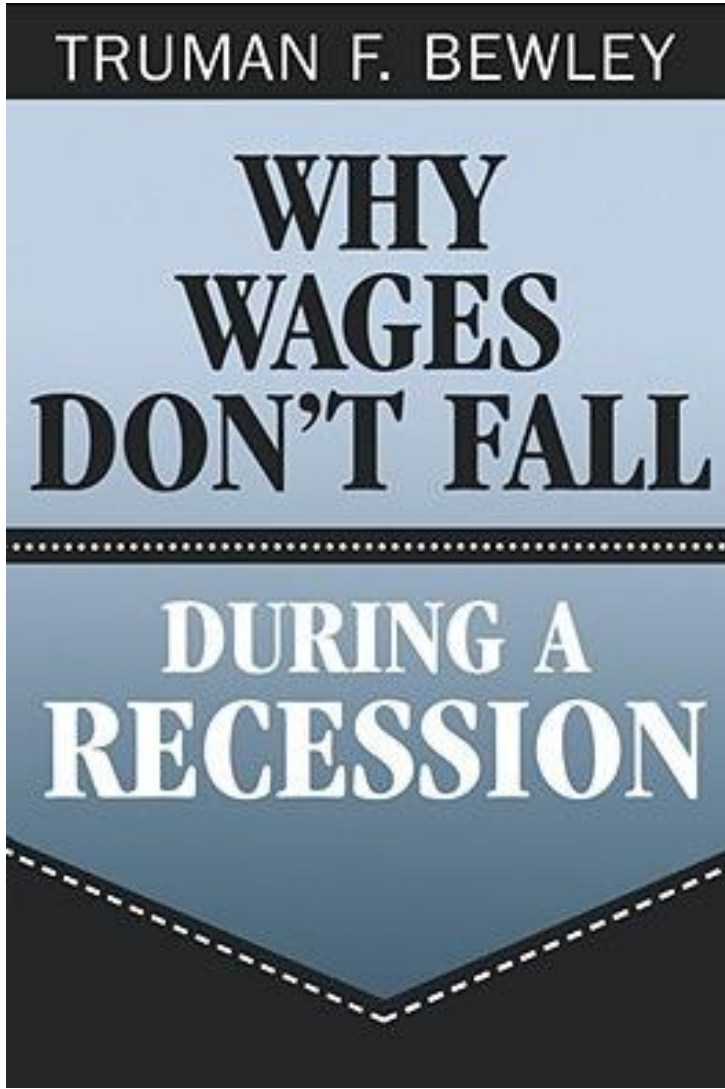


THE NEW LABOUR SLACK AND WAGE DYNAMICS

Tito Boeri, INPS
Eurogroup meeting

Sofia, April 27th 2018

FROM AN OLD PUZZLE TO A NEW PUZZLE...



... WHY DO WAGES NOT GROW DURING THE RECOVERY?

VOX CEPR's Policy Portal

Overcoming Eurozone wage inertia

Marco Buti, Alessandro Turrini 06 October 2017

Institute for
New Economic Thinking

With Official Unemployment This Low, Why Are Wages Rising So Slowly?

By **Servaas Storm**

FEB 26, 2018 | INCOME & WEALTH | EMPLOYMENT & JOB STRUCTURE

Social Europe

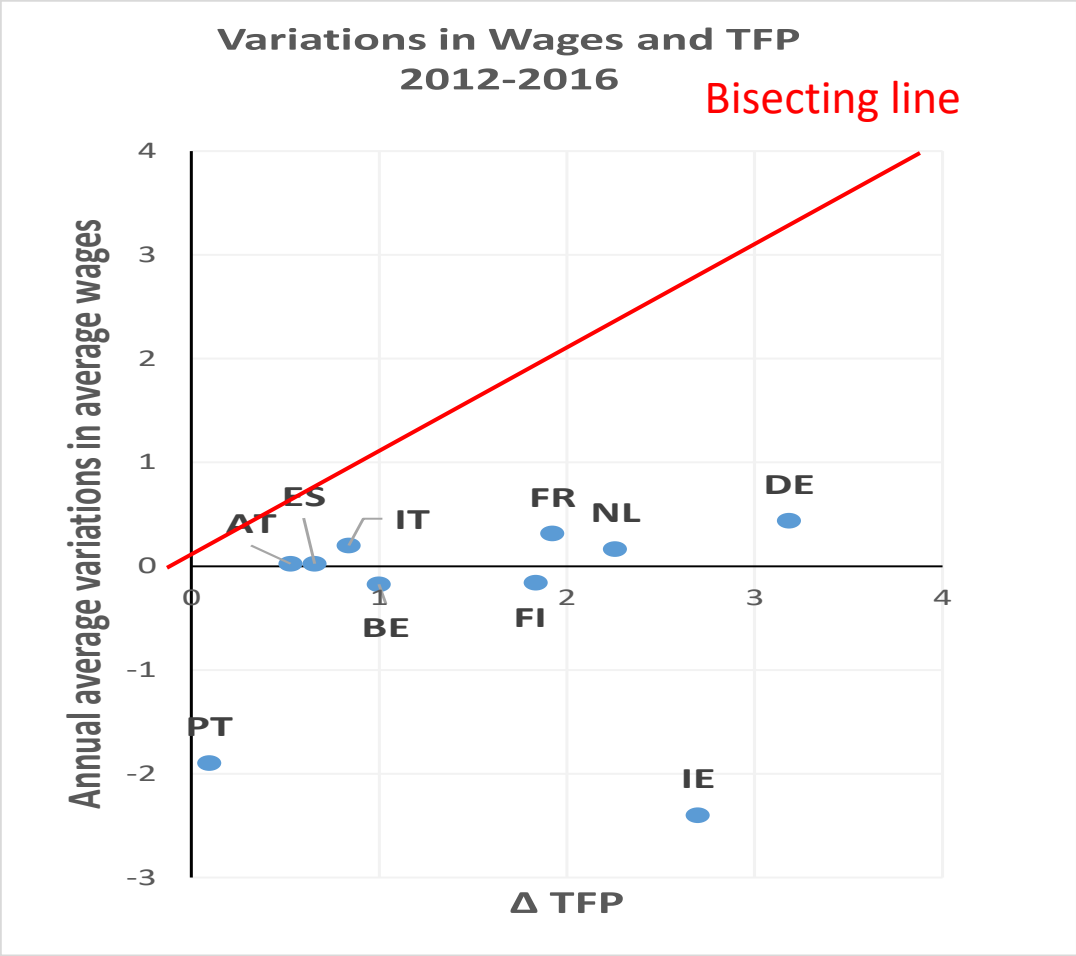
Why Won't Wages In Europe Rise As They Should?

by *Thorsten Schulten and Malte Luebker* on 9 August 2017 [@ThorstenSchult6](#)

The Big Read **Eurozone economy** [+ Add to myFT](#)

Eurozone's strange low-wage employment boom

WAGES ARE NOT COPING WITH PRODUCTIVITY GROWTH (AND UNEMPLOYMENT DECLINES)

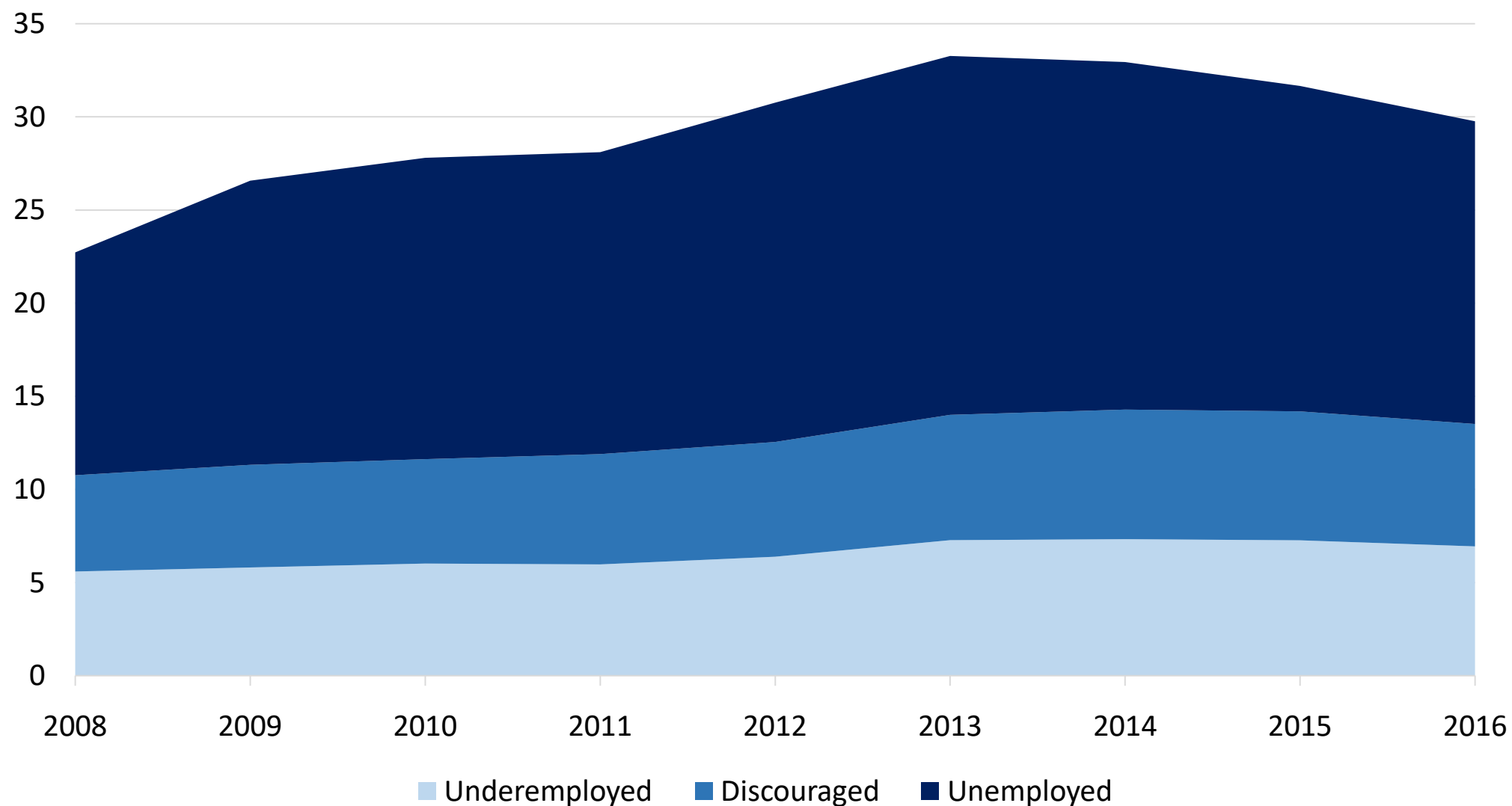


THREE EXPLANATIONS FOR SLOW WAGE GROWTH

1. The long and deep recession created a **new** kind of **labour slack**: a large «reserve army» of under-employed, «fake self-employed», and discouraged workers
2. **Greater risk-aversion**. Workers are scared: higher willingness to pay (lower wage claims) for «secure» jobs
3. **Stronger monopolistic power of employers** (monopsony) induced by lower mobility of workers as well as collusion («no poaching» and «no compete» agreements) among firms

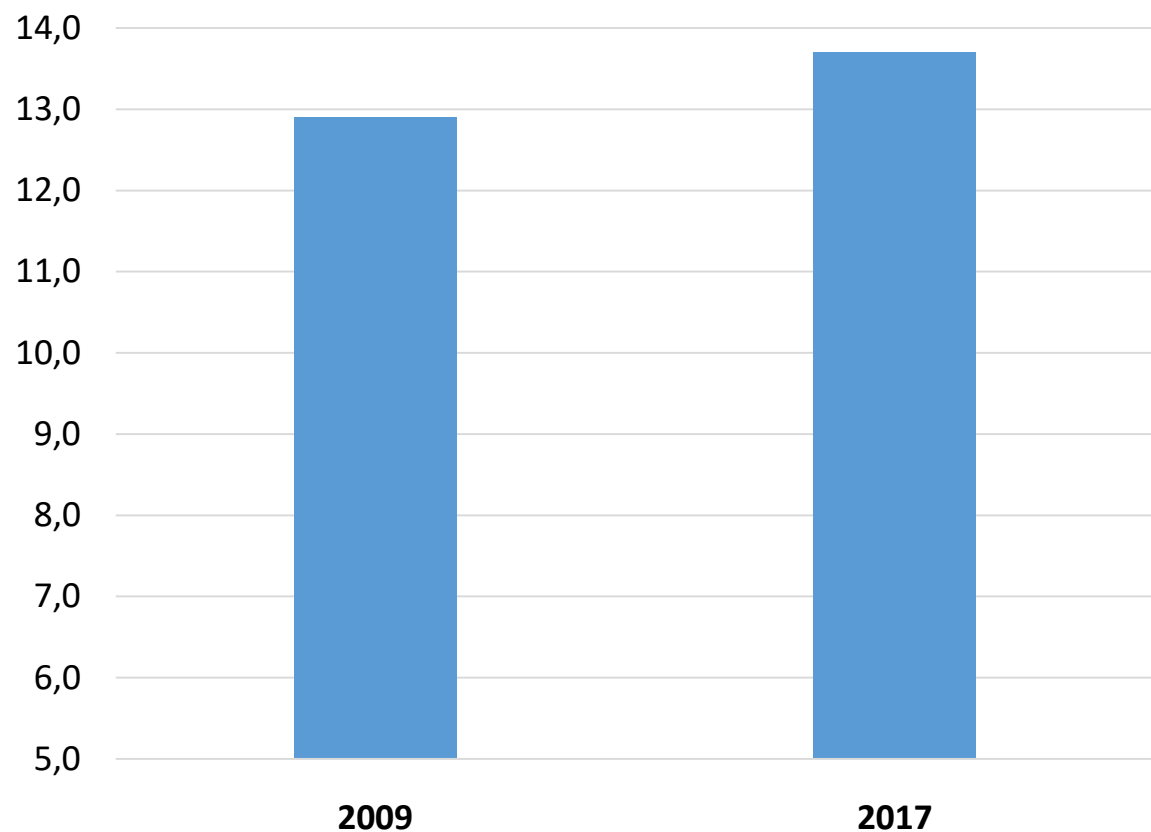
1. THE RESERVE ARMY OF THE EURO 19 ZONE

Unemployed, Under-employed, Discouraged (In Millions). 2008-2016

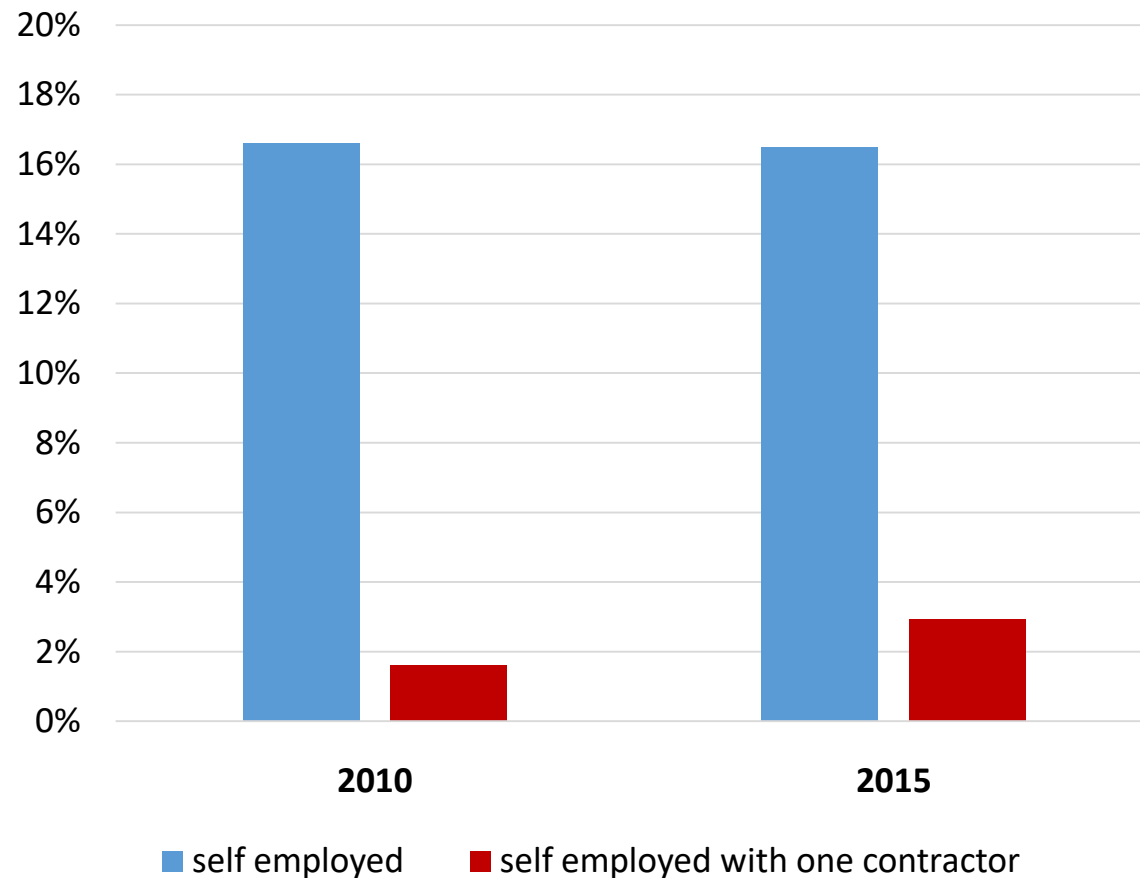


CONTRACTUAL DUALISM in EURO19

Temporary contracts as % of Employment (15-64)



% of employment in working age (15-64)



THE ITALIAN CASE (FROM INPS ARCHIVES)

- Focus on persons in dependent employment both in 2007 and 2014
- About 10% of them moved from full-time to part-time and another 30% experienced some reduction in working days
- Average real wages declined by -1.3% **cumulatively**
- This decline can be attributed entirely to the reduction in hours worked and to wage dynamics in fixed-term contracts, as average real wages for employees working full time with open ended contracts increased by +1% **per year**

2. GREATER RISK-AVERSION

- Survey and experimental evidence shows that after the Great Recession workers are more risk-averse (in line with previous deep recessions)
- Greater willingness to pay job security with wage concessions
- This reduces the bargaining power of unions over wages
- It also strengthens the wage underbidding effects of the reserve army

3. LESS COMPETITIVE LABOUR MARKETS

- Lower mobility of workers gives more monopolistic power of employers
- Greater use of «non-compete» and «no-poaching» agreements among employers. Data so far mainly for the US, but anecdotal evidence that a number of European firms prohibit an employee from working for a competitor after the employee separates from the employer
- Centralized wage agreements also as a device to co-ordinate wage setting among employers

HOW TO MAKE SURE THAT PRODUCTIVITY GAINS PASS THROUGH WAGES?

- A. Reduce labour market segmentation easing the reabsorption of the new labour slack
- B. Increase the bargaining power of workers without reducing employment
- C. Make the employer side of the labour market more competitive

Strategies 1 to 3 are not incompatible. They can be jointly pursued

A. REDUCE SEGMENTATION

- Make subsidized **short-time work** really **temporary** and **reform employment protection** reducing contractual dualism (open-ended vs fixed-term contracts and fake self-employment)
- Notice that, in a labour market without segmentation, reforms which reduce employment protection tend to lower wages (via a wage **bargaining** effect) whereas, in a segmented labour market, they are likely to increase wages by shifting workers from fixed-term and fake self-employment to open-ended contracts (**composition** effect)

EXAMPLE OF THE ITALIAN «JOBS ACT»

- In March 2015 employment protection of open-ended (permanent) contracts was reduced by phasing out compulsory reinstatement of workers in case of unfair dismissals
- Average wages of employees increased by 4% in 2014-16 because:
 - Average daily pay in open-ended contracts was flat, whilst it increased by 2.5% in fixed-term contracts. Thus **bargaining effect**: -2.5
 - The share of open ended contracts increased reversing the opposite trend shifting about 400,000 jobs from fixed-term to open ended contracts (paid 30 % more than FTC *ceteris paribus*) and another 250,000 from self-employment (whose employment share fell from 25% to 22%). Work days in open-ended contracts increased by 1.7% whilst they declined in fixed-term contracts. Thus **composition effect** acts on both intensive and extensive margin.

B. INCREASE THE BARGAINING POWER OF WORKERS

- **Statutory minimum wages covering all workers** have the potential to increase the bargaining power of labour
- They may reduce employment, but only if not set at the right level. **The key issue is the level of the minimum wage, not whether or not to have a minimum wage**
- Germany and UK imposed significant minimum wages, and they seem to have helped wage growth without harming employment (see the UK Low Wage Commission, and the German Minimum Wage Commission reports)

C. REDUCE THE MONOPOLY POWER OF EMPLOYERS

- Minimum wages can actually increase employment in presence of monopsonistic power of employers
- **Decentralization of wage setting** can make it more difficult for employers to collude and stimulate reallocation to more productive jobs.
- Such a wage driven reallocation would also increase productivity in **Current Account deficit** countries that have the largest labour mismatch, and hence more to gain from reallocation, easing the rebalancing within the EU.
- Greater mobility of workers across countries would also reduce monopsony power....

LABOUR MOBILITY: RESILIENCE AND REBALANCING

- Unemployment differentials in the Eurozone have never been as large as after the Great Recession. Resilience to shocks requires more cross-country mobility of workers.
- As workers are today more risk averse, cross-country mobility needs to be supported by the **full portability of social security rights across jurisdictions**. A EU social security number would promote labour mobility, and discourage abuses in the access to social protection. It would create the premise for a **EU unemployment insurance scheme**.
- The latter is important not only for resilience, but also for rebalancing as it would strengthen the bargaining power of intra-EU mobile workers increasing the pass through of productivity gains to wages notably in the countries with a **Current Account surplus**.