

Jean-Claude Trichet: Introductory remarks at ETUC Congress

Speech by Mr Jean-Claude Trichet, President of the European Central Bank, at the 11th ETUC (European Trade Union Confederation) Congress, Seville, 22 May 2007.

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Let me begin with a few remarks about the importance of price stability for the welfare of euro area citizens. The successful maintenance of stable prices and longer-term inflation expectations that are securely anchored at levels consistent with price stability is a necessary condition for attaining sustainable growth in economic activity and sustainable employment creation. Looking back over the period since the euro was launched euro area inflation has indeed been very close to 2% on average. Stability-oriented monetary policy has therefore directly improved the well-being of euro area citizens, inter alia, by supporting the purchasing power of their income and savings.

While single monetary policy continues to deliver on its mandate, the euro area economy also faces significant challenges that point to the need for structural reforms. Among these challenges, improving the productivity performance of the euro area is particularly important: at the level of the euro area as a whole, the average annual increase of labour productivity declined from 1.6% between 1991 and 1998 to 0.8% between 1999 and 2006, whereas it increased in the United States from 1.3% to 2.2%. Pursuing structural reforms is also essential to maintaining the competitiveness of the euro area as a whole and to translating the opportunities brought about by globalisation into achievements.

At the same time, euro area labour markets have been characterised by favourable trends in the last few years. Since 1999 the euro area has witnessed an increase of more than 12 million in the number of people employed and a substantial decline in the unemployment rate from 10% to 7.9% on average in 2006 and 7.2 % in March 2007.

Looking forward, it is important that this favourable trend in labour markets continues, so contributing to the diminishing of unemployment as well as a prolonged and robust economic growth. In this respect, the Governing Council of the ECB considers decisive that the social partners continue to meet their responsibilities. Wage agreements should avoid wage developments that would eventually lead to inflationary pressures and harm the purchasing power of all euro area citizens. Beyond this, it is important to point out that particular wage agreements should take into account price competitiveness positions, the still high level of unemployment in many economies and productivity developments across sectors. Wages should be sufficiently differentiated across countries and sectors to reflect these factors.

More specifically, moderate wage developments in the euro area as a whole reflect an aggregation of diverse wage developments across euro area countries with important implications for cost competitiveness. Indeed, over longer horizons we observe that euro area countries that have been able to preserve a low level of unit labour cost growth have also experienced significant gains in employment. At the same time, when looking at accumulated unit labour cost changes we observe that a number of economies which lost cost competitiveness also experienced a loss of market shares, less gains in job creation and/or deteriorating current account position.

Despite the decline in the euro area average unemployment rate over the last few years, unemployment remains too high in several countries and regions of the euro area. In these countries and regions, wage increases should not fully exhaust productivity gains in order to provide incentives for firms to create additional jobs. In this respect, sufficient wage differentiation is also required to improve the employment opportunities for less skilled workers where there is high unemployment for this category of employees.

The extent to which an increase in nominal wage growth leads to upward pressure on inflation depends crucially on trend labour productivity growth. Under normal circumstances, stronger labour productivity growth would justify an increase in nominal wage growth, thus allowing wage earners to participate in economic growth without adding to inflationary pressures. But for the same reason, without sustained improvements in labour productivity higher nominal wages would not lead to improvements in real purchasing power, but fuel inflationary pressures. Importantly, industries are characterised by different productivity developments. Therefore, wage setting should allow for sufficient wage differentiation and agreements in one industry or sector can not readily be transferred to others.

Those are the reasons why the Governing Council calls for a high level of responsibility from social partners. It is aiming at preserving and improving the situation of employees and of all our fellow citizens in the euro area. Such a responsible policy directly benefits those who are unemployed by significantly improving their employment possibilities. It benefits all our fellow citizens by supporting the purchasing power of their income, thus preserving the well-being of euro area households. And it contributes to meeting one necessary condition for sustainable long-term growth and active job creation in the euro area, which is price stability.

Naturally there are also a number of other factors that are contributing to sustainable growth and job creation, in particular sound public finances and, as I already said, structural reforms that enhance competition, increase productivity and foster economic flexibility in order to elevate the growth potential of our vast euro area economy. Augmenting the growth potential of Europe is a major goal for all of us.

Background information

Table 1: Compensation per employee growth (whole economy) across euro area countries

(year-on-year percentage changes)

| | 1999-2006(a) | 2005 | 2006 (b) | 2006Q1 | 2006Q2 | 2006Q3 | 2006Q4 |
|------------------|--------------|------|----------|--------|--------|--------|--------|
| Germany | 1.1 | -0.1 | 0.6 | 0.3 | 0.4 | 0.9 | 1.0 |
| France | 2.7 | 2.6 | 3.2 | 3.3 | 3.4 | 3.0 | 3.2 |
| Italy | 2.5 | 2.8 | 2.4 | 3.6 | 4.4 | 3.2 | -1.3 |
| Spain | 3.1 | 2.6 | 3.4 | 2.9 | 3.4 | 3.6 | 3.9 |
| Netherlands | 3.5 | 1.1 | 0.8 | 0.1 | 0.4 | 1.0 | 1.7 |
| Belgium | 2.7 | 2.4 | 2.9 | 3.0 | 2.8 | 3.0 | |
| Austria | 1.7 | 1.6 | 2.3 | 2.3 | 2.3 | 2.3 | |
| Finland | 3.1 | 3.8 | 1.9 | 1.6 | 2.8 | 1.7 | 2.4 |
| Greece | 6.4 | 6.5 | 5.9 | - | - | - | |
| Portugal | 3.9 | 3.1 | | - | - | - | |
| Ireland | 5.9 | 5.0 | 4.8 | 3.6 | 3.9 | 5.3 | 6.5 |
| Luxembourg | 3.5 | 3.7 | 2.3 | - | - | - | |
| Slovenia | 8.5 | 5.4 | | - | - | - | |
| EA-5 (c) | 2.2 | 1.6 | 2.1 | 2.1 | 2.4 | 2.3 | 1.5 |
| EA-6 (d) | 2.3 | 1.6 | 2.3 | 2.1 | 2.4 | 2.3 | |
| Euro area | 2.2 | 1.6 | 2.2 | 2.2 | 2.4 | 2.3 | 1.8 |

(a) Average over the period

(b) Average of the available quarters

(c) Weighted average of the five largest euro area countries - DE, FR, IT, ES, NL

(d) Weighted average of the six largest euro area countries - DE, FR, IT, ES, NL, BE

Source: Eurostat, using sa and wda data, where available; BIS for Portugal.

In the case of the Netherlands, based on nsa data.

Table 2: Unit labour costs growth (whole economy) across euro area countries*percentage changes*

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | Average growth since 1999 to 2006 |
|-------------|------|------|------|------|------|------|------|------|-----------------------------------|
| Euro area | 0.9 | 1.1 | 2.2 | 2.4 | 2.0 | 0.9 | 1.0 | 0.9 | 1.4 |
| Belgium | 1.4 | 0.3 | 4.3 | 2.1 | 0.6 | -0.3 | 2.3 | 0.7 | 1.4 |
| Germany | 0.5 | 0.7 | 0.9 | 0.9 | 1.0 | -0.2 | -0.9 | -1.6 | 0.1 |
| Ireland | -0.5 | 2.6 | 4.6 | 1.2 | 2.7 | 5.4 | 4.1 | 3.9 | 3.0 |
| Greece | 3.0 | 1.3 | 0.2 | 6.0 | 1.2 | 4.0 | 4.1 | 3.5 | 2.9 |
| Spain | 1.9 | 2.8 | 3.2 | 2.9 | 3.0 | 2.5 | 2.2 | 2.5 | 2.6 |
| France | 1.0 | 1.0 | 2.3 | 2.9 | 1.8 | 1.0 | 1.9 | 1.9 | 1.7 |
| Italy | 1.2 | 0.6 | 3.2 | 3.7 | 4.3 | 2.4 | 2.5 | 2.6 | 2.6 |
| Luxembourg | 0.7 | 2.5 | 6.5 | 2.7 | 2.4 | 2.8 | 2.6 | 2.0 | 2.8 |
| Netherlands | 1.7 | 2.9 | 5.0 | 4.8 | 2.7 | 0.3 | -0.3 | 0.2 | 2.2 |
| Austria | 0.1 | -0.2 | 1.0 | 1.0 | 1.1 | -0.4 | 0.9 | 0.6 | 0.5 |
| Portugal | 3.3 | 4.5 | 5.1 | 4.0 | 3.9 | 1.3 | 2.7 | 2.3 | 3.4 |
| Slovenia | 3.6 | 8.9 | 9.2 | 6.5 | 3.5 | 3.6 | 1.6 | 1.4 | 4.8 |
| Finland | 0.8 | 1.0 | 3.5 | 1.1 | 1.1 | 0.5 | 2.0 | -0.4 | 1.2 |

Source: European Commission (Ameco database). The ULC developments in Greece might differ from the calculations made by the Bank of Greece.

Table 3. Labour productivity growth in the euro area countries

Labour productivity per person employed across euro area countries

| | Average growth rates* | |
|--------------------------|-----------------------|------------|
| | 1991-1998 | 1999-2006 |
| Belgium | 1.4 | 1.3 |
| Germany | 1.9 | 1.0 |
| Ireland | 3.3 | 2.9 |
| Greece | 1.2 | 3.4 |
| Spain | 1.2 | 0.1 |
| France | 1.4 | 1.0 |
| Italy | 1.6 | -0.1 |
| Luxembourg | 3.2 | 3.0 |
| Netherlands | 0.9 | 1.3 |
| Austria | 2.1 | 1.4 |
| Portugal | 2.3 | 0.8 |
| Finland | 2.9 | 2.1 |
| Euro area | 1.6 | 0.8 |
| Unweighted std.deviation | 0.8 | 1.1 |

Source: Eurostat and European Commission (Ameco database); own calculations.

* Annual percentage changes. Data for Germany and euro area as of 1992.

Table 4. Employment growth in the euro area countries

| Employment growth in persons across euro area countries | | | | | | |
|--|--|--------------|---|--------------|---------------|---------------|
| | Cumulated employment growth, thousands of persons, European Commission (AMECO) | | Cumulated employment growth, thousands of persons, Eurostat | | | |
| | 1991-1998* | 1999-2006** | 1991-1998* | 1999-2006** | Q41991-Q41998 | 1998Q4-2006Q4 |
| Belgium | 115 | 299 | 115 | 299 | 122 | 269 |
| Germany | -710 | 1195 | -710 | 1179 | -74 | 1139 |
| Ireland | 346 | 513 | 350 | 513 | - | 519 |
| Greece | 225 | 270 | 192 | 335 | - | - |
| Spain | 1131 | 4916 | 1131 | 4916 | 1171 | 4913 |
| France | 364 | 2008 | 364 | 2076 | 513 | 2009 |
| Italy | -357 | 2502 | -357 | 2502 | -796 | 2348 |
| Luxembourg | 50 | 81 | 50 | 81 | - | 80 |
| Netherlands | 1043 | 568 | 1042 | 568 | 665 | 772 |
| Austria | 84 | 213 | - | 213 | - | 297*** |
| Portugal | 144 | 316 | 166 | 387 | - | - |
| Finland | -288 | 239 | -288 | 239 | -56 | 221 |
| Euro area | 1439 | 13120 | 1402 | 13159 | 2815 | 12991 |

Source: European Commission (Ameco database) and Eurostat; own calculations.

Remark: * Includes employment changes in 1991 except DE and EA (starting in 1992). ** Includes employment changes in 1999. *** 1998Q4-2006Q3. Moreover, discrepancies between annual EC and Eurostat data may be partly due to the use of domestic vs. national concepts (DE), unexplained systematic level and growth differences (PT and GR) and that Eurostat data are more updated (for the latter period) (FR).

Table 5. Unemployment rates across euro area countries

| Unemployment across euro area countries^a | | | | | |
|--|-------------------|-------------------|------------|-----------|------------|
| | Average 1991-1998 | Average 1999-2006 | 1991 | 1998 | 2006 |
| Belgium | 8.7 | 7.8 | 6.4 | 9.3 | 8.2 |
| Germany | 7.8 | 8.4 | 5.4 | 8.8 | 8.4 |
| Ireland | 12.7 | 4.5 | 14.7 | 7.5 | 4.4 |
| Greece | 9.0 | 10.4 | 7.1 | 10.8 | 8.9 |
| Spain | 16.7 | 10.6 | 13 | 15 | 8.6 |
| France | 10.9 | 9.4 | 9 | 11.1 | 9.4 |
| Italy | 10.3 | 8.7 | 8.5 | 11.3 | 6.8 |
| Luxembourg | 2.6 | 3.4 | 1.6 | 2.7 | 4.7 |
| Netherlands | 5.6 | 3.5 | 5.5 | 3.8 | 3.9 |
| Austria | 4.0 | 4.3 | 3.4 | 4.5 | 4.8 |
| Portugal | 5.9 | 5.7 | 4.2 | 5.1 | 7.7 |
| Finland | 13.2 | 9.0 | 6.6 | 11.4 | 7.7 |
| Euro area | 9.8 | 8.4 | 7.7 | 10 | 7.9 |
| Unweighted std.deviation | 3.9 | 2.6 | 3.6 | 3.6 | 1.9 |

Source: European Commission (Ameco database); own calculations.

^a Eurostat definition, as a percentage of the labour force