

Industrial Relations in EMU: Re-nationalization and Europeanization
Two sides of the same coin?

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Recent decades have strained the encompassing national systems of industrial relations and multi-employer collective bargaining that were a cornerstone of the European Model of Society (EMSO) during the postwar era. EMU is widely expected to intensify the strain and profoundly to change European industrial relations. The supra-nationalization of monetary policy and economic governance implies relative decentralization of collective bargaining systems, as national systems become regions of the Euro-zone economy. Improved transparency of prices and wages, plus elimination of the currency risk will likely further intensify competition both among producers and nation-states. Without the possibility of adjusting national exchange rates (and interest rates) and with fiscal policies constrained by the EU Growth and Stability Pact, the burden of adjusting to fluctuating economic circumstances and preventing rising unemployment will increasingly shift to labor market actors. This realignment poses the dual challenge of increasing labor market flexibility and enhancing policy coordination both within and across national systems.

Views diverge widely, however, about EMU's likely effects on industrial relations. One view is that the EMU will erode and fragment existing national systems, resulting in a shift toward more Anglo-American patterns of company-based wage setting, union decline, and labor market deregulation (Mahnkopf and Altvater 1995, Martin 1999). Another is that recent tendencies toward tripartite concertation represent a more likely scenario in many Euro-zone countries (Traxler 1998a, Visser 1999, Pochet 1999, Crouch 2000). A third interpretation, with support in major European trade unions, is that a Euro-wide system of coordinated collective bargaining will be needed to prevent destructive labor cost competition, rising unemployment and inequality under EMU (Jacobi 1998, ETUC 1999, Schulten 2001). This last view raises controversial issues about the appropriate form, content, and levels of bargaining and policy coordination under EMU. A key question is whether such Europeanization will require a break-up of current patterns of national industrial relations and trade unionism.

The implications of EMU for industrial relations are, however, ambiguous and will depend greatly on the course of macroeconomic policy. With fiercer regime competition and contradictory pressures for adaptation of national systems, the responses of social actors and governments will depend largely on EMU's effects on growth and employment and hence on the macroeconomic policies adopted by the EU authorities and the ECB in particular. At the same time, however, differences in national systems and responses will produce as much potential for diversity as for convergence in any particular direction. Thus, three broad scenarios emerge:

1. The base-line scenario assumes that the economies and industrial relations

systems in the major Euro-zone countries (and in many of those remaining outside) have become accustomed to operating under the conditions of fierce competition, strict monetary policies, and high unemployment, suggesting that most constraints of the Euro-regime have been already absorbed. The emerging Euro-regime will thus merely codify the dynamics and trends observable during the 1990s. The central issue related to this status-quo scenario will be the long-run influence of present trends on national systems.

2. The vicious-circle scenario assumes that the restrictive monetary approach of the ECB and the inability of the nation-states to pursue effective stabilization policies will lock most of the Euro-economy into a trajectory of permanently sluggish growth and high unemployment (Noé 1998, Martin and Notermans, this volume). Micro-pressures for restructuring will then further diminish the space for national collective bargaining, eroding and, in some countries, destroying current patterns of industrial relations. In this scenario, the outlook for any substantial Europeanization of collective bargaining is bleak, with unions preserving whatever is left at the national level, including social pacts, while lacking the clout to be a credible force at the European level. Because unemployment and fiercer competition for market shares will probably restrain wages, governments and employers will have weak incentives to engage in European coordination.

3. The virtuous-circle scenario assumes higher growth and lower unemployment, stimulated by more expansionary macroeconomic policy. The room for maneuver in collective bargaining and in labour market and welfare reform will therefore increase. The outlook for trade unions will be brighter. Yet this scenario also contains uncertainties as higher growth rates and declining unemployment may easily trigger a catching-up process in wage setting, posing difficult questions not only for the ECB and European governments but also for the peak associations of labor and capital. To prevent inflation and avoid an undesired tightening of monetary policies, governments, employers' associations, and possibly the ECB may see potential advantages in coordinated wage restraint at European scale. The unions will command some bargaining capital, which can be used in incomes-political exchange at the European level. Yet national unions might resist European coordination implying forgone wage increases at home, while single employers are likely to prefer using wages to compete in labor and product markets. The question for this scenario is whether the collective actors can muster internal support for participating in

European coordination of wage and economic policies, which would require them to cede autonomy and comply with higher-order commitments. Their participation would accentuate conflicts over the appropriate level and form of coordination. A sensitive power-related issue is the constellation of actors emerging as a credible and legitimate referent for the ECB.

All these scenarios suggest that the interests of different actors in coordinating wage bargaining at both the European and national levels will vary with the evolving approach to European macroeconomic policy. Sustaining a shift toward the virtuous-circle scenario will depend on the collective actors' ability to calibrate wage growth with an expansionary macroeconomic policy mix. Industrial relations, particularly wage bargaining, thus become a crucial unknown in the EMU political economy.

Recent responses to monetary integration together with the continuing challenges posed by the operation of EMU, nevertheless suggest a likely direction of development. EMU, as such, seems unlikely to lead to the fragmentation implied by "Americanization" or to the creation of strong Europe-wide organization implied by "Europeanization". EMU is more likely to encourage stronger coordination among the actors in the existing nationally anchored industrial relations systems, a process implied by "renationalization" and exemplified by the recent proliferation of social pacts. Yet because of collective action problems, the renationalization scenario is not an alternative to some looser forms of coordination at cross-national European level but is rather a prerequisite for it. Such a dual-level structure of coordinated wage bargaining could contribute positively to creating conditions for the sustained economic growth needed to lower unemployment and maintain institutionalized systems of industrial relations under EMU. Whether the trade unions, facing domestic decline, are capable of developing such a structure, however, remains a central question for the future viability of EMU.

1. Implications of the EMU for national industrial relations systems

1.1. Main challenges

How does EMU alter the environment of national trade unions and their role in governing terms of employment? What are the principal challenges facing unions in the new EMU environment? The establishment of a single currency and monetary policy can improve the conditions for coping with common problems of economic instability, so-called symmetric shocks, and can provide a buffer against the volatility of the global finance

markets. The design of EMU and the application of its rules so far, however, suggest that the ECB may be less inclined to use interest rates to stimulate than to dampen Euro-zone growth – and employment, seen as a supply-side issue – to secure price stability (Martin and Notermans, this volume). Moreover, the rules of the Stability Pact and the structural budget deficits in many of the countries, limit the possibilities for stimulating employment by means of co-ordinated fiscal policy.

The different structures of the national economies in the Euro-zone imply that different countries and regions from time to time will face disparate economic developments, calling for different macroeconomic policies (country studies, this volume, Eichengreen 1993). This variation presents serious dilemmas in implementing a single monetary for all regions. Given current divergences, for example, should the ECB be most concerned with cooling down strong-growing economies in the periphery or with stimulating stagnant regions in the Euro-core? Diverse policy needs risk aggravating nation-specific problems if a common monetary policy functions pro-cyclically in countries in cyclical positions deviating from the Euro-zone average. The EMU regime, however, leaves individual countries no choice but to compensate for the loss of macroeconomic instruments by strengthening their domestic ability to cope with fluctuating economic circumstances. As national governments (1) can no longer respond to problems of competitiveness or economic shocks by adjusting exchange or interest rates, and (2) the Stability Pact limits the use of fiscal policies, the brunt of macroeconomic adjustment will increasingly have to be shouldered by actors in the labor market. With very limited cross-border labor mobility¹ and virtually no Euro-zone fiscal stabilizers, which are major sources of adjustment in the US, labor market organization and collective bargaining will become key means for economic adaptation at the national level (Boyer 2000).

Under EMU, maintaining competitiveness and employment requires that overall wage growth largely reflect productivity growth. As Boyer argues, unless wage bargainers internalize the low inflation requirement of the EMU regime and take ample account of the need to safeguard company competitiveness by adopting moderate and flexible wage policies,² “variations in unemployment levels may well replace those in exchange rates as the key variable in economic adjustment” (1994, 116). According to this interpretation, the remaining alternative for preventing higher unemployment is to replace the former exchange rate flexibility with increased flexibility of labor costs, in effect turning wage-setting systems into “functional equivalents to devaluation” (Crouch 2000). As EMU can reduce economic instability caused by financial disturbances and as monetary policy has mainly worked as insurance against very large demand shocks, however, monetary union might not require larger wage flexibility in normal times, although it could do so under specific circumstances (Calmfors 2000: 2).³

The effect of EMU on the average level of real wages and unemployment over the cycle

depends on the effects of enhanced product market integration (trade competition and foreign direct investment flows) and regime change on the interaction between monetary policy makers and wage bargainers. Whereas disappearance of the “deterrent effect” of national central bank policy on national wage increases promotes stronger wage growth, product market integration works in the opposite direction. Elimination of exchange rate risk and the enhanced comparability of prices and wages across boundaries are expected to reinforce capital mobility, price competition, and pressures on firms to keep profits and labor costs down (Rose 2000). Enhanced macroeconomic stability and increased predictability of FDIs will influence investment patterns, probably strengthening the attractiveness of the low-cost countries in the EU periphery, including the incoming Central-and Eastern European member states, which previously have been regarded as unsafe havens of investment.

EMU thereby augments pressures for wage moderation, restructuring and rationalization of production across Europe, as reflected by the recent frenzy of mergers and acquisitions. Generally, because nominal wage differences largely reflect variations in productivity, national unit labor costs are assumed to be approximately the same in the Euro-zone, (Schubert 1997, CEC 1998). Enhanced capital mobility is then likely to speed up the protracted historical trend of labor cost convergence in the EU (Sisson et al. 1998). Average wages in Spain rose from 20 percent of Germany’s in 1970 to 66 percent in 1990 and from 42 percent to 71 percent in Italy during the same period. Thus employers (especially in low-cost countries) are concerned that improved comparability might trigger undue upward convergence of wages (Norman 1998), whereas most trade unions fear downward pressures on wages, welfare costs, and employment conditions (EMF 1998).

These changes will affect not only wage-setting institutions but also the whole range of institutions that determine labor costs and the attractiveness of countries to investment more generally: taxation, infrastructure, education and training, and regulations of all sorts. The micro-dynamics of international competition are thereby expected to interact with the macro-dynamics of “regime competition,” suggesting that national states and organizations will engage in tougher competition to attract investment and jobs by offering the most favorable conditions for companies. Besides the constraints of the Stability Pact, the impact of regime and tax competition probably means that fiscal rigor and curbing of indirect labor costs (payroll taxes and the like) will become more important as means of ensuring national competitiveness and economic adjustment under EMU – so-called internal devaluations – and presumably more so in countries with uncoordinated bargaining systems and low aggregate wage flexibility. As the national case-studies show, most European countries are still struggling to consolidate their budgets and face increasing strains on the social security systems due to low employment ratios and aging populations, making the reduction of social security costs and reform of the welfare-

state/labor-market nexus burning issues in key Euro-zone countries (Hemerijck and Ferrera, this volume). At the same time, the central role of the social partners as financial contributors and sometimes comanagers of the social security systems means that comprehensive reform is hard to accomplish without their consent. Governments, and perhaps employers, thus have incentives to find consensus and legitimacy through concerted reform strategies (Ebbinghaus and Hassel 2000). Besides the increased premium on wage moderation, this might provide trade unions with some bargaining capital in tripartite political exchange (Dølvik 1993).

Calmfors (2000) and Crouch (2000) similarly suggest that wage setting compatible with the EMU regime is more likely to be achieved through centralized coordination, whereas the ECB and scholars closer to business argue that the greater need for flexibility under EMU urges decentralization of bargaining and deregulation of labor markets (Issing 1999, Dohse and Krieger Boden 1998). The European trade unions also seem to acknowledge the need for improved labor market adaptability – as recommended by the European employment strategy – but in their view this objective is more efficiently achieved through negotiated adjustment and centralized concertation.

According to the official EU view, EMU will “inevitably modify the structural parameters of national economic systems and, hence, the differences across countries” (CEC 1998). That is, market-driven harmonization or convergence of social outcomes is foreseen. Its effects on different national systems of industrial relations, however, will depend on the macro-effects of EMU. If the vicious, deflationary scenario proves correct, a situation of virtually zero-sum competition will evolve, amplifying the micro-dynamics and conflicts of interests between regions and posing severe pressures on national industrial relations systems. If, by contrast the virtuous scenario takes hold, it will alleviate the pressures, smoothening the process of restructuring and reform, and thereby reducing destructive competition based on social standards between countries and regions. Moreover, the quest for economic “shock absorbers” and safeguards of macroeconomic stability on the one hand and for labor market flexibility on the other points to EMU’s contradictory implications for national industrial relations. So far, the impact remains ambiguous. Examining actual changes in European industrial relations during the period of monetary integration reveals more insights.

1.2 General trends in national industrial relations in Western Europe

When launched in the 1980s, the single market and the EMU program were widely expected to strengthen contemporary tendencies of deregulation, decentralization, and demise of national industrial relations systems and trade unionism (Schmitter and Streeck 1992). Even though the

quest for a strong social dimension of European integration has not been fulfilled, national systems of industrial relations have shown greater resilience and adjustment capacity than initially expected (Ferner and Hyman 1998). Some commonalities – such as wage moderation and more decentralized collective bargaining – are readily observable, but if we look at trends in union density, collective bargaining coverage and levels, and the role of the state, the picture shows significant diversity and ambiguity (Ferner and Hyman 1998, Traxler et al. 2001, Fajertag and Pochet 2000).

While the overall rate of organization among the employers has remained quite high in most EU countries (Traxler 1998b), *trade union membership* has, with some exceptions, shown a downward trend over the last decades. In the mid-1990s approximately 41 million of the 128 million employed workers in Western Europe belonged to unions (Ebbinghaus and Visser 2000). This figure corresponds to an overall union density – the proportion of employed workers joining a trade union – of 32 percent, which was nearly 10 percentage points lower than in 1980 but still more than twice the rate of the United States. National variation in union density is high, ranging from less than 10 percent in France to 70-80 percent in Nordic countries where unemployment insurance is administered by the unions (Waddington and Hoffmann 2000). Union density in the CEE countries varies from around 10 percent in Lithuania and Estonia to 30-40 percent in Poland, the Czech Republic, and Slovakia (Kohl et al. 2000).

Contrary to the expectation of a universal decline of collective bargaining, the levels and coverage of *collective bargaining* have been relatively stable – both inside and outside of the EU. Collective bargaining coverage in the OECD area was on average 72% in 1980, 70% in 1990, and 68% in 1994 (OECD 1994; 1997), but the rate has fallen sharply in the countries with decentralized bargaining systems, such as the US, the UK and New Zealand (Fig.1). Despite a greater role for company bargaining, EU countries, except for the UK, have not seen any general tendency to dismantle centralized wage negotiations (OECD 1997, Traxler et al. 2001).

[Fig.1 in around here]

Whereas sectoral bargaining has replaced confederal negotiations in

Sweden and Denmark, centralized, nation-wide agreements still prevail, and in a number of countries – such as Italy, Ireland, Spain, Portugal and Finland – a notable recentralization has taken place as part of tripartite strategies to adjust to external pressures, the EMU in particular (Ragini 1997, Fajertag and Pochet 2000). Thus, the dominant tendency has been toward more multi-tiered, articulated bargaining systems.

Several factors have contributed to the persistence of centralized bargaining systems in Europe. Probably most important has been employers propensity to organize and apply collective agreements to the whole workforce. In Germany, Belgium, the Netherlands, and Austria, for example, organized employers cover from 76 to 96 percent of private-sector workers (Visser 1999). In addition, a variety of legal and institutional mechanisms for mediation and dispute management in Scandinavian countries and extension of collective agreements to nonunionized companies in Continental countries have underpinned coordinated solutions (Stokke 1999), creating incentives for employers to organize and influence collective bargaining. These factors highlight the key role of the state in facilitating centralized coordination (Traxler 1998b). In contrast; in countries where no such institutional framework exists and wages become a key parameter in inter-firm competition, employers evidently have a strong incentive to avoid collective bargaining and union recognition, illustrated by the dramatic drop in coverage rates in the UK and the New Zealand since the 1980s.

Nonetheless, a significant feature in the 1990s was the convergence of outcomes in terms of reduced nominal wage growth, reflecting, among other things, falling inflation and the shift in bargaining power between capital and labor during the crisis-ridden years of transition to EMU (Mermet 2000). With economic recovery in the late 90s and the entry into EMU, prices and nominal wages have risen significantly in Ireland and the Netherlands, but the overall picture in the Euro-zone has been one of sustained wage moderation (Eiro 2002, CEC 2001). In general, labor productivity rose by more than 40 percent between 1980 and 2000 in the current EU memberstates, whereas real wage compensation rose just over 20 percent (Mermet 2000, CEC 1998).⁴ Hence unit labor costs have decreased and profitability increased in virtually all EU countries. With some important exceptions, however, this trend did not trigger the desired virtuous circle of investment-driven employment growth, and has led defenders of conventional economic thought to blame alleged labor market rigidities and many trade unions to question the wisdom of continued wage moderation.⁵

In spite of the relative institutional stability of industrial relations in most West European countries, the twin effects of fiercer external competition and domestic labor market restructuring have caused growing strains within national systems and erosion of trade union power in particular. This has prompted initiatives to renew and modernize union structures,

organization, and recruitment strategies, but whether these efforts are sufficient to turn the tide remains to be seen (Waddington and Hoffmann 2000, Dølvik 2001). European integration has, in this respect, had a two-fold effect: it has pressured national unions and undermined some sources of their power, but this has not been compensated by developing a full-fledged supranational regime of labor market regulation. Nourishing the idea of European social partnership and enacting minimum labor standards, however, the EU has provided unions with certain opportunities and resources that have improved their political credibility at home and provided some protection against the impact of unfettered market competition (Dølvik and Visser 2001). The EU has thus created a structure of incentives and pathways that has induced modest steps toward Europeanization of unionism and labor market policies, while encouraging national actors to continue investing most of their resources in what remains of regulative and innovative capacity in their national systems (Streeck 1998, Martin and Ross 1999, Dølvik 1997). The EU has thereby both restrained and facilitated the role of trade unions in adjusting European labor markets in a direction compatible with international competitiveness and the requirements of the EMU regime.

1.3 Adjusting to the EMU - cross-national distinctions and commonalities

As EMU confronts national wage bargainers with a single independent central bank committed to price stability and likely to raise interest rates in response to aggregate wage growth it regards as excessive, convergence makes labor costs a more crucial factor in adjustment to nation-specific economic problems. In the pre-EMU era, national wage-setting institutions varied considerably in their capacity to calibrate wage growth with macroeconomic stability, depending on what Traxler refers to as their *structural responsiveness* (1998a: 2). The familiar debate over the relative responsiveness of the national systems has revolved around three main positions: (1) the *corporatist* model, – the more centralized income-policies are, the better macro-economic performance (Cameron 1984); (2) the *neo-liberal* model, – the more decentralized, market-based wage-setting is, the better (Weede 1996, Siebert 1998), and (3) the *nonlinear or “hump-shaped”* model – in which either centralized or decentralized bargaining are better than an intermediary system (Calmfors and Driffill 1988). A recent OECD analysis (1997), however, finds little evidence that any specific bargaining system generates better or worse performance. Another approach concludes that such studies are inconclusive because variations in performance are due not only to wage-bargaining structures but also to the way they interact with monetary policy and the kind of monetary regime implemented (Holden 2000, Iversen 1999, Hall and Franzese 1998).⁶ In this view, neither the type of wage-bargaining structure nor the degree of central

bank independence makes low inflation attainable at least cost in unemployment. Instead, the keys are institutionalized interaction and anticipatory signalling between a central bank credibly committed to price stability and wage bargainers that internalize the macroeconomic effects of wage growth.

Traxler *et al.* (2001) have taken this analysis a step further by investigating the conditions under which wage bargainers have the capacity to affect wage behavior to avert macroeconomic imbalances and/or restrictive monetary policies. They conclude that capacity, or structural responsiveness, depends critically on the *governability* of wage bargaining – that is, local compliance with increases agreed at higher levels – and that governability, in turn, is strongly influenced by the legal and institutional frameworks provided by the state, especially peace obligations when agreements are in force and union monopoly of strikes. The perennial problem of horizontal coordination has been its tendency to break down, especially during economic booms, because of defection by union rank-and-file, as happened with several “social pacts” in Britain, Italy, and Spain in the 70s and 80s. Thus, the effectiveness of horizontal coordination, through which economy-wide external effects are internalized by wage bargainers, depends on the effectiveness of vertical coordination – that is, the ability of higher levels of wage-setting institutions that attempt to coordinate wage bargaining to secure compliance at the lowest levels at which wages are determined.

Analyzing the relationship between bargaining institutions and unit labor costs in 18 OECD countries since the 1970s, Traxler *et al.* (2001) found first that economy-wide coordination can provide both better and worse results than any other systems and is effective only when the problem of vertical coordination is overcome, through pattern bargaining on the industry level, state enforcement, or centralized coordination. Centralized coordination definitely performs worst if bargaining governability is lacking, and decentralized wage increases hence augment centrally agreed pay raises. Second, unless appropriate legal and institutional frameworks provide for local compliance, decentralized uncoordinated bargaining is the (second) best solution. One reason why decentralized, market-based bargaining systems perform worse than governable, coordinated systems, is that monetary policies have little direct impact on bargaining behavior in decentralized systems, as illustrated in the UK in the 1980s, thus requiring stronger doses of deflation and unemployment to curb excessive wage pressures (Crouch 2000: 208-9).

According to Traxler (1998a), the structural responsiveness of bargaining systems of the current EU memberstates in the pre-EMU period can be divided into three groups: (1) *high responsiveness* in Austria, Germany, Finland, the Netherlands, Sweden, and Denmark (with variants of pattern bargaining, peak-level concertation, and high governability); (2) *intermediary responsiveness* in the UK (with uncoordinated bargaining) and France (state-

imposed coordination), and (3) *low responsiveness* in Belgium, Spain, Ireland, Italy, Portugal, and Greece (with voluntary peak-level coordination and low governability). That most countries belonging to the former DM-zone were marked by high responsiveness indicates a causal connection between monetary regime and wage behavior (Iversen 1999). For example, Visser and Hemerijck (1997) suggest that the shift to coordinated wage restraint in the Netherlands in the early 1980s was triggered by the introduction of a hard Guilder regime, and similar tendencies have been witnessed in Ireland, Italy, Spain, and the Nordic countries. Although wage-setting behavior actually has shown significant moderation during the transition to EMU, this shift may merely reflect high unemployment and the imperative of qualifying for EMU entry. Awareness that wage bargainers cannot now be bailed out by exchange rate policy, however, may have induced more lasting changes in the organized actors' strategies, but the elimination of links between national monetary policy and wage setting could work in the opposite direction, reducing national responsiveness, especially in smaller countries.

The shift to EMU raises three questions about these national systems. First, will singular national systems and the sum of their behavior provide sufficient overall responsiveness to prevent more restrictive monetary policies and rising unemployment? Second, how might the transfer of monetary policy to the ECB influence the responsiveness of national systems? Third, is European coordination of wage policies required to construct viable means of communication and interaction between monetary authorities and wage bargainers in the Euro-zone? A look at the changes that have taken place during the transition to EMU and in the short time since suggests that any simple projection of variation in responsiveness in the pre-EMU period into the EMU era may be misleading.

The inflationary periphery – re-centralization and social pacts

In the supposedly least responsive countries, the transition to EMU has been accompanied by notable changes in both practices and institutions of industrial relation. In Italy, Spain, Portugal, Greece, and Ireland, the 1990s saw a trend toward recentralization of wage negotiations and social pacts, through which actors have tried to internalize the EMU constraints, to develop more scope for bargaining and clearer definitions of the roles to be played by decentralized actors, and to agree on reforms in the labor market-welfare state nexus (Regini 1997). In several cases, the revival of tripartite concertation in the 1990s occurred in response to failed attempts to curb inflation by relying on tough monetary policies in fragmented bargaining systems (see Pérez; Della Sala, this volume). (As the transition to EMU is extensively analyzed in the individual country studies, the review in this section mainly focuses on the EU countries not covered). 7

While the transformation of the Italian system in the 1990s successfully curbed wage-price inflation, economic and employment growth has remained sluggish (Della Sala, this volume). By contrast, Spain experienced a downturn followed by a strong recovery and employment growth from the late 1990s, combined with sustained wage moderation (Pérez, this volume). Despite a rigid system of labor market regulation and collective bargaining, strong union rivalry, and a shallow tradition of social pacts, *Portugal* showed much better economic and employment performance than Spain during the transition of the 1990s. With solid growth in GDP, rising inward investment and employment, and extensive transfers from the EU, per capita income grew by more than 19 percentage points toward the EU average between 1986 and 1998 (Eiro 2000a), but has recently slowed down.⁸ Still, the fragile institutions of wage bargaining and coordination, and the stance of the most influential union, Intersindical (CGTP), cause concern that soaring wages might put jobs in the less productive sectors in jeopardy if growth again accelerates. Thus far, however, wage moderation has prevailed, and during 2000-2001 several social dialogue initiatives sought to develop reforms in the state-dominated system of collective bargaining (Eiro 2000b).

In *Greece*, which has now joined the EMU, doubts about the viability of the legalistic industrial relations system and the stop-go pattern of state-led social concertation have also been widespread (Ioannou 2000). The 1997 Confidence Pact between the Government and the Social Partners led to some adjustments in the regulation of industrial relations aimed at decentralization of bargaining and flexibilization of the labor market (Christofi 2000), but the measures were partial and ineffective (Ioannou 2000). Nevertheless, the transition to EMU has, within a context of improved macroeconomic performance and decreasing inflation, been accompanied by wage moderation, which largely has brought pay rises in line with the European average. In view of the inconsistent pattern of social concertation and collective bargaining, however, the actors tackling of pressures for further reform, now that the hurdle of EMU membership has been cleared, remains to be seen.

In *Ireland* the deep crisis in the 1980s prompted a series of wide-ranging national tripartite pacts centered on improving competitiveness and modernizing the Irish economy and anchored in a broad social consensus about wage restraint (Wallace *et al.* 1998). Although the Irish economy has belonged to the Sterling-zone, with a structure different from the Euro-core, the social actors have been strongly committed to entering EMU, and the latest social partnership agreements have been tailor-made for doing so. The transformation of the Irish economy and incorporation in the EMU regime has been accompanied by remarkable growth in investment, production, and employment, the latter in recent years increasing by 6-8 percent (Wallace *et al.* 2001). As inflation has surged as well, the looming question is whether the policy of centralized wage restraint is sustainable in a context of labor scarcity

and absence of legal frameworks usually associated with high bargaining governability. March 2000 saw signing of the fifth national social pact since 1987, the Programme for Prosperity and Fairness (PPF), providing pay increases of at least 15 percent over 33 months. With inflation surpassing 6 percent in October 2000, an additional pay increase of 3 percent in 2001-2002 was implemented, and unions consented to a (voluntary) reinforced industrial peace clause, underpinned by income tax relief and reduced VAT rates granted by the government (Eiro 2001a). The expansionary effects of the government's measures triggered a harsh reaction from the Ecofin Council of the EU, which stated that the Irish budget represented a breach with the EU Economic Policy Guidelines and called for fiscal tightening to bring down inflation. Although the institutionalization of social partnership in Ireland has brought impressive results, the recent upheavals highlight the potential overburdening of the wage-setting system and the crucial importance of coordinated fiscal and wage policies in situations of asymmetric economic instability under EMU.

The small corporatist states – in search of more articulated and flexible coordination

Compared to the modernizing reform drive during the transition period in countries belonging to the so-called soft flank of the EMU, changes in the supposedly better-prepared countries of the former DM-zone have been less pronounced. Within frameworks of centralized coordination, moves toward more industry- and company-based negotiations have been widespread, often denoted with the term "organized decentralization" (Traxler 1998b, Crouch 2000).

The *Austrian* industrial relations system has been distinguished by its exceptional stability and ability to ensure moderate labor cost increases and unemployment, while allowing significant wage inequality and differentiation in accordance with local and sectoral productivity developments. This pattern has persisted unchanged despite significant political unrest, rising economic growth, and shrinking unemployment in recent years (Blaschke *et al.* 2000). In the *Netherlands*, which after the period of "Dutch disease" in the early 1980s introduced a hard Guilder regime and fiscal austerity, the now famous Wassenaar Accord of 1982 initiated a long period of persistent, centrally concerted wage restraint that, combined with taxrelief and decentralization of actual wage setting, led to significant employment growth especially in part-time female employment (Visser and Hemerijck 1997; de Beus, this volume). Because of the consistent drop in relative unit labor costs (34 percent from 1982 to 1993) marking the "Dutch Miracle", the Netherlands has been accused of beggar-your-neighbor policies, and according to Bispinck and Schulten (2000), the Dutch case is a prototype showing that competitive corporatism entails the risk of deflationary wage policies and collective irrationality under EMU (where such policies can evolve without appreciation of the national currency). With increasingly tight labor markets and rising inflation, however, Dutch nominal wage growth has aligned with

neighboring countries and was in 2000-2001 among the strongest in the Euro-zone (Eiro 2002).

Although the *Belgian* system of industrial relations has in a context of public indebtedness and deteriorating competitiveness in recent decades gone through periods of forceful state intervention, wage laws, and unresolved tension between rival unions and regions, the actors' shared determination to enter into EMU catalyzed controversial change in industrial relations in the late 1990s (Pochet, this volume). According to the law on competitiveness, wage increases in Belgium must align with the weighted average in Germany, France, and the Netherlands. If the social partners are unable to agree on such a two-year wage norm, the government has the right to decide alone. Belgium thus provides a prototype for state-imposed coordination in the Euro-zone. In the last few years the situation has normalized, and the eventual bargaining rounds have been pursued without state intervention.

In *Finland*, which is the only Nordic country in the EMU thus far, the commitment to enter the monetary union instigated innovative adjustments of labor market institutions (Bolt 1999, Pekkarinen 2001), reflecting deviation of economic cycles and production structures from those of the Euro-core and the asymmetric shocks that frequently hit the Finnish economy. After Finland experienced severe depression in the early 1990s,⁹ the government in 1995 invited the social partners to negotiate a long-term program of wage moderation, labor market reforms, and cuts in taxes and public debt, initiating a period of rising, noninflationary growth and falling unemployment and helping Finland to meet the EMU convergence criteria just a few years after the deepest depression anywhere in western Europe since WWII. Parallel, tripartite talks led to creation of domestic "shock absorbers" assigned to substitute for currency devaluations under EMU (Bolt 1999, Kauppinen 1998). Emphasizing the need for centralized concertation and flexible, productivity-based wage setting, the social partners in 1997 agreed to set up two national *buffer funds* to render unnecessary the negotiation of pro-cyclical nominal wage cuts during economic busts. Linked to the system of pension and unemployment insurance and financed through extra employer contributions and reduced union wage demands over 3-5 years, the buffer funds shall allow for adjustment of the employers' indirect labor costs to the economic cycle. In contrast to devaluations or nominal wage cuts, explicitly linking employer contributions and wage growth to the cycle builds an extra counter-cyclical element into the system and, according to Finnish actors, does not imply beggar-thy-neighbor policies, but remains competition neutral over the cycle. Although doubts still prevail over the utility of buffer funds in case of a real crisis, the process has evidently heightened awareness of the changing role of wage setting under EMU. While corporatist crisismanagement in Finland often has been followed by resurging inflation and labor disaffection (Lilja 1992), the main actors have under the recent recovery persisted in their efforts to bring down unemployment and continue social partnership by striking new moderate agreements for income-policy (Eiro 2000c).

Sweden and *Denmark*, which for various political reasons have chosen to stay out of EMU, did in the 1950s and 1960s during a period of growing trade liberalization and the Bretton Woods system, develop a centrally coordinated pattern of wage setting based on the leading role of the competition-exposed manufacturing sectors. This model has largely persisted and been adjusted to changing external and macroeconomic conditions (Kjellberg 1998). After a period of tough adjustment, state-imposed crisis deals, and linking of the Danish currency to the DM/ECU in the early 80s, the interplay between macroeconomic policies and wage formation in *Denmark* has during the ERM period become well attuned to EMU requirements (Iversen 1999). As one of the few EU countries with no problems in meeting the EMU convergence criteria and with the Krona now pegged to the Euro, Denmark has retained a generous welfare state, an egalitarian wage structure, and high and growing employment, whereas wage formation has become more decentralized and flexible within a framework of centralized coordination (Due et al. 2000). To prepare for EMU, the main parties in private industry in February 2000 signed a path-breaking four-year stability pact (Eiro 2000d). Although the Danish central bank has long shadowed the monetary policy of Germany and now shadows the ECB, and the dominant forces on both sides of industry campaigned in favor, the referendum in September 2000 again rejected Danish membership in EMU. Political winds, however, might indicate that public opinion is changing.

In *Sweden*, the 1980s brought increasing inter-union rivalry, severe economic crisis, and eventually a breakdown of cross-sectoral bargaining, due to much tension over the role of the sheltered sectors and growing employer disaffection (Kjellberg 1998). To curb inflation, the Swedish Krona was briefly pegged to the ECU, but after mounting speculation in 1992 it was allowed to float, and a nonaccommodating, anti-inflationary monetary policy regime was installed. Following a number of failed state initiatives to restore coordination capacity, the official Calmfors Commission (SOU 1996:158) suggested that the insufficient capacity of wage coordination would make EMU membership a risky undertaking. After the recession and soaring unemployment in the early 1990s, Sweden has succeeded surprisingly quickly in re-balancing public budgets, squeezing out inflation, and embarking on a path of significant growth and employment creation while maintaining the most elaborate welfare state in the world. This transition has been accompanied by notable changes in the orientation of wage setting, and alongside new patterns of coordination at the sectoral level, major unions have expressed their commitment to keep wage growth in line with “European norms” of inflation plus productivity (Kjellberg 1998). Recent pay rounds have largely stuck to this formula (Dølvik and Martin 2000). In preparation for future EMU membership, variants of buffer funds and other mechanisms for reducing labor costs without having to cut nominal wages are being discussed (Calmfors 2000: 9). Despite divided views among the member unions,¹⁰ the 2000 Congress of the main confederation (LO) recommended Swedish membership in EMU. Recent opinion polls have

shown increasing majority in favor of membership, but the coming referendum is expected to unleash heated struggles, not least in the labor movement.

UK – a dark horse in the Euro-zone?

Although the UK did not join EMU in the first round and public opinion polls show a majority opposing membership, Prime Minister Blair's pro-membership approach has enjoyed strong support by the trade union confederation (TUC) and the employers' association (CBI). Given that the exchange rate of Sterling can be properly reduced before entering, the British system of decentralized, market-based wage setting is considered well attuned to the need for wage and labor market flexibility under EMU. If Britain joins, however, question remains: is decentralized wage flexibility sufficient to substitute for the loss of monetary policy, which in recent years has played an essential role in macroeconomic adjustment in the UK? Throughout the 1980s and 1990s, high interest rates have repeatedly been used to cool down the economy (Crouch 2000), and wage growth in the UK has been among the higher in Europe and not particularly responsive to cyclical shifts. As the British cycle is sometimes out of sync with that of the Euro-core, the ECB cannot be expected to stabilize the British economy. As with the Swedish debate, this concern might accentuate the question of crisis management through some form of social concertation. Some such capacity might be required, if the British relinquish the pound after all.

The critical factor – the larger countries of the Euro-core

In contrast to significant reforms and economic progress in many other Euro-states, the dominant economies in the Euro-zone – Germany and France – were in the 1990s marked by political gridlock, sluggish growth, and inability to agree on means for adjusting the social security and industrial relations systems (Siegel; Ross, this volume). As Germany alone accounts for roughly one-third of production in the Euro-zone and together with France around half of the Euro-GDP, the developments in these two closely integrated countries will presumably constitute the most important references for the monetary policies of the ECB.

France has been marked by a state-dominated bargaining system with weak and fragmented social actors. Successive legislation on working-time reduction and virtual deunionization of the private sector has in recent years induced considerable flexibility and decentralization of industrial relations (Ross this volume; Dufour 2000). Combined with high unemployment, the “Franc fort” policies introduced in the 1980s have thus been accompanied by persistently moderate wage growth. Still, the faction-ridden French labor movement commands considerable capacity of political mobilization, and questions remain as to the systemic compatibility with EMU requirements (Boyer 2000). Curbing soaring indirect labor

costs through the tripartite social security system may become the critical test of the French industrial relations system's ability to adjust to the new circumstances (Ross, this volume).

The crucial question for the evolution of European industrial relations and the interplay with EU macroeconomic policies, however, is what happens in *Germany*, long admired as a stronghold of monetary stability, responsive social partnership, and economic success, although the double pressures of reunification and internationalization brought economic and employment problems that have severely taxed actors' abilities to find solutions (Streeck 1997; Siegel, this volume). The shift to Euro has reversed the appreciation of the DM, reduced interest rates, and improved German competitiveness and exports, but the domestic economy has not recovered, and proposals for more far-reaching reforms – including American-style deregulation of the labor market – have been voiced in business circles. In 1998, the incoming SPD government, inspired by the successful Dutch example, revived the idea of a tripartite Alliance for Employment, to forge broad bipartite solutions to a range of interconnected welfare and labor market issues. While employers pushed for adoption of the principle of "employment-oriented" moderate wage policies, unions remained reluctant to make concrete wage guidelines or wage restraint an issue for the alliance. On the contrary, defending the principle of Tarif-autonomie and industrial pattern bargaining, key unions have called for an "end to modesty," arguing that recent wage moderation policies had aggravated the employment crisis by restraining domestic demand (Bispinck and Schulten 2000). In particular, IG Metall actors have expressed skepticism about the spread of national social pacts based on wage moderation, which in their view engenders a competitive and potentially deflationary spiral of wage under-bidding, and they have repeatedly called for a more offensive, coordinated wage policy among European trade unions. Although the Alliance for Employment has brought some progress on pensions, training, and other issues – and German wage growth has been among the lowest in the Euro-zone in recent years – uncertainty about wage-setting still raises question about German actors' key role in EMU.

Summary: Changes in national industrial relations during the transition to EMU

The transition to EMU in the 1990s coincided with the German postunification crisis. The confluence of these factors contributed to economic stagnation and rising unemployment in many of the core economies in the EMU. Although labor markets recovered in the late 1990s, especially in the EU periphery, wage growth has been moderate, with tight labor markets and rising inflation recently spurring wage growth in a few countries. Contrary to widespread predictions, the transition to EMU was not accompanied by dismantling or convergence of national institutions of industrial relations toward the deregulated and decentralized Anglo-American model. The British case remains an outlier in the European context. With persistent

institutional diversity, the shift to a low-inflation monetary regime paradoxically proceeded with a resurgence of centralized concertation, social pacts, and state intervention in labor market governance in many countries, especially in previously inflation-ridden countries in the Euro-periphery. Wage setting became in many respects more decentralized, but nationwide, multi-employer collective agreements still determine the framework of wage setting. Widespread “social dumping” and a “race to the bottom” have not materialized (Teague 2000). Faced with the alternative of unilateral state-led convergence programs and flexibilization, many unions chose to participate in “credibility bargaining” (Teague 2000), offering wage restraint as a functional alternative to labor market deregulation (Calmfors 2000). In Germany and France, however, economic retrenchment, high unemployment, and union decline caused conflict and stalemate over the adjustment of national labor regimes, contributing to ambiguity and uncertainty about the future trajectory of European industrial relations.

The new wave of renationalized “competitive corporatism” is, however, markedly different from the neo-corporatism of the 1970s. The new pattern is more oriented to supply-side issues and less associated with redistribution brokered by state financial concessions (Dølvik 1993). In contrast to suggestions that it is solely geared toward micro-oriented supply-side reform (Rhodes 1997), a common feature has nevertheless been the coupling of supply side factors with the crucial role of overall wage formation for the credibility and stability of macro-economic policies – a linkage accentuated by the monetary integration process in Europe (Teague 2000). As Ferner and Hyman (1998) point out, the resurgent importance of the “social wage” in this context – still under influence of organized labor – seemingly strengthened governments’ and employers’ interest in social concertation and brought national trade unions some political leverage and bargaining capital in the search for social trade-offs compatible with competitiveness. Consistent with Katzenstein’s (1985) analysis that flexible corporatism tends to flourish in small, open economies, and contrary to the view that internationalization and monetary integration would render corporatism obsolete (Schmitter and Streeck 1992), fiercer external constraints and market competition were preconditions for the revival of societal concertation in the 1990s (Visser and Hemerijck 1997). Such features were particularly salient in countries where economic decline and/or severe political crisis – as in Italy, Finland, and earlier in the Netherlands and Ireland – together with the imperative of reaching the EMU deadline, generated a climate of emergency conducive to reform. In contrast with the gridlock over welfare and labor reform in some of the larger Euro-countries, the transition to EMU passed surprisingly smoothly in several countries considered least prepared for the Euro.

Despite uncertainty about developments once the Euro was established, capital mobility

and a common monetary policy (EMU) has so far failed to propel either a wholesale break-up or Americanization of national industrial relations in Europe appears. A basic reason for this is that, in contrast to the U.S., the decentralized territorial entities of the multi-tiered European industrial relations framework are still embedded in fairly coherent national polities in which social institutions, legislation, and state support facilitate multi-employer-bargaining and cross-sectoral coordination, while limiting cross-national labor market competition and mobility (Sbragia, this volume). Because these developments have occurred during a period of economic crisis in which the social actors have recognized cross-class interests in securing national entry into the EMU, analysts have reason to be less sanguine about the viability of national social pacts once the EMU is established. Whether they represent the last gasps of the social corporatist model (Teague 2000) or a new European formula of “competitive solidarity” (Streeck 1999) remains to be seen. Thus Boeri et al. (2001) and Calmfors (2000) suggest that even though social pacts are better suited than decentralized systems to cope with globalization and monetary integration and are likely to predominate in the medium term, they are in the longer run likely to be overrun by structural forces (e.g., changing technology, management policies, and workforce differentiation) that promote decentralization. Similar forecasts were made in the 1980s, however, cautioning against determinist predictions of long-term institutional change in contemporary capitalism.

1.4 National social pacts: viable under the EMU?

In assessing whether national social pacts represent a viable mode of adjustment under EMU, it is important to bear in mind the inherently fragile nature of many recent social pacts and the uneven responsiveness of national wage setting systems in the Euro-zone. The union discussion about social pacts has centered on two issues: first, whether they entail a form of competitive corporatism (beggar-your-neighbor-policies) incompatible with broader labor interests, and second, whether they represent a merely defensive form of crisis management bound to evaporate in better times.

This controversy has been associated with claims that excessive national wage moderation, supply-side reforms, and tax relief have boosted employment and competitiveness to the detriment of jobs and labor standards in other countries, amounting to a zero-or minus-sum game in the European economy as a whole (Martin 2000, Bispinck and Schulten 2000). Despite the plausibility of the argument, this view is overly general and simplistic. National economic and employment growth is not exogenously given or determined solely by macroeconomic policies but is affected by a variety of endogenous

factors, among them the role of wages and supply-side factors in the labor market/welfare state nexus, as indicated by the immense differences in employment levels and the effects of growth on job creation in the EU countries (Padalino and Vivarelli 1997). To the extent that solidaristic wage policies (implying pay restraint in highly productive industries) and social reform contribute to eliminating obstacles to work, get more people into paid employment, and boost profitability and investment, they appear, other things being equal, to increase disposable income, consumer demand, imports and GDP growth, as apparently has been the case in the Netherlands, Ireland and several of the Nordic countries. As Hemerijck et al. (2000) emphasize, a zero-sum logic arguing that such policies just detract from growth and employment elsewhere and should be denounced, is unconvincing.¹¹ In the Netherlands, Denmark, and Ireland, in the 1990s, wage restraint, in a context of growing labor supply and investment, apparently gave room for some fiscal stimulus and higher growth than would otherwise have occurred. The impact of wage moderation on jobs in other countries thus depends not only on labor cost effects in exposed sectors but also on the macroeconomic policies, investment, GDP growth rates, and the effects on imports (affecting employment in other countries' export-sectors).

Because the social fabric varies between countries, objective criteria for justified and legitimate national policies that promote national growth and competitiveness are hard to determine. Some broad common guidelines are nevertheless desirable, especially for the impact of measures designed to win international market shares on growth and social justice in the Euro-zone. One principle is to disallow national policies that, if simultaneously applied by other countries facing the same problem or situation, would generate detrimental collective effects. A need would remain, however, for shared understandings of the circumstances under which national deviations from such norms (such as by wage cuts) might be acceptable. Arriving at common norms defines the idea of European wage coordination in the same way that the quest for common minimum standards in company taxation and labor protection aims to prevent rational individual behavior from causing collective irrationality and a race to the bottom (Dølvik 1993).

Whether the recent wave of social pacts is sustainable in more prosperous times, plausible assumptions are that fiercer competition, the shift in monetary regime, and awareness that wage bargainers can no longer rely on bail-outs by national governments or central banks have influenced strategic considerations for many national trade union federations (Teague 2000). Doubts remain, however, over the ability of national union leaderships to ensure rank-and-file compliance with centrally determined policies once labor markets become tighter. Especially in the catching-up countries of the Euro-periphery, it may prove hard to keep members, not least in multinational companies, from demanding equal pay

with colleagues doing similar jobs in high-wage/high-productivity countries, particularly if encouraged by Northern unions acting as “sirens” for invidious wage comparison (Streeck 1998, Visser 1999).

This prospect is not a challenge merely for the catching-up countries of the Euro-periphery. Whereas ongoing changes in the composition of labor may weaken the coordinating capacity of unions as well as employers (Dølvik 2001), the shift to EMU might complicate the pursuit of solidaristic wage policies in the Euro-core. Without the disciplining role of national central banks and financial markets in a situation of recovering labor markets, union bargainers may be encouraged to adopt a tougher approach and face union leaderships with growing difficulties in mustering support for coordinated moderation – the perennial problem in the 1970s that led to the break-down of incomes policies in many countries. Hence, after a long period of wage restraint and widened income inequality, accumulated tension and frustrated demands can easily explode, even in countries with ostensibly stable and responsive bargaining systems. Employers’ efforts to compete for and retain labor in tight labor markets work in the same direction. Such dynamics might interact with the fact that unions in domestic and exposed sectors are differently affected. While the ceding of national monetary policy reinforces the disciplinary effect of product market competition in the export-oriented sectors, it removes the direct pressures of financial markets on wage setting in the domestic service sectors formerly caused by the awareness that excessive total wage growth would generate currency depreciation, rising prices, and higher interest-rates. As wage growth in the domestic shelters spillover to production costs in the export-sectors, shrinking manufacturing unions will probably have an even stronger interest in economy-wide coordination, whereas unions in the growing service sectors might turn to a more forceful pursuit of particularistic interests, which, other things being equal, will hamper employment growth.¹²

Therefore, although social pacts have enabled the unions to ensure a shift to employment-oriented, responsible wage policies in a context of sluggish labor markets, the task will become more arduous if EMU, as promised, brings about growing prosperity – as indicated by recent Dutch and Irish developments. The more economically successful the EMU becomes, the more critical becomes the industrial relations systems’ ability to resist labor cost inflation to maximize job creation, bring down unemployment, and retain a sense of solidarity in wage setting. But insofar as growth can be expected to vary significantly across the Euro-zone, as does the governability of bargaining, inflationary and deflationary wage impulses will likely operate simultaneously in different regions. Although these counteracting tendencies might function as an adjustment mechanism and buffer against cumulative dynamics in the entire Euro-zone, they imply that the ECB monetary policy may

function pro-cyclically in certain regions, as it has in Ireland. The apparently contradictory concerns with deflationary and inflationary wage spirals under EMU thus reflect two sides of the same coin, namely that the reduced macro-economic stabilization capacity at the national level, combined with the quest for increased wage flexibility, can readily trigger pro-cyclically oscillating wage policies. As national unions face stronger incentives to accept real wage cuts during economic slumps, they will, unless some sort of buffer funds are installed, presumably aim at making wages equally flexible upward during economic boom – possibly triggering penalizing countermoves by the ECB.¹³ The risk is thus that without any institutionalized pattern of communication between (coordinated) wage bargainers and the ECB, and with lack of stabilization capacity at the national level, a counterproductive dynamic of mutual overshooting can evolve between the ECB and uncoordinated national wage bargainers. The result would harm growth and employment. Assuming that national policy coordination alone will prove sufficient to ensure optimal interplay between macroeconomic policies and aggregate wage setting in the Euro-zone thus seems optimistic.

To sum up, although EMU makes national concertation more essential to enhance employment and retain a sense of solidarity, the contradictory pressures on national systems suggest that such policies will be harder to sustain. The more economic policies develop in an expansionary direction, the stronger becomes the need for a common framework of European guidelines and criteria that can ensure that wage growth does not veer out of control and prompt retaliation by the ECB and macroeconomic policy makers. That is, if the aim is to maximize employment growth in the entire Euro-zone, without copying the Anglo-American model of rising wage inequality and labor mobility, the recent revival of national concertation of wage setting and labor market policy reform represents an indispensable but insufficient precondition. In this view, national social pacts as such do not contradict the quest for Europeanization of collective bargaining and economic policy co-ordination. The broader functioning of social pacts cannot be assessed only on the basis of policy form, but depend on their content and way of interaction. If the social actors cannot maintain policy coordination aimed at helping the weaker parts of the labor force back to paid work at the national level, it is hard to see how these goals could be accomplished on a European scale, where social identification is weaker, the structure of interests much more complex, and the mechanisms for ensuring compliance with agreed-upon policies virtually absent. If labor interests are to be accommodated at a European scale, working national systems of interest intermediation (upstream) and implementation (downstream) must be in place. Effectuation of a European wage-norm hinges on the comprehensiveness and efficiency of the national systems assigned to implement it. As Sisson et al. (1998: 22) notes,

“Social Pacts can (...) be seen as one of the basic blocks in the building of a new Euro industrial relations system (...): proposals for coordination of pay developments at EU level under EMU (...) would seem to have more chance of success if it is the question of coordinating the outcomes of a number of social pacts instead of a myriad of sector and company agreements.”

2. From national to European concertation?

2.1 National flexibility and European coordination: an irresolvable contradiction?

If the implications of EMU for national industrial relations systems are contradictory and hard to predict, the aggregate effects and conditions for developing a viable European model of labor market governance are even harder to disentangle. For the social actors the challenge is to transcend the gap between micro-and macro-rationality and to reconcile the seemingly incompatible quest for national flexibility and European coordination.

The basic rationale for European-level coordination of pay bargaining stems from the asymmetric relationship among the three main determinants of macroeconomic policy under EMU: monetary, fiscal, and wage policies. These three policy levers were formerly determined by interacting agencies at the national level, but under EMU they are distributed over multiple levels and the actors are assumed to operate independently of each other, boding for significant collective action problems (Dyson 2000). With the ECB governing monetary policy, the nationstates conducting fiscal policies within the restrictive frames of the EU Growth and Stability Pact, and decentralized national actors determining wage policies, the risks are not only those of free-riding but also policies that pull in different, if not contradictory, directions, leading to suboptimal out-comes (Boyer 2000). Unlike various institutionalized and informal patterns of communication that usually helped facilitate policy congruence at the national level, the original EMU design, with ECB as the focal point, provides no mechanism for interaction or coordination among the main actors, who carry very different preferences and interests.¹⁴ The problem, however, “is that none of these actors is able to adequately satisfy its preferences without the co-operation of the others, whether implicit or explicit.” (Dyson 2000: 46). Besides the trade unions’ aspiration to make wage policies a lever to gain influence on EU policies, the main purpose of coordinating wage policies on a European scale is to enhance predictability and means of communication among wage bargainers, the ECB, and fiscal policy makers. Thus European wage coordination might substitute for the loss of national monetary policy as reference point for national wage setting and facilitate national actors’ consideration of ECB policies when designing their own wage

policies. The process might provide scope for more expansionary monetary policies, a better attuned interplay among the different pillars of economic policy, and higher employment growth than would otherwise be the case.¹⁵

The hurdles, however, are considerable. According to what formula or criteria can such coordination be pursued? How can it credibly be designed and implemented? Most European employers' associations and their European representatives have been deeply opposed to any move toward European collective bargaining and prefer keeping wages and working conditions as decentralized parameters in their competitive strategies.¹⁶ The national governments in the EU have also followed a cautious approach. The Maastricht Social Agreement (MSA) explicitly stated that the EU has no mandate to interfere in issues of pay and industrial conflict, although the EU's role has gradually expanded in labor market regulation, social dialogue, and negotiation of European framework agreements on parental leave, part-time work and temporary work. The crisis flowing from the German post-reunification recession led, moreover, to creation of a European employment strategy, emphasizing benchmarking and coordination of national labor market policies in dialogue with the social partners. (Goetschy 1999). Eventually, the leap into the EMU prompted the EU governments to establish a macro-economic dialogue (among the ECB, finance ministers, the Commission, and the social partners) at the June 1999 EU Cologne Summit. Seemingly, the dynamic created by the launch of the Euro and the European employment strategy has generated certain political and institutional spill-over effects.

Although these developments have certainly contributed to the European trade unions' domestically contentious "yes, but" support of EMU, its restrictive design has not matched trade union expectations (Foden 1998). The ETUC has therefore constantly called for a more expansionist interpretation of the Maastricht Treaty and coordination of monetary, fiscal, and wage policies on a European scale. With less than 10 percent of the total GDP in the EU stemming from imports, the ETUC has made a strong case for a Keynesian revival at the European level (ETUC 1999, Coldrick 1998). From the early 1990s, the prospect of EMU and the negotiating option enshrined in the MSA gave impetus to deepened trade union cooperation in the ETUC and its associated European Industry Federations (Dølvik 1999, Martin and Ross 1999).¹⁷ Their declared ambition to develop transnational coordination of collective bargaining, however, came to naught (Keller 1996). With the advent of EMU, this debate gained renewed momentum, fuelled by the concern that trade unions would be played off against each other in an intensified competition over jobs and income.

2.2 Different pathways of Europeanization of collective bargaining

At the European level centralized wage bargaining between organized employers and unions

is out of question. Because the employer associations are also strongly opposed to transnational coordination of pay policies, the issue is whether the trade unions are capable of developing a workable form of coordination among themselves, and whether their efforts might enable creation of a feasible mode of interaction with the macro-economic authorities of the EU. In principle, Euro-wide trade union coordination of collective bargaining might occur at three different levels: (1) the multinational company level, possibly related to European Works Councils (EWCs); (2) the sectoral/industrial level organized by the European Industry Federations (EIFs); and (3) the cross-sectoral, confederal level organized by the ETUC.

At the *company level*, EMU enhances management opportunities to pursue coercive comparison of labor performance. Together with establishment of European Works Councils, this development might stimulate cooperation between unions in different national branches of transnational European companies, and might, in certain cases, provide the basis for eventual framework agreements on labor standards and “arm’s length” bargaining relations (Marginson and Sisson 1998). There are also indications that company negotiations on fringe benefits, bonuses and performance benefits (i.e., on pay-related issues) are emerging within certain EWCs. With only a small minority of European workers employed in transnationals and with cross-border company bargaining potentially in conflict with coordination at the national and European industry levels, such a path would poorly serve economy-wide coordination, and unless properly anchored in a system of industrial co-ordination, it might even impede such an objective.

At the *industrial level*, in aspiring to a pioneer role in European pattern bargaining, the German *IG Metall* has been pivotal in staging a series of regional initiatives to coordinate national collective bargaining with unions from neighboring countries. This effort included not only the Benelux countries, where the now famous Doorn agreement of 1998 brought together both industry unions and the national confederations, but also counterparts on Germany’s eastern, southern, and northern borders. Coordination gravitating around Germany, however, has caused concern among some unions outside the Euro-core (Pochet 1999), and attempts to extend these initiatives through the European Metalworkers Federation (EMF) and several other EIFs are probably crucial to prevent new regional and national divisions among European unions.

A common feature of all these initiatives has been adoption of a tentative European norm for development of labor costs, based on the formula (anticipated) *inflation+productivity growth*, leaving the national actors to determine priorities among wage increases, working-time reduction, training, and other social purposes (e.g., jobs). Apart from whether productivity growth is to be calculated at the national, regional, sectoral, or company level (Mermet 2000), the EMF compromise formula (a “balanced share of productivity growth”) reflects discrepant views among

European unions on wage moderation as a means to spur employment.¹⁸ While *IG Metall* adheres to a neo-Keynesian interpretation of the employment crisis and tends to see wage restraint mainly as a zero-sum game, unions in many southern and northern countries are concerned not to price national members out of work. Despite the lukewarm response by some unions outside the former Deutschmark-zone, the creation of common arenas for discussion of such essential issues - exchange of information and demands, mutual representation, conflict support, and increased synchronization of pay rounds across national boundaries – is a significant expression of the new dynamics in transnational union co-operation in response to EMU. As envisaged in the EMF strategy (Schulten 2000), such dynamics are most likely to gain headway through clusters of national unions operating under comparable economic and social conditions, implying that the most feasible model of European coordination is through inter-linked, regional bargaining networks.

At the *confederal level* too, the transition to EMU has triggered new developments associated with macro-economic dialogue, assigned to promote information exchange and confidence among actors involved in monetary, fiscal, and wage policy. Although the secretive and non binding nature of the talks has been emphasized, and none of the actors carry a mandate to engage in anything more, former national experience might indicate that such tripartite institutions of signal exchange stimulate trust-building, learning, and sometimes tacit forms of concertation. So far, however, the process has appeared fairly ritualistic.¹⁹

At the 1999 Congress, the ETUC decided to establish itself as a key actor in developing union wage coordination, followed by adoption of common guidelines in December 2000, very much conforming with the EMF approach (ETUC 2000). Representatives of both national confederations and the sectoral EIFs take part in the ETUC collective bargaining committee and on the ETUC side in the macroeconomic dialogue meetings. Without a capacity for autonomous coordination of wage policies at the industrial level, the ETUC representatives in the macroeconomic dialogue would have no leverage credibility; conversely, without the representative ETUC role in the macro-dialogue, the industrial actors would hardly be exchanging direct signals with the European Central Bank. Yet as shown by the belated and timid ECB interest rate cut associated with the US downturn and the slow-down in Euro-core countries in 2001, there are no indications that the ECB is shifting to bolder expansionary policies, as called for by the ETUC.

2.3 A two-fold model of soft European wage coordination in the making?

The review above suggests that the prospects for coherent trade union coordination of collective bargaining under EMU are dim. Different approaches prevail inside the European trade union movement – at the national, sectoral, regional and European confederal levels –

and the EIFs and the ETUC are marked by internal heterogeneity, incongruent structures concerning sectoral/industrial boundaries, fragile mandates and presumably weak capacity to ensure compliance with agreed-upon policies (Ebbinghaus and Visser 2000).²⁰

Still, although the hurdles are significant, one should not overestimate the problems. Social learning processes, based on the emergent pattern of what Teague (2000a: 430) has coined multi-tiered “credibility bargaining” with the Euro-regime as “focal point”, might point toward a twofold model of soft European co-ordination, or “shadow” pattern bargaining. With the potential to link national and transnational coordination of wage policies and help accommodate the need for national flexibility and European coherence, such a model would entail these components:

- European cross-national coordination of wage policy on the sectoral level, probably led by IG Metal and the EMF-process, defining the general pace and margins for collective bargaining in the Euro-zone

- National cross-sectoral coordination of wage policy, either through centralized concertation or industrial pattern bargaining, conditioning (upstream) national union participation in European coordination and transposing (downstream) European margins and parameters into national systems in accordance with different national and sectoral conditions.

In such a model, persistence of coordination through industrial pattern bargaining or social pacts within the nation-state is not inconsistent with but a precondition for a soft mode of cross-national coordination that does not impede social cohesion and employment growth nationally. Conversely, the development of cross-national sector coordination can provide a framework that helps prevent national concertation from being perverted into beggar-thy-neighbor policies. A condition is that European coordination mainly aims at defining normative criteria, guidelines, and corridors for wage increases over the cycle and allows ample leeway for adjustment in accordance with national and sectoral differences in productivity, resembling the notion of “open method of co-ordination” (Porte and Pochet 2002). By ensuring that the trend-setting actors in the chosen European front industries, notably the metal sectors,²¹ are embedded in structures of ties and commitments to their fellow unions in less productive sectors at the national levels, the actors would, in such a model, face strong incentives to take the externalities of their policies into account when operationalizing the agreed strategy and criteria for wage claims.

Moreover, by constituting a visible referent for the ECB and making clear that the union

front runners are assigned a pace-setting role for other unions in the Euro-zone, such a model can contribute to a credible signalling system and interaction among the key unions, the ECB, and the EU authorities. Besides creating stakes and incentives for the development of a more binding mode of interest accommodation among national and sectoral union actors inside the ETUC, this process provide the trade unions, represented by the ETUC, a platform for acting on the basis of a certain strength and autonomy when entering into macro-economic dialogue at EU level. European sector coordination is thus not an alternative to but a prerequisite for the evolution of arm's length soft concertation at the European level.

Such a twofold model of bargaining coordination may, of course, look fine in theory but utopian in practice. And the operation of such a system does indeed presuppose that the national unions are prepared and capable of complying with the commonly agreed norms and objectives. So far, this condition is far from met; instead, strong indications suggest that many national unions, despite their official consent at meetings in the ETUC, EMF, or other EIFs, prefer to pursue national goals or, alternatively, are not strong enough to meet the objectives they themselves have propagated in European union meetings. Despite loud language against competitive restraint, wage growth for example in German manufacturing has in recent years been among the most modest in the Euro-zone, showing that even the Doorn process of the Euro-core unions is still in its infancy.²² And with employers pushing for decentralization and individualized performance-related pay, only time can tell whether the unions are capable of maintaining economy-wide coordination nationally, which is, of course, a precondition for European co-ordination. If the unions prove willing and capable of acting in concert on a European scale, the viability of the twofold model of cross-national and cross-sectoral coordination hinges indeed on whether the ECB is prepared to provide the growth-inducing policies required to entice the unions to sustain the efforts.

A related question is whether such a model can be assumed to work when the key unions cover only a limited share of the workers in the relevant European industries, and when only the core unions in, for example, the EMF seem committed to engage in such a venture. First, it is important to recognize that the prime function of European wage norms is to define economically viable criteria for national wage growth over the cycle, not to regulate relative wage differentials. Second, even in countries where economy-wide coordination has remained strong, the pioneer unions in the exposed sectors represent only a limited share of employment, but agreements struck by the wage-leading unions are generalized throughout the economy, partly by legal statute, partly through imitation by other unions and firms. If most of companies in the leading sectors comply, full coverage is accordingly unnecessary for coordination to be effective impact. Theoretically, in situations with many dispersed and interdependent actors, effective coordination can be achieved if a relatively small critical

mass of key actors commit themselves to act in concert (Traxler 1998a). In practical terms, it would probably suffice to curb detrimental wage spirals (up-and downward) and provide a credible referent for the ECB if the unions in the Euro-core managed to construct an adequate degree of responsiveness and coordination among themselves – for example through the EMF/Doorn process. Moreover, with divergent economic developments in different regions of the Euro-zone, coordination without the whole range of periphery unions would probably enhance consistency in the core and flexibility in the periphery.²³

To sum up, the leap into the EMU has heightened awareness of the essential role of labor market organizations in mastering economic change and given some impetus to Europeanization of trade union strategies. Together with development of negotiated EU framework regulations within the social dialogue and the establishment of the European employment strategy, these changes have spurred the development of frameworks for what might be considered a nascent European system of industrial relations (see Table 3.1).

Table 3.1 Multi-tiered European Coordination Network of Bargaining and Industrial Relations

	European	National
Cross-sectoral level	Macroeconomic Dialogue	Social pacts on Incomes policies Labor/welfare reform
	Social dialogue on European framework agreements	Negotiated implementation of European agreements
	Employment strategy	National Action Plans
Sectoral/ industrial level	Wage coordination (e.g., EMF and Doorn process)	Industry and sector (pattern) bargaining
	Social dialogue, framework agreements	Negotiated implementation
Company level	Framework agreements, codes of conduct	Company bargaining, “armlength coordination”
	European Works Councils	Information and consultation

Sources: Author’s adjustment of Jacobi (1998) and Schulten (1998).

If the main actors are capable of acting in accordance with their declared intentions, the evolving multi-tiered and multi-speed cross-national coordination in key sectors -- combined with cross-sectoral concertation at the national and, possibly, peak European levels -- fits reasonably well with the functional requirements of EMU. If so, EMU will neither require far-reaching centralization of collective bargaining at the European level, nor anything resembling a European replica of former national models of macrocorporatism. The locus of collective bargaining will remain at the national level, but the actors are likely to become embedded in an increasingly dense web of European commitments, guidelines, and framework understandings, which together point toward an uneven, articulated, and predominantly horizontal Europeanization of collective bargaining and trade unionism. In such a trajectory, outcomes may converge across states, but institutional diversity and national distinctions are likely to persist. This does not preclude that arm's length coordination or virtual European collective bargaining in some sectors and companies, under certain conditions, might be transcended by a more profound transnationalization of collective bargaining. The history of industrial relations suggests that path-breaking institutional change has emerged in response to major crisis and conflicts (Sisson 1987). If main unions in the Euro-core succeed in synchronizing their bargaining rhythm and demands, eventually causing industrial conflict to spread across borders, such a situation might occur.

3. Conclusions

EMU presents daunting challenges to industrial relations in Europe. With monetary policies governed by the ECB, limited space for fiscal policies, intensified regime competition, and fiercer struggle for market shares, the adaptability and responsiveness of the national industrial relations systems become ever more crucial for the ability to foster growth, employment, and social cohesion in Europe. EMU has contradictory implications for industrial relations. Micro-dynamics indicate a need for greater labor market adaptability. Macro-dynamics indicate a need for more flexibility and coherence in aggregate wage developments, leaving the actors with complicated strategic choices over the process of adjustment. Thus far, some convergence of outcomes is evident between countries -- alongside increased differentiation within countries -- but significant diversity in employment institutions and performance prevails. Despite considerable strain and stagnant labor markets, most national regimes of collective bargaining and trade unionism have shown greater resilience than expected. The deregulated Anglo-American model remains an outlier in Europe; centralized institutions of collective bargaining prevail; and

in several of the countries considered least fit for the EMU, the adjustment process has been accompanied by revitalization of centralized concertation and modernization of labor market governance. If the crisis of the German model leads modification rather than abolition of existing frameworks, the prevailing mode of national industrial relations may have become reasonably well attuned to requirements for EMU.

Thus, in contrast to the many predictions that EMU will prompt sweeping transformations of national labor regimes, a more likely scenario is that the last decades' trends in European industrial relations will continue and provide for persistent institutional variation. Although the transition to EMU has been accompanied by a reinvigoration of existing labor market institutions, the changing conditions under which these institutions operate have implied significant changes in their function and content, as enshrined in the notion of "credibility bargaining" (Teague 2000). In this sense, many of the European labor regimes have gone through an ambiguous process of institutional stabilization and qualitative transformation. The contours of a leaner, more flexible, streamlined version of the European social model are visible, suggesting that EMU in itself will not abolish the EMSO labor regime but will further pressure for adjustment and renewal. Although in several countries EMU has catalyzed change, the *vincolo-esterno* effect, these trends have probably more to do with the international restructuring of markets and domestic social change. Whether these developments point toward a viable peace formula between capital and labor in Europe, replacing the broken postwar settlements, is too early to say (Streeck 1999), but considerable uncertainty remains as to the actors' capacity and commitment to sustain social concertation when the race for EMU qualification is over. In several countries, organizational fragmentation and union decline, due to structural changes in production and the composition of labor and social interests, cast doubts about actors' ability to muster legitimacy and domestic support for continued participation in concerted reform processes. A critical factor is indeed whether the trade unions can stem the decline in membership and reshape their organizations in response to the changing aspirations of the postindustrial workforce (Dølvik 2001).

Depending on its macroeconomic effects, the EMU might aggravate or alleviate these strains. The unions, in particular, need a positive reason to participate in burdensome adjustment processes. An essential prerequisite of the US "employment miracle" has been the accommodating policy of the Federal Reserve (Martin and Notermans this volume), accentuating the question whether the expansionary monetary policy of the American recovery in the 1990s can be replicated under EMU. With the much stronger position of labor in Europe than in the US, such a trajectory would be critically contingent not only on fiscal prudence but also on the coordinating capacity of

collective bargaining systems to prevent inflationary pressures from strangling the upswing and to remove structural obstacles to labor market expansion. If, by contrast, the trajectory of sluggish growth and restrictive economic policies of the EMU transition period prevails – or, as feared by the most pessimistic observers, is aggravated – the risk is that the struggle for market shares will unleash a spiral of competitive wage bidding, with decreasing scope for national bargaining, downward pressures on social standards, and (in the longer term) erosion of national industrial relations.

To forestall such destabilizing dynamics, it would seem desirable that soft cross-national coordination of wage and economic policies complement national concertation. Such a venture cannot be expected to gain much headway under the vicious circle scenario but would in a more virtuous trajectory of higher growth and accommodating economic policies not only become more important but perhaps also more attractive to the ECB and the unions' political and social counterparts. In this view, it seems pertinent to conclude with Sisson (1998:1) that “the pressure EMU brings for further economic and political union will add greater urgency to the debate over the reconstruction of European industrial relations.”

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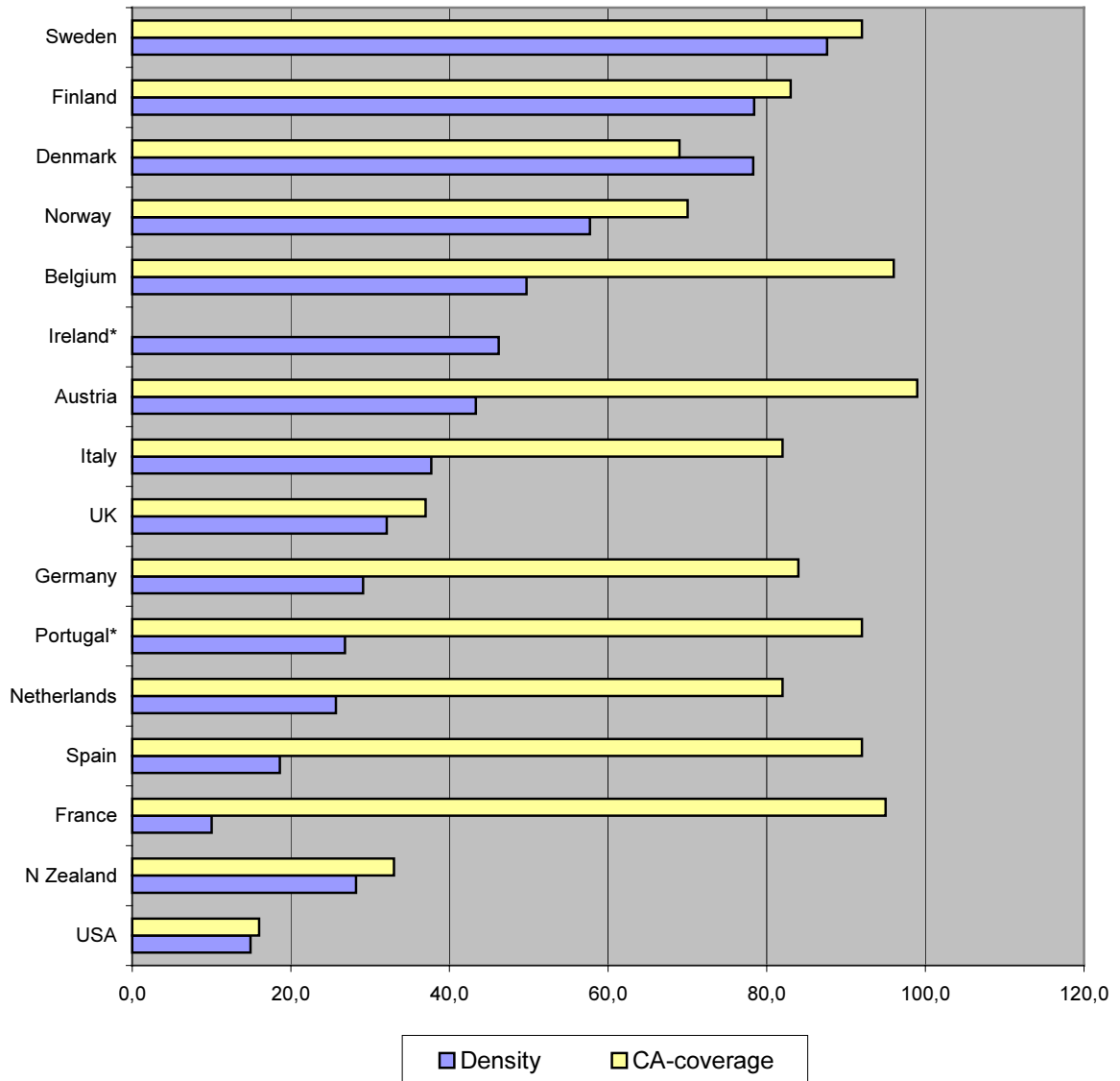
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Trade union density and collective agreement coverage (1995)

Sources: Traxler et al. 2001, OECD 1997



USA	14,9	16
N Zealand	28,2	33
France	10,0	95
Spain	18,6	92
Netherlands	25,7	82
Portugal*	26,8	92
Germany	29,1	84
UK	32,1	37
Italy	37,7	82
Austria	43,3	99
Ireland*	46,2	
Belgium	49,7	96
Norway	57,7	70
Finland	78,4	83
Sweden	87,6	92

* Gross density

** CA-coverage for Italy found in OECD 1997, Employment Outlook Chart 3.1

NOTES:

¹ Only about one percent of households in the UK, Germany, and France, and even fewer in Italy, Spain, and Belgium, change their region of residence in a year. Of the 150 million employed in the EU, less than 2 million EU citizens and 5 million residents from third-countries work abroad, and the annual cross-border flows of labor represent less than a tenth of a percentage of the EU workforce (Visser 1999).

²³ According to the EU Council's recommendation of the economic policy guidelines for 2001, wage developments in member states should reflect different economic and employment situations. Governments should promote the right framework conditions for wage negotiations by social partners. For wage developments to contribute to an employment-friendly policy mix, social partners should continue to pursue a responsible course and conclude wage agreements in member states in line with the general principles set out in the broad economic policy guidelines. It is necessary that "(1) the increase in nominal wages be consistent with price stability; (2) the increase in real wages not exceed growth of labour productivity taking into account the need to strengthen, where necessary, and subsequently maintain, the profitability of capacity-enhancing and employment-creating investment; wage formation processes that take account of productivity differences (inter alia according to skill, qualification or geographical

area) be encouraged. ”

³ Monetary wage flexibility has thus not increased in the countries with the most binding hard-currency regimes under ERM. That is, in Austria, France, Belgium and the Netherlands (Calmfors 2000: 4), which de facto have been in a quasi-monetary union under the auspices of the German Bundesbank.

⁴ The gap between productivity and real wage growth was pronounced in the early 1980s, then the compensation levels almost kept pace with productivity during the upswing from 1986, before the gap again widened from 1992, indicating a close relationship with the economic cycle, but a less clear relationship with the pace of monetary integration.

⁵ As pointed out by the editors of this book, both thus overlook the main culprit: restrictive policies that keep expectations of growth too low for sufficient investment.

⁶ Iversen (1999) analyzed the effectiveness of centralized (cross-sectoral) vs decentralized (industry) bargaining under different monetary regimes. His study indicated that unemployment and inflation presented several equilibria. The combinations of centralized bargaining/accommodative monetary policies and decentralized bargaining/non-accommodating monetary policy were both superior to the inverse alternatives.

⁷ A more in-depth review of changes in industrial relations during the transition to EMU is provided in (Dølvik 2000).

⁸ In contrast to widespread international skepticism, both Spain and Portugal also managed to meet the convergence criteria without noteworthy budget cuts; instead, privatization of state enterprises, economic growth, and improved tax collection substantially increased public revenues (Glatzer 1999).

⁹ Because of the crisis caused by domestic overheating after deregulation of credit markets and collapse of the lucrative Finnish trade with the Soviet Union, production and employment dropped by 12 percent from 1990 to 1994, more than during the Great Depression of the 1930s, and unemployment soared toward 20 percent. The crisis was aggravated by the simultaneous shift to a nonaccommodative monetary policy stance based on a fixed exchange rate with ECU, which because of speculationary pressures led to soaring interest rates (Pekkarinen 2001; Bolt 1999).

¹⁰ To embark on a process of upward adjustment of relative wages, unions in domestic service sectors might under certain conditions find it beneficial to leave the responsibility for inflation to the national central bank, whereas the unions in the exposed sectors tend to be deeply skeptical of this arrangement because it leaves them with the (heavier) burden of maintaining competitiveness. For such reasons, controversies over monetary policies (and EMU membership or linkage) have in Sweden and Norway become associated with a struggle over the appropriateness of the EFO/Aukrust-model of wage determination.

¹¹ One might further ask about economies where large shares of the population are allowed to remain outside productive work, receive minimal income, and do not contribute to demand and economic growth in the European economy. Should such measures be denounced as beggar-your neighbor policies? And what about taxation of labor, which has a strong bearing on both unit labor costs and consumer demand? Such questions indicate the complexity of the beggar-your-neighbor-concept. Its usefulness is in raising awareness about the broader normative implications of national policies in a context of growing economic interdependence.

¹² Typically, the service-sector unions (HBV and IG Medien) recently withdrew from the German Alliance for Jobs precisely because of its disciplining effect on pay policies. Similar tendencies have been witnessed in Ireland, Finland, and Norway, where several unions in the services sector defected from recent income-policy deals.

¹³ These considerations suggest, as is the intention with the Finnish buffer funds, that coordinated wage setting at the national level should aim at smoothing wage developments over the cycle (synchronically) and not be narrowly targeted at short-term economic fluctuations. In the same vein, Eichengreen and Wyplosz (1998) argue that fiscal balance should be sought over the entire cycle, not the short term. Such an understanding should preferably also shape the way the ECB (and European trade unions) judge the impact of national wage-setting on inflation (and competition), allowing for acceptance of short-term deviations from longer-term objectives as a necessary element of maintaining national adjustment capacity.

¹⁴ On the contrary, the ECB is obliged not to receive political instruction or sever its independence through bonds with external actors, precluding it from entering into any overt European policy concertation. ECB actors have also actively opposed ex ante coordination, which in their view would blur responsibilities and risk

destabilizing short-term activism (Issing 1999, in Dyson 2000: 30)

¹⁵ By analogy to studies of national systems two different arguments can support the case for European coordination. First, coordination can serve as a functional equivalent to nonaccommodating monetary policies (Holden 2000) (the ECB policy may in sizeable parts of the Euro-zone actually function pro-cyclically and not in a nonaccommodating way). Second, in the zone where ECB policy is nonaccommodating, national experience indicates that results are better in coordinated than in uncoordinated bargaining systems (Iversen 1999), where decentralized actors usually do not respond directly to signals from a distant central bank (Crouch 2000), and more draconian monetary policies may be required to curb inflationary pressures (Hall 1994).

¹⁶ The view of the Union of Industrial and Employers' Confederations of Europe (UNICE), whose members are usually not mandated to pursue wage negotiations, is straightforward: "It is sometimes argued that wage bargaining at European level is the logical consequence of EMU and a necessary part of a European strategy for employment. According to UNICE, this is wrong. Wage negotiations are based on many factors such as competitiveness, productivity, taxation, cost of living etc. They must therefore remain the responsibility of national industrial relations systems" (UNICE, 1999: 14). This view is basically shared by CEEP, mainly organizing (semi)public enterprises, UEAPME (organizing SMB-firms), EURO-COMMERCE, and the main European industry associations on employer side (FEBIs).

¹⁷ The ETUC membership consists of 68 national confederations from all over Europe and 12 European Industry Federations, together representing more than 60 million members. The overall density is now 32 percent in the EU, down from some 36 percent in the mid-1980s (Ebbinghaus and Visser 2000).

¹⁸ A more elaborate formula, based on the idea of a sectoral European wage "snake" with broader corridors for adjustment over the cycle, has thus been developed by the EIF of textile unions.

¹⁹ In spite of the ECB-centric nature of the network of interdependent Euro-zone institutions, Dyson (2000: 63) thus suggests that the "the European Employment Pact, the employment guidelines, and the macroeconomic dialogue, alongside the Economic Policy Committee and the Employment and Labour Market Committee, formed another potential focal point in Euro-zone negotiations. Potentially they could evolve to counterbalance the role of the ECB." By identifying policy strategies, involving the social partners, and exploiting "arenas without rules" that could allow them to shape policy change by circumventing the entrenched power of the ECB, the states have in this view sought to bring new ideas to bear on the design of Euro-zone policy by stimulating broader learning processes and implicit coordination (ibid: 63). So far, however, these initiatives have been defined by their consistency with the dominant economic policy paradigm of "sound money". Whereas "it would take a crisis of credibility for the ECB-centric Euro-zone, and for the economic paradigm that it embodied, to create opportunity for radical reform," a better strategy would, according to Dyson (2000: 266), be to instigate a series of anticipatory reforms centered on establishment of some modest fiscal transfer mechanism and development of the macroeconomic dialogue to devise procedures for "demand management" in case of severe economic slump and ensure that wage bargaining is coordinated with monetary policy (ibid: 267-9).

²⁰ Ebbinghaus and Visser (2000) suggest that the recent mergers and tendency to establish conglomerate mega-unions – especially in Germany – might cause even less compatible (idiosyncratic) structures, undermine the confederations, and as a result further complicate the development of cross-national coordination.

²¹ It is in this regard significant that one of the five ETUC representatives in the first macro-dialogue meeting was the general secretary of the European Metalworkers Federation, Reinhard Kuhlmann, who comes from the German IG Metall.

²² A friendlier interpretation would be that such deviations from the common orientation are perfectly sensible if motivated by specific national circumstances (e.g., important institutional reforms or cyclical conditions), given that they eventually are compensated over the cycle.

²³ Such an all-encompassing form of coordination would probably be ineffective, lack credibility, and rob the unions in the catching-up countries of an indispensable means of adjustment, notably the relative autonomy to revert to "free-rider" strategies until their economies become better attuned to the EMU regime.