

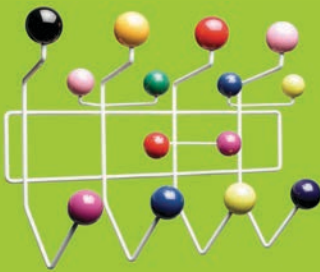
# Constraints and coordination of wage bargaining in Europe

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IndustriALL workshop

11 September 2018

Sesimbra



## Introduction

- Industrial relations = labour economics + macro economics + sociology
- Past projects
  - EU FP6/7: PIQUE, Walqing, Ingrid 1, 2
  - Job quality: Eurofound, convergence-divergence
  - Gender wage gap: Belspo, MLP
  - Wage setting: Wage Drift, CAWIE 1, 2, 3, Decboba, MLP
  - Minimum wages: PhD, MLP
  - Wage dynamics: DynaM, MLP
  - Consultancy
- Main belief: equity is group-based

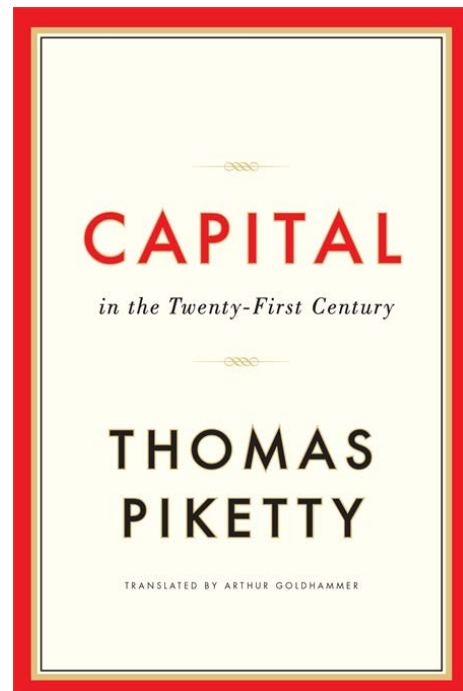
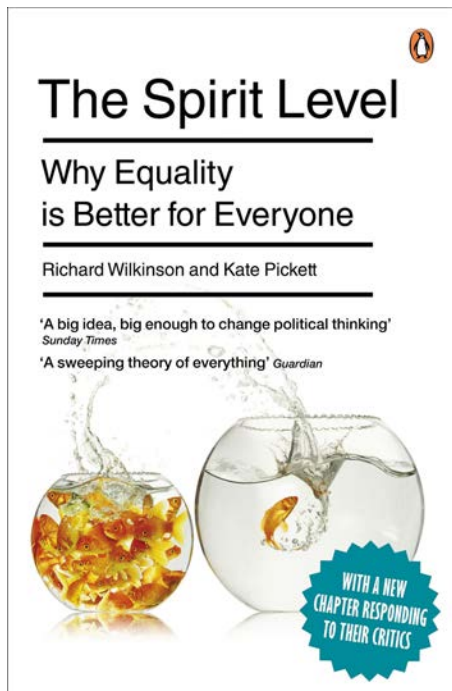
# Contents

- Social union?
- Monetary union
  - Currency union theory
  - EMU
  - Inflation
  - COLA
- Wage coordination
  - CAWIE 3
  - IndustriALL wage coordination rule
  - Alternative rules
  - Importance of levels / wage drift

## The “new” paradigm: Inclusive Growth

- Not new: “Social market economy” / fair share
- However
  - Disruptive trends
    - Globalization
    - Migration
    - Technological change
  - Job polarization, working hours polarization
  - De-unionization
  - Negative externalities: social / environmental
- Support from academia, politics, institutions
- Without inclusion, no sustainable growth ! (OECD, WEF, IMF, Central banks)





*If we want to avoid social fragmentation and social dumping in Europe, then Member States should agree on the European Pillar of Social Rights as soon as possible and at the latest at the Gothenburg summit in November. National social systems will still remain diverse and separate for a long time. But at the very least, we should work for a European Social Standards Union in which we have a common understanding of what is socially fair.*

*Europe cannot work if it shuns workers.*

Pres. Juncker - State of the Union 13 sept. 2017

*Now that our long-term economic plan is truly working, together we've got to make sure it works for everyone in our country. Economic success can't just be shown in the GDP figures or on the balance sheets of British businesses. They need to be seen in peoples' pay packets, and bank accounts and lifestyles. Now the most recent figures show that wages are already growing faster than inflation, and as the economy continues to grow it is important this continues, that everyone benefits. Put simply **it is time that Britain had a pay rise.***

David Cameron, speech to the British Chambers of Commerce, 10 feb 2015

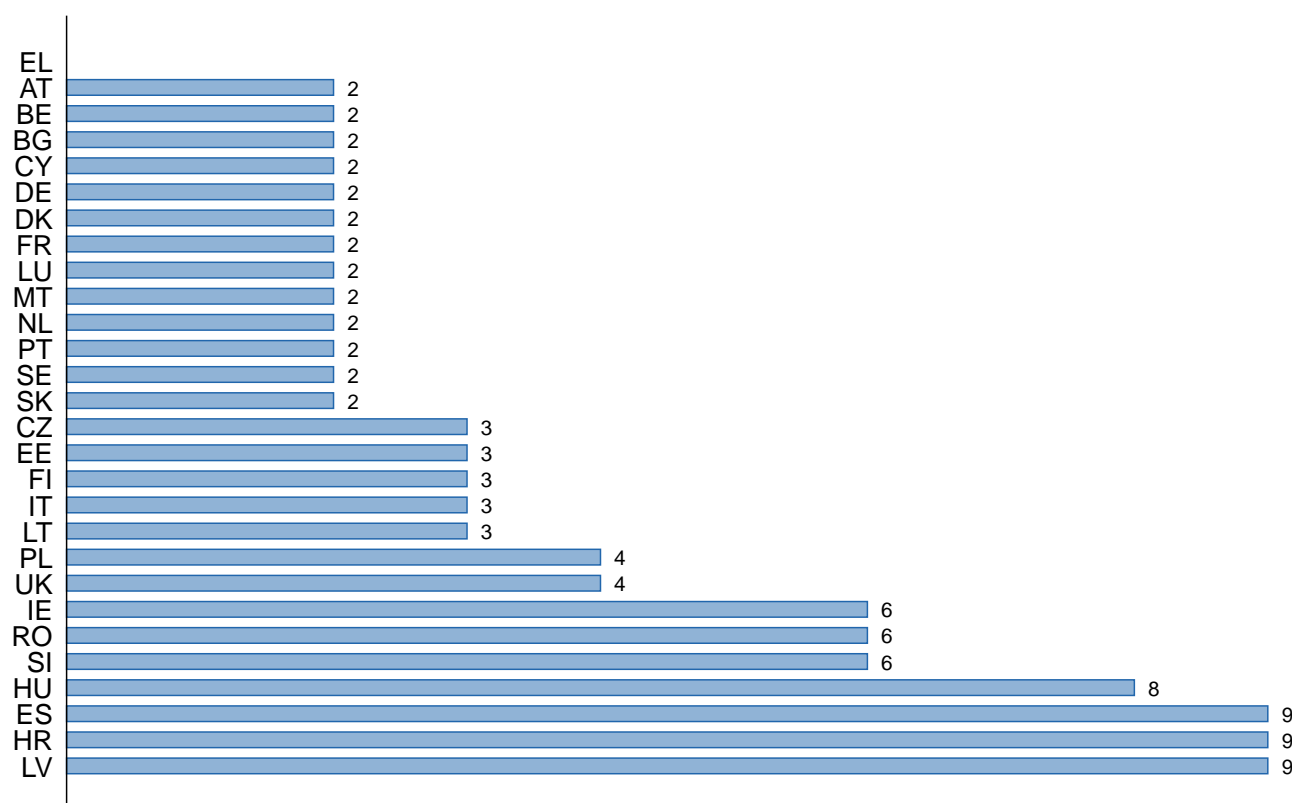
KU LEUVEN

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ONDERZOEKSIJNSTUUT VOOR ARBEID EN SAMENLEVING

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## Years to recover 2008 real GDP



Source: Eurostat

## Time for change

- 2008 – 2018: from the Great Recession to the *lost decade* (ES) / *worst years in peacetime history* (IT)
- Workers' patience put to the test – low trust in EU
- Austerity policies not successful – *We have mishandled the crisis* (J. Léandro, DG ECFIN)
- The recovery in employment has involved low quality temporary work of the sort that gives staff little bargaining clout to press for higher wages (M. Draghi, ECB)
- New policy agenda
  - Inclusive growth (OECD, WB, WEF)
  - European Social Standards Union
  - EU Pillar of Social Rights

## MONETARY UNION

# Central banks

- Goals
  - ECB: keep inflation low
  - FED: keep economic growth stable
  - Importance: stability, not levels!
- Means
  - Control money supply
  - Expansion (mm contraction)
    - Open market operations: buy bonds, increase money supply, lower interest, increase inflation
    - Decrease base rate for overnight transfers
- ECB
  - Inflation “close to but less than 2%”
    - Silent depreciation
    - Maintain signal function
    - Avoid deflation
  - “Independent”
    - No money creation (seigniorage)
    - Only open market operations
    - No Euro-bonds
  - However: during great recession
    - QE, negative interest (!?)
    - “Helicopter money”

# Currency union theory

- Optimal currency area
  - Regions with a comparative specialization
  - Are lower social standards a form of specialization?
  - Small, but large enough to scale up trade
  - Lower transaction costs, no exchange rate risks
- Conditions for a currency union
  - Factor mobility
  - No asymmetric shocks
    - Similar price evolution
    - Nominal convergence
  - Endogeneity
- Downside of a currency union
  - Loss of sovereign central bank
  - No monetary policy
  - No ‘external devaluation’ for competitiveness
  - ‘Internal devaluation’ through wage-price link
- Alternative forms
  - Fixed exchange rates / pegs (Sweden, BF-DM)
  - Euroization / Dollarization (Turkey, Kosovo, Montenegro)

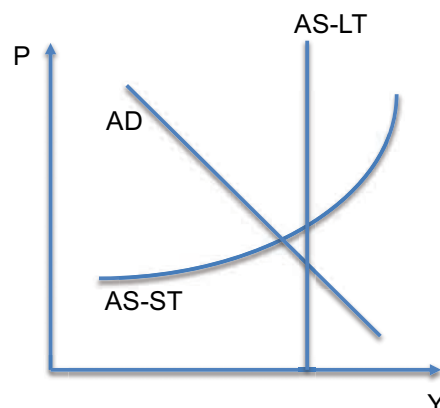
# The European Monetary Union / Eurozone

- **Current Member States**
  - AT, BE, DE, FI, FR (+ Monaco), IE, IT (+ San Marino / Vatican), LU, ES (+ Andorra in 2002/2012), PT
  - GR (2001), SI (2007), CY-MT (2008), SL (2009), EE (2011), LV (2014), LI (2015)
- **Candidate MS**
  - BG (ready), HR, CZ, HU, PL, RO
  - SE: rejected accession in referendum
  - DK: pegged in 1999 within ERM II, but wants to opt-out
  - UK: entered ERM I but not ERM II, now Brexit
  - Economic, but also political motivation in CEEC
- **Existential crises**
  - ERM I / ECU (Black Wednesday, 1992)
  - European Debt Crisis, 2008
- **1992 Maastricht Treaty Convergence Criteria**
  - Inflation (HICP) < 1.5% above average of lowest three
  - Debt-to-gdp < 60% (BE, IT)
  - < 3% deficit (or close, or exceptional)
  - Exchange rate fixed in ERM II for two consecutive years without devaluation
  - LT interest rate < 2% above the lowest three inflation
- **Pact of Sustainability and Growth**
  - Deficit and debt targets against 'unpleasant monetary surprise'
  - Medium term objectives (MTO) – Excessive Deficit Procedure (EDP): "relaxed" (?) in 2005

## Inflation and COLA

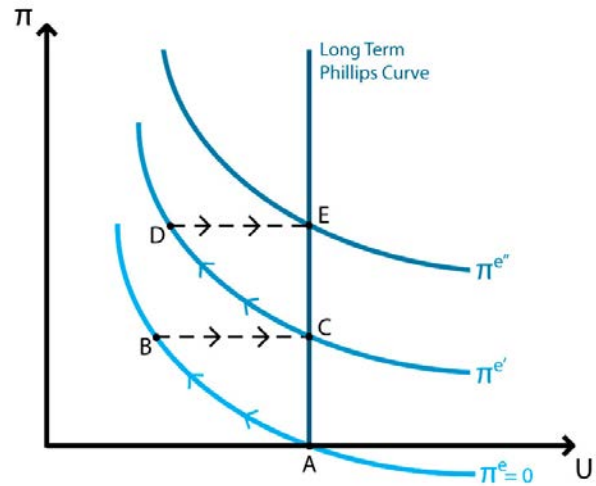
### Inflation

- Devaluation of the currency
- "Same product/service, higher price"
- "Basket of all goods"
  - CPI: national standard
  - HICP: harmonized
- Relation with exchange rate
- Balassa-Samuelson effect
- Cost-push inflation (AS)
  - negative (e.g. oil shocks)
- Demand-pull inflation (AD)
  - sign of growth
- Money needs to circulate (deflation: danger!)
- Stagflation in recession when confidence drops (paper money = confidence)



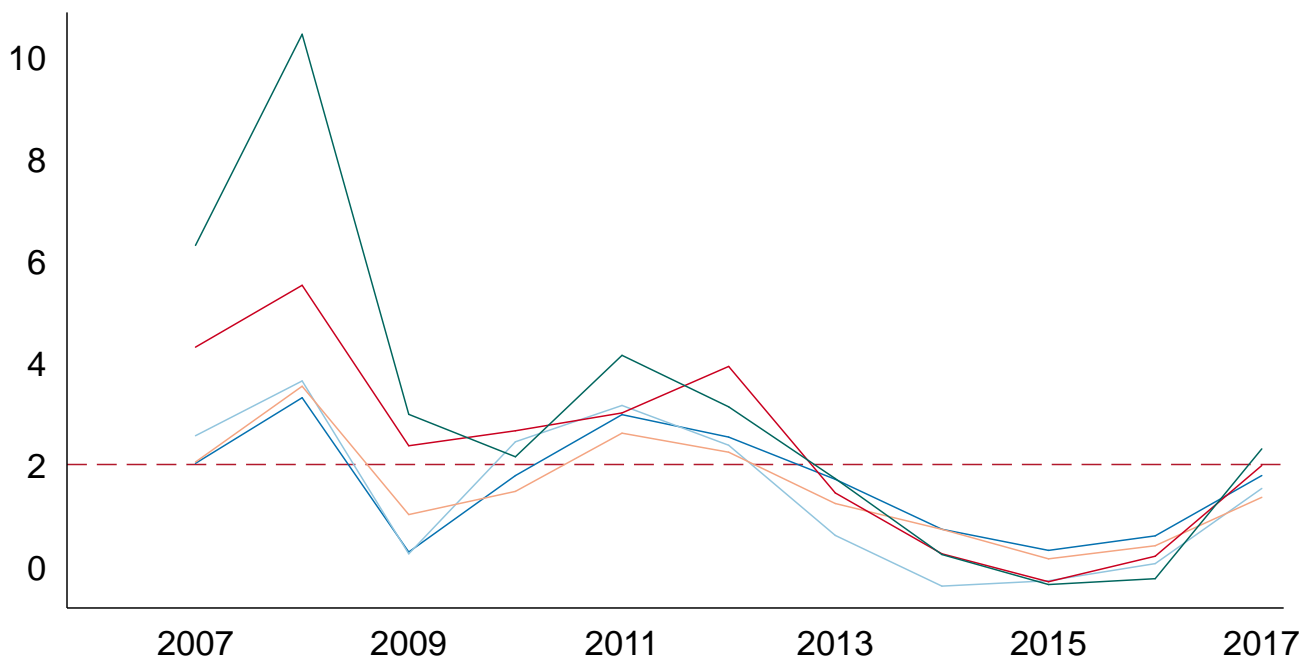
# Inflation and wages

- COLA / Wage indexation
  - “keeping it real”
  - More common than thought (WDN)
  - Automatic: easy negotiations / wage moderation: trading growth for security
- No indexation
  - Labour needs to prove its value (inelasticity of demand)
  - Menu cost: negotiations (Hicks: you can only lose)
  - Downward nominal wage rigidity (WDN, Bewley)
- Money neutrality
  - Inflation/money supply has no effect on the economy: long run AS is vertical
  - Competitivity: little effect
    - Floating exchange rates
    - Foreign price adjustments
    - (actually it hurts the balance of foreign CBs)
- Evidence
  - Low costs  $\pi < 15\%$
  - Hyperinflation: 50%/month
- Why the fear:
  - Phillips curve
  - PC-ST flat when wages are inelastic



## Inflation in the EU (2007-2017)

AT BE DE FR LU NL EL ES IT PT  
DK FI IE SE UK CZ HU PL SI SL  
BG EE HR LT LV RO





# WAGE COORDINATION

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## European wage coordination

- Design
  - Single monetary policy
  - SD/CB national competence
- Error
  - No monetary discretion
    - budgetary policy (MTO/EDF, semester, two-pack, six-pack, MOU, Troika)
    - **wage setting (!)**
- Solutions
  - Break/split EMU
  - Social standards union
    - Pillar of Social Rights
    - Budgetary policy (transfers)
  - **Wage coordination**

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# CAWIE 3

## “Strategies”

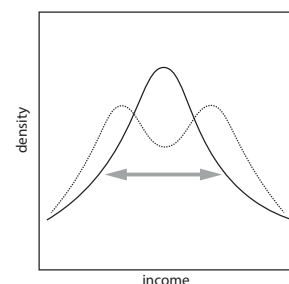
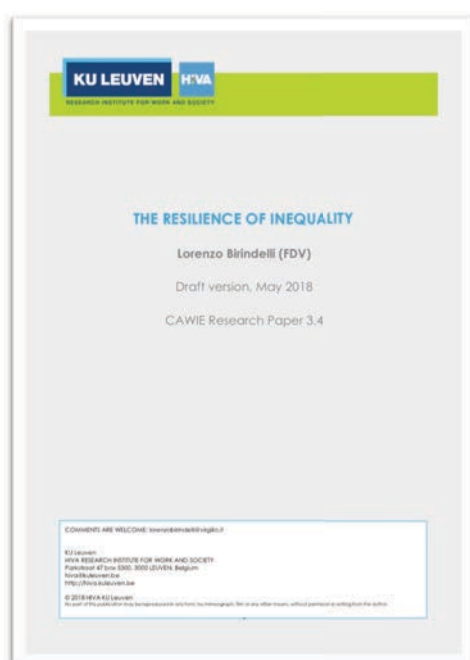
- Growth through wages
- Coordinating growth
- Avoiding low pay

## Output

- Four theoretical papers
- Eight country reports based on interviews
  - Social partners
  - Metal / manufacturing
  - Retail / services
  - Public sector
  - Confederations
- One comparative paper

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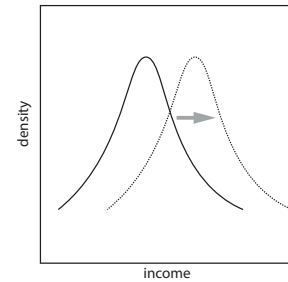
## Avoiding low pay



- Job polarisation / technological change: false alarmism?
- Elastic labour supply low-wage jobs (migration?)
- Polarisation of working hours
- Precarious work and the working poor versus poverty: income distribution less equal than wage distribution
- Policy options
  - Social policy vs collective bargaining
  - National and sectoral minimum wages

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# Growth through wages



- Labour share is decreasing
- Wages decoupled from productivity
- New narrative: inequality hinders growth
- Missing links in the IG agenda
  - Functional income distribution
  - Impact of collective bargaining
- **Prisoner's dilemma**
  - EU is large, wage-led, closed economy
  - Member states are small, profit-led, open economies

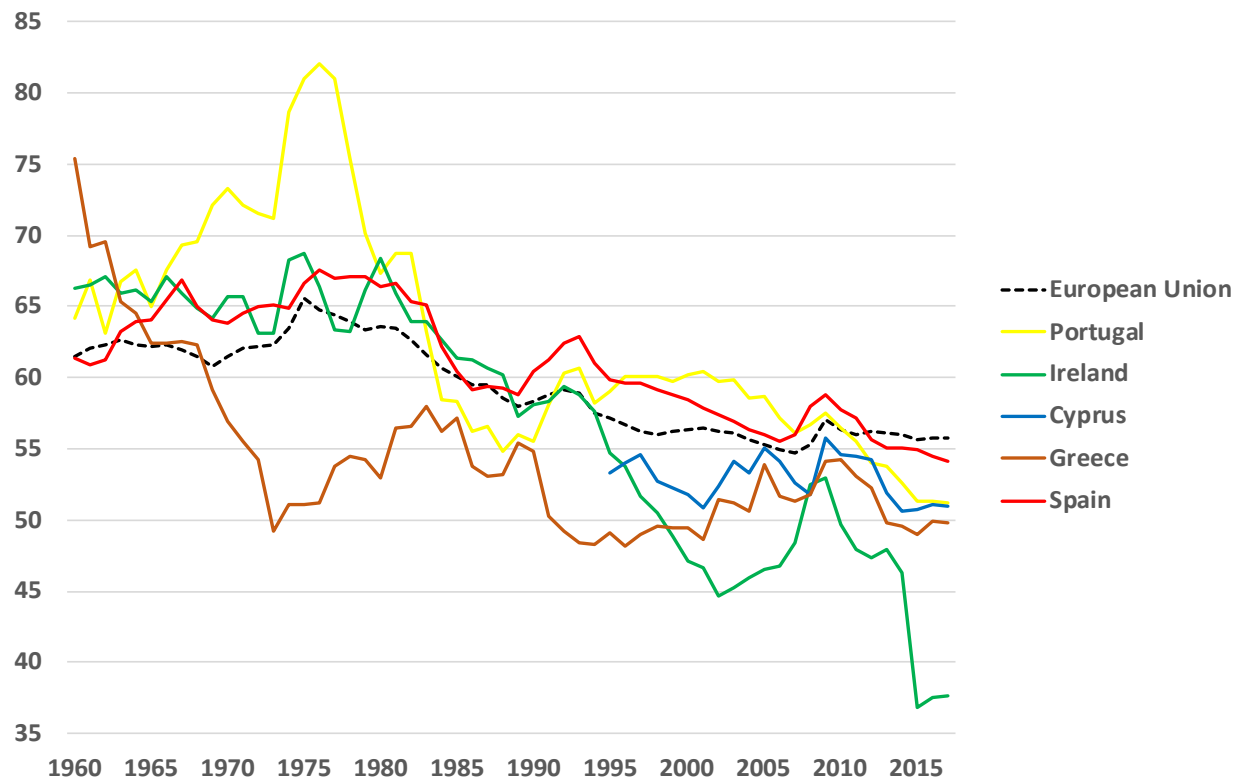
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## The declining labour share

- $LS = \pi LC / \pi Y = LC / Y$
- Y includes SE, LC not: correction needed for LS or underestimation
- $NULC = \pi \text{mean}LC / \text{mean}Y$
- $RULC = \text{mean}LC / \text{mean}Y$
- If the economy grows, the labour share shrinks c.p.
  - Spending = income
  - Wage cuts → higher profits → excess liquidity → takeover  
→ less revenue → further downward pressure  
→ higher profits → ...
- DBN Netherlands
  - Multiple calculations
  - Revolves around self-employed
  - Probably declining (globally, see Autor 2018)
- Reasons
  - Globalization
  - Technology
  - **Deunionization**
    - Weaker organization of workers (flex)
    - No coordination

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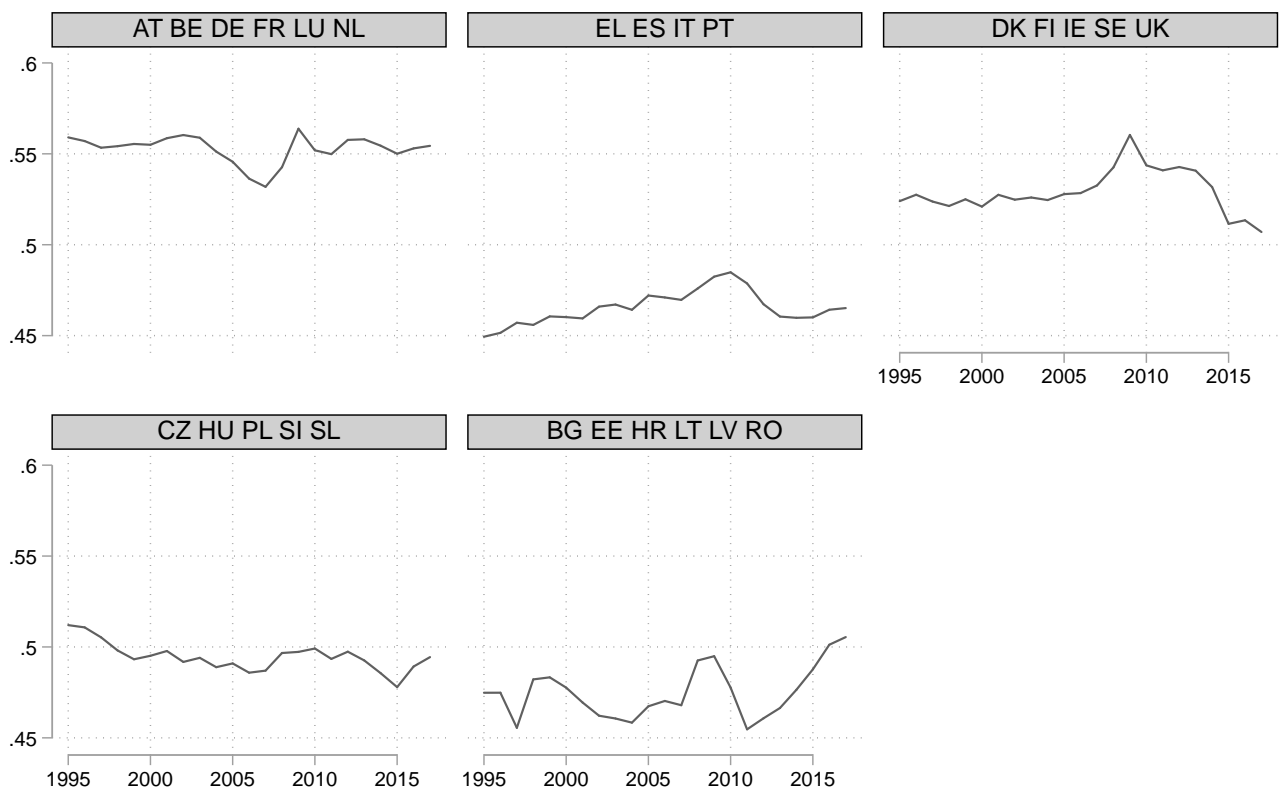
# Adjusted wage share in EU27 and peripheral countries, 1960-2016 (% GDP)



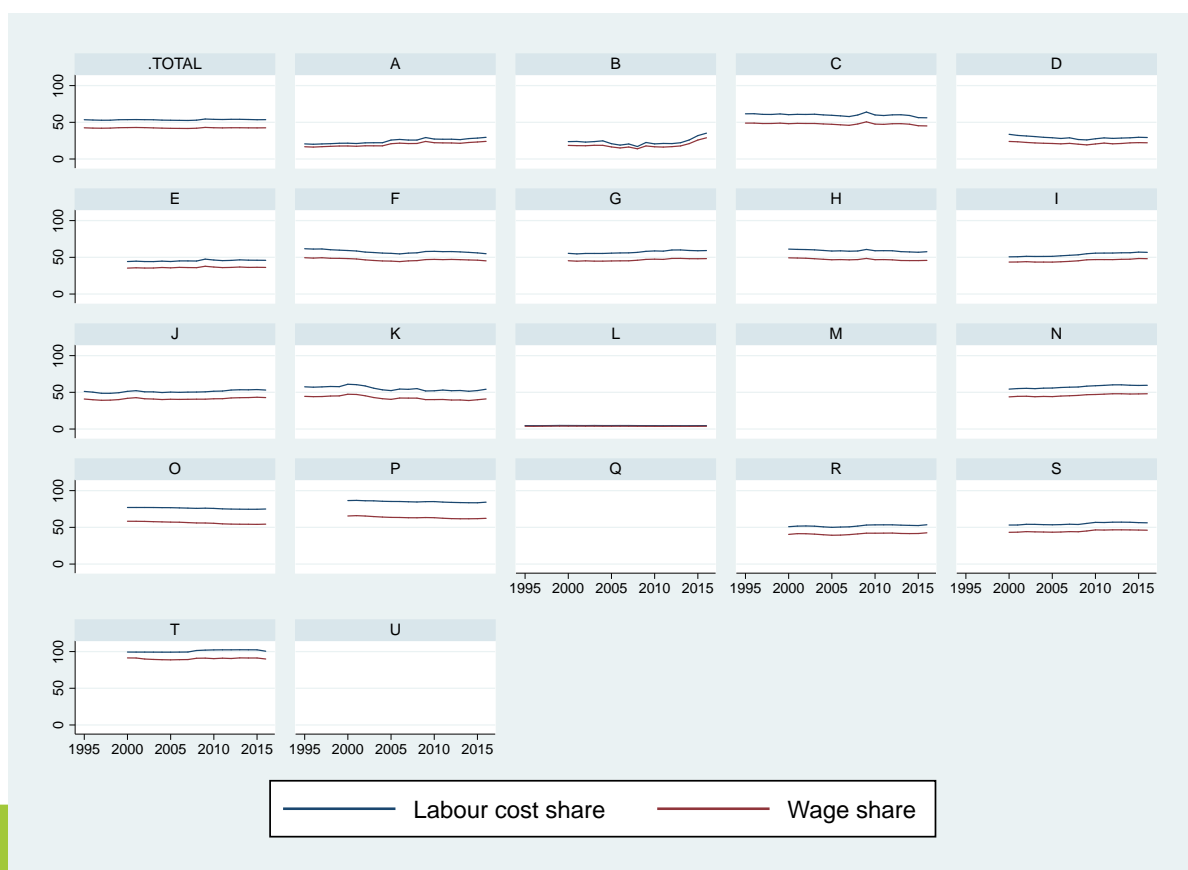
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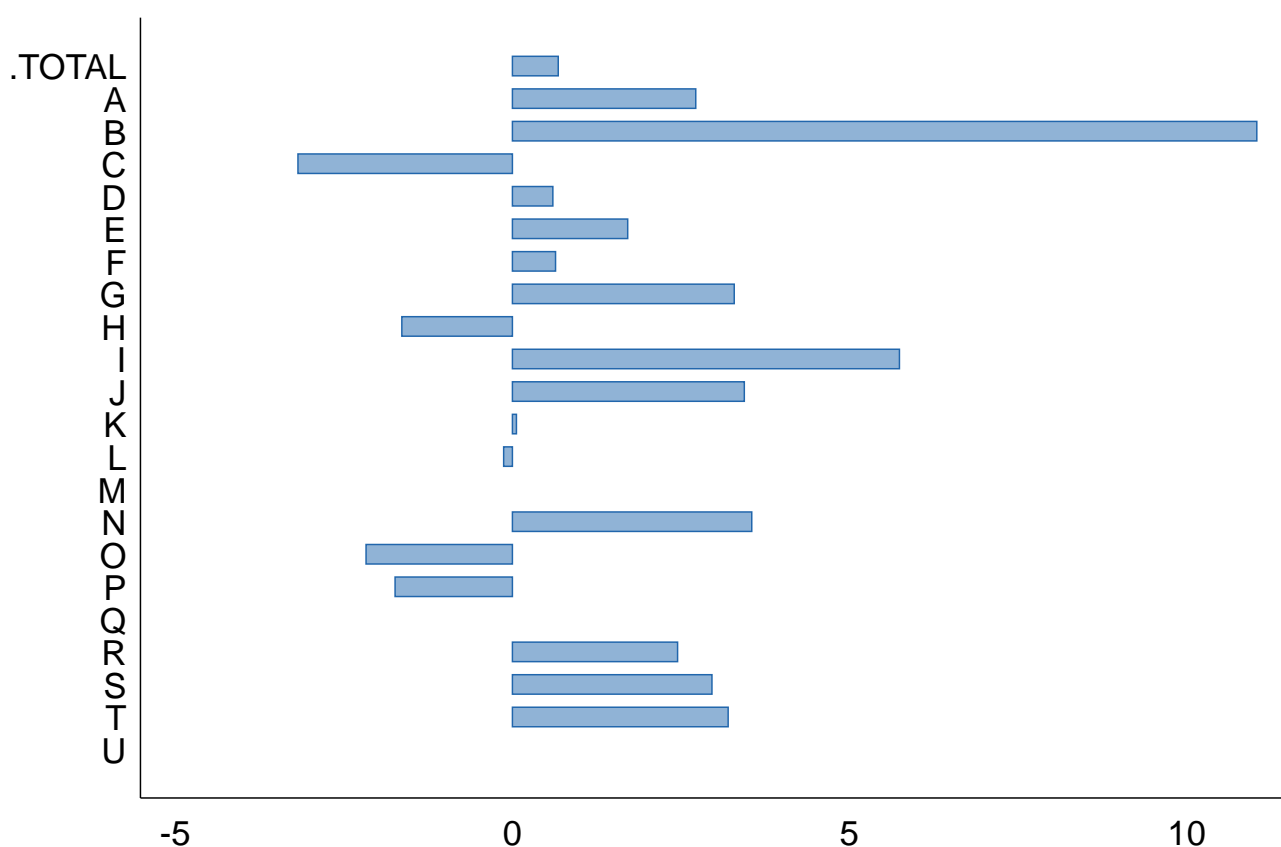
## Labour share in the EU (1995-2017)



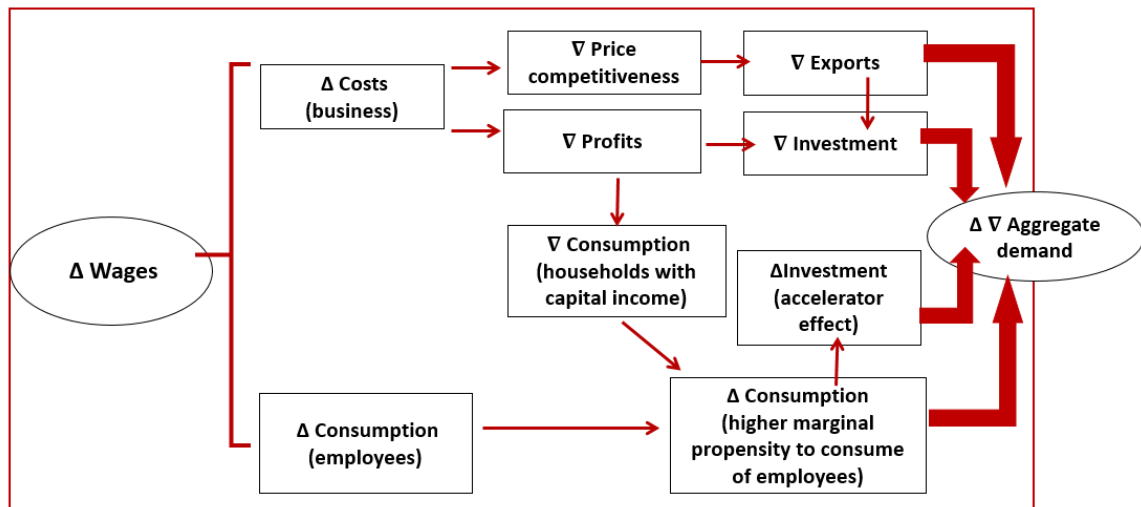
# Wage share by sector (EU-15, 2000-2015)



## Points difference in the EU15 labour share 2005-2015

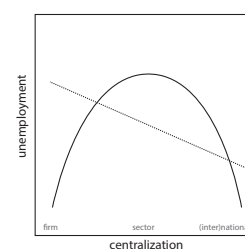
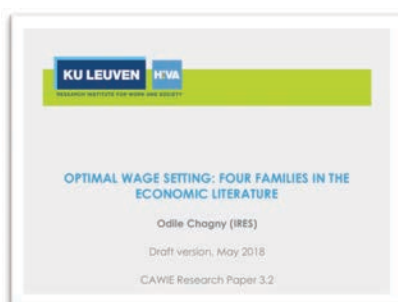


# Bhaduri-Marglin (wage-led growth)



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## Coordinating wage growth



- Calmfors-Driffil: higher level internalizes collective interest
  - Not linked to distribution
  - Contrasts with performance of intermediate regimes
  - Supranational level
  - Coordination functional equivalent
- The benefits and costs of collective bargaining
- Monopsony: regulation for market failure
- Golden wage rules
  - Inflation + productivity (stable labour share)
  - 2% + x (monetary target)
  - Inflation + ULC/ULC(EU) (convergence)
- Empirical exercise of social planner options
  - Wage increases before crisis
  - Expansionary policies during crisis

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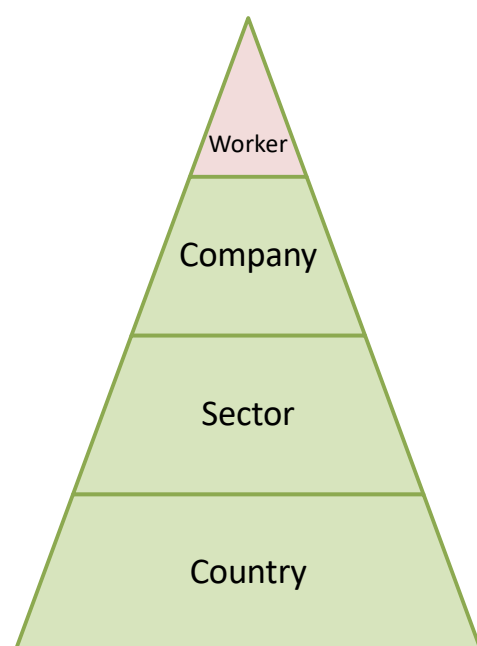
# Wage coordination rules

- Goal: **stable purchasing power**  
 $\Delta \text{ wage rate} = \Delta \text{ inflation}$
- Goal: **stable labour share**  
 $\Delta \text{ wage rate} = \Delta \text{ inflation} + \Delta \text{ productivity (DNM)}$   
(strictly speaking multiplication)
- Goal: **convergence**  
 $\Delta \text{ wage rate} = \text{ULC\_ref} / \text{ULC} * \text{wage rate}$
- Goal: **steady growth**  
 $\Delta \text{ wage rate} = \text{ECB inflation target}$   
(predictability → second-round effects)

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## Multi-level bargaining

- Which level for productivity?
- Which level for application?
- The wage coordination rule has to hold *on average*
  - 100% at sector level: creative destruction
  - Margin at lower levels: some firms below, others above
- Problem: differences
  - European competition
  - Traditions and power relations
  - Collective bargaining structures (levels, centralisation)
  - Different social standards / welfare states
- ... but common challenges (migration, globalization, technological change, de-unionization)
- **Recommendations**
  - Harmonise and extend (wage) data
  - Exchange of information
  - Facilitate bipartite meetings / EWC
  - Participate in the PSR: lobby = voluntarism



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