WAGES UNDER THE NEW EUROPEAN ECONOMIC GOVERNANCE

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Collectively Agreed Wages in Europe

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Main argument built-up in the book

1. Critique of the dominating view on wages and its policy implications

2. Empirical analysis of the wage policy during the crisis and its economic implications

3. Discussion of an alternative view on wages and policy alternatives
Wages in the crisis – Dominating European policy view

1. Crisis is essentially seen as a crisis of cost competitiveness

2. Imbalances are the result of divergent unit labour costs development

- Asymmetric view:
  Wage developments in the deficit countries were “too high” so that they lost competitiveness

- Symmetric view:
  Wage developments in the surplus countries were “too low” (wage-dumping hypothesis)
Wages and the crisis –
Empirical critique of the dominating view

Dominant view focuses exclusively on diverging trends in nominal unit labour costs.

Taken into account real unit labour cost shows that most EU countries had moderate wage growth even before the crisis with

- real wage growth often below productivity growth
- declining wage shares
- growing wage inequality between sectors
- different dynamics of collectively agreed and actual wages (wage drift)
Wages and the crisis –
Conceptual critique of the dominating view

Narrow concept of competitiveness:
• exclusive focus on labour costs
• regardless of the structure of real economy
• regardless of non-price factors
• loose relation between wages and export performance

Narrow treatment of wages as cost factor:
• ignorance of the role of wages for domestic demand
• narrow focus on export-led growth strategies
• overestimation of the export sector for economic development
• EU/Eurozone as a whole is a demand-led economy
Economic Governance:

- European Semester/European Imbalances procedure
- Troika /Memorandum of Understanding
- New System of Competitiveness Authorities (???)

Policy measures:

- Direct intervention into wage developments by cutting and freezing public sector and minimum wages
- Structural reforms of wage setting institutions to increase downward flexibility of wages
Implications of the
A New European Interventionism

Wage setting institutions:

- Radical Decentralisation and deconstruction
- Decline of collective bargaining coverage
- Weakening of trade union influence
Wage developments and economic implications:

- Decrease of real wages and growing wage inequality
  In a majority of EU countries
- Internal devaluation improved cost competitiveness
  but did not led to corresponding export boom
- Weakening of domestic demand
  promoted economic stagnation and high unemployment
- Strong disinflationary effects
  with a continuous danger deflation
An alternative view on wages

Stabilising and enforcing wage developments:
- counter deflationary price developments
- stabilise and increase private demand
- counter income inequality
- push for inclusive productivity growth

requires …
- stop of wage cuts and wage freezes
- wages increase at least in line with productivity and target inflation
- more expansive wage developments (in particular in the surplus countries)
- strengthening/reconstruction of wage setting institutions
Strengthening/Reconstruction of Wage-Setting Institutions

Requirements for “structural” reforms

• No more restrictions and interventions in autonomous collective bargaining
• Promotion of a higher bargaining coverage
• Promotion of multi-employer bargaining

Concrete proposal for policy projects:

1. European Initiative to promote Extension Mechanisms
2. European Minimum Wage Policy
Conclusion:

1. The dominant view on wages in the EU is wrong and lead to false policy measures which do not promote but prevent economic recovery!

2. A more sustainable and inclusive growth model requires much lower income inequality promoted by more expansive and solidaristic wage developments!

3. More expansive and solidaristic wage developments require strong wage-setting institutions (and strong trade unions)!

4. European wage coordination needs to bring economic democracy to European Economic governance!
Thank you very much for your attention!

Free download:


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