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Integration and disintegration in the European Monetary Union

Workshop in Honour of Annamaria Simonazzi

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“The EMU’s institutional architecture was based on the assumption that countries that met the so-called “Maastricht criteria” for accession were on a level playing field ... It was believed that monetary union would increase symmetry, thereby encouraging convergence of the members’s economies ... As a result, the EMU institutions left the currency disembedded from the fiscal, social and political institutions required to make a currency union viable”

(A. Simonazzi, V. Ciampa, L. Villamaina (2019), Italy: How could industrial relations help a return to economic and social convergence, in: D. Vaughan-Whitehead (ed.), Towards convergence in Europe p. 205

After a short honeymoon especially in Southern Europe because of low interest rates – increasing signs of disintegration in the EMU’

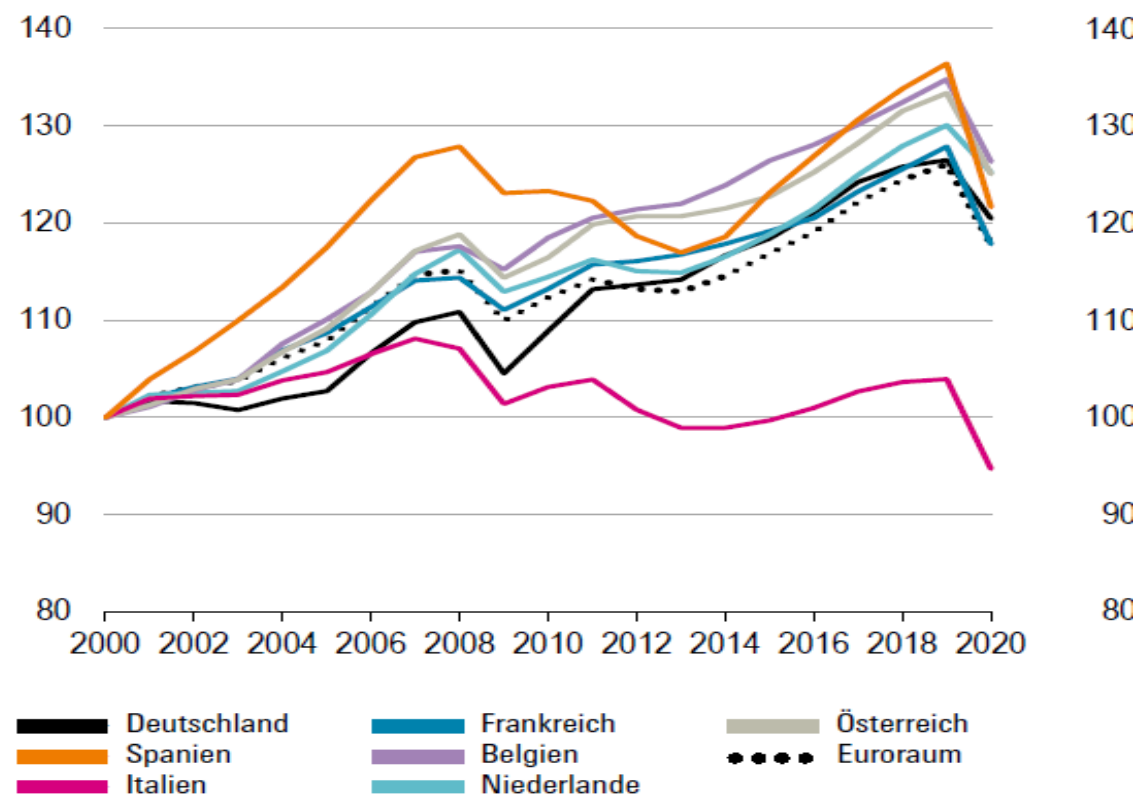
Policies to increase integration have to take place at two levels

National level: Each country has to do its homework

At EU level: Co-ordinated fiscal and social policy

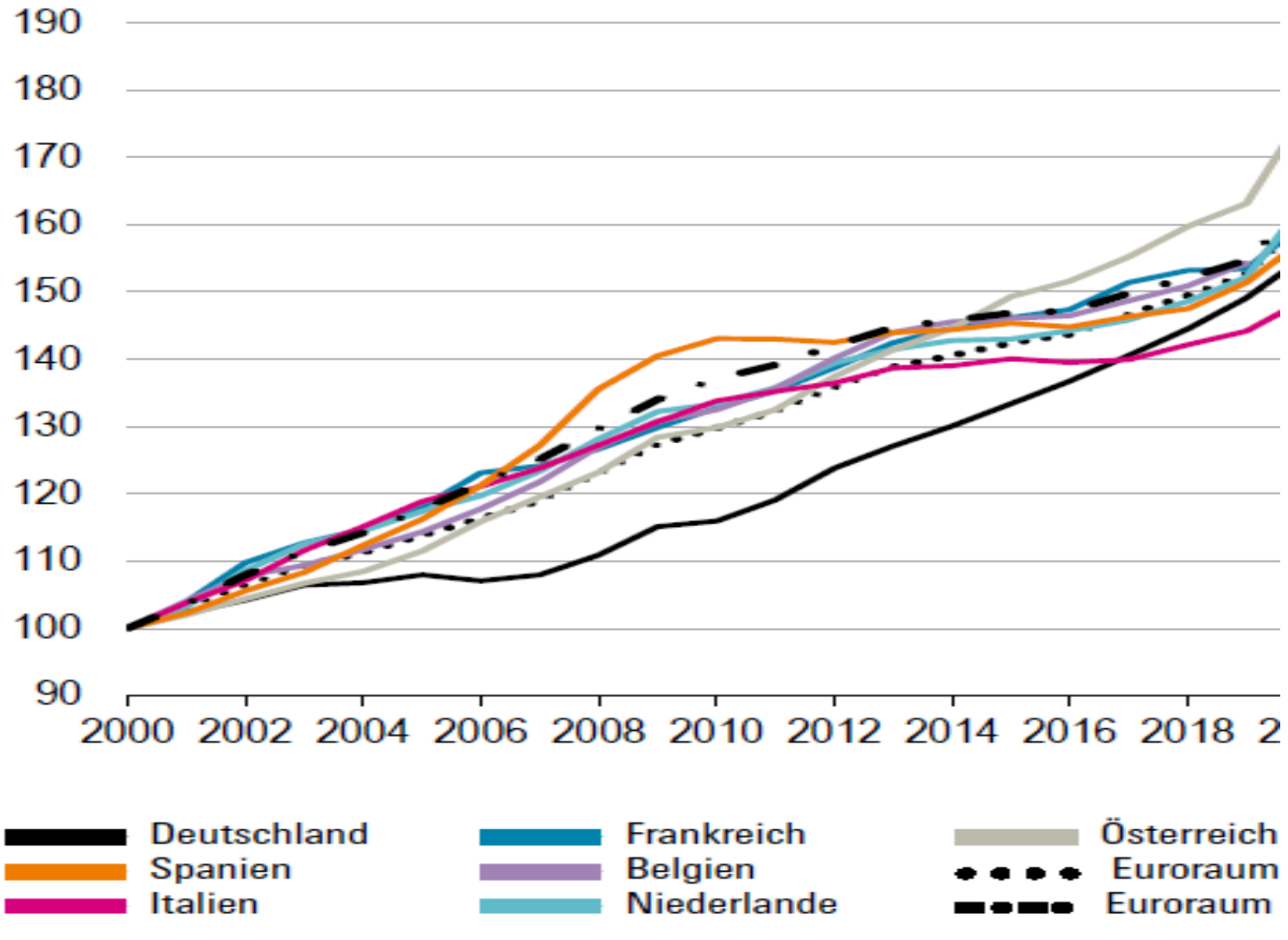
I will look at the „homework“ of Germany and the EU level

Real GDP in the Eurozone (2000=100)



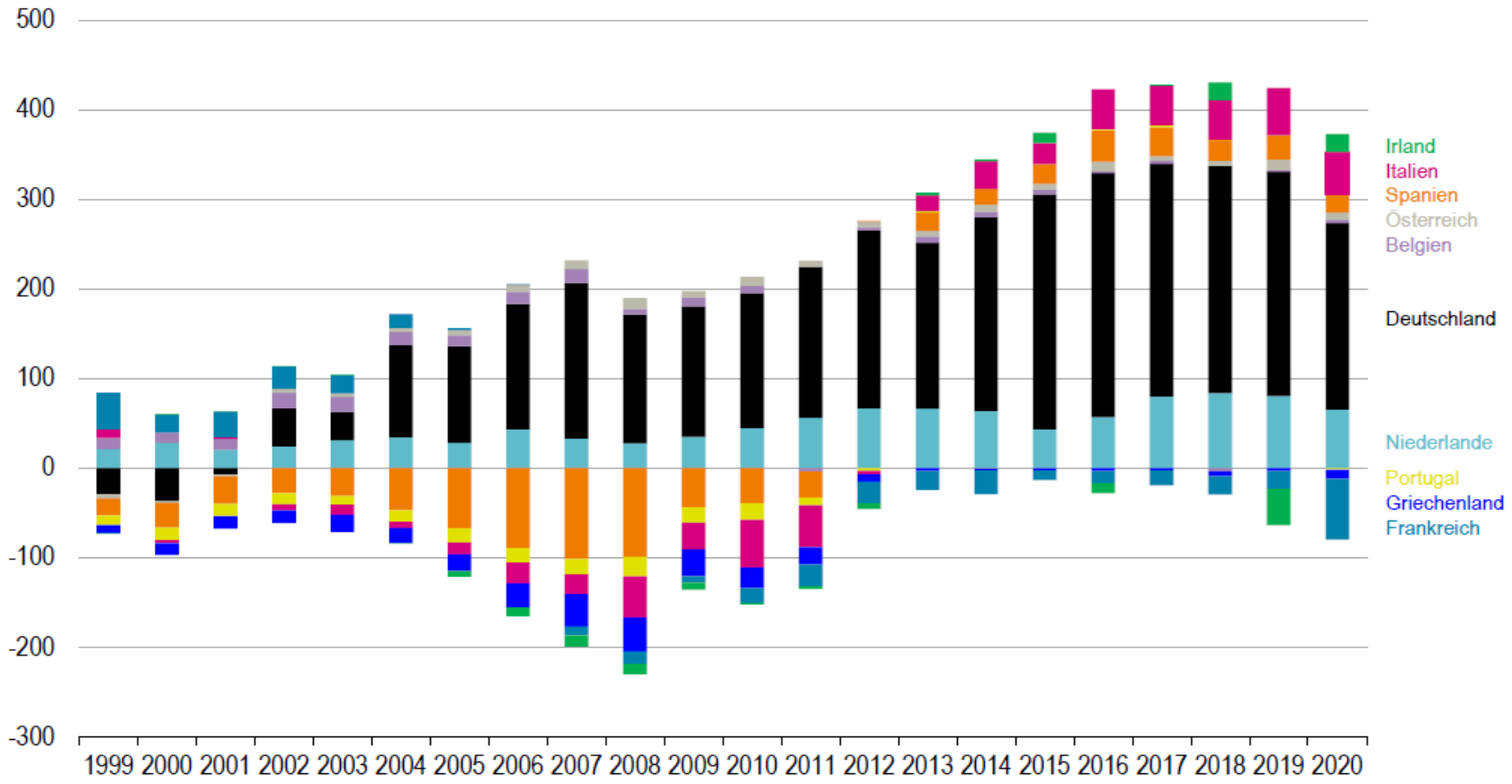
Source: IMK Report 170 2021

Nominal hourly wages in the Eurozone (2000=100)



Source: IMK Report no 170. August 2021:

Balance on current accounts in the Euro Zone



Source: IMK Report No. 170

Reasons for low wage German wage increases

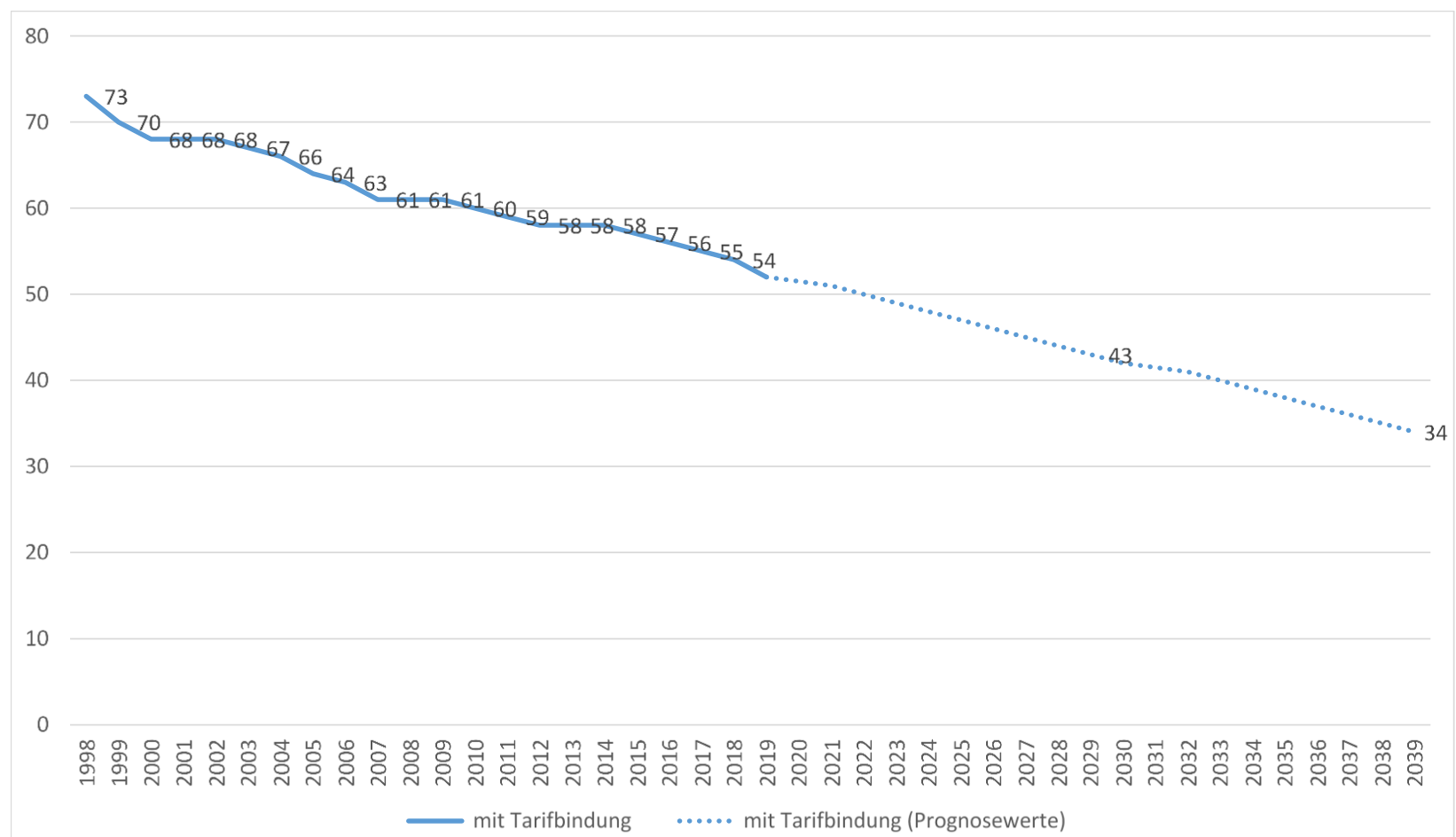
Not wage moderation of strong union but erosion of the formerly inclusive wage system

Coverage by CA's declined from 85% in 1990 to 54% in 2020

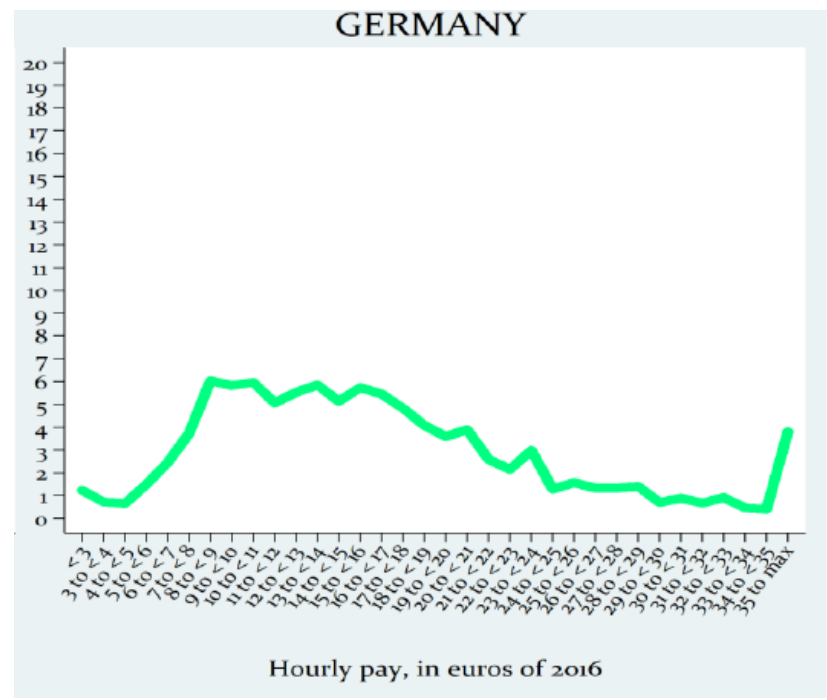
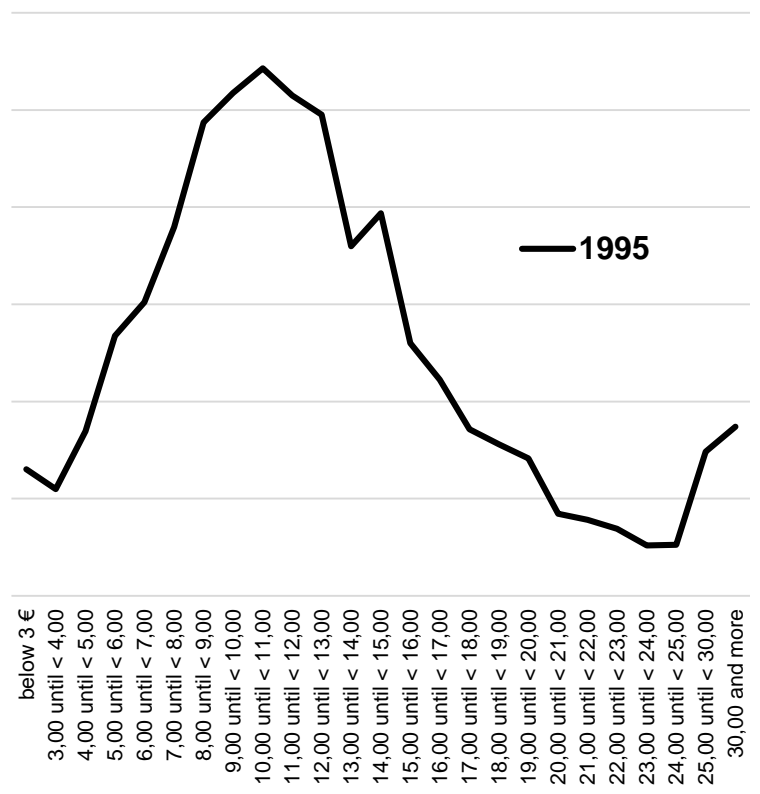
Main reasons: *privatization of public services, outsourcing of activities, complete refusal of employer's organization to agree to the extension of CA's, labour market deregulation, EU competition laws (posted workers and prevailing wage laws)*

Erosion of German wage system reached break-over point – blocking re-regulation = deregulation

Coverage by Collective Agreements in Germany 1998 – 2019 in % of employees – extrapolation to 2040



Wage curves in Germany 1995 and 2016



Source:SOEP

What can be done to increase the coverage by CA's

National level: Main instruments

- Facilitation of extension of CA's – also in industries without industry wide CB through an independent chairperson in the national CB-committee
- Prevailing wage laws in public procurement

Many legal obstacles in the EU „Posted Workers Directive“ (WPD)

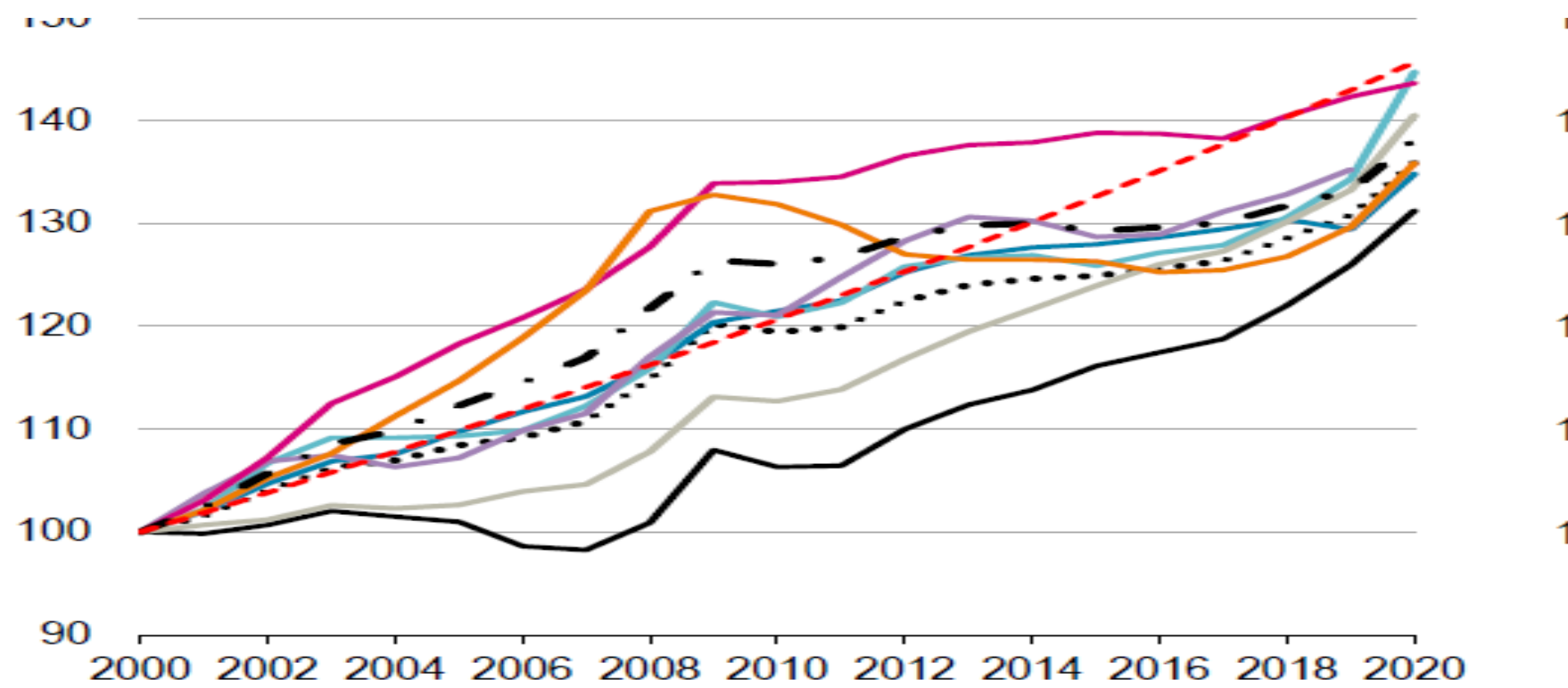
EU –Level: Main instruments

- Social rights must become basic rights as the four economic freedoms
- Changes of the WPD: No intervention in wage system, just avoidance of the discrimination of EU-companies
- Proposal for MW directive : „establish an action plan to promote collective bargaining if at least 70 percent of workers are not covered by collective agreement“

Difficult: EU stronger in negative than in positive integration (Scharpf)

Offen in Denken

Unit costs in the Eurozone (2000=100): lower increase in Germany because of lower wage and higher productivity increases



* Für Belgien liegen keine Quartalswerte vor.

- Deutschland
- Frankreich
- Österreich
- Spanien
- Belgien
- Inflationsziel der EZB
- Italien
- Niederlande
- Euroraum

Many reasons for productivity increases per w-hour

- Work organization including w-time flexibility, skills, scale effects, product and process innovations

R&D investments one important innovation indicator for future productivity increases: Southern Europe far behind

R&D expenditure in % of GDP

	2000/1	2019
Germany	2,4	3,2
Denmark	2,3	2,9
Sweden	3,9	3,4
Italy	1,0	1,5
Spain	0,9	1,3
USA	2,6	3,1

Conclusions

- **Erosion of inclusive European wage systems is a major source of downward cost competition and trade imbalances**
- **EU competition law and Troika interventions major driving force**
- **Instruments for a positive integration much weaker (for example „Minimum Wage Directive“)**
- **German exports not very price elastic – EU-studies argue that the impact of none price factors has grown (probably because of the higher R&D investments in the North compared to the South of the EU)**
- **As or more important as higher wage increases in Germany is a proactive national fiscal policy**