

The logo for WSI (Wirtschafts- und Sozialwissenschaftliches Institut) features the letters 'WSI' in a large, bold, black sans-serif font. To the right of the 'I' is a small horizontal bar divided into a blue segment on the left and a grey segment on the right. Above the 'WSI' text is a solid blue rectangular bar. A thin grey vertical line is positioned to the left of the 'WSI' text, and a thin grey horizontal line is positioned above the blue bar.

WSI

Wirtschafts- und  
Sozialwissenschaftliches Institut

# Wages and the Euro Crisis

## Results from the CAWIE-Project

**Thorsten Schulten**

**10th European ILERA Conference**

Symposium on collectively agreed wages and the new  
European economic governance

Amsterdam, 20-22 June 2013

Hans **Böckler**  
Stiftung 

The logo for Hans Böckler Stiftung consists of a small red square followed by a small yellow square.

# Content



- 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

WSI

## 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

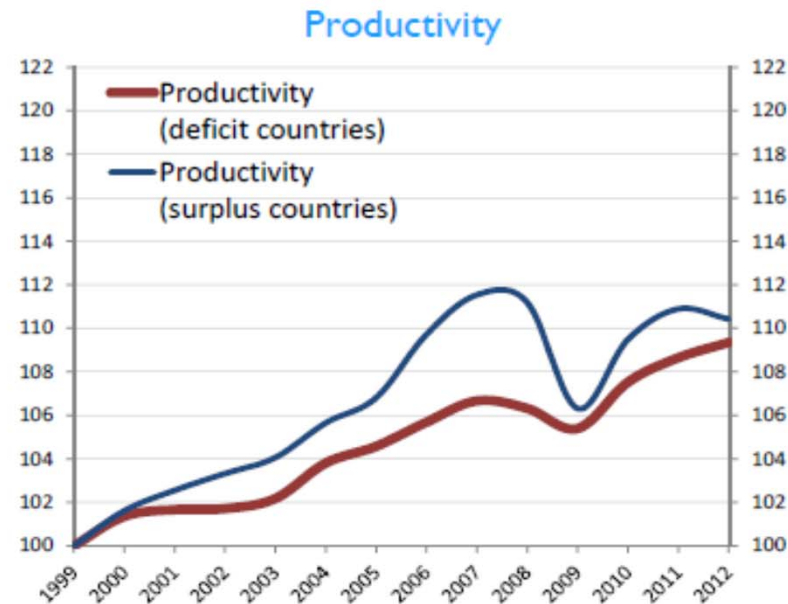
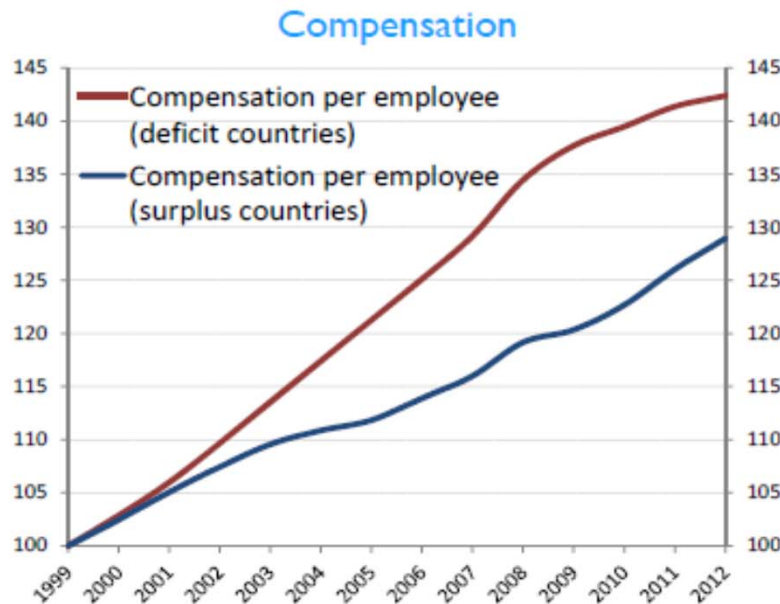
# Mario Draghi at the Euro Summit

14 March 2013



## The competitiveness problem

### Wage and productivity developments



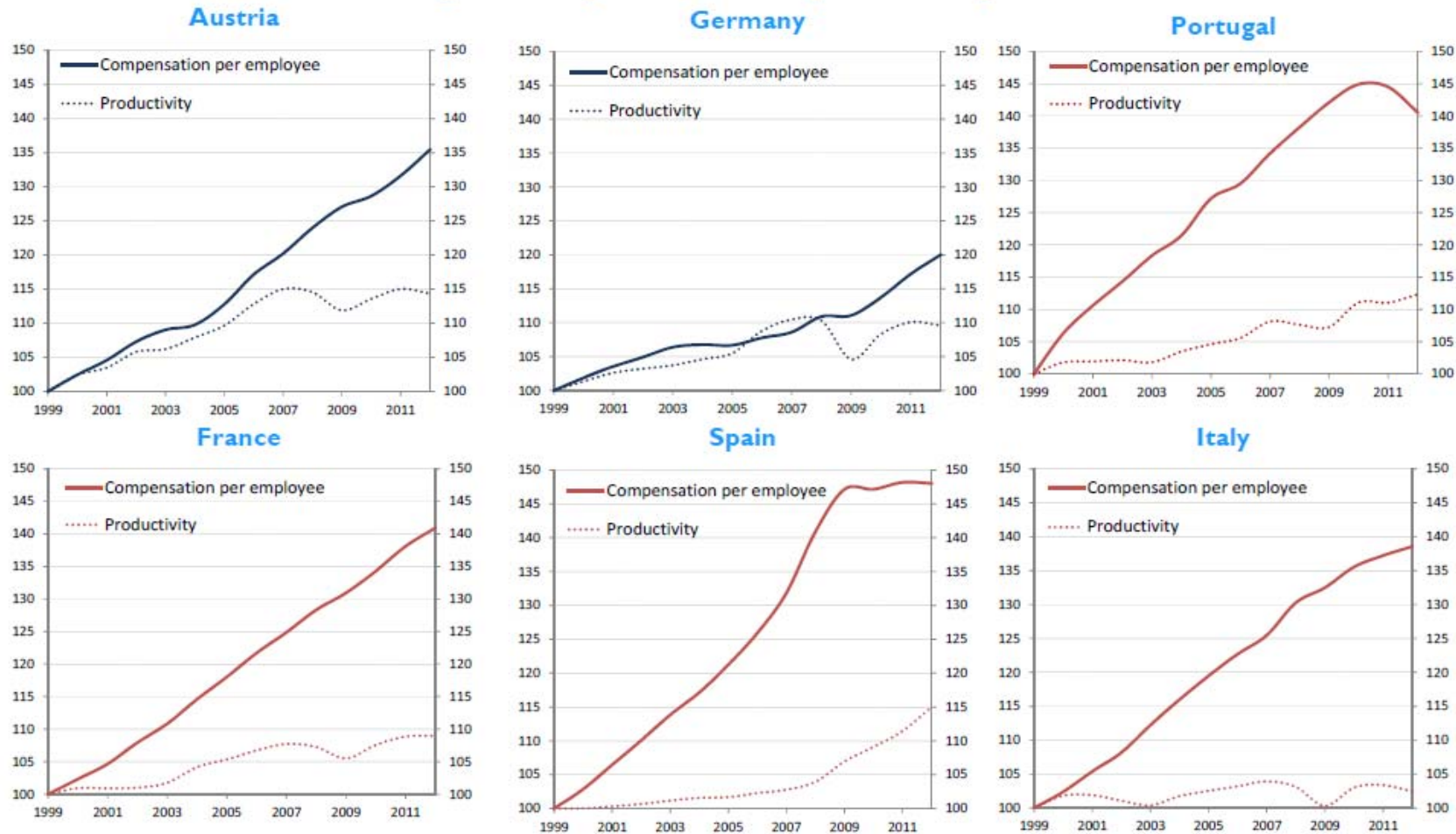
Note: 1999 = 100. Total economy. Productivity is defined as real GDP per employee. GDP-weighted average by country group. Annual data (smoothed lines). Source: AMECO.

# Mario Draghi at the Euro Summit

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## Wage and productivity developments



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**

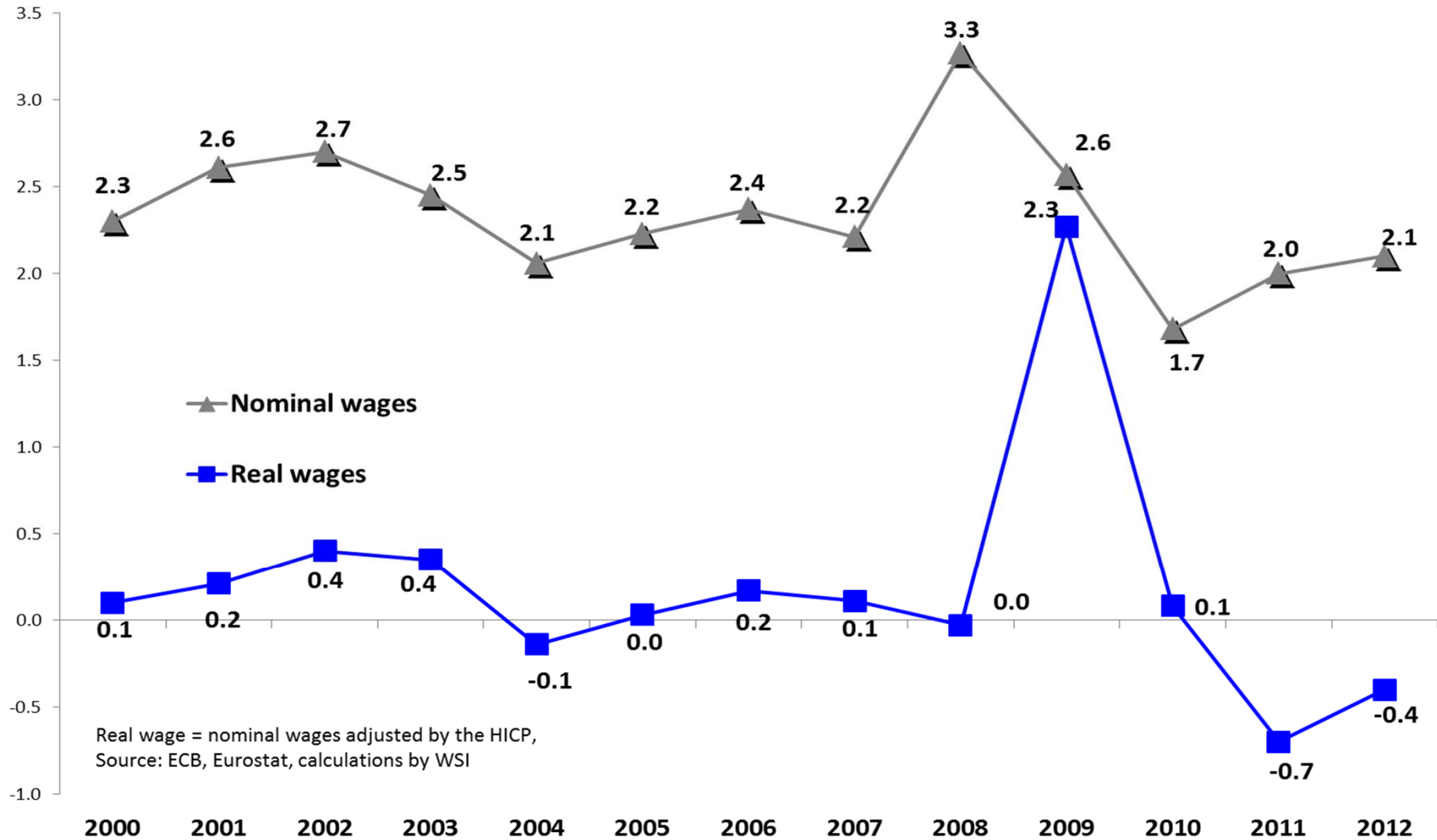
### Wage developments in different EU countries

- ⇒ 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

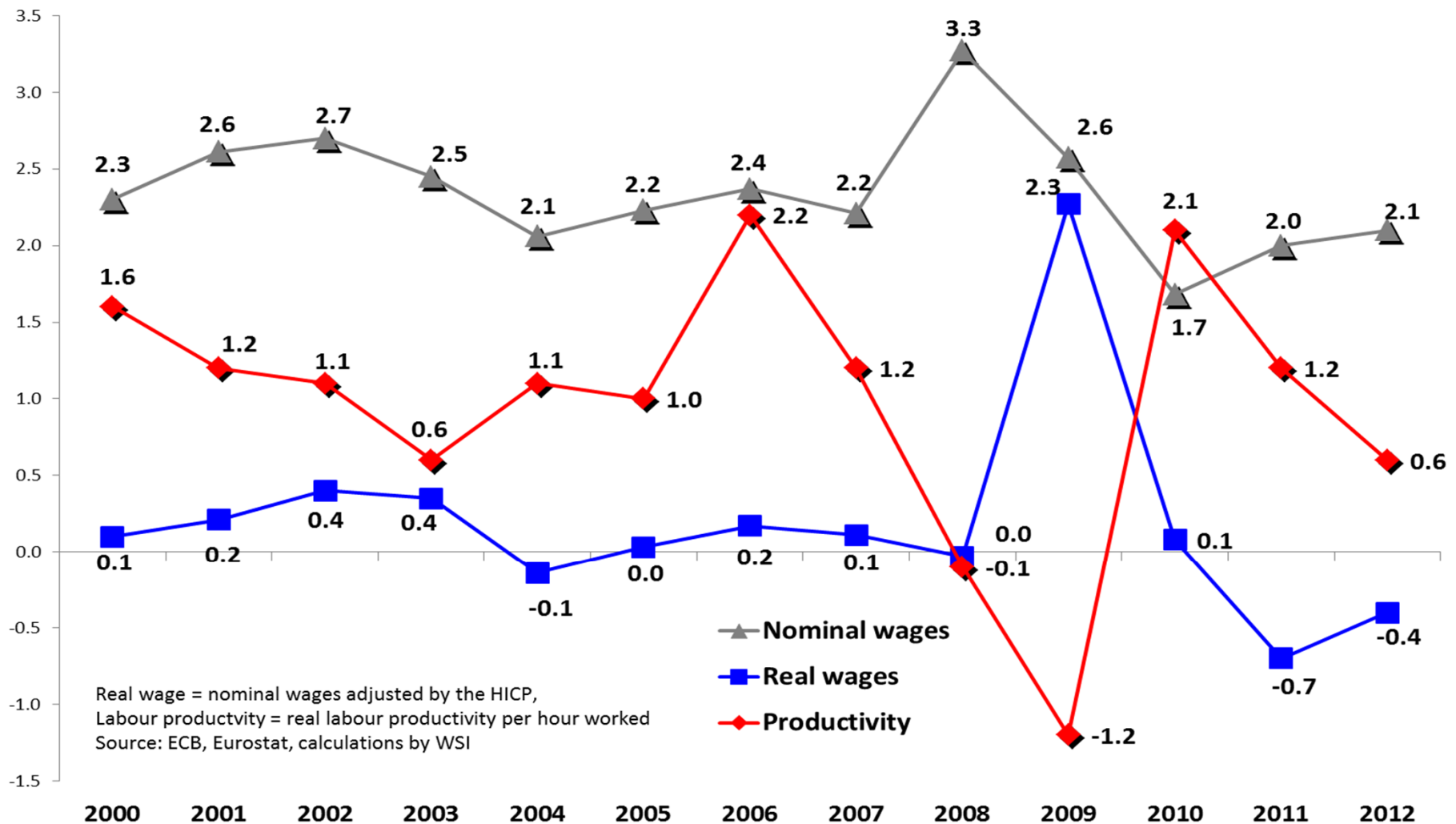
2000- 2012, in % to the previous year



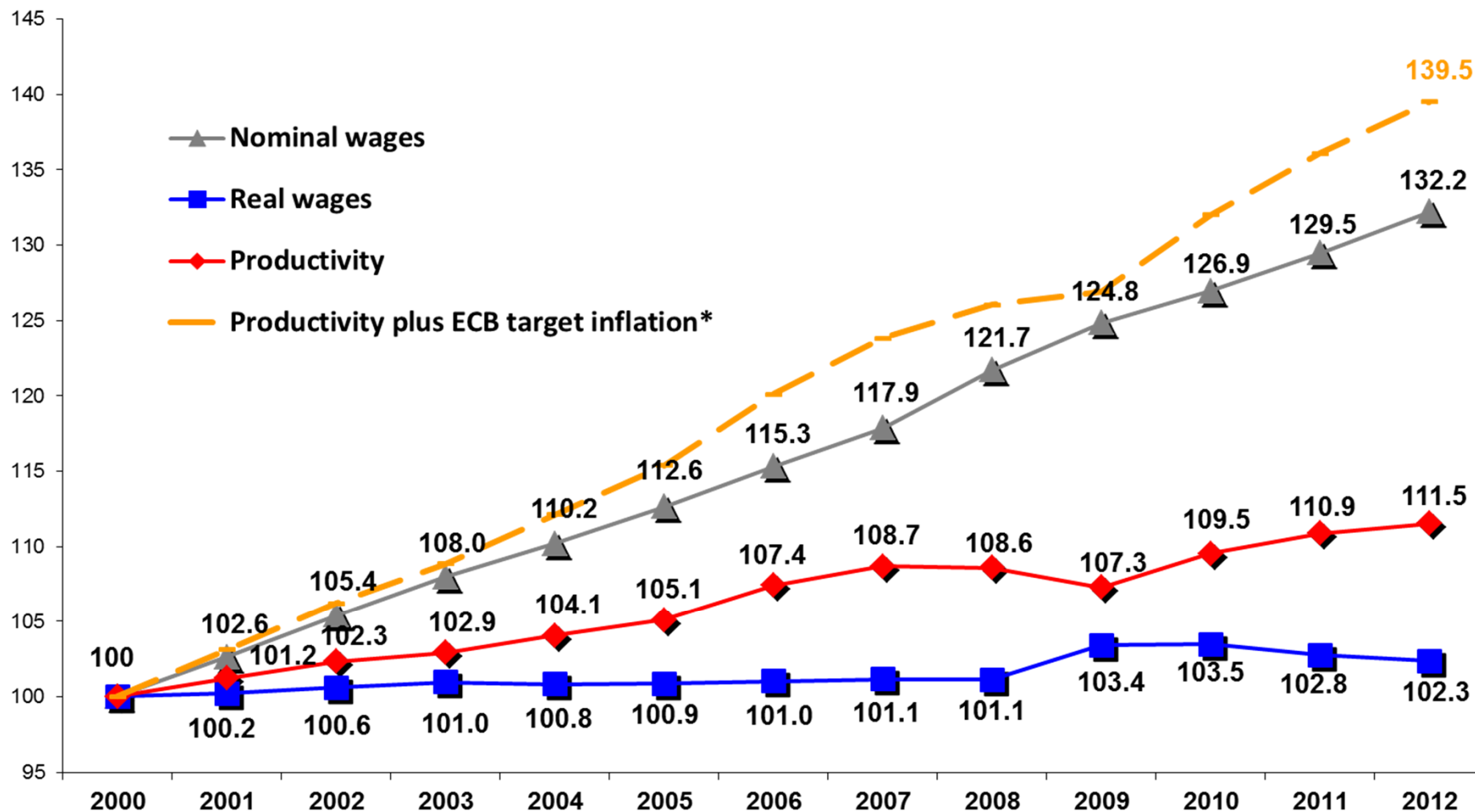


# Collectively agreed wages and labour productivity in the Euro area

2000 - 2012, in % to the previous year



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

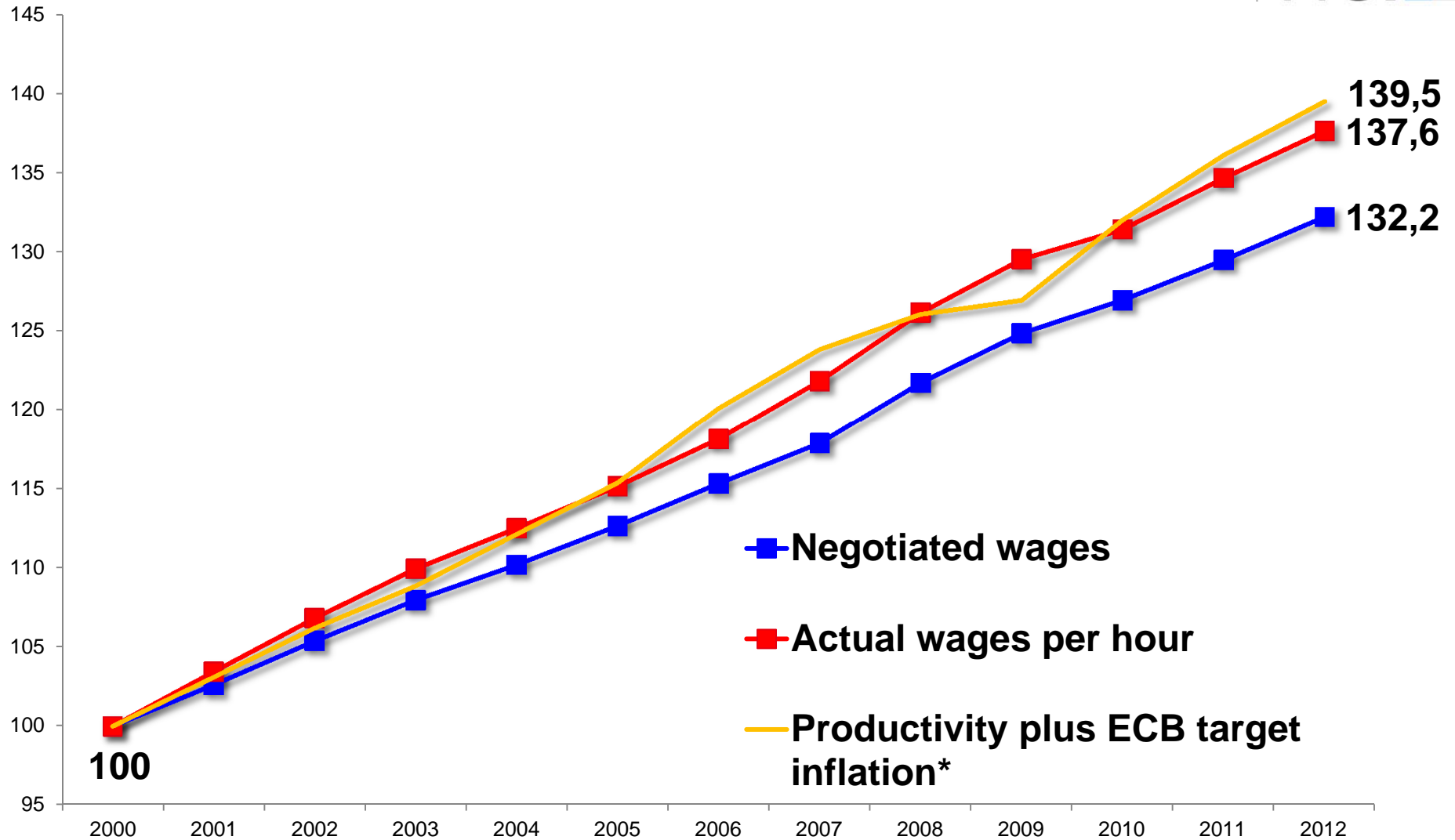


Real wage = nominal wages adjusted by the HICP, Productivity = real labour productivity per hour worked  
 Source: ECB, Eurostat, calculations by the WSI

# Wage drift in the Euro area

2000 = 100

WSI



Source: ECB, AMECO, Calculations by the

Dr. Thorsten Schulten

20 06 2013

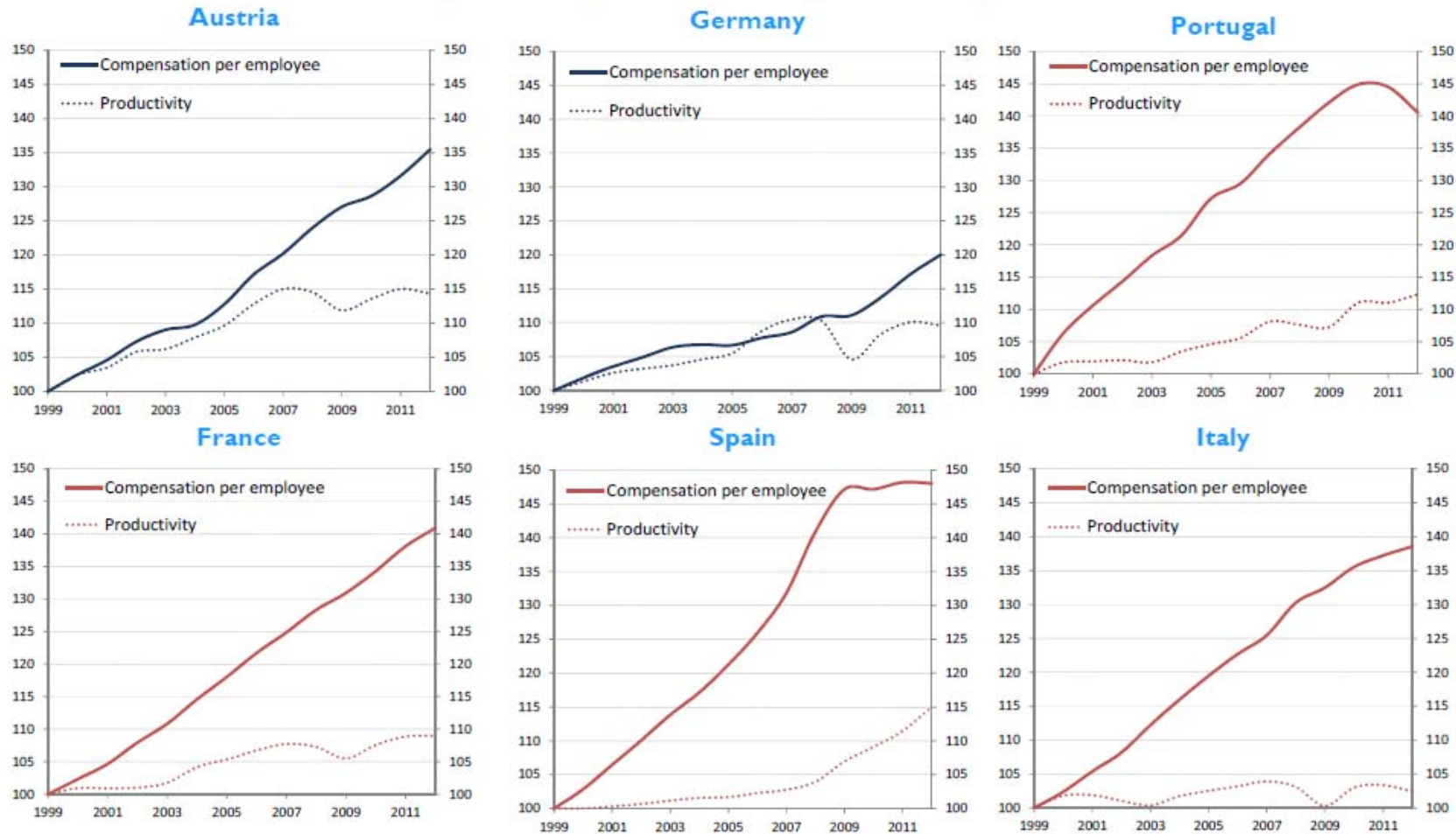
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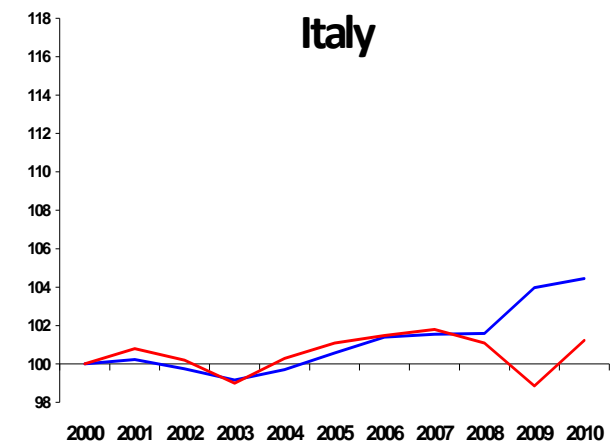
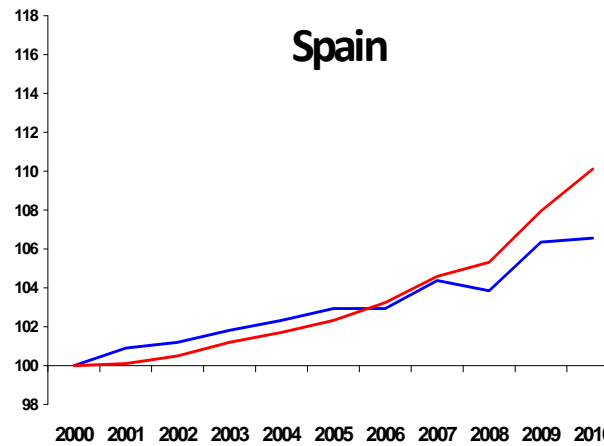
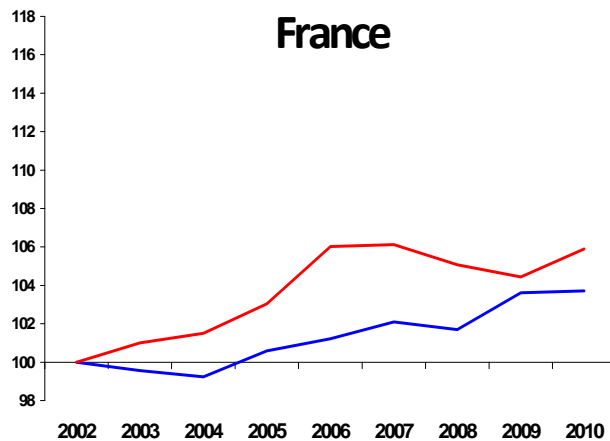
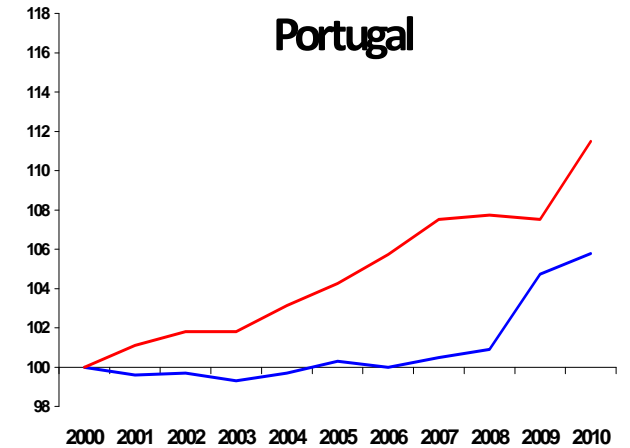
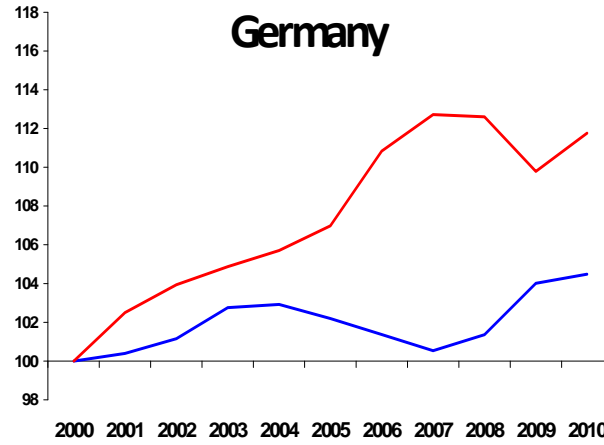
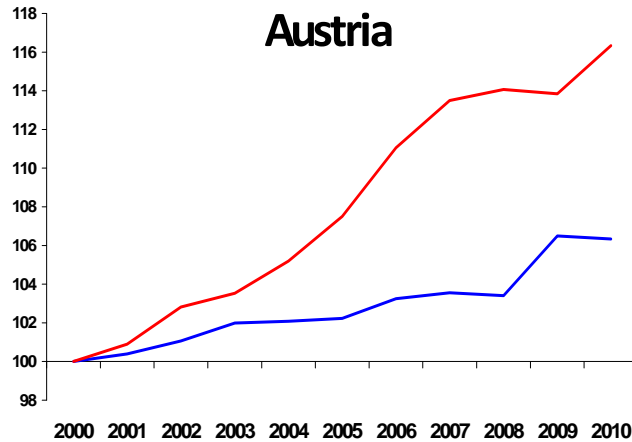


## Wage and productivity developments



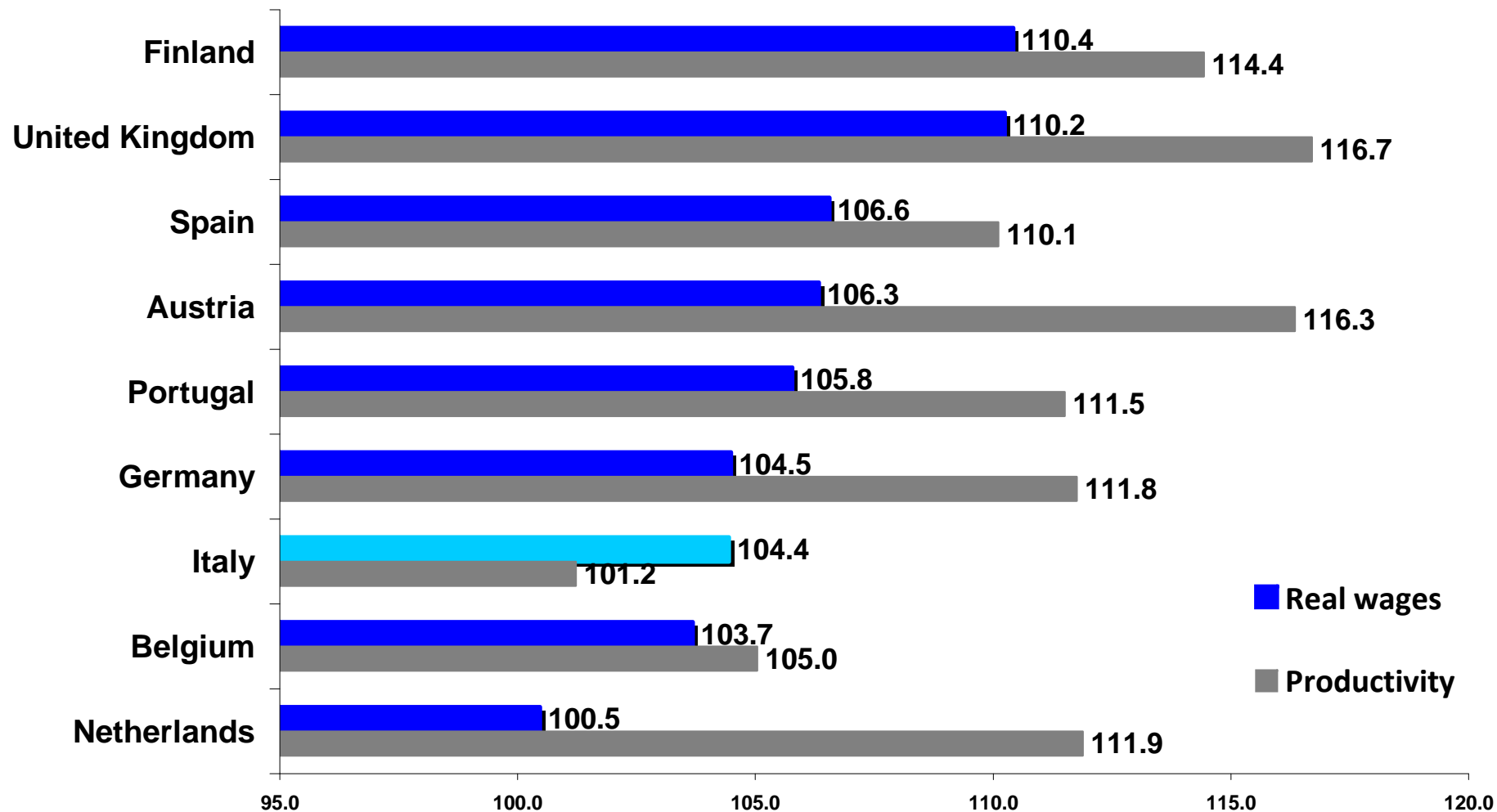
Note: 1999 = 100. Total economy. Productivity is defined as real GDP per employee. Annual data (smoothed lines). Source: AMECO.

# Collectively agreed real wages and labour productivity 2000 = 100



Source: TURI Database on Collectively Agreed Wages

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

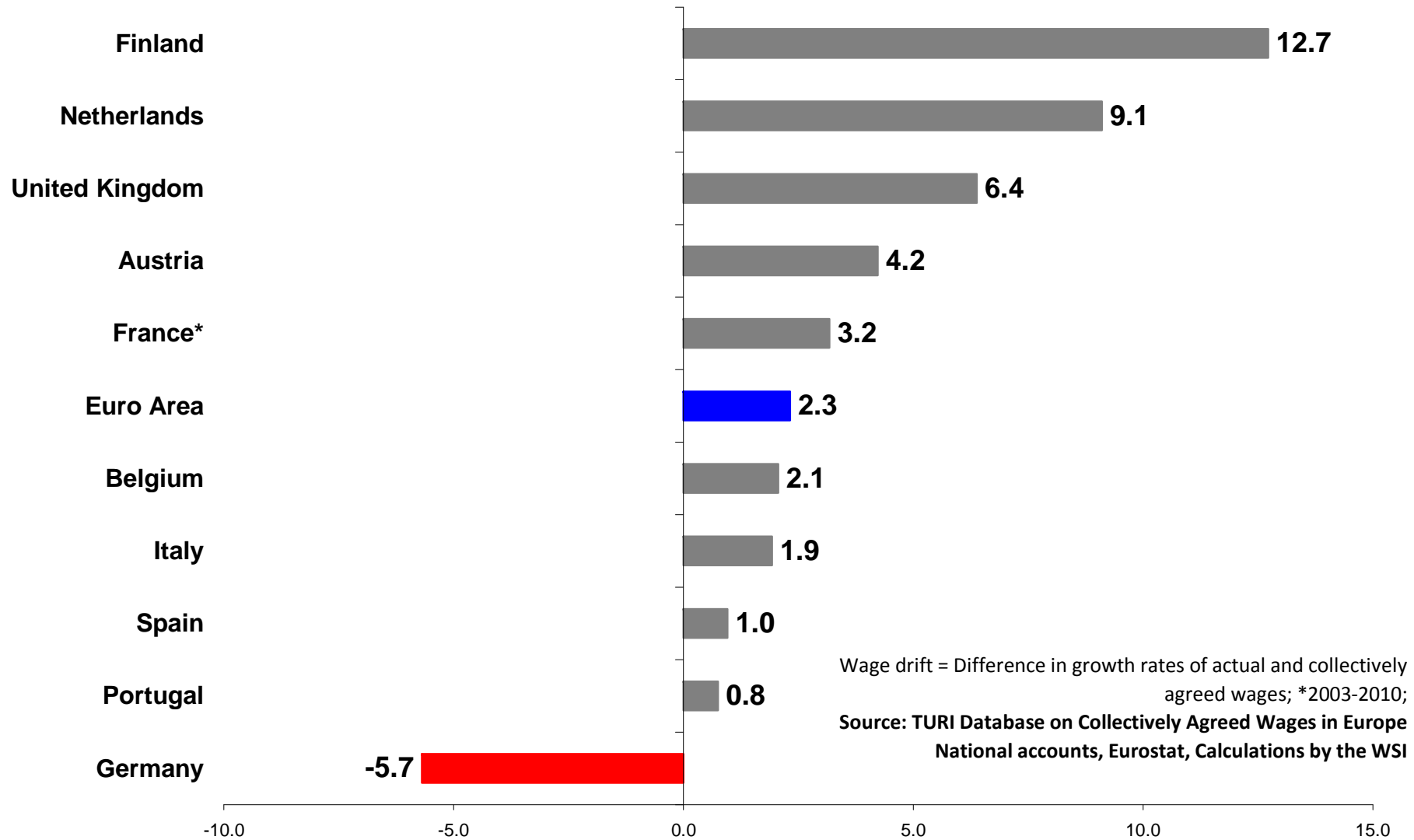


Real wages = nominal wages adjusted by the HICP, Labour productivity = real labour productivity per hour worked

Source: TURI Database on Collectively Agreed Wages in Europe, Eurostat, National accounts

# Wage drift 2001-2010

in percentage points





# Reasons for the wage drift

## Difference between increase in collectively agreed and effective wages

⇒ **Business cycle:** labour market conditions

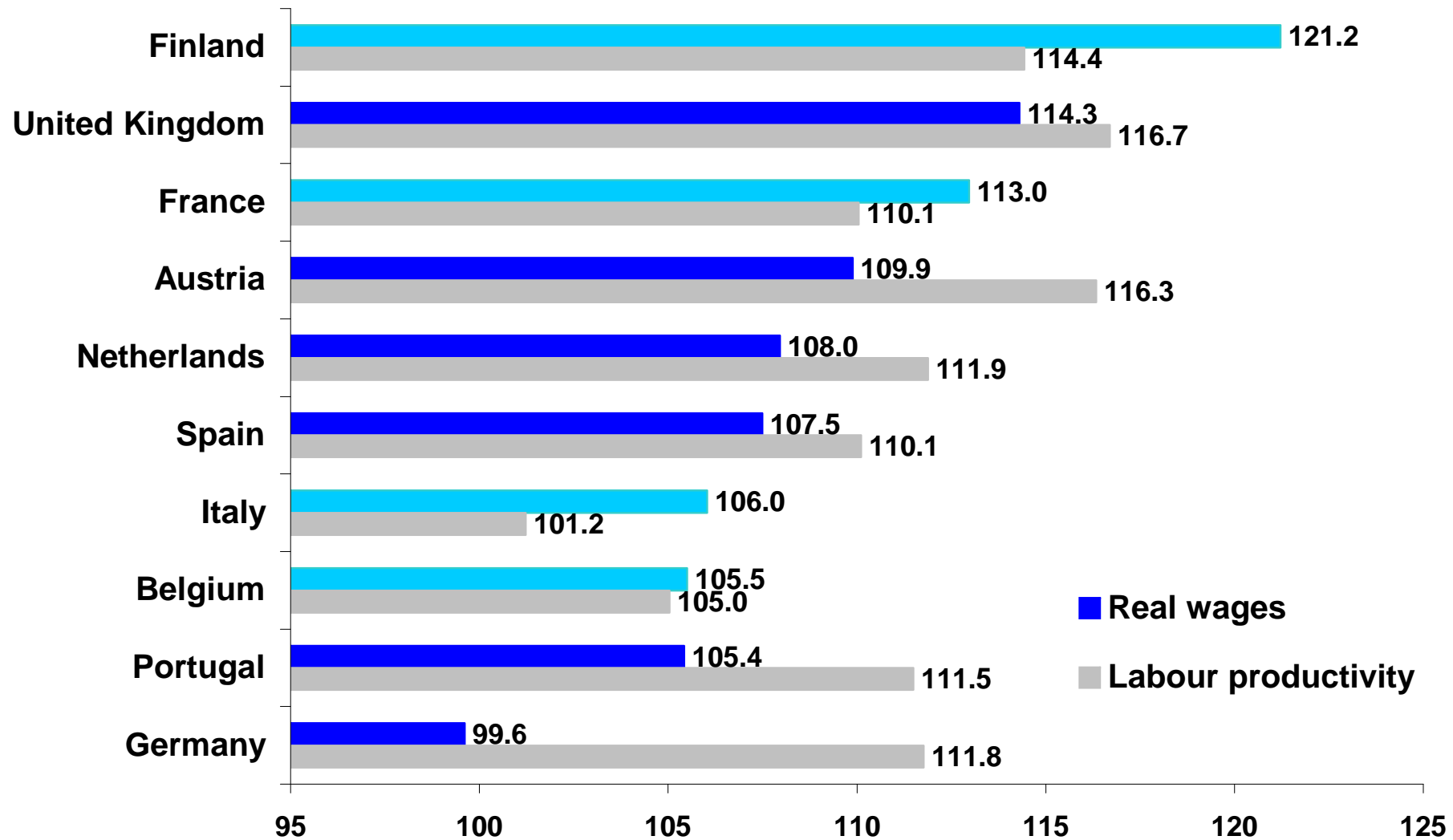
⇒ **Working time:** overtime, short-time work

⇒ **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:

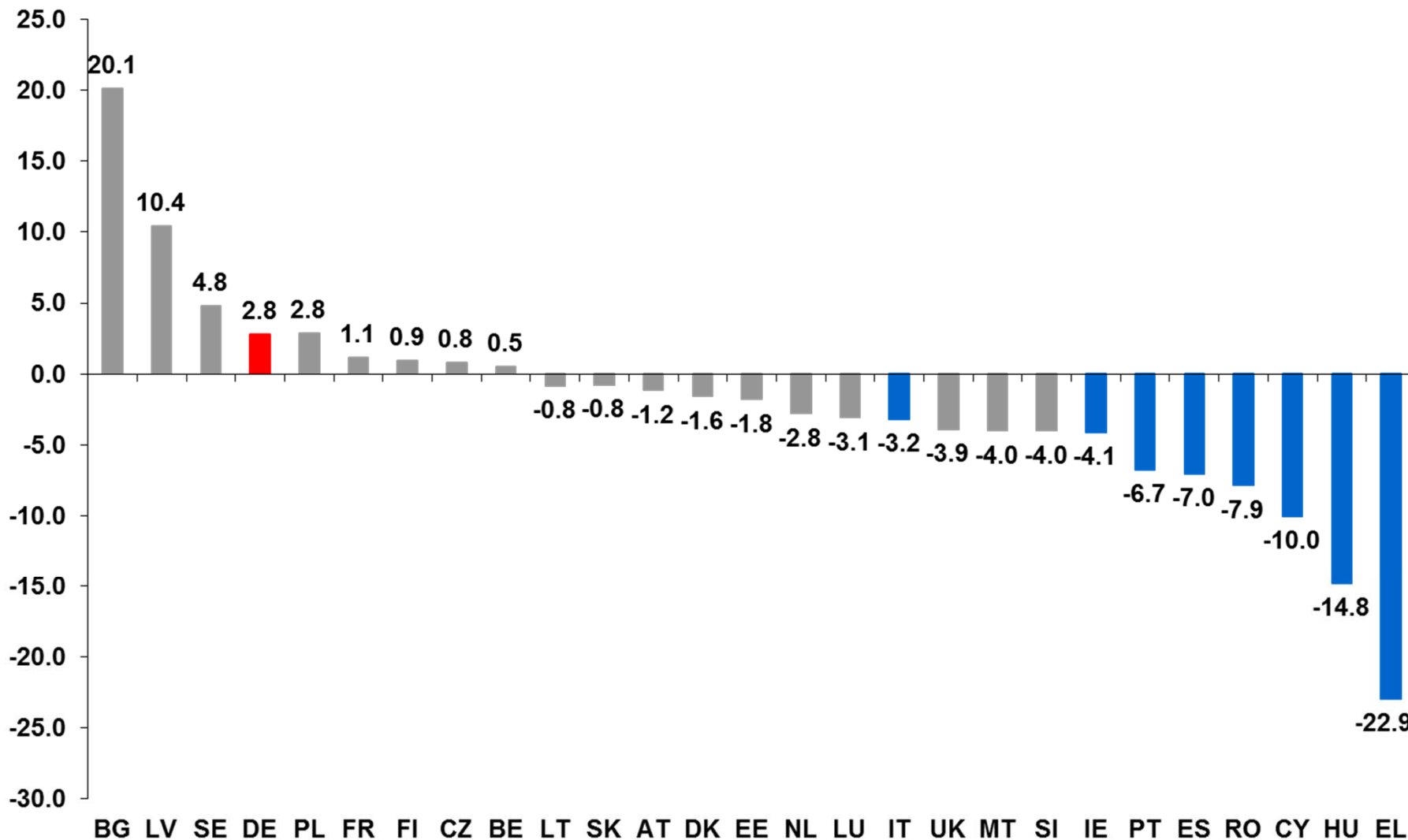
➔ Wages are **not** the main reason for lack competitiveness or economic imbalances in Europe

➔ 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**

