

## THE FUNCTIONING OF THE TROIKA: A REPORT FROM THE ETUC

In response to the European Parliament enquiry report on the role and operations of the Troika, this paper sets out the experiences of trade unions with the economic and social policies conducted under the regime of the Troika. It is based on the replies by affiliates from Cyprus, Greece, Ireland and Portugal to a questionnaire organised by the ETUC.

### Quotes from ETUC affiliates

*“The 25 largest fortunes represent 10% of the Portuguese GDP, which means an increase of 17.8% since 2010”.*

*“If ever there is another troika intervention, it should be less ideological, more skilled at listening and dialogue and exclude the ultra-conservative ideologues from the ECB”.*

*“The implementation of the Troika’s austerity programme on Greece is incompatible with social justice, has led to the dismantling of the Welfare State and strengthened extremist and intolerant elements. Nationalism, racism, xenophobia and violence rush in to fill the gap left caused by the non-respect of democratic institutions and by the disintegration of the social fabric”.*

*“The Troika stated that it will only hear the trade unions and will not negotiate with them. The Troika will only negotiate with the government”.*

## Four major concerns about the Troika policies

There are four areas of major disagreement with Troika policy: the policy of austerity, the deregulation of labour markets (in particular of wages), the dismantling of social protection systems and the non-respect of social dialogue.

### 1. Too strong austerity measures over a too short period of time

One common red line running through all the replies to the ETUC questionnaire is that the policy of fiscal consolidation conducted under the Troika regime is overly ambitious. Fiscal adjustment should have been done over a longer period of time. This would have given the economy the necessary time to recover.

Consolidation policy was also poorly designed. More emphasis on the revenue side, and in particular on certain types of revenue, would also have allowed the economic damage, in terms of the collapse in domestic demand triggering a deep recession, to be reduced.

Moreover, there was a complete lack of measures to promote growth and employment in the programme countries, with Ireland to a certain degree being an exception. In the latter case, the Troika allowed half of the proceeds from privatisation to be spent on job schemes.

### 2. The dismantling of systems of social protection

The poor design of fiscal consolidation policy, both in terms of pace of fiscal cuts as well as in terms of composition, also reflects negatively on the systems of social protection. Trade unions in the programme countries have protested strongly against the dismantling of social protection systems and the cuts being made in unemployment benefit systems, pension systems, health care, education, etc.

### 3. Promoting labour market deregulation by dismantling wage bargaining systems

In all cases, 'structural reforms' of wage fixing machinery and labour markets in general have been promoted with the hope that improving external 'competitiveness' would trigger a process of 'export led growth'. This policy was pursued in the different programme countries:

- In Ireland, the 2010 cut in minimum wages was supported by the Troika. However, the Troika did allow the new incoming government to reinstate the minimum wage in 2011, in return for the government lowering the employer contributions on minimum wages. The Troika also pushed for some changes in local minimum wage agreements and Registered Employment agreements (legally extending lower pay scale sector agreements) but these were in discussion anyway or, as in the case of the construction sector, were amended by the courts.
- Greece, unfortunately, represents the opposite extreme. An avalanche of anti-labour measures abolishing key workers' rights have been imposed, often under the threat of ceasing loan instalments. The main thrust was to abolish both national and sectorial levels of collective bargaining and replace them with firm level agreements.

Moreover, it needs to be stressed that this was not just about decentralising collective bargaining to the level of individual companies but also about undermining the principle of collective representation by extending the right to conclude firm level agreements with less favourable terms to shady and non - representative 'associations of persons'. These "associations" are afterwards dissolved without any further formality.

Meanwhile, the Greek minimum wage, which was set by a national general collective agreement, was by law reduced by 22% while for young workers up to 24 years it was cut by 32%.

In short, the whole system of free collective bargaining in Greece has been dismantled.

- Troika structural reform policy in Portugal has followed a similar logic of reversing the hierarchy of collective bargaining, the non-renewal of bargaining agreements, stricter criteria for the legal extension of collective bargaining and moving the process of bargaining away from trade unions and towards 'workers' councils'. At the same time, the minimum wage in Portugal (which is one of the lowest in this region) has remained frozen at 485 euros since 2011.
- In Cyprus, and at the Troika's insistence, the Memorandum of Understanding intends to abolish the Cost of Living Adjustment (COLA) scheme in the public sector. Trade unions have opposed this and the government, for the time being, has decided to simply freeze the existing COLA arrangement. Discussions on how to intervene in the private sector COLA scheme are still ongoing.

On top of this direct intervention, the critical state of the economy also has a negative impact on collective bargaining. Trade unions are regularly called in by firms and employers to bargain wage and benefit cuts, job losses or a combination of both. On many occasions however, employers even unilaterally impose such decisions upon their workers.

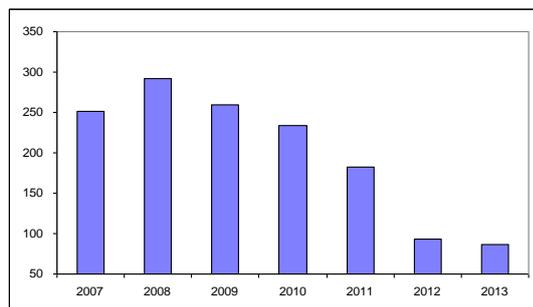
This policy of deregulating wages and collective bargaining institutions is having a significant impact on the industrial relations' systems of the programme countries:

- In Greece, wage dynamics, both in real as in nominal terms, have collapsed. Nominal wages went down by 16.3% and the purchasing power of real wages was cut by more than one third (37%).

According to the Greek Organisation of Mediation and Arbitration, negotiations to renew collective bargaining agreements have almost ceased and the number of collective agreements in force - especially sectoral agreements – is falling substantially.

- In Portugal, the number of collective agreements in force is shrinking rapidly (see graph). Also, whereas in 2010 116 agreements had been legally extended, by 2013 this was down to only nine agreements. The result is that the number of workers covered by collective bargaining in the private sector has fallen substantially, from around 1.5 million before the arrival of the Troika to some 300,000 workers in 2012.

## Number of published collective conventions in Portugal



Source: Government (DGERT); 2013: January-October

- In Ireland, whereas wages were frozen or cut in the public sector and no general wage agreement has been concluded in the private sector since the arrival of the Troika, hourly wages did not fall in the private sector and about 24% of employees had nominal wage rises.

### 4. Non-respect of social dialogue

In general, and although the Troika does provide the occasion for trade unions and social partners to meet with them, the quality of the dialogue is poor. These meetings turn out to be rather formal meetings, with trade unions having ten minutes to present their view. The Troika then reacts with a 'set response', replying with 'generalities' or in an elusive way while being absolute in their demands by saying "you have to do this or the other". They do not change their position after the meeting.

In the case of Cyprus, trade unions only met the Troika twice in June/July 2012 when the Memorandum of Understanding was being prepared. Since then however, the Troika has met and had discussions with employer organisations many times. Moreover, in those cases where, despite an extremely difficult context, it was possible for social partners to arrive at a joint agreement, the Troika disregarded this agreement and pushed through its own reforms or measures.

- In Greece, in February 2012, the national social partners jointly rejected the state's declared intention to intervene in the established process of setting minimum standards for wages and conditions of work through the National General Collective Agreement. A few days later however, the government, under extreme pressure from the Troika, cut the minimum wage and ended the competence of social partners to set future minimum wages.
- In the social dialogue in Portugal, a tripartite agreement on growth, competitiveness <sup>1</sup> and employment was signed in January 2012. This tripartite agreement contained in particular, a clear obligation to promote collective bargaining. Instead, the Troika insisted on a strict approach concerning the reform of the legal extension of collective agreements. In this way, constraints on the ongoing bargaining processes were created even though the social partners generally agreed on the need to suppress the constraints on the legal extension of bargaining.
- In the same agreement, a compromise was struck to reduce the compensation for dismissals to bring it in line with the European average. However, the reduction in job protection that was

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<sup>1</sup> The tripartite agreement was signed by the UGT- Portugal, whereas the CGTP refused to sign it.

operated by the government went further, limiting the dismissal period to 12 days per year of job tenure, whereas the European average amounts to 20 days.

- Finally, a tripartite agreement from 2006, prior to the entrance of the Troika, stipulated a gradual increase in the minimum wage to 500 euros in 2011. The Troika however froze the minimum wage in Portugal at 485 euros and is blocking any new increase, even though the social partners have stressed the positive effect such an increase would have on consumption demand.

## THE ECONOMIC AND SOCIAL CONSEQUENCES OF TROIKA POLICY

### Economic impact

#### *Portugal*

Extreme austerity has led to a sharp drop in domestic consumption, thrusting the economy into recession. In turn, this has backfired on public finances. The public deficit in 2014 (assuming the target of 4% of GDP is met) will not be much lower than the 4.4% of GDP deficit in 2010. Meanwhile, public debt is rising strongly, from 94% of GDP in 2010 to 127.8% in 2013. Close to 800,000 jobs, or 15% of employment, have been lost since 2008.

Despite severe wage cuts, there has been no positive impact on investment. Over the Troika period (2011 – 2013), the fall in investment activity has actually accelerated (minus 0% in 2011, minus 14.5% in 2012, minus 16.8% in the first quarter of 2013).

Moreover, with skilled workers and qualified young people leaving the country, there will be dire consequences, not only in the short term, but also on longer term growth.

#### *Ireland*

The recovery would have been faster with slower fiscal adjustment.

#### *Greece*

The policy adopted under the Troika regime is a total failure. The Greek economy has lost one quarter of its activity. (GDP went down by 25%).

The number of jobs has fallen by 18%. Investment has collapsed.

Despite massive austerity, and despite a round of debt restructuring, the public debt ratio continues to go up and reached 176% of GDP in 2013.

#### *Cyprus*

The almost total collapse of the two major systemic banks, and the co-op system, created an urgent need for external financial assistance in mid-2012. The Troika programme, combined with a bail in of big deposit holders/ bank creditors, provided no room whatsoever for economic recovery measures, either through public and/or private investment.

The squeeze in credit, high interest rates and the imposition of new taxes (higher VAT rates, higher taxation on oil products....) pushed the economy into a deep recession with rising unemployment as the consequence. This is a clear recipe for total failure for any economy and certainly an ailing economy such as Cyprus.

The provision of the Memorandum of Understanding to privatise the national telecommunications, electricity and port authorities just to collect 1.4 billion euros to cover public debt is a huge mistake. The Cypriot economy is small for real price and service

competition and the consequence will be that private oligopolies will prevail over consumer interests and the longer term functioning of the economy in general.

### Social impact

#### *Greece*

By dismantling the welfare state and by breaching fundamental social rights, the Troika policy has led to a soaring rise in poverty and has rendered a significant part of the population destitute. There is a tremendous rise in indebted households, with the unemployed and homeless being forced to turn to soup kitchens and food distribution.

#### *Cyprus*

The social consequences are indeed unprecedented. The general employment rate is dropping, unemployment rocketed to 17.3% (around 5% in 2009) in September 2013 (37% among young people up to the age 25) and it is predicted to reach 20% by the end of 2014. Inequality is widening among social groups especially single parent families, pensioners, women and young people. The proportion of citizens facing the risk of poverty, or who are in poverty, is also rising dramatically.

The Troika policy is impacting poverty and inequality. Rising unemployment and the crackdown on social protection measures (sickness leave, unemployment benefits, housing, and pension benefits) are the main drivers.

#### *Portugal*

There is a strong decline in social expenditure (health expenditure, unemployment benefit and education). Unemployment benefit coverage rates have fallen and so has the number of persons receiving family allowances and minimum incomes (see table). Inequality, which was already high in Portugal, has increased further, with the 10% highest income earners now gaining 10 times more than the 10% lowest earners.

### Indicators concerning social expenditure and beneficiaries

		2010	2011	2012	2013	2014
Education: expenditure	% GDP	5,0	4,6	4,1	4,3	3,9
Health: transfer for NHS	% GDP	5,0	4,8	4,7	4,8	4,5
Social security: transfer for the funding of the non-contributive regime	% GDP	4,3	3,9	3,8	3,8	3,7
- Unemployment benefits coverage	%	60,8	43,0	44,2	45,7	
- Family allowances: beneficiaries	1000	1822	1358	1188	1188**	
- Minimum income beneficiaries (RSI)	1000	528	448	282	268**	

Sources: Several official sources (Social Security, INE, Government)

Notes: Unemployment benefits' coverage: calculated for the second quarter of each year; \*\* January to October average

While unemployment rates among the very young already differed widely across the European Union before the crisis, youth unemployment increased significantly from 2007 to 2013 and in those countries suffering from the hardship imposed by Troika austerity programmes.

#### Youth Unemployment rates

	2007	2008	2009	2010	2011	2012
European Union (28 countries)	15,5	15,6	19,9	20,9	21,4	22,9
Ireland	9,0	12,7	24,0	27,6	29,1	30,4
Greece	22,9	22,1	25,8	32,9	44,4	55,3
Cyprus	10,2	9,0	13,8	16,6	22,4	27,8
Portugal	16,6	16,4	20,0	22,4	30,1	37,7

Source: EUROSTAT

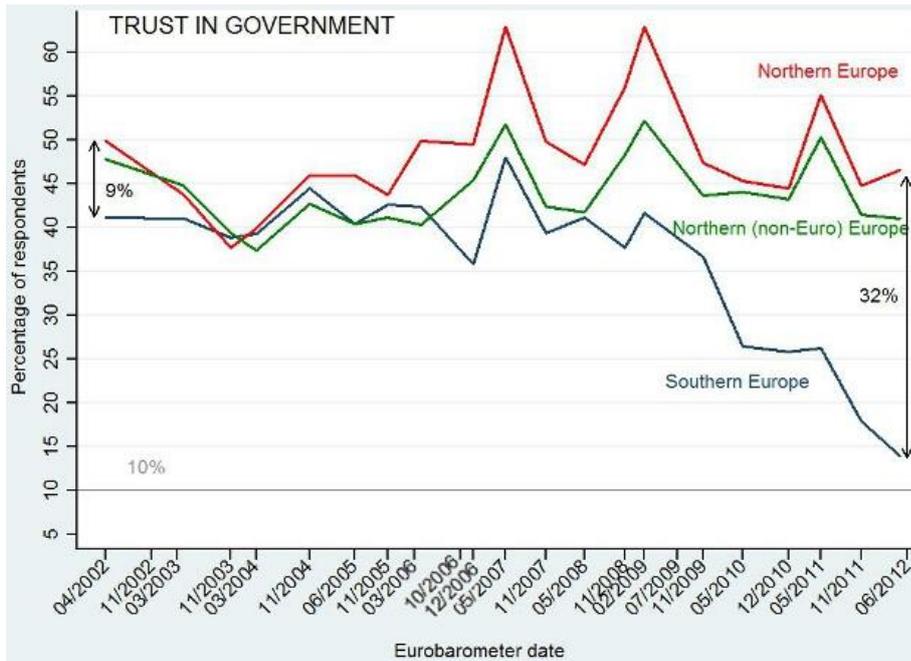
In parallel with rising youth unemployment, the rates of young people not in employment or education or training ("NEET's) has also increased significantly in these countries.

Moreover, the acceleration of migration outflows of young people– namely from Ireland and Portugal – should also be taken into consideration as a social consequence of the ineffective measures deployed by the Troika.

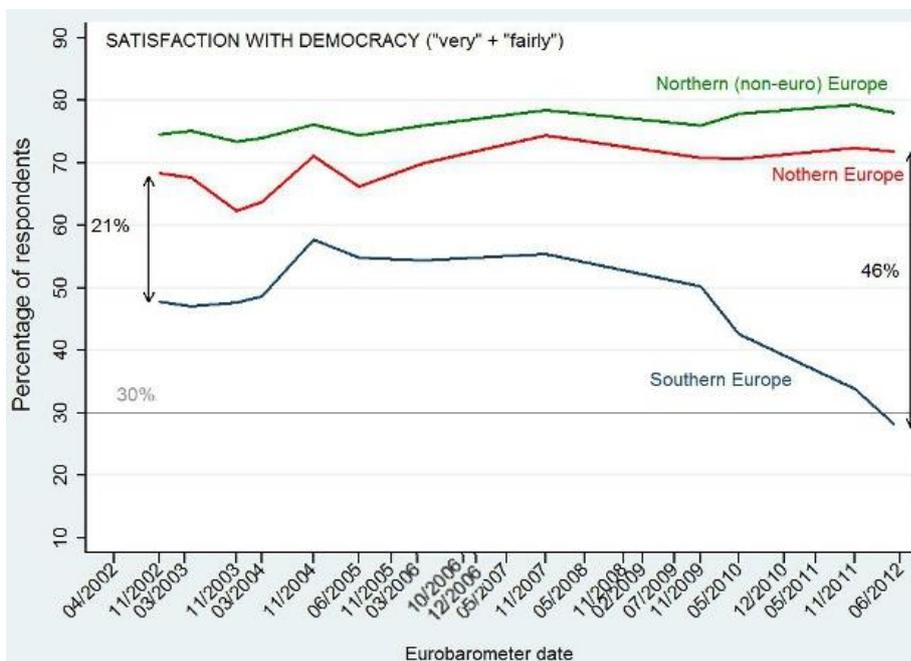
#### TROIKA POLICY IS PUTTING DEMOCRACY UNDER HEAVY PRESSURE

The replies provided by ETUC affiliates provide the discomfoting picture of economies, indeed entire countries, being overtaken by a rule that is external to them. Measures are being imposed which are not in the interest of the country and its citizens but instead serve to uphold the 'sanctity of debt' at all cost. In this way, creditor nations hope to spare their own banking systems, systems which have invested heavily in both the private and public debt of the Euro Area debtor nations.

It therefore comes as no surprise that citizens of debtor nations have significantly lost trust in their government (first graph below) and are even turning their back on democracy (second graph). Only one in three citizens in Southern Europe is still satisfied with the system of democracy; a share that is in free fall since the start of Troika -led austerity policies. (see second graph, page 8).



Source: Eurobarometer 2002-2012 taken from <http://blogs.lse.ac.uk/europpblog/2013/07/22/the-growing-economic-and-ideological-breach-between-northern-and-southern-eu-countries-is-pushing-europe-towards-a-perfect-storm/>



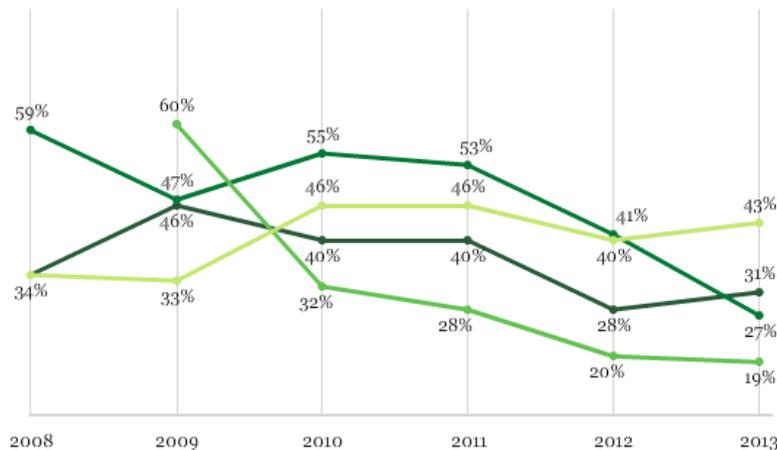
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On top of this, approval rates for the performance of leadership of the European Union have plummeted, in particular in the bail-out countries. In Greece, only 2 out of 10 people still approve of the leadership of the European Union.

#### Approval of EU Leadership

Do you approve or disapprove of the job performance of the leadership of the European Union?

■ Portugal ■ Spain ■ Greece ■ Italy



GALLUP

## CONCLUSION

The European Treaty establishes fundamental principles such as, amongst others, that the European Union has no competence on pay Article 153.5 TFEU and the obligation of the European Union to recognise and promote social dialogue and the autonomy of social partners, while respecting the diversity of national industrial relations systems (Article 152 TFEU).

This report however, makes it abundantly clear that these particular key principles of the Treaty, along with other key principles, such as the principle to promote living conditions and social protection, have not been respected at all.

Moreover, instead of acting as the guardian of the Treaty, the European Commission has not only allowed the IMF and the ECB to breach these principles, but has actually actively assisted in these breaches against major principles of the European Social Acquis.

**This is unacceptable. Fundamental principles and key objectives of the European Treaty are there to be respected at all times. The fact that programmes are elaborated under market and time pressure does not change this. On the contrary; the failure of the Troika programmes to deliver economic and social results shows that the respect of Treaty provisions is a necessary guarantee to design policies that actually work.**

Indeed, disregarding, or even sacrificing, these social principles has led to one-sided, erroneous, and hence counterproductive, economic policies. Austerity and wage deregulation have led to a deep recession, record high unemployment rates and the undermining of social cohesion.

Moreover, there are also severe consequences for the project of European integration. If the social principles laid down in the Treaty are simply treated as a piece of paper, whereas

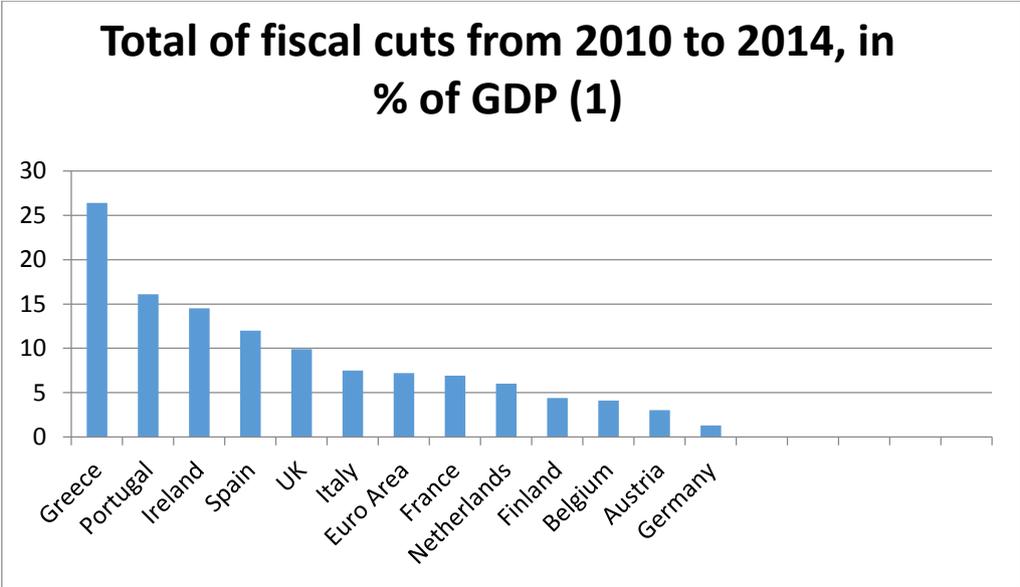
unfettered markets and business interests are enforced in all possible ways, European integration becomes severely unbalanced and the confidence of workers and citizens in the project of European integration is undermined.

Concrete and binding mechanisms to rebalance the economic pillar of the Union and the Monetary Union in particular, with the European Social Acquis, are therefore urgently needed. The Troika policy in the programme countries needs to be substantially corrected, and it must be made impossible for this policy of excessive austerity, structural deregulation and non-respect of social dialogue to be repeated in the future. In order to achieve this, the ETUC advances the following proposals:

- DG Employment and Social Affairs should draw up a detailed report of the breaches made against the spirit and the principles of the European Social Acquis (including the Charter of Fundamental Rights) in the programme countries, with a view to proposing measures to restore the Social Acquis. Social partners, through the European Social Dialogue, should be closely involved in this.
- The ILO and the Council of Europe should do a similar report to ensure programme countries get back to full compliance with the European Social Charter and the relevant ILO conventions.
- In the future, all measures to be taken in the context of financial assistance programmes should be screened in order to verify that the measures respect the Social Acquis and fundamental rights.
- The European Parliament should consider making active use of the fact that it has privileged access to the CJEU in order to ensure that the Commission, the Council and the ECB respect the key provisions of the European Treaties.
- Especially in those cases where social partner organisations are indeed able to reach a joint agreement or view, the Troika should respect this and abstain from imposing its policy.
- A review of the economic and social perspectives of the programme countries needs to be undertaken. This review should then lead to an Economic and Social Recovery Plan. The aim being to rebalance the policies of austerity and labour market deregulation with a renewed policy of investment and growth, along with a policy agenda that promotes fair wages and working conditions. In doing so, efforts between debtor and creditor nations must also be rebalanced, since both types of nations have an interest in securing the vitality of the European economy and the stability of the financial system in Europe.
- The ECB's mandate is, according to the Treaty, primarily limited to monetary stability. Since the ECB has no mandate, no competence and no expertise in labour market policy, the ECB should no longer be involved in imposing structural reforms and should therefore no longer be a full member of the Troika.
- At the very least, the democratic accountability of the ECB, the Commission and the IMF should be increased by establishing in-depth hearings with the European Parliament, both before adjustment programmes are being elaborated as well as afterwards.
- In order to help prevent a repeat of the Troika policy approach in the future, the board of the ESM should enter into a structural dialogue with European social partners by way of for example, the creation of a Social Partner Dialogue Board.

Annexes: The consequences of Troika policy in a couple of graphs

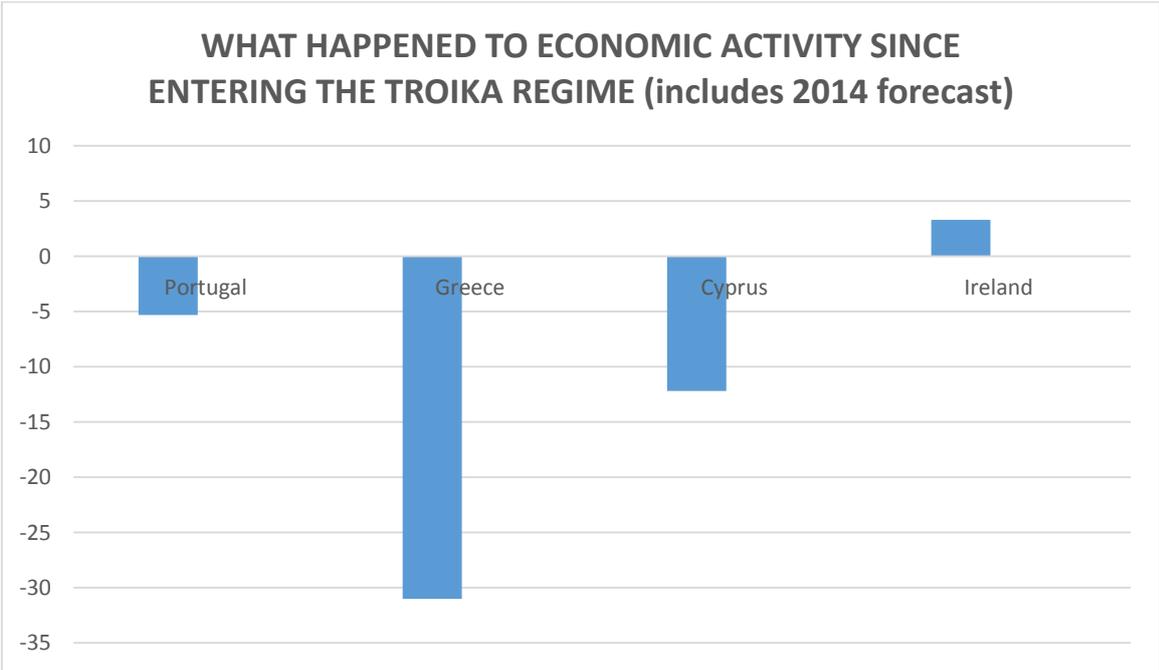
**I. AUSTERITY ON A MASSIVE SCALE**



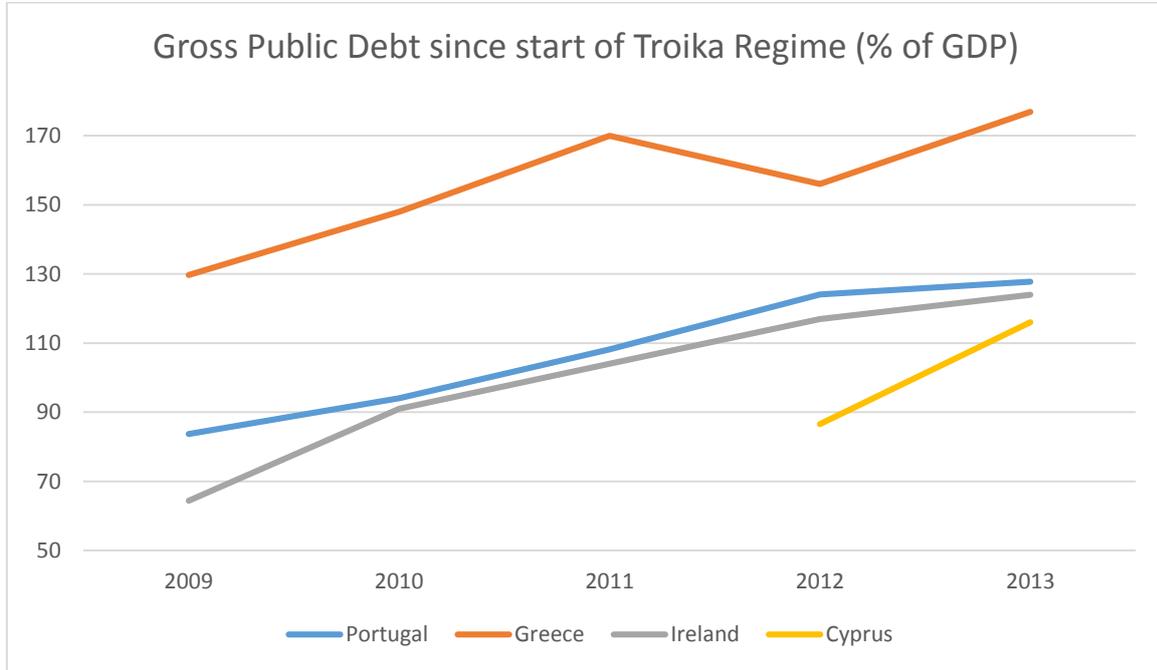
Source: IMK Report. Die Krise schwelt weiter. March2013.

(1) Change between 2009 and 2013 in government structural primary balance.

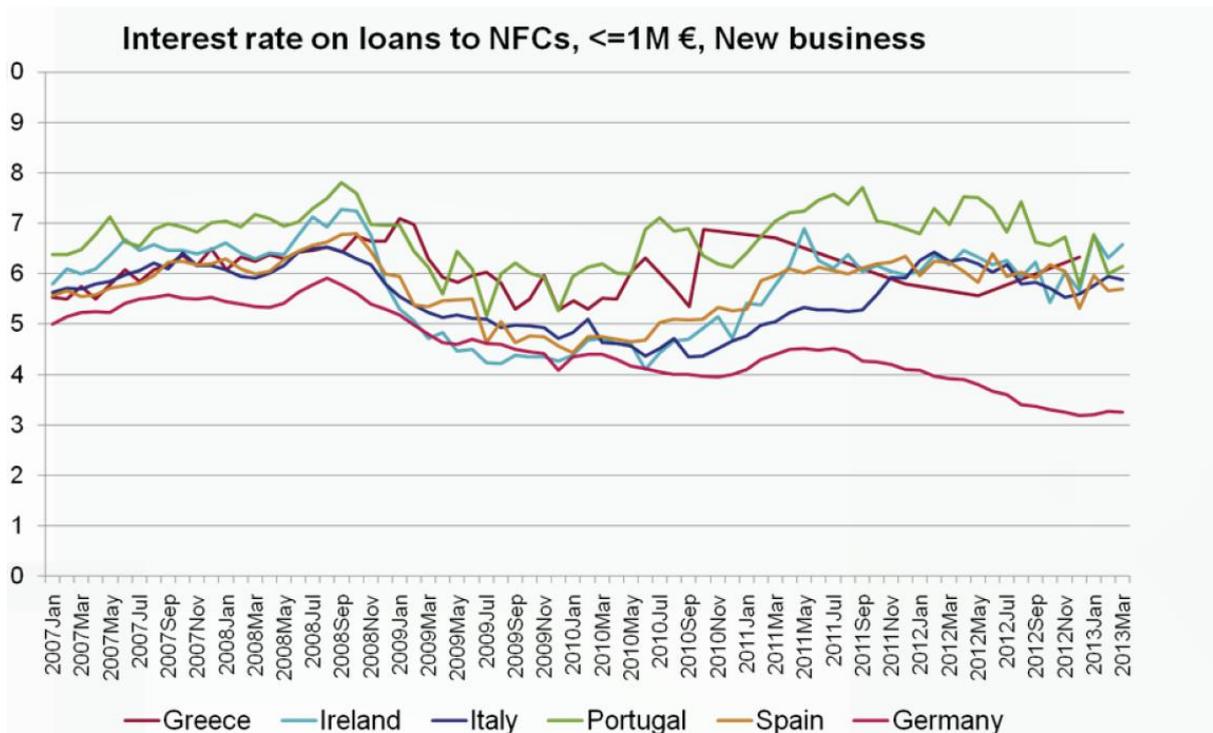
**II. TRIGGERED STAGNATION, RECESSION AND OUTRIGHT ECONOMIC COLLAPSE**

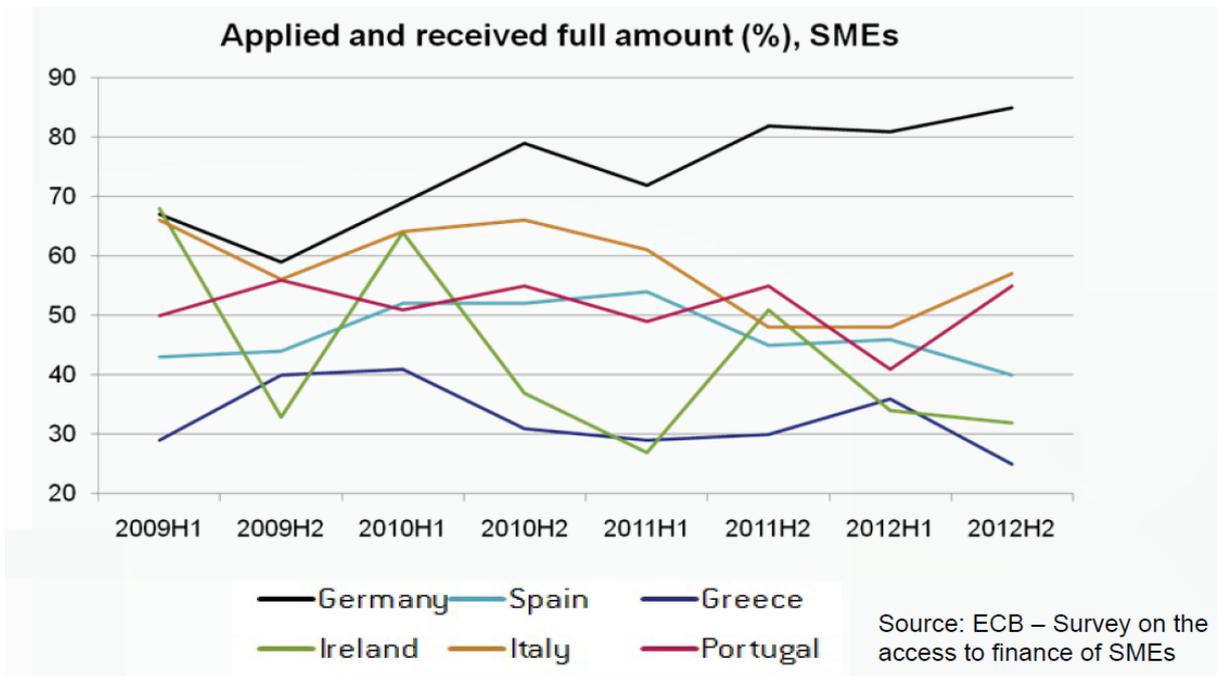


### III. WAS UNABLE TO CONTAIN PUBLIC DEBT FROM EXPLODING

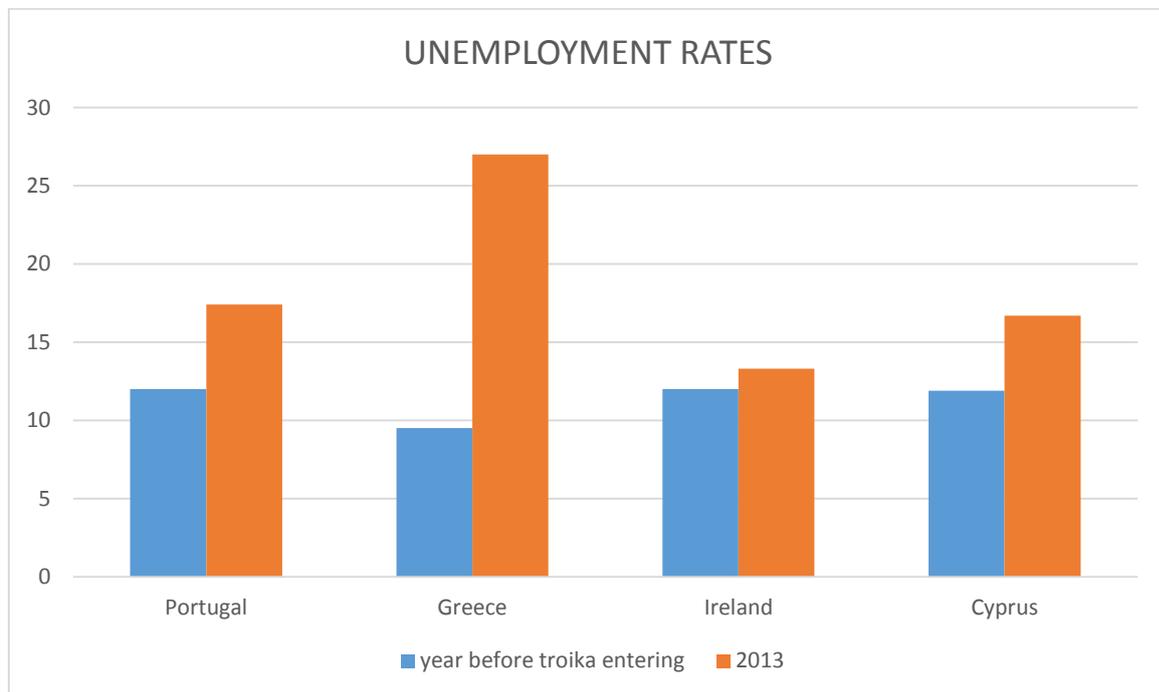


### IV. UNABLE TO RESTORE CREDIT FLOWS TO THE REAL ECONOMY

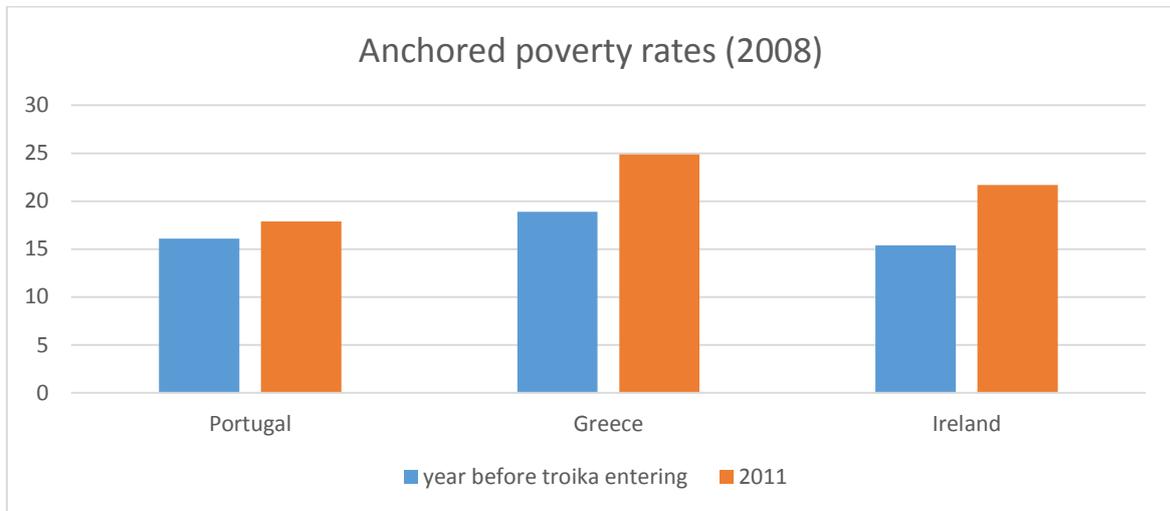




## V. INSTEAD, RESULTING IN RECORD HIGH UNEMPLOYMENT RATES

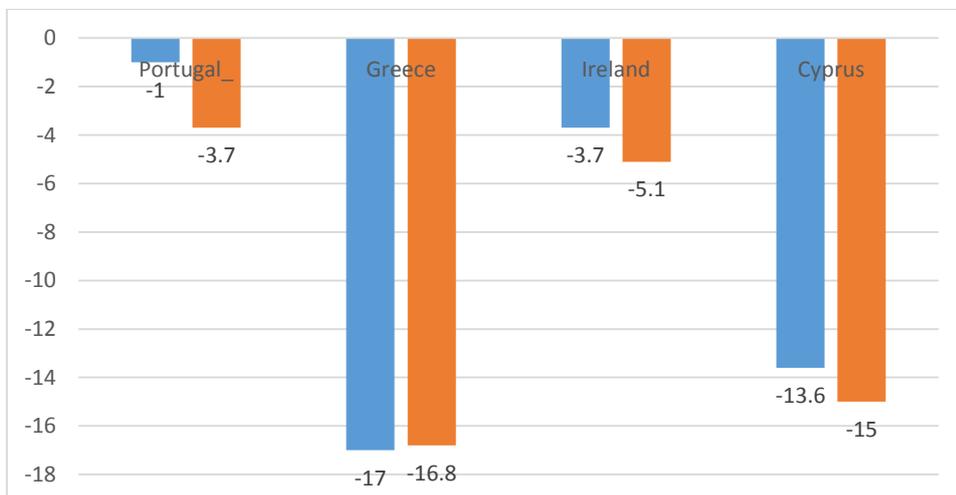


## VI. IN INCREASING POVERTY RATES



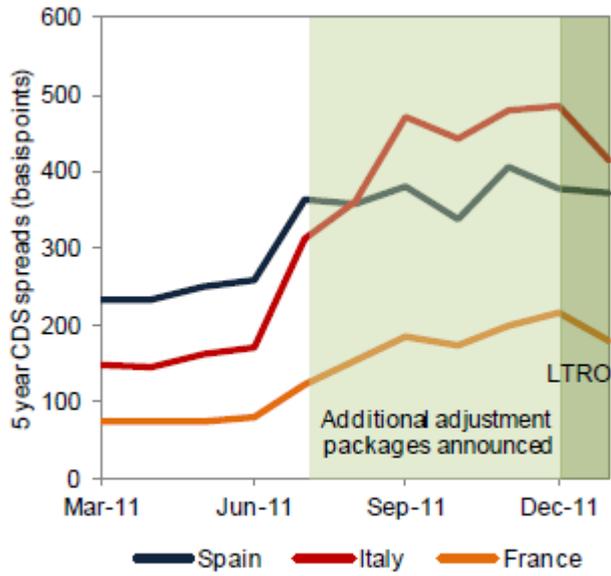
## VII. IN WAGES COLLAPSING

### EVOLUTION OF NOMINAL AND REAL WAGES PER EMPLOYEE SINCE START OF TROIKA PROGRAM AND UP TO 2014



## VIII. IT'S NOT AUSTERITY BUT THE ECB THAT IS HOLDING THE KEY TO CONTROLLING MARKET EXPECTATIONS AND SOVEREIGN RATE SPREADS

**Figure A3. Additional Fiscal Consolidation and CDS Spreads**



Sources: Fiscal Monitor, Markit.

Note: LTRO: Long-term refinancing operations by the European Central Bank.