European Wage Bargaining, Social Dialogue and Imbalances in the Euro Area

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Macroeconomic imbalances are widely believed to have caused the recent euro crisis. Wage bargaining can play an important role in overcoming the crisis. However, the implications of this analysis for labour market policies are less clear. This paper will discuss the main features of wage bargaining in European monetary union before and during the crisis and how it can help to reduce social tensions.

Macroeconomic imbalances and the Euro crisis

High inflation of wages and prices in Europe's south (including Ireland) and the misallocation of capital due to low interest rates are thought to have caused losses of competitiveness, which have slowed down growth and rendered budget deficits unsustainable (Sinn, 2013). A correlate of this argument is the view that excessive current account deficits have created unsustainable "external" debt positions, which need to be brought down. Because the exchange rate is no longer available as an adjustment tool, the only policy action available is a cure of austerity, which must restore equilibrium in those countries. However, there are lots of inconsistencies between this story and the observed facts. Wyplosz (2013) has rightly reminded us that correlations, simultaneity and causality are not the same thing. One should therefore be careful in interpreting the evidence.

Even the theory of monetary union deserves reconsideration. While optimum currency area theory has focussed on labour mobility as the necessary (and sufficient) condition for a workable monetary union, Collignon (2013) has argued that even large current account deficits within the same currency area are robustly sustainable, and possibly even a sign of efficient resource allocation in a deeply integrated single market, because a monetary union is a payment union and not a fixed exchange rate regime. The difference is that in a monetary union all payments are made in *domestic* currency, which is obtained by banks from the central bank. Any bank in the currency has access to this liquidity at equal conditions. While it is true that in the long run that the central bank restricts money supply in view of maintaining price stability, in the very short run it must insure that solvent banks do not run out of liquidity. By contrast, between different currency areas, payments are made in *foreign* currency, which is obtained by current account surpluses or capital flow. When current accounts are negative and the capital inflow suddenly stops, the central bank runs out of foreign reserves (i.e. it becomes illiquid) and the exchange rate depreciates. Yet, the experience of the 1970-90s has clearly shown that, at least in Europe, the exchange rate is not a policy tool that can be used to deliberately manage competitiveness.

The reason why a monetary union is more robust than a fixed exchange rate regime derives from the fact that domestic credit is an additional source of finance which is not available in foreign exchange regimes. This can be clearly shown by two equations. The balance of payment flows between *different currency areas* is described by the balance of payments equation:

(1) $BoP = CA + NK + NTr + \Delta FXR = 0$

Where CA is the current account, $NK = K_{in} - K_{out}$ is the net inflow of private capital, NTr are international transfers and ΔFXR is the change in foreign exchange reserves. By contrast, *within a monetary union*, the net payment flow NPF for a given regions *n* is:

(2) $NPF_n = CA_n + NK_n + NTr_n + \Delta M_n = 0$

i.e. the regional current account balance is financed by net private capital flows into the region NK_n, net transfers NK_n for example through the European budget, and *the redistribution of money balances held in the region*. Because these money balances are generated through domestic credit, which is refinanced by the ECB, a region in a monetary union cannot become illiquid. However, as local money balances are reduced in order to make payments into other regions, prices and aggregate income will fall and profit margins shrink. This can cause the insolvency of individual debtors in the region. Thus, while the currency area is robust as a payment union, it does not prevent regional depressions and rotating slumps.

This is why competitiveness is important. From equation (2) it is clear that a large Transfer Union with a strong central budget could compensate the reduction in local money balances. This is in fact, how Italy's *Mezzogiorno* or Germany's *neue Bundesländer* have maintained a remarkable standard of living over decades. Given that this is not a politically feasible option in Europe today, regional depressions caused by reductions in money balances must be overcome by either improving net exports or attracting larger private capital inflows. In short it is a matter of regional competitiveness.

Competitiveness and wages

What does competitiveness mean? In the context of our discussion, competitiveness is the ability to generate or attract local investment, which implies a rate of return at least equal if not higher than the rest of the currency area. This definition assigns a role to wages and wage bargaining, but also to other variables such as productivity of labour and capital.

From a conservative point of view, labour markets are the key because "the countries in the southern and western periphery lost their competitiveness simply by becoming too expensive" (Sinn, 2013: 32), and they did so, because wages are too sticky:

> "One of the reasons for the downward stickiness of prices and wages is the resistance of unions against unilateral wage cuts. If you start by cutting wages in one sector, the union representing that sector will object, since it fears to be the only one, so that not only the absolute but also the relative income position deteriorates. Only a coordinated wage cut in all sectors can overcome this problem, but that is hard to achieve" (Sinn, 2013: 41).

If wage rigidity prevents adjustment, exiting the Euro Area is the only solution:

> "The possibly fatal problems resulting from wage and price cuts of the order required to achieve competitiveness could be avoided by exiting the euro and devaluating the new currency formally, because that is in effect a coordinated wage and price cut relative to the prices of other countries. It would redirect demand away from imports to domestic products, increase demand for the country's exports and reduce the euro value of the country's internal debt along with the euro value of internal prices, thus avoiding the balance sheet distortion for firms and indebted private households" (Sinn, 2013: 42).

Hence, the conservative solution is to undo European integration. But there are also alternative views. For example, Wyplosz (2013) has looked at the dynamics of labour market adjustment during the crisis and found:

> The Optimum Currency Area literature has noted the importance of labor mobility and market flexibility. The European crisis provides both an illustration of this criterion and a surprise. Labor costs have been allowed to diverge. Even though this was the consequence of policies that built up excessive demand, a correction was needed. The surprise is that the correction has been rapid, suggesting that even the rigid European labor markets can adjust in a crisis situation. Put differently, the monetary union has imposed labor market flexibility. Finally, if the Euro Area survives, the most likely scenario, it will indicate that monetary unions are more robust than hitherto believed.

Studies on European labour market flexibility abound. Significant reforms have been undertaken and they have changed the functioning of labour markets (European Commission, 2012). But have they been sufficient to ensure the convergence of European wage levels to a sustainable equilibrium? To answer this question, we need to look first at some evidence.

Regional labour cost adjustment

Nominal wage levels diverge widely in the European Union. The annual wage per person in 2013 is close to € 60 000 in Luxemburg, but only € 6374 in Bulgaria. Top wages are earned in the North, bottom in the east the middle range in the center. These wage differentials are closely correlated with productivity differences. See Figure 1. Thus, a more equal income distribution requires the equalization of productivity. This is a task of long run economic convergence and the track record of catch-up growth in the European Union has not been impressive. Some member states like Ireland have been highly dynamic, others like Portugal have stagnated.

Figure 1.

Nominal wages and productivity in the EU
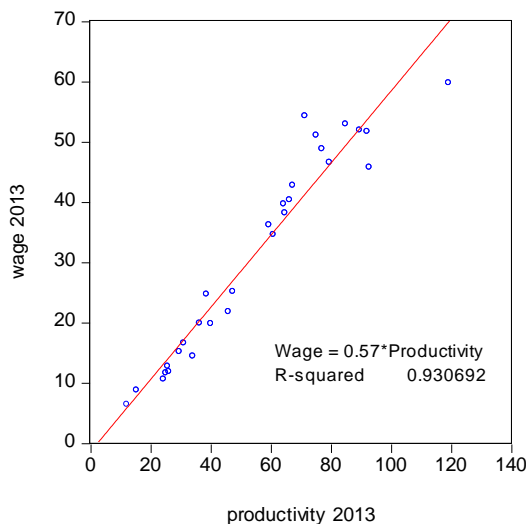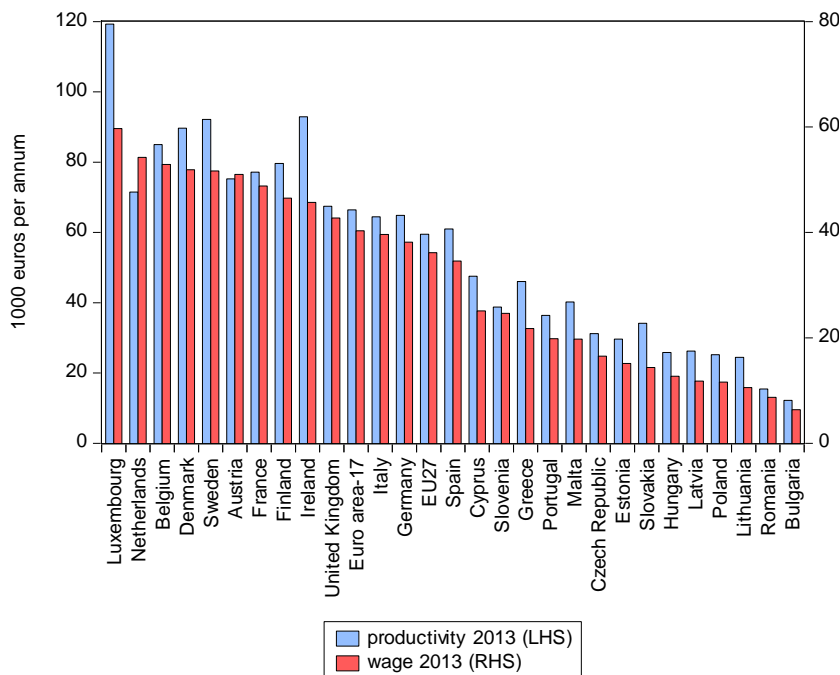
The relationship between nominal wage levels and productivity determines unit labour costs (ULC) and it is often argued that this is the key variable for setting competitive advantages between member states, because labour costs are the most important component of the total cost of production. However, the aggregate ULC of the Euro Area are also important for the maintenance of price stability. If nominal wages increase at the rate of labour productivity growth plus the ECB inflation target of 2 percent, the wage shares stays constant in the long run and the ECB can realise its primary objective of maintaining price stability. This is why this *Golden Rule* for wage setting has been frequently reiterated by Europe's Macroeconomic Dialogue between social partners and European authorities (Commission, 2005; Koll, 2005).

In reality, many member states have systematically deviated from the rule. Figure 2 shows the evolution of unit labour cost indices and the red line represents the Golden Rule. Clearly, until the Global Financial Crisis southern member states increased ULC faster than the north, but since 2008 the crisis states Ireland, Greece, Portugal and Spain have inverted earlier cost increases and are now

close to or even below the Euro Area average. These developments support Wyplosz's statement that European labour markets have become surprisingly "flexible".

Figure 2.

Unit Labour Cost Index

Source: Ameco

Euro area (17 countries)	AUSTRIA
BELGIUM	CYPRUS
FINLAND	FRANCE
GERMANY	GREECE
IRELAND	ITALY
NETHERLANDS	PORTUGAL
SLOVAKIA	SLOVENIA
SPAIN	ECB target
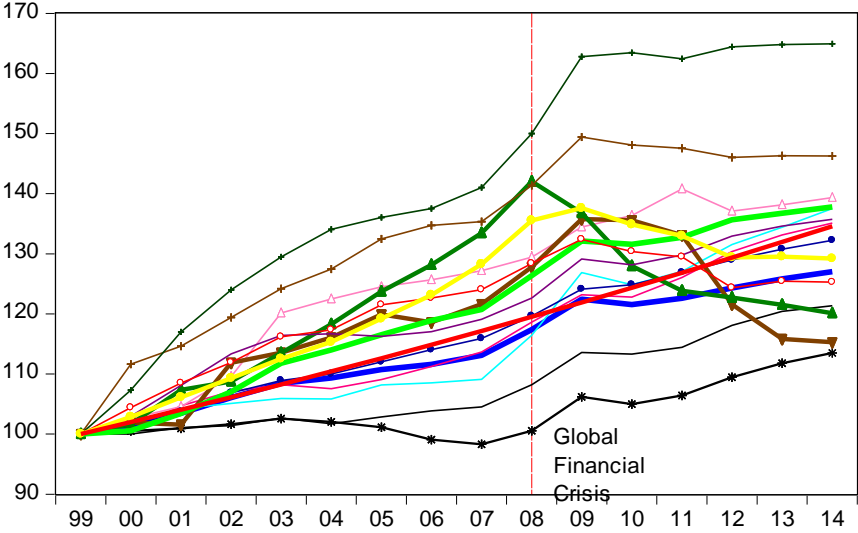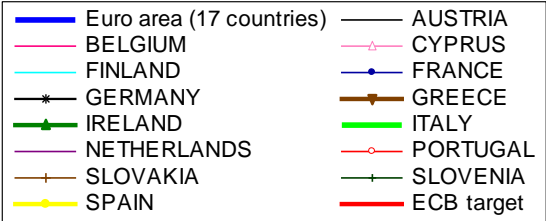
What are the drivers behind this development? Table 1 shows the average annual growth rates during the first euro-decade and since 2008 for unit labour costs and its components. ULC growth slowed down, but only marginally. However, the deceleration is largest in the previously fast increasing member states, while in the formerly stagnating northern states unit labour costs are now rising more rapidly than in the Euro Area. Yet, in the four crisis countries Ireland, Spain, Portugal and Greece, ULC have sunk. Thus, there is now symmetric convergence in European labour cost dynamics.

Table 1. Average annual unit labour cost changes and components								
	ULC		nominal wages		productivity		profit margins	
	1999-2008	*2008-13*	*1999-2008*	*2008-13*	*1999-2008*	*2008-13*	*1999-2008*	*2008-13*
European Union (27 count	1.6	1.7	2.8	2.1	1.3	0.4	0.4	-0.3
Euro area (12 countries)	1.8	1.6	2.5	2.0	0.7	0.3	0.2	-0.4
Slovakia	8.3	1.5	12.9	3.2	4.6	1.7	0.4	0.4
Ireland	4.1	-3.2	6.0	-0.6	1.9	2.5	-1.2	2.4
Spain	3.8	-0.9	3.9	1.4	0.1	2.3	0.1	1.6
Luxembourg	3.1	3.7	3.4	2.3	0.3	-1.4	-0.1	-0.1
Italy	3.0	2.2	3.0	1.5	-0.0	-0.7	-0.6	-0.9
Portugal	2.8	-0.5	3.7	0.4	0.8	0.8	0.0	1.3
Cyprus	2.8	1.3	3.9	1.4	1.1	0.1	0.6	0.3
Malta	2.7	1.7	3.7	1.4	1.0	-0.2	0.1	0.9
Netherlands	2.7	2.1	3.8	2.0	1.1	-0.1	0.0	-1.0
Greece	2.3	-1.9	4.4	-3.3	2.1	-1.4	0.6	2.5
Slovenia	2.3	1.9	5.3	1.6	3.1	-0.3	0.1	-0.8
France	1.9	1.9	2.8	2.2	0.9	0.4	0.1	-0.6
Belgium	1.9	2.3	2.8	2.3	0.9	-0.1	0.2	-0.4
Finland	1.7	2.9	3.5	2.8	1.7	-0.1	-0.2	-1.0
Austria	1.2	2.4	2.4	2.2	1.3	-0.2	0.5	-0.6
Germany	0.1	2.1	1.2	2.2	1.1	0.0	0.8	-1.0
Romania	11.0	-0.4	18.6	-0.6	7.6	-0.3	0.4	1.3
Latvia	8.2	-2.9	13.6	0.5	5.3	3.5	-1.0	4.6
Czech Republic	7.7	1.6	11.4	2.1	3.8	0.5	-0.7	-1.1
Estonia	7.6	0.2	12.9	1.7	5.3	1.6	-1.0	1.5
Hungary	6.5	-0.0	9.9	-1.0	3.5	-1.0	0.1	1.3
Lithuania	5.7	-1.2	12.2	-0.3	6.5	0.9	0.8	2.9
Bulgaria	5.1	5.0	9.3	7.6	4.1	2.5	1.2	-1.8
Poland	3.6	-1.6	7.0	0.7	3.4	2.3	1.8	1.1
Denmark	2.9	1.2	3.6	1.9	0.7	0.7	-0.3	0.5
Sweden	0.9	3.2	2.7	4.5	1.8	1.2	-0.1	0.3
United Kingdom	0.2	2.5	2.0	2.3	1.8	-0.2	-0.1	-0.4
United States	-1.0	4.0	0.3	5.4	1.3	1.3	-0.1	0.3
Japan	-4.7	7.8	-3.4	8.1	1.3	0.3	0.9	-1.0
Standard deviation	ULC		nominal wages		productivity		profit margins	
	1999-2008	*2008-13*	*1999-2008*	*2008-13*	*1999-2008*	*2008-13*	*1999-2008*	*2008-13*
euro	1.708	1.801	2.510	1.499	1.124	1.093	0.454	1.174
out	3.121	2.206	4.901	2.362	1.988	1.269	0.864	1.717
Source: Ameco and own calculations								

These adjustments are largely dominated by changes in nominal wages. Compared to nominal wage increases, productivity plays a less significant part in the adjustment. In the Euro Area as a whole, labour productivity has stagnated with a small increase of only 0.3% per annum, which is comparable to Japan and significantly less than in the United States. By contrast, on average nominal wage increases have slowed down significantly during the crisis in Europe, but not in the USA and Japan. In Ireland and Greece, nominal wages have even been cut. Only in Germany have nominal wages increased faster than before, nearly twice as much. Overall, nominal wages are now rising less than average in the South and more in the North. These changes are stronger than the effects of productivity, except in Ireland, Spain and Portugal, where productivity has significantly increased with dramatic effects for employment (down by annual rates of -2.5, -2.9, -1.5 percent respectively).

What has caused this change in wage setting behaviour? One of the most interesting transformations between the two periods is the return of the Philips curve in European wage bargaining. Before 2008, wage bargaining did not respond to the growth in employment figures.[2] At that time productivity seemed to have been the most important factor, with wages increasing nearly twice as fast as labour productivity. During the crisis adjustment, the coefficient for productivity has been halved, but the most significant factor is now employment growth. Given that productivity and employment fell

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[2] The coefficient for empl_99 in Table 2 is statistically not significant in the EU or the Euro Area.

during the crisis, the positive coefficients imply a reduction in wage growth. Thus, wage setting in the crisis reflects the standard economic logic, while in the first decade of monetary union "irrational exuberance" seems to have suspended the laws of economic rationality. What this also means is that austerity works as an adjustment mechanism for excessive wage increases, although the social costs are high.

Table 2. Wage equations

European Union					Euro Area				
Dependent Variable: WAGES 1999-2008					**Dependent Variable: E_WAGE_99**				
Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*	*Variable*	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
P_99	0.224528	0.116522	1.926909	0.0654	E_P_99	0.175841	0.407332	0.43169	0.6725
PTY_99	1.955855	0.209911	9.317555	0	E_PTY_99	1.870814	0.462665	4.043563	0.0012
EMPL_99	0.438084	0.34324	1.276321	0.2136	E_EMPL_99	0.52734	0.435227	1.211644	0.2457
C	1.040654	0.503971	2.064907	0.0494	C	1.106822	0.645233	1.715384	0.1083
R-squared	0.898725	Mean dependent var		6.04099	R-squared	0.727146	Mean dependent var		3.999032
Adjusted R-sq	0.886573	S.D. dependent var		4.499451	Adjusted R-sq	0.668677	S.D. dependent var		2.482487
Dependent Variable: WAGES 2008-2013					**Dependent Variable: E_WAGE_08**				
Included observations: 29					Included observations: 18 after adjustments				
Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*	Variable	Coefficient	Std. Error	t-Statistic	Prob.
P_08	-0.201192	0.255769	-0.786614	0.4389	E_P_08	0.623216	0.248698	2.505909	0.0252
PTY_08	0.79846	0.298873	2.671568	0.0131	E_PTY_08	0.770058	0.199956	3.851131	0.0018
EMPL_08	0.682597	0.23281	2.931988	0.0071	E_EMPL_08	0.794532	0.130054	6.109264	0
C	1.507012	0.393562	3.829156	0.0008	C	1.280517	0.205188	6.24069	0
R-squared	0.315273	Mean dependent var		1.604417	R-squared	0.774121	Mean dependent var		1.506872
Adjusted R-sq	0.233106	S.D. dependent var		1.874047	Adjusted R-sq	0.725718	S.D. dependent var		1.465553

When productivity increases faster than real wages, profit margins rise. This is what has happened in Ireland, Spain, Portugal, Greece and Cyprus, while profits have fallen in all other member states and the Euro Area as a whole. Again, this contrasts with the United States, but resembles Japan. See Table 1. The implication is that investment is less profitable in the Euro Area than in the previous decade, but that the severe adjustment in Greece, Ireland, Spain and Portugal have improved competitiveness. However, it is interesting to see that in the Euro Area the flexibility of nominal wage adjustments between member states has narrowed, while the diversity of profitability has increased.[3] Thus, nominal adjustment in the Euro Area seems to benefit more from flexibility in capital markets than in labour markets.

However, unit labour cost statistics are not a perfect measure for competitiveness. If competitiveness matters for attracting investment and generating growth, our benchmark for measuring it should be the rate of return on capital. A region is competitive if capital is able to earn a decent return, which depends on prices, wages and labour and capital productivity. Taking the Euro Area as a benchmark, the relative return on capital in different member states would indicate whether labour costs are overvalued or undervalued. One can then calculate levels of *equilibrium unit labour costs* under the assumption that the return on capital in a given member state is equal to the Euro Area average, and compare them to the actual values. Figure 3 summarises this information into a single *Competitive Index.*[4] The zero line indicates that at these unit labour cost levels the average return on the capital stock in a given member state is equal to the Euro Area. An *index number* above the zero line represents an overvaluation. For example, 0.1 means that the ULCs of a

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[3] The standard deviation for nominal wages has fallen, while it has increased for profit margins.
[4] For an elaboration of these estimates see Collignon 2012.

member state would have to fall by 10 percent in order to ensure a national return on capital equal to the Euro Area average. An *increase* in the index is equivalent to a *loss* of competitiveness.

Figure 3. Competitiveness index for Euro Member States
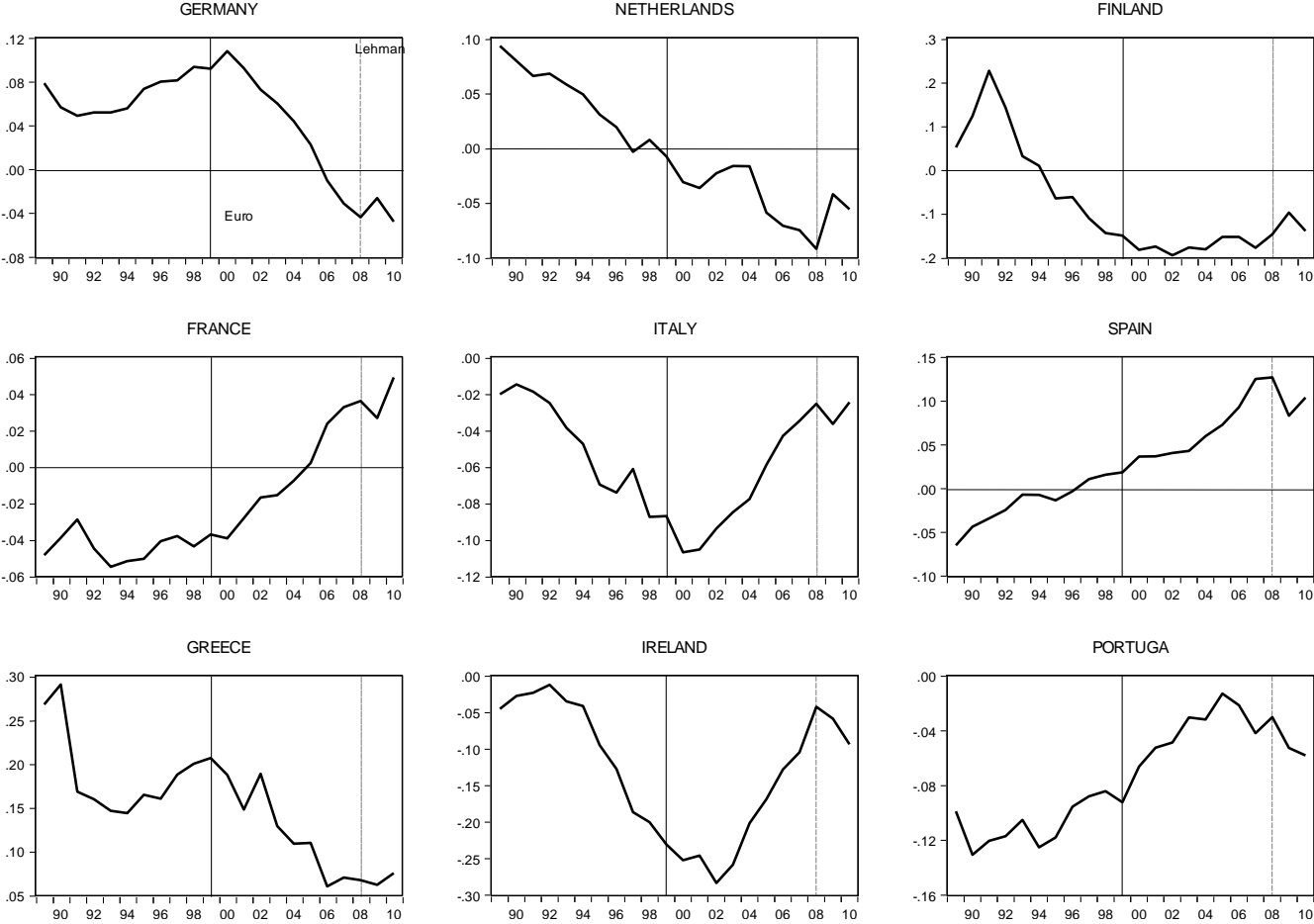
The movements reveal very different behaviour in unit labour costs. Although the crisis in 2008 has had an impact on cost levels in most countries, a durable adjustment toward equilibrium levels can hardly be observed anywhere. The Euro Area would need to reform its wage setting mechanisms in order to accelerate convergence of unit labour costs to equilibrium levels.

Sectoral labour cost adjustment

The adjustment of unit labour costs between member states has received much attention. Yet, the adjustment between sectors is at least as important. In particular, the wage dynamics between the tradable and non-tradable sector are at the core of the European integration process: the creation of a fully integrated internal market with a single currency has lifted trade barriers for tradable goods, which is intended to increase economies of scale and release additional growth potential for productivity. By contrast, the non-tradable sector does not benefit from these opportunities. The gains from integration are therefore clustered in the tradable sector, where they can be distributed to profits, wages or through lower prices to consumers. Either way, the non-tradable sector will experience a relative deterioration of its performance and a pressure to adjust relative wages, profits or prices. This adjustment is likely to have unintended consequences: the domestic sector has a local, non-European and non-globalised orientation. This makes it particular sensitive to Euroskeptic and

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anti-globalisation discourses in the political arena. Generally one would expect that if the pressure is primarily on wages, left-wing populist and Euroskeptic movements will benefit. If the pressure is on profit margins, right-wing populism will dominate. It is, however, possible that these pressures are mitigated if the Balassa-Samuelson effect allows for the relative increase of non-tradable prices.

The figures in Annex I show the changes in relative prices, profits, productivity and wages for some selected economies. We take the service sector in the AMECO database as a proxy for non-tradable goods and industry for tradable goods. This classification is not perfect, given that some services like banking or shipping are really tradable and some industries may only be local. Nevertheless, the classification may give a rough idea for the dynamics. Unfortunately for some countries we have data only until 20011, in some cases even only until 2010 (or for the Euro Area and the UK only for 2009).

The adjustment dynamics are not uniform. In the Euro Area as a whole, the Balassa-Samuelson effect (BSE) was important in the first decade, but has disappeared since the crisis and the pressure is now on wage adjustment. In France, the BSE was sufficient to bail out the non-tradable sector without imposing sacrifices on wages, but in the crisis this has changed. In Italy, profits in the non-tradable sector are even gaining at the expense of wages. Interestingly, in the crisis countries the developments are very heterogeneous. Ireland relieved the pressure on non-tradables by a massive BSE, Spain adjusted essentially through equal weight on profits and wages, but only on profits since 2008. In Greece, by contrast, productivity increased in the non-tradable sector more than in the tradable sector and this advantage was appropriated by profits while wages were further put under pressure. This has changed during the crisis years were non-tradable profits collapsed, but not wages. In the UK, wages bear the brunt of sectoral adjustment and the pressure has increased dramatically during the crisis due to the fall in productivity. Finally, in the USA labour market flexibility prevents wage spreads, so that productivity developments translate in relative profit margin changes.

Table 3 summarises the growth of wages in the service sector relative to industry. It clearly reveals important differences between member states before and after 2008. Assuming that services represent the non-tradable sector, the correlation between excess wage growth in services and aggregate national wage increases is significant, see Figure 4. This fact has important implication for wage bargaining.

Table 3. Increases in service wages relative to industry

	1999-2008	2008-09	2009-10	2010-11	cum 08-11
EA	**-3.35**	**1.56**	**NA**	**NA**	
EE	3.28	0.60	-5.82	4.04	-1.18
FI	1.37	5.52	-0.87	-1.43	3.21
BE	1.13	2.95	-3.67	0.45	-0.26
LU	0.62	2.44	1.64	-1.36	2.72
IE	0.26	-2.23	-3.37	1.77	-3.83
NL	0.09	1.01	-1.14	-1.14	-1.26
FR	-0.54	0.49	-1.00	-1.36	-1.87
IT	-0.72	-1.45	-1.56	-1.81	-4.82
AT	-5.09	1.65	-0.77	-0.53	0.36
PT	-6.25	1.45	NA	NA	*NA*
SI	-7.94	0.88	-6.17	-1.85	-7.14

SK	-8.18	3.96	-6.65	-2.03	-4.71
ES	-8.75	1.32	-0.87	0.46	0.90
DE	-9.63	3.98	-2.51	-1.03	0.44
GR	-9.81	3.06	-4.60	0.75	-0.79
CY	-27.25	-0.07	0.22	0.71	0.86
BG	30.53	4.87	-5.38	-5.90	-6.41
LV	12.83	-0.79	-5.57	-8.45	-14.81
LT	8.64	0.81	-11.77	-2.20	-13.16
PL	3.66	-0.64	-4.21	4.23	-0.62
HU	0.64	-0.25	-5.07	-3.66	-8.97
CZ	-1.45	1.65	-0.03	-1.16	0.46
SE	-1.64	-0.04	1.27	-0.22	1.01
DK	-2.47	0.86	-0.70	-1.03	-0.87
UK	-11.99	-0.04	NA	NA	NA
RO	-18.48	23.91	-17.45	-9.92	-3.47
USA	-2.25	-1.22	-0.95	-0.52	-2.69
JP	-11.37	3.02	-4.00	NA	-0.98

Source: Ameco, own calculations

Figure 4.
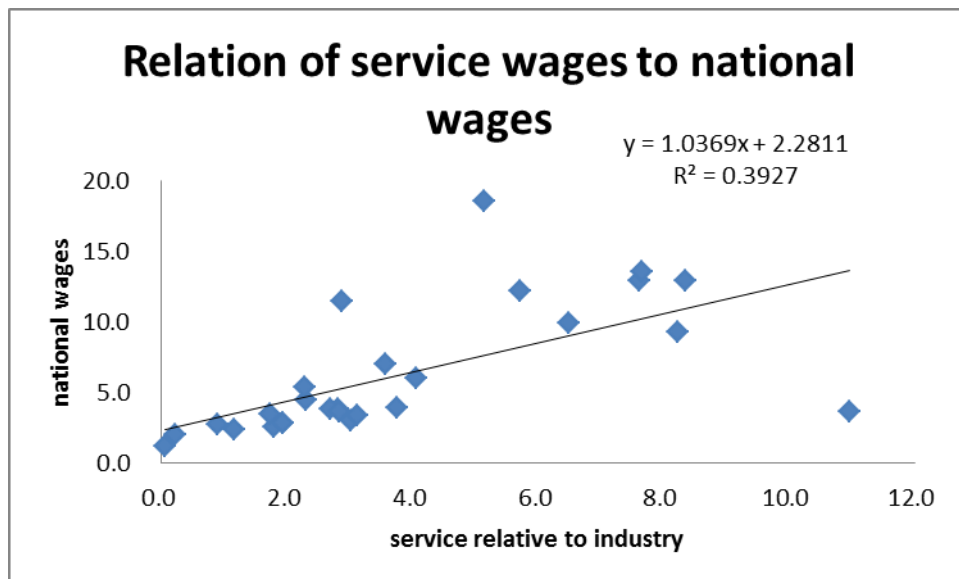
Implications for wage bargaining

Wage bargaining regimes are highly diversified in Europe. Most countries negotiate wages on several levels, the sectoral level still being the most dominant, with an increasingly important role for bargaining at the firm level (Du Caju et alt. 2008). Macroeconomic pressures lead to asymmetric adjustment patterns (Hancké and Rhodes, 2005), despite the fact that trade unions seek to coordinate wages and collective bargaining in the Eurozone (Glassner and Pochet, 2011). The problem with this diversity is that it generates externalities, which affect macroeconomic imbalances.

Calmfors et alt. 1988 have pointed out in a famous paper that from a macroeconomic point of view highly centralised or fully decentralised wage bargaining is superior to intermediate positions, because in the first case trade unions will internalise the macroeconomic effects, in the second real wages will reflect marginal productivities, while the intermediate regime causes leap-frogging as described by Sinn above. Clearly, the creation of European monetary union has pushed the Euro Area into a more intermediate position as national economies is no longer the framework for macroeconomic developments.

In order to internalise some of these external effects, the Macroeconomic Dialogue was set up in 1999 (Koll, 2005). It has formulated the Golden Wage Bargaining Rule mentioned above, although it has not been followed as seen in Figure 1. However, the Golden Rule may be mistaken. While it can support the ECB in achieving price stability, it does not guarantee the avoidance of excessive imbalances. For if competitiveness is about achieving a decent return on capital, the cost of capital and therefore the average efficiency of the capital stock has to be taken into account. This means that the Golden Rule of wage bargaining must be amended to reflect comparative distortions. When capital productivity rises faster than on the Euro average, as it did in northern Europe before 2008, unit labour costs should increase faster than the inflation target of the ECB. However, when capital efficiency falls because of high rates of investment, as it did in the south, unit labour costs must be brought down as well, which requires wage restraint below the sum of labour productivity plus ECB inflation target. Thus, the Golden Rule of productivity oriented wage increases must take into consideration not only labour productivity, but also capital productivity. A better wage bargaining rule would be:[5]

Wage increases = labour productivity increases + inflation target + increases in the average efficiency of capital

The Macroeconomic Dialogue has also failed to produce results because it takes place in a confidential setting and little information trickles down to the actual wage negotiators. At the European level collective wage bargaining is handicapped, because trade unions have no European employer partner organisation (Glassner and Pochet, 2011). As a consequence, diverging wage settlements can last for a long time, which will subsequently require dramatic adjustments with high social costs.

However, given the diversity of economic conditions and the complexity of negotiators, European wage bargaining cannot be delegated to the European level. The question is, therefore, how to coordinate? At least one could attempt to coordinate the decisions of many actors by setting norms and soliciting debates about the appropriateness of bargaining positions. The Macroeconomic Dialogue has failed to play this role (Collignon, 2009). The European Social Dialogue could be the forum to initiate such debates, but ultimately they must penetrate national public spheres.

Over the last two decades, trade unions have taken a number of initiatives to coordinate their actions across borders (Glassner and Pochet, 2011). However, these initiatives have not been sufficient to prevent serious distortions in competitiveness during the first euro-decade. First of all, these cooperation attempts are regional rather than European-wide. Most famous is the so called *Doorn Group*, consisting of union confederations from Belgium, the Netherlands, Luxembourg and Germany. In the 1970s the *Nordiska Metall* transnational union platform was formed between

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[5] See also Collignon, 2012b

Scandinavian unions and the *DACH*-group (Germany, Austria, Switzerland) also was a regional configuration. None of these networks could cover the externalities generated at the Euro Area level.

This is also true for sectoral cooperation. The European Trade Union Confederation (ETUC) and the European Trade Union Federations (ETUFs) have established formalised structures for monitoring and evaluating the implementation of common goals and criteria, especially in the metal industry. Other ETUFs, i.e. ETUC-TCL (European Trade Union Federation Textiles, Clothing, Leather), UNI Europa Graphical, EFFAT (European Federation of Food, Agriculture and Tourism Trade Unions) and EPSU (European Federation for Public Service Unions), also adopted formal guidelines for wage-setting based on inflation and productivity growth. The ETUF provides a platform for the cross-border exchange of collective bargaining information and promotes the transnational coordination of collective bargaining across sectors. While this is clearly progress, the coordination between sectors remains weak. Especially the crucial link between tradable and non-tradable sectors is not addressed. Because in some member states leadership for national wage bargaining is in the tradable sector (e.g. the metal industry in Germany), while in other states it is the public sector (e.g. Italy), national distortions in unit labour costs are nearly inevitable. For this reason, national wage bargaining systems should systematically assign leadership in wage bargaining to the tradable sector.

If methods to govern the integrated European economy efficiently must be part of the European social model, then it is of paramount importance that economic adjustment to shocks is fairly balanced between regions and sectors, capital and labour. This requires stronger forms of cooperation in wage setting than is possible in today's non-system. How such an economic government will ultimately look like is too early to say. But what is needed now is a greater awareness for the external effects generated at national and sectoral levels and a broad public debate about how to set wages. The European Parliament could take a lead in initiating this process.

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Annex I

Euro Area

	1999-2008	2008-2011	2008-2010

prices: 10.6%, -0.5%, 1.3%
profits: -6.2%, 4.9%
productivity: -17.5%, 16.9%, -3.5%
wages: -1.4%, -16.3%

Germany

	1999-2008	2008-2011	2008-2010

prices: 1.3%, -2.4%, -1.2%
profits: -22.2%, -12.9%, -6.4%
productivity: -20.5%, -5.1%, -1.4%
wages: -9.6%, 0.4%, 1.5%

France

	1999-2008	2008-2011	2008-2010

prices: 24.1%, 4.2%, 3.5%
profits: 15.9%, 8.3%, 3.3%
productivity: -15.8%, -2.7%, -2.8%
wages: -0.5%, -1.9%, -0.5%

Italy

■ 1999-2008 ■ 2008-2011 ■ 2008-2010

prices: 8.1%, 4.0%, 1.0%
profits: 7.4%, 11.1%, 1.4%
productivity: -5.0%, -3.8%, -3.6%
wages: -0.7%, -4.8%, -3.0%

Spain

■ 1999-2008 ■ 2008-2011 ■ 2008-2010

prices: 3.5%, -2.8%, 0.2%
profits: -8.9%, -9.9%, -4.7%
productivity: -18.8%, -6.0%, -3.7%
wages: -8.8%, 0.9%, 0.4%

Greece

■ Datenreihen1 ■ Datenreihen2 ■ Datenreihen3

prices: -9.5%, 3.8%, 3.1%
profits: 20.1%, -20.5%, -16.9%
productivity: 13.4%, -19.4%, -16.3%
wages: -9.8%, -0.8%, -1.5%

Greece

Legend: ■ Datenreihen1 ■ Datenreihen2 ■ Datenreihen3

prices: -9.5%, 3.8%, 3.1%
profits: 20.1%, -20.5%, -16.9%
productivity: 13.4%, -19.4%, -16.3%
wages: -9.8%, -0.8%, 1.5%

United Kingdom*

Legend: ■ 1999-2008 ■ 2008-2011 ■ 2008-2010

prices: -1.1%, -11.1%, -6.4%
profits: -4.9%, -34.3%
productivity: -13.7%, -43.1%
wages: -12.0%, -39.8%

USA

Legend: ■ 1999-2008 ■ 2008-2011 ■ 2008-2010

prices: 8.7%, 0.0%, 5.0%
profits: -15.9%, 31.3%, -4.2%
productivity: -22.6%, 42.4%, -12.4%
wages: -2.3%, -2.7%, 2.2%