Wages and collective bargaining under the conditions of the European economic crisis

Torsten Müller (ETUI) & Thorsten Schulten (WSI)

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Content:

1. Wage policy before the crisis
   • *The standard view:* Wage developments, competitiveness and economic imbalances
   • *An alternative view:* Wages, inequality, lack of demand and non-sustainable growth models

2. Wage policy under the crisis
   • Wages under the new European economic governance (European Semester, Troika etc)
   • Wage freezes and wage cuts
   • Decentralization and destruction of collective bargaining

3. Future wage policy under threat of deflation?
   • Alternative orientation: Wage-led growth
   • Attempts towards a European coordination of wage policy
Macroeconomic imbalances in EU

Surplus countries

Deficit countries


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Wages before the crisis – the standard view

The competitiveness problem

Wage and productivity developments

**Compensation**
- Compensation per employee (deficit countries)
- Compensation per employee (surplus countries)

**Productivity**
- Productivity (deficit countries)
- Productivity (surplus countries)

*Note: 1999 = 100. Total economy. Productivity is defined as real GDP per employee. GDP-weighted average by country group. Annual data (smoothed lines). Source: AMECO.*
Wages before the crisis – the standard view

- Crisis is essentially seen as a crisis of cost competitiveness
- 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 before the crisis –
Critique of the standard view

Narrow concept of competitiveness:
• exclusive focus on labour costs
• regardless of the structure of real economy
• regardless of non-price factors

Narrow treatment of wages as cost factor:
• Ignorance of the role wages for domestic demand

Overestimation of the export sector for the overall economic development
Adjusted wage share
2000-2014

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Wages before the crisis – An alternative explanation

- Real wages behind productivity
- Increase of inequality
- Structural weakness of demand
  - Debt-led growth
  - Export-led growth
  Depend on each other!!!
Content:

1. Wage policy before the crisis
   • ...
   • ...

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   • ...
Wage policy under the crisis

New European Economic Governance: A new European interventionism in the area of wage policy through
- European Semester/European Imbalances procedure
- Troika /Memorandum of Understanding

Policy measures:
1. Direct intervention into wage developments by cutting and freezing public sector and minimum wages
2. Structural reforms of wage setting institutions to increase downward flexibility of wages
Wage policy under the crisis

DG ECFIN 2012: “Employment friendly reforms”

- Decreasing bargaining coverage
- Decreasing extension of collective agreements
- Decentralizing bargaining systems
- Removing or limiting the favourability principle
- Introducing/extending possibilities to derogate from higher level agreements
- Overall reduction of wage-setting power of trade unions
Wage policy under the crisis

DG ECFIN 2015:

“Moreover, major reforms in the labour market, such as decentralised wage bargaining and more flexible wage arrangements, ... as well as past wage moderation will also support job creation.”
Changes of collective bargaining systems under surveillance of the Troika

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<th>Termination/abolition of national collective bargaining</th>
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<td>Countries: Romania, Ireland, Greece, Portugal</td>
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<th>More possibilities for companies to derogate from sectoral agreements</th>
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<td>Countries: Greece, Spain, Portugal, Italy</td>
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<th>Priority for company agreements, abolition of the favourability principle</th>
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<th>Stricter rules for extension of collective agreements</th>
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<th>Reduction of the after-effect of collective agreements</th>
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<th>Company agreements signed by non-union representatives</th>
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Development of collective bargaining: the example of Spain (2008-2014)

Number of Workers covered by registered collective agreements (in Mio)

- 2008: 12.0
- 2009: 11.6
- 2010: 10.8
- 2011: 10.6
- 2012: 10.1
- 2013: 8.8
- 2014: 5.6
Real compensation in the EU 2010-2014
Private demand in the EU
2008 = 100
Development of Harmonized Indices of Consumer Prices (HICP)

Source: Eurostat
1. Wage policy before the crisis
• ...
• ...

2. Wage policy under the crisis
• ... (European Semester, Troika etc)
• ...

3. Future wage policy under threat of deflation?
• Alternative orientation: Wage-led growth
• Attempts towards a European coordination of wage policy
Wages under deflation: Towards an alternative view on wages?

“Any further reduction of wages risks being counter-productive because then we would run into a vicious circle of deflation, lower consumption and lower investment.”

Stefano Scarpetta, Director, Employment, Labour and Social Affairs OECD
Financial Times, 3 September 2014
Wages under deflation: Towards an alternative view on wages?

“Wage hikes key to escaping deflation”

Haruhiko Kuroda,
Präsident der Bank of Japan
Asian Review 17 March 2015
Wages under deflation: Towards an alternative view on wages?

“The central bank should scrap its 2 percent inflation target and replace it with a goal for higher wages”

Tsutomu Watanabe,
Professor for Economics at University of Tokyo
Japan Times 17. March 2015
Wages under deflation: Towards an alternative view on wages?

"The German labour market is in considerably better shape today than in the past few years (...) It is therefore only natural, and also to be welcomed that wages and salaries are rising more strongly than in the days when the German economy was in much poorer shape."

Jens Weidmann, Präsident of the German Bundesbank
FAZ 30 July 2014
Wages under deflation: Towards an alternative view on wages?

Stabilising and enforcing wage developments:

- counter deflationary price developments
- stabilise and increase private demand
- counter income inequality

Requires …

- stop of wage cuts and wage freezes
- wages increase at least in line with productivity and target inflation
- more expansive wage developments in the surplus countries

Requires …

- strengthening of wage setting institutions
Wage policy under deflation

Alternative views

„I regard the growth of collective bargaining as essential. I approve minimum wage and hours regulation. I was altogether on your side the other day, when you deprecated a policy of general wage reductions as useless in present circumstances.“

Letter John Maynard Keynes to Franklin D. Roosevelt, 1st February 1938
Wages under deflation: Towards an alternative view on wages?

Strengthening of wage-setting institutions requires ... 

- No more restrictions and interventions in autonomous collective bargaining
- Promotion of a higher bargaining coverage
- Promotion of multi-employer bargaining
- Strengthening of extension mechanism
- European minimum wage policy
- Strengthening of union power at national and European level
Thank you very much for your attention!!!
Main questions for discussion:

1. Wage policy before the crisis
   - Dynamic of wage developments before the crisis?
   - Contribution to the growing economic imbalances within Europe?
   - Have wage increases in Spain been “too high” or “too low” in Germany?
   - Alternative views?

2. Wage policy under the crisis
   - Wage freezes and wage cuts: Were they necessary?
   - Recommendation on wages and collective bargaining in the context of the European Semester and by the Troika?
   - Economic and social impact of wage developments during the crisis?

3. Future wage policy under threat of deflations?
   - How should wages develop in the future?
   - What wage policy to overcome the crisis and to prevent deflation?
   - Is there a need for a more coordinated wage policy at European level?
   - If yes, how should such a coordination look like?