. The government, however, stated that it still considered that a 12-13 % wage increase would be optimal for lowering inflation rate. The ASZSZ also expressed the opinion that the ceiling for the recommended wage increase should be 16%. The minimum wage level for 1999 was increased to 22.500 Ft, except in agriculture, where the 1998 minimum wage level remained in effect until 1 March. The government and the social partners also agreed that, if necessary, new negotiations on a possible increase in the minimum wage level would be opened in May 1999, and in the course of that year they opened negotiations on the harmonisation of Hungarian wage levels with the EU average.

3.3. Wage bargaining at the sectoral level

Normally, sectoral collective agreements stipulate only the minimum wage level, the minimum increase in the individual contractual wage and possibly a nominal average wage increase. Most of these sectoral agreements cover a segment of their respective industries and thus serve more as a guideline for local bargaining or wage-fixing by employers. For example, the agreement for the engineering sector covers only seven companies with 3000 employees, but according to the *Vasas* (Metalworkers' Union) it is followed by a further 60-66 companies, which have local unions and which try to implement the provisions of the agreements in their respective company agreements. In this sense, sectoral collective agreements are more multi-employer agreements covering mainly those organised companies which already have local collective agreements in force. Altogether, the sectoral agreements cover about 10 % of companies in the competitive sector of the economy.

Almost all of the sectoral wage agreements comprised an increase in wages in their respective sector which was higher than what the government considered optimal, but they all remained below the ceiling recommended by the ET. Only in nine sectors did the unions manage to stipulate a higher minimum wage than the national minimum. The agreement in the chemical industry fixed the minimum wage at 25.500 Ft from 1 January and stipulated that an increase of at least 14% would be paid in companies covered by the agreement. The agreement in the engineering sector provided a 24.100 Ft. minimum wage and a 13.5 % average wage increase. The agreement in the garment industry forecasts a 15-18 % average wage increase in the industry, while the individual basic wage will be increased by 11-14 % by companies covered by the agreement. Mining companies will increase wages by 14 %.

Even according to the unions, company level bargaining has been more important in wage-fixing in 1999 than sectoral bargaining. That arena of wage bargaining will thus be discussed in the next section.

3.4. Wage bargaining at company level

There is no data available on company negotiations. According to estimates published by the unions, about 30% of companies have local collective agreements. At the company level, national public utility companies gained tremendous importance in the 1999 bargaining round. The bargaining round at the railway company began in December 1998. The three major unions in the company formulated a 21 % demand. In the last few days of December, however, two of them signed an agreement with the management accepting a 16 %

increase. The third union, the *Vasúti Dolgozók Demokratikus Szakszervezete* (Democratic Union of Railway Workers – VDDSZ) did not accept the deal and called for a strike at the beginning of January in order to achieve the 21 % wage increase. The 5-day strike was suspended after a jury ruled that it was illegal since it was being conducted in violation of an existing collective agreement. However, the 16 % benchmark gave other public utility unions an indication of the bargaining goal. The postal workers' union also achieved a 16 % wage increase against the company's offer of 13.3 %. A few days after the suspension of the VDDSZ strike had finalised the 16 % wage increase for railway workers, the bus drivers' union of the *Budapesti Közlekedési Vállalat* (Public Transport Company of Budapest) formulated its 21 % demand against the original management offer of 10 %. The other unions in the company also joined the bus drivers' call for a strike demanding a higher wage increase that offered by management. The negotiations led to an agreement at the last minute before strike, which was scheduled for 22 January 1999. It was agreed that the company would increase the wages of bus drivers by 15 %, those of lower-paid tram and trolleybus drivers by 18 %, and those of the employees of the central administration by 13.5%.⁷ The unions accepted, however, that the management would reduce the workforce of the company by 500 workers. The electricity workers' union demanded a 15 % mandatory wage increase throughout the sector and the possibility of an additional 1.5 % increase at the company level depending on the companies' financial possibilities against the electric power plants' original proposal of 12.5 %. In the context of a threatened strike, an agreement was concluded on 25 January 1999, which set the minimum wage increase at 13.3% and prepared the way for company-level negotiations. It also fixed the minimum wage in the sector at 26.000 Ft. The postal workers' union concluded an agreement on a 16 % wage increase by 1 March, but due to the 3-month delay, the agreement only brought an average annual wage increase of 13.3 % for postal workers.

According to information published in the media, company agreements outside the public utility sector brought a wage increase in the 13-16 % range. For example, the aircraft maintenance workers' union agreed on a 13.1 % wage increase, but the agreement also contained references to a 2 % increase in the pension fund by the company and a certain increase in fringe benefits.⁸ In a major chemical company, BorsodChem, a 14.6 % contractual wage increase

⁷ HVG. 1999. Január 30.

⁸ Népszabadság. 1999.február 27.

was agreed as well as a parallel increase in fringe benefits after a strike warning by the trade union in response to the initial 13.5 % management proposal. The agreement also set the minimum wage in the company at 35.000 Ft.⁹ Local unions in the retail trade reported a 16 % wage increase.¹⁰

3.5. Disputes in the public sector

Well before the unions in the competitive sector of the economy prepared to put forward their wage demands, the government set the 1999 wage development for the public sector in mid autumn 1998 with a target of wage increases 2-3% above inflation level, refusing to negotiate with the public sector unions in the KIÉT over the increase in the wage scale. It had chosen to decentralise wage negotiations by freezing the wage scale and relegating wage negotiations to ministerial and local government authorities governing public service and public administration institutions. In view of previous experience in the field of decentralised wage increases it was anticipated that unless there was a mandatory wage increase ministerial and local government authorities would hesitate between covering wage increases or ensuring funding for running their institutions. Furthermore, the effect of the 1999 tax regime heralded hardship for a substantial proportion of employees in the budgetary sector. In early January 1999 the public sector unions were alarmed when it transpired that in many sectors and companies the wage increase was below the planned 13 % and that many employees were taking home less pay than in December 1998. In the health and social services in particular the wage increases were considerably lower than expected, but many other unions also complained and demonstrated. In the health service, the *Egészségügyi Dolgozók Demokratikus Szakszervezete* (Democratic Union of Health Care Service Employees – EDDSZ) originally demanded a 16 % increase, but the government only offered 13 %. However, in early January it transpired that not even the 13 % increase had been realised. According to the EDDSZ, there were only funds available for a 6-8 % increase. The government admitted in response that it could only ensure a 10 % increase in the immediate term but promised that there would be a further 3 % increase in April 1999.¹¹ In response the EDDSZ began to size up whether the membership would be prepared to strike in order to fight for higher wages. In the meantime, the

⁹ Népszabadság 1999. április 22.

¹⁰ Népszabadság 1999. május 12.

¹¹ Népszabadság. 1999. január.15.

situation was further clarified: according to an announcement by the Hospital Association, wages in hospitals had only increased by 6.96 %.¹² An EDDSZ analysis also revealed that the majority of hospitals in Budapest had only increased wages by 4-7 %, although there were four hospitals which had increased the wage level by 16 %, ¹³ whereas there was no budget for paying overtime in those hospitals and there had been no wage increase whatever in social service institutions.¹⁴ By mid February attitudes had become increasingly radicalised within the union. Some hospital union sections announced that they were prepared to strike and the EDDSZ called on the local union sections to conclude an agreement concerning the minimum services to be maintained for the duration of the strike¹⁵. In a subsequent interview with a national newspaper the State Secretary admitted that 60 of the 156 hospitals had not received any funding for the 10 % wage increase, but he promised a 6 % increase in April and mentioned the possibility of a further 2 % increase in the early summer.¹⁶ Taking account of the government's promises and the mixed responses of membership to the strike option, the EDDSZ decided not to call a national strike but to join a demonstration held by the SZEF on 20 March to express the demands for fairly negotiated wages in the sector. Similar to the EDDSZ's complaints, the *Magyar Köztisztviselők és Közalkalmazottak Szakszervezete* (Trade Union of Hungarian Public Servants) complained that the real wage of public servants had decreased in January by 15 %.¹⁷ There were also calls for immediate wage increases by the police force and teachers' unions.

The Hungarian Statistical Office recently published the first data on wage outflow between January and March 1999. The statistics also reveal the growing gap between employees in the competitive sector and those in the public sector.

¹² Népszabadság, 1999. január. 30.

¹³ Népszabadság, 1999. február. 03.

¹⁴ Népszabadság, 1999. február 08.

¹⁵ Népszabadság, 1999. február 03.

¹⁶ Népszava, 1999. február 18.

¹⁷ Népszabadság, 1999. február 16.

Table 7 - Nominal wage outflow January-March 1999 in companies employing more than 5 employees.¹⁸

	Average salary, Ft/capita		Increase in percentage		
	March 1999	Jan. 1999	Nominal wage outflow between March 1998 and 1999 (3/98=100)	net wage outflow between March 1998 and 1999 (3/98=100)	Increase January-March 1999 (1/99=100)
Agriculture, fishing	51 822	47 496	119.4	113.9	109.1
Mining	92 581	82 255	113.6	110.9	112.6
Manufacturing	72 886	68 622	117.4	113.4	106.2
Manufacturing sub-sector					
15-16 Food processing	71 525	66 502	123.4	117.9	107.6
17-19 Textile and clothing	47 607	44 719	122.2	115.1	106.5
23-25 Chemical	99 741	97 879	115.6	112.5	101.9
29-35 Engineering	82 110	76 519	120.1	116.1	107.3
Electricity, gas, water and heat providers	98 631	88 979	120.0	115.9	110.9
Industry as a whole	75 630	70 781	117.4	113.5	106.9
Construction	52 894	50 092	111.9	107.4	105.5
Retail trade and vehicle maintenance	64 340	62 001	114.7	110.5	103.8
Hotel and food catering	47 897	46 110	120.1	113.8	103.9
Post, telecommunication and haulage/transport/ storage industry	81 996	77 263	116.1	113.2	106.1
Financial activities	149 311	153 223	119.0	116.0	97.5
Economic services	84 514	80 868	124.3	119.3	104.7
Public government, police and army, social security	81 125	87 234	118.2	114.9	93
Education	70 289	69 908	123.2	118.9	100.5
Health and social services	54 961	57 505	113.7	110.9	95.6
Other public services	66 714	64 059	110.1	107.9	104.1
Economy as a whole	72 383	70 543	117.1	113.3	102.6
Competitive sectors	73 411	69 580	116.1	112.4	105.5
Budgetary sectors	70 152	72 871	119.3	115.6	96.3

¹⁸ <http://www.ksh.hu/hun/ingyenes/h5friss/h50402.html>

In general, all public service unions protested because of wage decreases and demanded a return to the bargaining table. The *Szakszervezetek Együttműködési Fóruma* (Cooperation Forum of Trade Unions – SZEFE) organised a demonstration first in a sports stadium and then on 20 March outside the parliament building to underline its support of the unions' claim. At the same time, the SZEFE demanded that negotiations be opened in the KIÉT on the wage scale of employees in the budgetary sector and also called for the lifting of the wage-scale freeze. The organisation demanded further that the government guarantee a budget for the wage increases promised and that a 16% wage increase be granted. In a subsequent radio interview, however, the Prime Minister ruled out the possibility of any wage increase in the budgetary sector claiming that it was absolutely essential to reduce inflation.¹⁹

In parallel with negotiation efforts in the public sectors, the trade unions, proposed that the increase in the minimum wage from the current 22.500 Ft. to 25.500 Ft. be included on the OMT agenda in accordance with the ÉT agreement of 22 December. The trade unions considered the increase necessary in order to maintain the real value of the minimum wage as the result of the 1999 tax regime, which increased the tax burden on low incomes. The negotiation were scheduled for the meeting of the OMT on 18 June.²⁰

4. THE LESSONS OF THE 1999 BARGAINING ROUND AND FUTURE IMPLICATIONS

The 1998 elections brought a government to power which is deliberately seeking to put an end to the earlier neo-corporatist style arrangements and to marginalise the role played by the trade unions at the national level in the shaping of the economic environment of two-party bargaining. In view of the relatively minor role of multi-employer bargaining and the shrinking coverage of bargaining at the company level, the unions really ought to seek to build up strength in the industrial relations field in order to offset their marginalisation at the national level. Unfortunately for the unions, the proposed amendment of the Labour Code authorising works councils in companies where there is no trade union representation to conclude a company agreement would mean that their organisations' efforts in non-unionised companies would face new obstacles.

¹⁹ Népszabadság, 1999. március 4.

²⁰ Népszabadság, 1999. május 22.

The government's all-out attack on unions and the industrial relations system might suggest that the industrial relations system could change drastically in the years that lie ahead and that the unions might see further erosion of their power and influence in society. The abrupt change in the political climate, however, took place in a changing business environment. That is to say, the transformation crisis and restructuring is over and since 1997 the economy has registered sustained growth. After a decade of decline in real wages and increasing unemployment, real wages began to increase and unemployment dropped to around 8%. There is a labour shortage in certain regions and industries and there is a shortage of skilled workers in certain fields. It is time for the unions to concentrate on vigorous action to re-organise workers and mobilise them into collective action in order to secure dividends of growth for the working population and thus to progress towards a high-skill/high-wage economy which will really ensure Hungary's integration into the European Union. These efforts could give the unions a new legitimacy and a new power base for restoring their participation in national policy-making.

However, the importance of greater coordination within and among confederations in setting national bargaining preferences and goals must not be overlooked. In the 1999 bargaining round all of the confederations and most of the sectoral and company unions targeted a 16 % increase and agreed through tripartite negotiation on a 12-15% lower and upper limit. But the fixing of limits at the national level did not prevent some stronger public utility unions from demanding wage increases well above the upper limit, while some of the major public service unions had to accept wage increases below the lower limit set for the competitive sector. Lone demonstrations and strike warnings achieved some advancement, but none of the unions referred to in the present paper succeeded in achieving their original claims. There was no coordination in the timing of wage demands, nor any major solidarity action to help other unions. However, unless they make a conscious effort to build up solidarity through common strategy-making, coordination and mutual assistance, the unions will never be able to achieve a more centralised negotiation structure through which social regulation can be extended beyond companies in the current hostile environment. Efforts to forge a strategic alliance among public service/utility and industrial unions belonging to different confederations could be considered particularly important.

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UN-ECE, 1998

Abbreviations

ASZSZ *Autónom Szakszervezetek Szövetsége* (Federation of Autonomous Unions)

EDDSZ *Egészségügyi Dolgozók Demokratikus Szakszervezete* (Democratic Union of Health Care Service Employees)

ÉT *Érdekegyeztető Tanács* (Interest Reconciliation Committee)

KÉF *Köztisztviselői Érdekegyeztető Fórum* (Public Servant Interest Reconciliation Forum)

KIÉT *Költségvetési Intézmények Érdekegyeztető Tanácsa* (Interest Reconciliation Council of Budgetary Sector Institutions)

MCA multi-employer collective agreement

MSZP *Magyar Szocialista Párt* (Hungarian Socialist Party)

OÉT *Országos Érdekegyeztető Tanács* (National Interest Reconciliation Council)

OGT *Országos Gazdasági Tanács* (National Economic Council)

OMT *Országos Munkaügyi Tanács* (National Labour Council)

SZEF *Szakszervezetek Együttműködési Fóruma* (Cooperation Forum of Trade Unions)

SZOT *Szakszervezetek Országos Tanácsa* (National Council of Trade Unions)

VDDSZ *Vasúti Dolgozók Demokratikus Szakszervezete* (Democratic Union of Railway Workers)

Ireland

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1. GENERAL BACKGROUND INFORMATION

Developments over the period covered by this report are characterised by exceptional levels of economic growth, high levels of employment, developing social policy and evolving forms of work organisation. The approach adopted through Social Partnership has been a major contributing factor to the levels of economic growth and the success in addressing problems such as reducing living standards, high unemployment and escalating debt.

The report focuses on the implementation of Partnership 2000 (P2000)¹, the fourth national level wide-ranging agreement completing over a decade of this form of agreement. The implementation of the commitments of Partnership 2000 realises a number of the objectives of the ten-year strategy set down by ICTU, in 1987, for the development of a modern efficient social market economy in Ireland. Some key achievements of these agreements include:

- (i) significant improvements in living standards and employment levels, together with reductions in the numbers of long-term unemployed;
- (ii) developing partnership in the workplace;
- (iii) a response to the thorny issue of union recognition;
- (iv) the imminent introduction of a National Minimum Wage; and
- (v) significant equality legislation and new equality structures to combat social exclusion.

The achievement of unprecedented growth levels has raised a number of new challenges and, for the first time, choices which are not driven by major crises for all those involved in the evolving Social Partnership. The new sets of challenges are associated with managing expectations within a rapidly growing economy.

¹ Details of the Partnership 2000 agreement including the key trade union priorities were set out in full in Carey (1998). This report sets out the progress achieved in respect to the key commitments of the agreement.

2. SOCIAL, POLITICAL AND ECONOMIC CLIMATE

Developments in 1998-1999 took place within a relatively stable political environment under a Centre-Right Coalition government. In the Republic of Ireland the role of the Social Partners has become further embedded in local economic development and has been extended, over the past two years, to becoming involved in the process of Local Government Reform. Both the concept and the composition of Social Partnership have evolved considerably over the past two years. In that context:

- (i) there have been institutional changes to support the participation of the broader range of Social Partners; and
- (ii) considerable effort has been directed towards developing Partnership in the workplace.

While all the Social Partners participate in the regular plenary sessions, established to monitor the day-to-day implementation of the Partnership 2000 agreement, Social Partnership has been extended on the *National Economic and Social Council (NESC)* to include the Community and Voluntary sectors. A further body, the *National Economic and Social Forum (NESF)*, has been established, on a statutory basis, to provide strategic policy and planning. The NESC has a long-term policy/planning remit whereas the NESF is charged with assessing and evaluating the effectiveness of existing policy, including the commitments under P2000, particularly in the areas of long-term unemployment, social exclusion and equality.

Much political effort continues to focus on the efforts for peace and reconciliation in Northern Ireland. The trade union movement is committed to working with the two Governments, the political parties in Northern Ireland and the other social partners to develop partnership, equality and mutual respect as the basis of relationships, within Northern Ireland, between North and South and between the islands.

2.1. Economic climate

As never before the strategic approach adopted in Partnership 2000, building on the structural changes and investment of previous Programmes, led to unprecedented levels of growth in the Republic of Ireland between 1997-1999.

Growth Trends in the Irish Economy 1988 to 1998

	PNR	PESP	PCW	P2000	P2000
Year or Period	1988-1990	1991-1993	1994-1996	1997	1998
Average Annual Growth (%)	6.5	3.2	8.6	9.8	9.5*

*Estimates from the Department of Finance

The sustained pattern of growth reflects the resilience of the Irish economy to increasing globalisation, in that many more jobs have been created than lost in Ireland in recent years.

2.2. Employment trends

For the first time in the history of the State the goal of full employment is close. In fact, for the first time Ireland is beginning to face the problems of skill shortages. The level of job creation is placing new demands on educators and training agencies to equip persons to fill jobs across a range of skills, from the service sector to the high-tech / computer sectors. The following information was highlighted by the Central Statistics Office in the latest National Household Survey (November 1998):

- The total number of people at work reached 1.5 million for the first time. The number at work rose by 72,000 (6%) in the twelve months to last October (47,000 men, 25,000 women);
- The number of people employed in Ireland has risen by 350,000 (30%) over the past five years;
- A few years ago, much of the rise in employment was due to an increase in part-time jobs, the latest figures show that almost all of the rise last year was due to the rise in full-time workers

2.3. Labour supply

The potential labour supply fell to 10.6 per cent of the workforce in the last quarter of 1998 from a high of 23 per cent ten years ago. The number of young people coming onto the jobs market is now enough to fill only one out of every two jobs. Eighty per cent of women in the age group 20-45 are already in the labour force. The annual number of immigrants (most returned emigrants) is 40,000.

2.4. Unemployment

- Ireland's unemployment rate fell to 6.4 per cent of the labour force, the lowest level since records began. There was a drop in unemployment of 65,000 between October 1997 and October 1998.
- Long-term unemployment fell to 3.1 per cent of the labour force (long-term unemployment stood at 52,000 compared with 138,000 a decade ago).
- The unemployment rate was lowest in the mid-east region at 4.8 per cent and highest in the Border area, where it stood at 8.9 per cent. In Dublin, it stood at 5.7 per cent.

The EU emphasis on employability and the prevention of youth unemployment, reflected in the Irish Employment Action Plan, contributed significantly to the implementation of Partnership 2000 commitments aimed at tackling labour market and social exclusion. The provision of suitable education and training is the main targeted response. Some adjustments were made, in the context of the Budget 1999, to provide additional places and appropriate supports. While the strategies adopted have been largely successful, as evidenced by the drop in the long-term unemployment rate, the challenge remains to fully support the entry and re-entry of the remaining long-term unemployed, including young people.

3. WAGES AND PURCHASING POWER

Through a combination of pay increases and tax reform, Partnership 2000 provided for a real increase in income of 14% over 39 months. The pay agreement was an increase of 9.25% on basic pay. In fact, additional tax reform provided for average real income increases of a minimum of 16%. The implementation of the basic pay agreement was secured across all sectors of the economy over the period under review. Additional pay increases were also secured, through the implementation of the local bargaining clause, in the private sector and the Public Service. A number of profit/gain-sharing agreements were also secured in the private sector. The pay agreement of Partnership 2000, for the period under review, provided for the following increases:

1998:	2.25% of basic pay
1999 to April 2000:	1.5% of basic pay for the first 9 months plus additional 1% of basic pay for the next 6 months.

Low Paid Workers and Minimum Increases

The pay agreement provided for the following minimum flat rate increases:

Phase 2: £3.50 per week

Phase 3: £2.40 per week

Phase 4: £1.60 per week

3.1. Local bargaining

Under the terms of Partnership 2000, unions were entitled, at local level negotiations, to make claims for adjustments in pay and/or conditions of employment, the cost of which was not to exceed 2% of basis pay. This local bargaining began in the second year of the agreement in the commercial sector and in the third year under the public service pay elements of the annex to the agreement.

Local bargaining took place for many workers in the private sector beginning in 1998. The vast majority of agreements at local level involved the payment of 2% on basic rates at the earliest date due, without linked concessions from the unions. A small proportion of agreements involved early payment of the 2%. In some companies local bargaining dealt with restructuring arrangements, which occasionally involved some additional non-cost increasing payments.

3.2. Profit sharing and ESOPs (Employee Share Ownership Plans)

Over 150,000 workers are covered by approved profit sharing schemes. This means they benefit from a share in increased profits in their employment and enjoy tax benefits if they convert their profit share to shares in the their company and hold on to them for at least three years. Agreements have been made in a number of State owned enterprises that a proportion of the equity of the company will be held in trust for workers when the company is restructured. Employee Share Ownership Plans (ESOPs) involve workers in achieving ownership of between 5% and 15% of the equity of companies. In April 1999 ICTU published a booklet providing *Guidelines on Gainsharing and Employee Share Ownership Plans*.

3.3. Reform of the tax system

The changes announced in the 1999 Budget on Standard Rating/Tax Credits represented a fundamental reform of the Irish income tax system.

ICTU supported the move to a tax credit system on the following grounds:

- it equalises the benefits of tax reliefs and allowances to all taxpayers;
- it facilitates the targeting of tax reductions at low and middle income groups; and
- it simplifies and increases the transparency of the tax system.

The net effect of these changes is to equalise the benefit of tax allowances for all taxpayers; remove an estimated 80,000 low paid workers (workers earning less than £100 per week) from the tax net altogether and ensure some gains for all taxpayers, including those on the higher rate.

Impact of wage increase and tax reform on earnings 1997-1999

(Full PRSI contributor)

<i>Level of Earnings</i>	<i>Single Person</i>	<i>Married couple (two children)*</i>
£10,000	+20.9%	+16.3%
£15,000	+17.6%	+19.6%
£20,000	+17.6%	+19.0%
£25,000	+17.0%	+18.6%
£30,000	+16.7%	+18.5%
£35,000	+16.4%	+18.0%
£40,000	+16.1%	+17.7%

*Includes child benefit

Inflation averaged 2% over the period under review.

3.4. Minimum wage

The *Minimum Wage Commission* published its report in April 1998².

ICTU has pursued the introduction of the minimum rate ahead of the April 2000 deadline and has indicated that safeguards should be introduced to prevent any opportunities for exploitation of young people and people without experience.

² The recommendations of the Commission are set out in Carey (1998).

In March 1998 the Government set up an *Inter-Departmental Group* to formulate proposals and a plan of action for implementation of a minimum wage. This Group presented the government with an interim report in October 1998 and was scheduled to present its final report to Government in May 1999.

A *Tripartite Group* (Department officials, the Irish Business and Employers Confederation IBEC and ICTU) was established in December 1998 to consider the issues surrounding the introduction of minimum wage legislation. This Group concluded its work in March 1999 and a report of its conclusions was presented to the Inter-Departmental Group. Draft minimum wage legislation is scheduled to be published before the 1999 summer recess of the Parliament (Dáil).

4. WORKING TIME DEVELOPMENTS

The statutory working week remains at 39 hours. The average weekly hours worked in 1998 were 40.9. There are no plans to pursue further reductions in hours of work. The trade union emphasis, in this context, has been on the implementation of the Organisation of Working Time Act enacted in 1997. The Act transposed EU Directive 93/104/EU in to Irish law. The Government used the opportunity to up-date conditions of employment by legislating for a minimum payment where no specific working hours were guaranteed, thus outlawing zero hour contracts, and legislating for a premium payment for Sunday working.

ICTU promoted the provisions of the Act by publishing *Guidelines on the Organisation of Working Time Act* in March 1998 followed by regional seminars, all of which attracted a lot of interest. In enacting the legislation the Minister also set up a monitoring committee to oversee the implementation of the legislation. This monitoring committee was made up of representatives of ICTU, employers' representatives, representatives of relevant Government Departments, a representative of the Health and Safety Authority and a representative of the Labour Court.

While it is difficult to gauge if the Organisation of Working Time Act has had any significant impact on working time to date, it appears that few employees will have difficulty complying 48 hours maximum requirement.

Codes of practice

During the period of review two Codes of Practice were issued under Section 35 of the Organisation of Working Time Act, 1997. These dealt with issues relating to compensatory rest and Sunday working.

A Code of Practice on Compensatory Rest Periods and Related Matters sets down the general principles for the provision of equivalent compensatory rest and appropriate protection where workers, for valid technical reasons, could not avail of the provisions for minimum rest periods set down in the Organisation of Working Time Act.

A Code of Practice on Sunday Working in the Retail Trade sets down recommended arrangements for Sunday working within this sector. It also set down the principles for compensatory arrangements for Sunday working.

The Commission, following consultation with Congress and other bodies, drafted both Codes. The provisions of the Code are not mandatory. However, compliance or non-compliance with the Code can be used as evidence in support of a case taken to the Labour Court, or a Court of Law.

5. EUROPEANISATION OF COLLECTIVE BARGAINING

Trade union initiatives on the europeanisation of collective bargaining focused on three key aspects in the period under discussion: EMU, the part-time work directive and the framework agreement on contract work.

5.1. Economic and Monetary Union

In January 1998, ICTU established a *Euro Group* to:

- (a) advise the Executive Council on policy issues arising from the changeover to the *Euro*;
- (b) identify issues of particular concern to trade union members as workers and consumers and follow them up with the relevant Government departments and agencies;
- (c) seek expert advice and assistance where appropriate;
- (d) formulate and implement a programme of information in co-operation with affiliated organisations, the ICTU Unemployed Centres, and other relevant agencies; and
- (e) monitor and deal with any other matters arising from the changeover to the *Euro*.

The most immediate issue of concern to the Group was the conversion rate of the Irish Pound to the *Euro*. It was clear that Ireland would be among the Member States designated in May 1998 to participate in EMU. The real issue was whether or not the conversion rate for the Irish Pound should be at the central rate of 2.41 DM or at a higher rate. A higher rate would have the advantage of reducing the inflationary impact of the downward trend of the IR£ and would mean that wages, when converted to the *Euro*, would have a higher value. The negative implications of a higher rate included the increase in the price of Irish exports and the impact of this on competitiveness and also the risk associated with a possible depreciation in Sterling in the interval between the fixing of the rates and the entry of Sterling into EMU. Conversion at the lower rate of 2.41 DM would imply a substantial depreciation from the current rate which would mean a significant reduction in the purchasing power of wages, which in turn could wipe out the *Partnership 2000* increases. The trade union priorities in relation to this issue were:

- maintaining employment; and
- maintaining the value of people's incomes (wages or fixed-incomes).

The ICTU Executive Council concluded that, to achieve the best balance between protecting jobs and the value of wages/purchasing power the most desirable conversion rate for the IR£ was between 2.50DM-2.60DM. This would achieve the necessary balance between the short-term competitive gains, which may be achieved by going in at the central rate (as advocated by farmers and exporters), minimising the negative implications for inflation, wages (and fixed incomes) and increasing the real burden of national debt which would be associated with entry at the central rate.

In May 1998 the European Council designated the Member States which would participate in Economic and Monetary Union (EMU). As Ireland met all the convergence criteria, it was among the Members States so designated. The bilateral exchange rates of the currencies of the participating countries was also announced in early May 1998 and the conversion rate between the IR£ and the DM was fixed at 2.49.

Euro Changeover Board of Ireland (ECBI)

The Euro Changeover Board of Ireland was established by the Minister for Finance, in May 1998 and replaced the Euro Changeover Group set up in 1996. The terms of reference for the Board are to oversee the detailed implementation of the changeover, including the areas of public and consumer information. In accordance with its mandate, the Board has undertaken a countrywide

information campaign and is also engaged in working with schools, community and voluntary groups in promoting a greater understanding of the impact of the *Euro*. It is also addressing many of the technical issues surrounding the introduction of the *Euro*, including issues such as dual pricing, consumer information and bank charges.

EMU Trade Union Awareness Campaign

To promote trade union awareness and understanding of the move to a single currency, ICTU organised a number of Conferences, seminars and workshops during 1997 and 1998. In October 1998 ICTU jointly published with *Forfás*³, *EMU: A Guide for Trade Unions*. This Guide focuses on the impact of EMU on companies, identifies the strategic and functional issues for union representatives and provides a checklist and action plan for trade unions.

5.2. Part-Time Work Directive

In May 1998, following the adoption in December 1997 of the EU Directive on part-time work (that must be implemented in national legislation by January 2000), ICTU made a detailed submission to the Department of Enterprise, Trade and Employment welcoming the Directive as a major step forward in improving the rights of part-time workers and as an important development in ensuring that the increase in flexibility in the labour market is accompanied by measures which will enhance security and improve the employment conditions of part-time workers.

The *Worker Protection (Regular Part-Time Employees) Act, 1991* extended to regular part-time workers, protection under a range of employment legislation dealing with minimum notice, redundancy, holidays, insolvency etc. ICTU believes that the most effective way to transpose this Directive into Irish law is by way of amendments to this Act. These amendments would incorporate the provisions of the Directive thereby creating a single, comprehensive piece of legislation dealing with the rights of part-time workers. This amended Act would have to provide for consequential amendments to other employment legislation, which contains direct or indirect discriminatory provisions in relation to part-time workers.

³ Forfás is the policy advisory and co-ordination board for industrial development and science and technology in Ireland. It is the body in which the State's legal powers for industrial promotion and technology development have been vested. It is also the body through which powers are delegated to Enterprise Ireland for the promotion of indigenous industry and to IDA Ireland for the promotion of inward investment.

The Directive does not cover the question of social protection, as matters concerning statutory social security are exclusively a matter for decision by the Member States. However, the *Preamble* to the Framework Agreement notes the Employment Declaration of the Dublin Council of December 1997 where the Council emphasised the need to make social security systems more employment friendly by '*developing social protection systems capable of adapting to new patterns of work and of providing appropriate protection to people engaged in such work.*' It also records the wish of all the parties to the agreement that the Member States give effect to this Declaration. Paragraph 6.12 of *Partnership 2000* (Action to Promote Enterprise and Jobs) also records the ICTU demand that the application of social protection to atypical workers be reviewed during the course of *Partnership 2000*. In view of both the statement in the *Preamble* to the Framework Agreement and the statement in *Partnership 2000*, ICTU has requested, in the context of the implementation of this Directive, that the Department of Community, Social and Family Affairs initiate a review of social security benefits, with a view to eliminating any discriminatory provisions against part-time workers.

Consultations on the implementation of the Directive commenced with the Department of Enterprise, Trade and Employment in April 1999. Legislation to transpose the Directive into Irish law had to be introduced before the 20th January 2000.

5.3 Fixed-term contract work

Following consultation by the Commission in early 1998, the ETUC and UNICE/CEEP agreed to open negotiations on a Framework Agreement on Fixed-Term Work.

Implications for Ireland

Ireland is one of the few EU countries, which does not regulate the use of fixed-term contracts. The Agreement will ensure that the use of fixed-term contracts is regulated and will provide protection for many workers, not currently covered by collective agreements negotiated by trade unions. It will also improve the situation of workers covered by existing collective agreements.

While there is no regulation on the use of fixed-term contracts in Ireland, many trade union agreements have restrictions on their use and define when, and in what circumstances, a fixed-term contract worker becomes a permanent worker. These agreements cover different categories of worker and differ significantly on the restrictions they impose on the use of fixed-term contracts

and the conditions under which such workers become permanent. In the circumstances, ICTU did not seek to have Clause 5 drafted in too restrictive a manner. The Agreement does not prescribe the maximum total duration of successive contracts, the number of renewals or when a fixed-term contract becomes a permanent contract. These matters are to be determined at national level.

6. DEVELOPING PARTNERSHIP IN THE WORKPLACE

The development of workplace partnership was a key objective of ICTU for fulfillment within Partnership 2000. The aim is to stimulate action at company level towards the development of a partnership approach within the framework set out in Chapter 9 and 10 of the programme. ICTU aimed to have a process under way in the majority of unionised workplaces before the expiry of Partnership 2000. There has been some significant progress on the various mechanisms established to pursue this aim set out in *Collective Bargaining in Western Europe 1997-1998*.

Publication of guidelines

ICTU published guidelines for unions on workplace partnership "*Partnership in the Workplace – Guidelines for Unions*" in September 1998. Guidelines on gainsharing, profit sharing and employee share ownership plans "*Sharing the Gains – Supporting Partnership*" were published in March 1999. These documents were designed to provide unions with information and advice on the establishment of partnership mechanisms and arrangements for gainsharing and financial participation. The Guidelines were promoted through Conferences and seminars. Around 300 union officials and workplace representatives attended these events. A recent employer's survey indicates that of the 1,000 companies surveyed approximately 150,000 workers were covered by gainsharing/profit-sharing agreements and that 44% of companies had jointly created partnership initiatives with their unions.

PACT (Partnership in Action) project

The major project, involving collaboration between ICTU and IBEC on the subject of workplace partnership was initiated in 1998. The project was approved for funding under the ADAPT Programme of the European Union. The project is designed to research the extent of partnership development, and barriers to progress, and to provide tools and training materials for management on the subject. The project involved the establishment of eight regionally based PACT Teams, comprising management and union

representatives from selected companies in each region. Facilitators, nominated by ICTU and IBEC, assist the teams, which also have joint team leaders selected from locally based union and IBEC officials. The PACT Project completed its research stage in February 1999 and held a number of workshops for participants.

National Centre for Partnership

The National Centre for Partnership has the role of fostering partnership arrangements within competitive enterprises and in the public sector. ICTU is represented on the Board and Liaison Committee of the Centre. The Centre is providing financial and technical support to the development of training materials relating to partnership linked to the PACT Project. The Centre has also provided assistance to ICTU as part of its promotional role.

Partnership in the public service

The process of change within the public service, provision for which was outlined in Chapter 10 of Partnership 2000, is being dealt with through the Strategic Management Initiative. The aim of the initiative is to improve the efficiency of the service and the delivery of a quality service to citizens. It was agreed that the process of change would take place within the framework of Partnership, based on the provisions of Partnership 2000. A Government General Council Report, issued in 1998, provided a structure for the development of consultation and participation procedures to engage staff at all levels of the service. The model was circulated to all Departments and Offices, with a view to establishing Partnership committees and related local structures. Partnership committees are to be chaired by the Secretary General of the Department or Head of Office. The committee is composed of Management and representatives of local unions. A mixture of "intensive" and "extensive" Partnership approaches are recommended depending on local needs, the existing consultation/participation structures and the state of development in each Department of Office.

The National Centre for Partnership produced a training programme for Partnership in the public sector titled "*Working Together*". The training programme covers two days and deals with the concept and mechanisms for Partnership, Group Development, Consensus Decision Making and Communication Skills.

Discussions on the implementation of Partnership structures within the Local Authorities and Health Boards took place during 1998.

Negotiating new skills and lifelong learning

Chapter 6 of P2000 outlined a Programme of Action “to improve the level of enterprise, education, competencies and training”. This programme reflected the emphasis on adaptability in the Irish Employment Action Plan as well as policy developments at National and EU level, aimed at promoting the idea of life long learning in the workplace. Recently, the Irish Government has published a White paper on Human Resource Development, and a Green Paper on Adult Education in the Era of Life Long Learning.

Training Awareness Campaign (TAC)

A Training Awareness Campaign is supported by the ADAPT initiative of the EU. ICTU and IBEC jointly sponsor it. It aims not only to raise awareness of the value of industry training, but also to support the development of a number of training products which will act as examples of best practice.

The project operates on a sectoral basis, and facilitates joint sectoral teams in identifying needs and designing pilot training products. TAC then supports delivery of the training courses.

The project aims to highlight the benefits of training and of a partnership approach to training. The project has selected seven sectors to work in (security, food, print, chemicals, retail, engineering and electronics). The project is managed by a joint ICTU / IBEC Project Management Committee. This committee sets goals and overall project policy, and reviews project progress.

Teleworking

Teleworking has emerged as a new form of work organisation, which, with the benefit of new technologies is carried out independent of location. The narrow definition of teleworking is ICT based work carried out in the home or on the move. A broader definition includes the increasing number of persons working in telecentres or the relatively few *telecottages* which exist.

A National Advisory Committee on Teleworking was established by the Minister for Science, Technology and Commerce in April 1998. The terms of reference of the Committee were “to advise the Minister for Science, Technology and Commerce on the development of teleworking employment opportunities and to recommend attainable action which will contribute to the realisation of those opportunities.”

The report of the Advisory Committee includes a code of practice on teleworking which outlines the key issues for employers, employees or the self-employed in the context of a company or organisation introducing a

Teleworking policy. The code was developed through a Sub-Committee of the National Advisory Committee including ICTU, individual union representatives, IBEC and a self-employed representative. The Report is due to be launched in June 1999.

Improving industrial relations

P2000 provided for the modernisation of our industrial relations procedures and institutions. The success of this process can be seen in the reduction of the number of days lost due to industrial disputes and in the work of the Labour Court and the Labour Relations Commission. Both the number of disputes and the total days lost due to industrial disputes continued to decline between 1996 and 1998. Less than 0.5% of workers were involved in industrial disputes during 1997/8.

Days lost due to industrial disputes 1995-1998

1995	130,300
1996	114,584
1997	74,508
1998	37,374

Union recognition

The thorny issue of union recognition has long been unresolved business for the ICTU although commitments had been made to resolve the issue in each of the National level agreements. A High level Group was formed under Partnership 2000 to finally resolve this issue. Following detailed work the High Level Group concluded a draft agreement, which was submitted to Government, Congress and IBEC during March 1999.

In March 1999, on the recommendation of the Congress, representations on the High-Level Group, the Executive Council of Congress, adopted this Agreement. The Agreement was also adopted by IBEC and by the Government and arrangements are being made for the introduction of legislation to implement the Report.

7. GENDER ISSUES IN CURRENT COLLECTIVE BARGAINING

Women at work

The number of part-time workers remained relatively stable at 250,000 (16 per cent of the labour force). The number of part-time workers looking for a full-time job fell from 25,400 in October 1997 to 7,500 in October 1998. Forty-four per cent of women are now in the labour force rising to 80 per cent in the age range 20-45 years old. (Number of women in the Labour Force is 660,000 compared with 380,000 in 1986).

7.1. Parental leave & leave for urgent family reasons

In 1995 a framework agreement on parental leave was negotiated by the social partners at European level, in accordance with the provisions of Social Policy Protocol No 14 of the European Treaty.

Under P2000 the Government undertook to introduce legislation by June 1998 to give effect to the terms of the Directive, and to consult with the Social partners on the legislative proposals.

The Parental Leave Bill was introduced within the time scale and there was a series of consultative meetings with the Department of Justice, Equality & Law Reform and the Department of Social, Community and Family Affairs. As part of this consultative process a number of improvements were made to the legislation, in response to ICTU representations. However a number of issues were not resolved:

Parental Leave is unpaid. ICTU sought the introduction of a Statutory Payment and held meetings on a tripartite basis under Partnership 2000; with the Departments; and directly with the Minister for Justice, Equality and Law Reform.

Children must be born or adopted on or after 3 June 1996. ICTU lodged a formal complaint with the Commission, stating that this provision of the Irish legislation is contrary to the Directive. ICTU argued that parents who have children, under the defined age of 5 on 3 December 1998 should be eligible for parental leave. The response of the Head of the Equal Opportunities Unit was that it believed that, by restricting the right to parental leave to children born on or after 3 June 1996, the Irish Government has incorrectly implemented the Directive. The Commission decided, on 3 March 1999, to proceed with the complaint and a letter of formal notice was sent to the Irish authorities setting out the Commission's view that the Directive has been incorrectly transposed in this regard and asking the Irish Government for its observations within two months.

Extension of implementation period. The Irish Government sought, and was granted by the Commission, an extension of 6 months to introduce the legislation (which became law on 3 December 1998). ICTU objected to the Commission's decision to allow the Irish Government to extend the implementation period by six months. ICTU argued that no exceptional circumstances existed and that the Commission should have sought the views of the Social Partners before approving the extension. ICTU representations resulted in the Social Partners at the negotiations on fixed term contract work stating in that Agreement that there must be consultation with the Social Partners before any extension can be granted to a Member State.

7.2. Equal pay

In 1994, a report by the Economic and Social Research Institute on male/female wage differentials concluded that women's hourly earnings, calculated across the economy (and not solely related to manufacturing earnings), were 80% of men's hourly earnings.

The report of the National Minimum Wage Commission on "Low Pay in Ireland" was primarily based on analysis of data from the 1994 Living in Ireland ESRI Survey. The report looked at part-time working by men and women. As was known the percentage of women part-time workers is much higher than for men. The report showed that "14% of women workers worked less than 18 hours, compared with 2% of men. The differential was predominantly in the older age groups, with, for example, 24% of female employees aged between 45-55 working less than 18 hours compared with 1% of men in that age group."

It also showed that "women face a substantially higher risk of being low paid than men. In the lowest threshold the percentage of women who were in low pay was 57% higher than the percentage of men, and as much as 75% higher within the highest threshold. While only 41% of all workers were women, women accounted for 52-55% of those experiencing low pay." On an age and gender comparison, the report showed that "under the age of 25 there is little or no difference between men and women in the probability of being low paid. It is women aged 25 or over, and particularly those aged 35 or over, who face a much higher risk of being in low pay, than men of the same age."

Under Partnership 2000, a follow up study was carried out by ESRI. A preliminary report was presented to the Department of Justice, Equality & Law Reform in December 1998. The final Report was due in autumn 1999.

7.3. Childcare

Partnership 2000 identified that childcare is clearly an important issue in promoting equality for women and especially in promoting equal opportunities in employment. As agreed in P2000, an Expert Working Group on Childcare was established in July 1997 “to discuss a National Framework for the development of the childcare sector from 0-12 years”. In February 1999 this Group published a very comprehensive report, covering a wide range of issues.

The following are the most significant of the 27 recommendations made in the report:

- Tax relief at the standard rate at a cost of £30m;
- Childcare subsidies to parents in low-income families wishing to avail of training and education opportunities;
- The income limit for FIS should be raised, where families incur receipted childcare costs;
- The ceiling on earnings for lone parent families should be increased, where childcare expenses re incurred; and
- Benefit in kind should be abolished where employers subsidise childcare.

The Government established an Interdepartmental Committee on Childcare, the National forum for Early Childhood Education and Action Programme for the Millennium, to evaluate, cost and prioritise the proposals in the Partnership 2000 report, along with the childcare proposals in the reports of the Commission on the Family,. The Committee had to report to Government within 6 months. Under Partnership 2000 Congress will be consulted on that Committee’s report.

In addition to the above, there have been a number of other initiatives progressed under the commitments of P2000:

In July 1998, the Government announced a nation-wide Childcare Programme, aimed at developing childcare facilities to assist parents to reconcile family and work life. The Programme was developed by the Department of Justice, Equality & Law Reform, in co-operation with the EU. The Equal Opportunities Childcare Programme is aimed at the development of locally-based childcare services in disadvantaged areas and equal opportunity projects in other areas. Funding has been approved for the following initiatives:

- Employer Initiative led by IBEC, involves 21 companies in developing childcare facilities for their employees. The funding is being provided from EU Exchequer and employer sources;

- Community projects are in receipt of funding to assist them in providing or improving premises for their childcare services;
- Flagship projects, which are being provided with support, have been selected; and
- Project plus a small budget for evaluation.

Funding is being provided from the European Social Fund for the establishment of a national database, with the aim of improving the co-ordination and impact of childcare measures supported in Ireland by the EU.

7.4. Equality legislation

In 1997 the Employment Equality Bill 1996 and the Equal Status Bill 1997 were both found unconstitutional, following referrals to the Supreme Court by the President.

P2000 gave a commitment to examine the above legislation and following the Supreme Court's ruling new legislation was drafted. The Employment Equality Act 1998 was enacted but has not yet been implemented. The Act is now scheduled to take place on 1 September 1999.

Similar to the 1996 Bill, the 1998 Act outlaws discrimination on nine distinct grounds including gender, marital status, family status, sexual orientation, religious belief, age, disability, race and membership of the traveler community. The Anti-Discrimination Pay Act, 1974 and the Employment Equality Act 1977 are replaced by the 1998 Act.

The Act introduces two new statutory institutions:

- the Equality Authority (this Authority replaces the Employment Equality Agency); and
- the Office of Director of Equality Investigations (the Director replaces the Labour Relations Equality Service).

The Act changes the procedure for processing discrimination cases on gender grounds. Such cases may be referred to the Director of Equality Investigations or directly to the Circuit Court.

The Equality Authority Designate was established on 8 March 1999. The Social Partners are represented on the Authority and two of the members of the Authority have been nominated by Congress.

The Equal Status Bill, which will deal with the issue of discrimination in non-employment areas, is scheduled to be published before the Dàil resumes after the Easter Recess.

Congress promoted the provisions of the new legislation through Conferences and Seminars on Employment Equality Law.

7.5. Equal Rights & Opportunities for Women & Men in the European Union

On International Women's Day 1999, ICTU, with the assistance of the European Commission's Citizens' First initiative, launched a pack of seven leaflets giving information on the Maternity Protection Act 1994; Parental Leave Act 1998; Adoptive Leave Act 1995; Equality Employment Act 1998 (in respect of People with Disabilities); Sexual Harassment; Equal Pay; and Equal Treatment & Pensions.

8. FUTURE OUTLOOK

ICTU is moving into the final phase of the implementation of Partnership 2000. The next six months will see additional effort to ensure the commitments entered into are met in full.

While the issue of union recognition has been resolved, tensions are mounting as to whether another National Programme is feasible.

ICTU is in the process of consulting with all unions as to the best strategic way forward. This is being done by way of a series of round table discussions on key national issues as well as the effect of existing National level bargaining strategies on the trade union movement.

Short term outstanding issues are the implementation of the:

- Minimum wage;
- Agreement on Trade Union Recognition; and
- Outstanding commitments in the areas of equality and social exclusion.

Future strategies will depend primarily on (i) the feedback from unions engaged in the round table discussions; (ii) the negotiation of a future strategy for public service pay in the context of rapid change (due to begin in Autumn 1999); and (iii) the outcome of a Special Delegate Conference to discuss the mandate of ICTU to enter talks on a Future Strategy with Government and the other Social Partners.

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Italy

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1. GENERAL BACKGROUND INFORMATION

Having achieved the combined targets of economic recovery and lower inflation set in 1992, Italy joined EMU In May 1998 – an accomplishment which until just a few weeks earlier many had considered unthinkable. This happened largely thanks to the July 1993 Agreement on incomes policy and tripartite consultations.

Efforts to overhaul the economy and reduce inflation, coupled with the effects on Europe's economy of the crisis in Asian markets, have hampered the growth capacity of the Italian economy. For this reason Italy has recorded the lowest growth rates in Europe: 1.4%, compared with a European average of 2.8%. Very modest growth was forecast for 1999 (around 1.5%) and it is only in 2000 that growth is expected to pick up again. The government recognises this and has been making cautious estimates of 2.2% growth – much too cautious for the trade unions.

In essence, government finances have remained under control and in line with the criteria laid down for entry into EMU. The public deficit settled down at 2.7%, the cost of servicing government debt was 7.5% of GDP and the inflation rate 1.8%. It should be remembered that in 1995 the public deficit was still running at 7.7%, the inflation rate was 5.5% and debt-servicing costs had reached 11.2%¹.

The climate, in the first few months of 1999, was persistently unfavourable, in terms of the trends in industrial production, overall growth and unemployment. The June quarterly labour force survey, conducted by ISTAT (the national statistical office), at long last and for the first time – recorded an increase of 282,000 jobs over the previous year and a fall in the unemployment rate from 12.5 to 12.1%. This finding should not be understated but, as the trade unions have pointed out, it also gives cause for concern. Apart from the “quality” of these mostly very insecure new jobs, the entire increase is concentrated in the

¹ *Relazione sull'andamento dell'economia nel 1998 e aggiornamento delle Previsioni per il 1999*, Ministero del Tesoro, del Bilancio e della Programmazione Economica, 18/3/1999.

north of the country, where unemployment is minimal and virtually physiological, and has totally bypassed the south, where unemployment is widespread and pathological.

Awareness of the fundamental success of the incomes policy and the Agreement of 23 July 1993 led to the signing of a new "Social Pact" between the social partners and the government on 22 December 1998. Thirty-five organisations, representing companies, trade unions of all sizes, sectors, public and private – plus of course the government – signed the document. This was the most significant development of the period. It was reached after talks on whether or not to re-endorse the system of industrial relations, established by the July 1993 Agreement and sanctioned by the "Pact for Employment" of September 1996. These discussions were carried on over a year and were often acrimonious.

The signing the new Social Pact was the first economic and social policy move made by the D'Alema government, on taking over from the government led by Romano Prodi. That administration had come to grief when, due to a radical difference of opinion about the government's economic and social policy, the Reconstituted Communist Party walked out of the majority coalition.

The crisis in the Prodi government ushered in a very difficult period in political life. Without the support of the Reconstituted Communist Party, the Olive Tree Alliance (a centre-left grouping which came together under this symbol for the 1996 general election) no longer had a parliamentary majority. The outcome was a split in the Reconstituted Communist Party and the creation of the new Party of Italian Communists, which chose to back the fledgling centre-left government. This prevented the crisis from triggering the need for an early election, with the risk of a victory for the centre-right. However, the need to broaden the government's majority led to an invitation, to some small but numerically vital centre (or centre-right) groups, led by a former President of the Republic, Mr Cossiga, to join the government. A new majority was formed, which gave more prominence to the centre.

The new Prime Minister, the leader of the largest party on the Italian left, the Left Democrats (DS), created after the a wholesale transformation of the former Italian Communist Party (PCI), decided to make the resumption of consultation over social policy, both in Italy and Europe-wide, a key element of policy. Moreover, at the very beginning of September 1998, Mr Ciampi, then Treasury Minister, proposed a new Social Pact between the government and the social partners. This no longer focused on economic recovery but on employment. Ciampi was subsequently elected President of the Republic, not the least due to

his crucial, and universally acknowledged role in turning around the Italian economy and in taking Italy into EMU.

It now became easier to enter into in a new Social Pact and to press ahead with tripartite talks. These were no longer constrained by the presence in the coalition of the Reconstituted Communist Party, which opposed to tripartism.

Content of the Pact of 22 December 1998

This is the background to the signing of the new Social Pact on 22 December 1998, ratified by the trade unions in February 1999, after consultation with their membership.

Basically it rests on two pillars:

- re-endorsement of the industrial relations system and collective bargaining rules laid down in the July 1993 Agreement; and
- agreement on a set of policies to promote employment, some of them already included in the 1993 Agreement and the 1996 Pact for Employment. This recognised that, while the incomes policy had played a vital role in economic recovery and in lowering inflation, the pacts had not fulfilled expectations concerning employment growth.

The new agreement adopts a broader-based approach. It locates tripartite consultations within a new European scenario, proposing a joint, quantifiable and co-ordinated commitment on employment. At the same time it strives to step up local consultation, by involving the regions, provinces and municipalities more directly in national tripartite talks and by harmonising the principles and content of such consultation, with the object of boosting the public administration's planning capacity at local and central level.

One aspect of social policy, to which public funds have been committed, is a government undertaking to consult the social partners before taking action. For all measures affecting relations between companies, workers and their respective organisations, including the transposition of Community directives, the social partners may reach an agreement on the principles involved, which the government will then put forward and support in Parliament.

The new Social Pact also attempts to make up for Italy's backwardness in the field of education, training and research; the objective being to co-ordinate efforts to arrange integrated provision, ensuring the development of human resources. The aim is to make attendance at training courses compulsory for young people, up to the age of 18. Training may take place within the State

education system, through regionally organised vocational training, or by means of apprenticeships. Vocational skills acquired in these ways will be officially certified.

What have not changed, however, are the collective bargaining arrangements set out in the July 1993 Agreement. The need to safeguard the two tiers of bargaining – national and company-level – in the face of a challenge from *Confindustria* (the main employers' association) left no scope for calm discussion. Such discussion could have examined the advisability and/or possibility (advocated in particular by the CISL) of reassessing the linkage between the two tiers of bargaining and consolidating the second, perhaps in conjunction with forms of decentralised inter-sectoral bargaining at local level.

In order to reduce labour costs and promote employment, it has been agreed that the fiscal pressure and burden of social security contributions on firms should be reduced. Contributions for maternity and family allowances are to be shifted to general taxation (i.e. paid for by all taxpayers and not only employed workers). The methods and effects of introducing these measures will be discussed with the social partners. The government is to use the proceeds of a clampdown on tax evasion to bring down direct taxes. At the same time labour-cost deductions are to be increased, and the second-level rate of individual income tax – currently 27% – is to fall by two percentage points. Furthermore, in a bid to align treatment with that in other European countries, taxation on company profits is to be reduced from 37% to 27% over the next decade.

The employment situation remained worrying throughout 1998. Concern grew progressively over the weakness of internal growth, the worsening situation internationally and over delays in introducing infrastructure reforms. Thus the overall demand for labour was insufficient to impact on the national unemployment rate, which remained stationary at 12.3%. During the first quarter of 1999 the demand for labour went up in central and northern Italy but slowed down markedly in the *Mezzogiorno* (south). The deep divide between north and south widened still further, with the northeast actually experiencing full employment as against an unemployment rate of over 20% in the south.

The nature of economic development in the 1990s has exacerbated these disparities and attempts to redress the balance have so far been too feeble. According to ISTAT data, the provincial unemployment rate is approaching 30% in the *Mezzogiorno* but stands at roughly 3% in many northern regions. Taking jobs to the south, therefore, is no longer just a matter of social solidarity but constitutes an opportunity for companies wishing to expand. On this point, a wide-ranging debate is currently under way in the Italian trade union movement

about whether unions should negotiate for greater flexibility on wages and other measures than provided for in national collective agreements, but solely for workers in the Mezzogiorno.

2. WAGES AND PURCHASING POWER

Tables 1 and 2 summarise the trends in wages. Table 1 includes wages determined by national collective agreements, all other elements of pay such as those deriving from supplementary company bargaining and overtime together with unilateral awards by companies. Table 2 relates solely to the portion of collectively agreed wages deriving from arrangements made under national collective agreements.

As can be seen, both tables demonstrate that, after an across-the-board fall in the purchasing power of wages between 1993 and 1995, it began to recover from 1996 onwards (1997 for collectively agreed wages) as a result of the implementation of the July 1993 Agreement.

All in all, at the end of the first four years of the application of the July 1993 “social pact”, there is evidence of a modest increase in the purchasing power of take-home pay. In the main, collectively agreed wages have either held up or declined very slightly.

These trends have come about as a result of the widespread implementation of the fundamental rules of the Agreement², both in terms of the renewal of national collective agreements and of the growth in second-tier bargaining³. National collective agreements, covering almost all employed workers, have been renewed during the first term of the new rules introduced by the pact. Second tier bargaining according to most estimates, has affected 40% of employees in industry, the majority in the central and northern regions. In actual fact, if we restrict ourselves to these regions and to companies with over 50 employees, second-tier bargaining covers the vast majority of workers.

² D'Aloia, *ibidem*; AA.VV., “*Concertazione, Relazioni Industriali e Politica Economica: il Modello Italiano. Una verifica empirica dei risultati, a confronto con i modelli di letteratura e degli altri paesi Europei*”, MONITORlavoro, research carried out on behalf of the Labour Market Observatory, Ministero del Lavoro e della Previdenza Sociale.

³ Commissione per la verifica del Protocollo del luglio 1993, Final Report and others.

The first round of national collective agreements under the July 1993 Agreement rules came to an end in late 1997 and 1998⁴. Last year saw the renewal of the main public and private sector agreements, which had expired at the end of 1997, and which covered some 2.2 million employees.

Approximately seven million workers had their agreements renewed in 1999⁵. Among these (covering roughly 800,000 workers) are agreements which had expired on 31 December 1997 but had not yet been renewed (banking, post office, State enterprises and insurance firms), as well as some 2.2 million workers whose agreements expired on 31 December 1998. The main agreements still outstanding are those covering commercial employees (1,100,000), tanners and electricians. To these can be added approximately four million workers, whose agreements are due to expire this year.

Table 1- Real unit wage costs at constant 1995 prices (consumer price deflator).

(% change over the previous year)

Actual real wages							Total incr.	Average incr./year
Sector	1993	1994	1995	1996	1997	1998	1998/1993	1998/1993
Agriculture	0.5%	-2.2%	-2.0%	-2.0%	0.2%	0.6%	-5.3%	-1.1%
Industry (strict sense)	0.9%	-0.5%	-1.7%	1.5%	1.5%	0.5%	1.2%	0.2%
Manufact. Industry	1.1%	-0.6%	-1.8%	1.7%	1.7%	0.6%	1.6%	0.3%
Construction	-0.4%	-1.0%	-2.1%	0.2%	0.7%	1.4%	-0.8%	-0.2%
Services	-0.8%	-1.3%	-1.3%	1.1%	1.6%	0.2%	0.1%	0.0%
- public admin.	-0.3%	-1.4%	-2.0%	3.7%	2.1%	-0.5%	1.8%	0.4%
- education	-2.4%	-3.8%	-2.5%	3.2%	1.2%	0.0%	-2.0%	-0.4%
- health	-2.4%	-3.8%	-3.0%	2.4%	5.4%	-1.1%	-0.5%	0.0%
TOTAL	-0.1%	-1.0%	-1.4%	1.2%	1.5%	0.4%	0.8%	0.2%

Source: our calculations based on Bankitalia data⁶

⁴ These rules stipulate that the normative part of national collective agreements is valid for four years and pay-related parts for two years; in this four-year term both deadlines were met in the case of all workers.

⁵ MONITOR *lavoro* database.

⁶ Banca d'Italia, Assemblea Generale dei Partecipanti, 31/5/1999, Appendix.

Table 2 - Collectively agreed real wages per employee

Collectively agreed wages per employee (blue and white-collar) (real values at 1995 prices)							Total incr.	Average incr./year
Sector	1993	1994	1995	1996	1997	1998	1998/1993	1998/1993
Agriculture	0.9%	-3.6%	-3.1%	-1.9%	0.5%	0.7%	-7.2%	-1.5%
Industry	-0.6%	-0.7%	-2.0%	-0.6%	2.0%	1.0%	-0.3%	0.0%
Ind. (strict sense)	0.0%	-1.0%	-1.7%	-0.5%	2.1%	0.9%	-0.2%	0.0%
food	0.3%	1.4%	-3.0%	-1.0%	1.9%	0.2%	-0.6%	-0.1%
textiles	-0.5%	0.0%	-3.1%	-0.3%	1.7%	0.7%	-1.1%	-0.2%
metalworkers	-0.2%	-1.8%	-0.8%	-0.7%	2.6%	1.2%	0.6%	0.1%
chemicals	-1.3%	-0.6%	-1.0%	1.6%	1.4%	0.7%	2.1%	0.4%
Construction	-2.9%	0.5%	-3.5%	-0.9%	1.1%	1.4%	-1.4%	-0.3%
Hotel & commerce	0.0%	-1.1%	-1.1%	-0.1%	2.0%	2.3%	2.1%	0.4%
Banking & insurance	-2.3%	-3.5%	2.3%	1.7%	1.4%	-1.3%	0.5%	0.1%
Total (1995 = 100)	-1.4%	-2.0%	-2.0%	0.3%	2.6%	0.6%	-0.7%	-0.1%

Source: our calculations based on Bankitalia data

Changes in pay systems, pay scales and classification

During the course of the 1994 -1997 bargaining round significant changes were made to classification and grading systems. This occurred, above all, under collective agreements in the chemical/pharmaceutical, rubber, post and telecommunications, and banking sectors⁷. The renewal of agreements in the public administration sector in 1998 likewise introduced major innovations from this point of view.

⁷ Lattes, *I contratti nazionali: le novità nella stagione 1994-'95*, in AA.VV, *L'inquadramento professionale nei nuovi modelli d'impresa. - Rapporti, Rassegna-Monitor, Supplement of Nuova Rassegna Sindacale*, 1997.

These introduced so-called “*occupational areas*”, reducing the number of classification levels⁸ to three or four, with allowance for greater mobility between the various levels created within each *area*⁹.

Some noteworthy experiments aimed at devising new classification and grading criteria have also been carried out in the context of company-level bargaining. The most significant is at Dalmine in Bergamo, where a new model for the classification of employees, based on the link between professional competence required and competence demonstrated¹⁰, has been established.

3. WORKING TIME

Working time has proved to be the greatest stumbling block for industrial relations and collective bargaining. The round of renewals of national collective agreements, beginning in 1998 and scheduled for completion in 1999 with the renewal of agreements covering almost all employed workers, has made working time reduction a major objective. This is the case even though the reductions sought in the various sectors have been modest and often (as in the case of the metalworkers) limited to certain specific types of work (arduous jobs, night shifts, etc.).

The issue of working time has in fact been the principal cause of the difficulties surrounding the renewal of the metalworkers' agreement. The solution found, on 8 June, after eight months of negotiations and with the aid of a mediating proposal from the Minister for Employment, guaranteed a reduction of eight hours per year for night and weekend shifts, the right to sixteen hours off (which could previously be remunerated) and the introduction of “time savings accounts” for overtime. But it also permits greater flexibility, by raising the

⁸ In general, at least throughout most of the private sector, there had previously been a so-called “unitary classification”, introduced during the 1970s with the intention of overcoming differences in status between blue- and white-collar workers; it was usually composed of a limited number of classification levels (from 8 to 11 or 12). Five categories of employed workers are defined by law: manual, white-collar, intermediate-category personnel, professional and managerial staff, and managers.

⁹ Lattes, *ibidem*.

¹⁰ Ferigo, *Nuovi modelli organizzativi: come cambia la professionalità*, in AA.VV., *L'inquadramento professionale nei nuovi modelli d'impresa. – Rapporti, Rassegna-Monitor*, Supplement of Nuova Rassegna Sindacale, 1997; on this matter see also Leoni, Tiraboschi, Valiotti, *Contrattazione a livello d'impresa: partecipazione allo sviluppo delle competenze versus partecipazione ai risultati finanziari*, Quaderni del Dipartimento di Scienze economiche, 1998, No. 10, Università degli studi di Bergamo.

maximum annual amount of overtime by 50 hours, from 150 hours to 200 (250 for companies with fewer than 200 employees). It makes provision for annualised hours, calculated over a period of several weeks in the case of seasonal production work, whereby working time can be extended by a up to 64 hours per year (eight hours per week). Clearly, working time will be compensated for those hours during the period earmarked for shorter working hours and there are additional pay supplements during periods of longer working hours. The introduction of “time savings accounts” enables workers to claim time off in lieu of overtime, where it exceeds 32 hours per year.

Last year the chemical workers’ collective agreement, which was roundly criticised within *Confindustria* because of the ground it opened up, offered a highly innovative solution to this problem.. This involved converting the individual annual amount of time off (108 hours per year) into a straightforward reduction in weekly hours. It made provision for an average working week of 37.45 hours and the introduction of a time savings account, through which employees may recover 50% of the overtime worked. This is coupled with arrangements for the introduction of flexible working time over a period of several weeks, to be introduced through company level bargaining.

The new public sector collective agreements have reduced the current 36-hour working week to 35 hours. They have also laid down a series of measures to make working time more flexible, to reduce the use of overtime, which is very widespread and normal within the sector, and to extend opening hours for public access to services.

As demonstrated in Figure 2, over 40% of industrial firms have conducted negotiations on working time. It is perhaps correct to say that, while a reduction in hours is still an important symbolic demand and overall policy aim in the main, the general approach has been to “manage” actual hours rather than aiming systematically to reduce them. Only in a minority of cases have the trade unions managed to combine bargaining on increased and more flexible plant utilisation (the introduction of new shifts, hours calculated over a period of several weeks, weekend teams, etc.) with attempts to reduce working time. These experiments are worthy of note. However, although they have shown that ways can often be found to improve a company’s efficiency with a working week of less than 35 hours (as few as 32 or even 30 hours), they have not succeeded in overcoming the opposition of employers’ organisations to across-the-board reductions in working time.

On the other hand, no significant progress has been made in parliament on the Prodi government Bill on the 35-hour working week. Law No. 409 of 27

November 1998 did nevertheless introduce statutory limits on overtime. This measure completed the legislative process begun with Law No. 196 of 24 June 1997, which established a “normal working week” of 40 hours. But conflict has arisen over the interpretation of this law, and the trade union confederations have even been critical of the interpretative circular issued by the Ministry itself.

4. FLEXIBILISATION OF WORKING CONDITIONS AND DECENTRALISATION OF COLLECTIVE BARGAINING

It is not just in the south but also in regions where growth has been healthy that there is now a pronounced trend towards a de-standardisation of employment relationships, affecting, above all, the youngest workers. So-called atypical contracts are on the increase. These, rather than the standard model of full-time, permanent employment, now represent the norm, at least as far as entry into the labour market is concerned. They include fixed-term contracts, those combining work and training, part-time contracts and all forms of “quasi-subordinate” employment.

The prevalence of “atypical” contractual arrangements among young employees emerges clearly from an ISTAT survey on labour market flexibility in industrial and service companies, which found that only 45.3% of new recruits were offered permanent contracts. Over 50% of new recruits in industrial and service companies, with at least 10 employees, have a contract of employment that is not permanent. This revealed that 26.3% have a fixed-term contract, 16.1% a seasonal one, 9.5% a work/training contract and 2.9% are hired as apprentices.

Much the same can be said about functional flexibility, which enables firms to tailor their usage of labour to developments in the market, by adjusting working time arrangements and making greater use of labour during phases of expansion. According to ISTAT turnover of staff is considerably higher than usually implied. It is particularly high in small firms (some 25-26%), where one in four workers are affected each year. In companies with over 500 employees this figure is in the region of 10% per year, but of course there is the opportunity for more internal mobility.

The issue is how to combine flexibility with job security, enabling the economy to adjust but without committing significant numbers of workers to a spiral of insecure employment in jobs, which are short-lived, poorly paid and without prospects. Indeed, the weakest individuals risk being trapped in a succession of short-term jobs, periods of under-employment and unemployment, with little prospect for future improvement. To counter this an

active labour market strategy, which makes the most of human capital and has education, initial and continuing training as its cornerstones, is central.

ISTAT statistics tell us that, up until now, these new forms of recruitment have tended to act more as an entry route into the world of work than as a trap from which there is no escape. Ninety per cent of the labour force still consists of workers on permanent contracts. The ranks of part-time workers are without doubt swelling, although they remain far smaller in Italy than in other countries and, moreover, this increase is taking place in a context of legal and collectively agreed guarantees, akin to those covering fixed-term employees. In addition, as we have seen, the flexibilisation of labour (both working time and contracts) is often, and to a growing extent, subject to company-level bargaining. The transformation of labour relations and working conditions nevertheless confronts the trade unions with an ever more urgent problem. It is how to adapt their methods of protection to a world of work, which is becoming increasingly complex and different from that of those earlier decades, in which trade union history and methods of representation are rooted.

5. FUTURE OUTLOOK

The return of warfare to Europe in the early months of 1999 came as a severe shock to European public opinion and to those governments which were composed largely of political groups with a strong pacifist tradition or, at least, extremely cautious about military intervention. They nevertheless felt duty-bound to crush and terminate a programme of ethnic cleansing, the true horrors of which became clear in the course of the 72-day war. The situation began with the “ethnic cleansing” campaigns. These were followed by a phase of negotiations that were more of a façade than a reality. Finally, and prior to a conclusion which could and should have been reached at the outset, came 72 days of NATO bombing in Kosovo and Serbia – with all the accompanying destruction, heartache and death.

The Italian trade union movement came out in favour of peace and called for a halt to all aspects of the war. It held a national demonstration in Bari, the capital of Puglia, the region closest to where the events were unfolding. It had been affected most by the Balkan crisis, due to an increasingly massive exodus of refugees and deported persons, coupled with a not insignificant impact on tourism in the region.

In May the spectre of political terrorism unfortunately reappeared in Italy, with the assassination, by a commando of the so-called “Red Brigades – the Communist Party Combat Unit” – of Professor Massimo D’Antona, one of

Italy's leading experts in labour law. At the time he was legal advisor to the Minister for Employment, and was someone who had co-operated with the trade union movement all his life.

By the beginning of 1999 it had become clear that, while the signing of the new social pact had made it possible to avert an awkward social confrontation (at a very delicate stage in Italy's economic and political life), it had not resolved all the problems concerning either industrial relations or economic policy.

Indeed, despite the fact that they all expired several months ago, it has taken a long time to renew certain major national collective agreements. In particular the metalworking sector agreement, which has always been a trend-setter for the entire Italian economy and those covering sectors such as banking, transport and the retail trade, all undergoing sweeping restructuring processes. Some of these collective agreements are still suspended. However, the metalworkers' agreement was finally signed at the end of June 1999, thanks to mediation by the Minister of Employment. The key difficulty had related to the nature of the trade-off between flexibility and the reduction – albeit modest – in working time demanded by the unions.

Recent events demonstrate that Italy's economic problems are not yet over. Firstly, the government had to ask the Ecofin Council for a waiver concerning the public deficit level, which for 1999, will be 2.3% - 2.4%, compared to 1.5% set in the Stability Pact. Due to the need to rein in the public deficit for 2000 to below the 1.5% limit, the government has drawn up a budget containing cuts. These initially have been quantified at around 16-17 thousand billion lire. At the same time it has stated its intention to adopt measures to promote economic growth, above all by lowering the fiscal burden, both on earned income (especially lower incomes) and on companies. Cutbacks will thus have to be made by curbing public expenditure rather than by boosting revenue. There is also talk once again about further action on pensions. This would be additional to the measures already taken, with trade union consent, in consultation with the Amato government in 1992, the Dini reform of 1995 and the measures included in the government/trade union agreement of 1997¹¹.

At the end of June the government explained its Economic and Financial Planning Document (*DPEF*) to the trade unions, provoking a profoundly negative reaction. In contrast the employers' and self-employed organisations

¹¹ D'Aloia, *Italy*, in *Collective Bargaining in Western Europe 1995-1996 and 1997-1998*.

responded positively. The government's revised *DPEF* provides for expenditure cuts of 15,500 billion lire, deferring decisions on welfare reform until the resumption of talks with the unions in September. It has its background in both the unions' adverse comments and the disputes plaguing the centre-left after their losses in the European elections. Additionally the government experienced defeat in the June 1999 local government elections, when, after 54 years, the left lost control of the city of Bologna.). The real confrontation will therefore occur in the autumn, when the Finance Bill itself is discussed. But there is no doubt that scrutiny of the economic policy options for next year is getting under way, in a climate of sharp disagreement between the trade unions and a government headed by the leader of the largest party on the left.

Obviously the key issue, on which economic and social debate will focus, is the extent to which the government and the employers' organisations comply with their commitments arising from the new Social Pact of 22 December 1998.

This will be gauged according to the government's ability to implement economic policies that ensure a revival of growth and employment. It will also be measured by the extent of the changes made to the welfare system, where the trade unions are opposed to any expenditure cuts. They base their opposition on the fact that, in 1998, total social expenditure in Italy (pensions, health, family allowances, unemployment, etc.) accounted for 24.6% of GDP, compared to 35.6% in Sweden, 30.6% in France, 29.7% in Belgium, 29.4% in Germany and 28.4% on average in the European Union countries. Even in the United Kingdom it amounts to 27.7%. In contrast, pensions undoubtedly constitute a higher proportion of overall social spending in Italy than in other European countries. Out of a total of 100%, they represent 67.5% in Italy as opposed, for example, to 43% in France, 42.5% in Germany and an EU average of 44.6%.

Italy's trade unions are not prepared to accept a unilateral reappraisal of existing commitments on social security. The other key issue for debate is how well the rules on collective bargaining function in practice, given that they have already run into difficulties during the renewal of collective agreements over the past few months.

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Luxembourg

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1. GENERAL BACKGROUND INFORMATION

1.1. General Overview

European integration and the introduction of the single currency are shaping Luxembourg's macroeconomic policy. The country's economy is characterised by strong growth, falling labour costs, increased productivity, public investment and economic diversification, particularly in the industrial sector.

Strong economic growth has led to an increase in employment levels of 4.7%. As the majority of jobs that have been created have been taken by non-residents from outside Luxembourg (+10.2%), it is remarkable that the growth of employment amongst nationals (residents) has gone up by 2% compared to 1997 whereas national employment had in recent years shown a tendency to stabilise.

In 1998, the rate of unemployment was the lowest in the European Union at 2.4% (harmonised rate calculated by Eurostat) and 3.1% according to ADEM (employment agency), which is down compared with the previous year.

The Luxembourg economy is based on healthy foundations given the effect of the increase in production volumes. Waged and salaried employment rose by 47.8% between 1985 and 1997 representing an average annual rate of increase of 3.3%.

Despite the strong increase in employment, the rate of unemployment has more than doubled since 1985. In 1998, the unemployment rate was 3.1%.

The principal weaknesses of the Luxembourg labour market are the low rate of female labour market participation of only 38% (one of the weakest in the European Union), a rate of 20% for those over 50 years old and of 59% for the resident population.

The employment market is increasingly becoming a regional market in the sense that the classic employment policy mechanisms are losing their effectiveness.

The struggle against unemployment and the objective of full employment is the principal concern of not only the government but also Luxembourg's social partners who have been given direct responsibilities in this sphere thanks to changes in the legislation on collective agreements which will make employment one of the dominant topics in the industrial relations arena.

There has been a continuous drop in employment levels in the industrial sector (not including construction) both in absolute figures (-24% in 1997 compared with 1980), and particularly in relative terms. Whereas in 1980 nearly 26% of domestic employment was provided by the manufacturing industry (excluding construction), this proportion had fallen to 13.7% in 1997, the downward trend showing no reversal because of the dynamic level of growth in the service sector.

Even the 12,736 jobs created by new companies since 1975, some of which do not, strictly speaking, belong to the industrial sector, are not enough to compensate for net job losses in the industrial sector, a phenomenon that is clearly strongly influenced by the dramatic drop in employment in the steel industry.

Credit and insurance has long been the only sector able to overtake the manufacturing sector in terms of its contribution to GDP and tax revenue. The sector already provides 22,000 jobs against 31,000 for industry which has to a large extent diversified.

In 1998, the government undertook a new and significant step to ease taxation. The reduction in company tax rates has been completed, the rate being fixed from now on at 30%. The changes introduced are not limited to a single area of taxation, but concern a range of measures entailing changes to personal taxation levels as well as others geared to reducing tax burden on corporate income (*impôt sur le revenu des collectivités*).

1.2. Economic climate

Luxembourg's economic growth continued into 1998. The year was considered excellent in view of the 5.2% growth in GDP.

Exports were up by 13% as a result of the strong demand for industrial products. However, this growth slowed from the second quarter because of European and international trends.

Growth in Gross Domestic Product	1997	1998	1999	2000
National GDP (in %)	4.5	5.2	3.2	4.1

Source: STATEC, estimates for 1999 and 2000.

Inflation was in line with trends in the neighbouring countries. The rate of inflation for 1998 was about 1%.

Trends in the rate of inflation	1998	1999	2000
Rate of inflation (in %)	1	0.7	1.4

Source: STATEC, estimates for 1999 and 2000.

In 1998, the average rate of unemployment was 3.1%. There was a visible reversal of trend since, for the first time since 1990, unemployment actually fell by 5.6%.

Trends in the rate of unemployment	1998	1999	2000
Rate of unemployment (in %)	3.1	2.9	2.8

Source: STATEC, estimates for 1999 and 2000.

There was continuous and strong growth in waged and salaried employment. This increase was in the region of 4.8%.

Trends in salaried employment (in %)	1997	1998	1999	2000
Rate of increase (in %)	3.9	4.8	2.8	2.9

Source: Social security archives, estimates for 1999 and 2000.

A breakdown of this growth shows the respective strength of the different sectors which contributed to the employment growth:

Service sector :	+ 8.832 employees	+ 5,9 %
Retail sector :	+ 1.588 employees	+ 5.6 %
Financial sector :	+ 2.086 employees	+ 8.7 %
Construction :	+ 984 employees	+ 4.1 %
Industrial sector :	+ 469 employees	+ 1.3 %

Source: STATEC

Despite the large numbers of jobs created since 1990 (more than 53,424 employees) the labour market has not experienced serious shortages, with the exception of some very specialised sectors which have seen an influx of workers from across the border and migrant workers. The Luxembourg labour market has become an inter-regional and cross-border market. The number of foreign workers increased over 1997 by around 9.5%, or about 6,400 workers.

At present, the share of foreign workers in salaried employment has risen to 33%. The breakdown by country of residence was as follows:

- France: 52%
- Belgium: 30%
- Germany: 18%

When analysing the labour market, it must nevertheless be pointed out that, despite the creation of jobs, the number of job-seekers continued to increase. This tendency actually became rather worrying, since to this number had to be added the numbers of job-seekers taking advantage of employment schemes, company or pre-retirement or similar schemes in sectors undergoing restructuring.

This type of structural unemployment particularly affects low-skilled and unskilled workers and, in particular, women and those who are resident outside Luxembourg.

1.3. Priority trade union demands

Confronted with the trends described above, the trade union movement has both launched local employment initiatives and reaffirmed the need for a determinedly activist employment policy to be conducted jointly by the government, the trade unions and employers.

The OGB-L (CGT-L) and the LCGB have been proactive in this and have participated in tripartite negotiations to implement the employment guidelines.

The National Action Plan for Employment, which was the outcome of these negotiations, includes a reworking of existing measures to promote the occupational integration of young people and the long-term unemployed as well as “positive action” measures to foster equal opportunities for men and women. Coupled with this are measures that aim to reconcile family and working life and which have a positive impact on employment (parental leave), measures concerning both initial and continuous vocational training, as well as measures designed to achieve a negotiated flexibility in working time.

As far as collective agreements are concerned, the National Action Plan (NAP) also stipulates a requirement to conduct negotiations on:

- the reorganisation of working time, including its reduction,
- safeguarding and creating jobs,
- a training policy in companies,
- implementation of the principle of equal opportunities for men and women.

From 1999 onwards, these four points must be subject to negotiation and concertation between the social partners during collective bargaining.

In addition the trade unions want to achieve:

- a reduction in working time,
- better labour market re-integration for groups at risk,
- a reduction in unemployment levels, including reskilling training to assist in the return to work,
- an increase in purchasing power,
- better joint management of enterprises.

The trade unions have continued discussions with the government on the bill to promote continuing vocational training within enterprises. This bill was passed in

May 1999 and was to come into force on 1 January 2000. The NAP includes provision for financial incentives (reduction in social security costs) in the event of an agreement to reduce working time enabling the creation of new jobs.

1998 was significant for the passing of a law to reduce the level of pension entitlement of current civil servants and public sector employees and to bring the pension system for civil servants and public sector employees recruited after 1 January 1999 into line with the general system, which is less favourable. The civil servants' and public sector employees' trade unions are steadfastly opposed to this reform (48-hour strike by railway workers in January 1998, 24-hour strike by all civil servants and public sector employees in July 1998).

The trade union confederations belonging to the ETUC and some autonomous sectoral federations rallied in July 1998 to bring about improvements in the general system. Their action led to some initial successes in meeting long-standing demands for equality for women and in causing government plans aimed at reducing invalidity benefits to founder. Finally, it should be noted that a 1.3% increase in pensions took effect as of January 1999.

1.4. Employers' attitude

The employers continued to demand:

- moderation in pay increases
- more working time flexibility
- the liberalisation of labour laws
- easing of employers' social security costs and obligations

and further to this, under certain conditions, the decentralisation of negotiations for the benefit of sectoral organisations lacking national-level representative status and, consequently, deprived of the legal right to sign agreements.

2. WAGES AND PURCHASING POWER

2.1 General information

In Luxembourg, as in Germany, the trade unions insist on their freedom in pay bargaining matters. The state does not intervene in this area.

There are some 3000 collective agreements in Luxembourg, applying to working conditions and sectoral or company-level pay. There is no set hierarchy of collective agreements.

About 50% to 60% of employees are covered by a collective agreement. However, only one collective agreement may be collected per sector and per enterprise.

Three different forms of pay determination can be identified:

1. negotiations through a collective agreement,
2. fixing the minimum wage at the national level, based on Luxembourg wage levels,
3. automatic alignment of wages on the consumer price index.

Coverage of certain points in collective agreements is compulsory by law.

Furthermore, according to the employment guidelines, the National Action Plan stipulates that from now on, the partners must conduct negotiations on:

- working time, including a reduction in working time,
 - continuing training in enterprises,
 - safeguarding and creating jobs,
 - implementing the principle of equal opportunities for men and women,
- and must incorporate the results into the collective agreement.

The legislation on collective agreements stipulates that only those trade unions that have been granted nationally representative status may negotiate and sign a collective agreement.

At the present time there is no basis in law for the conclusion of legally binding national interoccupational agreements.

An employer who is requested by the trade unions to negotiate a collective agreement is required to comply with this request. Should an employer refuse to negotiate, the national conciliation office will arbitrate the dispute.

Once a collective agreement has been negotiated and signed, it has, in order to become valid, to be registered with the ITM (*Inspection du Travail et des Mines*). A refusal to validate the agreement may be issued by the Employment Minister following an ITM proposal, only if one of the signatories is not authorised to sign. The validity of a collective agreement may also be extended to a whole sector.

The trade unions must ensure that social peace is maintained during the period covered by the agreement, for the duration of the bargaining and, where appropriate, during the conciliation process.

If the National Office for Conciliation confirms that arbitration has failed, the trade unions are at liberty to organise strike action.

If negotiations or other measures do not lead to acceptable results, the trade unions then, as in Germany, hold a vote of their members to decide whether or not to follow the call for strike action.

2.2. Pay rises in basic rates and average earnings

Real unit labour costs (the ratio between labour costs per worker and labour productivity) showed barely any increase in 1998. This confirms the social partners' commitment to contain rising labour costs. In the period from 1990 to 1998, real unit labour costs fell very slightly by 0.3%.

Labour productivity increased by 1.3% in 1998. This indicator is determined, at the company level, by strategic management (research, innovation, training, quality, prices, etc.) and, at the macroeconomic level, by public transfer of technology policy and by the continuous development of the public infrastructures (roads, telecommunications).

In 1998, average real wages increased by around 1.8%; the average hourly wage (employers' contributions included) was 823 LUF.

Average gross wage by seniority and by socio-occupational category in LUF (seniority in years)

Socio-economic category	<2	3-5	6-11	11-15	16-20	21>
Management						
Men and women	162,547	183,122	203,099	218,387	243,340	266,481
Men	170,702	190,311	213,994	225,662	242,427	272,109
Women	141,265	156,029	164,384	189,911	247,447	230,666
Technicians, etc.						
Men and women	111,982	126,179	139,672	149,704	160,848	180,991
Men	115,202	132,206	146,352	151,634	167,280	184,674
Women	106,596	115,826	129,310	145,737	139,520	163,273
Administrative employees						
Men and women	81,753	86,706	98,696	113,481	124,452	135,579
Men	84,262	88,553	103,309	120,200	127,471	138,493
Women	80,211	85,420	95,545	103,847	116,948	122,116

Source: STATEC

Average gross wage by seniority and by socio-occupational category in LUF
(seniority in years) (continued)

	<2	3-5	6-11	11-15	16-20	21>
Skilled manual workers						
Men and women	74,229	80,942	87,683	97,461	102,801	105,138
Men	75,173	82,355	89,155	98,985	103,861	105,533
Women	58,819	62,612	66,370	73,976	74,575	70,710
Unskilled workers						
Men and women	59,308	63,124	71,309	78,958	86,854	95,696
Men	62,909	67,354	76,704	86,854	91,143	99,888
Women	53,171	56,504	60,553	67,166	71,165	77,225

Source: STATEC

Composition of disposable income by source
(breakdown according to primary income deciles by consumption unit in 1996)

Primary income decile	Primary income	Old age pensions	Other transfers	Average disposable income
1	0.0	69.6	30.4	100.0
2	1.1	57.3	41.6	100.0
3	17.8	48.0	34.2	100.0
4	56.4	18.1	25.5	100.0
5	73.3	8.9	17.8	100.0
6	81.2	6.7	12.1	100.0
7	87.8	4.0	8.2	100.0
8	89.9	3.6	6.5	100.0
9	94.1	2.0	3.9	100.0
10	97.3	1.5	1.2	100.0
Total of all households	71.4	14.9	13.7	100.0

Source: CEPS

2.3. Purchasing power

Luxembourg, like Belgium, has a system of automatic wage increases linked to the consumer price index.

The last indexation increase of 2.5% was paid in 1997. It is necessary to take account, in addition, of the results of collective bargaining, which covers 50% to 60% of private sector employees, and of the results of periodic wage discussions for civil servants and public sector employees. Taken together, these developments result in an average national increase in real wages of 1.8%.

2.4. Changes in pay systems, pay scales and classification

Pressure from employers for greater individualisation of wages – to the detriment of the system of classification tied to occupational qualifications and seniority – is continuing, with varying results according to sector and enterprise.

3. WORKING TIME DEVELOPMENTS

The statutory working week is still 40 hours, with 25 days annual leave and 10 public holidays. Statutory annual working hours for a full-time employee are thus 1808.

Collective bargaining activity has sought to achieve a steady, albeit cautious and diversified, reduction in working time (extra days of leave, reduction of the working week in certain sectors).

At national level, discussion focused on the question of flexibility in the framework of the negotiations for the National Action Plan for Employment.

In 1998 the National Action Plan introduced a parental leave arrangement open to both parents. Each parent is entitled to take leave for a period of 6 months for each child aged under 5. During the period of leave, the employee receives an allowance of LUF 60,000 per month and retains a guaranteed right of return to work. Employees wishing to take their parental leave entitlement on a half-time basis will receive half the allowance for a period of twelve months. Entitlement to parental leave according to these arrangements came into force on 1 January 1999.

4. EUROPEANISATION OF COLLECTIVE BARGAINING

Even before signature of the Doorn declaration, the Luxembourg trade unions regularly exchanged detailed information on collective bargaining developments in different countries.

In the framework of collective bargaining under EMU, the Luxembourg trade unions, like their counterparts abroad, are seeking to reinforce sectoral, regional and national cooperation in order to develop a common trade union cross-border strategy for the contents of collective agreements.

The Luxembourg trade unions CGT-L and LCGB are already involved in contributing – at inter-regional trade union level – information of relevance to the various components of collective bargaining.

5. FLEXIBILISATION OF WORKING CONDITIONS AND DECENTRALISATION OF COLLECTIVE BARGAINING

The National Action Plan (NAP) for Employment includes a section requiring the social partners, in the framework of collective bargaining, to conduct negotiations on working time, overtime and daily and weekly rest periods.

To open the way for negotiation on a reorganisation of working times, the government has amended the legislation on working time, while incorporating, from the outset, clauses to guarantee employees protection against excessive flexibility.

Employees' working hours may not exceed eight hours per day and forty hours per week. Longer hours may, however, be worked, provided that the average weekly number of hours worked, calculated over a reference period of four consecutive weeks, is not greater than forty hours (or the collectively agreed weekly working time if it is less than forty hours).

The maximum number of working hours may not exceed ten hours per day and forty-eight hours per week. However, the length of the period of reference may be reduced or extended by collective agreement but may not exceed twelve months.

At least five working days before the period of reference, companies are required to draw up an organisational work-plan covering the whole of the period of reference. This plan must be endorsed by the staff delegation. There is provision for a conciliation procedure in the event of dispute.

With regard to new developments in different forms of work, it should be noted that in 1998 two agreements were concluded in the area of temporary work. One governed working conditions and remuneration for workers employed in temporary-work agencies and the other laid down, in addition to pay and working conditions, special terms applicable to the contracts of temporary workers.

In Luxembourg, statistics and studies on atypical working practices have been collected and conducted only recently. As such, it is often difficult to trace the historical development of these forms of work.

Atypical work includes working from home, teleworking, part-time work, temporary work, or fixed-term contracts.

Teleworking is not widespread in Luxembourg. Results of a study by CEPS/INSTEAD show that 3.6% of enterprises use teleworkers, both in the industrial and service sectors. However, amongst the service sector enterprises, it is particularly those involved in information technology and computing and those that offer services to other enterprises that currently use teleworking (10.5%), although other areas of activity, in particular financial services (and principally insurance) manifestly lend themselves to this new form of work.

The workforce survey statistics shows that in Luxembourg about 6% of employees normally work from home: 5.5% of men and 7.7% of women. This is slightly above the EU average.

Part-time work in Luxembourg has been on the increase since the beginning of the 1990s: the number of people working on a part-time basis rose from 28,468 in 1991 to 35,383 in 1996. This represents an increase of almost 25%, whereas total salaried employment increased by only 13.8% during the same period.

Part-time workers (i.e. those who, according to their social security files, work less than 75% of the usual working time of 173 hours per month) accounted for 17.7% of all salaried workers on 31 March 1996.

The retail sector is the largest employer of part-time workers (21.3%). Of all part-timers 70.3% are female. Of the total workforce in this sector, 34% are women working part-time while the proportion of male part-timers is almost insignificant (8.2%).

Temporary work is also on the increase and, according to figures released by the Ministry for Employment, the number of enterprises that use temporary workers has risen from 557 in 1995 to 660 in 1996. This is an increase of around 18%.

According to the IGSS, almost 4.1 million hours were worked by temporary workers in 1995. A comparison of figures for the first nine months of 1996 with those of the previous year shows a slight increase in temporary employment.

Insofar as the number of contracts are concerned, there was a strong increase between the first and third quarters of the years 1995 and 1996 respectively. This increase was much greater than the increase in the volume of activity, indicating a reduction in the average length of each contract.

6. GENDER ISSUES IN CURRENT COLLECTIVE BARGAINING

New developments include:

- the introduction of a legal requirement for equality delegates within elected company staff delegations
- the abolition of wage discrimination, previously applying to cleaners in relation to other categories of manual workers, from the collective agreement for local authority workers in the southern part of the country
- the inclusion in the National Action Plan for Employment of a chapter on forms of positive action to be undertaken.

The trade unions and management have undertaken to make the principle of equality between men and women a compulsory element of collective bargaining in the framework of the National Action Plan.

A law passed on 7 July 1998 introduced the requirement to appoint, in enterprises regularly employing at least 15 workers, an equal opportunities representative whose task will be to ensure equal treatment of male and female employees in the enterprise in the areas of access to employment, training and promotion, as well as in relation to pay and working conditions. To this end, s/he will be attributed powers and guarantees similar to those of worker representatives, including the right to present individual claims to the employer, paid time for performance of duties, protection from dismissal, etc.

7. FUTURE OUTLOOK

Since the National Action Plan was not due to come into effect until 1 March 1999, its effects and the results of the negotiations will be felt only gradually.

Though it is too early to draw conclusions, it is already apparent that management is trying to place the unilateral flexibility of working time at the centre of the negotiations. The trade unions, meanwhile, given the financial

performance of businesses, are no longer prepared to go along with a policy of pay restraint and are demanding a better distribution of wealth in favour of labour rather than capital.

In the wake of the 13 June election results, Luxembourg's political landscape will see changes. The former coalition of the *Parti chrétien* (CSV) and *Parti socialiste* (LSAP) experienced relative defeat, so that a change in the make-up of the coalition to the Christian Social and liberal parties is likely. The new government's programmes will have to be analysed to ascertain whether any changes in social policies and in the social dialogue are on the agenda.

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Report by the *Observatoire National du Développement Social*

Netherlands

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1. BACKGROUND INFORMATION

Indeterminate economic situation and rising wage claims

1998 and 1999 were marked by a somewhat indeterminate economic situation in the Netherlands. Although the Asian crisis led to regular warnings from businesses on profits in the first half of 1998, union wage claims were determined inter alia by the high profits which had been achieved the previous years. Rising share prices and the accompanying profits from options achieved by many managers also resulted in strong wage-claim pressure from the union rank and file. After the first six months of 1998 it became clear that economic growth would slow down, but without any actual recession. However, the economy still grew by 3.7% in 1998 on an annual basis, and a growth rate of 2% is expected for 1999. These 1998 and 1999 growth rates are above the European average.² Despite the lower growth rate in 1999, it was from the union point of view a year in which, following companies, the workers were also looking for a share in the returns.

The higher growth rate of the Dutch economy has to a large extent been the result of the consumption boom. Unlike the situation in other countries, consumption in The Netherlands has been boosted by a reduction of the tax burden, and Dutch families have furthermore benefited from the rising share prices and house prices. Even production in the building industry contributed to some extent both in the form of industrial premises and public investments and in the form of housing construction. Growth in exports is below the European average, however, a factor which is to be attributed to the higher share of agricultural products and foodstuffs in Dutch exports.

¹ The author thanks P. Kroon for several contributions.

² The economic information in this paragraph has been taken from CPB, Centraal Economisch Plan 1999. CPB, The Hague 1999.

The declining growth in activity will result in a lower increase in employment in 1999 (1.5%) and 2000 (0.8%) compared to 1997 and 1998 (2.7%). The increase in the working population has been lower in 1998 and 1999 than the growth in job supply, so that unemployment will continue to decrease to 4.8% in 1999. This, however, will no longer be the case in 2000, when a new rise is expected.

From the trade union point of view, 1998 and 1999 have been years in which favourable economic results should also have been expressed in wages without the policy of controlled wage development otherwise being forfeited. In 1998, the coordinated FNV and CNV percentage was 3.75%; this rate has dropped slightly to 3.5 (FNV) and 3.25 (CNV) in 1999. The trade union federation MHP (focusing mainly on intermediate and senior staff) has not had any centrally coordinated percentage in 1999, but has announced through its President Verhoeven that a 3% increase is sufficient “having regard to other objectives in the social field”. This low percentage has paled however compared to the high wage claims of affiliated unions; De Unie has demanded a 4% pay rise in general, for example. In addition to this wage increase, the unions’ objectives in 1998 and 1999 concerned the field of agreements for the long-term unemployed and handicapped workers, employability, reduction of pressure of work and more possibilities for combining work and care.

Prior to the negotiations for 1998 and 1999, the employers gave scarcely any indication of the policy on working conditions they intended to pursue. According to the employers’ umbrella organisation VNO/NCW, wages can rise by 2% in the course of 1999. This will bring the earned income quota to around 80%, which is what the Economic and Social Council (SER) is aiming at. The VNO/NCW will not be applying any strict coordination in 1999.

Change of government

The socio-political situation in The Netherlands is relatively stable. The first “purple” government (1994-1998) was exchanged for “Purple II” (social-democrats and liberals) in 1998, again led by social-democrat Wim Kok. The results of the so-called “polder model” attracted international attention in 1997, but the first purple government’s support of the Dutch collective bargaining model was more a matter of pragmatism than of principle.

The Purple II coalition agreement and programme contained several bad omens in that respect. The new government included the results of the polder model, which was described in detail, in its calculation by taking an average wage increase of 1.5% as a basis. This anticipation of very far-reaching wage

restraint irritated the social partners – particularly the trade unions. The new government also reserved the possibility of intervening in the procedure where an agreement is declared generally binding, and the coalition agreement and programme was furthermore liable to forfeit a great deal of confidence with regard to the working conditions of public sector employees – and confidence is an important component of collective bargaining in the Netherlands. In the past few years it has been possible to disguise the fact that the scope for setting working conditions in the public sector is structurally inadequate through the 36-hour week, a pay-rise for part-time workers, and the recent election give-away. Instead of structural improvements, further retrenchments in working conditions and job cuts are on the programme for the coming term of office. There are in fact liable to be major problems in the bargaining on working conditions in the public sector in 1999, due both to the narrow room for manoeuvre and to the fact that a number of government negotiators, including the Ministers of the Interior and the Minister of Education, are relatively inexperienced.

The practice of regular tripartite negotiations is nevertheless being continued intensively. The so-called spring and autumn negotiations were held in 1998 and 1999 with various tripartite preparatory groups. Relations in these negotiations are so good that the media now scarcely devote attention to them – unlike the situation several years ago.

2. DEVELOPMENTS IN THE STRUCTURE OF COLLECTIVE AGREEMENTS

A great deal of attention was paid in 1998 and 1999 to several developments, which were to signal the shrinking of the basis of the traditional collective agreement. This concerns situations where an employer tries deliberately to withdraw all or part of his activities from the regular sectoral agreement in order to reduce costs or to achieve greater flexibility. Various forms of calculating conduct of this nature have emerged in the past few years.

The emergence of so-called yellow trade unions had already caused quite a commotion in 1991 and 1992; employers who objected to the costs which they claimed were involved in the application of a sectoral agreement concluded a company agreement with a workers' organisation whose field of activity was restricted to the undertaking.³ Although the independence of the unions in

³ D. Vreugdenhil, *Categoriale bonden in opmars. Zeggenschap 1994/5.*

question was strongly disputed, the objections were not strong enough to prevent the minister from granting exemption from the sectoral agreement. Several collective agreements of that nature were signed around 1992: in Ikea (which, due to the number of young workers it employed, was afraid of the costs of the VUT early retirement scheme provided in the collective agreement for the retail furniture trade), in the towing service firm of Adriaan Kooren (which wanted to operate tugs with less crew members than prescribed in the collective agreement), and in the kitchen firm of Gaggenau Nederland. A previous attempt by the Swiss Bank (SBCI) to withdraw from the collective agreement for the banking sector by setting up its own small union was rejected by the minister back in 1991.⁴

In 1994, the phenomenon of collective agreements concluded with what are called “bogus unions” suddenly came to the fore.⁵ The Independent Confederation of Trade Union Organisations (OVV) presented itself as a collective bargaining party with a view to concluding a collective agreement devoid of costly collective funds or safety standards that were considered too stringent. After the signing of a collective agreement with a small employers’ association in the temporary employment sector in 1994, collective agreements were concluded for small petrol stations, small employers in the hotel and catering trade, events hosting and video shops (1998); all of these agreements concern several thousand workers. The first three agreements concerned employers’ associations which had already on several occasions lodged objections to the collective agreements concluded by their major sister organisations. In the case of the video shops, on the other hand, joint negotiations were initially held by FNV member organisations, the CNV service workers’ union and the OVV on a new collective agreement to be elaborated in the sector. However, in the course of the negotiations the regular unions were suddenly taken by surprise by the announcement that the OVV had

⁴ His arguments included the following consideration: ‘Exceptions to the decree on the procedure for declaring a collective agreement generally binding have actually only been made with regard to company agreements when at least one of the parties on the labour side has also been a party to the sectoral agreement or has been organised sectorally or has been affiliated to a trade union federation which is represented on the Economic and Social Council.’ One year later, in 1992, this condition proved to be a sufficient condition for exemption, but not a necessary precondition, having regard to the exemption granted to Adriaan Kooren. For the developments in 1991 and 1992 see the objections submitted by undertakings, the opinions of the Economic and Social Council, and the minister’s decisions *DCA-bevindingen 1991* (The Hague 1992) and *DCA-bevindingen 1992* (The Hague 1993) of the Ministry of Social Affairs and Employment.

⁵ NRC Handelsblad, *Een cao voor de kleine man*. 3 March 1998.

already concluded an agreement with the employers' organisation. The collective agreement for the wholesale trade in hotel and catering products was concluded by the OVB in 1999 without the participation of the regular unions. The regular trade unions obviously consider that action of this nature goes against the collective bargaining culture and socially responsible agreements, which form the basis of the collective bargaining system in the Netherlands. What is more, all of these collective agreements are declared generally binding whenever they are presented to the minister for that purpose, which means that the employers concerned withdraw from the original sectoral agreement. Although the risks for the order which is intended with the procedure of declaring an agreement generally binding are clear, the principle of bargaining freedom carries more weight. In the field of professional football, the non-affiliated union ProProf was established in the spring of 1999 and drove the regular FNV union VVCS from the bargaining table. ProProf has categorial characteristics but is not affiliated to the OVB; it is a member of the trade union federation De Unie, which is affiliated to the trade union confederation MHP.

Although undertakings and small industries in a number of sectors are being withdrawn from the regular collective agreements, these moves are nevertheless to be regarded mainly as exceptions to the rule; the trend where new branches of industry are being covered by collective agreements is stronger. This is happening in particular in sectors geared to the domestic market. The collective agreements for the contract catering trade, the security sector and the travel sector were concluded in the first half of the 1990s, and agreements have been added in the past few years covering the information and communication technology and office automation sector (1997), mail order firms (1998), the fitness centre sector (1998), crematoriums (1998), undertaking establishments (1998), veterinary assistants (1998) and the wholesale floristry trade (1999). A special form of agreement was chosen for the cable, information and telecom sector and the waste and environment sector, both of which are covered by sectoral agreements within the framework agreement for electricity companies and utilities (which also operate in these sectors).

In these cases it is always one employer who is involved, where the markets, which originally registered strong growth, are becoming saturated to some extent and competition between firms over prices and quality is increasing. It is mainly the larger undertakings which invest in social policy and training. It is in the interests of such firms, which are geared more to quality, not to be disadvantaged in terms of costs as the result of these investments. This is in

line with the trade union objective of regulating working conditions through a collective agreement. It is possible to do so, since the sectors concerned are mostly sectors geared to the domestic market with little foreign competition. With increasing activity and tension on the labour market company agreements can bind future and currently employed workers to the company. Several company agreements have been concluded recently in the automation sector, which, a few years ago, had to contend with a decline in activities and an ample labour market but is now having to contend with serious shortages: Raet, Getronics, Roccade, EDS, Origin and Hiscom. It will be seen from this series of firms that collective agreements are particularly on the agenda where different rules on working conditions have had to be integrated as the result of mergers, and in particular whenever there was already a collective agreement (for public employees) in one of the firms involved in the merger.

New independent collective agreements are also being concluded in the retail trade. These are often the result of the efforts of collective bargaining partners to conclude a package of working conditions which are geared more to the realities of the specific branch of industry. The Regulation on Working Conditions in the Retail Trade is thus giving way more and more to new sectoral agreements covering, for example, wine shops, chemists' shops, jewellers' shops, opticians' businesses and the sewing machine sector.

Officially, there has been free collective bargaining in the public authorities since 1993 on eight agreements covering public employees. The eight agreements, which were concluded for the first time in 1993, differ from one another in their primary and secondary improvements in working conditions. The agreement for the education sector has meanwhile been split into four partial agreements with regard to most working conditions. The collective agreement covering university clinics was concluded in 1996, and the agreement covering employees (including the scientific staff of universities) was signed in 1997. A separate collective agreement was concluded in 1998 for 50,000 employees who come under the Job-seeker Mobilisation Act, the VNG thereby acting as the employers' association. This policy of decentralisation and independence has led to the conclusion of 13 "new" sectoral agreements for public employees, and new agreements have also been signed as the result of the privatisation of public services; the latter agreements have been mainly company agreements.

3. WAGES AND PURCHASING POWER

In 1997 the Dutch collective bargaining system won international recognition. The social partners and the public authorities had proved to be in a position to achieve employment growth which was rapid from the international point of view through a policy of wage restraint, redistribution and flexibility. Would the Dutch collective bargaining system live up to expectations in 1998? In early 1998 a certain amount of concern was expressed over the wage trend. The incomes of senior managers increased tremendously as the result of the rising share prices and high operating profits. Would it be possible to keep the collectively agreed pay rise within the 3.75% margin, the ceiling quoted by the trade union confederations FNV and CNV?

It did indeed prove to be possible; the collective agreements concluded in 1998 brought an agreed pay rise of 2.8% on average. The remark made by FNV President De Wall – “ask and you will obtain” – evidently worked as an upper limit rather than the lower limit that had been feared. And the image of a country where there was peace in industrial relations was also preserved in 1998. A strike which was threatening in the health care sector was averted by the fact that the first purple government contributed generously towards the financing of the collective agreement before the elections.

Most collective agreements are concluded for two years and some even for three years. One consequence of the longer term is that the changes in the development of working conditions are relatively limited on the whole. The pay rise in the second year of an agreement is generally lower than in the first year. The average wage increase throughout 1998 was estimated at 2.8%, any pay rise agreed in 1997 for 1998 thereby being lower (2.5%) than in collective agreements concluded in 1998 for 1998 (3.2%). Collective bargaining parties have an aversion to risks. External shocks are thus cushioned.

Despite the high profits of industry, the central employer and worker organisations were agreed on the continuing importance of well-considered wage cost development. This was laid down at the end of 1997 for the next four years in the *Calendar for collective bargaining in the next few years* (also *Agenda 2002*) of the Economic and Social Council. The 1998 and 1999 results show that this is not an impossible task per se. Trade union calculations showed in May 1998 that the average agreed pay rise over 1998 was 3.2%, i.e. less than the 3.75% wage claim of the two trade union confederations. Calculations by the wage and salary administration firm of ADP at the end of May 1998 created the impression that the real wage increase had doubled to 6% that year. Although this interpretation soon proved to be wrong, these

figures reveal that there is actually always a substantial incidental component involved in the official wage increase. In addition to the so-called structural effect (older workers earning higher wages leave the labour market and are replaced by younger workers, who earn lower wages) it is also a question of increments which are granted – more or less flexibly – and of pay depending on results. In a previous survey based on data from the Labour Inspectorate I came to the conclusion that in the period from 1992 to 1995 only the incidental component was constant, amounting invariably to around 3% a year. The actual wage flexibility is caused by the agreed wage increase, which, after an average of 3.3% in 1992 and 2.6% in 1993, then suddenly dropped to 0.6% after the Council agreement entitled *A new course* in 1994 and to 1.0% in 1995.⁶

According to the figures of the Ministry of Social Affairs and Employment, at the end of 1998 the average wage increase throughout the year amounted to 2.8%. The upward trend in the economic cycle, the growing tension on the labour market and high company profits resulted in wage claims of over 3% in 1999. The coordinated CNV percentage was 3.25% and that of the FNV 3.5%, whereas the most important MHP federation, De Unie, was generally demanding a 4% pay rise. The FNV thus had a higher wage claim than its own wage increase margin, but considered that after a number of years of continuous increase in profits the workers should also be able to share in the results. The trend was set with the collective agreements concluded in January 1999 in the road transport and haulage sector and in the police force: in the road transport and haulage sector the result achieved in the negotiations provides for a wage increase of 5.75% in 27 months. Wages in the police force will rise by 2.25% per year in a 2-year collective agreement. On an annual basis both agreements bring an increase of 2.06%. In later agreements the wage increase is also modest – just under or just over 3% – but this increase is spread over the year in such a way that the wage increase calculated on an annual basis works out lower. In the final analysis the wage increase over 1999 works out at 2.7% per year. The FNV's wage claims for 2000 are more moderate - 0.5% - 1.0% over the consumer price index.

⁶ Cf. J.P. van den Toren, Netherlands. In G. Fajertag, *Collective bargaining in Western Europe 1996-1997*. ETUI, Brussels 1997.

Table 1 - Wage trends in The Netherlands 1990-1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Agreed wage increase (incl. accrual)	2.9	3.5	4.3	3.1	1.8	1.4	1.7	2.2	3.0	2.8
Incidental (including structural effect)	0.0	0.0	-0.7	-0.4	0.5	-0.3	1.1	0.2	0.2	0.5
Gross wages	2.9	3.5	3.6	2.7	2.3	1.1	2.7	2.4	3.2	3.3
Realised price index	2.5	3.1	3.2	2.6	2.7	2.0	2.0	2.2	2.0	1.3
Workers' purchasing power	2.4	0.2	0.5	0.6	-0.4	0.8	0.4	0.6	1.6	0.8
Wage base market sector	3.2	4.4	4.1	3.2	2.7	1.3	1.9	2.1	2.9	4.0

Source: CPB, CEP 1999

The development of the model worker's purchasing power cannot simply be calculated by subtracting the increase in the consumer price index from the agreed pay rise. Purchasing power has also increased as a result of a reduction of collective burdens in the period up to and including 1998. The burdens are in fact increasing in 1999 and the increase in purchasing power is thus decreasing to 0.8%.

4. WORKING TIME AND WORK AND CARE

In 1998 and 1999 the collective reduction of working time was no longer an issue on which trade unions co-ordinated their actions. The average working week is 37 hours in The Netherlands. In the mid 1990s the 36-hour week was introduced in a large number of collective agreements, combined with a more flexible scheme for performing those hours of work. The debate on the flexible organisation of working time has gone further in the course of the past year without any trade union claims for the reduction of average working time. In an increasing number of collective agreements the possibility is now being created for all or certain categories of workers to work shorter or longer hours than the average working week of 36 to 38 hours.

In the mid 1990s, the right to part-time employment (hedged with additional provisos) was agreed in many collective agreements, partly in response to recommendations put forward by the Economic and Social Council in 1993. These recommendations have not only been followed up with an assessment by the Economic and Social Council; the government and parliament have also

always followed the collective agreement proceedings in the field of part-time employment very closely, inter alia with a view to a possible legal right to part-time work. In an analysis of 112 collective agreements conducted by the Ministry of Social Affairs and Employment, the Ministry found that 64% of the agreements contained the right to work part-time and/or to extend working time. The Ministry concluded further that in the majority of the agreements the recommendations of the Economic and Social Council had not been incorporated, or had not been adequately incorporated.⁷

The employer side in particular regularly proposes that operating time should be extended and that entitlement to overtime be reduced, and this has in fact been done in a number of collective agreements. After a lengthy collective bargaining round a collective agreement was concluded for supermarkets in November 1998, in which Saturday has become an ordinary working day. The 33.3% bonus which employees receive for work on Saturday afternoons has been done away with completely, and the bonuses paid for work between 19.00 and 20.00 hrs have also been abolished. In return for the reduction of bonuses, wages have been increased structurally by 2.5%, and an additional 5% pay rise has been agreed, spread over 18 months; that amounts to 3.3% on an annual basis. This is not the only case where bonuses have been reduced; this has also been agreed in other collective agreements.

In the Achmea group, which was created as the result of mergers between banks and insurance companies, a new collective agreement has had to be developed, in which various options have been introduced. Under the new Achmea agreement, which covers 6,600 employees, there is a combination of more extensive operating hours, less overtime pay and more choice for the employees. The working week is 36 hours, but a maximum of 10% of the workforce can work 40 hours. Once a year the employees can choose a working week ranging between 34 and 38 hours. Pensions, holiday bonuses and the 13th month's salary are calculated on the 36-hour basis. The business hours are extended to 21.00 hrs and from 9.00 to 17.00 hours on Saturdays. The bonus for evening work goes down from 50% to 30%, and the bonus for work on Saturdays drops from 100% to 50%. The VUT early retirement scheme has been abolished and replaced by an early pension of 70% of the final salary as of age 62, followed by 70% of the average salary as of age 65.

⁷ Ministry of Social Affairs and Employment / Labour Inspection, *Deeltijdarbeid in cao's. Een onderzoek naar de rechtspositie van deeltijders en deeltijdbevorderende maatregelen in cao's*. The Hague 1999.

The “cafeteria” system of Centraal Beheer (one of the partners in the merger) is valid for the whole group. Under this system, salary, leave of absence, overtime and bonuses are exchanged or saved up for long-term leave, save-as-you-earn deductions, incentive saving, building up extra pension or a non-recurrent payment. Achmea is going to try to sell the software involved with this system.

And finally, many collective agreements devote attention to combining work and care. Some far-reaching agreements are awaiting legislation on the part of the government, which is preparing a bill giving employees the right to take a maximum of 10 days’ leave a year.

5. EUROPEANISATION OF COLLECTIVE BARGAINING

As a small country on the periphery of Europe, the Netherlands has always had considerable international dependence. The policy on working conditions of both trade unions and employers has been geared to that sensitivity to international competition for decades. The competitive position of Dutch industry has always been an important motive for wage restraint. After one and a half decades of wage restraint (since 1982), the wages increases in 1998 and 1999 crept closer to the available margin, whereas, on the contrary, in several bordering countries decreasing wage increases were agreed. In several sectors this was used by employers as an argument against too extensive wage increases.

The road to the EMU has resulted in many comparisons of national systems in the past few years. In the Netherlands this has brought the necessary self-confidence about the Dutch “polder model” and has strengthened the belief in the possibilities of tripartite national adjustments. European integration need not be to the detriment of national systems – and this is a conclusion which has meanwhile also been drawn in academic circles. In the recent revised edition of their survey *Changing industrial relations in Europe* (1998), Anthony Ferner and Richard Hyman were forced to conclude that national systems are more resistant to the internationalisation of the economy than was presumed at the beginning of the 1990s. There is no question as yet of convergence or disintegration.

The effect of the Economic and Monetary Union and the euro is that the cross-border comparison of wages and prices is made easier. Trade unions will be confronted with employers who will point – more than ever – to the fairly high national wage costs and the risks for employment. On the other hand,

employers will also take account of the fact that trade unions or their rank and file will give force to their proposals by pointing to higher wages elsewhere.

The EMU has already led to comparisons of national models in the past few years. The attention paid in other countries to the so-called polder model is strongly linked to the introduction of the EMU: all of the countries were in the same boat, but the Netherlands managed to put its public finances in order with considerably little social unrest.

However, the advent of the euro means more than that. Countries are pooling their currencies, as it were. You surrender autonomy and you get a stronger currency in return – or at least, that is what is hoped. As of 1 January 1999 monetary policy for The Netherlands is being laid down in Frankfurt, as a subdivision of the common monetary policy. This loss of autonomy is not only a sore point from the political point of view; it is also of significance in practical terms. Whereas in the past monetary policy was determined on the basis of the situation of the national economy, the European Central Bank will now adjust its monetary policy to the economy of the European countries as a whole. Countries will no longer fix interest rates or exchange rates on their own. The Netherlands is in actual fact already quite used to the latter situation through its practice of following Germany. Various other countries are being confronted with this restriction for the first time.

The surrender of the national monetary instruments could of course be compensated by new instruments. An extensive European public budget could thus be created with which member states in difficulty could be assisted. At a time when the Dutch government has been trying – successfully – to reduce the Dutch contribution to the EU by 1.3 billion florins, however, this seems unlikely. Cross-border mobility could also be promoted by greater harmonisation of certificates and qualifications, pensions and social security. But differences in language and culture also make this option unlikely.

Through the loss of former instruments and the lack of new ones, the member states will be quick to turn their attention to labour costs and domestic market flexibility when it comes to cushioning a sudden shock or strengthening competitive position. This has led in the Netherlands to the social partners paying greater attention to European social policy. The Economic and Social Council issued an opinion on the European structural funds in 1998 and an opinion on the European Social Dialogue in 1999.

The Dutch trade unions are involved in various forms of cross-border coordination, albeit on the initiative of the Belgian and German unions. Annual

consultations have been held since 1997 between at least the German, Belgian and Dutch trade union movements. In 1997 it was the Belgian trade unions which took the initiative when faced with a law which set the upper limit of Belgian wage development at the increase in the neighbouring countries. In September 1998 these deliberations resulted in what is known abroad as “the Doorn declaration” (Doorn is a village in the middle of the Netherlands). At that conference the differences of opinion, in particular with regard to the norm for the wage margin and wage increase were ironed out with the conclusion that the bargaining margin “is equal to the sum of the price increase and the increase in productivity”. A similar conference is to be held in Germany in September 1999.

Sectoral coordination also takes place in addition to this regional coordination. In six of the fourteen European industry federations there is now a form of European coordination on working conditions. In the European Metalworkers’ Federation (EMF), if the wage increase over a period of more than three years is lower than the rise in the price index, the EMF must draw up a report on the matter and discuss it.⁸ Those national metalworkers’ unions who fix wages too low for a prolonged period have some explaining to do. An agreement was concluded in the same way in the EMF in 1998 on a maximum annual working time of 1750 hours or 38 hours a week.⁹ The German trade unions play an important role in this coordination in the metal industry, with a Keynesian tendency to high wage increases. The Dutch trade unions on the other hand – with their long-standing sensitivity to the national export position – point more to the risks of pay rises that are too high. The EMF Congress wanted to adopt a resolution in December 1998 assigning the individual unions the task of pursuing a collective bargaining policy through which the share of workers’ incomes in the GNP would grow. At the insistence of the Dutch unions, however, this was changed to a policy ensuring that workers have a fair share of GNP.

In addition to cross-border coordination on the trade union side there is also growing practice of inter-trade and sectoral consultations amongst European employers and employer umbrella organisations in the Social Dialogue.

⁸ *Guidelines and basic issues of the collective bargaining policy of the European Metalworkers’ Federation (EMF)*; elaborated by the 2nd EMF Collective Bargaining Conference on 24/25 October 1996 and adopted by the EMF Executive Committee on 6 November 1996.

⁹ *EMF Charter on working time*, Approved by the EMF General Assembly in Luxembourg, 1-2 July 1998.

Furthermore, international undertakings have been required since 1994 to set up a European Works Council (EWC). This obligation applies to some 1200 undertakings and has been complied with by some 500 of those enterprises to date.¹⁰ According to the relevant European directive, the European Works Council must (at least) be informed and consulted in special circumstances such as relocation, closure of undertakings or collective redundancies. In several groups (established in The Netherlands), however, the EWC is also used as a platform for deliberation on subjects pertaining to working conditions such as the recruitment of temporary workers, working conditions for drivers, and the subcontracting of work.¹¹

In Table 2, based on sectoral structures in the Netherlands, the 53 sectors of the Dutch economy are classed in four categories according to export quotas (as an indication of the extent of internationalisation). The table then shows the extent to which international groups are present (on the basis of the EWC requirement) and the (possible) significance of the European sectoral dialogue. The export quota is calculated with the aid of the CBS input table (1994). Taking the data from the European Works Council Database of the European Trade Union Institute as a basis, the significance of the European Works Councils is calculated by classing all employees in Dutch establishments (with 100 employees or more) of undertakings required to set up an EWC according to branch of industry (at 2-digit level). The significance of the sectoral dialogue is based on the number of employees (working in The Netherlands) in the 18 sectors where European social dialogue has been established.

¹⁰ According to an inventory drawn up by the European Trade Union Institute, 515 undertakings had complied with this obligation by March 1999.

¹¹ These three topics were on the agenda in the groups of Bolls Wessanen, Canon (J. Lamers, *De toegevoegde waarde van Europese Ondernemingsraden. Onderzoeksmemorandum. HSI/AVV-N*, Haarlem 1998) and Hoogovens respectively.

Table 2 - International trade, group formation and working conditions

Export quota (in %)	Most important sectors	Workers * 1000	Workers in European groups		Sectoral dialogue	
			Workers * 1000	EWC coverage (in %)	Workers *1000	Coverage (in %)
0-10	Public sector, retail trade, hotels and catering	3.825	389	10	625	16
10-20	Printing and allied trades, road construction and hydraulic engineering, wholesale trade	453	45	10	373	82
20-50	Agriculture, oil refining, goods transport	710	144	20	195	28
50-100	Chemical industry, metal industry, electronics	638	285	45	74	12
<i>Total</i>		<i>5.626</i>	<i>862</i>	<i>15</i>	<i>1267</i>	<i>23</i>

Source: CBS, ETUI, European Commission DGV/D; author's calculations.

Although 45% of the gross domestic product in the Netherlands is obtained from exports, this table shows that only 12% of Dutch workers are employed in sectors which export over half of their output; this is due to the fact that these sectors are highly capital-intensive. The table also shows that a higher export quota goes hand in hand with a higher level of European groups. The most exports come from sectors where there is a relatively large number of European multinationals. The opposite does not apply, however. Measured in numbers of employees, the majority of undertakings required to set up an EWC are to be found in sectors where products are scarcely exported. The significance of sectoral dialogue seems to decline precisely when the export quota is higher. This is in line with the fact that for some time now the undertakings operating in sectors with high export quotas have been large undertakings, so that there is no organisation at sectoral level (on the employer side) and there are no industrial relations.

European agreements on working conditions will take shape at both group and sectoral level. What is remarkable is that both institutions are reasonably complementary – at least in the case of The Netherlands. In sectors where the European social dialogue is now taking shape, European Works Councils play a minor role due to the lack of large multinationals. In sectors where

there is no international social dialogue, on the other hand, more and more European Works Councils are operating and it should be possible for European collective agreements to be concluded at group level.

6. FLEXIBILISATION AND DECENTRALISATION

Flexibilisation and decentralisation are taking shape in various ways. The most far-reaching form is that where undertakings or sections of sectors withdraw from the sectoral collective agreement and conclude their own collective agreement, whether or not with the approval of the regular social partners. Another form is where social partners provide a margin in the collective agreement for separate sections of sectors, undertakings or parts of undertakings. The latter cases present a task for the works council. And finally, it can be laid down in the collective agreement that workers are to be given more scope for completing working conditions per department or per worker.

In the past year there has been pressure on the major sectoral agreement in the case of two collective agreements: the agreement covering the care sector and the agreement for the banking sector. In the latter case the agreement threatened to fall apart into a sectoral agreement for smaller banks and a number of big group agreements for the bigger banks. In November 1998, the employers and a number of trade unions agreed that the sectoral agreement for banks (113,000 employees, 76 very diverse employers) would cease to apply as of 1 January 1999. A collective agreement would then be concluded for the small banks and another one for the 3 or, possibly, 5 biggest banks. On 1 April 2000 parts of the collective agreement for the insurance sector and the agreement for the major banks would be combined into one collective agreement for financial conglomerates. The big banks want to increase flexibility considerably, but the small banks have misgivings about the management problems which this will entail. At the end of April 1999, a sectoral collective agreement was again concluded for all 120,000 employees. After a number of years of wage restraint there was a great amount of pressure for a considerable pay rise. In the end, a wage increase of 4.5% in 17 months was agreed (almost 3% per year). Wages increase by 1.75% as of 1 June 1999, 1.5% as of 1 October 1999 and 1.25% as of 1 March 2000. There is still the prospect of an "All Finance Agreement", a collective agreement for financial services, which is intended to create a common framework for agreements on working conditions for the biggest banks and biggest insurance companies. There is a need for one set of rules on working conditions due to the blurring limits between banks and insurance

companies. A company collective agreement for the banking and insurance company Achmea was concluded at the end of 1998 for that reason; until that date, the group had had 450 different rules on working conditions from 4 collective agreements. The new agreement will cover 6,600 employees. Wages will be increased by 9% over the next 3 years, and the 36-hour working week has been made uniform throughout the group.

It has proved impossible to maintain the general sectoral agreement (covering 360,000) in the care sector. The hospitals were the first to withdraw from the care-sector agreement, and they have been followed by nursing homes, which want to conclude their own agreement together with retirement homes. The psychiatric sector and the sector providing care for the handicapped still conclude their agreement within the Dutch Care Federation. The Dutch Hospitals Association wants measures to make the 36-hour week more flexible; the hospitals are seeking to create an employers' platform for the entire sector.

Many collective agreements contain the possibility of agreeing on more detailed arrangements at company level. In July 1998, for example, a collective agreement was concluded in the hotel and catering trade offering employers the possibility of reaching agreements with the personnel at business level on working time, supplements, which go beyond those legally required, training and bonuses. Where no such agreements are reached the collective agreement applies.

It is furthermore becoming more and more frequent that collective agreements provide the possibility of à la carte working conditions. Following lengthy negotiations the Economic and Social Council issued an opinion in April 1999 entitled *Naar arbeidsvoorwaarden op maat. Vergroting van keuzemogelijkheden voor werknemers betreffende het samenstel van arbeidsvoorwaarden*. (Towards custom-tailored working conditions. Increasing options for employees with regard to the composition of working conditions.) It is advocated that the parties to a collective agreement include a multiple-choice model in their agreement, in which it is stated which working conditions are alternatives and are interchangeable. Various alternatives had in fact already been agreed in a number of collective agreements at the time. Important components concern the purchase or sale of days of holiday and the possibility of saving up days of leave over a number of years in order to have a longer spell of consecutive leave for study, care or holidays.

In the Unilever group, which often sets the trend in the field of working conditions, the à la carte working conditions are in line with agreements on decentralisation within the collective agreement; in the case of present and future working conditions efforts will thereby be devoted to considering what is to be agreed or filled in and at what level. A distinction is made between 5 negotiating levels for that purpose within the (Dutch) Unilever group:

1. between the Unilever Netherlands group management and the unions,
2. between the management of a subsidiary and union representatives;
3. between a local business unit and the works council,
4. between the management and part of the workforce, and
5. between the employee and his/her direct superior.

The background to these distinctions is that employees can carry as much responsibility as possible for results and for their working conditions and industrial relations.

Employability

Employability has been a much-debated issue in the past few years. As a concept, the subject of employability has meanwhile won broad social partner approval, agreement having been reached to a large extent on the meaning and scope of the term. In its documents entitled *Werken aan je werkkring, het belang van scholing en opleiding voor sector, bedrijf en werknemer* (Working on your job; the importance of education and training for the sector, the business and the worker)(1996) and *Leeftijd & Arbeid* (Age & Work) (1997) the Economic and Social Council made recommendations to the collective bargaining partners, which were geared to increasing the capacity for creating job security. In the SER opinion entitled *Sociaal-economisch beleid 1998-2002* (Economic and social policy 1998-2002) (1998), emphasis is laid on the common importance of strengthening employability and the common need to do so: "Where rapid developments in the environment force both employers and employees as it were to shorter-term orientations, the favourable internal and external effects of investments in employability are liable not to be used to the full. Secondly, the concept of employability points not only to investments which bind employees and employers together but also to anticipated investments for when the employer and the employee have to / want to 'let each other go'. Employability is thus not only about job progression within the undertaking but also, and emphatically, about investing in occupational qualifications which are of

relevance in the external labour market. The major paradox of employability is that in the final analysis you tie employees to your firm precisely by enhancing their chances of mobility. Thirdly, the concept points to the common interests of employees and firms in measures to strengthen employees' responsibility for their own careers by improving the supply of facilities and by creating incentives to take advantage of that supply." A great deal of attention is also devoted to employability in the government's National Action Programme entitled *Een leven lang leren* (Life-long learning) (1998).

After the phase of innovation and debate, the subject of employability has now reached the stage of experiment and dissemination in collective agreements, and it is now becoming clear that a subject of that nature requires a great deal of time and attention, precisely because it concerns the thinking and acting of individual employers and workers. Furthermore, the subject of employability has to be tailored to the circumstances in the various sectors.

Various types of arrangements seem meanwhile to have been included in collective agreements. First and foremost there are agreements which aim to bring the employability policy of the sector and of individual firms to the fore. In the collective agreement for the cardboard manufacturing and flexible packaging trade (1998-1999) it has been agreed that the employers will carry out an employability scan. An inventory is drawn up of the inflow, progression and outflow of labour in the undertaking. It is also investigated whether there is a training plan and how things stand regarding the employability of workers.

The major part of the arrangements in the collective agreements focus on training for workers. This concerns partly the training for the current job and the current employer, but jobs outside the business and even outside the sector are being involved to an increasing extent.

In the collective agreement for joinery works (1998-1999), for example, it has been agreed that in the context of better chances for workers on the employment market (employability) the entitlement to 20 hours of training for workers for whom the employer does not pursue a training policy can be used for vocational training for jobs in the entire furniture and wood sector except in the case of further training courses. Where a request for a course is not met, the workers are granted 10 credit hours, which can be taken in a subsequent year.

The collective agreement for the textile industry (1998-2000) also includes the obligation on the firm to provide training as of right to individual

employees. Each undertaking will draw up an operation schedule in consultation with the works council. Where this is not done every employee of the firm concerned is entitled to an average of 4 days of training a year, which will be used exclusively for training courses pertaining to the employability of the workers within or outside the undertaking.

Employability has to do with the firm's human resource management policy. It often proves to be easier to make this link in group agreements than in company agreements. The collective agreement for Akzo Nobel Netherlands (1998-1999), for example, includes the provision that employers and workers are mutually responsible for maintaining and developing worker employability. The employer is required to discuss the functioning and development of employability and employment market opportunities with every employee (including older employees) at least once a year. Every employee is granted the right to seek advice on his/her employability from an independent professional institute after consultation with the employer and at Akzo's expense (up to a maximum of Hfl. 1000,- per 3 years). It has been laid down in the metal and electromechanical industry (1998-2000) that the employer and employee must henceforth hold talks at least once every 2 years on training wishes. These talks are held in the context of the employee's current job, his/her personal development and possible developments within the firm and/or branch of industry.

7. CONCLUSIONS AND OUTLOOK

As the result of the growing number of collective agreements, agreements are containing arrangements agreed in different stages. A very recent subject such as pressure of work is still generally subject to study by the collective bargaining parties. A topic such as employability, which was already on the agenda last year is giving rise to more and more experimental agreements – with the bigger groups in the Netherlands taking the lead. Flexibility and security have been on the collective bargaining agenda since 1995 and have already progressed beyond the study phase. Collective agreements now contain arrangements concerning the common policy of the parties, with a view to setting up a labour pool or a common personnel department, for example, or adjustments in working conditions such as improving the working conditions of employees on flexible working time. And finally, a topic such as employment market arrangements for the long-term unemployed has been on the agenda for so long that the parties can confine themselves to monitoring and adjusting previously agreed arrangements, for example by changing the number of job-experience places. This phasing –

study / experiment / policy / working conditions – is necessary in order to bring arrangements into line with the features of the sector or field covered by the collective agreements and in order to involve the employer and worker rank and file in the efforts to set the objectives of the collective bargaining partners. Consultation fosters involvement, but it also costs time. So the phasing regularly provokes impatience on the part of politicians, who already mistrust collective agreements in any case, and, it is true, also provides the opportunity for reluctant bargaining partners to hide behind the crowd. And it is also a fact that the evaluation phase has to be added to this cycle. The criticism of the trade union rank and file that a great deal of effort is being invested in good intentions but that the results are disappointing is often justified.

At the same time, this points to a difficult dilemma for the government. On the basis of its public responsibility, must it constantly monitor the collective bargaining parties critically? Or must it simply allow them latitude, since their responsibility will thrive on confidence? Various analyses published last year on the Dutch model point to theoretical insights such as the idea of the “shadow of hierarchy”.¹² The government fulfils its public responsibility by consulting the social partners and stating the conditions which must be met for an agreement to be declared generally binding. The ultimate possibility of government intervention and ratification of private agreements by the state act as a curb on disputes and opportunism. It can also be formulated the other way round: the social partners need government confidence, but confidence only has meaning if it can also be withdrawn. Paradoxically, this conditional role of the government actually gives the Economic and Social Council and the co-ordinators in the respective central organisations a stronger position in relaying central agreements to the final negotiators.

Otherwise, this shadow of hierarchy would seem to be of little consequence in 2000. After a couple of years (1998 and 1999) when the good results of firms could not be ignored by the unions and resulted in relatively high wage claims, moderate wage claims seem to be emerging for the year 2000. On the employer side a – to some extent internal – debate has developed on the risks of share options for managers. In addition, the agenda for negotiations on working conditions in the year 2000 will be determined by the topics which

¹² F.W. Scharpf, ‘Coordination in hierarchies and networks’ in F.W. Scharpf (ed.), *Games in hierarchies and networks. Analytical and empirical approaches to the study of governance institutions*. Campus Verlag, Frankfurt am Main/Westview Press, Boulder Colorado 1993.

were already on the agenda in 1998 and 1999: employability, multiple-choice working conditions and the reduction of pressure of work. Subjects of that nature are so complex that it takes several years to elaborate and implement them.

Norway

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1. THE SOCIAL, ECONOMIC AND POLITICAL CLIMATE

1.1. Towards falling economic growth and a new incomes policy co-operation

A distinguishing feature of the Norwegian system of wage bargaining in the 1990s is the social pact agreed to by the social partners and the government, the so-called 'Solidarity Alternative' (see Reegård 1996; Kleppe 1999). There was a significant drop in the unemployment rate from 6% in 1993 to 4.1% in 1997. Furthermore, industrial competitiveness was improved significantly during the 1990s, coupled with a rise in real income, which was much higher than envisioned in the 'Solidarity Alternative'.

Despite the apparent tightening of the Norwegian labour market at the end of the period and in the beginning of 1998, with increasing shortages of manpower in some sectors, there was nevertheless a general willingness to carry on with the main principles of incomes policy – the 'Solidarity Alternative'. However, the change in government that took place in the autumn of 1997 generated uncertainty as to the future direction of this co-operative venture on incomes policy. There was also an emerging awareness of the profitable bargaining opportunities generated by a tightening of the labour market, especially since many companies experienced great difficulties in recruiting qualified manpower. As such several LO unions had pay as their main priority for the 1998 negotiations, among others the Norwegian United Federation of Trade Unions (*Fellesforbundet*) which organises employees in the metal industry. The 1998 wage settlements were carried out as industry level negotiations. The opening negotiations in the metal industry generated a relatively moderate result, but several subsequent negotiations generated higher wage increases. The average wage growth from 1997 to 1998 was estimated to be 6¼%, while the consumer price index had increased by 2.3%.

¹ I wish to thank Torgeir Stokke for comments.

During the summer and autumn of 1998 it became apparent that economic growth was slowing. Low oil prices, high interest rates, increasing wage growth and an unstable Norwegian krona, generated uncertainty about future economic developments. At a meeting in December 1998 the government and the social partners agreed to establish a public committee to consider the basis for the following spring's wage settlements. It was already evident that the wage growth rate for 1999 would be much higher than among Norway's trading partners, and that the wage carry-over from 1998 would be approximately 3¼%. Prior to the settlements most economic analysts expected the wage growth to be between 5 and 6% from 1998 to 1999. The government's own estimate suggested a wage growth for 1999 of 5%, which was regarded as a relatively low estimate by most key economic institutions. The Bank of Norway among others predicted an average wage growth of 6%. The public committee, which broadly represented leaders from the major organisations in the Norwegian labour market, concluded that the average wage growth for 1999 should be kept within a limit of approximately 4.5%.

1.2. The minority coalition government remains in office

In the autumn of 1997 a minority government entered office, comprising the three centre parties of Norwegian politics; the Liberal Party (*Venstre*), Norwegian Centre Party (*Senterpartiet*) and the Christian Democratic Party (*Kristelig Folkeparti*). It has a minority of 42 out of 165 parliamentary representatives in the Norwegian parliament (*Stortinget*), and as such it has had to seek support from the parties to the right in negotiations over the State Budget. On other issues it has sought support both from the left and right of centre. In entering office the new government's parliamentary base was regarded as weak, and its term in office was expected to be short lived. Yet, by the summer of 1999 it was still in office. The government has not indicated any significant changes to the regulatory framework of labour market and social welfare arrangements. The three coalition parties have divergent views on a variety of issues, among others sick pay, the regulation of overtime work and on the issue of temporary employment. In an attempt to influence the national economy, the government proposed to take away one day of holiday from the 1 January 1999. The proposal came up against substantial opposition from the employee side, when all the main confederations joined forces for the first time in a political strike. The proposal failed to gain a majority in parliament.

1.3. Broader representation on joint committees

Norwegian incomes policy is frequently criticised for revolving too much around the two largest employees' and employers' confederations, LO and NHO. In the public committee which laid the foundation for the 'Solidarity Alternative' (the so-called Kleppe-committee) only LO and NHO were represented. However, the public committees established since spring 1999 had broad representation from all the main confederations on the employee side. The committees do also have broad representation from the employer side, among others from the commercial and the municipal sectors. A new temporary committee will replace the Labour Law Commission, which was not re-appointed after its period of operation had expired at the turn of the year 1998/1999. The Labour Law Commission had as its main task to advise the government on issues concerning labour law, among other things with regards to the Labour Dispute Act. Only LO and NHO were represented on the commission. The permanent public committee, the Technical Calculating Committee on Income Settlement (TBU), has also extended its representative base.

1.4. Ongoing structural change on the employee side

In May 1999, the plans for a possible merger of the Confederation of Norwegian Professional Associations (AF) and the Norwegian Confederation of Vocational Unions (YS), were made public for the first time. The initiative to consider the basis for a possible merger and the creation of a new main confederation for employees was taken by the leaders of the two confederations. The aim was to have the new confederation established, and in operation some time in the year 2000, preferably before the 2000 spring wage settlements. The most important motivating factor behind such a merger was the recent, and ongoing, fragmentation of AF (Nergaard and Stokke 1998). The period from 1997 to 1998 saw several unions leave AF to create a new main confederation for employees with university level education, *Akademikerne*. The Norwegian Society of Engineers (NITO) was also set to leave AF, but was most likely to opt for an independent status. AF would, with NITO having formally left, have lost approximately half of its membership base. In addition, *Lærerforbundet* (which organises teaching and administrative personnel) was considering a merger with the independent union, Norwegian Union of Teachers. A new teachers union would have the option of being independent rather than join any of the main confederations.

In August 1998, it became public knowledge that the Norwegian Union of Municipal Employees (Norway's largest trade union and affiliated to LO) and

the Norwegian Union of Practical Nurses (affiliated to YS) had agreed to discuss the basis for the establishment of a new organisation for municipal employees. The general assumption was that if and when the organisations merge, the new organisation would be most likely to opt for affiliation with LO.

1.5. Towards a further education and training reform

The further education and training reform was taken further in 1998 and 1999. The basis for the reform was established by a public committee in a report in the autumn of 1997 (Nergaard and Stokke 1998). Since then the issue has been raised in several public committees, in joint committees and during the wage round of 1998 and 1999. The government has also published a white paper, which was debated in parliament early in 1999. The issue of continuing vocational training is divided into two parts; a) adults rights to complete foundational education at secondary and upper secondary level, and b) adults right to ordinary continuing vocational training. The two components of the reform are known, respectively, “New chance” and “New competence”. Important questions considered were, among others, the right to educational leave, the financing of education and adapting the education system to a “competency reform” for adults. Certification of non-formal competence and ‘learning by working’ have become important concepts of the reform.

In the 1998 wage round LO and NHO entered into an agreement promoting the establishment of a statutory right to educational leave. The issue was followed up in a report by a public committee in the autumn of 1998, and the principle of an individual right to educational leave was adopted by the Norwegian parliament in spring 1999. The committee considering the rules governing leave of absence for educational purposes proposed a system where employees have the right to unpaid leave for up to 3 years. Leave would be conditional on the education being labour market-relevant, although not necessarily relevant to employees’ present job situation. Furthermore, additional leave of absence may be granted, only if preceding employment has lasted twice the length of the duration of the first period of leave. In the case of leave of absence for shorter periods of time the employee may demand a new period of leave after one year.

The issue of adults’ right to complete education at lower- and upper secondary level (‘New chance’), has also been an important part of the debate surrounding the further education and training reform. The employee organisations, and especially LO, have stressed this aspect of the reform. In spring 1999 a parliamentary majority wanted to see such a right made

applicable only to those employees who had failed to complete lower secondary education (the first 10 years of education). In connection with the 1999 wage settlement, however, the government promised also to include that group which has not completed upper secondary education. The financing of such a reform will take the form of public authorities providing the educational infrastructure needed, as well as adapting the Norwegian State Loan Fund to meet the needs of adult students.

In the run up to the 1999 wage settlements, further education and training reform was high up on the agenda, among other things because it soon became evident that significant nominal wage increases would not be given. Many aspects of the reform had more or less already been settled during the deliberation process. However, the most important question concerning the financing of the reform remained. In connection with the 1999 spring wage settlement the government pledged to adapt the State Loan Fund in such a way as to make it more suitable for the 'New chance' group. The government promised to extend adults' right to complete foundation education, to include upper secondary education as well. The government also committed itself to contribute to the financing of the development of different types of educational initiatives adapted to the needs of working life. The 1999 wage settlement, however, did not resolve another controversial aspect of the "New competence" part of the reform; how to provide finance for subsistence during leave of absence for employees pursuing continuing vocational training. The employee organisations, among them LO and YS, wanted to see some sort of a central fund, to which all employees and employers contribute. The proposal was rejected by the NHO. There is a possibility, however, that the issue, may be raised again during the 2000 wage settlement.

2. WAGES AND PURCHASING POWER

2.1. The 1998 wage settlement

The wage settlement between LO and NHO in the spring of 1998 was concluded through industry level negotiations, and after the two main confederations had negotiated the further education and training reform as well as other issues. The wage negotiations started off in the metal industry, which is the largest agreement area between LO and NHO. The parties agreed to a general wage increase of NOK 3.00 per hour, which was also the result in several agreement areas in the manufacturing industry and in the building and construction sector. A majority of employees in the manufacturing sector are covered by the right to company-level (local) negotiations. Contractual wage

increases were higher than expected in some low wage sectors. In retail and wholesale trade, the Norwegian Union of Commercial and Office Employees (HK), which is an LO member union, and the Commercial Employers' Confederation (HSH), negotiated an agreement allowing for a general wage increase of NOK 5.00 per hour. Employees in the hotel and restaurant sector received a general wage increase of NOK 3.00 per hour, and a low-pay bonus of NOK 2.00 per hour. For some groups in this sector the wage rates were raised even further.

The new agreements in the public sector gave the employees a general wage increase of NOK 10000 per year from May 1998. Additional adjustments were made with regard to specific groups and categories of posts. For all categories of posts in the state sector, starting salaries were increased. The municipal sector also witnessed a rise in starting salaries for certain categories of posts, and employees with long seniority received additional wage increases beyond the general increase. Both in the state sector as well as the municipal sector money was set aside for company level (local) negotiations.

A number of wage negotiations commencing in the spring of 1998 resulted in strikes. This was the case in the private transport sector, for LO-organised employees in the Norwegian Telecommunication Company (Telenor), and for several public sector groups belonging to the Federation of Norwegian Professional Associations (AF) and the Confederation of Vocational Unions (YS). While the parties in the transport sector reached a settlement through new negotiations, the Telenor conflict and several of the strikes within the public sector were resolved by the use of compulsory arbitration.

The wage growth among Norwegian wage earners in 1998 is estimated to 6¼%. The price growth in 1998 was 2.3%, and the average real income growth after tax alterations was 3.7%.

Table 1: Estimated wage growth from 1997 to 1998. Selected groups.

	%
All groups	6 ¼
Workers in establishments affiliated to NHO (paid by the hour)	6 ¼
- Manufacturing	5 ½
- Construction	7
- Land transport	7
Salaried employees in establishments affiliated to NHO	6 ¾
Employees in retail and wholesale trade	6,2
Employees in hotels and restaurants	6 ½
Employees in commercial and savings banks	6,8
Central government employees	6
Education (teachers)	5 ¾
Municipal and county employees	6

Source: The Technical Calculating Committee on Income Settlement, Report No. 1 1999

2.2. The Arntsen-committee 1999

At the end of the period of the Solidarity Alternative, there was a general willingness to carry on the main principles of the incomes policy. The 1997 National Congress of the Norwegian Confederation of Trade Unions (LO) adopted a resolution in support of the pact's main objectives, i.e. moderate wage settlements and an active employment policy (Nergaard and Stokke 1998). Similarly, the Confederation of Norwegian Business and Industry (NHO), the most dominant employer organisation in private sector, also pledged its support for the continuation of a centralised system of wage bargaining. However, the 1997 change in government appeared to lead to uncertainty within LO about the government's future support of the social pact, and as such its support of incomes policy trade-offs between wage increases and social benefits. LO has traditionally had a much closer relationship with Labour governments, than with conservative and liberal governments. Although the new government signalled early on that alterations to existing incomes policy were not part of its agenda, it was not enough to prevent the 1998 wage settlement producing a higher wage growth than expected.

During the summer and autumn of 1998 it was evident that the growth in the Norwegian economy was slowing down, and that unemployment would once again increase. Within this economic context new life was given to the cooperative venture on incomes policy which had marked much of the 1990s. At a conference in December 1998 the social partners and the government agreed to establish a committee with the view to consider issues relating to the 1999 wage settlement. As such the committee focused on the economic situation prior to the 1999 wage settlements, with special attention given to price-, wage-, and cost developments, and developments in relation to employment. The committee was also to consider the incorporation of the competence reform into the 1999 wage settlement negotiations. The committee was given a neutral chairman. The committee's other members were representatives from the main confederations on the employee-side, and representatives from the main organisation on the employer-side, all of whom were represented by their organisational leaders.

The committee's report was presented in advance of the 1999 wage settlement² (NOU 1999:14). The report pointed to the fact that due to the economic situation, a joint effort by the social partners and the government was needed to revitalise the positive elements of the 'Solidarity Alternative'. As such the government's contribution had to be, as before, an active labour market policy and a continuation of the existing monetary policy. The social partners, on the other hand, had to contribute to a reduction in the level of costs. The aim was to lower the wage growth rate to the same level as Norway's trading partners. In order to accomplish this objective the committee argued that the wage growth from 1998 to 1999 should not exceed 4 ½ percent, bringing it to the level of Norway's trading partners (estimated by the OECD to be 3 ½ percent) some time in the year 2000.

2.3. The 1999 wage settlement

The wage settlement during the spring of 1999 was an intermediary settlement, which normally means revision of wage rates in the biannual agreements. 1999, however, saw a continuation of negotiations over the vocational training reform.

Prior to the 1999 wage settlement a public committee comprising all the major organisations involved in the labour market, agreed that the wage growth for 1999 was not to exceed 4.5% (see section 1). At the same time, the wage carry-

² See also *Joint committee establishes foundation for 1999 pay round*, in EIROOnline, March 1999.

over from 1998 to 1999 was 3¼%, and even higher in some sectors. As a consequence the wage increases given had to be low.

The results of the negotiations implied that a majority of the employees covered by agreements between LO and NHO would not receive general wage increases at all. Employees in agreement areas with an average wage rate of less than 95% of the industrial average, which implied an annual income of less than NOK 218 000, were to receive a general increase of NOK 1,20 per hour from 1 April 1999. Also other groups in the private sector with a low average annual income were to receive NOK 1,20 per hour, including employees in the retail and wholesale trade sector.

There were no increases in the public sector in relation to pay scale levels, which are shared by the state and municipal sectors. The implication is that all wage increases in 1999 are given by adjustments to the regulation of seniority or by re-grading posts within the present wage system.

The parties believed the result to be within the framework agreed to prior to the settlements, which meant a wage growth rate not exceeding approximately 4.5%. In some areas however the increases would be somewhat higher, among others in the municipal sector, where the parties estimated that the annual wage growth of 1999 would be 4.77%. As a consequence of the 1999 wage settlement, central economic surveys have had to scale down their wage growth estimates. The new figures of the Ministry of Finance suggest an annual wage growth of 4.5% from 1998 to 1999, while estimates from the Bank of Norway suggest 4.75% and Statistics Norway's new figures are 5% (Ministry of Finance and Customs 1999; The Bank of Norway 1999; Statistics Norway 1999).

3. WORKING TIME DEVELOPMENTS

Working time structures were not altered in the period 1998 - 1999. Working time was not an issue during the intermediary settlements of 1999, but is expected to be on the agenda at the spring 2000 wage settlements. Both LO and NHO have signalled greater interest in working time flexibility (Nergaard and Stokke 1998), and together they have established a joint committee to consider issues concerning working time and time-share arrangements. The committee is to complete its deliberation some time in the autumn of 1999.

Nor were there any changes to the pension scheme in 1998 or the first half of 1999. However, a decision in principle was made with regards to the right to unpaid educational leave (see section 1).

During the 1990s the agreed early retirement scheme (AFP) was improved, and today many employees may choose to retire from the age of 62. This is the case for all public employees, and those employees in the private sector covered by national collective agreements. The last alterations to the arrangements took place in connection with the 1997 wage settlements (Nergaard and Stokke 1998). The scheme depends on government contributions, which had only been provided for fixed periods. In the autumn of 1998 a public committee proposed to change the regulations concerning pensions (NOU 1998:19), and as a consequence the present APF scheme is in some cases seen as less attractive. The committee also wants to see a reduction in the number of occupations with a lower average pension age than 67 years. At present there is uncertainty about how the committees recommendations will be followed up by the government. The report was met by great criticism from the employee organisations, which in protest withdrew their representatives from the committee.

4. EUROPEANISATION OF COLLECTIVE BARGAINING

There were no significant changes with regards to the europeanisation of collective bargaining in Norway in the period 1998–99. Norwegian employee organisations are closely monitoring activities with regards to increased co-ordination of wage negotiations, but do not regard it as vital for Norwegian working life. The employer organisations do not see a need for increased co-ordination of negotiations at a European level.

5. FLEXIBLE WORKING CONDITIONS

During 1998 no significant changes were made to the formal regulative framework concerning working and employment conditions, and wage determination. In two areas, however, changes have taken place, which are pulling in opposite directions. In the last year or so the closing times for wholesale and retail trade outlets have been tightened, while the government wants to ease the regulations concerning labour hire and private labour exchange. The government has also established a committee to look at the need for flexibility in working life.

5.1. New provisions concerning opening hours in the wholesale and retail trade sector

In the summer of 1998 the Norwegian parliament approved a new Act concerning opening hours for wholesale and retail trade outlets. Whereas previously individual municipalities were free to decide for themselves, the

new regulations provide a standard set of opening hours nation wide. As such the new provisions meant a tightening of opening hours for some outlets. From the 1 January 1999 only wholesale and retail trade outlets with less than 100 square meters floorage, and petrol stations with less than 150 square meters floorage, may open on Sundays and after 21.00 PM during week days/18.00 PM during Saturdays. The new Act also included certain exclusion clauses such as for typical tourist areas and outlets in the vicinity of traffic links. When the Act came into effect on the 1 January 1999 some outlets took advantage of the latter exclusion clause, and stayed open on grounds of being located in the vicinity of traffic links. The government then proposed further changes to the Act, and the controversial clause was abandoned.

5.2. Possible changes to regulations concerning labour hire and private labour exchange

In Norway, the National Employment Act sets a general prohibition on private labour exchange and the hiring out of labour. Various exceptions to the law are being practised, among them an exception regarding the hiring out of labour within the areas of office/administrative work, accounting, canteen-work, and warehouse-work (temporary employment agencies). Manufacturing businesses intending to hire out their own staff within the business' own areas of production, may also apply to be exempted for a limited period of time, or for a delimited task. Private labour exchanges are at present also forbidden, even in those cases where the payment of fees to an intermediary is not involved.

A public committee, considering these provisions, suggested significant changes to the present regulations in a report presented in September 1998 (NOU 1998:15)³. The committee recommended generally allowing the hiring out of labour. In order to maintain employee's rights and interests, stricter provisions would be set on the hiring *in* of labour, focusing on the situations in which businesses would be allowed to hire labour. The committee's proposal drew a distinction between those enterprises hiring out labour on a more professional basis (temporary agencies) and those that only occasionally hire out their own labour force. The committee proposed to allow the hiring in of labour from temping agencies in situations in which fixed term contracts already are allowed, as for instance in situations where there is an extraordinary need for manpower, and in situations where there are vacancies

³ See also *Committee proposes permitting private employment agencies and leasing of labour*, in EIROonline, September 1998.

due to leave of absence or sickness. This would help prevent hired labour being used in order to avoid the requirements in the Worker Protection and Working Environment Act. The committee further pointed to the fact that the regulations in this Act may in some cases be too stringent. It further recommended that enterprises that are parties to collective agreements will be permitted to hire in labour also in other cases, if a prior agreement has been made between the parties in the business.

With regards to the hiring in of labour from enterprises not normally concerned with hiring out of labour, the committee proposed to allow for such activity only in so far as it has been discussed with the respective trade union representatives. It required that employees being hired out should be employed in companies with proper wage and working conditions. The committee was of the opinion that agreement with employee representatives should be a requirement in those cases where the number of employees concerned is high.

The committee proposed to change the regulations concerning labour exchanges to also include the business of headhunting and exchange by means of the Internet, and to abolish the prohibition on private labour exchanges. As a main rule private labour exchange offices may demand payment from the employers, but not from the job applicants.

In May 1999 the government put forward a proposal to change the legal framework, which was very much based on the committee's recommendations. It was to be considered by parliament in the autumn of 1999. It was clear that the social partners did not see eye to eye on all aspects of the legal alterations, but the organisations on both sides seemed to support the basic principles of the proposal.

5.3. Public committee to consider the need for more flexibility

At a meeting in December 1998 the government made public its intention to establish a series of committees to look at different aspects of the Norwegian legal framework and the national bargaining system, one of which will look at the main challenges facing tomorrow's working life. The committee is made up of representatives from all the major employee confederations in Norway, the most important employer organisations, as well as representatives from several Ministries and academic institutions. The main focus of the so-called Working Life Committee will be the assumed need for more flexibility in working life. An important element in this process will be to look at the provisions in the 1977 Act relating to Worker Protection and Working Environment, and to see in what way it may be adapted to meet new requirements for flexibility. The

committee will issue its findings in a report in November 1999. If it finds that the present regulative framework needs to be altered, a new committee may most probably be established.

6. GENDER ISSUES IN CURRENT COLLECTIVE BARGAINING

Wage figures for 1998 showed that women are still earning less than men, both in general and when the figures are broken down to account for sectors. As in previous wage settlements LO's Executive Committee decided in 1998 and 1999, that equal pay and low wage groups had to be given special consideration in wage claims, and other organisations also formulated their demands on the basis of equal pay.

There are differing views as to the best way by which to safeguard women's interests during wage negotiations. LO believes that equal pay is best safeguarded through equal nominal increases and low wage increases. LO and NHO have in recent years concluded agreements in which low wage groups – measured on the basis of the average income of blue-collar workers in the manufacturing industry – are given additional increases. A significant number of predominantly female occupations in the LO/NHO area are defined as low wage groups. LO unions in the public sector also maintain that low wage increases will have the effect of improving the image of the wage settlements with regards to women's issues. On several occasions in recent years central adjustment funds and local increases have been distributed in such a way as to give predominantly female groups more increases than a pro-rata distribution would allow for.

The issue of equal pay is also on the agenda in other organisations. It is argued that predominantly female groups such as teachers, pre-school teachers and nurses come out badly during so-called low wage settlements. In January 1999 LO put forward the preliminary results of its internal evaluation of 'just pay'. The results lead LO's deputy leader to argue that some predominantly female groups in the public sector, with education beyond upper secondary school, seems not to be benefiting from undertaking education – when the costs of education are taken into account.

At the 1998 wage settlement a new provision was introduced in the hotel- and restaurant sector. It was decided that a small sum of money was to be set aside for the purpose of advancing gender equality. The money was to be distributed locally. A precondition to receive the funds was the establishment of gender equality councils and gender equality agreements. The scheme has been carried out in several companies, although no evaluation has as yet been made.

Within several agreement areas the parties, at the central level, wish to encourage local gender equality initiatives. LO and NHO have in 1998 and 1999 encouraged local parties to enter into gender equality agreements and to work out plans of action with the view to narrowing the gap between men and women in working life. In 1999 the parties agreed on a 10-point plan to encourage equal opportunities. This included among other things increased information activity, and an evaluation of existing collective agreements to see whether they generate wage discrimination against women.

7. OUTLOOK FOR THE SECOND HALF OF 1999 AND THE YEAR 2000

Most economic analysts pointed to the fact that Norway was, in 1999, experiencing a period of slow economic growth, and as such there was considerable uncertainty concerning economic development in years to come. The Bank of Norway, however, did not believe the decline to be a reversal back to the economic slump witnessed in the beginning of the 1990s. In its analysis for June 1999 the Bank of Norway expected a growth in GNP (mainland Norway) of $\frac{3}{4}$ percent for 1999 and $\frac{1}{4}$ percent for the year 2000, with a normalisation in the year 2001. The Bank of Norway, Statistics Norway and the Directorate of Labour all predicted an increase in unemployment from the autumn of 1999. However, they did not expect a dramatic increase; the estimates from the Bank of Norway suggested an increase from approximately 3.5 percent in 1999 to 4.5 percent in 2001. Some sectors were likely to be hit harder than others, while the labour market would remain tight in other sectors.

An important issue for the year 2000 and onwards is the future prospects of the co-operative venture on incomes policy. Several public committees were in the process of considering issues such as the bargaining system, working life and flexibility, and employment and wealth creation. The committee considering the basis for the 1999 wage settlement recommended that the wage growth for the year 2000 had to come down to the level of Norway's trading partners, and after that remain at that level. The committee further emphasised the importance of keeping the non-competitive industry within the framework set by the industry subject to the constraints of international competition. It was, nevertheless, not sure that a continuation of the present model of wage formation – in which wage growth in manufacturing industry is closely tied to that of Norway's trading partners, and the remaining sectors have to adapt accordingly – would receive sufficient support. Some organisations would no doubt argue that particular groups in the public sector are lagging behind in the process of wage formation, and for that reason deserve better wage settlements. This is the case for predominantly female groups with higher education (among

other teachers and nurses), and those groups with higher university education, who claim that they are relatively worse off than other groups in public sector, as well as compared to similar groups in the private sector. Today there is in fact a shortage of such manpower. Furthermore, other groups in the private sector worry that a policy of moderation would imply that employees are not receiving a fair share of company profits.

In recent years there have been significant changes to the organisational patterns of the employee side. As such the next few years will most probably give us an indication of the future set up of the organisational map in Norway. The proposed merger between AF and YS was considered likely to have taken place before the wage settlements in the year 2000. If this happens, the first signals as to the new confederation's relationship with the other two main confederations, LO and *Akademikerne*, might start to be visible. It is also reasonable to assume that individual unions presently considering their alliance strategies, will have settled these issues by the end of the year 2000. This may be the case for the two teachers unions which are considering a merger, as well as the proposed co-operative venture between the Norwegian Union of Municipal Employees and the Norwegian Union of Practical Nurses. The alliances entered into will have a significant impact on the extent to which the planned new confederation is able to match and challenge the role of LO.

A third factor which will be important in the 2000 wage negotiations is the continuation of the major social reforms; the competence reform and LO's wish to see a time share scheme which will allow for more flexible working time arrangements through out working life. These reforms are already on the agenda of the social partners. Early indications suggest that the competence reform will be implemented only gradually. Further progress in the implementation process depends, however, very much upon a clarification of the controversial issue concerning the financing of the reform. The issue of working time and time-share arrangements will be addressed in the 2000 wage settlement. Once again, agreement is needed on the content, progress and financial aspects of the reform. A reform of this kind will in some way or another mean a reduction in working time, but it does not follow that employers will automatically reject a reform that opens up the possibility of more flexible working time arrangements. However, the costs involved in such a reform suggest that the reform will have to be implemented gradually.

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Poland

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1. GENERAL BACKGROUND INFORMATION

1.1. The system of labour relations in Poland

The system of labour relations in the 1990s was shaped by the development of new democratic institutions and the reconstruction of the market economy, a still ongoing process. Both trade unions and employers agree that the system has yet to mature. The system of representation in the workplace is still unclear despite constant promises by the Ministry of Labour to legislate on the issue. The Ministry has set up a Special Commission for the Reform of Labour Law, which has drafted a new law which would run parallel to the existing one. It is a controversial draft, particularly for trade unions who believe that it would threaten their position. The proposal to establish representative bodies for employees in companies is seen as particularly threatening by trade unions who view this as competition to them, particularly in smaller companies.

The system of labour relations, despite unresolved issues is based on relatively solid foundations, both social and institutional. It includes laws on independent trade unions, employers associations, strikes (but not lockouts), mediation and arbitration procedures as well as collective labour agreements. This system is supported by a number of institutions such labour courts, various state inspection bodies, job centres, the Centre for Social Partnership “Dialog” (an educational centre and publishing house), the Polish Mediators Association and the Polish Committee of the World Association of Industrial Relations. Legal regulations are set out in the Labour Code and in additional laws passed by Parliament after 1990.

Labour relations research is conducted by all major Polish universities, and students can study these disciplines at the Sociology institutes of Warsaw and Lodz Universities. There are also a few foundations that encourage debate on labour relations ¹.

There are several factors that show the stability of labour relations in Poland. First, workers in the last 20 years have had to fight for the right to independent

¹ For example the Fundacja Praca Polska, or the Fundacja Porozumienie Społeczne.

trade unions and the right to strike. The struggle has still not been totally won, particularly in the new private sector where employers show a dislike of trade unions². Second, trade union membership is relatively quite high on a European scale and in Poland people join unions out of real needs. A Polish general public opinion poll showed, however, that trade union membership between 1992-97 decreased from 16.7% to 9% of the labour force³. In 1997 the same poll showed that among trade union members, 47% were members of NSZZ Solidarnosc, 28.8% were members of the OPZZ union, and 24.4% belong to other trade unions. A possible explanation to falling union membership is that smaller non unionised companies have been growing in Poland, while large state enterprises have been closing down.

Figures given by trade unions about their membership are thought to be exaggerated, which is why the Statistical Yearbook of the Polish Republic does not quote them. There are about 340 trade unions registered at the Warsaw Regional Court, whose membership varies and fluctuates.

Trade union membership density varies among different companies. In large enterprises it is more than 60%, while in small companies they hardly exist. One more fact that has to be considered is that there are about 1.2 million people who are self employed in their own companies.

In the institutional dimension trade unions are present at all levels of labour relations (enterprise, industry level, as well as local and nationwide). They have strong local structures, which shows their militant character. The OPZZ and NSZZ Solidarnosc have adjusted their local structures to the new (1999) geographical reform of local government, mirroring the 16 provinces, completing the change in just six months.

² Michał Federowicz "Prywatyzacja i przekształcenia własnościowe w gospodarce polskiej a stosunki przemysłowe, w: Wiesława Kozek (red) – Zbiorowe stosunki pracy w Polsce w perspektywie integracji europejskiej, Scholar Warszawa, 1997.

³ Bogdan Cichomski, Paweł Morawski – Polski Generalny Sondaz Społeczny. Struktura Skumulowanych Danych, Instytut Studiów Społecznych, Warszawa, 1998.

Table 1. Major trade unions in Poland and membership⁴

National Trade Union Alliance (OPZZ)	4.5-4.7 million (3 million) ⁵
Solidarnosc	1.6 -1.8 million (1.2 million) ⁶
<i>National Farmers Union⁷ (Kolek i Organizacji Rolniczych)</i>	1.7 million
<i>Farmers Solidarity</i>	400,000
<i>Samoobrona Farmers Union</i>	300,000
Solidarity '80	156,000
Polish Metalworkers Union	130,000
<i>Farming Employees Union</i>	100,000
Railway Workers Union	91,500
Light Industry Workers Union	86,000
Construction Workers Union	60,000
"Kadra" Union Alliance	60,000
Army Employees Union	52,000
Machine Tool Workers Union	44,000
Polish Miners Union	30,000
NSZZ Policemen's Union	27,000
Engineers and Technicians Union	25,000
Water Resources and Environmental Workers Union	20,000
Teachers Union (ZNP)	19,000
The J. Popieluszko Memorial Christian Trade Union	16,200
Civilian Employees of the Ministry of the Interior T.U.	12,000
National Union of Heating Station Employees	12,000
National Doctors Union	10,000
National Association of Transport Workers	10,000
Confederation of Power Station Workers	10,000
NSZZ Prison Staff and Guards Union	8,500
Merchant Seamen and Officers Union	7,100
Social Insurance (ZUS) Employees Union	4,300
NSZZ Border Guards Union	3,000
Train Drivers Union	2,500
State Treasury Employees Union	1,500
Theatre Employees Union	1,200
NSZZ Firemen's Union	760

⁴ Data according to Andrzej Gestern Rzeczypospolita Zwiazkowa in Rzeczypospolita daily.

⁵ The lowest estimate of union membership.

⁶ The lowest estimate of union membership.

⁷ Farmers unions (in italics) are those who are in dispute with the government

OPZZ and NSZZ Solidarnosc are the largest unions and dominate the movement, even though they do not take full advantage of their power. They are highly visible because of their political orientations. NSZZ Solidarnosc is allied to the post-solidarity political camp, while the OPZZ is allied to the Democratic Left Alliance (post-communists). Both are involved in party political activity, which at present is not conducive to their independence. They have a lot of political power, which they “transfer” to politicians, but the politicians do not return such support.

Employers in Poland are not as well organised. Employers associations are linked through the Confederation of Polish Employers, trade chambers and professional associations. This Confederation split in January 1999, with enterprises not yet privatised (such as mines, steel mills and the energy sector) staying in the Confederation, while privatised companies in the banking, finance, consulting, computing and telecommunications firms, food industry, media and advertising and two regional associations of employers from the Poznan and Pomorze regions gave birth to the Confederation of Polish Private Employers.

The law concerning business activity, which could bring some order into the associations has not yet been passed by Parliament. Despite a lack of unity Polish businesses are present in labour negotiations at the state level and have a strong and active lobby in labour relations which has influenced the media, which presents a favourable image of the business world.

The third party in labour relations – the state – has an important role to play in labour relations. It is still the dominant employer in Poland (employing about half of the workforce). No matter what party has formed the government so far, they have all tried to reach agreements with trade unions, at least within their own political camp as well as winning their support. Successive governments have not been able to create a strong and efficient mechanism of labour negotiations that would be successful in times of conflict and tensions. The existing system is unable to cope with conflict and is partisan.

In the system of labour relations the state is mainly represented by the Ministry of Labour. In the 1990s all Labour Ministers were dynamic and had social visions. They were often talented, experienced negotiators. The Ministry officials are well qualified, with a low turnover of staff. Below Department Directors the staff is made up of talented professionals.

An important characteristic of the system is that the right to strike is not abused. In the 1990s the tendency of illegal strikes has rapidly fallen which means that the procedures of mediation and arbitration are working well. There

have been more collective disputes but fewer strikes than was predicted when the transformation to a market economy began in the 1990s. Before workers go on strike all the economic costs are carefully considered. Protests apart from strikes are popular such as setting up road blocks on main roads, public demonstrations, hunger strikes and sit-ins (occupying company buildings and even ministries). The groups that participate in these protests are not very large but they are very active and as these protests are quite spectacular they capture more media attention than classic sit-in strikes (the norm in Poland as non-occupational strikes rarely take place).

The system of collective bargaining is far from perfect, however it is being slowly institutionalised at all levels.

At the **company level** collective bargaining is regulated by the 1994 Labour Code which was strengthened in 1996⁸. Estimates showed that from 1995 to 1999 more than 10,000 collective bargaining agreements and 10,000 additional protocols were signed⁹. Research shows that this form of regulating labour relations can be found in one third of all companies¹⁰. The agreements are signed for between two to five years, quite frequently with an extension clause. The agreements are definitely more substantive than procedural. Both managers and trade unions pursue these agreements.

Another form of agreement at the company level are the so-called “social pacts” which are signed when a company is privatised and are usually valid for two to five years in companies that operate as partnerships. Social pacts were signed in between 5-8% of companies¹¹, although many of these are due to end in 1999.

Collective bargaining at the **industry level** is, according to trade unions, still limited. It could be more developed if employers were willing to sign industry level agreements and organised themselves in representative bodies. In March 1999 more than 100 industry collective agreements were in force, but most of

⁸ The regulation passed in 1994 was not comprehensive but its amendment to the labour code of 1996 extended the already existing agreements within companies.

⁹ It should be remembered that collective agreements are also signed in institutions.

¹⁰ Barbara Gaciarz *Dynamika zbiorowych stosunkow pracy w wybranych dzialach przemyslu I sekcjach uslug publicznych*, referat na konferencji: *Socjologia sensu largo: badania i dydaktyka*, Instytut Socjologii Uniwersytetu Lodzkiego i Instytut Socjologii Uniwersytetu Warszawskiego, Lodz, 1999.

¹¹ Source as above.

the agreements in 1998 and 1999 were connected with schools support staff (excluding teachers). These agreements were signed by *gminas* as the employers¹² as well as employees of local art/youth centres.

Between 1998-99 collective bargaining agreements were signed with forestry workers, Polish Telecommunication (TP S.A.), Warsaw public transport, Polish State Railways (PKP), and Orbis S.A (the largest Polish tourist agency). All these used to be, or still are state companies.

Agreements signed before 1998 include employees in the energy sector (1995), mining (1995), brown coal mines (1995) oil and gas sector employees (1995), mining support staff (1995), Katowice public transport (1996), road transport (1996), steel mills (1996), defence and aerospace industries (1996), prison support staff (1997), employees in state run cultural institutions (1997), and employees of grain mills (1997). Again all these are state or local authority employees.

Industry level agreements are also more substantive than procedural. Trade unions are eager to sign such agreements, while managers and employers are far less enthusiastic.

At the **national level** the system of collective bargaining is based on the so-called Tripartite Commission for Social Economic Issues. The Commission was established in 1994 by the government and up to now it has not been legally regulated despite numerous discussions on this topic. Its status was to be discussed in Parliament by autumn 1999, as it will have to adapt to the new constitution. The goal of the Commission is to discuss and take a position on important social and economic issues, particularly wage growth in state companies. Due to the lack of legal regulations the collective bargaining agreements are only valid due to the goodwill of governments.

¹² The teachers were covered by the “Karta Nauczyciela” which is a legal act but excludes auxiliary workers employed in schools such as caretakers, cleaners, etc.

The Commission is made up of representatives from the government, trade unions and employers. The government is represented by the ministries of finance, economy, treasury, the Centre for Strategic Studies and other ministries as necessary. Trade unions are represented by five representatives from OPZZ, five from NSZZ Solidarnosc and one representative from the other seven largest unions (including energy, managers, engineers, train drivers, and city public transportation unions). The employers have five representatives from the Confederation of Polish Employers. The composition of the Commission cannot be changed without all its members' agreement, which so far has been an effective barrier to its growth, excluding important workers organisation such as doctors unions and business associations. At the same time transport workers are over represented in the Commission.

The Commission was working quite effectively, but in 1998 for the first time a consensus could not be reached. The dispute was over pay rises in industry. The OPZZ union was opposed to the government's proposals, but the government went ahead and unilaterally set pay rises at 2% above inflation.

On other issues the Commission has been able to reach an agreement. How the Commission will work in the future will depend on how the dispute is resolved. The OPZZ claims that the government does not treat all trade unions equally, as can be seen by the government's refusal to sign an agreement with OPZZ on collective disputes, although such an agreement was signed with NSZZ Solidarnosc in May 1992. The OPZZ has taken the dispute to the ILO.

This issue as well as several others has meant that OPZZ has threatened to leave the Commission, which some experts believe could mean the collapse of collective bargaining at the national level.

An important element of the collective bargaining system in Poland is the position of trade union members in the Sejm (Parliament). They hold 22% of seats and 10% in the senate (42 from the OPZZ and 66 from Solidarity). Since 1997 joint efforts of trade union members have several times managed to veto proposed legislation. A good example of this was on September 30th 1998 when amendments to the labour code were vetoed. This event showed that bargaining potential of trade unions is considerable and politicians must sit up and take note of trade unions before they introduce any changes to labour relation laws.

Others believe that trade unions are less important than is made out and that they have been receiving less and less attention to the point that they are being marginalised which is part of a wider strategy to put an end to trade unions aspirations. The main part of this strategy seemed to be "consolation meetings

with government representatives when union leaders meet a minister who encourages them to see another minister and so on in a circle"¹³ creating the illusion of participating in government decision making while nothing happens.

1.2. The social, economic and political situation

Over the last few years Poland has had a high rate of GNP growth. Recently it has weakened a bit but it is still high. In 1993 it was 3.8%, 1994 5.2%, 1995 7%, 1996 6%, 1997 6.6%, 1998 4.8%, and predicted 4% for 1999. Inflation which for years was a major problem for the Polish economy decreased from around 30% in the early 1990s to 8.6% in 1998 and was projected at 6.2% for 1999. This positive trend has been maintained despite the economic crisis in Russia and strong trade links with its economy as well as various problems with the EU. The immunity of the Polish economy to external factors can be traced to the results of privatisation and restructuring which has been steadily progressing since the early 1990s.

Real wages have not been growing as fast as GNP. In 1997 gross wages increased by 5.7% and in 1998 by 3.8%. Wages in relation to GNP growth are a little above 40%, which still places Poland behind the EU average.

Unemployment in 1999 has remained at 1998 levels oscillating between 11-12%. In February 1999 there was a rapid increase in unemployment that was largely due to the reform of state health care when the people wanted to register as unemployed to ensure their right to health care. In January 90%, In February 50% and in March 31% of the increase in unemployed was due to registrations for that reason.¹⁴ The increase in unemployment can also be attributed to demographic changes. In 1998 500,000 young people entered the labour market and employment rose to above 18 million. Unemployment at 11% means that there were at least 1.8 million looking for work in August 1999¹⁵, and about 2.1 million at the end of February 1999. Other problems connected with unemployment are a high rate of long term unemployed (above 12 months) which is 35% of all those unemployed, while of those who find work, 70% return to being unemployed.

¹³ Paweł Ruskowski -Związkowy zawort glowy "Zmiany" Nr 1, 1999.

¹⁴ Monthly information about the state and structure of unemployment National Labour Office.

¹⁵ National Economy in February 1999, Statystyka Polski, supplement to Rzeczpospolita daily, April 9 1999.

The largest decrease in employment in 1998 was registered in the mining sector (12%) and in energy, gas and water sectors (6.5%). At the same time there was an increase in employment in real estate (14.5%), hotels and catering (12.1%) and trade/services (8%). The increase in employment in these sectors is good as it means more jobs in the service sector, which are badly needed in the Polish economy. But the news is not all good as the number of job offers is the low.

Eight per cent of the unemployed (1.4 million) does not have the right to benefits, 63% of rural population and 43% of urban population live in households where spending is below the social minimum.

The labour market is still being reconstructed that is why it is hard for employees to orientate themselves where the core of the labour market is and where the periphery is and what skills and qualifications are needed.

A relatively large black and grey market exists at the level of 20% of the market, creating a difficult situation for all those engaged in labour relations. The Main Statistics Office (GUS) estimate that in 1997 400,000 people permanently work in the black market, and this figure seasonally increases to two million. Research in 1998 showed that 9% of the employed worked illegally which means that the market is shrinking. Among those working illegally 24% treated the job as their main occupation. Most frequently these were part time unskilled jobs. The average monthly income on the black labour market was very low at 276 PLN.

The domestic job market has been penetrated by the cheap labour from former Soviet Union countries. The estimates of the number of foreigners working illegally vary from 100,000 to 1 million, but the real level is probably about 300,000¹⁶, but this is not significant for unemployment when one considers that the Polish labour market employs almost 19 million (December 1998). Foreigners illegally employed come from Belorussia, Ukraine, Russia and Vietnam and they occupy specific niches in the job market such as construction, seasonal/agricultural, and services. The National Labour Office says that 60,000 Poles work illegally in Germany mainly in the construction sector.

¹⁶ The Supreme Board of Supervision puts the figure at 150-200,000. In 1998 the police found only 294 cases of illegally employed foreigners in Poland which shows how inefficient it is in this area.

The political climate now is connected with the fact that the government changed and at the time of writing the coalition is formed by post-solidarity parties, which are stepping up the reform process. The post-communist parties generally do not oppose the reforms but rather do not believe in their own effectiveness in introducing such reforms so they prefer to be critics of the government.

The social and political climate was not favourable as the government decided to introduce important reforms starting in the second half of 1998 concerning social insurance, local government, public health care. At the same time the government was not ready with the programme that would prevent the fall of income in agriculture and has not finalised plans to reform the arms industry. As a result there has been social unrest in agriculture, public health care and the arms industry. The first two of these conflicts has dominated the climate.

1.3. Social conflicts

Farmers' protests started in the late summer of 1998 and continued into the first half of 1999 with short breaks. They were organised by the "Samobrona" farmers union, led by Andrzej Lepper. The protests were in the form of road blocks, particularly on international roads and border crossings. The protesters called for a ban on grain imports and minimum prices for some products. The government questioned the farmers right to such protests as they were very inconvenient for the public, but the courts upheld the farmers right to use this type of protest. The road blocks showed Polish farmers determination to protect their jobs and incomes. In August 1999 farmers set up 58 road blocks in 27 provinces. There were similar numbers in May 1999 but this time the government used the police force to remove the road blocks by force.

The government told farmers union that in order to begin negotiations the road blocks would have to end and the government also tried to exclude the Samobrona union from the talks, which failed. The negotiations started without any conditions. Finally an agreement was signed but it fell short of expectations. In the spring of 1999 protests resumed which became particularly inconvenient for the government in view of the forthcoming visit of the Pope. Farmers in Poland are classical examples of self employment. Their economic situation largely depends on the state agricultural policy. That is why farmers unions see the state as the focus of their demands. Their demands concern minimal purchase prices, which means subsidies for agricultural production and also protection of the market from imports. Their demands can be justified by the fact that in the 1990s farmers' incomes have fallen more than those of other sectors.

The protests in public health care cumulated in January 1999 when the reform of the public health care system (which is modelled on the German system) was started. The protests were led by the anaesthetists' union but quickly escalated as other groups also joined in such as surgeons, nurses, ambulances, gynaecologists, midwives, etc. The government's position in that conflict from the beginning was that the medical profession was employed (as of the reform of January 1st 1999) by public health centres. The doctors' position at the beginning was that it was the Ministry of Health and later the managers of the health fund who was the target of their grievances. Finally the medical profession lost the conflict and after a very long anaesthetists' strike accepted the offer from the managers of the health fund. Doctors' demands were concerned with the size of public funds allocated to health care and the salaries. The anaesthetists' unions wanted salaries which would amount up to three times the national average salary. The nurses' union wanted salaries 1.5 times the average. At the same time all those protesting groups feared being made redundant. According to preliminary estimates 50,000 people will have to be made redundant in the public health care system. In February and March intensive negotiations between trade unions, the Ministry of Health, Ministry of Labour and new Health Fund Managers Association took place. However they were not fruitful. It turned out to be a good forum for the presentation of the new health care system.

The protests took various forms such as hunger strikes, warning strikes, and treating only emergency cases, occupying public buildings, as well as national strikes in January 1999.

Doctors' protests were particularly inconvenient for patients that had to wait weeks for treatment. The strike slowly fizzled out, as others came forward to take the jobs of those in the unions wanting high wages. The discussions then turned towards discussing demarcation between departments in hospitals, treatment procedures etc.

The conflict was finally solved with the intervention of the Constitutional Tribunal which declared that doctors on call in hospital should receive additional payments as though they were working overtime. This will considerably expand the job market for doctors. Negotiations in the health service did not lead to signing an agreement that would stabilise the sector in the future and prevent conflicts.

The third important group that entered the dispute with the government were the coal miners. Their protests did not last very long. Strikes were limited only to coal mines that were going to be restructured. Hunger strikes and demonstrations were intense rather than long lived. Trade union demands were

concerned with redundancies in mines that were going to be closed, redundancy payments and the so-called pension bridge that entitled miners to early retirement. Solidarity wanted a state guarantee for full retirement benefits for those who work underground after 25 years of employment. In December 1998 negotiations were held between the miners unions and the Ministry of Labour and even the Prime Minister. The Confederation of Polish Employers was opposed as they were not present at the talks. The agreement that was eventually signed received a lot of criticism from all trade unions (except Solidarity), the critics maintained that the agreement was based on unclear and vague promises. In April 1999 the Minister of Labour and miners' trade unions discussed the problem of restructuring the mines. In May miners' Solidarity joined the chorus of protest agreeing that the government does not keep its promises, particularly those connected with the so-called "miners social package" by not allocating enough funds for redundancy payments. The miners blamed the Ministry of Finance and Leszek Balcerowicz, the Minister of Finance. The miners occupied the Ministry of Finance thereby personalising the conflict in a classic way. Solidarity demanded guarantees for providing employment for all miners made redundant. Finally the government decided to provide the needed funds and agreed to meet other demands. The government's position with the miners was soft and this could be attributed to the power of the miners.

Negotiations were also held between the Ministry of Education and teachers unions in March 1999. It seemed that teachers' unions were successful, reaching an agreement about pay rises. Their pay will depend on the local government's financial means. In several hundred areas negotiations were started much earlier and as a result several dozen collective agreements were signed with educational support staff. Eighty-one such agreements were signed by March 1st 1999 in the better off areas, these negotiations were characterised by calm which can be attributed to strong local unions.

The Ministry of Education has maintained its position in negotiations with teachers unions to introduce amendments or to abandon the existing agreement signed in the *Karta Nauczyciela*. This agreement regulates teachers' status and guarantees tenure, contracts and salaries depending on experience and qualifications. Every proposal or suggestion to introduce amendments to the Karta has been treated by the unions as a fundamental attack on their rights.

Teachers' salaries are one of the lowest in Poland: in March 1999 they stood at around 837 PLN. During the negotiations the ministry proposed possible pay increases in return for teachers' unions flexibility towards promotions and

redundancies. The unions do not want to accept this. At present teachers commonly engage in black market jobs such as private lessons, which are largely ignored by the tax authorities.

Educational reform was set to be introduced from 1st September 1999. The main teachers' union (ZNP) believes that this will reduce the number of teachers. It is quite probable that teachers' unions will enter collective disputes with the Minister of Education in the autumn of 1999 or that they will start organising various forms of protests.

New and continued protests have also been announced by other groups. Among these are railway support staff (demanding higher wages), the national bus network PKS drivers (for higher subsidies), the police (for pay rises and more modern equipment), arms industry employees (to secure government orders, redundancy payments, payment of back wages, and reconstructing the industry), copper miners (pay rises and payment of last year bonuses), border guards (for payment of delayed pay increase) and airport employees (for restructuring airports).

Public opinion was divided on the issue of workers' protests. Farmers' and miners' protests were believed to be justified while the anaesthetists' protests divided public opinion, in particular when they went on strike ¹⁷(17).

OPZZ has repeatedly expressed its disagreement with the way the government negotiated and claimed that the government has not treated all trade unions equally, when consulting them. As a result OPZZ organised a series of protests to protect their position.

Despite positive economic indicators the social climate has been full of unrest. The government reforms were not able to bring positive results rapidly. *Solidarnosc* was not able to channel these protests even though they were operating with the government. OPZZ in the opposition showed their dissatisfaction. The government took part in numerous negotiations at the industry level as a party to the dispute, running from one conflict to another. Private employers were free of such worries and problems.

¹⁷ Public opinion poll by CBOS of 8-11 January 1999, as well as 4-6 February 1999.

2. PAY AND PURCHASING POWER

Through 1998 the average gross wage increased by 15.6% in industry. The average wage is not a purely statistical category in Poland as it is strongly used by various groups to compare their salary. The tradition of using that category is relatively long going back to the 1970s. Real wages in 1998 rose by 3.8% while in 1997 they grew by 5.7%.

Trade unions compare average wages by sectors, industry and local job markets and in that way they view the position of their own members. Every trade union leader in a company is well informed about the average wage. The information is published in the official journal *Monitor Polski*.

Throughout 1998 the average pension and disability payments for workers increased in real terms by 1.9%, while pensions and disability payments for farmers increased by 2.2%. The price indicator between December 1997-98 was 108.6 and so for the first time since 1989 falling to single digit levels¹⁸.

In the second half of 1998 the average monthly wage¹⁹ was between 1248.91 PLN and 1344.87 PLN (about 320 Euro).

Looking at sectors, in July-September 1998, the average pay level being equal to 100, the situation was as follows:

Miners	158.99
Finance sector	153.04
Electricity, gas and water	132.83
Public administration and defence	119.05
Transport and communications	115.80
Real estate	113.65
Industry	109.59
Construction	106.73
Manufacturing	101.40
Trade and services	100.84
Farming	96.85
Education	87.84
Hotels and restaurants	81.04
Health and social services	76.42

¹⁸ Data from the Ministry of Finance www.mofnet.gov.pl

¹⁹ Statistical Yearbook of the Republic of Poland quote wages excluding the army and police as their wages are higher than the average.

Trade union wages demands concentrate around the income guaranteed by the state and EU minimum wage criteria (these were the main points set out in the OPZZ “Pact for the Family”) and other demands are increasing the purchasing power of wages in connection with constant GNP growth. Solidarnosc demands are very similar and basically the same.

The OPZZ did not agree in the Tripartite Commission to the government’s proposal of 10.6% wage increase, which was 2% above the level of inflation; with GNP growth predicted at 5% OPZZ wanted 6% wage increase above inflation in state companies. The government unilaterally decided that the wage increases would be 2% above inflation.

Purchasing power of employees has recently increased mainly due to falling inflation. When inflation was high it consumed the small savings of individuals. However the fall in inflation made it possible for households to develop a strategy for spending, investing in long lasting goods, and taking loans. Still it is evident that real wage growth, particularly in the state sector does not match the GNP growth as was seen last year.

2.1. Wage moderation

Wage moderation can be seen at various levels. Until recent the solutions and practices were quite effective, but the system is now clearly losing its effectiveness. This can be seen from the government’s irresponsible position in relation to farmers’ incomes, and lack of a concept towards wages in the arms industry, carelessness of wages in the health service after the reform, education and local administration, the inflated demands of miners and health service workers. Each of these issues would not be dangerous individually but the collective effects mean that all the parties in labour relations stop thinking about mutual responsibility and consider only their own narrow interests.

The system of wage moderation is based above all on the Tripartite Commission and its agreements. Meanwhile the government’s unilateral decisions, granting much lower wage increases than those demanded by the unions, undermined the process of institutionalisation. This is an important fact and even more important than the opposition shown by OPZZ which was politically motivated. The government’s actions effectively put the nail in the coffin of the Commission. Today the Tripartite Commission no longer has any real importance as a mechanism of wage moderation. The Commission was important not only for moderating wages, but also in recognising the importance of the members of the Commission.

Wage moderation at lower levels has also not been very effective as can be seen by privatisation plans for large companies and sectors. Energy, communications, steels mills, arms industry and mining are the centres of trade union activity and working class strength. They will soon undergo privatisation. Employees in these sectors are acting nervously and without thought, and the government is also beginning to behave in a similar way. We are now dealing with the sudden explosion of group interests, which are always present but can become dangerous if they are not moderated. The government has been trying to restructure the mining industry first in order to get rid of the burden of subsidising it. The market position of the other unreformed sectors has been so weak that their capability to pay wages is almost exhausted. This creates a very difficult situation for the government to carry out a series of restructuring projects. It is simply not feasible for government officials to engage in so many negotiations, present arguments, and convince people of their plans and visions.

Wage moderation in sectors already privatised is more effective. However the moderation is only partial, as top management salaries have been excluded. Employees in private companies no longer have a role to play in company success. This is enshrined in the concept “you work and we pay you”, which at the same time removes from debate any discussion about the division of profits. At present trade unions have accepted this. Moderation in such companies can be seen in collective labour agreements where one can find guaranteed wage increases which covers inflation. This is paid once or twice a year and trade union demands do not go any further. Despite the fact that in small companies there is no collective labour agreement, pay increases are introduced at least once a year.

In state companies wage moderation was introduced in order to prevent redundancies and of fear of bankruptcy. Wages increases were set at a very low level, the minimum needed for existence. In practice it meant paying small sums of money at quite irregular periods only when money was available. One example here is the “Lucznik” sewing machine and armament enterprise in Radom.

Wages in the public sector were controlled rather than moderated by the Tripartite Commission and as a result their pay was 82% of the average wage in industry. The state acted as a party for moderation, not as an intermediary. Changes could only take place if primary and secondary education were financed by local government and health care by the health fund. In the public

sector wage moderation also concentrated on receiving compensation for inflation.

Wages in industry were moderated by the Tripartite Commission for a few years, but in the autumn of 1998 the Commission was unable to reach a consensus. According to research among employers quite often they are unaware of Commission agreements, even though the Confederation of Polish Employers publishes them systematically. Despite that there were no moves to increase wages above inflation.

It seems in the light of the recent conflicts that the solidarity connected with wages that existed for a few years is now disappearing. Various groups want to improve their economic status without thinking about the broader consequences of their actions – these groups include politicians and local government officials, etc, and they have relatively high expectations.

2.2. Changes in pay settlements

One of the characteristics of pay settlements in the former communist system was flat rate pay increases within one enterprise. Many groups agreed with that system to a large extent, but now these attitudes have now vanished. But public opinion is unwilling to accept high wages for some groups, such as local authority officials. Here it is pointed out that their high wages are financed by public taxes, unlike managers in the business world who produce wealth. Trade unions also object to increases for members of supervisory boards of state treasury companies and health funds.

Pay settlements have become more diverse. During collective bargaining negotiations management has repeatedly suggested opening up pay hierarchies, but the unions have been unable to accept this.

Another novelty often suggested in pay setting is to abandon additional benefits linked to experience and qualifications. Managers believe that such benefits break the connection between effectiveness of work and real qualifications.²⁰ The managers have proposed accepting pay setting systems that would promote workers' efficiency, their flexibility and real qualifications. Those arguments are accepted by trade union leaders to a large degree but less so by individual employees. Changes towards increasing rewards for efficiency

²⁰ Conference organised by the Institute of Labour and Social Issues entitled "Efficiency of Wage Settlement Systems", held on 20-21st May 1999.

of workers are not generally accepted and the old system of wage settlement still prevails.

3. WORKING TIME

A 42-hour working week is the norm in Poland, which means that, theoretically, people work 8 hours per day Monday to Friday and one Saturday per month. These working hours are only observed in those companies where trade unions operate. In small and medium sized companies working hours are much longer despite the fact that overtime is regulated by the Labour Code and the State Labour Inspectorate. It has not been possible to inspect the over 2 million small and medium sized companies in order to reduce long hours. Employers in those companies often employ workers for longer hours and at the same time avoid paying overtime rates. Quite often workers themselves are interested in working overtime to make more money. The State Labour Inspectorate believes that people working at night or on holidays are similarly treated. Employees particularly in local job markets live in fear of losing their jobs.

The issue of working hours and overtime was a serious reason for disputes between employers and trade unions 1998, with a number of unions agreeing that the working week should be reduced to 40 hours. They argue that many recent collective labour agreements specify the working week as 40 hours, both at the company level and at industry level (for example for those in the arms industry). Solidarnosc included these demands in their election manifesto for 1997 and now it has been trying to pass it through Parliament. Both OPZZ and Solidarnosc estimate that a 40-hour working week would create 200,000 new jobs, which, with 2 million unemployed, should be carefully considered. Employers' associations have opposed shortening the working week to protect the interests of small and medium sized companies claiming that it would be premature and bring losses to business and reduce GNP by 5%. The employers' preferred option is a gradual introduction of such changes and only in companies which can afford it. In other words they propose deregulation, something which trade unions reject. There are many companies in which signing a collective labour agreement is not likely as there are no trade unions. They demand a uniform regulation and pay for work on Saturdays as well as for holidays.

The problem of overtime caused a lot of controversies in the Parliament when the Parliamentary Commission for Small and Medium Sized Enterprises presented a draft bill which would increase the amount of overtime from 150 to 300 hours annually, and at the same time the draft proposed the reduction

of overtime pay.²¹ The intention behind that initiative was to meet changing orders and market demand, but it was rejected by the joint action of the unions.

Non standard work is not very common. According to statistics it accounts for 10% of all jobs. Usually it is students and pensioners that are employed in that way. Non standard work is usually offered by companies that operate on the basis of foreign capital. Labour regulations in Poland prevent flexible employment: if an employee signs three short-term contracts in a row with an employer he automatically becomes employed on a permanent basis with all the social insurance payments, etc that it entails. This regulation was especially passed so that employers could not escape paying social insurance (which was set at the high level of 49% of wages in Poland).

Another problem connected with working hours is presented by the new pension reform, which removes the possibility of early retirement. The old system guaranteed early retirement for many occupations that were considered as hazardous or harmful to health (such as mining). The government wanted to replace these guarantees with a new pension system based on “individual accounts”, making early retirement impossible.

This has caused a lot of protests, particularly among those privileged occupations, especially among miners. As a result the government proposed a so-called “pension bridge” that would take the place of the early retirement system. By doing so the government has again entered into a conflict with both trade unions and employers unions. Trade unions are not satisfied with the list of jobs that is included for the “pension bridge”. The employers associations were upset by the governments position that employers employing those eligible to early retirement should participate in the costs of financing this. So far no solutions have been finalised.

4. EUROPEANISATION OF COLLECTIVE BARGAINING

This means something else in Poland than in EU countries. During the 1990s Polish labour law started to adjust to EU standards (directives). This caused various protests from employers who argued that at the present stage of economic development, the new regulations would result in an increase of labour costs and decreasing competitiveness of the Polish economy. The Commission for the Reform of Labour Law at the Ministry of Labour and

²¹ This initiative was supported by the Confederation of Polish Employers, the Business Center Club, the National Business Chamber and the Polish Craftsmen Association.

Social Issues is however working towards amending Polish regulations so that they are more in harmony with EU labour law.

Trade unions are not demanding wages, social benefits or working conditions as are found in the EU. Before 1998 there were some such demands but at present the opinion is that every country has its own set of conditions based on its GNP, so Polish workers do not expect wages at the average EU level.

5. FLEXIBILITY OF WORKING CONDITIONS AND DECENTRALISATION OF COLLECTIVE BARGAINING

Flexibility of working conditions varies according to sector (public/private), industry, company size, the local job market (with its variations of unemployment), the stage of privatisation for a given company and how far it has restructured in line with market forces, company links with world markets, etc. In comparison to 1998 working conditions in Poland have become even more varied despite the fact that regulations from the labour code are supposed to be valid everywhere, regardless of company size, nationality or location. There are some universal trends, for example the demand for a 40-hour working week. Every collective labour agreement includes many solutions specific to a given company. The only limitation to those agreements is that their provisions should not deprive employees of their rights as stated in the labour code. All agreements are carefully examined by the State Labour Inspectorate to make sure they do not violate the provisions of the labour code. The registration of such agreements is thus more than a formality. One other fact that reflects the variety of working conditions in Poland is that there are more agreements signed at the company level than at the industry level, the latter are difficult to sign in the private sector, largely due to considerable differences in the market. The Polish economy has to maintain a lot of flexibility at this stage including those in working conditions.

6. CHANGES IN THE SITUATION OF WORKING WOMEN

Discrimination towards women in the Polish labour market is a well-established fact and is institutionalised to the point that it has become so socially accepted that even women do not challenge it. Feminism has a lot of negative associations in Poland and “economic feminism” is not even generally known. This can be largely attributed to militant Catholicism that assigns women the traditional roles as mothers and wives. Women are expected to reconcile full time work with traditional domestic duties. As a result the position of women in the nineties has become even worse than in the past. It is

hard for women to reconcile the growing demands of work with a tougher situation in family planning (Poland has an almost complete ban on abortion). Working women who are single mothers are in a particularly difficult situation.

Some facts that reveal the level of discrimination are higher unemployment among women than men, lower wages (at least 20%), and less frequent promotion, while at the same time, as in the EU, women are more educated than men. According to research, unemployment among women rose from 2% in 1995 to 7% in 1997.²² In March 1996 male managers earned 1725 PLN gross while a female manager received 1301 PLN, male specialists 1217, female 988 PLN. New regulations based on the individual account pension reform and retirement at 60 means that women will get much lower pensions than men in the future. Independent estimates by the National Conference of Women's Organisations (150 groups), show that the average pension for women will be 40% lower than for a man and this will deepen sex discrimination carrying it into retirement. Up to now early retirement for women was treated as a privilege. In the new system it will be a tool for discrimination.

There have been some positive changes such as amendments to the laws about maternity benefits. Previously women were entitled to 16-18 weeks leave. From now on it will be from 26-39 weeks.

7. FUTURE OUTLOOK

Collective bargaining in Poland is a sign of transformation. It is concerned not only with working conditions but also with issues of privatisation and economic restructuring.²³ The main addressee of collective bargaining is the state. In the private sector collective bargaining barely exists.²⁴ It usually is present in the public sector and those companies that operate with institutional capital.²⁵ It is usually decentralised²⁶ and the idea of collective bargaining is

²² Statistical Yearbook of the Polish Republic, table 162 p 137.

²³ Michał Federowicz - Prywatyzacja i przekształcenia własnościowe, op cit.

²⁴ Barbar Gaciarz - Dynamika zbiorowych stosunków pracy op cit.

²⁵ Wiesława Kozek - Nowe układy zbiorowe w sektorze prywatnym, op cit.

²⁶ Elżbieta Sobotka Rola porozumień zbiorowych w rozwoju partnerstwa społecznego i kształtowaniu polityki społecznej in W. Kozek (ed) Zbiorowe stosunki pracy w Polsce w perspektywie. op cit.

not new in labour relations.²⁷ It is probable that the institution of collective bargaining in Poland will be widened.

What can we expect? First, the present government, apart from the reforms already introduced in local government, health care, pensions and education also wants to introduce reforms and restructure the coal mines, energy sector, steel mills and railways. All of these reforms need social backing where trade unions can play a key role in securing this support. The government will need to engage in collective bargaining in order to carry out those reforms and complete the modernisation of economic institutions in Poland. All of the planned reforms challenge the interests of groups that have been influential and well organised in trade unions. If the government does not consult about the projects before introducing them it can expect social protests to escalate in a similar way to those in 1998 and 1999. Thus the government will have to engage in some negotiations at the central level.

Second, tendencies towards collective bargaining in the public sector are expected to grow because health care employees and teachers will be able to sign collective agreements. These agreements are most likely to be signed at the enterprise level and not the industry level as doctors and teachers are divided and their unions are still too new to consolidate their position.

The existence of the Tripartite Commission as the institution for national collective bargaining will soon have to be decided. There are some who question its existence and claim that the Commission was only needed when inflation was high. They argue that with inflation below 10% centralised collective bargaining is no longer necessary.

The future of collective bargaining will largely depend on whether it is well planned and recognised as an established mechanism, or is spontaneous and ad hoc. The present negotiating practices of negotiations will have to be changed if they are to guarantee a permanent forum for negotiations which prevent labour conflicts.

In the nineties, the strategies of successive governments towards collective bargaining focused on decentralisation, as can be seen by the constant efforts to establish a system where some selected employers rather than the state were the main employer. This strategy is now being partly implemented. The

²⁷ Wiesława Kozek - Negocjacje jako część polskiej kultury przemysłowej in *Polityka Społeczna* 2/1999 "Problemy negocjacji i mediacji w rozwiązywaniu konfliktów."

decentralisation of collective bargaining is expected to develop this further, as it is easier to negotiate with smaller groups, solving more specific problems and planning in more predictable conditions. This is despite the fact that Poland has a tradition of round table talks where the government meets representatives of society as a whole or representatives of strike committees. At present there seems to be less need for such negotiations. We have other democratic institutions that can play such a role in regulating labour relations. The government's responsibility is to strengthen the system of negotiations at lower levels of labour relations i.e. at the local and industry level, which can serve the ideals of social citizenship.

Trade union demands in the future will be concerned with increases in real wages if GNP continues to grow at its present level. Trade unions will also demand that the tax and social benefits system should be favourable to families, especially those with many children. On working hours trade unions will demand a 40-hour week and as for working conditions their demands will probably be for better health and safety conditions.

Employers will oppose trade union demands except those concerning pro-family policies. At present the government is in a position where it has to take into account the demands of trade unions more than those of the business world. This will be limited by economic realities and international relations.

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Portugal

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1. GENERAL BACKGROUND

1.1. Social, political and economic climate

Since 1993, the year of the crisis, the Portuguese economy has been growing at steadily rising GDP growth rates. GDP growth hit a record high of 3.9% (1.2% in real terms) in 1998, due mainly to the steep rise in domestic demand. A decline in growth to approximately 2.75%-3.25% is expected for 1999.

This growth is primarily the result of investment activity, whose growth reached its all-time high in 1997 with a rate of approximately 12.3%. Private domestic consumption has meanwhile also become a further important growth factor. The export trend is very positive (an annual growth rate of almost 10%) but has nevertheless been overtaken by the growth in imports since 1997.

Table 1 – Portugal: general macroeconomic data
(nominal growth rates in %)

	1996	1997	1998	1999(est.)
GDP	3.6	3.8	3.9	2.75-3.25
gross investments	7.5	12.3	9.8	4.5-5.5
private consumption	2.8	3.3	5.6	4.25-4.75
public demand	1.5	2.3	3.8	2
exports	9	9.5	8.8	3.75-4.75

Source: Banco de Portugal, quoted in: *Diário Económico*, 1.6.1999

The constant downward trend in inflation which had been registered since 1990 was reversed in 1998, when consumer prices rose by 2.8%; and they were forecast to rise again in 1999 by approximately 2.5% - 2.8%.

The employment rate has been developing favourably since 1996, increasing by 1.9% in 1997. The 1998 rate will probably be even higher, but is then likely to drop again by 1% in 1999. Some 71% of employed persons are wage and salary earners. The share of workers with fixed-term employment contracts

rose steadily in 1997 and 1998 – as had already been the general trend for some time – and is around 18%.¹

Compared with figures at the European level (expressed in income parities) there was a considerable increase in per capita GDP and income per worker from 1994 to 1997 (from 67.8 to 70.3 or from 63.5 to just under 67.1 compared to the EU average of 100. Labour productivity developed at a lower rate (from 56.4 to 57.9 of the EU index). Employment rate remains higher than the EU rate, and unemployment rate is lower than in the EU. Inflation, which reached the EU average in 1996, has meanwhile increased considerably to well above that rate.

Against the background of steady economic growth, increasing consumption and a comparatively low unemployment rate, the economic and social climate in Portugal is currently very favourable. The political situation is relatively stable, although the socialist minority government has only managed to guarantee this stability through compromises with the various opposition parties, as the result of which any move to address the urgent structural reforms in the social sphere and in the field of labour, health and the judiciary have been postponed until the next parliamentary term.

In view of the accumulation of problems in labour relations and the inability of the social partners to resolve them or at least to reduce them in part through new bilateral agreements, the government introduced draft legislation on a number of issues in 1998. The vast majority of the new regulations concern labour relations per se, i.e. part-time employment, fixed-term employment relationships, casual work, night work, the legislative definition of the concept of salaried income, measures to combat false self-employment, holidays, and wage and salary guarantees in the event of bankruptcy.

Enforcement of labour legislation is to be improved by means of heavier fines and a new regulation governing the labour inspectorate (IGT). The transition from working life to retirement is to be organised more flexibly inter alia through the introduction of flexible retirement age). A further set of new laws focuses on the transposition of European directives (European Works Councils, youth unemployment, parental leave).

¹ Cf. MTS-DETEFP, Boletim Estatístico Março 1999, Plano Nacional de Emprego 1998 and EU Commission (quoted by Reuters).

The legislation on the election of plant committees for health and hygiene at work is of particular importance. The blanket introduction of these committees in undertakings could trigger activation of employee participation in decision-making processes in the undertaking and is regarded as a major challenge by the trade unions.

Trade union interpretation of these measures varies widely. The UGT interprets legislation in the light of the Strategic Agreement (ACE) which it signed with the government and employers in 1996, assessing the legislative bills primarily on the criterion of compliance with the Agreement. Its assessment is favourable to a large extent, except on a limited number of points. The CGTP, which did not sign the Strategic Agreement, sees most of the draft legislation as an attack on the established rights of employees and is vehemently opposing the passing of these laws in parliament. The most recent highlight in the CGTP campaign was a national action day on 25.3.1999.

The economic, social and political climate – which is moderately optimistic on the whole – is likely to be considerably stimulated in the course of 1999 through the elections for the European and the national Parliament (scheduled for June and September respectively). The crucial question is whether the Socialist Party can obtain the absolute majority in the national parliament (which it only just failed to obtain in 1995) and thus prepare the way for the outstanding structural reforms or whether it will be weakened as a result of the elections.

1.2. The trade unions' priority demands, the attitude of employers and the role of the government

Once the 40-hour week had been established by law in 1996, the trade union confederations took up the cause of the 35-hour week, but it is in fact pay rises which are clearly to the fore in current bargaining activities.² The relevant trade union demands in the 1998-99 collective bargaining ranged in general from 4% to 6%, the CGTP unions' claims generally being higher than those of the UGT unions.³ Since no tripartite macroagreement has been concluded on wage

² In the context of the legislation on plant committees for health and safety at work which is currently under preparation, it is also significant that the trade unions in various branches are endeavouring to have the committees established and/or to enhance their status in the respective collective agreements. The question of the release of the committee members is thereby emerging as a focal point of controversy with employers.

³ Cf. remarks on the various demand strategies in the report on the 1997-98 collective bargaining round.

policy now in the third year in succession, the collective bargaining round was left entirely to the free play of forces and to the coordination capacity of the confederations and the sectoral unions.

The counteroffers on the employer side oscillated around the 2.0% inflation rate forecast by the government, although it was already clear in 1998 that the 1999 inflation rate would be much higher.

Since there has been no tripartite collective bargaining at the macrolevel, the government's contribution to the 1998-99 collective bargaining round will probably be limited to this – quite significant – miscalculation regarding inflation trend.

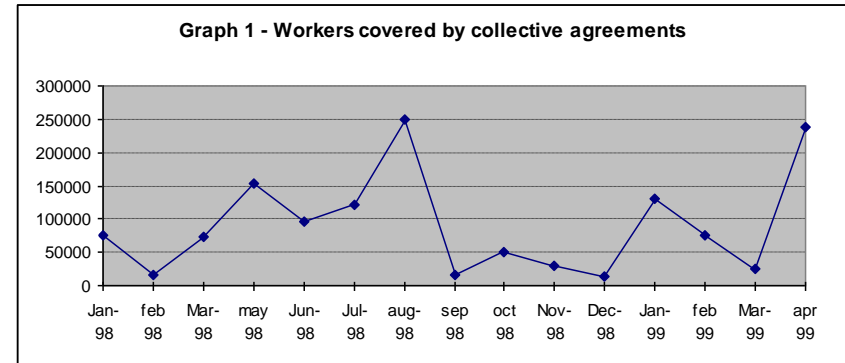
The course of the 1998-99 collective bargaining round to date

The Portuguese Ministry of Labour, in whose Official Gazette all collective agreements must be published, registered agreements concluded in virtually all major sectors in 1998, namely in the automobile industry (January), in the building, footwear and chemical industries (April), in the textile industry (April and May), in the Lisbon wholesale and retail trade (April, May, July, August), in the wood sector (May and August), in the banking sector (June), in supermarkets (July), in the metal industry (July and August), in the Porto wholesale and retail trade (August) and in the electrical industry (October). On the other hand, no agreement was concluded in the major garment sector (120 000 workers), a fact which is not doubt connected with the on-going dispute over the introduction of the 40-hour week (cf. 3. Working time).⁴

The agreements in the textile, wood and chemical industries and in the wholesale and retail trade (Lisbon, Porto and supermarkets) were signed by the trade unions of both confederations (CGTP and UGTP), whereas in the banking sector and the building, metal and electrical industries only the UGT unions signed. In the automobile and footwear industries, on the other hand, only the CGTP unions signed the agreements.⁵

⁴ Collective agreements do not enter into effect until they have been published in the Official Gazette of the Ministry of Labour (BTE). They are generally published several weeks after being signed.

⁵ It is to be noted here that, in circumstances where parallel negotiations are held by rival trade unions, the *signing* of collective agreements actually says very little about the reality of the bargaining process. It is quite possible that the role of the various organisations in the formulation of the decisive demands and in the efforts to carry them to a successful conclusion can lie with whichever trade union does not sign in the end (or only signs after some delay).



Source: Portuguese Ministry of Labour, Directorate General for Working Conditions (The months quoted refer to the time of publication of the respective collective agreements, which generally takes place several weeks after the signing of the agreements.)

Several important collective agreements were published in the first four months of 1999, in the automobile industry and in the wholesale and retail trade, inter alia. But it was only after eight months of negotiations that the CGTP union in the building industry managed to conclude a new agreement.

The confederations arrive at different conclusions in their assessment of the latest bargaining round. Whilst the CGTP observed major difficulties for 1999 (limited number of agreements concluded, deadlock in the bargaining process in many cases or even negotiations already blocked for several years)⁶, the UGT concludes in its analysis of the collective bargaining round in the first quarter of 1999 that the negotiations are progressing more rapidly than in the same period of the previous year.⁷

because the employers prefer to conclude agreements with the more pliable trade union and/or the trade union with the lesser mobilisation capacity. This is always possible in the case of Portugal, since the legislation on collective bargaining does not lay down any conditions worth mentioning regarding the capacity of trade unions to conclude collective agreements. (See also the report on the previous year.)

⁶ The following factors are cited as reasons for the difficulties: incompatibility of wage claims and employer counterproposals, employer demands for the flexible organisation of working time, regulations on breaks, attempts by several employers to replace existing company agreements with sectoral agreements (which were less advantageous from the trade union point of view), parallel conclusion of agreements by other trade unions with content considered unacceptable by the CGTP trade unions.

⁷ UGT, *Trabalho e Sindicalismo* 1/99

A large proportion of the collective agreements for 1999 have probably meanwhile been signed (namely by the UGT unions) and will probably be published within the next few weeks. However, it is to be expected that all of the trade unions will adopt a tougher attitude, since the government's forecast for inflation in 1999 (2%) will most probably be exceeded by at least 0.5%. This is bound to give rise to more intense disputes in those sectors where no agreements have as yet been concluded or where only one of the two confederations has as yet managed to conclude an agreement. Since subsequent improvement of agreements which have already been concluded is practically impossible, the UGT called on the government at the end of May 1999 to grant tax concessions in order to compensate losses in the increase of real wages. To judge by the Prime Minister's initial reaction, this demand is unlikely to be met.⁸

1.3. (Practically no) changes in bargaining levels and duration of agreements

Bargaining levels

The significance of company agreements has been declining for some time, and this trend is continuing against a background of extensive privatisation of the state enterprises in industry and the services, which had previously played an important role in those sectors since the late 1990s. Private undertakings (both national and international) have always successfully opposed the introduction of company rates and are subject to the blanket collective agreements. In many cases privatisation went hand in hand with the fragmentation of major undertakings into several small and medium-sized units, which are required by law to maintain their respective company rates. These new undertakings are now putting pressure on the trade unions to depart from the company agreement and to adopt the relevant sectoral agreement. If the trade unions give in this would in fact mean a huge loss of income for workers and would at the same time entail a deregulation thrust, since company agreements regulate working conditions through more extensive framework agreements and do so much more effectively than sectoral agreements. Basic wages in company agreements

⁸ Telejournal RTP 2, 25.5.1999

amount to some 160% of basic wages in sectoral agreements, and the average income in undertakings with company agreements is approximately twice as high as in the general agreement.

Table 2 - Scope of the various types of collective agreement

	1989	1993	1997
General collective agreement (CCT)	1.586.655 (82.4%)	1.656.308 (84.2%)	1.769.748 (86.6%)
Company agreement (AE)	164.130 (8.5%)	138.579 (7.0%)	117.302 (5.7%)
Collective agreement for several undertakings (ACT)	90.604 (4.7%)	79.562 (4.0%)	73.344 (3.6%)
Ministerial decree (PRT)	81.265 (4.2%)	93.514 (4.8%)	82.959 (4.1%)
Total number of employees covered by a collective agreement	1.926.169 (100%)	1.967.963 (100%)	2.043.353 (100%)

Source: Portuguese Ministry of Labour, *Quadros de Pessoal*, and the author's own calculations

Due to the declining significance of company agreements and the on-going crisis in macroconcertation collective bargaining at the sectoral level is gaining importance. The banking sector, where there has been no general collective agreement (CCT) to date, is a highly controversial case in this context. Traditionally the trade unions do not negotiate with the employers' association (Associação dos Bancos Portugueses, ABP) but with a negotiating delegation which is independent of that body and is composed of representatives of individual banks. The collective agreement (ACT) that is negotiated between the trade unions and the delegation is not signed by the employers' association but by the individual banks. As the result of the privatisation and liberalisation of financial undertakings in the first half of the 1990s the personnel policies of individual credit institutions have diverged, a trend which has recently led to difficulties in the establishment of a consensus amongst employers.

In view of the attempt made last year by a major banking group (BCP/BPA)⁹ to break away from the existing agreement mechanism, the three UGT unions in the sector¹⁰ have now presented a concrete proposal to the employers' association (ABP) for the conclusion of a general collective agreement (CCT). The content of the proposals does not differ significantly from that of the ACT in effect to date. The main purpose of the plan is to ensure blanket coverage of the existing agreement and to prevent individual undertakings from breaking away.¹¹ The negotiations commenced at the end of May 1999.

Duration of agreements

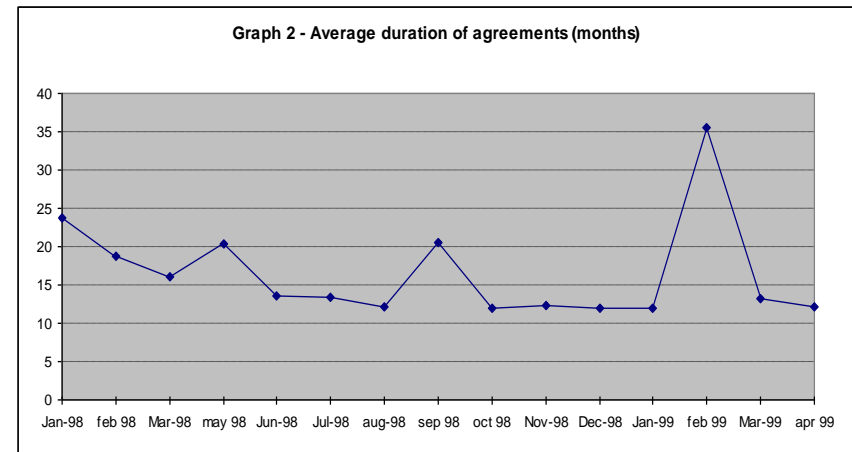
The legislative regulations regarding the duration of agreements continue to apply, i.e. wages and salaries are renegotiated every year, whereas the general rates can only be revised every 2 years. Agreements on wages and salaries which run for longer than one year are an absolute exception and are limited to individual undertakings. The recent experience of the miscalculated inflation forecast will probably be an additional factor (besides general stagnation in bargaining relations) in this context for the lack of innovations to that effect.

The fluctuations in the duration of the collective agreements (cf. graph) are to be attributed primarily to the conclusion of agreements with retroactive effect in those sectors in which negotiations had been deadlocked for several years. The duration of a collective agreement (on wages and salaries) is 12 months as a fundamental principle.

⁹ See Naumann (1998), *Portugal*, in G. Fajertag (ed.), *Collective Bargaining in Western Europe 1997-1998*.

¹⁰ There are three major regional trade unions in the banking sector (South, Centre and North), which organise some 90% of the employees and are all affiliated to the UGT. The CGTP does not have any unions in the sector, but the activists in the UGT bank employees' unions close to the CGTP collaborate – a setup which results in rather curious situations. The Vice-President is appointed from the list with CGTP leanings in the Executive Board of the bank employees' union operating in the south of the country (the biggest member union in the UGT), and a member of that union is also a member of the CGTP Executive Board.

¹¹ The proposal for a general collective agreement leaves central parts of the existing ACT such as the regulations on working time (35-hour week) unchanged. The innovations proposed by the trade unions include differentiated rules on promotion (extension of automatic increments) and a guarantee for the continuation of the trade union health insurance system.



Source: Portuguese Ministry of Labour, Directorate General for Working Conditions

(The months quoted refer to the time of publication of the respective collective agreements, which generally takes place several weeks after the signing of the agreements.)

2. WAGES AND PURCHASING POWER

2.1. Pay rises in basic rates and average earnings

The collective agreements published in the course of 1998 brought nominal rises in basic wages and salaries of 3.3% on average, which were lower than those negotiated the previous year (3.6%). The figure dropped to 3.2% in the first quarter of 1999 and then rose again to 4% in April 1999 – due mainly to the agreement concluded in the building trade.

The agreement concluded in the building industry, where some 190 000 workers are employed, is thus well above average, because the collective bargaining parties transferred the legislative guarantee of the national minimum wage for minors (see below), which was introduced in August 1998, into the agreement. This resulted in a pay rise for a number of categories of unskilled workers (2-digit percentages in some cases). The Banco de Portugal estimates that the increase for employees who are not covered by this

exceptional arrangement is 3.1% on average¹². If one takes this value as a basis, the overall average increases in basic wages also drops to 3.1% in April 1999.¹³

Table 3 - Average annualised wage increases (basic rates)

	Workers covered (thousands)			Duration (months)			Nominal annualised increases basic rates			Real annualised increases basic		
	1998	1st Q 99	Apr 99	1998	1st Q 99	Apr 99	1998	1st Q 99	Apr 99	1998	1st Q 99	Apr 99
Total	1397000	231000	239000	16.1	19.8	12.1	3.3	3.2	4 (3.1)	1	0.8	1.3
Agriculture	24018	158		19	12		3.3	3		0.9	0.5	
Fishery	1042		626	12		24	3		3.8	1		1.4
Mining & Quarrying	3593			12			3.3			1.2		
Manufacturing	563941	21441	6997	19.1	22.6	12.2	3.4	3.6	3.1	1	1	0.4
Electric., Gas & Water	565			10			5.1			3.1		
Construction	190920		206134	12		12	3		4.1 (3.1)	0.8		1.4
Commerce & reparation services	332872	95505	11612	14.7	12	12.2	3.5	3.2	3.3	1.1	0.9	0.6
Hotels & restaurants	76001		9332	16.7		12	3.5		2.9	1.2		0.2
Transport & communic.	24427	34864	3804	13.3	23.1	14.2	3	3.2	3.4	0.9	0.8	0.6
Financial services	81880			12			3			0.8		
Real estate and similar services	55041	45949	50	13.9	37.8	12	2.8	3	3.5	0.4	0.2	0.8
Education (private)	15445	621		20.7	12		3.3	3.7		1	1	
Health & social services (private)	12545	122		12.2	23.8		3.4	3		1.2		
Other services	14769	2182		12	12		3.4	3.6		1.2	0.9	
Not covered (administ. Workers)		29694			12			3.4			1.2	

Source: Portuguese Ministry of Labour, Directorate General for Working Conditions (The months quoted refer to the time of publication of the respective collective agreements, which generally takes place several weeks after the signing of the agreements.)

¹² Banco de Portugal, Indicadores de Conuntura – Março 1999, p.3.

¹³ The figures currently available from the Ministry of Labour survey on wages actually paid in the building industry only go as far as October 1998 and thus say nothing of the actual effect of the above-average pay rise agreed for younger construction workers.

In its analysis of the collective agreements concluded in the first quarter of 1999, the UGT arrives at results similar to those of the Ministry of Labour: average increases in nominal wages and salaries of 3.16% as against 3.23% in the same period of the previous year, that is to say a slight decrease. In a number of agreements the above-average bonus increases (meals, night work, shift work) increase the total wage bill by several further percentage decimal points. (UGT, Trabalho & Sindicalismo 1/99). The CGTP also establishes average increases of 3%-3.5% for the first quarter of 1999.

The nominal growth in gross income must thus have been around 3.5% in 1998 and in the first quarter of 1999. With the reservation mentioned above, the upward trend in this increase in April 1999 is to be regarded as attributable solely to the special features of the agreement concluded in the building industry.

Further important factors in the income development of employees were as follows:

- the FESA/UGT agreement concluded in the civil service on 25.1.1999, which brought a nominal increase in basic salaries of 3.0% as of 1.1.1999. It is to be observed here that in addition to various other advantages on individual points the automatic increments in the civil service bring a regular increase in income for public employees which is difficult to calculate but certainly considerable;
- the fundamental equal status of young people with regard to entitlement to the national minimum wage – a status which is laid down by legislation and which, with only very few exceptions, guarantees young people a considerably higher income than has normally been paid hitherto in various sectors (building industry, textile and garment industry, wholesale and retail trade, etc.) (see above for the implications of this innovation in the current collective bargaining round);
- the 4.07% increase in the national minimum wage (SMN) from 58 900 escudos to 61 300 escudos (approx. 305 euros). This is thus the fourth year in succession where the increase in the SMN has been higher than the average increase in agreed wages.

2.2. Purchasing power

According to the calculations of the Ministry of Labour, collectively agreed basic wages rose by 1.0% in real terms in 1998. And, according to the same source, the favourable trend of the past 3 years, when real wages rose by 0.4% (1995 and 1996) and/or by 1.0% (1997), has continued. The Ministry of Labour assesses the real wage increases brought by the collective agreements

published in the first quarter of 1999 at around 0.8%. In view of the emerging signs of a high inflation rate (2.5%-2.8%), it is to be expected that the real increases in basic wages in 1999 calculated over the entire year will eventually amount to around 0.4% to 0.7%. When one includes the various supplements, which as a rule are higher than the basic pay rises on a general average, in the calculation, that value is likely to be around 0.3 percentage points.

In its original assessment of the collective bargaining round in the first quarter of 1999 the UGT took an inflation rate of 2.0% as a basis and therefore anticipated real wage increases of just under 1.2%.

The 1998-1999 wage round has probably progressed too far for any possibility of improving the relatively moderate result in the negotiations that are still to be held.

The fact that the legal minimum wage will grow by 1.2% to 1.5% in real terms in 1999 even with an inflation rate of 2.5%-2.8% is all the more significant in this context, as is the fact that with equal status for young people with regard to entitlement to the minimum wage minors in the lowest income brackets will enjoy considerable increases in income.

3. DEVELOPMENTS IN THE FIELD OF WORKING TIME

The law on the introduction of the 40-hour week (1996) has become a reality to a large extent – now that the dispute in the textile industry has been settled. It is only in the garment industry, which, with 120 000 employees, is one of the largest sectors, that employers are continuing to stipulate the condition that, if the 40-hour week is introduced, the short breaks, which have counted as working time hitherto, will no longer count as part of working time. The CGTP textile workers' union has always rejected this employer demand, pointing out that it has been guaranteed by collective agreement that the above breaks count as working time. The transposition of the EU directive on the organisation of working time in November 1998 strengthens the trade union position, and the garment employers are now practically completely isolated in their position.

Both trade union confederations advocate the 35-hour week, but it cannot yet be said that there is any broad social and political movement geared to achieving that objective. Bargaining progress towards the reduction of working time is limited this year to a few major undertakings (Post Office: 39 hours; Telecom and Petrogal: 38 hours; state radio RDP: 35 hours) and is not to be expected in the current bargaining round for the major general collective agreements.

Alternative models for organising working time (time accounts etc.) have not yet been an issue in Portuguese collective bargaining policy.

The employers have long been pressing for the introduction of flexible working time arrangements and are calling in particular for a reduction in overtime costs. Whereas the UGT trade unions signal that they are prepared to negotiate, the CGTP unions are intransigent in their attitude. Unless direct agreement is reached between employers and unions, the pressure on the legislature to impose flexible organisation of working time above the heads of the collective bargaining partners will increase. This is how several areas of collective bargaining autonomy have been lost in the past few years.

The opposing positions of the CGTP, UGT and employers' organisations are also reflected in the question of the regulation of part-time employment, and their assessment of the relevant draft legislation has varied accordingly. It can be stated, however, that this is the first time that a law – embedded in an overall employment programme – regulates part-time employment as a fundamental principle and defines a framework which the collective bargaining partners can later complete.

4. EUROPEANISATION OF COLLECTIVE BARGAINING

It certainly cannot yet be said that collective bargaining has itself been Europeanised in Portugal – or in the other EU member states. But there are a number of factors at the European level which influence Portuguese collective bargaining policy in different ways.

European legislation and the European “social dialogue” should be mentioned here first and foremost as a factor providing important impetus for the organisation of the framework conditions and content of collective bargaining in Portugal. Such organisation came about in connection with the dispute over the 40-hour week in the garment industry (see above); and influence on the content of bargaining was noticeable, for example, in the agreement recently concluded in the pharmaceutical industry, in which the main regulations of the EU directive on parental leave were laid down.¹⁴ A further interesting example was an agreement concluded between the employers and trade unions in the Portuguese footwear industry on the introduction of a chapter for transposing

¹⁴ Cf. general collective agreement (CCT) concluded between the employer organisation NORQUIFAR and the FEQUIMETA/CGTP.

the Charter of the European social partners against child labour in the national general collective agreement.¹⁵

And finally, the integration of the collective bargaining partners into European structures should be mentioned. The UGT and its member organisations have been integrated into the ETUC structures ever since the founding of the confederation. The CGTP trade unions have gradually been becoming affiliates of the European Industry Federations since the confederation itself affiliated to the ETUC – for example, the FEQUIMETAL/CGTP recently became a member of the EMF.

Parallel to this integration process, Portuguese representatives have been integrating into the European Works Councils, and this could become an important source of information on collective bargaining practice and innovation in other countries for the Portuguese trade unions. The takeover of AutoEuropa by the Volkswagen Group in 1999 and the ensuing integration of the plant into the Volkswagen EWC have been of great significance in this context.¹⁶

5. FUTURE OUTLOOK

Against the background of the modest real wage increases in the current collective bargaining round and the higher inflation rate (compared to the 1997 rate), it remains to be seen what attitude the trade unions will adopt in the forthcoming negotiations. As the effect of the macroagreements concluded in the period from 1986 to 1996 comes to an end, forceful moves to put forward demands could be unleashed at the sectoral level. The question may also be raised at the same time of whether central agreements on incomes policy should again be concluded. With the impression that economic growth is declining and with the resulting growing scepticism regarding the trend in employment, arguments advocating wage restraint could well gain ground.

¹⁵ Cf. “Child labour. A charter by ...” and Chapter II-A of the general collective agreement (CCT) between the employer organisation APICCAPS and the FESETE/CGTP.

¹⁶ AutoEuropa was set up in the early 1990s as a joint venture of Ford and Volkswagen for the production of the Ford Galaxy/VW Sharan with huge subsidies from the EU and the Portuguese government. The plant employs about 4000 workers and its share in total Portuguese exports amounts to over 10%. In the elections held this year for the Workers’ Committee a list close to a trade union (FEQUIMETAL/CGTP) obtained the majority for the first time since the plant was opened.

The future of wage policy is uncertain, but what is almost certain is that given the persistent general stagnation in collective bargaining no appreciable changes are to be expected in the general collective agreements. A change of attitude has recently been observed, however, in the case of several employer organisations, which have abandoned their attitude of passive obstruction and are offering concrete proposals for extensive revision of the respective general conditions. A study commissioned by the tripartite “Employment Observatory”¹⁷ mentions several initiatives by employer organisations, such as those in the metal and textile industries, for example (FENAME and APT). According to the same source, the FESETE/CGTP has meanwhile opened talks with the APT on the latter’s proposal for revision.

A decisive reason for these employer initiatives is probably the fact that the stabilisation of membership and the consolidation of organisational structures are clearly discernible on the trade union side. The rationalisation of CGTP structures must be mentioned in particular in this context – a process which has speeded up dramatically in the last few years. The confederation has been registering real growth rates in income from affiliation fees for several years – the first time in many years that the trend has been positive; this indicates that the efforts to recruit new members have been paying off.

The employers are no doubt gradually realising that any expectations of a trade union collapse following the liberalisation and privatisation thrust initiated in the late 1980s will not be fulfilled and that the trade unions are consequently a potential counterforce that is to be taken seriously. So there is some hope that they will modify their strategy of maximum deregulation and begin to seek agreement with the trade unions on the extensive reform of bargaining policy. The question of whether the trade unions will manage to use this opening on the employer side to advantage and initiate the urgently necessary revival of collective bargaining relations will be of decisive importance.

¹⁷ João Freire/Maria da Paz Campos Lima *et al.*, Conteudos das Convenções Colectivas de Trabalho na Óptica do emprego e Formação, Lisbon/Observatório do Emprego 1998 (unpublished research report; publication under preparation).

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INTRODUCTION

During the transformation period from 1990 until the present, many changes have been brought about in the political, economic and social sphere, which influenced the creation of the new model of labour relations and collective bargaining issues in Slovakia.

The first principal package of political changes was implemented in Czechoslovakia, the former common state of Czechs and Slovaks, in the course of 1991 and up to the end of 1992. Those changes also affected the new role of the state in the economy. Employers and employees emerged as new social partners on the labour market. Fundamental changes also came about in the role of management and in the trade unions in the new enterprises which had been transformed from state to private ownership.

These changes created a new framework for the development of industrial and labour relations. Further changes took place after the creation of the new independent Slovak State in 1993, and since 1995 there has been a coordinated effort to implement the legal changes in Slovak industrial and labour relations as part of the broader comprehensive project – *The Transformation of the Social Sphere in the Slovak Republic*, managed by the Ministry of Labour, Social Affairs and the Family of the Slovak Republic – (referred to hereafter as MOLSAF or simply ‘the Ministry’).

Implementation of this project in the field of industrial relations includes, for example, changes in the Labour Code, collective bargaining, the public and civil service, etc., some of which have already been brought about and some are due to be implemented this year and over the next few years.

1. GENERAL BACKGROUND INFORMATION

1.1. The social, political and economic climate

The key elements of economic transformation, including the liberalisation of domestic prices, foreign trade and the labour market were launched after the political stabilisation in 1990. These changes were followed in 1991 by the liberalisation of property relations and the creation of the conditions for free competition in the economy. Implementation of the new legal framework for the privatisation process¹, the transformation of the state enterprises to joint-stock or limited liability companies², etc. was essential for the transformation of industrial and labour relations.

The principal changes supporting the creation of new the labour relations in the liberalised labour market, were reflected primarily in the Labour Code³ and its amendments, which is still the statute governing employer-employee relations in Slovakia. The main changes implemented in this field can be described briefly as follows:

The diminishing role of the state in the management of enterprises

This was caused by the progressive privatisation process in almost all areas of the economy and through the shift in the role of the state from directing the economy to creating the appropriate conditions for free labour market development. This development also resulted in the introduction of the principles of tripartite structures in industrial and labour relations at top level. Federal and national Councils for Economic and Social Agreement (RHSD) were already established in the Czech and Slovak Federal Republic back in 1990.

The changing role of trade unions in labour-management relations

This was caused by the shift in the trade unions' role from the loyal 'political' partner of management (appointed by state bodies) to that of an independent body representing employees' interests. The trade unions were given a legal right to strike and became the real counterpart of management

¹ Act No.92 of 1991 on Large-Scale Privatisation.

² Act No. 17 of 1990 on State-Owned Enterprises and Act No. 513 of 1991 providing the Commercial Code.

³ Act No. 65 of 1965 on Labour Code as amended.

and its interests. However, compared to the past, trade union density also decreased at the same time.

New minimum standards for the working conditions of employees

These were implemented by amendments in the Labour Code. They relate to the following areas: the basic right of employees to freedom of association and the prevention of forced labour; maximum working time (now 42.5 hours/week), the minimum wage (3.600 SK/month in 1999) and minimum paid holidays (now 4 weeks/year). Employment conditions (full-time and part-time employment, fixed-term and open-ended contract and their termination), the right to safe and healthy working conditions, and special conditions for the employment of women and young workers were also specified.

All of these changes were strongly influenced by the developments on the labour market, and in particular by the steep rise in unemployment, which increased from approx. 2% in 1990 to 15% in 1998 and was still increasing in 1999. The average unemployment rate by the end of April 1999, for example, was already close to 17%. What is more critical is the very unequal distribution of unemployment in the regions: while in the area of the capital the rate is approx. 5-6%, in some regions it is approaching 30%. This situation also affects the collective bargaining processes in the respective sectors and regions.

1.2. The attitude of the social partners and the Government

After the collapse of the communist regime, the trade unions lost their function as the “transmission belt” for the implementation of the economic plans laid down by the Communist Party. The independent Federal Czechoslovak Trade Union Confederation had already been established on ILO principles back in 1990.

This trade union confederation consisted of independent Czech-Moravian and Slovak Trade Unions Federations. After the partition of the common state, the Trade Union Confederation (KOZ) of the Slovak Republic was set up in 1993. It now includes some 40 affiliated sectoral federations, which represent the majority of all unionised employees.

Despite some minor internal attempts at separation, the KOZ was and still is the largest and most influential trade union confederation in Slovakia.

The main functions of the KOZ, as approved by its Congress⁴ are as follows:

- to influence national economic and social policy;
- to influence national employment and wage policy and to negotiate wages;
- to influence social and health insurance policy and protect the basic social security of workers;
- to safeguard workers' democratic rights;
- to promote health and safety at work, improve living conditions and the environment etc.

Compared to the socialist trade unions of the past, which had substantial co-decision-making rights (e.g. to prevent the dismissal of workers, participation in wage and remuneration policy and in enterprise management etc.), the co-determination rights of the current trade unions have been radically reduced⁵.

Trade union membership has also been affected by this general trend. The former nearly 100% trade union density in the country has been substantially reduced. For example, the approximate trade union density in the KOZ was 60%-65% in the 1994-1995 period, whereas current trade union density is estimated at approx. 45%-50%.

In conjunction with the changing role and position of the trade unions, the role of negotiation and collective bargaining has also altered.

In 1992, the parallel employee representative structures in enterprises – i.e. the works councils and workers' assemblies (which had begun to operate again from 1988 onwards) – were dismantled⁶.

The trade unions once again became the sole representatives of employees' interests (as they had been for more than 40 years). On the other hand, the new 3-level mechanism of social dialogue was created⁷.

⁴ KOZ documents approved by its 3rd Congress in October 1996.

⁵ Czírnia, L.: The Czech and Slovak Republics, in Thirkell, J., Scase, R. and Vickerstaff, S. (eds.), *Labour Relations and Political Change in Eastern Europe (a comparative perspective)*. UCL Press, London 1995.

⁶ Czírnia, L. Workers' councils and self-management in state-owned enterprises: the Czechoslovak case, in Markey, R. and Monat, J (eds.), *Innovation and Employee Participation through Works Councils*. Avebury 1997.

The model of the new labour relations mechanism is shown in Figure 1.

Over the last few years, apart from some occasional local calls for more radical action, most trade union organisations have preferred to follow a course of constructive social-partner cooperation to maintain social peace. There have been no major strikes in Slovakia to date.

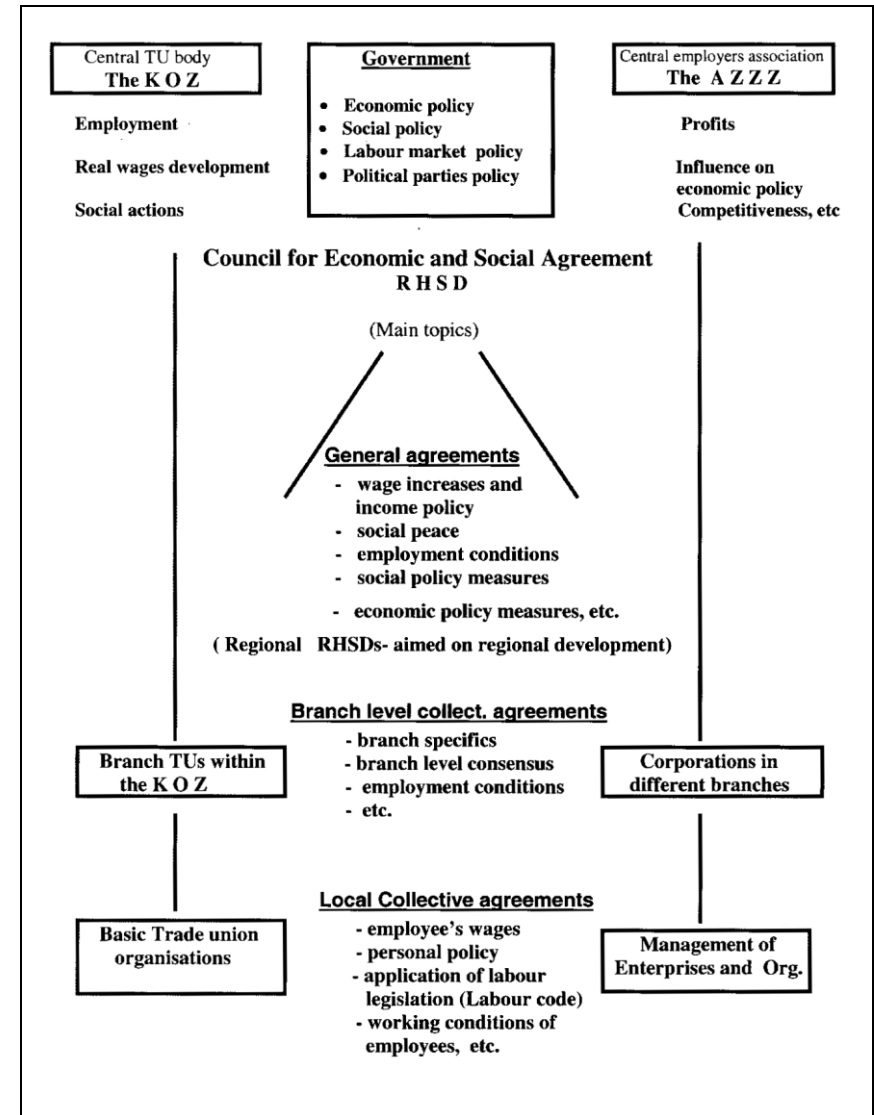
However, in 1997 the KOZ refused to participate in the RHSD tripartite social dialogue with the government at top level, one of the reasons being that the KOZ disagreed with the government's wage policy. For the first time since 1991 no general agreements were signed at the top level either for 1997 or for 1998.

After the general elections in 1998, the new coalition government (a coalition of democratic parties of both the right and the left) came to power. One of the first actions of the new government was to restore the tripartite social dialogue at the top level. One of the KOZ demands was the abolition of wage regulation in the private sector, which had been introduced by the previous government. The tripartite body RHSD resumed operations by the end of 1998.

In late 1998 and especially in 1999, with a less favourable economic situation and mounting social tension, the trade unions' activities seemed to become more radical. One of the reasons for this trend has been the growing tension in enterprises threatened by redundancy and in some cases also by the spectre of bankruptcy.

⁷ Czírja, L. (1995) (7).K rozvíjaniu kolektívnych pracovných vzťahov (On the development of labour relations), *Práca a sociálna politika journal*, No.10/1994.

Figure 1 - Model of industrial relations in Slovakia



1.3. Changes in the levels of bargaining and duration of agreements

General framework

As mentioned in the previous chapter, the new three-level bargaining model was introduced with a view to resolving problems and issues relating to collective labour relations in the country.

The tripartite *Council for Economic and Social Agreement (RHSD)* operates at the top (national) level. It is composed of 21 appointed representatives of the Government, the Slovak Employers Associations (*AZZZ*) and the trade unions (*KOZ*).

Every year since 1991 the RHSD has regularly produced general agreements, which usually have included the consensus reached by this tripartite body on the most topical issues of government economic and social policy in the given time period⁸.

Important issues have been, for example, the setting of the subsistence minimum and minimum wage, as well as key elements of economic, social and income policies. Employment policy and the concept of amendments to the Labour Code were also very frequent issues.

The Annual General Agreement consequently forms the general framework for collective bargaining at sectoral level, which in turn provides the context for collective agreements at the company level (in the sense of the minimum/maximum standards for working conditions). The collective agreements are usually signed for a one-year period.

In addition to the Labour code, the second important legal framework which shaped the new model of labour relations was Collective Bargaining Act no.2 /1991⁹. According to this Act the collective bargaining partners are the representatives of:

- employers, who are usually represented by the nominated members of the management of the organisations
- the trade union organisations, which have been the exclusive representatives of employees to date.

⁸ Czírja, L. *et al.*, Tripartism and industrial relations in the Slovak Republic. National monograph as a working paper for the ILO Round-Table Conference: Tripartism in Central and Eastern Europe, Budapest, 1994.

⁹ Collective Bargaining Act No.2 of 1991, as amended.

Collective bargaining is defined as the principal mechanism of collective labour relations leading to the conclusion of collective agreements at branch and local level.

This Act also provides guidelines for resolving disagreements and collective disputes.

In the event that the parties concerned fail to conclude the collective agreement they can request the neutral mediation, conciliation, or arbitration (in cooperation with the Ministry of Labour, Social Affairs and the Family).

According to this Act two further options for radical action are also specified, to which the respective social partners can resort in the event of collective disputes:

- the procedure for calling a strike on the trade union side and
- the respective right of employers regarding lockout (they have not yet resorted to this option).

An important stipulation involved in this Act, and one which is also criticised by the trade unions, is that a trade union organisation can only call a strike if the parties have failed to conclude their bargaining with a collective agreement (after the failure of mediation and conciliation).

It means that according to this Collective Bargaining Act the trade unions are not entitled to call a strike in the event that employers fail to fulfil the obligations provided in the collective agreement. Any such strike would be deemed illegal. In this case the parties concerned can apply to the competent civil court.

Issues covering the context in which collective bargaining takes place are regulated by the Labour Code. Collective bargaining focuses primarily and most frequently on wages and working conditions (e.g. working time, paid holidays, safety and health at work, social activities etc.).

An important event influencing collective bargaining at sectoral and company level was also the abolition of state control of wage regulation in the private sector at the end of 1992. But this did not affect the public sector, where wage increases are still a matter of state intervention. As has been mentioned, the government re-introduced wage regulation in 1997, the aim being to promote the connection between wage increases and the development of productivity in private enterprises. The new government abolished wage regulation again at the end of 1998.

According to the current Collective Bargaining Act, in principle there is no distinction between the private and the public sector. The Labour Code (which is still valid for both sectors) provides some restrictions concerning the context in which collective bargaining takes place.

As far as wage bargaining is concerned, it is excluded in the public sector, which is financed from the state budget. In that sector, bargaining on wage rates is restricted. However, there have also been some attempts to negotiate wages at the sectoral level.

Sectoral collective agreements

As has been mentioned above, several collective agreements have been concluded at the sectoral level. All collective agreements concluded at the higher (i.e. sectoral) level (KZVS) must be validated by registration with the Ministry.

According to Ministry sources ¹⁰, the number of sectoral collective agreements registered in the SR is as follows:

In 1991 22 agreements and 4 annexes

In 1992 34 agreements and 18 annexes

1993 29 agreements and 21 annexes

1994 34 agreements (5 of them covered also the year 1993) and 24 annexes

1995 37 agreements (14 covered also the year 1994) and 28 annexes

1996 51 agreements (19 covered also the year 1995) and 23 annexes

1997 56 agreements (27 covered also the year 1996) and 31 annexes.

The situation was similar in 1998, when 55 agreements were concluded

This list indicates the growing number of sectoral collective agreements and also shows that while the collective agreements were generally concluded for one year in the first few years, the collective agreements concluded in the past few years have generally been valid for two or three years.

¹⁰ MOLSAF: Správa o sociálnej situácii obyvateľstva Slovenskej republiky (Report on the social situation of the population of the Slovak Republic), 1997.

The issues negotiated and agreed in the sectoral collective agreements generally cover the following main areas:

- ***relations and cooperation between the trade union representatives and the management of the organisation*** (consultation and information procedures, obligations of the parties, provision of facilities and support for union activities, protection of trade union representatives etc.);
- ***terms and conditions of employment and employees' rights*** (the scheduling of working time, overtime, shift work, conditions of termination of employment, redundancy benefits, rules governing mass lay-offs, paid and unpaid holidays, leave of absence, support for training and retraining, implementation of organisational changes, redundancy schemes, procedures for employees' appeals, etc.);
- ***social services for employees*** (provision of catering facilities for employees, creation and use of the Social Fund (which is usually financed by 1% of the total wage bill), support for recreation and sport, housing support, etc.);
- ***health and safety at work*** (participation in monitoring activities, creation of health and safety committees, provision of individual protective equipment, examination of work stations and reduction of hazards, support for safe technologies, provision of training, etc.);
- ***remuneration*** (average wage increase, minimum wage levels, extra pay for overtime, night and holiday work, stand-by bonuses, special premiums etc.).

Table1 gives the results of the survey conducted by the VUPSVR in 1996¹¹, which covered more than 300 organisations in the public sector and illustrates the priorities given to the respective topics in the public sector.

¹¹ Czírja, L. *et al.*, Usporiadanie kolektívnych pracovných vzťahov vo verejnom sektore SR (Forming the industrial relations in Slovak public sector), in the 1996 research reports of the Research Institute of Labour, Social Affairs and the Family, Bratislava 1997.

Table 1 - Priorities of the Social Partners in Collective Bargaining Issues in the Slovak Public Sector

Bargaining issues	Order of priorities	
	Trade unions	Management
Wages and remuneration	1	1
Social and cultural activities	2	2
Social fund	3	6
Health and safety	4	3
Other issues	5	4
Terms and conditions of employment	6	5
Working time	7	7
Internal organisation	8	8-9
Health care services	9-11	10
Holiday arrangements	9-11	12
Learning, training and H.R. development	9-11	11
Cooperation between management and labour	12	8-9

1.4. Labour disputes

According to guidelines valid in the event of disagreement (referred to above), both of the parties concerned can ask the Ministry to appoint a mediator, or arbitrator, for their case. If the parties are unable to settle the conflict themselves they can request the assistance of a mediator. If they still fail to reach agreement on a solution they can decide to ask for arbitrator. There are two types of situation requiring arbitration. The first is where the parties fail to conclude a collective agreement; in this case, the decision of the arbitrator is final. The second case is where one of the parties (generally the trade union side) is not satisfied that the counterpart has fulfilled the obligations laid down in the collective agreement. In this case, if one party is not satisfied with the decision of the arbitrator it can ask the court (only civil courts, since there are no labour courts in the country) to decide the issue.

The Ministry has issued the following statistics on the number of collective disputes occurring in the past few years¹²:

- 1991 8 cases where a mediator intervened; 6 cases were settled, 1 case was decided by an arbitrator and 1 remained unresolved and resulted in a token strike;
- 1992 9 cases where a mediator intervened; 6 settled, 2 decided by an arbitrator and 1 remaining unresolved;
- 1993 13 cases where a mediator intervened; 11 settled and 2 decided by an arbitrator;
- 1994 16 cases where a mediator intervened; 14 settled and 2 decided by an arbitrator;
- 1995 15 cases where a mediator intervened; 14 settled and 1 decided by an arbitrator;
- 1996 22 cases where a mediator intervened; 16 settled, 2 decided by an arbitrator, 4 unresolved (1 case ending in a token strike);
- 1997 29 cases where a mediator intervened; 22 settled, 2 decided by an arbitrator, 5 unresolved (2 cases ending in a strike).

In 1998, there were 52 cases where a mediator intervened and an arbitrator decided 6 of them. These brief statistics indicate the growing number of collective disputes on the one hand and also show that the majority of these conflicts were settled without radical social action such as strike.

2. WAGES AND PURCHASING POWER

2.1. Pay rises in basic rates and average earnings

There are two different wage systems in the Slovak Republic. One is designed for profit-making business organisations and is regulated by Act No. 1 of 1992 on Wages, Remuneration and Average Earnings. In this context, wages are negotiated depending on the economic results of the organisations concerned and on the outcome of the respective collective bargaining rounds.

¹² Grígelova, N.: Informácia o riešení kolektívnych sporov o uzavretie kolektívnej zmluvy a sporov o plnenie záväzkov kolektívnej zmluvy v roku 1998. Práca a sociálna politika 5/1999

The second wage system is designed for the public sector, where the financing of organisations and institutions is linked to the state budget. It is Act No.143 of 1992 on Pay and Remuneration in budgetary organisations which regulates wages in this case.

There are two different types of organisation in the Slovak public sector: those fully financed from the state budget (budgetary organisations) e.g. state administration, civil service etc.; and those only partially financed from the state budget (subsidised organisations). The latter organisations have to cover the gap in their budgetary needs through their own business activities.

According to guideline No. 143 of 1992, the wages of employees in budgetary and subsidised organisations are set on the basis of a unified tariff scale. This pay scale reflects the work required and the experience of the employee resulting from the number of years he/she has been working in the given area of required skills. The lowest wage rate is usually set at the level of the minimum wage.

The minimum wage has developed in Slovakia as follows:

1991	2000 SKK
1993	2200 SKK
1997	2700 SKK
1998	3000 SKK
1999	3600 SKK.

Changes in wage rates in the public sector are a matter of government decision. Proposals for new wage rates are included in the package of the proposed annual state budget and are subject to approval by Parliament. Wage rates in the public sector were increased in this way, for example, by an average of 7% in 1997 and 1998.

The average nominal wage in profit-making business organisations was 10 065 SKK in the first half of 1998, whereas in public budgetary organisations it was only 8 583 SKK, and in public subsidised organisations the level was 8 995 SKK.

The development of wage levels in profit-making business organisations differs from that observed in public sector organisations, the trend being towards more rapid increase in the former compared to the latter. But this trend slowed down in 1998. One of the factors which may have contributed to this

development was probably the wage regulation implemented that year. Wage regulation was abolished again as of 1 January 1999.

Both nominal and real wages have increased steadily over the past few years, although the rate of this increase has been tailing off to some degree. The annual increase the average nominal and real wages is shown in Table 2.

Table 2 - Average wage increase

Years	Increase in nom. Wages %	Increase in real wages %	Average wage in SKK
1993/92	18.4	-3.4	5379
1994/93	17.0	+3.0	6294
1995/94	14.3	+4.3	7195
1996/95	13.3	+7.1	8154
1997/96	13.1	+6.5	9226
1998/97	8.4	+2.7	10 003

Sources: MOLSAF, Report on the social situation of the population in 1997, and the Statistical Office of the SR.

Average real wages have still not reached the level they were at in 1990 in real terms (in 1998 it was approx. 90% of the 1990 figure). The increase in nominal and real wages in 1999 is expected to slow further compared to the previous year.

2.2. Purchasing power

There has been a fairly moderate increase in prices over the past few years (except in the 1991-1993 period), but there was a downward trend in the rate of increase from 1993 to 1998.

Consumer prices increased, for example, in March 1999 by approx. 7% on average, compared to the same time period in 1998. The biggest impact of the price increase was in the area of housing, water and electricity costs, where prices rose by approx. 17%.

Here again, although the cost of living has increased each year, the trend of this increase has also been downward. The yearly increase in the cost-of-living indexes is set out in Table 3.

Table 3 - Increase in consumer price indexes

Household	1993/92	1994/93	1995/94	1996/95	1997/96
Total	23.2	13.4	9.9	5.8	6.1
Employees	23.1	13.6	9.6	5.8	6.2
Pensioners	21.5	13.8	9.3	5.0	6.3

Sources: MOLSAF and Statistical Office of the SR

The same indicator for the first half of 1998/97 was 3.2.

The dynamics of inflation rate has been very similar. While it was 25% in 1993 and 12% in 1994, the rate fluctuated around 5-7% in the period from 1995 to 1998. An inflation rate of 7-8.5% is expected in 1999.

3. OUTLOOK FOR 1999

Several changes in labour legislation are anticipated in 1999, which will also influence the further development of industrial relations in Slovakia. The Ministry of Labour has prepared several amendments in labour legislation.

Several amendments to the Labour Code were planned to be in effect by September 1999. These changes relate to the implementation of several ILO Conventions and EU Directives and Regulations and have also been accelerated by the current labour market developments. The main aims and topics of the planned changes are:

- to improve employee protection in the event of collective redundancies;
- to reinforce the equal opportunity principle in the event of night work performed by women;
- to increase the protection of employees' rights in the event of the transfer of undertakings;
- to increase the protection of employees' rights in the event of employer insolvency;
- to improve the protection of workers' health and safety.

The second area of the expected changes is the public sector. A new model of labour relations, including collective bargaining procedures in the public sector is currently under preparation. Topical issues are being discussed concerning working conditions and collective labour relations in the public service and especially in the civil service – also including the negotiation of wage rates. The dilemma of the past – whether to use uniform or different models of labour relations and especially whether there should be collective bargaining in public services and in the civil service – seems to have been solved. Proposals are now also under preparation for the new Public Service Act and the new Civil Service Act. According to this new legislation separate models of labour relations will be implemented for civil servants and for public servants.

Both public and civil servants will have the right to bargain collectively at the sectoral level; this will include wage bargaining on subject to annual approval by the central government and Parliament. Civil servants are expected to be granted more favourable working conditions (concerning wages, working time, holidays, life-long employment etc.). And as for the right for strike, according to the proposals for these Acts, this right will be granted to both civil servants (with a few exceptions) and public servants.

The last change expected relates to an issue which has been an open question for years: the development of employee participation in decision-making. As has already been mentioned in the present report, the trade unions are the sole representatives of employees' interests in Slovak enterprises and organisations. The decline in trade union density and in particular the growing number of small and medium-sized enterprises (SMEs) is creating several problems regarding the protection of employees' rights.

The trend in the SME field is one of fairly steady growth in Slovakia. The number of companies with 10 or fewer employees is estimated at approx. 40,000. Companies with 25 or fewer employees represent approx. 30 % of all companies operating in the Slovak economy.

The problem is that there is no trade union organisation in many of these companies and the employees have no collective representation body for articulating their interests and defending their rights.

According to the latest survey conducted by the VUPSVR in 1995, the opinion of trade union officials, top managers and employees at the company level on the idea of establishing works councils or similar structures was very positive, almost 70% of the representatives of labour and management supporting this idea, and the proportion of employees supporting the idea was even higher.

The idea of European works councils or similar structures is becoming more and more topical at the present time. For example, at the workshop held in Bratislava on May 13-16, 1997, in which the representatives of trade union confederations and employers associations in the EU also took part, the Slovak social partners declared their willingness to implement such participatory “parallel structures”.

Two options could perhaps be evaluated for further development in this area:

- in organisations where a trade union is present, that of maintaining the trade union as the sole representative of the employees (and probably also of giving them more rights, for example regarding information disclosure, participation in decision-making mainly concerning working conditions);
- in organisations where there is no trade union, that of introducing the workers’ or employees’ councils as partners representing the employees’ rights and interests which must be informed and consulted by the employers.

The final decision will most probably be taken in the new Labour Code, which was also due to be promulgated by the end of 1999.

Spain

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1. A FAVOURABLE ECONOMIC CLIMATE AND ENTRY INTO THE EURO ZONE

In 1998, collective bargaining took place in a favourable economic climate, despite the uncertainty generated by the instability of some international financial markets. The growth in Gross Domestic Product (GDP) was greater than expected (3.8% compared to the forecast 3.4%), and more than in the euro zone (2.4%). The perspectives for 1999 at the time of writing were not so good. According to government forecasts, economic growth will level out at 3.8% and the job creation rate will fall from 3.4% in 1998 to 2.8%.

Economic growth in 1998 was driven by internal demand, both in terms of consumption and investment. It seems that this pattern will be maintained in 1999, although the external deficit will increase due to the continued rise in domestic production.

The increase in private consumption in 1998 was accompanied by a tendency for inflation to fall, though it is very unlikely that it will continue to fall in 1999. The annual inflation rate stood at 1.8% in December 1998, below the government's forecast of 2.1%. However, the increase in prices between January and April 1999 reached 1.2%, 60% of the government forecast of 1.8% for the entire year.

The increase in consumption in 1998 was also encouraged by a fall in interest rates. This trend has to some extent continued into 1999, after a further cut in interest rates by the Central European Bank. Interest rates stood at 5% at the beginning of 1998. However, the Bank of Spain had cut interest rates to 3% by the end of the year in a move co-ordinated with the other Central Banks in the euro zone.

¹ The authors would like to point out that much of the information in this report is based on documents prepared by the CC.OO. and UGT Trade Union Secretariats.

Table 1: The Spanish economy in 1998 and the forecast for 1999

	1998	1999
GDP (% rise in real terms)	3.8	3.8
Labour market		
Total employment:	16,265,200	16,411,600
Variation	440,300	369,700
Variation (%)	3.4	28
Unemployment rate (%)	18.8	17.3
Prices and wages		
Consumer prices (Dec-Dec)	1.4	1.8
Negotiated wages	2.6	2.0
Nominal unit labour costs	2.2	1.5
Others		
Trade balance (% GDP)	-2.9	-3.5
Public deficit (% GDP)	-2.1	-1.6

Source: Prepared using figures of the National Institute of Statistics (INE) and the Ministry of the Economy and Public Finance

The cut in interest rates and the favourable economic climate contributed to a reduction in the public deficit (2.1% of GDP) in 1998. This reduction was greater than forecast. Meanwhile, the national debt (67.7%) stayed below the European average (70.3%). The public accounts for 1999 do not look quite so healthy, especially in the light of the tax cuts in 1998 and the downward revision of economic growth forecasts. Nevertheless, the government hopes to cut net borrowing to 1.6% of GDP in 1999.

However, clouds are looming on the horizon. The Popular Party government has taken decisions that are not favourable to less well-off groups and that will make it difficult to maintain the current level of social benefits and public services.

For example, in 1998, it approved cuts in personal income tax rates and was completely unyielding in the negotiations over broadening the coverage of unemployment benefit (only half of the unemployed receive benefit).

The current economic boom has been achieved in large measure thanks to the efforts made by workers in recent years. It is they who made entry into the single currency economic zone possible on 1 January 1999.

The entry of the Spanish economy into the euro zone is very significant for the future of industrial relations and collective bargaining. The negotiation of common policies on employment at a European level illustrates this. The European Trade Union Confederation (ETUC) negotiated an agreement on part-time work that influenced the negotiations and agreement signed by the CCOO, the UGT and the government in November 1998. The EU agreement on fixed-term contracts has also had an influence on the national job security agreement, which we have been developing with the employers since 1997.

It also seems clear that payment in euros could generate greater transparency and stimulate moves for equal pay and conditions, at least in transnational companies. This will give rise to new demands for international co-ordination and negotiation.

The impossibility of adjusting exchange rates will put competitive pressures on wages and employment, giving collective bargaining a greater macro-economic role than before. Although the European Central Bank's only objective is to control inflation, it would seem that other indicators will come into play when negotiating wage rises. The European Commission itself establishes at least four other criteria: increased productivity; the existence of marginalised groups such as young people, the long term unemployed or poorly qualified workers; the differences in the labour market and economic conditions of member states; and, finally, the need to promote social dialogue at different levels.

There is no doubt that all of this could have an effect on the structure of collective bargaining by changing the level at which decisions are taken. In this context, the development of the Interconfederal Agreement on Collective Bargaining (AINC, *Acuerdo Interconfederal sobre Negociación Colectiva*), signed in 1997 by the UGT, the CC.OO. and employers' organisations, could prove to be essential in organising an adequate response to the new challenges we will have to face.

Progress in implementing the agreements signed by trade unions, employers and the Government

In 1998, collective bargaining witnessed an intensification of the incorporation in collective agreements of aspects of the various agreements signed by the CC.OO. and UGT trade union confederations, employers organisations and the government in 1997. These agreements have proved to be useful for improving conditions both through collective bargaining and through regulatory changes; they have increased the capacity of the trade unions to make headway on issues of importance to their members.

Our hope that the Interconfederal Agreement on Employment Security (AIEE) would help change the trend for temporary work to increase has proved well-founded. Since the agreement was signed in April 1997, non-temporary employment has grown at a rate of 9% while temporary work has increased at the lower rate of 3.4%.

There is no doubt that the agreements are having an effect on the pattern and type of new jobs (greater number of secure jobs and fewer temporary jobs).

The AINC and the Agreement on Covering Omissions (*Acuerdo de Cobertura de Vacíos – ACV*) are not only extending the scope of negotiations into new areas; they are also changing the contents of collective agreements.

To this must be added the 1999 changes in article 92 of the Workers' Statute and its development through regulations. These developments are a result of an agreement reached in the Monitoring Commission overseeing the implementation of the ACV, and together have led to an extension of collective agreements.

Clauses on vocational training and health and safety are gradually being introduced into collective agreements, facilitating the gradual extension of the measures set out in the agreement.

Implementation of the Agreement on the Arbitration and Mediation of Labour Conflicts (ASEC) continues on course, with the creation of the Interconfederal Mediation and Arbitration Service (SIMA). Similar agreements have been reached in all the Autonomous Communities.

Negotiations on aspects of social protection, as envisaged in the October 1996 Agreement on the Consolidation and Rationalisation of the Social Security System have allowed us to achieve substantial improvements for part time workers, including regulation of their contracts.

Negotiations between the UGT, the CC.OO. and the government continued in 1998, with varying results. There was disagreement about the 1998 Employment Plan (also in 1999) and about unemployment benefit. However, there were agreements on temporary work and measures to improve job security. These two agreements did not have an impact on the 1998 round of collective bargaining because they were only signed in the final two months of the year. However, they will certainly have an impact in 1999.

2. WAGES AND INCOME DISTRIBUTION

In 1998, wages were an important instrument for redistributing wealth. Wages rose from 49.7% of GDP in 1995 to 50.8% in 1998. This increase was achieved partly through an increase in wage levels and partly through an increase in employment.

Increase in purchasing power

Wages negotiated through collective bargaining rose by 2.6% in 1998, a level that represents continued wage restraint. The government hopes that this trend will continue in 1999 and forecasts a 2% growth in collectively agreed wages (in agreements signed up to April 1999 the average increase was 2.4%).

Within this overall trend, industry agreements covering periods longer than one year achieved a big increase (3.2%). This trend was confirmed by the first figures from 1999, which also showed larger pay rises in the case of those settlements being renegotiated, as opposed to new agreements.

However, figures showing the pay rises set by collective agreements do not show up the variations (positive and negative) caused by changes in the structure of the labour force (job reclassification, replacement of older workers and entry of young people on to the job market, etc.) During 1998 (as in 1997), service sector wages suffered in real terms while the situation improved in construction and manufacturing.

Wages set by collective agreements rose by 1.8% more than prices in 1998, generating an increase in workers' purchasing power. This and similar increases in 1996 and 1997 allowed workers to win back ground lost in 1994 and 1995.

This gain in real wages was not shared by all workers, nor shared equally between those who did make gains. For example, the approximately two million public employees only just maintained their purchasing power in 1998, despite strong economic growth.

Nevertheless, almost all workers covered by collective agreements (80%) improved their purchasing power in 1998. At least half of them only received a small increase. In 1998, the range of pay rises was greater than the previous year. A greater proportion of workers received a pay rise close to the level of the government's inflation forecast of 2.1% (December/December) and a greater number were situated at each end of the scale. This signifies an unequal distribution of the general increase in wages (see Table 2).

Table 2: Wage increases set by collective agreements
(January - December 1998)

Wage increase (%)	Number of workers covered	Percentage of workers	Average increase (%)
Less than 1.00	8,680	0.1	0.29
1.00 - 1.49	69,697	1.0	1.02
1.50 - 2.09	781,865	11.2	1.97
2.10	1,462,205	21.0	2.10
2.11 - 2.50	2,460,342	35.3	2.38
2.51 - 3.00	1,411,056	20.2	2.72
3.01 - 3.50	251,245	3.6	3.29
3.51 - 4.00	358,556	5.1	3.85
Over 4.01	168,573	2.4	7.56
Total	6,972,219	100.0	2.56

Source: Prepared from the Ministry of Labour's Register of Collective Agreements

The increase in purchasing power registered in 1998 proved to be compatible with a high level of job creation and low inflation.

The situation with regard to purchasing power does not look as promising for 1999. If inflation is higher than the government forecast (and this is looking likely), a sizeable group of workers could suffer some decline in the real value of their wages, though only by a small amount. Only 60% of collective agreements have included clauses that guarantee the maintenance of purchasing power in the event of inflation being higher than forecast in 1999.

Wages and working time, related variables

Those who work a greater annual number of hours received the largest wage increases. This is a trend that has been in evidence since at least 1991, but it has accentuated noticeably in the last two years.

This phenomenon is occurring in all industries, although it is more evident in the service sector, this being the sector that has the broadest range of working time.

Unequal development of wage clauses

In addition to pay rises, collective agreements include very important provisions relating to wages. Trends in these areas are very variable.

In the first place, an increasing number of agreements include an industry-wide minimum wage. 36.5% of workers are now covered by such clauses. This process is likely to continue in 1999.

Second, workers have been losing the rights to have pay reviews during the period covered by agreements. Between 1995 and 1998, this was dropped from collective agreements covering a million workers. This was perhaps because of the low rates of inflation. However, we feel that it is not wise to jettison clauses that might not be so easy to put back if and when we need them.

Third, there is hardly any growth at all in the incidence of pay incentives. Analysis of the Ministry of Labour's Register of collective agreements confirms this. The employers themselves estimate that only 15.5% of workers are on variable pay schemes and that there has been no great change in this situation since 1991.

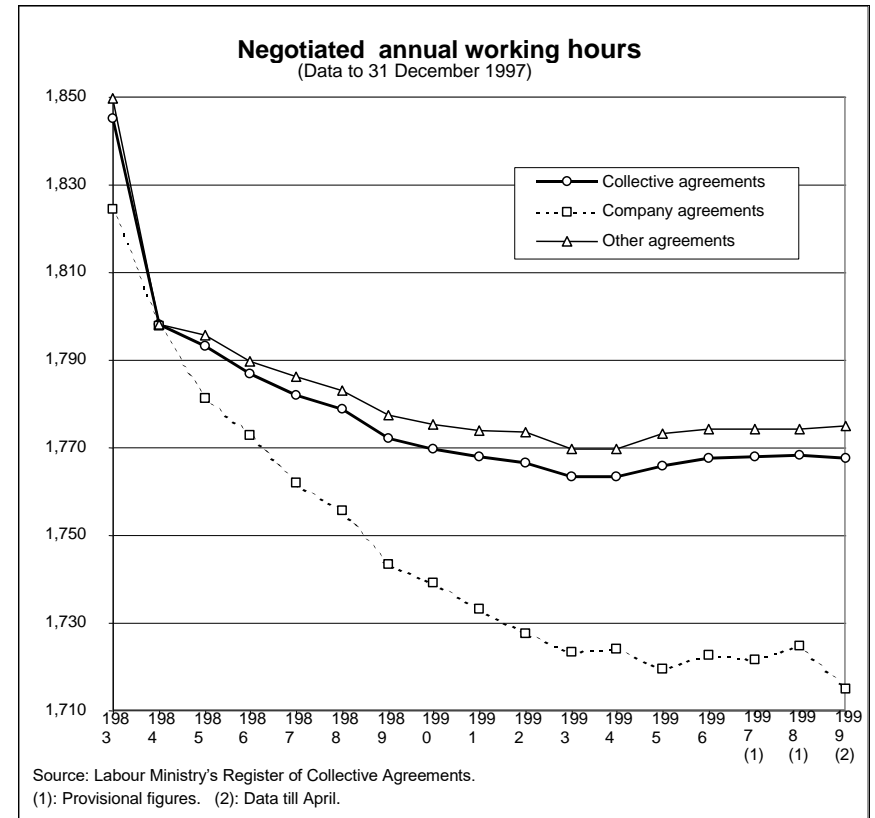
Finally, the number of collective agreements relinquishing seniority supplements is increasing. Workers currently receiving such supplements are allowed to continue to do so and other workers are compensated with one-off payments or an increase in rates. The temporary nature of work and large pay differentials between the different age groups are two factors behind this development.

3. WORKING TIME

An initial analysis of the trends in the average hours of work set by collective agreements might lead to the erroneous conclusion that working time is on the increase. However, a more detailed analysis of the available data leads us to a different conclusion (see graph).

Although the average number of annual working hours registered by the Labour Ministry as of 31 December 1998 (1,769.5 hours) was higher than that registered at the same date in the previous year (1,769 hours), the increase was due to changes in the numbers of workers covered by collective agreements.

The increase of negotiated working time in 1998 does not appear to be due to negotiators agreeing on longer working hours², but to the different profile of the workforce covered by collective agreements.



In fact, the percentage of agreements with reducing working time doubled, resulting in shorter contractual working hours for more than 1,200,000 workers in 1998. Moreover, this reduction was greater than that negotiated in previous years.

² Except perhaps in agriculture.

This is also shown by the fact that almost 60% of workers now work between 1,759 and 1,803 hours and that the average annual hours have fallen from 1,792 to 1,782 during the 1990s.

However, the reduction in working time is a long way from being a general phenomenon (there has been no reduction at all for six million workers) and the average reduction in hours has not been very significant.

A 35-hours week objective

Despite the trend towards a reduction of working time, there are still only a few collective agreements that have achieved a 35 hours working week or the annual equivalent. Only 369 agreements (covering 343,726 workers) provide for under 1,600 contractual annual hours.

Most of these agreements are for workers in local councils, municipal companies, education and mining.

Having the 35-hour week as an objective has had a positive and dynamic effect on reducing working time in most agreements, but there is still a long way to go before this objective is achieved.

The UGT and CC.OO. therefore feel that legislation has an essential role to play in achieving a general reduction in working time and on job creation. Trade unionists involved in collective bargaining should use the most varied possible formulae to reduce working time, linking the reduction and reorganisation of working time with job creation. Legislative initiatives should not only deal with measures to reduce working time, but should also introduce regulations covering incentives, monitoring and control.

Control and flexibility of working time go hand in hand

The other key issue for many industries is the organisation of work. The fight for reductions in working time goes hand in hand with the fight to resist employer demands for their employees to be permanently available for work. No reduction in working time is worthwhile unless it frees people to enjoy more leisure time. It is clear that the issue of working time needs trade unions to examine both the length and structure of working time.

Moreover, it is increasingly evident that a reduction in working time entails changes in the organisation of working time and that this is linked to the issue of flexibility. While allowing for a certain degree of flexibility, it is important for the unions to have enough power to be able to resist attempts to make

workers available for work on a basis that is prejudicial to their interests and that promotes the individualisation of employment relations.

Although there are examples of good practice, there are also agreements where the annual calculation of working hours, flexible working and the irregular distribution of working time are not balanced by the kind of worker participation and control that would provide workers with some safeguards.

Convergence in average negotiated working time

There is a convergence of average working time within and between all industries. In general, most negotiated working time requirements are between 1,759 and 1,803 hours per year.

The service sector has lower average hours, although this hides a dual structure of working time. Although 80% of workers working less than 1,712 annual hours belong to this sector, 80% of those working the legal maximum working hours (1,826) are also to be found here.

Recent years have seen a gradual shift of manufacturing industry workers from the upper end of the working time scale to the middle, where they are now concentrated.

The most uniform industry is construction. All construction workers are concentrated at the same point of the scale and there has been no significant variation of this in recent years. This is perfectly in line with the collective bargaining situation in the industry.

Overtime: a gap in collective agreements

Although article 35.1 of the Workers' Statute referred the issue of overtime payments and compensation to collective bargaining procedures, only 39% of workers are covered by agreements which make reference to overtime.

**4. CREATION OF EUROPEAN WORKS COUNCILS:
SOME POSITIVE CHANGES BUT LIMITED PROGRESS**

There has been no substantial progress in negotiating agreements with companies based in Spain during the last twelve months. Two years after Law 10/1997 established workers' rights to information and consultation in companies or groups of companies with operations in different countries of the European Community came into force, Repsol Group is the only company with agreed structures and procedures in this area.

The Repsol Group signed a Framework Agreement with CC.OO. and UGT on 16 June 1997. This includes an “Agreement to Establish a European Information and Consultation Structure”. Representatives from the interested parties in Spain and other European countries ratified this agreement on 29 April 1998.

Repsol is an oil, chemicals and gas company that carries out oil exploration, production, transport and refining; and the manufacture, distribution and sale of oil, petrochemical, liquefied petroleum gas and natural gas products. Total workforce is 24,000 workers, including REPSOL and NATURAL GAS.

For some time now, it has been established that about 20 companies in Spain come within the terms of the Directive. This total may be changed by the transfer of company headquarters between countries. For example, the American transnational Praxer, created by the merger of Liquid Carbonic España and Argoll, recently set up its headquarters in Spain.

Meanwhile, the trade union industry federations have been planning how best to organise the establishment and structure of European Works Councils throughout the European Union and how to respond to the needs of the many trade union representatives that participate in them. It is estimated that representatives of Spanish workers participate in more than half of the European Works Councils currently in operation.

The federations are seeking the implementation of mechanisms that will uphold the democratic rights and interests of the unions and guarantee the effectiveness of the Councils. They are working towards exercising some level of national supervision over what is going on in the workplace in relation to the establishment of the Councils.

The remit of the European Works Councils should not be limited to information and consultation rights and ought to be extended to cover issues such as health and safety, the environment, training, equal opportunities and joint decision-making.

In Spain, we are going to have to negotiate rights that have been legislated for in neighbouring countries: we want the union representatives at groups of companies to have the facilities that will allow them to participate in European Works Council meetings on an equal footing with representatives of workers in other Member States.

5. STRUCTURE AND DECENTRALISATION OF COLLECTIVE BARGAINING

5.1. The structure of collective bargaining.

Most collective bargaining in our country takes place at a provincial industrial level (covering 53% of workers according to Ministry of Labour's Register of collective agreements, December 1998), although the number of national industry agreements and the number of workers covered by such agreements is growing.

Table 3: Collective agreements and workers covered: 1990-1998

	1990	1991	1992	1993	1994	1995	1996	1997 ⁽¹⁾	1998 ⁽¹⁾
COMPANY AGREEMENTS	3,254	3,474	3,627	3,374	3,235	3,461	3,661	3,419	2,683
Nº of WORKERS (thousands)	1.132,6	1.151,0	1.190,7	1.045,7	1.022,7	1.043,7	1.061,5	884,4	678,6
% of WORKERS	14.8	14.7	15.0	13.5	13.6	13.7	13.1	11.0	9.7
OTHER AGREEMENTS	1,341	1,374	1,383	1,375	1,346	1,366	1,367	1,316	1,093
Nº of WORKERS (thousands)	6.491,3	6.670,8	6.731,2	6.691,5	6.479,4	6.561,3	7.066,7	7.231,4	6.293,6
% of WORKERS	85.2	85.3	85.0	86.5	86.4	86.3	86.9	89.0	90.3
TOTAL NUMBER OF AGREEMENTS	4,595	4,848	5,010	4,749	4,581	4,827	5,028	4,735	3,776
No. of COMPANIES (thousands)	103,7	1.006,2	1.055,1	1.048,2	950,7	975,1	1.027,5	979,9	814,2
WORKERS (thousands)	7.623,9	7.821,8	7.921,9	7.731,1	7.502,1	7.605,1	8.128,2	8.115,9	6.972,2

⁽¹⁾ Provisional data

Source: Labour Statistics Bulletin and monthly Collective Agreement Statistics published by the Ministry of Labour and Social Affairs

Table 3 shows an increase in the percentage of workers covered by collective bargaining at broader than company levels. There was a clear increase between 1996 and 1998. Although the more recent data is provisional, the data for 1997 and 1998 is qualitatively better than in previous years.

It shows a decline in the number of company agreements and, in particular, of the number of workers covered, though this fall in numbers is not significant.

Table 4: Number of companies and agreements by size of workforce

	Under 6	6 - 50	50 - 100	100 - 500	Over 500
Nº of companies	1,027,714	252,824	16,030	7,390	693
Nº of agreements	26	1.050	564	819	224
Proportion of companies with agreements (%)	0.0%	0.4%	3.5%	11.1%	32.3%

Source: Central Company Directory (DIRECE) 1998. Collective Agreement Statistics. Till 31-12-98. Ministry of Labour and Social Affairs

Table 4 clearly shows that the number of companies with a workforce over 500 is relatively small and that most companies employ less than six workers. It also shows that very few companies employing less than six workers have a collective agreement. This is understandable when it is considered that workplaces and companies with few workers face greater obstacles in achieving negotiated agreements. It is even less common for companies to make data on such agreements available for publication, as in the cases we have recorded in this table.

The number of company-level bargaining units is more than double the number of industry-wide units, although they cover a proportionately smaller number of workers (fluctuating between a minimum of 9.7% and a maximum of 15% year by year).

We have used the same statistical series to compile table 5, which compares the numbers of workers covered by collective agreements with the total number of wage earners.

Table 5: Workers covered by agreements and total number of wage earners: 1990-1998

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Workers covered by agreements	7,623,900	7,821,900	7,921,900	7,731,100	7,502,100	7,605,100	8,128,200	8,115,900	6,972,200
Economically active population (EPA)	9,273,400	9,372,800	9,076,300	8,685,600	8,626,200	8,942,700	9,284,100	9,709,100	10,156,600
Percentage	82.21%	83.45%	87.28%	89.01%	86.97%	85.04%	87.55%	83.59%	68.65%

Source: Summary of Economic Indicators, the Ministry of the Economy and Public Finance; and Collective Agreement Statistics, the Ministry of Labour and Social Affairs

Despite the existence of many industry-wide agreements, there is no framework or rational structure to this group of agreements. For example, the electricity supply; fishing; dental services; and building and office cleaning are all areas that are not organised on a national or other higher level basis. Moreover, there are many bargaining units that are not linked to each other in any way and that may overlap or even duplicate each other.

Starting from this description of the reality of current negotiations, the main principles and objectives which inspired the agreement on the structure of collective bargaining (AINC) were basically as follows.

- A linked structure of collective bargaining through national industry-wide agreements with guidelines on their contents being contained in the interconfederal agreement itself.
- A collective bargaining framework, which divides the areas to be covered between different levels of negotiation and provides communication links between them.
- Greater participation in the sense of strengthening the administration and monitoring of agreements; developing trade union rights within the framework of industry-wide negotiations; and by giving the social and economic partners more relevant roles during the period that agreements are in force.
- Less rigid negotiations leading to a positive climate and a positive attitude which will allow the development of compromises in the area of the mutual exchange of information and the duty to negotiate in good faith and to comply with agreements.

For all these reasons, the development of the 1997 interconfederal agreements on collective bargaining and filling gaps in regulations is helping to open up new fields of negotiation and to promote change in the existing industrial relations structures and framework.

The first concrete step forward after the interconfederal agreements were signed came in the form of the Metal Industry Collective Bargaining Structure agreement covering approximately 600,000 workers. This was the culmination of negotiations that had been under way for several years, and that had already made some advances in areas such as establishing a permanent monitoring, mediation and advice forum; an agreement on job classification; ratification of

the agreement on the non-judicial settlement of labour disputes; and the establishment of a joint commission on training in the metal industry.

Other agreements that build on the formulae and instruments developed in the interconfederal agreements are the agreement on adapting the second national continuous training agreement and agreements which incorporate the terms of the agreement on the non-judicial settlement of labour disputes.

Some sectors have managed to replace the Labour Ordinances (that established standards in particular industries during the dictatorship) with national collective bargaining mechanisms for the first time. A number of other activities, which were previously covered by the general construction industry agreement, have also developed a new national structure. The activities referred to here are in the plaster and prefabricated products industry.

Among those industries that have replaced the Labour Ordinances with new arrangements are: car parks (15,000 workers), the baking industry (64,000 workers), water distribution and treatment (5,000 workers).

On the other hand in the public sector there is the agreement of 12 June 1998 between the trade unions and the government on pay structures in the civil service. This refers to a set of principles first taken up in negotiations which began in 1994, some aspects of which were previously being openly flouted by this government.

The agreement goes beyond the scope of collective bargaining because it introduces a guaranteed minimum wage for civil servants, a group of people that still does not have collective bargaining rights in our country. All the representative unions in the sector have approved the inclusion of such guarantees at the level of individual contracts.

5.2. The lack of job security, a distorted conception of flexibility

The combination of flexibility and job security that has been touted in Europe as an adequate formula for adapting employment conditions to new production systems, is completely inappropriate for Spain because of the high rate of temporary work (36.2%). This is why unions and employers negotiated the Interconfederal Agreement on Job Security (AIEE).

The main components of this agreement are:

- Open-ended contracts with less protection against dismissal
- New rules for dismissals for objective reasons

- Stricter regulation of temporary contracts.

5.3. The Interconfederal Agreement on Job Security: two years on

Now that almost two years have gone by since the AIEE was signed, it is possible to evaluate its success based on the results obtained so far.

- One very positive aspect is that the agreement has had a favourable impact on the incidence of open-ended contracts: 84% of total new net employment is on these contracts as compared to the previous period (1985-1991) when all new jobs were temporary in nature.
- However, the reduction in the overall rate of temporary work, which was one of the agreement's main objectives, has been very small – only 1.1 percentage points from 33.6% to the still very high level of 32.5% of wage earners.
- With regard to temporary work, the trend in the public sector has been negative compared to the private sector. Whereas the rate has fallen by 3 percentage points in the private sector (from 39.2% to 36.2%), the rate in the public sector has gone the other way and risen from 15.6% to 18.7%. This development is repudiated by the UGT and the CC.OO. who consider it contrary to the government's commitment to improve job security.
- With regard to the reduction in job turnover, which was one of the other key objectives of the agreement, the available indicators show rather disappointing results. In general terms, the duration of temporary contracts has become shorter since the agreement was signed, with the percentage of workers on contracts of less than one month rising from 55.8% to 58.6%. Moreover, the proportion of temporary contracts signed for every temporary post created has increased, showing, once again, that there has been an increase in job turnover.
- The agreement is therefore, working satisfactorily in the areas of promoting open-ended contracts and clarifying the causes of objective dismissal.

The unions now need to focus on the parts of the agreement that are proving to be not so effective. They need to seek a faster reduction in temporary work and lower job turnover.

6. EQUAL OPPORTUNITIES AND COLLECTIVE BARGAINING

Evidence of gender inequalities has led the trade unions to make this issue a priority in collective bargaining.

To achieve this objective, they have put forward the following proposals during bargaining:

- Analyse statistical information about the workforce to detect discrimination. Prepare reports on the employment situation of men and women at a company or industry level. Use this to formulate Positive Action Programmes.
- Create Joint Equal Opportunities Commissions at the various levels of collective bargaining.
- Make employers include a gender breakdown of statistical information relating to type of contract, job classification (categories, groups, levels), promotion, wages, hours of work, leave, training, termination of contracts, accidents and occupational illnesses and other sick leave/health problems, etc. in the information they supply to the regional labour administration (RLT) on a quarterly basis. This information on the workforce should also be provided with the same frequency to the Joint Equal Opportunities Commission if the company has one and once a year to the Joint Industry Commission.
- Include anti-discrimination clauses in agreements to accompany the concrete measures listed above.
- Review collective agreements to eliminate direct and indirect discrimination (this could be done by the Equal Opportunities Commissions).
- Establish Joint Committees to monitor, control and resolve conflicts in the area of equal opportunities (this could also be done by the Equal Opportunities Commissions).
- Include guidelines and instruments for developing Positive Action Programmes in industry and company collective agreements.
- Establish the position of equal opportunities officer.

Although there is not much information available, a lack of model agreements and an absence of data on which sections (promotion, professional, training, pay, etc.) of collective agreements include equal opportunities clauses, we do know how many agreements include gender equality and anti-discrimination clauses at some point in their text.

Table 6: Clauses on non-discrimination and promotion of gender equality, according to number of workers covered: 1993 – April 1999

	1993	1995	1997	99 (till April)
Nº of Agreements	377	667	654	95
% of agreements	7.94%	13.82%	14.27%	4.64%
Nº of workers	1,302,100	2,031,266	2,460,761	1,291,388
% of workers	16.83%	26.71%	31.29%	31.24%

Source: Collective Agreement Statistics, the Ministry of Labour and Social Affairs

Table 6 shows the trend towards including this type of clause between 1993 and April 1999. It shows that the number of workers covered by such agreements rose from 16.83% in 1993 to just over 31% in recent months.

Moreover, the unions are in the process of contacting national employer associations to see if both sides can agree on general recommendations that could be included in collective agreements. It is hoped that this could be achieved in the next year at the same time as industry-wide bargaining proposals are being prepared.

Meanwhile, with the objective of transposing into Spanish law the European Community Directives 92/85/CE of 19 October 1992 and 96/34/CEE of 3 June 1996 on maternity protection and the framework agreement on parental leave concluded by UNICE, CEEP and ETUC, the Ministry of Labour and Social Affairs has prepared a draft law aimed at reconciling the demands of family life and work. The government consulted the unions but did not negotiate with them and the text of the draft law leaves a lot to be desired.

In brief, it does not pay enough attention or give enough thought to the situation of the families and dependants of workers. In addition, the government has not included any mention of the need for people on leave to have access to training or to take leave specifically for training.

Moreover, it is widely acknowledged that job insecurity means workers are less likely to exercise their right to take leave. This is going to make it difficult for workers to reconcile the demands of work with the social changes to which families and relationships in general are being subjected. Unfortunately, consideration of these issues has been omitted from the current law reform.

7. OUTLOOK FOR THE SECOND HALF OF 1999

The results of the 1999 round of collective bargaining, with 65% of agreements finalised, show an average wage rise of 2.38%. However, inflation is accelerating and currently running at 2.4% (i.e. 0.8% more than the government forecast). This means that the pay review clauses included in agreements to protect the real value of wages will be particularly important in 1999. In the first part of 1999, up to mid-May, 60% of workers were protected in this way.

Average negotiated working time, calculated on the basis of a sample composed of 5.3 million workers, amounts to 1,7653.88 hours per year. The sample shows that 65.55% of workers have achieved an average reduction in working time of 6.03 hours per year.

Between 1984, when the so-called 40 hours Act was passed and 1998, the average negotiated working time expressed in terms of annual hours has been reduced by only 1.6%. The reduction of working time has therefore been marginal over the last decade and a half. Data from collective agreements signed in the first few months of 1999 show a trend towards the reduction of working time when compared with the figures from one year ago. Although this could mean that the pace of change is quickening, it does not mean that reductions in working time are going to be enough to create new jobs.

Meanwhile, the government is currently acting irresponsibly by refusing to negotiate on this issue and the employers are stonewalling in contrast to the practical initiatives to encourage a reduction in working time undertaken in the Autonomous Communities.

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Sweden

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1. POLITICAL AND ECONOMIC CLIMATE

The Swedish economy continued to develop positively in 1998. Growth during the year was 2.9%, which is the highest figure for growth in Sweden since 1995 despite the fact that many export companies were hit hard by the crises in Asia and Latin America. Due to the turbulence in these areas Swedish exports increased by only 7.3% in 1998, compared to 12.8% in 1997. Imports increased by 11% as the result of positive trends in private consumption.

The increase in private consumption compared to the previous year was 2.6%, which is the highest figure recorded during the 1990s. This is one result of the fact that more people are in work and that inflation has been lower than estimated (0.9% in 1998 according to the EU's harmonised price index HICP), which has led to unexpectedly high increases in real wages. This means that private consumption has come to play an important role in maintaining the level of growth in what has traditionally been the highly export-dependent Swedish economy. This, in combination with the long-established trend towards a shrinking industrial sector and an expanding service sector, represents a structural transformation of Swedish business and industry to a certain extent. There have been many redundancies in various parts of the manufacturing industry, such as the engineering industry and the vehicle building industry, at the same time as employment in the private service sector has grown dramatically. There was a fall in the volume of orders to industry in the latter half of 1998 and the beginning of 1999, which means that there is a risk of further redundancies. In the local government sector, however, the number of employees increased for the first time in many years.

Unemployment fell in total during 1998 from 7.9% to 6.5%. Total unemployment, including people involved in various labour market policy programmes, fell from 12.4% to 10.6%. The number of those in gainful employment increased by 1.5%, which means that the major part of the fall in unemployment was due to more people finding work. This is not something that it has always been possible to take for granted in the Swedish labour

¹ Written in consultation with representatives of the central organisations LO and SACO.

market. Unemployment also fell in 1997 compared to the previous year, but this coincided with a decline in the number of those in gainful employment. The equation makes sense when one takes into account that the total labour force declined, above all due to an increase in the number of students and those taking retirement. It is estimated that the supply of labour will increase in both 1999 and 2000, and that employment will also increase.

In the general election held in the autumn of 1998, the Social Democratic Party's share of the vote fell from 45.3% in the previous election to 36.6%. The Social Democrats remained in power, but only with the support of the Green Party and the Left Party, which was previously a communist party. This is certainly not a situation the Government would have wished for as there are major differences between the three parties in terms of political values. The Government is attempting to limit the influence of the Green Party and the Left Party. The four non-socialist parties have agreed not to co-operate with the Government. This is making it difficult for the Government and Parliament to implement a more effective policy of reform.

The Government is sticking to the so-called "norm policy", which is founded on the desire to see the Swedish economy meet the Maastricht criteria irrespective of whether Sweden decides to join the EMU or not. The so-called expenditure ceilings are one element of this policy. This means that State expenditure is divided up into different areas and that each area has a ceiling that must not be exceeded. Cost increases in one area may not be covered using funds from another, but must be financed within the framework of the area of expenditure concerned. There is also an overall budget ceiling for total State expenditure which may not be exceeded. This ceiling has been set for a three-year period and as it is specified in nominal terms it means, for example, that a higher rate of inflation than expected will force the State to cut its expenditure.

Another goal of the "norm policy" is that the surplus in the national budget over an economic cycle should on average be 2% of GNP. This surplus should be used to pay off the national debt. Only when the surplus exceeds 2% of GNP can the excess amount be used for further State expenditure such as tax cuts or investments in new areas.

The third component of the norm policy is that the Bank of Sweden has been given roughly the same position as the ECB has in the euro area. The Bank of Sweden works on the basis of a target for inflation in Sweden of 2%, with a permissible variation of 1% either way.

Taken together, these restrictions means that the opportunities for stimulating the economy through fiscal policy are very limited. This should not be a problem in the next few years as all of the forecasts indicate that economic growth will continue to be positive in 1999 and 2000. Forecasts for the labour market are also very positive, above all in the private service sector.

2. COLLECTIVE BARGAINING 1998

During the spring of 1998, almost all of the important agreements in Sweden were renegotiated. The only major groups for which negotiations were not held were the teachers and nurses, as well as large parts of the transport sector. Agreements in the transport sector will be renegotiated during 1999, and those for nurses and teachers in 2000.

The 1998 round of collective bargaining was characterised by a greater decentralisation of pay setting, an increase in individual pay setting and agreements on flexible working hours and reductions in working hours. The trend towards a diversification of agreements, with a greater variety in the structure and form of agreements, continued. The large number of contractual areas (approximately 300) and the many different types of agreement make it difficult to compile information on the agreements, the demands of the trade unions and the results of the negotiations in a uniform and relevant way. The increasing focus on local pay setting also makes it difficult to predict what the results of the agreements will be.

Contrary to usual practice, the export industry was first on the scene in this particular round of collective bargaining. The first agreement to be signed was that between the Swedish Pulp and Paper Workers' Union and the Employer's Federation of Swedish Forest Industries. Other industrial sectors quickly followed. Usually, the parties succeeded in signing new agreements before the old ones expired and the negotiations were carried out without the threat of industrial action. This was largely a result of the so-called Industrial Agreement, which was described in last year's report. Section 3 contains a more detailed description of the process that led to the Industrial Agreement and how this process continued after the summer of 1998.

The agreements in the industrial sector acted as the target for the agreements later concluded in the private and public service sectors.

2.1. Pay increases and the development of disposable income

Agreed pay increases

The agreed pay increases are on average 2.6% per year for the three-year period 1998-2000. In nominal terms, this is somewhat lower than usual. In real terms and historically speaking it represents a significant increase in the rate of pay. Generally, it can be said that the agreements concluded after those signed within the framework of the Industrial Agreement² were simply variations on the same theme. The agreements within the framework of the Industrial Agreement involved pay increases of approximately 2% per year, a reduction in working hours that was valued at 0.5% per year, and an expected wage drift of no more than 0.4% per year. Assuming that the estimated wage drift is correct, the total increase in pay per year during the agreement period will be 2.5% to 2.9%. It was not until the end of March that the 3% ceiling for total estimated pay increases was breached by an agreement in the retail trade area that comprised pay increases averaging 3.1% per year. In general, low-paid groups received agreed pay increases that were a few percentage points higher than those of higher-paid groups.

According to a forecast by the National Institute of Economic Research in March 1999, pay increases up to 2000 will be as presented in Table 1 below. The calculation of pay increases includes, where relevant, the costs relating to reductions in working hours. The calculations present increases in hourly rates per calendar year.

² General awareness of the need to follow the rate of pay increases in the rest of Europe has grown in recent years. A group of economic experts representing the various social partners agreed on this as early as 1995. Nevertheless, Swedish pay levels continued to increase at a greater rate than the average in the EU and OECD. The group of economic experts was disbanded in 1997. In order to compensate for this to a certain extent, the social partners in the industrial sector signed an agreement, the so-called "Industrial Agreement", with the aim of facilitating negotiations in 1998. Further details are provided in Magnusson (1998), pp. 340-341.

Table 1: Calculated total pay increases per year³

Year	1998	1999	2000
Industry			
Agreement	2,9	1,5	2,4
Wage drift	1,4	1,0	1,3
Total	4,3	2,5	3,7
Construction			
Agreement	3,1	1,8	2,5
Wage drift	0,4	0,8	0,8
Total	3,5	2,6	3,3
Other			
Agreement	3,1	2,7	2,5
Wage drift	1,0	1,0	1,3
Total	4,1	3,7	3,8
State			
Agreement	1,9	2,5	2,4
Wage drift	1,0	1,0	1,0
Total	2,9	3,5	3,5
Local govt.			
Agreement	2,3	2,7	3,6
Wage drift	1,0	1,3	1,0
Total	3,2	4,0	4,6
Total			
Agreement	2,8	2,4	2,7
Wage drift	1,0	1,0	1,2
Total	3,8	3,4	3,9

³ Source: Memo written by Kristina Eurén, the National Institute for Economic Research, March 1999.

A few new agreements were negotiated during the first six months of 1999, for example for printmakers and bus drivers in the local government sector. Both of these agreements led to pay increases at about the same level as those awarded in 1998.

Wage drift

The increasing diversification in the form and structure of agreements means that the expression “contractual pay increases” (pay increases in line with the levels stipulated in agreements) actually means less and less, and that the definition of the term wage drift is becoming increasingly difficult. In the SACO (Swedish Confederation of Professional Associations) area, several agreements have been reached which do not include any guaranteed individual pay increases at all, nor is there any centrally-determined figure for average pay increases for each individual workplace. Instead, these agreements contain guidelines for pay setting and negotiating procedures. Such an agreement has, for example, been signed for the members of the Swedish Federation of Lawyers, Social Scientists and Economists (JUSEK) working in the IT area. There is a trial agreement (referred to as Agreement 2) for white-collar workers in the retail trade that also allows for a great deal of freedom in negotiations and does not specify any centrally-determined figure for pay increases. However, if the parties should fail to reach agreement the central agreement (Agreement 1), which specifies guaranteed pay increases, will apply. An agreement reached in the property management sector stipulates that all increases agreed at the local level should be regarded as contractual pay increases.

Traditionally, wage drift is measured as the difference between contractual pay increases and actual pay increases. Now that there are agreements in which no specific figures for pay increases are mentioned, or which stipulate that all pay increases should be defined as contractual pay increases, the term wage drift becomes more diffuse. However, these agreements still represent only a small minority of all agreements.

As can be seen in Table 1, the National Institute of Economic Research believes that the total increase in pay will be higher than the 2,9-3,1% agreed in the latest round of collective bargaining. There were in fact few experts who actually believed that wage drift, even given that it is difficult to define, would peak at such an historically low level as approximately 0.5%.

However, it does not seem unlikely, as a result of the difficulties with regard to demand, that wage drift in the industrial sector will be lower next year than the

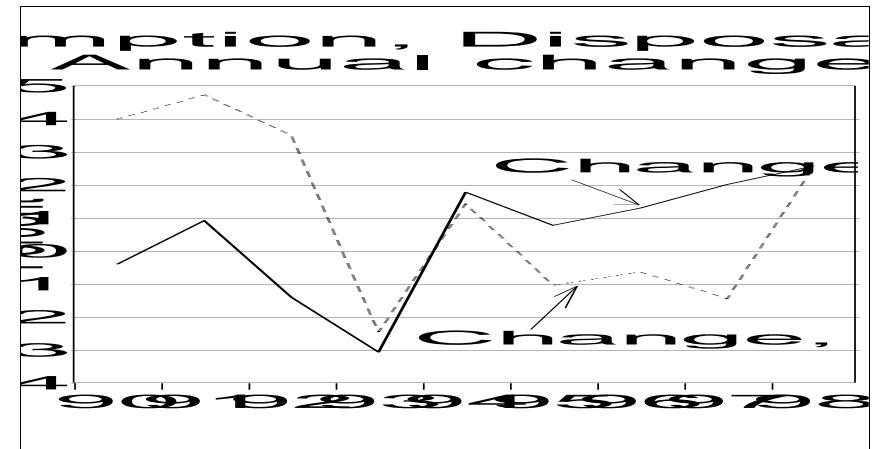
figure calculated by the National Institute of Economic Research in Table 1. This could, however, be counteracted by a higher level of wage drift in the construction industry, as already during the late spring of 1999 there was a noticeable trend towards a shortage of construction workers. Pay increases in the private service sector may also be higher than the figure calculated by the Institute as a result of greater private consumption. Pay increases in the local government sector were relatively low in 1998, but may increase significantly due to the major shortage of teachers and healthcare personnel. Nevertheless, the level of pay increases in the economy as a whole will probably be in line with the calculations of the National Institute of Economic Research.

Disposable income

In 1998, household disposable income rose for the first time since 1994. The increase was 2.6% and was the result of low inflation and an increase in the number of those in gainful employment. Another difference compared to previous years is that the Government no longer needs to make further budgetary cuts and that taxes and charges are therefore no longer being increased.

Employment prospects continue to look good. Inflation, measured using the Swedish method, is expected to be around 0.5% per year. This figure may be somewhat higher if measured using the EU's HICP method, but it is unlikely that it would be over 1%. At present (spring 1999), the Government is involved in discussions with other parliamentary parties concerning a tax reform which it is assumed would be implemented in 2001. The main priority among the parties taking part in these discussions seems to be to reduce taxes for those on low and medium incomes. We can therefore expect a continuation of the positive trend for the disposable income of households in the future.

In the period 1994-1998 household consumption increased more than household disposable income (see Diagram 1). If this trend continues, the increases in disposable income may contribute significantly to increased growth. It may be relevant to ask, however, whether the pent-up consumption needs from the early 1990's will soon be satisfied.



Source: Statistics Sweden (SCB)

2.2. Agreements in force until 2000

A special feature of the 1998 round of collective bargaining was the coordinated scheduling, which meant that almost all of the agreements were renegotiated during the year. The period of validity of the agreements was also unusually long, i.e. three years in most cases. The major contractual areas that did not conclude agreements in 1998 — the teachers and the nurses — have instead long-term agreements stretching from 1995 to 2000. It thus appears that the Swedish labour market is moving towards long agreements which create stability on the labour market and facilitate economic forecasting for companies and public institutions.

Several of the agreements, mainly those in the industrial sector, include clauses allowing termination after approximately half of the term of the agreement, or for the final year. The agreement that could have been terminated first was that between the Association of Swedish Engineering Industries and the Swedish Metal Workers' Union. If either of the parties had wished to terminate the agreement they could have done so no later than May 1999. The parties chose not to do so. It is highly probable that other contractual areas will follow this example. The reason is partly that none of the parties can be certain that they would gain from a renegotiation of the agreements. Unemployment is still high and inflation lower than it was expected to be when the agreements were signed, which means that employees have received higher real-pay increases than expected. Employees have therefore little to gain from terminating their

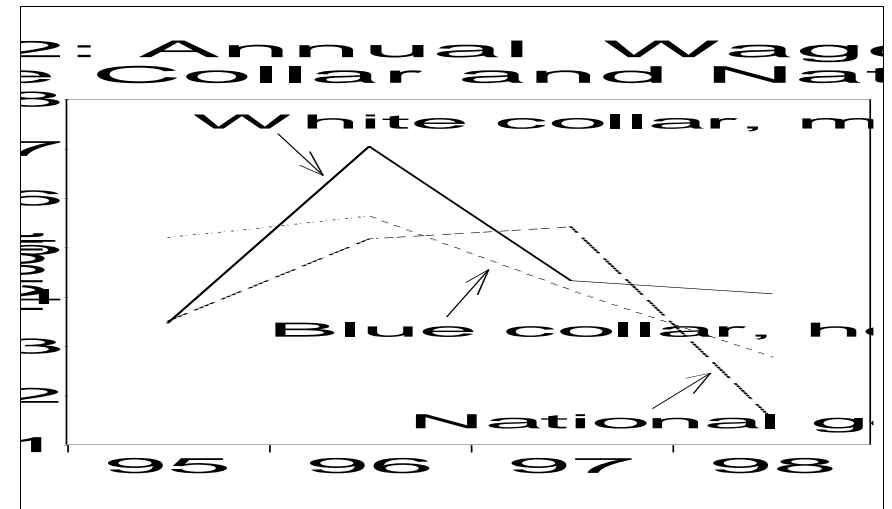
agreements. At the same time, the economy seems to be improving and unemployment falling, which means that the employers would also be taking a risk if they terminated the agreements. In addition, neither of the parties wants to have to shoulder the responsibility for disturbing the peace that now reigns on the labour market. All the indications are, therefore, that the agreements concluded in 1998 will remain in force until 2000.

2.3. Greater decentralisation and pay differentiation.

The trend towards decentralisation in the agreements is continuing. An increasing number of agreements contain elements that offer the parties the opportunity to conclude agreements on the basis of local conditions. In most cases, however, there are regulations that stipulate that centrally-determined levels will apply if agreement is not reached locally. The central agreements thus act as a guarantee for a minimum level in those cases where the local parties fail to agree.

The trend towards greater decentralisation is also being strengthened by the fact that individual guarantees are becoming a less and less important part of the total pay increases agreed upon. This means that a greater share of the pay total is being distributed locally, which will probably lead to greater pay differentiation within the contractual areas.

There has also been a noticeable increase in pay differentiation between the contractual areas. The statistics available for pay increases in 1998 show that the variations in demand for different categories of labour have had an unusually strong impact. Wage drift for white-collar workers in industry amounted to 2% in 1998, compared to 0.5% for blue-collar workers. The total difference in pay increases was not quite as great, as the contractual pay increases were somewhat higher for the low paid.



Source: Statistics Sweden

2.4. Reductions in working hours and flexibility

Negotiated reductions in working hours

For a long time the issue of working hours was deadlocked, as the employers were not prepared to discuss any reductions in working hours. Instead, the employers wanted the employees to accept more flexible working hours, which in practice would have meant the employees giving up part of their compensation for working overtime.

In the 1998 round of collective bargaining, however, agreements involving both reductions in working hours and more flexible working hours were reached for the first time. These agreements were mainly in the industrial sector. Most of these agreements offer a freedom of choice to employees so that a certain percentage of the scope for pay increases can be used either to reduce working hours or to increase pay. Some of the agreements also include the opportunity to increase pensions instead. There are agreements, however, for example the one between the Association of Swedish Engineering Industries and the Swedish Metal Workers' Union, in which it is not possible to exchange the reduction in working hours for anything else. The value of the reductions in working hours was largely the same in all of the contractual areas that negotiated such reductions, i.e. between 0.5% and 0.6% of the pay sum.

The result of these agreements is not yet entirely clear, but preliminary studies in the white-collar sector indicate that more than half of the employees that have had the opportunity to choose between shorter working hours and higher pay have chosen shorter working hours. When the Industrial Union, a trade union affiliated to LO, investigated the same thing it found that the opportunity to reduce working hours had been taken in 90% of the local pay negotiations. On the other hand, few had taken the chance to increase pensions.

Government intervention

At the same time, a discussion is underway at Government level about the possibility and appropriateness of introducing legislation on shorter working hours. The statutory working week is now 40 hours. A reduction has been discussed for a long time, but as large and influential groups within the Social Democratic party are uncertain about whether it is desirable to reduce working hours by means of legislation no steps have so far been taken in this direction.

The call for a reduction in working hours was a major element of the general election campaigns of the Green Party and the Left Party in 1998. It was therefore natural to take up this issue when these parties agreed to support the Social Democratic Government. At the turn of the year 1998/1999, a working group consisting of representatives of the three parties was formed to review the issue of working hours. This group has a reference group consisting of representatives of the social partners. The working group is scheduled to present its views and proposals by the spring of 2000.

The members of the reference group are divided on the issue. LO and TCO are interested in a reduction in working hours, while SACO believes that this would restrict growth and perhaps even reduce employment. The employers also reject a statutory reduction of working hours.

The statutory reduction of working hours will of course continue to be discussed by the trade unions. As mentioned above, it is not unusual for the social partners themselves to agree on reductions in working hours in their agreements. Shorter working hours have also been introduced in several of the Swedish municipalities on a voluntary basis. Many observers therefore feel that it would be best to let the social partners themselves resolve the issue of working hours and to reduce working hours at a pace that suits the particular sector and situation concerned.

2.5. Other issues in the 1998 round of collective bargaining

Agreements relating to labour law

Apart from a greater variation in the form and structure of agreements with regard to pay increases, several unconventional agreements were also reached which signed away certain rights under Swedish labour law. The graphical workers, for example, managed to include a stipulation in their agreement that makes it more difficult for the employers to fill a post by employing a succession of different people on short-term contracts. This is otherwise a rather common method that employers on the Swedish labour market use to circumvent permanent employment for the employees, which they are entitled to if they have been employed for a certain length of time. It is much more difficult to dismiss employees on permanent employment contracts than those who are employed on another basis.

The Swedish Union of Theatrical Employees also signed an agreement which is somewhat unusual in Swedish terms. The union signed away its rights under the clause in Swedish labour law that stipulates that an employee who has been employed on a deputyship for three years is entitled to permanent employment. The parties have instead agreed on an entirely new form of employment which means that contracts can be signed for employment periods from two to five years. By accepting this type of fixed-period contract the union was also able to negotiate a relatively high pay increase for its members.

Competence development

The social partners, both the employers and the employees, have long pursued the issue of competence development in working life. The Government has also made several vague promises to partly finance competence development measures. In February 1998, the Government appointed a group consisting of representatives of the social partners and the Cabinet Office to work on this issue. After several delays, the group presented its proposals in September 1998. The group proposed that the Government, the employers' organisations and the trade unions should conclude a tripartite agreement which, among other things, would involve the State providing financial grants for competence development. The financial incentive would be in the form of a reduction in the contributions and taxes paid by employers for employees participating in competence development programmes covered by a local agreement between the employer and the trade union organisations concerned. The proposal did not specify exactly how much the State's contribution should be.

The Government was willing to discuss this proposal but demanded clearing financing on the part of the partners, for example through agreements to set aside special funds for competence development in the course of pay negotiations. The Government was not prepared to make any concrete promises during the autumn election campaign and in the autumn budget, but gave priority to other measures instead.

In the 1999 spring budget, the Government proposed the allocation of certain funds for competence development in working life. Sweden would otherwise have missed out on an Objective 3 grant from the EU as such grants are only made if the Government concerned is prepared to invest resources corresponding to the grant from the EU. The employers are able to use these grants if they are prepared to contribute as much as the State. Although this was a step forward it was still somewhat of a disappointment for the partners as they had hoped for a considerably larger investment.

2.6. Stoppages due to industrial action

There were very few stoppages due to industrial action in 1998. The number of working days lost as the result of such action was the lowest since 1968. Compared to the previous major round of collective bargaining in 1995 the reduction is dramatic. In 1998, the number of industrial disputes which led to the loss of working days totalled 13, and mostly concerned fairly small contractual areas.

Table 2: Industrial disputes during the 1990s

Year	No. of employees affected by industrial action	No. of working days lost as a result of industrial action
1990	73 159	770 356
1991	2 508	21 724
1992	17 970	27 997
1993	29 318	189 828
1994	21 996	52 398
1995	125 489	627 291
1996	9 137	61 348
1997	11 856	23 579
1998	570	1 677

Source: National Conciliators' Office

At the time of writing, no statistics are available for the number of working days lost due to industrial action in 1999, but this figure will certainly be higher than that for 1998. This is because 1999 began with a major dispute in the transport sector. One feature of this dispute was that it was not primarily the pay issue that led to a strike, but rather work environment issues. Bus drivers employed by private companies contracted to provide municipal bus services went on strike. Many municipalities have begun to procure bus services on a contract basis and price competition between the bus companies is fierce. In their efforts to cut costs the employers had increased the period during which bus drivers must be available for work, the so-called framework period, to 16 hours, and had also reduced the number and duration of breaks. The bus drivers went on strike for a reduction in the framework period and for more short breaks. The strike lasted for over two weeks and involved some 16,000 bus drivers employed in private companies. The result of the strike, following conciliation, was that the bus drivers eventually achieved a reduction in the framework period and an increase in the number of breaks during working hours.

The train drivers are also dissatisfied with their working hours and gave notice that they would begin an overtime ban in the late spring. In the wake of the cuts and the restructuring programmes carried out at Swedish workplaces during the 1990's, there is now a tendency for work environment issues to move increasingly centre stage.

3. OUTLOOK FOR 1999 AND 2000

The relative peace that has reigned on the labour market during the second half of 1998 and most of 1999 will probably be disturbed in 2000, when the agreements covering the teachers and the nurses are renegotiated. These two groups have long seen themselves as being underpaid, and they have also had the support of the public for this view. The employers, i.e. the municipalities, have so far refused to raise their pay levels significantly. Now, however, the poor pay earned by these groups is leading to a situation in which fewer and fewer people are showing any interest in training courses which lead to qualification as a teacher or nurse. Consequently, the staff shortage that already exists in these occupations will certainly increase over the next few years. This has now begun to create problems for the employers. The municipalities are already outbidding each other in their attempts to recruit teachers, and the nurses have staged several mass resignations as a protest against low pay. Fierce competition for those who have just become qualified has led in some cases to new staff being paid a higher salary than those who have been employed for many years.

All this indicates that the atmosphere surrounding the collective bargaining due to take place in 2000 will be highly charged. The municipalities will be faced with a difficult choice. They can either agree to significant pay increases for these two groups, which would require increasing taxes or making cutbacks in other areas, or they can refuse to increase pay by more than the level awarded to other groups on the labour market, in which case they will risk facing even more severe labour shortages. Both the teachers and the nurses have shown a lot of determination when presenting their demands and they will probably not give in easily.

Otherwise, the major issue during 1999 and 2000 will of course be the form and structure of the pay setting process following the presentation of the Government's bill on how it should be reformed. It is probable that the Government's proposal will encourage agreements similar to the Industrial Agreement in several ways.

Whether this proves to be the case or not, it is highly likely that co-operation similar to that represented by the Industrial Agreement will become increasingly common. This may in the long term form the basis for new collective bargaining structures on the labour market. The Industrial Agreement reduced the influence of the old negotiating bodies, in this case LO and PTK (the Federation of Salaried Employees in Industry and Services), in that a new negotiating structure was set up. Even though no other agreements of this type have yet appeared, work is in progress in both the employer and employee organisations aimed at forming closer sector and industrial ties. One example of this involves the two trade unions for teachers, which belong to different central organisations but which are drawing closer and closer together through co-operation agreements. Similar moves are also underway in the commercial sector between the Union of Commercial Salaried Employees (HTF), a TCO union, and the Union of Commercial Employees, an LO union. The three trade unions in the healthcare sector, i.e. those representing assistant nurses, nurses and doctors, have also begun to co-operate more closely, despite the fact that they belong to three different central organisations. This may eventually lead to a completely new organisational structure on the Swedish labour market in which the old central organisations and the negotiating organisations will play a more minor role. Both the pay setting system and the old organisational structure on the Swedish labour market are thus under revision and review.

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Switzerland

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1. GENERAL BACKGROUND INFORMATION

1.1. The economic situation

The economic situation improved slightly in 1998 compared to the previous year. In 1997 there were 3,802,000 persons registered in gainful employment as an annual average¹, and the number increased to 3,850,000 in 1998. On the other hand, the number of persons in gainful employment in the industrial sector decreased by a further 5,000 in 1998.

There was also a decrease in statistically registered unemployment in 1998.

Table 1: Development of registered unemployment²

<i>Period</i>	<i>number of unemployed in 1000</i>	<i>percentage</i>
1997 average	188	5.2%
1998 average	139	3.9%
March 1999	114	3.1%

The figures are no reason for excessive optimism, however, since they do not include persons who have been disqualified or jobless persons who have been given employment under public employment schemes.

The following can also be regarded as indicators of improvement in the economic environment:

- a) the fact that the number of registered job seekers³ dropped in the same period from 244 000 (97) to 217 000 (96) and to 191 000 (March 99);

¹ cf. BWA (Federal Office for Trade, Industry and Labour): *Die Volkswirtschaft* 5/99, Aktuelle Wirtschaftsdaten, p. 22ff.

² Source of these and the other figures in 1.1: BWA: *Die Lage auf dem Arbeitsmarkt*. March 1999.

³ Registered job seekers are defined as all unemployed and non-unemployed persons who are registered at the Labour Exchange and are seeking employment.

- b) the fact that the number of long-term unemployed (= out of work for more than one year) dropped from 57 000 (97) to 45 000 (98) and to 30 000 by March 1999. At the same time the number of registered vacancies rose from 9 000 to 13 000 and to 15 000 (March 99) over the same period.

1. 2. The political situation

1.2.1. Conflicts at the direct democracy level in 1998

It can be said in somewhat simplified terms that in the Swiss direct democracy system an amendment to the constitution can be called for by means of a petition for a referendum (requiring 100 000 signatures) and that a law that has been passed by the two houses of parliament can be cancelled by means of a referendum (requiring 50,000 signatures). As a rule, between 12 and 20 issues are decided every year in four polling weekends. Decisions had to be taken on several issues of importance for the trade unions in 1998.

Old-age and survivors' pension scheme (AHV)

The trade unions suffered a setback in 1998 in the state old-age pension scheme, the most important of the social insurance schemes, when their petition for a referendum was defeated on 27 September (42% voting in favour), in which they called for the retirement age for women – which had been raised from 62 to 64 in 1995 – to be brought back down to 62 years. A further petition for a referendum which the trade unions have currently filed calls for a retirement pension from age 62 for both sexes – without any loss of pension. This issue will probably be put to the vote in 2000. On the other hand, the Federal Council and the middle classes are calling for a retirement age of 65 for both sexes in the 11th revision of the AHV. One issue which the SGB is opposing in particular is the flexible organisation of the widows' pension, for which the arrangements are extremely inadequate from the social point of view, as well as the freezing of that pension. For, although the flexible scheme enables people to draw an early pension from age 62, it involves permanent losses of 11% even for the lowest income groups⁴. Unless the bill, which is intended to save over one billion francs a year, is considerably improved the trade unions are liable to call for a referendum and the battle over the AHV will thus continue.

⁴ For the SGB's criticism of the Federal Council's proposals for the 11th revision of the AHV cf. Colette Nova: 11. AHV-Revision. Bundesrat auf dem Pfad des Klassenkampfes. SGB-Pressedienst 7, 99. p. 81ff

Unemployment insurance (AIV)

Things have been relatively quiet on this front due to a referendum which the trade unions won at the end of 1997 against the reduction of daily allowances in the unemployment insurance scheme. The SGB shares the criticism that the regional labour exchanges which the authorities have been setting up since 1996 as the most important part of the active labour market measures should be geared more specifically to placing people in new jobs.

Maternity insurance and equal status policy

The Constitution has provided for maternity insurance for over 50 years. An attempt to transpose this provision into legislation passed the parliamentary hurdle in 1998. The law provides for maternity leave of 14 weeks with 80% compensation and at the same time a basic benefit for all mothers which is graded according to income. This benefit amounts to 4 020 francs for annual incomes up to 36 000 francs and is then gradually reduced for higher incomes; it is no longer granted in the case of incomes of 72 000 and over. Conservative circles have resorted to a referendum against this law with active support from the Trades and Employers' Associations, which are providing heavy financial backing, although the state solution would have advantages for many sectors and firms – and in particular for those which employ an above-average number of women. Basically they are thus calling for a halt to social insurance and/or a reduction of those insurances. Getting the maternity insurance through parliament is the main challenge for the SGB and the Left in the first half of 1999; a vote was to be held on 13.6.1999.

Measures to balance the state budget

The SGB was one of the parties which participated in a so-called Round Table, the agreed purpose of which was to engage all forces in the country in efforts to resolve the budgetary problems of the federal government, and the Confederation managed to a large extent to protect social insurance. As advocated by the Round Table, it is now the army which must bear the brunt of the measures to cut spending. This trade union success is to be attributed to a large extent to a victory in a vote held in the winter of 97- 98, in which a reduction of daily allowances in the unemployment insurance scheme was rejected. The fact that forces have been combined is also to be attributed to the fact that a petition for a referendum, which would primarily have brought tax relief for house owners and would have cost the state an annual loss of revenue in the order of 2 billion francs, was rejected on 7.2.1999. The Left can also

credit itself with a further success in this programme. This is that the dividend of the National Bank was increased above what had been originally planned.

European policy

The bilateral agreement between the EU and Switzerland was ready for signing in 1998. The SGB, which has been advocating EU accession since 1986, will, however, only support the bilateral agreement if accompanying measures are taken in connection with future freedom of movement so as to prevent any dumping concerning Swiss wage and working conditions. A series of bills has accordingly been negotiated which were to be debated by parliament in the summer of 1999; in particular, these bills provide measures whereby it will be easier to declare collective agreements generally binding, the possibility of laying down minimum wages via minimum requirements⁵, and a law on the subcontracting of foreign workers. The employer organisations are not fighting this programme in principle, but they do not want to go as far as the trade unions on certain points. The SGB Congress in November 1998 established that the trade unions would reject any bilateral agreement which did not contain adequate accompanying measures. The SGB also considers accompanying measures in the field of inland transport to be absolutely essential.

Labour Law

The partially revised labour law managed to get through parliament in a second round of debates at the beginning of 1998 – this time with SGB approval. Contrary to the first round of debates, against which the SGB had successfully resorted to a referendum, a compulsory bonus of 10% for night work now applies. And the possibility for shops to stay open on six Sundays in the year was eliminated.

The right to strike in the Swiss constitution

In April 1999 the population approved the adapted federal constitution with a relatively tight majority. The most positive element from the SGB point of view is that the right to strike has been laid down explicitly. A further innovation is the fact that the federal government has competence for the entire field of vocational training. The SGB only involved itself to a moderate extent in the vote due to the

⁵ laid down by the Cantons

conception of the exercise, which for all intents and purposes did not provide for any new content but merely juridical and editorial adaptation.

1.2.2. Future debates at the political level

SGB Congress

The four most important decisions taken by the SGB Congress, which was held from 5 to 7 November 1998, are as follows:

- the SGB says NO to the bilateral agreements, unless the accompanying measures in the field of freedom of movement and inland transport have been adequately elaborated;
- the SGB will launch a working-poor campaign in the second half of 1999, the aim being not to tolerate any wages below 3 000 francs a month, and will use both political means and collective bargaining in order to achieve this objective;
- a uniform solution for children's allowances throughout the country of 600 francs for the first child and 400 francs for every further child is designed to prevent family poverty;
- it should be possible to draw the AHV in full after 40 years of gainful employment; the AHV age should be 62 as a fundamental principle.
- The further trade union priorities, some of which have already been priorities in the past, can be summarised as follows:
 - no reduction in social insurance benefits;
 - the guarantee that social insurances can be financed;
 - measures to remedy deficiencies in social insurances (maternity insurance);
 - measures to balance the federal budget without cuts in the social sphere;
 - action to combat unemployment through an active government employment policy;
 - a qualification offensive to promote both the employed and the unemployed through active measures; and, specifically for young people, the introduction of the reform of vocational training, which is provided to a large extent in the form of the dual system;
 - further measures to weaken the franc and, in general, a monetary policy which takes account of the employment aspect to a greater extent rather than merely the inflation aspect;

- integration into the EU and, to that purpose, a policy of accompanying measures to strengthen collective agreements that is designed to prevent any dumping;
- more active integration of the foreign population;
- abolition of the per capita premiums, which should be replaced with contributions graded according to income and with value-added tax revenue;
- reduction of working time;
- taxation of private capital gains;
- creation of a compulsory insurance providing daily allowances in the event of sickness.

The SGB launched its own three petitions for a referendum on the latter three fields in the first half of 1998. The initiative for the reduction of working time requires the gradual introduction of the average 36-hour week, far-reaching measures to curb overtime and equal status for full-time and part-time workers. The petition for a referendum on the taxing of capital gains calls for a capital gains tax of at least 20%, and the initiative calling for a daily allowance in the event of sickness aims to create an insurance which will cover loss of wages due to illness at a rate of at least 80% for two years.

As regards sickness insurance, the SGB supports an initiative which has already been launched by the Social Democrat Party and which calls for premiums calculated according to income instead of the current flat rate. In the vocational training field the SGB supports a petition for a referendum which has been filed by young trade unionists and young politicians calling for the right to training subsequent to compulsory school education and, with a view to its implementation, for a levy to be imposed on firms which do not provide such training.

The collection of signatures for these five petitions for a referendum is proving to be more difficult than expected, and it is not yet certain at the present time which of these five petitions will in fact materialise. The individual trade unions report that they are having difficulty achieving their quotas of signatures. They complain of an excessive workload – being active on the collective bargaining front, running a large number of campaigns for referendums (AHV, maternity insurance) and guaranteeing future referendums all at the same time is apparently nearing the limits of what is feasible.

1.3. Trade union priorities at collective bargaining level

There were no fundamental changes on the collective bargaining scene in 1998 compared to the previous year. The collective bargaining positions of the SGB unions for 1998/99 can be summarised as follows:

- *Wage policy*

After several lean years wages should now be appreciably increased – particularly in the case of workers in the low income brackets. The SGB Congress resolved to address the problem of the working poor, the aim being that there should be no wages under 3 000 francs/month. In view of the current political workload the SGB was not intending to launch any campaign on the issue until the autumn of 1999 at the earliest. At the same time the trade unions must counter the intensifying employer strategy of weakening collective wage bargaining by shifting wage negotiations more and more to the plant level. Furthermore, the employers are taking aim at the bonuses for irregular work which take the form of pay or time off, but the trade unions have generally managed to ward off any attacks.

- *Reduction of working time*

Although this demand is a trade union priority, the unions achieved only moderate progress in 1998, managing to break through the 40-hour-week barrier only in the Federal Railways sector (SBB). Similar attempts in the engineering and chemical industries failed.

- *Ordered transition to flexible working conditions*

The trade unions have in most cases abandoned their previous fundamental opposition to flexible working conditions, but they are not prepared to accept any and every type of flexibility. Rather, they aim to achieve a clear-cut framework, which is in part determined by the workers, and they only approve the introduction of flexibility – such as flexible working time, for example – if shorter working hours or other improvements can be achieved in return.

- *Collective agreements in new sectors*

Since approximately 50% of all employment relationships are not covered by a collective agreement, the trade unions want to extend collective agreements to new sectors. Initial progress has been modest, however – mainly in newly privatised areas (municipal or regional transport, health services).

2. PAY NEGOTIATIONS AND PURCHASING POWER

2.1. Pay agreements concluded in 1998

The trade unions opened the negotiations with demands for pay rises of 1.5 to 2%. In domestic trade and, in particular, in the trades related to the construction industry the increases demanded were appreciably lower in view of the economic situation. The most important agreements concluded in the fields covered by the SGB unions are set out below.

Table 2: Wage agreements concluded in 1998

Sectors (trade unions)	Company or Sectoral Agreements	Results (inflation from 0 to 0.3%, depending on the time of bargaining)
Main building industry (GBI)	S	0. No negotiations planned, but reduction of working time agreed in 1997
Trades related to the building industry (GBI)	S	from 0 to 1%, depending on the trade
Chemical industry (GBI)	C	Generally an overall 1.5%
Textiles (GBI)	C	Generally an overall 2%
Engineering industry (SMUV)	C	from 0.7 to 2.7%. Primarily in the 1.2 - 2% margin.
Watch-and-clock-making ind. (SMUV)	S	0.1%
Metal industry (SMUV)	S	from 0 to 0.5%, depending on the trade
Federal employees (FöV)		0.3%
Post (Kommunikation)		0
Swisscom (Kommunikation)		1.7%. productivity bonuses: 2 to 4.5%.
Public transport (SEV)	C	0% for about 60% of all enterprises; from 0.3 to 1% for the rest
Canton personnel (VPOD)		Continuing economisation schemes in most cases
Food industry/wholesale and retail trade (VHTL)	C	from 0.5 to 1.5%
Printing (coMedia)	S	0.6%
Radio/television (SSM)	S	1.6%

2.2. Purchasing power in 1998

The average annual rise in prices was 0.0% in 1998⁶. The Federal Statistical Office (BFS) calculated that real wages rose by 0.6% in 1998 – having stagnated in general in 1997.

2.3. Wage systems

Wages are negotiated on an annual basis in most industries, and little distinction is now made between an increase in real wages and compensation for a rise in the cost of living. Automatic wage mechanisms, which the collective agreement guaranteed for the entire duration of its validity, such as automatic adjustment to the consumer price index, which was still included in the majority of collective agreements 10 years ago, have now been practically totally eliminated. One exception to this is the collective agreement in the printing industry, which was renewed by the negotiators at the beginning of May 1999, although it still had not yet been signed by the parties to the agreement at the time of writing. It lays down minimum wages until 2003. The media trade union “coMedia” can credit itself with the fact that minimum wages for unskilled employees will be gradually increased – to 2 800 francs with retroactive effect as of 1.5.1999, to 2 900 francs as of 1.1.2000 and to 2 000 francs as of 1.1.2002. This is thus one of the first sectors of industry in which the trade union demand of *no wages below 3 000 francs* has been fulfilled.

Flexible performance-related elements are often included in the settlements: the undertakings can distribute pay rises or the adjustment to the price index in part or in full in each individual case. Provision is now made in most wage agreements for flexible arrangements of that nature, in which case

- a) the percentage increase in the wage and
 - b) the manner in which it is to be distributed
- are laid down in the negotiations.

It is generally observed that uniform wage agreements are concluded in sectors where firms are generally small, whereas flexible agreements or a mixture of uniform and flexible arrangements are predominant in industry and in major service industries. The same applies to the ratio of company wage agreements to sectoral agreements. Sectoral solutions are predominant in the trades, whereas company agreements are the rule in industry and major service industries.

⁶ BSF press release 119/98.

The direct linking of wage policy to business results has increased in the past few years – particularly in large undertakings in industry and services, where bonuses are only granted when the firm's balance sheet shows favourable results. In the bargaining area covered by the SGB unions, this practice is applied in sectors where wage policy has been negotiated at the plant level either traditionally (as in the engineering industry) or since the mid 1990s (chemical industry). In the negotiating area of the SGB unions bonuses generally have not replaced general pay rises or the adjustment to the consumer price index where granted but have been paid in addition. The SGB unions report that this trend was not accentuated in 1998.

3. WORKING TIME

3.1. Weekly working hours

The average collectively agreed weekly working time is approximately 41 hours. In April 1999 the SEV managed to negotiate the 39-hour week with the Swiss Federal Railways (SBB) – the first breakthrough as regards the 40-hour-week barrier has thus now been achieved in Switzerland in a collective agreement of considerable scope.⁷ On the other hand, however, neither the SMUV (for the engineering industry) nor the GBI (for the chemical industry) nor the trade union Kommunikation (for the major telecommunications enterprise Swisscom) have yet managed to carry the demand for a working week of less than 40 hours through. The SGB is now aiming for that objective with a petition for a referendum calling for the gradual introduction of the 36-hour week (cf. Section 1).

The SEV has agreed on the introduction of the 39-hour week in the federal railways (SBB) as of 1.6.2000, thus saving 500 jobs. Although the financing of this measure (50% by the SBB and 50% by the SBB personnel) is not exactly in line with the trade union programme, it was accepted by the trade union in view of the tremendous rationalisation pressure and the threat of further job cuts. The SBB will use increases in productivity for that purpose, and the personnel will have to forego the 1% adjustments to the consumer price index scheduled for 2000 and 2001. This loss of purchasing power will hit the lower income brackets in particular. As a counter move the SBB plans to do away with the wage cuts which were introduced in 1997 and have been in effect ever since and to raise the

⁷ Reductions of working time had previously only been registered in a limited number of firms of little quantitative importance, the most important of these agreements being concluded in local public transport in Geneva Canton introducing the 37.5-hour week.

initial wages of younger colleagues, which have also been lowered since 1997. Furthermore, the introduction of annual working time, which is scheduled for 1.6.2000, is to be carried out with the participation of the trade unions and in such a way as to comply with the provisions of the law on working time.

In the *engineering industry*, where the most important collective agreement in Switzerland is negotiated, the SMUV failed to achieve its objective of the average working week of 36 hours – despite protests and mobilisation efforts. Annual working time of 2080 hours was laid down, which amounts to a 40-hour week on average and thus the status quo. One of the main factors behind this failure was that on the worker side only the SMUV wanted to break through the barrier of the 40-hour week and that that target was clearly torpedoed by the white-collar workers' union VSAM, a fact which made it easier for the employers to refuse to budge. Some progress was achieved, however, on the question of holidays (cf. 3.2).

The unions in the *chemical industry* were also unable to achieve a reduction of working time. In the *energy sector* the VPOD is calling for various forms of reduction of working time in order to limit the jobs cuts which are feared in the context of the opening of the market. The only solutions which have been found so far are in the early retirement field. Trials with the 36-hour week have been launched in several departments in *Geneva Canton*. In the *chocolate industry* new negotiations have to be held on weekly working time when half of the term of the collective has elapsed. This is a compromise, since the VHTL wanted a 39-hour week and the employers insisted on the 41-hour week currently in effect.

The trade unions covering the field of the *Confederation* in general as well as that of *Post Office and Swisscom personnel*, are calling for the 39-hour week (instead of the current 41 hours), but there has been no breakthrough as yet. In order to preclude rationalisation pressure Swisscom has negotiated a programme with the trade unions laying down early and part-time retirement schemes as well as the 4-day, 36-hour week in several fields. The trade unions have been unable to achieve the general reduction of working time to 39 hours/week, but thanks to the agreed programme the number of redundancies originally planned has been considerably reduced (cf. also 3.4).

3.2. Holidays and paid holiday entitlement

Current legislation prescribes annual holidays of 4 weeks – and of 5 weeks for young people up to 20 years of age. To this are added at least 9 public holidays. The collectively agreed arrangements are appreciably better, generally providing for a number of days' holiday which varies according to age. All

employees in the building industry are entitled to approximately 5 weeks' holiday, and a period of 6 weeks has been agreed for persons over 50 years of age. The collective agreement for the chemical industry makes provision for between 20 and 28 days' holiday, depending on age, and 6 weeks from age 60 upwards. A similar model has been agreed for the engineering industry.

These three examples give an idea of how the length of collectively agreed holidays varies. It can be said in general that more success is to be achieved on the question of holidays than on weekly working time.

Bargaining results in 1998

Progress was achieved on the question of holidays in several instances in 1998. This was the case in particular in the engineering industry, although the SMUV was nevertheless unable to achieve the average working week of 36 hours which has been demanded.

Table 3: Holidays agreed in the engineering industry in 1998

Age in years	Increase in days	New total in days
20 - 30	3	25
30 - 40	1	25
40 - 50	2	27
50 - 60	3	30
over 60	-	30

The increases are introduced on a graded scale each year.

Further increases in holidays:

Chocolate industry: + 2 days

Nestlé plants: + 2 or 3 days, depending on age

Engrosmöbel: + 1 day for 40 to 50-year-olds

In Astag-Ostschweiz (a private transport firm) the 6th week of holidays from age 60 upwards was cancelled and the rules concerning years of service for the 5th week of holiday were tightened.

3.3. Commencement of working life

Although the crisis in the field of apprenticeships, which had been continuing for 4 years, eased off to a certain extent in 1998, mainly due to the incentive scheme to boost vocational training which was launched as the result of trade union pressure, the problems which had accumulated still were not resolved. The trade union youth departments therefore launched an apprenticeship initiative with SGB support calling for measures to guarantee all young people the right to an apprenticeship and demanding that a vocational training levy be imposed on firms which do not provide such training.

3.4. Retirement

The legislative status quo guarantees entitlement to an AHV pension at the age of 65 for men and, as an innovation, at the age of 64 for women. This deterioration in the case of women (cf. 1.1) will give rise to vehement disputes. The retirement age is lower in certain collective agreements. As a result of the crisis there has been an increase in the early retirement trend (by means of social plans) and also in partial retirements (through collective agreements). In the insulation sector a collective agreement introduced flexible retirement from age 55 upwards in 1998, and pension conditions have been improved in individual chemical enterprises.

After social plan negotiations with the trade unions, Swisscom, the new partially privatised enterprise which dominates the telecommunications market, is offering early pension as of age 54. Employees in that age group with at least 19 years of service will receive the normal Pillar II pension (normally paid as of age 65) plus an AHV bridging pension. A further possibility is a 50% partial retirement scheme as of age 49 with 10 years of service. Those who cannot or do not wish to take advantage of these conditions are entitled to transfer to what is known as a mobility centre, where they draw the traditional wage for two years – for 3 years in the case of employees over 50 years of age – and are entitled to release in order to seek a new job and to undergo further training. Those who still have not found a job at the end of this procedure are taken over by an employment body, which guarantees at least a half job. There is furthermore provision for financial support for redundant workers who want to become self-employed. The introduction of the 4-day week (36 hours) has only been approved in the form of a pilot project, where the workers concerned have to accept a 50% wage reduction and must undertake to undergo further training amounting to a total of 12 days a year outside working hours.

4. EUROPEANISATION OF INDUSTRIAL RELATIONS

About 60 Swiss undertakings come under the EU directive on the establishment of European Works Councils. By the end of 1997, 29 of those undertakings had concluded agreements accordingly, and a further 3 firms concluded such agreements in 1998. The quality of these agreements varies widely: in some of these works councils the Swiss members enjoy only observer status, and three undertakings would not accept Swiss members in the EWC. The reason given for these restrictions was the fact that Switzerland is not a member of either the EU or the EEA. The SGB organises an assembly of EWC members every year to provide an opportunity for the interchange of experience.

5. FLEXIBLE ORGANISATION OF WORKING CONDITIONS AND DECENTRALISATION OF COLLECTIVE AGREEMENTS

A clear majority of the trade unions now accept flexible models if these are agreed collectively, if the employees are guaranteed the right to participate in the decision-making, and if the family and social circumstances of the workers are taken into account and the monthly pay does not fluctuate.⁸

5.1. Irregular working time

The SMUV has elaborated standard requirements for the implementation of annual working time in the engineering industry. Where the management and the workers' committee fail to reach agreement, the 40-hour rule applies as a fundamental principle. This actually gives the workers' committees a right of veto when an agreement is not to their satisfaction. No precise overview of the agreements applied in firms to date has as yet been drawn up, but the SMUV published an interim survey of the situation on 23.2.1999 in its newsletter "*Evénement syndical*". Of 12 projects for the implementation of annual working time examined in greater detail,

- 3 were correct,
- 6 were incorrect on individual points, and
- 3 were manifestly incorrect.

⁸ Christine Luchsinger: Flexible Arbeitszeitformen und die Gewerkschaften. In: Flexible Arbeitszeitmodelle: Verbreitung und Hürden. (= SGB-Dokumentation 38).

New long-term accounts have been introduced with the introduction of annual working time, which are designed to enable employees to carry over overtime and to use it according to their personal preferences. It is obviously too soon to assess the situation definitively.

Part-time employees must not be employed longer than the agreed working time – a rule which puts a stop in part to the work-on-demand model which has been developing in industry and which the trade unions have been fighting.

Employers in the *printing industry* have departed from their demand for the introduction of annual working time and more extensive arrangements at the company level after its introduction and, in return, obtained the concession that they can decree two 0-hour weeks a year with a view to offsetting seasonal fluctuations in orders. (These two weeks must be announced in good time and are to be made up with overtime.) The maximum amount of overtime or undertime which can be carried over to the next year is now 60 hours (hitherto 40 hours).

It has been agreed in the firm of Basler Chemie that there must be no discrimination against part-time employees.

5.2. Extra pay for atypical working time

With regard to the higher rates to be paid for shift work or atypical working hours – an issue which is still subject to controversy – there is strong employer pressure to reduce these rates. There are approximately the same number of cases where this extra pay has been maintained at the same level or even improved in individual cases (in the chemical industry) as there are cases where the bonuses have been reduced (chocolate industry, enterprises which are no longer state-owned). Vehement disputes are to be expected in the future in the latter fields of health, local transport and energy. In the collective agreement for the printing industry the employers wanted to make cuts in the bonuses for night work and work on Sundays, but they were unsuccessful: these bonuses have been maintained at 100%. The only trade union concession is that the employers reserve the right to reduce the bonuses to 75% where less than 30 shift nights are worked in a year.

6. GENDER ISSUES IN COLLECTIVE BARGAINING

As has been the case since the beginning of the 1990s, the collective agreements concluded in 1998 also contain provisions against sexual harassment and discrimination against women, which are based mainly on the 1996 version of the Equal Status Act.

Recommendations have been agreed in the engineering industry (SMUV) relating to “the promotion of women”, “family commitments” and unpaid parental leave.

Paid maternity leave has been improved in Migros (VHTL) from 10 to 14 weeks and has been increased to 16 weeks in 6 transport firms (SEV). In Basler Chemie (GBI) the right to have a say and to take the initiative in equal status issues has been agreed for the workers’ committees in Basler Chemie (GBI).

Pay grievance cases based on the fact that typical women’s jobs are classed too low on the pay scale in the civil service, most of which have been supported by the VPOD, should be mentioned in this context. Several pay grievance cases concerning female handcraft and nursery school teachers as well as female physiotherapists were successfully concluded in 1998.

7. OUTLOOK FOR 1999/2000

The most important collective agreements which will have to be renegotiated in 1999/2000 in the sectors covered by the SGB trade unions are as follows:

GBI: Main building industry

SMUV: Several fields of the metal industry

VHTL: Coop-Schweiz, breweries

Kommunikation: Swisscom and Post Office

SEV: SBB (Swiss Railways)

GBI/VPOD/VHTL: are additionally conducting negotiations together with a view to obtaining a national collective agreement in the dry-cleaning trade.

The new Federal Employees Act is on the agenda at the federal level. The aim is to abolish the term-of-office employment guarantee, lay down a general framework and, as an innovation, introduce collective agreements. The measures to water down the protection against dismissal which has been in effect hitherto are a controversial issue in several of the unions concerned.

The SGB is also planning to launch a campaign against low wages.

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Abbreviations

Trade union umbrella organisations:

SGB: Schweizerischer Gewerkschaftsbund – Swiss Trade Union Confederation

FöV: Föderativverband des Personals öffentlicher Verwaltungen und Betriebe - Federative Association of Government Unit and Public Enterprise Personnel

SGB trade unions:

GBI: Gewerkschaft Bau und Industrie (construction and industrial workers' union)

SMUV: Gewerkschaft Industrie, Gewerbe, Dienstleistungen (trade union operating in trade and industry and in the services)

SEV: Schweiz. Eisenbahn- und Verkehrspersonal-Verband (Swiss railway and transport workers' union)

VPOD: Verband des Personals öffentlicher Dienste (civil service workers' union)

VHTL: Gewerkschaft Verkauf Handel Transport Lebensmittel (trade union operating in the wholesale and retail trade, commerce, transport, food)

SSM: Schweizer Syndikat Medienschaffender (Swiss media workers' union)

Kommunikation - telecommunications trade union

Comedia - the media trade union

Unia - the services trade union

Other abbreviations:

AIV: Arbeitslosenversicherung - unemployment insurance

AHV: Alters-, Hinterlassenen-Versicherung – old-age and survivors' pension scheme

BWA: Bundesamt für Wirtschaft und Arbeit – Federal Office for Industry, Commerce and Labour

EWC: European Works Council

SBB: Schweizerische Bundesbahnen – Swiss Federal Railways

SPS: Sozialdemokratische Partei der Schweiz – Social Democrat Party of Switzerland

VSAM: Verband Schweizerischer Angestelltenverbände der Maschinenindustrie - association of Swiss white-collar workers' unions in the engineering industry

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1. GENERAL BACKGROUND INFORMATION

1.1. Introduction

The year 1998 has been characterised by:

- continued legislative change as the Labour government implements its programme of labour law reform;
- a moderate round of pay settlements;
- a new willingness by unions to consider the strategic opportunities offered by changes in the law and industrial relations culture.

The most significant legislative developments include:

- the implementation of the EU Working Time Directive from 1 October 1998 – introducing for the first time in the UK entitlements to paid holidays, rest breaks and a limit on the maximum number of hours that may be worked;
- the implementation of the UK's first genuinely national minimum wage as from 1 April 1999;
- the presentation to Parliament of the *Employment Relations Bill* which implements the Labour Party's remaining manifesto commitments to guarantee fairness in the workplace.

These changes have been made in a relatively stable economic climate of low inflation, falling interest rates and modest rises in unemployment as the economy slows. It has been a particularly difficult year for unions representing workers in manufacturing – a sector that is experiencing an increase in job losses, partially as a result of the high value of the pound relative to the euro.

Despite these difficulties, trade unions are now operating in the most favourable environment they have experienced for nearly 20 years. Unions are popular with the general public and are identified by Government and many employers as having an essential role to play in national life as well as in the workplace. This is a decisive break with the neo-liberal orthodoxy that prevailed during the extended period of Conservative government when unions

were faced with either outright hostility or mere toleration. This is not to say that unions are universally satisfied with everything that the Government has done – and there are still unresolved tensions in labour market policy between the principles of “fairness” and “flexibility”.

The collective bargaining priority for unions in the last year, as in all years, has been to ensure that members are seeing real increases in their standard of living. The low inflation environment is largely responsible for the moderate pay increases that have been agreed. Unions have also had to deal with the implementation of the Working Time Regulations 1998 which required a review of arrangements for the accumulation of holiday entitlements, levels of overtime, the organisation of night work and shift work and the maximum working week. In the public sector the Government’s proposals for an element of performance-related pay for teachers have caused great controversy, although no decisions had been taken and the plans were subject to consultation at the time of writing. Discussions were also taking place about a fundamental review of pay structures in the National Health Service.

Industrial action has continued at a very low level and the UK continues to have the lowest number of working days lost through strikes in the whole of the EU.

The Government tried to initiate a debate in 1998 about the UK’s overall productivity performance – and the productivity gap with other countries in the EU. The trade union response has been to note that productivity in other EU countries can be explained by higher levels of investment in vocational training and by the established structures for partnership and dialogue in the workplace. This ensures that change can be managed more effectively and that workers and their representatives can shape the process of change.

1.2. Inflation, interest rates and the 1999 budget

As reported in the previous edition of this publication, the government took an early decision in the summer of 1997 to give the Monetary Policy Committee of the Bank of England sole responsibility for fixing interest rates. The aim was to depoliticise interest rate decisions as part of a wider policy of creating a stable, low inflation, macro-economic environment.

The Chancellor of the Exchequer is responsible for fixing the overall inflation target which has been confirmed as 2.5% at all times. The inflation measure used is the so-called RPI-X which excludes mortgage interest payments. Unions have taken the view that, while macro-economic stability is a prerequisite for sustainable growth, interest rate decisions should reflect the

needs of the whole economy and should respond to the needs of particular sectors.

For example, while it is clear that the economy will probably escape recession in 1999 it is also the case that manufacturing output is set to fall. The table below shows the change in employment by major industrial sector for the September 1998 to December 1998 quarter.

The two-speed economy and the labour market in 1998

Employees, UK	Latest year (to Dec 1998)	Latest quarter (Sept-Dec)
Manufacturing	- 99	- 54
Services	+352	+113
All industries*	+189	+ 48

Notes: All figures seasonally adjusted.

* All industries \cong includes construction and energy and water, with relatively little change in employment levels; and agriculture which lost 70,000 jobs over the year. More up-to-date estimates for the manufacturing sector only show job losses of 116,000 in the year to February 1999.

Source: Office for National Statistics, Employer Surveys.

There is a strong case for saying that the Bank overtightened monetary policy in the summer of 1998 having anticipated an explosion of wage inflation. This failed to materialise and the Bank subsequently cut rates faster than market expectations in line with the requirement to meet the 2.5% target. Despite the two recent reductions in rates (by 0.25% on each occasion), UK interest rates are still significantly higher than in the Eurozone. While there is no simple link between interest rates and the exchange rate, the pound is very unlikely to fall to a more competitive level against the euro unless the differential is reduced – and manufacturing will therefore continue to experience difficulties.

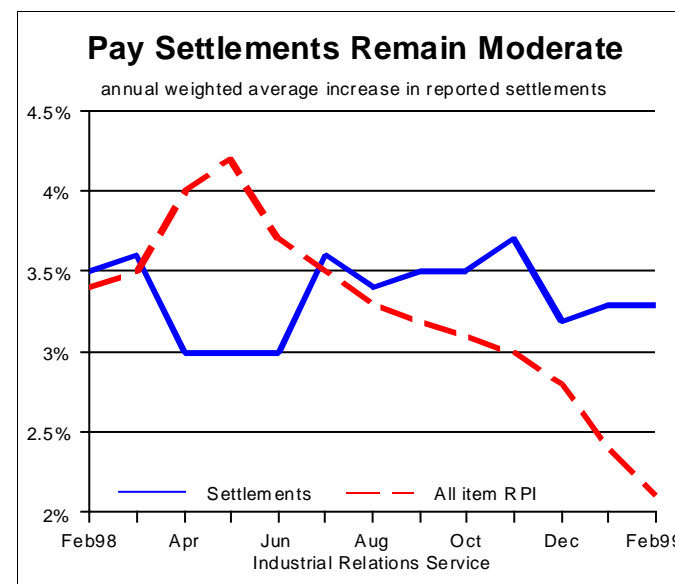
The Bank has paid particular attention to the average earnings indicator as one measure of whether the economy is overheating. The Bank's rule of thumb is that sustained rises in average earnings in excess of 4.5 per cent are potentially inflationary. The average earnings index showed a slight rise to 4.6 per cent in the seasonally adjusted "headline rate" comparing the average of the three months to February 1999 with the average of the three months to January 1999. However, despite some alarmist media reports this did not signal that the labour market is generating inflation-threatening pay deals.

- the increase in the earnings index was entirely accounted for by annual bonus driven rises in February 1999: annual bonus payments were also expected to distort the earnings figures over the first few months of 1999;
- monthly figures for February alone show that if bonuses are excluded, average earnings grew by 3.8 per cent across the whole economy and by the same amount in the private sector;
- negotiated settlements remain moderate and are falling: surveys showed settlements dropping from between 3.5 to 4 per cent in 1998 to between 3 and 3.5 per cent in the first quarter of 1999;
- cost-of-living pressures are expected to ease further in 1999, with forecasts suggesting RPI all item inflation could fall well below 2 per cent.

The figure below shows reported settlements from one survey, compiled by Industrial Relations Services and weighted by the size of settlements, over the year to February 1999. The figure also shows the all item RPI over the same period. The increase in settlements in the second half of 1998 reflects the interest rate driven rise in the all item RPI in the first half of 1998. With the RPI falling rapidly, as interest rate cuts take effect, settlements are very likely to moderate even further in 1999. As the March minutes of the Bank's MPC noted, expectations of future inflation among wage bargainers have fallen significantly.

At the time of writing (May 1999) all item RPI was running at just under 2% and RPI-X was running at the target level of 2.5%.

While the Bank manages the operation of monetary policy, fiscal policy remains the exclusive responsibility of the Chancellor of the Exchequer. The 1999 Budget delivered in February showed that the government plans to borrow around £6 billion more than they had anticipated over the next three years. In part this is to compensate for a range of tax cuts and other measures which will reduce the yield to the Exchequer. However, at the same time the surplus on current spending is going to rise from £2 billion in 1999-00 to £8 billion in 2001-02 and £11 billion in 2003-04. It is for this reason that the Chancellor appears both fiscally prudent and fiscally expansionary.



Whether the Government's strategy succeeds depends on what happens to the Eurozone economies. In particular, if growth in Germany remains sluggish then there is a powerful case for a more activist fiscal policy to mitigate the consequences of the economic slowdown.

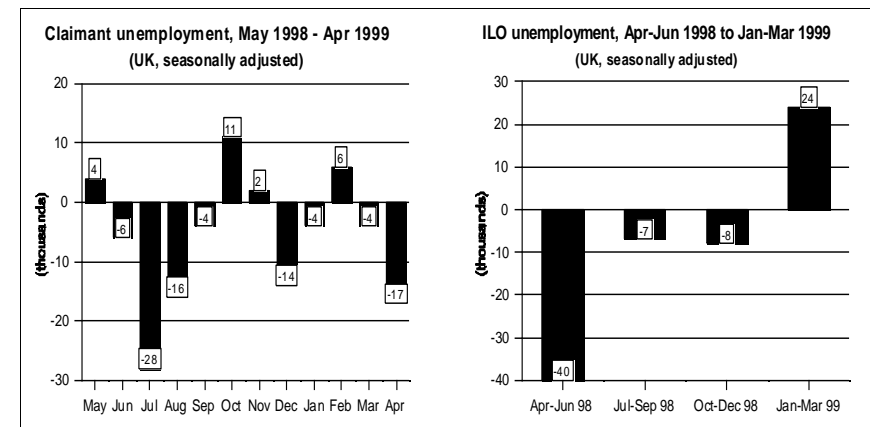
In addition to the "prudent" fiscal stance, the Chancellor announced a number of changes to the National Insurance system designed to improve the incomes of the low paid. The threshold for employee national insurance contributions has been raised to bring it into line with the threshold for employer contributions. Around 900,000 low paid workers will no longer have to pay National Insurance contributions, although they will still acquire rights to state benefits that have hitherto been contributory – including the state retirement pension and incapacity benefit. Similarly, this group of workers will continue to be entitled to statutory maternity pay and sickness pay. A new "zero rate" band for National Insurance contributions has been introduced between the previous "lower earnings limit" (below which no contributions were paid) and the new threshold announced in the Budget so that these 900,000 workers continue to have access to these benefits.

Other measures announced in the Budget included an improvement in the minimum income guarantee for pensioners and improvements in maternity

benefits. Many of the Budget measures were deliberately designed to help low income families with children. Child Benefit was increased by more than inflation and changes were made to the Working Families Tax Credit (essentially a negative income tax for families with children) to increase the amounts payable. The lowest rate of income tax has been cut from 20% to 10% and the basic rate of tax will be cut to 22% in April 2000. No family will pay any income tax until they earn over £235 per week and from October 1999 all working families will be guaranteed a minimum income of at least £200 per week. These measures are consistent with the Government's broad policy objective to "make work pay" and complement the introduction of the National Minimum Wage. On balance the Budget was broadly redistributive and was welcomed by the trade unions as such.

1.3. Employment and unemployment

The UK now uses two effective measures of unemployment – the claimant count and the ILO measure. The claimant count covers only those claiming Job Seekers Allowance (formerly Unemployment Benefit) whereas the ILO measure captures all those actively seeking work in the labour market. On the ILO measure unemployment in the UK rose in the first quarter of the year at a time when the claimant count was falling. Details are set out in the two figures below.



ILO unemployment in March therefore stood at 1.82 million or 6.2% of the workforce (an increase of 24,000 on the previous quarter). The claimant count in April fell by more than 17,000 and stood at 1.29 million or 4.5% of the workforce.

The contradictory messages from the two unemployment measures are not entirely surprising. The *New Deal*, the Government's active labour market programme for the long-term unemployed, is clearly having some impact on the claimant count. There is also some uncertainty about the information being derived from the Labour Force Survey which records the ILO measure. For example, the LFS recorded a rise in ILO unemployment despite clear evidence of continued job growth.

The Government has itself warned that not too much should be read into the April fall in the claimant count. The press release issued by the Department for Education and Employment says that "the size of the fall may well have been affected by Easter", and more significantly, it also says that the underlying trend in the claimant count is flat. The conclusion that might be drawn is that although employment continued to grow in the first quarter of 1999, the rate of growth (especially employee growth) has declined substantially compared with last year. This suggests that the capacity of the service sector to continue to compensate for manufacturing job losses (20,000 in February and March) is waning.

An analysis of the overall trends suggests that the economic slowdown is still gradually feeding into the jobs market, if at a slower pace than anticipated by most commentators. However, the lagged impact of the slowdown should not divert policy makers from the most important matter in hand which is to build towards a strong economic recovery in 2000. As noted above, much will depend on the interest rate decisions of the MPC as well as the level of economic activity in Continental Europe.

1.4. Regulation of the labour market

The Labour government was elected with some very clear commitments to introduce new legal rights for people at work. These commitments included the National Minimum Wage (implemented on 1 April 1999 and dealt with in more detail in paragraph 2.3), rejoining the mainstream of EU social policy and establishing new procedures under which unions can establish rights to negotiate on behalf of their members. The last of these commitments is being taken forward in the *Employment Relations Bill* which was initially presented to Parliament in January 1999. It is anticipated that the Bill will receive the

Royal Assent in July. The information set out in this section reflects the state of play in May 1999.

Individual Rights: In addition to the measures on union recognition the Bill also contains the following rights for individual workers:

- the right to be accompanied in a grievance or disciplinary hearing by a trade union official or a fellow employee of the worker's choice;
- a power for ministers to extend employment rights to all workers and not just "employees";
- a prohibition to prevent workers with fixed-term contracts being required to waive their entitlement to employment rights as a condition of employment;
- additional entitlements to maternity leave;
- a power for ministers to make regulations giving parents leave to care for their children (in line with the EU directive based on an agreement between the social partners);
- a new right for workers to take time off from work to deal with domestic emergencies; and,
- the extension of employment rights to cover all part-time workers (again in line with the EU directive based on the agreement between the social partners).

The statutory procedure for trade union recognition: UK law currently leaves to the employer the decision whether or not to negotiate with a trade union. This gives employers an effective veto on the establishment of collective bargaining and has made it difficult for unions to build organisation. Obviously, the greatest service a union can offer members is a negotiated improvement in terms and conditions of employment and, in the absence of a right to bargain, many people can see little value in trade union membership. This helps to explain why unions have had great difficulty in establishing collective bargaining in areas of weak organisation.

The *Employment Relations Bill* seeks to address this imbalance in the law by enabling unions (subject to a fairly stiff test of membership support) to establish collective bargaining rights with statutory underpinning. Only employers with more than 20 employees can be subject to the new procedure. Unions resisted the application of this size threshold although the campaign to have the restriction removed was ultimately unsuccessful.

The broad outlines of the new arrangements share some similarities with the procedures for union certification in the USA and Canada. However, it is

important to understand that both the government and the trade unions see the procedure as a fall-back where recognition cannot be secured voluntarily with the employer's agreement. It should therefore be used only where the union is faced with a recalcitrant employer.

The central elements of the new procedure are as follows:

- “collective bargaining” is defined for these purposes as negotiations on pay, hours, holidays and other issues agreed by the parties. It can be seen that this is a relatively restricted definition. Unions pressed the Government for training in particular to be included in this list. Employers argued that training was more appropriately a subject for consultation rather than negotiation. The employers' argument prevailed and unions, once recognised under the statutory scheme, will only have the right to be informed and consulted about training;
- the initial stage of the process is that the union must submit to the employer a written request for recognition. This must state the group of workers – the “bargaining unit” – on whose behalf the union is seeking recognition. The employer has 10 days in which to reply to the union's request. If it is rejected or if the employer fails to respond then the union can take the matter to the Central Arbitration Committee (CAC) which is responsible for the operation of the procedure;
- the next step for the CAC is to determine the bargaining unit. There is no obligation to accept the union's definition of the bargaining unit. The factors to be taken into account in this process include:
 - the views of the employer and the union
 - existing local and national bargaining arrangements
 - avoiding the creation of small fragmented bargaining units
 - the characteristics of the workers falling within the proposed bargaining unit and any other employees whom the CAC considers relevant
 - the location of the employees
- Once the bargaining unit has been determined, the CAC will only proceed further if it believes that the union has *at least 10% already in membership* and is likely to gain the support of a majority of the workers in the unit.
- Where the union can show that it already has majority *membership* in the bargaining unit then the CAC can issue a declaration stating that the union is

recognised for collective bargaining. However, the CAC can arrange a ballot of workers in the bargaining unit where:

- the CAC is satisfied that a ballot should be held in the interests of good industrial relations; or
 - a “significant” number of union members inform the CAC that they do not want the union to bargain on their behalf; or
 - membership evidence is produced that leads the CAC to doubt whether a significant number of union members want the union to conduct collective bargaining on their behalf.
- there will be a ballot on recognition where *either* one of the above criteria is satisfied *or* if the union cannot show majority *membership* in the bargaining unit. To secure recognition, the union must win a majority of those voting and the support of *at least 40% of all those entitled to vote*. If the employer is unwilling to negotiate then the CAC can, after a process of conciliation, impose a legally binding procedure agreement setting out how bargaining should be conducted. The imposition of a binding procedure agreement is a significant innovation in British industrial relations where, hitherto, agreements have generally not been legally binding. It should be noted that even where recognition has been secured through the voluntary route, either the employer or the trade union can apply to the CAC for a legally binding procedure agreement.
 - The procedure also sets out how changes in the bargaining unit should be dealt with and includes arrangements for employers to apply for unions to be derecognised.

Whether unions can make successful use of these complex arrangements depends on the quality of organisation and a willingness to avoid damaging inter-union disputes. Indeed, the CAC can refuse to proceed with an application if it is clear that two or more unions are competing for members in the same bargaining unit and are also seeking exclusive recognition rights. On the other hand unions can, if they wish, submit a joint application to the CAC.

Whatever the practical difficulties of using the procedure, it is clear that the Employment Relations Bill marks a decisive shift in public policy. That policy shift may in itself be as influential in shaping employer opinion as the detail of the recognition procedure. Only time will tell if statutory recognition boosts union organisation and widens the coverage of collective bargaining.

2. WAGES AND PURCHASING POWER

According to HM Treasury real household disposable income increased by 0.5% in 1998. Incomes are projected to rise by 2.5-3% in 1999 and by the same amount in 2000.

2.1. Public sector pay

As reported in earlier editions of this publication, successive governments have operated an effective freeze on the size of the public sector pay bill. This has led to considerable resentment, largely because governments have failed to honour in full the recommendations of the public sector pay review bodies responsible for determining the pay of a large number of public sector workers. Trade unions therefore welcomed the break with previous practice when the Government announced that it planned to implement the 1999 awards in full. This meant that as from 1 April 1999:

- experienced nurses received an increase of 4.7% whilst newly qualified nursing staff got a 12.0% rise;
- GPs and dentists received an average increase of 3.5%;
- teachers got an increase of 3.5% whilst headteachers received an average rise of 6%;
- top civil servants' pay increased by an average of 2.8%.

For those public sector workers not covered by Pay Review Bodies median increases have been running at around 3% in 1999.

In responding to the Government's announcement the TUC noted that, while the extra money for newly qualified nurses was welcome, there still remained a need for more coherence in public sector pay policy. For example, the problem of skill shortage is as pressing in education as it is in health, but newly qualified teachers received rises of only 3.5%. Analysis of the New Earnings Survey (the main official data source on pay trends) reveals that there has been downward pressure on the pay of some public sector workers and a clear lag behind rises in the private sector. Details are set out in the table below:

Change in real hourly pay 1992-98

Occupation by bargaining group	Men	Women
Private sector average	+7.3%	+12.3%
Public sector bargaining groups		
Teachers (primary, secondary, special schools)	-8.0%	- 5.0%
University academics	+4.0	na
Teachers in further and higher education	-16.6	-15.3
NHS nurses and midwives	-1.0%	+ 2.1%
NHS ambulance staff	+4.5%	na
NHS admin and clerical staffs	+2.8%	+11.6%
NHS ancillary staff	+9.1%	+ 5.7%
Local authority manual workers	+2.8%	+12.5%
Local authority admin, professional, technical, clerical	-2.0%	+ 9.2%
Royal Mail manuals	+4.5%	+ 2.3%

Source: New Earnings Survey 1992 and 1998. Note: local authority figures are for 1992-1997; bargaining groups merged in 1998; figures for teachers and local authority are England and Wales only.

There is also a risk that a gap might open up between those workers covered by the Pay Review bodies and those workers who continue to have their pay determined by collective bargaining. Unions have argued that there is a pressing need to improve the pay of all public sector workers if the Government is to meet its declared objective of improving the quality of public services. The TUC has suggested that the following are essential elements in any new strategy for public sector pay:

- pay levels must be fixed to recruit, retain and motivate the high quality staff needed to deliver the Government's service performance targets;
- low pay must be eliminated;
- as part of the drive to raise public sector productivity, there should be career progression and development for all staff.

National Health Service: In the National Health Service, unions have argued that it is wrong to improve the pay of clinical staff at the expense of other workers. The Pay Review Body awards strengthen the argument that a new pay structure is needed for the NHS. As noted last year, unions have continued to argue that any new structure must:

- end low pay; guarantee equal pay for work of equal value; ensure equity of treatment for all groups of staff;
- be flexible and responsive, take account of changes in the labour market, encompass local variations in job design and offer the possibility of paying above the nationally established basic rates of pay;
- enhance opportunities for career and incremental progression;
- ensure that real levels of pay are maintained;
- provide for the successful resolution of disputes and the avoidance of industrial action;
- address comparability issues
- be efficient, cost effective and fully funded.

Discussions with the employers on the new pay system began last year and are continuing. It is hoped that these negotiations will be concluded so that a new pay system might be implemented next year. The key criterion is of course affordability and the speed of implementation will depend on the implications for public spending.

The government has also suggested that career progression through the new pay system might be related to competency. Quite what this might mean is not yet clear although it is of course an issue on which unions will focus attention as the discussion develops.

Performance-related pay: In addition to the proposals for competency-based pay in the NHS, the Government is also committed to the implementation of individual performance-related pay in other parts of the public sector. Most controversially, it has been suggested in a consultation document published by the Department for Education and Employment that an element of teachers' pay might be related to individual performance. No firm decisions have yet been taken and it is not clear what the final outcome will be.

Performance pay has been in operation in other parts of the public sector for some time. There is an accumulating body of evidence which suggests that performance pay has not improved performance and has, in some cases, had a damaging effect on workplace relationships¹. Trade unions themselves have identified the following problems with performance-related pay:

- salaries need to be fixed at a realistic level before PRP is introduced. The performance element should be genuinely additional and should not be used to top up an otherwise inadequate pay package;
- there is a serious risk that assessment by line managers can be overly subjective, lead to favouritism and therefore damage the credibility of the PRP scheme;
- performance indicators may be more influenced by factors outside an employee's control rather than the effort of the individual;
- individual PRP is inimical to team working. Team-based PRP may lead to damaging rivalries between teams and the fragmentation of the workforce.

When faced with employer pressure for performance pay public sector unions have generally responded by seeking to negotiate safeguards which deal with the negative features outlined above. Alternatively, some unions have sought to propose pay systems with objective performance measures based on skills and competencies.

2.2. Private sector

Collective bargaining in the private sector in the UK is highly decentralised. This makes it difficult to generalise about developments at a sectoral level and the details set out below are subject to this caveat. It should also be borne in mind that the private sector is characterised by great diversity in the level of union organisation. Engineering continues to be very well organised as are the former public utilities and more than 80 of the *Financial Times* Top 100 companies recognise trade unions for collective bargaining. However, sectors like hotels and catering and private services like contract cleaning continue to be characterised by low union density. Most workers in these sectors do not have their pay determined by collective bargaining.

¹ *What a Performance: Performance related pay in the public sector*, Marsden and French, Centre for Economic Performance, July 1998. See also *Performing for Pay*, Marsden and Richardson, (1994) BJIR 243.

Industry	Median pay award	National agreement(s) ?	Significant developments in 1998
Chemicals	4.00%	No national bargaining on pay from 31/12/98 New national consultative arrangement – National Economic Development Committee to discuss major issues facing the industry	Output continuing to expand in 1998. Employers argued that profitability had reduced. Around one in three settlements involved individual merit based systems.
Construction	4.00%	Yes	Employment levels up on 1997. Skill shortages driving settlements above the median.
Industry	Median pay award	National agreement(s)?	Key developments in 1998
Finance	4.00%	No	Linking of rewards to individual performance. Substantial bonuses based on company performance.
Food, drink and tobacco	3.7%	No	Some impact of National Minimum Wage driving pay awards. Competition limits impact on prices.
Hotels and catering	3.5%	No	Sector with limited union organisation. Pay being driven by preparations for implementation of the National Minimum Wage. Most of lowest paid employees saw a pay rise from 1 April 1999 following implementation of the NMW.
Paper and printing	3.7%	Yes – in both printing and paper and board making	1998 deals negotiated in circumstances of several years of recovery in the industry. 1999 pay round being conducted in very different circumstances with declining output/orders and intensifying competition.
Engineering	3.5%	No	Sector in difficulty as a result of high value of £.

and metals			<p>Skill shortages and inflation pushed settlements to 3.5%.</p> <p>Long-term deals (2 or 3 years) the norm in the car industry. Final stage of Vauxhall 3-year deal linked to sterling/Deutschmark exchange rate.</p>
Retail and wholesale	3.5%	No	<p>Tesco now the largest private sector collective agreement (160,000 employees). New “partnership” with USDAW (shop workers union).</p> <p>Minimum wage likely to have significant impact on smaller organisations.</p>
Textiles	3.00%	Yes – in clothing, footwear and knitwear	<p>High sterling exchange rates have affected exports and made imports cheaper affecting the competitiveness of the sector. Most of the national agreements have been revised to ensure that the “minimum earnings guarantee” is fixed at or above the level of the NMW.</p>
Transport and communication	3.6%	<p>No – rail</p> <p>Regional multi-employer deals – road haulage</p>	<p>Rail – pay settlements in some cases preceded by industrial disputes.</p> <p>Transport is excluded from the limits in the Working Time regulations – this is likely to be an issue in next year’s bargaining round.</p>

2.3. The National Minimum Wage

The implementation of the National Minimum Wage (NMW) is the most significant change that the Government has made in labour market policy since the election. This was a long-standing commitment and a good deal of preparatory work had been done in opposition so the Government could make rapid progress following the election. The *National Minimum Wage Act* received the Royal Assent in the summer of 1998 and the NMW itself came into operation on 1 April 1999.

As noted in last year’s edition of this publication, the Government established a Low Pay Commission (LPC) to advise both on the level of the NMW and detailed points of implementation. The LPC has nine members: three trade

unionists, three employer representatives, two academic members and the chair, Professor George Bain, Vice-Chancellor of Queen's University, Belfast.

The LPC published their first report in June 1998 and made the following key recommendations:

- the NMW should be fixed at the level of £3.70 from June 2000. Consistent with introducing the NMW at an earlier date and proceeding prudently, the NMW should be introduced at the level of £3.60 from April 1999.
- A *Development Rate* of £3.20 an hour should be introduced in April 1999 rising to £3.30 an hour from June 2000.
- The *Development Rate* should be paid to workers aged between 18 and 20. Workers aged 21 and over could be paid the *Development Rate* during the first six months of employment if they are receiving training towards a recognised qualification.

Even though the LPC's report was unanimous, the Government revised several of the recommendations. First, the proposed increase in the NMW to £3.70 in June 2000 was not accepted. Second, the age band during which the Development Rate is payable was raised to 22 – in other words the £3.60 rate is now payable only to those workers aged 22 and above. Third, the Development Rate payable to those aged 18-22 was reduced to £3.00 an hour.

Trade unions were unhappy with these changes and were disappointed that the LPC had recommended lower rates for young workers. However, it should be noted that the LPC, in line with union thinking, suggested that the development rate should eventually be payable only to those young workers undertaking vocational training. The LPC is currently making preparations for their second full report and are likely to return to this issue, reaffirming their earlier long-term recommendation about the Development Rate.

Trade unions also expressed some disappointment about the level of the NMW for workers over 22. The TUC's evidence to the LPC had suggested that a level somewhat above £4.00 would be sustainable from April 1999. It is likely that the 1999 TUC Congress (to be held in September) will confirm the view that a higher level of minimum wage is practical and that the LPC should give urgent consideration to uprating the NMW to ensure that it maintains its real value and continues to protect the position of low paid workers. Some trade unions have also begun to use the NMW as a floor on which to build collective bargaining. Both the GMB general union and the Transport and General Workers Union have recently adopted collective bargaining targets for minimum earnings of £5.00 an hour. In addition, unions are also taking steps to

ensure that low paid workers understand their right to the NMW and, where possible, unions are providing assistance to workers seeking to enforce the NMW.

Even though trade unions have expressed concern about the level and some of the details of implementation, the importance of the NMW should not be underestimated. As the table below shows, it has had a significant impact on the incomes of the lowest paid and delivered an immediate and direct benefit to around one in eleven employees in the UK.

Impact of the NMW

	Number affected (000s)	% of group affected	Increase in wage bill (%)	Average increase for those affected
All 18+	1,960	9	0.6	30
18-21	225	15	2.4	30
22+	1,735	8	0.6	30
Male f/t	295	3	0.3	-
Male p/t	230	25	3.0	-
Female f/t	320	5	0.7	-
Female p/t	1,120	21	2.7	-

Most importantly, the greatest beneficiaries of the NMW are women working part-time. There can be little doubt that the NMW is the greatest step forward in gender pay equity for more than ten years.

It was reported last year that the Bank of England had considered the likely inflationary consequences of the NMW. The Bank indicated that interest rates might have to rise if the NMW was fixed at too high a level. What the table above also shows is the very limited impact the NMW will have on the national pay bill. The Bank has now recognised that this is the case and has also noted that employers had begun to prepare for the NMW well before 1 April 1999. The process of implementation was very smooth and, at the time of writing, there is no evidence that the introduction of the NMW has generated any inflationary pressure in the economy or is having any adverse effects on employment.

The relatively smooth implementation of the NMW is a tribute to the work of the LPC and shows that the social partners can play a valuable role in

implementing major government policies. There can be no doubt, for example, that the LPC did have the effect of changing employer attitudes to the NMW. In the autumn of 1997 many employers were arguing that the NMW should not be fixed above £3.00. They also continued to press the case that they were opposed in principle to the NMW. The LPC undertook an extensive programme of regional visits and consulted a wide range of organisations. They also received a large volume of written evidence and held formal sessions at which oral evidence was presented. At the end of this process employers understood that their views had been taken into account and that they had been given an opportunity to shape NMW implementation.

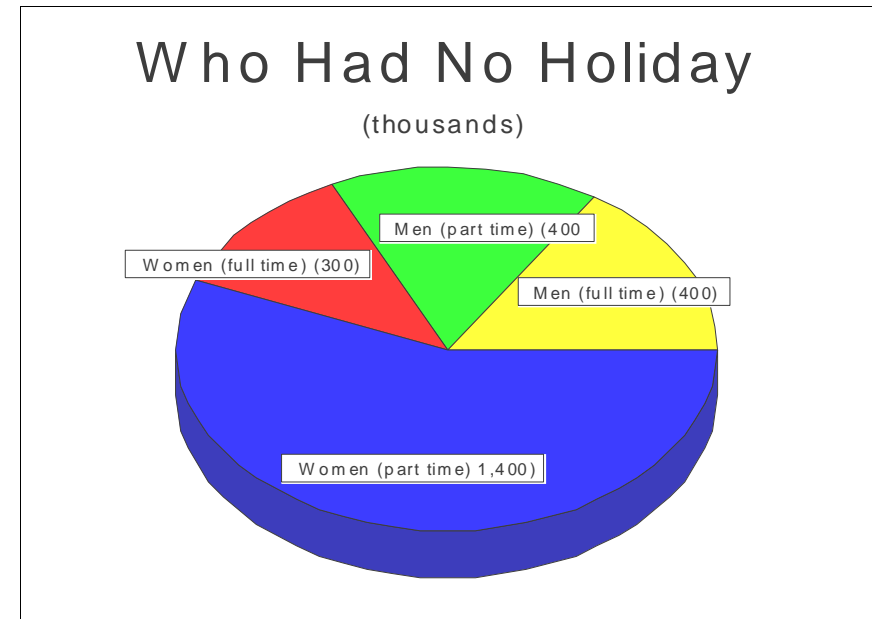
When the LPC's report was published in June 1998 the figure of £3.60 was described by employers as being "at the upper end of expectations" but unlikely to cause any practical problems. There can be no doubt therefore that the LPC has enjoyed considerable success in depoliticising the NMW. It should also be noted that the Conservative Party, which has always opposed the minimum wage in the past, appears to have adopted a more muted approach and may drop its policy of hostility to a floor under wages before the next general election.

3. WORKING TIME DEVELOPMENTS

The most important development on the working time agenda has been the implementation of the EU Working Time Directive 1993 in the Working Time Regulations 1998. Since 1 October last year workers in the UK have enjoyed the following rights for the first time:

- a 20 minute break where the working day is longer than six hours;
- 11 hours rest every working day and one day off in every seven;
- three weeks paid leave (rising to four weeks in November 1999);
- a ceiling of eight hours on average hours of night work;
- the right to a regular health assessment for those working at night; and
- an in principle ceiling of 48 hours on the maximum average working week (measured over a 17 week reference period).

As with the NMW, the immediate beneficiaries of the Regulations were women working part-time. Some two million people previously had no entitlement to paid leave whatsoever, nearly three-quarters of whom were women. Details are set out in the chart below:



While the provisions on annual leave were very welcome, the implementation of the Regulations was not without problems. As has been reported in previous editions of this publication, employees in the UK work the longest average hours in the whole of the EU. This is a particular problem for men working full-time, one in five of whom now work more than 50 hours a week as a normal course. In line with Article 18 of the Working Time Directive, the Regulations allow workers to opt out from the 48 hour limit by agreement with their employer. The risk is that the UK's excessive hours culture will continue and little will be done to enable people to strike a more civilised balance between work, family responsibilities and leisure.

The implementation of the so-called “individual opt-out” exemplifies the tension in Government policy between the desire for fairness in the labour market on the one hand and “flexibility” on the other. Much attention has been given to the Government’s policy of promoting family-friendly employment through, for example, the introduction of parental leave (albeit unpaid), time off for family emergencies and enhanced maternity rights. However, the most effective (and perhaps radical) family-friendly policy the Government might pursue would be to curb the hours of men working full-time to enable them to spend more time with their partners and children.

The UK is at a crossroads and the choices made over the next year will determine the trajectory of working time developments. It might be argued that the UK could become more like the USA with longer working hours and “light touch” labour market regulation; alternatively, policy might be shaped to move the UK towards the Continental European model of a more appropriate balance between work and family life, institutions that promote partnership and dialogue in the workplace and, it must be said, higher productivity (see section 4 below).

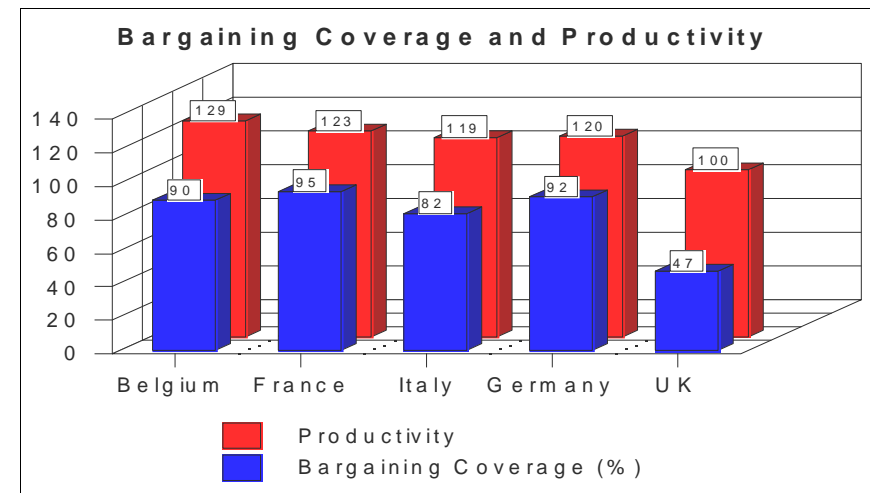
Trade unions argued that the Government should have phased in the 48-hour limit following the model adopted in the Republic of Ireland. It was recognised that the immediate implementation of the 48-hour limit was impractical given the number of people working very long hours. Equally, it is a matter of fact that many trade union members work long hours to secure a decent level of earnings – of the four million people working more than an average of 48 hours a week just over a million are trade union members. However, phased implementation, with a ceiling on working hours specified by law reducing year on year to the 48-hour limit, would have given unions and employers an incentive to examine the relationship between pay and hours worked. This would also have created an opportunity to discuss questions of productivity, training, skills and work organisation – a significantly wider bargaining agenda than unions have been able to pursue in recent years. The TUC’s desired objective remains that no employee in the UK should be working more than an average of 48 hours a week by 2003 – when the Commission is set to review the opt-out.

While the TUC and its affiliates are continuing to make the case for removing the opt-out, unions are trying to achieve the phased reduction of working time through collective bargaining. For example, some unions have negotiated time limited opt-outs with employers (in the Royal Mail it is for two years) during which period efforts will be made to reconstruct the pay package, reduce the reliance on excessive overtime and agree a process to move towards the 48-hour

limit. In areas of strong union organisation the prospects of success are good, not least because employers know that the opt-out is likely to disappear in 2003. Unfortunately, the unorganised will continue to experience long working hours and will have to wait for the review of the opt-out to see a reduction in their hours.

4. PRODUCTIVITY AND PARTNERSHIP

In the last year the Government has sought to stimulate a national debate about productivity and competitiveness. Their argument is that the UK will continue to become relatively less prosperous unless the productivity gap with other major industrialised countries is closed. Unions in the UK have generally accepted this analysis but argued that higher productivity elsewhere in the EU has to be understood in the context of much wider coverage of collective bargaining, strong institutions to support vocational training and machinery to promote partnership and joint problem solving. The figure below shows collective bargaining coverage and GDP per hour worked for five European countries including the UK.



In addition, the TUC has also promoted a new approach to industrial relations over the past year which seeks to maximise the opportunities arising from the more favourable climate for trade unionism. The argument, put most simply, is that the problems employers face are most likely to be solved and trade union members' aspirations most likely to be achieved if employers and unions can address a common agenda. Employers in the private sector want sustainable business success and public sector employers want quality public services delivered at value for money. Neither objective can be achieved unless the skills, talents and enthusiasm of all workers are engaged in the process. This means that workers must be able to influence employers' day-to-day and strategic decisions. In the UK the most obvious way to do so is through an independent trade union recognised by the employer for collective bargaining.

The case for partnership in the workplace goes hand in hand with the case for national social partnership. The TUC and unions have argued that the success of the LPC proves that social dialogue is essential for the smooth implementation of national labour market policies.

In May 1999 the TUC published a major new report which set out the principles underpinning partnership in the workplace and which included endorsements from some of the UK's largest and most successful employers. Far from being a purely theoretical construction, the principles were identified through a series of structured interviews with unions and employers. Some of the organisations involved contributed case studies to the report which showed that it was possible to reconcile the employer's desire for success with workers' demands for employment security and interesting jobs.

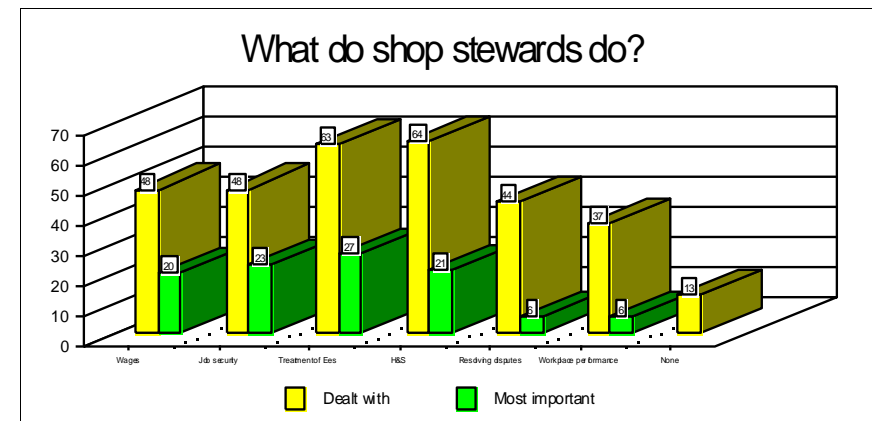
The six principles are:

- a commitment to the success of the organisation which includes enabling unions to shape the employer's strategic objectives;
- a recognition that the employer and the union have different and legitimate interests that must be properly represented;
- a commitment to employment security;
- a focus on improving the quality of working life;
- openness and a willingness by the employer to share information when plans are at the "glint in the eye" stage;
- an understanding on both sides that the partnership is adding value for the employer, the union and workers.

The report was presented at a major TUC conference on 24 May 1999 at which the Prime Minister delivered a speech noting that unions are a force for good in the economy and society more generally. The tone of his address was very different from his speech to the 1997 TUC Congress where he instructed unions to “modernise or die”.

The Government has also announced that they plan to make public funds available to promote partnership at work – around £5 million over the next four years.

However, it would be wrong to leave readers with the impression that partnership is now the “commonsense” of British industrial relations. The *First Findings* from the 1998 *Workplace Employee Relations Survey*² show just how attenuated the collective bargaining agenda has become in recent years. Of particular note is that shop stewards appear to spend more time resolving individual disputes, handling grievances and managing health and safety than they do in negotiating wages and benefits. Details are set out in the figure below.



Source: WERS 1998

² Cully, Woodland *et al.*, DTI, 1998.

Even more disturbing, on a number of issues shop stewards said that they were given no information, let alone consulted about: training (37%), staff planning (36%) and equal opportunities (34%). The TUC is therefore arguing that the bargaining agenda should be significantly widened so that workers and employers can benefit from the value that unions add.

Of course, succeeding in this endeavour depends critically on both employer attitudes and the strength of union organisation. The TUC is seeking to collect and disseminate information about innovative new agreements on the grounds that hard practical successes are most likely to convince both sceptical employers and trade unionists. There are many arrangements that are described as “partnerships” that fall well short of the principles outlined above. The two key determinants are: an increase in union influence over employers’ strategic decisions and enhanced employment security and quality of working life for union members.

Unions are also taking steps to ensure that their shop stewards are equipped to deal with the partnership agenda. The TUC is reviewing its education programmes for both full-time officials and lay representatives to ensure that they are consistent with the six principles and cover such matters as joint problem solving, understanding business issues and economics and handling corporate financial information.

The project is ambitious but is endorsed by union leaderships, representatives of major employers and politicians at the highest level. The challenge for unions is to make the case for a wider application of the partnership approach to major national policies so that the UK has an institutional framework for social dialogue to match best practice in Continental Europe.

5. GENDER ISSUES IN COLLECTIVE BARGAINING

As has been already noted, the implementation of the National Minimum Wage and the Working Time Regulations have had an immediate and significant impact on the lives of some of the lowest paid and most exploited working women. The importance of these measures should not be underestimated and will go some way to ensure that women’s skills are properly valued. Unions in turn are seeking to use these new rights to recruit in sectors where they have been historically weak. The aim of the strategy is to assist these workers to enforce their rights and to point out that, if enough workers join the union, then collective bargaining rights can be secured under the statutory recognition procedure of the Employment Relations Bill.

On a wider front unions are continuing to use the law to secure equal pay for work of equal value. This is having an impact on pay structures – particularly in the public sector – and is one of the reasons why the NHS pay structure is currently under review.

The implementation of the EU directive on part-time work will also ensure that this group of generally low paid women workers have access to the same employment rights (pro rata) as full-time workers. The real value of the Directive is, of course, that women part-time workers will no longer have to prove that their work is of equal value or that sex discrimination is taking place to secure equal treatment. All that it is necessary to prove is that full-time workers have different conditions of employment from part-time workers. Once again, this will deliver a significant improvement in the working lives of many women.

6. FUTURE OUTLOOK

The priority for unions in the forthcoming year will be to ensure that officials and shop stewards are properly briefed about the new legal rights contained in the Employment Relations Bill as part of wider strategy to rebuild trade union membership and organisation. At the same time real efforts will be made to widen the bargaining agenda in line with the partnership principles and address the problems identified in the 1998 WERS.

Inflation is likely to continue to run at or near the 2.5% target over the next 12 months and continued moderation in pay settlements might be anticipated.

Perhaps the most controversial issue in the next year will be the European Commission's proposal for a directive on information and consultation which would require the establishment of works councils in all enterprises employing more than 50 workers. At present the UK Government is unenthusiastic about this measure whereas trade unions see it as an essential complement to the recognition procedure in the Employment Relations Bill. It would guarantee collective worker voice in all workplaces, irrespective of union membership and, if unions could win elections to works councils, would be a stepping stone towards full collective bargaining rights.

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