Wages and the Euro Crisis
Results from the CAWIE-Project

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1. **Wages and the Euro-Crisis**
   Mainstream explanations and policy conclusions

2. **Collectively agreed wages and wage drift since 2000**

3. **Wages and the Euro-Crisis**
   Alternative explanations and policy conclusions
1. Wages and the Euro Crisis

Mainstream explanations and policy conclusions

**Explanation:**

- Crisis is a crisis of competitiveness
- Wages are the main variable for competitiveness

**Policy conclusion:**

- Structural reforms at the labour market and in the wage-setting systems
- Increase downward flexibility of wages
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.
Mario Draghi at the Euro Summit
14 March 2013

Wage and productivity developments

Austria

Germany

Portugal

France

Spain

Italy

Note: 1999 = 100. Total economy. Productivity is defined as real GDP per employee. Annual data (smoothed lines). Source: AMECO.
Wages and the Euro Crisis – Policy conclusions:

“Employment friendly reforms”

- reform the bargaining system in a less centralized way
- introducing/extending the possibility to derogate from higher level agreements
- removing/limiting the "favourability principle"
- decrease extension of collective agreements
- decrease bargaining coverage
- overall reduction in the wage setting power of trade unions.
2. Collectively agreed wages and wage drift since 2000

Wage developments in the Euro area:

- Stagnation of real wages
- Real wage developments behind productivity growth
- Slightly positive wage drift

Wage developments in different EU countries

- Only moderate wage developments in real terms
- Real wage developments behind productivity growth (with the exception of Italy)
- positive wage drift (moderate or significant)
  strong negative wage drift in Germany
Collectively agreed wages: Euro area
2000-2012, in % to the previous year

Real wage = nominal wages adjusted by the HICP,
Source: ECB, Eurostat, calculations by WSI

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Collectively agreed wages and labour productivity in the Euro area 2000 - 2012, in % to the previous year

Real wage = nominal wages adjusted by the HICP, Labour productivity = real labour productivity per hour worked
Source: ECB, Eurostat, calculations by WSI

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Collectively agreed wages and labour productivity in the Euro area $2000 = 100$

Real wage = nominal wages adjusted by the HICP, Productivity = real labour productivity per hour worked
Source: ECB, Eurostat, calculations by the WSI
Wage drift in the Euro area

2000 = 100

Source: ECB, AMECO, Calculations by the
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Wage and productivity developments

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Note: 1999 = 100. Total economy. Productivity is defined as real GDP per employee. Annual data (smoothed lines). Source: AMECO.

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Collectively agreed real wages and labour productivity 2000 = 100

Source: TURI Database on Collectively Agreed Wages

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Collectively agreed real wages and labour productivity (2001-2010, 2000 = 100)

Real wages = nominal wages adjusted by the HICP, Labour productivity = real labour productivity per hour worked

Source: TURI Database on Collectively Agreed Wages in Europe, Eurostat, National accounts
Wage drift 2001-2010 in percentage points

Finland: 12.7
Netherlands: 9.1
United Kingdom: 6.4
Austria: 4.2
France*: 3.2
Euro Area: 2.3
Belgium: 2.1
Italy: 1.9
Spain: 1.0
Portugal: 0.8
Germany: -5.7

Wage drift = Difference in growth rates of actual and collectively agreed wages; *2003-2010;
Source: TURI Database on Collectively Agreed Wages in Europe National accounts, Eurostat, Calculations by the WSI
Reasons for the wage drift

Difference between increase in collectively agreed and effective wages

- **Business cycle**: labour market conditions
- **Working time**: overtime, short-time work
- **Composition effects**: Structure of employment (part time, composition of pay grades)
- **Institutional factors**: Bargaining coverage, Levels of agreements, derogation clauses
Actual real wages and labour productivity (2001-2010, 2000 = 100)

Source: Eurostat National Accounts, Calculations by the WSI
3. Wages and the Euro Crisis

Alternative explanations and policy conclusions

Explanation:

- Wages are not the main reason for lack competitiveness or economic imbalances in Europe.

- Real wage developments lagging behind productivity growth dampen domestic demand and a produce deflationary spiral of downward wages competition.

- Current EU policy of austerity and structural reforms accelerate deflationary wage competition and promotes economic stagnation.
Real wage development in the EU after the crisis 2010-2013 in %
3. Wages and the Euro Crisis

Alternative Agenda for European Wage Policy

International Labour Organisation (ILO)

- Collective bargaining as a core instrument for economic, industrial, employment and social policy

- Strengthening of collective bargaining at all levels

- Strengthening of mechanism to extend sectoral agreements and to increase bargaining coverage

- Strengthening of minimum wages which should guarantee decent wage levels

- Promoting not wage competition but (real) wage developments in line with productivity