A EUROPEAN SOLIDARISTIC WAGE POLICY?

Conceptual reflections on a Europeanisation of trade union wage policy

by Thorsten Schulten

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INTRODUCTION: SOLIDARISTIC WAGE POLICY AS A CONSTITUENT ELEMENT OF THE EUROPEAN SOCIAL MODEL

The term 'European social model' is usually associated with the idea of a socially regulated capitalism which is politically and institutionally structured to create a relatively high degree of social equality through the extensive redistribution of market results (Aust et al. 2000; Crouch 1999a). Although individual countries have pursued their own specific national development paths, in the period of Fordist post-war capitalism most Western European countries created an historically unprecedented social model distinguished by close links between economic prosperity and the continuous reduction of social inequality. Bounded by the external constraint of the 'system's competition' with real socialism, and supported by a world economy regulated internationally within the Bretton Woods system, the institutions of a Keynesian welfare state based on extensive national class compromises developed, enabling a broad redistribution of incomes and wealth. This included in particular the emergence of a highly progressive tax system, the appearance of comprehensive collective social insurance systems and the development of a solidaristic wage policy in the context of multi-employer collective agreements at sectoral or even national level (Grahl and Teague 1997).

The historical roots of the concept of a solidaristic wage policy as a constituent element of the European social model can be traced back to the European labour movement of the 1920s and 1930s. The actual term 'solidaristic wage policy' originated in Sweden, where in the 1950s it became the foundation for a comprehensive social and economic policy concept of Swedish trade unions which later on became well-known as the *Rehn-Meidner model* (named after the former staff members of the research department of the Swedish trade union confederation LO, Gösta Rehn and Rudolf Meidner) (LO 1953; Pfromm 1978; Meidner and Hedborg 1984; Meidner 1994).

The present paper includes three main parts: In *Chapter 1* I will briefly recall the concept of a solidaristic wage policy using the example of the Rehn-Meidner model. Afterwards I will elaborate the thesis that the concept of solidaristic wage policy has entered the stage of a fundamental crisis in Europe (*Chapter 2*). To support this thesis, first of all the wage trends in Europe are described empirically, then the political-ideological debate over criticism of solidaristic wage policy is traced, and finally the academic debate over the changed structural environment for implementing a solidaristic wage policy is analysed. Lastly, in *Chapter 3* the requirements for reformulating a solidaristic wage policy in Europe are discussed and concepts and ideas for a Europeanisation of trade union wage policy are presented.

1. THE CONCEPT OF A SOLIDARISTIC WAGE POLICY IN THE REHN-MEIDNER MODEL

According to Rudolf Meidner (1994) the concept of a solidaristic wage policy essentially pursues two aims. The first is to achieve *"fair wages"* in accordance with the principle that the same wage should be paid for work of equal value. Consequently, wages should be set not as a function of either the economic situation or a specific balance of power within the respective company, but instead within the framework of multi-employer agreements based on a "comprehensive system of job evaluation" (Meidner and Hedborg 1984, 67). To underpin a "rational wage structure" (ibid.) politically negotiated in this way, periodic pay rises must likewise not be linked to the profitability of individual enterprises, but instead be geared to the productivity gains of the economy as a whole. This should also simultaneously ensure at that all workers participate in economic development on an equal footing and that the distribution of national income does not change to the disadvantage of workers' incomes.

Secondly, besides achieving "fair wages" the solidaristic wage policy works to develop a *"balanced wage structure"*. Whilst wage differentials in the case of different work requirements are accepted in principle, at the same time individual pay brackets should not drift too far apart, and excessive wage differences should be curbed. The orientation towards the most egalitarian wage structure possible applies both within and between different wage levels. Consequently, besides the distribution conflict between capital and labour, the solidaristic wage policy also strives for redistribution within the workforce: a wage policy oriented towards the average productivity of the economy as a whole limits both the wage trend in the higher pay brackets and wage levels of above-average productivity. At the same time, the leeway for added income distribution this creates for disproportionate wage hikes in lower pay brackets and in wage levels with below-average productivity should be exploited.

Overall, the concept of a solidaristic wage policy is based on a political regulation of wages which

> *"uses a deliberate, centrally controlled force to counteract… the centrifugal force of the market, i.e. its tendency towards wage differentiation"* (Meidner and Hedborg 1984, 71).

The realisation of this concept is tied to the existence of certain collective bargaining institutions which allow a national, cross-sectoral coordination of wage policy. The most extensive form of wage policy coordination is found in countries with cross-industry wage bargaining at national level, as was customary in, for example, Sweden or Denmark into the 1980s and indeed still exists today in a few European countries (Belgium, Norway, Finland) (Schulten and Stückler 2000). In addition, however, countries with primarily sectoral wage bargaining also frequently have forms of cross-sectoral wage coordination which entail either wage policy recommendations made by the national peak organisations of trade unions and/or employers associations or as a result of wage leadership taken by a prominent sector (Traxler 2000). In Germany, for example, in the past IG Metall has mostly assumed the role of the "single union secretly covering the economy as a whole" ("*heimliche gesamtwirtschaftliche Einheitsgewerkschaft*") (Streeck 2000b), in that it geared its own wage demands to the productivity of the overall economy (rather than merely that of the metal industry) and the pay settlements in the metal industry served as the benchmark for other wage levels. Lastly, even in countries with rather fragmented wage bargaining structures, mechanisms of a macroeconomic coordination of wage policy (sometimes exercised via the government) have often been identified. This is true, for example, for France, where the increases in the minimum wage laid down by the government constitute an important reference point for the development of the entire wage structure (Dufour and Hege 1997). Consequently, in Europe overall the collective bargaining institutions are mostly based on multi-employer wage bargaining at sectoral or cross-sectoral level and a macroeconomic coordination of wage policy which contribute to achieving a solidaristic wage policy in a nationally different form and intensity.

Ultimately, the achievement of a solidaristic wage policy has far-reaching macroeconomic consequences, reflected most visibly in trade union economic policy in the Rehn-Meidner model (Erixon 1999, 2000). The underlying hypothesis here is that the solidaristic wage policy exerts strong pressure to innovate for the development of the economy as a whole. Since wages are not subject to competition due to multi-employer agreements, rivalry between companies is focused exclusively on the productivity of the manufacturing process and on product quality. Individual companies are forced to constantly introduce innovations designed to boost productivity, since an externally predetermined wage structure has deprived them of the option of offsetting possible competitive disadvantages by paying lower wages.

> *"A solidaristic wage policy reduces the risk of 'wage-dumping' which tends to preserve non-rational production methods and concerns. Wage pressure exerted on low-wage enterprises may therefore speed up their rationalisation and/or the transfer of manpower from inefficient to efficient firms"* (LO 1953, 35).

Accordingly, the innovative function of the solidaristic wage policy also works at the level of the economy as a whole, similar to the way in which it works at company level. By gearing the wage trend to average productivity, the solidaristic wage policy speeds up the transition from less productive to more productive sectors, thereby promoting structural change throughout the economy.

Gösta Rehn and Rudolf Meidner hypothesised that the concept of a solidaristic wage policy would not only generate a special *innovation model*, but could also – via its integration into a coordination of the economy as a whole – be developed into a *macroeconomic stability model* with full employment and simultaneous price stability. In their economic concept of a "modified Keynesianism" (Meidner 1994, 4), right from the outset they counted on a flexible, cyclical combination of supply and demand policies. Rehn and Meidner assumed that the classical Keynesian ideas of macroeconomic demand management were designed more for cyclical depression phases but are not suitable instruments of economic policy in phases of an overheated cyclical trend (Erixon 1999). The two Swedish trade union economists particularly criticized the idea of an incomes policy subjected to government control, since a corporatist integration of trade unions contradicts the ideas of freedom of collective bargaining, and the wage restraint demanded by the government – particularly in phases of economic prosperity –

> *"...demands too much of unions as representatives of their members' interests. A restrained, defensive wage policy in a situation of high profits and high demand for labour is hard to explain to the members and undermines confidence in union management"* (Meidner 1994, 6-7).

In contrast to this, the Rehn-Meidner model puts forth an alternative economic approach based on a solidaristic wage policy which pursues the goal of guaranteeing full employment and inflation-free growth. Initially, Rehn and Meidner felt that the solidaristic wage policy itself would have an inflation-dampening effect, since its orientation towards average productivity levels places it in a position to prevent precisely the most productive sectors from pushing each other upwards through inflationary wage leapfrogging. On the other hand, company-level wage drift, in which companies in high-productivity sectors use some of the "excess profits" they have earned under the solidaristic wage policy for supplementary wage payments at company level, was identified as a possible problem liable to boost inflation. As a result, Rehn and Meidner called for limits to be placed on excessive rises in profits by implementing an appropriate tax policy (LO 1953, 93).

The guarantee of full employment results above all from the innovation function on which the concept of the solidaristic wage policy is based. Whilst it may be true that jobs in low-productivity sectors can be lost as a result of wage pressure, at the same time new jobs emerge in high-productivity sectors owing to the stepped-up pace of structural change. However, since the transition from a low-productivity to a high-productivity sector does not normally run smoothly or without generating friction, an economic core concept of the Rehn-Meidner model entails linking a solidaristic wage policy with an active labour market policy. In the Swedish context, such a policy covers not just job promotion measures in the narrow sense of the term 'labour market policy', but also the full range of regional, structural and industrial policy issues (Meidner and Hedborg 1984). Accordingly, the prime responsibility for employment lies with the government, but through the added profits generated in high-productivity sectors as a result of the solidaristic wage policy the government is in a favourable position to obtain the necessary resources for an active labour market policy by implementing appropriate fiscal measures.

Although the Swedish model is seen as the prototype when implementing the solidaristic wage policy, comparable arrangements emerged almost everywhere in Northern and Western Europe in the 1950s and 1960s. Collective bargaining institutions with specific national features arose which helped the concept of the solidaristic wage policy become established in a more or less developed form. At the same time, governments complemented the solidaristic wage policy through an economic and employment policy based on redistribution and corrections of market results. The overall result was the development of a specific economic model whose strengths derived mainly from advantages associated with productivity and innovation, but not from labour costs, and which as such formed the basis for a 'European social model' aimed at achieving economic dynamism and social equality.

2. NEO-LIBERAL HEGEMONY IN EUROPE AND THE CRISIS OF SOLIDARISTIC WAGE POLICY

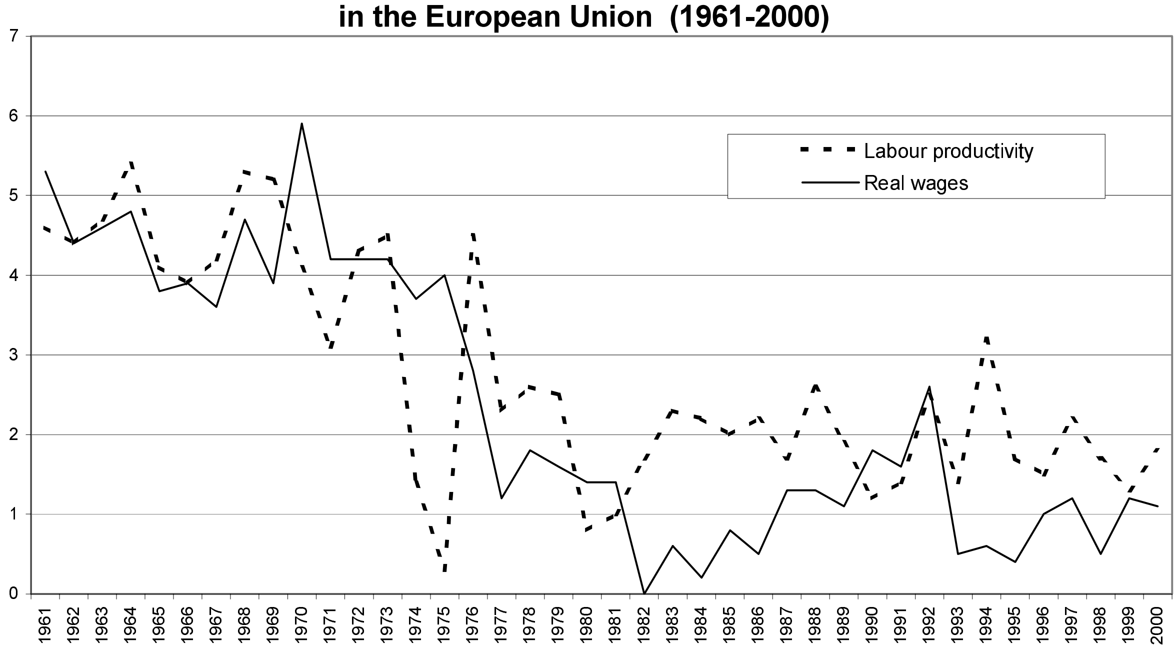
With the fundamental crisis of the Fordist economic and social model of the post-war era (Lipietz 1992), the concept of the solidaristic wage policy also increasingly took centre stage in the economic and political debate, especially since the late 1970s. For one thing, radical questions are being asked about the concept's normative goals of achieving the highest possible level of social equality. For another, it is argued that the structure of the technological and economic environment has changed so much that the former functional prerequisites of economic concepts like the Rehn-Meidner model no longer apply. After all, the real wage trend in Europe also indicates that the implementation of a solidaristic wage policy has grown increasingly uneven and in some cases has already gone back on itself.

2.1. The evolution of wages and the wage dispersion in Europe

Whether and how far it was possible to actually implement the concept of a solidaristic wage policy in practice can be examined using two basic indicators. The first step is to look at the question of the extent to which the real wage trend is consistent with the development of the economy as a whole. This focuses initially on the *net distribution between capital and labour*. In addition, in a second step the tendency for the existence of a spread between individual wage brackets has to be studied. This step analyses the *net distribution within the workforce*.

For the countries of the European Union, long-term wage trends have now been well documented (Schulten and Stückler 2000). Both a comparison between the trends of real wages and productivity and the development of 'wage shares' as a share of worker income in total national income can be used to analyse the net distribution between capital and labour. Taken together, these two indicators show that since the early 1980s at the latest there has been a fundamental U-turn in wage policy in Europe, which can be described as a transition from a *productivity-oriented wage policy* to a *competition-oriented wage policy* (Schulten 1999a).

Figure 1. Annual growth rates of real wages and labour productivity in the European Union (1961-2000)



Real wages = real incoome per worker, GDP price deflator;
Labour productivity = GDP at 1994 market prices per worker;
Source: European Commission, European Economy No. 68 (1999); Statistical Annex

Up until the late 1960s the trend of real wages largely paralleled the rise in labour productivity (*Figure 1*). Consequently, the implementation of a productivity-oriented wage policy enabled Western European unions not only to ensure that workers participated equally in the general trend of prosperity, but also to make a decisive contribution towards the operability of the Fordist relationship between the growth of mass production and mass consumption. Consequently, in a short period in the early 1970s, the trade unions managed to gain acceptance of a decidedly expansive wage policy which resulted in pay settlements well above the productivity trend. Since the mid-1970s, however, real wage increases have almost continually lagged behind the productivity growth.

The move away from the productivity-oriented wage policy primarily reflects the weakened political power of unions in an environment of mass unemployment. It is also accompanied by a neo-liberal reassessment of wage policy, in which the wage trend is declared to be the most important component of international competition between production sites and should therefore assume prime responsibility for growth and employment. As this approach became more successful, a policy of permanent wage restraint was promoted, whereby pay increases below productivity gains would supposedly improve the competitive position of the respective company or even of an entire national economy. However, as a competition-oriented wage policy became established, an important function of the solidaristic wage policy, namely that of removing wages from market competition, was gradually undermined.

In terms of distribution policy the shift away from the productivity-oriented wage policy also led to a massive redistribution of income from workers to capital, which from the unions' perspective resulted in a clearly negative net distribution. As a competition-oriented wage policy became established, since the 1980s wage shares have more or less continuously declined in almost all European countries (see *Table 1*), thus setting in motion a distributive downward spiral throughout Europe. The termination of the Fordist distribution compromise has therefore shaken yet another constituent element of the solidaristic wage policy.

Table 1. Adjusted wage share in the European Union 1961–2000

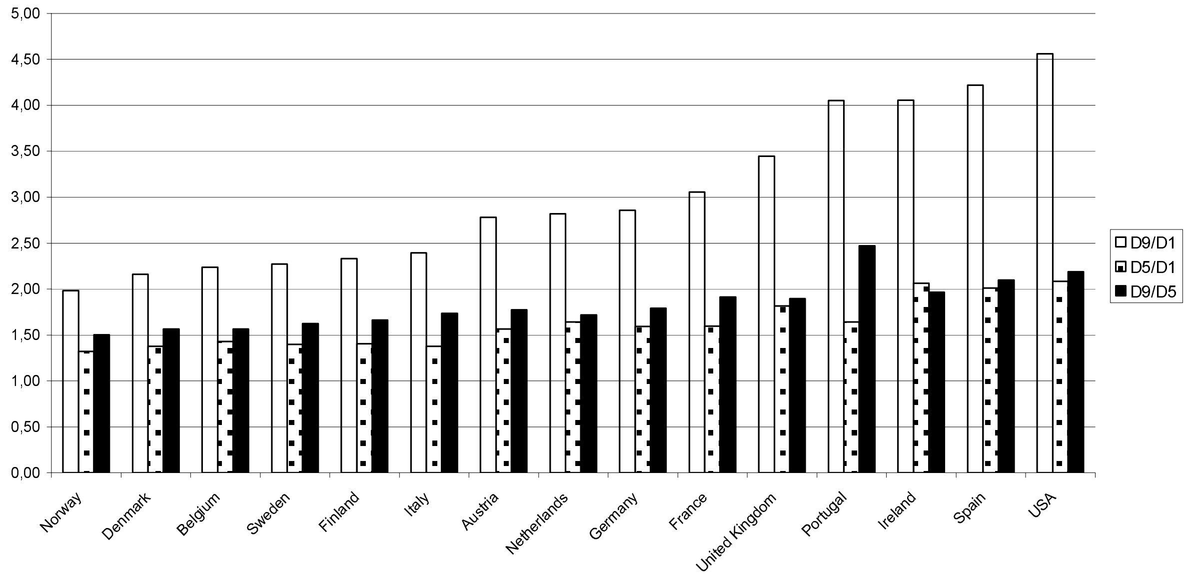
	1960	**1961-70**	**1971-80**	**1981-90**	**1991-2000**
Austria	76.4	76.7	78.8	80.0	76.4
Belgium	69.9	70.4	75.8	74.3	72.2
Denmark	71.3	75.2	77.7	70.3	68.3
Finland	73.7	73.1	72.5	71.9	66.5
France	75.2	75.3	76.6	75.4	69.3
Germany*	70.6	71.6	73.7	70.9	67.9
Greece	-	86.1	70.7	74.0	67.2
Ireland	79.4	79.3	77.3	72.5	63.7
Italy	77.2	75.5	76.7	74.3	70.5
Luxembourg	56.3	57.7	65.5	66.5	64.5
Netherlands	63.4	69.4	74.8	68.1	65.9
Portugal	68.5	67.8	81.2	74.0	73.1
Spain	74.4	77.3	79.1	73.0	68.8
Sweden	69.4	72.3	74.1	70.5	68.9
United Kingdom	71.3	72.6	73.2	72.7	73.6
European Union	**72.7**	**73.6**	**75.3**	**73.0**	**69.7**

Adjusted wage share = percentage of GDP at factor costs; * 1961–1991 West Germany.

Source: European Commission, European Economy No. 68 (1999), Statistical Annex.

Compared with the net distribution between capital and labour, which is very clear and, within Europe, is largely convergent, the net distribution within the workforce at first presents a much less clear-cut picture. Based on available OECD data[1] on the trend of income deciles, to begin with it can be demonstrated that there are very large differences in the national wage spread within Europe (see *Figure 2*). Overall, up to now, the most egalitarian wage structures by far exist in those countries which, like in Scandinavia in particular, have a particularly strong tradition of a solidaristic wage policy. By contrast, wage differentials are most pronounced in the United Kingdom and Ireland and also on the Iberian Peninsula (Spain and Portugal). But clearly the largest wage dispersion within the OECD countries is found in the USA. In most countries, the wage spread upwards towards the top earners is more pronounced than the one downwards towards low-wage brackets.

Figure 2. Wage dispersion in Europe and the USA in the 1990s*

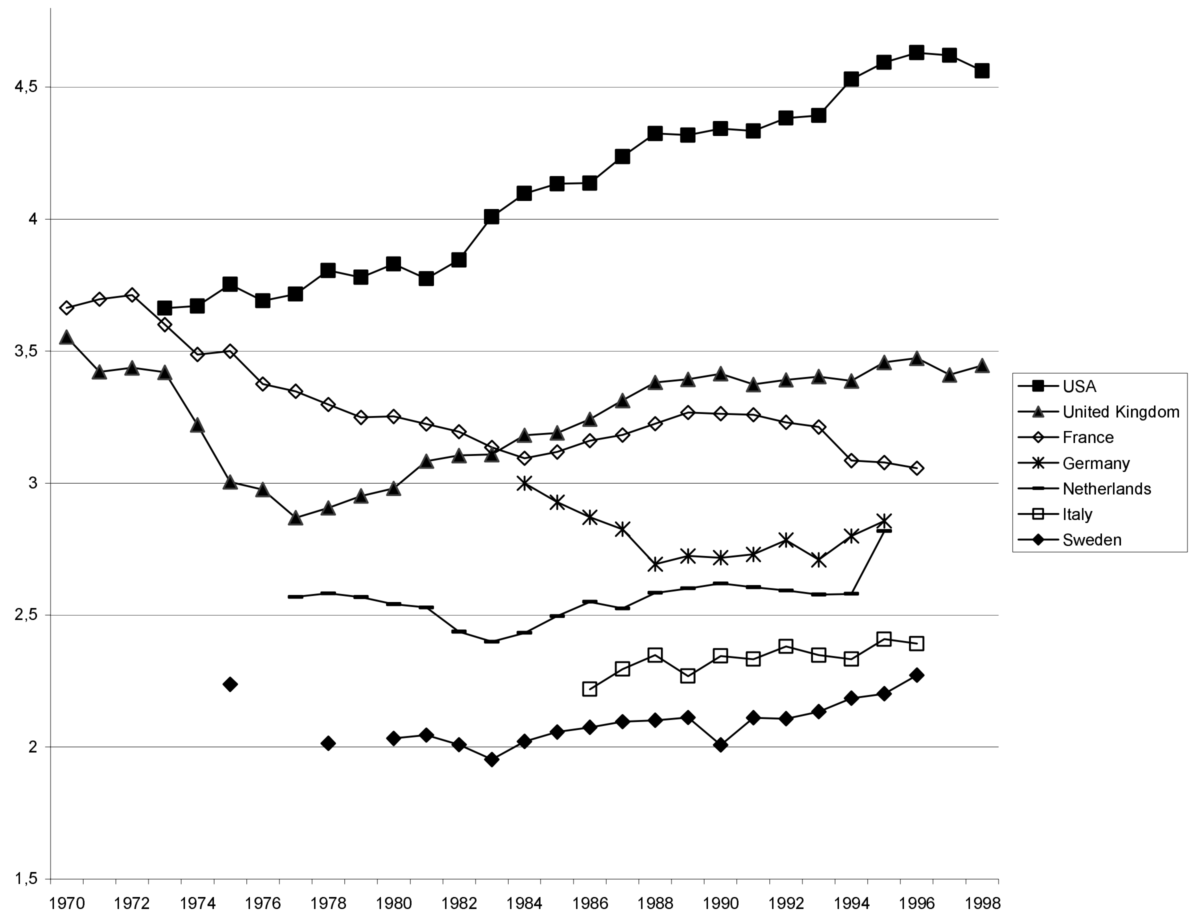


* Comparison of income deciles D9/D1; D5/D1 and D9/D5 (latest available value in each case)
Source: OECD

Generally speaking the data on the long-term trend of wage differentiation are very incomplete. However, numerous individual studies suggest that in most OECD countries the wage spread fell more or less sharply between 1950 and 1975 (Crouch 1999a, p. 163 et seq.; for a survey of the literature see also Burniaux et al. 1998). Since then, in most countries the wage spread has risen again more or less steeply (see *Figure 3*). The greatest rise in wage inequality is clearly observed in the Anglo-Saxon countries (USA and the UK), but since the 1980s a slight increase can also be found in the wage spread of even traditionally very egalitarian countries like Sweden, albeit coming from a much lower initial level. In Germany, by contrast, the wage spread was still falling until the late 1980s, and did not rise again somewhat until the 1990s. So overall we can say that in most European countries the trend towards a reduction in wage disparities came to a standstill in the 1980s, and in some countries has since turned back on itself.

[1] The most recent international comparative data on wage dispersion have been published by the OECD (1996). However, to some extent more up-to-date but as-yet-unpublished data are used below, which the OECD was kind enough to furnish the author.

Figure 3. Evolution of wage dispersion D9/D1*



* Comparison of income deciles D9/D1
Source: OECD

2.2. The neo-liberal criticism of a solidaristic wage policy

Since the 1980s, not only has it become much more difficult for the European trade unions to translate the concept of a solidaristic wage policy into action, but at the same time they have been faced with broad criticism of their normative goals which on the whole reflects a new ideological hegemony of neo-liberalism in Europe. As Colin Crouch has observed this hegemony is demonstrated mainly in the fact that

> *"previous trends to reductions of inequality previously thought to be associated with modernisation, came to an end and started to be reversed"* (Crouch 1999b, 32).

The core of this neo-liberal criticism draws on the work of Friedrich August von Hayek (1969) to focus on the traditional social democratic equation of "equality" with "justice" and the political correction of market results which this legitimates. In the neo-liberal interpretation, this correction essentially results in greater inefficiency and thereby ensures that

> *"it is precisely the distribution mechanism instituted on grounds to do with justice that ends up undermining the interests of all citizens in prosperity and growth"* (Hank 2000, 155).

The neo-liberal critics ultimately even view the distributive justice sought by a solidaristic wage policy as "less fair" since by setting non-market wages it inevitably results in the emergence of unemployment, thereby generating a new inequality in the labour market between those 'inside' and those left 'outside'. This perspective corresponds with the now-widespread view that too little wage differentiation (especially downward) is one of the basic causes of unemployment (see for example Streeck 2000a, 2000b).

The consequence of this is that the neo-liberal criticism of the concept of a solidaristic wage policy has espoused the cause of demanding an "end to equality" (Hank 2000). With one eye on the USA, it is openly calling on the "European social model" to "consider the unreasonable imposition of growing inequality" (ibid., 155). The neo-liberal phrase "justice through inequality" has now penetrated deep into the discussions of the "New Social Democracy" about justice (for a critical view on this see Mahnkopf 2000). For example, the joint paper by Tony Blair and Gerhard Schröder (1999) takes a critical distance in noting that "in the past…the promotion of social justice (was) sometimes confused with the imposition equality of outcome." For Wolfgang Clement (2000), the redefinition of social equality is even "the Archimedes point in the social democratic policy debate in Europe." He opposes any form of "prescribed equality", describing it as the "death of justice and freedom", and instead argues for "*more opportunities for equality*, albeit without guaranteeing or promising *resulting equality*." Since the old idea of distributive justice is clearly rejected, ideas about justice are increasingly reduced to the concept of "equal opportunities." In this regard the job of policy is to ensure that all individuals can hold their own equally in the market, in the sense of "supply-side egalitarianism" (Streeck 1999a, 5). In contrast to this, a policy of active correction and redistribution of market results, such as the one underlying the concept of a solidaristic wage policy, largely takes a back seat.

2.3. Globalisation and the service society: a new structural environment for a solidaristic wage policy

The criticism of the normative goals of a solidaristic wage policy is usually shored up by the hypothesis that the political and institutional prerequisites for implementing this concept have largely disappeared with the changing structure of modern capitalism. Two essential lines of argument are advanced (Erixon 2000, 52 et seq.). On the one hand, it is asserted that in a globalised world economy the nation state has largely lost its ability to conduct redistributive policies and is therefore no longer able to use economic policy in support of the implementation of a solidaristic wage policy. On the other, it is argued that whereas the innovation-based model underlying the solidaristic wage policy may have been reconcilable with the conditions in which a Fordist industrial society operates, in those of a post-Fordist service society it leads to dysfunctional results.

As early as the 1980s, Fritz Scharpf (1987) pointedly argued that the extensive liberalisation of the world economy ushered in by the collapse of the Bretton Woods system "has fundamentally and permanently restricted the options of a national macroeconomic policy" (ibid., 317). The deregulation of international money and capital markets in particular systematically undermined the economic strategy of national Keynesianism. Not only did Scharpf's ideas largely anticipate the globalisation debate of the 1990s, he also clearly identified its essential distributive policy component, saying that since in the conditions of a globally integrated world economy a country's economic and social development increasingly depends on companies being permanently able to realise high and steadily rising profits, both unions and governments have to accept a "temporarily irreversible defeat in the distribution battle" (ibid., 335).

On the one hand, companies themselves are under fierce international competitive pressure to comply with the high-yield rules set by international capital markets. On the other, the technological and economic trends have greatly broadened companies' international mobility and have thereby contributed to a significant shift in power with respect to the "immobile actors" such as trade unions and national governments. Under these circumstances economic policy is increasingly subordinate to the need to promote competition and secure production sites, whilst companies brandish the threat of actual or alleged "exit options" with a view to exploiting their growing political influence to dismantle the established national redistribution systems of the Keynesian welfare state (Bieling and Deppe 1997). This also includes the growing modification or termination of cross-sectoral wage and collective bargaining standards, gradually undermining the concept of a solidaristic wage policy and resulting in a shift towards a decentralisation of wage settings on a more company-specific and profit-related basis.

In the debate about structural changes in global economic relations, it is still important to emphasise that the present form of economic globalisation involves primarily *politically* induced processes which essentially follow the maxims of neo-liberal economic concepts. In Europe, since the 1980s the political hegemony of neo-liberalism has been especially evident in the central political projects of European integration (Bieling and Steinhilber 2000). The creation of a European single market put into practice a comprehensive liberalisation of national economies whilst at the same time further restricting the possibilities for the political regulation of markets at national level. Moreover, by introducing the European Monetary Union (EMU) the nation states not only lost their sovereignty over monetary policy but also constitutionally committed themselves to a restrictive fiscal policy under the Maastricht convergence criteria and the provisions of the European Stability Pact. This severely restricts national options for using economic and labour market policies to prop up a solidaristic wage policy.

After the "globalisation argument", the "services argument" is the second basic point for criticising the concept of the solidaristic wage policy, positing that in a post-Fordist service economy the innovation function of the solidaristic wage policy, which used to be positive in a Fordist industrial society, is now quite the reverse:

> *"Whereas solidaristic wage policies in the industrial economy tended to shift production to the most efficient sectors where the scope of productivity increases was the greatest..., solidaristic wage policies in the service economy tend to squeeze out the least productive workers without creating a compensating expansion in the overall level of activity"* (Iversen and Wren 1998, 512).

The comparison with the USA, which has both much higher income differentials and relatively lower unemployment rates than most European countries, serves as textbook proof of the thesis of a clear trade-off between an income differential and the employment trend in the (private) service sector (for a critical view of this see Bosch 1999). In this line of reasoning, the solidaristic wage policy is increasingly a barrier to further economic structural change and can only be maintained at the cost of high unemployment.

The path pursued in a few Scandinavian countries in the 1970s and 1980s could be viewed as one possible way out of this dilemma. In this approach a very egalitarian wage structure was preserved at the same time as the lack of dynamism in private-sector services was offset by strong expansion in the public service sector (Iversen and Wren 1998, 517 et seq.). However, the implementation of such a strategy either depends on an appropriately high revenue from taxation or has to deliberately factor in a high budget deficit. Yet neither of these conditions is feasible any longer under the current conditions of the European Monetary Union. Intensive tax competition within Europe is exerting pressure more in the direction of lowering the rate of taxation whilst the European Stability Pact is placing strict constraints on fiscal policy options at the outset.

In this situation, the only way to develop new sources of employment seems to be via a much higher wage dispersion and the concomitant acceptance of a distinct low-wage sector. Thus, for example, Wolfgang Streeck (2000b) is fond of citing the example of Germany to denounce the "excessively low inequality" in the wage trend and demand the establishment of wages related to sectoral productivity as the central lever for boosting employment in the private service sector. However, a "post-industrial wage structure" (Streeck 2000a) interpreted this way would turn the concept of the solidaristic wage policy upside down: instead of being geared towards the average productivity of the economy as a whole, the wage trend would be geared towards the productivity figures of a given sector or even company. Political regulation of wage structures would be replaced by the market-generated adjustment of wage differentials.

3. PROSPECTS FOR A SOLIDARISTIC WAGE POLICY IN EUROPE

With the transition from a Fordist industrial society to a post-Fordist service society and the level of economic integration now achieved in Europe, the traditional concept of the solidaristic wage policy has increasingly run up against structural limits. Looking back, Rudolf Meidner himself has noted that

> *"the model was designed for a national economy under conditions that made it possible for the national governments to make final decisions about stabilisation and distributional policies"* (Meidner 1998).

Since nation states' options for market-correcting and redistributive policies have been increasingly restricted by the neo-liberal restructuring of Europe, in the national context the solidaristic wage policy also is increasingly losing crucial economic policy support.

If the basic normative objective of a just and egalitarian wage trend is to be preserved, the concept of the solidaristic wage policy has to be reformulated against the background of the current political and economic environment in Europe. Along these lines, the European Trade Union Confederation (ETUC) has called for a fundamental debate on a *European solidaristic wage policy*", one capable of

- "guaranteeing workers a fair share of income";
- "countering the danger of social dumping";
- "countering the growing income inequality in some countries"
- "contributing to a reduction in disparities in living conditions"
- "contributing to effective implementation of the principle of equal treatment of the sexes" (ETUC 1999a).

This broad programme for reformulating a solidaristic wage policy in Europe has to fulfil two basic conditions: *firstly*, it must present a political concept for the "Europeanisation" of wage policy, and *secondly* it must ensure that this is embedded in an overall European economic policy concept.

3.1. A supranational wage policy in Europe?

In principle, trade union discussions about a Europeanisation of wage policy are as old as European integration itself. The existing national differences in wage and social standards have always generated the demand for European harmonisation. As far back as the early 1950s trade union ideas aimed at a supranational regulation of labour and social affairs including the "conclusion of collective agreements which cover all the countries of Europe" (Mühlbach 1950). Even back then, the demand for a supranational wage and collective bargaining policy did not simply reflect the normative goal of social equality, but instead also corresponded to the economic calculation of tacking wages out of cross-border competition in Europe.

Although the idea of European collective agreements has always been part of the standard repertoire of European trade union programmes, for several decades the unions have hardly lent any serious thought to its practical implementation. That only began to gradually change in the 1990s as the European single market was completed and EMU was introduced. The latter in particular injected a new dynamism into the collective bargaining policy debates of European trade unions (Schulten 1999b). Now that the wage trend is finally directly impacting on the competitiveness of individual countries and regions within the EMU without any monetary policy buffer, the need for a European restriction on wage competition to prevent downward competition and wage-dumping has grown particularly acute (Schulten 1999a).

Trade unions initially pinned their hopes on the institutional strengthening of the Social Dialogue under the 1991 Maastricht Social Agreement (which in 1997 found its way into the Amsterdam Treaty as an independent 'Social Chapter'). For the first time in the history of European integration, a legal foundation had been created for framework agreements at EU level between European trade unions and European employers' organisations. Subsequently, the Social Dialogue was considerably stepped up, both at the cross-sectoral level (between the ETUC and the European employers' associations UNICE and CEEP) and at the sectoral level (between the sectoral trade union and employers' organisations) (for details of the current situation, see European Commission 2000, Keller and Bansbach 2000). In the meantime, three "European social partner agreements" have successfully been concluded between the ETUC, UNICE and CEEP, covering the areas of parental leave (1996), part-time work (1997) and non-standard employment contracts (1999) respectively. In addition, three other sectoral accords concerned with sector-specific adaptation to the EU Working Time Directive have also materialised. Although the substantive content of these agreements is rather modest and entails an improvement to existing arrangements in just a handful of EU states, the unions in particular emphasise their considerable symbolic importance as potential embryonic forms of a European collective bargaining system (for a detailed review of the trade union debate on the Maastricht Social Agreement see Dolvik 1997).

Numerous authors have criticised the idea that a supranational European collective bargaining system might gradually emerge from the Social Dialogue (see for example Marginson and Sisson 1998; Keller 1999). The core of the argument against such an idea is that the transnational interest group policy of capital and labour is based on fundamentally different rationales for taking action:

> *"On the workers' side, class policy strategies seek supranational protection against competitive deregulation, and in general against competition between national systems for international mobile capital at the expense of wages and working conditions. ... On the employers' side, the transnational class interests consist of dismantling as far as possible any barriers to the mobility of capital and labour across national borders and expanding markets, without having to accept in return 'market-distorting' redistributive forms of intervention and the emergence of welfare-state interventionist institutions at the supranational level"* (Streeck 1999b, 114-115).

Against this backdrop, Wolfgang Streeck sees the "structural superiority of the capital side at transnational level" (ibid., 116) substantiated precisely in the fact that the unions are having to establish new European arrangements and institutions to defend their interests, whereas the employers can largely limit themselves to preventing and blocking such approaches. This is also consistent with the frequent observation that the European employers' associations have always been prepared to negotiate a European agreement under the Social Dialogue only where they could expect to thereby avoid falling prey to what in their eyes was a "less favourable" EU Directive. Yet even this new form of European bargaining between the social partners "in the shadow of the law" (Marginson and Sisson 1998, 514) has so far not proven very resilient, and has generally been limited to less controversial subjects. As soon as more controversial issues, were involved, such as the introduction of European Works Councils or the question of guaranteeing general rights to information and consultation, negotiations foundered on the resistance of the European employers even though the European Commission had presented a draft legal arrangement beforehand.

In the end, the distribution conflict was removed from the purview of the Social Dialogue from the outset since wage policy was explicitly excluded from the scope of the Maastricht Social Agreement. The same also applies to providing the basic constitutional conditions for an independent European collective bargaining system, for example European freedom of association or a European right to strike. In a nutshell, this means that so far there is nothing to indicate that supranational wage bargaining could gradually develop from the European Social Dialogue. Its political importance, by contrast, seems to lie in making trade unions part of Europe's political development in the form of a "symbolic Euro-corporatism" so as to take extensive account of the institutional self-interests of the European trade union organisations in Brussels and generally ensure the political support of European trade unions for the central European integration projects (Martin and Ross 1999, Schulten 2000).

3.2. Wage policy in national competitive corporatism

The development of a supranational wage policy at European level not only faces numerous institutional obstacles and has to overcome hurdles erected by various interest groups, but it is also counteracted by a strong competitive integration of wage policy at national level. Wolfgang Streeck argues that trade unions and employers in Europe

> *"basically have a choice between two types of strategies and alliances corresponding to them: class policy strategies which extend beyond national borders and national strategies which extend beyond class borders"* (Streeck 1999b, 114).

Since for the foreseeable future a political restriction of European wage competition under supranational wage agreements faces almost insuperable resistance, the more obvious and promising strategy appears to consist in handling such competition politically within cross-class national alliances. Indeed, since the mid-1980's there has been a clear renaissance of neo-corporatism in many European countries. With the exception of France and the United Kingdom, more or less fixed forms of national concentration between the government, employers' associations and trade unions now exist in almost all Western European countries (Fajertag and Pochet 2000).

However, compared with the traditional corporatism of the Fordist post-war period the contents and functions of the new post-Fordist "social pacts" have changed fundamentally, so the literature refers to a transition from "demand-side to supply-side corporatism" (Traxler 2000) or from "social corporatism" to "competitive corporatism" (Rhodes 1998). The novel quality of competitive corporatism is particularly striking in a wage policy context. Whereas national regulation of wage developments was always one of the central objectives of neo-corporatist alliances, the terms "moderate" or "restrained" wage policy have undergone a fundamental change in meaning and today are no longer associated with *"productivity-oriented"* wage policy, but instead with *"competition-oriented"* wage policy. On the whole, the social corporatism of the 1960s and 1970s was an integral part of a policy of Keynesian macro-management and was based on a "political exchange" in which the unions abandoned a "redistributive" *expansive* wage policy (with its possible inflation-stimulating consequences) in favour of a *productivity-oriented* wage policy that was "neutral" in terms of distribution, for which they were compensated by tax benefits, the extension of the welfare state or an expansion of social rights to participation and codetermination. By contrast, the wage policy in the competitive corporatism of the 1990s is fully committed to enhancing national competitiveness. As a result, almost all new social pacts have contained more or less binding wage policy guidelines which either aim to undercut the average wage trend in the most important rival countries or generally seek to lower national labour costs by concluding pay settlements below the growth of productivity (see Table 2).

The shift in the wage policy goals in national competitive corporatism primarily reflects a changed "configuration of interests and power" between trade unions and employers (Traxler 2000). This gives the "political exchange" a clearly asymmetric slant, since the unions are asked to make extensive wage policy concessions in advance which only rarely contain clearly-defined 'quid pro quos' and which are frequently balanced against merely a vague hope of job growth induced by wage restraint (Hassel 1999, 30). However, from the trade union perspective, the most important core of the new competitive corporatism may be that it allegedly contributes towards stabilising the national institutions of industrial relations and thereby politically establishes the importance of the unions as an accepted social actor at national level despite a significant loss of power (Streeck 1999b, 115).

Table 2. Wage guidelines or recommendations in national competitive corporatism

Country	Agreement	Wage guidelines or recommendations
Belgium	Cross-sectoral bipartite agreements (1998, 2001)	Defining of a maximum wage increase which should correspond with the average wage increases in France, Germany and the Netherlands
Denmark	National tripartite declaration (1987)	Developments of Danish labour costs should not exceed the development of labour costs in competing countries
Finland	Agreement of the national tripartite incomes policy commission (1995)	Wage increases should be in line with the total sum of the target inflation of the Bank of Finland (today the European Central Bank) and the national productivity growth
Germany	Statement of the national tripartite "Alliance for Jobs" (2000)	Results of collective bargaining should be based on productivity growth and should be primarily used for job-creation measures.
Greece	National tripartite "Confidence Pact" agreement (1997)	Wages should rise along with inflation, and should also reflect part of national productivity growth.
Ireland	National tripartite agreements (1987, 1990, 1994, 1997, 2000)	Determining of maximum wage increases in line with the "European Stability Pact"
Italy	National tripartite agreements (1993, 1998)	Nationally agreed wage increases should reflect national and average European inflation, additional wage agreements at company-level should reflect productivity.
Netherlands	National bipartite agreements within the labour Foundation (1982, 1993, 1999)	Recommendation of moderate wage increases in order to improve overall competitiveness
Norway	National tripartite incomes policy agreements (1992, 1999)	Wage increases should be in line with average wage developments in Norway's main trading partners
Portugal	National tripartite agreement "employment pact" (1996)	Wage increases should reflect inflation and productivity growth
Sweden	Bipartite agreement for the industry sector(1997)	Recommendation for a "European norm" according to which Swedish wages should not raise faster than the EU average.

Source: Schulten and Stückler (2000)

However, it is precisely the stability of the new competitive corporatist arrangements which is repeatedly called into question due to their asymmetric political nature and their internal functional logic itself. A trade union policy of wage concessions can usually rely on relatively broad acceptance by unions' own members given the pressure of general weak economic growth and high mass unemployment. However, for internal organisational reasons alone, a policy of this type cannot be pursued indefinitely and will in particular become problematic for the unions if growing segments of the workforce demand their 'fair' share of economic prosperity once the economy clearly picks up. Whereas competitive corporatist pacts usually emerge in a crisis situation (Hassel 1999, 7), in some European countries their evolution over time increasingly points to limits to a competition-oriented wage policy. Thus, in the late 1990s especially in those countries with particularly "successful" social pacts (e.g. the Netherlands or Ireland) the acceptance of a policy of wage restraint increasingly crumbled within the unions as the economic and employment picture appreciably improved (Fajertag and Pochet 2000, 22).

Yet the basic contradiction of national competitive corporatism is that it is essentially based on an "economic nationalism" (Streeck 1999b, 115) which in its wage policy goals pursues a national beggar-thy-neighbour logic aimed at achieving competitive advantages at the expense of other countries by practising particularly pronounced wage restraint. Such an approach might occasionally represent a successful niche strategy for a few countries (especially the smaller ones), but its general application would inevitably result in downward competition in wage policy. Consequently, all in all there is a multitude of reasons why the social pacts that arose in the 1980s and 1990s under specific economic and political circumstances should not simply be perpetuated in the same form in the future (Fajertag and Pochet 2000, 21 et seq.).

3.3. Autonomous trade union coordination of national wage policy at European level

The absence of a supranational wage bargaining system at European level does not mean that wage policy would have no cross-border coordination mechanisms. Rather, since the 1980s progressive market integration in Europe has resulted in *political coordination* at national level increasingly losing its capabilities of exercising control and being supplanted by *Europe-wide market coordination*. Throughout Europe, this "negative coordination" has been accompanied by the paradigm shift described from a productivity-oriented to a competition-oriented wage policy, which has led to a Europe-wide convergence of moderate pay settlements and has also been supported by competitive corporatist alliances at national level. The concept of a competition-oriented wage policy was also firmly established at European level with the advent of the EMU, firstly via the European Council, which each year adopts "Broad Economic Guidelines" put forward by the European Commission that in the past have invariably called for wage trends below productivity growth and greater geographic and personal wage differentiation (for a critical view on this see Schulten 1999a, European Economists for an Alternative Economic Policy 2000). Secondly, similar demands are regularly forthcoming from the European Central Bank, and are issued with the implicit threat that any deviation from a moderate wage policy will be punished with the imposition of a restrictive monetary policy.

Since the mid-1990s the European trade unions have been engaged in an intensive debate on how they can counter the 'negative' market coordination with a 'positive' political coordination of wage policy at European level. These discussions at very different levels have led to practical approaches aimed at the independent cross-border coordination of wage and collective bargaining policy; for example, at interregional level, via the so-called "Doorn Initiative" between the Belgian, German, Luxembourg and Dutch trade unions (Kreimer-de Fries 1999); at sectoral level under the European Industry Committees such as the European Metalworkers' Federation (Schulten 1999b); or, more recently, also at cross-sectoral level under the aegis of the European Trade Union Confederation (ETUC 2000).

The trade union "coordination approach" no longer aims primarily to achieve supranational wage bargaining, but instead starts out from the assumed continued existence of different national bargaining systems which should, however, be interconnected with each other in such a way as to be capable of limiting European wage competition. As a first step in this direction, the European trade unions have begun to formulate joint "coordination rules" for national wage and collective bargaining policy. For example, the ETUC has adopted a European "Guideline" whose purpose is to ensure that

1. *"nominal wage increase should at least exceed inflation rates whilst maximising the proportion of productivity allocated to the rise in gross wages in order to secure a better balance between profits and wages;*

2. *"any remaining part of productivity should be used for other aspects in the collective agreements, such as qualitative aspects of work where these are quantifiable and calculable in terms of cost" and*

3. *public and private sector pay should increases in parallel"* (ETUC 2000).

The ETUC's "Guideline", like comparable rules drawn up by other European trade union organisations, essentially seeks to reach agreement on a "competitive neutrality" in wage policy within Europe by returning to a productivity-oriented wage policy. In doing this, however, the European unions have merely taken the first step towards formulating a new concept of a European solidaristic wage policy. Whilst reverting to a productivity-oriented approach might in fact prevent further downward competition in wage policy in Europe, at the same time it would entrench the distribution differences currently in existence both between capital and labour and between the individual European countries and regions. If a coordinated wage policy is also to be used to pursue the goal of "encouraging an upward convergence of living standards in Europe " (ibid.), then European coordination of wage bargaining has to be supplemented by a European coordination of wage structure policy.

The ETUC's demand that "public-sector and private-sector pay should increase in parallel" already addresses an important aspect in countering the growing wage differences between sectors. Moreover, it is probably no coincidence that the issue of wage inequality is a particular focus of discussion of labour relationships in terms of women's policy within the European unions (ETUC Women's Committee 1999). Achieving equal pay for men and women is not just a central dimension of a solidaristic wage policy; at the same time it is also directly related to the creation of a generally egalitarian wage structure, since a high wage spread is normally accompanied by particularly pronounced gender-specific (as well as other group-specific, e.g. ethnic) differences.

On the whole, the discussions of a European solidaristic wage policy seek to formulate an independent wage policy programme that is diametrically opposed to the prevailing neo-liberal effort to situate wage policy as a central element of competition. In implementing this programme, however, the European unions have initially been left entirely to their own devices. They have been forced to develop their own procedures and institutions capable of raising the individual national unions' ability to take on obligations with respect to decisions adopted at European level. In fact, in recent years the European unions have managed to further extend their cross-border collective bargaining structures and working relationships, amongst other things by creating trade union collective bargaining committees and setting up collective bargaining information and communication systems at European level, but also by forming cross-border collective bargaining partnerships at interregional level, entailing a mutual exchange of collective bargaining observers (see the example of the EMF: Schulten 1999b; Gollbach and Schulten 2000). However, one central weakness of the coordination approach is that ultimately the European trade union organisations have no ability to impose hard sanctions to prevent individual national member confederations from engaging in behaviour that diverges from the jointly adopted guideline. As a result, for the time being the coordination approach is dependent on constant active political support by the national unions.

3.4. A solidaristic wage policy and European economic policy

Even if we assume that the unions are capable of overcoming their own political and institutional barriers to successfully coordinate wage policy in Europe, achieving a solidaristic wage policy will nonetheless also depend on whether corresponding economic policy support is provided at European level. Put simply, this means developing a new "European Rehn-Meidner model" aimed at linking the reduction of social inequality throughout Europe with a (non-inflationary) economic dynamic, thereby taking into account the European Union's specific institutional structures and particular political make-up. However, according to critics like Fritz Scharpf (1987; 1999) or Wolfgang Streeck (1999c), it is precisely the specific inner structure and development logic of European integration that is structurally blocking any economic policy approaches which ultimately amount to a form of "European Keynesianism". According to this way of thinking, since the 1980s the European integration process has been based on a constitutional linking of "nationalism and neo-liberalism" (ibid., 50). In this process, the nation state is increasingly losing its potential for economic policy management due to the liberalisation of markets, but at the same time it continues to be able to assert its political sovereignty through decision-making structures geared primarily towards the intergovernmental level, thereby blocking any further-reaching political integration.

Even if one agrees in principle with the analysis by Scharpf and Streeck regarding the hegemonic structure of the European integration process, the structuralist determinism applied here seems problematic in that it rules out the possibility of alternative political projects from the outset and thereby runs the risk of turning into a self-fulfilling prophecy. In contrast to this, in the 1990s especially we can find a series of quite influential political approaches that are based on a greater European coordination of economic policy along the lines of a European Keynesianism (Dyson 1999; Aust 2000). For a short time at the end of the 1990s it even looked as though a new "philosophical convergence" (Lafontaine and Strauss-Kahn 1999) might emerge in Europe under German-French leadership, a development that would have paved the way for a distinctive shift away from neo-liberal economic dogmas towards a European Keynesianism. The high point of the Euro-Keynesian political approaches to date was the "European Employment Pact" adopted at the EU's Cologne Summit in 1999, which created the establishment of a regular "Macroeconomic Dialogue" between the national governments, the European Commission, the European trade unions and employers' associations, and the European Central Bank (ECB) as a fundamental institutional innovation (European Council 1999). The goal set for the "macroeconomic dialogue" entails the

> *"coordination of economic policy and improvement of mutually supportive interaction between wage developments and monetary, budget and fiscal policy through macro-economic dialogue aimed at preserving a non-inflationary growth dynamic"* (ibid.).

Although Euro-Keynesian approaches subsequently went onto the political defensive (Aust 2000), at least conceptually they describe an alternative macroeconomic regime in Europe. The latter is based on the theory that, with the single market and EMU, Europe has developed into a large domestic economy which is largely independent of foreign trade and therefore in principle has a high potential for economic policy management. The Euro-Keynesian approaches centre mainly on criticism of the monetarist structure of the European Monetary Union and the demand that the Europeanisation of monetary policy be countered by a Europeanisation of economic policy. Along these lines the ETUC has also, for example, called for the creation of a "European economic government" as a counterpart to the ECB and supported an extension of the ECB's political mandate so that

> *"the ECB should not merely aim for stability but should also take an interest in the real economy, growth and employment in order not to expose the system to a downward deflationary spiral"* (ETUC 1999b).

Numerous European economists have now sketched out an alternative macroeconomic regime in Europe (for examples see Heise 1999; Hein and Truger 2000; Arestis et al. 2001; European Economists for an Alternative Economic Policy 2000), which essentially involves three main requirements. The *first* of these is the "vertical coordination of wage, monetary and financial policy" at European level (Hein and Truger 2000, 29). The goal here is to encourage non-inflationary, dynamic growth through the best possible cooperation between a stability-oriented wage policy geared to the European target inflation rates and national productivity gains, an expansive monetary policy, and a counter-cyclical financial policy.

The *second* requirement is cross-border "horizontal coordination" of wage and a financial policy that is still subordinate to national precedence (ibid., 30-31). Whilst the unions have the job of effectively coordinating European wage policy, the national governments must coordinate their respective financial policies Europe-wide. This latter coordination concerns fiscal policy, where macroeconomically damaging tax competition must be stopped. It also means countering a restrictive interpretation of the European Stability and Growth Pact in budgetary policy and preserving and extending the budgetary leeway for an active labour market and employment policy. This in particular entails reassessing the economic and employment policy role of public investments, which in many European countries dropped sharply in the 1990s under the dominance of neo-liberal ideologies of deregulation and privatisation (DIW 2000, 636).

The *third* and probably most problematic requirement entails boosting the ability of the European level itself to take effective action in the area of economic policy so as to enable an expanded, more effective redistribution policy within Europe. One central lever for achieving this would involve gradually raising the EU budget (Arestis et al. 2001; European Economists for an Alternative Economic Policy 2000). The EU budget at present amounts to a mere 1.2% of the EU-wide gross domestic product, of which more than half is already set aside for the EU's Common Agricultural Policy. Without an increase in the EU budget an expansion of the European structural and cohesion funds to provide targeted assistance to economically weak regions, as repeatedly demanded by the European trade unions (ETUC 1999b), will be no more possible than the funding of common European infrastructure projects as was suggested as early as 1994 in Jacques Delors' White Paper on "Growth, Competitiveness and

Employment" (European Commission 1994). Both, however, are essential prerequisites for dismantling the social and economic differences persisting within Europe.

The "need to promote improved working conditions and an improved standard of living for workers, so as to make possible their harmonisation while the improvement is being maintained" (EEC Treaty of 1957, Art. 117, para. 1) already enshrined in the treaties establishing the European Union is a promise that so far has essentially remained unfulfilled. On the contrary, the foundations of the traditional "European social model" seem to be increasingly undermined, whereas the reduction of social inequality as a central normative objective is increasingly being called into question. By contrast, the European trade unions face the challenge of reformulating their own concept of a solidaristic wage policy at European level. As in Rehn-Meidner's day, this also means placing trade union wage policy "in a larger macroeconomic context" (Meidner 1994). However, it also requires the development of an autonomous trade union concept for a European economic policy.

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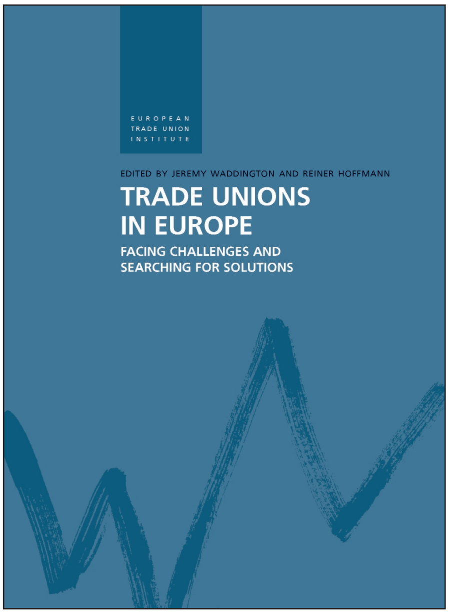

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