Wage Policy Coordination in the Eurozone

A Robust Concept for Greater Macroeconomic Stability?

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- In the European Monetary Union – which is based on competition-oriented principles – wage costs have come under considerable adjustment pressure. The current crisis calls for closer coordination of wage and collective bargaining policy in Europe.

- Taking the example of a specific wage negotiation network the present study analyses whether wage policy coordination could help to prevent macroeconomic imbalances in the Eurozone. The extent to which this is the task of wage policy and what alternatives there are for coping with socioeconomic asymmetries are discussed in three commentaries based on trade union experiences:

- **Ralf Götz**
  Striving for fairness in the distribution of wealth and income and »decent work« instead of fostering wage competition

- **Kay Ohl and Uwe Fink**
  Collective bargaining and wage policy alone should not be responsible for correcting macroeconomic imbalances

- **Gabriele Sterkel**
  Improving standards of living and stemming economic imbalances

Content

Foreword

Already during the formative phase of the European Economic and Monetary Union (EMU) critics warned that national wage costs could come under considerable downward pressure in a common monetary area based on competition principles. Differing economic emphases, productivity development and wage negotiation outcomes in European national economies have combined to bring it about that real unit wage costs in the European Union (EU) diverge considerably today. Germany has played a particular role in this: for some time, it has been characterised by a marked wage moderation which goes a long way towards explaining the country's competitive gains and export surpluses. What benefits one country in a common area of integration, however, can harm another, which can easily be seen in the substantial current account imbalances.

In the EMU crisis, awareness is increasing of the need for closer political coordination of various policies which are still within the competence of national governments. This includes wage and collective bargaining coordination in Europe. Since the end of the 1990s, the trade unions have launched a number of initiatives to this end which were supposed to follow, more or less, the rule of thumb »productivity increase plus inflationary adjustment«.

In the present study **Toralf Pusch** takes as an example the effects of a trade union wage negotiation network of the metalworkers' trade unions in North Rhine-Westphalia, Belgium and the Netherlands. For the period 1999 to 2008 he identifies a largely positive development arising from fitting wage agreements to the prevailing possibilities (»scope for distribution«). According to Pusch, the wage negotiation network analysed here could serve as an example for limiting wage policy divergence in the Eurozone. In order to foster a balanced price competitiveness in the member states he proposes, in addition, that a uniform European indicator of price increases be taken into consideration in wage determination.

The commentaries by trade unionists reproduced here share Pusch's view that efforts towards wage policy coordination in Europe need to be stepped up. However, the proposition that there should be more centralised control of wage policies and how they should be used as an instrument to stem macroeconomic imbalances in the EU come in for considerable criticism. **Kay Ohl** and **Uwe Fink** warn against mechanistic control of collective bargaining and point out that wage policy alone should not be responsible for correcting European imbalances. **Gabriele Sterkel** identifies the improvement of working conditions and living standards as a key task of trade union collective bargaining. This aim should by no means be subordinated to the exigencies of macroeconomic planning. She argues that for a number of years, on the pretext of »stability and growth«, workers' rights and the welfare state have been cut back. **Ralf Götz** calls for the ending of social and wage dumping in the EU and urges the introduction of common standards for »decent work« and better wealth distribution to correct unequal working conditions and living standards.

In the review undertaken by the present economic study and the accompanying commentaries based on trade union collective bargaining and wage policy practice a clear commitment to strengthening cooperation and consultation in Europe emerges, the need for which is underlined by the current crisis. Whether the wage negotiation network taken as an example here can – or even wishes to – serve as a key instrument in preventing macroeconomic asymmetries in the Eurozone merits further discussion. A dialogue on this issue between academia and the trade unions is a matter of some urgency because in the political realm there is an acute danger that, instead of an open framework, too narrow a corset will be proposed in the form of a competition-driven orientation to the lowest standards.

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Wage Policy Coordination in the Eurozone – A Robust Concept for Greater Macroeconomic Stability?

The debate on economic imbalances in the Eurozone is in full swing. For the first time since the Monetary Union got off the ground it appears that Europe's leaders would like to take a substantial step forward in the direction of reform of European economic governance. This is indicated by the very breadth of the debate, which takes in the European Commission, the Van Rompuy Taskforce, the European Council and, of course, national governments.

A glance at the media gives the not entirely unjustified impression that this also involves a clash of entrenched national interests. Different positions have repeatedly been attributed to the two leading Eurozone countries, Germany and France. While French Finance Minister Christine Lagarde has repeatedly emphasised German responsibility to undertake an expansionary development of domestic demand, the German Chancellor considers this an intrusion in domestic policy. The German position can be briefly summarised as follows: first of all, the »problem countries« in the Eurozone – Greece, Ireland, Portugal and Spain – should react by adjusting their policies. After »living beyond their means« for so many years it is high time these countries embraced budgetary discipline and wage restraint. Only in this way could these countries overcome their budget difficulties and competitiveness problems. Germany, with its culture of stability and wage moderation, as well as its debt brake could set an example in this respect. A possible example for this concept of »asymmetrical adjustment« could be furnished by the recent annual report of the supreme economic policy advisory committee of the German government (Sachverständigenrat 2010, points 34 and 41).[1]

However, the strategy of asymmetrical adjustment, while continuing with the German stability policy, is fraught with risk. Here it is worth looking at the current situation at the periphery of Europe. For example, prices fell last year in Spain, Portugal and Ireland (AMECO: –0.2 per cent, –0.9 per cent and –1.7 per cent). Due to budget consolidation and high unemployment in these countries the pressure on wages and prices can be expected to continue for the foreseeable future, having positive effects on these countries' competitiveness. On the other hand, falling prices also constitute a burden on the countries affected since the revenue situation and debt servicing of their companies can come under pressure. If, in these circumstances, wage moderation and budgetary discipline are maintained in Germany this will have an additional growth dampening effect on the southern European countries. Their export goods industries would scarcely be able to improve their competitiveness. They would also suffer from weak domestic demand in Germany as a consequence of budget consolidation there. This could help to further destabilise Spain and other economies – and because of its foreign trade entanglements Germany too would ultimately be unable to detach itself from these negative dynamics.

1. Council member Peter Bofinger represents a different view in the report; cf. point 218 ff.

Cross-border Wage Coordination: The Metal Sector in Germany, Belgium and the Netherlands

Given the risks involved in continuing unbalanced development in the Eurozone the search for alternative development paths is becoming increasingly important. This covers a broad sweep of economic policy instruments and regulations, but this paper concentrates on the effects of a trade union wage negotiation network or, more generally, on trade union wage coordination.

Naturally, wage policy in the member states is subject to other economic policy influences, such as national labour market regulations and the economic situation as affected by monetary and fiscal policy. The founding of the wage negotiation network of the metal industry trade unions of Germany, Belgium and the Netherlands considered here is to be seen, among other things, against the background of such influences. In the 1980s, pressure was increased on the collective bargaining partners in the Netherlands, while in Belgium this was intensified by the adoption of the Law on Boosting Employment and Preventive Conservation of Competitiveness. Political influence also manifested itself in Germany in 1997 and increasingly from 1998 within the framework of the »Alliance for Jobs«. Nevertheless, the founding of a wage negotiation network is also an expression of trade union autonomy which can contribute to economic policy coordination.

On the whole, since the 1990s the metal sector has played a pioneering role in the still relatively recent efforts to establish cross-border coordination of wage negotiations in Europe. Especially in the run up to the establishment of the Euro area the activities of the European Metalworkers' Federation (EMF) as the umbrella organisation of national metalworkers' unions in Europe should be mentioned. The EMF's decisive »Position on Collective Bargaining Policy« was adopted at a conference on collective bargaining in 1993. According to this document, wage agreements entered into by the trade unions should be oriented towards »regular annual compensation for price increases in order to protect real wages« (EMF 1993). In addition, the resolution provides for »a share in productivity increases for employees«, which generally means cross-sectoral productivity increases, since otherwise relative allocations between employees in different sectors – highly productive industrial production versus low productive services – would drift apart markedly. This guiding principle for wage policy will be referred to as the EMF guideline. In Germany, trade union representatives also like to talk about »scope for distribution«. The EMF guideline can be linked especially to trade union value orientations in the metal sector; economically, problems with cooperation in the Eurozone may be linked to this. In order to assess the effectiveness of the wage negotiation network first of all reference will be made to the EMF guideline, which is decisive for the metal industry trade unions.

The resolutions of the EMF first achieved practical relevance with the founding of a network for the exchange of collective bargaining information and personnel in 1997, in which the regional organisation of IG Metall in North Rhine-Westphalia, the two Belgian trade unions CCMB and CMB and the Dutch trade unions FNV Bondgenoten and CNV Bedrijvenbond participated. Given the cross-regional importance of IG Metall's North Rhine-Westphalian regional organisation for wage development in Germany it is reasonable to describe this as an attempt at cross-border wage policy coordination between national sectoral trade unions. The results of this wage coordination network are interesting for the debate on economic policy coordination in the Eurozone because in the past Germany and the Netherlands in particular have been accused of wage dumping.[2]

As base year when the network might be supposed to have begun we have chosen 1999 since the first wage negotiations in the year after the establishment of the network (in 1998) had an effect on wage increases in 1999. We shall now present an overview of wage developments in Belgium, Germany and the Netherlands.

A first look at wage increases due to collective bargaining in the metal sector in Belgium (Figure 1) shows that the increases in hourly wages (light-grey line) after the introduction of the wage negotiation network were on average significantly closer to the target figures laid down by the EMF on the basis of the perceived scope for distribution (defined as sum of productivity increases and price increases – dark-grey line) than during the previous ten years.

Wage increases in Germany, too, on average, point to IG Metall's orientation towards the EMF guideline in the period after the establishment of the network, while previously wage increases were slightly below the scope for distribution (Figure 2).

In contrast to the wage increases in Belgium and Germany, wage increases in the Netherlands, even after the establishment of the network, exhibit strong cyclical movements and are significantly below the EMF guideline from 2003 to 2007 (see Figure 3). Development after 2001 in this respect can be linked to a social pact to limit wage rises (Johnston and Hancké 2009). If anything, Figure 3 suggests a short-term effect of wage negotiation for the Netherlands in 2001 and 2002.

For another periodical overview of the decades before and after the establishment of the wage negotiation network see Table 1, in which the cumulative wage increases in the ten years before and after the operation of the network are plotted against the target of the EMF guideline (scope for distribution). By and large, the results depicted in the figure are confirmed by the comparison of the two periods in Table 1. For Germany and Belgium, although not for the Netherlands, the data point to convergence towards the EMF's scope for distribution in the period 1999–2008. For example, the cumulative wage increase

2. Cf. Flassbeck and Spiecker (2009) on Germany.

Figure 1: Increases in hourly wages (in percentage terms) in Belgium, 1989–2008

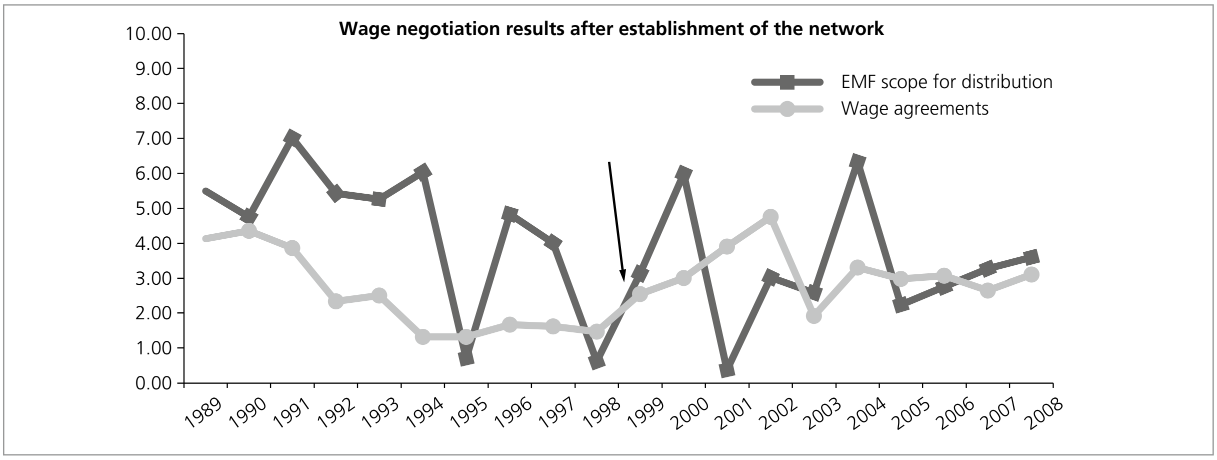


Figure 2: Increases in hourly wages (in percentage terms) in Germany, 1989–2008

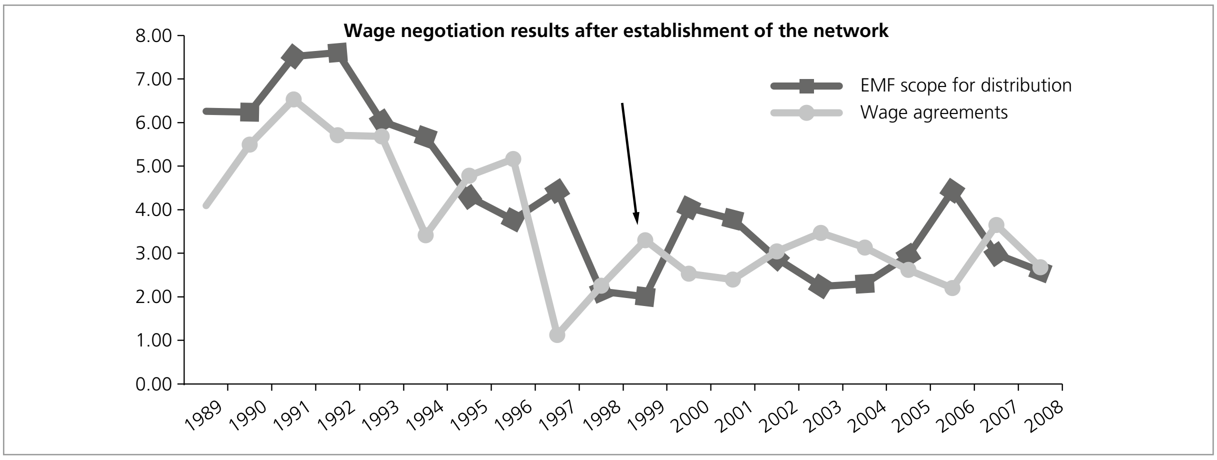
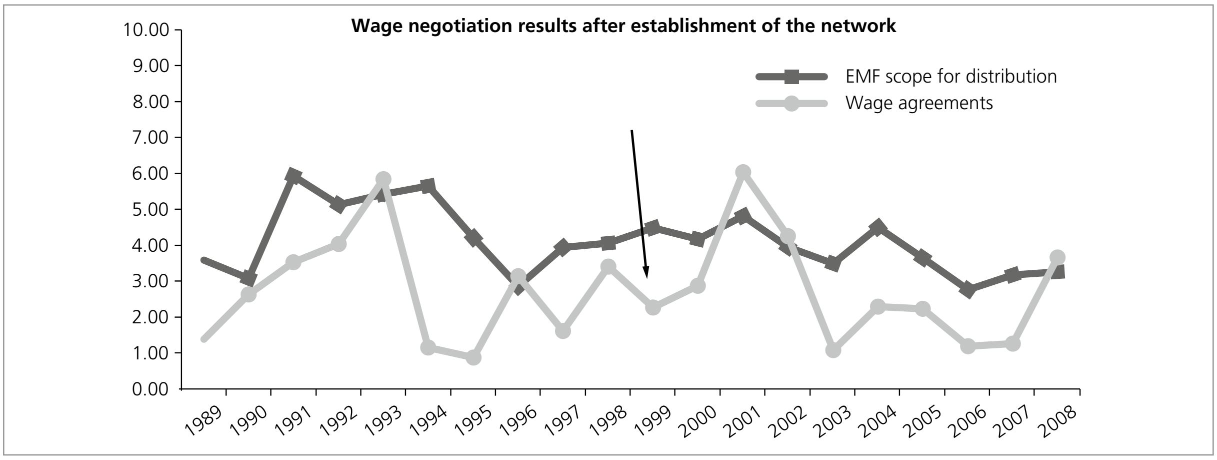


Figure 3: Increases in hourly wages (in percentage terms) in the Netherlands, 1989–2008



Sources: OECD, AMECO, trade unions, Belgian Labour Ministry; author's calculations.

Table 1: Wage increases and targets of the EMF guideline in the ten-year periods before and after the coming into operation of the wage negotiation network

	Wage increases (per cent)			EMF scope for distribution (per cent)		
	Belgium	**Germany**	**Netherlands**	**Belgium**	**Germany**	**Netherlands**
1989–1998	27	54	31	54	69	64
1999–2008	36	33	31	39	35	46

Source: See Figures 1–3.

from 1999 to 2008 in Germany, at 33 per cent, was very close to the scope for distribution of 35 per cent, while in the previous decade it had fallen below 15 per cent.[3]

Problems with the Implementation of the Trade Union Concept

If, based on the results given above, cross-border wage policy coordination appears to be possible, that is good news first of all for the toolbox of economic policy coordination. Before any widespread application of the trade union concept, however, it is advisable to look at possible economic policy consequences. In fact, the existing tensions in the Eurozone could be exacerbated by an extension of the EMF approach. A look back at the past makes this clear.

The concept of wage coordination applied by the EMF has long been familiar in Germany under the terms »scope of distribution« and the so-called »Meinhold Formula«. Ultimately, it comes from a period in which monetary policy in Europe was still a national competence (Meinhold 1969). In a monetary union, however, the concept of scope for distribution, which makes perfect sense from the standpoint of an individual worker or trade union member, can lead to problematic developments; in particular, if the economic situation and the related price dynamics in individual member states differ markedly. In the past this has been the case in some southern European countries in comparison to the rest of the Eurozone and in particular in Germany. Before the introduction of the euro, in the event of an overheating economy national central banks could step in or in the case of dynamic price rises the currency could be devalued (this happened repeatedly in Italy, for instance). These things are no longer possible in the European Monetary Union.

The dilemma of wage policy in the Monetary Union is now as follows: in a strong economy in an individual member state prices tend to rise, too. If national price increases are then taken into account in wage increases – as the EMF guideline prescribes – ultimately this serves to perpetuate an inflationary dynamic once it has got under way. This leads to a loss in competitiveness in the booming economy. Although trade union members are perhaps initially contented, over the long term this may have a negative effect on jobs.

Table 2: Actual agreed wage increases in the metal sector and possible wage increases taking into account national productivity and uniform European price components (two per cent a year)

	Wage increases 1999–2008	
	Actual	**»Neutral«**
Belgium	36 %	33 %
Germany	33 %	37 %
Netherlands	31 %	39 %

Source: See Figures 1–3

Widespread application of the EMF guideline in an individual country with a weak economy would have the opposite effect, as happened, for example, in Germany after 2000. In this instance, competitiveness gains are to be expected from strict application of the EMF guideline. The frequency with which the EMF guideline targets were met from 1999 (see Table 1) by IG Metall's collective bargaining policy suggests that this situation exists here: the average increase in the German consumer price index between 1999 and 2008, at 1.6 per cent, was markedly

3. This result is confirmed by statistical analysis not documented here, especially with regard to an increasing orientation on the part of the trade unions towards national rates of price increase after the establishment of the network (see Pusch and Glassner 2010).

below the Eurozone mean of 2.2 per cent.[4] The competitiveness of the German metal industry is likely to have benefited indirectly from the, on average, very modest wage increases in the German service sector, which have had a decisive impact on low price increases in Germany. This is verified by the data in Table 2: in the case of »neutral« wage increases an accumulated increase in German agreed wages of 37 per cent would have been warranted during the period 1999–2008, while IG Metall achieved wage increases of 33 per cent (which, however, is relatively high in comparison to other sectors). In addition, wage increases in collective agreements reflect only part of the truth since actual wage increases in Germany in recent years have frequently been even lower.[5] The metal industry trade unions in Belgium exhibit a somewhat better orientation to a neutral wage policy (see Table 2).

Alternatives to the Status Quo

In the case of Germany, a move away from the wage restraint of recent years appears urgent in order to moderate the tensions in the Eurozone. In modified form, the EMF's wage policy concept could make a definite contribution to that. It would be possible, for example, to take into consideration a uniform European indicator for price increases instead of national price increases in order to foster balanced development of the competitiveness of Eurozone member states. From an employment policy standpoint the ECB's target inflation rate of two per cent appears to be a particularly suitable indicator in order to avoid a conflict between wage and monetary policy and to support job creation in Europe.[6] A second possibility for a uniform price indicator in wage agreements is the average rate of price increases in the Eurozone. In order to reduce tensions in the Eurozone the aim should be to increase wages above this norm in highly competitive countries. In contrast, wage increases in countries with low competitiveness should remain below the norm. Ideas of this kind have been under discussion in EU economic policy for a long time.[7]

As already mentioned, the very low wage increases in the private service sector in Germany in recent years have contributed to the emergence of external imbalances. Although there has been little by way of wage policy coordination in this area hitherto other approaches to stimulate wages are conceivable. This includes the introduction of minimum wages or social benefit increases in countries whose wage development threatens stability, such as Germany. This would not necessarily have a direct impact on the competitiveness of the export sector (in which wages are still comparatively high in Germany). Higher wages especially in the German low wage sector would ultimately benefit also the southern European countries, primarily because of higher imports in Germany. Finally, the economic policy toolbox contains other options which would affect wage costs and current account balances more or less directly. For example, a foreign trade stability pact could be introduced within the framework of which the euro member states could reach agreement on threshold values for the current account above which there would be an economic policy response (the selection of means would be left to the member states – see Dullien and Schwarzer 2009). A similar direction is taken by the debate on a macroeconomic »scoreboard« currently under way in EU committees. This notion takes into consideration, besides the current account balance, other risk factors with regard to macroeconomic stability in the Eurozone and, in the case of constant violations of limit values, could even include sanctions (see European Commission 2010).

4. Empirical indications of Germany's deviation from the convergence path of competitiveness in EMU can also be found in Fischer (2007).

5. In this context, one also talks of »wage drift«: see the Tarif-Berichte (Collective bargaining reports) in WSI-Mitteilungen, cf. Bispinck (2009).

6. Avoiding such a conflict is indispensible for full employment – see Pusch (2009).

7. A corresponding guideline can be found in the integrated guidelines of the Europe 2020 Strategy, but also in older versions of the Guidelines – see EU (2010). The imbalance components of the wage guideline were discussed, for example, by Watt (2007).

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Ralf Götz

Striving for Fair Wealth and Income Distribution and »Decent Work« instead of Promoting Wage Competition

The attempts made and decisions taken with regard to European wage coordination by the European Metalworkers' Federation (EMF) do not have their origins in the current economic and social crisis. The rules on wage policy coordination were adopted as early as the EMF's second collective bargaining policy conference in 1996. They are oriented towards the principle of making full use of the distribution-neutral scope for wage increases and form the guideline for collective bargaining policy for all EMF member organisations: the so-called »wage coordination rule«.

Both consumption and social standards are declining in Europe. In the wake of the current crisis and in pursuit of coping strategies means are being sought to eliminate macroeconomic imbalances in the Eurozone, as well as other solutions. Toralf Pusch takes up the debate on economic governance, based on the European Commission's annual reports on the European economy. He looks at one of the core elements of the planned economic governance, rightly concentrating on the proposals for »asymmetrical adjustment«, more precisely, on one of their key elements, the demand for asymmetrical wage coordination. In an attempt to identify institutions or mechanisms which could provide this, or which have provided it in the past, and also in pursuit of alternative development paths he focuses on cross-border wage coordination in the metal sector in Germany, Belgium and the Netherlands.

However, a number of things are overlooked or, in my view, interpreted incorrectly. Collective bargaining policy coordination networks also exist in the metal sectors of other regions of the European Union. There are also institutionalised supra-regional networks and common European collective bargaining policy demands. Conclusions based solely on examination of one network can easily go astray and are not enough to serve as an empirical basis for a clear statement.

The author sees an urgent need to abandon wage restraint in some branches in Germany – especially in segments of certain services not covered by collective agreements – in order to combat macroeconomic problems in the Eurozone. He also advocates the expansion of efforts towards wage coordination to other branches. Both these things are to be welcomed. Attempting to eliminate macroeconomic imbalances by means of wage determination and its European coordination alone, however, is doomed to failure. The conclusion that remuneration is the sole remaining adjustment option for dealing with macroeconomic imbalances leads us in the wrong direction, both politically and macroeconomically. From the EMF's standpoint, if wage coordination in the Eurozone is to serve as a robust concept for greater macroeconomic stability and thereby as a core principle of the planned economic governance, the following measures must be implemented:

The Internal Market must be subject to uniform social conditions in order to prevent social and wage dumping (for example, core labour norms and basic social standards, guidelines and support for a high percentage of those who are covered by collective agreements, as well as safeguarding of national collective bargaining systems). In addition, labour market deregulation must be halted in order to rein in the exponential increase in precarious employment (for example, by making agency and temporary work more expensive, limiting the use of atypical contracts and prohibiting non-standard contracts). »Decent work« should be adopted as an overall indicator of the success of the Europe 2020 Strategy.

In order to reduce macroeconomic imbalances a focus on direct and indirect labour costs alone is not enough to bring the Eurozone back into balance. The European metal industry trade unions must decisively reject any kind of wage competition, as well as deflationary wage policies and wage cuts. These will serve only to exacerbate the current crisis. Wages must increase in accordance with inflation and productivity, as the EMF has already established with its wage coordination formula. The burdens cannot be imposed only on the deficit countries: in other words, the surplus countries must actively boost domestic demand and public investments. In addition, indicators are needed to capture the social impact of measures taken to reduce excessive imbalances.

Fairer distribution of wealth in our society is crucial if we are to achieve sustainable growth: it would increase consumption and reduce excessive savings rates. In order to bring this about, on the one hand, the lowest incomes have to be tackled, which can be done either through statutory or collective agreement-based minimum wages, and on the other hand, more convincing policies must be implemented in order to be able to combat tax dodging and tax evasion, promote progressive tax policies and shift the tax burden from labour to capital.

Kay Ohl and Uwe Fink

Macroeconomic Imbalances Cannot Be Corrected by means of Collective Bargaining and Wage Policy Alone

The effects of the biggest economic crisis for 80 years and neoliberal austerity programmes on the part of the European Commission and national governments are among the main challenges confronting European trade unions today.

Against this background, the necessity of European wage coordination via the trade unions stands out clearly. The aim of the wage coordination rule laid down by the European Metalworkers' Federation (EMF) is to prevent a downward spiral of wage undercutting and to help bring living standards and employment/working conditions into line across Europe. The resolution adopted at the third EMF collective bargaining conference in December 1998 stressed that the idea underlying this coordinated European collective bargaining strategy is to »support an autonomous, Europe-wide trade union wage and collective bargaining policy oriented towards the interests of workers«.[8]

Toralf Pusch in his study rightly affirms the need for and possibility of European coordination of collective bargaining. However, a number of critical comments are in order.

In its empirical examination of the effects of the wage coordination rule the study relies solely on a cross-border network (IG Metall North Rhine-Westphalia region, CCMB, CMB, FNV Bondgenoten and CNV Bedrijvenbond). However, there are other networks in which EMF member trade unions are participating, such as the »Vienna Memorandum Group«.[9] In addition, with the EUCOBAN network[10] the EMF has an instrument by means of which it can regularly scrutinise how the wage coordination rule is working. The empirical basis utilised in the study is inadequate for assessing the situation in Europe.

The conclusion that the ECB's target inflation rate appears to be a particularly appropriate indicator is extremely problematic from a trade union standpoint. Collective bargaining policy is legitimised through democratic processes. It is true that collective bargaining policy takes the macroeconomic situation into account, but mechanistic steering of collective bargaining policy via the assumption of externally established economic principles is unacceptable to trade unions. The application of the ECB's target inflation rate as a benchmark for wage increases in deficit countries leads de facto to wage cuts. Such a policy would have direct negative effects on the members of any trade union that agrees to it. A trade union collective bargaining policy coordinated by the EMF may not stipulate to individual member organisations that they pursue a policy of wage cuts. Such a policy would also have direct economic consequences which do not show up in the model assumptions of the study. For example, in the deficit countries which in any case are already in crisis purchasing power has been further weakened. In the worst case this can trigger deflation which would only exacerbate the existing imbalances.

There are several reasons for the macroeconomic imbalances in Europe. The countries of the Eurozone entered the monetary union with very different real economic conditions and structures which to date it has not been possible to bring into line by means of the European structural fund. Furthermore, the over- or undervaluation of the respective national currency at the point of entry influenced competitiveness, while the ECB's uniform interest rate drove inflation in those countries for which it was too low, given the state of the national economy. This applies, for example, to Spain. It is therefore wrong from a macroeconomic standpoint to expect collective bargaining policy alone to correct the imbalances, in accordance with the narrow view that in a monetary union there is only one adjustment lever, namely wages. Too much is expected of wage policy here and it would not achieve the goal expected in this context.

Although the negative wage drift in Germany is mentioned, the reasons for it – such as the strong increase in precarious jobs in the low wage sector – as well as

8. EMF 1998: Resolution of the 3rd Collective Bargaining Conference of the EMF, Frankfurt/Main, 9./10.12.1998, in: European Metalworkers' Federation (ed.): Milestones, Brussels, 2006.

9. In the »Wiener Memorandum« (Vienna Memorandum) group, formed in 1999, the following trade unions are represented: IG Metall (Germany), PRO-GE (Austria), OZ KOVO (Slovakia), OS KOVO (Czech Republic), VASAS (Hungary) and SKEI (Slovenia).

10. The EUCOBAN network coordinates the four European industrial sector federations: EFFAT, EMCEF, EMF and ETUF.

counter-measures – such as equal pay for low wages – are not discussed. In any case, this is not a uniquely German phenomenon. For example, in deficit country Spain in recent years there has been a dramatic increase in precarious employment.

Gabriele Sterkel

Improving Living Standards and Stemming Economic Imbalances

Interest in »wage policy coordination« has enjoyed a new currency since wage cost comparisons make it increasingly clear that a significant proportion of the considerable economic imbalances in the European Union (EU) is to be attributed to weak wage development in Germany. Particularly in the service sector wage development there is much worse than in any other European country.

Against this background, Toralf Pusch investigates the question of whether wage policy coordination in the Eurozone could be »a robust concept for greater macroeconomic stability«. His empirical investigation, which is limited to an evaluation of the development of negotiated wages in the metal industry in the border triangle of North Rhine-Westphalia, Belgium and the Netherlands, comes to the conclusion that wage coordination is effective. This is a problem, however, because in this way in countries with high inflation, such as Greece, a wage–price spiral is initiated. For this reason autonomous wage coordination by trade unions is unsuitable for macroeconomic stability in Europe. Ultimately, stability can be restored only by means of economic and labour market policy measures in Germany and at European level: the ECB's target inflation rate as a guide for wage increases in crisis countries suffering from inflation is supposed to put a ceiling on wage development. In undercutting Germany, in contrast, »minimum wages or higher social benefits« are supposed to help. Finally, further development of the Stability and Growth Pact by EU bodies by means of a macroeconomic scoreboard is forward-looking.

Macroeconomic stability is unquestionably desirable, also from the trade union standpoint, and the imbalances between European countries must clearly be reduced. The question is only who would benefit and who would pay. The approach in question here has in mind a kind of centrally controllable wage automatism which appears to regard dealing with the interests of social actors as an annoyance. This technocratic approach to political problems disguises the prevailing power relations. The apparently non-political rationality of the »macroeconomic toolbox« frequently invoked in the text is a myth, however. Under the pretext of »stability and growth«, for example, the rights of workers have for years been reduced and welfare systems cut in the EU.

Trade union action has different aims and legitimacy. Trade union collective bargaining policy is aimed at improving the working conditions and living standards of employees. Free collective bargaining – which, along with freedom of association, is enshrined in the Constitution – assigned the trade unions a role in income distribution with regard to the economy as a whole. This is because democracy functions only if citizens are economically independent and if those who possess only their labour power can nevertheless participate in the country's growing prosperity on an equal footing. That is the political foundation of the macroeconomic justification of demands made within the framework of collective bargaining (productivity growth plus rate of price increases). The economic function of at least balanced distribution lies in the safeguarding of growth and employment via increases in purchasing power. Boosting domestic demand in Germany – and the trade union position is entirely in line with that of Toralf Pusch – could, finally, also combat economic imbalances in the Eurozone.

The coordination of collective bargaining policy in Europe cannot be so easily made to serve the purposes of macroeconomic planning. The prospect of the single currency, the removal of exchange rates as an economic policy instrument and the associated threat of downward wage pressure have led the trade unions – initially in the Doorn Initiative,[11] then in the metal and print industries, but also in the financial services sector – since the end of the 1990s increasingly to coordinate national collective bargaining policies at the European level. The aim was and remains to curb a race to the bottom with regard to wages by means of autonomous commitments and thereby also the safeguarding of at least balanced distribution in the participating countries. It makes sense to coordinate collective bargaining policy in Europe. However, it must be applied beyond a few »flagship branches« in as many sectors as possible. Given real wage losses over a period of years and an increasing divide between the incomes of capital and labour throughout Europe fair participation in growing prosperity remains a distant goal.

11. In the Dutch town of Doorn in 1998 trade union federations and individual trade unions from Germany, the Netherlands, Belgium and Luxembourg came out in favour of close wage policy coordination.

Wages should increase everywhere at least in line with productivity and the ECB target inflation rate. In Germany, currently that would mean that wages should generally increase, compensating for the wage restraint of the past few years. Until the bargaining partners in Germany do their bit in achieving balance they are not entitled to advise others to relinquish wage adjustments for inflation (and thus wage cuts). However, that is precisely what an orientation towards the ECB's target inflation rate would mean for Greece, for example. Employees in problem-hit countries did not cause the crisis. It is scandalous that they should be made to pay for it through political interference in free collective bargaining. Wage cuts would only exacerbate the already difficult situation in these countries.

Focusing on European wage coordination threatens to obscure the fact that one of the main causes of Europe's problems is the weakness of collective bargaining policy in Germany. Both trade unions and employees are often under so much pressure that, rather than become unemployed under the conditions imposed by Hartz IV, they try to hang on to their jobs at any price. This is how low wages come to be agreed in collective bargaining. Liberalisation, privatisation and company restructuring involving outsourcing lead directly to lower standards with regard to wages and working conditions. Workforces are split and played off against one another. Employment conditions are increasingly unregulated by collective agreements. The competition offered by so-called »*Billiggewerkschaften*« – competing trade unions which accept lower wages – also threatens collective agreements. The pressure on wage costs also leads to numerous concessions at collective bargaining and enterprise level. Opening clauses make it possible to lower standards temporarily, whereby working hours lengthen and pay falls as the pressure to become more efficient grows. Due to longer and longer periods of validity, months with no pay rises and lump-sum payments employees end up relinquishing considerable sums. In combination, the factors outlined here affect wage development in such a way that, by European comparison, it amounts to dumping. The service sector in Germany is particularly affected by the developments described here.

Since 2006, therefore, the trade unions in Germany – primarily ver.di and the Nahrung-Genuss-Gaststätten (NGG) trade union (food industry and catering) – have been calling for a statutory minimum wage of the kind found in most other European countries for years. In Europe, we need a coordinated minimum wage policy with the aim of achieving a minimum wage of 50 to 60 per cent of average income. An important starting point in German politics is labour market legislation. The Hartz reforms must be amended because they were deliberately aimed at weakening free collective bargaining and reducing wage costs. The system of blanket collective agreements must be stabilised by facilitating agreements that are generally binding, extending the law on posted workers to all wage categories and worker-friendly procurement laws. Collective bargaining policy which performs its distribution function properly needs an institutional framework and supporting economic, fiscal and labour market policy. The trade unions are in some agreement with Toralf Pusch on a number of points.

In spite of all that, however, it must not be forgotten that the guidelines with regard to our living standards are set in Brussels. Market-driven deregulation and unbridled competition, privatisation and cuts in social security systems have their starting point there. The member states' room to manoeuvre is becoming increasingly restricted in Brussels. In that case it would be fatal to put the fox in charge of the henhouse, which is what Toralf Pusch's preferred macroeconomic scoreboard would achieve. Within the framework of economic governance reform, the crisis is to be used to annul free collective bargaining. The aim is to restore balance and in accordance with Germany's supposedly successful model: real wage cuts, in the end, are to lead to even better corporate profits across Europe. The European Trade Union Confederation (ETUC) is resolutely resisting this development. The campaign against the services directive was an ETUC success. The most recent developments more than ever call for a campaign which brings influence to bear by mobilising critical public opinion and based on a genuine public movement. The question, therefore, is not whether the trade unions could contribute to stability, but rather how the trade unions will be able, together with a government which has people's interests at heart, to bring economic developments into balance and improve living standards and future prospects for everyone in Europe.

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