International Journal of Labour Research
2014
Vol. 6
Issue 1

Labour markets, wage dispersion and union policies

Hansjörg Herr
Professor for Supranational Integration,
Berlin School of Economics and Law

Bea Ruoff
Research fellow, Berlin School of Economics and Law

Carlos Salas
Centre for Labour Economics and Union Studies (CESIT),
University of Campinas, Brazil

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Introduction

The change towards a more unequal distribution of income and wealth has been one of the key features of economic development in most countries of the world during the last decades. This not only undermines justice and endangers social coherence, but has also become a limiting factor for growth and employment. Higher income inequality and wealth distribution lead to a lower propensity to consume and to insufficient demand, because the rich consume less out of their income than the poor. Furthermore, investment makes no sense when demand is insufficient. Credit-driven consumption demand or pushing for higher exports to increase export surpluses are not beneficial for the world economy and can lead to financial crises and long periods of low growth. Thus, the reduction of income inequality is central to social and economic development.

The market income distribution of households depends on the functional income distribution between wages and profits and, given this distribution, on the structure of the flow of profits and wages to households. Disposable income distribution reflects the situation after government's redistribution policies. Table 1 shows that in the OECD between the mid-1980s and the late 2000s, the Gini coefficient increased substantially for disposable and even more for market income. In many countries in the rest of the world similar developments can be found.

We see the main reasons for these changes in the "neoliberal revolution" (Harvey, 2005, p. 29) in the 1970s and 1980s, which led to structural changes in the capitalist system. As part of this political project, national and international financial markets and labour markets were deregulated. Financialization as well as rent-seeking by financial institutions and corporations in general have led to increasing profit shares. As most profits in the form of interest, dividends, and so on. flow to a relatively small number of persons, a higher profit share increases inequality. If bonus payments to management are considered as part of profits, then profit shares have increased even more (Dünhaupt, 2013). However, changes in wage dispersion also play an important role in income distribution simply because in most countries wages make up 60 to 70 per cent of total income. This means that even small changes in wage dispersion can have devastating effects on the distribution of disposable income.

Table 1. Evolution of the Gini coefficient in OECD countries, OECD average

	Market income		Disposable income	
	Total population	Working population (18–65)	Total population	Working population (18–65)
Mid-1980s	0.412	0.376	0.294	0.290
Late 2000s	0.463	0.419	0.314	0.315
Percentage change	0.051	0.043	0.020	0.025

Source: OECD (2012).

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The OECD has calculated that between the mid-1980s and mid-2000s, over 70 per cent of changes in disposable income distribution was caused by increasing wage dispersion in member countries (OECD, 2011, p. 240).[1] In some countries a low-wage sector developed alongside a very high-wage one. In other countries, the lower part of the wage structure did not change much but the sector with high wages exploded. And there are also cases where wage dispersion changed hardly at all or even decreased. The OECD summarizes this as follows (ibid., p. 88):

> Overall, using available time-series data, wage dispersion increased in a majority (16 out of 23) of OECD countries over this period, at a 5% level of significance. Only two countries (France and Spain) registered a moderate and statistically significant decline in wage inequality, whereas no significant trend was estimated for the other five countries (Korea, Belgium, Finland, Japan and Ireland).

In most countries "the distance between the highest 10% earners and those in the middle has been growing faster than the distance between the middle and the lowest wage earners" (ibid., p. 86). The divergences between countries underscore that it is difficult to attribute increases in inequality to transnational factors such as technological development or globalization.

Looking at the gender wage gap, which is illustrated here by the differential between gross hourly wages of men and women, we see that in the OECD countries the median wages of women were 17.6 per cent lower than the median wages of men in 2008. The Republic of Korea has the highest gender wage gap among OECD countries (more than 35 per cent), followed by Japan and Germany. New Zealand and Belgium, with less than 10 per cent, have the lowest wage gap. Generally, the gender pay gap for part-time jobs (widely held by women) and older workers is larger than for full-time jobs and younger workers (Eurostat, 2013). The varying paths of the gender gap demonstrate again that other factors are at work when it comes to inequality trends.

This paper will focus on market-based wage dispersion. The Keynesian paradigm is used to explain why there is a global rise in wage dispersion.[2] In contrast to neoclassical explanations, Keynesians stress that this is taking place because of institutional changes rather than skill-biased technological

1. The OECD includes in its analysis Australia, Canada, Finland, Germany, Israel, Netherlands, Norway, Sweden, Switzerland, United Kingdom and United States.

2. When we speak about the Keynesian paradigm it should be clear that different Keynesian schools exist. Our argument is based on Keynes' original work (especially Keynes, 1930 and 1936), as well as the post-Keynesian model developed in this tradition. This model is fundamentally different from the Neoclassical Synthesis (the Keynesian model dominating economic thinking after the Second World War) and New-Keynesianism (which is now the dominant Keynesian school in mainstream thinking); see Heine and Herr (2013) for an overview.

change. In our view, the neoclassical approach has fundamental methodological and empirical problems when it tries to explain changes in wage dispersion. These problems are discussed in the following section. In the section after that, an analysis is provided of the development of wage dispersion over the last decades. Before summarizing the main developments, the strategies unions should follow to reduce wage dispersion are discussed.[3]

Wages, wage dispersion and employment

A theoretical explanation

The nucleus of Keynesian thinking is found in the separation of the theory of distribution from the theory of the level of output and employment. This is in sharp contrast to neoclassical thinking. In the neoclassical paradigm, the theory of distribution and the determination of output and employment are identical. Output and employment depend solely on supply-side conditions. The free play of markets leads to a structure of relative prices, including wages, which guarantees optimal allocation including full employment. In the Keynesian paradigm, the level of production and employment depends on aggregate demand, which is made up of investment demand, consumption demand, government demand and net external demand. Employment depends on the level of output and existing productivity. A percentage change in employment is the result of the percentage change in output minus the percentage change of productivity. Additional demand cannot increase output only in the exceptional case of full capacity utilization.

The wage bargaining system and its institutional embeddedness are the most important factors determining the wage structure. Keynes argued that the relative power of different fractions of the working class is of key importance for wage dispersion (Keynes, 1936). If a part of the working class organized in unions is able to push for relatively high wages while other unorganized segments cannot do so, wage dispersion can be high. Many dimensions of the wage bargaining system influence the wage structure: the level of negotiations, the degree of coordination of the wage bargaining process, extension mechanisms, statutory minimum wages, and so on.

Wage dispersion is a key factor in determining relative prices and the structure of production and consumption. For instance, if we assume that the wage structure is compressed from below, a first-round effect will be that all labour-intensive production will increase in price. It becomes more costly to employ domestic workers or to have one's hair cut. The living standard of the middle class will be affected negatively to some extent by the increase of wages in the low-wage sector, whereas the living standard of the workers

3. For a more detailed version of this paper, see Herr and Ruoff (2014).

earning low wages will increase. Also, a reduction in the gender pay gap can be expected, as usually more women than men are working in the low-wage sector. There are also second-round effects, as the output of the low-wage sector is an input for other sectors. Different industries are affected differently and will thus differ in how they change prices. The system of relative prices is therefore thrown topsy-turvy. The changes can become even more complicated as firms, confronted with a different set of relative prices, may change to a different production technique. Indeed, relative prices and the structure of consumption and production depend not only on wage dispersion, but also on other factors such as available technologies, households' preferences, functional income distribution, the integration of a country into the world market and government policies via taxes and subsidies.

Of course, market forces can create scarcities in some segments of the labour market, and unemployment in others. This is part of structural change and economic development. But how this is reflected in relative wage developments depends on institutional factors, the relative power of the different groups in the labour market and government policies and not simply on (marginal) productivities (see for example Levy and Temin, 2010). Skilled workers usually earn more than unskilled workers, but this for the most part reflects conventions. It is impossible to decide once and for all whether a skilled worker should earn two or three times the wage of an unskilled worker. And in many cases, unskilled workers earn more than skilled workers. For example, nurses in Germany earn less than drivers of pallet transporters (Gehaltsvergleich, 2013). The gender wage gap is based on conventions and institutional factors and cannot be explained by simply referring to marginal productivity. Additionally, wage dispersion has to do with conceptions of social justice and fairness. The neoclassical model tries to explain wage dispersion by defining specific marginal productivities of workers. We think this approach is bound to fail, as marginal productivities cannot even be measured in any meaningful sense.[4]

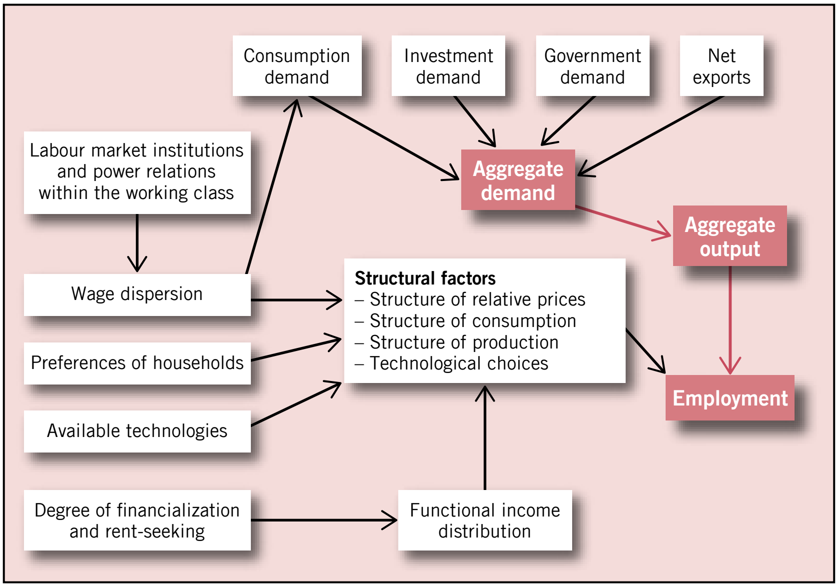
Wage dispersion and employment

The independence of distribution, level of production, and employment allows the conclusion that there is no clear-cut relationship between wage dispersion, gross domestic product (GDP) growth and employment. There can be countries with low and high wage dispersion having high GDP growth and high employment; there can be countries with high and low

4. The measurement of marginal productivities depends on the estimation of production functions. Aside from critiques derived from the Cambridge Controversy, econometric estimates of production functions are just a play on algebraic identities, with no real economic content (Felipe and McCombie, 2013).

wage dispersion having low GDP growth and low employment. This theoretical openness should be no surprise, as wage dispersion is only one element explaining the structure of prices and the overall economic makeup of a country, which also depends on aggregate demand. However, high wage dispersion as one of the most important factors for personal income distribution can become an obstacle to prosperous economic development. A wage dispersion that is too high will very likely lead to high personal income inequality. This in turn will reduce consumption demand, which accounts for a sizeable share of total demand. Consumption demand depends, among other factors, on income distribution. An unequal income distribution will sooner or later lead to a lack of aggregate demand as consumption demand becomes insufficient. Higher income groups no doubt consume more than lower income groups in absolute terms, but higher income groups have a lower propensity to consume out of income than lower income groups. This well-known Keynesian argument (Keynes, 1936, Book III) implies that a more equal income distribution increases aggregate demand and in this way output and employment. Figure 1 summarizes the Keynesian approach. The key argument is that aggregate demand determines output. Between output and employment there is a positive relationship, which, however, is not one to one.[5] It depends on technological developments, but also on the structure of production. For example, a certain value of demand

Figure 1. The structure of wages, prices, output and employment in the Keynesian paradigm



5. For example, an increase in output of 5 per cent increases employment by 2 per cent when labour productivity increases by 3 per cent.

creates more employment if more labour-intensive products are consumed and produced. As the structure of relative prices influences the structure of demand and production, it also influences the relationship between output and employment. As the wage structure influences (among many other factors) relative prices, it also influences the relation between output and employment. Whatever the structure of relative prices, sufficient demand can create full employment.

High inequality very likely prevents sustainable economic development because it creates a structural lack of demand. For unions and some politicians this should be good news, as it means that wage dispersion can be changed radically without negative employment effects. A compressed wage structure in a situation of high inequality not only leads to a more equal society, but is also a feature of an economic regime with sufficient aggregate demand and economic dynamic.

The way to higher wage dispersion

Uncontrolled globalization of trade and capital

World trade (exports plus imports of goods and services) as a percentage of world GDP increased from around 24 per cent at the end of the 1960s to over 50 per cent in the early 2010s (Trading Economics, 2013). New players substantially changed the pattern of the international distribution of labour. China, India and many other countries integrated quickly into the world market. The World Trade Organization (WTO), driven by a radical free market agenda, pushed for trade deregulation in an ideological paradigm that saw only the positive effects of free trade.

It is a common belief these days that the national wage level and the national wage structure are important for the competitiveness of a country.[6] Obviously, it is possible to speak about the competitiveness of a firm or the international competitiveness of an industry. In contrast, to follow Krugman (1994, p. 41), the international competitiveness of a country is a "meaningless concept". In fact, all countries are "competitive" if the right exchange rate is chosen. We have known since the days of David Ricardo that without net capital flows the current account of a country must be balanced and that the structure of relative prices determines the comparative cost advantages between countries, whereas the latter determine the structure of trade. Thus a given wage dispersion leads to a certain structure of prices and a certain structure of international trade and creates certain comparative

6. It is assumed that countries have their own currencies. For regions with a currency union, different economic processes apply. Thus, for example, the analysis cannot be applied to countries in the European Monetary Union.

advantages. And even the complete absence of a low-wage sector or the most luxurious welfare state is compatible with a balanced current account.[7]

The stock of global foreign investment assets increased from US$10 trillion in 1990 to $96 trillion in 2010. In comparison, United States nominal GDP in 2010 was around US$14.66 trillion. Of the 96 trillion, 31 trillion were non-securitized loans, 21 trillion debt securities, 14 trillion equity securities, 21 trillion foreign direct investment and 9 trillion official international reserves (Roxburgh, Lund and Pietrowski, 2011, p. 31). International capital flows are very volatile and create huge shocks for international trade via exchange rate movements and unsustainable current account imbalances.

A sudden and profound change in the international division of labour is a problem for all economies. Such changes will come as a shock to some industries but not to others. Industries can lose international competitiveness overnight when exchange rates move quickly or world market crises happen. In such industries firms struggle for survival and push for lower wage increases or wage cuts. It is not very likely that unions in these industries will make the same wage demands as unions in the public sector or in industries that are not affected by the world market. In contrast, when an industry slowly disappears and workers and capital slowly move to other industries and the government supports the structural change via subsidies and mobility support, a completely different scenario takes place, as for example the reduction in coal production in Germany in the 1950s and 1960s. Also, world market crises can push export-dependent industries into deep crisis. The "Great Recession", for example, led to a deep crisis for export industries through a reduction of world exports in many countries.

The offshoring of certain tasks in the value chain, or even of production as a whole, can take different forms (Feenstra and Hanson, 1996). It can

7. Let us make an abstract example with two countries. We assume the US textile and shoe industry loses competitiveness because China enters the market and produces these goods more cheaply, measured in US dollars, than the United States. US consumers now start buying Chinese shoes. Given no capital flows, the only possibility for US consumers to get Chinese renminbi to buy shoes and textiles is for US companies to sell more US goods in China or for the United States to import fewer other goods from China. In the situation assumed, the value of the US dollar falls and the value of the renminbi increases until the Chinese start to buy US products, let us say airplanes, or US citizens buy fewer Chinese goods, let us say cheap cameras. Now more airplanes are exchanged against textiles and shoes, whereas US citizens are buying fewer Chinese cameras. Let us now assume, under the same conditions, that the United States increases minimum wages in a radical way and the low-wage sector disappears. As a result, Chinese tourists may not travel to the United States any longer as burgers, accommodation and transport have increased in prices. In this case, demand for the US dollar will decrease. The weaker dollar may again increase the Chinese demand for US airplanes and reduce the demand for Chinese cameras. In the same way, the introduction of a luxurious welfare state would change the structure of trade without pushing the United States into a current account deficit. Of course, complications can arise. For example, structural adjustment costs are possible or the depreciation of the US dollar may increase the inflation rate in the United States. This, however, does not invalidate the theoretical argument.

mean buying an input or task in the international goods market or using an independent foreign firm probably working only for the offshoring company. In the most comprehensive type of offshoring, tasks or whole production lines are shifted to a joint venture or a subsidiary abroad. In the latter case foreign direct investment plays a role, and indeed has exploded during the past 15 years. Blinder (2006) asks whether offshoring is the next industrial revolution. Offshoring gives management a very powerful tool with which to threaten trade unions. There is a fundamental asymmetry: many companies can go global, whereas unions in almost all cases are organized at a national level. There is the danger that offshoring leads to an international "race to the bottom" (Stiglitz, 2012) with increases in the incidence of low-wage sectors and the erosion of working conditions. As unions in different companies can face different degrees of competitive pressure, it becomes likely that wage dispersion increases and there is no coherent wage development in the countries affected.

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Shareholder value

A major transmission mechanism of financial power and its inherent "logic" to the corporate sector is the shareholder value approach. Corporate management frameworks based on shareholder value are supposed to provide an above-average return on shareholders' investments. Compensation schemes in this high-wage sector were based on the ideology that money is the best motivator to bring about social returns as well (Stiglitz, 2012). In order to create an optimal incentive structure, management is rewarded partly by share options and bonus payments based on profits. The shareholder value system substituted the stakeholder corporate governance system. In the stakeholder system, management searched for a compromise between the different stakeholders in a company, especially the unions, the owners, the creditors and the local community. Management was controlled by all stakeholders and could not increase salaries beyond the normal increase of incomes. Such a system existed not only in corporatist continental European countries but also in the United States (see Galbraith, 1967). The new finance-driven corporate governance system is a declaration of war against unions, because it is based on a strategy oriented towards a short-term maximization of profits, which entails risk-taking, higher dividend payments and a lower equity base as well as a lack of long-term investment and job creation (see Hein, 2012).

On the one hand, the shareholder value system has led to obscenely high salaries for top management, middle management and financial intermediaries, and, on the other hand, management has used all strategies available to reduce wages for skilled and unskilled workers, including offshoring and pushing for precarious jobs as flexibility buffers.

Union density, extension mechanisms and wage coordination

Between 1980 and the end of 2010 union density declined steadily, in European countries from 55 to 39.6 per cent and in OECD countries from 32.7 to 17.5 per cent. Among the countries losing more than half their union density in those 30 years were Australia, France, Republic of Korea, New Zealand, Portugal, Turkey, the United Kingdom and the United States (OECD, 2013). This took place because radical market deregulation policies created a hostile legal and ideological environment for unions. In the OECD countries, industries with traditionally high union density lost in importance relative to industries with traditionally low union density. Enterprises increasingly outsourced production to union-free companies, which led to an increase in precarious jobs.

Weaker unions lead to higher wage dispersion. The explanation for this is that unions almost always introduce an element of solidarity into wage bargaining processes and try to prevent a sector developing with very low wages and very high wages. In empirical analyses there is a general consensus that higher union density is correlated with relatively low wage dispersion (see Kierzenkowski and Koske, 2012).

A coordinated wage bargaining process is of key importance not only for a functional macroeconomic wage development but also for the prevention of unacceptable wage dispersion. Vertical coordination in an industry is key to overcoming the shortcomings of enterprise-based negotiations. Decentralized enterprise-based negotiations not only increase wage dispersion but may also create pressure for exaggerated wage increases, if in a given sector the wages in the most profitable firms are used as the benchmark for all wage increases in that sector. Soskice (1990, p. 48) speaks here of "a perversely coordinated system" leading to high wage increases. In a crisis situation, the microeconomic incentive to cut wages can lead, conversely, to general wage cuts and deflation.[8]

However, horizontal coordination among the different sectors is also needed. Where there is only vertical coordination, there is a tendency for sectoral productivity to be taken as one of the yardsticks for sectoral wage development. Consequently, wages rise in industries with high productivity gains but remain low in industries with no or low productivity. Or one sector with high profits, say the mining sector, pays very high wages whereas other sectors pay very low wages.

Looking at recent developments in the level and degree of coordination of wage bargaining, there is an unmistakable tendency towards bargaining at the enterprise level and less coordination (du Caju et al., 2008). In the United

8. The deflation in Japan can be explained along those lines (Herr and Kazandziska, 2010).

States, for example, while after the Second World War pattern bargaining dominated, today there is no wage coordination left (Levy and Temin, 2010).

There is potentially a large difference between union density and the coverage of workers by wage bargaining. In some countries there are labour market institutions that extend wage bargaining outcomes to more workers than those organized in unions. In France, for example, wage bargaining outcomes are through legislation almost automatically extended to all workers in an industry. In many OECD countries, the coverage of workers by wage bargaining has not declined as severely as union density (du Caju et al., 2008). In Europe, however, the Troika (European Union Commission, European Central Bank and International Monetary Fund) is now pushing crisis countries such as Greece, Italy, Portugal and Spain towards more enterprise-based wage negotiations and a radical reduction in extension mechanisms (see Blanchard, Jaumotte and Loungani, 2013).

To sum up, we have at one extreme enterprise-based wage negotiations which take productivity developments in the enterprise concerned as a guideline for wage development and where extension mechanisms do not exist; while at the other extreme we have a vertically and horizontally coordinated wage bargaining system at sectoral or even national level taking macroeconomic productivity as a guideline for wage development in all industries. In this system, extension mechanisms are widespread. Wage dispersion should be expected to be much higher in the first scenario than in the second.

Labour market policies and minimum wages

In many countries government policies have allowed precarious working conditions with low wages and have actively encouraged a low-wage sector (OECD, 1994). For example, in the OECD countries, policies to protect regular workers have not changed much, but protection of temporary workers has declined drastically in 11 of the 23 countries, where dual labour markets with precarious and usually badly paid jobs have been created. At the lower end of the wage scale, a key policy has been to keep minimum wages low. In Australia, Belgium, Czech Republic, Ireland, Netherlands, Poland, Spain and the United States minimum wages have declined in relation to median wages. Statutory minimum wage levels are particularly low in Canada, Japan and the United States, at around or below 40 per cent of the median wage (ibid., p. 101).

As soon as a less regulated sector develops in the labour market – for example for temporary workers – there is a high incentive to outsource production or certain tasks to this unregulated sector or to substitute irregular workers for regular ones. Moreover, certain jobs originally held by employees are offered to the self-employed. It is obvious that these developments lead to higher wage dispersion and more inequality in general. Regulatory arbitrage leads to an accelerating erosion of the regulated sector of the economy, as firms have an incentive and are driven by competition to use the deregulated sector of the economy to an ever-increasing extent.

Development of high-wage segments

Compensation for management in general and more specifically in the financial sector has shot up spectacularly since the 1970s via wage increases and bonus payments. Superstars in sports, cinema, television and fashion also earn incomes unimaginable 30 years ago, due in many cases to the new technologies of mass communication. The income of top managers and celebrities has most likely changed the perception of what constitutes a fair wage.

Policy recommendations

The following policy recommendations are linked to different levels of policy-making and also to their likelihood of being implemented in the foreseeable future. Even if some of them are unlikely to be implemented in the short run for political reasons, they are included here to show the severity of the problem and in the hope that they may sooner or later inspire activists and policy-makers.

Minimum wages

A statutory minimum wage can directly compress wage dispersion from below and is an effective instrument which *can* be used by governments. The best way to fix minimum wages is through negotiation at the national level by a tripartite body. A possible model is the Low Pay Commission (LPC) in the United Kingdom, composed of worker and employer representatives together with independent experts, where each group has one-third of the members in the commission. The LPC recommends a certain increase in minimum wages; however, the Government has the last word. The number of minimum wages in a country should be as small as possible to avoid ambiguities; adjustments should be made annually to appropriately reflect changes such as macroeconomic productivity developments or strategies to realize a certain relation between minimum wages and median or average wages. Furthermore, the minimum wage should not be automatically linked to pensions and social transfers to avoid budgetary constraints; a percentage of median or average wages seems to be a better anchor for determining the level of the minimum wage than reference to a basket of goods which can never be defined in a satisfactory way (Herr and Kazandziska, 2011). However, even the best designed institutions cannot help if unions and labour-friendly political parties do not mobilize for higher minimum wages and have no power to implement them or see that statutory minimum wages are enforced (Benassi, 2011).

In some countries minimum wage development in effect replaces macroeconomic wage coordination. The changes in statutory minimum wages give a signal for wage development in the whole economy. This can be functional in countries with very weak unions and if factors such as macroeconomic productivity developments and the inflation target serve as a guideline for the level of wage increases (see below). In some countries minimum wages are regionally differentiated even for specific occupations. As already mentioned, for countries with weak unions such a model can be useful, as it coordinates wage development with macroeconomic needs. But it does not support an egalitarian wage structure and does not give unions an important role in wage negotiations; for these reasons this model is not the best one. Statutory minimum wages should fix a wage floor for all and especially in sectors where unions are relatively weak. Wage negotations then should bargain wages above the minimum wage.

Brazil is a positive example of a minimum wage policy. Between 2004 and 2013, the minimum wage grew by 64 per cent in real terms. Its steady growth is the result, in part, of major negotiations between the Brazilian Government and the unions (Barbosa et al., 2012). Its impact goes beyond the income of workers, as many social policies have the minimum wage as a floor, for example pensions as well as unemployment and other welfare benefits. And as the minimum wage rises, so do the incomes of low-wage workers. As a result, the whole structure of labour income is affected.

Union density and wage bargaining systems

Increasing union density is obviously a good means of reducing wage dispersion. However, strong unions cannot be created in next to no time; they imply a certain social and political constellation in a country. Legislation can strengthen unions and especially the wage bargaining process.

Enterprise-based wage bargaining almost automatically leads to high wage dispersion within an industry and in the whole economy. This makes sectoral wage negotiations very desirable. However, if some sectors in a country are able to push for relatively higher wages than others, wage dispersion may also be high. A horizontal coordination of wage development is therefore important.[9] In a coordinated wage bargaining system,

9. Theoretically, pattern bargaining can work in a system with enterprise-based wage negotiations. In such a case the wage round starts in some large companies and the outcome of the bargaining has a signalling effect for the wage development in other companies (as traditionally in Japan or in the United States after the Second World War). Strong employers' organizations can also lead to a more equal wage development (see Soskice, 1990). But such mechanisms are imperfect and can easily become eroded in a context of crisis.

macroeconomic productivity development should play the central role in wage negotiations. A guideline must be medium-term productivity development to take out short-term fluctuations of statistically measured productivity by business-cycle effects. In addition, the inflation target of the country should be taken into account (Herr and Horn, 2012). Such a wage bargaining system increases the relative price of products with low productivity gains in relation to sectors with high productivity gains.

If union density is not sufficiently high and employers' associations are not widespread enough to guarantee an equal wage development in a specific sector, government regulation and action are needed to extend bargaining outcomes. An interesting case is that of Austria, where all enterprises are required to join employers' associations. In most countries with low wage dispersion and relatively low union density the government declares the outcome of wage negotiations to be binding for all firms in a sector. France is a positive example here, as it uses extension mechanisms almost automatically and has been able to reduce wage dispersion despite low union density and contrary to international trends. The disadvantage of extension mechanisms is that workers who are not organized in unions can become "freeriders". In some countries, for example in Africa, a negotiation fee below the union membership contribution is paid by non-unionized workers to strengthen the financial power of unions.

Offshoring, outsourcing and corporate governance

Outsourcing inside a country, and offshoring, strengthen capital and weaken workers. Offshoring is not bad in and of itself, and can – as international trade – increase the well-being of nations due to specialization and a deepening of the international division of labour. It can be beneficial even for workers in an outsourcing company if it helps to expand output in the mother company. What is needed is socially "managed" offshoring. This can be achieved by a stakeholder value approach giving unions influence on investment decisions, and by increasing the costs of offshoring through strict dismissal protection and other legal obstacles. Foreign companies taking over offshoring functions must respect decent working conditions. This could be achieved by supporting unions and labour legislation in the country where the production takes place and by control of suppliers on the part of the outsourcing company. Political mobilization for decent work together with the ILO, and international solidarity among unions, can support this.

Outsourcing within a country has to be prevented as soon as it is based on regulatory arbitrage. It can be reduced by a maximum possible coverage of workers by collective bargaining, and a horizontally coordinated bargaining process. Another possibility is to force companies taking over outsourced tasks to pay the same wages as in the company doing the outsourcing. There are also other means of diminishing the impact of outsourcing: under Brazilian labour law, for example, companies that outsource part of their activities to other companies maintain some responsibility for the labour rights of workers in subcontracted firms. This means that even service companies – contractors – must comply with Brazilian labour legislation (Tilly et al., 2013).

The abandonment of the prevailing shareholder value corporate governance system is needed for many reasons. An important one is to reduce wage dispersion and at the same time increase the quality of corporate governance. In a stakeholder system, management's strategy to push for a low-wage segment with precarious jobs is limited as soon as strong unions have influence on management decisions. Secondly, in a stakeholder system, management is controlled also by unions, and obscenely high salaries and bonus payments for management will not be able to prevail. Reintroducing stakeholder-driven corporate governance is thus needed to pave the way to a more egalitarian system.

Conclusion

Government policies are key to reducing wage dispersion. Several areas are important in this respect. First, governments should use statutory minimum wages to compress wages from below. Second, governments can implement extension mechanisms by declaring wage bargaining outcomes as binding for whole industries. Third, governments can regulate labour markets to fight against precarious jobs of all types. The shrinking of the deregulated sector is of key importance in reducing wage dispersion.[10] Cutting working time is also of importance in both developed and developing countries, giving priority to the reduction of working time for employees with standard contracts and a reduction in the number of part-time and precarious jobs. Fourth, governments can strengthen the power of unions in enterprises via codetermination rights. Fifth, governments can follow a macroeconomic policy that promotes full employment and reduces economic shocks. They can use their influence to push for a more stable global governance system. Women workers in particular will benefit from the measures discussed.

10. In recent years, Brazil had some success in reducing the deregulated sector by giving small enterprises incentives to formalize via tax exemptions, subsidies and access to formal credit which is cheaper than credit from moneylenders. An important incentive to reduce the informal sector is to allow workers and small entrepreneurs access to the formal social security system as soon as they become part of the formal sector. Last but not least is increasing government enforcement of the rule of law in order to reduce the informal sector (Baltar et al., 2010).

Policies aimed at reducing income inequality should also increase the wage share. In this area, the regulation of national and international financial markets is of vital importance, as well as the fight against rent-seeking; this involves creating competition between companies, standardizing financial products, leaving natural monopolies in public ownership, and so on. Governments can also play an important role in redistribution using the tax and transfer system and the provision of public goods.

But when all is said and done, wage dispersion depends also to a great extent on solidarity within the working class: unions need to fight for vertical and horizontal wage coordination and low wage dispersion. Not all fractions of the working class are automatically in favour of a compression of wage dispersion. But to overcome inequality this is necessary.

The reduction of wage dispersion does not destroy jobs. On the contrary, it increases consumption demand since lower income groups consume more out of their income than higher income groups. But to reduce wage dispersion is – despite its positive demand effects – not a job machine guaranteeing automatically higher employment. Policies to reduce wage dispersion are only one element in an overall policy for an inclusive society with full employment and an acceptable level of income inequality. An active demand management that includes investment demand and government demand is needed. Also, a coordinated wage bargaining system with low wage dispersion comes under pressure as soon as single companies or single economic sectors have to deal with economic shocks, which are usually caused by deep economic crises and sudden and substantial exchange rate movements. A well-functioning incomes policy should aim at securing low wage dispersion, a stable economy and full employment. To this end, comprehensive institutional and political reforms at many different levels are needed (see Dullien, Herr and Kellermann, 2011).

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