

From the Periphery to the Core?
Union Exclusion and Competitive Internal Devaluation in the Eurozone

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Abstract

During the Eurozone crisis, trade unions in the Southern European ‘periphery’ lost political influence over labour market reform, whilst their counterparts in the ‘core’ extracted concessions from business and the state. In this paper, however, we show how the gradual decline in the policy influence of organised labour lasts beyond the ‘fast burning’ phase of the sovereign debt crisis in the ‘periphery’ and gradually extends to the ‘core’. Instead of explanations based on domestic politics, we attribute this ongoing decline in union influence to the Eurozone’s institutionalized reliance on economic recovery through *competitive internal devaluation*. By obliging member states to compete against each other on wage and labour market flexibility, the institutional architecture of the Eurozone creates opportunities for export-oriented employers to push for liberalization and thus union exclusion. We illustrate our argument by comparing the divergent fortunes of unions in shaping the trajectory of labour market reforms over the last decade in a paradigmatic ‘core’ country, Germany, and in three countries that experienced varying pressures for internal devaluation over time: Portugal, Italy, and France. We show how unions were disempowered one by one in the latter three countries, whilst in Germany they extracted considerable concessions, benefitting from the country’s outstanding competitiveness position. In light of this, we argue that the future fortunes of organized labour will depend to a growing extent on transnational cooperation in order to overcome pressures for a ‘race to the bottom’ within the Eurozone.

Introduction

Trade unions played a key role in the politics of adjustment to the European Economic and Monetary Union (EMU) from the 1990s until the early 2000s. As Eurozone membership implied the loss of control over monetary policy and constraints on public debt levels, the main burden of adjustment fell on the labour market – and thus into the sphere of trade union action (Hancké/Rhodes 2005). National governments therefore pursued a negotiated reform strategy with organized labour to achieve measures of coordinated wage restraint and labour market liberalization in the interest of EMU adjustment. Although the degrees of problem pressure were uneven and diverse, this process of involving organized labour took place across diverse varieties of capitalism (Rhodes 1998, Culpepper 2002, Hamann/Kelly 2007, Baccaro/Simoni 2008, Culpepper/Regan 2014).

Yet, since the Eurozone crisis, the influence of trade unions has substantially come under pressure, with significant effects on the direction of labour market reform. Overall, previous studies find that trade unions of the Northern European ‘core’ received policy concessions from the state, whereas their counterparts in the Southern European ‘periphery’ lost any significant influence over policy change during the sovereign debt crisis (Marginson 2015, Lehndorff 2015, Bsirske et al. 2016). However, union exclusion was a notable feature beyond this acute crisis phase in the countries hit hardest by sovereign debt – i.e. the GIIPS (Greece, Ireland, Italy, Portugal, and Spain) – and could be observed in France under Emmanuel Macron too (Rathgeb/Wolkenstein 2017). It thus seems that the disempowerment of organized labour gradually eats itself from the periphery into the core of the Eurozone and lasts beyond the sovereign debt crisis. In this paper, we attribute this gradual decline in union influence to the growing demands posed by EMU membership to stimulate the economy through a downwards adjustment of wages and prices – a process known as ‘internal devaluation’. The resulting pressure for union exclusion affected most those countries who have the hardest work to comply with fiscal austerity and cost competitiveness in order to boost export-led growth. The deflationary outlook of the Eurozone (EZ) thus creates opportunities for employers from the exposed sectors to impose their first-order preferences for liberalization on organized labour in the politics of labour market reform.

This paper uses case studies of Germany, Portugal, Italy, and France to illustrate the diverse impact of what we call *competitive internal devaluation* on union influence since the onset of the Eurozone crisis in 2008. The rationale behind our research strategy is to select cases that display a broad variation in the degree of pressures for internal devaluation and thus union marginalization while providing grounds to address alternative ‘domestic politics’ explanations at the same time (e.g. partisanship and union power). While German unions benefit from the structural advantage of an outstanding competitiveness position, this puts their counterparts under pressure to follow suit by enhancing wage and labour market flexibility accordingly. We attempt to show how the EZ’s

institutional architecture has helped to translate Germany's wage moderation into a dynamic of competitive internal devaluation that gradually moves from a peripheral country under a Troika bailout programme (Portugal) and a country struggling to service its debt (Italy) beyond the GIIPS-countries to one of the Eurozone's core country (France) within the past decade. Our case selection puts our argument to a hard test, as the process of internal devaluation through union exclusion took place under governments of the right as well as the left despite electoral defeats and industrial action across all three cases. It would thus be difficult to contend that neoliberal labour market reform is merely a product of right-wing partisanship or public opinion.

We add to the literature of comparative political economy in two inter-related ways. First, we show the diverse impact of Eurozone integration on the opportunities for trade unions to influence labour market reform. Although the literature on the Eurozone crisis is indeed voluminous (e.g. Streeck/Schäfer 2013), we believe that it has not sufficiently absorbed its long-term implications for the unions' *political* influence on government interventions, which are crucial for the economic adjustment strategies of its member states. Second, we highlight the impact of diverging union influence on the labour market reform trajectories inside the Eurozone. In Germany, for example, trade unions successfully achieved the introduction of a statutory minimum wage and re-regulations of temporary employment. As a result, they successfully pushed for the mitigation of institutional dualisms between regular workers with well-protected jobs ('insiders') and atypical or unemployed workers ('outsiders'). In the Southern European countries, by contrast, trade unions were unable to resist the deregulation of labour market protections. We claim that this divergence in the success of union politics cannot be understood without recognizing the mediating influence of Eurozone membership among diverse growth models.

Our argument proceeds as follows. In the next section, we will outline the theorised relationship between competitive internal devaluation and union influence in the Eurozone. We then show through process-tracing that EZ-related competitiveness pressures put governments of Portugal, Italy, and more recently, France under pressure to dismiss union demands in the interest of internal devaluation, whereas this pressure was absent in Germany, which led to a divergence in the direction of labour market reform. We conclude by discussing the class power implications of the Eurozone crisis and avenues for future research on the role of organized labour in European capitalism.

The Political Economy of Competitive Internal Devaluation

The creation of the Eurozone (EZ) rested on the monetarist assumption of economic convergence through central bank independence and fiscal discipline (Sadeh/Verdun 2009). Both conditions would incentivise the adoption of supply-side labour market reforms to ensure sufficient wage flexibility in

a monetary union of diverse varieties of capitalism. Following this line of reasoning, the preparation to EMU membership during the 1990s required governments to limit inflation and public debt levels as part of the ‘Maastricht convergence criteria’, while the design of the European Central Bank (ECB) followed the German *Bundesbank* model by restricting its mandate to the objective of price stability (excluding employment stability). The cooperation with trade unions through the adoption of ‘social pacts’ was crucial to mobilize political support for this supply-side-oriented transition towards EMU membership.

In this institutional framework, the member states’ dominant instruments of economic adjustment are thus wage and labour market flexibility. The first ‘mover’ in this direction was arguably Germany in response to a poor economic performance and, among others, an overvalued exchange rate set by the ECB at the expense of its low-inflation economy (Scharpf 2011, 13-14). By pursuing a long-term policy of wage moderation over the 1990s and 2000s, Germany not only contributed to a massive increase of its export share; it also undercut its EZ’s neighbours cost competitiveness and thereby put pressure on their trade unions to follow suit (Bofinger 2015).¹ Although the sources of German current account surpluses are somewhat disputed in academic debates (Storm/Naastepad 2015, Storm 2016 versus Baccaro/Benassi 2016, Baccaro/Tober 2018), it is nevertheless clear that strong wage moderation provided Germany with a competitive advantage inside the Eurozone. Notably, before the crisis, the Eurozone could be considered a semi-closed trading area – with only 10 per cent of the EZ’s GDP leaving its borders – so that a gain in competitiveness by one country translated into a loss for another country (Regan 2015).

Yet, the EZ’s governing idea of domestic supply-side adjustment was complicated by the ‘stickiness’ of labour market institutions in diverse European growth models. Broadly, previous research in comparative political economy (CPE) distinguished between the export-led regime in the ‘North’ (Austria, Finland, Germany, and the Netherlands) and the demand-led regime in the ‘South’ (Greece, Italy, Portugal, and Spain), which are each built on historically evolved wage-setting regimes and underpinned by distinct political coalitions (see e.g. Hall 2014, Johnston/Regan 2016, Höpner/Lutter 2017). Accordingly, the former group of countries possesses the coordinating capacities to ensure wage restraint for successful export performance, while the latter group of countries does not (Molina/Rhodes 2007). It follows that the ‘North’ has an in-built structural advantage compared to the ‘South’ in adjusting to the competitiveness demands of a hard currency union (Regan 2015). Faced with this adjustment problem, recent contributions highlighted that the ‘South’ could sustain its dependence on domestic demand through reduced costs for external borrowing and cross-border

¹ Or, in the words of Storm (2016), “Southern Europe’s cost competitiveness problem [...] was created in Berlin.”

banking loans coming from savers in the ‘North’ (Jones 2015, Perez/Rhodes 2015). Access to cheap credit and increased capital inflows therefore contributed to higher nominal unit labour costs (ULCs), primarily via an increase in domestic prices (Perez/Rhodes 2015). Aggravated by weak productivity growth in the South (Lapavitsas 2011, Armingeon/Baccaro 2012), these trends resulted in growing current account imbalances that were at the heart of the Eurozone’s subsequent financial-*cum*-fiscal crisis.

The supranational response to the sovereign debt crisis (2010-2012) reinforced the emphasis on cost competitiveness as the main driver of growth within the EZ, and thus placed an asymmetric burden of labour market adjustment on to trade unions of the more demand-oriented ‘South’. More specifically, it tightened the deflationary architecture of the EZ by introducing stricter surveillance mechanisms and rules on fiscal discipline that implied the adoption of the ‘Fiscal Compact’ and the European Semester. The former requires that the balanced budget condition of the Stability and Growth Pact be enshrined in constitutional law and the structural deficit (adjusted for cyclical effects) be no greater than 0.5% of GDP, while the latter gives the European Commission the right to monitor domestic economic policies across the European Union. More specifically, it embedded a new ‘Macroeconomic Imbalance Procedure’ as part of the ‘Six Pack’ (2010) of regulations to monitor domestic macroeconomic performances via a range of ‘competitiveness indicators’ such as ULCs and the real exchange rate. Central to this policy coordination mechanism is the mandate of the European Council to issue annual country-specific recommendations (CSRs) to guide national reform developments, which often place a burden on welfare state spending (De la Porte and Heins 2016, Verdun and Zeitlin 2017).

While a lot of attention has been dedicated to analysing the ‘new EU economic governance framework’ (Crespy/Schmidt 2017), it is important to emphasize that its mechanisms of conditionality and surveillance only represented a change in *degree* rather than *kind* of pressure, by intensifying the EZ’s in-built demands for internal devaluation. In other words, the increased emphasis on fiscal discipline and cost competitiveness makes apparent that the dominant solution to facilitate economic growth is a downwards adjustment of wages and prices to boost export growth. From a policy perspective, such an export-oriented strategy typically involves the decentralization of collective bargaining, the deregulation of employment protection, and the reduction of the reservation wage.

We claim that the EZ’s institutional framework and its structural bias for export-led growth strategies have clear *class power* implications, even beyond the acute crisis period, by creating opportunities for the export-oriented factions of capital to push governments towards such a strategy of internal devaluation. The absence of independent fiscal and monetary policies puts constraints on alternative ways of economic recovery and thus helps to ‘shield’ their demands from domestic

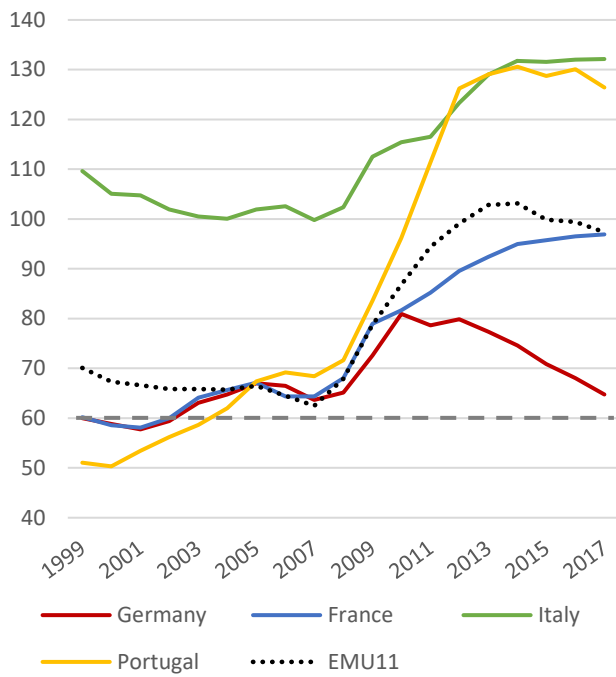
opposition. We conceptualize trade unions as the main countervailing force against the mantra of internal devaluation. From this, it follows that the pursuit of internal devaluation for the purposes of export-oriented growth necessitates the downgrading of union influence on policy-making and the marginalisation of organised labour's policy preferences.

However, we contend that the pressure on governments to disempower union influence is *not* uniform across time and space, but rather depends on a country's relative fiscal space and international competitiveness position. In short, we hypothesize: the higher the pressure towards internal devaluation, the more governments have a structural incentive to downgrade union influence. We argue that this non-uniform pressure arising from the asymmetries in-built in the EZ institutional architecture largely account for the continued diverging fortunes of organised labour in the Eurozone since the onset of the EZ crisis, including in the current 'post-crisis' phase.

To measure the degree of pressure faced by governments to dismiss unions in the interest of internal devaluation, we look at the trajectories of annual public deficits and debts as proxies for austerity-related pressures on the one hand, and NULCs and real exchange rates as proxies for competitiveness-related pressures on the other. We hypothesize that within the EZ's institutional architecture, a higher level of competitiveness pressure leads to a lower probability that governments provide trade unions with policy influence in labour market reform; and *vice-versa*.

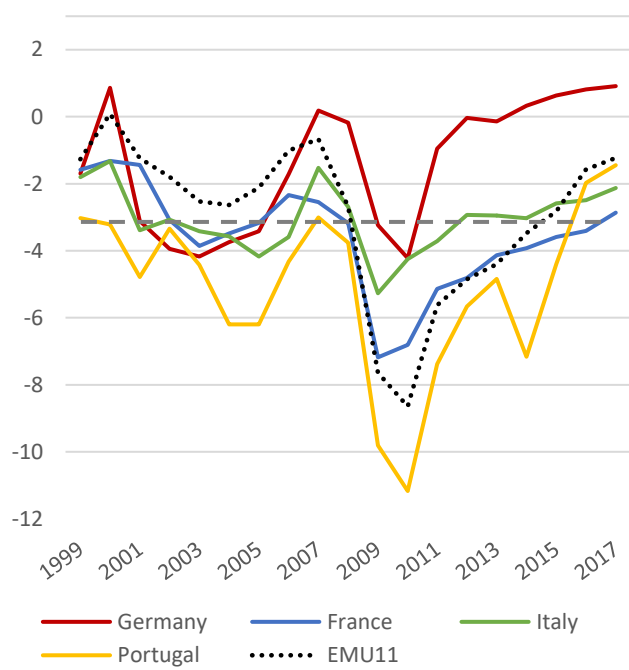
Figure 1 shows the evolution of government debt as a percentage of GDP from 1999 to 2017, benchmarked against the Stability and Growth pact (SGP) target of 60%; and Figure 2 charts government deficit over the same period, benchmarked against the SGP threshold of 3% of GDP. Italy entered EMU with a very high level of sovereign debt, which was not lowered in the subsequent decade, whilst Germany, Portugal and France in 1999 were within EMU's public debt parameters. However, their positions diverged rapidly since the mid-2000s and especially after the onset of the crisis in 2008. By 2011, Portuguese public debt had ballooned to Italian levels, and its deficit, which had been above average since 1999, rose dramatically to -11% of GDP. Italy's fiscal position, which was in primary surplus in 2007, also deteriorated sharply between 2008 and 2009. France and Germany's public debts and deficits also grew in the immediate post-crisis period (2008-2010), but whilst Germany successfully undertook a path of indebtedness and deficit reduction, supported by strong growth performance, France's public debt continued growing steadily until 2015, and its deficit remained higher than the 3% threshold until 2017.

Figure 1 Government debt as % of GDP



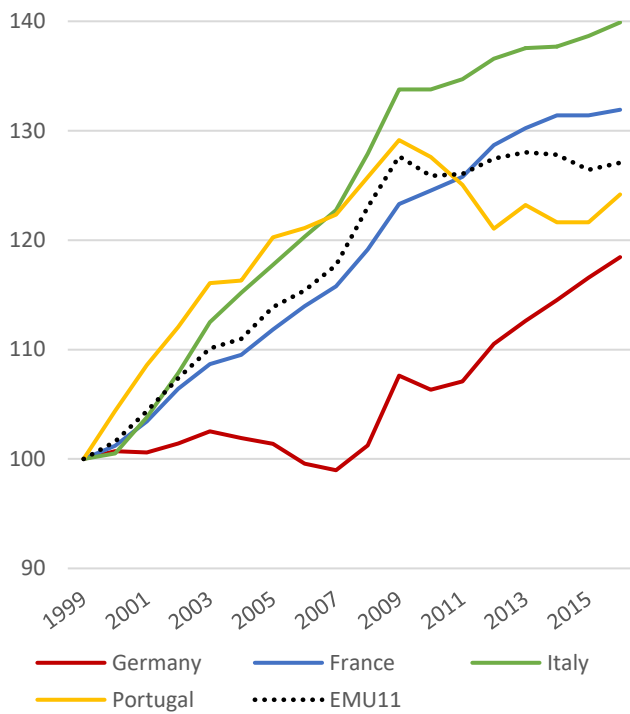
Source: AMECO

Figure 2 Government deficit



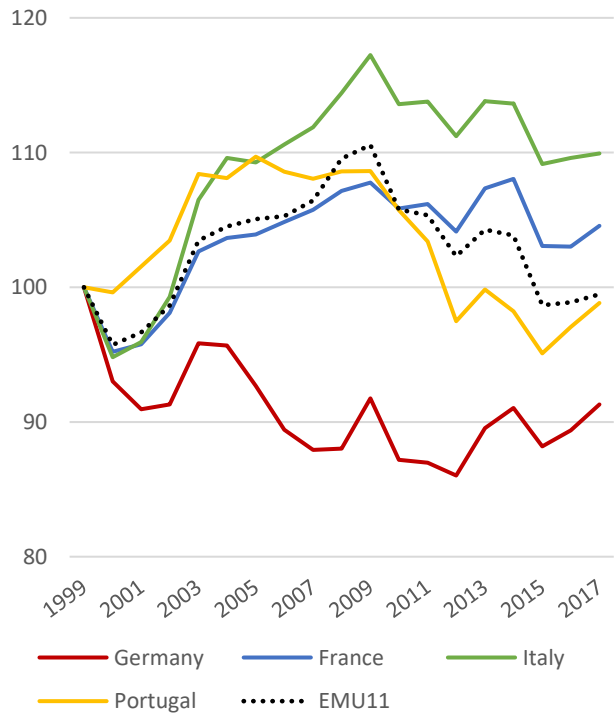
Source: AMECO

Figure 3 Nominal Unit Labour Costs (1999 = 100)



Source: Eurostat

Figure 4 Real Effective Exchange Rate (1999 = 100)



Source: Eurostat. REER deflated by unit labour costs, relative to a panel of 37 countries.

Figure 3 shows the evolution of nominal unit labour costs (NULCs) in the countries of the EMU-11 from 1995 until 2016. The trajectory of NULCs gives insights into the variation of nominal costs of labour relative to labour productivity in the whole economy and is a standard indicator of an economy's international competitiveness (with higher NULCs corresponding to a deterioration in competitiveness position). In the run-up to the Eurozone crisis, we observe a striking divergence in the trajectory of NULCs between Italy, Portugal and France, where NULCs rose faster than productivity over the 1999-2008 period; and Germany, where NULCs remained virtually flat (and even decreased) up until 2008. In the period of the 'peak' of the Eurozone crisis (2008-2012), the trend changed: whilst NULCs decrease markedly in Portugal, especially from 2010 onwards, falling below EMU-11 average, they continued growing in Italy and France at the same pace as the previous period, above EMU11 average. Germany also experienced NULC growth post-2008, but it maintained its comparative competitive standing.

Finally, figure 4 shows the trajectory of the Real Effective Exchange Rate (REER), which measures the cost or price competitiveness of a country with respect to its trading partners. We use a REER measure deflated by unit labour costs relative to a panel of 37 countries (EU28 plus 9 countries), to trace how the international competitiveness of each country varies in relation to costs developments within each national economy (as well as in relation to the Euro exchange rates for non-EA trading partners). An increase in REER implies that exports become more expensive and imports cheaper; therefore, an increase indicates, generally speaking, a loss in trade competitiveness that can be associated with a deterioration in current accounts. The trajectory of REER developments also shows a divergence between Germany and the other 'peripheral' countries in the run-up to the Eurozone crisis. Germany stands out for its decreasing REER over the period, indicating a considerable competitiveness advantage at the expense of other EA countries, whilst the REER in France, Portugal and especially Italy deteriorates markedly. Similarly to NULCs, the effective exchange rate of Portugal also decreases markedly from 2009 onwards, indicating a sharp downward adjustment in costs which reduces the gap with Germany, whilst France and especially Italy, despite fluctuations, remain above EMU-11 average.

Based on this operationalisation of austerity and competitiveness pressures, we would expect the pressures for adjustment via internal devaluation over the crisis period to be comparatively more intense, in order, in Portugal, Italy and France; and virtually absent in Germany. To summarize, Portugal's public finances experienced the deepest troubles in the immediate crisis period (2008-2010). In the absence of common EU-wide fiscal shock absorbers and a 'lender of last resort', Portugal thus faced a particularly intense pressure for an export-led economic recovery through internal devaluation. Whereas Italy did not experience such a steep increase in deficits (starting from high debt levels

though), it suffered from a gradually deteriorating competitiveness position beyond the sovereign debt crisis. We would thus expect persistent pressures for internal devaluation, even though Italy's problem high NULCs stem from low productivity growth rather than high wage costs, thus calling into question the functional adequacy of internal devaluation (Armingeon/Baccaro 2012). France, by contrast, is a case of slowly deteriorating competitiveness while lacking the fiscal means to kick-start aggregate demand within the constraints of the Fiscal Compact at the same time. In terms of timings, we thus expect Portugal to be subject to more intense pressures during the earlier phase of the crisis, which should turn out to be more persistent in Italy over time; and France to experience a competitive 'catch-up' pressure from 2012 onwards. Germany, on the other hand, lacks the pressures faced by its neighbours, so that its trade unions operate in a much more balanced distribution of class power, creating opportunities for concessions from the state and (export-oriented) employers. We will now show how these differences in problem pressures contributed to diverse levels of union influence and thus directions in labour market reform since the onset of the Eurozone crisis in 2008. Understanding these differences requires taking into account the sequence of competitive internal devaluation, which initiated in today's paradigmatic 'core' country.

3. Germany: The rise of union influence – after its fall

It is commonplace that the fortunes of trade unions since the Eurozone crisis cannot be understood without recognizing the previous internal devaluation path of Germany. Unlike the 'periphery' countries, the German economy faced serious problems of cost competitiveness *prior* to the Eurozone crisis. As of the 1990s, high non-wage labour costs (= social security contribution payments) and 'rigid' wage determination placed a burden on private-sector employment, while growing debt levels made increases in public-sector employment fiscally unsustainable. For welfare state scholars, Germany became thus emblematic of the "welfare-without-work" problem (Esping-Andersen 1995, see also Iversen/Wren 1998). At the same time, the industrial relations literature observed the massive offshoring of low-skilled manufacturing jobs in the wake of internationalizing supply-side chains (Baccaro/Howell 2017, 106-107). As a result, employers' associations, especially in the metal industry (*Gesamtmittel*), increasingly withdrew from sectoral agreements and pushed the state for liberalizing labour market and welfare reforms. This economic environment in tandem with stubbornly high levels of unemployment led the Red-Green government under Schröder (1998-2006) to pursue a unilateral reform strategy that aimed to reduce non-wage labour costs, deregulate employment at the margins, incentivise faster job placement, and enhance pressure on the (long-term) unemployed to take up any jobs deemed 'suitable' (*Agenda 2010*). Therefore, a social democratic-led government no longer secured the unions a privileged position in the reform process.

The above internal devaluation period in tandem with fixed exchange rates greatly enhanced Germany's cost competitiveness relative to its neighbours inside the Eurozone. As a result, in 2012, Germany's current account surplus was roughly as high as the combined current account deficits of Greece, Italy, Portugal, and Spain (Armingeon/Baccaro 2012, 259).² Given its competitive advantage, the pressure for (another) union exclusion in the interest of internal devaluation was virtually absent during the immediate crisis period. On the contrary, the grand coalition actively reached out to the trade unions in order to pre-empt political conflict shortly before the federal election in September 2009 (Haipeter 2012, 392). The ensuing revival of tripartite consultations – also known as 'crisis corporatism' (Urban 2012) – led to labour-inclusive policy responses to the crisis. Broadly, the trade unions found agreements on economic stimulus programmes and the stabilization of employment in the exposed manufacturing sector (Dribbusch/Birke 2014). In this respect, the expansion of short-time work, which provides subsidies to employers who reduce workers' hours rather than laying them off, contributed to prevent a translation of GDP contraction (-4,9% in 2009) into growing unemployment and thus fuelled a 'job miracle' (Krugman 2009). While the labour-inclusive 'crisis corporatism' (2008-2009) was a temporary phenomenon in response to the financial crisis, the subsequent Conservative-Liberal government (2009-2013) as well as the employers' association also faced little incentive for a political conflict with the unions. It was instead the German union confederation (DGB) that started to mobilize pressure by campaigning for the introduction of a statutory minimum wage (mainly on behalf of service sector unions) and the re-regulation of temporary agency work (mainly on behalf of manufacturing unions) (Dribbusch/Birke 2014). Such initiatives were clearly a response to the past roughly two decades of internal devaluation and thus growing inequality in employment standards. Yet, from a comparative perspective, such improvements on the margins of the workforce were not even seriously considered in the 'periphery' countries (Lehndorff 2015).

The Conservative-led grand coalition (since 2013) indeed fulfilled a series of major policy demands from the DGB: the introduction of a statutory nation-wide minimum wage (2013), the re-introduction of early retirement (2013) as well as the re-regulation of temporary agency work (2016) and fixed-term contracts for which there is no 'valid' reason (2018). All these steps helped to deviate from the previous internal devaluation path, albeit to a moderate extent (Lehndorff 2017). Notably, the minimum wage of €8.50 gross per hour (2015) – which is about 50 percent of the median wage and at a medium level from an EU-comparative perspective – aimed to put a break on low pay in a context

² This is not the place for a comprehensive review of the reasons behind this divergence in current account balances (see e.g. Scharpf 2011, Jones 2015, Johnston/Regan 2016, Höpner/Lutter 2017). For the purpose of this paper, it suffices to point out that German internal devaluation exerted competitiveness pressures on its EZ's trading partners and had required union exclusion as much as it did for any other EZ country since 2008.

of declining collective bargaining coverage. In 2010, for example, Germany had the second largest low pay sector in Western Europe, with 22.2 percent earning less than two thirds of the median wage, slightly ranking below Cyprus (Böckler Impuls 2013). In a similar vein, the re-regulation of temporary agency work targeted the margins of the (manufacturing) workforce by re-introducing a maximum duration of 18 months and equal pay after nine months. Finally, the new government programme announced to put constraints on the usage of temporary contracts for which there is no ‘valid reason’ as a way of incentivising permanent employment (Government programme 2018, p. 52).

The first significant reason why the policy influence of German trade unions increased in the post-crisis period was that their campaigns contributed to influence public opinion in their preferred direction. In 2009, for example, public support for a minimum wage increased up to 85 percent in nation-wide opinion polls (infratest dimap 2013) while the amount of respondents perceiving economic conditions as “unfair” increased up to 70 percent in 2013 (Marx/Starke 2017). But public opinion is only part of the story of why unions gained success. Importantly, they also faced less effective resistance from export-oriented employers. Although the national employers’ association (BDA) supported the opposition of the export sector, the sheltered sector consented to the minimum wage as a way of undermining cost undercutting by foreign firms (Mabbett 2017). Perhaps even more importantly, however, prior to legislation Germany experienced a series of current account surpluses at record high levels, which called into question the warnings of the BDA against the minimum wage’s “burden” on job creation (*ML-Beschlussempfehlung*). In a similar vein, Kai Schiewerling, the CDU/CSU’s spokesperson for labour market and social affairs, pointed to changed economic conditions to legitimize his party’s support for the minimum wage, meaning that “the situation in 2014 is different from the one in 2002 and 2003” (*Stenografischer Bericht* 3.7.2014). A similar dynamic helps explain the re-regulations of temporary work in that competitiveness pressures were not a credible threat to cut off union demands. On the contrary, the achievements of unions should rather be seen as moderate deviations from the previous internal devaluation path that help to sustain political support for Germany’s export-led growth model (Hassel 2017). Following this logic, Mabbett (2017, 1242) considers the minimum wage a “continuation and adjustment” of the *Agenda 2010* rather than a change in its overall export orientation.

Unlike in Germany, in countries experiencing macroeconomic pressures and a deteriorating competitiveness outlook, the export-oriented employers were much more successful in imposing their demands for internal devaluation on unions. Aided by the pressures leveraged through Eurozone economic governance mechanisms during the crisis, large employers’ preferences for deregulatory labour market reforms were empowered, whilst unions suffered considerable defeats. We now illustrate the operation of these competitive internal devaluation dynamics within the Eurozone with

reference to three countries that experienced different degrees of pressures over time: Portugal, Italy and France.

4. Portugal: unions' defeat under Troika pressure and beyond

Portugal entered the crisis in 2008 with a high current account deficit and a highly deteriorated competitiveness position, as shown in its high ULC growth compared to the euro average. This was caused by excessive expansion in domestic demand in the pre-crisis period, favoured by low interest rates and growing household indebtedness (Blanchard/Portugal 2017, 6). Portugal's fiscal position deteriorated sharply over 2008-2010, due to growth decline and increased public spending. Growing debt and deficit-to-GDP ratios, in turn, fuelled international financial markets' anxiety about the ability of the Portuguese governments to service its sovereign debt. As a result of pressures for fiscal consolidation and internal devaluation, between 2010 and 2014, Portuguese unions suffered extensive defeats as both left- and right-wing governments implemented far-reaching austerity and deregulatory reforms. Pressures to stick to the path of internal devaluation still operate, leading to continued union disempowerment.

Following negative economic performance in 2008/09, in 2010 the centre-left government led by PM Socrates implemented three austerity reforms packages attempting to reign in the fiscal deficit and avoid a bailout, responding to intense pressure from the Commission and the ECB. These included cuts to unemployment benefits, freezing of public sector employees' salaries and tax hikes. The two main union confederations, CGTP and UGT, organised a joint general strike in November 2010 against the government austerity agenda (the first joint one in over twenty years) (Campos Lima/Artiles 2011), but with no impact. After Greece and Ireland, Portugal lost access to private bond markets and was forced to request a bail-out from the Troika (EU, ECB and IMF) in March 2011. The conclusion of the MoU empowered the preferences of right-wing partisan actors and large employers in favour of labour market deregulation (Moury/Standring 2017), with a corresponding disempowerment of unions. The government marginalised unions' policy preferences whilst making strategic use of social concertation. Indeed, both the centre-left Socrates government (2009-2011) and its successor, the centre-right government of Passos-Coelho (2011-2015) used tripartite concertation to legitimise their deregulatory labour market policy reforms' packages (Ramos de Almeida et al. 2016). CGTP and UGT participated in the negotiation of two tripartite agreements, in March 2011 and January 2012, to define the details of the labour market and collective bargaining reforms requested by the Troika - although only UGT eventually signed these (Tavora/Gonzalez 2016). However, this involvement did not result in policy concessions, with the exception of a vague commitment to ALMP expansion which, however,

has not materialized yet (Branco/Cardoso 2017; Gago/Moury 2017). Five general strikes had no impact on the policy agenda either. From 2012 onwards, the government's policy approach turned markedly unilateral (Branco/Cardoso 2017). The reforms of the Labour Code implemented by the right-wing Passos-Coelho government between 2012 and 2014 to comply and 'go beyond' the MoU constitute an unprecedented defeat for organised labour in Portugal, leading to a far-reaching deregulation of labour law and collective bargaining (Campos Lima 2015, 2016; Cardoso/Branco 2018). The minimum wage was frozen for three years; working time flexibility at employers' discretion increased; dismissal protection for both open-ended and temporary reduced, and the duration of temporary contracts increased in line with employers' demands. Unemployment protection was also reduced, both in generosity and duration. Although entitlement criteria for labour market outsiders were marginally relaxed (Moreira et al. 2015), coverage decreased sharply between 2013 and 2015 (Cardoso/Branco 2018). Despite strong union opposition, collective bargaining also underwent a radical decentralisation to firm level, extension mechanisms of CBAs were curtailed, and their duration limited, leading to a rapid decrease in collective bargaining coverage (Rocha and Stoleroff 2014).

The imposition of severe internal devaluation led to a sharp downward adjustment in ULCs and real effective exchange rates, and to a collapse in domestic demand that triggered a forced re-orientation of the Portuguese economy towards exports, with a corresponding return to current account surplus from 2013 (Felke/Elde 2014). This was aligned with the priorities of large export-oriented employers, organised in lobby groups such as the *Forum para la Competitividade*, who pushed strongly for strengthening Portugal's external competitiveness and attracting FDI through downward costs adjustment (Jornal de Negocios, 22/05/2013). However, internal devaluation was not a panacea for Portugal's macroeconomic problems, as severe austerity and wage reductions continued to depress domestic demand (Storm/Nastepaad 2015), resulting in a recessionary dynamic until 2013. Due to its negative effect on domestic demand, employers in domestic non-traded sectors were critical of the Troika's austerity, tax increases and wage suppression agenda (Ramos de Almeida et al. 2016). Nonetheless, all employers' confederations, and in particular the confederation of manufacturing employers' CIP, were vocal in demanding increased labour law and collective bargaining flexibility to adjust to market conditions. In 2012, a representative of the Portuguese Industry Confederation (CIP) declared that the labour market reforms were "...seen by CIP as an opportunity to reduce rigidities in the labour law framework, introducing more flexibility (...) and removing those obstacles against the competitiveness of Portuguese firms" which disadvantaged them against their international competitors (CIP 2012, p. 2).

The disempowerment of Portuguese unions to the benefit of export-oriented employers continued even after Portugal's successful exit from MoU in 2014 and after a return of a left-wing government to power in 2015. The Socialist government led by PM Costa, supported by left-wing parties in Parliament, has been implementing a policy of austerity reversal. However, unions have so far only been able to extract minor compensatory concessions, such as minimum wage increases (after a four-year freeze); marginal expansion of social security coverage for self-employed workers; and a marginal re-regulation of temporary contracts (proposed but not yet implemented). Unions' main demands (re-regulation of EPL and collective bargaining re-centralisation) remain so far unmet due to strong opposition by employers. Hence, conflict between unions and the government remains high, and strikes and protests have been common.

This continued disempowerment of unions is explained by the continued pressure applied on Portugal to stick to its newly established path of internal devaluation and export-led growth. Portugal's recovery is solely export-based, as domestic demands remains low (Arnold 2015; Blanchard/Portugal 2017). In repeated occasions since 2015, employers in export-oriented sector have demanded further labour law alterations for "greater flexibility in working time patterns" (Renascença, 22/11/2016) and to "attract foreign investment" (Dinheiro Vivo, 25/02/2017). Employers' confederations, alongside the IMF, EU and OECD, have often reinstated the imperative of not undermining any of the progress made on structural LMP reforms under the Troika (cf. OECD 2017), and the EU has even aired the possibility of requesting further interventions in labour law to reduce excessive rigidity in EPL for open-ended contracts (Diario de Noticias, 06/02/2018). The left government so far has complied with these pressures, refraining from any substantive re-regulation. The minimum wage increase is the only measure implemented against the preferences of the employers' confederations, who have been nonetheless compensated through decreases in social security contributions. The MW increase does not however constitute a significant deviation from the path of internal devaluation, as rather than leading to wage growth across the board it increasingly acts as a median reference wage, moderating wage increases across the economy (CES 2018). For this reason, even the ratings agency Standards' and Poor's have declared that its increase "won't have an impact on competitiveness" (Economia online, 29/09/2017). Even under conditions of favourable partisanship and return to growth, there appears thus to be a strong veto placed upon governments of peripheral countries to implement interventions in compliance with union demands in labour law and collective bargaining that might damage external competitiveness.

5. Italy: unions' declining fortunes under the shadow of hierarchy

Italy was facing long-standing problems of competitiveness at the onset of the crisis. Stagnating productivity and excessive reliance on internal demand had led to above-average ULCs growth in the 2000s, and levels of government debt were exceptionally high. Nonetheless, Italy was not subject to such direct pressures for internal devaluation as Portugal at the peak of the sovereign debt crisis, but only to 'implicit' conditionality (Sacchi 2015) that gave unions space to exercise moderate influence over policy in the first crisis phase. As a result of Italy's failure to improve its competitiveness standing relative to both 'core' countries (e.g. Germany) and to other Southern European countries (e.g. Portugal) which had successfully reduced their ULCs, however, pressures for the implementation of structural reforms intensified. Consequently, the Italian government strongly disempowered unions from 2014 onwards.

In the initial crisis phase, over 2008-10, Italian unions and employers' organisations engaged in a *sui generis* model of crisis corporatism which made use of pre-existing institutional legacies, especially short-time work schemes, to cushion the impact of the crisis and limit open unemployment (Perez/Rhodes 2015). This model of coordination came under pressure from 2011 onwards with the intensification of the sovereign debt crisis and associated pressures for fiscal consolidation and structural reforms. As government debt hit 115% of GDP and the spread on the interest rates of Italian sovereign bonds started growing dramatically in 2011, the first pressures for internal devaluation were applied through a mechanism of 'implicit conditionality' (Sacchi 2015). Structural LMP reforms were demanded by the ECB in exchange for the purchase of government bonds on the secondary market, and further reinforced through the new economic governance mechanisms introduced at EU-level from 2010 onwards. In response to this, a radical measure pursuing the disorganized decentralization of CB to firm level was introduced by the centre-right Berlusconi government in August 2011, in line with the demands for greater wage and organisational flexibility by the main Italian automotive export manufacturer, FIAT, and at the direct request of the ECB (Colombo/Regalia 2016).¹ The CEO of FIAT, Marchionne, declared in September 2011: "*The introduction of article 8 [collective bargaining decentralisation] is very important and has resolved many problems. It will give certainties not only to us (FIAT), but to all those who want to invest in Italy. What was needed has been given, not only to us but to all manufacturers*". (Il Fatto Quotidiano, 13/09/2011). Subsequently, the technocratic Monti cabinet, which succeeded Berlusconi from November 2011, implemented unilaterally a far-reaching pensions reform, presented as crucial to reassure international markets, against the opposition of all union confederations and most of the Italian electorate (Culpepper 2014). The European institutions also demanded the implementation of structural LMP reforms to reduce dismissal costs and increase flexibility, which were then delivered by the Monti cabinet in 2012 (Sacchi 2015). However, through

an agreement concluded in September 2011 with the main manufacturing employers' confederation, Confindustria, Italian unions effectively held back the disorganized decentralization of collective bargaining (Regalia/Regini 2018). Furthermore, despite losing the veto power that they had enjoyed in the 2000s to stop any attack on EPL for permanent employees (Culpepper/Regan 2014) and suffering a big defeat in the field of pensions, the main confederation CGIL managed in this phase to use strategically its links to the main centre-left party to water down the deregulatory content of the LMP reform implemented by the technocratic Monti government in June 2012 (Wall Street Journal, 10/04/2012; Fornero 2013). Unions' success consisted in limiting the extent of EPL deregulation for permanent employees and achieving some moderate re-regulation of atypical employment contracts (Picot/Tassinari 2017). This success was however short-lived.

Italy's failure to comply fully with competitive internal devaluation pressures in the 2011-2012 period, unlike its Southern European neighbours, accounts in part for its continuing 'negative' competitiveness performance, and resulted in a subsequent intensification of pressures for internal devaluation in the successive phase, from 2013 onwards. Consequently, the government adopted a more aggressive stance of unions' disempowerment from 2014 onwards. Far-reaching LMP reforms were introduced in 2014/15 against union preferences by the centre-left-led Renzi government. First, in June 2014, fixed-term employment contracts were deregulated as a short-term fix to combat high unemployment levels (Picot/Tassinari 2015). This was followed by a comprehensive LM reform, the so-called Jobs Act, which introduced a deeper deregulation of dismissal protection for permanent employees (so-called *Article 18*) than the 2012 reform, against the open opposition of two of the main confederations, CGIL and UIL, and disregarding a general strike (Picot/Tassinari 2015). Although deregulation was coupled with an increase in unemployment benefits' coverage, the Jobs Act was nonetheless an unprecedented defeat for Italian unions. It directly contradicted their policy preferences in relation to EPL and reduced their institutional power resources in LM regulation and in the administration of the system of social shock absorbers (Sacchi 2018). The approval of the Jobs Act sanctioned a deep rupture between the governing centre-left party, the PD, and its main allied trade union, the CGIL (Mattina/Carrieri 2017). Whilst the institutions of collective bargaining in Italy have proved overall resilient during the crisis (Regalia/Regini 2018), the political influence of trade unions has been considerably negatively reduced.

Competitiveness pressures applied via the mechanisms of Eurozone economic governance played a crucial role in pushing the government to disempower unions' preferences from 2014 onwards, although domestic political dynamics aggravated this (cf. Pritoni 2015). In 2014 Italy was in its third year of recession, and unemployment levels had reached 13% (43% for young people). Unlike other 'peripheral' Southern countries that had fully complied with the Commission's

recommendations, Italy's ULCs remained high, and government debt had reached 131% of GDP. Under the Commission's Macroeconomic Imbalance Procedure, in 2014 Italy was flagged up as experiencing excessive imbalances requiring significant adjustment (European Commission 2014a). Wage dynamics not aligned with productivity, weak external competitiveness and declining export market shares were highlighted as major issues (European Commission 2014b). In this context, the implementation of a far-reaching labour market was functional for the Renzi cabinet to send a signal to the European institutions, financial markets and external investors about Italy's capacity for "modernising" structural reforms. Reforms' progress also bought the government room for manoeuvre on the front of fiscal consolidation with the EU institutions, especially necessary for the approval of the 2015 budget (Picot/Tassinari 2015; Sacchi 2018). These circumstances presented a window of opportunity for employers' confederations to push forward policy demands for greater LM flexibility that had been frustrated in the previous two decades. The Jobs Act implemented numerous requests of Confindustria, who alongside export-oriented employers such as FIAT expressed strong support for Renzi's agenda (Il Fatto Quotidiano, 15/01/2015). Simplification of dismissal and reduction of uncertainty around dismissal costs were especially praised as fundamental measures to overcome long-standing obstacles to FDI attraction and increase external competitiveness: as the president of Confindustria declared in 2014, "*(article 18) is a mantra that the whole world blames us for... Abroad they say that in Italy it's not possible to invest because we have article 18*" (Confindustria, 22/09/2014). Italy's export performance has indeed improved since 2014, largely thanks to a recuperation of price competitiveness through labour costs reduction – especially in manufacturing (Istat 2017, 21). Despite continued wage moderation, lack of innovation and continued stagnation in productivity imply that Italy's ULCs performance remains however negative, with most employment growth concentrated in low-value added sectors. Pressures from the EU institutions and domestic employers' groups alike to "not undo the progress achieved" through the Jobs Act persist (Il Sole 24 Ore, 20/11/2017); and further interventions to decentralise collective bargaining to tie salaries developments more closely to productivity are also high on the policy agenda. In these circumstances, unions' demands for the re-regulation of EPL for open-ended and atypical contracts and for higher wage levels remain consistently sidelined.

6. France: catching up with internal devaluation

At the beginning of the crisis, France's competitiveness position was well aligned with Eurozone trends, and until 2012, France was considered as belonging firmly within the cluster of 'core' countries not strongly affected by the Eurozone crisis (Lehndorff 2012). In the first crisis phase, unions benefited

from this and extracted concessions from the government. However, competitive internal devaluation pressures progressively caught up as a result of France's worsening fiscal outlook and of its deteriorating competitiveness standing vis-à-vis other Eurozone members who had successfully reduced their ULCs in 2009-2012. After gradually losing influence from 2012, French unions were significantly disempowered by the government from 2015 onwards. Two years after the Italian Jobs Act, French President Macron is now pursuing the same strategy of aggressive union disciplining, testifying to the 'domino effect' of union disempowerment that arises from dynamics of competitive internal devaluation within the Eurozone.

In the first phase of the crisis, French trade unions relied on their high mobilisation capacities to influence government policy. As the economic crisis hit in 2008, following large-scale mobilisations in January 2009 (Eurofound 2009a), they successfully extracted from the government several concessions to cushion the impact of the crisis on employment, such as an extension of short-time work schemes (*chomage partiel*), extension of partial unemployment allowances (Eurofound 2009b) and a counter-cyclical stimulus plan worth €26 billion (Eurofound 2009c; Milner 2011, 188). In 2010, the government also partly met union demands for broadening unemployment assistance entitlement to young people aged 18-25 (Eurofound 2010a). Despite the centre-right government deregulatory preferences, no reform of labour law was pushed through in the first phase of the crisis, in line with unions preferences (Milner 2012, 296). In 2010, French unions suffered however a first significant defeat when PM Sarkozy raised retirement age (Millner 2012). Unions reacted with a very strong public mobilisation against the reform and sustained strike action, but these had no impact on the government agenda (Eurofound 2010b, 2010c).

The alternating influence of French unions on government policy in the first phase of the crisis can be related to France's mixed macro-economic performance. In 2008-09, France was only moderately affected by the financial crisis, thanks to the limited exposure of its banking sector to toxic assets (Lux 2015, 90) and to its strong system of automatic stabilisers which cushioned the decrease in output (Vlandas 2017, 86). Despite its strong reliance on internal demand, at the onset of the crisis France's competitiveness position did not appear significantly deteriorated. However, unemployment increased considerably from 2009 onwards, and the counter-cyclical crisis response aggravated France's long-standing fiscal deficit problem. Public deficit shot up to 7.65% of GDP in 2009, and the Commission opened an excessive deficit procedure against France. Increasing pressures for fiscal consolidation led to the first significant union defeat, regarding the 2010 pensions reform. Sarkozy also committed France to an ambitious fiscal consolidation program to bring the deficit below 3% of GDP by 2013 (Clift 2013 p. 117).

From 2013 onwards, the political influence of French unions started gradually to decrease, despite a favourable change in government partisanship with the election of the centre-left President Hollande in 2012. Social dialogue on labour law reform resulted in January 2013 in a concession bargaining agreement for “maintaining employment”. This created a framework for firms in financial difficulties to adjust wages and working hours downward. The agreement was signed by the reformist confederations (CFDT and CFTC). The two main confederations FO and CGT remained opposed but were side-lined (Eurofound 2013). In March 2014, Hollande introduced a ‘responsibility pact’ (*pact de responsabilite, PdR*) with business. This aimed to lower labour costs by reducing employers’ social contributions through a tax credit system, to favour a re-orientation towards exports (Lux 2015, 93). The reformist trade unions signed the pact, leaning towards a position of ‘competitive corporatism’ (Lux 2015, 96), whilst FO and CGT remained opposed but were again marginalized. From 2015, the government shifted then to an explicitly unilateral attitude. In 2015, the Hollande government pushed through, against joint union opposition, measures deregulating rules on Sunday trading (Eurofound 2015), flexibilising criteria for redundancies (Clauwaert et al. 2016, 10) and tightening the conditionality of UB and social assistance (Milner 2017 p. 436). In 2016, this was followed by the unilateral implementation of the controversial El Khomri Law, which increased the scope for company-level bargaining in working time regulation. Even though initial proposals for the deregulation of dismissal protection were retracted in the face of union resistance, the two main unions, FO and CGT, remained nonetheless strongly opposed to the reform (Eurofound 2016; Eurofound 2017a), which initiated the reversion of the hierarchy of collective bargaining towards firm-level (Milner 2017, 438). The introduction of greater flexibility in working time regulation at local level constituted indeed a considerable defeat for unions, that have very weak power resources at firm level (Amable 2016). The El Khomri Law paved the way for a longer-term project of revision of labour law centred around decentralised bargaining, implemented by newly-elected President Macron through a far-reaching reform in September 2017 that decentralised collective bargaining (allowing small firms to negotiate directly with employees on working hours, pay and overtime without union involvement) and reduced costs of dismissals for employers (Eurofound 2017b). Unions positions on the reform were very critical (Eurofound 2017c). However, mass public protests organised by CGT in September 2017 did not succeed in halting the government reform plans (Eurofound 2017d).

The causes of the shift in organised labour’s fortunes in France in the second crisis phase can be traced back to the aggravation of France’s fiscal and macroeconomic position and to growing pressures for internal devaluation in order to catch up with the competitiveness performance of other Eurozone members – both in the ‘core’ and in the Southern periphery - which impacted on domestic class politics. Whilst Hollande had been pushing for a renegotiation of the Fiscal Compact (Clift 2013,

119-120), France was stripped of its triple ‘A’ bond ratings in early 2012. Fiscal consolidation pressures closed off avenues for expansion in public investment and social spending, pushing the government towards a strategy of export promotion to address persisting problems of low growth and record-high unemployment (Lux 2015, 98). However, this required interventions on the external competitiveness front. By 2012, France was indeed experiencing a growing trade deficit and decrease in export market shares (Vlandas 2017). Large export-oriented employers, such as car manufacturers Renault and Peugeot, openly advocated for a reduction in labour costs and greater firm-level bargaining flexibility (Jornal de Negocios, 31/10/2012), necessary to keep up with wage decreases in competitor countries such as Spain. In 2012, Hollande commissioned a competitiveness report (*Gallois report*) which prescribed a ‘competitiveness shock’ and the deregulation of EPL for open-ended contracts (Clauwaert et al. 2016, 4; Lux 2015, 92). From then onwards, the government adopted a pro-business position in favour of greater LM flexibility, aligned with the preferences of the large employers’ confederation, Medef (Amable 2016). Pressures for internal devaluation were further reinforced through Eurozone economic governance. In 2013 the European Commission granted France until 2015 to rectify its excessive deficit situation, but made this conditional on the implementation of “*comprehensive structural reforms*” (European Council, 29/5/2013). The same happened in early 2015, when the Commission threatened activation of an excessive imbalance procedure in case of insufficient progress in structural reforms (European Commission, 25/02/2015). Cost competitiveness in exports was flagged up under the Macroeconomic Imbalance Procedure as one of the main problems to be addressed (European Commission 2014c) and numerous CSRs issued to France between 2014 and 2016 recommended measures aimed at reducing labour costs (Clauwaert et al. 2016, 1). These combined pressures gave leverage to the Hollande and then the Macron governments to implement LMP reforms despite the opposition of organised labour, and in line with the preferences of Medef (Financial Times 9/5/2017). In a 2014 report, the European Commission (2014d, 29) highlighted that even though ULC developments in France since 2000s had been mostly in line with Eurozone developments, “*the difference between ULC developments in France and in Germany since 2000 has resulted in a deterioration of the relative cost competitiveness of France vis-à-vis Germany with a gap which is now equivalent to 17% of the French ULC*”. This illustrates the *competitive* nature of the internal devaluation pressures at play within the Eurozone: indeed, pressures to reduce labour costs arose in the French case not as a consequence of endogenous wage developments, but rather as knock-on effects from internal devaluation in other Eurozone countries, leading to a progressive disempowerment of organized labour.

7. Alternative explanations

Prior to concluding, it is worth reviewing alternative explanations for declining union influence that might run counter to our argument. First, the fortunes of organized labour could be conceptualised as a product of partisan preferences. In particular, the exclusion of unions from the policy-making process may be seen as the result of right-wing government partisanship. Whilst we do not exclude that right-wing partisanship may indeed lead to union exclusion, this explanation does not hold for our cases. Indeed, the German red-green government imposed painful labour market reforms on the unions prior to the Eurozone crisis (*Agenda 2010*), and so did the centre-left-led Italian government in 2014-2017. At the same time, the current Portuguese socialist minority government (since 2015) has refrained from consenting to union demands for the reversal of *Troika*-induced interventions in wage bargaining and employment regulation. The fact that, on the other hand, German unions have been able to extract considerable concessions from the centre-right Merkel cabinet suggests that partisanship is not sufficient for understanding variation in union influence within the context of the Eurozone.

A second alternative explanation would be that unions in peripheral countries lost influence over policy-making in the crisis context because they lost power resources and, above all, legitimacy in public opinion (Regan/Culpepper 2014). However, comparative empirical evidence calls this argument into question. First, data on union density trends (ICTWSS database, 2017) shows that decline in union power resources over the period running up to the Eurozone crisis was not more pronounced in peripheral than in 'core' countries. In France, unions prior to the crisis had indeed been capable of acting as strong veto powers despite their historically low density. In Italy, where unions lost considerable influence over policy-making during the crisis, their density even marginally increased since the onset of the crisis. Hence, a power-resource based account of declining union influence in the EZ periphery does not account for the observed variation. As per union legitimacy, Eurobarometer data from 2010³ does show that the proportion of respondents who tended to trust unions was higher in Germany (49% average between East and West) than in Italy (36.2%), Portugal (37.2%) or France (44.9%). However, it is questionable that such small differences in trust can explain such considerable variation in union influence. Recent evidence from Frangi et al. (2017) from the 2008 European Values Survey also shows that confidence in unions in peripheral countries at the onset of the crisis was actually comparatively as high as it had been during the EMU 'social pacts' period. Furthermore, in a number of peripheral countries – such as, most notably, Portugal – unions were actually involved in tripartite social pacts with the state to formulate crisis-related policy responses, suggesting that unions' legitimating function has not been completely exhausted. However, crucially,

³ 2010 was the last year when an item about trust in trade unions was included in the Eurobarometer.

this involvement did not result in any significant influence on final policy outcomes, which were overall anti-labour in character (Moury/Gago 2017), thus testifying to the disjuncture between unions' involvement and legitimating function and their actual influence on policy-making.

8. Conclusion

The Eurozone crisis placed an asymmetric burden of economic adjustment on to the trade unions of the periphery. Faced with tightened demands of austerity and competitiveness, governments of all partisan colours pushed for internal devaluation against union protests accordingly. Our findings suggest that this union disempowerment is neither restricted in space to the so-called GIIPS (Greece, Ireland, Italy, Portugal, and Spain) nor restricted in time to the sovereign debt crisis (2008/09-2012/13). We argue that the main reason for the ongoing decline in union influence lies in the EZ's institutionalized reliance on competitive internal devaluation. In this framework, member states are essentially obliged to compete against each other on wage and labour market flexibility, which creates opportunities for export-oriented employers to push for labour market liberalization at the expense of union influence.

Although our evidence of union exclusion was restricted to the cases of Portugal, Italy, and France, our argument about competitive internal devaluation implies that trade unions in the remaining 'core' countries remain by no means unaffected by such labour defeats. A gain in competitiveness by a country's trading partner cannot be offset by currency devaluations among EMU-member states, while fiscal expansion is no longer an option either under the increased surveillance over domestic budgets. As a result, the internal devaluation of the Southern European periphery economies in tandem with the EZ's new economic governance may over time impose enhanced competitiveness pressure on organized labour in the Northern European 'core' too. Union consent to the Finnish 'Competitiveness Pact' seems to be an illustrative case in point, involving a wage freeze for 2017, reduced pay for public sector employees, a shift in the liability for social security contributions from employers to employees, an extension in annual working time of 24 hours (without additional compensation), and a preliminary agreement to give up on centralized peak-level collective bargaining (EIRO, 2.9.2016). Whereas the peak-level unions considered the Pact "better than its alternatives" (ibid.), the government claimed that such liberalization "*should help to restore Finland's lost competitiveness by ensuring that wage increases stay below those in the rest of the euro area and through higher productivity at individual firms*" (Economist, 6.2.2016). Although we certainly need further research on the interconnectedness of organized labour and labour market reform inside the Eurozone, the EZ-related pressures for enhanced market discipline are certainly not confined to the demand-led growth models of the crisis-ridden 'periphery'.

While our research design allows us to cast doubt on a hypothesis based on differences in partisanship, we believe that trade unions in the remaining ‘core’ countries face an additional challenge from the formation of right-wing governments. Austria, Belgium, Finland, and the Netherlands are all currently governed by centre-right coalitions with more or less distance to organized labour. In Austria, for example, the ÖVP-FPÖ government threatens to reduce employees’ contribution payments to the Chamber of Labour, which would reduce the veto-power of a social democratic-friendly labour movement in the long run. To be sure, centre-left cabinets are no longer sufficient for union influence either (Allern/Bale 2017, Rathgeb forthcoming), but they are less likely than their centre-right counterparts to pursue an institutional disempowerment of “red” trade unions for power-strategic reasons (Jensen 2014). In other words, while a low degree of EZ-related adjustment pressure provides a more balanced distribution of class power, it does not cut off a partisan impetus against union power – even though it plausibly undermines its political legitimacy. At the very least, we would contend that the counter-factual scenario in which the smaller ‘core’ countries are dominated by the same adjustment problems like the ‘periphery’ would lead to a similar downgrading of union influence, regardless of government partisanship.

The extension of our argument to the core countries returns us to the case in which the EZ’s path of competitive internal devaluation started off in the first place: Germany. A growing amount of literature suggests that German unions hold the key to address the EZ’s macroeconomic imbalances by pushing for pronounced wage increases and public investment (e.g. Johnston/Regan 2016, Baccaro/Tober 2018). Germany’s domestic revaluation would boost demand for imports and thus undermine excessive current account surpluses, which creates more leeway for domestic economic reform among its trading partners. We find indeed some change in union politics towards this direction (e.g. minimum wage), but the competitiveness gap is still large from a comparative optic, as we showed in the theory section of this paper. Moreover, an aggressive revaluation agenda remains a lot to ask from German unions for at least two reasons. First, manufacturing workers still face the threat of job losses once cost competitiveness goes down. Second, governments and employers alike will be reluctant to hurt its surplus and thus no longer lead the global “export champion” (*Exportweltmeister*).

We believe that the political implication of our paper is that the fortunes of national labour movements rest to a growing extent on their transnational cooperation against the institutional set-up of the EZ’s economic governance framework. In the long run, no union confederation can isolate itself from the pressures posed by competitive internal devaluation as long as economic recovery must be in line with fiscal rules and ordo-liberal surveillance. The alternative, it seems, is an ongoing EZ-like “race to the bottom”.

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