Concluding remarks
A transnational coordinated reconstruction of collective bargaining as a precondition for inclusive growth in Europe

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> 'Europe has learned many lessons from the recent financial and economic crisis. We see very clearly now that in a highly integrated Union, and even more so in a monetary union, our economies and our successes are linked. Although the EU has a number of instruments for the co-ordination of economic policy the crisis has shown that they have not been used to the full and that there are gaps in the current governance system. There is broad political agreement that this has to change and that the EU needs to be equipped with a broader and more effective set of policy instruments to ensure its future prosperity and standards of living.'
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> 'I regard the growth of collective bargaining as essential. I approve minimum wage and hours regulation. I was altogether on your side the other day, when you deprecated a policy of general wage reductions as useless in present circumstances.'
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> John Maynard Keynes in a letter to
> Franklin D. Roosevelt, 1 February 1938

The focus of the present book is the recent policy shift in European economic governance in which wages and wage formation systems are under attack. The book has: (i) evaluated and critically reviewed the policy theory backing this new policy approach; (ii) assessed its impact; and (iii) outlined and argued for another view on the role wages and collective bargaining can play in a more productive and sustainable EU socio-economic perspective. The book takes as its starting point the strategy of inclusive growth embraced (in principle) by Europe, which is – according to many observers – key to a productive and sustainable European socio-economic approach.

1. Current views on wage bargaining under the new European Economic Governance

Strong unions and comprehensive collective bargaining within the framework of which the majority of workers are protected by collective agreements have been widely regarded as a cornerstone of the European social model, as it developed in the first two decades after the Second World War in many western European countries (Visser 2013), thereby delivering a 'golden age' of inclusive growth. Strong unions were seen as a necessary countervailing power against the more destructive tendencies of capitalism, while comprehensive collective bargaining was regarded as the core institution for promoting a more equal distribution of income as a major precondition for sustainable and inclusive growth. Along those lines the European Commission (2015: 3) even recently argued, in the latest Industrial Relations Report of DG Employment, that 'countries with strong social dialogue institutions are among the EU's best performing and most competitive economies, with a better and more resilient social situation'.

In contrast, however, a counterview has become more and more influential among European policymakers during the past three decades. With strong mainstream academic support and promotion by neoliberal interests this counterview regards unions and collective bargaining mainly as institutional rigidities that hinder 'efficient market allocation'. Consequently, there is a more or less open demand for a 'decrease' in collective bargaining coverage and an 'overall reduction in the wage-setting power of trade unions', as pointed out a few years ago in the already famous DG ECFIN report on 'Labour Market Developments in Europe' (European Commission 2012: 104).

Within the framework of the new European economic governance, neoliberal views on wages and collective bargaining have become even more prominent and have guided various policy reforms and interventions. As the crisis in Europe came to be interpreted largely as a crisis of competitiveness, wages were seen as the core adjustment variable for 'internal devaluation', which are supposed to restore competitiveness by reducing labour costs. Although all policy interventions on wages and collective bargaining ultimately take place at national level, they have very much been promoted through European economic governance procedures (European Semester and Macroeconomic Imbalance Procedure). In the case of countries under the European Stability Mechanism these interventions have been imposed in a more authoritarian and fairly undemocratic way by the 'Troika' (the European Commission, the European Central Bank and the International Monetary Fund).

The new political interventionism in the area of wage policy basically takes two forms (Schulten and Müller 2015). First, many countries have directly intervened in current wage developments through wage cuts and freezes in the public sector, but sometimes also in the private sector with more or less open violations of collective bargaining autonomy. Second, in many countries the state has promoted 'structural reforms' of collective bargaining and wage-setting systems. These reforms, which were usually imposed against the resistance of trade unions and sometimes even of employers' associations, have aimed at a more radical decentralisation of collective bargaining in order to increase downward wage flexibility at company level.

As a result, a considerable diminution of multi-employer agreements and collective bargaining coverage have been witnessed, especially in southern countries such as Portugal and Spain (see Chapter 3 in this volume). Besides limited exceptions (for example, Slovenia), this policy framework has also been dominant for a while in the catch-up countries of central and eastern Europe. A low-wage economic strategy is embedded in a non-developing or receding context of institutionalised collective bargaining, occasionally interrupted by (tripartite) political settlements to increase minimum wages (Chapter 5). As such, these policies reflect the trend of dismantling collective bargaining in the United Kingdom since the 1980s (Chapter 6). Low-wage competition has also been introduced in the political debate in the Nordic countries, as Chapter 4 of this volume shows. On one hand, German wage 'leadership' has led to the heightened adoption of organised decentralisation bargaining in Denmark and Sweden. On the other hand, liberalising labour mobility has led to social dumping in sectors such as construction, transport and food industry.

2. The failure of internal devaluation

As a direct result of this new European and national interventionism in wage policy, a series of countries – in particular in eastern and southern Europe – have faced a significant decline in real wages, as well as a strong increase in wage inequality. The economic consequences of these wage developments have been negative. Although many countries were – at least on paper – able to improve their cost competitiveness by reducing unit labour costs, this did not lead to the hoped-for export-led recovery (Le Bayon *et al.* 2014; Uxó *et al.* 2014). In contrast, the decline in real wages had a strong negative effect on the development of domestic demand and thus contributed to the persistence of economic stagnation and high unemployment. Moreover, as many European countries have followed the same strategy of wage restraint in an already stagnating economic environment, this has largely contributed to a decline in price development and has put the threat of a Europe-wide deflation on the agenda.

The failure of internal devaluation calls into question the dominant mainstream narrative of the economic crisis in Europe and its underlying assumptions regarding the role of wages (Chapter 7 in this volume). First of all, there is a widespread view that the countries that are still suffering from the crisis basically have a problem of weak competitiveness which in the past was exacerbated by 'too high' wage increases. Turning to real wage developments and productivity increases, however, wage restraint has been ongoing in the 2000s almost everywhere in Europe, leading to a significant fall in the wage share and a redistribution from labour to capital (Lavoie and Stockhammer 2013).

Secondly, there is often no clear correlation between unit labour cost developments and export performance, as the latter depends first of all on export demand. Moreover, competitiveness is not only about costs but also about a wide range of non-price factors, such as innovation, quality, originality, brand image and services, as well as sectoral specialisation. According to recent scholarship these non-price competitiveness factors are much more able to explain the export performance of a country than the narrow view based on wages and labour costs (for example, Storm and Naastepad 2015). Consequently, the development of export industries cannot be promoted by wage restraint, but only by a more specific structural and industrial policy, as well as by a modern and efficient public infrastructure.

Finally, there is a narrow focus on an export-led strategy as a supposed 'royal road' to economic recovery. Such a perspective is highly problematic for at least two reasons: first of all, it is simply physically impossible that all countries could follow an export-led development model and rely on running a trade surplus. Export-led development strategies that attempt to defy this fundamental truth are likely to result in senseless downward competition among countries on issues such as wages, social security contributions and tax. Apart from that, however, the focus on export-led development strategies largely ignores the fact that in almost all European countries most economic activities still take place in the domestic economy (Feigl and Zuckerstätter 2012). Under such conditions possible positive effects of wage restraint with regard to the price competitiveness of export industries will usually be offset by the negative effects on private demand, so that the overall consequences for economic growth will be negative. A typical example of this was Germany during the 2000s, when both wages and private demand grew well below the European average (Schulten 2015).

3. An alternative view of wages for more inclusive economic development

During the 2000s wage developments in most European countries were characterised by falling wage shares and growing wage dispersion (see Chapter 2 in this volume). As a consequence, wage-led private demand systematically lagged behind and hindered these economies in realising their growth potential. In order to compensate this structural demand gap, two different economic models have emerged in Europe. One is an export-led growth model (followed by most northern European countries) where weak domestic demand came to be at least partially compensated by growing trade surpluses. The other was a debt-led growth model (followed by many southern European countries) which promoted a domestic demand boom based on private debt rather than income. With the crisis it became clear that both models – which depend on each other – are not sustainable (Hein 2012).

Under the conditions of the crisis the problem of weak demand was at first further exacerbated as many countries not only followed a policy of strict 'austerity', but also saw a significant fall in real wages. In the meantime, it has become more and more obvious that these policies promoted by the new European economic governance procedures have failed to create a way out of economic stagnation, so that a growing number of political and economic actors are demanding that these policies be renounced. Besides the necessary shift from austerity to more investment, there is also a need for a strong shift in wage policy. As the Director for Employment, Labour and Social Affairs at the OECD, Stefano Scarpetta, has put it: 'Any further reduction of wages risks being counter-productive because then we would run into a vicious circle of deflation, lower consumption and lower investment' (quoted in Financial Times, 3 September 2014, see also OECD 2014a).

An alternative economic development model based neither on increasing private debts nor on increasing trade surpluses requires a much more equal distribution of income and wealth in order to solve the demand problem. A more sustainable growth strategy could therefore only be an inclusive growth strategy; at least on paper this became the official guiding principle of the Europe 2020 strategy (European Commission 2010). As the OECD (2004b) put it, inclusive growth aims to 'take all on board', in order to make sure that all people can gain from economic development. There is a fairly broad consensus that an inclusive growth strategy basically needs to reverse the ongoing trend towards growing inequality of income and wealth. However, the role of wage policy in such an inclusive growth model has so far been largely neglected. This is even more astonishing because wages are still the major source of income for most people and as such the main source for private demand.

An inclusive growth strategy requires a supportive wage policy which goes beyond the traditional 'golden wage rule' according to which wages should grow in line with national trend productivity and target inflation rate. A new 'optimum wage regime' in Europe, as suggested by Chagny and Husson (Chapter 9 in this volume), calls for wage developments that are solidaristic in the sense that they avoid increasing wage differentials between the various sectors and lift up wages at the lower end of the scale. Moreover, wage developments should be allowed – at least for a certain period – to be more expansive in order to reverse the downward trend in wage shares. As recent studies have shown, more expansive and solidaristic wage developments in Europe could contribute to a significant push in growth and investment (Onaran and Obst 2015; Kelly and D'Arcy 2015).

4. Institutional preconditions for a more expansive and solidaristic wage policy

A shift in the current economic development model in Europe towards a more wage-led and inclusive growth model needs institutions that are able to support such an alternative strategy (Berg *et al.* 2015). As far as wage-setting and collective bargaining are concerned, however, recent 'structural reforms' promoted within the framework of the new European economic governance have led to the paradoxical situation in which more macroeconomic-oriented coordination of wages becomes less and less possible (see Chapter 8 in this volume).

With the more radical decentralisation or even individualisation of wage-setting, wage developments tend to follow the business cycle closely and thus to promote pro-cyclical economic development. While in times of economic downturn more decentralised systems indeed show much greater downward wage flexibility, in periods of economic upswing they might lead to much faster wage growth. In any case, more decentralised wage-setting systems generate much higher wage dispersion as wage developments depend highly on the economic performance of individual firms.

In contrast, it was one of the basic insights of Keynesian economics that, especially in times of economic crisis, strong wage institutions are necessary in order to prevent a downward development of wages and to maintain their role as economic stabilisers. Keynes (1936: 14) himself even claimed in his General Theory that 'it is fortunate that the workers, though unconsciously, are instinctively more reasonable economists than the classical school, inasmuch as they resist reductions of money-wages'.

Today, support for more inclusive economic development in Europe requires not only the prevention of further wage cuts and freezes, but also a more coordinated approach to more expansive and solidaristic wage developments. A macroeconomic coordination of wage policy, however, is possible only with adequate wage-setting institutions that make it possible to set wages beyond the scope of the individual firm. What are needed are basically three elements: adequate minimum wages, encompassing collective bargaining and strong trade unions.

Regarding minimum wages all European countries have determined more or less universal wage floors. In addition, in many countries – especially those with fairly weak collective bargaining – the development of statutory minimum wages has an important signalling function for wage development overall. However, the level of minimum wages is often fairly low and not able to prevent poverty. Against that background, a European-wide coordinated minimum wage policy would have the task of ensuring decent wages for all workers (Chapter 10 in this volume). It would have to promote above-average wage increases at the lower end of the wage scale and thus encourage a significant push of private demand. As calculated by Eurofound, an increase in all minimum wages to 60 per cent of the respective national median wage would benefit about 16 per cent of all workers in Europe (Aumayr-Pintar *et al.* 2014).

Regarding collective bargaining, the situation in Europe is diverse (European Commission 2015). Collective bargaining coverage varies among countries between almost 100 per cent and only around 10 per cent. High bargaining coverage, with the majority of workers covered by collective agreements, requires a comprehensive system of more centralised multi-employer bargaining (Chapter 8 in this volume). Furthermore, it usually also needs supportive regulation by the state, for example, through the widespread use of collective agreement extensions. Instead of weakening or even destroying multi-employer bargaining structures, the EU should, together with European trade unions and employers' associations, launch a broad campaign to strengthen collective bargaining and increase bargaining coverage (Chapter 11 in this volume).

Finally, industrial relations researchers have long known and even economists of the International Monetary Fund (Jaumotte and Buitron 2015) have recently confirmed that a more inclusive growth model based on a more egalitarian distribution of incomes requires much stronger trade unions. Although it is first of all the task of the unions themselves to increase their organisational power base and to reverse the trend of falling union density, it is also society's responsibility to enable and support the development of strong trade unions. All in all, a shift towards a more sustainable and inclusive economic development model would require a broad-based reconstruction of collective bargaining as part of a more fundamental renewal of industrial democracy in Europe.

Institutional restoration would also contribute to a better European governance strategy. Despite the lip service to social dialogue, the approach adopted by Europe in recent years has been hampered by democratic deficiencies, as reflected in the social protests in southern countries and the growing legitimacy problems of the European project.

5. Challenge of transnational coordination (capacity)

A basic premise of this volume is that, in these times of globalisation and crisis, Europe needs an inclusive growth strategy that focuses on reducing inequality and enhancing real income growth among a broad(er) group of people (the '99%') than today. Restoring and supporting collective bargaining on wages is defined as a key factor in this strategy.

Finally, it is important to stress the transnational coordination challenge. Successful combination of both elements is key: coordination as governance method and at supra-national level in Europe. The main advantage of collective wage bargaining in the proposed strategy (as illustrated in this volume) is the coordinating effort that would act as a 'counterforce' against market forces, which are simply not delivering. The analyses of the book show that, on one hand, we are already witnessing this kind of European transnational coordination. However, it is politically imposed and does not promote, but rather distorts the necessary market-correcting function of wage bargaining institutions. It shows, also, that in such a policy context in the countries in which collective bargaining has remained in fairly good shape (mainly north-western Europe), trends of wage moderation, freezes and beggar-thy-neighbour policies have been dominant. Strengthening national institutions is necessary, but will probably not be sufficient to diffuse the outlined 'policy turn' in Europe.

Structural innovations in 'vertical' coordination at European level will be very important for success. Before starting a discussion on the needed changes in the governance structures of the European macroeconomic social dialogue or the functioning of bipartite – sectoral and cross-sectoral – social dialogue, it is important, in our opinion, to have a clear view on the following matters, which at the moment are still very 'open' policy questions.

The proposed restoration requires a broadening of horizontal subsidiarity at the European level, in which trade unions and employers' associations are given the chance to address the wage-related challenges of an inclusive growth strategy, for which they are better placed to find negotiated solutions. However, experience of social market implementation in Europe shows that in many countries policies have to be developed by means of a 'carrot and stick approach' to make horizontal subsidiarity deliver (Visser 2013: 56). What innovative and positive role can the European semester approach play in this regard?

Successful growth strategies depend on complementarities, as the literature on political economy has shown convincingly (Morgan *et al.* 2010). The main driver of the neoliberal approach that currently dominates in Europe is finance-led capitalism (Hein 2012). Just as this finance-led strategy strongly affects the kind of wage bargaining that takes place, a wage-led strategy will have to think and act on the complementarities needed in the financial economy.

European debates are still very strongly driven by the cost perspective of export sectors. We have already questioned the cost perspective in this conclusion, but it is equally important to broaden debates on wages at the European level to the more shielded service sectors. The stories of labour mobility dumping in the Nordic countries in Chapter 4 and the detected 'imbalances' in the service sector mentioned in Chapter 9 hint at this necessity.

6. En avant!

Building blocks have been offered in this book for constructing an alternative view of wage bargaining under the new European Economic Governance today. Pressing questions have been outlined that seek a political answer. Mobilising capacity for the strategy is another important step in this regard (Hyman 2015). An important role and responsibility should be given in this campaign to the European labour movement (ETUC and sectoral federations), because, as we have indicated, the 'policy turn' needs to be transnationally coordinated or it will not take place. Aggregating interests in a solidaristic way beyond national borders is the first fundamental challenge of such strategic union campaigns, while the second is a search for coalition partners.

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