Reducing inequality by collective bargaining

INEQUALITIES, NEOLIBERALISM AND EUROPEAN INTEGRATION: PROGRESSIVE ANSWERS


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Structure of presentation

1. Impact of neoliberal LM deregulation
2. Inclusive CB - Powerful instrument to reduce inequality
3. Impact of wage restraint on other EU-countries
4. Weakening of democratic institutions
1.1 The Neoliberal Labor Market Model (NLMM)

Basic assumptions – equilibrium through
- micro- and macro-wage-flexibility
- no negative macro-economic effects
- neglectable trade-offs

LM-institutions like Collective Bargaining
- a barrier to micro and macro-flexibility
  *(especially industry wide bargaining, extension of agreements, favorability principle, after-effects)*
- no other functions like democratic rights, balancing power relations in society
1.2 Impact of NLMM on Ranking - Example: The Global Competitive Index of the World Economic Form

<table>
<thead>
<tr>
<th></th>
<th>Sweden</th>
<th>Germany</th>
<th>USA</th>
<th>Qatar</th>
<th>Greece</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>6</td>
<td>5</td>
<td>3</td>
<td>18</td>
<td>86</td>
</tr>
<tr>
<td><strong>Infrastructure</strong></td>
<td>20</td>
<td>8</td>
<td>11</td>
<td>18</td>
<td>37</td>
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<tr>
<td><strong>Higher education and training</strong></td>
<td>15</td>
<td>16</td>
<td>8</td>
<td>30</td>
<td>45</td>
</tr>
<tr>
<td><strong>Cooperation in labor-employer relations</strong></td>
<td>5</td>
<td>25</td>
<td>30</td>
<td>13</td>
<td>105</td>
</tr>
<tr>
<td><strong>Flexibility of wage determination</strong></td>
<td>132</td>
<td>126</td>
<td>18</td>
<td>8</td>
<td>122</td>
</tr>
<tr>
<td><strong>Hiring and firing practices</strong></td>
<td>109</td>
<td>43</td>
<td>7</td>
<td>8</td>
<td>99</td>
</tr>
</tbody>
</table>

1.4 Deregulation of Greek LM - show case

Abolition of inclusive LM-institutions

- Abolition of extension of CA‘s and favorability principle; reduction of time extension and after effect to 3 months; maximum of duration 3 years; easy exit options: deviating firm agreements by „associations of persons“

Impact:

- deepening of economic crisis – optimistic prognosis of institutions all wrong
- ongoing erosion of CB (MW becoming the going rate)
- ongoing increase of income inequality and weakening of social dialogue

Cynical recommendation of OECD to Greece „to make economic growth more inclusive by urgently adopting policies to reduce poverty and inequality“ (OECD: Economic survey of Greece 2016)
1.5 Forecast Errors on Greek GDP by EU Commission

Source: EU Commission, own compilation
1.6 Collective bargaining coverage (2009, 2013)

Source: ICTWSS Database
Poverty has risen sharply

1. Measured as the ratio between the share of national income received by the ninth decile and the first decile.
2. The poverty line is fixed at 50% of median equivalised household disposable income in 2005. Data are available only for 2005, 2007, 2011 and 2013.

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2.1 Rate of coverage by collective agreements and share of low-wage work (2014)

Correlation: -0.82

Source: Visser 2015, Eurostat, own calculations
2.2 Wage distribution in a liberal market economy with MW and in coordinated market economy with high coverage by collective agreements
2.3 Two real cases: UK 2014 and Germany 1995

Increasing efficiency

Micro-flexibility encourages low-road business-models

Research shows clearly benefits of co-ordinated CB:
- Extension of scope and time horizon of CB: negotiations on internal flexibility (skills, w-time)
- Reduction of transaction costs for companies – highly important for SME’s
- Levelled playing fields for companies: Encourages investments in skills
- Reduction of bureaucracy – creation of labour standards according to the needs of industries – unburden the state from interventions
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3.1 Unit Labor Costs (2000 = 100)

Source:
3.2 Increasing imbalances of payments in EU (in billion €)

3.3 Development of domestic demand 2000q1=100 (1)

3.3 Development of domestic demand 2000q1=100 (2)

3.4 Drivers of trade imbalances

Germany trade surplus 8.5% of GDP in 2016 - Reduction of surplus by higher wage increases in DE?

Different views

- EU-Commission “Overall there is no evidence that wage developments are at the root of the development” (European Economy 9/2012: 91) – Why then the dictate of the institutions?

- German government: Low price elasticity of German exports, ageing society needs savings for the future…

- IMK: yes low price elasticity – but German wage restraint reduced domestic demand and therefore imports – a combination of wage increases and investments programs would help

Also weak price elasticity of Greek exports – depend on growth strategies – focus on the quality of exports
Impacts of the Neoliberal Labor Market Model

1. Increase of social inequality – erosion of the middle class
2. Undermining built-in-stabilizers in economic crisis
3. Reduction of efficiency
4. Weakening of democratic institutions
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- Trade-unions give employees a voice in political decisions
- Fragmentation of CB marginalizes unions
- Increasing inequality reduces participation in political life like in voting in political elections

Result: - No countervailing power to business lobbying - easier for special interests to influence political decisions
Decreasing voters participation in Bundestag-elections 1980 to 2012

Abgebildet sind die aus einer logistischen Regression ermittelten Wahlwahrscheinlichkeiten unterschiedlicher sozialer Gruppen, wenn Alter, Geschlecht, Bildung und politisches Interesse konstant gehalten werden.

Conclusion

Clearly negative impacts of labor market deregulation and need for implementing proposal of the expert group of the Greek government and the institutions

But caution:

- Opposition to neo-liberalism not sufficient
- Resistance to all reforms support demands for deregulation
- Continuous need to reform collective agreements
- The positive impacts of co-ordinated CB do not come automatically – require trust between social partners and modernization of CA (for example w-time flexibility for employees as well as for employers)
Annex
(1) Development of hourly gross wages in selected countries - 2000q1=100

Source: Albu et al. (2017) IMK Report 128