Varieties Of Industrial Relations And Europe’s Continued Quest For Corporatism

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Paper prepared for the ECPR workshops in Uppsala, April 14-18 2004

Introduction

The labour market is probably the most nationally diverse and least integrated of all markets in Europe. State regulation has been, and is, pervasive and based on quite distinct models of intervention and self-regulation. The boundaries of such regulations and interventions are vague and they overlap with social insurance provision and social policy, which played a salient role in the creation of European nation states. Despite all official ambitions and proclamations, free movement of labour across national boundaries is still very limited in the European Union and requires much more than the removal of frontier controls and working permits. The mutual recognition of skills and professional qualifications, the transferability of social security and pension rights, not to speak about a European right of association, collective bargaining and striking, is still far away.

Greater reliance on best practice and peer pressure, perhaps supported by ‘soft legislation’ and ‘social dialogue’, instead of more binding forms of coordination, is supposed to suit best this wide diversity of social and welfare systems in Europe. The European Commission has learned some hard lessons while attempting to impose greater uniformity through legislation and is now coming down to more supple forms of coordination, more in line with its own limited competences and capabilities, and the resistance of Member States to abandon their own hold on social and economic policy. With the exception of gender equality and legislation concerning health and safety at work the European Union has to remain content with soft versions of coordination with relatively little impact on the ground. Consistent with the consensual dimension of democratic politics in most Member States, the Union has embraced the idea of social partnership and institutionalised social dialogue between organised labour and capital. However, it is also clear that the modest results of the institutionalised social dialogue at the European level do not count as precursor to European industrial relations, collective bargaining or social law.

During the 1990s, there was a strong convergence in the evolution of national price developments in Europe, since most EU Member States succeeded in bringing down their inflation rates in order to fulfil the Maastricht Treaty convergence criteria for entering EMU. At the same time, there was a strong convergence of nominal wages
across member states. Variations in real wages, though also with a smaller dispersion around the mean, have remained significant, however, reflecting quite different, albeit generally lower, developments in labour productivity growth. The consensus view among industrial relations scholars, supported by quantitative analysis of Traxler et al. (2001), is that this development has occurred without much institutional convergence. Thus far, the creation of a Single Market and the anticipation of a Single Currency, together with pressures of globalisation, have produced little if any convergence in union-management relations, organisation patterns, wage-setting arrangements, and interest group participation throughout the 1990s. However, Traxler et al (2001) do observe a trend towards ‘organised decentralisation’ of wage bargaining, with various elements of softer forms of coordination across sectors and firms (see also Calmfors et al. 2001; Iversen 1999; Thelen 2001). Meanwhile, neo-corporatism and social pacts are not dead, defying predictions to the contrary (Grahl and Teague 1997: 418) nor has the End of Organized Capitalism (Lash and Urry 1987) yet arrived. In fact, the preparation of membership in the European Union saw a resurgence of social pacts. In spite of strong decentralising trends in industrial relations and wage setting, national agreements and social pacts were concluded or attempted in most EU-15 member states except in Britain and France (Fajertag and Pochet 2000). These pacts usually involved national peak associations of unions and employers, together with the government, in an attempt to promote wage moderation or create a more rational negotiating structure compatible with the cost discipline and competitiveness norms imposed by the new monetary and budget discipline of the EMU. Many pacts also prepared the ground for reforms in social protection and employment legislation.

Will the convergence in wage developments be a temporary phenomenon, more typical for the period of qualification for EMU than for actual membership in it? Can EMU sustain the large institutional variety in industrial relations? Or will it trigger further change and institutional convergence? If so, toward what model? Aware of many other influences such as changes in technology, work and organization; internationalisation and company strategy; welfare state reform and politics, one can in theory ‘forecast’ three possible futures for wage bargaining in Europe (Calmfors et al. 2001; Visser 2002). Firstly, EMU may encourage existing tendencies of decentralisation, undermine national-based forms of co-ordination, and promote a development towards a single un-coordinated labour market and wage bargaining structure across Europe. If this ‘prediction’ were to come true, we should see less institutional variety across countries, at least less variety that matters, amidst a general decline in organisation, coordination and regulation. Secondly, EMU may promote the emergence of cross-national coordination, within particular sectors or companies, and/or in a particular group of EU member states, especially in the original D-mark zone. The mechanisms for such coordination could be several: trend setting, negotiating a joint rule or target, or monitoring, short of actual centralisation. In this case, too, we should see that national diversity, although not necessarily
disappearing, counts less. We should also see the emergence of new European institutions. A third possible alternative would go in the opposite direction of strengthening the intra- and inter-sectoral coordination of wage bargaining within national borders, a development that has also been described both as ‘renationalisation’ (Martin 1998; Visser 1998), ‘regime competition’ (Streeck 1992) and ‘competitive corporatism’ (Rhodes 1998). In this case, we would see probably more differences across national systems, although these could diminish through mutual learning and imitation processes across Member States.

Before the start of the Third Phase of Economic and Monetary Union, in 1999, one could witness each of these developments or responses and it is in fact not difficult to find examples of each in Europe’s persistently diverse set of industrial relations. Having remained outside the EMU, after exiting from the EMS in 1992, Britain’s uncoordinated wage bargaining practice is perhaps not a good example of countries that take the first road, but it would seem that developments in France and Spain fit at least some of the description. The second road was tried by unions in Germany and the Benelux, promoted by the European Trade Union Confederations (ETUC) and sponsored by the European Commission. The third road has been taken by many Member States outside the D-mark zone (Finland, Ireland, Portugal, Italy) and, arguably, by some within it (Denmark, Belgium, the Netherlands and Austria).

How stable is this division? In some countries trade unions, employers and governments may have risen to the occasion of the ‘emergency’ of securing EMU membership and shown more taste and capacity for national coordination and solidarity than might have been predicted on the basis of their institutional legacy and past record. Italy and Ireland would come to mind (Regini and Regalia 1998; Hardiman 1988). Will they drift back to fragmented and perhaps unorganised wage setting once the extraordinary energies that could be mobilised to secure EU membership are spent (see Streeck 1998)? On what grounds would we make such a prediction? Is it because once inside EMU the incentives for reform are lower, as Calmfors (1999) has argued? Or would it be because the organisational and institutional anchoring of interests are so weak, and the destabilising economic and political forces so strong, that ‘national corporatism’ is unsustainable and has been just a flash in the pan during an unusual episode of mobilisation for European integration.

Suspicious of excessive voluntarism, especially found on the Left, and rejecting the one-dimensional world of pure rational choice theory, some of us may have erred towards an ‘excessive’ variant of historical institutionalism, as if one could ‘read’ the behavioural patterns in wage bargaining and the choices not made from properly understood organisational and institutional date (as I once tried, see Visser 1990). For instance, we thought that we could explain, and predict, why Britain could never ‘run an incomes policy’ (Clegg 1971), because its unions were locked in a
sectionalist, fragmented or competitive structure and because the British state was only strong enough to destroy or circumvent, but not create or construct the organisational capacities of autonomous societal interests that were needed for the type of ‘societal corporatism’ found in Northern and continental Europe. But, then, how do we account for the Irish success story with incomes policies in recent times and, in particular, the pro-active role of the unions in them? Has our ‘dependent variable’ perhaps changed and are today’s pacts sustained by a different process of democratic legitimation (Baccaro 2002)? Is the new ‘supply-side’ corporatism so different from its past ‘Keynesian’ cousin, that the organizational structure of national unions has become largely irrelevant (Regini 2000)? Or is it the case that we need to allow in a softer version of historical or structural institutionalism (Thelen 2002), and a softer version of rational choice thinking, with more emphasis on organisational learning and policy framing (Hemerijck and Visser 2001)? Organised actors may ‘jump over their own shadows’ because of learning from past policy failures and examples from abroad. For instance, in the mid-1980s the Irish government knew first-hand that the experience with decentralised wage bargaining between 1981 and 1986 had delivered mainly a worsening of economic and social conditions, and the Irish unions had seen from close distance what had happened to un-cooperative unions in Britain after 1979.

In order to answer the main question of this paper – how will the European variety of industrial relations, in particular with regard to wage setting, develop under the conditions of Economic and Monetary Union? – I shall proceed in five steps. After setting out some general principles of coordination, I shall argue that EMU is based on an implicit model of coordination across policy domains, with a strong element of hierarchical ordering of one agent – the European System of Central Banks – deciding the decision space for others. In step two and three, I shall try to answer the question is whether this implicit coordination regime at the European level necessitates and/or induces cross-border coordination in fiscal and wage policies. In step four, the same question is asked regarding national coordination. In the final part I return to the issues of variation and learning within and across countries.

Some general principles of coordination

In their literature review of ‘EMU and the implication for industrial relations’, Sisson and his colleagues conclude that the issue of co-ordination is central but ‘has received very little attention so far either in conceptual or empirical terms’ (Sisson et al 1999: 61). Let me begin with the conceptual part. A useful start is to distinguish between implicit and explicit coordination (Artis and Winkler 1998). Any form of commitment by separate agents to undertake joint decisions can be classified as explicit coordination. If this coordination moves in the direction of a single policy decided by a single (combined) agent, we speak of centralisation or hierarchical
ordering, based on the authority of an agent to take decisions and impose these on particular others (A). But there are also less ambitious forms of explicit coordination, for instance, the adoption of joint rules by which decision makers must abide, or joint targets towards which they agree to strive. Such a joint rule or target could be based on dialogue and persuasion towards a congruent set of common values, norms or preferences shared by a group of agents (B), or it be based on the exchange of resources through ‘cooperative’ negotiation between agents with different preferences (C). Probably the weakest form of coordination occurs when agents exchange information on their ambitions and capacity for punishing or rewarding others, without entering in exchange (D). Finally, following Adam Smith and Hayek, we can conceptualise the market as a coordination mechanism (E) based on competition or rivalry between agents striving for something that not all can have the same at the same time (see also North 1994; CPB 1997). Forms D and E are based on implicit rather than explicit coordination.

In economic policy implicit coordination refers to the assignment of objectives and instruments to independent agents in a decentralised or competitive policy setting. If however, by whatever magic, the objectives and instruments of policy makers are unambiguously assigned to individual policy areas, this situation, albeit clearly decentralised, is considered implicitly coordinated. That magic can be a constitution or a learning process based on trial-and-error. Where the assignments are contested and objectives and instruments are mis-specified or lacking, there is a coordination failure and a ‘demand’ for centralisation (Tinbergen 1954). Of course, any real life situation is riddled with combinations of implicit and explicit coordination, for instance with implicit coordination across policy areas and explicit coordination within them? How to evaluate such arrangements? Normatively, the best policy mix should distinguish itself by maximising social welfare, but where values and preferences differ this criterion is hard to apply. Additional criteria can be based on the ability and volition of agents (Scharpf and Mayntz, 1995; Scharpf 1997): Are agents capable of performing the role that has been assigned to them? And do they have an incentive for playing their role as intended?

Step 1: The implicit coordination model of EMU

Decision-makers in European economic policy face several complex problems in relation to the establishment and operation of the EMU. Firstly, there is the uncertainty of moving to, and operating, a Monetary Union without Political Union. There are no historical examples from which guidance can be taken, at least none that passed the test of time. Secondly, policy makers are obliged to operate in a currency area, which is far from homogenous. Thirdly, the assignment of tasks and instruments was contested from the start.

To compensate for history, the authors of the Maastricht Treaty tried to shore up the credibility of the new European currency, and of the new system of central banks, by
developing a set of very strict rules. ‘Rigid rules were meant to act as a substitute for the lack of institutional history in EMU (Tsoulakis (2003: 154)’. The model chosen in Maastricht is based on implicit coordination, beginning with an exclusive assignment for monetary policy to the European System of Central Banks (ESCB). ‘The primary objective of the ESCB shall be to maintain price stability’ (Treaty, article 105.1), specified as ‘a rise in the harmonized consumer price index of less than 2 per cent’. The Treaty also provides that monetary policy ‘shall support the general economic policies in the Community’, though it adds that this shall be done ‘without prejudice to the objective of price stability’. The task of fiscal policy is primarily to provide services and goods that cannot adequately be supplied via the market and, if possible, to adjust the distribution of incomes and resources resulting from the market process. Given differences in values and preferences, and in keeping with the political maxim of voter control over taxation and budgets, this task is assigned to the Member States. Correspondingly, in this ‘classical’ monetarist coordination model the key responsibility for employment is assigned to wage bargainers (Friedman 1968).

Implicit coordination is reinforced by an intensive exchange of information between the ECB, the European Council and the Commission (Treaty, art. 109b). Responding to pressure from Germany and France, whose governments at the time contested the ‘deflationary bias’ of EMU and a stronger Social Union, the ‘European Employment Pact’, adopted in the Council meeting held in Cologne on 3-4 June 1999, drew also the European social partners into the process, by establishing a regular tripartite dialogue for the purpose of “coordination of economic policy and improvement of mutually supportive interaction between wage developments and monetary, budgetary and fiscal policy through macroeconomic dialogue aimed at preserving a non-inflationary growth dynamic”. However, in this exchange the independence of the ECB must not be jeopardized. According to the Treaty ‘coordination from above’ is not permissible; politicians are prohibited from issuing instructions to the ECB or national central banks, and ECB and national central bankers are prohibited from requesting instructions from politicians or other agents. Information exchange is meant to bolster the signal and response function of the ECB, and leave other agents in no doubt about its punitive powers and intentions.

As was mentioned before, this model of implicit coordination is not without its critics. Many have called for a stronger orientation of monetary policy towards growth and more explicit coordination between monetary and economic policy. The most radical proposal for re-arrangement of objectives and instruments argues that price stability should be reached by means of a productivity-oriented wage policy, while assigning monetary policy to the goal of promoting growth and employment (Flassbeck and Spieker 1998). Less radical is the proposal to make the ECB also responsible for responding to demand shocks, arguing that the objective of price stability should be met in the medium or long term only) (Bofinger 1999). Others have argued that the 0-2 percent inflation target of the Bank imposes the wrong kind of precision and is too
dangerously close to ‘the unknown territory of deflation’ (De Grauwe 2003: 211).
Based on arguments that some inflation acts as a ‘lubricant’ for the economy,
allowing efficient re-stocking policies of firms and flexible adjustment in real wages
(Akerlof et al., 2000), a wider target is preferred (for example, considering 2 per cent
as the mid-point between 1.5 and 3 per cent). The weak business and employment
performance of the Euro area has given advocates of this position considerable
ammunition. In the core, this debate calls into question the goal independence of the
ECB. While there appears to be consensus among economists that central banks
should enjoy instrument independence, this is much less the case for goal
independence. The UK example would seem to be a case where the government
sets the target and leaves it to the central bank how that target can best be achieved
(De Grauwe 2003: 212-3). For the EU to move in that direction, it would probably
have to become a Political Union.

Against these proposals for a rearrangement of goals and instruments, and for more
explicit coordination, the defenders of ‘Maastricht’ use two key arguments, one based
on capacity, the other on incentives. To begin with the latter, the argument is that
only central bankers have the right incentives to assure the objective of monetary
policy. Unlike any other agent – governments, unions – their reputation is staked on
achieving price stability. In order to prevent that this incentive is compromised by
other goals, such as rapid economic success needed to win the next election, the
Treaty explicitly provides for Central Bank independence. This independence is seen
as a guarantee against short-termism and against the possibility that monetary policy
becomes the source of politically induced growth cycles (Alesina and Gatti 1995).
The capability argument is that the Bank would become overcharged if it were to
assure both growth and stability. Defenders of the present assignment insist that
Europe’s growth and employment problems are first and foremost structural – and
therefore the responsibility of governments and social partners (ECB 1999; IMF
1999; OECD 1994). That Europe’s unemployment is overwhelmingly structural has
been a constant tune also in the Commission’s analysis, from the Delors’ Whitebook
in 1993 to the Joint Employment Report for the Spring Council of 2004, integrating
the views of the Kok-Taskforce on Employment. At times this view has been
interspersed with calls for more attention to demand-side constraints, some of which
were caused by the introduction and operation of the new monetary regime. The
defenders of the current EMU regime argue against active growth management of
the ECB on the basis of the long, variable and unknown time lags involved, which
make fine tuning of the real economy by monetary means in their view impossible or
hazardous. In order words, the Bank is incapable of playing the active role asked
from it by its critics – mixing up objectives it may even jeopardise the stability
objective (Trichet 1998; Issing 1999). Their bottom line is that real effects can only be
induced if monetary policy sticks to its stability objectives. With such credibility
established, monetary policy is believed to establish the conditions for its own
success, because governments and wage bargainers have no option but to foster fiscal policies and wage settlements that are in line with stability.

**Step 2: Cross-national coordination of economic policy – Does it exist?**

The Maastricht Treaty did not create any new institution for the conduct of economic or fiscal policies. They will remain a national responsibility and there is no mention of fiscal federalism leading to the creation of a more significant EU budget or a program of fiscal stabilisers. The Treaty did, however, provide for a cross-national coordination mechanism based on common norms of what constitutes ‘good’ or ‘prudent’ behaviour. It also established a mechanism for multilateral surveillance. Since the beginning of Phase Two of EMU in 1994, Commission and Council adopt each year a set of ‘Broad Economic Policy Guidelines’, including recommendations for national governments and wage bargainers. These guidelines can be seen as a kind of ‘soft’ explicit coordination, meant to ‘persuade’ governments and trade unions to accept similar standards of good behaviour. In the course of time, this approach has been extended to other policy areas (employment policy since the special council in Luxembourg in November 1997; structural reforms since Cardiff in the following year; and elements of social policies since the Lisbon Council in 2000). The ambitious Lisbon objectives, and the method of open coordination established in the fields of employment, social inclusion and pensions, were to serve as an additional catalyst and ideological justification for painful domestic reforms (Tsoulakis 2003; Visser 2004).

There is also a set of stricter rules, based on the Growth of Stability Pact (1997), which aims at making budgetary discipline, already a requirement for membership, and a permanent feature of EMU. Together with a system of surveillance and early warnings, the GSP provides for a so-called ‘excessive deficit’ procedure, with penalties, against profligate member states. The fact that Euroland cannot be considered an Optimal Currency Union, as it is too internally diverse, might have counselled some fiscal flexibility and possibly some fiscal federalism as well. However, the creators of EMU responded to quite different concerns. The aim of explicit coordination through the GSP was to protect both the single monetary policy and the fiscal policies of some Member States against the allegedly unsound budgetary practices of others, as it cannot be assumed that financial markets can be relied upon to provide an effective restraint on government overspending and under-taxing. In this case the fear of some member states, in particular Germany and the Netherlands, prevailed over the attractiveness of fiscal flexibility.

According to Bean (1998) the Pact is ‘all sticks and no carrots’ – its defect being that there are no rewards for appropriate budgetary behaviour in economic good times and only prescriptions to make things worse in bad times. While the carrot of entry into EMU has been eaten, the sticks have turned out to be not only annoying but also weak, as the threat of sanctions are uncertain and delayed, and hardly enforceable.
against the larger member states. The Pact’s weakness as an explicit coordinating mechanism has been exposed with the refusal of the Council to endorse the Commission’s proposal to wage sanctions against Germany and Portugal in 2002 and against Germany and France in 2003. In 2004 half the Member States run ‘excessive deficits’. With the shift in political ownership to the smaller Member States, with less weight and voice in EMU, the GSP’s enforceability has eroded (Buti and Giudice 2003).

Step 3: Is there a European wage policy in the making?

The introduction of EMU had significant implications for wage policy. Concern about deflation and a pan-European wage-cutting race is often cited by trade unions as an argument in favour of coordination of national wage policies. Such coordination could be implicit or explicit. Implicit coordination would establish a trend-setting country or sector and – combined with some form of information exchange – establish a trend-following pattern. Between the unions in the trend-setting country or sector and the European Central Bank, there may be a relationship, again based on implicit coordination and information exchange (‘signalling’), as there is believed to have been in the past between Germany’s largest and strongest trade union, the IG Metall, and the German Central Bank (Hall and Franzesi 2000; Streeck 1994). In theory, European wage coordination could also be based on some sort of ‘joint rule’ or ‘common target rate’, with some flexibility towards adjustment to nationally diverse conditions and developments in employment and productivity growth. Such a joint rule could be established, and monitored, among unions from different countries among themselves, as has been done between unions from different sectors in the same country. A stronger form of explicit coordination, with more guarantees for implementation, would be established if there were a joint rule between employers and unions, comparable to some of the framework agreements in Member States (for instance the well-known Wassenaar agreement in the Netherlands). All these forms of coordination are intended to complement wage bargaining within national states rather than substitute for it, and none needs to be seen as a step towards European-level wage bargaining.

Prior to EMU national industrial relations models generally followed two broad tracks: attempts at cross-border agreement among trade unions in continental welfare state countries to seek wage increases within specified parameters and thereby preventing ‘social dumping’; and the adoption of social pacts in peripheral or ‘catch-up’ countries, prioritising national competitiveness, addressing crisis situations and/or as preparation for EMU. Viewed together, the two responses look like the dichotomy between ‘Europeanisation’ and ‘nationalisation’ of wage-setting. The first strategy was always very feeble, as it had to make do without employers. The second has its difficulties in the post-entry context, as will be seen below. (This response may be a very valuable for the new Member States, especially if they would apply for
membership in the EMU). As EMU and economic coordination render labour cost and cost of living comparisons more feasible there are obvious competitive and normative reasons for setting wages in line with or slightly below settlements reached in European neighbours. EU member states have always been free to set pay awards compatible with historical productivity differences and with an element of ’catching-up’ on other countries. Convergence in Europe, apart from the acceptance and implementation of a common acquis of legal rules and standards, is in part built upon such competitive processes. In southern European countries, beyond the invocation of European norms and standards for obvious reasons of creating support for their ‘legitimate’ demands and exerting pressure on employers and governments, unions also watch closely wage developments among their neighbours. Within EMU, such cross-border comparisons of wages and wage developments are of growing interest for industrial relations practitioners. However, meaningful international comparisons in the area of wages are particularly difficult, since they have to deal with different national systems of wage formation, industrial relations, taxation and social security, as well as with the divergent ways in which national statistics are collected and presented. The use of cross-country or European comparisons in wage developments is also widespread among employers. With the aim of maintaining competitiveness, these comparisons are carried out at national, sectoral and company level, sometimes with the explicit use of benchmarking techniques. Without exception, European employers reject however all efforts at explicit coordination with the unions and, as yet, there are no examples of cross-national wage bargaining in Europe.

There are attempts to establish a European norm of conduct, both by the Commission and among particular groups of trade unions from different countries. Since EMU deprives the EU Member States concerned of exchange rates and interest rates as a means of adjusting to imbalances in economic performance, governments are very concerned about the conduct of wage bargainers. The annual Broad Economic Policy Guidelines include recommendations on what is seen as the ‘appropriate wage development’ within Euroland. The scope for the BEPGs regarding wage setting is very limited, however, as they must respect the autonomy of social partners and be aware of the opposition of employers to any role of Europe in these matters as well as the massive differences in wage setting practices in national member states. Since the start of EMU, the message has always been the same. The BEPGs call on wage bargainers call upon negotiators to agree ‘nominal wage increases consistent with price stability (…), i.e., within the price stability objective of the ECB (…); real wage increases in line with to labour productivity growth while taking into account the need to strengthen (…) and maintain the profitability of capacity-enhancing and employment-creating investment (...); to ensure that collective bargaining systems take account of productivity differences (whether according to skill, qualification or geographical area) when determining wage levels; and to pursue policies aiming to reduce gender pay differences due to de facto
discrimination’ (CEC 2000). The idea of one European (target) rate is rejected, however.

The cross-national coordination model implicit in EMU is based on competition. Paradoxically, the adoption of a single currency makes it more necessary for wage setting in each country to reflect condition in that country rather than European conditions. In the words of the chief economist of the ECB: ‘Precisely because monetary policy can no longer respond to national conditions the exact opposite of greater centralisation and coordination may be required in other areas. Talk of uniform European wage-setting or of an ambitious social union is going in the wrong direction; different productivity and real economic conditions across the euro area must be taken into account more than ever (Issing (1999). To the extent that the European labour market is segmented by national systems of labour law and social security, and given different capital/labour ratios and, consequently different wage levels across countries, wages should grow at the country specific rate of productivity and not by some European rate or average in order to produce convergence. In this competitive model wage emulation or a trend following mechanism is a risk to be avoided. Additionally, country-specific wage bargainers ‘should’ internalise different levels of unemployment in their demands.

Unions do not deny this logic. Politically, one of the remarkable things of the past decade is that the mainstream of the European union movement, beyond its support for the EMU project, has by and large internalised the new European norm for wage bargaining. Nominal wage movements have stayed close to inflation rates, which are now much lower and much less volatile than in the past. That may be seen as a good, welfare enhancing outcome. However, trade unions – at least those in leading countries, especially in Germany – regret the loss of the one instrument that seemed assigned to them: an independent wage policy. (Unions in countries that still ‘catch up’ still possess this instrument, though their position is depended on their being stronger unions elsewhere). Any rate set by them can be countered by a competitive rate of the neighbours. It is this problem, that inspired the German unions to seek cross-border cooperation. In fact, the EMU, and before that the EMS, has made German wage policy the de facto, in Belgium even the legal reference point for wage bargainers in neighbouring countries, especially in industry. Before 1999 the IG Metall was sometimes referred to as the ‘Social Euro’.

At the European level, two notable agreements have been reached whereby trade unions pursue a more common approach to pay bargaining. In the 1998 ‘Doom declaration’, trade unions from Germany and the Benelux countries agreed that it should be their ‘aim to achieve collective bargaining settlements that correspond to the sum total of the evolution of prices and the increase in labour productivity’. The declaration’s purpose was to establish more coordination through information exchange and trust-building between union negotiators from different member states
in order to prevent possible downward competition. At the sectoral level, the European Metalworker’s Federation (EMF) adopted a new ‘European coordination rule’ for national bargaining at its collective bargaining conference in December 1998, according to which national collective agreements should seek at least to offset the rate of inflation and ensure that employees' incomes reflect a balanced participation in productivity gains. The introduction of this collective bargaining guideline in the metalworking industry has taken place in direct response to EMU: it is stated explicitly that the introduction of a common currency necessitates further improvement and coordination of the goals and strategies of wage policy at European level. At its Helsinki Conference in 1999, the European Trade Union Conference adopted a resolution in the same spirit. Information exchange is now propagated in nearly all sectors, with appeals of moral self-commitment of union bargainers to a European bargaining norm (Dufresne 2002). Thus far, results have been disappointing the high hopes staked on these attempts when they started and the expectations were considerably lowered during the most recent Prague Conference of the ETUC in 2003. The degree of institutionalisation of these forums for exchange is low, with meetings far and apart, a high dependence on personal engagement and massive data comparison problems. ‘In matters of wage policy, the coordination rules have thus far not been able to influence bargaining at the national level’ (Schroeder and Weinert 2003: 578). Unions have learned how different they are and they have probably gained a more realistic insight in the preconditions for transnational action.

Step 4: the resurgence of national corporatism – will it continue?

Within a single currency area – and without significantly larger movements of within and across country mobility of workers in response to different levels of unemployment – the burden of adjustment falls on wages. Since the budget deficits and debt levels in most Member States are still rather high, fiscal policy can take little pressure of wage bargainers. There are in principle two approaches that can be followed. The first is to provide criteria for wage bargainers to guide them towards settlements, which will achieve the necessary adjustments in relative wage levels. The second is to make wages more responsive to market pressures so that there is a stronger and speedier ‘automatic’ reaction to imbalances. Many countries have tried the first approach, if they can. Why?

The attainment of low inflation has resuscitated the most basic of Keynes’ problems: the near universal fact that workers resist to cutting money wages even in the presence of very high rates of unemployment. If true, such resistance would deprive EMU from its only mechanism for counteracting asymmetric shocks (Jackmann 1999). Only deep structural reforms – probably even stronger than in Britain during the Thatcher years – could change this. This should worry governments, whose electoral fortune tends to depend upon economic performance, job growth and
unemployment. This may explain the difficulty of governments to withdraw from wage bargaining and the recurrent attempts to establish national guidelines for appropriate wage developments or broker moderating deals with unions and employers (see Hassel 2003). Since dealing with economy-wide problems and diminishing overall levels of opposition and conflict has been the main rationale for the corporatist approach, the benefits of centralisation and high levels of coordination within and across agents, may again be seen as valuable assets, to be protected against erosion by public policy. This is reinforced by Calmfors’ (1999) point that EMU lowers the incentive for governments and unions to introduce painful reforms. His argument is that a single country cannot expect a rewarding European monetary response to structural improvements. The result may be that all countries adopt a ‘wait and see’ approach and let go others first. This may also be rational from a learning perspective – see which reforms work, and which create too much opposition for even trying, etc. However, macroeconomic coordination, and a practice of social partnership or social pacts, can help to create expectations for rewards that are not based on monetary responses but are nevertheless instrumental in helping to create the momentum for reforms: job-spreading policies, job subsidies, easing of procedures for employers, organisational rewards and employee rights, etc.

With regard to social pacts the crucial question is this: can such apparently successful strategies, developed under the threat of crisis or exclusion (from EMU membership), be maintained in normal (non-crisis) times, when no threat to the national interest or some other major motivating force can be invoked? In other words, can social pacts become part of a precautionary strategy? In many countries post-entry pacts were on much shakier grounds and the jury about their constitution and contribution is still out. If it were not for much cajoling of the prime minister, and his personal authority, there would not have been a new Irish social Pact in 2003. The Italian affair has ended in division. The Dutch Autumn Pact of 2003 is a fragile construction, which does not command the confidence of the Wassenaar pact of 1982, or the New Course agreement of 1993.

The incentives for social pacts as a precautionary measure will in part depend on how future uncertainty is evaluated against past experience. If an asymmetric shock were to happen under monetary union, the ‘one size fits all’ monetary policy requires more flexibility (meaning rapid adjustment) in the deployment of other policy instruments. Fiscal policy is a possible response to divergent cyclical developments in Euroland, but is unlikely to be sufficient in itself to achieve stabilisation (and may be used to accentuate cycles). Hence, it is likely that extra or early wage restraint through co-ordinated policies may come to be seen as a necessary means of stabilising the economy. Governments will want to avoid the risk that occasional wage hikes occur ‘by accident’, because the fiscal and employment consequences are now much more difficult to handle. Extra wage restraint through coordination with central organisations of unions and employers is less politically risky than the less
predictable path towards slowing down wage growth through a hike in unemployment.

In sum, the mere uncertainty of the macroeconomic consequences of EMU and the perceived risk of large imbalances at specific occasions may imply a precautionary motive for this type of coordination (Calmfors et al. 2001) and it will be much easier to achieve coordinated wage restraint when it is needed, if there is a degree of coordination also in more normal times (Visser 1998). Since such coordination efforts have already been undertaken in several countries in recent years, it may therefore be perceived as efficient to continue such efforts as a stand-by measure for an uncertain future even if they seem redundant in the present. Such precautionary routines are to be compared with a fireguard. They need ‘dry’ training every so often in order to maintain their effectiveness. The result is that we will have many talking shops that do not matter amidst some that do.

The incentives to enter into such social pacts and contribute to institution building will differ between actors. Governments should be the actors most interested in finding a substitute for lost policy instruments (e.g., monetary policy, fiscal policy restraints). Employers may be less interested, as they are likely to see decentralisation as their first choice. Yet, they may see the benefits of achieving wage moderation through coordination rather than risking conflict in an advanced network economy in which trust and reliability are at a premium. For trade unions, the exercise of wage restraint means a lot of stress, but in a situation when they are losing ground they may have an incentive to demonstrate their ability and legitimacy as national actors.

There are large built-in tensions in this type of national coordination, however. To the extent that there is continued decentralisation of actual bargaining levels, coordination costs will increase. Continued decline in union membership relative to employment, especially in new and growing parts of the economy, will weaken the legitimacy of moderating agreements struck by unions. Another threat to national coordination is likely to be provided by the internationalisation of product and labour markets, which tends to liberate companies from their historical national roots. As a consequence, national governments will have less leverage to cajole companies into accepting a joint policy. Increasingly, national frames of reference - as in a national wage policy that is developed for the sake of the national interest or social solidarity - may lose their economic, political and moral relevance for the strongest players in the economy, that is, firms that are already strongly internationalised and the managerial and professional staff in these firms. This puts greater strains on the central organisations of employers and unions when they try to define national guidelines for policy.

This discussion suggests that coordination through social pacts and consensual norms as a precautionary wage policy may only work up to a point. Such coordination may represent an unstable equilibrium, which may easily break down
once the levels of unionisation and coverage of collective agreements fall below a critical level. Another way of phrasing this conclusion is that wage moderation through coordination may increasingly come to require skilled government intervention and public policy support.

Almost all EU countries have some form of implicit or explicit macro-coordination of wage policy across the different sectors of the economy. There are, however, great national differences in the scope and the functioning of the coordination process. Here, I distinguish between four main types of wage coordination (Table 1): two based on explicit coordination and two on implicit coordination. Explicit coordination in wage bargaining can be achieved either through an agreement between the peak federations of labour and capital, or between some significant member unions (interorganisational coordination), or through the establishment of common norms and targets within the peak employers’ and/or trade union confederations (intraorganisational coordination) (Traxler et al. 2001). The latter will probably weaker and has less self-reinforcing elements. Such explicit coordination tends to require high to intermediate levels of organisational centralisation and concentration. Thus, where there are weak or secondary mechanisms for inter- or intraorganisational wage coordination, we would also find a lower score on the Centralisation/Concentration (or C-)index (see Iversen 1999 and Visser 1990), as predicted by corporatist theory (Schmitter 1974; 1982). In the 1990s, there appears to be a high incidence of government involvement in brokering or negotiating central agreements or pacts, as can be seen from the scores on ‘government intervention; in Table 1.

Implicit coordination can be based on the dominance of a particular union, employer association or sector, resulting in setting the trend, norm or target for others. This can be combined with lower levels of union and/or employer centralisation, though some concentration and especially some power or weight of the trend-setting union is needed. Germany and Austria are the best-known cases, but in recent years there is also evidence of trend setting in the Nordic countries and in Italy. Alternatively, the trend or norm for pay developments can be determined by the government through a legal pay-indexation mechanism and/or the statutory minimum wage. Only in France, the instrument of the statutory minimum wage is strong enough to have a large influence on wage setting throughout the economy (beyond the small firm sector or particular low wage occupations) (Freyssinet 2002).
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1 = dominant; 2 = existing; with respect to the C-index the source is Visser (2003); with respect to government: Hassel 2003, with some changes and my own updates for Greece and for 2001-2004 in all countries. The scores for this index are as follows:

1 = no role of government in wage setting
2 = government tries to influence by providing institutional framework for consultation or dialogue
3 = government determines wage bargaining outcomes indirectly through minimum wage setting, tax-based incomes policies, or threats of sanction (positive or negative)
4 = government participates directly in wage bargaining, by providing norms or ceilings (Social Pacts)
5 = government imposes private sector wage settlements or suspends bargaining (involuntary wage freeze).

It appears that here are seven, perhaps eight EU-15 countries (Austria, France, Luxembourg, Italy, Germany, Spain, the UK and now perhaps also Italy) that have no central-level agreements of any kind dealing with wage policy. However, in Austria, Spain and possibly also in Italy there is intraorganisation coordination and, in particular, synchronisation of bargaining. In countries that have national or cross-sectoral agreements, in almost all cases these agreements determine some norms or targets for wage policy. The meaning of these macroeconomic guidelines takes various forms across the countries, ranging from rather loose and non-binding recommendations for wage increases to legally binding targets for wage growth rates. In five countries (Finland, Greece, Ireland, Portugal, and in 2003 also in the Netherlands), national agreements on wage policy have been reached within the framework of so-called "social pacts" - i.e. tripartite arrangements at national level. In Belgium two-year national agreements move within a framework set by law. In Denmark and Sweden there are cross-sectoral bipartite agreements on wage policy within very broadly defined sectors (industry, commercial services, etc.). Almost all of these agreements recommend a policy of wage moderation in order to sustain non-
inflationary economic development and to improve national competitiveness. In order to draw up macroeconomic guidelines or even to define concrete national target figures for wage increases, many countries have tripartite or bipartite economic and social councils that provide macroeconomic expertise for the social partners. An attempt to create such a mechanism in Germany has failed for lack of trust between the social partners, the lack of consensus over the role of wage bargaining, and internal divisions in the government (Streeck 2003).

There are eight countries (Austria, Denmark, Finland, Ireland, the Netherlands, Portugal, Spain and Sweden), maybe two more (Italy and Greece) where the trade union confederations and the peak employers' association, perhaps some leading federations within the association, provide some form of intra-associational coordination of wage policy. Another common form of coordination is pattern bargaining, which is reported in six countries (Austria, Denmark, Finland, Germany, the Netherlands, and Sweden). In cross-sectoral coordination through pattern bargaining, one sector takes on the trend-setting role in wage negotiations and determines the margin for wage increases in other sectors. Usually, the dominant sectors are industrial sectors such as metalworking or chemicals, which are prone to international competition due to their exports. Pattern bargaining also occurs through large (multinational) firms, as in the Netherlands, where such companies set the trend for wage increases.

Furthermore, nine countries have a statutory minimum wage, which can also be seen as a form of coordination, since it functions as an important reference point for the whole wage system. While in Belgium and Greece the minimum wage is set by binding national-level collective agreements, in the other seven countries (France, Ireland, Luxembourg, the Netherlands, Portugal, Spain and the UK) the minimum wage has its basis solely in legislation. Therefore, the latter might be interpreted as a form of state-imposed coordination, though only in France the impact is very large. Finally, there are two EU Member States (Belgium and Luxembourg) that have a pay-indexation mechanism, according to which nominal wage increases are automatically and generally adjusted to inflation. In all other countries such 'centralising mechanisms' have disappeared, after having been quite important in the high inflation environment of the 1970s.

Although most countries have witnessed tendencies towards a decentralisation of wage determination, there has been only little change in the importance of the principal bargaining levels during the past two decades (see Table 2). The UK is the only country in which the most important level of wage bargaining switched from the sectoral to the company level, but that happened long before the 1990s. In France, a strong decline in sectoral wage bargaining was observed during the 1990s, which did not mark a qualitative change since French sectoral bargaining has been highly fragmented for a long time. In the Netherlands, the breakdown of sectoral bargaining
has been limited to certain branches (banking, for example) while other sectors (such as commerce and catering) have tended to centralise wage bargaining. There had always been an important market for company bargaining among multinational firms. In Sweden, inter-sectoral wage bargaining disappeared in favour of sectoral bargaining at the beginning of the 1990s. In Italy, a national tripartite agreement concluded in 1993 laid down the rules for the bargaining system, confirming the primacy of sectoral-level bargaining. Finally, in Spain there has been a slow decrease in the importance of company agreements and simultaneously an increase in the importance of sectoral wage settlements. In short, despite decentralisation and the advance of multi-level bargaining, most countries have showed a remarkable stability in their wage bargaining structure.

Table 2 Wage bargaining levels in the EU-15, post-EMU

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1 = principle or dominant bargaining level  
2 = important but not dominant level  
3 = existing level of bargaining; (3) = only some sectors

Multi-employer bargaining at the sectoral level had remained the dominant type of wage setting in EU-15, though it is rare that all bargaining occurs at one level. Instead, most bargaining systems are characterised by multi-level negotiations. Eight of the EU-15 have some wage bargaining (though not necessarily on all occasions) at intersectoral level, covering the whole economy (Finland, Ireland, Portugal and the Netherlands), the private sector (Belgium and Greece), or the entire industrial sector (Denmark, Sweden). There are large differences regarding the importance of the different bargaining levels within the various national bargaining structures. There are two countries (Belgium and Ireland) where, in 2004, the intersectoral level is the dominant wage bargaining level and two other countries (France and the UK) where
the company level predominates. In eight countries (Austria, Germany, Greece, Italy, the Netherlands, Portugal, Spain and Sweden) the sectoral level remains the most important level of wage bargaining, while in four countries there is either no predominant bargaining level (Denmark, Luxembourg) or the dominant level might vary from bargaining round to bargaining round between the intersectoral and the sectoral level (Finland).

There are also significant differences in the meaning and scope of sectoral bargaining within the different national contexts. In Ireland and the UK, sectoral bargaining is limited to a very few branches only. In France, Portugal and Spain, sectoral bargaining covers in particular small and medium-sized companies, while many of the larger companies have a company agreement. In the Netherlands, multinational firms have usually a company agreement, even if there is a sector agreement in the branches in which they operate. There can also be significant differences between the various sectors. The public sector, for example, has in most countries a rather centralised bargaining structure, while in sectors with a predominance of larger firms the company level tends to have a greater influence on wage determination. Moreover, there are also variations in the geographical scope of sectoral agreements. While in most countries sectoral agreements are concluded at national level, in some countries (e.g., Germany, Spain and with regard to special low wage entry wages also in Italy) there are sectoral wage agreements which are valid only in a certain region or province.

Finally, there are also significant differences in the relationship between the different bargaining levels. In many countries there is a supplementary relationship, whereby the sectoral agreement determines a minimum wage, which may afterwards be improved upon at company level. By contrast, the intersectoral wage agreements in Belgium and Ireland, and the central agreement for 2004-2005 in the Netherlands determine a maximum wage increase which sets the margin for wage negotiations at sectoral and at company level. Some countries (for example, Denmark and Norway) have a significant ‘wage drift’ between sectoral-level and company-level wage increases. In other countries, for instance Germany, Austria and Italy, positive wage drift has become very small, with increases linked to productivity and usually limited to larger and particularly well-performing companies. Increasingly, there is negative drift as well, associated with local pacts in which firms extract wage or working hours concessions from local bargainers in exchange for job or investment promises.

**Step 5: Wage coordination under EMU – what lessons learnt?**

In a changing international context it is not easy to derive clear principles from theory or identify which are the best examples to learn from. The idea that either full centralisation or full decentralisation passed the test of an optimal solution to wage
bargaining – as defended in the famous Calmfors-Driffill (1988) hypothesis – has not stood up to the facts. If combined with a strict monetary policy out of the hand of politicians, wages set at the intermediate level of sectors (or large companies) may perform equally well or better than fully decentralised wage bargaining (in terms of unemployment and inflation). Given the tensions in fully centralised systems and current trends towards decentralisation, such intermediate systems are more likely, with better predictions for stability, than fully centralised wage bargaining systems.

An important lesson from international comparisons, then, seems to be that coordination, based on a shared understanding and mutual trust, may be more important than centralisation of wage setting. This is perhaps the strongest lesson coming from the experience of social pacts – many of which were fully unexpected and negotiated in rather fragmented and decentralised structures of wage setting. A shared understanding of the economic and social context, and of key mechanisms driving growth, productivity and employment, greatly increases the probability of wage bargaining being conducted in a co-operative way, in which each party has an eye to their own long-term self-interest and the common good, and not to their short-term interest or purely sectional concerns. This is for instance the key principle of the Irish reports of the National Economic and Social Council which preceded each of the major social pacts in that country. The importance of independent, valid and reliable policy analysis and the ‘joint observation of (unpleasant) facts and messages’ in such bipartite organisations as the Foundation of Labour in the Netherlands can be of great help for the development of a shared understanding.

The chance of creating and maintaining a co-operative ‘mood of play’ depends as much on institutions as on the disposition of wage bargainers. Without supportive institutions, even altruistic wage bargainers can find themselves drawn ineradicably into a zero-sum conflict, in which the attempt of each individual to rationally advance their interest can lead to a collective outcome that is worse for everybody. The relevant institutions range from the type of joint foundations and councils for policy preparation and nation-wide bargaining as exist in a number of countries; independent research bodies or committees of experts; the industrial relations machinery and law; structures of bargaining and coordination above the level of single firms; and joint investments in and supporting institutions for training, life-long learning and enterprise-level partnership.

The Calmfors-Driffill hypothesis was based on the assumption that parties adopt a non-co-operative bargaining approach. If even a moderate degree of altruism is introduced—motivated by consideration of long-term, rather than immediate, self-interest and by social responsibility—then even moderately co-ordinated bargaining may yield low unemployment and inflation. The real difference between centralised and moderately fragmented bargaining structures may be their vulnerability to shocks. While a co-operative mood of play can produce good results with any
bargaining structure, in the face of major shocks the parties may revert to less co-operative forms of behaviour which, in systems with weak co-ordination, can have serious consequences.

There are further lessons. When tensions appear in centralised bargaining, there are significant benefits to moving to a form of ‘organised decentralisation’ rather than risk an ‘unorganised’ breakdown or withdrawal. Learning ahead of failure means, in this case, that elements of variation and flexibility must be introduced before one of the sides in industry become disenchanted with centralised bargaining and its framework breaks down because one of the parties, in particular employers, withdraws, either in one bang or by slowly investing less and less trust and resources in coordination policies among themselves or with the trade unions.

The final lesson of international experience concerns some of the ingredients necessary to achieve a successful system of co-ordinated decentralisation. To achieve successful devolution to lower bargaining levels, one needs stable partners, in whom one places confidence. Institution building through organisational reform and mechanisms for conflict resolution are essential. Differentiation across sectors and, if it improves mobility, between geographic regions can improve the overall responsiveness of wage setting. The upgrading of public services—care provision, health services, housing and transport—helps the functioning of labour markets and gives people a better background for making real choices.

References: to be included