European Growth models and working class restructuring

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Abstract. Trade and financial imbalances are often cited as cause for the Euro crisis. We argue that the different growth models, i.e. the debt-driven growth model of the Southern European countries and Ireland and the export-driven growth model of the Germanic block, are closely linked to different experiences of the working classes. This paper builds on post-Keynesian macroeconomics and a Political Economy approach to class analysis and offers a stylized class analysis of European growth models and working class restructuring. We will distinguish between the 'North', the 'South' and the 'East'. In the North, a retreat of the working class materialized in wage repression, liberalization of labor markets and increasing capitalist opt out of collective bargaining. In addition, German capital rising profits and export competitiveness were also fostered by lower costs of inputs due to outsourcing elements of the value chain. In the East, this led to a process of proletarisation for workers and one of primitive accumulation for capitalists which allowed productivity gains and a sustained rise in wages of profits. The South experienced a property and financial bubble and high inflation rates. Competitiveness decreased and large current account deficits resulted while massive capital inflows helped sustain the bubble and public deficits. Class struggle was thus partially suspended by welfare expansion, wage increases and financialisation of household. Our analysis intends to show, firstly, that class struggles played an part in the economic process that resulted in European imbalances. Secondly, the de-synchronisation of class struggles of Europe may help to explain why it has been so difficult to develop a progressive European economic strategy.

Keywords: European growth model, class analysis, labour relation, debt-led growth, financialisation,

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The Euro crisis has pitted countries against each other as countries in the south of Europe have been unable to raise funds from financial markets and are at the brink of default. At the same time Germany's role in Europe has changed dramatically as it (with)holds the key to a European fiscal policy. The different experiences of the European countries invite an analysis along lines of 'methodological nationalism', i.e. regarding nation states as natural units of analysis. It leads to questions like the following: Shall Greece exit the Euro? Will Germany insist on further austerity measures in the Southern European countries? Can France articulate a different vision for Europe? Nation states are undoubtedly important and, indeed, European population experiences that national economic indicators like the price level, national debt etc do indeed matter a great deal. On the other hand, Political Economy approaches highlight class relations. They have the merit of highlighting how the crisis has been instrumentalised to pursue an orthodox economic policy approach, which further the interest of the capitalist class, but it runs the danger of positing a European capitalist class and working class.

This paper aims at offering a class analysis of European growth models that allows for different working class experiences in different country groups. We want to highlight that nation states are themselves structured along class lines and class formation and that class struggles are integral part of the processes that led to European imbalances. These struggles do take place locally and thus will take different forms, which among other things, will be shaped by the position and trajectory of a country in the international division of labour. The analysis aims to integrate a post-Keynesian analysis of the macroeconomic dynamics of demand formation, an approach of uneven development or cumulative causation of the position of economies in the international division of labour and a concern for class relations. Our approach is closest to post-Keynesian economic theory and the French Regulation Theory.

Our analysis will be highly stylized. We will look at three groups of countries and two classes. The countries are the North, East and South. The classes are workers and capitalists. The North is technologically leading and running current account surpluses, the East is increasingly becoming integrated into the North's global (or regional) value chains and the South has run current account deficits and experienced a property and financial bubble. We use indicators on financialisation, industrial development and working class coherence to substantiate our analysis,. We will argue that in the North export orientation came with a retreat of working class, which is reflected in weak real wage growth, increasing wage dispersion and union decline. In the East, the catching up process driven by dependent integration into global value chains has allowed high real wage growth, while other indicators show that working class coherence has suffered. Wage dispersion has widened and there has been a strong decline in union density. Catching up has allowed to cover up a disintegration of working class coherence. In the South the debt-led boom has been come with moderate increases in real wages, but a stable wage dispersion and comparatively moderate decline in union density. This was a regime of a social compromise, which was economically based on a

bubble, but which differs from the Anglo-Saxon experience of the financial bubble, which was a cover for a deterioration of working class coherence.

The paper is structured as follows. Section 2 discusses the conceptual background of our approach and section 3 analyses empirically the developments in the three country groups. Section 4 concludes.

2. Conceptual background

2.1 Neoliberalism and growth models in Europe

Neoliberalism brought about a rise in inequality and financialisation. Rising inequality has taken the form of an increase in top incomes (Piketty and Saez 2003, 2007) and a fall in the wage share (Stockhammer 2013). It is based on welfare state retrenchment, globalisation and financialisation and reflects a shift in the power relations between capital and labour. Financialisation has affected financial institutions as well as households (e.g. through rising household debt), and firms (e.g. shareholder value orientation). Neoliberal transformations have had different effects in different regions, thus some authors talk about variegated neoliberalism. With respect to its macroeconomic dynamics Lavoie and Stockhammer (2012) point out the emergence of a debt-driven as well as an export-driven growth model. The rise in inequality has put a downward pressure on domestic demand in all countries. In some countries financialisation has led to a rapid increase in household debt, which substituted for wage growth (Barba and Pivetti 2009). Thus aggregated demand was fuelled by a debt-driven consumption boom. This was what we refer to as debt-driven growth.

In a second group of countries the increase in household debt has not materialised. These countries have accepted a stagnation in domestic demand and net export growth has been the major source of demand growth. This was what we call export driven growth. Both growth models are unsustainable: they rely on increasing debt ratios. In the debt-driven case this is domestic household debt; in the export-driven case it is external debt of the trade partners. The two growth models are complementary as the export-driven model relies on trade partners with current account deficits. The debt-driven model is facilitated by capital inflows.

In Europe Germany, Austria and the Netherlands are often cited as export-driven economies, whereas Ireland, Spain, Portugal and Greece have been classified to as debt-driven (Stockhammer 2012). In the crisis the two country groups had very different experiences. First, the export-driven economies experienced sharp, but short recessions followed by a recovery, whereas the debt-driven economies suffer from a debt overhang and thus have weaker recoveries. Second, the European debt-driven economies experienced a sovereign debt crisis. This is the outcome of their high levels of foreign debt, the nationalisation of banking debt and a peculiar economic policy regime of the Euro area (Stockhammer 2014).

The difference in working class experience in different parts of Europe is self evident today. In this paper we want to highlight that their experiences were also very different during the boom that preceded the crisis. We will do so by analysing the three dimensions of socio-economic change,

working class coherence, financialisation and industrial upgrading, for three groups of countries, the north, the south and the east.

2.2 A stylised story of the North, South and East during the pre-crisis boom (ca 2000-2008)

The North experienced a real devaluation as prices and unit labour costs (ULC) were growing more slowly than the EU average. This was, at least in part, the result of two strategies of Northern capital. First, there was wage suppression in the North. German wages have in real terms stagnated in the decade prior to the crisis. At the same time Germany experienced the sharpest increase in inequality among OECD countries. Increasing inequality was not so much driven by the super-rich taking off (as in the Anglo-Saxon countries), but by the poor falling behind. On the states level a series of welfare reforms (the Hartz reforms) Germany created a low wage sector. In labour relations, there was an erosion of collective bargaining. Whereas Germany used to have a very high coverage of collective bargaining agreements, this coverage has declined sharply (by German standards) as capitalist increasing opt out of collective bargaining. This is closely linked to German unification as capitalists in Eastern Germany did not have the corporatist traditions and thus increasingly opted out of employer federation membership and thus of collective bargaining agreements. Once established, the practise spread to the West.

Second, German capital expanded by outsourcing elements of the value chain. Important parts of the German automotive industry now rely on inputs from Poland, the Czech Republic, Slovakia and Hungary. For the East this meant a (subordinate) integration into global value chain, but it also allowed them to consolidate (a moderate) industrial sector. In class terms, this is a process of proletarisation for workers and one of primitive accumulation for capitalists.[1] Indeed, foreign capital played a crucial role in this process and King and Szelényi (2005) have called this 'capitalism from without'.

The South experienced a property and financial bubble fuelled by rapid credit growth. This has come in some cases with an economic boom (Spain and Ireland had above average growth rates, but Portugal and Italy average) and, in all cases, with high inflation rates. Competitiveness decreased, the industrial sector was squeezed and large current account deficits resulted. At the same time the South had massive capital inflows that helped sustain (or ignite) the bubble. Budgetary conditions were rather relaxed and most Southern countries expanded the welfare state. Class struggle was partially suspended by welfare state expansion and an economic boom. The working class was restructured: moderate, but non-trivial wage increases despite deindustrialisation and an increasing financialisation of household (the levels of household debt started at very low levels and increases massively).

Capital inflows have to be equal to the current account deficit (for each country). However, it is not clear to what extent this is driven by trade flows (and costs) and to what extent it is driven by capital flows. One could think of a trade flows driving things and trade surpluses (of the North) being recycled and transferred to the South to finance the imports. Indeed, this is the view of standard

[1] We characterise the experience in the East as one of proletarisation as workers in the former Soviet bloc had job security.

trade theory. However, one can also argue that financialisation in the South made possible the export surpluses of the North (and financialisation also contributed to the deterioration of competitiveness by driving up price of non-tradeables, in particular housing). The two mechanisms are going on simultaneously and this paper makes no attempt to give primacy to either of them.

Our categories of North, East and South, while inspired by actual countries, are stylized analytical fictions. While the North and South are relatively well defined in geographical terms (with the exception of Ireland), the Eastern European countries are, analytically speaking, in the East, but many of them are also in the South as many of them experienced massive increases in household debt and, say in Hungary, also encounters problems with the current account.

The first important fact highlighted by our analysis is that class struggles played a part in the economic process that resulted in European imbalances. Our second key finding is that class struggle has proceeded very differently in the different blocks in Europe. There has been no convergence in class struggle. This de-synchronisation of class struggles of Europe may help understand why it is so difficult to develop a progressive, working-class alternative vision for Europe.

2.3 Operationalising our categories

Under the heading of working class coherence we try to summarise the relative development of living conditions of the working classes. We will measure this by the growth and dispersion of wages and the size of the welfare state. We use the term working class coherence to denote the degree to which the working class is economically sharing the same interest and to what extent it manages to institutionalise itself in the form of labour unions, collective bargaining arrangements and the welfare state.[2] Financialisation is about the relation between the real and the financial sector. We will measure this by the debt-to-income ratio for households, by real property prices (i.e. property prices relative to consumer prices) and real share prices. We are not using a comprehensive measure of financialisation, which would include in particular its effects on non-financial business (shareholder value orientation etc), but focus on those most closely related to the debt-driven growth models. Under the heading of industrial upgrading we want to map the position of an economy in the international division of labour. This will be proxied by the growth of labour productivity, the share of manufacturing in value added and the inward FDI stock. With all our variables we are primarily interested in the *medium term changes*. The discussion of the different levels for each of the variables would be interesting in their own right, but their discussion beyond the scope of this paper.

We will group countries in the 'North', the 'South' and the 'East'. The North will be Germany, Austria and the Netherlands. These are countries of the Germanic block within the Euro area. They share a similar structure in labour relations, a comparatively developed welfare state and a strong industrial sector. The South will consist of Greece, Ireland, Italy, Portugal and Spain. These are the peripheral countries within the Euro area that were hit hard by the crisis. Their industrial base is weaker, but in many cases has improved over the past decades. The East consists of Poland, the Czech Republic,

[2] Our analysis remains mostly at the level of economic variables, but ideally we would like to measure socio-political dimensions of working class coherence.

Slovakia, Hungary and Slovenia. These are post-communist economies that had a relatively strong industrial base, but have only integrated into the capitalist world economy in the 1990s. They have historically strong welfare that have been restructured and weak labour relations.

The grouping of the countries is motivated by an understanding of European economic relations as encompassing economies with quite different economic developments that may have a differential experience of processes like globalisation, financialisation or European monetary integration. In particular we hypothesise that there are at least two peripheral models. At this stage we don't have a precise theoretical underpinning for this, but the aim is to fuse a post-Keynesian analysis of demand regimes with a differentiated centre-periphery analysis of International Political Economy. The analysis is consistent with French Regulation Theory approach, which highlight the socio-political underpinnings of the accumulation process (Boyer xxx, Petit 1999). There are some similarities to the varieties of capitalism (VoC) approach, but it differs in highlighting class conflict and the potential dysfunctionality of regimes.

Our grouping of countries is intended to be useful and serves the purpose of illustration, but no claim of completeness or precision is made. There are several potential issues. First, the delineation of groups is arbitrary at the border. We include the Euro area export-oriented countries, but could also have included non-Euro area countries (Denmark, Sweden). The North has one member of paramount importance: Germany. One could argue that the North ultimately *is* Germany. We prefer to use a small group for the North in order to not dilute Germany's contribution to the average data of the group.[3] As regards the South, the question is whether Italy should be included or not. For the East we decide to distinguish what is essentially the Visegrad group of countries. One could add another group of Bulgaria, Romania and the Baltic countries. All these are issues of implementing our grouping.

A more fundamental issue are countries that do not fit our categorisation. The most important case among these is France, which would occupy an intermediate position (Hein 2012 classifies France as 'domestic demand led regime'). The Netherlands are an interesting intermediate case that has elements of an export-driven as well as of an debt-driven economy. The UK we would include in a distinct group of Anglo-Saxon counties (characterised by a high level of development and a strong financialisation experience)

The remainder of this paper will discuss whether empirical data are in line with our country grouping. There are two sets of questions. First, are the significant differences between the country groups such that the grouping are useful? Second, are the experiences within a group sufficiently homogenous to justify the use of the grouping?

2.4 A first look at the country groups

To give a first indication of the usefulness of our grouping, Table 1 gives a summary of the more detailed analysis in the next section. Itshows the current account positions, the increase in household debt and the productivity growth for the three country groups and, for comparison for

[3] Another possible strategy to deal with this would be to include a larger group of countries and use GDP-weighted averages.

the average of the USA and the UK (as representatives of the Anglo-Saxon group of countries).In addition to these macroeconomic performance indicators the table also shows data on real wage growth and the change in wage dispersion. Here as a in the remainder of the analysis we will refer to the period 2000-08 unless noted otherwise. Roughly we want to cover the decade before the crisis. For several of the data we discuss later, data is only available from 2000, thus our period will be 2000 to 2008.

Table 1. Growth regimes and macroeconomic variables

	North	South	East	USA & UK
CA	3.7	-5.3	-4.7	-3.65
HH debt	9.7	45.9	20.3	29.2
pdy growth	0.11	0.07	0.33	0.14
wage growth	0.058	0.076	0.3	0.10
wage dispersion	0.067	0.009	0.076	0.08

The North has had substantial current account surpluses in the decade prior to the crisis, where the South and the East had, on average substantial deficits (-5.3 and -4.7 respectively). The North and the South fit the post-Keynesian distinction of export-driven and debt-driven growth models well; the East would be an intermediate case. It will be useful here to contrast the experience of the South with that of that of the Anglo-Saxon countries as these are the more familiar cases of the debt-led growth regime. The Anglo Saxon countries, which here includes the USA and the UK, also had current account deficits, but more moderate ones of -3.6. The increase in household debt as % of GDP was much higher in the South than in the other groups. While the north had, on average an increase of 9.7%-pts, the East had an increase of 20.3%-pts. The Anglo-Saxon countries and the South of 32 and 45.9%-pts respectively. Thus only the North group had export surplus. While the South experienced a strong increase in financialisation, the East did have strong increase in productivity growth. Thus a first glance confirms that our country grouping is potentially useful.

3. Working class coherence, financialisation and industrial upgrading in the North, South and East of Europe

Table 2 provides an overview about the differing development of intra-working class relations across Europe.[4] Northern countries experienced only low growth in real wages of 5.8% over the observed decade, with an increase of just 2% in Germany. Southern countries on average experienced a slightly stronger increase in real wages at 7.6%, although the respective countries' individual development was more heterogeneous, with Greece's and Ireland's real wage growth around 16% and 17% being well above average. Eastern countries had the biggest rise in real wages by far, amounting to 30% on average. Poland, the country with the lowest increase in this group, had an

[4] The appendix gives more detailed tables, which also show country experiences.

increase of 13%. Regarding nominal wage growth, the differences across country groups are more pronounced, with a growth of 23%, 37% and 70% for North, South and East respectively. Wage dispersion is a measure of variation in wage income across the economic sectors. It is computed as the standard variation of labour costs per employee of all sectors, divided by the labour costs per employee of the total economy and thus acts as a variation coefficient. An increase in the wage dispersion thus represents an increase in income inequality across the sectors. Northern wage incomes clearly became more unequal, with an increase of 6.6%, while the increase in inequality was much less in the south, where wage dispersion increased by 1.1%. The East experienced the highest increase at 7.4% (the Slovak Republic having the highest increase at 11%). We use the ratio of social expenditures to GDP as a proxy for the welfare state. This ratio is practically stable (+0.2%-pts.) in the north. Southern countries experienced a consolidation of the welfare state with an increase of 3.9%-pts, while in the East, social expenditures did shrink relative to GDP (-1%-pt). Union density declines in the north by 5.7%-pts, by 2.7 in the south and by 9.46%-pts in the east.

Table 2. Changes in working class coherence

	North	South	East	Anglo-Saxon
Real wages (FTE)	5.8%	7.6%	29.8%	9.8%
Nominal wages	23%	37%	70%	
Wage dispersion	0.07	0.01	0.07	0.08
Welfare state (social exp)	0.19	3.94	-1.02	-0.14
Union density	-5.71	-2.65	-9.46	-2.05

real wages: no data for SLV; wage dispersion: no data for NL, PO, HU, PORT, UK; social exp: no data for US; union density: SLV 2001-08

Source: OECD

Overall, the north, shows a picture of working class retreat with a low increase in wages and a strong increase in wage inequality and a pronounced decline in union density, while the welfare state has remained stable in size. In the south labour experience a moderately higher increase in wages, but this was more evenly spread among the working class with wage dispersion almost stable. At the same time there is consolidation of the welfare state and it has the most moderate decline in union density. Eastern countries show an uneven picture. They experienced a very high increase in wages, while at the same time having the strongest increase in wage income inequality, a sharp decline in union density and a shrinking of the welfare state.

Table 3 summarises the different development of financialisation in Europe. Household debt as percentage of GDP increased 9.7%-pts in the north, 20.3%-pts in the East and by a staggering 45.9%-pts in the south. Household debt is to a large extent driven by house prices. These grew by 21% in

the north, but 78% in the south. Within the group of the north the Netherlands experience a steep increase in house prices and of household debt while Germany had flat house prices and declining household debt. The picture within the southern countries is more uniform, but Spain and Ireland stand out with explosive increases in debt and house prices. The available data on house prices are very few and thus several countries are missing, amongst them all the members of our eastern group. Private credit in % of GDP was subject to a moderate increase in the north, a very high increase in the South and a small increase in the East. When using the year 2000 as base year though, eastern countries experienced a higher increase in private credit then the north, while the south stays equal. The growth in equity prices is given for the period 2000 to 2007 because (unlike most other data we discuss in this paper) they start to decline already in 2008 and we wish to analyse the boom. We use 2007 as the base year for the calculation of growth rates.[5] They rose by 5% in northern countries and 0% in southern countries. The countries in the east experience a stock market boom with an increase of 66% (with the Slovak Republic and Slovenia as the main drivers). The net international investment position (NIIP) represents the difference between a country's external financial assets and liabilities sides. A positive NIIP thus means that a country is a net lender, a negative one that it is a net borrower. Note that here we are comparing changes in the NIIP, rather than the level of NIIP itself, so we are looking at whether countries improved or worsened their net investment position. While thanks to Germany the north has a positive, mediocre gain in the NIIP, both southern as well as eastern countries worsened their net investment position.

Table 3. Changes in financialisation, 2000-08

	North	South	East	Anglo-Saxon
ΔHH debt (%GDP)	9.7	45.9	20.3	29.2
nominal house prices (growth)	21.1	77.6		
ΔPrivate credit (%GDP)	21.9	69.8	28.6	54.1
real house prices (growth)	1.8	58.0		
real stock prices, growth (00-07)	5%	0%	66%	
NIIP	16.4	-44.7	-30.8	

HH debt: Ireland, Slovenia 2001-08 ; house prices: no data for AUT, HUN, POL, SLV, SVK, GRE, PRT, UK, US; ITA 2000-2007; stock prices, NIIP: no data for UK, US;

Source: DGP deflator: OECD; stock prices: IMF; private debt, NIIP: WDI; HH debt: Eurostat, except USA (Flows of Funds) ;

According to this data overall the north experienced only a weak form of financialisation, with household debt and house prices only growing at comparatively weak rates. The south, experienced financialisation with a strong increase in household debt, private credit and house prices, and a worsening net investment position. Eastern countries had an intermediate form of financialisation with household debt increasing (in % of GDP) more than in the north but less than in the south. Its

[5] Share prices rise very fast in the east. Using a different base year gives very high growth rates for the east without changing the overall picture.

net investment position worsened. The eastern group is the only one that experience a stock market boom, quintupling in the respective time period.

Table 4 summarises data concerning the state of industrial development in Europe. Real GDP per worker, used as a variable representing productivity, shows an 11% increase in northern countries, a 7% rise in southern countries and a 33% increase in the East. The development in the south is heterogeneous with, Greece showing an 16% increase, but Spain only 4% and Italy 1%. The manufacturing share of value added as a percentage of GDP is used as a proxy for the degree of industrialisation. There is a general trend towards de-industrialisation across Europe. Remarkably, the north stayed roughly stable in terms of industrialisation, by a loss of less than one percentage point of GDP. The southern countries showed strong decline in industry (-5.2%-pts) and the east a moderate decline (-1.8%-pts). Regarding inward foreign direct investment (FDI), there is a substantial increase in northern (13%-pts) and a strong increase in eastern countries (17%-pts). FDI experiences a decline in the south during the relevant period (-2.8%). This decline is due to Ireland, which has very high levels of inward FDI and experience a decline from 133% of GDP 2002 to 66.9% (2006) and an increase to 76% in 2008. Without Ireland, the change 2000-08 is +8.3% .

Table 4. Industrial upgrading, 2000-08

	North	South	East	Anglo-Saxon
Productivity (GDP per worker)	11%	7%	33%	14%
Manufacturing share (%GDP)	-0.8	-5.2	-1.8	-3.0
Inward FDI/GDP	13.0	-2.8	17.0	
Current account 2000-07 (% GDP)	3.7	-5.32	-4.74	-3.65

Manufacturing share share: no data for UK; FDI: HUN, SLV, GRE 2001-08, Current account: no data for US

Source: OECD

The northern countries consolidated their industrial position. They experienced a rise in productivity, paired with a very small decline in industrialisation and a rise in FDI. Southern countries had lower increases in productivity, and a stronger de-industrialisation. Their FDI performance was also weaker. Productivity in the East rose very strongly, while de-industrialisation was moderate and FDI experienced a very high increase.

4. Discussion

This paper put forward the hypothesis that already during the boom preceding the Euro crisis there has been a divergence in working class experiences across Europe. We suggest grouping European

countries into groups of the North, the South and the East. The countries had different experiences in terms of their growth model, in terms of the degree of financialisation they experience and how their working classes fared.

The northern growth model starts from a high level of development. It developed an export orientation and, with the exception of the Netherlands is relatively low dynamics of financialisation. It maintained its industrial sector and experienced solid productivity growth. With the exception of the Netherlands the increase in household debt and in property prices was low. While real wage grew moderately, wage dispersion grew substantially and union density declined substantially. This is a case of a *retreat of labour* (in Germany more so than in other Northern countries).

The southern countries experienced a strong wave of financialisation with sharply increasing levels of household debt and a property price boom. This resulted in moderately high levels of growth, but at the same time an accelerated de-industrialisation. Real wage growth was moderate and wage dispersion decreased. Union density declined, but substantially less than in other country groups and the size of the welfare state increased relative to GDP. The financial bubble was used to generate improvements for the working classes that went beyond better access to credit. We call this a *social compromise backed by a financial bubble*.

It is instructive to contrast the experience of the European South with the Anglo-Saxon countries. In the latter there was a much more pronounced increase in wage inequality and a weaker real wage growth. There was also more welfare state retrenchment. We would refer to this is as *hegemony by financialisation* as it does not contain genuine working class improvement.

The Eastern countries experienced a strong industrial upgrading and a medium wave of financialisation. This had contradictory effects on the working classes: while real wages grew much faster than in other countries, it also experienced the strongest increase in wage dispersion and it suffered a decline in welfare expenditures and sharp decline in union density. We call this disintegration of the working class coherence *hegemony by catching up*. High productivity gains allowed rising living standards while most other indicators of working class conditions deteriorated sharply.

We think that our country groups do capture important differences in the dynamics across countries. For most indicators the variation across groups is larger than within groups. In this sense our groups are useful. However, there is a substantial amount of variation across countries that cannot be easily reduced to our groupings. For example, Germany is an extreme case of what we refer to as northern model, whereas the Netherlands has some characteristics of an export-led was well as of debt-led economy.

Our main finding is that the divergence of working class experience across European countries is not merely a results of the different economic performance during the Euro crisis, but pre-dates it. Indeed the decade from the introduction of the Euro to the crisis affected working classes in quite different ways: while there was an erosion of working class cohesion in the northern countries, the boom of in the southern countries also allowed for a consolidation of the welfare state and came with relatively little increase in wage dispersion. The east experienced a erosion of working class cohesion (decline in union density, increase in wage differentials) while at the same time

experiencing a strong increase in real wages. Working classes in these three country groups also have different degrees of financialisation.

Conclusion

Neoliberalism has meant quite different things for workers in different countries. This may explain why the labour movement has as of yet been unable to put forward a coherent European progressive strategy. The Euro crisis polarises political strategies. On the one hand for some countries national strategies have become more prominent. In particular for Greece the issue of a Euro exit is debated (e.g. Lapavitsas et al 2010). Our analysis has nothing to add to the economic implications of a European or national progressive strategy, but it may help to explain why the former is so difficult to achieve.

For those on the left who want to pursue European progressive strategy the implication of the paper is that material (*economic*) conditions have not created working class unity. Rather it will have to be created *politically*. There are two strategies. An internationalist strategy tries to provide a progressive vision for European integration. This requires finding a set of demands that simultaneously recognises the different experiences and puts forward demand that can generate political unity. These could be around a European system of minimum wages and the taxation of wealth and financial transactions at the European level. A second strategy is the 'nationalist detour', which argues that there is insufficient scope for progressive/Keynesian policies within the EU. The logical consequence is an exit of peripheral states from EMU.

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Appendix. Country experiences

real wages 2000-2008

Austria	7.99%	Greece	15.67%
Germany	2.23%	Ireland	16.66%
Netherlands	7.27%	Italy	1.85%
mean	*5.83%*	Portugal	1.95%
		Spain	1.67%
Czech Republic	39.58%	*mean*	*7.56%*
Hungary	38.97%		
Poland	12.74%	United Kingdom	11.68%
Slovenia		United States	7.92%
Slovakia	28.05%	*mean*	*9.80%*
mean	*29.83%*		

no data for SLV
Source: OECD

nominal wage growth 2000-2008

Austria	26%	Greece	49%
Germany	15%	Ireland	51%
Netherlands	28%	Italy	25%
mean	23%	Portugal	28%
		Spain	32%
Czech Republic	67%	mean	37%
Hungary	114%		
Poland	38%	United Kingdom	
Slovenia	48%	United States	
Slovakia	84%	mean	
mean	70%		

SLV 2002-2008
Source: OECD

wage dispersion 2000-2008 (2000=1)

Austria	0.09	Greece	0.05
Germany	0.05	Ireland	0.02
Netherlands		Italy	-0.01
mean	*0.07*	Portugal	
		Spain	-0.02
Czech Republic	0.04	*mean*	*0.01*
Hungary			
Poland		United Kingdom	
Slovenia	0.07	United States	0.08
Slovakia	0.11	*mean*	*0.08*
mean	*0.07*		

without NL, PO, HU, PORT, UK
Source: OECD

wage dispersion 2000-2008 (2000=1)

Austria	0.07	Greece	0.03
Germany	0.03	Ireland	0.002
Netherlands	0.00	Italy	0.01
mean	0.04	Portugal	0.04
		Spain	-0.02
Czech Republic	0.03	mean	0.01
Hungary	0.01		
Poland	0.01	United Kingdom	0.12
Slovenia	0.05	United States	0.03
Slovakia	0.10	mean	0.07
mean	0.04		

UK 2000-07, PRT 2000-2004, HUN 2000-2006, POL 2000-2007
Source: OECD

social protection in % of GDP 2000-2008

Austria	0.12	Greece	2.80
Germany	-1.64	Ireland	8.25
Netherlands	2.10	Italy	3.10
mean	*0.19*	Portugal	3.43
		Spain	2.12
Czech Republic	-0.79	*mean*	*3.94*
Hungary	2.94		
Poland	-1.10	United Kingdom	-0.14
Slovenia	-2.78	United States	
Slovakia	-3.36	*mean*	*-0.14*
mean	*-1.02*		

no data for US
Source: OECD

union density, 2000-08

Austria	-7.56	Greece	-2.54
Germany	-5.44	Ireland	-6.06
Netherlands	-4.11	Italy	-1.38
mean	*-5.71*	Portugal	-1.15
		Spain	-2.11
Czech Republic	-9.81	*mean*	*-2.65*
Hungary	-4.85		
Poland	-2.10	United Kingdom	-3.10
Slovenia	-15.46	United States	-1.00
Slovakia	-15.09	*mean*	*-2.05*
mean	*-9.46*		

SLV 2001-08
Source: OECD

absolute change in %GDP of Domestic credit to private sector 2000-2008

Austria	17.67	Greece	50.00
Germany	-10.83	Ireland	117.03
Netherlands	58.95	Italy	29.24
mean	21.93	Portugal	47.42
		Spain	105.07
Czech Republic	3.33	mean	69.75
Hungary	37.34		
Poland	23.06	United Kingdom	81.96
Slovenia	85.28	United States	26.22
Slovakia	-6.07	mean	54.09
mean	28.59		

Source: WDI

%growth of Domestic credit to private sector 2000-2008

Austria	0.17	Greece	1.05
Germany	-0.09	Ireland	1.12
Netherlands	0.44	Italy	0.39
mean	0.17	Portugal	0.38
		Spain	1.07
Czech Republic	0.07	mean	0.80
Hungary	1.15		
Poland	0.87	United Kingdom	0.63
Slovenia		United States	0.16
Slovakia	-0.12	mean	0.39
mean	0.49		

no data for SLV
Source: WDI

Increase in Household debt, 2000-08 (in % GDP)

Austria	7.9	Greece	35.5
Germany	-11.7	Ireland	114.3
Netherlands	32.8	Italy	18.3
mean	*9.7*	Portugal	27.4
		Spain	33.8
Czech Republic	11.7	*mean*	*45.9*
Hungary	30.5		
Poland	24.5	United Kingdom	32.3
Slovenia	9.4	United States	26.1
Slovakia	25.6	*mean*	*29.2*
mean	*20.3*		

Note: Ireland, Slovenia 2001-08
Source: Eurostat, expect USA (Flows of Funds)

real house prices 2000-2008

Austria		Greece	
Germany	-19.24	Ireland	40.34
Netherlands	22.77	Italy	47.02
mean	*1.76*	Portugal	
		Spain	86.67
Czech Republic		*mean*	*58.01*
Hungary			
Poland		United Kingdom	
Slovenia		United States	
Slovakia		mean	#DIV/0!
mean	#DIV/0!		

no data for AUT, HUN, POL, SLV, SVK, GRE, PRT, UK, US; ITA only until 2007
Source: OECD

nominal house prices 2000-2008

Austria		Greece	
Germany	-6.48	Ireland	80.87
Netherlands	48.77	Italy	73.01
mean	21.15	Portugal	14.22
		Spain	142.19
Czech Republic		mean	77.57
Hungary			
Poland		United Kingdom	
Slovenia		United States	
Slovakia		mean	#DIV/0!
mean	#DIV/0!		

no data for AUT, HUN, POL, SLV, SVK, GRE, UK, US; ITA only until 2007
Source: OECD

real share prices 2000-2007 (relative to P2007)

Germany	-0.06	Spain	0.20
Austria	0.73	Portugal	-0.17
Netherlands	-0.52	Ireland	0.21
mean	*0.05*	Italy	-0.18
		Greece	-0.05
Hungary	0.50	*mean*	*0.00*
Poland	0.62		
Czech Republic	0.64	United Kingdom	
Slovak Republic	0.75	United States	
Slovenia	0.81	mean	#DIV/0!
mean	*0.66*		

Source: IMF (share prices), OECD (GDP deflator)

absolute change in Net international investment position in % of GDP - annual data

Austria	7.6	Greece	-36.7
Germany	22.2	Ireland	-67.7
Netherlands	19.4	Italy	-16.9
mean	16.4	Portugal	-55
		Spain	-47.3
Czech Republic	-31.6	mean	-44.72
Hungary	-33.4		
Poland	-25.6	United Kingdom	
Slovenia	-22.2	United States	
Slovakia	-41.1	mean	
mean	-30.78		

no data for US, UK
Source: WDI

Productivity growth 2000-08

Austria	0.12	Greece	0.16
Germany	0.09	Ireland	0.10
Netherlands	0.12	Italy	0.01
mean	*0.11*	Portugal	0.06
		Spain	0.04
Czech Republic	0.33	*mean*	*0.07*
Hungary	0.32		
Poland	0.28	United Kingdom	0.14
Slovenia	0.28	United States	0.14
Slovakia	0.45	*mean*	*0.14*
mean	*0.33*		

productivity growth is real GDP per FTE employee, source: AMECO

manufacturing share, value added (% of GDP) 2000-2008

Austria	-0.08	Greece	
Germany	-0.39	Ireland	-10.60
Netherlands	-1.81	Italy	-2.69
mean	-0.76	Portugal	-3.32
		Spain	-4.17
Czech Republic	-2.23	mean	-5.19
Hungary	-1.66		
Poland	0.12	United Kingdom	
Slovenia	-3.61	United States	-2.97
Slovakia	-1.56	mean	-2.97
mean	-1.79		

no data for UK
Source: OECD

manufacturing share, value added (growth) 2000-2008

Austria	-0.38	Greece	
Germany	-1.68	Ireland	-32.57
Netherlands	-11.63	Italy	-12.94
mean	-4.56	Portugal	-18.95
		Spain	-22.36
Czech Republic	-8.66	mean	-21.70
Hungary	-7.08		
Poland	0.65	United Kingdom	
Slovenia	-14.03	United States	-18.25
Slovakia	-6.33	mean	-18.25
mean	-7.09		

no data for UK
Source: OECD

Current account 2000-07 (% GDP)

Austria	1.7	Greece	-8.5
Germany	3.8	Ireland	-2.1
Netherlands	5.6	Italy	-1.3
mean	3.7	Portugal	-8.9
		Spain	-5.8
Czech Republic	-4.3	mean	-5.32
Hungary	-7.4		
Poland	-3.4	United Kingdom	-2.3
Slovenia	-1.7	United States	-5
Slovakia	-6.9	mean	-3.65
mean	-4.74		

no data for US

Source: OECD