

Productivity Growth, Wage Growth and Unions

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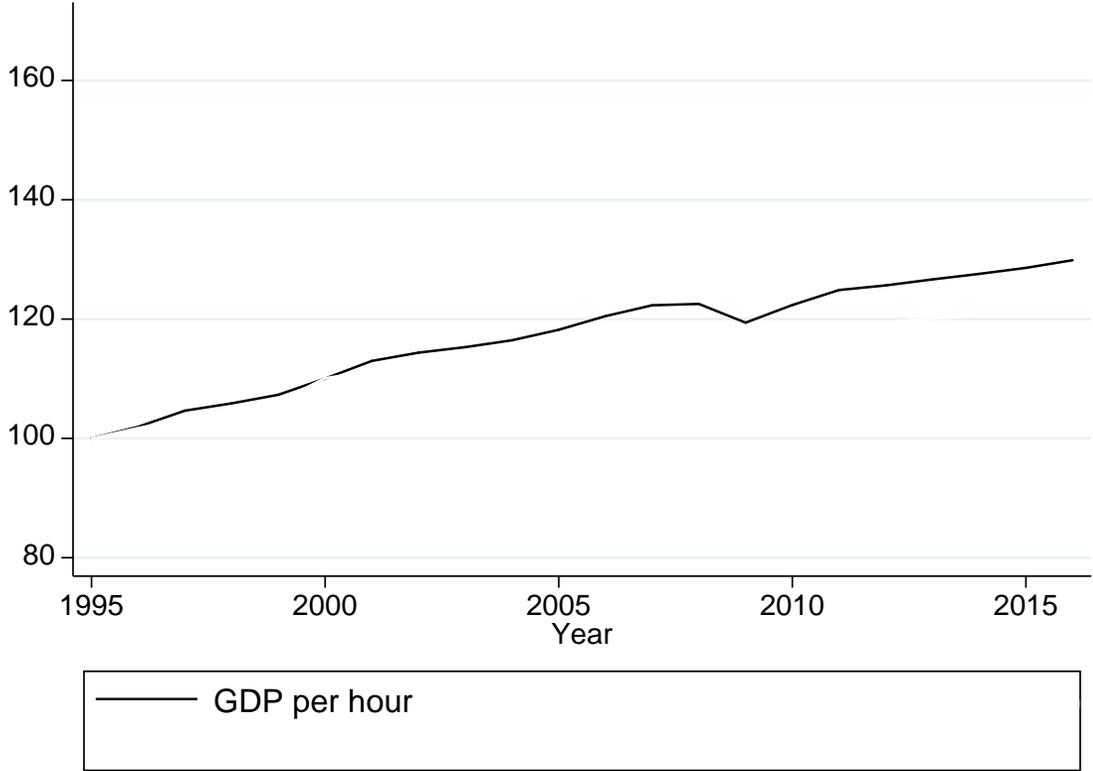
² Institute for Employment Research, Nuremberg

Questions

- **Wage growth:** Did real wages grow? Or did they stagnate?
- **Decoupling:** Did wages increase in tandem with productivity? Or did wages decouple from productivity?
- **Unemployment:** How did unemployment evolve before and after the Great Recession?
- **Wage Inequality:** Did wages increase more at the top than at the bottom of the wage distribution?
 - Focus: Germany and France (Paper: nine advanced countries)
 - Data Source: OECD Economic Indicators
 - Time period: 1995-2016

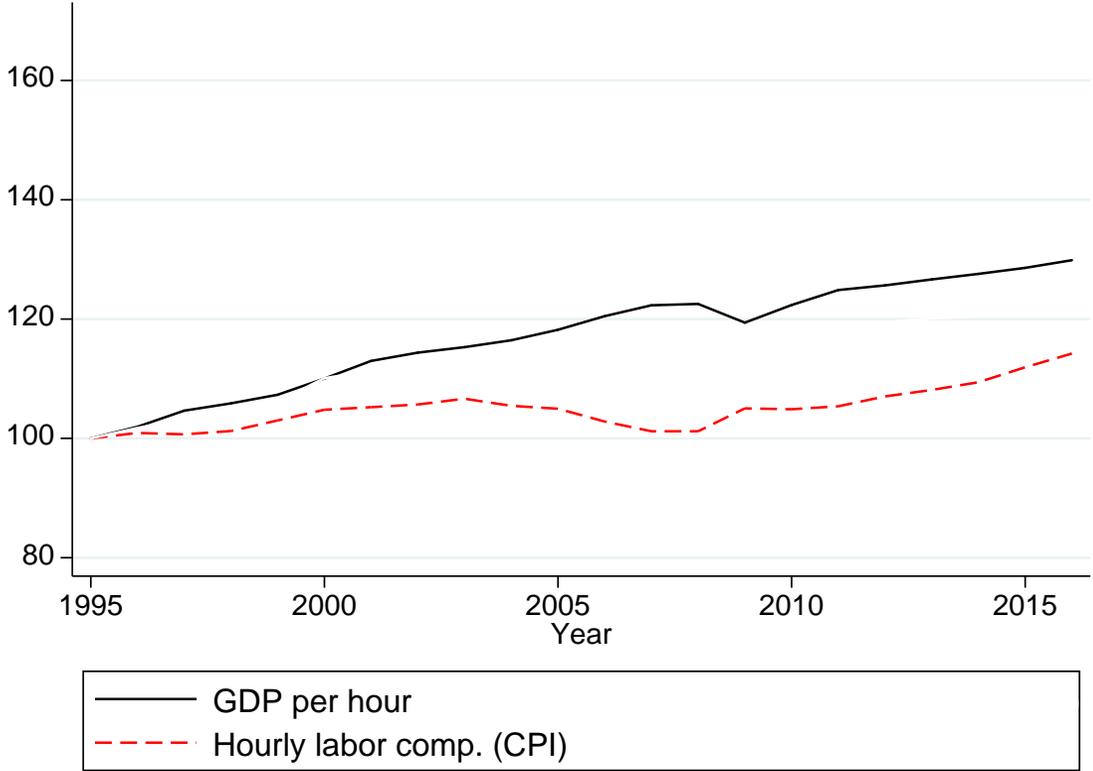
Trends in Productivity, Wages and Employment

Germany



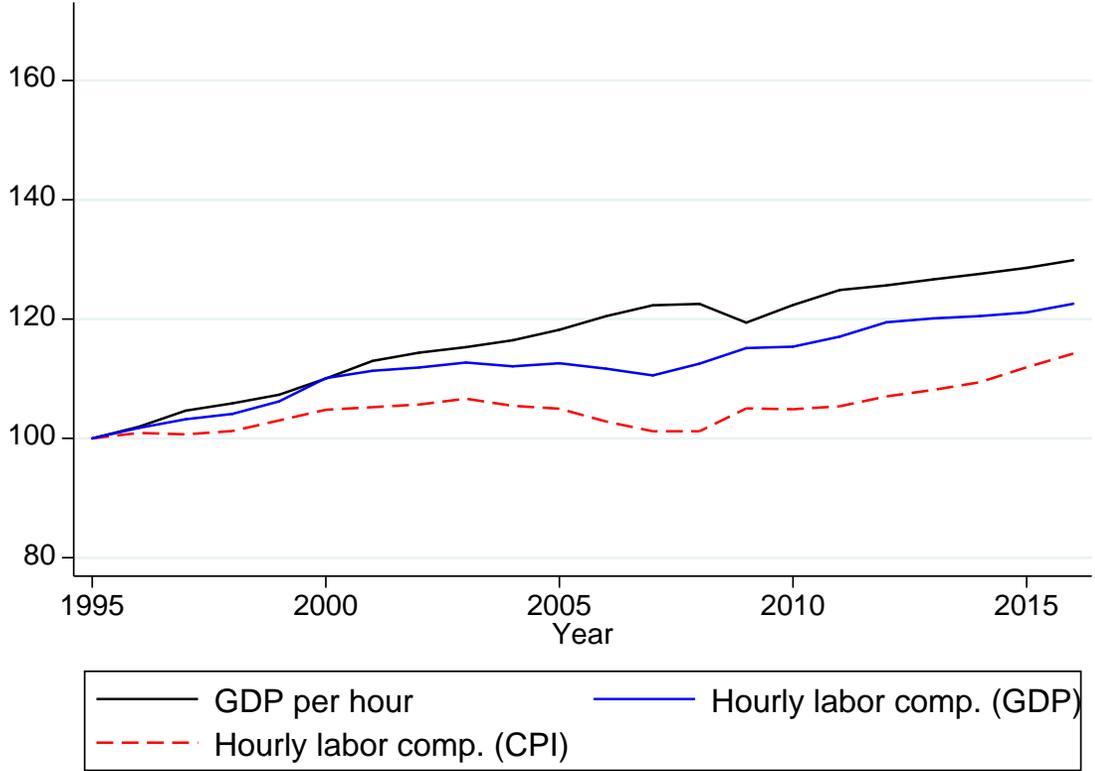
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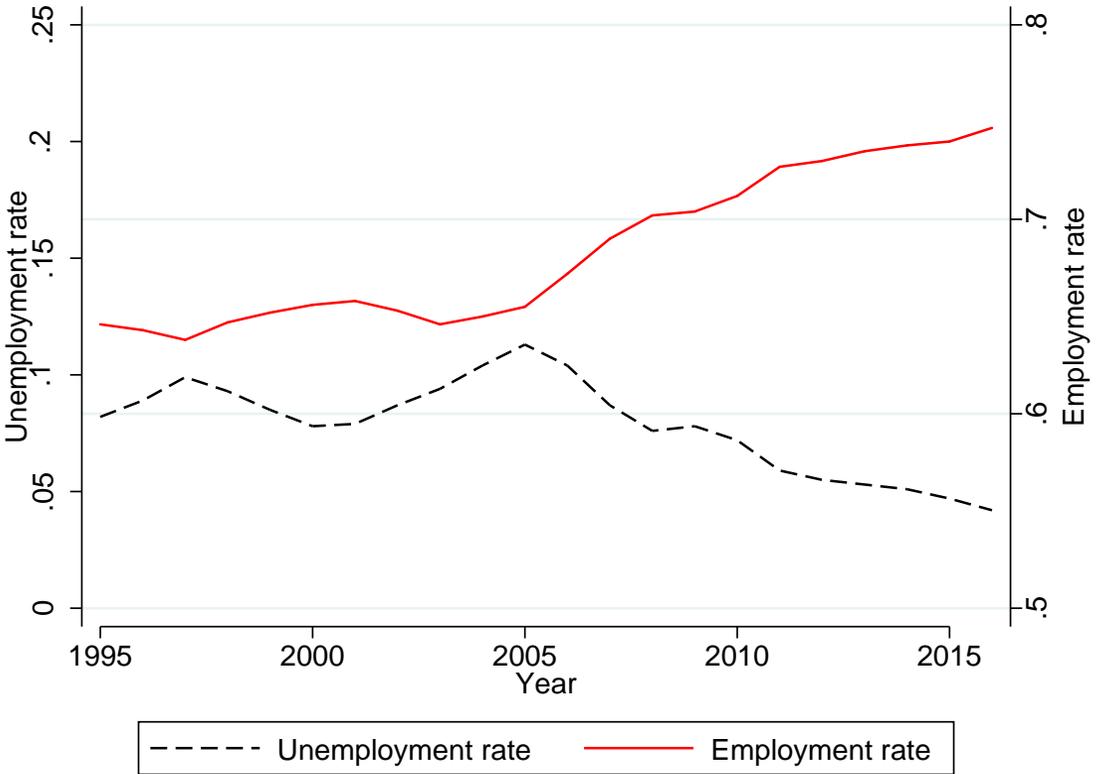
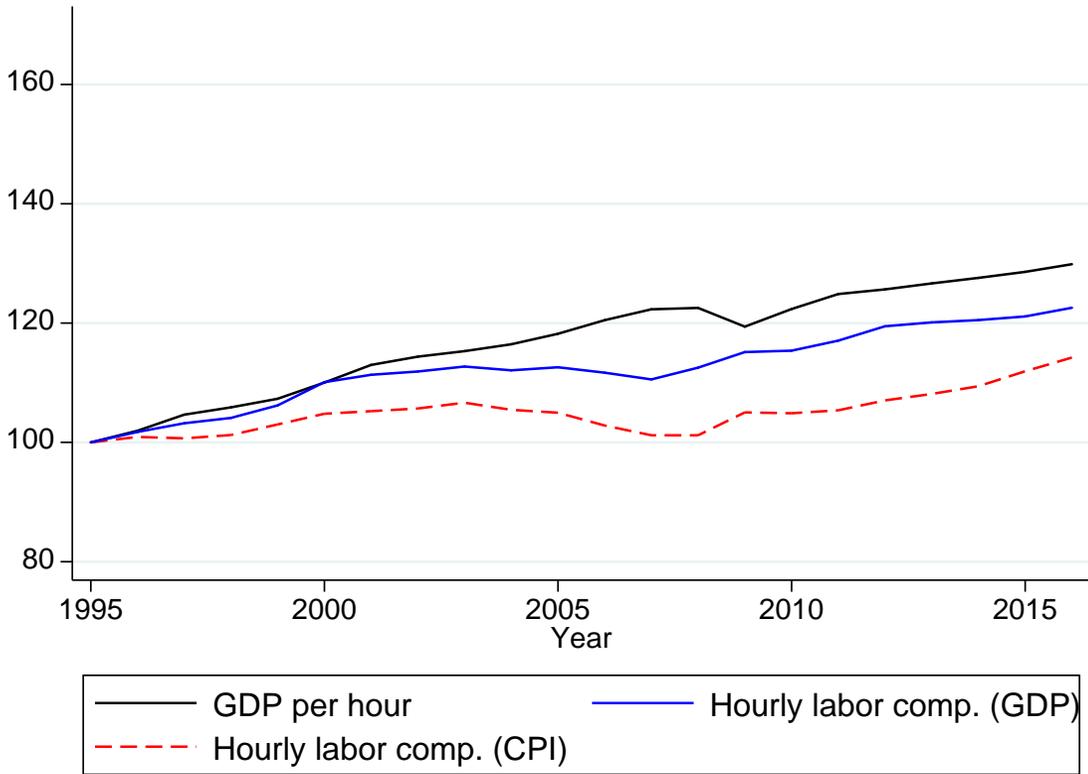
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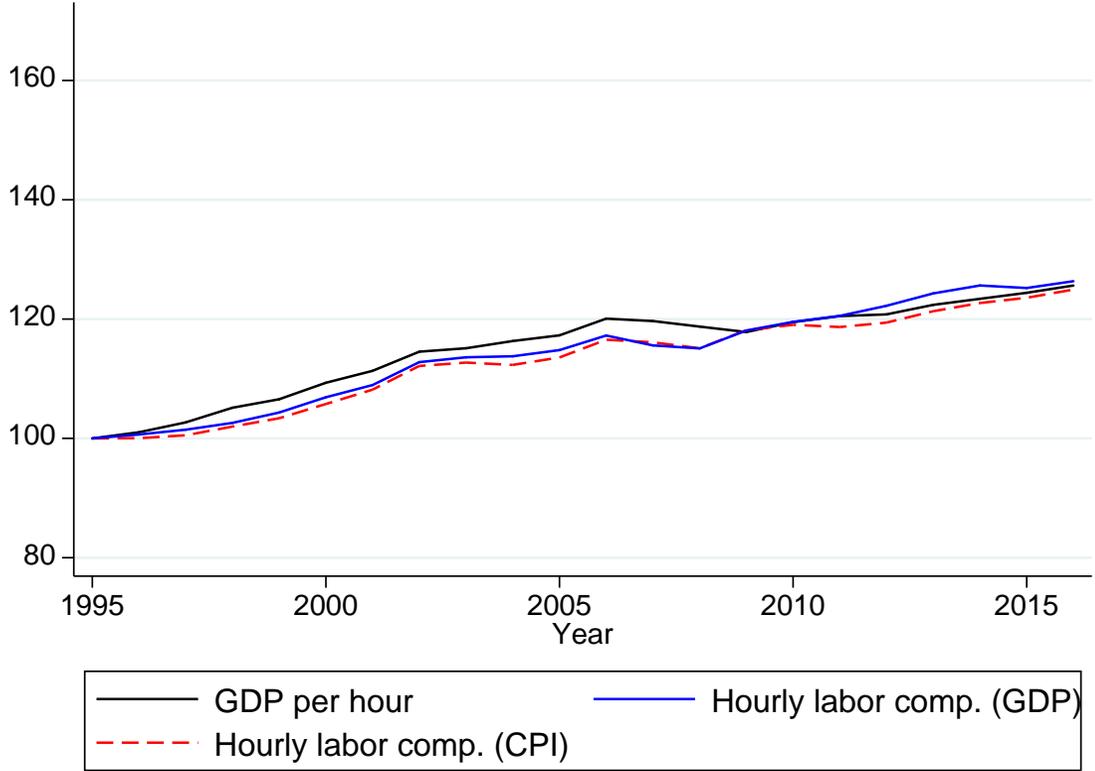
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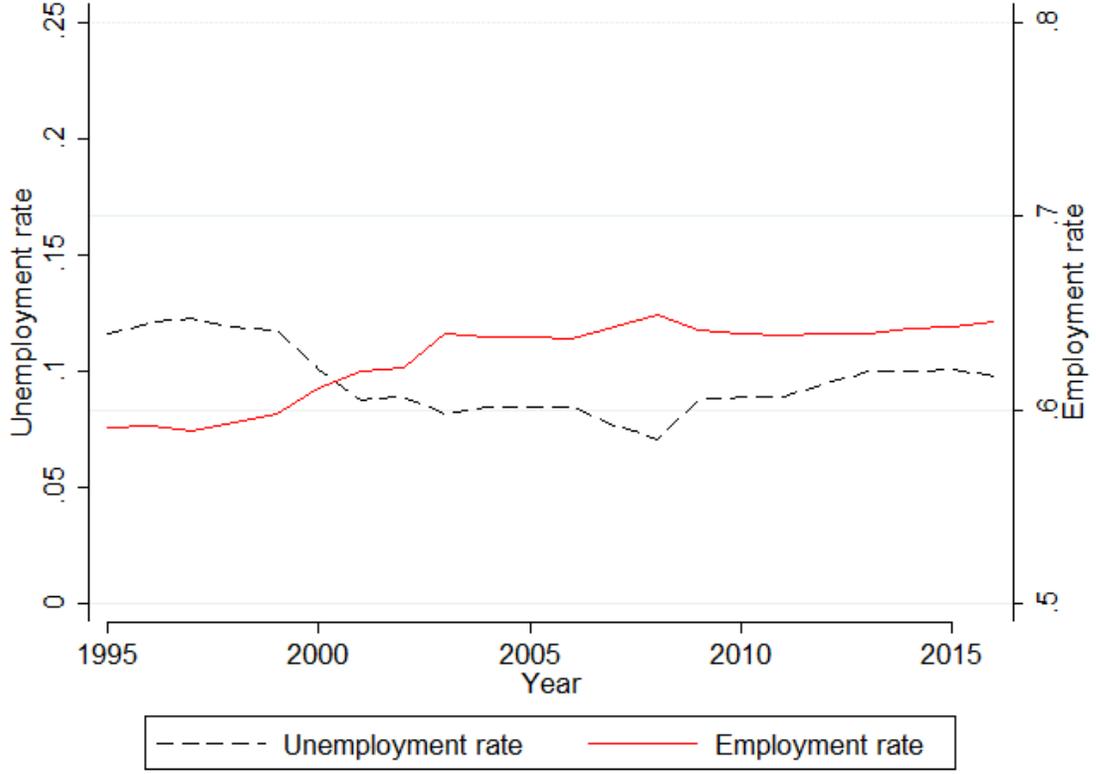
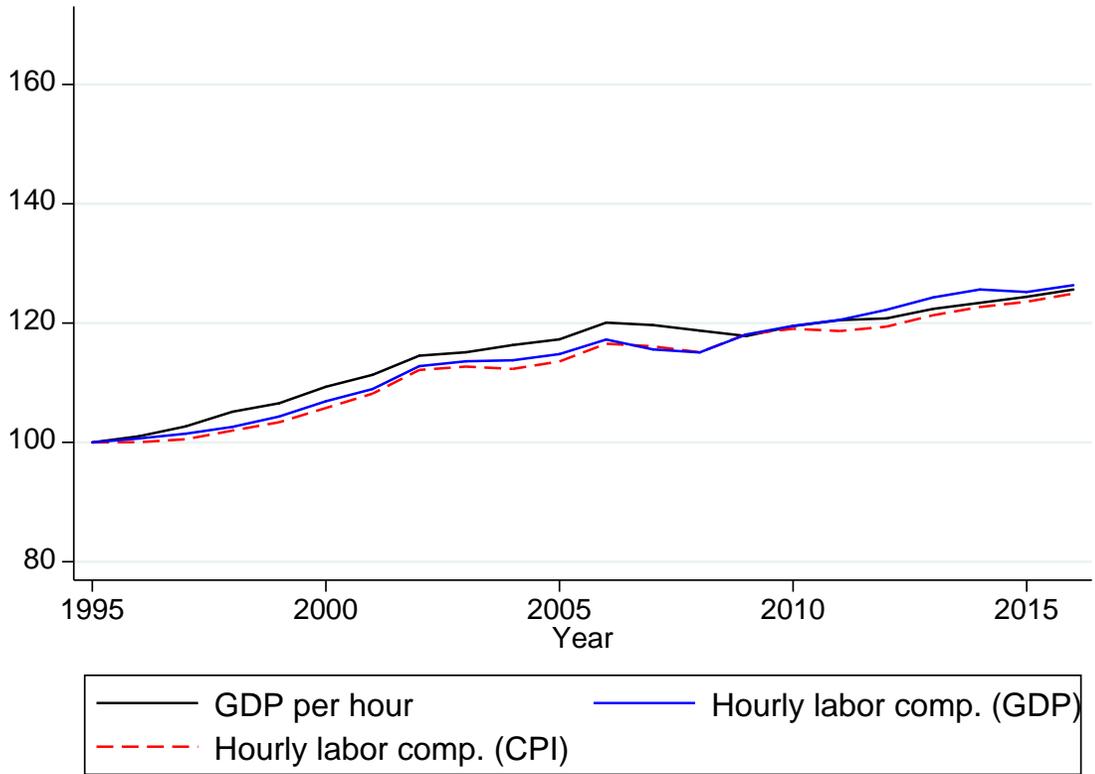
Trends in Productivity, Wages and Employment

France



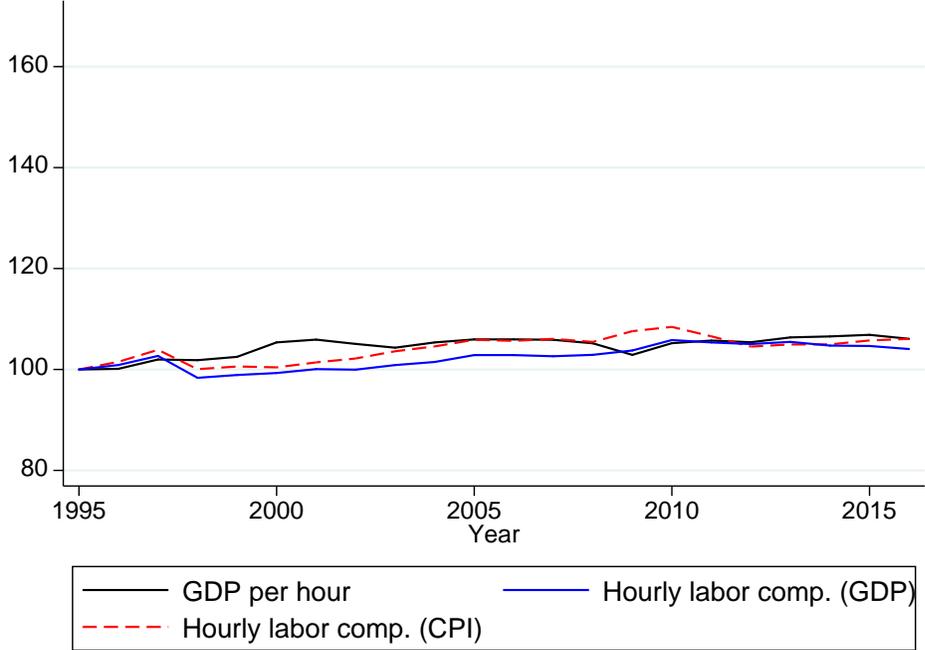
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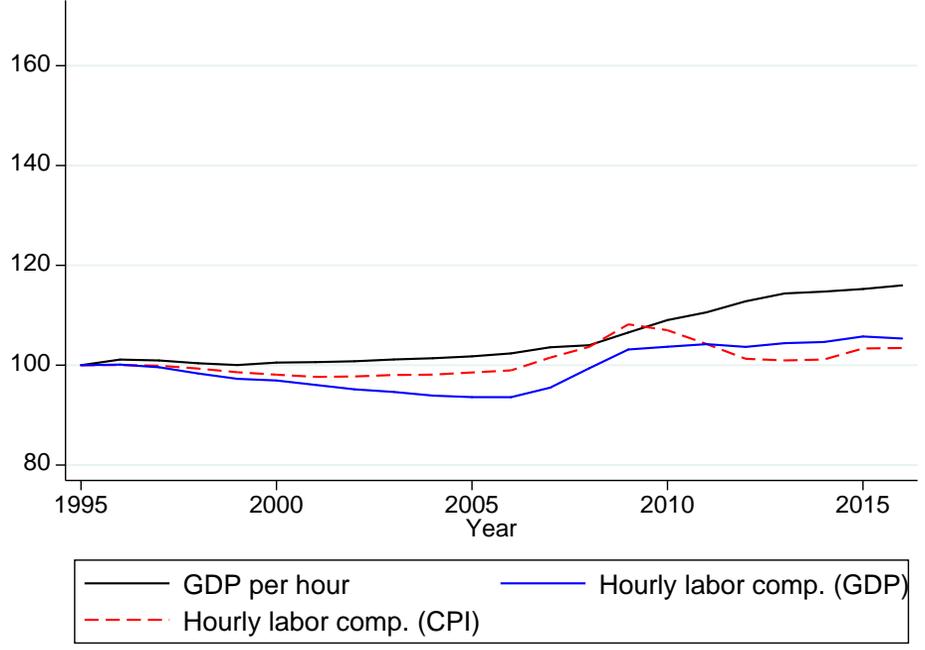


Trends in Productivity and Wages

Italy

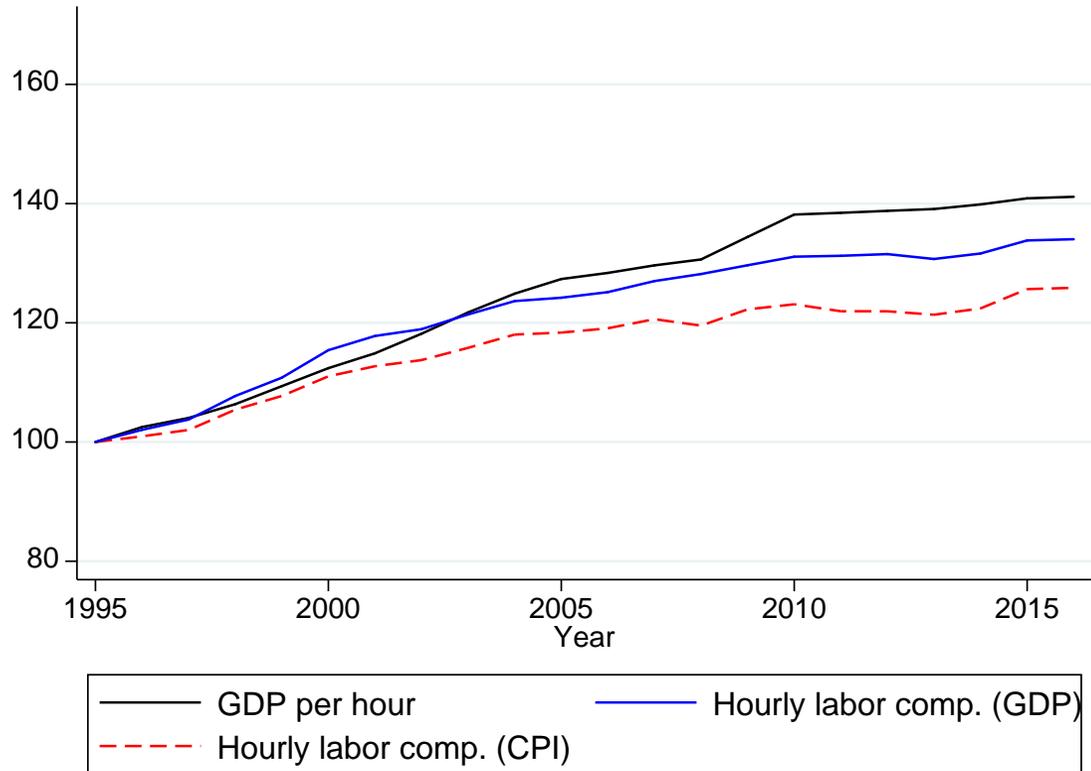


Spain

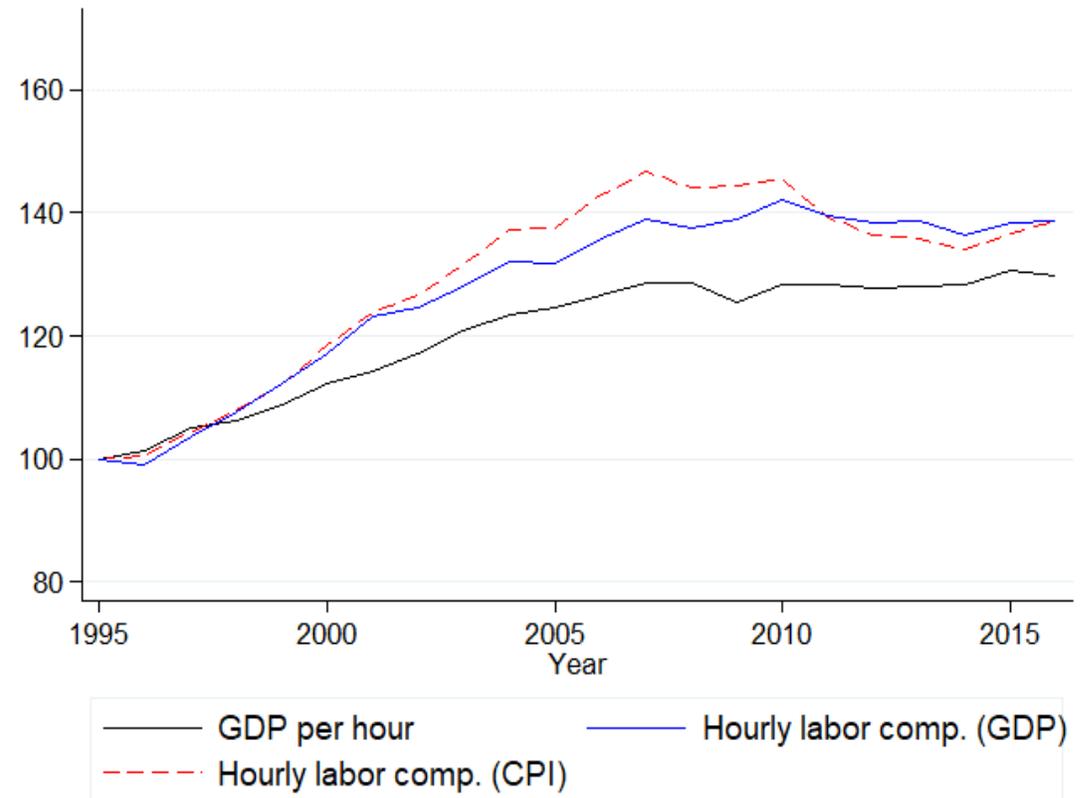


Trends in Productivity, Wages and Employment

United States

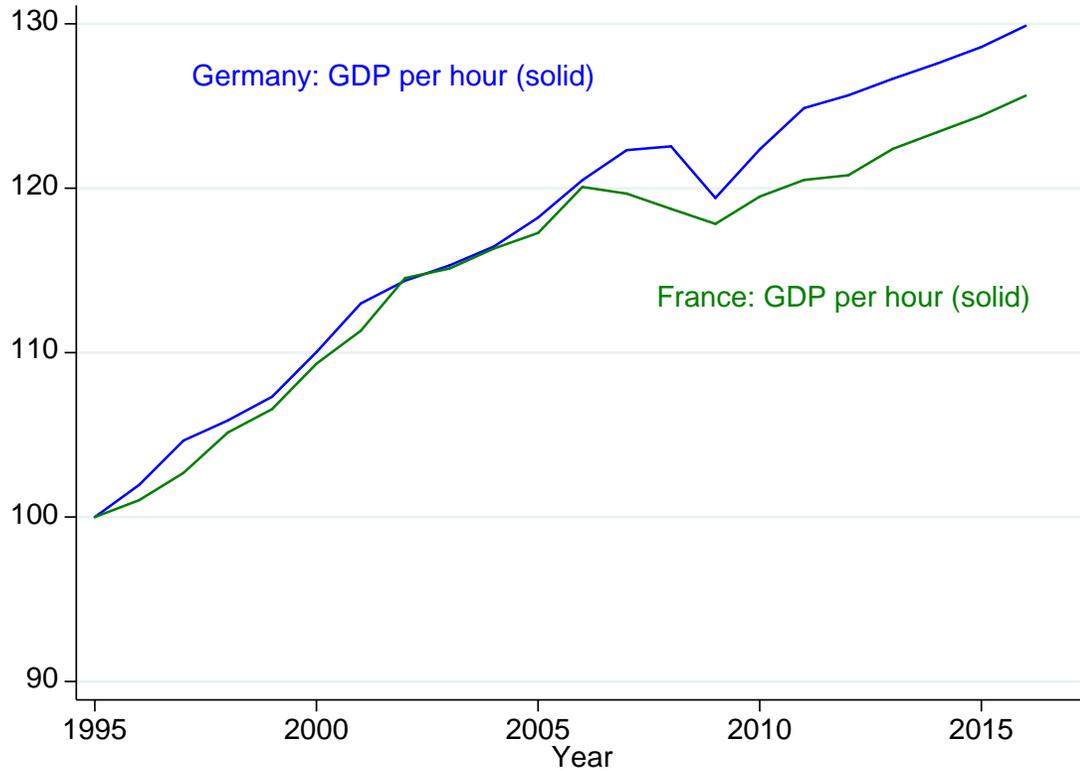


United Kingdom



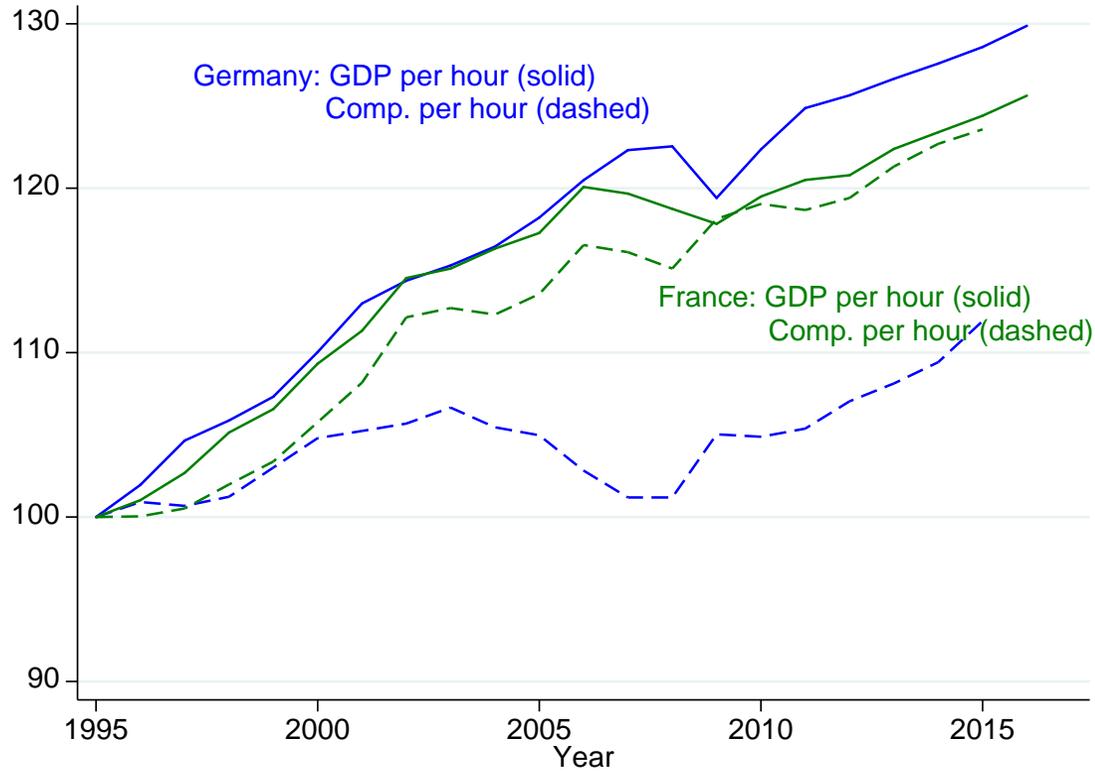
France vs Germany: Productivity and Unit Labor Costs

Labor Productivity and Compensation



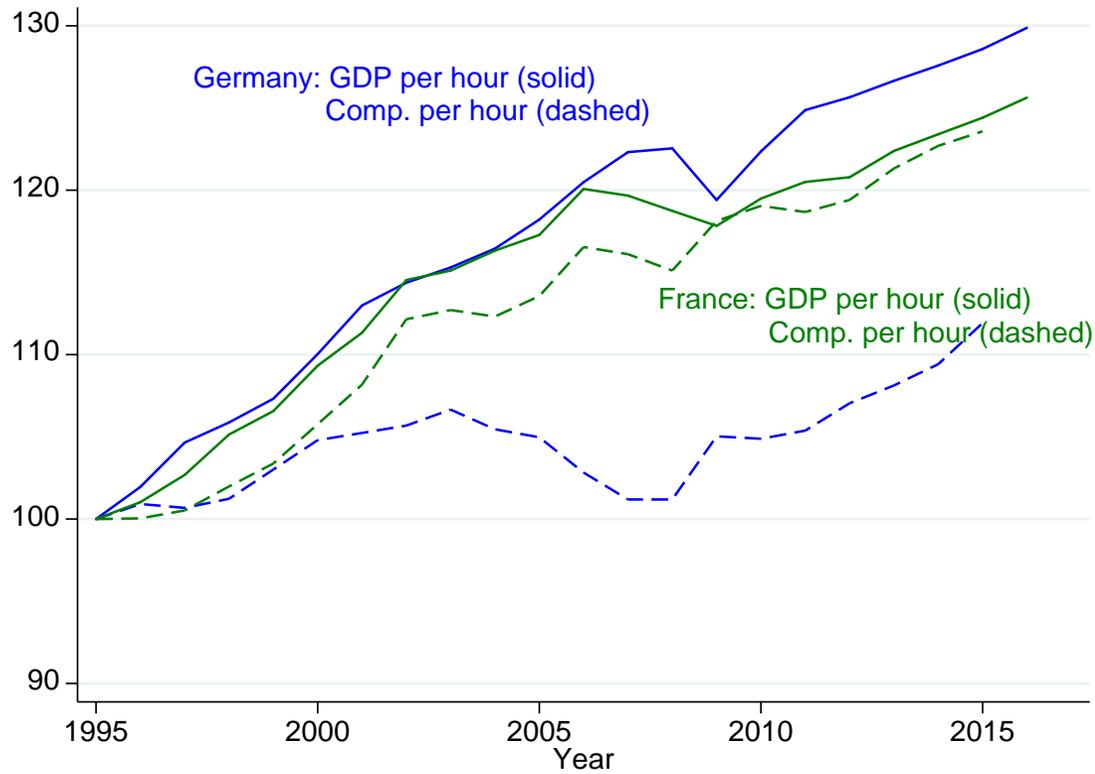
France vs Germany: Productivity and Unit Labor Costs

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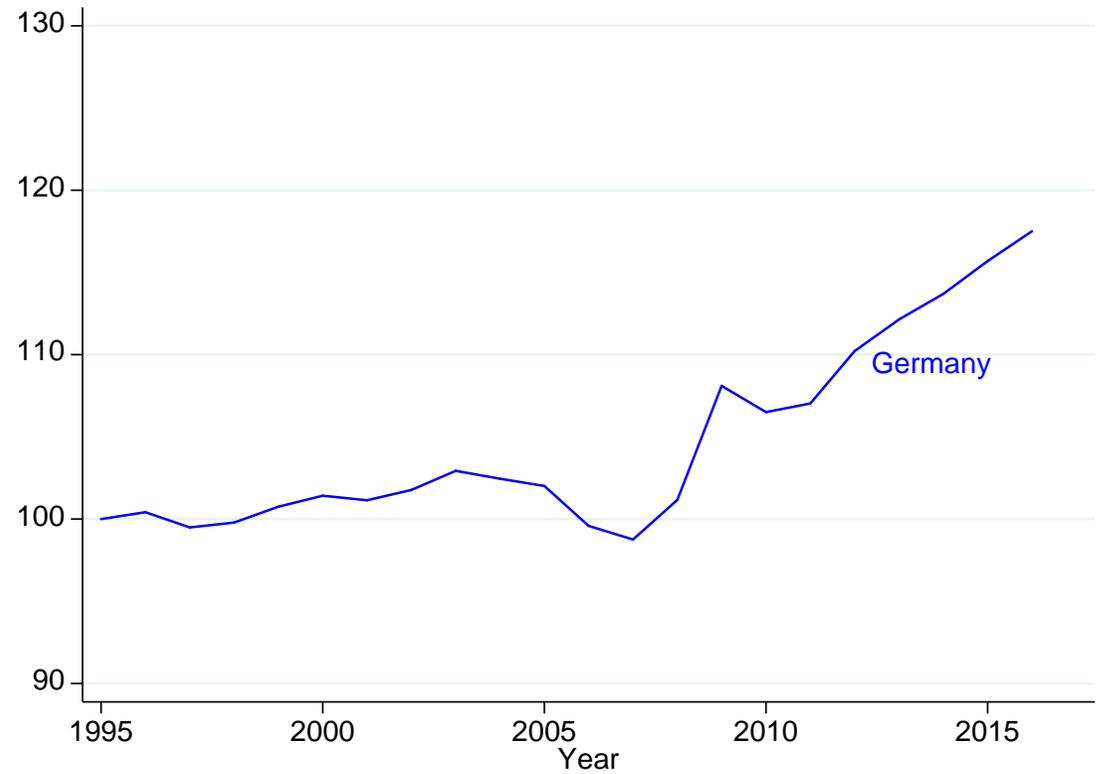


France vs Germany: Productivity and Unit Labor Costs

Labor Productivity and Compensation

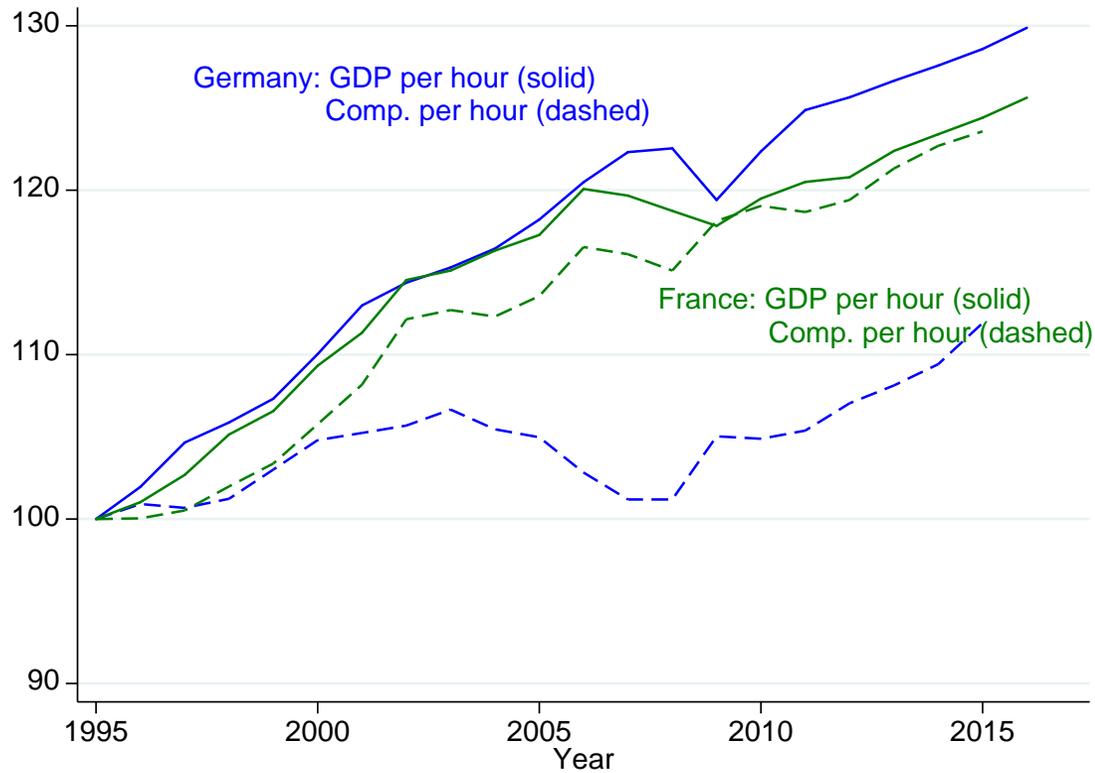


Unit Labor Cost

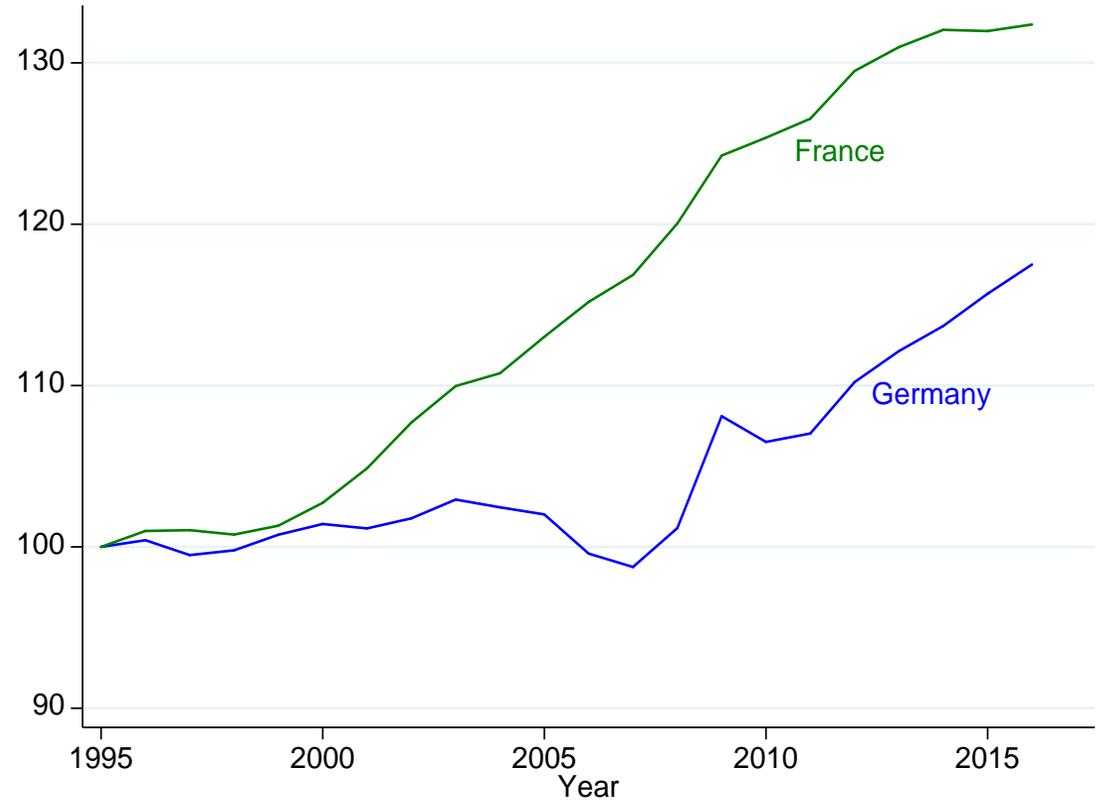


France vs Germany: Productivity and Unit Labor Costs

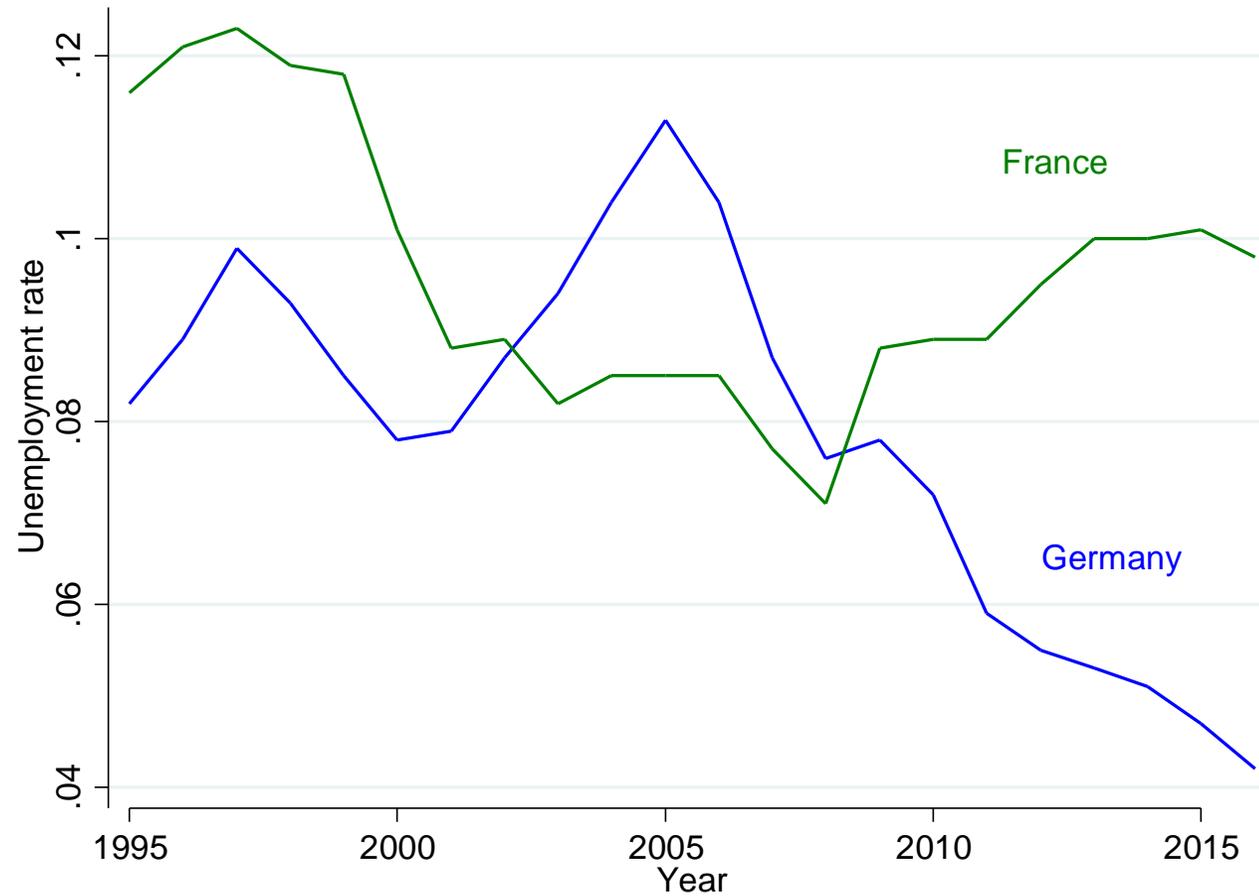
Labor Productivity and Compensation



Unit Labor Cost

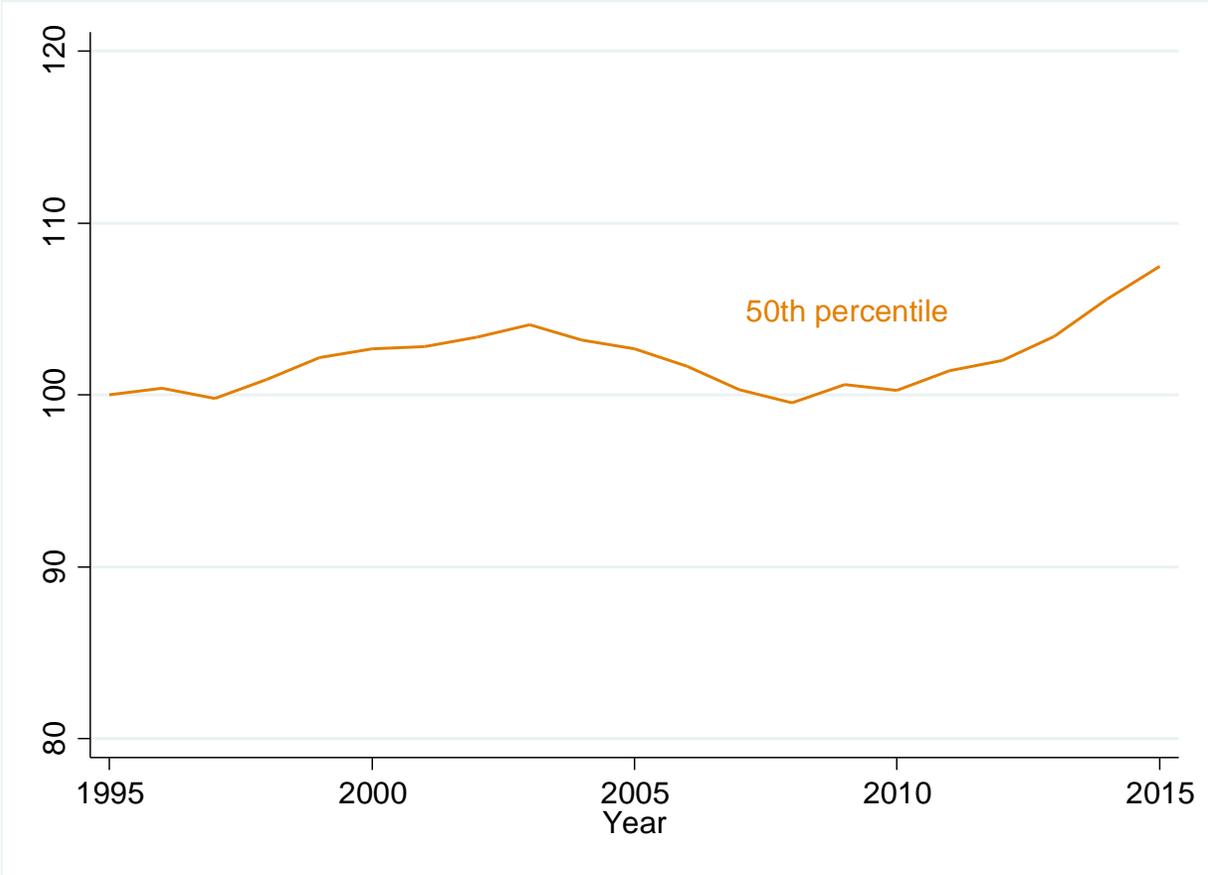


France vs Germany: Unemployment



Trends in Inequality

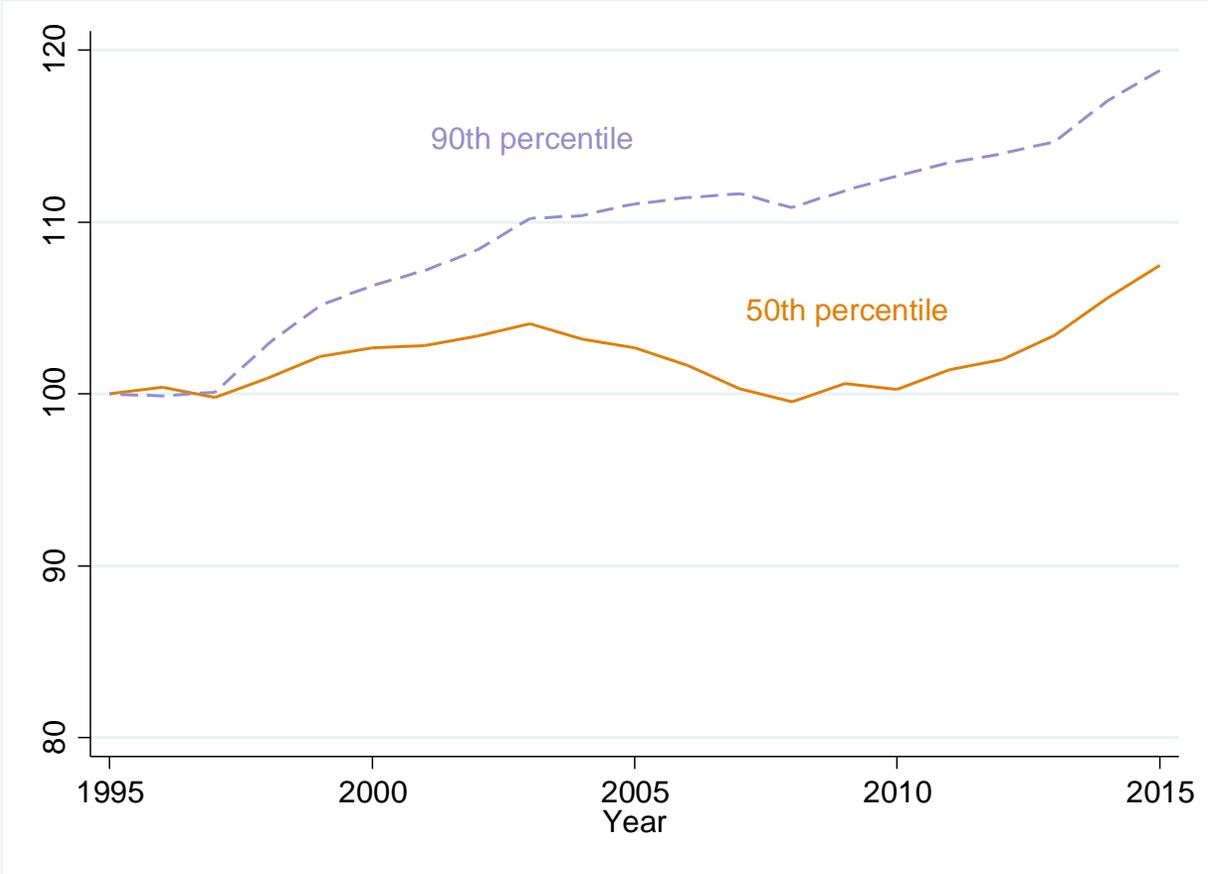
Germany



Source: Germany: 10% random sample from the IAB Employment History. France: French Labor Force Survey.

Trends in Inequality

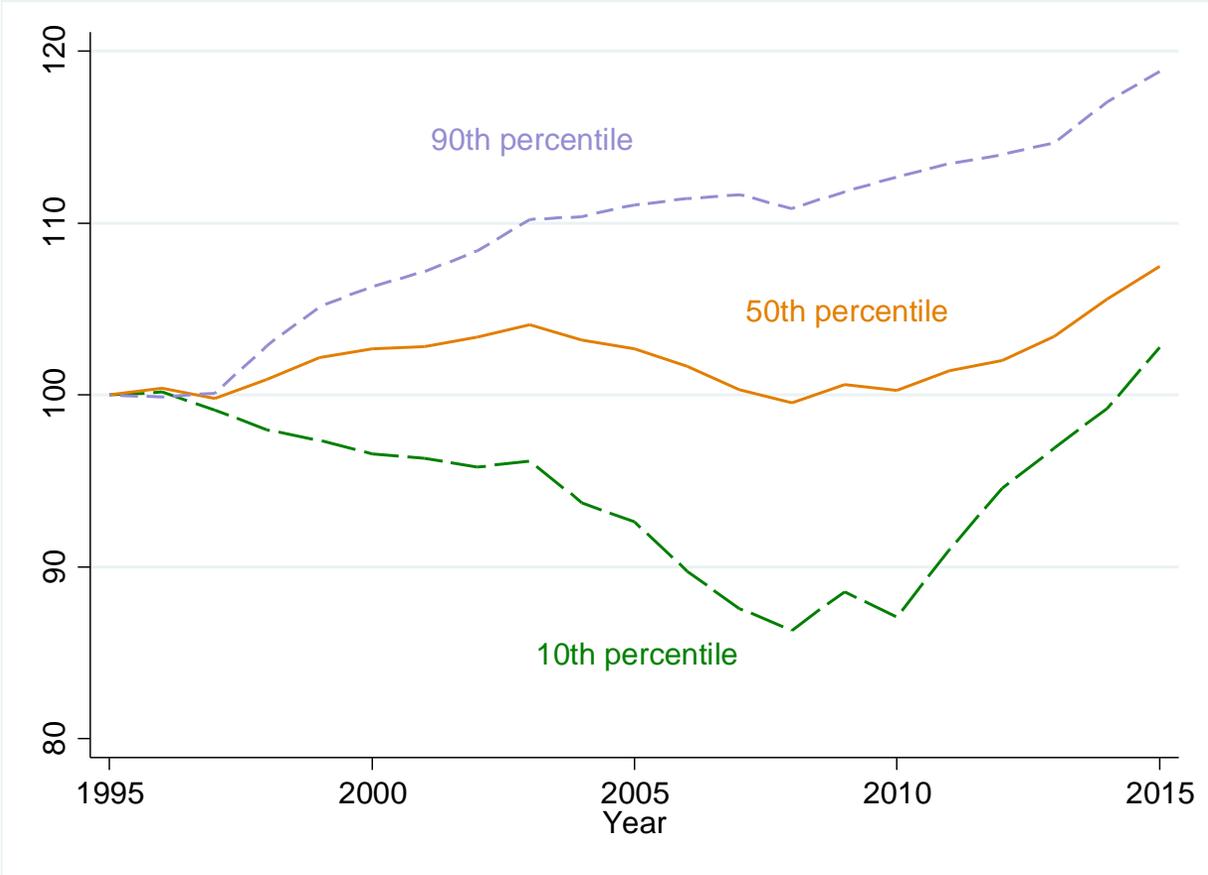
Germany



Source: Germany: 10% random sample from the IAB Employment History. France: French Labor Force Survey.

Trends in Inequality

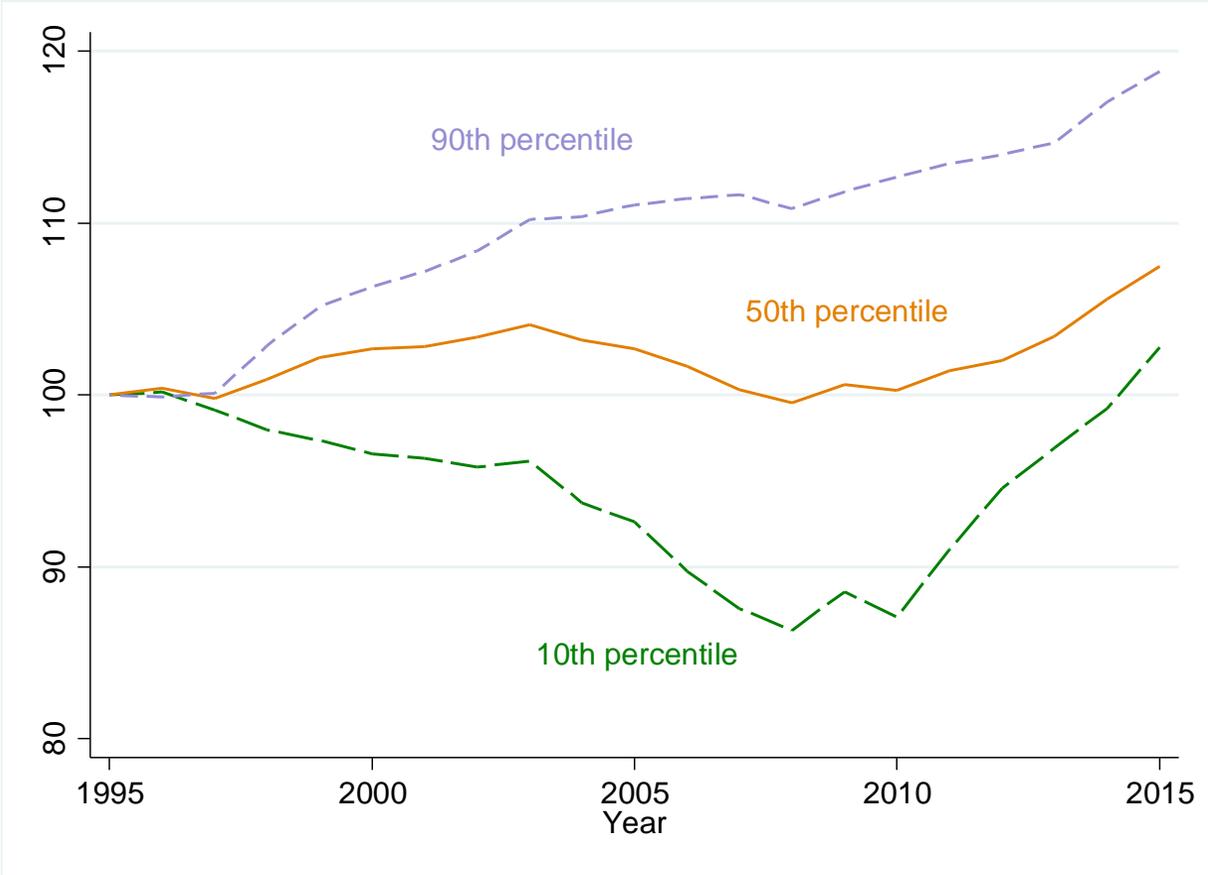
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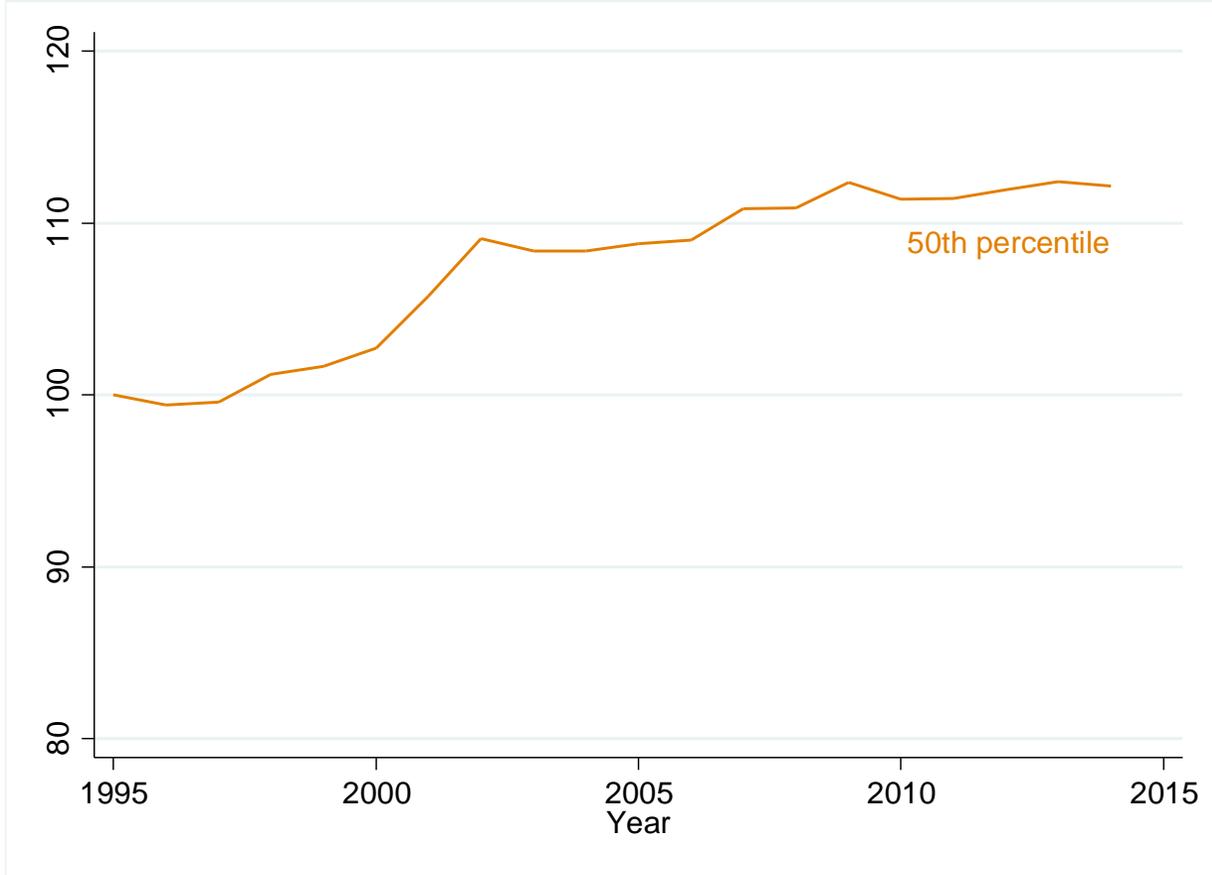
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Trends in Inequality

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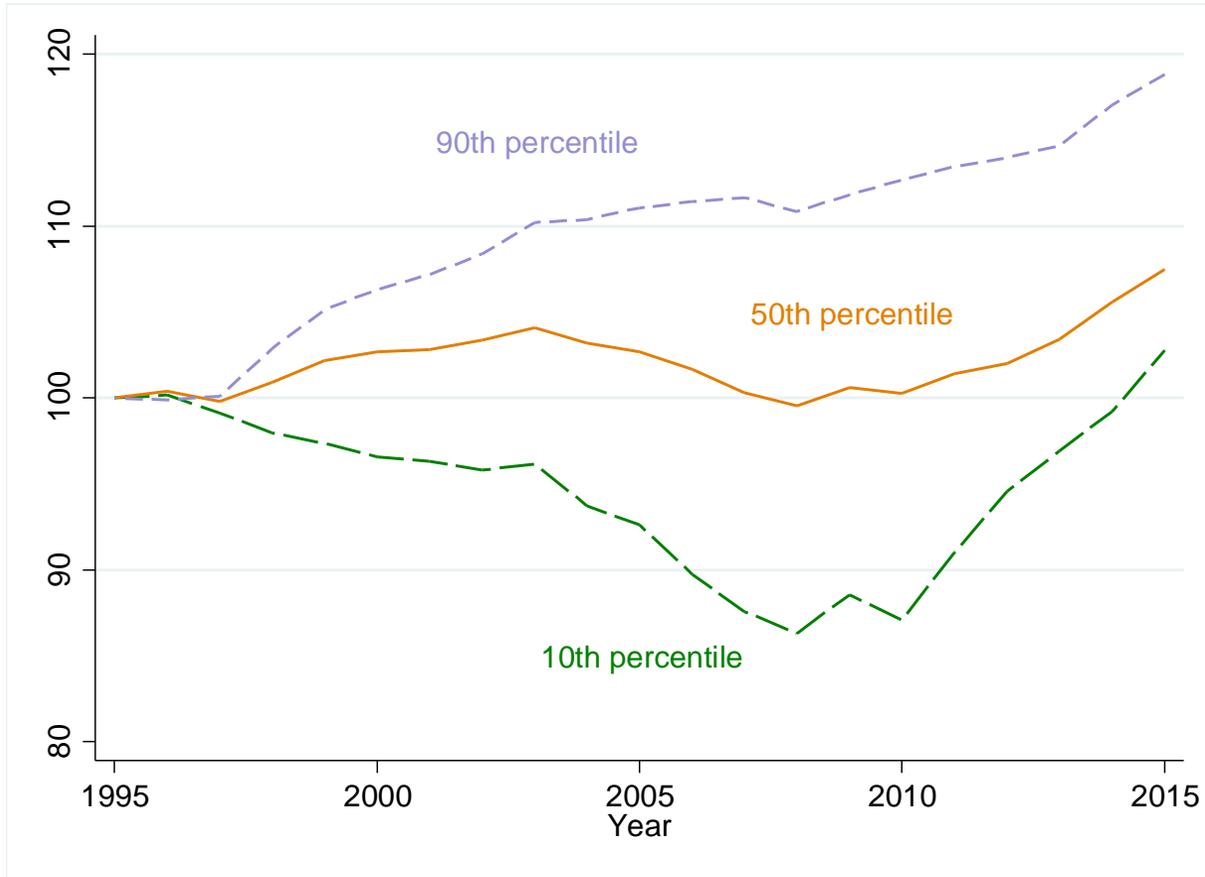
France



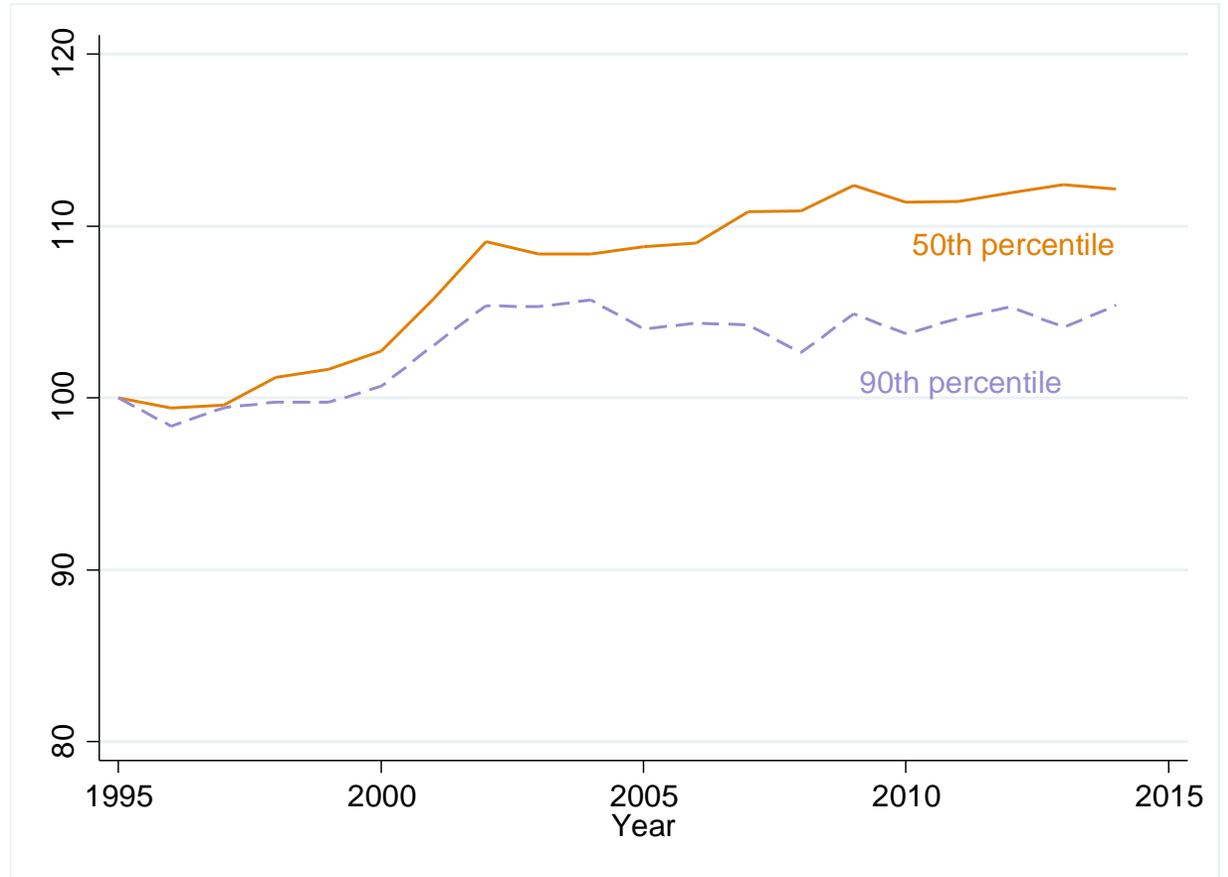
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Trends in Inequality

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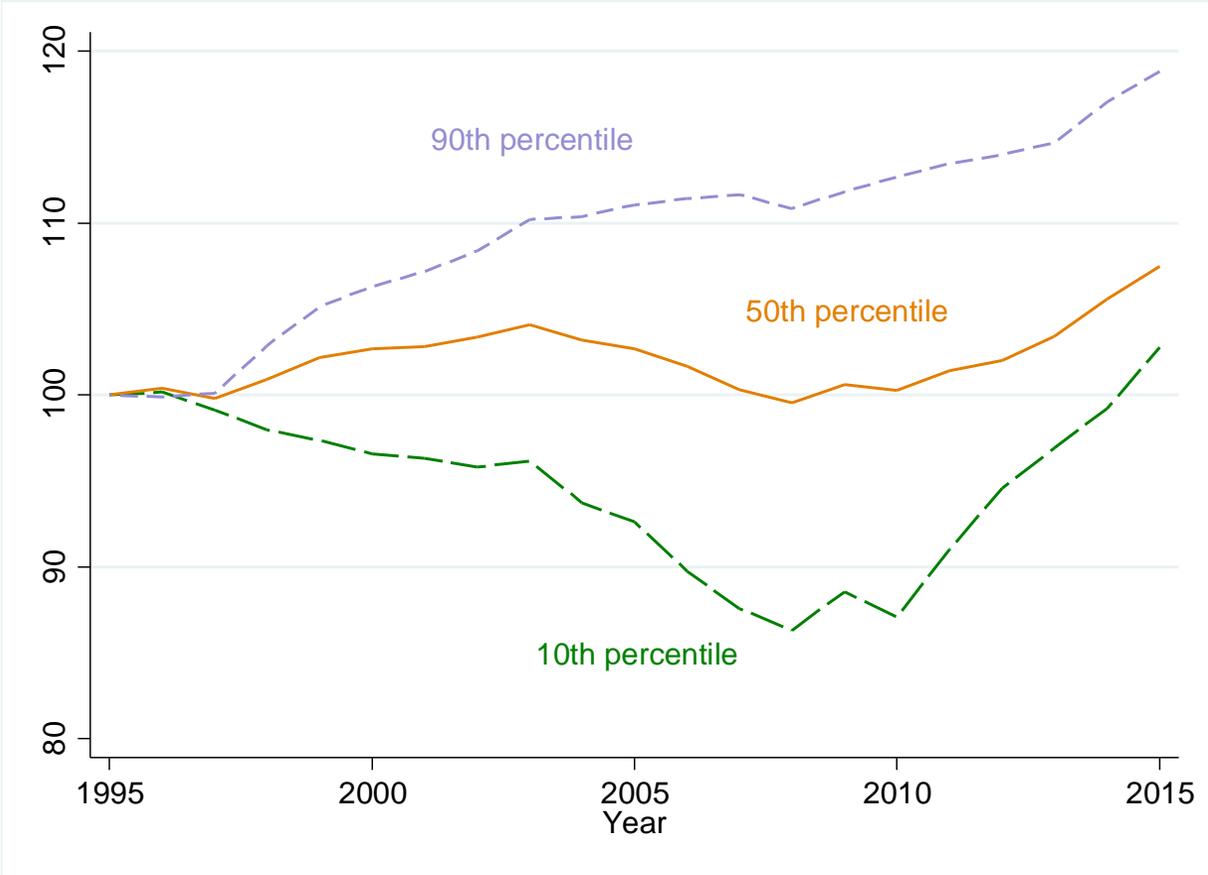


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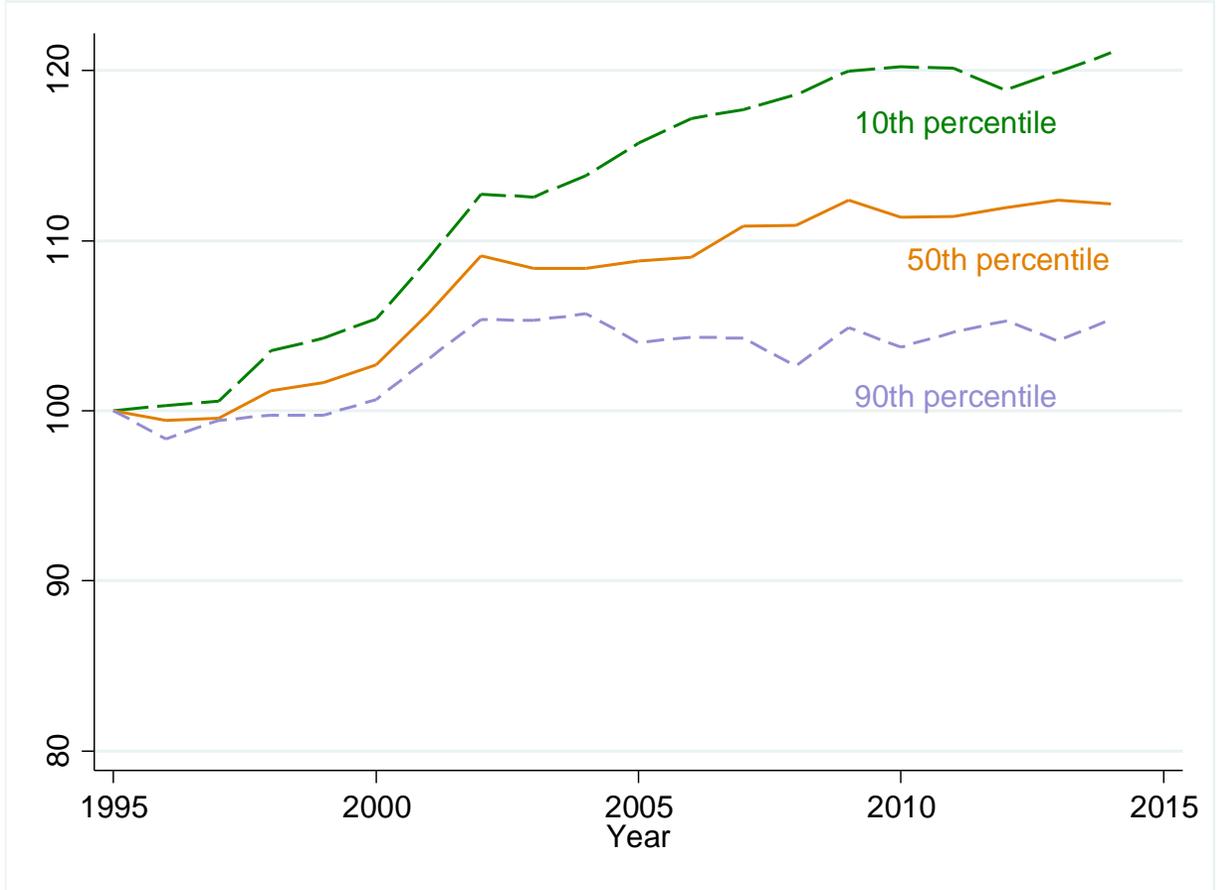


Trends in Inequality

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What Can Account for the Divergent Experience of Germany and France?

- Our focus: The role of **unions** in the wage setting process (Dustmann, Fitzenberger, Schönberg, Spitz-Öner, JEP, 2014)
- Other factors are at play as well:
 - Decline in labor share: the rise of ‘superstar’ firms (Autor et al., 2017; Kehrig and Vincent, 2017; De Loecker and Eeckhout, 2017)
 - Technological change (Autor et al., 2003; Dustmann, Ludsteck and Schönberg, 2009)
 - Structural problems; labor market inflexibilities
 - Hartz reforms

Unions in Germany and France: Similarities

- Negotiations between employer federations and trade unions predominantly take place at industry level
- Negotiations take place (most importantly) over pay and working conditions
- Agreed union wages typically vary by skill and act as minimum wages

Unions in Germany and France: Differences

Germany

- Firms' union recognition is to large extent voluntary
 - Firms can opt out of union agreements
 - New firms can decide not to recognize union agreements
- Opening clauses: many union agreements allow for downward deviations at the firm level
- Until recently: No national minimum wage

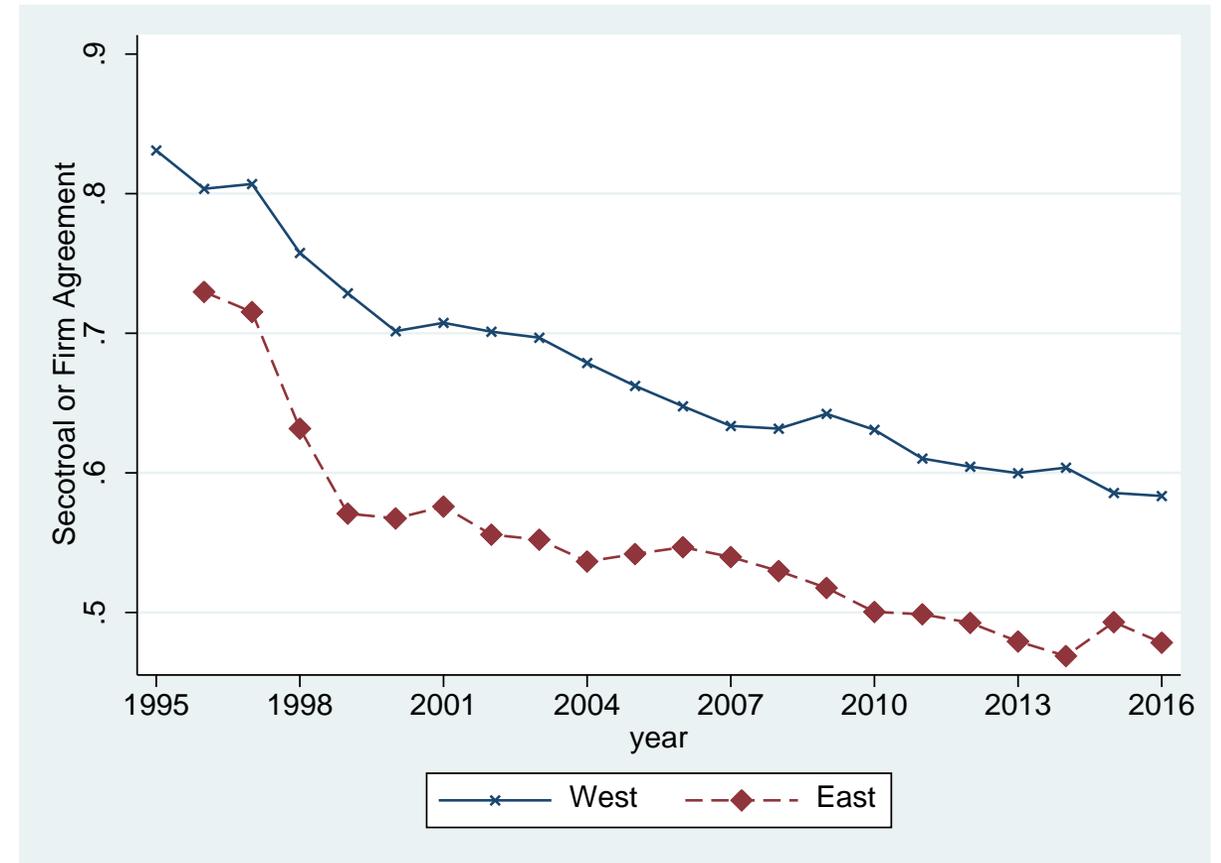
France

- State extends union agreements to virtually all firms in the sector
- Until recently: Downward deviations at firm level not possible
- National minimum wage set at high level

- Government plays an active role in wage setting process in France
- Wage negotiations are more consensus-based in Germany

Germany's Experience: De-Unionization

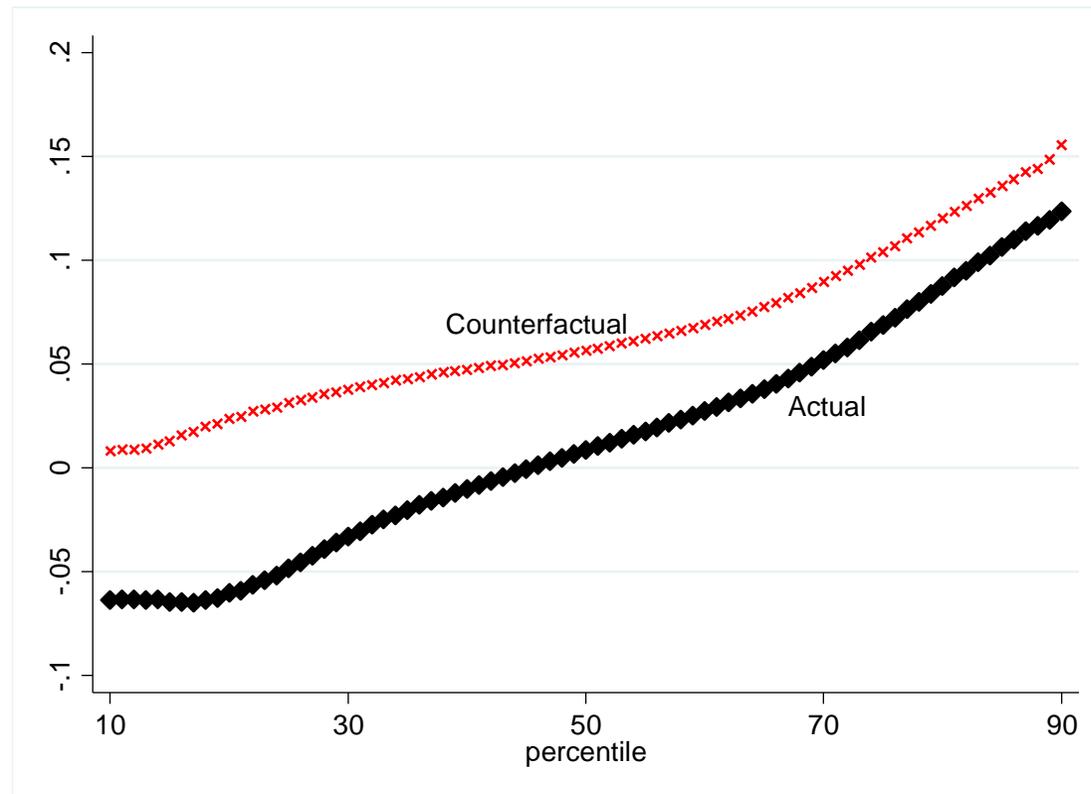
- After fall of Iron Curtain: Germany was burdened with reunification; moving production abroad became a credible threat
 - Paying high union wages became increasingly costly; firms started to opt out of union agreements



→ Decentralization of wage setting process from the industry to the firm or individual level

Deunionization Contributed to Low Wage Growth in Germany (in Particular at the Bottom)

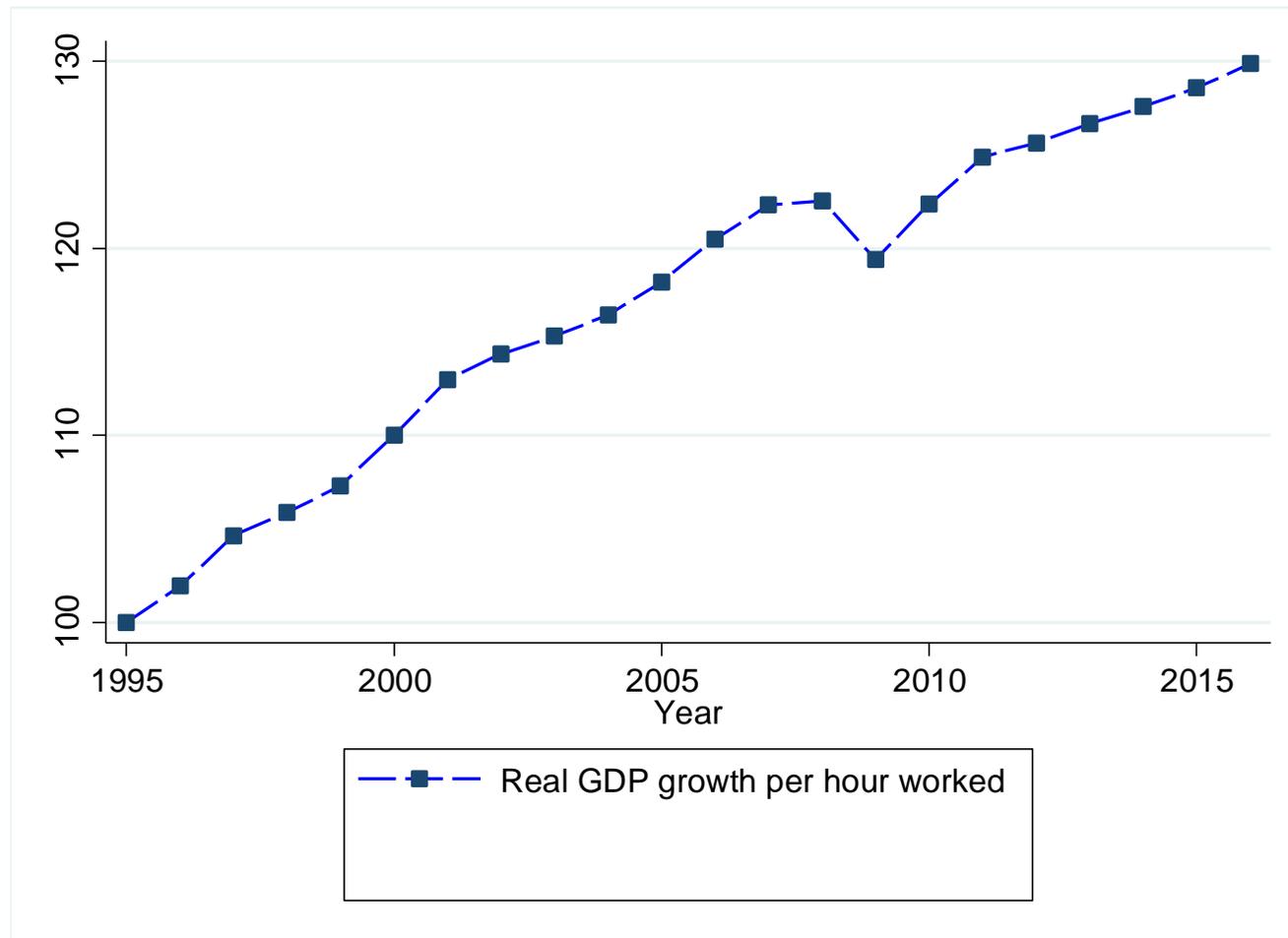
'Actual' and 'Counterfactual' Wage Growth Along the Wage Distribution, 1996-2012
(Update from Dustmann, Ludsteck, Schönberg, QJE, 2009)



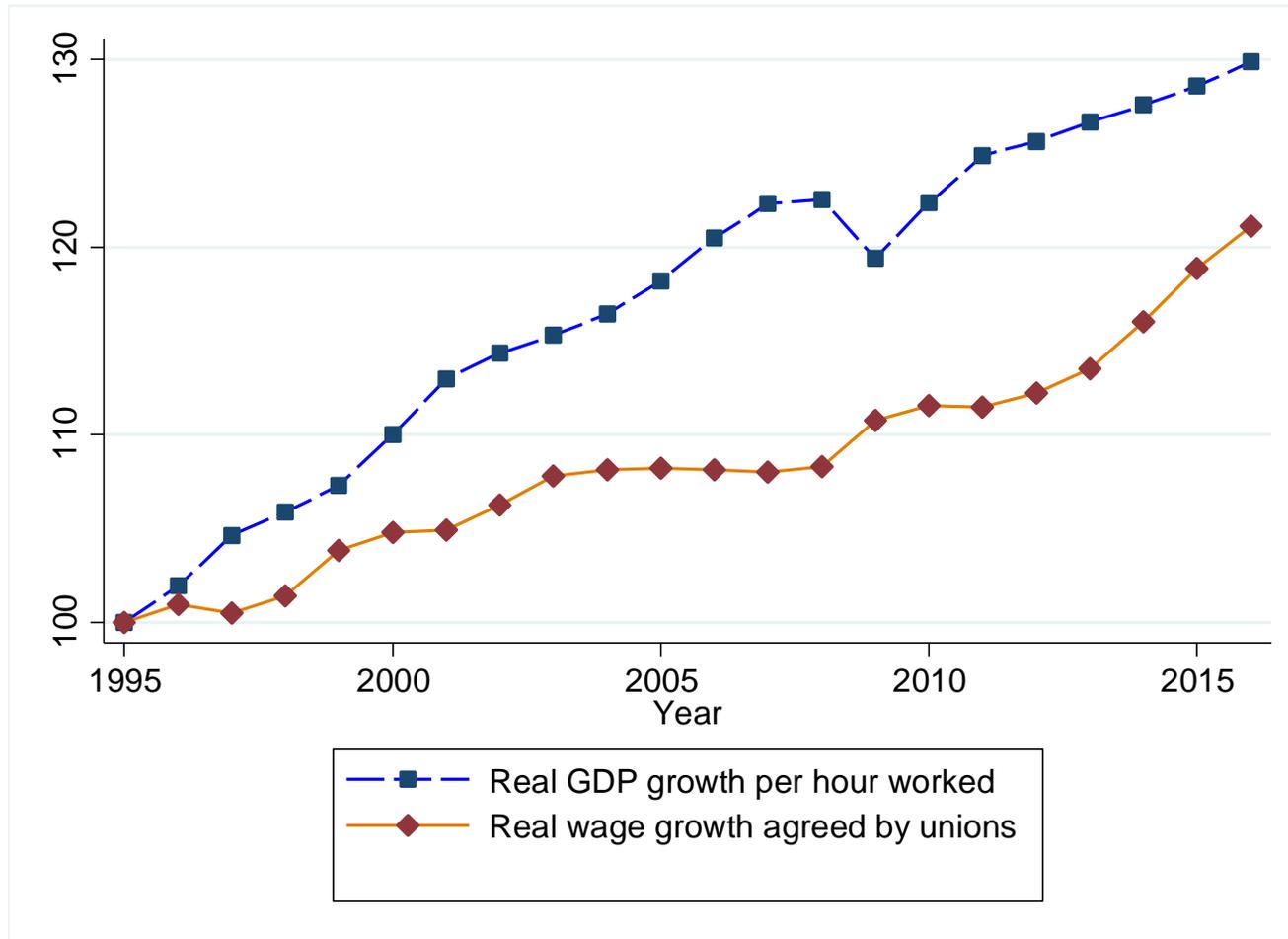
German Unions Adapted ... and Were Willing to Make Concessions

- **Opening Clauses:** downward deviations from industry-wide agreements at firm level
 - Prevalence (manufacturing):
 - 1995: 5% of union agreements allowed for opening clauses
 - 2004: 60%
- Further decentralization of the wage setting process within the formal unionized sector
- **Wage restraint** shown by unions
 - Klaus Zwickel: low wage demands—based on inflation rather than productivity increases—in exchange for more job creation

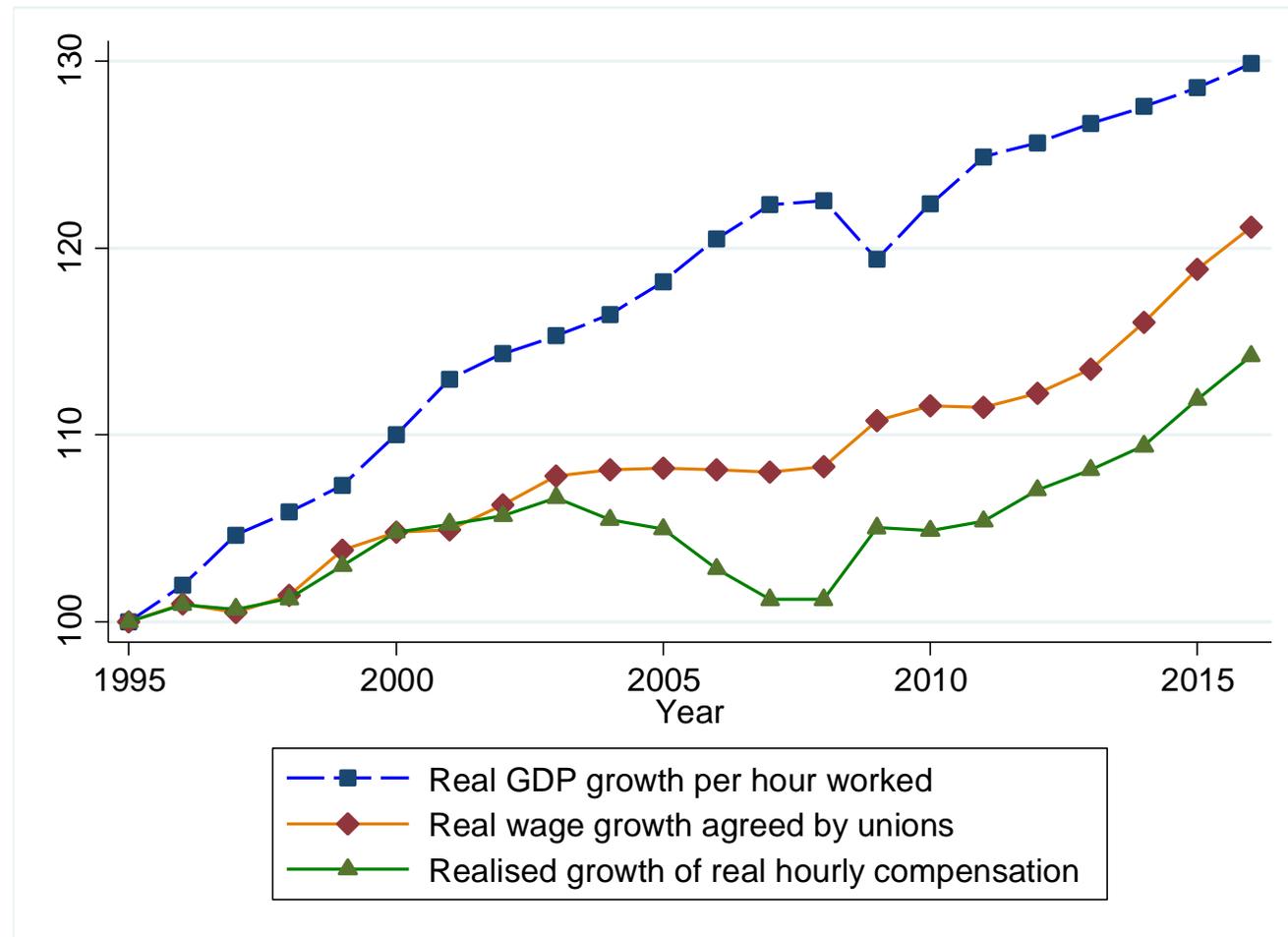
Union Wage Agreements and Realized Wage Growth in Germany, 1995-2016



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Union Wage Agreements and Realized Wage Growth in Germany, 1995-2016



→ wage growth below productivity also in the unionized sector

Germany vs France

- Decentralization of wage setting process in Germany from the industry to firm and individual level occurred **without intervention of the German government, without legal changes**
- Differences in the system of industrial relations
 - Automatic extension of union agreements to all firms
 - Legalized increases in the minimum wage

prevented France from responding in a similar way

→ higher wage growth in France, in particular at the bottom of the wage distribution

→ increase in competitiveness—measured as a reduction in unit labor costs—in Germany relative to France

→ lower unemployment in Germany?

The Recent Experience – Some Convergence?

- **In economic outcomes**

- Wage growth has picked up in Germany and now closely follows productivity growth
- Since 2010: Wage inequality has stopped increasing in Germany
- De-unionization seems to have slowed down somewhat
- Unemployment lower in Germany than in France

- **In terms of systems of industrial relations**

- Germany introduced a national minimum wage in 2015
 - Ratio minimum wage/median: 0.49 in Germany, 0.61 in France
- Labor market reforms under Hollande and Macron
 - Shift in wage negotiations from the industry level to the firm level

Unions Protest Against Macron Reforms



French railway workers protest against Macron's string of reforms
Source: The Telegraph, 22.03.2018.

- Unions have called for multiple protests against Macron's reforms.
- 18 hours after Macron's victory: Demonstrations supported by dozens of branches of CGT and SUD unions.

«There will be no grace period, no truce»

(Romain Altmann, head of Info'Com-CGT union)