The coordination paradox: A comparative political economy perspective on transnational wage coordination

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Susanne Pernicka and Vera Glassner’s The Europeanisation of Wage Bargaining Coordination traces the attempts to coordinate wage policies transnationally from their beginning to the Eurozone crisis. These attempts have clearly not succeeded. “A field of transnational wage policy coordination based on voluntary negotiations between business and labour,” Pernicka and Glassner say, “has never emerged.”

Is this failure to emerge a problem? At least since the introduction of the euro, it has been a problem indeed. The rules of the game are different once the exchange rate is fixed. In adjustable exchange rate regimes, de- and revaluations can correct heterogeneous unit labor cost and price developments. In monetary unions, by contrast, differential wage dynamics necessarily distort the real exchange rate. This is precisely what has been happening in the Eurozone since 1999 (Flasbeck/Lapavitsas 2015; Sinn 2015: Ch. 4). The lack of transnational wage coordination is therefore not a side aspect of the euro crisis but among its decisive causes.

The prospects for the near future are not good, either. “In the current situation,” say Pernicka and Glassner, “it is unlikely that trade unions, even those in central-western Europe, will revive their transnational wage bargaining coordination activities.” The European institutions are trying, as the authors show, to fill this gap by establishing a technocratic-authoritative form of wage coordination. The prospect that this second wave of steering attempts will succeed, however, is at least as questionable as its legitimacy.

In the following, I will overcome the impulse to focus my comment on Pernicka and Glassner’s concluding remarks, in which they argue against devaluations of overvalued currencies. I will rather complement the authors’ pessimistic view on the likelihood that transnational wage coordination will emerge by adopting a comparative political economy perspective. More specifically, I will argue that European wage policy faces a coordination paradox: while in structural terms, internal coordination is the precondition for external coordination, in functional terms, countries with coordinated wage regimes are precisely those that “beggar their neighbors.” This paradoxical state of affairs leaves even less room for optimism. European policymakers, I will argue, may therefore face a hard choice between breaking with wage bargaining autonomy or with the fixed inner-European exchange rate.

Coordinated wage bargaining: still superior?

A large comparative political economy literature has dealt with the international variation of wage regimes. It distinguished between two forms: coordinated (or corporatist) and uncoordinated (or non-corporatist) wage bargaining. With regard to economic performance, all the relevant studies have found that coordinated regimes worked at least as well (the hump-shape hypothesis) or, in most cases, significantly better (the linear hypothesis) than their liberal counterparts (see, as just one example, Soskice 1990; see also Streeck and Kenworthy 2005 for an excellent overview).

In retrospect, however, we must doubt whether these insights are as universally true as the corporatists sometimes thought. The superiority of coordinated wage bargaining was dependent on an international economic context that has now changed. In the 1970s and 1980s, when the corporatist literature emerged, the problem to be solved was to prevent nominal wages from overshooting. In this regard, coordinated wage bargaining indeed brought about better outcomes and therefore enabled fiscal and monetary policy to engage in expansive measures without fueling inflation even more (Scharpf 1991). This problem constellation has gone. Today, we live in a world that was unimaginable some 30–40 years ago, one in which the Bundesbank (!) and the European Central Bank beg the German wage partners to negotiate higher wage increases. This implies that the economic superiority of
coordinated wage bargaining has gone, too. Under conditions of undershooting inflation, the undisputed capacity of coordinated wage bargaining to deliver wage moderation is no longer of any help; it is not the solution, but part of the problem.

During the first ten euro years until the emergence of the crisis, no euro member engaged in more competitive wage restraint than Germany, one of the paradigmatic cases of coordinated wage bargaining. We find a similar pattern in Austria, another paradigmatic case. Some may argue that the German violation of the ECB’s price inflation target (equivalent to an implicit wage inflation target) happened not due to Germany’s coordination features but precisely due to their erosion: weakened trade unions, shrinking coverage of central collective agreements and the rise of new sectors. This objection, however, does not help. Even if we look at manufacturing alone (where the main features of wage coordination have survived), Germany has undershot. Germany is the only one of the 12 founding members of the Eurozone in which nominal unit labor costs fell, until the crisis struck, both economy-wide as well as in manufacturing. As Mark Lutter and I have shown elsewhere (Höpner and Lutter 2017), wage coordination generally depressed nominal unit labor cost increases until the crisis, a finding that holds even if one controls statistically for growth, unemployment, left-wing parties in government, the size of the service sector, and other factors.

And things do not look any better once we take stock of post-crisis developments. The countries with overshooting nominal wages until 2008 were mainly cases of uncoordinated, non-corporatist wage bargaining. Since 2009, however, Portugal, Spain, and Greece have deflated their nominal unit labor costs enough to correct their previous overshooting (for details see Höpner and Seeliger 2017: 8–11). Today, the problem cases are not the so-called crisis countries anymore, but those with coordinated wage bargaining. These countries – first and foremost Germany and Austria – refuse to help by correcting their previous undershooting. This has had disastrous consequences for Southern Europe – which therefore has to engage in even more painful real devaluation than previously – as well as for the Eurozone as a whole, which, under such conditions, persistently operates on the brink of deflation.

Coordinated wage bargaining, in other words, contributed substantially to the emergence of euro crisis, as well as to its persistence. With regard to transnational coordination, we therefore face a paradox. Of course, internal coordination remains the crucial structural precondition of transnational coordination; what cannot be steered internally can by no means be coordinated across borders. In functional terms, however, coordinated wage bargaining turned out to be transnational wage coordination’s greatest enemy.

**Sectoral conflicts shape the prospects of transnational coordination**

Let us elaborate on this paradox a bit further. Pernicka and Glassner rightly distinguish between two types of conflict that have to be taken into account in our context, one between classes, and the other between countries. A closer look at the conflict between countries makes yet another conflict dimension visible, the conflict between economic sectors.

What is good for the export sector is not necessarily good for the domestic sector, too. If the nominal exchange rate is fixed, competitive disinflation necessarily increases international cost competitiveness. The export sector therefore favors not only modest wage policies but also strict fiscal rules that prohibit potentially inflationary fiscal expansion. From the perspective of domestic sector firms, however, the problem constellation differs. With regard to wage increases, domestically oriented firms face a collective action dilemma. They favor low cost pressure individually but depend on internal demand increases collectively. With regard to budget policy, they have no interest in the “black zero” whatsoever, neither in the private part of the public sector nor, especially, in its public part.

This conflict dimension sheds light on the nature of the conflict between Eurozone countries. As the emerging literature on growth regimes demonstrates, countries differ in terms of their export orientation (Baccaro and Pontusson 2016). All Southern European countries have smaller export sectors than we would expect from their size. Their economies depend on the growth of domestic demand and have little to gain from competitive disinflation. Germany, Austria and other export-oriented countries, by contrast, have large export sectors. They have
a growth option that domestically oriented countries lack: holding down internal demand, thereby disinflating and absorbing the demand that other countries have created.

The struggle that Pernicka and Glassner label the “centre–periphery conflict” is therefore not only a conflict between countries with different wage regimes but, more fundamentally, a conflict between different inner-European varieties of capitalism (see Hall 2014; Scharpf 2016; Streeck 2015; Nölke 2016 provides an excellent overview that locates the growth regime literature within the broader varieties of capitalism literature). This insight makes it even clearer why the emergence of European wage coordination is highly unlikely. Internal demand–driven economies suffer from the beggar-your-neighbor-policies of their export-oriented counterparts and would therefore clearly gain from transnational wage coordination and inflation convergence, but they lack the structural preconditions. And those who tend to possess the respective structural preconditions are, paradoxically, precisely those who would suffer from better wage coordination because the structure of their economies makes beggaring their neighbors – in other words, “competitive mercantilism” – an attractive option indeed.

**Wage bargaining autonomy or fixed exchange rates**

We have seen that the euro has increased the functional need to harmonize wage inflation and, therefore, to coordinate wage bargaining transnationally. This functional requirement does not imply, however, that the institutional, organizational, and motivational preconditions of transnational wage coordination are present. The comparative political economy perspective which I propose here confirms Pernicka and Glassner’s pessimism: the preconditions for transnational wage coordination have not emerged in the Eurozone and nor are they likely to in the foreseeable future. The emergence of voluntary, horizontal wage coordination in order to correct the inner-European distorted real exchange rates is not within our range of options. It would be irresponsible to arouse false hopes in this respect because they would necessarily lead to wrong policy recommendations (see also Höpner and Seeliger 2017).

Is there no solution to the problem? Pernicka and Glassner rightly point our attention towards the macroeconomic monitoring and correction procedures that have been created since 2010. Given that they also cover wages, they are part of the quest for functional equivalents to the failed horizontal coordination attempts. But it is hard to imagine that these instruments will work, either. “Wrong” policy decisions on the part of governments can be sanctioned, but the Commission cannot punish trade unions for their demands or employers for the wages they pay their workers. Under conditions of free collective bargaining, the new procedures, as long as they concern wages, remain in the field of signaling and of “soft” steering. They might help if the problem to be solved was based purely on information gaps. But as we have seen, such an interpretation would be naïve: in reality, the problems are based on structural heterogeneity, on a lack of steering capacity, and on different power relations between sectors within the Eurozone countries.

The story, however, does not end here. The Troika’s impact on the so-called “programme countries” has demonstrated that the autonomy of wage bargaining, which we have taken for granted so far, can be broken (Rödl and Callsen 2015). In principle, “hard” measures such as cuts on minimum wages minimum wages, union busting, the destruction of declarations of general applicability of collective agreements, and even the entire destruction of such agreements are possible. The Eurozone members may therefore, in the medium to long term, face a hard choice, namely between fixed exchange rates and the autonomy of collective wage formation. Under conditions of structural heterogeneity, they do not harmonize. Anyone wishing to save the euro, at whatever cost, may have to sacrifice wage bargaining autonomy; whereas whoever thinks that this price is too high will have to engage in discussions about alternatives to the euro.

**References**