European growth models and working class restructuring

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Abstract. This paper builds on post-Keynesian macroeconomics and a Political Economy approach to class analysis and offers an empirical analysis of European growth models and working class restructuring in Europe between 2000 and 2008. We will distinguish between the 'East', the 'North', and the 'South'. In the East, the fall-out of the socialist system and the incorporation in international trade and capital networks allowed productivity gains and a sustained rise in wages and profits. This affluence of labour at its immediate periphery offered German capital to benefit from lower costs of inputs due to outsourcing elements of the value chain. This pressure contributed, in the North, to a retreat of the working class, which materialized in wage repression, liberalization of labor markets and increasing capitalist opt out of collective bargaining, fostering rising profits and export competitiveness. The South experienced a property and financial bubble and high inflation rates. Competitiveness decreased and large current account deficits resulted while massive capital inflows helped sustain the bubble and public deficits. Class struggle was thus partially suspended by welfare expansion, wage increases and financialisation of households. Our analysis shows that class restructuring forms an integral part in the economic process that resulted in European imbalances and the Euro crisis.

Keywords: European growth model, class analysis, labour relation, debt-led growth, financialisation,

JEL codes

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1 Introduction

European countries have had quite different crises. While the Greek economy descended into depression, and Spain and Italy are struggling to get out of recession, Austria and Germany had short sharp recessions followed by recovery. Germany's unemployment rate is below that of 2007, whereas Spain and Greece have unemployment rates well above 20%. Divergence is obvious. In contrast, the decade before the crisis is often regarded as one of convergence among European economies (European Commission 2008). This paper questions this view. We argue, firstly, that European growth models had been on different trajectories in the decade before the crisis and we identify three models. Second, we argue that these growth models were intimately linked with different forms of working class restructuring. We use the term working class coherence to denote the unity and organisational ability of the working classes to assert their (economic) interest.

Diverging dynamics in Europe prior to the crisis was pointed out in the literature, based on a distinction between debt-led and export-led growth models (Hein, 2013 ; Stockhammer, 2011, 2014) or insisting on the polarization resulting from diverse specialization paths (Boyer, 2013). Distinctively, this paper offers an analysis of the decade preceding the crisis that integrates a class approach in addition to a macroeconomic analysis of the articulation of European growth models. This analysis allows for different working class experiences in different country groups. We highlight that nation states are themselves structured along class lines and class formation and that class struggles are integral part of the processes that led to European imbalances. These struggles do take place locally and thus will take different forms, which among other things, will be shaped by the position and trajectory of a country in the international division of labour and the differential transformations of the capitalist economies, in particular the process of financialisation has had different impacts in different countries and the EU institutional landscape.

The paper thus asks two sets of questions. First, what have been the pattern and drivers of European growth models? And secondly, how are these growth models reflected in the changes in working class coherence? We will argue that export orientation in the North came with an heavy reliance on inputs from the eastern periphery and a retreat of working class, which is reflected in weak real wage growth, increasing wage dispersion and union decline. In the East, the catching up process driven by dependent integration into global value chains has allowed high real wage growth, while other indicators show that working class coherence has suffered. Wage dispersion has widened and there has been a strong decline in union density. Catching up has allowed to cover up a disintegration of working class coherence. In the South the debt-led boom has been come with moderate increases in real wages, but a stable wage dispersion and comparatively moderate decline in union density. This was a regime of an implicit social compromise, which was economically based on a bubble, but which differs from the Anglo-Saxon experience of the financial bubble, which was a cover for a deterioration of working class coherence.

Our analytical framework is highly stylized. We will look at three groups of countries and two classes. The countries are the North, East and South. The classes are workers and capitalists. Class struggles are not examined directly but we rather look at what macro data reveals about the outcomes of underlying changes of class configurations. Our empirical analysis is rich in that we systematically compare several countries for each group by using indicators for the three dimensions financialisation, industrial upgrading and working class coherence. We use mostly economic indicators.

The paper is structured as follows. Section 2 gives a review of the related literature. Section 3 presents a stylized description of the growth models of the North, East and West and their interrelations. Section 4 analyses empirically the developments in the three country groups. Section 4 operationalises the concepts working class coherence, financialisation, and industrial upgrading and explain how they will be measured. The empirical analysis for these dimensions is performed in section 5. Section 6 discusses of working class restructuring in the three growth models and characterizes the hegemonic regime. Finally section 7 concludes.

2. A review of contributions of Post Keynesian Economics, French *Régulation* Approach, Critical Political Economy and Varieties of Capitalism

The aim is to fuse a post-Keynesian analysis of demand regimes with the historico-institutional macroeconomics of the French *Régulation* approach and a differentiated centre-periphery analysis of International Political Economy.

Post Keynesian Economics (PKE) is a non-mainstream economic approach that gives central role the principle of effective demand. It is based on the concept of fundamental uncertainty and on social conflict (Lavoie 2009, King 2002). As an economic theory it focuses on macro dynamics, but does not provide a framework for the analysis of class relations. Post Keynesians have long criticised the macroeconomic policy regime of the European Union. They have highlighted that reliance on wage flexibility will not be sufficient for adjustment and indeed wage flexibility can be destabilising.

Recently PKs have distinguished, as regards the partial effects of changes in income distribution, between wage and profit led demand regimes and, as regards the actual growth drivers under neoliberalism, between debt-led and export-led growth models. Hein (2013) and Stockhammer (2011, 2014) are closest to the themes covered in this paper. Hein (2013) classifies countries by their demand drivers as domestic demand-led (France, Italy, Portugal), export-led (Gemany, Austria, Netherlands, Finland, Belgium) and debt-led (Ireland, Spain, Greece). Stockhammer counterposes export-led and debt-led growth models (Germany, Austria, Netherlands and Greece, Spain, Portugal, Ireland, Italy respectively) based on the development of household debt and current account positions. Both highlight the deflationary bias of the European economic policy package and recommend ECB backing for member states public debt, expansionary fiscal policy and sustained wage growth; both do not analyse the implications of the growth models for working class restructuring and they do not include Eastern European countries in their analysis.

The *Régulation* approach proposes an historical and institutional macroeconomic analysis. It stresses that macroeconomic dynamics (accumulation regimes) are shaped by institutional arrangements produced by social balance of power and material force of ideas (intellectual conjuncture, economic theory). The mode of *régulation* is in its classical version analysed as consisting of labour relations, competitive relations, the monetary regime, the forms of state intervention and the insertion to the international regime. The *Régulation* approach allows for a changing hierarchy of institutional forms accompanying EU integration, where competition and money take dominance over the wage-labour relations (Boyer, 2000). This fuels disruptive dynamics between socioeconomic demands raised by national democratic polity and technocratic supranational settings at the EU level. The uneven ability within the Euro zone to cope with EU rules of the games has fuelled trade and financial imbalances based on a polarization between a highly competitive northern Europe which was able to maintain a strong manufacturing export basis and a South specialized in domestic services (Boyer, 2013). This North-South divide reflects the fact that northern countries (Finland, Netherlands and Germany) inherited from a long-term tradition of negotiated capitalism made of social dialogue, strong training and innovation systems and political stability in which success in the world economy was a central objective. On the other-hand, Southern countries (Spain, Italy, Portugal and Greece) used to be more oriented toward the *régulation* of the internal market. Innovation systems are less dynamic, industrial relations less prone to durable socioeconomic compromises and political instability prevents coherence and continuity of economic policies. Consequently, they recurrently solved their macroeconomic imbalances through inflation and currency devaluation. In this perspective, the vanishing of these adjustment mechanisms fuelled the euro crisis

One key manifestation of these discordant *modes de régulation* between the South (France, Italy, Spain, Portugal and Greece) and the North (Germany, the Netherlands, Belgium, Austria and Finland) is a misalignment of real exchange rates within the Euro zone (Duwicquet, Mazier, and Saadaoui, 2012). The Euro being a fixed exchange rate system, the overvaluation of the South (with the exception of Italy) and the undervaluation of the North led to considerable implicit transfers from the former to the latter (Mazier and Petit, 2013). The authors also stress that as Germany was in chronic deficit with China, most of its surpluses come from southern European countries (Spain, Italy and France) and the USA, which means that his economy directly beneficiated from the undervaluation of its currency thanks to the euro zone system.

Inspired by the original Marxist roots of the *Régulation* school but also referring to the critical political economy approach Becker and Jager (2012) analyse the interaction of European capitalisms and their regulation at different spatial scales. While their work deals in large part with the aftermath of the Euro crisis and lack a strong empirical inquiry to support their claims, they emphasise that the establishment of the Euro zone cemented uneven economic development trajectories and distinguish between the core of Europe (Germany, Austria, Netherlands), which is characterised by active extraversion and productive accumulation, and the periphery (Ireland, Spain, Greece, Portugal), which has passive extraversion and financial accumulation.

Critical Political Economy (CPE) has emerged from neo-Gramscian analysis of international relations and wider Marxist tradition. It combines a concern for class struggles and the establishment of hegemony within the nation state with an interest in international relations shaped by power relations. For our purposes, two strands of CPE are the most relevant. A first set of researches have focused on Eastern European capitalism in the aftermath of the post-socialist transformation. Bohle

and Greskovits (2007, 2012) distinguish between the state-crafted vs market-driven and embedded vs pure neoliberal regimes and group the post-socialist countries into the Visegrad group, the Baltics and Russia and the CIS. A second strand of research has explored the influence of transnational capital in the completion of the single market and the EMU. It is less directly relevant for our empirical inquiry, but it is useful as it clarifies the European institutional framework within which the diverse European capitalisms are articulated. These researches have established that European transnational corporations and, to a lesser extent, financial institutions have a far-reaching influence on 'agenda setting' at the EU level and have inspired a great part of EU institutional building (Van Apeldoorn, 2002 ; Carroll, Fennema, & Heemskerk, 2010). Some of them explicitly focused on the class and international dynamics associated with the EMU, point out the advantages of the single currency for transnational capital expansion, the over-exposition of labour to economic shocks (Lapavitsas, 2012) and the asymmetrical distribution of monetary power between Eurozone country members (Vermeiren, 2012). Key features which resulted in a greater vulnerability of workers in the periphery in the aftermath of the financial and euro crisis.

Finally, the varieties of capitalism (VoC) approach emphasizes the institutional basis of capitalist economies and highlights that different configurations are possible. The distinction between liberal and coordinated market economies has become a hallmark of the approach. VoC has a strong emphasis on institutional functionality for international competitiveness and analyses corporate governance structures, labour relations and education systems. It has been criticized for overemphasising the functionality and the stability of the regimes (Hay, 2005). Nolke and Vliegenhart (2009) take inspiration from CPE, but do stay on VoC terrain when they try to establish a Dependent Market Economy system for Eastern Europe (the Czech Republic, Hun- gary, Poland, and Slovakia). The dependent market economies heavily rely on foreign direct investment for investment, finance and technology transfer; they have incomplete social pacts and semi-organised labour markets and a weak innovations system. Dependent Market Economies tend thus to be trapped in a situation in which they remain assembly platforms with limited development prospects and highly vulnerable territories to external macroeconomic and financial shock.

Our aim is thus in a sense more modest and in another sense more ambitious that the literature discussed above. It is more modest in that it is historically specific. We discuss the trajectories of different country groupings in the period of neoliberalisation in the early 2000s when western European countries established a single currency and eastern countries emerged out of the institutional shake-up of the post-soviet transformation. In doing so, we want to analyse the interaction of macroeconomic dynamics with changes in working class coherence. But, unlike VoC we do not aim to establish a general typology of capitalist economies. In this sense we are closer to the *Régulation* approach, which also analyses historically contingent accumulation regimes. Our project is more ambitious in that we try to combine a macroeconomic comparative analysis that takes into account demand formation as well as supply side (production) concerns with an analysis of class restructuring. Capitalist formations not only have to produce profits, but they also have to reproduce the working classes. As the pattern of capital accumulation changes, so will typically the structure of the working class, partly as the result, partly as the cause.

There is another important difference to VoC. Our grouping makes no claim of generalised validity and internal coherence. On the contrary, we regard the debt-led and export-led growth models as potentially unstable and inconsistent. In this, our macroeconomic analysis of the North and South

agrees with those of Hein (2013) and Stockhammer (2011, 2014), but we go beyond their analysis in that we also analyse developments in Eastern Europe and that we highlight the close link between growth models and working class restructuring, addressing the deeper contradictions of integration in Europe. Our approach shares much of the concerns of CPE, but we have a greater concern for demand formation and focus more on the (fragile) complementarity of the diverse accumulation regimes than on the dynamic of European integration as such. In terms of the specific analysis there is a substantial overlap with the analyses by Nolke and Vliegenhart (2009) and by the regulationists (Boyer, 2013 ; Mazier and Petit, 2013) even if in the later' research the other side of a normative bias toward the prospects of fair socioeconomic compromises is a risk to euphemises class conflict and international power relations. We are even closer to Becker and Jager (2012), but our main contribution is that we bring a strong empirical substance in identifying one export-led model at the core and two dependent models: an Eastern model of subordinate catching up and a Southern one with debt-led growth.

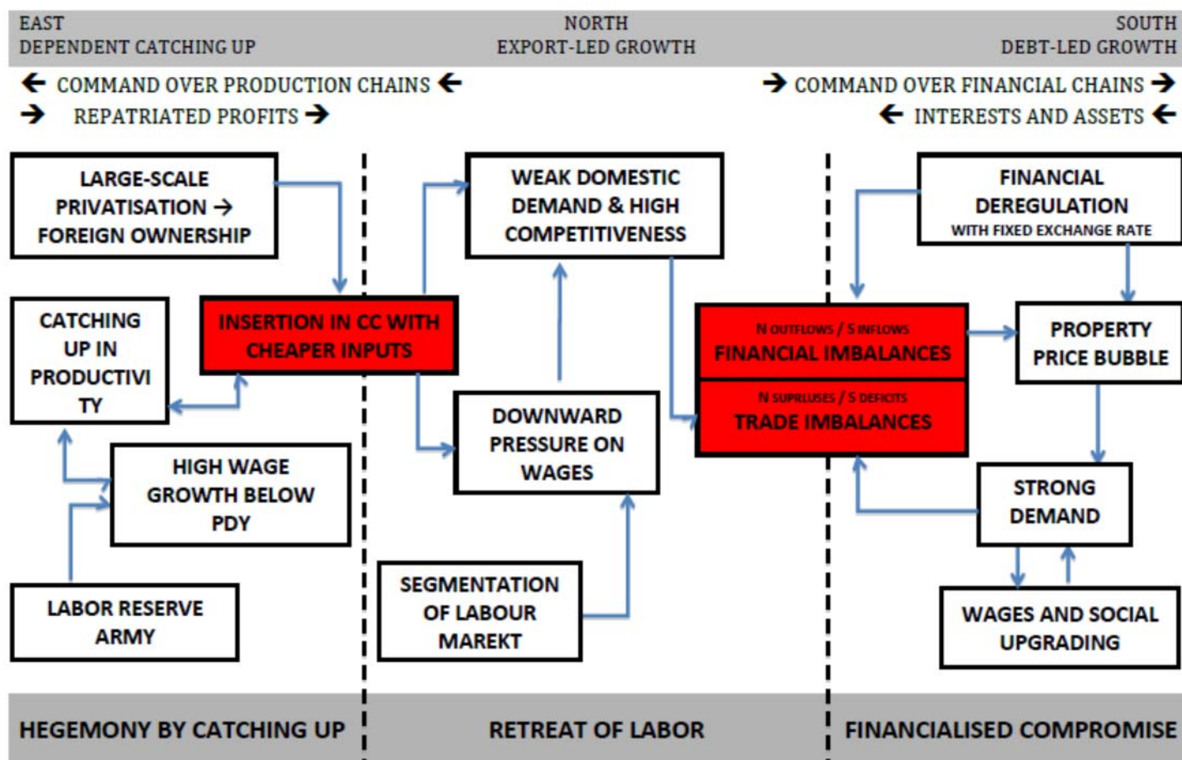
3. Neoliberalism and growth models in Europe: A stylised story of the East, North and South during the pre-crisis boom (ca 2000-2008)

Neoliberalism brought about a rise in inequality, financialisation, globalisation and privatisation (e.g. Harvey 2005). Rising inequality has taken the form of an increase in top incomes (Piketty and Saez 2003, 2007) and a fall in the wage share (Stockhammer 2013). It is based on welfare state retrenchment, globalisation and financialisation and reflects a shift in the power relations between capital and labour. Financialisation has affected financial institutions as well as households (e.g. through rising household debt), and firms (e.g. shareholder value orientation). However, the specific modalities of its implementation, its relation to existing social structures and the insertion into asymmetric international economic mean that neoliberalisation can have different outcomes (Fourcade-Gourinchas and Babb 2002). Neoliberal transformations have had different effects in different regions, thus some authors talk about variegated neoliberalism (Brenner at al. 2010). With respect to its macroeconomic dynamics Lavoie and Stockhammer (2012) point out the emergence of a debt-driven as well as an export-driven growth model. The rise in inequality has put a downward pressure on domestic demand in all countries. In some countries financialisation has led to a rapid increase in household debt, which substituted for wage growth (Barba and Pivetti 2009). Thus aggregate demand was fuelled by a debt-driven consumption boom. In a second group of countries the increase in household debt has not materialised. These countries have accepted a stagnation in domestic demand and net export growth has been the major source of demand growth. This was what we call export driven growth. Both growth models are unsustainable: they rely on increasing debt ratios. In the debt-driven case this is domestic household debt; in the export-driven case it is external debt of the trade partners (Stockhammer 2011, Hein 2013). The two growth models are complementary as the export-driven model relies on trade partners with current account deficits. The debt-driven model is facilitated by capital inflows. This analysis only covers what we call the North and South. We extend this analysis to include the East.

Figure 1 gives a stylized depiction of the key features and the interaction of growth regimes and working class restructuring in the East, the North and the South in Europe. Post-socialist transformation in the East was a large scale restructuring of social relation that involved

privatisations on an unprecedented scale. This allowed for a process of primitive accumulation in which former regime technocrats and foreign corporations acquired firms. It also created a huge pool of cheap labour. Foreign capital played a key role by outsourcing elements of the value chain. Important parts of the German automotive industry now rely on inputs from Poland, the Czech Republic, Slovakia and Hungary. King and Szelényi (2005) have called ‘capitalism from without’. For the East this meant a subordinate integration into global value chain, but it also allowed them to consolidate (a moderate) industrial sector. In class terms, this is a process of proletarisation for workers and one of primitive accumulation for capitalists.[1]

Figure 1



The North experienced a real devaluation as prices and unit labour costs (ULC) were growing more slowly than the EU average. This was, at least in part, the result of two strategies of Northern capital. First, there was wage suppression in the North. German wages have in real terms stagnated in the decade prior to the crisis. On the states level a series of welfare reforms (the Hartz reforms) Germany created a low wage sector (Giannelli and al., 2013). In labour relations, there was an erosion of collective bargaining (Dustmann et al., 2014). Starting from a high coverage of collective bargaining agreements, this coverage has declined sharply as capitalist increasingly opted out of collective bargaining. This is closely linked to German unification as capitalists in Eastern Germany did not have the corporatist traditions and thus increasingly opted out of employer federation membership and thus of collective bargaining agreements. Second, German capital expanded by outsourcing elements of the value chain. Important parts of the German automotive industry now rely on inputs from Eastern Europe, which put a downward pressure on domestic wages. These

[1] We characterise the experience in the East as one of proletarisation as workers in the former Soviet bloc had job security and of primitive accumulation as capital benefit from the political release of assets.

developments resulted in a sluggish domestic demand and an increasing export-oriented growth model.

The South experienced a property and financial bubble fuelled by rapid credit growth which were favoured by financial liberalisation and low real interest rates related to the introduction of the Euro. This has come in some cases with an economic boom (Spain and Ireland had above average growth rates, but Portugal and Italy average) and, in all cases, with high inflation rates. Competitiveness decreased, the industrial sector was squeezed and large current account deficits resulted. At the same time the South had massive capital inflows that helped sustain (or ignite) the bubble and support domestic consumption growth. Budgetary conditions were rather relaxed and most Southern countries expanded the welfare state. Class struggle was partially suspended by welfare state expansion and an economic boom driven by non-tradable sectors. The working class was restructured: moderate, but non-trivial wage increases despite deindustrialisation and an increasing financialisation of households (the levels of household debt started at very low levels and increases massively).

Capital inflows have to be equal to the current account deficit (for each country). However, it is not clear to what extent this is driven by trade flows (and costs) and to what extent it is driven by capital flows. Our analysis does not privilege any specific causal chain, but highlights the interrelatedness of domestic processes within a structured international system. One could think of trade flows driving the whole process and trade surpluses (of the North) being recycled and transferred to the South to finance the imports. However, one can also argue that financialisation and high growth in the South made possible the export surpluses of the North. Similarly one could think about the East as largely being shaped the strategies of northern multinationals; or one could locate the source of European dynamics in the vast expansion of the industrial reserve army that eastern European transformation meant for European capital. These mechanisms are going on simultaneously and evaluating their relative importance is beyond the scope of this paper.

The first important fact highlighted by our analysis is that class struggles played a part in the economic process that resulted in European imbalances. Our second key finding is that class struggle has proceeded very differently in the different blocks in Europe. There has been no convergence in class struggle. This de-synchronisation of class struggles of Europe may help understand why it is so difficult to develop a progressive, working-class alternative vision for Europe. Our categories of North, East and South, while inspired by actual countries, are stylized analytical fictions. While the North and South are relatively well defined in geographical terms (with the exception of Ireland), the Eastern European countries are, analytically speaking, in the East, but many of them also share features of the debt-led model of the South as many of them experienced massive increases in household debt and, say in Hungary, also encounters problems with the current account.

4. Operationalising our categories

In order to map the transformation of capitalist societies and economies in the decade prior to the crisis we analyse changes in three dimensions: working class coherence, financialisation and industrial upgrading. These dimensions are understood to be integral part of the *mode de régulation* of an accumulation process. Working class coherence and financialisation are close relatives to

categories of the *Régulation* school, which identifies the labor-capital nexus and the monetary regime. All growth models will register changes in all three dimensions, but one of the premises of our research is that different growth models may have the main driver of transformations in one of the dimensions. In our case we hypothesise that working class restructuring was key in the North, dependent industrial upgrading in the East and financialisation in the South. However, a detailed analysis of the feedbacks from changes in one dimension to another, the identification of the main driver of changes and the articulation of different growth models is beyond the scope of this paper.

We use the term working class coherence to denote the unity and organisational ability of the working classes to assert its (economic) interests. [2] Our empirical measures describe the relative development of living conditions of the working classes. We will measure this by the growth of real and nominal wages. The dispersion of wages is used as a measure of the degree of division and segmentation of the working class. The strength of the welfare state is measured by the share of social expenditures relative to GDP; it measures the extent to which the reproduction of the working class is supported by the state. Finally, we use the organisational density of labour unions as a measure for the organisational strength of the labour movement. Our concept of working class coherence thus is similar to the Regulationist concept of the wage labour nexus, which is typically concerned with the extent of productivity indexation of wages, the extent of collective bargaining and the control regime at the workplace. However, our approach differs in that we offer more dimensions and that we have a greater concern for working class segmentation (see Gordon, Edwards and Reich 1982 for a seminal analysis of the role of segmentation in the USA).

Financialisation is about the relation between the real and the financial sector. We will measure this by the debt-to-income ratio for households, by real property prices (i.e. property prices relative to consumer prices) and real share prices.[3] The key variable for our purposes is the level and change in household debt. This is measured relative to income and indicates the extent of financialisation of households. The key variable determining changes in household debt is property prices. We also look at a broader measure of credit growth, which is private credit growth. This includes credit to firms. In the relevant period business debt has had moderate rates of increase. Real stock prices are a measure of financial asset prices. Finally, we report the net international investment position (NIIP) as measure of the financial position of the country vis à vis the rest of the world. Financialisation as used here has some overlaps with the Regulationist concept of the monetary regime, which depicts the forms of money creation and how it impact upon the economy. Our aim is not a general historic description, but an analysis of the recent period. We have a more specific concern for the impact of financial relations on demand formation, in particular the extent to which it has allowed for a debt-led consumption growth model. Thus our focus on debt and property prices.

[2] Our analysis remains mostly at the level of economic variables, but ideally we would like to measure socio-political dimensions of working class coherence.

[3] A more comprehensive measure of financialisation would include the effects on non-financial business (shareholder value orientation etc), but we focus on those most closely related to the debt-driven growth models. Nolke and Vliegenhart (2009, p. 681) present a table exhibiting stock market capitalisation, credit volumes and inward FDI stock to discuss ‘sources of business finance’. Their analysis is misleading. None of the three measures is valid measure of business finance. Stock market capitalisation is mostly about secondary trading. Indeed in the last decades the LMEs had negative stock market contributions to business finance in many countries. Domestic credit (and in particular its growth in recent years) has been driven by mortgage credit, not credit to businesses. FDI stocks are a measure of ownership, not of finance. FDI can be financed domestically and need not bear any relation to business investment.

We use the category industrial upgrading to describe the extent and nature of industrial formation of the economy. Thus this includes the rate of growth of productivity as well as the extent to which it is driven external factors and what its position within a given international division of labour is. This will be proxied by the growth of labour productivity, the share of manufacturing in value added and the inward FDI stock. With all our variables we are primarily interested in the *medium term changes*. The discussion of the different levels for each of the variables would be interesting in their own right, but beyond the scope of this paper. This category cuts across some Regulationist categories as is includes elements of what the *Régulation* school calls the technological paradigm as well as elements of what it discusses under insertion into the international regime.

We will group countries in the 'North', the 'South' and the 'East'. The North will be Germany, Austria and the Netherlands. These are countries of the Germanic block within the Euro area. They share a similar structure in labour relations, a comparatively developed welfare state and a strong industrial sector. The South will consist of Greece, Ireland, Italy, Portugal and Spain. These are the peripheral countries within the Euro area that were hit hard by the crisis. Their industrial base is weaker, but in many cases has improved over the past decades. The East consists of Poland, the Czech Republic, Slovakia, Hungary and Slovenia. These are post-communist economies that had a relatively strong industrial base, but have only integrated into the capitalist world economy in the 1990s. They have historically strong welfare that have been restructured and weak labour relations.[4]

The grouping of the countries is motivated by an understanding of European economic relations as encompassing economies with quite different economic developments that may have a differential experience of processes like globalisation, financialisation or European monetary integration. In particular we hypothesise that there are at least two peripheral models

Our grouping of countries is intended to be useful and serves the purpose of illustration. There are several potential issues. First, the delineation of groups is arbitrary at the border. We include the Euro area export-oriented countries, but could also have included non-Euro area countries (Denmark, Sweden). The North has one member of paramount importance: Germany. One could argue that the North ultimately *is* Germany. We prefer to use a small group for the North in order to not dilute Germany's contribution to the average data of the group.[5] As regards the South, the question is whether Italy should be included or not. For the East we decide to distinguish what is essentially the Visegrad group of countries. One could add another group of Bulgaria, Romania and the Baltic countries. All these are issues of implementing our grouping.

A final issue is countries that do not fit our categorisation. The most important case among these is France, which would occupy an intermediate position (Hein 2012 classifies France as 'domestic demand led regime'). The Netherlands are an interesting intermediate case that has elements of an export-driven as well as of a debt-driven economy. The UK we would include in a distinct group of

[4] We use the ISO 3166-1 alpha-3 codes for abbreviations. The codes and the corresponding countries thus are AUT-Austria, CZE-Czech Republic, ESP-Spain, DEU-Germany, GRC-Greece, HUN-Hungary, IRL-Ireland, ITA-Italy, NLD-Netherlands, PRT-Portugal, POL-Poland, SVN-Slovenia and SVK-Slovakia.

[5] Another possible strategy to deal with this would be to include a larger group of countries and use GDP-weighted averages.

Anglo-Saxon counties (characterised by a high level of development and a strong financialisation experience).

The remainder of this paper will discuss whether empirical data are in line with our country grouping. There are two sets of questions. First, are the significant differences between the country groups such that the groupings are useful? Second, are the experiences within a group sufficiently homogenous to justify the use of the grouping?

5. Working class coherence, financialisation and industrial upgrading in the North, South and East of Europe

Here as a in the remainder of the analysis we will refer to the period 2000-08 unless noted otherwise. Roughly we want to cover the decade before the crisis. For several of the data we discuss later, data is only available from 2000, thus our period will be 2000 to 2008.

Table 1 summarises the different development of financialisation in Europe. Household debt as percentage of GDP increased 9.7%-pts in the north, 20.3%-pts in the East and by a staggering 45.9%-pts in the south. Household debt is to a large extent driven by house prices. These grew by 1.8% in real terms in the north, but 58% in the south. Within the group of the North the Netherlands experienced a steep increase in house prices and of household debt while Germany had flat house prices and declining household debt. The picture within the southern countries is more uniform, but Spain and Ireland stand out with explosive increases in debt and house prices. Data on house prices are not available for all countries, in particular not for our eastern group. Private credit in % of GDP was subject to a moderate increase in the north, a very high increase in the South and a small increase in the East. When using the year 2000 as base year though, eastern countries (49%) experienced a higher increase in private credit then the North (17%), while the South stays equal (80%). The growth in equity prices is given for the period 2000 to 2007 because (unlike most other data we discuss in this paper) they start to decline already in 2008 and we wish to analyse the boom. We use 2007 as the base year for the calculation of growth rates.[6] They rose by 5% in northern countries and 0% in southern countries. The countries in the East experienced a stock market boom with an increase of 66% (with the Slovak Republic and Slovenia as the main drivers). The net international investment position (NIIP) represents the difference between a country's external financial assets and liabilities sides. A positive NIIP thus means that a country is a net lender, a negative one that it is a net borrower. Note that here we are comparing changes in the NIIP, rather than the level of NIIP itself, so we are looking at whether countries improved or worsened their net investment position. While thanks to Germany the North has a positive, modest increase in the NIIP, both southern as well as eastern countries worsened their net investment position.

[6] Share prices rise very fast in the east. Using a different base year gives very high growth rates for the east without changing the overall picture.

Table 1. Changes in financialisation, 2000-08[7]			
	North	South	East
Δ household debt (%GDP)	9.7	45.9	20.3
nominal house prices (growth)	21.1	77.6	
Δ private credit (%GDP)	21.9	69.8	14.4
real house prices, growth (00-07)	1.8	58.0	
real stock prices, growth (00-07)	5%	0%	66%
Δ net international investment position (NIIP)	16.4	-44.7	-30.8
Household debt: Ireland, Slovenia 2001-08 Private credit: no data for SLV; house prices: no data for AUT, HUN, POL, SLV, SVK, GRE, PRT; ITA 2000-2007 Source: GDP deflator: OECD; stock prices: IMF; private debt, NIIP: WDI; household debt: Eurostat			

According to this data overall the North experienced only a weak form of financialisation, with household debt and house prices only growing at comparatively weak rates. The South, experienced financialisation with a strong increase in household debt, private credit and house prices, and a worsening net investment position. Eastern countries had an intermediate form of financialisation with household debt increasing (in % of GDP) more than in the North but less than in the South. Its net investment position worsened. The eastern group is the only one that experienced a stock market boom, increasing by two thirds in the respective time period.

Table 2 gives the changes in household debt from 2000 to 2008 in percentage points of GDP by country. Household debt declined in Germany (by 11.7%-pts), it increased by modest 7.9%pts in Austria. The Netherlands stand out among the North with an increase of 32.8%-pts. The eastern countries mostly have double-digit increases, Slovenia with 9.4 %-pts.and the Czech Republic with 11.7%-pts have moderate increases and Hungary (30.5), Poland (24.5) and Slovakia (25.6) had strong increases. For comparison, the USA which is often regarded as the main example of a debt-led growth model had an increase of 26.1%-pts over the same period. Most of the countries of the South are above that level. Ireland has a spectacular 114.3%-pts increase, but Greece (35.5), Spain (33.8) and Portugal (27.4) are also above US increases. Only Italy at 18.4 is below that. The table thus clearly indicates some variation within our groups. Two countries do not neatly conform to our scheme. The Netherlands have high increase and Italy does have a substantial increase, but clearly lower than other countries of the South.

[7] For purposes of readability we use Δ for changes in any variable in the tables.

Table 2. Increase in Household debt, 2000-08 (in % GDP)					
North		**South**		**East**	
Austria	7.9	Greece	35.5	Czech Republic	11.7
Germany	11.7	Ireland	114	Hungary	30.5
Netherlands	32.8	Italy	18.3	Poland	24.5
		Portugal	27.4	Slovenia	9.4
		Spain	33.8	Slovakia	25.6
mean	*9.7*	*mean*	*45.9*	*mean*	*20.3*
Ireland, Slovenia 2001-08 *Sources: Eurostat*					

Table 3 summarises data concerning industrial development in Europe. Real GDP per worker, used as a variable representing productivity, shows an 11% increase in northern countries, a 7% rise in southern countries and a 33% increase in the East. The development in the South is somewhat heterogeneous with, Greece showing an 16% increase, but Spain only 4% and Italy 1%. The manufacturing share of value added as a percentage of GDP is used as a proxy for the degree of industrialisation. There is a general trend towards de-industrialisation across Europe. Remarkably, the North stayed roughly stable in terms of industrialisation, by a loss of less than one percentage point of GDP. The southern countries showed strong decline in industry (-5.2%-pts) and the east a moderate decline (-1.8%-pts). Regarding inward foreign direct investment (FDI)[8], there is a substantial increase in northern (13%-pts) and a strong increase in eastern countries (17%-pts). FDI experiences a decline in the South during the relevant period (-2.8%). This decline is due to Ireland, which has very high levels of inward FDI and experience a decline from 133% of GDP 2002 to 66.9% (2006) and an increase to 76% in 2008. Without Ireland, the change 2000-08 is +8.3%. The North has had substantial current account surpluses in the decade prior to the crisis, where the South and the East had, on average substantial deficits (-5.3 and -4.7 respectively). The North and the South fit the post-Keynesian distinction of export-driven and debt-driven growth models well; the East would be an intermediate case.

Table 3. Industrial upgrading, 2000-08			
	North	South	East

[8] For the remainder of this paper FDI is defied as direct investment stocks as percentage of GDP in the reporting economy.

Productivity (GDP per worker), growth	11%	7%	33%
Δ Manufacturing share (%GDP)	-0.8	-5.2	-1.8
Δ Inward FDI/GDP	13.0	-2.8	17.0
Current account 2000-07 (% GDP)	3.7	-5.3	-4.7
Manufacturing share: no data for UK; FDI: HUN, SLV, GRE 2001-08, Source: OECD			

The northern countries consolidated their industrial position. They experienced a rise in productivity, paired with a very small decline in industrialisation and a rise in FDI. Southern countries had lower increases in productivity, and a stronger de-industrialisation. Their FDI performance was also weaker. Productivity in the East rose strongly, while de-industrialisation was moderate and FDI experienced a very high increase.

Which country table ??

Table 4 provides an overview about the differing development of intra-working class relations across Europe.[9] Northern countries experienced only low growth in real wages of 5.8% over the observed decade, with an increase of just 2% in Germany. Southern countries on average experienced a slightly stronger increase in real wages at 7.6%, although the respective countries' individual development was more heterogeneous, with Greece's and Ireland's real wage growth around 16% and 17% being well above average. Eastern countries had the biggest rise in real wages by far, amounting to 30% on average. Poland, the country with the lowest increase in this group, had an increase of 13%. Regarding nominal wage growth, the differences across country groups are more pronounced, with a growth of 23%, 37% and 70% for North, South and East respectively. Wage dispersion is a measured by the variation coefficient of sectoral wages. It is computed as the standard variation of labour costs per employee of all sectors, [10] divided by the labour costs per employee of the total economy. An increase in the wage dispersion thus represents an increase in income inequality. Northern wage incomes clearly became more unequal, with an increase of 6.6%, while the increase in inequality was much less in the south, where wage dispersion increased by 1.1%. The East experienced the highest increase at 7.4% (the Slovak Republic having the highest increase at 11%). We use the ratio of social expenditures to GDP as a proxy for the welfare state. This ratio is practically stable (+0.2%-pts.) in the north. Southern countries experienced a consolidation of the welfare state with an increase of 3.9%-pts, while in the East, social expenditures did shrink relative to GDP (-1%-pt). Union density declines in the North by 5.7%-pts, by 2.7 in the South and by 9.46%-pts in the East.

Table 4. Changes in working class coherence			
	North	South	East

[9] The appendix gives more detailed tables, which also show country experiences.

[10] The sectors used are listed in the table A.13 in the Appendix

Real wages (FTE), growth	5.8%	7.6%	29.8%
Nominal wages, growth	23%	37%	70%
Δ Wage dispersion	6.6%	1%	7.4%
Δ Social expenditures (in % of GDP)	0.19	3.94	-1.02
Δ Union density	-5.71	-2.65	-9.46
real wages: no data for SLV; wage dispersion: no data for NL, PO, HU, PORT, UK; social exp: no data for US; union density: SLV 2001-08 Source: OECD			

Table 5 presents results for wage dispersion by country. Unfortunately data availability is very uneven. Only Austria, Germany, Greece, Ireland, Italy, Spain, the Czech Republic, Slovenia and Slovakia have data for the full 2000-08 period. Only these countries are includes in the calculation of the mean for country groups

Table 5. Wage dispersion 2000-2008					
North		**South**		**East**	
Austria	8.7	Greece	5.2	Czech Republic	4.1
Germany	4.5	Ireland	2.2	Hungary (2000-06)	2.6
Netherlands (2001-08)	0.4	Italy	-0.7	Poland (2000-07)	1
		Portugal (2000-04)	5	Slovenia	6.9
		Spain	-2.4	Slovakia	11.3
Mean (2000-08)	*6.6*	*mean(2000-08)*	*1*	*mean(2000-08)*	*7.4*
Notes: mean includes only those countries where data is available for the full period (North: AUT, GER; South: GRC, IRE, ITA, ESP; East: CZR, SLV, SLK) *Sources:* OECD					

Table 7 gives the changes in social expenditures as % of GDP by country. Germany experienced a decline of the social expenditures (relative to GDP) by 1.6%-pts, whereas Austria had a marginal increase (+0.1%-pt). The Netherlands, again, are an outlier within the group of the North, with social expenditures increasing by 2.1%-pts. All countries of the East, except for Hungary, experienced declines of the social expenditures relative to GDP. These declines range from -0.8 in the Czech Republic to -3.4%-pts in Slovakia. Hungary had a substantial increase of 3.4%-pts. In the South we consistently see substantial increases. Ireland stands out with an increase of 8.3%-pts. The other countries are in the range between 2.1%-pts (Spain) to 3.4%-pts (Portugal). With the expectation of Hungary, the countries thus do fit our country groupings quite well.

Table 7. Changes in social protection[11] in % of GDP 2000-2008					
North		**South**		**East**	
Austria	0.1	Greece	2.8	Czech Republic	-0.8
Germany	-1.6	Ireland	8.3	Hungary	2.9
Netherlands	2.1	Italy	3.1	Poland	-1.1
		Portugal	3.4	Slovenia	-2.8
		Spain	2.1	Slovakia	-3.4
Mean	*0.2*	*mean*	*3.9*	*mean*	*-1.0*
Sources: OECD					

Overall, the North shows a picture of working class retreat with a low increase in wages and a strong increase in wage inequality and a pronounced decline in union density, while the welfare state has remained stable in size. In the South labour experienced a moderately higher increase in wages, but this was more evenly spread among the working class with wage dispersion almost stable. At the same time there is consolidation of the welfare state and it has the most moderate decline in union density. Eastern countries show an uneven picture. They experienced a very high increase in wages, while at the same time having the strongest increase in wage income inequality, a sharp decline in union density and a shrinking of the welfare state.

6. Discussion

This paper put forward the hypothesis that already during the boom preceding the Euro crisis there has been a divergence in working class experiences across Europe. We suggest grouping European countries into groups of the North, the South and the East. The countries had different experiences in terms of their growth model, in terms of the degree of financialisation they experience and how their working classes fared.

The northern growth model starts from a high level of development. It developed an export orientation and, with the exception of the Netherlands is relatively low dynamics of financialisation. It maintained its industrial sector and experienced solid productivity growth. With the exception of the Netherlands the increase in household debt and in property prices was low. While real wages grew moderately, wage dispersion grew substantially and union density declined substantially. This is a case of a *retreat of labour* (in Germany more so than in other Northern countries).

The southern countries experienced a strong wave of financialisation with sharply increasing levels of household debt and a property price boom. This resulted in moderately high levels of growth, but at the same time an accelerated de-industrialisation. Real wage growth was moderate and wage dispersion decreased. Union density declined, but substantially less than in other country groups and the size of the welfare state increased relative to GDP. The financial bubble was used to generate

[11] Social protection is measured by expenditures on social protection as % of GDP.

improvements for the working classes that went beyond better access to credit. We call this a *social compromise backed by a financial bubble*. It is instructive to contrast this with the experience of the Anglo-Saxon countries. In the latter there was a much more pronounced increase in wage inequality and a weaker real wage growth. There was also more welfare state retrenchment. We would refer to the Anglo-Saxon constellation as *hegemony by financialisation* as it does not contain genuine working class improvement.

The Eastern countries experienced a strong industrial upgrading and a medium wave of financialisation. This had contradictory effects on the working classes: while real wages grew much faster than in other countries, it also experienced the strongest increase in wage dispersion and it suffered a decline in welfare expenditures and sharp decline in union density. We call this disintegration of the working class coherence *hegemony by catching up*. High productivity gains allowed rising living standards while most other indicators of working class conditions deteriorated sharply.

We think that our country groups do capture important differences in the dynamics across countries. For most indicators the variation across groups is larger than within groups. In this sense our groups are useful. However, there is a substantial amount of variation across countries that cannot be easily reduced to our groupings. For example, Germany is an extreme case of what we refer to as northern model, whereas the Netherlands has some characteristics hegemony by finance model, in particular a strong increase is household debt and slightly expanding social expenditures.

Our main finding is that the divergence of working class experience across European countries is not merely a result of the different economic performance during the Euro crisis, but pre-dates it. Indeed the decade from the introduction of the Euro to the crisis affected working classes in quite different ways: while there was an erosion of working class cohesion in the northern countries, the boom of in the southern countries also allowed for a consolidation of the welfare state and came with relatively little increase in wage dispersion. The East experienced an erosion of working class cohesion (decline in union density, increase in wage differentials) while at the same time experiencing a strong increase in real wages. Working classes in these three country groups also have different degrees of financialisation.

7. Conclusion

Neoliberalism has meant quite different things for workers in different countries. This may explain why the labour movement has as of yet been unable to put forward a coherent European progressive strategy. The aim of the paper has been to establish that this divergent experience of working classes across Europe pre-dates the crisis and is closely linked with the different growth models. We have identified three such growth models and provided and empirical analysis of selected countries along three dimensions, financialisation, industrial upgrading and working class coherence. The average for these country groups clearly differ along the lines of the different accumulation paths that motivate this study. However, there is also some variation within the groups and there are some countries that do not fit neatly. This raises several questions for future research. First, in terms the foundations of the analysis, one could investigate which dimensions have been key for the overall transformations. Our analysis has presupposed that financialisation

was the key force in the South, dependent upgrading was in the East and working class restructuring in the North. That is a hypothesis that needs more empirical grounding. Second, still talking about theory, our analysis is based on the premise that these three growth models are complementary. The precise meaning of this complementarity needs further clarification. What are the constraints on national models imposed by the complementarity with other models? To what extent are countries forced into a model based on their position in the international division of labour? Third, there are several countries excluded from our analysis. Some of these, e.g. the USA and the UK, could probably be included by way of extension. Others, like France, may require revisions of the scheme. Forth, there are countries that do are outliers among their groups, at least on some dimension, most notably the Netherlands. This poses the questions on how valid our country groupings are.

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Appendix. Country experiences

Table A.1. absolute change in %GDP of Domestic credit to private sector 2000-2008					
North		**South**		**East**	
Austria	17.67	Greece	50.00	Czech Republic	3.33
Germany	-10.83	Ireland	117.03	Hungary	37.34
Netherlands	58.95	Italy	29.24	Poland	23.06
		Portugal	47.42	Slovenia	
		Spain	105.07	Slovakia	-6.07
mean	*21.93*	*mean*	*69.75*	*mean*	*14.42*
Sources: WDI					

Table A.2. %growth of Domestic credit to private sector 2000-2008					
North		**South**		**East**	
Austria	0.17	Greece	1.05	Czech Republic	0.07
Germany	-0.09	Ireland	1.12	Hungary	1.15
Netherlands	0.44	Italy	0.39	Poland	0.87
		Portugal	0.38	Slovenia	
		Spain	1.07	Slovakia	-0.12
mean	*0.17*	*mean*	*0.8*	*mean*	*0.49*
no data for SLV *Sources:* WDI					

Table A.3. real house prices 2000-2008					
North		**South**		**East**	
Austria	-19.24	Greece	40.34	Czech Republic	
Germany	22.77	Ireland	47.02	Hungary	
Netherlands		Italy		Poland	
		Portugal		Slovenia	
		Spain	86.67	Slovakia	
mean	*1.76*	*mean*	*58.01*	*mean*	
Notes: no data for AUT, HUN, POL, SLV, SVK, GRE, PRT; ITA only until 2007 *Sources:* OECD					

Table A.4. nominal house prices 2000-2008					
North		**South**		**East**	
Austria		Greece		Czech Republic	
Germany	-6.48	Ireland	80.87	Hungary	
Netherlands	48.77	Italy	73.01	Poland	
		Portugal	14.22	Slovenia	
		Spain	142.19	Slovakia	
mean	*21.15*	*mean*	*77.57*	*mean*	
no data for AUT, HUN, POL, SLV, SVK, GRE; ITA only until 2007 *Sources:* OECD					

Table A.5. real share prices 2000-2007 (relative to P2007)					
North		**South**		**East**	
Austria	-0.06	Greece	-0.05	Czech Republic	0.64
Germany	0.73	Ireland	0.21	Hungary	0.5
Netherlands	-0.52	Italy	-0.18	Poland	0.62
		Portugal	-0.17	Slovenia	0.81
		Spain	0.2	Slovakia	0.75
mean	*0.05*	*mean*	*0.003*	*mean*	*0.66*
Sources: IMF (share prices), OECD (GDP deflator)					

Table A.6. absolute change in Net international investment position in % of GDP					
North		**South**		**East**	
Austria	7.6	Greece	-36.7	Czech Republic	-31.6
Germany	22.2	Ireland	-67.7	Hungary	-33.4
Netherlands	19.4	Italy	-16.9	Poland	-25.6
		Portugal	-55	Slovenia	-22.2
		Spain	-47.3	Slovakia	-41.1
mean	*16.4*	*mean*	*-44.72*	*mean*	*30.78*
Sources: WDI					

Table A.7. Productivity growth 2000-08 (in %)					
North		**South**		**East**	
Austria	11.8	Greece	16.2	Czech Republic	33
Germany	8.8	Ireland	9.5	Hungary	31.5
Netherlands	11.7	Italy	1.3	Poland	28.1
		Portugal	5.7	Slovenia	27.6
		Spain	3.9	Slovakia	44.9
mean	*10.8*	*mean*	*7.3*	*mean*	*33.0*
productivity growth is real GDP per full time-equivalent (FTE) employee *Sources:* AMECO					

Table A.8. Manufacturing share, value added (% of GDP) 2000-2008					
North		**South**		**East**	
Austria	-0.08	Greece		Czech Republic	-2.23
Germany	-0.39	Ireland	-10.6	Hungary	-1.66
Netherlands	-1.81	Italy	-2.96	Poland	0.12
		Portugal	-3.32	Slovenia	-3.61
		Spain	-4.17	Slovakia	-1.56
mean	*-0.76*	*mean*	*-5.19*	*mean*	*-1.79*
no data for Greece *Sources:* OECD					

Table A.9. FDI inward stock (%GDP), 2001-08					
North		**South**		**East**	
Austria	21.90	Greece	1.10	Czech Republic	15.60
Germany	1.90	Ireland	-47.00	Hungary	5.80
Netherlands	15.30	Italy	4.90	Poland	12.40
		Portugal	14.80	Slovenia	34.20
		Spain	12.20	Slovakia	17.10
mean	13.03	*mean*	-2.80	*mean*	17.02
HUN, SLV, GRE 2001-08 Source: OECD					

Table A.9. Manufacturing share, value added (growth) 2000-2008

North		South		East	
Austria	-0.38	Greece		Czech Republic	-8.66
Germany	-1.68	Ireland	-32.57	Hungary	-7.08
Netherlands	-11.63	Italy	-12.94	Poland	0.65
		Portugal	-18.95	Slovenia	-14.03
		Spain	-22.36	Slovakia	-6.33
mean	*-4.56*	*mean*	*-21.7*	*mean*	*-7.09*
Sources: OECD					

Table A.10. Current account 2000-07 (% GDP)					
North		**South**		**East**	
Austria	1.7	Greece	-8.5	Czech Republic	-4.3
Germany	3.8	Ireland	-2.1	Hungary	-7.4
Netherlands	5.6	Italy	-1.3	Poland	-3.4
		Portugal	-8.9	Slovenia	-1.7
		Spain	-5.8	Slovakia	-6.9
mean	*3.7*	*mean*	*-5.32*	*mean*	*-4.74*
Sources: OECD					

Table A.11 real wages 2000-2008					
North		**South**		**East**	
Austria	7.99%	Greece	15.67%	Czech Republic	39.58%
Germany	2.23%	Ireland	16.66%	Hungary	38.97%
Netherlands	7.27%	Italy	1.85%	Poland	12.74%
		Portugal	1.95%	Slovenia	-1.7
		Spain	1.67%	Slovakia	28.05%
mean	*5.83%*	*mean*	*7.56%*	*mean*	*29.83%*
No data for SLV *Sources:* OECD					

Table A.12. nominal wage growth 2000-2008					
North		**South**		**East**	
Austria	26%	Greece	49%	Czech Republic	67%
Germany	15%	Ireland	51%	Hungary	114%
Netherlands	28%	Italy	25%	Poland	38%
		Portugal	28%	Slovenia	48%
		Spain	32%	Slovakia	84%
mean	23%	*mean*	37%	*mean*	70%
Notes: SLV 2002-2008 *Sources:* OECD					

Table A.13. union density, 2000-08					
North		**South**		**East**	
Austria	-7.56	Greece	-2.54	Czech	-9.81

				Republic	
Germany	-5.44	Ireland	-6.06	Hungary	-4.85
Netherlands	-4.11	Italy	-1.38	Poland	-2.1
		Portugal	-1.15	Slovenia	15.46
		Spain	-2.11	Slovakia	15.09
mean	*-5.71*	*mean*	*-2.65*	*mean*	*-9.46*

Notes: SLV 2001-08
Sources: OECD

.

Table A.14. Economic Sectors **for calculation of wage dispersion**

C01T02 Agriculture, hunting and forestry
C05 Fishing, fish hatcheries, fish farms and related services
C10T12 Mining and quarrying of energy producing materials
C13T14 Mining and quarrying except energy producing materials
C15T16 Food products, beverages and tobacco
C17T19 Textiles, textile products, leather and footwear
C20 Wood and products of wood and cork
C21T22 Pulp, paper, paper products, printing and publishing
C23T25 Chemical, rubber, plastics and fuel products
C26 Other non-metallic mineral products
C27T28 Basic metals and fabricated metal products
C29T33 Machinery and equipment
C34T35 Transport equipment
C36T37 Manufacturing n.e.c. and recycling
C40 Electricity, gas, steam and hot water supply
C41 Collection, purification and distribution of water
C45 CONSTRUCTION
C50T52 Wholesale and retail trade - repairs
C55 Hotels and restaurants
C60T63 Transport and storage
C64 Post and telecommunications
C65T67 Financial intermediation
C70T74 Real estate, renting and business activities
C75 Public admin. and defence - compulsory social security
C80 Education
C85 Health and social work
C90T93 Other community, social and personal services
C95 Private households with employed persons

Table A.14 lists the used economic sectors for calculating the wage dispersion. The list is supposed to cover as many countries as possible, taking into account different traditions of accounting across the observed countries.