

# INSTITUTIONAL DEFICITS IN THE EURO AREA: THE PROBLEM OF DIVERGENT UNIT LABOUR COSTS

HUBERT GABRISCH<sup>1</sup>

***Abstract:** Price and cost competitiveness of individual Euro area members are analyzed from an institutional perspective. Contrary to former expectations, labour markets do not show a trend to more flexibility in the monetary union. Differences in wage bargaining institutions, among them coordination, and low-wage strategies of some countries (Germany, Austria) induce rising differences in unit labour costs. These differences explain a part of the persistent inflation differentials in the Euro area and the increasing trade imbalances. The paper concludes that the conditions for an optimal currency area have been deteriorated since the introduction of the Euro, and more coordination of policy strategies is necessary.*

***Key words:** trade imbalances, competitiveness, integration, asymmetry.*

---

<sup>1</sup> Halle Institute for Economic Research (IWH), Germany.