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Use of Wage Policy for Pre-distribution

> Although it was not one of the so-called "structural reforms" of the government program, the changes to the Labor Code gained great prominence in 2015 and became a new focus for business mistrust after the tax reform. The logic of the original project was simple: give unions more power to negotiate, incentivize unionization and eliminate mechanisms attacking workers' rights. It assumed that stronger unions would result in better income distribution and, possibly, more social peace. (…) It is important to recognize that labor regulation is a public policy in which efficiency and productivity objectives easily collide with those of equity.
>
> (Valdéz 2018, 265–266)[1]

1.1 THE OUTCOME: USING WAGE POLICY AS A PRE-DISTRIBUTIVE INSTRUMENT

Distributive strategies are combinations of pre- and redistributive instruments. The term "distributive" is used instead of "redistributive" as it entails strategies for social expenditure after-tax transfers as well as pre-distributive instruments, as explained in the previous chapter. Among the latter, I analyze the use of wage policy, which regulates the distribution of benefits between labor and employers to produce goods and services. Specifically, while the literature on welfare states has convincingly

[1] Rodrigo Valdéz was Finance Secretary during the debate concerning the 2016 labor reform under the second Bachelet administration. He held office for 842 days. We had the opportunity to talk extensively about these issues of growth and distribution in a personal interview held in Santiago de Chile in September 2019, when neither Valdéz nor myself could possibly foresee the social protests that would unfold in Santiago only a few days later.

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demonstrated there is considerable variation in the use of redistributive instruments in advanced democracies (Esping-Andersen 1990; Huber and Stephens 2001) and even in Latin America (Castiglioni 2005; Filgueira and Filgueira 2002; Garay 2016), the analytical framework advanced here focuses on the variation in wage policy as an instrument for pre-distribution. Even Pribble's seminal work that compares Chile and Uruguay in terms of party politics in the building of welfare states in the post-dual-transition period does not analyze in depth the use of wage policy as a pre-distributive instrument, though it notes in passing such a reform in Uruguay by the Frente Amplio and refers to increases in the minimum wage in the two countries (2013, 80, 83, 88).

Over the past three decades, Latin America and Southern Europe have experienced a "new inclusionary turn." While there has been an expansion of recognition, access, and resources for popular sectors (Anria and Bogliaccini 2022; Kapiszewski et al. 2021), the exclusion of the lower classes remains the Achilles heel of the two regions' democracies (Benza and Kessler 2020; Ferrera 2005; Filgueira et al. 2012; Katrougalos and Lazaridis 2003). After the dual transition in both regions, leftist governments crafted distributive strategies that combined the use of instruments in the areas of pre-distribution and redistribution. The use of wage policy as a pre-distributive instrument is a particularly salient political issue as it may imply the empowerment of the labor movement.

Why is the use of wage policy as a pre-distributive instrument important? Wage policy refers to the legislation of government action undertaken to regulate the level or structure of wages. Prominent policies in this area in our three cases have varied on two important dimensions: the level of centralization of wage coordination, either within firms, groups of firms, industries or economic sectors, and whether wage coordination is mandatory or voluntary. There is a reasonable consensus in the economic literature that minimum-wage policies modestly alleviate poverty and improve family incomes at the bottom of the distribution while having little to no effect on employment levels.[2] However, there is much debate regarding the effects of mandatory wage-bargaining centralization on employment in the period since the turn away from

[2] See Dube (2019a) for a detailed account of the international evidence on how minimum wages affect employment, and Dube (2019b) for the effect of minimum wages on family incomes. See Rueda (2008) for an analysis of how minimum wage regulations affect the distribution of earnings indirectly by raising the wage floor indirectly.

Keynesian economics.[3] This debate affects politics and the political economy of distribution because, unlike other policy areas, wage policy tends to affect workers' and employers' political interests. Under certain circumstances, wage policy may even activate a class-oriented cleavage that reinforces class conflict. These two dimensions, wage-setting centralization and its mandatory character, are essential for understanding wage policy's potential effect on wage egalitarianism. The latter, however, only becomes relevant with the former's presence, as no wage regime imposes mandatory coordination rounds at the individual level.

This initial chapter characterizes the distributive strategies adopted in each of our three cases and emphasizes the diversity in the way wage-egalitarian-oriented policies have evolved. It discusses the political factors that shape the choice of wage policies, namely whether labor will overreach in pursuit of higher wages, which would jeopardize any leftist party's long-term office-seeking strategy. This question arises from the perceived economic tradeoff between job creation and wage egalitarianism and concerns regarding the macroeconomic perils of wage-led inflation and its effects on unemployment. The book reformulates this perceived tradeoff into a political dilemma about the political risks of empowering the labor movement to achieve acceptable levels of cooperation between employers and labor while maintaining macroeconomic stability at a time when Keynesianism was growing unpopular among leftist parties. The use of wage policy as a pre-distributive instrument is also influenced, then, by how the Left manages to overcome the ideational foundations of post-transitional austerity,[4] that is, on how the Left manages to perceive alternative legitimate economic and labor-related models and policies. This new element in the theory as proposed in the book's argument, termed an *anchoring bias*, is explained in the following section.

1.2 POLITICALLY CONSTRUCTED SEVERITIES AROUND THE EMPLOYMENT–WAGES TRADEOFF

In its original formulation, the employment–wages tradeoff is rooted in the new constraints that deindustrialization placed on governments in advanced political economies beginning in the 1970s. During the

[3] See Calmfors and Drifill (1988), Iversen (1999), and Rueda and Pontusson (2000) for a political economy-oriented debate on the topic in the advanced capitalist democracies.

[4] See Bremer and McDaniel (2019) and Bremer (2018) for a related argument focusing on social democratic parties in Europe.

industrial expansion period, encompassing the 1950s and 1960s, governments that pushed for wage egalitarianism did not confront major dilemmas in employment creation, as proposed by the Rehn–Meidner model (see Erixon 2010; Meidner 1974; Rehn 1985).[5]

The perceived tradeoff between employment and wages arose from the problem of stagflation. First noted during the late 1960s, stagflation denotes the concomitant increase in inflation and stagnation of economic output, causing both unemployment and prices to increase.[6] Thus, the proposed tradeoff is based on a postulated negative relation between wage egalitarianism and employment creation. This postulated negative relation, combined with external pressures for austerity, became part of the dominant political rhetoric in Latin America and Southern Europe, usually voiced by those influenced by the fiscal orthodoxy promoted by international financial institutions (IFIs) involved with the politics of structural adjustment. It later also became relevant for governments in Southern Europe during preparations for joining the Euro and again during the Sovereign Debt crisis beginning in 2008.[7]

What role does wage coordination centralization play in this employment–wage tradeoff? Calmfors and Driffill (1988) analyzed the relation between the structure of labor markets and the macroeconomic performance of advanced capitalist democracies and found that the worst employment outcomes occur in systems with an intermediate degree of wage centralization. The main factor behind this finding is, partly, political: the relationship between employment and wages depends on two forces: the market power of unions and the effect of wages on prices.[8] The authors observe that, on the one hand, "large and encompassing unions tend to recognize their market power and take into account both the inflationary and employment effects of wage increases" (Calmfors and Driffill 1988, 14). These unions are found primarily in highly centralized wage-setting systems because it is under such conditions that

[5] See Erixon (2010) for a complete and detailed account of the Rehn–Meidner model and its evolution in Sweden.

[6] See Mudge (2018) for an excellent account of the origin of the debate concerning stagflation in the United Kingdom in the 1970s.

[7] See Malamud and Schmitter (2011), Scharpf (1996), and Streeck (2012) for comprehensive perspectives on the effects of the integration into the European Community of the Southern European countries, and Baer and Leite (1992) and Royo (2010) for an analysis of the Portuguese case. See Bogliaccini (2013), Huber (2003), and Schneider (2013) for different perspectives on the effects of Washington Consensus policies on Latin America.

[8] See Calmfors and Driffill (1988) for a detailed explanation of the economic foundations of the proposed tradeoff.

workers find unionization most attractive. On the other hand, in entirely decentralized (voluntary) systems, unions have no market power and, therefore, wage-militancy and wage-led inflation are not an issue. Calmfors and Driffill argue that the tension between wages and employment occurs at intermediate levels of union centralization –such as sector or industry levels– because while unions can exert some market power, they can also ignore the macroeconomic implications of their actions. This argument suggests that union centralization, and not the relative bargaining strength of employers and unions, is what matters for understanding the potential tradeoff between wages and employment. As Calmfors (1987) explains, the critical aspect of centralization is that as unions centralize their interests and cooperate, they internalize conflict and set wages with the welfare implications of other unions in mind. By contrast, when unions bargain for wages independently, each union tends to maximize its own welfare, ignoring the potentially adverse (or positive) effects on other unions.[9]

While Calmfors and Driffill (1988) treat the relationship between job creation and wage egalitarianism as an actual tradeoff, I refer to it in this book as a "perceived" one. The proposition of a perceived tradeoff between employment creation and wage egalitarianism does not deny that an actual tradeoff might exist. At the extremes, if wages grow too much or wages remain persistently low, unemployment will go up.

Empowering labor may generate electoral opportunities and challenges for governments. While it can enhance the mobilization capacity of certain actors, it can also entail the risk that including subordinate groups will undercut the influence of constituted powers (Cameron 2021, 453). Even leftist parties in government should consider the risk that labor may radicalize or come to be seen as untrustworthy by the median voter, in which case an alliance with labor may obstruct a party's preferred office-seeking strategy. The idiosyncratic character of unions also influences leftist governments' wage policy decisions. This character is, in part, a consequence of past elite strategies in which labor inclusion was either empowered or subject to continuous repression. As Mares (2005) points out for the case of advanced capitalist democracies, among unions there are those that care about social policies and those that care only about salaries. While the former type may be willing to exercise wage restraint in exchange for welfare state expansion, the latter may exacerbate wage

[9] With Rosario Queirolo, we provide an analysis based on these premises of the evolution of wage bargaining rounds in Uruguay after 2005 (Bogliaccini and Queirolo 2017).

militancy, producing either profound internal conflicts inside a coalition or damaging an allied party's electoral opportunities.

Ultimately, the perceived tradeoff is a binding constraint for leftist parties and governments, a politically constructed challenge they confront. However, this binding constraint has multiple solutions, depending on how much leeway political leaders and technocrats in left-wing governments think they have available to them.[10] I show in this book how leftist parties and governments in Portugal, Chile, and Uruguay differ in how they construe their historical and present contexts.

The use of wage policy as a pre-distributive instrument in this context, aside, simply, from setting minimum wages, would depend on whether leftist parties in government attempt to consolidate their economic credibility with middle-class voters or, instead, respond by advocating post-Keynesian economics (PKE) (Baccaro and Pontusson 2016; Stockhammer 2022) in order to accommodate employment and wage egalitarianism.[11] Specifically, the PKE model highlights the instability of the growth process and underlines the importance of understanding income distribution and power relations to foster sustainable growth. As stated above, the amount of leeway political leaders and technocrats in left-wing governments believe they have is related, in part, to an ideational construct (Bremer 2018; Bremer and McDaniel 2019). When Keynesian economics fell out of favor, the managerial, discretionary character of Keynesian professional ethics was replaced by a rule-centered, anti-discretionary ethic advocated by neoliberal thinking, which elevates the market over politics (Mudge 2018, 367).[12] This change was significant in both Latin America and Southern Europe given the rapid collapse of previous economic models and the strong influence of neoliberalism as advocated by IFIs at the time. It conspired against the capacity for political intermediation, party–union relationships, and the relationship between center- and far-left parties.

[10] Centeno (1993, 313–314) provides a widely accepted definition of a technocrat in the study of Latin America: a public official who seeks to impose a policy paradigm based on the application of instrumental rationality and the scientific method. Dargent's (2014) study of technocracies in Peru and Colombia argues that the imperative to maintain macroeconomic stability during the post-democratization decades motivates politicians to cede control of economic policy to technocrats. Joignant (2011) defines technocrats by their skills as applied economists, following Williamson (1994).

[11] See Bremer (2018) and Bremer and McDaniel (2019) for a detailed overview of this dilemma, focusing on Western European social democratic parties' response to the austerity dogma.

[12] See a similar argument for the analysis of social democracies in Europe by Bremer and McDaniels (2019)

The perceived tradeoff between job creation and wage egalitarianism anchors government decisions regarding the use of wage policy to achieve distributive goals in long-term elite strategies concerning the empowerment of labor and the (dis)unity of the Left. The concept of an anchoring bias refers to the fact that different initial positions – for example, different country contexts – yield outcomes biased toward the initial values in a given situation.[13] The anchoring bias applied to the problem of the empowerment of labor suggests that how the tradeoff is perceived is shaped by beliefs about the policy space available given the constraints and opportunities associated with historically constructed relationships between labor, parties, employers, long-term elite strategies toward labor, and labor political legitimacy. In Uruguay, for example, labor's status as a legitimate political actor, the tradition of dialogue between elites and subordinate groups, and a united Left enabled the Frente Amplio – especially its moderate factions – to perceive a wide policy space available for centralizing wage coordination and empowering labor. The tradeoff is an anchor because it brings together long-term elite strategies toward labor and post-transitional power constellations. It is the lens through which leftist elites perceive the opportunities and constraints associated with including different wage policy instruments in their distributive strategies.

Employers' interests are a vital input for governments when setting employment-related policies. The tradeoff, then, is more or less politically salient based on employers' relative capacity to build political support and the capacity of the Left to counterbalance employers' political objectives. Following Thelen (2001), employers' support for economic coordination is assumed in the analysis to be strategic and contingent on labor's countervailing power. This assumption is important for the argument that the distributive conflict is political in nature, as opposed to the dominant idea in the Varieties of Capitalism (VoC) approach that employers' preference for coordination in a market economy is prestrategic (Soskice 1999).

[13] For a detailed account of the original idea of an anchor, as developed in the field of prospect theory, see Tversky and Kahneman (1982). Anchoring is a source of bias in judgement under uncertainty, which makes decision-makers boundedly rational (Kahneman 2003; Simon 1979). In the field of political science, Weyland's work on how decision-makers are captivated by available models in the context of policy diffusion, drawing potentially biased conclusions from limited data, constitutes a seminal example of the use of the idea of bounded rationality and the potential biases that influence policymakers' decisions (Weyland 2009a).

The perceived tradeoff is also related to case selection, because the relation between wages and employment is significant for economies like Chile, Portugal, and Uruguay. In small, export-oriented economies that have confronted rapid changes imposed by economic liberalization, it would be reasonable to expect policy convergence on completely decentralized wage-setting mechanisms, a phenomenon the literature has coined the "liberal convergence hypothesis." This hypothesis predicts institutional convergence along a neoliberal trajectory among advanced capitalist societies (Baccaro and Howell 2017, 9). The specific form of this hypothesis in the context of the argument advanced in the book is discussed in length in the following chapter. This expectation for Chile, Portugal, and Uruguay is based on these countries' susceptibility to the so-called "middle-income trap." Their economies are disadvantaged relative to low-wage economies in the competition to produce manufactured exports and disadvantaged relative to advanced capitalist economies in the competition to produce innovations and highly skilled workforce.[14]

1.3 EMPLOYMENT STRUCTURE AND WAGE EVOLUTION AFTER THE DUAL TRANSITION

Before analyzing the policies toward wage egalitarianism in the three countries, I briefly characterize their employment structures and recent trends regarding employment protection. The employment structure in the two regions relies on low wages at the bottom of the earnings distribution to facilitate the expansion of employment in the service sector. It is also characterized by rapid and premature deindustrialization and low skill levels. It is important to note that, in contrast to advanced democracies, productivity levels were already distorted during the inward-looking industrialization period due to rent-seeking incentives found in most countries in the two regions. The loss of productivity increases due to the transition to the service economy was not the primary problem driving the Southern Cone and Southern European experiences. Productivity levels were already low, which directly impacted the disappearance

[14] For detailed accounts of the middle-income trap, see Kharas and Kohli (2011) and Doner and Schneider (2016). For accounts of skill distributions and its relationship with inequality in our two regions and the advanced industrial democracies, see Bogliaccini and Madariaga (2020), Busemeyer (2014), Busemeyer and Trampusch (2012), and Busemeyer and Iversen (2012).

of entire sectors in the wake of trade liberalization. In this transition process, deindustrialization in the context of already low productivity contributed to an increase in unemployment, inequality, and informal employment in all three countries.[15]

Before the dual transition, each of the three countries had moved away from "labor protective strategies" toward economic liberalization. This included the strong flexibilization – or deregulation – of the labor market. The transition in Chile from a political economy with large, nationalized sectors and public employment differed from the transition in Portugal. In the latter country, the transition was managed by prioritizing employment – job security and low unemployment – with an eye toward integration into the European Community (see Bermeo 1993). In Chile, the transition occurred in the context of neoliberal concerns to control inflation and promote labor-market flexibilization (see Muñoz Gomá 2007). In both cases, however, large privatization programs took place (Clifton et al. 2005; Muñoz Gomá 2007). In Uruguay, the transition also privileged concerns over inflation and the promotion of employment flexibilization during the 1990s, but privatization attempts failed. Uruguay thus did not experience a large nationalization program associated with the dual transition as Chile did during Allende's administration and Portugal after the 1976 Constitution.

In terms of employment protection, Portugal historically has had greater levels of protection for labor contracts and temporary contracts and greater protection against individual or collective dismissals than have Chile and Uruguay. Portugal's level of protection is also well above the average among OECD countries, based on the Employment Protection Legislation Index (EPL).[16] On a scale from 0 and 6, with 6 denoting maximum protection, the OECD average was 2.08 in 2014, while Portugal's score was 2.81. Chile, with a score of 2.86, also ranked above the OECD average, while Uruguay ranked below average with a score of 1.72. EPL data for Uruguay and Chile are scarce, but Portugal's score on the index has moved steadily downwards over the past 20 years from a score of 4.10 in 1998.

High levels of employment protection have both positive and negative effects. On the one hand, some argue that protection against arbitrary

[15] See Emmenegger et al. (2012) and Rodrik (2016) for different approaches to the problem of deindustrialization in our two regions.

[16] The OECD constructs this index. See the following URL: www.oecd.org/employment/emp/oecdindicatorsofemploymentprotection.htm

dismissals makes firms bear some of the social consequences of such dismissals (Cahuc and Malherbet 2004; Cahuc and Postel-Vinay 2002). On the other, some have argued that high levels of employment protection also contribute to labor-market dualization (Cahuc et al. 2008; Emmenegger et al. 2012; Valadas 2017). There is no consensus in the literature about the effects of high levels of EPL on unemployment rates. Blanchard and Portugal (2001), for example, comparing Portugal and the United States as extreme cases in terms of employment protection, find no evidence to support the hypothesis of differential effects on unemployment.

There is a consensus in the literature that higher employment protection is associated with lower overall wage levels. The causal mechanism proposed is that employers tend to shift firing costs onto wages (see Brancaccio et al. 2018; Leonardi and Pica 2007, 2013). The evolution of average wages in Portugal during the post-dual transition period, as explained below, is consistent with these expectations. As Branco (2017) notes, the Portuguese emphasis on employment protection and on maintaining low unemployment rates produced weak unemployment protection, lower wages, and unpaid wages during economic downturns.

While the three countries differed in their use of wage policy after the dual transition, leftist governments in the three countries made use of minimum-wage policies in the decades following the dual transition. Figure 1.1 shows the evolution of purchasing power parity (PPP)-adjusted minimum wages and linear trends for 1992–2017. The literature suggests a general positive effect of minimum-wage increases on low-end inequality. However, the magnitude of the effect varies by country, usually depending on several factors such as enforcement, informality, or actual increases vis-à-vis average wages.[17]

Linear trends of PPP-adjusted minimum wages in the three countries are parallel during the period, albeit Uruguay shows two markedly different periods (Figure 1.1). Before 2005, minimum wages remained unchanged in PPP terms. After 2005, with the reinstallation of mandatory collective wage bargaining, the adjusted minimum wage began a steep upward trend that persisted during the Frente Amplio's tenure in office.

[17] See, for example, Martins (2020) for the case of Portugal; Álvez et al. (2012) for Uruguay; Grau and Landerretche (2011) for Chile. Collateral negative effects have been reported, such as a negative impact on employment or firm closures for Chile and Portugal.

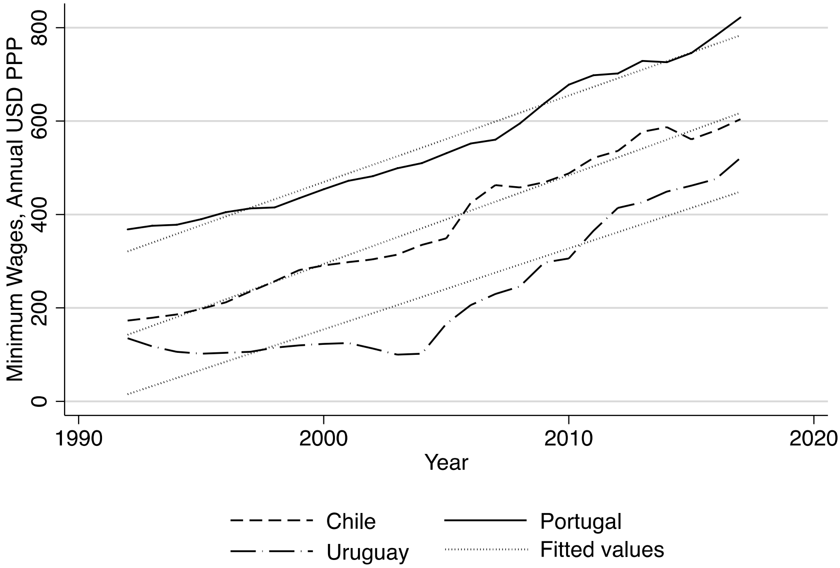

FIGURE 1.1 Evolution of PPP-adjusted minimum wages (1992–2017).
Note: Annual USD value of minimum wages.
Source: Official data, consulted online at the national statistics institutes in Chile, Portugal, and Uruguay.

In Chile, the Concertación governments increased minimum wages during the period. The law established these increases under government initiative and after parliamentary sanction. It is important to note that, like the case in Portugal, the overall evolution of the minimum wage was not altered during periods in which center-right parties were in office. Overall, leftist governments have included increasing minimum wages in their distributive strategies during the three decades under analysis. In the case of Uruguay, furthermore, the change in policy in 2005 is evident. Unlike in Portugal or even Chile, Uruguayan governments from the Right and the Left have made very different use of the minimum-wage policy.

The evolution of PPP-adjusted average wages looks quite different (Figure 1.2). Chilean average wages have followed a constant upward trend during the last three decades, except for the period between 2004 and 2008 – the second part of Lagos's administration (2000–2006) and the beginning of Bachelet's first administration (2006–2010). While in both Chile and Uruguay, the period between 1997 and 2002 was marked by a series of international financial crises – from those in Asia to the

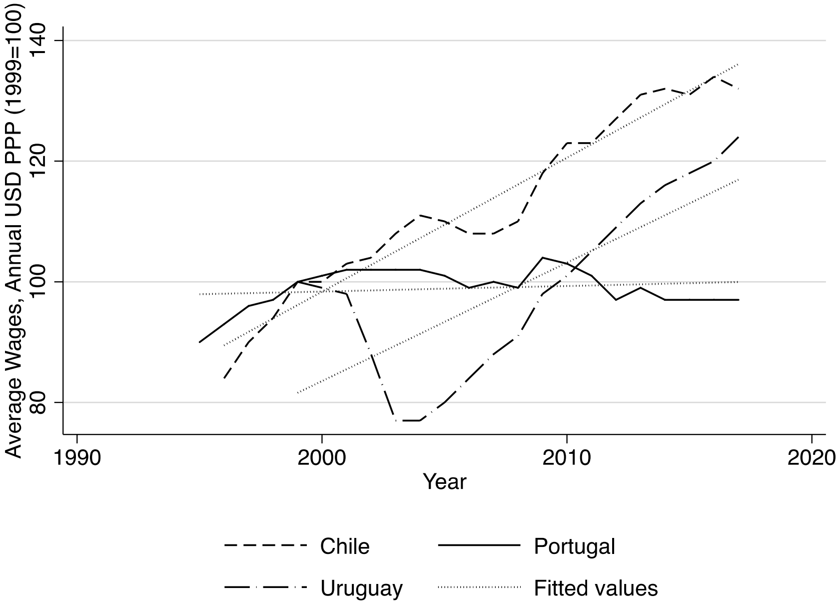

FIGURE 1.2 Evolution of PPP-adjusted average wages (1999=100) (1996–2017).
Note: Annual USD value of average wages.
Sources: OCDE & CINVE.

Argentinean crisis – the effect of these crises on wages (and unemployment, see Figure 1.4) was more marked in Uruguay.

Chile and Uruguay both had completely decentralized wage bargaining until Uruguay recentralized it to the sector level in 2005. Average wages in Uruguay trended upward after 2005 following this change, yielding the steepest slope of the three countries. Chilean wages, which remained under a decentralized bargaining scheme, were much less elastic to the upper and lower parts of the economic cycle, as described above. In Portugal, average wages have remained stable during the last two decades. While minimum wages are set by administrative decree, average wages depend on collective bargaining, which in Portugal has been voluntary since the 1980s (see Traxler et al. 2001). This evolution is consistent with the overall high EPL levels in Portugal over the two decades, in comparative terms.

Finally, the ratio between minimum and average wages best reflects wage egalitarianism policies. This measure allows one to grasp how wage policy is used differently in the three cases, producing different predistributive effects. Figure 1.3 shows these ratios. The resulting picture is

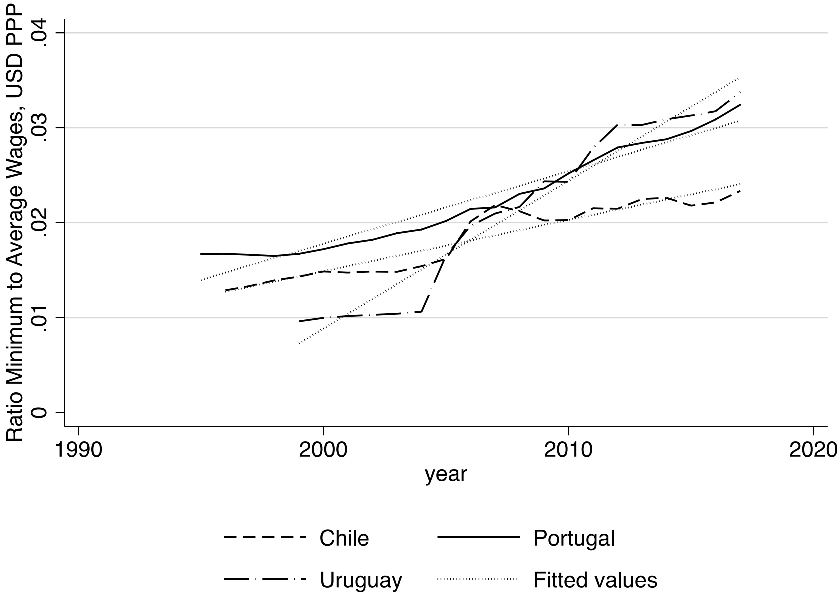

FIGURE 1.3 The ratio of minimum to average wages (1996–2017).
Sources: Income Distribution Database (OECD 2020), Data on salaries and prices, Uruguay (INE 2020).

consistent with theoretical expectations. Chile exhibits lower wage egalitarianism, consistent with its completely decentralized bargaining system (Beramendi and Cusack 2009; Iversen 1999). Portugal shows a more egalitarian trend, though during the last decade the evolution of wages has been marked by an overall freezing of salaries, following the 2008 Sovereign Debt crisis (see Hijzen et al. 2017). The gap between minimum and average wages closed by 5.9 percent in the decade between 1997 and 2007, at an average yearly rate of half a percentage point. Between 2008 and 2017, the gap closed by 13 percent at an average yearly rate of 1.3 percentage points.

Uruguay, a country in which labor relations changed drastically with the reintroduction of mandatory collective wage bargaining at a sectoral level in 2005, is illustrative in two senses. First, the ratio between minimum and average wages has a clear inflection point precisely in 2005. Before that, in a context of completely decentralized wage bargaining, the trend is parallel to the Chilean one at a lower level, while the upward slope in the evolution of the gap between 2005 and 2017 is the steepest of the three countries. In 2012, the rate at which the Uruguayan

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gap closed moderated, paralleling the Portuguese rate at a higher level. At the same time, it is not possible to make precise comparisons between the Uruguayan and Portuguese trends because of, among other things, the entirely different growth and employment expansion contexts in the two countries between 2008 and 2012. The change in Uruguay's wage coordination mechanisms in 2005 moved the country toward wage egalitarianism. It is also clear that in Uruguay and Chile, which had comparable growth and employment expansion contexts, the trends diverge.

Overall, Figure 1.3 is consistent with the idea that the level of wage coordination has implications for the capacity of the Left to effectively promote distribution. As Cusack and Beramendi (2009) find, while left-wing governments in any wage coordination situation retain their capacity to reduce inequality through redistribution, their leverage to affect inequality of disposable income varies with the form of wage coordination. This leverage is more limited in cases of decentralized wage coordination, as shown in the figure for the case of Chile. Also consistent with Chile's experience under the Lagos and Bachelet administrations, minimum wages become the tool to compress the wage distribution (Rueda 2008).

Finally, a comparison of the relationship between unemployment and wage egalitarianism presents a mixed picture (Figure 1.4). In Chile and Uruguay, wage egalitarianism improved in the context of high employment expansion. Unemployment rates fell during the commodity boom. In Portugal, the upward trend in wage egalitarianism coincided with a gradual but steady increase in unemployment that peaked in response to the Sovereign Debt crisis. These schematic pictures suggest that, while unemployment is linked to economic cycles, wage egalitarianism – not real wages but the structure of wages – is a long-term political construction.

The preceding analysis maps divergence in the use of wage policy and, most importantly, in using wage policy as an instrument for predistribution. This divergence occurred under the dominance of neoliberal rhetoric that strongly advocated subordinating equality-enhancing policies to the goal of preserving incentives for market competition. As explained above, this view derives from a conception of unemployment as a supply-side problem demanding active labor policies and changes in labor-market arrangements.[18] This divergence is conceptualized in the following section, which describes three meaningfully different distributive strategies.

[18] See Hall (2002) for a detailed analysis of changes such as unemployment problems and third wayism. See Mudge (2018) for a comprehensive analysis of neoliberal rhetoric toward wage egalitarianism.

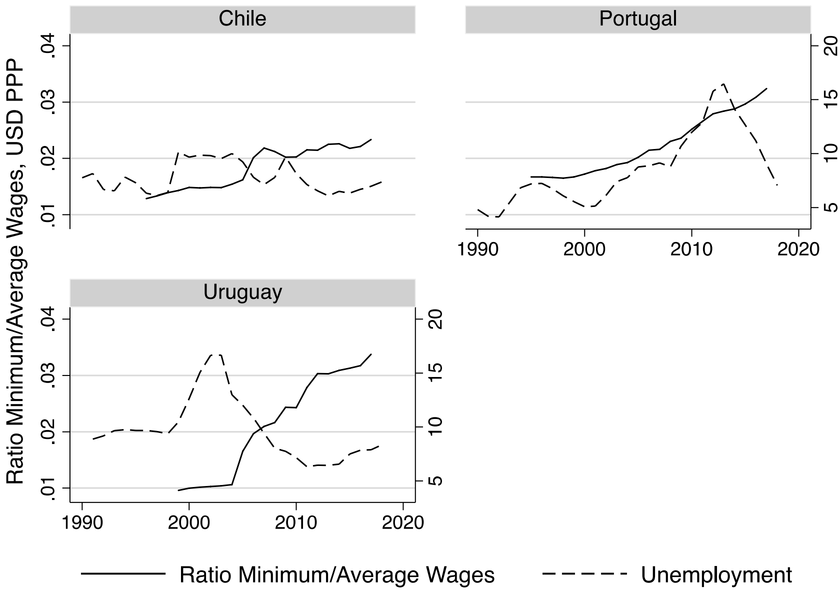

FIGURE I.4 Unemployment and ratios of minimum-to-average wages (1990–2017).
Sources: World Development Indicators (World Bank 2020); Income Distribution Database (OECD 2020); Data on salaries and prices, Uruguay (INE 2020).

I.4 THE USE OF WAGE POLICY IN DISTRIBUTIVE STRATEGIES

Governments with a distributive zeal can combine redistributive policies and wage policies in at least three different types of strategies. As analyzed in this work, these strategies do not consider the level of expenditure in social and wage policy as it is considered endogenous to the kind of strategy a leftist government has chosen to pursue. In the long run, I assume that leftist governments spend as much as possible on redistributive policies. They do so within the constraints of their macroeconomic plans and their interpretation of how the perceived tradeoff between job creation and wage egalitarianism constrains those plans. The divergence among the three strategies is a consequence, as shown schematically in Table I.1, of the elements of wage policy incorporated into each strategy: minimum wages, decentralized or centralized wage settings, and the mandatory character of wage coordination.

In the context of the two regions studied here, *centralized wage settings* denote centralization to the sector or industry level. There are no cases of peak-level bargaining. Industry- or sector-level centralization is sometimes referred to in the literature as a *semi-centralized* or *semi-decentralized* system. Such systems are also positioned around the middle of Calmfor's and Driffill's (1988, 15) proposed hump-shaped distribution that relates wage-setting centralization and wage levels (Calmfors and Driffill 1988, 15; Iversen 1999, 26–28).

Similarly, in the context of the two regions, the mandatory character of wage coordination refers to the extent to which, in a context in which social partners are legally mandated to periodically coordinate wages, there is compulsory *ad hoc* arbitration when the social partners are unable to reach an agreement. This conceptualization of mandatory wage coordination draws from Traxler et al.'s (2001) important conceptualization of voluntary and non-voluntary modes of coordination.[19] The evolution in wage coordination that has occurred during the last 25 years requires a new conceptualization of the categories in the important distinction regarding the role of the state in wage coordination. However, under compulsory arbitration, unlike any other form of state intervention, "the state acts as a sovereign power" (Traxler et al. 2001, 162). Therefore, the presence of compulsory arbitration in a context of legally-mandated periodic bargaining rounds makes wage coordination mandatory. This is the case in Uruguay, where ad hoc compulsory arbitration occurs as a supplementary measure when a deadlock is reached between the social partners during bargaining rounds.

The category of voluntary (or non-mandatory) wage coordination I adopt follows Traxler et al. (2001). The authors propose that voluntary coordination, in contrast to non-voluntary, may take a wide range of forms ranging from tripartite modes in which the state sponsors coordination but does not force arbitration of any kind, to bipartite arrangements in which the state may have a conciliatory role, to simple non-coordination (as is the case in Chile).[20]

[19] Traxler et al. (2001) distinguish between non-voluntary and voluntary modes of wage coordination. Non-voluntary coordination occurs under state-imposed regulation, which is present when one of the following three conditions is met in wage coordination in the private sector: unilateral state regulation, regular arbitration by the state, or ad-hoc arbitration. Most countries had abandoned these provisions by the mid-1980s (most notably in New Zealand, the Netherlands and Canada) and 1990s (Belgium), or 2000 (Norway, Australia, or Denmark). However, arbitration in Denmark or Norway includes provisions for ad hoc arbitration by the Minister of Labor (Norway) or legislation (Denmark) that the literature classifies as compulsory supplementary measures to make non-complying firms comply with the accords.

[20] Traxler et al. (2001) consider the following as categories of voluntary coordination or bargaining modes: inter-associational coordination, intra-associational coordination,

In this book, the conceptualization of the mandatory character of wage coordination is kept binary, distinguishing between mandatory and voluntary coordination. Following Traxler et al., this conceptual distinction applies only to the macro coordination of wages and does not consider the following instances of non-voluntary imposition of wage policy explicitly cited by the authors (2001, 167): (1) minimum wage legislation, because it lacks coordinating effects on bargaining; because of this, the book refers to the use of wage policy other than setting minimum wages; (2) provisions supporting collective bargaining, such as one finds in Portugal with statutory extensions of agreements (*portarias de extensão*). The latter had important implications for the development of distributive strategies for Portuguese leftist governments.

Overall, the mandatory or voluntary character of wage coordination would have important implications for the political empowerment of labor. A such, it would be an important issue for the analysis of wage policy and, for our case studies, an important issue for the wage policy debate in Portugal and Uruguay, as analyzed in Chapter 5.

Left Liberalism

A Left-liberal strategy oriented to alter market outcomes via redistributive policies – also sometimes labeled as *third wayism* (Mudge 2018, xiv) – is consistent with a decentralized wage policy. It privileges competition over coordination. Distribution occurs mainly based on market competition and governments only use social policy to alter market allocations of wealth and risks. While governments may still use minimum-wage policy, labor union density in these contexts tends to fall as unions fail to be effective vehicles for political influence (Beramendi and Cusack 2009; Rueda 2008). Such has been the case of the Chilean Concertación governments.

Left-liberalism benefits from labor movements that lack market power and are politically delegitimized, because it faces less pressure to incorporate wage policy as a pre-distributive instrument. The sole use of redistributive policies minimizes the intra-Left conflict between the amalgamation of demands from subordinate groups and macroeconomic

state-sponsored coordination, pattern bargaining and non-coordination. While this categorization exceeds the scope of this book and its argument, it is important to note that the authors concede the categories are not exclusive. For this reason, among others, the authors mostly worked with the bivariate distinction between voluntary and non-voluntary, and mostly for descriptive purposes (2001, 166).

policy. It also grants governments more latitude to quickly adjust budgetary expenditure to growth expectations at the cost of expenditure levels or more efficient budget allocation. That is not to say Left-liberalism does not confront budgetary pressures from insiders, but decentralized firm-level wage coordination allows for greater control over those pressures, at least in the private sector, and precludes the empowerment of subordinate groups.

Left-liberal distributive strategies appear, in this context, when corporatist policies give way to pluralist labor markets – as in Chile – where labor unions are legally free to organize, bargain collectively, and agitate politically but enjoy minimal legitimacy. Left-liberalism usually arises from a broken relationship between leftist parties and labor, wherein the former usually exclude labor from the political arena. Perhaps an iconic example is the British Labor Party, which reconstructed itself during the mid-1990s by seeking, for electoral and representational purposes, to build a coalition centered on the middle class, distancing itself from its long-term ally, the *Trades Union Congress* (TUC) (McIlroy 1998; Mudge 2018). Mudge even argues that there has been an Anglo-American transnationalization of third-wayism (2018, 330). This broken relationship is usually a consequence of deep economic crisis, such as that experienced in New Zealand, in the above-mentioned British case, or even in Chile.

As in the British and Chilean examples, the break-up between the political Left (or part of it) and organized labor occurred after strong labor repression during processes of deep reformism under the auspices of neoliberalism during the dual transition (Edwards 2022; Etchemendy 2008; Pierson 1994). Labor political participation after the dual transition may even be constrained by law, as it is the UK, many US states, New Zealand, and Chile (Carnes 2015; Crouch 1993; Huber and Stephens 2001). In Chile, for example, the right to strike and protection of strikers are legally limited, while employers do not face significant legal constraints (Bogliaccini 2020; Cook 2007).

State-Led Concertationism

Concertationist and *neocorporatist policymaking* (see below) strategies are plausible only when labor is considered a legitimate political actor – a necessary but insufficient condition. These two distributive strategies are oriented to alter market outcomes by using wage and social policies. However, they differ in their use of wage policy, depending on how governments believe organized labor will respond to the potential problem of wage militancy in the context of economic restrictions. This is so because any coordination-based equilibrium requires the cultivation of minimum levels of cooperation. The perceived tradeoff, in these cases, is understood as a political severity to be resolved. In other words, the possibility of coalitional politics, which is absent under *state-led concertationism*, is a necessary condition for the development of *neocorporatist policymaking*.

The concept of social concertation is widely used in Europe as a counterpoint to coalitional politics. Afonso (2013) states that party considerations on the part of governments drive concertation. Cooperation can be a long-term arrangement or ad hoc but requires minimum linkages between labor and party leaders. While these linkages do not constitute coalitions per se, they facilitate informal bargaining and improve communication channels. Amable (2016), for example, finds the relationship between governments and their social partners to be the most important factor for understanding the different labor reform strategies used by leftist and right-wing governments in France. French leftist governments opted not to pursue a decentralizing labor reform because their political base would not have accepted legal reforms that made it easier for employers to fire workers. Fishman (2011, 2019) illustrates the importance of cooperation for democratic practice over the long run by analyzing the Portuguese and Spanish democratic transitions. Overall, concertationism and neocorporatist policymaking provide the moderate Left with the necessary confidence, by different means, to use wage policy – beyond minimum wage policy – as a pre-distributive instrument. This confidence is based on the expectation that the leftist government in a given country could use wage policy instruments (other than setting a minimum wage) without imposing significant risks to its macroeconomic management of the employment-salary tradeoff.

Under *State-led Concertation*, leftist governments address the perceived tradeoff between job creation and wage egalitarianism by binding labor's political power within institutions and rules. Institutions are the boundaries that define the available space for the political game. A system of industrial relations is a system of rules, and collective wage bargaining has significant effects on production costs (Hayman 1975).

Social concertation specifically implies that governments formally share power with non-elected actors in institutionalized settings. Therefore, the political empowerment of organized labor is

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institutionally bounded. As an alternative to coalitional politics, social concertation may become preferable in conflictive contexts or to advance reforms concerning contested issues. Chile and Portugal (see below) illustrate this point. Democratic governments with the power to decide institutional settings act by combining long-term policy goals and short-term goals related to the satisfaction of their electoral constituencies (Garrett and Lange 1995; Iversen 1999; Przeworski and Wallerstein 1982).

Governments share their policymaking prerogatives with unions and employers by formally institutionalizing a bargaining table (Baccaro and Simoni 2008, 1325). In Portugal, corporatist institutions – such as the CPCS – and the government's ability to administratively extend collective bargaining accords over entire sectors – extension ordinance or *portarias de extensão* in Portuguese – became mechanisms for channeling labor or employers' demands while controlling the relevant policy agenda. Institutions like these have proved beneficial for sustained cooperation between organized employers and labor.

In the Portuguese case, decisions over wage policy have been debated and agreed upon within the CPCS since the mid-1980s (Avdagic et al. 2011). Under such conditions, leftist governments have used wage policy alongside redistributive policies. During the last three decades, the Portuguese Socialist Party, ruling through a majority or minority government, has set minimum wages, usually backed by a social concertation agreement, and has used the extension ordinance (Baer and Leite 1992; Hijzen and Martins 2016). This use of wage policy protects competition by binding coordination.

Neocorporatist Policymaking

A neocorporatist policymaking distributive strategy uses mandatory and centralized wage bargaining policy alongside redistributive policies.[21]

[21] Neocorporatist policymaking is a form of wage policy, an institutionalized practice. Neocorporatism as a form of interest representation (Schmitter 1974) refers to the structural aspect of neocorporatism (Streek and Kenworthy 2005). There have been important contributions to understanding this aspect of the proposed new surge of neocorporatism in the Southern Cone (Etchemendy 2001, 2008; Etchemendy and Collier 2007; Schipani 2019) and the resurgence of party-union relationships in Argentina and Uruguay. Neocorporatist policymaking, which entails the political coordination between interest associations and the state, refers to the functional aspect of the notion of neocorporatism (Fligstein et al. 1982; Streek and Kenworthy 2005). Only a few recent works have focused on this second dimension of the concept in the Latin American context

It requires collective interests to be centralized and broadly based instead of specialized and fragmented (see Streek and Kenworthy 2005). In neocorporatist policymaking, the role of governments in negotiating cooperation among employers and workers is critical as varying degrees of class animosity may surface during bargaining rounds in which wage restraint is necessary (Marks 1986a, 253). This is particularly important in the Southern Cone and Southern Europe, where cooperation between labor and employers has not been the rule.

Under this strategy, governments share decisional authority, and labor agrees to take on part of the burden of responsibility for public policy performance, risking membership dissatisfaction and dealing with potential wage militancy. This power-sharing is only feasible when no relevant divisions exist within the Left and labor is a legitimate actor in the political arena. This sharing of decision authority in neocorporatist policymaking is a distinctive feature of this strategy in relation to state-led concertationism, where government retains the exclusive initiative for policymaking and the institutions within which concertation occurs are solely consultative.

In addition to the political legitimacy requirement, there should be no divisions within the labor movement. This is particularly important when wage restraint is necessary and dissident unions have the opportunity to be free riders (Marks 1986a, 264). The degree of labor unity also signals to governments with a distributive zeal whether to engage in neocorporatist policymaking, institutionalized concertation, or to simply follow a Left-liberal strategy. Neocorporatist policymaking requires the practice of coalition politics and usually relies on solid party-labor coalitions, as was the case in Uruguay under the Frente Amplio governments. A coalition between the FA governments and labor (*Plenario Intersindical de Trabajadores – Central Nacional de Trabajadores*; PIT-CNT) made it possible to craft a distributive strategy grounded in semi-centralized and mandatory collective wage coordination and the use of minimum-wage policy alongside redistributive policies.

(Bogliaccini 2012; Etchemendy 2008, 2019; Etchemendy and Collier 2007; Schipani 2019). The present work contributes to this line of research, as a first effort to compare neocorporatism with other distributive strategies.