



The impact of the European Semester on collective bargaining and wages over the recent years

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1. Introduction

The question asked in the opening of the paragraph below – does the EU have competence on collective bargaining and wages? – is of fundamental importance for the trade union movement. The answer is more complex than how apparently may look and is the basis on which the European Trade Union Confederation (referred to below as ETUC) has developed its strategies to cope with the economic governance over the last few years. However, in order to fully understand the positions of the trade unions, it is necessary to go through a short recollection of what the semester is and how it works. Such recollection is contained in the second paragraph. This will allow the reader to frame the reaction of the ETUC and to get a proper reading of the two phases of its new approach. The strategy that is being implemented to counteract and (re-)balance the policies imposed via the semester and make the latter more social-oriented is addressed in the third paragraph of this chapter. The fourth one will analyse the policies implemented over the recent years via the impact of the semester as well as the improvements and results reached by trade unions within this framework of action. Looking firstly at the picture of the whole EU, then closer at the five target countries of the “DECOBA” project (Belgium, France, Germany, Italy and Spain). The final paragraph will draw the conclusions by shedding light on the paradox of the Commission’s narrative, especially regarding collective bargaining and wages..

2. Does the European Union have competence on collective bargaining and wages?¹

The 2008 crisis made self-evident that, as from the adoption of the single currency, the economies of the European Member States were ever more interwoven. Growth would have spread from one country to another but so would have done any “imbalance” too. The Economic and Monetary Union needed more coordinated policies among the national levels, especially in the frame of the Euro Area. This assumption pushed the governments of the Member States to design a new form of coordinated exercise of the public power in the economic domain. In 2011, the European semester for the economic policy coordination (referred to below as the Semester) was formally introduced².

¹ The description of how the European Semester works made in this paragraph is mainly based on Arrigo, Cilento, Limardo (2016).

² See Section I-A, Council Regulation 1466/97/EU of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, as amended by the Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the

The semester is an innovative decision-making process – half way in between the Community and the intergovernmental methods – through which the European Member States design their policies for the budgetary surveillance, fiscal consolidation and economic coordination. In a nutshell, it aims at achieving and keeping together the following objectives in a single and consistent framework of action: deepening and completing the single market while maintaining stable macroeconomic conditions.

Within the governance of the single currency, each Member State runs a stability or convergence programme³. These imply a transferral of a certain degree of sovereignty to the supranational level with a view on coordinating the economic and social policies as well as completing the single market. The particularity of the semester process is precisely a certain degree of sharing the decision-making among countries while doing each government accountable in front of all the other Member States. For this to happen, the semester goes through a complicated series of interwoven cycles and documents. For the sake of simplicity of this chapter, one can summarise them in four main steps: setting of broad social and economic guidelines for the year to come by the European Commission via the so-called “Autumn Package” (including the Annual Growth Survey which can be seen as the main document stating those priorities); analysing the financial and socio-economic situation of each Member State and identifying critical areas for reform needs, again, by the European Commission via the Country Reports; definition of reforms to be undertaken by the governments via the National Plans; and, finally, the adoption of recommendations by the European Council regarding the actions and reforms to be implemented by each government.

Such a sharing of the decision-making is embodied in the final outputs of the semester: the country specific recommendations (referred below to as CSR). They are proposed by the European Commission on the basis of the “discrepancy” between the objectives commonly set out and the actions proposed by each government in the National Plans. The Council has then the power to endorse, drop or amend each of these draft CSR. Once adopted, the CSR are “politically binding”⁴. Nevertheless, when a country

strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies. The Regulation 1175/2011 is one of the legislative instruments of the so-called *Six Pack*.

³ All the countries of the European Union should indeed adopt the euro sooner or later, excluding Denmark and the UK – which is currently under negotiations for withdrawing from the European Union. For the time being, Greece is excluded from the semester process, being under a specific financial assistance programme.

⁴ See for example:

[http://www.europarl.europa.eu/RegData/etudes/ATAG/2014/528767/IPOL_ATA\(2014\)528767_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/ATAG/2014/528767/IPOL_ATA(2014)528767_EN.pdf).

find itself in a situation of need, the CSR become weightier and the country feels more urged to implement them. On the other hand, very often, the CSR are welcomed by the government who saw them as the right occasion to undertake desired reforms while minimising the "political shock" as the guilt can be attributed to the usual "villain": the European Union.

From the previous few lines one can retain two elements which contribute to define the answer to the opening question:

- The European Commission has a mandate for analysing, monitoring and proposing policies;
- The decision-making power rests in the hands of the European Council (i.e. the national governments themselves).

The reason behind such a game of roles is extremely simple. As said above, the semester is half way in between the community and intergovernmental methods as it presents some peculiarities: i) it has been created by international treaties, other than the treaties of the EU, which have not even been signed by all the Member States as the Euro Plus Pact and Fiscal Compact; ii) it makes use of the European Institutions – giving them new roles, other than those established by the Treaties – to put in place intergovernmental programmes. However, by doing so, the related domains (under which falls also collective bargaining and wages) are still a national competence but that has been put under a common umbrella with a view of reaching objectives commonly agreed.

This brought us to answer the question kept in mind from the beginning. Does the European Institutions have competence on collective bargaining and wages? Yes, but just to a certain extent. As this has been granted by the agreement of the Member States since the very moment they signed off the treaties establishing the new economic governance. In this frame, collective bargaining systems and wages are indeed scrutinised as factors contributing to the economic performance of the Union. So, while the Commission is responsible for the analysis and the monitoring it performs⁵, the Council is accountable for the recommendations issued. This system has been designed, of course, to avoid any further extension of the core competences of the European Union itself. So, at the very end of the day, the national governments still are to be considered responsible for the policies implemented in their own country⁶, even though those national competences have been – to a certain degree – shared with their peers⁷.

⁵ This is by the way a political exercise itself as the benchmarks used as well as the evaluation of social and economic policies can be driven by a political or ideological thinking.

⁶ Of course, together with the National Parliaments.

⁷ A concrete example may be helpful for understanding such a dichotomy. Over the last few years, the Commission has been putting forward a CSR on the need for making the Austrian

However, acknowledging this, does not mean that the resulting interferences on collective bargaining and wages are acceptable or justified. These are areas traditionally reserved to the autonomy of social partners. Areas from which, traditionally, governments refrained from intervening. Only the autonomous negotiations between the social partners can guarantee a fair balance of the interests of businesses and workers. Nevertheless, as we are currently experiencing, the "institutional environment" conducive to collective bargaining may change. The governments or, better, the National Parliaments, in their capacity of legislators, can surely decide otherwise. It is then up to the trade unions to step up, mobilise and take actions to defend their fundamental prerogatives on collective bargaining and wages from this wave of state interventionism. This is the reason why the European trade union movement has decided to get more involved in talks with the Commission and governments within the frame of the Economic Governance. The aim is to influence its content and, by doing so, to better defend the workers' interests. In a nutshell: influencing the decisions rather than simply reacting after they were already taken.

3. From reacting to influencing: the trade unions' response to the European semester for the economic policy coordination.

The European Semester, and in particular the CSR, addresses many topics which falls within the core business of trade unions. The list indeed does not end with collective bargaining and wages. Other fields of concerns for the unions addressed through the years by the semester are those encompassed in the so-called structural reforms. Notably, employment and labour market, pensions, unemployment benefits and the welfare system in general. Last but not least, the budgetary and fiscal reforms which have negatively impacted the public expenditure – especially public services – and investment.

In the first years after the crisis was started, the fight against the austerity measures was played mainly at national level. The situation remained unchanged when the semester was introduced. The trade unions indeed strongly opposed it. Rightly, it was seen as a method for imposing austerity and cuts over those countries in a weaker position because of their debt crisis. Moreover, another peculiarity of the semester is its democratic deficit. Being an intergovernmental process, it cut out any

pension systems sustainable on the long run, recommendation always endorsed by the Council. Nevertheless, so far, the Austrian government has opposed to this request considering it unjustified.

possible supranational democratic accountability of the decisions taken. The involvement of the European Parliament was (and still is) a mere (and late) formality rather than a real exercise of control. The same happened with the European social partners who were exclusively consulted in very formal fora where they could express their views without any capacity to influence the policies. Under these conditions, the trade unions were able just to merely react to and reject decisions which, most of the times, were already taken.

Between 2013 and 2014 the ETUC started working in a more structured way on the semester dossier. An informal coordination was established in order to reach common positions with a view on preparing the consultations. In the meantime, in the frame of the ETUC Collective Bargaining and Wages Coordination Committee, a first "semester toolkit" was being developed with the aim of monitoring the impact of the semester on collective bargaining and wages in the EU countries and sharing information in a two-way flow: between the national unions and the secretariat on the one hand, and among affiliates themselves on the other hand. Although the feedbacks from the affiliates were usually between 15 and 18 – i.e. approximately a half of the EU Member States – the toolkit proved to be a valuable source of pieces of information to perform a comparative analysis of the situation and so giving sound arguments to the ETUC documents for the consultations. The toolkit was based on three pillars: the monitoring of the involvement of trade unions in the semester at national level; the monitoring of the respect of fundamental trade union rights; and the trade union assessment of the CSR as well as of actions undertaken by the governments. All of these tools then resulted into three yearly documents.

In late 2014 the European trade unions decided to change their approach. The decision was not that easy to take. Simply reacting to the different semester documents and rejecting the austerity measures did not deliver results for workers and citizens. At the same time, it did not even let unions stay on the safe side as, in many countries, criticism was raised claiming the trade unions had not been able to properly fulfil their role of opposing to austerity. The new strategy was to develop a stronger internal coordination and to establish a structured dialogue with the Commission, especially with the DG Employment. This second part could have exposed the trade union movement to the risk of being associated with the process, legitimising it by (partially) "healing" its democratic deficit with no guarantee of influencing it. However, after almost 6 years of crisis and 3 of the new economic governance, it was high time to step up efforts and moving from reacting to influencing.

The ETUC launched a project for refining the tools developed in the previous toolkit and extending the areas of work. A more stable coordination across such areas of work was established and reinforced, including collective bargaining and wages, economics and taxation, employment and labour market, social protection, education and skills, migration, youth, gender and equal opportunities. Other fields may be added in the near future. In the meantime, each trade union organisation was asked to appoint a responsible for coordinating the inputs from the national unions to the ETUC, liaising with the Commission's European Semester Officers based in that country and participating to the consultation meetings to take place with the Commission and Council committees in Brussels. So far (i.e. July 2017), the group counts 36 TUSLO (Trade Union Semester Liaison Officers) from 26 countries. Together with the ETUC secretariat, they are part of a structured dialogue with DG Employment. Consultations are held in advance of the drafting of the Annual Growth Survey and Country Reports. An ex post assessment meeting takes place also after the latter are released in order to raise critical priorities not taken into consideration.

Three tools have been developed in the new toolkit (so-called "ETUC Semester Toolkit 2.0"). The first one concerns the definition of the trade union priorities for the whole EU to be addressed in the following semester cycle and to be submitted at the consultations on the AGS. The second one supports the TUSLO in compiling what one can call trade union country report. This aims at influencing the Commission' Country Report. The third tool monitors the involvement of trade unions in the semester at national level at the milestones of each semester cycle by performing an extensive analysis of: i) format of the consultations; ii) relevance and timely disclosure of information; iii) appropriateness of interlocutors; and iv) consideration given to the trade union analysis and proposals. Eventually, at the end of each cycle, the secretariat, supported by the TUSLO, release an assessment of the CSR and the whole cycle to take stock of improvements and results delivered. The current project will come to an end in September 2017. A follow up to further strengthen this strategy has been already envisaged as some good results have been achieved through such an involvement⁸.

However, one has to admit that, all of this work was possible *also* thanks to the political support provided by the "fresh start" brought in by Commission President Jean-Claude Juncker, who committed to relaunch social dialogue. This was indeed extremely visible in the renewed approach of Commission officials, much keener to listen and discuss with the trade

⁸ Please see the next paragraphs for an evaluation of the results produced.

unions about priorities and policies throughout the entire cycle with respect to the previous years.

4. Collective bargaining and wages in the Semester over the years 2015-2017: business as usual⁹.

4.1 A brief overview of the whole EU.

The interest of the European semester for wages and collective bargaining has remained stable through the years. From 2011 to 2016 (excluding 2013), CSR in these fields have varied between 11 and 14. In 2017 they have been 14 once again which means they have covered more than one half of the EU Member States, considering that Greece is still under a financial assistance programme and the UK is in talks for leaving the EU. Looking at the recommendations focusing on the wage-formation mechanisms only – generally aimed to foster the decentralisation of collective bargaining – it is worth noting they have been respectively 11, 11, 12 and 14 in the last four years (2014-2017)¹⁰. Nevertheless, some improvements have been recorded over the years this report is focused on.

The 2015 Semester cycle

At the end of the 2014-2015 cycle, the situation was anyhow slightly improving under many aspects. The Juncker's Commission showed more flexibility on budget deficits and CSR were generally a bit more positive than in past years but this was not the case for collective bargaining and wages. In general, the Commission's advice on pays was still based on the *mantra* that "wages are to evolve in line with productivity" but the way it was applying this key idea was imbalanced.

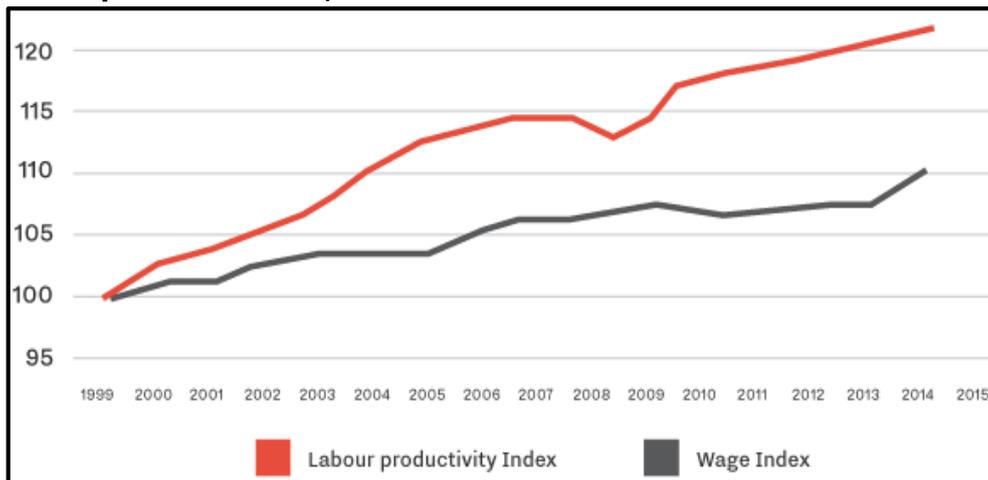
Some Member States, affected by the problem of real wages systematically lagging behind productivity developments, did not receive any wage recommendation at all. One of the most striking examples was represented by Poland. As shown in the graph on the next page, from 1999 to 2015, real wage growth in Poland had not been able to keep up with productivity developments by a stunning 40 percentage points (10 percentage points considering the period 2008-2015 only). Recommendations to improve wage dynamics were also conspicuously missing for those Countries experiencing a growing number of working

⁹ This paragraph is mainly based on previous ETUC documents. Some of them are publicly accessible on the ETUC website, while some others were developed for internal purposes and not available. The analysis of the macroeconomic impact of the CSR on wages has been performed by Ronald Janssen, then ETUC Chief Economist and currently at the OECD-TUAC.

¹⁰ For a deeper comparative analysis of social-related CSR in qualitative and quantitative terms, please see S. Clauwert (2017).

poors or large low-paid segments as, for instance, Estonia and the UK. However, besides the Member States abovementioned, the key recommendation on wages and productivity was also disingenuous for many others, in particular, for Western European Euro Area Countries. Here, the Commission was suggesting that wages had outpaced productivity whereas, in reality, it was again the other way around. Nevertheless, the general policy was then recommending Member State after Member State, to compete against each other on the basis of squeezing wages and, by doing so, dangerously declaring – *de facto* – those economies with the lowest wage dynamics as the reference benchmark for all. Thus, turning a blind eye on the risks of a ‘beggar-thy-neighbour’ policy and to the danger that this race to the bottom inevitably would have ended up in “lowflation” (very low inflation) or even deflation, either for the euro area as a whole and/or for individual countries.

Trends in growth in average real wages and labour productivity in developed economies, 1999-2015¹¹



Source: ETUC own calculation by Ronald Janssen, Matthieu Méaulle and Torsten Muller

Furthermore, minimum wages were regarded as hampering economic growth due to their (presumed) bad impact on job creation and competitiveness. Beyond some of the “DECOBA” countries – of which we will talk about later on – such a view was expressed in the cases of

¹¹ This is calculation has been made in the frame of the ETUC campaign “Europe needs a Pay rise”. Wage growth is calculated as a weighted average of year-on-year growth in average monthly real wage in 36 economies. The base year is set in 1999 for reason of data availability. Source: ILO Global Wage Database; ILO Global Employment Trends (GET).

Portugal, Slovenia and Bulgaria. This totally overlooked the related positive effects, ignoring research as well as experience that minimum wage, when introduced or raised, do not tend to destroy jobs. On the contrary, it fosters positive trends.

In other words, after 7 years of economic crisis, austerity and falling or stagnating wages, the Commission was still recommending a policy based on either wage cuts or wage moderation when Europe desperately needed something else. This assumption was well underlined by the ETUC press release below:

*"The Commission continues to overlook the fact that wages in 23 Member States are lagging behind productivity. The Commission fails to identify, or react to, the redistribution from wages to profits. Europe needs a wage rise for fairness and to increase demand, mainly by strengthening collective bargaining"*¹².

At the same time, besides suggesting overall wage squeezes for entire economies, the Commission was also using the formulae of 'wages in line with productivity' to promote the fragmentation and decentralisation of collective bargaining and wage formation across individual sectors, individual firms, regions and skills. Moreover, the autonomy of social partners in setting wages was at that time challenged also by the newly proposed "competitiveness boards" – without any prior consultation of trade unions. These bodies – *creatively* built upon the example of Belgium's National Labour Council – were meant to advise social partners and so to narrow their margin of manoeuvre for negotiations. Reacting to the Five Presidents' Report¹³, former ETUC General Secretary Bernadette Ségol stated:

*"There is no way trade unions would accept a body separate from the social partners giving advice on wage negotiation. (...) Wage setting is the role of autonomous social partners. What the European Commission (...) fails to mention is that the authority in Belgium is run by employers and trade unions – it is not a separate body handing down advice to social partners to follow"*¹⁴.

¹² <https://www.etuc.org/press/country-specific-recommendations-2015-eu-needs-increase-wages#.WYSapVGrRdq>

¹³ The Five Presidents' Report is a document setting the way forward for the European Union, drafted by Commission President Jean-Claude Juncker, in close cooperation with Council President Donald Tusk, Euro Group President Jeroen Dijsselbloem, European Central Bank President Mario Draghi and European Parliament President Martin Schulz. Published on 22 June 2015 and available at: https://ec.europa.eu/commission/publications/five-presidents-report-completing-europes-economic-and-monetary-union_en

¹⁴ <https://www.etuc.org/press/trade-unions-employers-should-set-wages-not-5-presidents-%E2%80%98competitiveness-authorities#.WYSazFGrRdq>

The 2016 Semester cycle

At the beginning of the 2016 cycle, the European Commission promised a more social-oriented Semester, respecting the autonomy of the social partners. The Country Reports 2016 then provided for an in-depth investigation of the socio-economic situation in each single Member State. Moreover, as had been announced in the "Communication on Steps Forward Completing Economic and Monetary Union"¹⁵, the 2016 Country Reports also measured the social performances. The benchmarking technique was supposed to promote social convergence but the social targets were then biased. Moreover, it is worth highlighting that "best practices" in the field of collective bargaining and wage setting, were unilaterally selected by the European Commission. This went in detriment of the overall coherence of the analysis, generating paradoxes. For instance, the Estonian collective bargaining systems, featured by the highest level of decentralisation in the EU was considered the most efficient, while Croatia was considered inefficient because collective bargaining proved able to protect workers against less favourable working time arrangements provided by law. Once again, this was a sign of a persistent and ideological conviction that structured forms of collective bargaining slow down reforms rather than seeing them as a democratic and balanced way to co-regulate the labour market.

Unfortunately – and despite some concrete improvement in the social field – the following Country Specific Recommendations did keep going in the same direction. That wave of CSR still proposed the same failed economic policies of previous years while prompting new state interferences on collective bargaining and wages throughout Europe. Belgium, France, Portugal and Spain received recommendations questioning the wage-setting systems and employment protection legislation. The biased reading of the centralised collective bargaining model proved to be hard-to-die. Eventually, in countries deviating from the Stability and Growth Pact rules, the Commission advances the traditional macroeconomic solutions which already had for long caused stagnation and severe social consequences. Even though the country reports had recognised that the weak recovery Countries were experiencing was mainly driven by private consumption, the CSR did not provide any strong support for the missing ingredient to relaunch the European economy that the ETUC had been claiming for years: a generalised upward wage dynamic to boost internal demand. Commenting of the draft CSR just released, the then-Deputy General Secretary Veronica Nilsson made crystal clear the severe disappointment of trade unions:

¹⁵ <https://ec.europa.eu/transparency/reqdoc/rep/1/2015/EN/1-2015-600-EN-F1-1.PDF>.

"The ETUC is very concerned that the Commission is again interfering in the autonomy of the social partners and collective bargaining. It's wrong to claim that the increase in minimum wage in Portugal would harm employment and competitiveness as it is wrong to claim that the minimum wage in France hampers employment. On the contrary, what Europe needs is an increase in minimum wages, wage increases through enhanced collective bargaining to boost growth and tackle inequality, and action to end precarious employment. The Commissioners repeated as usual the need for structural reforms of the labour market which in the past have led to less collective bargaining, lower wages and higher unemployment. Europe does not need more of the same tried, tested and failed policies"¹⁶.

The 2017 Semester cycle

The 2017 Semester cycle began with some positive novelties. In October 2016, for the first time ever, the Council's Employment Committee (referred to below as EMCO) undertook a sort of multilateral surveillance exercise for monitoring the involvement of social partners in the semester at national level. National governments, Commission officials and representatives of trade union organisations and employers' associations gathered to perform a peer review of the involvement practises in the member states. Irrespectively of the results, that event was one of the concrete evidence of the Juncker' engagement to revamp the social dialogue.

The AGS¹⁷ was issued in November, moving forward on this track. The ETUC expressed appreciation for the Commission's emphasis on the key role that social dialogue can play in designing and implementing economic and social policies. Finally, the social partners were recognised as responsible macroeconomic actors once again. The Commission indeed acknowledged that social dialogue is crucial for well-functioning social market economies, as shown by the best performing Member States over the last period¹⁸. In particular, recalling the capacity of social partners to engage in such an exercise could be viewed as a base for implementing the capacity building activities for national social partners enshrined in the Quadripartite Declaration on a "New start for Social Dialogue" as well as a driver for implementing the European Pillar of Social Rights to come.

To a certain extent, the AGS 2017 could be considered as a first step to partially mitigate and revert the policies implemented since 2008.

¹⁶ https://www.etuc.org/press/economic-package-commission-wrong-collective-bargaining-minimum-wages#.WcZy_sirRdg.

¹⁷ https://ec.europa.eu/info/sites/info/files/2017-european-semester-annual-growth-survey_en_0.pdf.

¹⁸ European Commission, Annual Growth Survey 2017, p. 11.

Partially because, despite some positive changes were appreciable and, generally, the priorities the AGS put forward were quite more balanced than in the past, the narrative was still anchored to a general framework in which the need for structural reforms, budgetary consolidation and attention on labour cost competitiveness were still prevailing on the social dimension.

Collective bargaining and wages represent a clear example of this situation – depicted by the ETUC as ‘schizophrenic’. In this respect, the improvements were self-evident compared with the previous years but, looking at the global picture, there still were some causes for serious concern.

The Commission indeed, probably for the first time ever since the crisis, affirmed that “too modest wage developments” can be counterproductive, leading to “weaker aggregate demand and growth”¹⁹. This time the mantra “aligning wages with productivity” was interpreted also in the direction leading to positive wage dynamics. In particular, it stated that wage-setting systems – beyond being able to better respond to productivity changes over the time – should ensure “real income increases”. Furthermore, the Commission highlighted that, when fixing the minimum wage, a *new* element should have been taken into consideration by governments and social partners: the impact on in-work poverty.

These references reflected some of the ETUC top priorities outlined in the document “ETUC for Growth and Social Progress: Priorities for the Annual Growth Survey 2017”²⁰ which represented also the basis of the upcoming ETUC Campaign “Europe needs a pay rise”²¹. The daily work engaging the ETUC staff and affiliates in structured talks with the Commission was finally delivering results. Some of the Commission policy priorities were – slowly – turning in the direction wished by the trade union movement.

The then-Deputy General Secretary Veronica Nilsson hailed such a new orientation and expressed the appreciation of the ETUC and its affiliates for Commissioner Thyssen’s call for wage-setting to generate real income increases. She commented:

¹⁹ Idem

²⁰ The document was adopted by the ETUC executive committee on 11 October 2016 and can be found here:
https://www.etuc.org/system/files/eu_semester/file/161011_etuc_priorities_on_the_ag_s_2017_en_adopted.pdf.

²¹ For more information see the campaign website at: <https://payrise.eu/>.

*"Wage rises are crucial in increasing internal demand. Without more money in workers' pockets, Europe will be unable to achieve a sustainable recovery"*²².

However, many other ideological assumptions were there so to counterweight or limit the progress made. For instance, despite decentralisation of collective bargaining was not explicitly addressed, the abovementioned positive aspects were counterbalanced by stating the importance of having wage-formation systems which can ensure that differences in skills and economic performances across regions, sectors and companies are taken into account. Once again, an argument recalling a preference for fragmented systems of collective bargaining. All this in spite of the seriousness of the social situation which would have rather suggested to support or (re-)strengthen the sector collective negotiations at national level, the most powerful tool which could help quickly address the problem of income inequalities. Beside, at the same time, the Commission was also providing support to the state interventionism related to the reforms of the wage-formation systems²³.

Finally, regarding wages, the reference to wage developments that can bring to productivity erosion was strongly criticised by the ETUC and its affiliates. Indeed, as was proved several times, real wages have been lagging well behind productivity in all the European Countries for years and, taking into consideration the sharp fall of the wage share of the GDP on-going since the 80's, the reasons of the trade unions' disappointment and concern become self-evident. Once again, the European trade union movement, though recognising the improvements made, was forced to call for the Commission to step up efforts and take more concrete actions toward the so-called "social triple A Europe"

The situation did not improve much with the 2017 Country Reports. The divergence of priorities and opinions between the two different hands drafting these documents – i.e. DG Ecfm and DG Employment – became even clearer than in the AGS 2017. But the more positive aspects was that it became self-evident that the DG Employment was gaining more room in all those documents and, by doing so, it was slowly rebalancing the European Semester, drawing a greater attention to the social dimension of the economy. Some of the priorities presented by the ETUC and the member organisations during the consultation meetings with the European Commission were taken into account. However, the necessary U-turn wished by the trade unions did not materialise. The Country Reports

²² <https://www.etuc.org/press/etuc-semester-package#.WbP-acirRdg>.

²³ A fear that would have soon come true, for instance, in Belgium. At this regard, please see G. van Gyes and S. Vanderhercke in this book.

touched upon collective bargaining systems in nine countries. This was mainly because the issue was extensively addressed in previous years, and the Commission's former position in favour of the decentralisation was to be considered still largely valid. As some example can prove²⁴. In Estonia the collective bargaining system – considered in 2016 the EU most efficient as completely decentralised – just one year later was accused of promoting too rapid wage growth. Nevertheless, no mention was made regarding the possibility to develop sector negotiations which can help better manage wage dynamics. The same happened in Romania's Country Report but for different reasons. The Member State was described as suffering from poverty and inequalities. Here, collective bargaining should have been considered as a factor of democracy building and enhancement of salaries and working conditions. However, the Commission just made a timid reference to the weakness of collective bargaining and social dialogue. In Cyprus, despite the clear demands put forward by the unions about restoring and respecting collective bargaining and extending collective agreements, the Commission interfered again in the wage-setting mechanism. And, more worryingly, in the democratic process as well. It claimed there was just limited progress on the binding mechanism restraining the growth rate of public employees' compensation and expressed disappointment because the legislative proposal making this mechanism – introduced until 2018 in collective agreements – permanent had been "rejected by the House of Representatives"²⁵.

To a certain extent, the only "positive" exception to such a general picture was represented by the case of Lithuania. Here, the Commission recalled that both trade unions and employers had raised concerns over the labour code reform. On this basis, the EC then recognised that a more proactive involvement of the social partners themselves in the designing process would benefit the effectiveness of such a reform. After the pressure exerted by the ETUC on the demands of its Lithuanian affiliates, the Commission successfully persuaded the governments to reopen the talks with social partners and the new reform was approved, carrying some amendments proposed by the social partners themselves.

Regarding wages, the narrative remained more or less the same. Despite the need to boost the domestic demand, pay rises were neither encouraged nor welcomed, excluding some few exceptions²⁶ – where wage increases were considered acceptable and even desirable by the Commission, as in line the macroeconomic fundamentals. But, what was more concerning, was the misreading of the minimum wage rises, notably

²⁴ See the next paragraph for the cases of Belgium, France, Italy and Spain.

²⁵ See Cyprus' 2017 Country Report.

²⁶ Germany (see the next paragraph) and the Netherlands.

in the Eastern Countries. The EC indeed kept insisting on the ideological assumption there are risks that higher minimum wages may affect job creation and so encourage informal work or misuse of self-employment. Whereas, as claimed by the ETUC, the utmost attention should be paid on the negative social consequences of low incomes. For instance, again, in Estonia – as EAKL had feared – the EC expressed concern because the minimum wage is “increasing fast, outpacing overall wage growth over recent years” since these “increases can have a significant impact on the wage bill in the poorest regions”. Although the minimum wage stood at around 38% of the average wage, among the lowest levels in the EU. This is not only unacceptable for the trade unions and workers but is also detrimental to the EU countries’ commitment to implement the UN Sustainable Development Goal #10 which pledges, by 2030, to “progressively achieve and sustain income growth of the bottom 40% of the population at a rate higher than the national average”. The paradox is highly worrying. Especially under the political point of view. The same failed austerity policies which has refrained Europe from a quicker and fairer economic recovery and which are the core basis of the anti-European right wing populism rising all over the continent are still reaffirmed and advised in too many Member States.

The following 2017 CSRs made some further but little steps forward in the direction asked for by trade unions but still were generally unsatisfactory. Once again, they were not yet pro-wage growth and failed to encourage collective bargaining.

Wage growth was advised in a handful of countries in excessive surplus position like Germany and the Netherlands. That was of course positive, but showed that governments still see wages as a factor for a macro-economic adjustment, while the ETUC sees wages as a driver for social justice and growth. In some countries, CSRs may finally be harmful for wage development due to the doubts raised on efficacy of wage formation in the public sector (Cyprus, Romania and Croatia), on the performance of statutory minimum wages across the economy (as in Portugal) or on labour cost trends (as in Finland and Estonia). It happens in countries in which purchasing power of wage earners has diminished and wages have underperformed productivity gains in recent decades.

The reference to transparency in setting mechanisms of minimum wages in Bulgaria and Romania was welcome. Transparency in minimum wage setting appeared in several country reports but only two countries received a recommendation, though it represented a progress that recommendations to redesign minimum wage settings cited the need to involve social partners.

On collective bargaining, the improvement on the previous cycle was that this time the governments opted for substantial self-restraint from intervening on collective bargaining arrangements. But in countries like Spain, Romania and Portugal, CSRs (even without directly referring to it) could harm the autonomous deployment of industrial relations institutions.

To sum up, one can say that, while the EU economy is recovering, collectively agreed wages are not reflecting the positive economic outlook. Reduced employment protections are one reason why collectively agreed wages are underperforming and inflation is on the rise again. Said that, it is crystal clear that 2017 CSRs have failed to capitalise on the potential for coordinated and multiemployer collective bargaining to boost internal demand on the one hand and to tackle inequality and to reinstate social justice on the other hand.

If the ambitions of the EU were to achieve “structural reforms ... to foster social justice, mitigate income inequalities and support convergence towards better outcomes” and that “social priorities and consequences [had to] be taken into account when designing and implementing the reform agenda”, the results of the 2017 cycle have been very modest and often very negative to workers. Changes are urgently needed to bring social progress on the forefront and become a driver for policies that can improve the quality of work and living conditions all over Europe. Positive wage dynamics enabling an upward wage convergence are necessary either for stimulating the European economy and for rebuilding a fairer society. The hope of the European trade union movement is that the European Pillar of Social Rights²⁷ may contribute to better shaping the future Semester cycles.

4.2 A closer look at the “DECOBA Countries”.

So far, we have seen the general picture. In this paragraph the analysis will focus closely on the five countries that have been the target of this project: Belgium, France, Germany, Italy and Spain. In particular, we will see if and how the policies recommended by the European Commission in terms of collective bargaining and wage dynamics have evolved over the period of time in question.

Belgium

Belgium has been for a long while one of the Commission’s favourite targets when it comes to collective bargaining and wages. Its centralised system of sectoral negotiations has been considered as a threat for the

²⁷ The formal proclamation of the Pillar by the European governments is expected for the Gothenburg Social Summit on 17 October 2017.

country's productivity. According to the Commission this would be very visible just looking at the differential in productivity and labour cost trends with neighbouring and partner countries, notably Germany.

In the preamble of the 2015 CSR, the Commission states "*there is a need to align wage growth more closely with productivity and to make wage setting more flexible so as to increase the economy's potential for adjustment ... closing the gap entirely will require additional action which hinges on reforms of the wage-setting system*". However, the CSR itself asked to deliver such a result "in consultation with the social partners and in accordance with national practices".

In 2016 the Commission expressed its intention to release fewer, shorter and more focused Country Specific Recommendations²⁸. In the Belgian case, the result was that only a small part of the previous year's measure was mentioned but it was enough to let the recipients understand it was still referring to the wage formation reform: "Ensure that wages can evolve in line with productivity".

In 2017 this kind of recommendation did not show up. Indeed, in this year Country Report for Belgium the Commission could celebrate the long-awaited – or, better, long-recommended – reform of collective bargaining. After years of sustained attacks and despite the strong opposition of the Belgian unions²⁹, the government imposed such a reform. The new wage setting framework has narrowed the room for negotiations of social partners and granted to the government the possibility to take corrective measures in order to fix detrimental cost-competitiveness developments.

This happened despite that, according to ETUC own calculation made in the frame of the campaign "Europe needs a pay rise"³⁰ as well as to those provided by the three Belgian trade union organisations (for the ETUC report on trade union inputs for Country Reports 2016³¹), it is not correct affirming that wage growth would have outpaced productivity gains – neither in the long run, nor in short one.

²⁸ However, as many practitioners have affirmed, it is true that the number of recommendations has been reduced but they have become longer. Generally, by condensing more policy measures in each single recommendation.

²⁹ According to ETUC own calculation made in the frame of the campaign "Europe needs a pay rise" as well as to calculations provided by the three Belgian trade union organisations (it is not correct affirming that wage growth would have outpaced productivity gains – neither in the long run nor in short run).

³⁰ Please see the related website at <https://payrise.eu/>

³¹ Available here:

https://www.etuc.org/system/files/eu_semester/file/etuc_report_on_trade_unions_inputs_for_country_reports_2016_en.pdf.

France

France has experienced almost the same path than Belgium. The wage dynamics were assessed as producing negative effects on the country's competitiveness, notably – again – compared to Germany and the wage moderation policy applied in 2015 was considered insufficient to compensate those trends. Also, both its collective bargaining system and SMIC³² have been questioned for years. In particular, the Commission considered its system of collective bargaining as inefficient due to its presumed rigidity which did not allow firm level collective bargaining to flourish. It then asked for a reform which would have permitted a wider use of derogations from the sector collective agreements.

The 2015 CSR read as follows *"Reform, in consultation with the social partners and in accordance with national practices, the wage-setting system to ensure that wages evolve in line with productivity. Ensure that minimum wage developments are consistent with the objectives of promoting employment and competitiveness"*. One year later the CSR referring to the wage-setting reform disappear as the French government, at that time, was undertaking a reform meant to ease the derogations from sector collective bargaining. It will then be approved in the second half of the year. Some time later, the 2017 Country Report welcomes the adoption of the labour reform but recognises that its effects would depend on the use the social partners make of it. This marks a point for the trade unions. It clearly proves that the EC implicitly recognises what the ETUC has said several times: the social partners are best placed to decide autonomously the appropriate level of collective bargaining to use and what to negotiate at the different levels. Therefore, it is necessary that their autonomy be respected.

In 2016, the recommendation on the SMIC is still there (*"Ensure that the labour cost reductions are sustained and that minimum wage developments are consistent with job creation and competitiveness"*) but, finally, it will be gone in 2017. The reason for this change is very likely that the French minimum wage – as also recognised in the same year Country Report itself – represents a tool which effectively tackles in-work poverty. It is indeed one of the very few which stands at the 60% of the national average wage. A benchmark often used also by the trade unions to identify a minimum living wage³³.

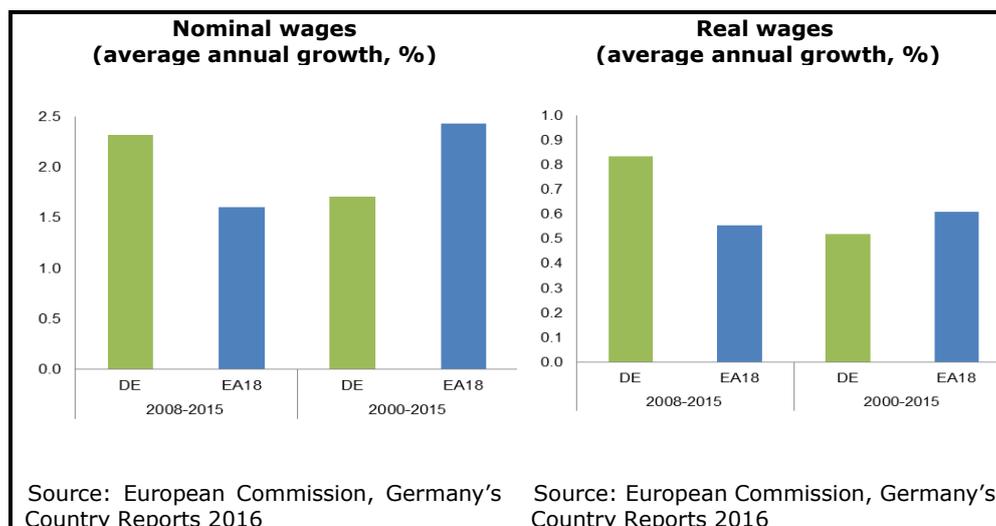
³² Salaire Minimum Interprofessionnel de Croissance, i.e. the French minimum wage.

³³ For instance, see the ETUC Resolution on low and minimum wages, available here: <https://www.etuc.org/documents/etuc-resolution-common-strategy-low-and-minimum-wages#.WcqhVMirRdg>.

Germany

The German case is very interesting. Germany is the only country – of those analysed in the frame of this project – in which the Commission challenged its wage moderation policy repeatedly acknowledged the need to make wages increase faster than how much they were doing. This was particularly true because Germany's wage moderation policy has played a role in the negative trends of competitiveness – in particular, in terms of labour costs – of the neighbouring countries

In 2016, the Commission just limited to note that wages were rising less than expected according to the economic fundamentals but no recommendation was then issued. This was indeed coherent with a policy framework inspired by an economic model driven mainly by exports and so devoted to contain labour costs, i.e. wages. The Country Report read as follows: "over the whole period (2000-2015), the growth rate of wages (both in nominal and real terms) undershot the euro area average" as shown by the following graph of the Commission.



However, in the same year, the general analysis highlighted also that the fragile recovery Europe was experiencing was mainly due to domestic factors, especially consumption and the rise of positive wage dynamics. So, in 2017, the wage narrative has suddenly changed– at least for Germany. The Country Report explicitly said that "the social partners do not appear

*to be making full use of the existing scope for sustained wage increases*³⁴. Moreover, with the analysis performed in the 2017 Country Reports, the Commission indirectly³⁵ admitted also that the German wage moderation policy have been producing spill-over effects in the Euro Area over the last years. This was affecting particularly Belgium's and France's cost competitiveness – especially, in terms of labour costs.

On the contrary, the German collective bargaining model has not been challenged over the period in question. The reasons can be very likely found in the features and trends affecting the German collective bargaining system and which have been deeply analysed by Schulten and Bispinck in this book.

Italy

The 2015 CSR demanded a reform for fostering the company-level negotiation, by recommending to "establish, in consultation with the social partners and in accordance with national practices, an effective framework for second-level contractual bargaining"³⁶.

One year later, Italy's Country Report kept stressing that the Italian collective bargaining system was still inefficient as not providing enough room for firm negotiations (and use of derogations from sector collective agreements). Nevertheless, the consequent waves of CSR did not address collective bargaining. The reform remains a highly sensitive open issue and is mentioned in the preamble but the reference to the role of social partners did not encourage a unilateral intervention from the government. This happened thanks to the platform for an autonomous reform of collective bargaining and industrial relations put forward by CGIL, CISL and UIL – three main Italian trade union confederations. Such a proposal already was signed off by some employers' organisation and was under discussion with Confindustria and the government itself.

In Italy, the outstanding reform of the collective bargaining system is not the object of a specific recommendation, but is mentioned in the preamble. Appearing in recommendations in the past year, this reform. The Italian trade union confederations have proposed a reform of the collective bargaining system which is now under discussion with some groups of employers. The preamble mentions the need to move on with

³⁴ European Commission, Germany's Country report 2017, p.5

³⁵ Indirectly because this is what can be retained by *reading in between the lines* of Belgium's and France's Country Reports.

³⁶ As explained in the chapter about Italy in this book, a law enabling firm and local level collective bargaining was already in place in Italy since 2011 (i.e. Law 148/2011, Art.8) but the social partners agreed not to make use of as this was a reform imposed by the government.

the consensus of the social partners and it improves on the National Reform Programme in which the government was envisaging a unilateral intervention.

In 2017 Country Report, the Commission complained because the inter-confederal agreement on trade union representativeness and collective bargaining was not yet operational. It also stressed that – despite the fiscal incentives granted by the central government, notably in terms of tax reductions for occupational welfare – firm bargaining was still not picking up. This translated into a recommendation requiring to “strengthen the collective bargaining framework to allow collective agreements to better take into account local conditions”, with the involvement of social partners themselves.

The wording is slightly changed and the role of social partners is acknowledged. However, the Commission keeps promoting the state interventionism and interferences in a domain which should be reserved to the autonomy of social partners. This interference is intended to promote a reform the collective bargaining system toward the decentralisation, without taking into account the position of the social partners, and especially of the trade unions.

Spain

In 2015 the Commission recommended the Spanish government to promote the alignment of wages and productivity. Again, in other words, it suggested to foster decentralised collective bargaining.

Despite the acknowledgment of the extremely worrying social situation, the 2016 Country Report kept insisting on this. The Spanish collective bargaining model was still considered inefficient because too rigid – as happened for Belgium, France and Italy. While wages were considered moving in line with the country’s economic performances. They were indeed rising, but less than they could have done compared to the GDP and productivity growth. This led to no recommendation related to the *mantra* of aligning wages to productivity in the following round of CSR.

The recommendation related to the wage formation did no longer appear in 2016 and 2017. Whereas, in 2017 Country Reports, the Commission has addressed again the issue and expressed disappointment because the firm level negotiations were not picking up despite the recent reform. However, this did not take into due consideration the capacity of unilateral modifications in terms of pays and working time granted to the employers. As the Spanish colleagues denounced, this was mainly due to

the fact that these unilateral modifications are not subject to registration by the labour authority³⁷.

5. Conclusions.

After having examined the European Semester cycles from 2015 to 2017, it is now time to draw some conclusions of the analysis made. The positive change in the Commission's narrative and the greater attention paid to the social dimension of the economy and the involvement of social partners in the process of decision-making – at least at EU level – cannot be denied³⁸. This is clearly the result of the strong commitment of President Juncker toward the recovery of the original values of the European social model. Nevertheless, the road ahead toward a "triple A Social Europe" is still well long. A self-evident example of the disillusionment of trade unions is represented by the Spanish case. The ETUC and its Spanish member organisations had welcomed the analysis – performed in the Country Reports – of the negative impact of high rates of precariousness in the labour market but this did not translate in an appropriate response when it came to issue the recommendations. Here, measures to "*promote hiring on open-ended contracts*" imply the removal of "*uncertainty in case of legal dispute following a dismissal, along with comparatively high severance payments for workers on permanent contracts*"³⁹.

The European trade union movement has expressed appreciation for the efforts put in place by the Commission several time. They are strongly committed and supportive with regards to the social initiatives that will be further developed in the forthcoming months – notably, the European Pillar of Social Rights. However, one has to stress that the result in terms of reverting those social and economic policies which have produced resentment and anti-European feelings among EU citizens are still too poor.

This is even more true when it comes to collective bargaining and wages, particularly when looking at the five countries analysed in the current project. Here, one can easily see how the semester has insisted on reforming the wage formation systems by fostering the trend toward decentralisation. Germany did not receive such kind of recommendations over the period in question as its system was already affected by decentralisation and fragmentation. Italy is the only country where national sector bargaining is still under attack as in Belgium, France and Spain, the Commission dropped off the related recommendations only once the reforms imposed were implemented. However, in these four countries it is

³⁷ For a deeper analysis of this worrying problem, see Rocha in this book.

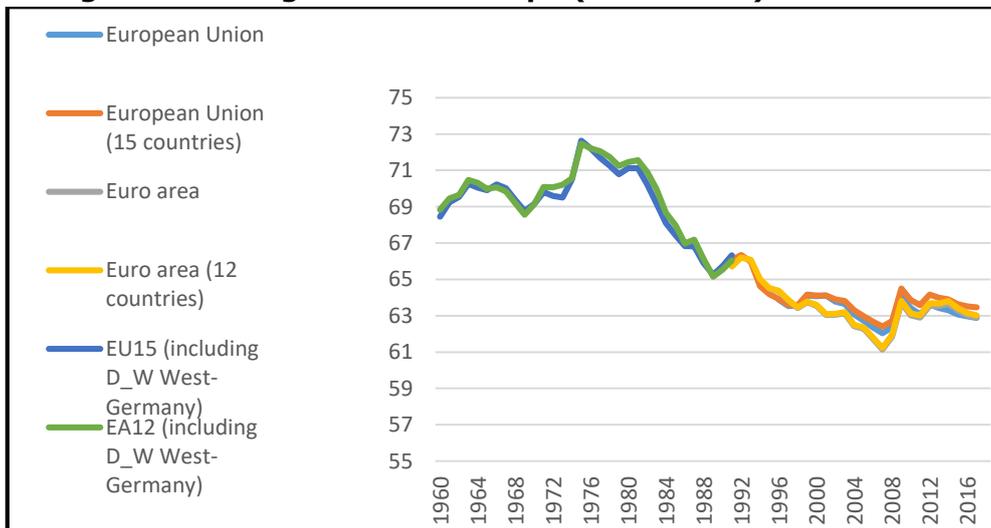
³⁸ This is the case, for instance, of those recommendations aiming at fighting undeclared work in Portugal and Romania.

³⁹ Spain's Country Specific Recommendations 2017

still complaining because firm bargaining is *surprisingly* not taking off. In reality, this happens for a specific reason as the unions have always been explaining. Indeed, in economies dominated by small and medium-sized enterprises, decentralisation of collective bargaining to make it more responsive to quickly changing business needs is an ideological argument. SMEs have rarely the capacity and skills to negotiate collective agreements. Company bargaining represents then a cost and an impediment for this kind of businesses⁴⁰. On the contrary, sector collective bargaining embodies a tool for setting level conditions and preventing unfair competition. Moreover, the Commission has also admitted that social partners make a poor use of derogations even when they would be allowed to. As stated by the ETUC in many occasions, this is not weird. Social partners are indeed the best placed to decide on what to negotiate and at which level. This is the reason why institutions should stop any unwanted interference in the autonomy of social partners.

In addition, it is worthy stressing the incoherence between the Commission's analysis and consequent recommended policies. In countries with outstanding problems of income inequality, national sector negotiations are the most efficient instrument for a rapid redistribution of wealth produced in the whole society. Especially, after more than 30 years of constant wage share decrease as shown by the graph below.

Changes in the wage share in Europe (1960-2016)

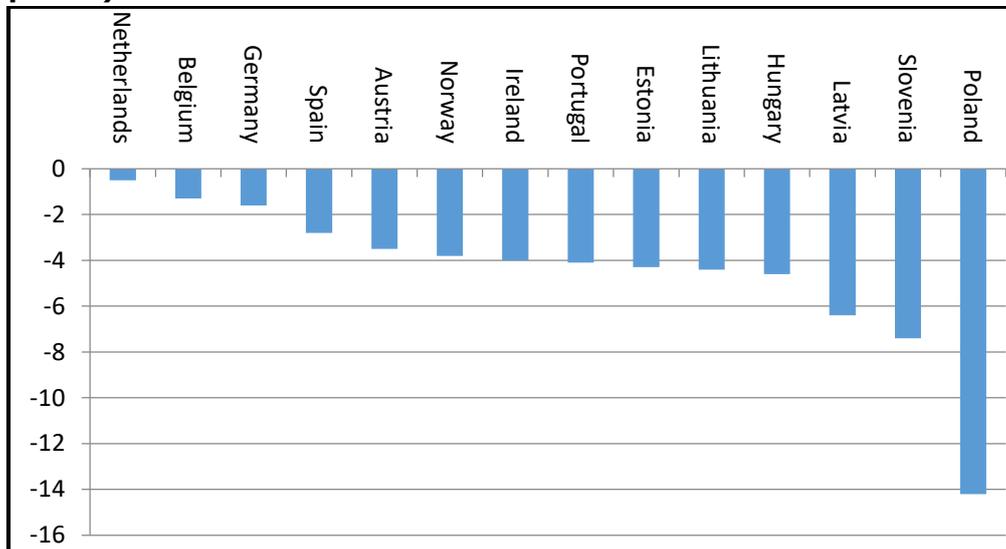


Source: database AMECO

⁴⁰ See Leonardi et al. and Rocha in this book

This situation is particularly concerning in countries which have been under the Troika programmes (Ireland, Spain, Portugal) and in many Central Eastern European but affects also western countries member of the Euro Area (Austria, Belgium, Germany and the Netherlands), as can be seen by the breakdown graph below.

Declining labour shares in the EU 1995-2014 (in percentage points)⁴¹



Source: OECD ECO Working Paper 2017/5

Another paradox in the Commission’s narrative is that of predictability of wage dynamics. As previously noted, one year the EC considers the Estonian bargaining system the most efficient as totally decentralised. Some months later it complains that negotiated pay rises are not responsive to productivity and economic performances. Again, sector collective bargaining is an example of how unions and businesses can be responsible macroeconomic actors. This testify once again that strong social partners are an added value for the economy and society as a whole.

Someone may argue that, if unions and/or employers’ organisations are weak or not representative to negotiate wage increases and to conclude binding collective agreements, this is not the fault of the European

⁴¹ R. Janssen, Why pay rises are a plus for the economy, academic paper developed for the ETUC campaign “Europe needs a pay rise”, available here: <https://payrise.eu/get-the-facts/>.

Commission, nor of the governments. This is not completely true. Collective bargaining, and social dialogue in general, needs a supportive framework – either legal or institutional – enabling social partners' negotiations. Something which is of course in place in those Member States with strong industrial relations traditions and which is missing or has been dismantled due to recent reforms in many others. As well explained by ETUC General Secretary Luca Visentini – in his speech given at the conference 'End Corporate Greed. Europe - and the world – needs a pay rise' – *"without such frameworks, we will never be able to address the gap in wages and working conditions between Western and Eastern Europe, nor social dumping"*. Thus, the ETUC, via its pay rise campaign, is spreading the key message that Europe needs wage increases achieved through collective bargaining, notably national sector negotiations.

For too long policy makers have been overlooking the vital functions of collective bargaining, especially at national sectoral level. The European Pillar of Social Rights is an unprecedented occasion to finally revert this trend and create an upward convergence across EU Member States. In the 20 principles put forward by the Commission there is a clear indication of the role the social partners may (and have) to play for its effective implementation via social dialogue and collective bargaining. The Commission promised that the 2018 cycle will be the first round of the new "social semester", intended to start implementing such 20 principles. Hopefully, this will not remain just void words on paper. Europe may not have many further chances to progress toward and remain faithful to the key objective of the European integration project: prosperity for all.

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