

Gerhard Bosch

# Reducing inequality by collective bargaining

INEQUALITIES, NEOLIBERALISM AND EUROPEAN  
INTEGRATION: PROGRESSIVE ANSWERS

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Hall, Nikos Skalkotas Hall Vass. Sophias & Kokkali*

**Prof. Dr. Gerhard Bosch**

Universität Duisburg Essen

Institut Arbeit und Qualifikation

Forsthausweg 2, LE, 47057 Duisburg

**Telefon:** +49 (0)203 / 379-1339; **Fax:** +49 (0)203 / 379-1809

Email: [gerhard.bosch@uni-due.de](mailto:gerhard.bosch@uni-due.de); [www.iaq.uni-due.de](http://www.iaq.uni-due.de)

## 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)

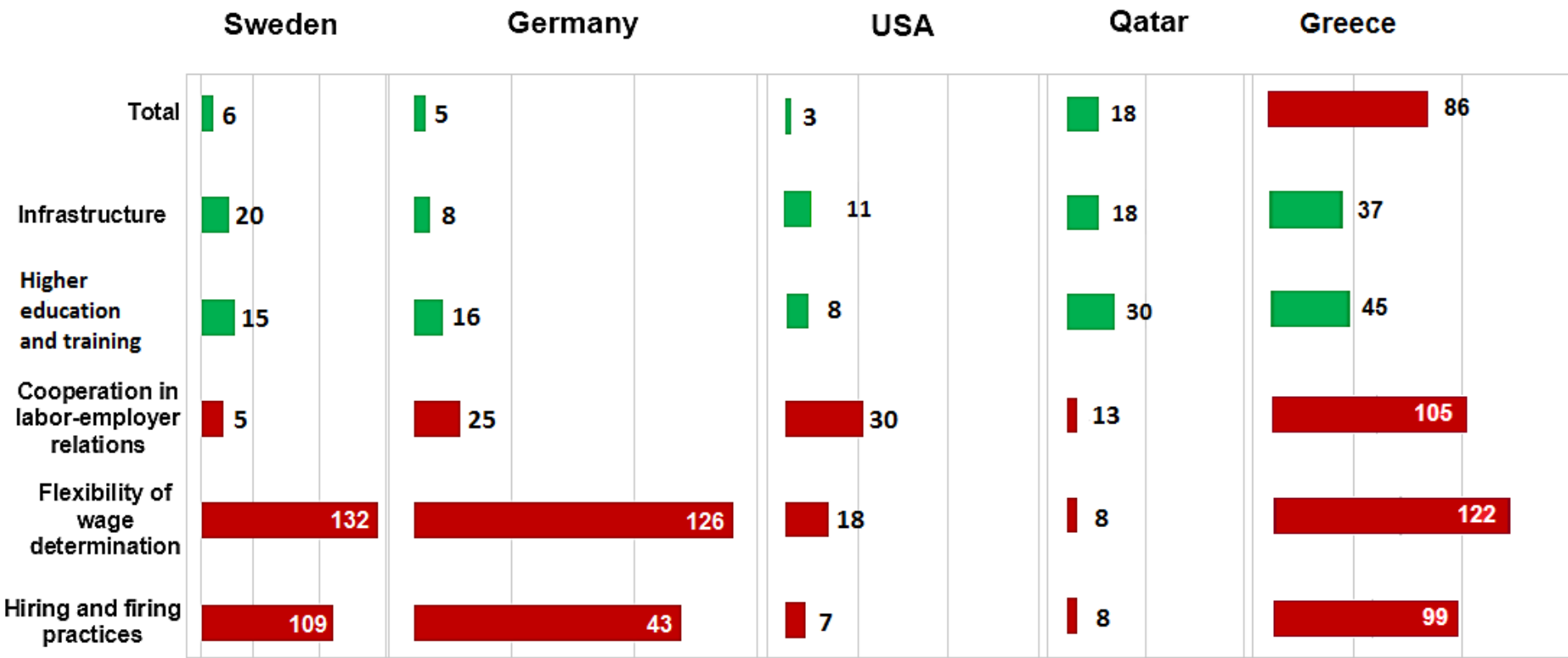
### Basic assumptions – equilibrium through

- 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 Forum



Source: World Economic Forum, The Global Competitiveness Report 2016–2017

## 1.4 Deregulation of Greek LM – show case

### Abolition of inclusive LM-institutions

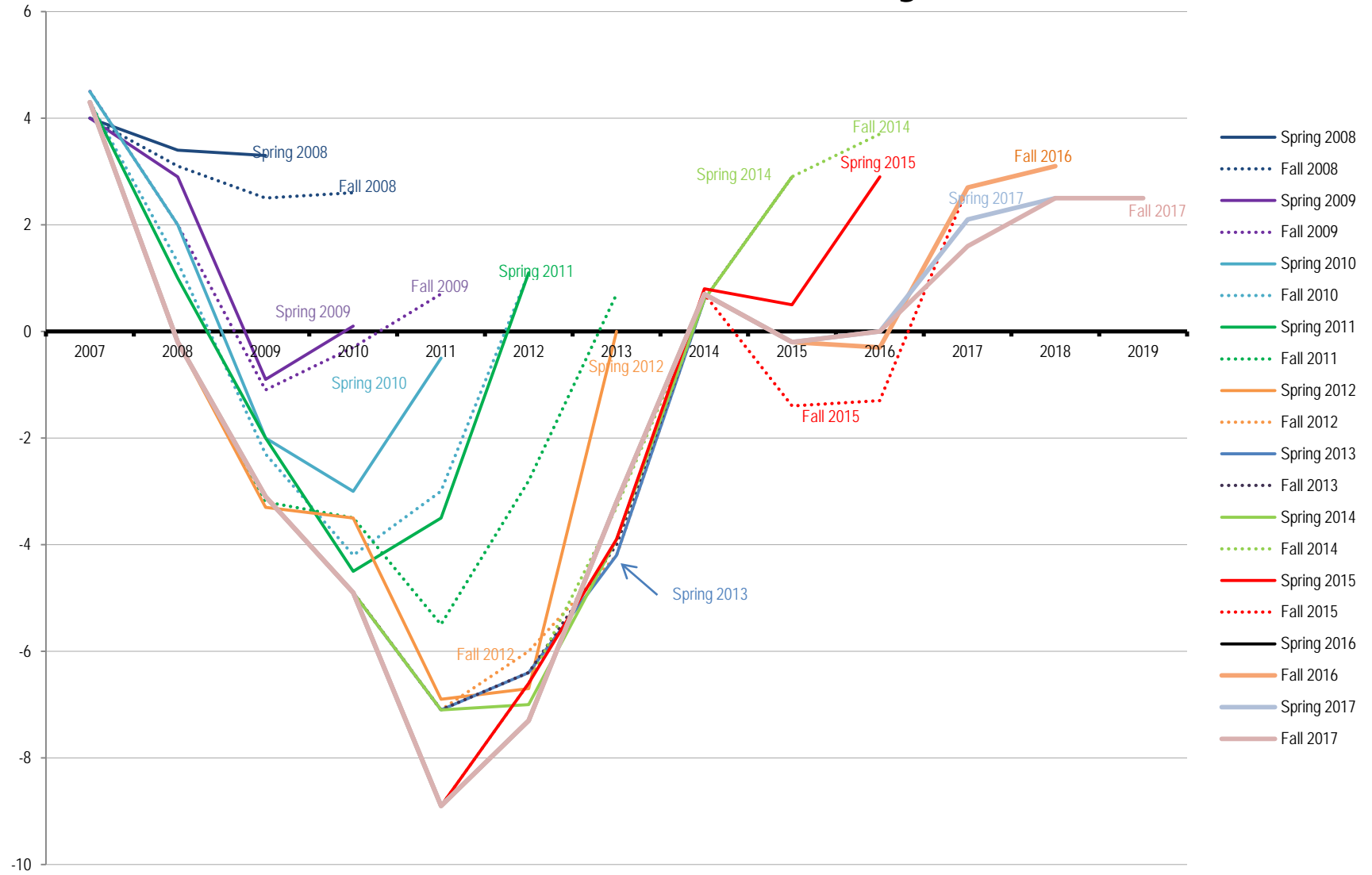
- Abolition of extension of CA's and favorability principle; reduction of time extension and after effect to 3 months; maximum of duration 3 years; easy exit options: deviating firm agreements by „associations of persons“

#### 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

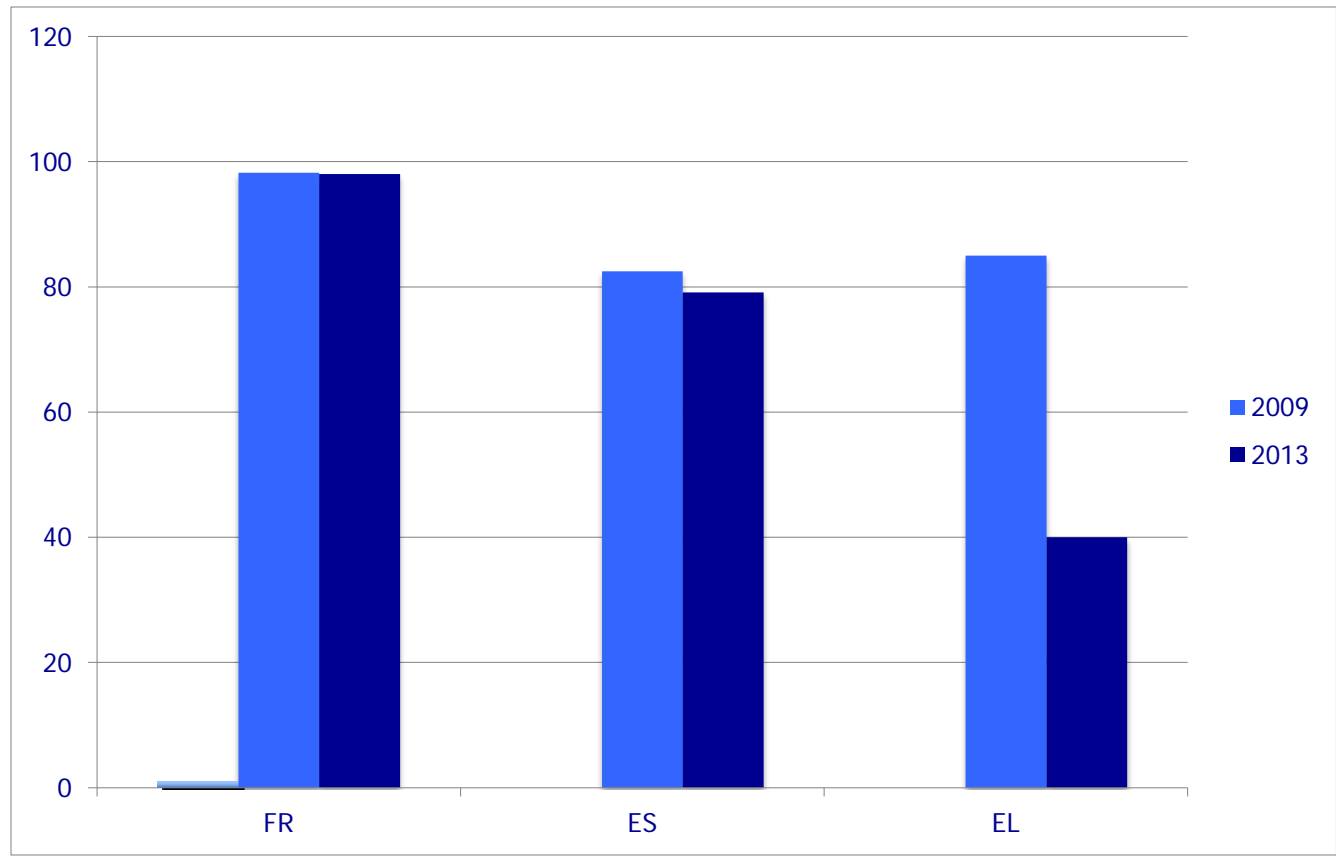
Cynical recommendation of OECD to Greece **„to make economic growth more inclusive by urgently adopting policies to reduce poverty and inequality“** (OECD: Economic survey of Greece 2016)

# 1.5 Forecast Errors on Greek GDP by EU Commission



Source: EU Commission, own compilation

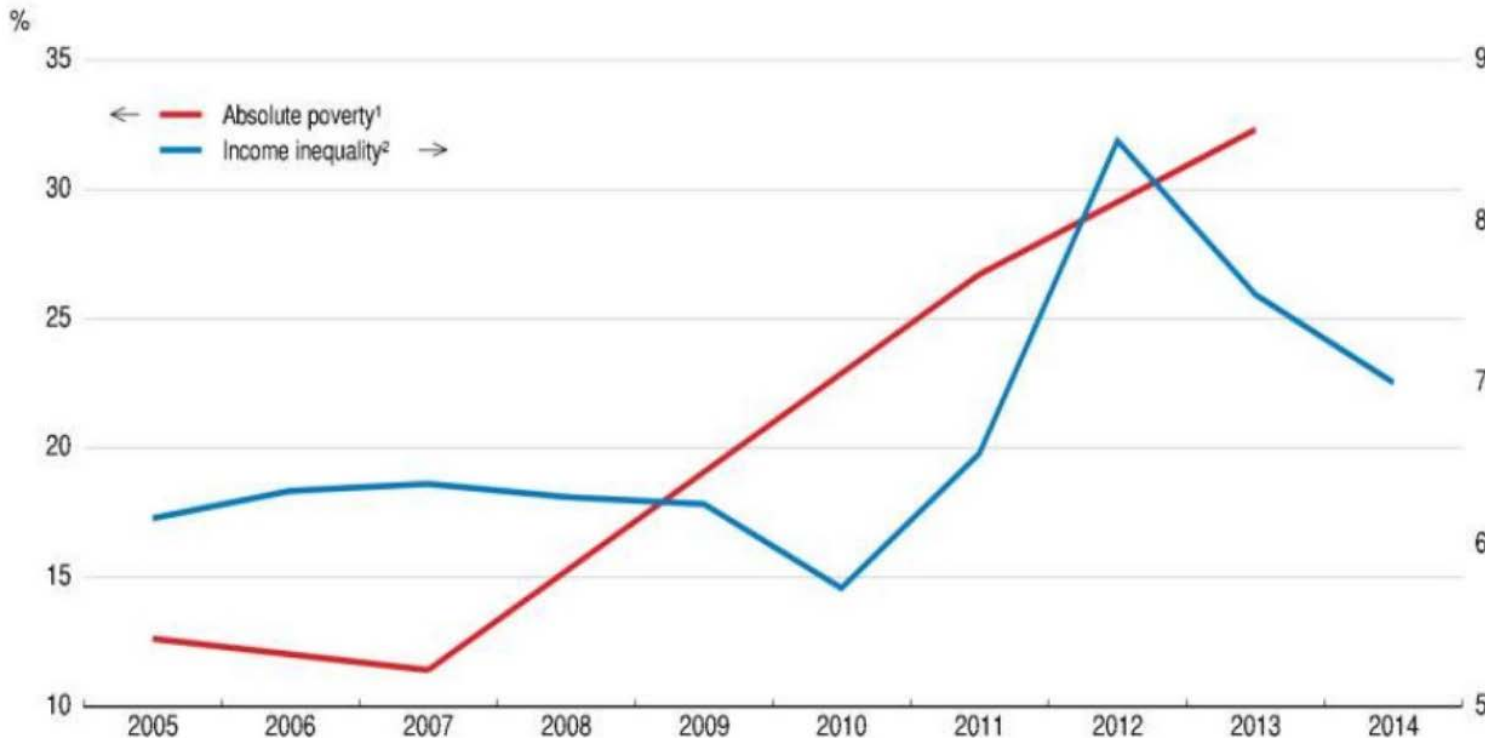
# 1.6 Collective bargaining coverage (2009, 2013)



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.

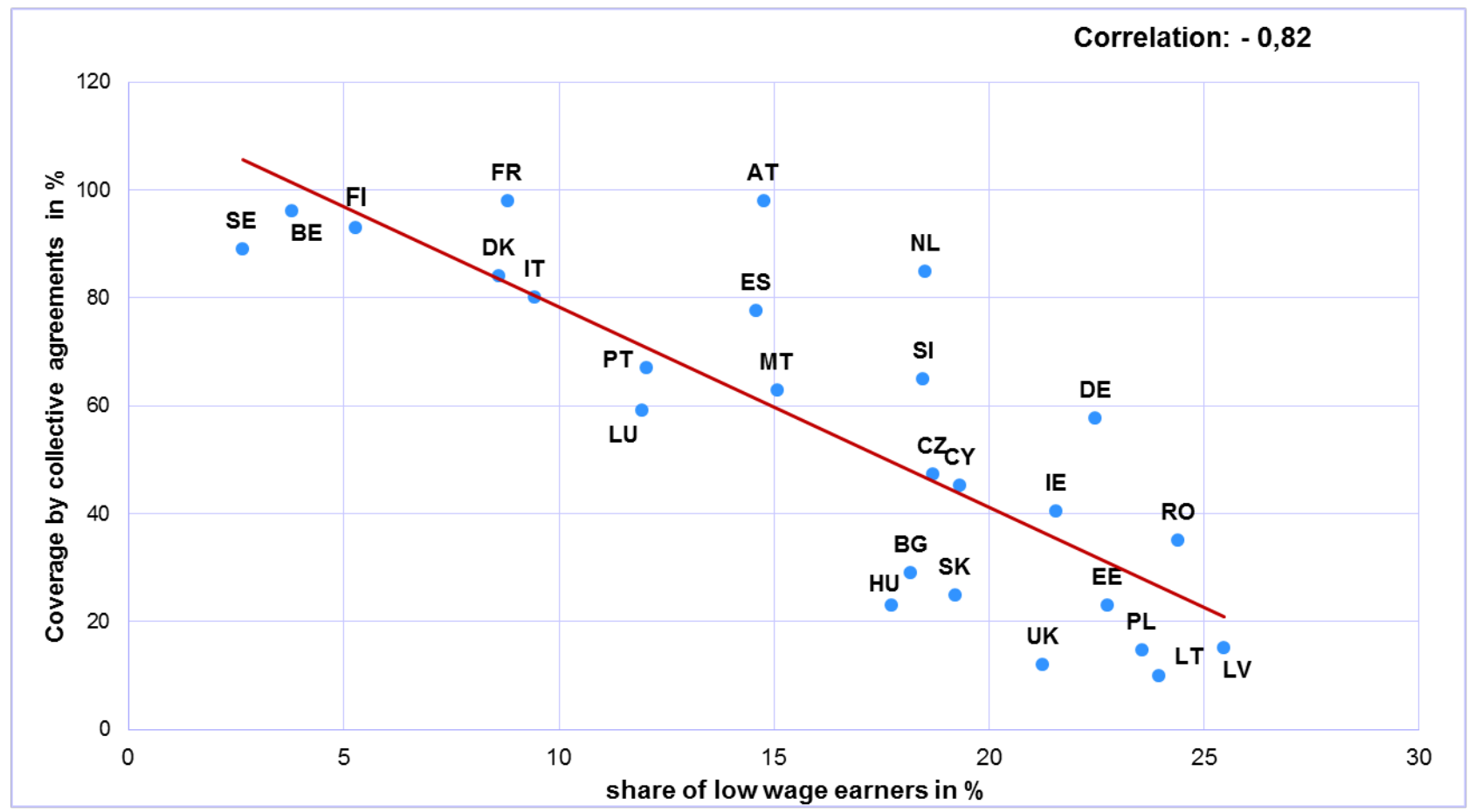
2. The poverty line is fixed at 50% of median equivalised household disposable income in 2005. Data are available only for 2005, 2007, 2011 and 2013.



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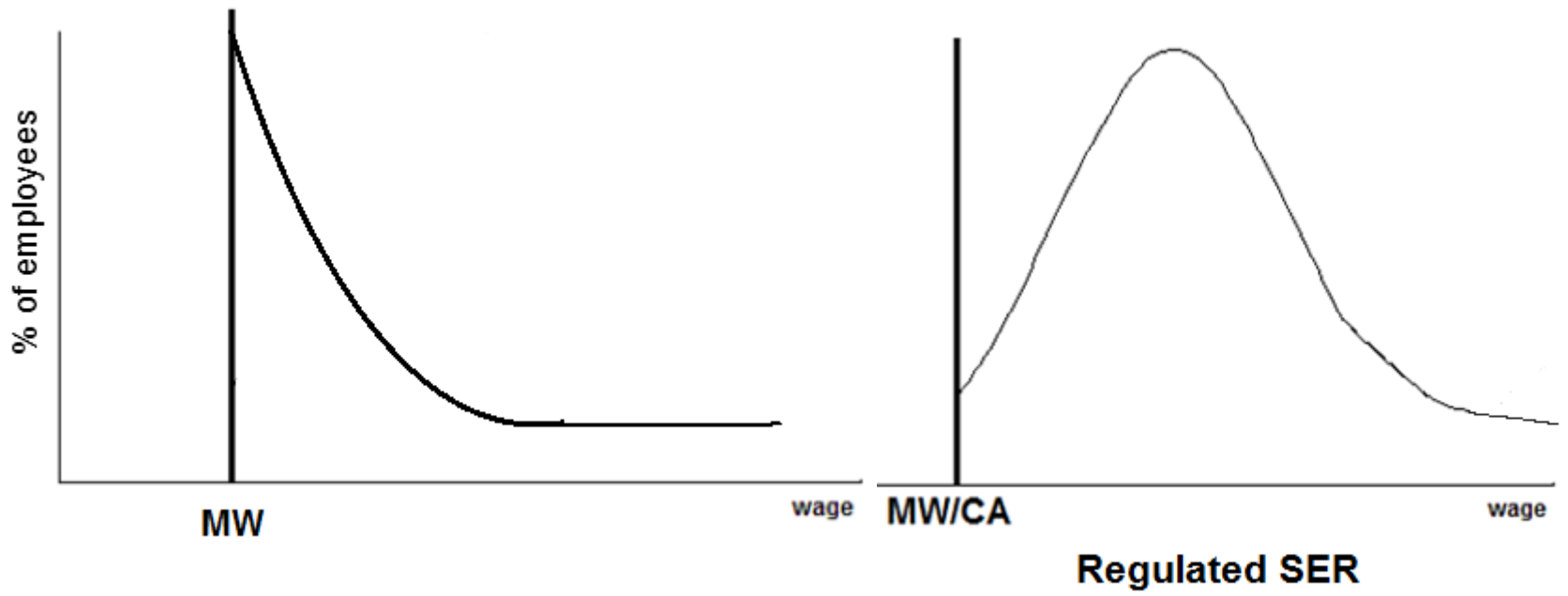
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## 2.1 Rate of coverage by collective agreements and share of low-wage work (2014)

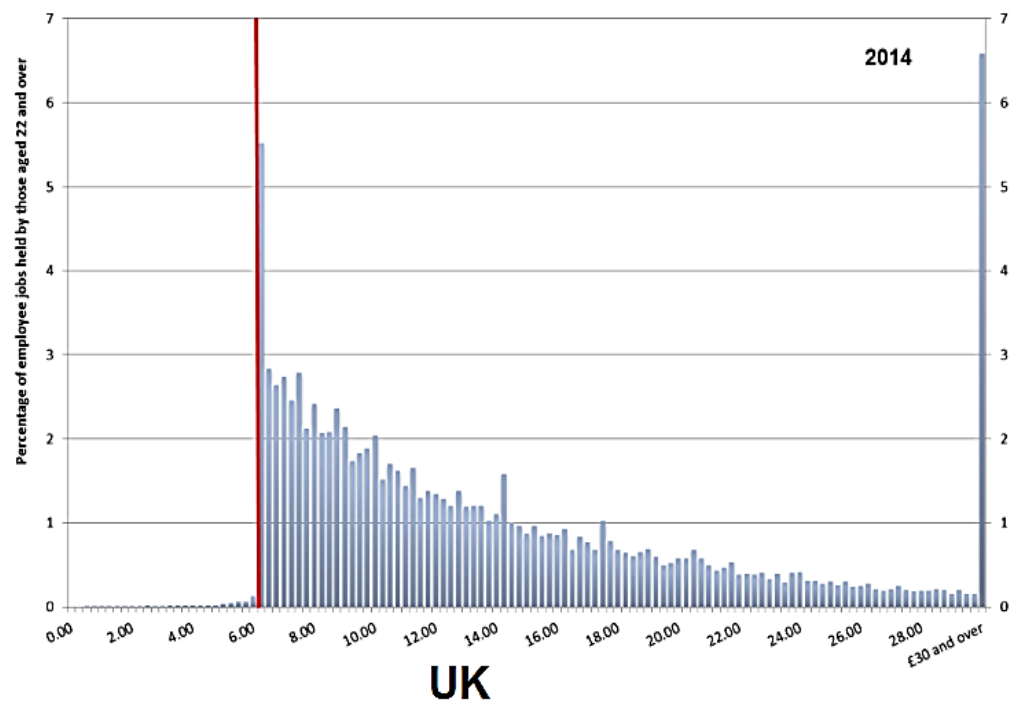
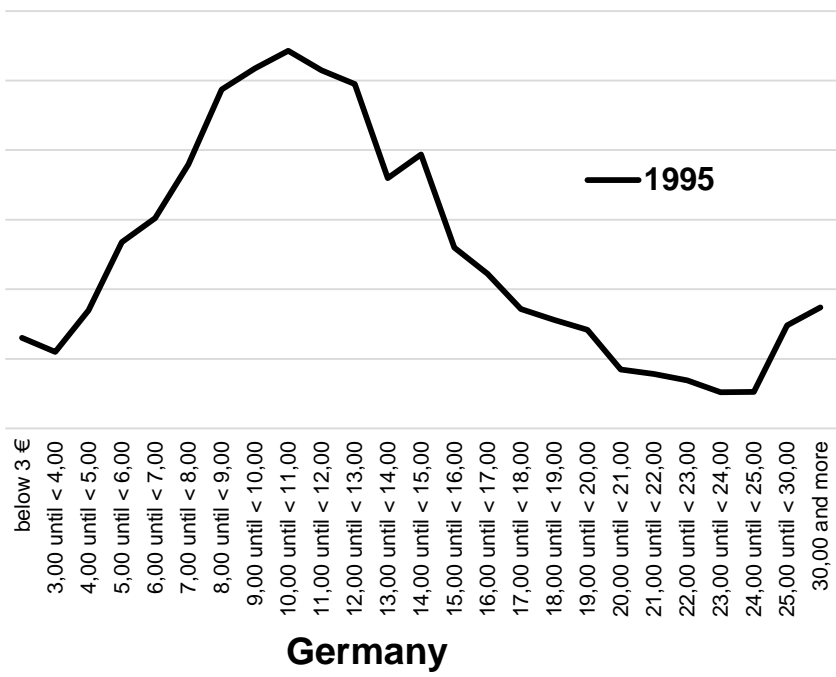


Source: Visser 2015, Eurostat, own calculations

## 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



Source: : SOEP 2012, own calculations; Dickens (2015): The Low Pay Commission and the National Minimum Wage. Presentation to NEDLAC

# Increasing efficiency

## Micro-flexibility encourages low-road business-models

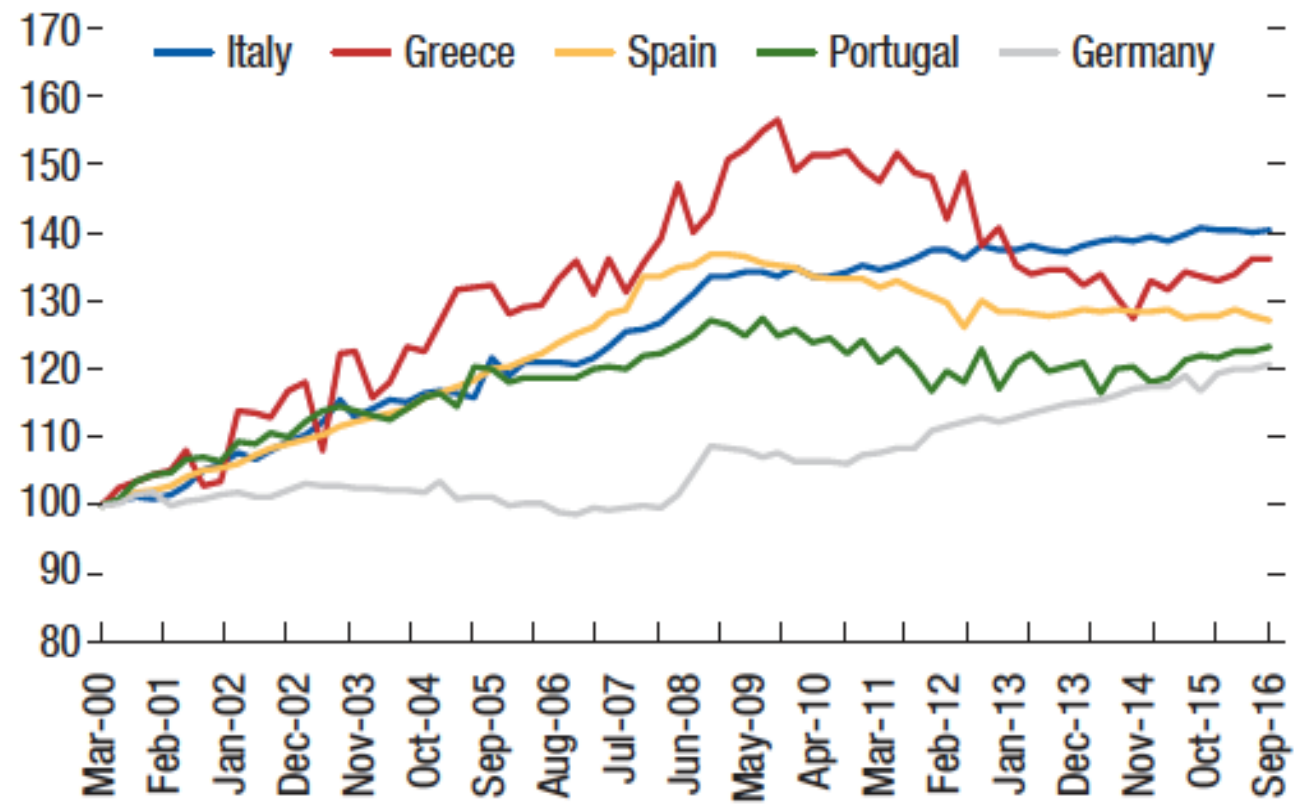
### Research shows clearly benefits of co-ordinated CB:

- **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**

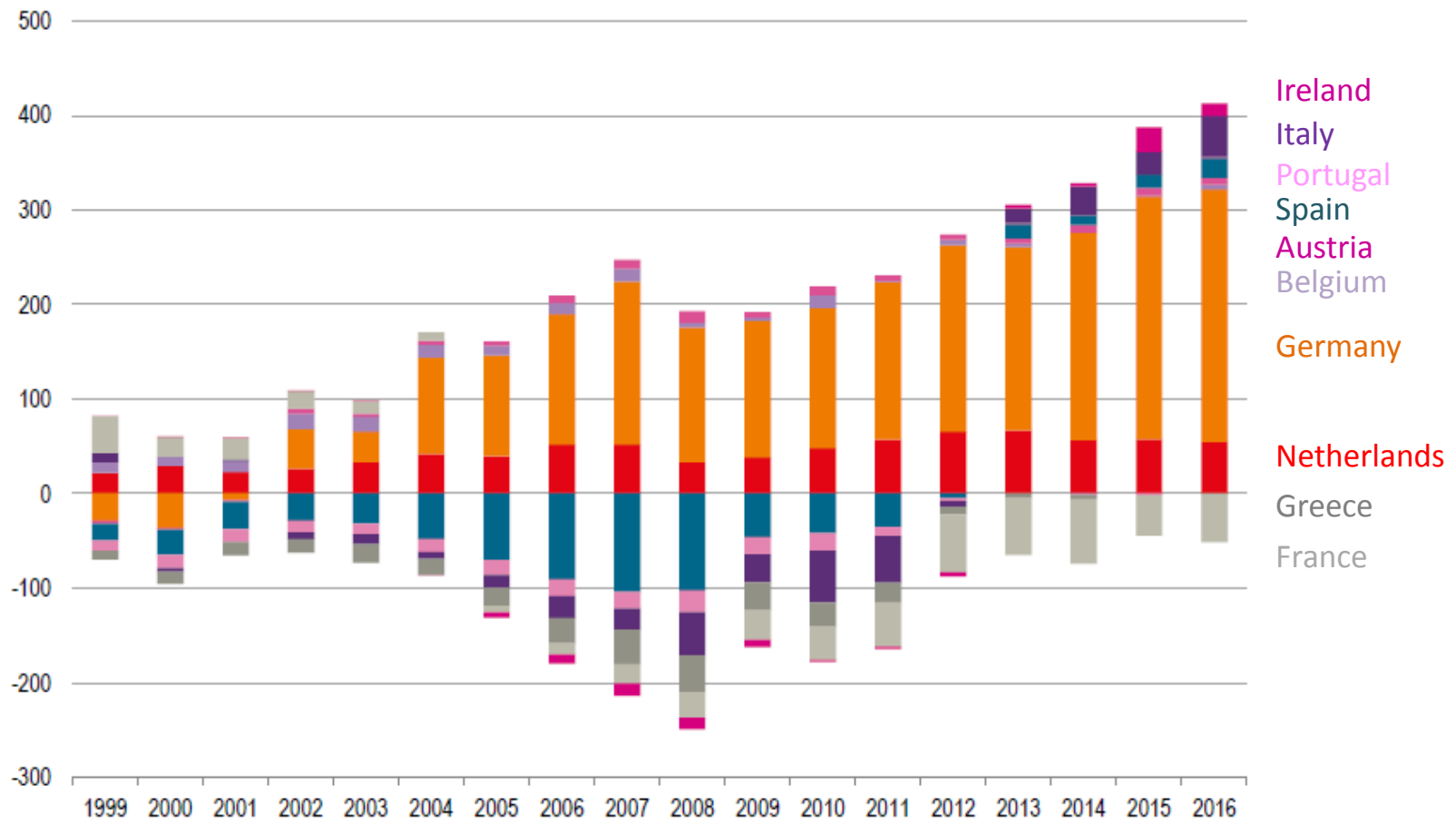
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### 3.1 Unit Labor Costs (2000 = 100)



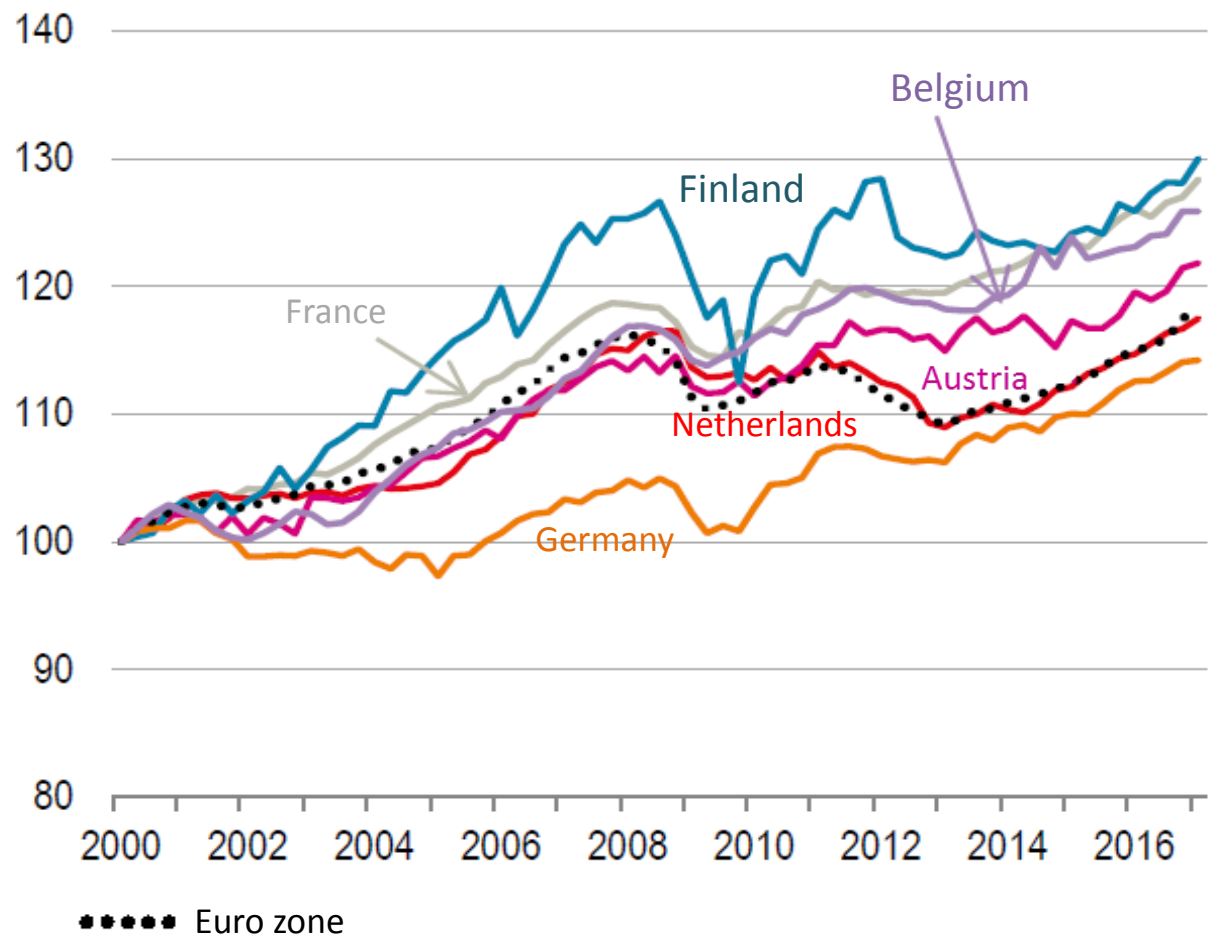
### 3.2 Increasing imbalances of payments in EU (in billion €)



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

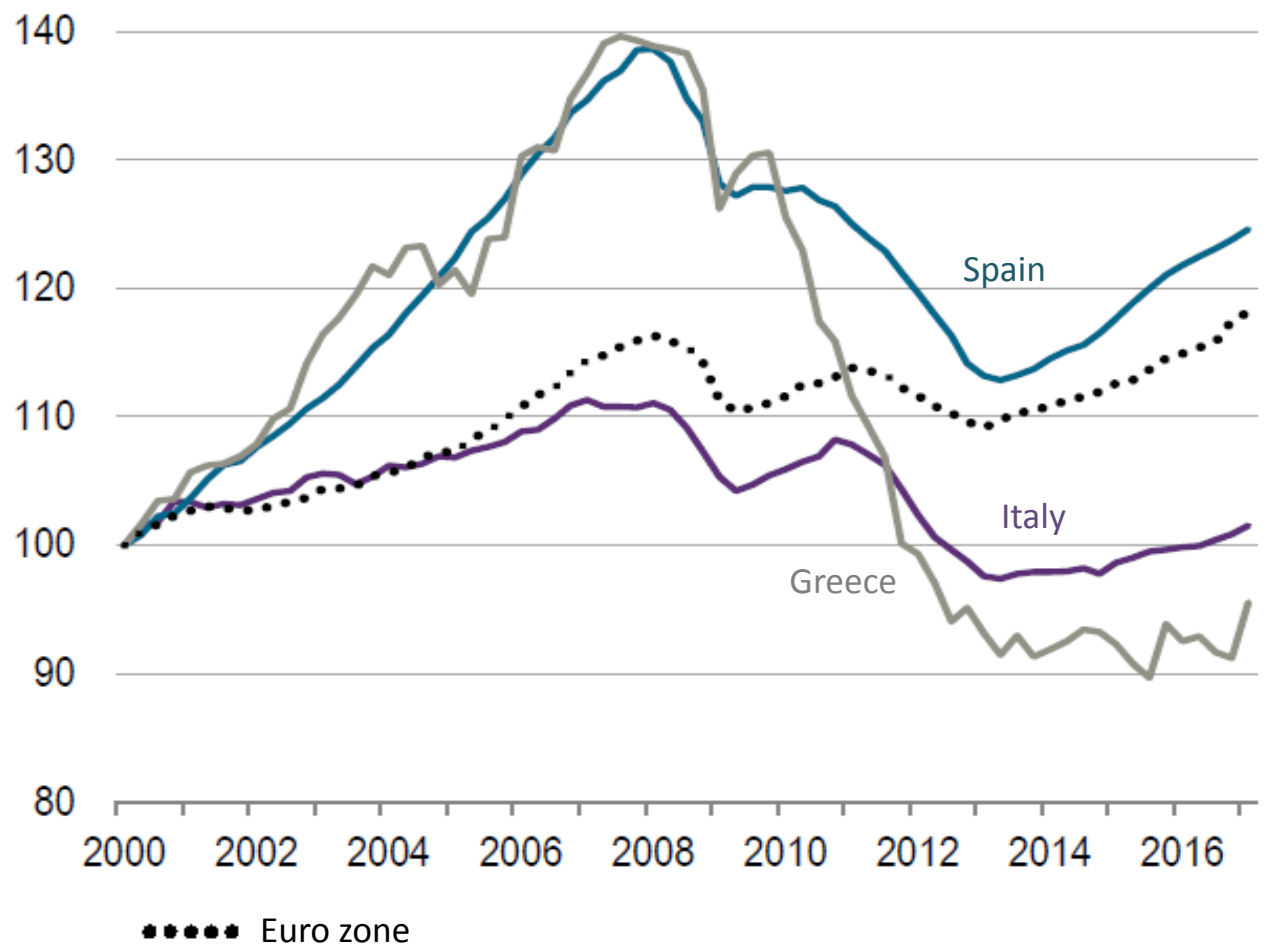


### 3.3 Development of domestic demand 2000q1=100 (1)



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

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



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

## 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

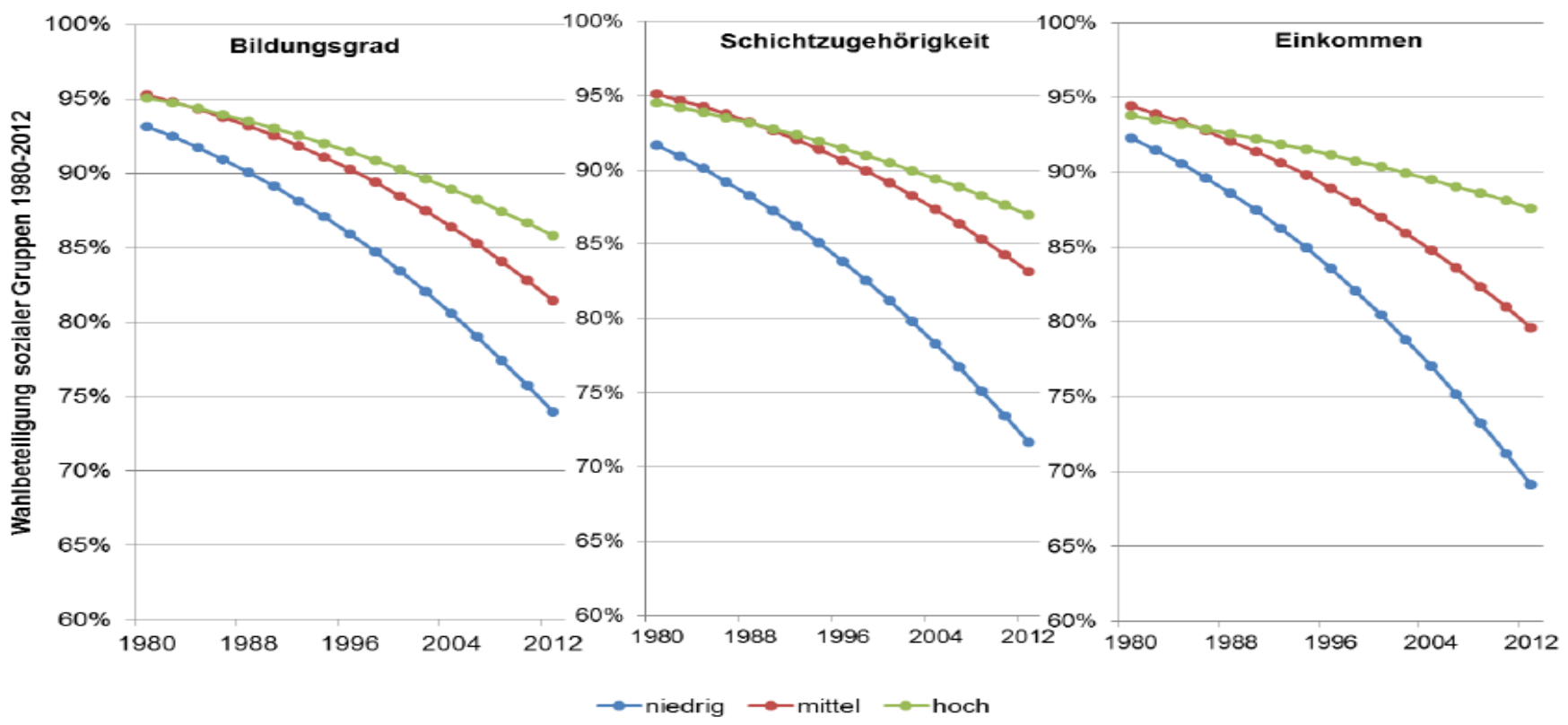
1. Increase of social inequality – erosion of the middle class
2. Undermining built-in-stabilizers in economic crisis
3. Reduction of efficiency
4. **Weakening of democratic institutions**

## 4 .Weakening of democratic institutions

- 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.

Source: Bundesregierung,, Armuts- und Reichtumsbericht 2017.

## 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

