European Economic governance: What’s at stake for wages?

Group 2 meeting
Houffalize, November 2012
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What everyone agrees upon

• A common currency needs common rules for economic policy
• If each member state goes its own way, chaos be the result
• The « perfect » illustration: Today’s Euro crisis
• This is also true for wages: The sum of 17 different national wage dynamics needs to be coherent with the needs/restraints resulting from the single currency
To have or not to have common wage guidelines ... is NOT the question

- The right questions:
  - What type of common European guidelines? What are the right principles to set wages in a monetary union?
  - Who exactly decides on these European principles?
Which common guidelines for wages?

• Three different types of looking at wages in a monetary union
  – Absolute priority for competitiveness: Wages need nothing else to do but to promote competitiveness in each and every single country
  – Wages as communicating barrels
  – Wages have different masters (objectives) to serve and ‘competitiveness’ is only one of them
Wage competitiveness rules

• A recent and shocking illustration of this view: DG ECFIN’s LABREF database on labour market reforms (Labour Market Trends in Europe 2012’ European Economy 5/2012)

• An ‘employment friendly’ reform is a reform that ‘reduces the wage setting power of trade unions’
Where does this view come from?

- Inspired by or based on ten years of wage stagnation in Germany:
- 2000 – 2008:
  - Zero unit wage costs
  - Falling real wages (particularly outspoken for low wage earners)
Unit wage cost 2000 = 100
Following the German lead

• These figures are then used to claim that workers in many countries have lived beyond their means.

• In technical terms, wages have increased faster than productivity...

• This then needs to be corrected. Competitiveness that was lost needs to be regained.

• Since we cannot devalue the currency anymore, let us devalue wages (the «internal» devaluation)
What techniques to arrive at a ‘wage devaluation’?

• Again, inspiration is found in Germany
  – Reversal of the hierarchy of bargaining (‘Pforzheim’ type agreements allowing to strike company level wage/employment deals)
  – Longer working week
  – Undermine wage standards by doubtful ‘trade unions’
• Longer working hours without more pay In Greece, Spain, Portugal, measures like these have already been taken
• In France, Italy, Belgium, Netherlands, discussions on these measures are gaining traction
Bad karaoke

- DGB and its sector affiliates did see to ‘checks and balances’
  - Company opening clause agreements: Only if wage concessions are temporary, only in return for investment or job guarantees, strict monitoring of company level agreements
  - “Yellow” trade unions: Recent victories (agency work deals) by DGB in labour courts
  - Longer working hours: rejected by some trade unions

- These « checks and balances » now tend to get ignored by the rest of Europe
Economic Governance: The silent revolution

- Economic Governance as a monster with real teeth...
- ... and with many heads:
  - Financial bail outs
  - Blackmail by the ECB
  - Economic Governance Regulations » (6 pack and 2 Pack) with sanctions attached to European wage recommendations plus ‘reversed qualitative majority voting »
  - New Treaty in the making (A ‘genuine’ Monetary Union): Looking to extend Troika countries’ programs to the whole of Euro Area by having member states enter ‘contracts’ with the Commission
Illustration: MEP question

• Issue: Commission recommendation (in EU 2020 process) on reforming indexation system in Belgium (‘move to an all in indexation’)
• Questions: Is there sufficient legal basis?/ Is this enforceable?
• Answer from Andor:
  – Legal basis of such recommendations is correct and compatible with Social chapter of Treaty and Charter of Fundamental Rights
  – Enforceable under regulation excessive imbalances and regulations on excessive deficits
« Alle Menschen werden Konkurrenten »: Why it is wrong

• « Fallacy of composition »: The effect of a policy applied by one country is completely different from the effect when all countries go for the same thing

• Estimates of elasticity of exports to real exchange rate much lower when estimated for the entire Euro Area (minus 0.26) than for individual countries taken separately (between -0.54 and -0.77 for big 4)

• Reason: When all go for wage moderation, relative cost positions do not change whereas export demand perspectives get depressed (One country’s domestic demand is another country’s export perspectives)
The old spectre of debt deflation

• When all of us are going for (near) zero unit wage cost increases, danger of Euro Area inflation sliding into deflation (if profit margins do not increase year after year...).

• Deflation is anything but « price stability » and is as/more dangerous than accelerating inflation
  – Monetary policy impotent (zero interest rate bound)
  – Debt deflation: Hikes in real interest rates, making debt burdens unsustainable, squeezing purchasing power from household and companies’ budgets
The second view: Wages as communicating barrels

• A variant of the previous view
• Hannes Svoboda: « If you want higher wage increases in Germany, you should also accept lower wages in Spain »
• This view admits that wages should be moderated/cut in the periphery, provided wages in the core go up.
• View at least more compatible with constraint of Euro Area price stability (in theory)
Wages as communicating barrels

- View also held by DG Employment/employment package
- ..and by left of center economists from surplus countries (fex Flassbeck last week, IMK report this week: « German wages to accelerate from less than 2% in the past decade to more than 3% »)
An illustration of the «central planification of wages»

Solving the Euro-Crisis: Convergence of Unit Labour Costs

1 Index of unit labour costs of total economy 1999 = 100; proposal 2012-2020: Germany +3%, i.e. nominal wage growth ca. +4.5%; France +2%, i.e. nominal wage growth ca. +3%, Southern Europe +1%, i.e. nominal wage growth between +1% and +3.5%. ² Greece, Portugal, Spain and Italy. ³ Yearly increase of 2%.

Source: AMECO database, values for 2010 and 2011 estimates and forecast by the EU Commission, updated May 2011; own calculations.
One problem: Arithmetics are killing

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<thead>
<tr>
<th></th>
<th>France</th>
<th>South</th>
<th>Germany</th>
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<tbody>
<tr>
<td>Nominal wages</td>
<td>3%</td>
<td>Zero</td>
<td>9.1%</td>
</tr>
<tr>
<td>Productivity</td>
<td>1%</td>
<td>2%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Unit wage costs</td>
<td>2%</td>
<td>Minus 2%</td>
<td>7.6%</td>
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Problem 2: Not sure German wage reflation ends up mainly in the ‘deficit’ countries

– Big differences in economic and industrial structure, with Germany producing more sophisticated products for special ‘niche’ markets (machinery, telecom infrastructure, transport infrastructure,…): Wages do not play such a big role here

– Europe is an integrated marketplace but the integration between Germany and the Euro periphery is not outspoken: Imports from IT, ES, PT, GR only represent 5% of its GDP.

– Implications: Revival of wages/demand in Germany:
  • Good, necessary and long overdue for German workers …
  • ...but doubtful that it will really end up in those Euro Area countries that need it most
Danger of things running out of control

Lohnstückkosten in Europa
Entwicklung der Lohnkostennach Abzug der Produktivitätssteigerung

Mit gemeinsamer Währung sollte die Lohnstückkostenentwicklung aller Länder sich mindestens am gemeinsamen Inflationsziel orientieren.
The third view: Wages have multiple objectives to pursue

- Stability of revenue (not giving the employer the right to cut nominal wages)
- Stability of prices (contribute to low inflation and prevent deflation)
- Engine for demand, growth and thus jobs
- An actor for fairness: A fair distribution of income between capital and labour (no excessive profits)
- A actor for modernisation of the economy (pushing employers to innovate instead of cutting wages)
Stability Principle

• Wage trends (not every single year!) to be seen against the increase in productivity plus the ECB’s inflation target of 2%
• Would show, for example, that minimum wages in France and indexation system in Belgium are NOT a problem
Look at French line: Exactly on the ECB’s inflation target
Upwards rebalancing of wages

• Competitive wage dumping strategies would be detected by this rule...

• Member states having developed such non cooperative behaviour need to adapt upwards...

• ... and since they have been threatening price stability from below, this would need to happen in an accelerated way
(Excessive) Profit Monitoring

- Evolution of profits
- Level of profits (share of profits in GDP/ level of Return on Equity Capital)
- Are, at the very least paying, ‘decent’ taxes being paid on corporate profits?
To have or not to have common wage guidelines ... is NOT the question

• The right questions:
  – What type of common European guidelines? What are the right principles to set wages in a monetary union?
  – Who decides on these European principles?
Who decides?

• A serious problem for trade unions
  – If part of the competence on wage setting is transferred towards European level, how to avoid the danger that an economic and financial elite will be defining the rules?
  – At the level of national democracies, trade unions in many cases have developed themselves as counterveiling powers, in that way avoiding/limiting this danger.
  – At European level, there is, whether we like it or not, little counterveiling power.
How are we grappling with this problem thus far?

• One reaction is to claim the area of defining and implementing European guidelines for wage setting OURSELVES....

• ... by strengthening the ETUC strategy of European wide coordination of collective bargaining strategies

• In other words, European policy makers have no business with wage bargaining, we will ensure the compatibility of bargaining with the single currency ourselves
Legal back up

• Here, we are basing ourselves on the fact that the Treaty is protecting wages and bargaining
  – Article 153-3: No competence on wages
  – Article 152: EU to respect (and promote!) autonomy of national social dialogue, the diversity of national systems of industrial relations and wage settings
The ‘Long March’ through the institutions

• Another reaction is to try to make sure that trade unions are involved in the European level institutions that are defining the common wage rules and organising the pressures on national wage settings

• A road to this seems to be available: Andor’s proposal to set up a so called « wage monitoring group »
Wage Monitoring Group: State of affairs

• A one day meeting scheduled for 1st of February 2013 (ahead of the Spring Summit; in the middle of the European Policy Semester)

• Gathering representatives from all 27 member states (1 employer, 1 trade unionist, 1 EMCO member and 1 EPC member)

• On the basis of an analytical paper from DG Employment

• Summary report to be attached to Joint Employment report and/or EPSCO minister conclusions
Wage Monitoring Group

• Is this the way forward? (Is there another way?)

• Over to you (and the ETUC Executive of course) to discuss and answer this