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Voskeritsian, Horen and Kornelakis, A. and Kapotas, P. and Veliziotis, M. (2020) United We Stand? Marketization, institutional change and employers' associations in crisis. *Economic and Industrial Democracy* , ISSN 0143-831X. (In Press)

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# **United We Stand? Marketization, Institutional Change and Employers' Associations in Crisis**

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## **Abstract**

The continuous process of marketization of employment relations in a variety of European countries has raised questions about the power of collective social actors and their legitimizing role in policy-making. The article examines the responses of employers' associations to institutional changes towards marketization in the context of the Greek economic crisis. The analysis exposes the hidden fractures between and within the peak-level employers' associations and unveils a variation in their strategic responses towards institutional changes. To explain this variation, the article advances a power-based explanation and argues that the institutional changes altered the associations' interest representation and power resources, which in turn, redefined their role and identities in the employment relations system.

**Keywords:** Employers' Associations; Economic Crisis; Greece; Interests; Power Dynamics.

## 1. Introduction

The continuous process of marketization of employment relations in a variety of European countries has become a pervasive trend that intensified in the context of the recent European crisis. This trend has informed academic debates about the trajectories of institutional change in Europe and beyond (Baccaro and Howell, 2011; Greer and Doellgast, 2017; Hall and Thelen, 2009). At the same time, it has raised questions about the power of collective social actors and their legitimizing role in policy-making (Culpepper and Regan, 2014).

The article seeks to contribute to these debates by examining the responses of employers' associations to institutional changes towards marketization, in the context of a severe economic crisis. The response of employers is important, especially in view of the renewed interest in their role, functions and identities (Benson et al., 2017; Brandl and Lehr, 2016; Gooberman et al., 2017; Ibsen and Navrbjerg, 2019; Paster, 2018; Sheldon et al., 2016). Notably, the pro-business reforms that are clearly geared towards marketization are likely to be supported by the representatives of business interests, without a necessity to bring trade unions on board or carve out compromises.

Against this backdrop, the Greek crisis is a case in point. The bailout agreements that the country signed incorporated a strict conditionality of institutional changes and reforms that were clearly geared towards marketization, by liberalizing labour and product markets and attempting to restore the price-competitiveness of the economy. One would therefore expect employers' associations to support this pro-market direction of institutional changes, which offered ample opportunities to lift various regulatory restrictions and reinforce the operation of free market mechanisms. Yet the empirical reality defies this expectation and provides us with an intriguing puzzle, as the employers' associations were rather divided in their outlook and offered diverse responses to the institutional changes. The purpose of this article is to explain the above puzzle by highlighting the nuances, fault lines and hidden fractures between and within the employers' associations. More specifically, we seek to answer two pertinent research questions: first, what was the response of the peak-level employers' associations to the institutional changes in the labour market; and second, how can the variation in the responses to the changes be explained. To this end, we advance a power-

based explanation (Korpi, 2006) to shed light on this fragmented landscape. We argue that the institutional changes weakened the power resources of employers' associations and compromised their ability to advance their interests, which, in turn, was crucial in redefining their role and identity, and therefore, led to a strategic repositioning that explains the variation in their responses.

The rest of the article is structured as follows. The next section reviews the literature on institutional change and marketization and sketches our explanatory framework for the representation and power dynamics of employers' associations. The third section presents the research design of our study. The fourth section focuses on two key areas of marketization in employment relations. The first area concerns the institutional changes that engineered the abrupt collapse of the collective bargaining system, which brought about a rapid decentralization of bargaining. The second area concerns the dismantling of the coordinated minimum wage-setting system, and the steep wage cuts to restore price competitiveness. The narrative shows how these institutional changes were pivotal in altering the balance of power between and within employers' associations, and consequently their strategies of interest representation. The final section concludes.

## **2. Theoretical Framework**

### ***2.1. European Crisis, Institutional Change and Marketization***

Recent literature has identified a variety of mechanisms of institutional change (e.g. Streeck and Thelen, 2005) that go beyond the idea that all change is path-dependent in contemporary capitalism. Greer and Doellgast (2017) proposed a framework that maps the mechanisms towards, and the different manifestations of, 'marketization' as a direction of institutional change, and emphasises that any change reflects the power resources of the constellation of actors. Hauptmeier (2012) argued that differences in actor ideologies shape the construction of national institutions, which then explains change and variation of micro-level employment relations. Similarly, the 'shared understandings' (Culpepper, 2008) between or among actors were crucial in enabling the coalitions between government, trade unions and employers through social pacts. Indeed, social pacts were perceived as a fundamental legitimizing device that ensured some degree of institutional continuity and enabled a concerted approach to contentious

marketization reforms of the labour market (Avdagic and Crouch, 2015). These theoretical conjectures were ultimately put to the test with the advent of the global financial crisis and the European sovereign debt crisis.

In principle, the global financial crisis presented an opportunity to weaken the clout of marketization ideas, by highlighting blatant ‘market failures’ in the financial services and an overall failure of the ‘deregulation paradigm’. But neoliberalism proved more adjustable and resilient than expected (Crouch, 2011). Once the global financial crisis mutated into a European sovereign debt crisis, the prevailing discourse in Europe pointed out the ‘state failure’ and ‘weak national competitiveness’ of peripheral countries. In turn, this intensified the need to reform labour market frameworks and adjust national institutions so that the market mechanisms are restored and reinforced (Hermann, 2017). These policy ideas took the form of particular adjustment recipes, dubbed in the Eurozone as a process of ‘internal devaluation’ (Armingeon and Baccaro, 2012), which targeted the core of national employment relations systems.

The European crisis had a series of unintended consequences in the mechanisms and processes of institutional change. Previously exemplary cases of concertation and social partnership, such as Italy and Ireland, collapsed into basket cases of unilateral government imposition of reforms (Culpepper and Regan, 2014). As Molina (2014) argued, the state resumed its role as the actor dictating the ‘rules of the game’ and the autonomy of social partners was severely compromised. Despite differences in the content and intensity of reforms in crisis-hit countries (Geary, 2016; Molina, 2014; Picot and Tassinari, 2017), and the moderating effects of the social partners’ autonomy in determining the reach of state intervention in employment relations (Alfonso, 2019), the common trajectory of change towards marketization and pro-market reforms resumed and intensified. In sum, institutional change in Europe’s periphery (e.g. in Ireland, Spain, Portugal and Italy) was driven either by the explicit conditionality of bailout agreements or by implicit coercion (Culpepper and Regan, 2014; Geary, 2016; Molina, 2014; Pedersini and Regini, 2013). These changes did not necessarily lead to a radical break with past traditions but, through a process of path dependency led to the hybridisation of collective bargaining structures (Brandl and Bechter, 2019). Under these extreme circumstances, the collective actors’ role in institutional change was questioned; they came across as powerless and their ‘legitimizing power’ appeared

irrelevant (Culpepper and Regan, 2014). Against the backdrop of these rapid shifts in the process and paths of institutional change in Europe, it is important to understand how institutional changes generally affect the roles, interests and power resources of employers' associations.

## ***2.2. Employers' Associations Strategies: Interests, Power Dynamics, and the Institutional Context***

Our basic premise is that identifying the type of interests that employers' associations seek to serve constitutes the cornerstone for understanding their actions and behaviour. One of their major functions is to represent their members' and sectors' interests vis-à-vis the trade unions and the state. Contrary to standard class analysis (e.g. Korpi, 2006; Perrone et al., 1984), which assumes uniformity of interests of the different class actors, peak-level employers' associations may find themselves trying to balance the representation of encompassing interests on one hand, and more narrow interests on the other (Traxler, 2007: 4). For example, although, as capitalists, employers may adhere to a more liberal view of society and the economy (thus having common encompassing interests), their interpretation of the limits of liberalism may differ depending on the sectors they operate in. Therefore, there may be a clash between long-term collective interests and short-term individual member interests (Schmitter and Streeck, 1999). Balancing these diverse interests and promoting a uniform agenda vis-à-vis the other social partners, is a fundamental operation of an employers' association.

Whilst serving their members' interests, employers' associations also aim to satisfy their own organisational interests, namely their survival, continuation and reproduction within the wider political and economic system. Contrary to other organisations, however, employers' associations, as collective non-profit entities that represent for-profit organisations, have to deal with the classic collective action problem (free riding, commitment to the organisation), while reconciling the potentially conflicting interests of their members (Behrens, 2018). Most of the time, the associations' organisational interests and their members' interests will be aligned; for example, the participation in tripartite social dialogue or in collective bargaining may yield positive results for the member firms they represent; it may reaffirm and strengthen an association's position in the system, but also provide a 'public good' in the form of industrial piece that benefits whole sectors of the economy and the society in general. There may be

occasions, however, where an association's objectives may not necessarily coincide with, or completely reflect, the interests of its membership.

Whether employers' associations will be able to satisfy their members', or their own, organisational interests depends on their relative power in the spheres within which they exercise it. Wright (2015) identifies three spheres in which capital and labour meet to pursue their interests: the sphere of politics, the sphere of the market and the sphere of production. It is in the first two spheres that employers' associations usually engage with trade unions and the state (as the production sphere refers to the level of the shop floor and it is par excellence the space where individual firms and local unions usually exercise power). The employers' associations engage in the sphere of politics whenever they enter into bipartite dialogue with the state, or in tripartite activities with the rest of the social partners, or exercise lobbying. They also engage in the sphere of the market whenever they participate into collective bargaining, when they regulate the market by setting standards, or when they provide services to their members. The access to both spheres is critical and usually inscribed in the institutional framework, which legitimizes the right of certain actors to determine outcomes in these spheres. Yet the effectiveness of each actor's actions in these spheres depends on the actor's power and the dynamics that characterise the interaction of the actors involved.

Employers' associations possess three types of power: (i) structural or institutional power, which is conferred on them by their role in the institutional framework, (ii) organisational power, which refers to the size of their organisation, and (iii) mobilisation power, which refers to their ability to mobilise their resources to pursue their interests (see also Gumbrell McCormick and Hyman, 2013). Yet although the possession of power is a necessary condition for its deployment in a specific arena, it is not a sufficient one. The ability to exercise power, and the decision to deploy it, largely depends on the resistance that the exercise of power may yield by the actor against whom it is being directed. Power is, therefore, both a relational concept, as its success rests on its relative positioning vis-à-vis the other actors in the sphere (market, politics, production) in which power is being exercised, and a dynamic concept, since its characteristics may be altered as a result of changes in the external environment. Hence, in analysing the responses of the actors in the employment relations system, we

employ the concept of power dynamics, which better captures the dynamic relationship of, and interaction between, the power of Capital, Labour and the State.

Apart from the power dynamics that characterise their environment, the employer associations' policies and strategies depend on the opportunities and constraints provided by the institutional context in which they operate (Brandl and Lehr, 2016; Wright, 2015). Some employers' associations operate in an institutional context which may provide opportunities to engage in collective bargaining with the respective trade unions; to set minimum standards and to regulate the labour market; and to represent their members in tripartite bodies. Others may only engage in bipartite dialogue with the government and may employ lobbying and consultation to advance their agendas; they may set or influence standards for product markets, either unilaterally or in coordination with regulatory bodies. For instance, employers' associations in Continental and Southern European countries (such as in Germany, Greece or Italy) actively engage across the above spectrum (Mouriki and Traxler, 2007; Sheldon et al., 2016; Vatta, 2007). By contrast, associations in Anglo-Saxon countries have a more restrictive strategic orientation as they operate in an institutional context where lobbying is the primary mode of influence.

Changes in the institutional framework, or in the general economic environment, impact on the actors' interest representation, on the allocation of power, and on the decision to deploy power. When confronted with institutional context changes, employers' associations may decide to either adapt to, or challenge, the new environment (Paster, 2018). Which broad strategy will be pursued will depend on the power dynamics that characterise the employment relations systems at a specific historical juncture. This concurs with Paster (2018: 678) who suggests that the response depends on whether the state sides or does not side with the 'challenger' to the associations' interests. For instance, German employers' associations have adjusted their strategies when confronted with the labour market reforms in the 2000s or the introduction of board level representation (Paster, 2018). Even more vividly, the marginalisation of the British associations in collective bargaining led them to develop the service model as a way of satisfying an organisational interest in survival and continuity (Gooberman et al., 2017). Certain strategies may have a dual purpose and effect, as they may at once serve members' interests and organisational interests. For



example, participating in tripartite social dialogue or in collective bargaining may yield positive results for the member-firms they represent (and the relevant sector of the economy) and, at the same time, reaffirm and strengthen the employers' associations position in the employment relations system.

In sum, in order to examine the strategic responses of employers' associations to marketization reforms in periods of severe economic crisis, we put forward an interest representation and a power dynamics perspective. Our conceptual framework suggests that identifying the type of interests that employers' associations seek to serve and the impact of changes in the institutional context on power dynamics and interest representation, constitutes the cornerstone for understanding their actions and behaviour. On face value, marketization reforms appear to serve the interests of the employers' associations' constituencies by lifting restrictions on the free functioning of the market. One would therefore expect the employers' associations to endorse and support these reforms. The Greek experience, however, suggests that the overall picture is more nuanced and complex, as peak-level employers' associations did not respond to the new institutional realities in a uniform manner. Our core argument is that the institutional changes impacted the role of the actors and recalibrated their power in the employment relations system, hence modifying their ability to adequately satisfy theirs and their members' interests. In an attempt, therefore, to reaffirm their role as legitimate employment relations actors and to promote the interests of structurally diverse sectors of the economy, they reacted in ways that reflected this diversity thus explaining the puzzle of the variation of responses to the institutional changes. The next section outlines the research design of the article.

### **3. Research Design, Data Collection and Methods**

The research setting examines the case of Greece as a 'critical' case (George and Bennett, 2005) and as a 'deviant' case (Emigh, 1997). The case of Greece is critical because the changes that the country underwent were very abrupt and far-reaching making it an extreme case of institutional change. Greece is chosen as the country that has endured the longest-running and more austere bailout programme in the Eurozone crisis. The institutional changes were clearly prescribed in the bailout agreements and reflected strict conditionality requirements for the liberalization of the labour market

and the marketization of the employment relations system. Hence, it has extreme variation on the independent variable of interest. At the same time, it is a deviant case, as it defies the standard expectations on the dependent variable. The observable implications of standard class theory (Korpi, 2006; Perrone et al., 1984) that assumes a uniformity of class interests, would expect that representatives of business interests would be unequivocally united and favourably disposed towards the pro-business direction of marketization reforms. Yet, the case defies this expectation and shows how the reforms divided the employers into two camps.

The data collection draws on in-depth face-to-face interviews with expert informants from key actors. The expert informants were recruited from the four peak-level employers' associations, representing different sectors of the economy and different business interests. SEV (Hellenic Federation of Enterprises) represents big firms from various sectors of the economy. GSEVEE (Hellenic Confederation of Professionals, Craftsmen and Merchants) represents SMEs and its members are federations from various sectors of the economy. Similarly, ESEE (Hellenic Confederation of Commerce and Entrepreneurship) represents SMEs in the retail sector, whereas SETE (Association of Greek Tourism Enterprises) represents the Hotel and Tourism industry.

To explore the views and reactions of the employers' associations to the labour market reforms, we conducted ten face-to-face interviews with their top executives. Interviews were audio-recorded and lasted between 45 minutes and two-and-a-half hours, with an average interview length of one hour and 40 minutes. They took place during July and August 2016 in the head offices of the associations in Athens, Greece.

Informants were selected based on their overall expertise as executives of the employers' associations and on their role during the period of institutional changes. All informants were actively and personally involved in the discussions with the Troika and the Greek government when the bulk of the changes in the institutional framework of employment relations took place (i.e. 2010-2012). At the time of the interviews they were also at the forefront of discussions regarding the new round of negotiations between the Greek government and the Troika. Moreover, all the informants have been active in their respective employers' associations for more than a decade, hence having a very good grasp and understanding of the workings of their respective sectors.

The interviews were transcribed verbatim and then coded following a ‘thematic’ and ‘attitudinal’ approach: three major themes were identified, reflecting the main institutional changes in the labour market, namely collective bargaining decentralization, minimum wage setting and the level of wages. Moreover, the employers’ views about the changes, their opinions about the process of the changes, and their perspectives on what direction changes should take were identified and linked to each of the three themes. The resulting analysis helped us gain a better understanding of the key issues and institutional changes that influenced their roles and interests.

#### **4. Marketization, Labour Markets and Employers’ Associations in Crisis: The Case of Greece**

The transformation of the Greek employment relations system has been well documented in the literature (for example, Kornelakis and Voskeritsian, 2014; Koukiadaki and Kokkinou, 2016; Koukiadaki and Kretsos, 2012). The signing of the first and second bailout agreements (Memoranda of Understanding – MoU) between Greece and the Troika (IMF/European Commission/ECB) in 2010 and 2012 respectively was a tipping point for the reallocation of powers among social actors. The MoU followed the logic of internal devaluation and tight fiscal consolidation, introducing a series of transformations in the way public administration and public finances were managed. In the case of employment relations more specifically, the focus was on three major pillars: the liberalisation of Employment Protection Legislation (EPL) and the flexibilization of the labour market; the decentralisation of collective bargaining; and the reduction of the National Minimum Wage (NMW) to restore price competitiveness (European Commission, 2010, 2012). In what follows, we focus on the last two pillars.

##### ***4.1. Dismantling the Collective Bargaining System and Decentralization***

A common feature of all the policies introduced between 2010-2012 was the objective to relegate the role of sectoral and national collective agreements and transfer more decision-making power to the firm level (Voskeritsian and Kornelakis, 2019). By doing so, the new framework did not only provide the opportunity to individual firms to determine the terms and conditions of employment and the organisation of the labour

process (either unilaterally or through firm bargaining), but it also stroke a decisive blow against the ability of sectoral and peak-level associations to navigate the hitherto unknown waters of the crisis. Table 1 below documents this trend towards collective bargaining decentralization and the consequent collapse in sectoral agreements and collective bargaining coverage.

**Table 1: The Decentralization of Collective Bargaining in Greece, 2010–2016**

<b>Year</b>	<b>Sectoral and occupational collective agreements</b>	<b>Company level collective agreements</b>	<b>Collective bargaining coverage</b>
2009	74	215	100%
2010	78	227	100%
2011	45	170	89.8%
2012	28	976	75.9%
2013	23	409	63.1%
2014	18	286	21.9%
2015	18	263	23.7%
2016	15	318	25.5%

Source: Collective Agreements from the Greek Ministry of Employment and Social Affairs; Collective bargaining coverage from Visser (2019).

For employer associations the new institutional framework posited important existential dilemmas. On the one hand, their members seemed to embrace the trajectory of change – as reflected in the decline of wages, the marginalisation of sectoral collective bargaining, and the increasing flexibility in the labour market. On the other hand, having the benefit of a more macroscopic view of the Greek economy and the labour market, employers’ associations seemed to be very concerned about the long-term impact of these changes on private consumption and the overall survival of their sectors. The interests they represent and their structural role and power in the employment relations system eventually informed their strategic response to this dilemma.

Prior to the crisis, collective bargaining and wage determination was characterised by a high level of centralisation and coordination (Kornelakis and Voskeritsian, 2014). The key terms and conditions of employment were usually determined at the sectoral and occupational level and were later implemented across the market through the *erga*

*omnes* and favourability principles<sup>1</sup>. The national collective agreement, signed by the peak-level association and determining the National Minimum Wage (NMW), acted as the ‘pattern-setting’ mechanism to guide sectoral and occupational level negotiations. In the few large establishments where firm-level unions existed, firm-level collective agreements were also signed, which determined terms and conditions of employment for the firm’s employees. The whole system of collective bargaining was supported by an independent Organisation of Mediation and Arbitration (OMED), which helped alleviate conflict through a two-step process of mediation and arbitration: parties who were unable to independently conclude a collective agreement could go through a mediation process and, if an agreement could not be reached, they could proceed to the arbitration stage where an independent arbitrator would eventually rule on the case. The system of mediation and arbitration was so designed as to encourage the resolution of conflict (and the signing of a collective agreement) at the mediation stage (Kazakos, 1998), perceiving the system of compulsory arbitration as the ‘last resort’ to ensure the smooth functioning of the system and the protection of employees. Indeed, the system seemed to be achieving its objectives, as the majority of cases that ended up in OMED were resolved at the mediation stage and, although a minority went through the arbitration process, only a handful of those required a compulsory ruling from the arbitrator (as the rest were amicably resolved at that stage – see OMED, 2010 for a detailed discussion).

Although the high degree of centralisation ensured the existence of common standards across a sector and the avoidance of ‘wage dumping’, it also resulted in a certain degree of inflexibility in the determination of wages, especially for the Small and Medium-sized Enterprises (SMEs). The MoU sought to rectify this inflexibility in two successive

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<sup>1</sup> The *erga omnes* principle stipulated that a sectoral collective agreement, which was signed between a trade union and employers or employers’ associations that represented at least 50%+1 of the workers in the respective sector, was applicable to all workers in the sector through a process involving the issuing of a ministerial decree. The *favourability* principle postulated that, if an employee’s terms and conditions of employment were the subject of more than one collective agreements (e.g. a sectoral, an occupational and a company one), then the one most favourable to the employee would eventually apply. This implied that an employer could not offer wages below the ones agreed at the sectoral or occupational levels.

waves of reforms. In 2010 and 2011 two statutes (Law 3899/2010 and Law 4024/2011) allowed company-level collective agreements to derogate from sectoral ones by including less favourable terms and conditions of employment and stipulated that only firms that were members of an employer's association that had signed a collective agreement were bound by said agreement. To assist in the exercise of collective bargaining in firms that lacked a firm-level trade union, the new legal framework conferred negotiation powers on a body that had remained dormant in the practice of employment relations since 1982 – the Association of Persons.

Firms quickly responded to the new opportunities that the institutional changes generated. The old wage bargaining system quickly collapsed, with sectoral bargaining losing its appeal and firm-level collective and individual bargaining becoming the new norm for the determination of wages (see Table 1). As a result of this decentralisation, both collective bargaining coverage and wages declined significantly (Giannakopoulos and Laliotis, 2019).

Despite the endorsement of the new institutional changes by individual firms, the responses of the employers' associations to the de facto decentralisation of collective bargaining were quite different. For instance, although SEV and SETE never argued against sectoral collective bargaining – and, indeed, the Hellenic Hoteliers Federation (a member of SETE) was one of the very few employers' associations that signed a sectoral collective agreement with the respective sectoral trade union during that period – they supported the primacy of the firm-level bargaining over sectoral bargaining under certain conditions. As our informant from SEV maintained:

“the company level agreements should prevail [i.e. over the sectoral], as every business is aware of its own strengths, and knows the level of wages [it can afford]. If there is no company level [agreement], then there could be coverage from a sectoral agreement. In line with this rationale, we are of the view that a company level agreement should be allowed to deviate from a sectoral agreement when a company cannot survive or cannot abide by it.” (Interviewee SEV, 29/7/2016).

This position was also shared by SETE:

“...On the one hand I believe that the institution of the company level [agreements] should continue to exist, but in parallel with the sectoral

[agreements] – we have proved that we are in favour of sectoral agreements – and [the company level agreement should] prevail over the sectoral agreement, simply because in some companies the conditions could be such that allow for better wages – and this is the case in some sectors and in some companies – as it can also be the case that special conditions may not allow this, and reduced wages may be required for the company to survive.” (Interviewee SETE, 29/8/2016).

By contrast, ESEE and GSEVEE appeared to be clearly in favour of sectoral collective bargaining:

“A sectoral collective agreement, which is signed by an employers' association and a [sectoral] trade union, certainly represents the sector's interests much better than an Association of Persons or a single employer could do.” (Interviewee GSEVEE, 4/8/2016).

Our GSEVEE interviewee regarded the view that firm-level agreements should be taking precedence over the sectoral ones as a deviation from European best practices:

“The one diverging from European practices is the one who, on the one hand, wants national agreements, but does not want sectoral agreements and wants company level agreements. Why is that so, though? Could it be because it [i.e. the employers' association] represents companies and not sectors?” (Interviewee, GSEVEE, 4/8/2016).

This last point exemplifies a fundamental difference of interest representation between the employers' associations, which is crucial to our understanding of variations in their strategic responses. The associations representing sectors of the economy where firms are mostly export-oriented, exposed or outward looking (as is SEV and SETE) were in favour of further wage flexibility to better reflect the productivity and financial position of each individual firm. By contrast, those representing inward-oriented, sheltered sector SMEs or retail sector firms favoured sectoral bargaining.

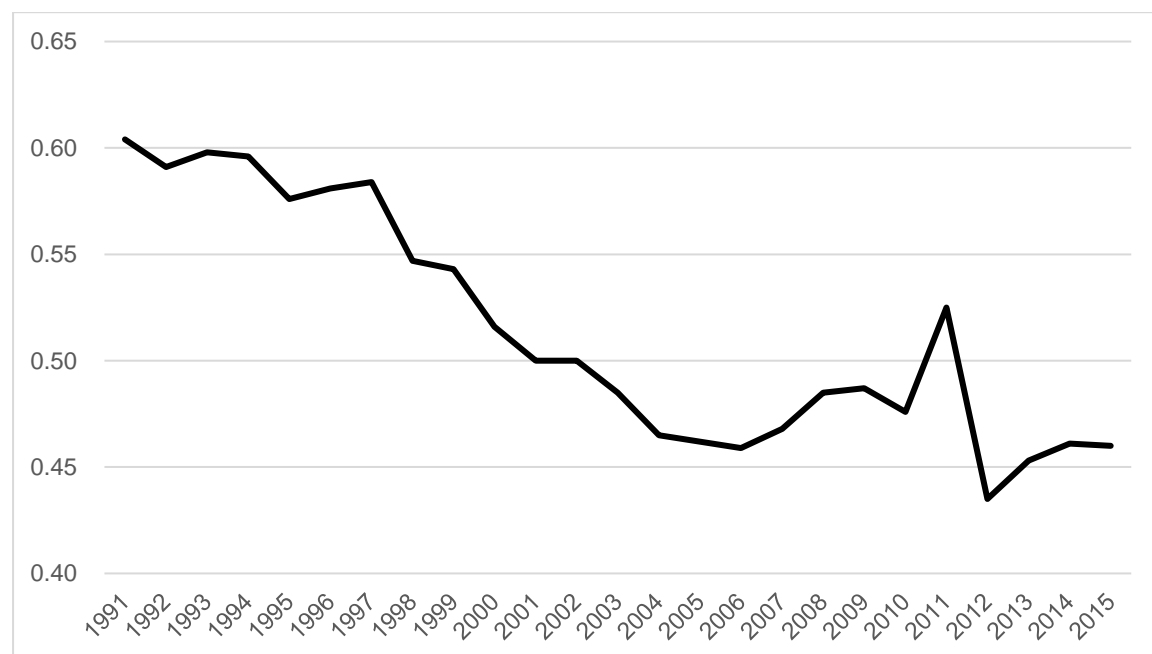
ESEE and GSEVEE were very concerned about the effects of decentralized bargaining on sectoral competition and overall wage levels, as well as about its impact on private consumption. Sectoral bargaining ensured the establishment of economies of scale, the minimization of transaction costs and the avoidance of a race-to-the-bottom in wages and working conditions. Their main concern was with the survival of the sectors they

represented. Low wages had an important adverse effect on the viability of business, as they impacted directly on the level of private consumption and, hence, on the medium-term survival of firms. Having a more comprehensive view of how the real economy works, they acted as the guardians of the long-term interests of their respective sector and as guarantors of the sector's survival.

#### ***4.2. Restoring Price Competitiveness and the National Minimum Wage***

Like many European countries, Greece has a national minimum wage (NMW), which acts as the basis for the negotiation of sectoral and occupational wages. Contrary to most of its European counterparts, however, the NMW in Greece was traditionally determined through national collective bargaining between the peak-level employer associations and GSEE (the peak-level private sector trade union confederation), which signed the National General Collective Agreement (EGSSE) with no government involvement. Figure 1 documents the long-term evolution of the ratio of the minimum wages to median earnings.

**Figure 1: The Minimum Wage in Greece (Kaitz index), 1990-2015**



Source: OECD.Stat, available at <http://stats.oecd.org/Index.aspx> (accessed on 18/01/2017). Notes: The Kaitz index here is the ratio of minimum wages to median earnings of full-time employees.

In 2010, at the very beginning of the crisis, the social partners made an unprecedented move and signed a three-year national collective agreement, which set the NMW at



€751 and agreed 1% increases per annum, in line with the European Index of Consumer Prices. This meant that they agreed on wage restraint for three years, thus effectively ‘freezing’ the NMW, as the Greek inflation was above the European average. The social partners believed that by signing this agreement they would project the image of responsible social partners showing solidarity in times of crisis, which would send reassuring signals to the nervous financial markets.

Nevertheless, and despite the apparent consensus among the peak-level associations, the Troika of IMF/ECB/EC pushed hard and finally succeeded in their demands for dramatic changes in the process of wage setting and the level of the minimum wage. Firstly, by requiring an absolute reduction to the level of the national minimum wage by 22% (€586 monthly) for all workers above the age of 25, and by 32% for all workers below the age of 25, hence introducing a youth subminimum (€511 monthly). Secondly, by stripping away the right of the social partners to determine the NMW through collective agreement and by transferring this power to the hands of the state. The overall rationale was that the change in the process of wage setting would facilitate the reduction of labour costs and would restore the price-competitiveness of the Greek economy. This rationale was clearly set out in the Second MoU:

“These reforms should support the on-going adjustment of the labour market, with the aim of reducing nominal unit labour costs in the economy by 15 per cent over the period 2012-14, and thus help restore cost-competitiveness and boost employment in the medium to long term.” (EU Commission, 2012: 104).

Undoubtedly, these marketization objectives underlie the ‘internal devaluation’ policy and have been politically laden and highly controversial. Indeed, the empirical evidence is at best inconclusive, as recent research has shown that the trajectory of the real value of the NMW in Greece was, in general, aligned with productivity increases (Voskeritsian et al., 2017), and that the impact of the NMW on employment has had no systematic (positive or negative) effects (Georgiadis et al., 2018).

The changes in the setting and on the level of the minimum wage sent shockwaves through the employers’ associations, vis-à-vis their structural role, identity and interest representation. All the peak-level associations (including trade unions and employers) vehemently resisted state intervention in the determination of the NMW and demanded the restoration of the previous system of free collective bargaining. However, as was

the case with the decentralisation of collective bargaining, this broad agreement concealed the nuances, fault lines and hidden fractures between and within the employers' associations.

The statutory regulation of the NMW had three important consequences. First, it re-allocated power in the employment relations system, as the signing of the National Collective Agreement was one of the most important outcomes of national social dialogue. The conclusion of the national collective bargaining negotiations was a pivotal event in Greek employment relations, charged with symbolism as it allowed the social partners to constantly reaffirm and reinforce their role and power within the institutional framework. Moreover, the agreement cemented their role as guarantors of the smooth functioning of the system and the preservation of industrial peace. As our ESEE informant vividly argued:

“The general agreement [setting the national minimum wage] has, I believe, been based on this exact philosophy, to allow the existence of social dialogue, as it happens in most countries in Europe and even in Germany, where, as you said, there is no general [cross-sectoral] agreement, but there are sectoral agreements and free collective bargaining. I do not understand why we should not have this freedom of self-regulation of the market in our hands. I hold the view that no Minister and no government is fully aware of the real conditions of the market and is not able to make sense of them.” (Interviewee ESEE, 21/7/2016)

All our interviewees reiterated this last point about the social partners' knowledge of the real conditions of the market. By removing the right to determine the NMW from their jurisdiction, therefore, the state and the Troika directly questioned the social partners' identity, as well as their role as trustworthy and responsible partners in the national employment relations system.

Second, the statutory determination of the NMW transposed interest representation from the sphere of the market to the sphere of politics. Although the peak-level associations always participated in both spheres, having to deal predominantly with the sphere of politics to advance their respective interests proved quite perplexing and delicate at that historical and political juncture. Due to the close surveillance of the Troika, accessing and influencing the sphere of politics became increasingly difficult,

as all post-MoU governments were “with the back against the wall” and truly unable to accommodate requests from the social partners.

Third, and as a corollary to the above, the social partners fundamentally lost the power to have a say in the level of the NMW. This was not only a matter of status and legitimacy but had important practical implications for the sectors and the narrow interests they represented. Hence ESEE and GSEVEE were very concerned about the decrease in the level of the minimum wage, with ESEE claiming that:

“[we have] a clear position in favour of the restoration of the level of the minimum wage in pre-crisis levels ... gradually within a three-year timeframe, so that the economic conditions allow this. In other words, to increase the level of the wage to 586 and then to 684 and reach 751 Euros. We believe this is a sustainable threshold for an employee to live with decency [i.e. living wage].” (Interviewee ESEE, 21/7/2016),

Similarly, the representative from GSEVEE argued that:

“...if the country is unable to guarantee €751, then it should formally declare bankruptcy, because in essence it is already bankrupt. We are requesting to return the wage-setting system to the social partners, taking into account the (economic) situation as it has developed.” (Interviewee GSEVEE, 4/8/2016).

SEV and SETE were equally in favour of returning the determination of the NMW to the hands of the social partners. However, they were much more reserved regarding the level of the minimum wage, claiming that the economic conditions have changed and a NMW of the 2012 level (i.e. €751) may not be sustainable.

This discrepancy between the employers’ associations stems from their perception regarding the nature of the minimum wage. ESEE and GSEVEE represented SMEs and the retail sector, which depended on internal private consumption for their survival. For these sectors the wage had the very specific function of potential disposable income: when paid, the wage would almost immediately find its way back into the economic circuit, as disposable income, thus fuelling consumption. Lower wages, however, led to diminished consumption and, hence, to sustainability problems for these sectors. It is only natural, then, that these associations viewed the minimum wage as income to be spent. By contrast, for SEV and SETE that represented big and labour-intensive sectors,

with an outward-looking export-orientation and dependence on global demand, the wage represented an important cost that could hinder their survival or competitive advantage. For these associations, therefore, being able to restrain wage levels was a priority. Contrary to their counterparts, therefore, these associations viewed the national minimum wage as a cost to be kept in check.

The differing strategic responses were also evident in the associations' scepticism over the capacity of the institutional changes to achieve their goals. The representative from ESEE, for example, was very sceptical about the efficacy of the reduction of the NMW in boosting competitiveness and tackling unemployment:

"It must be understood, as is also demonstrated by the trajectory of the changes, through very aggressive interventions in employment relations, that the result was negative, both with regard to unemployment and insofar as the competitiveness of Greek enterprises is concerned. As a matter of fact, within a year, our country dropped six places and is now in the 62nd place with regard to competitiveness, a fact that does not confirm the theory that wage reductions and greater labour flexibility will act to contain the level of unemployment" (Interviewee ESEE, 21/7/2016).

A similar perception was also shared by GSEVEE:

"The bold intervention of the state in 2012, under the pretext of [increasing] competitiveness and reducing unemployment, was mandated by the creditors and the interests of large corporations in the country. It did not bring the expected results." (Interviewee GSEVEE, 4/8/2016).

The above quote is indicative of the fractures and divisions between employers' associations. Although their strategic response towards some of the institutional changes followed a common trajectory – such as their demand for the NMW to be determined through bipartite social dialogue – in many respects their perceptions of how the narrow interests they represented could best be served differed substantially.

#### ***4.3. Explaining the variation in the Employers' Associations strategic responses***

Through their actions and positions the employers' associations attempted to achieve two outcomes. First, to reaffirm their power and to reclaim their role as legitimate

partners and change agents within the employment relations system, hence satisfying an important organisational interest. During the crisis years their power suffered a decisive blow, as the process of change (through the unilateral implementation of policies by the state under the guidance of the Troika) and the statutory determination of the NMW marginalised their role in determining outcomes in the employment relations arena. The fact that the two spheres (politics and the market) in which their power was exercised became inconsequential and out of reach also undermined their structural power. Despite still having access to the sphere of politics, especially through their participation in tripartite bodies and their direct lines of communication with the government, they found it increasingly difficult to influence policy formation. Yet there was also an expressed belief (e.g. from the GSEVEE) that these corridors of power were selectively open to various vested interests, which did not utilise the traditional path of social dialogue to bring about change; instead, they operated behind the (political) scenes to promote their agendas. The re-establishment of social dialogue, therefore, apart from helping reclaim the lost institutional identity of social actors, would also serve to make decision-making public, and hence “re-democratize” the system by allowing all actors an opportunity to influence policies and outcomes.

A second outcome they tried to achieve was to advance sectoral interests even if these seemed to contradict their individual members’ revealed preferences. GSEVEE and ESEE represented the interests of small firms and commercial enterprises that were predominantly inward looking in sheltered sectors of the economy and relied on domestic demand and private consumption for their survival. Hence, they were more positively inclined towards sectoral collective bargaining and an increase in the minimum wage. As domestic incomes plummeted (not only directly through decentralisation and the reduction in the minimum wages, but also through ‘ripple effects’ in the overall wage distribution), domestic demand stagnated and GSEVEE and ESEE members suffered disproportionately from the economic recession. Moreover, their small-sized and relatively homogenous membership meant that there were clear advantages to be gained from sectoral agreements, which could standardize the costs across the sector and thus help avoid a race-to-the-bottom with respect to wages.

By contrast, SEV and SETE represented the interests of large, export-oriented and outward looking firms. They also saw their role marginally weakened, because of the

stripping away of formal powers to negotiate the NMW, but also realized that some of their long-running positions were essentially being vindicated. Their members were coming from sectors exposed to international competition, such as export-oriented firms or the tourism industry, and relied on global demand for their products and services. Thus, they were individually and collectively gaining in competitiveness as a result of the significantly lower labour costs. At the same time, their large size and cross-sectoral membership meant that they had clear advantages to gain from a decentralized and more flexible bargaining structure, allowing firms to tailor bargaining to their own need. In sum, all peak-level employers' associations strategic response to institutional changes are explained not only on the basis of the interests they represented and the impact the changes had on their members, but also in view of the impact the changes had on the reallocation of power in the employment relations system.

## **5. Conclusion**

In the context of the Greek recession, the institutional changes have been abrupt and severe. Individual firms seemed to endorse the direction of change towards greater marketization, as evidenced by the wage cuts and the dismantling of sectoral bargaining. This sentiment, however, was not completely shared by collective employer associations that casted doubt on the effectiveness of the technocratic policies implemented in the Greek labour market. This is not to say that the employer associations adopted an anti-MoU stance like the trade unions; on the contrary, they were in favour of many of the adopted changes. However, the fault lines and hidden fractures that emerged in the employers' camp put into question the binary logic that views employers' associations as pro-marketization actors and trade unions as anti-marketization ones. As we have seen, apart from the shared position that the NMW should be determined via bipartite social dialogue at the national level, instead of being prescribed by law, the employers' associations' strategic positions with regard to the other institutional changes differed substantially. Hence GSEVEE and ESEE argued for a return to a more centralised system of collective bargaining and for higher minimum wages, whereas SEV and SETE, although not explicitly against sectoral bargaining, favoured the primacy of firm-level bargaining and decentralisation.

To account for the apparent divide between or among associations and for the variation in their strategic positions, the article adopted an interest representation and power-based model of strategic action (Korpi, 2006; Wright, 2015). Building on, and expanding, a burgeoning literature on the role and strategic behaviour of employers' associations (Behrens, 2018; Paster, 2018), we argued that the strategic position of the employers' associations can be explained by considering the impact of the institutional changes on their power in the employment relations system, and their consequent ability to defend and represent their organisational and sectoral interests. Thus, the process of institutional change marginalised their role in determining outcomes in the employment relations' arena, by restricting their access to the sphere of politics. The statutory determination of the NMW barred them from the sphere of the market as well, by removing one of their most important functions in the system. Both processes impacted directly on the allocation of power in the employment relations system, since their structural role declined by default, and their mobilisation power could not be used effectively. Within this new context, other forms of influence, such as lobbying, seemed to be gaining ground.

To represent diverse sectoral and organisational interests, the employers' associations embraced strategies in line with their structural role in the economy. Therefore, the associations representing sectors with small and medium enterprises and a high dependency on internal consumption, favoured centralisation and higher wages, as the latter could directly help the survival of their members. The associations that represented big, labour intensive, export-oriented sectors, on the other hand, favoured decentralised bargaining and lower wages.

All associations, however, found themselves walking a tightrope in attempting to represent diverse sectoral and organisational interests. On the one hand, they pushed for their respective sector's viability, having the benefit of a broader view of the impact of the crisis on their respective members, even if in some cases this seemed to go against their constituencies' revealed preferences. On the other hand, they tried to reclaim their role and to re-establish themselves as relevant and legitimate partners, in a context that tended to marginalise them, by casting doubt on the legitimacy of the state and the technocrats (the Troika) to guide institutional change in employment relations.

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