Coordinated Wage-Setting and the Social Partnership under EMU
A New Framework for Analysis

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Introduction

Persistent economic troubles in Southern Europe and the sovereign debt crisis have focused attention upon tools for macroeconomic management under the euro. Institutionalized wage-setting practices are a crucial part thereof. Indeed, even early theorists of monetary integration, such as Mundell (1961) had highlighted wage-setting as an important factor in a currency union, while subsequent work has reaffirmed its importance and placed wage-setting practices at the centre of the Eurozone’s economic crisis (e.g. Hancké 2012). Similarly, growing attention from European-level actors such as ETUC or the Commission in the wage-setting practices of both healthy and crisis-stricken Eurozone members alike suggests that this is not just a point of academic interest.

Nonetheless, our understanding of the ways in which wage-setting systems behave in the context of EMU is at best incomplete. Certainly, several peripheral countries have suffered under EMU as existing literature had suspected they might. Indeed, as intermediate systems in Calmfors and Driffill’s (1988) parlance, or as weakly coordinated ones in Soskice’s (1991), these have struggled with inflation and unemployment, and this struggle has become more acute under EMU (Johnston and Hancké 2009). Likewise, emerging scholarship is increasingly pointing to wages and unit labour costs, and in turn the systems that help set them, as underappreciated ingredients in the current crisis, while others (such as Beck, Hubrich, and Marcellino 2009) insist that they must be a part of any solution.

At the same time, while Crouch (2000) has suggested that centralized systems are likely to outperform highly decentralized ones under EMU, there is far more variation among ‘centralized’ or highly-coordinated systems than their rates of union coverage, as in Calmfors and Driffill (1988), or their level of coordination, as Soskice (1990), might suggest. In fact, this overlooks significant variations in the pressures that highly-coordinated systems have experienced under EMU, and in turn

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1 The author would like to acknowledge the support of the Social Science and Humanities Research Council of Canada, useful feedback from colleagues at the University of Bremen and Dr Amy Verdun at the University of Victoria, help from Bart Vanhercke and the European Social Observatory in reaching the appropriate interview partners, as well as the partners themselves.
the responses that this has elicited from them. Certainly, some previous studies had argued that monetary integration may undermine wage-bargaining (Leander and Guzzini 1998; Crouch 2000; Verdun 2000; Magnusson and Stråth 2001). However, this past scholarship is just that, predating the latest advances in institutional theory, as well as significant changes in context. Likewise, several scholars have sketched the broad dynamics of the relationship between EMU and wage-setting (Soskice and Iverson 2001, Hancké and Rhodes 2005, Enderlein 2006, Johnston and Hancké 2009). However, the very institutions that some scholars blame for the crisis in select countries, that others see as a potential solution, and that others still see under threat are highly idiosyncratic. Indeed, previous scholarship, such as Dyson (2008, 21), has argued that the effects of the single currency vary widely among Eurozone members because of the mediating effects of unique domestic institutions, national comparative advantage, as well as trade and economic patterns.

However, while much progress has been made in parallel areas, such as social pacts, less attention has been given to dissecting wage-setting systems in the current context and what it is that allows healthy systems to function under the euro. It follows then that a proper examination of specific wage-setting systems and their functioning under EMU is overdue. To that end, this paper takes up this issue in the context of Belgium’s wage-bargaining system under EMU. Highly centralized and legalistic, the Belgian system combines an inflation index to set the floor for wage negotiations among the social partners with a ‘wage norm’ that tracks wage developments in three neighbouring countries to set a ceiling for negotiations.

This paper argues, firstly, that wage-bargaining systems are most fruitfully compared by way of the mechanisms by which they achieve horizontal coordination, or coordination of wage development across sectors, vertical coordination, or effective governability (following Traxler and Kittel 2000), to which it adds calibration, or the indicators to which the bargaining system is most sensitive. It then argues that neither the inter-professional agreement that coordinates wages across the economy, nor the heavy state role in monitoring and enforcing collective agreements that
ensures compliance are have not come under significant strain from EMU. However, the calibration of the Belgian system has seen it struggle to contain unit labour costs. Absent currency devaluation, and with greater emphasis on wages as an adjustment mechanism, EMU has exacerbated this process, while adaptations to the Belgian system designed to set an upper limit on wage negotiations, but that retained its rigid inflation link, have had harmful feedback effects upon the social partners that in turn threatens the governability of the system.

The paper is structured as follows: a first section then reviews the relevant literature conceptualizing wage coordination, and outlines the framework to be applied to the Belgian system, while a second section reviews the literature on EMU and wage bargaining, examining the pressures that the academic literature suggests may be exerted upon wage-setting systems. A third section provides an abridged overview of the Belgian system of wage-setting, mapping this onto the framework developed in Section 1. A fourth section examines in practice the pressures from EMU on the Belgian wage-bargaining model. A fifth section examines the empirical and theoretical implications of these findings and concludes.

This paper forms part of a larger research programme comparing Belgium, Germany, and the Netherlands since 1990, which investigates how, under the euro, strains from unpredictable inflation and pressures for wage moderation have affected wage-setting practices and the social partnership between industry, labour and government. Specifically, it asks: is monetary integration detrimental to coordinated wage-setting, and how do institutional variations affect a system’s ability to cope with these new pressures?

**Section 1: On Wage Coordination. A Framework for Analysis**

Although wage-setting and labour market policy and been given an important role in the early debates and theory surrounding monetary integration, the study of labour market institutions
and macroeconomic performance only began in earnest in the 1980s. Likewise, while recent work has focused upon wage-setting and its hand in the Eurozone crisis (Glassner and Pochet 2011; Hancké 2012, 2013; Vermeiren 2012; Zemanek, Belke, and Schnabel 2010), emphasizing the role of strong social partners and mechanisms that link these agreements of the social partners across sectors as the distinguishing features of healthy coordinated systems which peripheral crisis countries lack. However, they do not dissect these mechanisms. Given that many have suggested that subtle institutional differences are likely to condition different adjustments to EMU, the fact that ‘coordinated systems’ covers so many distinct models is problematic. With this need for greater subtlety in the treatment of coordinated systems in mind, this section reviews the relevant literature on wage-coordination, from early work on bargaining structure and macroeconomic performance through more modern work on coordination in wage-setting. This literature suggests that coordinated systems are best deconstructed by the mechanisms by which they achieve vertical coordination, which refers to the relationship between local bargaining units and those at macro and meso levels, and which has important consequences for governability, and horizontal coordination, which refers to coordination of bargaining across the economy, although these concepts have been neither extensively nor intensively applied. It argues, however, that a crucial shortcoming of this literature has been the neglect of ‘calibration’, or the indicators that each bargaining system is designed to track as another key determinant of their behaviour under EMU.

Early work by Cameron (1984), as well as Bruno and Sachs (1985) had found a linear relationship between the coverage of collective agreements and pay moderation, i.e. as organized wage-setting systems become more encompassing, they deliver greater wage discipline. Subsequent and more frequently cited work by Calmfors and Driffill (1988) posited a ‘hump-shaped’ connection between a system’s level of centralization, by which they meant how encompassing their agreements are, and real wages. This is to say that highly ‘centralized’ systems, where unions cover enough employees to enjoy monopoly power, and in highly decentralized systems, where wages are the product of agreements between individual employees and individual employers tend to produce
wage settlements that are consistent with low inflation and high employment, i.e. wage restraint, while intermediate systems do not. In highly centralized systems, unions with monopoly power also face the full effect of inflationary wage agreements. This leads them to moderate their wage demands, while in highly decentralized systems no actors involved in wage setting enjoy market power. As a result, for Calmfors and Driffill (1988), these two extremes tend to outperform intermediate systems, where wage-setters enjoy market power but are not large enough that they bear the full cost of inflationary settlements. This allows them to externalize some of the cost of inflationary wage agreements, causing intermediate systems to underperform on inflation and employment.

Subsequent work in this stream by Danthine and Hunt (1994, 528) has examined this connection in the context of deepening economic integration in Europe. Although it doesn’t consider monetary integration so much as the Single Market, it posits that while economic integration in Europe hasn’t impacted labour mobility, but can be expected to affect the functioning of labour markets. This is because two countries forming a single market has the effect of decentralizing their wage systems, in that formerly encompassing unions from each would then coexist within a single market, meaning that it is no longer centralized (Danthine and Hunt 1994, 530). This is not to say that with deeper economic integration, different wage systems, particularly polar opposites, cannot coexist to good effect (Danthine and Hunt 1994, 539), although it does mean that the hump-shaped connection between centralization and macroeconomic performance put forward by Calmfors and Driffill (1988) is much flatter with greater trade openness, which is to say that intermediate systems of wage-setting face fewer disadvantages vies a vie their more centralized and decentralized peers with deeper economic integration (Danthine and Hunt 1994, 536-7).

Soskice (1990) introduced the role of coordination in wage-setting. He notes that the German model, with a combination of sector-level bargaining, relatively low union density and wage moderation, maps awkwardly onto Calmfors and Driffill’s framework. Indeed, he argues that
Calmfors and Driffill conflate the level at which bargaining formally takes place with coordination, and submits that less centralized, but highly coordinated systems may also enjoy low inflation and high unemployment. With this in mind, Crouch (2000) has noted that centralization may be way of ensuring coordination, but is one among many. In any event, Soskice (1990) also notes that there are several mechanisms that might do this. Indeed, Soskice argues that where unions are not encompassing, but do coordinate their wage demands, they do still internalize the inflationary effects of their wage demands, with the implication that these systems behave much like those with encompassing unions. He also points to encompassing employers’ associations, as well as arrangements by which public sector and non-union wage developments track those of unionized private sector workers as manifestations of highly coordinated but decentralized systems. Put more bluntly in his later work, he and Hancké (2003, 152) argue that ‘a necessary condition for coordination is that employer organizations and unions are sufficiently strong that it poses no collective action problems’.

Analytically, Soskice’s (1990) contribution is an important step forward from the work of Calmfors and Driffill (1988). Certainly, their point about encompassing unions and incentives to internalize the effects of wage deals is very well taken. Nonetheless, Soskice’s (1990) notion of coordination highlights that not only does the coverage of unions matter, but the way in which they organize themselves and interact with other trade unions, as well as the nature of their relationship with employers matter as well. It highlights as well the role of employers in the process of wage bargaining. This is important because they play an important part in negotiating wage developments with the unions, but previously had been given little attention. It is also important because while union density has fallen significantly across the EU, as well, the coverage of employers’ associations has remained much higher. Where unions’ deals with these associations cover both unionized and non-unionized workers employed by member companies, this means that even where the unions are no longer encompassing, the wage-agreements that they sign often still are. This is a point borne out in surveys by the ECB, for example, which find the proportion of employees covered by collective
agreements in the EU tend consistently to be higher than the proportion of employees covered by trade unions (ECB 2009, 18-9). By extension, non-encompassing unions that sign encompassing wage agreements face the same incentives for wage restraint that Calmfors and Driffill (1988) attribute to encompassing unions. This spawned much work on coordination in wage-setting regimes, much of which has been influenced by Traxler. Sisson and Marginson, for instance (2002, 203-4), the process entails information exchange, benchmarking, and target-setting, even if the framework in which they embed this is far clumsier than that put forward by Traxler and Kittel (2002).

Certainly, Traxler (2002) finds no evidence that individual bargaining with low union coverage lowers labour costs, a point that chimes with his earlier scepticism about deregulation in coordinated systems (Traxler and Kittel 2000, 1170). This does suggest that even if he is highly critical of early work by Calmfors and Driffill (1988) and Soskice (1990), he does share their basic premise that encompassing systems are closely associated with low inflation and high employment. He and Kittel (2000, 1156-7) do argue, however, that previous studies had often ignored coordination, had used rather blunt indicators to compare the effects of different bargaining systems, and had been overly simplistic, comparing systems only on the basis of their level of centralization. In addition to comparing how encompassing agreements are, they argue that bargaining systems must also be examined on the basis of horizontal coordination, i.e. the extent to which the social partners are able to harmonize wage developments across sectors of the economy, and vertical coordination, or the extent to which macro and meso-level agreements are followed by firms and unions at lower levels (Traxler and Kittel 2000, 1158). This is particularly striking, given that later conceptualizations of institutions and institutional change (such as Thelen and Mahoney 2010) take up the issue of compliance with established rules as a variable, where previous strains of neoinstitutionalist theory had taken this as read. In any event, what is also striking is that Traxler and Kittel (2000, 1172) conclude that performance gains in coordinated systems derive from an effective blend of vertical and horizontal coordination.
Traxler and Kittel (2000, 1173) also suggests several different mechanisms by which bargaining is coordinated horizontally, namely inter-associational, or binding agreements by peak associations, intra-associational agreements, where peak associations merely coordinate amongst affiliates who do the actual bargaining, pattern-setting, state-imposed and state-sponsored coordination, and uncoordinated bargaining. The introduction of the state, either as a player in intra-associational, or as a sponsor and leading player in coordination itself, captures the tripartite nature of some systems, where earlier works such as Soskice (1990) and Calmfors and Driffill (1988) had focused solely upon the social partners. Nor are Traxler and Kittel (2000) alone in this, with Brandl (2012), for example, noting instances where government interventions may promote coordination in wage setting where the social partners are weak. This dovetails with greater interest in state-promoted concertation in the parallel literature on social pacts, which often have a bearing upon wage-setting (e.g. Natali and Pochet 2009; Hassel 2006; Avdagic, Rhodes, and Visser 2010; Hamann and Kelly 2007). It also compliments elaborations by Hancké, Rhodes, and Thatcher (2007), Molina and Rhodes (2007), and Royo (2007) amongst many others, of Hall and Soskice’s (2001) Varieties of Capitalism framework, to include Mixed Market Economies, which are built around more fragmented social partners and a more central role for the state. Indeed, this innovation underlies Hancké’s (2012; 2013) more recent work on wage developments in coordinated and mixed systems through the crisis.

Concerning vertical coordination, Traxler and Kittel (2000, 1175) point to the legal enforceability of collective agreements, as well as a peace obligation preventing industrial action by signatories as important pre-requisites for the governability of a wage-setting system. This is a point taken up by Brandl (2012, 488), for instance, who has pointed to ‘governability’, i.e. the strength of a system’s vertical coordination, is often a key ingredient in successful tripartite pacts on wages. It is also a point taken up in more recent literature comparing wage coordination in countries in northern and southern Europe, where the high governability of northern systems sets them apart from much weaker governability in the south. However, while this literature has come to cover the role of the
state and refined its coverage of inter-sectoral coordination, it gives less attention to coordination within individual sectors, where the governability of coordination systems within individual sectors are often closely tied to broad membership of employers’ associations, as well as legal provisions to extend collective agreements to non-union workers.

This has made for more fine-grained predictions about the performance of different systems. For instance, Traxler and Kittel (2000, 1159) find that systems built around cross-sectoral horizontal coordination are most effective when they contain a mechanism to prevent drift at lower levels, and that more centralized systems work best with a legally enshrined mechanism of vertical coordination (Traxler and Kittel 2000, 1160). More importantly, though, this work allows for much sharper distinctions to be drawn among coordinated systems, and not just between systems based upon robust social partners and tight inter-sectoral coordination and those built around state-led coordination which underlies Hancké’s (2012) analysis of the crisis. For example, while early frameworks by Soskice (1990), or Hancké’s (2012) distinction between healthy ‘coordinated’ systems and stricken ‘mixed’ ones, would not differentiate between the highly centralized and legalistic Belgian system and the horizontally organized German one. Just as importantly, all of this suggests that there are multiple combinations of factors that can make for healthy coordinated wage-setting.

Having said all of that, previous literature largely overlooks a subtle but important factor in wage-setting systems, namely, their calibration. This is perhaps implicit some of Sisson and Marginson’s (2002) work, although they never deal with it explicitly. In any case, this is to say that different systems are designed to account for different factors and to deal with different issues in collective agreements. This has potentially important implications for the behaviour of the system and the issues that it prioritizes, but has largely been overlooked in the literature. Certainly, where Traxler and Kittel (2002) are only one of many note a strong connection between effective coordination and wage restraint, but considering calibration begs the question: ‘coordinated to what ends?’ Likewise, that the question of calibration is one taken up in recent neoinstitutionalist writings
on institutional change, particularly in Streeck and Thelen’s (2005) notion of institutional drift suggests it as an important factor in wage-setting systems.

More to the point, the calibration of a system of wage-bargaining is a highly conspicuous feature of the Belgian model, although it plays an important role in guiding negotiations in other systems as well. Indeed, in Belgium, as well as in Luxembourg, Malta and Cyprus, a floor for wage negotiations tied to an inflation index is legally enshrined, while an inflation correction mechanism plays an important role in collective agreements in Spain (Eurofound 2010), as well as in Slovenia. By contrast, the Dutch and German systems are built around a ‘coordination rule’ by which their negotiations track more loosely developments in inflation and productivity growth. What this means is that the different systems of wage coordination are more sensitive to different indicators, and that they can be expected to respond differently in subtle but important ways to new developments.

In brief, past literature has deconstructed highly coordinated systems of wage-setting by the means that they use to coordinate wages across and within sectors, or horizontal coordination, and the relationship between the relevant levels of bargaining, or vertical coordination. Although it has gotten lost in more recent literature examining wage coordination and the crisis, in fact, these are important features distinguishing between the coordinated systems that have recently been the focus of much attention. This project takes these markers as its point of departure, but adds ‘calibration’, or the specific indicators that guide wage-negotiations. The next section will examine the pressures that the academic literature has predicted will befall highly coordinated systems under EMU.

Section 2: EMU and Wage Coordination

While the previous section noted that an extensive literature has grown up around wage coordination, much of it avoids engaging directly with EMU, or even with the run-up to euro-
adoption. Indeed, several foundational works long predate EMU, while Traxler and Kittel’s (2002) observations end at 1990, overlooking pressures exerted upon national bargaining systems in countries striving to meet the convergence criteria. Likewise, Brandl (2012), for example has argued that social pacts in the 1990s were in many cases a response to pressures to meet the convergence criteria for EMU, although he does not address pressures after euro adoption. Certainly, EMU has hardly been overlooked by scholars concerned with wage-setting regimes, although few of them have gone to the same lengths as Traxler and Kittel (2000), for example, in deconstructing individual systems and examining their behaviour under the single currency. This omission is particularly striking given Hancké’s (2012, 8) observation that EMU amplifies subtle differences among member countries, or Lane’s (2006, 49) point that differences between Eurozone economies show up very differently under EMU.

That literature that does engage with EMU and wage bargaining, however, points to pressures emanating from two crucial changes brought about the single currency. Firstly, delegating monetary policy from a national central bank to the ECB has created pressures in the form disincentives for wage restraint, divergence between sheltered and exposed sectors, and a mismatch between a single Eurozone central bank rate and national inflation preferences. Secondly, EMU has restrained the use of other instruments traditionally used to manage the economic cycle, placing added strain on wages as an adjustment mechanism. Some have interpreted the resulting need for flexibility in wages and work as a driver of greater decentralization of wage-setting, but it may also place new strains on the relationship between the social partners. As Hancké (2012) and others have stressed, differing institutional arrangements are affected differently by EMU.

Firstly, Hancké and Soskice (2003, 149), for example, argue that the incentives for pay moderation following euro adoption will be much relaxed. Indeed, they find that attempts to meet the Maastricht convergence criteria in the run up to euro adoption had been a significant driver of coordination and wage-discipline during the 1990s because unions had heavily favoured monetary
integration (Hancké and Soskice 2003, 153), while German wage growth was restrained by the threat of raised interest rates and other aspiring members’ wages and inflation rates contained by their central banks’ commitment to maintain a peg to the Deutschmark (Hancké and Soskice 2003, 153-4). They note, however, that following euro adoption there is no means for the central bank to discipline individual members for inflationary wage growth (Hancké and Soskice 2003, 154). This is because while prior to euro adoption, countries had retained a central bank operating at national level, even if they had accepted a currency peg, the European Central Bank, setting rates for the entire Eurozone has no tools to influence wage-setters in individual national contexts. As a result, while wage inflation had been low in the period leading up to euro adoption, there are few incentives for national wage-setters to take into account the effects of their wage settlements on the rest of the euro group (Hancké and Soskice 2003, 154).

Soskice and Iversen (2001) continue in this vein, arguing that while coordinated or centralized systems respond to an unaccommodating central bank with wage discipline, uncoordinated systems do not respond this way, and face higher inflation and unemployment as a result. Certainly while their warning an ECB targeting Eurozone inflation rather than focusing on German inflation may result in a relaxation of wage moderation there was not borne out, the implications of this for EMU is that where multiple coordinated systems do not coordinate amongst themselves, there are fewer incentives for wage restraint. This is partially behind Hancké and Rhodes’ (2005) observation that social concertation along the lines of social pacts had begun to break down under EMU.

Subsequent scholars have noted a clustering effect, that in some cases these disincentives have indeed manifested themselves in relaxed wage-discipline and deteriorating wage coordination, but not others. Indeed, Hancké (2012, 12), among many others has observed wage inflation in southern European countries, though not elsewhere, as a result of preferences for higher domestic inflation, low real interest rates, and limited means by the central bank to control them, while Lane
(2006, 50) has noted that countries, often northern ones, that are trade-dependent and much more sensitive to rate changes by the ECB than is the case in southern countries. Although this has not undermined wage-setting in these coordinated systems, it certainly has elsewhere (Hancké 2012).

Others have noted a more subtle twist on this dynamic which afflicts some coordinated systems. Johnston (2012), for example, notes that there has been a tendency for wage dynamics in sheltered and exposed sectors of Eurozone economies to diverge under EMU. This is because while exposed sectors are disciplined by international competition, governments and central banks have fewer tools to manage pay in sheltered sectors than they did under ERM. She points out as well, however, that there are important variations among highly coordinated economies. That there are important institutional variations among them as well is particularly suggestive. This recalls Traxler and Brandl’s (2012) emphasis upon the composition of bargainers, i.e. to what extent the social partners represent firms and employees from sheltered and exposed sectors, and the way this interacts with different bargaining regimes, although they do not address EMU directly. Put another way, EMU may exert pressure on some systems’ horizontal coordination.

Secondly, others have pointed to greater pressures placed on wages as an adjustment mechanism for redressing economic shocks and macroeconomic imbalances, where EMU has restrained the use of others. Indeed, prior to EMU, fiscal and monetary policy had played this role, along with wages. With a common currency and a fixed nominal exchange rate, monetary policy can no longer be used to manage imbalances among Eurozone members, and is a blunter instrument for managing individual economies activities with non-members than had been the national central banks that preceded it. Likewise, the role of fiscal policy in managing the economic cycle is well established, but heavily restrained under EMU, partly because an emphasis on budget discipline has placed restrictions on spending, but also because a lack of tax harmonization has led to tax competition among Eurozone members, which limits the use of taxes to manage the economic cycle (Glassner and Pochet 2011, 6).
All of this means that the brunt of adjustments fall upon wages and wage-setting systems (Dølvik 2000; Traxler 2002), not all of which are able to manage these pressures. Indeed, Magnusson and Stråth (2001) have argued that this necessitates flexibility in workers’ real wages, a significant determinant of which is the wage-setting system. What this implies is that wage-setting practices that are highly coordinated may well be compatible with EMU, although those that are highly rigid on wages are likely to struggle to adjust to macroeconomic shocks. This accords with early theorizing following Mundell (1961), as well as subsequent work by Hancké and Soskice (2003), Allsop and Vines (2008), and Zemanek, Belke, and Schnabl (2010), for example. Certainly, Magnusson and Stråth (2001) make this observation while considering the suitability of Norway and Sweden for euro adoption. However, the rigidity associated with automatic indexation systems, which use a measure of inflation as a hard floor for wage settlements come to mind. The wage-setting systems of Belgium, Luxembourg, and Cyprus, as well as Spain are calibrated in this way.

A related concern raised by Abraham and van Rompuy (1999) is that systems that set wages in a very uniform way across sectors, as Belgium’s does, will struggle with shocks affecting specific sectors differently, while others, such as Whittall (2007) have interpreted this need for flexibility in real wages as a need for greater differentiation in real wages, not just between sectors, but between firms in the same sector. A clear implication of this is that there should be pressure for greater decentralization of wage-setting to allow for greater variation in wage developments between sectors under EMU. Among scholars in this vein, there has been a debate over whether this necessarily implies a greater disorganization of coordinated systems, with firms opting out of multiemployer bargaining altogether, and those that see organized decentralization as a means of adding flexibility while preserving coordination. Among the former, Whittall (2005; 2007) certainly implies that pressures for decentralization are largely manifested in disorganization of coordinated systems, although Hassel and Rehder (2001), Thelen (2000), as well as Haipeter (2011) see derogations to firm-level bargainers in the context of opening clauses and looser sectoral agreements as a means of preserving coordination in the face of pressures from EMU, amongst other things. This
is related but distinct from the pressure noted by Johnston (2012), which entails a divergence in the outcomes of wage-bargains in different sectors, while this debate between Whittall (2005; 2007) and others turns on a decentralization of the mechanisms responsible for wage-setting itself, as well as greater differentiation within sectors, rather than just between them.

Perhaps just as interestingly, fiscal policy has in some cases played an important role in supporting wage policy. Brandl (2012, 488), for example, has noted that some forms of state-sponsored wage-coordination rely upon material inducements from the state, although he makes no mention of EMU, a point echoed by Vermeiren (2012), who compares the performance of healthy ‘coordinated’ systems with currently stricken ‘mixed’ ones in the context of EMU. Certainly, these authors have peripheral countries in mind, although this is not a phenomenon unique to them, as material inducements from the state have also played a role in Belgian collective agreements, and periodically in Dutch agreements as well. In any case, governments’ ability to promote coordination by way of material inducements is more restricted because of constraints on fiscal policy under the single currency.

A related pressure is suggested by Blanchard and Philippon (2006), as well as Traxler and Kittel (2002). Blanchard and Philippon (2006) argue that the quality of the relationship between unions and employers has an important impact upon macroeconomic performance. Indeed, they argue that conflictual industrial relations tend to cause higher unemployment in OECD countries, while Traxler and Kittel (2002, 1177) find that state-imposed coordination will be less effective in promoting economic performance as compared with voluntary arrangements. Likewise, this is partly behind Soskice’s (1990, 50) observation that trust between employees and employers is a crucial component of wage coordination, even if, as Traxler and Kittel (2002) note, this is difficult to observe and measure. Put another way, the macroeconomic gains that authors such as Hancké (2012) ascribe to strong social partners may be at risk in some coordinated systems where this increased pressure on wages manifests itself in more fractious wage negotiations. Furthermore, Traxler’s
(2002) point that state-imposed coordination is often less effective than the voluntary sort suggests unpleasant prospects for systems where this fractiousness necessitates a larger state role. In any event, this means that lost policy instruments and greater pressure on wages as an adjustment mechanism under EMU may either strain the vertical coordination of coordinated systems, or force them to adapt in the form of organized decentralization.

In brief, the academic literature suggests that EMU may exert pressures on systems of coordinated wage bargaining because of the shift to a Eurozone-wide monetary policy, and the loss of other policy instruments. In coordinated systems, these would be visible in the form of relaxed wage discipline, divergence in wage-developments between sectors, declining cost competitiveness, as well as decentralized bargaining and increased tensions between the social partners.

Section 3: The Belgian Context

This section is intended to give an overview of the Belgian wage-bargaining system. More specifically, it examines in turn the mechanisms that provide horizontal coordination and vertical coordination before focusing on the calibration of the system, as well as emerging critiques of it. The Belgian model is often characterized as being highly centralized and legalistic. Much of this view is informed by its use of a system of automatic indexation governing wage developments, whereby negotiations between the social partners take place in the space between a legally-mandated floor for wage increases tied to inflation and a ceiling tied to wage developments in three other European countries. That said, there remains an important role for the social partners in both the intra-associational agreements that promote horizontal coordination, and in ensuring broad coverage of collective agreements that helps provide vertical coordination, as well as in the setting of the wage norm. Throughout, where the state was a dominant actor in the wartime Belgian economy, this design cue was carried over into the post-War period (Cassiers and Denayer 2010), and the state has
come to play an important role in the horizontal and vertical coordination of the system, as well as in its calibration.

Horizontal coordination in the Belgian system is provided by an intra-associational agreement signed at national level by representatives of employers and the three major trade union confederations, which are non-binding, but highly influential for affiliates of these national confederations conducting separate negotiations at sector level. Likewise, since the 1970s, the state has periodically offered material inducements to the social partners to encourage wage discipline in collective agreements across sectors. For instance, in the 1970s, the state had introduced several measures to encourage older workers out of the labour market as a prod to the social partners (Cassiers and Denayer 2010), while it has not been uncommon for the state to offset employers’ social insurance contributions as an inducement as well (Interviewee 4 2013). This system of tripartite consultation between the state and the social partners was added in the 1930s as a response to the Depression (Cassiers and Solar 1990), and while it was ultimately ineffectual in the interwar years, combined with inflation indexing, formed the cornerstones of post-War Belgian wage-setting. That the index and wage norm guiding negotiations are set nationally and so strictly enforced also serves to tighten the horizontal coordination of the system.

Vertical coordination in the Belgian system is provided by a mix of linkages between the national social partners and their sector and firm-level affiliates, particularly on the union side, a significant role for the state, and large membership of employers’ associations. Wages in Belgium are decided in a three stage process of collective bargaining that emerged in the 1960s (Cassiers and Denayer 2010). In the first, employers and the three union confederations at national level agree upon a set of non-binding recommendations every two years in the form of an inter-professional agreement that is intended to guide more intensive negotiations at sector level. Negotiations at sector level then finalize the pay scales for employees covered by the agreement, but also negotiate the exact timing of wage increases, as well as crucial details around the application of the index. For
this reason, one trade union official notes that while wage dispersion between sectors and regions is low in Belgium, these differences in the application of the index mean that Belgian wage-setting is done by 63 distinct wage bargaining systems (Jonckheere 2013). The final details are settled at firm level. This distance between negotiators at national level and the application of the final agreement at firm level presents a number of challenges for the governability of the system.

Traditionally, information sharing and market research by the trade unions had played an important role in coordinating and guiding the negotiation strategies of the sectoral branches of the trade unions, although the linkages between them are increasingly less important for wage negotiations (van Gyes 2013). Just as importantly, however, the state has evolved a significant role in monitoring and enforcement of collective agreements, not just to ensure that collective agreements are followed, but also to ensure that the agreements themselves comply with the index and the wage norm. Indeed, one expert noted as a for instance, the extensive discussions between employers and FPS Employment, a government department, to ensure that benefits and job perks do not violate the national wage norm (van Gyes 2013).

The use of legal provisions to extend the coverage of sectoral agreements to companies who are not members of employers’ associations is very common in Belgium, playing an important role in the governability of its bargaining system. Indeed, they are so frequently used that following the negotiation of a new collective agreement, companies who are not members of the employers’ association, and hence not formally signatories of the collective agreement, apply the agreement immediately, in anticipation of extension laws being invoked (Vancerkerckhove and van Gyes 2012, 4). The implication of this is that collective agreements cover 89% of the workforce in Belgium, well above the European average of 65% (Vancerkerckhove and van Gyes 2012, 4).

All of this negotiation over wages at national, sector, and firm level takes place within the bounds set by an inflation index, which sets a floor for wage increases and a wage norm which is meant to set a ceiling. This is to say that the Belgian system is calibrated to inflation, which forms the
basis of the index, and then expected wage developments in three other European countries, which inform the wage norm. The connection between wage negotiations and both of these indicators is legally enshrined.

The use of an inflation index emerged following the First World War in the mining sector in response to rising costs of living, but where industrial wages lagged well behind those in Britain, the Netherlands, and France. It was then slowly extended to other sectors (Cassiers and Solar 1990). In the post-War Belgian system, while wage agreements are concluded by the social partners, they negotiate in the shadow of a measure of national inflation that sets a minimum level for wage developments. As Cassiers and Denayer (2010) have noted, several factors made this workable in the 1950s and 1960s. Firstly, where Britain struggled with unfavourable exchange rates, France with runaway inflation, and Germany with destroyed factories and infrastructure, productive assets in Belgium were left largely intact by the War, resulting in a short-lived ‘Belgian Miracle’ immediately following the War. Secondly, significant American investment, as well the transfer of technology and production processes made for productivity growth that more than outpaced the evolution of indexed wages (Cassiers and Denayer 2010). As one official noted, in the 1950s and 1960s productivity increases in Belgium were large enough that unit labour costs developed at a rate that kept the Belgian economy competitive with its closes trading partners in continental Europe, even with wage developments tied so closely to inflation (Interviewee 4 2013). Subsequently, however, with much lower productivity growth and much higher inflation in Belgium through the 1970s and 1980s, the competitiveness of the Belgian economy declined on the back of the rising unit labour costs that resulted, precipitating a devaluation of the Belgian franc in 1982 and a wage freeze for that year. Intermittent but worried discussions between government and the social partners around institutional change followed between 1983 and 1996.

Reforms during this period are notable for allowing the state to intervene in wage-setting, and the introduction of a ‘wage norm’ intended to contain wage growth by setting a ceiling for wage
increases negotiated by the social partners. They are also notable for what they did not include. Indeed, whereas in the Netherlands, where inflation correction had previously been an implicit part of wage agreements, and in Germany productivity growth serves as a guide for wage negotiations, and whereas an official close to the negotiations noted that this had been part of discussions between government and the social partners in the early 1990s (Interviewee 4 2013), this was left out of the final settlement. Then as now, some within the trade unions have feared that the inclusion of productivity in wage discussions would lead to labour saving moves by employers (Interview 10 2013). Others more sympathetic to discussions over productivity prefer to set in a broader context alongside innovation, education, and so on (Jonckheere 2013; Lamas 2013). Likewise, the introduction of an ‘inflation spring’ which would have allowed for the temporary suspension of the index to correct for inflationary wage developments was also rejected by one of the three trade union confederations (Interviewee 4 2013).

In any event, the ceiling that government introduced instead is set by projections of hourly wage growth in Germany, the Netherlands, and France, all close trading partners of Belgium, although neither state intervention nor the wage norm may push wage developments below the level stipulated by the index. Indeed, rather than use domestic productivity, the wage norm makes use of wage developments in these three countries because they were expected to be among the first to enter EMU, and because they were similarly developed economically (Interview 4 2013). This is an evolution of guidelines introduced in 1983 and revised in 1985 which had called for Belgian wage developments below that of 7 major trading partners, but which were exceeded during the 1989-92 economic boom (Cassiers and Denayer 2010).

Ironically, for not including Belgian productivity in their negotiations, but instead capping them based on wage developments in countries that do, Belgian wages are in part influenced by productivity developments in neighbouring countries instead. One observer notes with some consternation that relying upon developments in these three countries assumes that the evolution of
their productivity, and hence their unit labour costs, would be similar to that in Belgium, which has not been the case in practice (Interview 8 2013). In any event, these reforms are also notable, in that the Belgian state assumed a much more important role in the monitoring and enforcement of wage settlements at sector level as well (Vandekerckhove and van Gyes 2012: 7). Hence, wages in Belgium are negotiated by the social partners with a lower bound set by the inflation index, and an upper bound set by projected wage developments in France, the Netherlands, and Germany.

In the academic literature, the Belgian model has been heavily criticized for its rigidity and its struggle with competitiveness. Indeed, Abraham and van Rompuy (1999) are only two of many to argue that while the Belgian system in its current guise has kept labour costs on a steady trajectory, it is highly unresponsive to shocks affecting separate sectors of the economy differently. This, they argue, is because the level of uniformity in the wage settlements between sectors does not allow those affected to adapt accordingly, and should be a point of concern under EMU. Others, have noted that the high degree of uniformity in wage developments across the country make for a mismatch between the agreed wage developments, and diverse conditions in local labour markets. Indeed, beneath the highly uniform pay scales between them, there is a stark difference in the growth of productivity in Flanders and Wallonia (Interview 4 2013). That said, there is debate over the exact meaning of this, where it is in some cases seen as an efficiency problem, but in others characterized as interregional and inter-sectoral solidarity (Jonckheere 2013; Lamas 2013).

At the same time, while the firm floor set by the index has been credited with protecting domestic consumption through the crisis, it has also been accused of promoting wage inflation. Indeed, where in the 1950s and 1960s, productivity growth outpaced inflation and wage growth, since the 1970s, where much lower productivity growth has been the norm, setting past inflation as a hard floor for wage developments has tended to produce a wage handicap against Belgium’s closest trading partners and competitors (Interview 4 2013; Interview 8 2013; Interview 9 2013), who can more readily adjust their wages to new circumstances. Some observers have also noted that
having a wage increase commensurate with inflation automatically also puts additional pressure on union negotiators to deliver increases beyond this as a show of their utility to affiliates and members (Interview 8 2013). The resulting tendency for the Belgian system to overheat was very much on display in economic crises in the 1970s, the early 1980s, the early 1990s, and since about 2007 as well. In this respect, the contrast with the Dutch system, which is at once highly coordinated and highly flexible on wages, is particularly striking.

At the same time, the wage norm has not been the fix needed to address these chronic competitiveness problems in Belgium. Indeed, one government official notes that the 1996 reforms giving rise to the wage norm weren’t seen, even at the time, as a permanent solution (Interview 9 2013). This is because it can only correct for inflationary wage developments ex post, rather than ex ante, and can do this only slowly because the wage freeze that a violation of the norm would trigger cannot override the index. This is to say that a ‘wage freeze’ prevents wage increases beyond those stipulated by the index, but does not suspend the application of the index. Interestingly, where the model has found flexibility on labour costs, it has had the perverse effect that firms have been more apt to vary employment where they cannot adjust wages. As representatives of government and a Belgian employer have noted, this has accentuated insider-outsider divides in the labour market, where firms retain a core of protected workers, and an ever-varying number of contract and agency workers (Interview 8 2013; Interview 9 2013). Certainly, this insider-outsider divide is not uncommon in many continental labour markets, although it is more pronounced in Belgium as a result of wage rigidities.

With all of this said, in the context of EMU, one would not expect a significant relaxation of wage discipline, but rather similar wage developments to the period before euro adoption, with the social partners so constrained by the wage norm and the index. Likewise, being so centralized, one would expect the Belgian system to contain pressures for divergence between sectors as well, even if such a high level of centralization invites pressure to loosen the horizontal coordination of the system
in order to deal with asymmetric shocks. That said, however, the loss of an independent national monetary policy should be a point of concern under EMU, where devaluation has been leaned upon historically to redress competitiveness problems flowing from inflationary wage growth, and where adaptations to the system have failed to address its tendency to produce wage inflation.

In sum, wage negotiations in Belgium are calibrated to a floor set by inflation and a ceiling set by expected wage developments in France, the Netherlands, and Germany. Though often characterized as being highly centralized, negotiations at sector level are the most comprehensive, and while the index is calculated to account for national inflation, its application varies significantly across sectors, even if wage dispersion is low. Horizontal coordination is provided by a national agreement between the social partners, which is non-binding, but highly influential for subsequent negotiations at lower levels. Vertical coordination is the product of linkages between the national social partners and lower-level affiliates, as well as extensive state monitoring and enforcement, and judicious use of legal extensions. Throughout, the state plays an important role in guiding, overseeing, and enforcing wage agreements, and while the practice of wage coordination has continued, the system has been criticized for its rigidity and its tendency to overheat.

Section 4: The Belgian Model under EMU

In the context of EMU, wage coordination has remained common practice in Belgium. This section argues that there has been no notable explosion of unit labour costs as was the case in peripheral crisis countries, and that the Belgian system has resisted pressures for divergence between exposed and sheltered sectors, and for decentralization as well. Having said that, the calibration of the model puts it under extreme strain in the context of EMU in two respects: firstly, while it does keep the evolution of wages on a steady trajectory, the index and wage norm have struggled to keep the Belgian economy competitive with those of its neighbours and closest trading partners. While this is not a new development, instruments that had been used to offset the worst
effects of this are no longer available under EMU. Secondly, the decision to bind wage negotiations between a hard floor in the form of the index and a firm ceiling in the wage norm have had deleterious effects upon the social partnership under EMU, which is having negative feedback effects upon the vertical coordination of the Belgian system.

As van Gyes (2013) has noted, wage developments in Belgium have continued on a consistent trajectory under EMU. Likewise, contra the concerns of Abraham and van Rompuy (1999), who fretted that Belgian wages were too tightly coordinated across sectors, following Johnston and Hancké’s (2009) observation that EMU creates inflationary pressures in sheltered sectors, the low wage dispersion that has persisted in Belgium may well be a point in its favour. Johnston and Hancké (2009) also note that wage moderation had been the order of the day for the period to 2006, although the Belgian Central Bank takes 2007 as the beginning of an emerging wage handicap against the rest of the Eurozone (BNB 2012). In any event, Johnston and Hancké’s (2009: 615) point that after 1999, wages in sheltered and exposed sectors have only become more synced, rather than less, is well taken. This is a point echoed by interviewees (Dos Santos Costa 2013; van Gyes 2013), and all of this is to say that there is nothing inherently incompatible between EMU and the intra-associational agreements that Belgium uses to ensure horizontal coordination. Certainly, there is persistent pressure for decentralization in Belgium, although this is better framed in the context of Belgian regional divisions than pressure from the single currency (Dos Santos Costa 2013), and has not been acted upon in any event. Likewise, while there are discussions around institutional change in Belgium, these have explicitly ruled out the sorts of ‘opt outs’ favoured by the Commission (Interview 9 2013), i.e. they have focused on tweaking the organization of wage-setting rather than moving to disorganize it.

With all of that said, however, the calibration of the system is less complimentary with EMU because of the loss of instruments that had previously dealt with the symptoms of its tendency to overheat (Interview 4 2013). Indeed, as part of joining EMU, Belgium surrendered the use of
currency devaluation, and accepted constraints on fiscal policy as well. Both have been particularly acutely felt in Belgium, where currency devaluation had served as an important pressure release when indexed wages grew beyond those in neighbouring countries. This was very much the case in the economic crisis of the early 1980s. Certainly, Belgium adopted a peg to the deutschmark in 1990, and what followed the subsequent round of wage inflation was instead hurried discussions over institutional change, absent the ability to devalue. The wage norm that resulted can only deal with competitiveness problems ex post (Interview 4 2013), and more slowly than a currency devaluation because the resulting wage freezes cannot override wage increases mandated by the index. In other words, the reforms put in place in anticipation of EMU failed to deal with the model’s inbuilt tendency to overheat, while at the same time removing an effective means of cooling it. In this respect, Belgium compares unfavourably with the performance of the German and Dutch models, which are calibrated to productivity and inflation, but less tightly synced to the latter, and which can correct for inflationary wage settlements more quickly. Hence, the growing wage handicap in Belgium against these countries since 2007 (BNB 2012) is a source of much deeper concern from observers in government (Interview 4 2013; Interview 9 2013) and from an employer (Interview 8 2013) as well about the model’s chronic competitiveness problem in a much more challenging context, and where wages are relied upon to play a much more central role in protecting economic competitiveness.

Moreover, judicious use of those instruments that remain raises new challenges for the health of the social partnership, with knock-on effects upon the governability of the system. Indeed, in the context of EMU, tightly calibrating the system to inflation and then to the wage norm together raises new challenges for the social partnership that underpins it. As, as van Gyes (2013), amongst others, has noted, the range for wage settlements between the hard floor of the index and the ceiling set by the wage norm has gotten progressively smaller under EMU. This is because while inflation has remained largely stable in Belgium, wage moderation, particularly in Germany and the Netherlands under EMU has lowered the ceiling for wage negotiations (Interview 4 2013).
In this context, the index has become even more ‘automatic’ (van Gyes 2013), and the social partners have a progressively smaller role in deciding wage developments. In fact, the discussions of the sectoral social partners are hardly concerned with wages anymore (van Gyes 2013). With all of this in mind, one official with a national trade union confederation, though disagreeing strongly with making changes to the index, raised similar concerns about a growing lack of negotiation over wages, with a worrying twist (Interview 10 2013). Indeed, they noted that where a growing proportion of wage increases are credited to the index and not to negotiations, questions within the trade union movement were being raised about the confederations’ value to their affiliates, and ultimately to the workers that they represent (Interview 10 2013). They cast this issue as one that is undermining the linkages between the different levels of the trade unions (Interview 10 2013). Where these links between levels in the trade union movement have played an important role in the vertical coordination of the system, this could ultimately threaten its governability.

Certainly, while one observer cites concerns in government circles about the linkages between negotiators at different levels that go back to the early 1990s (Interview 4 2013), all of this chimes with van Gyes’ (2013) observation that there is a growing disconnect between the national and sectoral branches of the trade unions. Specifically, for the national confederations, wage moderation is an increasingly hard sell to sectoral affiliates, particularly in the service sector (van Gyes 2013). For negotiators at sector level, these tight restrictions on their talks over wages mean that they are very apt to rely on more simplistic bargaining strategies over wages, where negotiators will refer to company profits and other figures fed to them from firm-level union officials, but are far less apt to rely upon extensive economic research or broader economic forecasts (van Gyes 2013). In this respect, the contrast with Dutch negotiations, in which linkages between union negotiators at different levels have only become tighter, for instance couldn’t be starker.

Interestingly, while negotiations over wages at sector level have become more restricted, the focus of these negotiations has become broader. That is to say that negotiators have
increasingly come to haggle over other issues, such as benefits, retirement, training, and the like where there is more space to bargain (Dos Santos Costa 2013; Interview 8 2013; Interview 9 2013; van Gyes 2013), attempting to find needed flexibility on these issues where they could find none on wages. By one account, this strategy has channelled some of the best creative impulses of the sectoral social partners, where agreements over perks and benefits are often cleverly trimmed, tailored, and targeted to avoid them counting against the wage norm (van Gyes 2013). Nonetheless, for the unions this makes the discussions increasingly opaque and technical (Lamas 2013) at a point in time where their ability to connect with affiliates and members is increasingly being challenged (Interview 10 2013).

By contrast, for employers, while negotiating over non-wage issues does offer some flexibility, they nonetheless still add labour costs in the context of a model that struggles with wage inflation in the first place (Interview 8 2013). Likewise, one observer notes that as a response to rigidity over wages levels, employers have been more apt to find flexibility in their total wage bills, specifically by relying more heavily upon dismissals as a response to economic shocks (Interview 8 2013). For both employers and unions, broadening the scope of collective bargaining also means that government must be included more prominently in negotiations, where talks over benefits increasingly touch upon issues where there is a well-developed state role (Lamas 2013), which compounds the problem of the social partners’ shrinking role.

At the same time as the role of the social partners in wage setting has shrunk, in the context of more the delicate negotiations that result and intensified competition under EMU, the relationship between them has become tenser in sector-level negotiations (Interview 8 2013), and more mistrustful at national level (Interview 10 2013). Recalling Blanchard and Philippon’s (2006) point about the connection between quality of labour relations and unemployment this is a worrying development. As one trade union official notes, with a hard floor for wage settlements, employers have fewer incentives to complete an agreement, where failed negotiations may trigger a
government-imposed wage freeze, while for the unions, the prospect of very limited gain from negotiations is making the process increasingly unappealing to them as well (Lamas 2013). However, what is particularly striking, and indeed troubling, is that for union negotiators, while there is indeed very little room for them to negotiate over wages, it is unlikely that wage settlements that would come from much more intense negotiation would be much better than those mandated by the index anyway (van Gyes 2013), which limits their sense of urgency surrounding institutional change in the Belgian system.

Throughout, where the index limits the social partners’ ability to control wage drift, under EMU the state is now more apt to play a direct role in correcting for it, to the detriment to the social partnership. Indeed, absent currency devaluation, where constraints on fiscal policy limit its ability to provide material inducements to the social partners in exchange for wage restraint, combined with a hard floor and ceiling for wage developments, the state is obliged to intervene more directly in the form of an imposed wage freeze. At the same time, the narrowing gap between the index and the wage norm, as well as neighbouring countries habit of responding to economic shocks with wage moderation make a wage freeze much more likely. More to the point, these sorts of interventions are not only a source of resentment and tension with the unions (Interview 4 2013; Interview 9 2013; Interview 10 2013). Indeed, where wage freezes in the Netherlands, for instance, are a negotiated affair between the social partners, though often at the behest of the state, Belgian wage freezes are the result of failed negotiations or violation of the wage norm, and suspend wage negotiations between the social partners altogether. Nor is this a purely hypothetical concern, where the growing wage handicap in Belgium from 2007 and sharp wage moderation in Germany and the Netherlands resulted in a wage freeze in Belgium for the 2011-12 and 2013-14 bargaining rounds: with the suspension of wage bargaining throughout this period and possibly beyond, concerns have been raised about the social partnership slowly beginning to atrophy (Interview 8 2013; Interview 9 2013). As a result, the system is increasingly coming to resemble the troubled state-dominated systems that are frowned upon in the literature on the Eurozone crisis.
What all of this means is that while EMU has left the elements of the Belgian system that ensure horizontal coordination intact, the conditions that it has brought about pose serious challenges for competitiveness and the governability of the system. This is to say that the calibration of the system to inflation, and then to French, German, and Dutch wage developments under EMU is slowly squeezing out the role of the social partnership in favour of a larger state role, and having deleterious effects upon the social partners themselves. Put another way, where the social partners are meant to play a crucial role in the system’s governability, with linkages between levels of union negotiators decaying, the ties between the social partners at every level stressed, and the state increasingly stepping in in their place, the calibration of the Belgian system under EMU is having feedback effects that are severely straining the vertical coordination of Belgian wage setting.

Section 5: Conclusion and Implications

In conclusion, while existing work on horizontal and vertical coordination captures well many crucial facets of coordinated wage bargaining, calibration has been an underappreciated feature of coordinated systems, and despite significant challenges that this would entail, a recalibration of the Belgian system is necessary for its long-term viability under EMU, with important implications for similarly calibrated systems. Having said that, there is much about the Belgian system that, defying some expectations, have fared well under EMU, and while the growing role of the state at the expense of the social partners is a concern, Belgium’s experience nonetheless suggests that greater nuance is needed in examining the role of the state in coordinated wage bargaining.

Calibration, or the indicators that guide negotiations in coordinated systems, is a design feature largely overlooked in the literature on wage coordination, but is a central feature of the Belgian system, and a crucial part of its experience under Economic and Monetary Union. Indeed, it is evident that in the context of EMU, where there are fewer instruments available for redressing the
competitiveness problems that frequently hobble the Belgian system, and where the role of the social partners is being squeezed, serious consideration should be given to a recalibration of the Belgian wage bargaining model. Certainly, there is much resistance to this domestically, which in no small part explains why indexation was retained through previous crises in the early 1980s and early 1990s. There are also well-founded concerns that reopening the system to adjust some of its core features at a point in time where it is the subject of much outside pressure, as from the Commission, for instance, may subject the process to unwanted influence from outside Belgium (Interview 9 2013). That said, there are similarly well-founded concerns being articulated by policymakers in Belgium that a failure to arrest the competitiveness problems and the declining role of the social partnership in the shorter term may make more drastic changes and greater outside influence inevitable in the longer term (Interview 4 2013; Interview 8 2013; Interview 9 2013).

A thorough discussion of reform proposals, though there are many, for the Belgian wage bargaining system is beyond the scope of this paper. However, what this examination of the Belgian experience suggests is that any recalibration of the Belgian system must allow greater space for the social partners to decide the course of wage developments, and in turn to preserve the vertical coordination of the system. Put more bluntly, the social partners must be allowed to be social partners. This would meet concerns by government and employers about flexibility in wages. Interestingly, however, in playing a large role in negotiating wage settlements, unions would be accepting greater uncertainty over the settlements, but give them much greater certainty over their role in negotiating them. This larger and more conspicuous role in negotiating would also go some distance towards improving the union confederations’ credibility with their affiliates and members, and make for a healthier trade union movement.

From all of this, it follows that subsequent theoretical work must be more sensitive to systems’ calibration. The literature must account for the features that wage bargaining systems prioritize, and which guide the interactions of those negotiating wages. It also follows that
considering the Belgian experience, greater attention should be given to the state of wage-bargaining systems in other Eurozone countries that are similarly coordinated. Indeed, while an inflation index is a less common tool for calibrating wage bargaining systems, the Belgian experience suggests that the calibration of the wage-setting systems in Luxembourg, Malta, and Cyprus, who also use a form of inflation indexing should also be a point of concern for these countries. It should also be a point of concern in those countries currently reconsidering key features of their wage-bargaining models, as in Spain, for instance, where inflation correction had been an implicit part of collective agreements, much as it had been in Belgium prior to the practice being enshrined in law, and in the Netherlands prior to 1982.

At the same time, the Belgian experience also suggests much about the model that is appropriately suited to conditions under EMU. Indeed, Belgium’s experience suggests is that there is very little about highly coordinated and very centralized systems that is necessarily incompatible with tight Eurozone-wide monetary policy or stronger competition under EMU. Indeed, contrary to some expectations, the pressures exerted upon the system by its new environment have not increased the role of firm-level bargaining, and the close correlation between developments in different sectors has been maintained. Put another way, the horizontal coordination of the Belgian system provided by its use of intra-associational bargaining has fared well under the single currency. What this suggests is that external pressures to decentralize wage bargaining to firm level, and to break cross-sectoral links are misguided.

Likewise, the Belgian experience suggests that rather more nuance is needed in the way the role of the state is treated. Indeed, the growing state role in settling wage developments is certainly a point of concern. That said, several reform proposals that consider changes to the index, and which would allow the social partners more room to negotiate suggest that there may be room for a state role in calibrating systems of wage-bargaining, even if, as it currently exists, this is slowly undermining the process. Furthermore, the role of the state in Belgian wage-setting goes well
beyond the legal basis for the index and the wage norm. Indeed, there is a very heavy state role in monitoring and enforcing Belgian collective agreements, and in the parallel process of the sectoral social dialogue as well (Interview 9 2013). Put another way, the relevant ministry in Belgium, FPS Employment, looms much larger in this part of the wage-setting process than does its counterpart in the Netherlands. Nonetheless, this part of its role was not raised as a point of concern in interviews with representatives of the social partners or in the relevant literature. What this suggests for Belgium, and indeed for those countries currently refashioning their wage-setting systems, is that this form of state support may be a useful instrument in supporting the coordination of wage-setting.

In closing, while emerging literature is placing wage-setting practices at the centre of the Eurozone’s economic crisis, there is much work to be done in dissecting further those systems that have successfully managed the transition to EMU. Existing work has done well to characterize some of the instruments used to manage wage-setting in this way, with the notable neglect of calibration. Further comparative study is needed to examine the underpinnings of other countries’ transition, and to help establish what sets of institutions are particularly well suited to stable existence under the single currency.

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