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“Concerted action”: Back to the Seventies!

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The government should not meddle with collective bargaining

This week, trade unions and business associations met in Berlin for a "Concerted Action" meeting convened by Chancellor Olaf Scholz. Further meetings are likely to follow. The aim is to reach agreement on how to prevent a price-wage spiral in view of high inflation.

This brings back memories of the original “Concerted Action” launched in 1967 after Ludwig Erhard's departure. Coordinated action between employers, unions, government and the Bundesbank was intended to ensure a high level of employment, stable prices and appropriate economic growth. Then, as now, it was not only the trade unions that feared for the autonomy of the collective bargaining process. The Concerted Action failed in the 1970s amid a series of wildcat strikes. The Alliance for Jobs, launched by the government of Gerhard Schröder in 1999, also failed to live up to lofty expectations.

Similar attempts have failed in the past

Old wine in a new bottle?

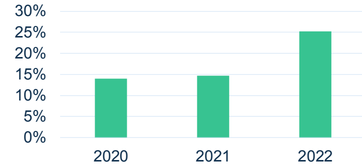
The acute danger of a price-wage spiral is glaringly obvious. The ECB has allowed inflation expectations to take off, real wage losses are higher than they have been in decades, and the labor market is running red hot.

Talking to each other is never wrong. If it were at least possible to reach a common understanding of the challenges ahead, then something would have been achieved already. But don’t get your hopes too high. Concerted Action 2.0 will probably also come to nothing.

The “Concerted Action” efforts will deliver only modest results – if any

All parties involved agree that the autonomy of collective bargaining should not be tampered with. However, this also means that even if agreement were reached at the central level on the path to be taken (which in itself is quite doubtful!), there simply exist no effective mechanisms to enforce this such a central agreement in the wage agreements negotiated at regional and industry levels.

It is likely to be even more difficult to make price moderation appeals stick at company level. Companies are affected too differently by the supply-side price shocks. Bespoke responses are required.



Source: IW Cologne

Any federal support should be targeted

As a sort of "lubricant" for wage restraint, politicians have brought an "inflation bonus" into play: a tax-free one-off payment to all employees. I would advise against this. In view of the great uncertainty and the risk of recession growing daily, one-time payments are in principle preferable to irreversible wage increases. That much is true. But the risk that the proposed tax incentives will fizzle out without effect is great. The bargaining parties will have to work out the best arrangements among themselves. The state has no role in private sector collective bargaining.

A tax-supported "inflation bonus" would be an unwise use of public funds

In addition, a tax-privileged bonus would not be socially targeted. Yours truly would benefit from it. But frankly, I will and should get by without that support. The unemployed, pensioners and students, on the other hand, would be left empty-handed.

If the government feels the urge to use scarce public funds, please do so in a socially balanced way. It would be better to make direct payments to those who suffer most from galloping energy price inflation. According to recent estimates the number of households suffering from "energy poverty" has risen sharply this year (see figure). With many of the utility hikes still coming up, this will only get worse. That's where help is needed.