THE INDUSTRIALL EUROPE WAGE COORDINATION RULE

1. The original decision was taken by the European Metalworkers' Federation in Frankfurt in December 1998. It was a response from trade unions to the founding of the EU's Economic and Monetary Union. The euro countries could no longer gain competitive advantages through adjustments of their currency rates. Thus, wage developments needed to be coordinated in order to protect workers against internal devaluations and a race to the bottom. The Wage Coordination Rule applies to all affiliates in all countries.

2. The decision was slightly amended and endorsed by industriAll Europe in December 2012. Its current wording is as follows: **The key point of reference and criterion for trade union wage policy in all countries must be to offset the rate of inflation and to ensure that workers' incomes retain their participation in productivity gains.** Basically, this means that unions are expected to seek compensation both for inflation and real labour productivity growth.

3. The sum of inflation and productivity is called the distribution-neutral margin and refers to the wage increase that would lead to unchanged real unit labour costs and wage share of GDP. The Wage Coordination Rule stipulates that unions reach this margin. If the wage rule is overfulfilled, the wage share of GDP increases and conversely the capital share falls.

4. The Wage Coordination Rule is particularly promoted by metal unions as they have traditionally played a role as trendsetters in collective bargaining. It has become a point of reference for wage bargaining at EU level and is known as "the golden rule".

5. In most countries, wage coordination refers to coordination between trade union federations without any involvement of confederations. However, blue-collar confederations in the North still play an important role in the planning of collective bargaining and sometimes negotiate on behalf of the unions. Where two-tier models prevail, wages at company level cannot undercut wage levels laid down by national agreements.

6. IndustriAll Europe evaluates the fulfilment of the Wage Coordination Rule as part of its annual Eucob@n survey. A high response rate and accurate reporting are preconditions for its evaluation. The starting point is the Value of the Whole Agreement (VOWA), which includes both wages and qualitative improvements in collective agreements that can be calculated (shorter hours, training rights, occupational pensions, etc.). The harmonised index of consumer prices (HICP) according to Eurostat is deducted and so is the percentage productivity growth.[2]

7. IndustriAll Europe bases its calculations on productivity growth in the entire economy. These statistics are well updated and can be downloaded directly from Eurostat. In this respect, there might be different practices across Europe, also depending on the availability of national data. Sectoral productivity growth could, in principle, be calculated based on Eurostat. Whichever is chosen, productivity per hour is better than per person. As far as inflation is concerned, HICP might slightly differ from national inflation, which is used as a basis for wage demands in most countries. Moreover, some unions prefer the adjusted core inflation instead of the total consumer price index.

8. During the first few years after the onset of the crisis in 2008, wage increases were generally low. GDP and productivity fell in a number of countries, as did prices. Under these extraordinary circumstances, the Wage Coordination Rule did not work as foreseen. Lower productivity and deflation could not, in practice, lead to lower, nominal wages. It would be impossible to implement.

9. The wage shares of GDP are systematically lower in eastern European countries than in western European countries. As can be seen from chart 1, the shares are 10-15 percentage points lower than the EU average in Poland, Slovakia, the Czech Republic and Hungary[3]. If we look back to 1980, there have also been rather steep falls in the wage shares in Western Europe - see chart 2.

10. The Wage Coordination Rule has not delivered results as expected when it was adopted. There are huge wage disparities in Europe (chart 3), in particular between the East and the West. Moreover, real wage increases in the EU as a whole are close to zero or even negative (chart 4).

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[3] VOWA minus HICP gives the Offset Inflation Rate (OIR) and OIR minus productivity growth gives the Balanced Participation in Productivity Gains (BPPG).

[3] Data for the East European Member States is only available from 1995.

11. The two macroeconomic indicators inflation and productivity are insufficient for eastern European countries. One problem is that productivity in these countries is often distorted by multinational enterprises, which set prices at a level that just covers production costs in the eastern European plants, and this is below market prices. These prices are not fair and make productivity in Eastern Europe appear lower than it really is. Furthermore, according to statistics, eastern European countries have significantly lower earnings in purchasing power standards (PPS) and wage shares of GDP than western European countries. There is a need for supplementary indicators to push eastern European wages upwards and to align wage levels and wage shares in the East and West. Upward conversion in Eastern Europe would also contribute to reduce social dumping in Western Europe.

12. The ongoing decentralisation and dismantling of wage-setting mechanisms result in fewer sectoral agreements. In some countries, sectoral agreements exist but do not cover all companies that are members of the relevant employers' association. In countries where sectoral collective bargaining does not function, the evaluation of the Wage Coordination Rule can be based on an average of company agreements or on specific companies that stand out as representative in their sectors.

13. The Wage Coordination Rule does not cover everything and has certain shortcomings. For example, the total cost of living, including house prices, is not reflected. Furthermore, workers with low income spend their money on typical, basic goods and services, whereas the consumer price indexes also reflect price developments for luxury products. Calculations can never be perfectly accurate, moreover, because of positive or negative wage drift, insufficient collection of data, etc. Decentralisation causes challenges, even if the Wage Coordination Rule can be applied in local bargaining too. Individual wage-setting is outside the scope of the rule.

14. In general, trade unions have limited insight into profits and dividends. The capital share of GDP should ideally be decomposed to illustrate how much the owners actually gain.

15. Conclusions:

    - The Wage Coordination Rule needs to be relaunched and efficiently implemented.
    - The concrete wording of the rule should not be changed.
    - The evaluation needs to be improved through more accurate VOWA calculations.
    - Where VOWA calculations are impossible, analyses of real wage developments, earnings in PPS and wage share statistics from AMECO should be added to the evaluation of the Wage Coordination Rule.
    - Where only company agreements exist, VOWAs for companies that stand out as representative for the sectors should be calculated. If possible, unions should collect data for a number of company agreements and indicate averages for the sectors.
    - The analyses undertaken should underpin wage convergence in the East and West as a key objective of wage coordination in Europe.
    - The developments of profits and dividends should also be monitored.

Chart 1: Wage shares of GDP

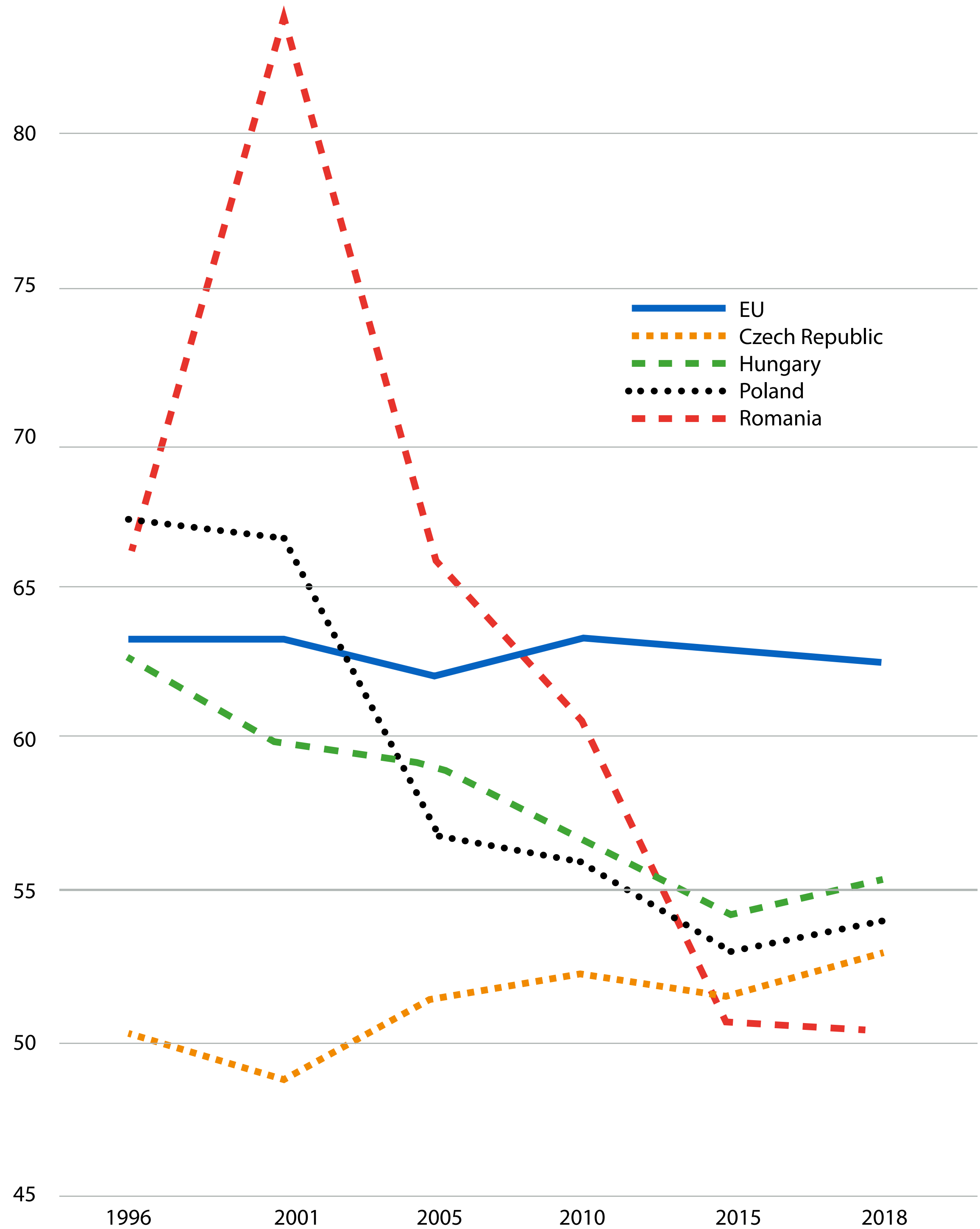
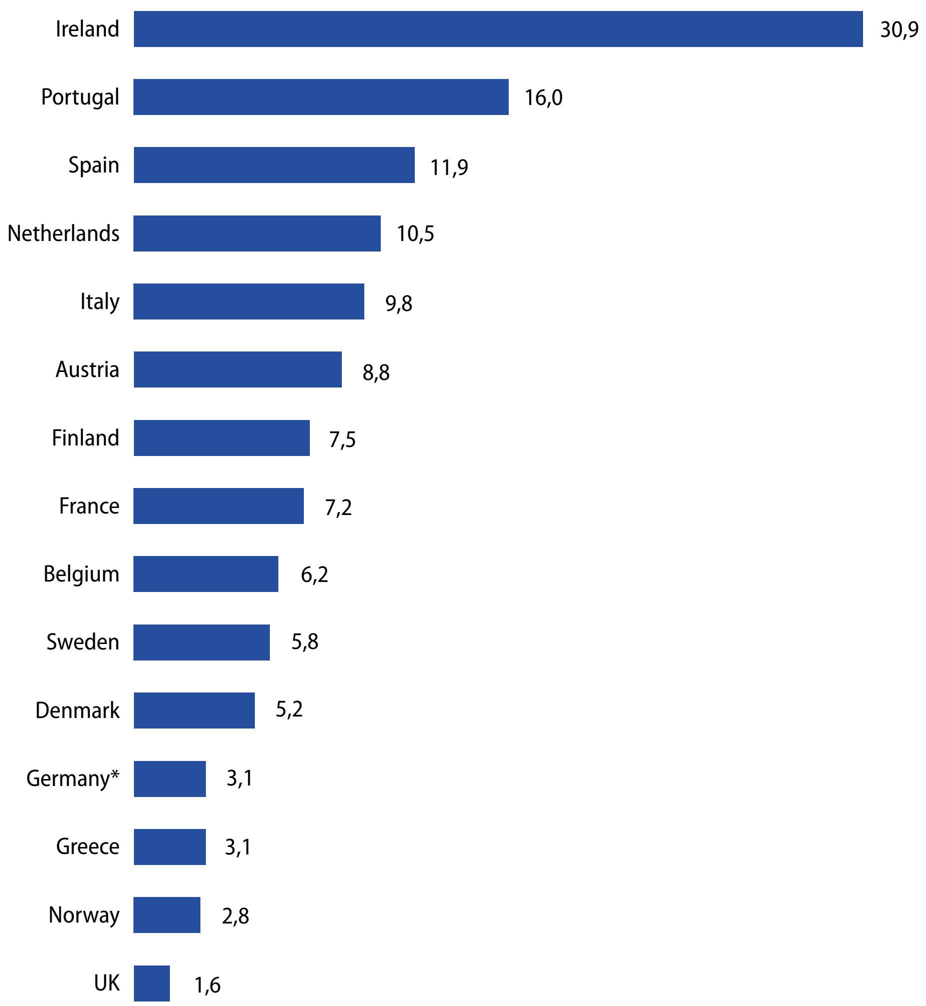
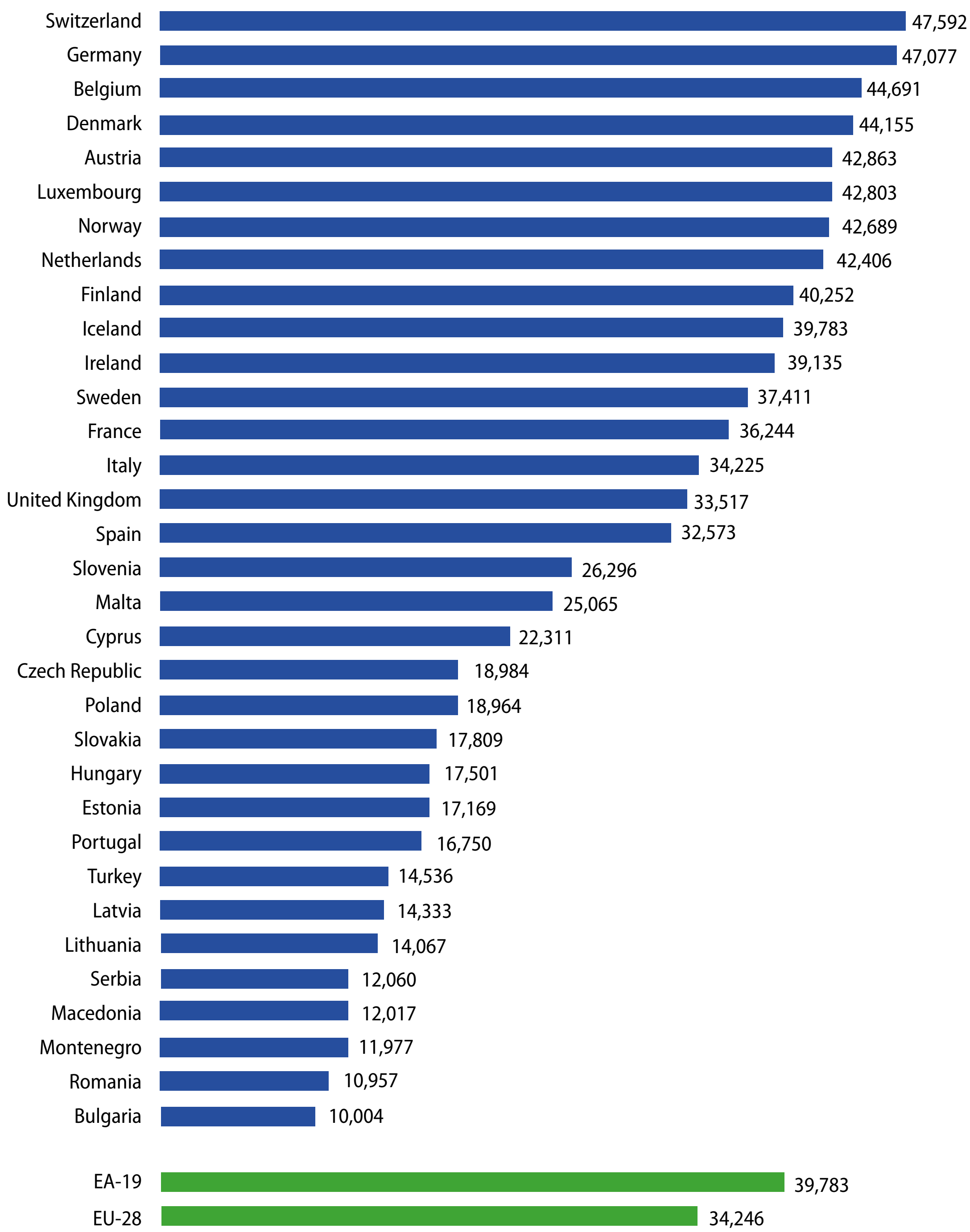


Chart 2: Wage shares of GDP - Declines since 1980



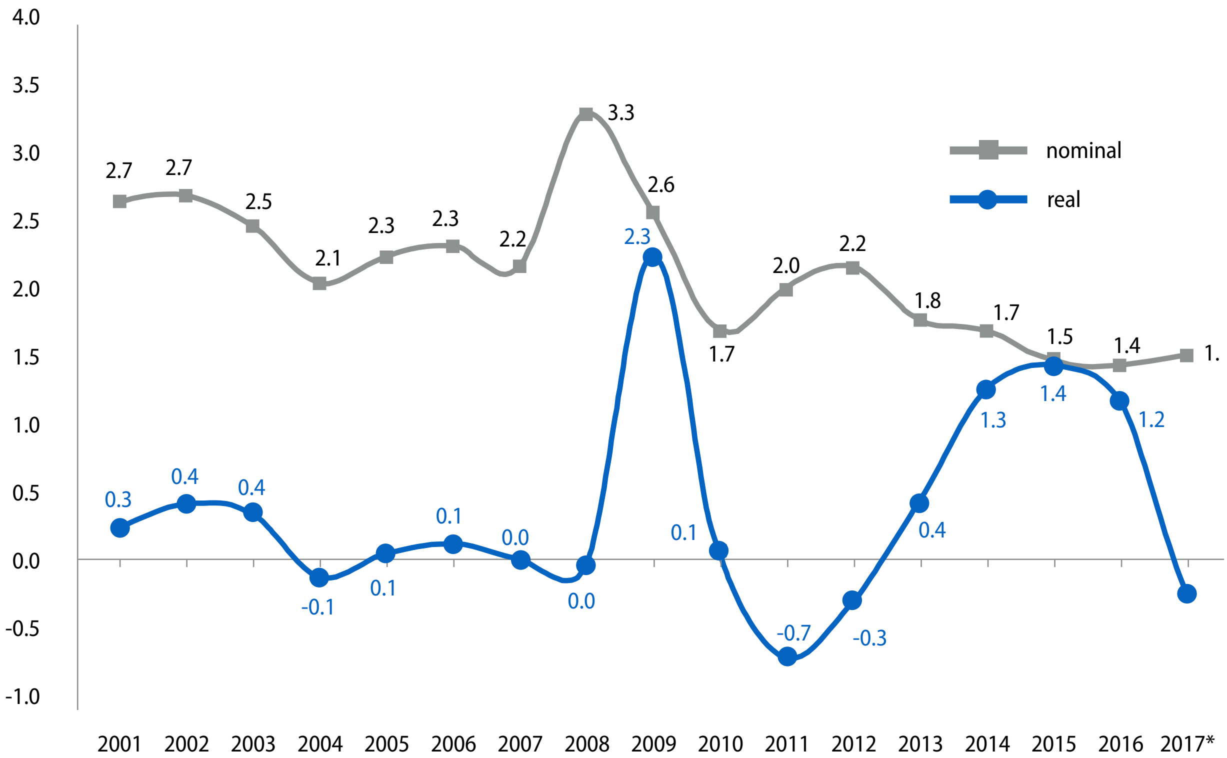
Source AMECO
*= decline since 1991

Chart 3: Annual earnings in manufacturing in 2014 measured in PPS



Source: Eurostat, structure of earnings survey 2010 - IndustriAll Europe

Chart 4: Development of negotiated wages in the Euro area, 2001-2017*
Change in % over previous year



Real growth by the Harmonised Index of Consumer Prices (HICP); data for 2017refer to the first quarter.
Source: European Central Bank (negotiated wages) and Eurostat (HICP), calculations by the authors.