

## **EUROPEAN MONETARY UNION AND COLLECTIVE BARGAINING**

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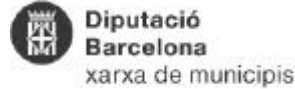
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## **INTRODUCTION**

Collective bargaining has remained within the realm of the nation state even more than most other areas of industrial relations. These national bargaining systems still vary considerably in their institutions and practices across the EU member states. At the same time, economic integration has made substantial progress in particular due to the single market and European Monetary Union (EMU), which have created strictly supranational markets within the EU. This coincidence of deepening economic integration and persisting national hegemony over collective bargaining has given rise to concerns in two respects.

First, there is the question of how economic integration will affect collective bargaining. Regardless of their manifold differences in institutions and practices, the national bargaining systems under the umbrella of the EU share one essential property in that they are more 'organized' than their counterparts are in most other (namely non-European) OECD countries: this is manifested in the predominance of multi-employer bargaining, covering the vast majority of employees (Traxler et al., 2001). In this respect, one may well speak of a EU model of bargaining. The notable exception to this model is the United Kingdom, where single-employer bargaining supplanted multi-employer settlements already in the 1980s, resulting in a decline in collective bargaining coverage from about 70 per cent in the early 1980s to little more than 20 per cent in the mid-1990s. Furthermore, the reform countries of Central and Eastern Europe are also characterized by rather unorganized bargaining systems. Against this background, three scenarios of the future of bargaining have been discussed. The pessimistic scenario assumes that EMU will prompt a general process of disorganization, as Europe's supranational markets will tend to undermine bargaining systems the scope of which is still limited to the nation state (e.g. Mahnkopf and Altvater, 1995). Such prospects of disorganization may have even been one important goal of the neoliberal policy community, when advocating EMU (Crouch, 2000; Dølvik, 1999).

Under these circumstances, Europeanization would occur in a very restricted way, giving rise to highly fragmented, company-based practices of transnational bargaining. These practices are supposed to develop at the expense of the national level, since the Eurocompanies when adopting these practices will tend to opt out of the national bargaining structures (Visser and Ebbinghaus, 1992). The optimistic scenario suggests that economic integration may spill over to industrial relations, leading to a multi-level bargaining system that includes European level collective agreements (e.g. Jacobi, 1998). While both the pessimistic and optimistic scenario imply significant changes in the bargaining system, a third line of reasoning stresses the continuity and path dependency of industrial relations developments (Ferner and Hyman, 1998a, Traxler et al., 2001). The key argument underlying this position is that economic pressures affect industrial relations only indirectly, in that these pressures are processed and filtered by the established institutions. Notably, this does not rule out the possibility of growing divergence in terms of *substantive* bargaining outcomes *within* the national systems (Marginson and Sisson, 1998), provided that flexibility rather than rigidity is the institutional code that guides the system's response to the economic challenge. At any rate, the path dependency means that the national bargaining systems will not easily change even under the aegis of EMU, and Europeanization of bargaining can take place only in a way which is compatible with the given institutional diversity of bargaining across the EU (Traxler, 2002b).

The second concern refers to the macroeconomic performance of collective bargaining under EMU. It is widely assumed that EMU places the main burden on the labor market, when it comes to adjusting to asymmetrical shocks (i.e. economic imbalances within the eurozone). This is because EMU deprives the eurozone countries of the exchange rate as a means of compensating for imbalances. Since transnational labor mobility is low in Europe, collective bargaining, namely bargaining over wages becomes the key parameter of labor market adjustments. As is in the case of the future development of bargaining, so the problem with performance

ensues from the coincidence of economic integration and national fragmentation of bargaining. Again, one can differentiate between three scenarios. The first one contends that this coincidence will provoke inflationary wage policies (e.g. Soskice and Iversen, 1998). As a consequence of national fragmentation, each single bargaining unit is too small to have a noticeable impact on macroeconomic development in the eurozone. Hence, there is no incentive to moderate wages for the sake of price stability and employment. The counterposition is that there is a deflationary risk in that the distinct nationally differentiated bargaining units embark on competitive wage policies aimed at lowering the labor costs of one's own country in relation to the country's trading partners (Busch, 1992). Finally, the national fragmentation of bargaining is supposed to reinforce economic imbalances in the eurozone, since the national bargaining systems strongly differ in their ability to align their wage policy with macroeconomic requirements (Traxler, 1999b).

This paper will address the development and performance of bargaining under EMU in line with the following methodological considerations: scholarly debates on the development and performance of institutions tend to treat these questions as one and the same problem. The assumption underlying such reasoning is that institutional change is driven by performance pressures bringing about a natural selection that enables only well performing institutions to survive. However, there is the possibility that inefficient institutions can survive due to market imperfections that fail to enforce efficiency (North, 1990). Furthermore, functionally equivalent institutional arrangements may exist, such that institutional diversity across Europe may last even when EMU magnifies the scale of performance pressures. At any rate, it is reasonable to consider the development and performance of bargaining as distinct questions.

A second methodological problem is that a sound empirical basis for predicting the development and performance of bargaining under EMU is lacking, since the pre-EMU phase (beginning with the Maastricht treaty) and EMU as such have covered a rather short time period. Hence, we

adopt a long-term perspective on these issues, including 1970 to 1996 for 15 European countries (Table 1). As regards developments, this enables analysis to examine how the national bargaining systems responded to essential changes in the economic policy regime which are comparable to the establishment of EMU: this refers to the shift from Keynesian to neoliberal policies in the late 1970s/early 1980s, and the preparation and implementation of the single market during the second half of the 1980s. In the case of performance, a long-term perspective is preferable, since institutions can have only a structural (i.e. long-term) impact on performance due to their high degree of stability.

As far as European economic integration primarily means the rise of a supranational market, it is almost impossible to isolate its effect from more encompassing processes of 'globalization' of markets. This is important since the main challenge posed by EMU to bargaining ensues from growing market competition. Under these circumstances, a long-term perspective is appropriate, because this offers the opportunity to study how the bargaining systems tend to respond to growing market pressures.

For the reasons outlined above, we have to consider both the national and the European level, when analyzing the interplay of bargaining and EMU.

Finally, we will limit our comparative analysis to those dimensions of collective bargaining which have most hotly been debated, as far as issues of development and performance are concerned: that is, centralization and coordination of bargaining. The degree of centralization refers to the level at which collective agreements are formally fixed. Given multi-level bargaining in all countries under consideration, country scores are based on a country's most important bargaining level. Coordination of bargaining means that there is an economy-wide synchronization of bargaining.

**Table 1**  
Forms of Wage Setting in Western Europe\*

	1970–1973		1974–1976		1977–1979		1980–1982		1983–1985		1986–1990		1991–1993		1994–1996	
	%		%		%		%		%		%		%		%	
<i>COORDINATION</i>																
<i>State-sponsored Coordination</i>	DK <sup>x</sup> , FIN <sup>x</sup> B, D <sup>x</sup> , IRL		FIN <sup>x</sup> , N <sup>x</sup> , S <sup>x</sup> B, D <sup>x</sup> , I, IRL, UK		FIN <sup>x</sup> , S <sup>x</sup> B, E, IRL, UK		FIN <sup>x</sup> , IRL		FIN <sup>x</sup> , DK <sup>x</sup> , E, I, NL <sup>x</sup> , S <sup>x</sup>		FIN <sup>x</sup> , N <sup>x</sup> , B, DK <sup>x</sup> , IRL, NL <sup>x</sup> , S <sup>x</sup>		FIN <sup>x</sup> , N <sup>x</sup> , B, DK <sup>x</sup> , I, IRL, NL <sup>x</sup> , P, S <sup>x</sup>		DK <sup>x</sup> , I, IRL, N <sup>x</sup> , NL	
		38.5		57.1		40.0		13.3		40.0		46.7		60.0		33.3
<i>Inter-associational Coordination</i>	N <sup>x</sup> , S <sup>x</sup>						S <sup>x</sup> , E		N <sup>x</sup>		I					
		15.4		0.0		0.0		13.3		6.7		6.7		0.0		0.0
<i>Intra-associational Coordination</i>	A <sup>x</sup> , CH <sup>x</sup> , I, NL <sup>x</sup>		A <sup>x</sup> , CH <sup>x</sup>		A <sup>x</sup> , CH <sup>x</sup> , I, NL <sup>x</sup>		A <sup>x</sup> , CH <sup>x</sup> , I		CH <sup>x</sup> , IRL <sup>+</sup> , P		CH <sup>x</sup> , E, P		CH <sup>x</sup> , E		CH <sup>x</sup> , E, P	
		30.8		14.3		26.7		20.0		20.0		20.0		13.3		20.0
<i>Pattern bargaining</i>			0.0		D <sup>x</sup>		D <sup>x</sup> , DK <sup>x</sup> ,		A <sup>x</sup> , D <sup>x</sup>		A <sup>x</sup> , D <sup>x</sup>		A <sup>x</sup> , D <sup>x</sup>		A <sup>x</sup> , D <sup>x</sup>	
		0.0		0.0		6.7		13.3		13.3		13.3		13.3		13.3
<i>State-imposed coordination</i>	F		DK <sup>x</sup> , F, NL, P		DK <sup>x</sup> , F, N <sup>x</sup> , P		B, F, N <sup>x</sup> , NL <sup>x</sup> , P		B, F		F		F		B, F	
		7.7		28.6		26.7		33.3		13.3		6.7		6.7		13.3
<i>No coordination</i>	UK						UK		UK <sup>+</sup>		UK <sup>+</sup>		UK <sup>+</sup>		FIN <sup>x</sup> , S <sup>x</sup> , UK <sup>+</sup>	
		7.7		0.0		0.0		6.7		6.7		6.7		6.7		20.0
<i>Total</i>	13	100.0	14	100.0	15	100.0	15	100.0	15	100.0	15	100.0	15	100.0	15	100.0
<i>BCEN</i>	5.38		5.21		5.90		5.90		6.77		6.43		6.43		7.46	

\* Modal values of annual observations per period.

Portugal since 1975, Spain since 1977.

<sup>a</sup> DK: state-sponsored in 1997, state-imposed in 1998

<sup>b</sup> S: no coordination in 1997, pattern bargaining in 1998

<sup>c</sup> N: central-level bargaining in 1997

Central-level bargaining put in *italics*.

<sup>x</sup> High (i.e. state-licensed) bargaining governability, <sup>+</sup> predominance of single-employer bargaining.

Country codes: A = Austria, B = Belgium, CH = Switzerland, D = Germany, DK = Denmark, E = Spain, FIN = Finland, F = France, IRL = Ireland, I = Italy, NL = Netherlands, N = Norway, P = Portugal, S = Sweden, UK = United Kingdom

BCEN = Degree of bargaining centralization; centralization decreases with score (For definition of BCEN, see Traxler et al. 2001).

## THE DEVELOPMENT OF COLLECTIVE BARGAINING

The development of collective bargaining in terms of centralization and coordination at the national level is summarized in Table 1. The three decades covered by Table 1 are differentiated into eight subperiods. Country scores for both variables refer to collective bargaining over *wages*. This is because centralization as well as coordination of bargaining varies with bargaining issues in some countries. For instance in Spain, several central-level accords on non-wage issues were struck during the 1990s, whereas the level most important to wage formation was the industry.

As regards the centralization variable (i.e. BCEN), Table 1 shows a clear trend towards decentralization of bargaining. As the average score on BCEN for all countries under consideration indicates, that bargaining has significantly become decentralized from the first period to the last one (paired *t*-test;  $t = -2.60$ ,  $p = 0.03$ ,  $n = 12$ ). On closer examination of the subperiods, one finds distinct movements within the general trend. During the first half of the 1970s (i.e. from the first to the second subperiod) collective bargaining experienced a process of (insignificant) centralization (*t*-test;  $t = -1.00$ ,  $p = 0.34$ ,  $n = 13$ ). From this subperiod until 1980-82, a significant decline in the bargaining level took place (*t*-test;  $t = -2.05$ ,  $p = 0.06$ ,  $n = 14$ ). Further decentralization in the following subperiods occurred although the scale of this change in relation to 1980-82 remained statistically insignificant (*t*-test;  $t = -0.79$ ,  $p = 0.45$ ,  $n = 14$ ).

One should note that the scores on BCEN somewhat downplay the actual scale of decentralization in that they report only changes in the most important bargaining level. Hence, the rise of shop floor bargaining is not registered as long as this did not become prevalent in a country's bargaining system. For the 1980s and 1990s, Table 1 does not document what is often called organized decentralization (Traxler, 1995). This means that certain bargaining issues are delegated by the higher-level bargaining parties to regulation at lower level within a binding framework set by the higher-level settlement. Since agenda-setting and control over the lower



level thus remains with the higher bargaining level within a framework of organized decentralization, even delegation processes flowing from the most important level to lower levels do not constitute a change in the prevalent (i.e. most important) level. Organized decentralization, mainly in the form of a delegation of issues from the industry level to the company, has become widespread in Europe (Ferner and Hyman, 1998a; Traxler et al., 2001). This happened in two waves. From the mid-1980s onwards, working time has become the subject of organized decentralization, while wages have become so since the early 1990s. Both waves were initiated by the employers for the sake of more flexible arrangements.

What follows from these observations is that the bargaining level underwent gradual modifications rather than radical transformations in terms of the predominant bargaining level over the three decades. Most essentially, only two countries (i.e. Ireland and the UK) saw a move from multi- to single employer bargaining (Table 1). In the case of Ireland, this remained a short-term episode. In contrast to this, single employer bargaining consolidated in the UK which thus moved away from the European model. In all the other countries, multi-employer bargaining continued to be prevalent in the overall bargaining system. This implies that the long-term trend towards decentralization, as documented by the scores on BCEN, mainly result from a more or less lasting shift from central-level to industry-level bargaining in several countries (namely Denmark, Sweden and Spain).

Given all these tendencies towards decentralization within the national bargaining systems, it is no surprise that European-level bargaining has not developed so far. Notably, there are European-level negotiations within the framework as introduced by the Social Protocol of the Maastricht treaty (Keller and Bansbach, 2001). However, these negotiations do not meet the properties of free collective bargaining for two main reasons. Within this framework, there is no possibility of advancing one's interests by means of industrial conflict. Furthermore, wages are explicitly excluded from the range issues that can be negotiated.

Turning from centralization to economy-wide coordination of bargaining, one finds considerable variation across countries in particular in terms of the kind of actors involved. One can distinguish between six main settings, including four *voluntary* forms of coordination which thus take place within the context of free collective bargaining (Traxler et al., 2001):

-In the case of *state-sponsored coordination* the state formally or informally joins the bargaining process as an additional party. In contrast to state-imposed coordination (see below), state-sponsored coordination is a voluntary arrangement in which the state participates without claiming an imperative role in the bargaining process. The other parties to this arrangement are the central-level peak associations of labor and/or business.

-In contrast to state-sponsored coordination *inter-associational coordination* is based on bipartite accords, concluded by the peak associations of the two sides of industry. This kind of coordination is thus identical with central-level collective bargaining.

-The peak associations also take the lead in the course of *intra-associational coordination*. This means that the peak associations *internally* synchronize the bargaining policies of their lower-level affiliates. In comparison to state-imposed and state-sponsored coordination, intra-associational coordination thus combines with rather decentralized bargaining. This is because the collective agreements are concluded by the lower-level affiliates, whereas the peak associations do not enter central-level accords. In principle, intra-associational synchronization of bargaining by only one of the two sides of industry may suffice to initiate coordination.

-Pattern bargaining establishes a mode of coordination that is even more decentralized than intra-associational coordination. Coordination by pattern bargaining rests on the leading role of a certain bargaining unit or a cartel of contiguous bargaining units that set the pace for bargaining in the other segments of the economy. The constituent property of pattern setting is that the leading bargaining unit(s) is (are) located below peak level. This implies that the peak associations themselves have only a minor role in the

coordination process or no role at all. In countries which have a long tradition of pattern bargaining (i.e. Germany, Austria and Japan) the bargaining units representing the metal industry set the pattern.

-*State-imposed coordination* does not rely on voluntary cooperation between the two sides of industry but is authoritatively enforced by the authorities.

-Finally, collective bargaining may remain *uncoordinated*.

The development of bargaining coordination is also documented in Table 1. Again, the focus is on wage bargaining. The most important observation is that coordinated wage policies clearly prevailed in Europe throughout the three decades, although the form of coordination varied across countries and over time. State-sponsored and state-imposed coordination record the most pronounced fluctuations. State-sponsored coordination peaked first during the mid-1980s, strongly declined afterwards, recovered in the mid-1980s, and reached unprecedented levels of incidence in the early 1990s. State-imposed coordination became less frequent after its expansion from the mid-1970s until the early 1980s. Inter-associational coordination was never frequent and tended to lose ground over time. In contrast to this, the importance of pattern bargaining steadily increased. The incidence of intra-associational coordination was rather stable, whereas the composition of countries changed. Uncoordinated bargaining grew strongly in the last subperiod listed in Table 1. This is an outlier rather than a trend, as Finland and Sweden whose bargaining had been uncoordinated for this subperiod, returned to coordinated policies in the late 1990s (Traxler, 2000). The UK is the only country showing a long record of uncoordinated bargaining that dates back to the 1970s and even 1960s. As noncoordination has become durable since the early 1980s, the UK deviates from the European model also in this dimension of bargaining.

The larger changes in both centralization and coordination of national bargaining reflect major alterations in its economic context. Growing centralization as well as the expansion of state-sponsored coordination during the 1970s were prompted by the first oil shock of 1973,

resulting in a governance mode which is widely captured as corporatist tripartism in the literature. The following decline, expressed in both significant bargaining decentralization and the decay of state-sponsored coordination can be traced to the fact that in several countries corporatism failed to cope with the problems of 1973 as well as with the second oil shock of 1979. The rise of neoliberalism was the response to this failure. The shift to state-imposed coordination that paralleled and followed the spread of corporatism was driven by government attempts at compensating for the lack of effective governance within a framework of voluntary incomes policy. The subsequent re-appearance of state-sponsored coordination does not simply coincide with major steps of European integration. As many national case studies show (e.g. Ferner and Hyman, 1992; 1998b; Fajertag and Pochet, 1997; 2000), this occurred as one constituent part of the countries' efforts to prepare for the single market and EMU. It is worth noting that this development does not mean the revival of that kind of corporatism which was typical of the 1970s. Aside from differing policy goals (which will be addressed below), there is also a structural difference in terms of the bargaining level. As we have seen, decentralization of bargaining continued throughout the 1980s and 1990s, such that a new, 'leaner' pattern of corporatism has emerged which is characterized by decentralized forms of economy-wide bargaining coordination (Traxler, 2001).

The first signs of decentralized coordination are also observable at the European level. Several initiatives for transnational coordination of wage bargaining which mainly differ in their territorial and economic scope have been launched by the unions in response to EMU (Gollbach and Schulten, 2000; Marginson and Schulten, 1999). The most encompassing initiative comes from the European Trade Union Confederation (ETUC) which in 1999 set up a bargaining committee devised to coordinate the national bargaining policies. This followed the 1998 Doorn declaration of the union confederations of the Benelux countries and Germany to coordinate bargaining of their affiliates. Since industry-level bargaining

prevails in most EU member states, the European Industry Federations, grouped under the umbrella of the ETUC, are also expected to coordinate bargaining within their domains. Among these federations, the coordination efforts of the European Metalworkers' Federation are most advanced. These efforts are complemented by the initiative of Germany's IG Metall to create cross-border collective bargaining networks. Each network is composed of representatives of the distinct IG Metall districts and the unions of the corresponding neighboring countries. Although wages are not the only issue of these coordination activities, they figure prominently in this process, since the main goal behind all the unions' transnational coordination efforts is to prevent further downwards competition in collective bargaining.

All these initiatives clash with the employers' interest which is strongly opposed to any kind of bargaining or coordination at European, multi-employer level<sup>1</sup>. This is because the employers –due to their higher capacity for transnational mobility as compared to their labor market counterpart– can exploit the differences in national labor standards far more effectively by means of regime shopping. However, multinational companies are engaged in cross-border coordination of labor management in certain sectors (e.g. automotive manufacturing) characterized by highly homogenized (and thus comparable) production across distinct locations. This coordination does not explicitly relate to collective bargaining in that it is based on 'coercive comparisons' aimed at identifying best practices and generalizing them across all locations of the company (Marginson and Sisson, 2001). These activities primarily target work organization and working practices. For the above reasons of regime shopping, there is certainly no employer interest in either including pay levels in these activities or in embarking on any kind of direct negotiations with employee representatives at European level. Given the weakness of the European Works Councils (e.g. Hancke, 2000) and the unions' transnational focus on the multi-employer level, the emergence of company-based, European-level bargaining or coordination is the least probable variant of the possible

developments of Europeanization of collective bargaining.

In comparison to the employers, the EU authorities have paid much more attention to the transnational dimension of wage bargaining. Since the start of stage two of EMU in 1994, the European Commission has issued annual Broad Economic Policy Guidelines that include recommendations for wage policy. Accordingly, wage policy should, *inter alia*, be in line with price stability (as targeted by the ECB), growth of labor productivity, and employment-creating investment (Schulten and Stueckler, 2000). Furthermore, the 1999 Cologne European Council summit decided on the establishment of a macroeconomic dialogue aimed at improving the interaction between wage policy and monetary, and fiscal policy. In this respect, the explicit goal is rather modest in that it is defined as 'to stimulate a fruitful dialogue between all actors concerned but not to engage in ex ante coordination of fiscal policy, monetary policy and wage settlements' (Economic Policy Committee 1999: 5). Regardless of the concrete goals of the dialogue, its effectiveness in turn depends on the effectiveness of transnational coordination of wage bargaining. Due to the lack of interest of the employers the full burden of transnational wage coordination is placed on the unions.

## **THE MACROECONOMIC PERFORMANCE OF COLLECTIVE BARGAINING**

Debates on the macroeconomic performance of collective bargaining systems refer to the systems' capacity for internalizing negative wage externalities (i.e. rising inflation and unemployment as a result of wage increases). The key argument is that institutional differences in the bargaining systems constitute structural differences in the structural capacity for internalizing wage externalities which are manifested in (long-term) differences in labor cost growth which in turn translate into corresponding performance differentials in terms of inflation and employment. Hence, the debate's concern concentrates on the inflationary risks of wage policy and thus on 'wage moderation'. Nevertheless, the

concept is also applicable to the second risk inherent in national fragmentation of bargaining under EMU, since a deflationary wage policy creates negative externalities as well. Put in general terms, the capacity for internalizing wage externalities means aligning wage policy with macroeconomic requirements in a way that avoids both inflationary and deflationary developments.

The methods used for studying the structural performance of alternative bargaining institutions are analytical (i.e. deductive modelling) and empirical (i.e. econometrics). We do not discuss deductive models here, since they tend to abstract from essential elements of the real situation of bargaining<sup>2</sup>. Their relevance for empirical research primarily lies in the hypotheses that can be deduced from them. These hypotheses concentrate on centralization, and, more recently, also on coordination as the key determinants of the structural performance of a bargaining system.

As far as centralization is concerned, one can differentiate between two main positions: While the *corporatist* hypothesis contends that performance increases with centralization (e.g. Headey, 1970), the *hump-shape* hypothesis claims that extreme degrees of centralization and decentralization perform best (Calmfors and Driffill, 1988). In comparison to these extremes, intermediate (i.e. industry-level and occupational) bargaining performs significantly worse. This is because intermediate bargaining can work as a cartel, enabling the bargaining parties to externalize the costs of a pay hike to other groups by jointly raising the output price. The argument is that this is impossible in the case of extreme degrees of centralization. The corporatist and hump-shape hypothesis agree on the beneficial effect of central-level bargaining. Its domain is so encompassing that the bargainers and their constituency themselves have to bear the negative consequences of pay rises. Given perfect competition in product markets, the same applies to fully decentralized (i.e. single-employer) bargaining according to the hump-shape hypothesis, since any pay rise specific to a certain employer entails a loss of this employer's competitiveness.

Not surprisingly, either of these competing positions has come up with empirical studies that support their reasoning (e.g. Cameron, 1984; Calmfors and Driffill, 1988). However, their explanatory power is strongly questioned by more recent studies (e.g. OECD 1994, OECD 1997, Traxler and Kittel, 2000; Traxler et al., 2001) which could not detect any kind of a robust association between bargaining centralization and macroeconomic performance. Above all, bargaining centralization has turned out to be a very poor predictor of labor cost growth. This is essential because labor costs are generally seen in the related debate as the causal link between the bargaining institutions and macroeconomic performance other than labor costs. If convincing evidence of a significant labor cost effect is lacking, then any empirical finding on a significant effect of centralization on such performance criteria as inflation and employment becomes inconclusive by standards of that causality assumption underlying both hypotheses.

This lack of compelling empirical evidence can be traced to several conceptual weaknesses which are common to any reasoning regarding bargaining centralization as the key to explaining structural performance effects caused by the wage-setting institutions. The main weaknesses can be summarized as follows:

-The debate does not systematically differentiate between centralization and coordination. As mentioned above, the premise of the debate is that alternative bargaining institutions differ in their ability to internalize wage externalities. This includes the point that bargaining units whose domain of activities is so encompassing that it achieves macroeconomic relevance are unable to externalize the costs of wage increases. A concept that focuses only on centralization neglects the fact that a situation of macroeconomic relevance also applies to bargaining systems composed of a larger number of formally independent bargaining units which coordinate their wage policy across the economy (Soskice, 1990). Hence, what really matters with regard to macroeconomic weight of bargaining is coordination, while centralization is just a special



manifestation of coordination. Studies centering on centralization thus ignore the existence of decentralized forms of wage coordination. The magnitude of this shortcoming can be seen from the fact that in the vast majority of countries characterized by economy-wide wage coordination this coordination takes place in a non-centralized context (Table 1).

-As an implication of the tendency to confuse centralization with coordination, the debate does not fully capture the scale of cooperation problems arising from economy-wide coordination. Mainstream reasoning on the structural ability to internalize wage externalities refers only to what may be called the *horizontal* problem of cooperation: that is, the relationship between the distinct sectoral and occupational groups of employers and employees. These groups are argued to cooperate or free ride, depending on how the domain of the bargaining units are demarcated (i.e. the degree of bargaining centralization). Poor performance, implying the ability to externalize the costs of wage increases, will occur when the domains of the bargaining units coincide with the scope of powerful, particularistic interest groups which enable these groups to take a free ride to the disadvantage of the other groups. This focus on horizontal cooperation neglects another *vertical* problem of cooperation. This ensues from the fact that the rank and file does not directly participate in collective bargaining but is represented by certain, nominated agents in this process. Manifold conflicts of interest between the rank and file and its representatives may emerge, such that the former's compliance with the latter's decisions cannot be taken for granted. Conventional reasoning suggests that central-level bargaining is capable of overcoming the horizontal as well as the vertical cooperation problem. While it is evident that central-level bargaining resolves the horizontal problem, it tends to aggravate the vertical problem of cooperation. The reason for this is that decision-making processes face increasing legitimation problems with growing centralization. In line with this, recent empirical research shows that labor costs even significantly *increase* with growing centralization of bargaining, when a supportive framework devised to overcome this vertical

cooperation problem is lacking (Traxler, 2001; 2002a). This evidence of a highly *contingent* effect of bargaining centralization helps understand why there is no robust, *general* effect of the bargaining level. At any rate, attempts at horizontal coordination –regardless of whether relying on a centralized or a decentralized setting– do not guarantee that the bargaining units' members comply with these coordination efforts. On the contrary, any such effort brings about problems of vertical cooperation.

-The focus on bargaining centralization fails to take account of the manifold forms of state regulation. There is evidence from other crossnational research that differences in how wage formation is regulated by the state affect performance (Traxler, 1999a).

-The above points have another important methodological consequence for empirical studies in that they rule out the possibility of constructing one single, ordinal or parametric scale for measuring the wage setting institutions. The only dimension that meets this scale type is bargaining centralization which as such has turned out as no powerful predictor of performance. All the other dimensions discussed above differ not simply in quantitative but also in qualitative terms. These caveats include coordination (Traxler and Kittel, 2000). There is no theoretical argument that can show that decentralized coordination forms are more/better coordinated than centralized bargaining or vice versa. Therefore, any kind of one single, composite measure based on ordinal or parametric ranking of bargaining coordination is pointless<sup>3</sup>. Due to the multi-dimensionality of wage setting the scaling process must address each single dimension separately.

The classification of bargaining coordination used in Table 1 captures all the above points, as far as the problem of horizontal coordination is concerned. To overcome the problem of vertical cooperation, state regulation is essential, since employer organizations and unions are voluntary associations which can hardly bind their rank and file merely by fiat when conducting collective bargaining (Crouch, 1993; Golden, 1993). This difficulty with assuring compliance is evidenced by the

above mentioned finding that wage growth significantly increases with bargaining centralization, when such supportive legal framework is lacking. Its most important provisions are the legal enforceability (i.e. the 'law-making' effect) of collective agreements and the peace obligation during the validity of a collective agreement (Traxler et al., 2001). For the purpose of a crossnational comparison, this results in a dichotomous categorization. A national system of wage setting is classified as being characterized by *high bargaining governability* if legal enforceability and the peace obligation are established. Otherwise, a country's bargaining governability is low.

It should be noted that this differentiation between horizontal and vertical coordination corresponds with the distinction between to qualitatively different forms of state interference in wage setting. State-imposed and state-sponsored coordination are the two possible forms of *substantive* state regulation in that the state actively participates in the wage setting process and influences its outcome. Bargaining governability is a matter of *procedural* state regulation, since it forms part of the legal framework for bargaining.

**Table 2**  
The General Relation Between Bargaining and Wage Performance

Wage moderation

Strong		Pattern bargaining	Voluntary peak-level coordination* with high bargaining governability
Medium	Uncoordinated bargaining		State-imposed coordination
Weak			Voluntary peak-level coordination* with low bargaining governability
	Low Vertical coordination	Medium	High

\* State-sponsored coordination, inter-associational coordination, intra-associational coordination.

Source: Traxler et al. (2001: 247)

Empirical studies which used these categorizations of bargaining coordination as predictors of economic performance for differing country samples and time periods (Traxler and Kittel, 2000; Traxler et al., 2001)

could show that the institutional differences in bargaining coordination across countries indeed affect labor cost growth significantly. The institutional effects on inflation and unemployment echo those on labor costs. However, the impact on unemployment is much weaker than on labor costs and inflation. The main findings of these studies are summarized in Table 2. State-sponsored, inter-associational and intra-associational coordination are subsumed under peak-level coordination in Table 2. This is because they are similar in terms of both their performance profile as well as their mode of coordination in that the peak associations have the key role in the coordination process in the case of all three categories. The most striking result is that peak-level coordination delivers contrasting performance, depending on whether bargaining governability is high or low. When embedded in a context of high governability, all forms of peak-level coordination perform very well. Yet in combination with low governability, they perform worse than any other kind of bargaining. This is consistent with the above-cited finding on the contingent effect of bargaining centralization. As any form of peak-level coordination is relatively centralized compared to alternative forms of bargaining, it is also burdened with more severe problems of compliance and legitimacy in relation to the rank and file. As a consequence, there is a much stronger need for a legal framework capable of making the rank and file comply than is the case of more decentralized forms of voluntary coordination. As regards the other forms of bargaining, pattern bargaining also records a high capacity for internalizing wage externalities. In comparison, state-imposed coordination and uncoordinated bargaining achieve average labor cost increases, with non-coordination performing somewhat better than state-imposed coordination. One reason for this comparatively inferior performance of state-imposed coordination is that the state usually resorts to authoritative wage control as a means of *ultima ratio* in a situation of extremely poor performance of free collective bargaining.

The upshot of these findings is that institutional differences in bargaining cause indeed significant and robust differences in

macroeconomic performance, in particular as far as (unit) labor costs and inflation are concerned. This relationship, however, is far more complex than orthodox reasoning suggests. It is not simply a matter of gradual differences in the degree of bargaining centralization. In contrast to this, there are qualitatively different properties of wage setting, leading to potential substitutes (i.e. functionally equivalent arrangements) in terms of effective wage moderation (i.e. pattern bargaining and the distinct forms of peak-level coordination backed by high governability). Conversely, one and the same form of (horizontal) coordination produces contrasting performance effects, depending on whether legal provisions for governability are established or not.

EMU becomes important with regard to the performance of bargaining, since differences in monetary policy affect the scope for bargaining. A monetary policy that does not accommodate to what is seen as an inflationary policy makes it more difficult for the bargainers to externalize the costs of wage increases, as compared to an accommodating monetary regime. This means that a non-accommodating monetary policy may work as a substitute for the structural ability of the bargaining institutions to internalize negative externalities, when it comes to moderating wages. However, one cannot rule out the possibility that the need to enforce wage moderation by means of a tough monetary policy brings about real costs (e.g. rising unemployment) which an effective voluntary wage moderation does not create. In any case, the power of the monetary authorities to sanction and discipline the bargainers and their wage policy works as an intervening variable that modifies the above relationship between the bargaining institutions and economic performance, in a way depending on whether these authorities adopt a non-accommodating or an accommodating policy line.

Aside from these general interaction effects, EMU creates a specific and new situation in that it tends to change the conditions for the national bargainers in the eurozone in two main respects. First, the ECB is modelled on the Bundesbank the high institutional independence of which

is argued to assure far more effective commitment to price stability than is the case of central banks which are less independent of the other political actors (e.g. Cukierman, 1992). This means that the bargainers of several countries (e.g. Italy, Spain) which had experienced a long record of accommodating monetary policy will have to face a nonaccommodating regime under EMU. Second, and even more importantly, EMU alters the structure of interaction between monetary policy and wage policy. On the one hand, monetary policy in the eurozone cannot target each single national bargaining system, since the ECB will orient its policy towards *European* money supply and inflation. On the other hand, the economic weight of each single national bargaining system –even when effectively coordinated across the domestic economy– does not suffice to have a noticeable macroeconomic impact on the eurozone as a whole. This as well as the European orientation of the ECB improves the opportunity of the national bargainers to externalize wage externalities.

For all these reasons, the interaction between monetary policy and wage bargaining has attracted growing attention. While there are both analytical and empirical studies in this issue (Franzese, 2000), we again concentrate on empirical research here. Needless to say, related studies differ widely in how they operationalize wage bargaining and monetary policy. Since monetary responses to wage movements are just one certain kind of wage externality, it is reasonable to disregard work on centralization and follow the above categorization of bargaining coordination instead, when conceptualizing the institutional setting of wage policy. As regards monetary policy, institutional analysis focuses on the independence of the central bank in relation to other political actors, as noted above. In line with this, most interaction analyses examine the interplay of bargaining and central bank independence. However, this is not the most appropriate approach, as far as our problem is concerned. In this context, the question of whether the hypothesized positive association between central bank independence and price stability holds is of secondary importance. What actually interests us, is the responsiveness of alternative wage setting

institutions to monetary policy as such, regardless of how this policy relates to central bank independence. Hence, it is preferable to capture differences in monetary policy as such, namely differences in its restrictiveness, all the more since a standard measure of central bank independence is not available (Iversen, 2000). The empirical findings on the interaction between monetary policy and the bargaining institutions (operationalized in terms of horizontal and vertical coordination) are documented in Traxler et al., (2001). Hence, we again refrain from going into technical details of this analysis which is based on data for 20 OECD countries from 1970 to 1996. Monetary policy is operationalized as growth rates of monetary supply of M1. The main results of this analysis, as far as voluntary forms of wage setting are concerned, are summarized in Table 3.

**Table 3**  
The Interaction Between the Bargaining Institutions and the Monetary Regime

Bargaining institutions	The conditional effect of monetary policy caused by a shift from accommodation to non-accommodation		
	Labour costs <sup>+</sup>	Inflation	Change in unemployment
Uncoordinated bargaining	Insignificant	Insignificant	Significantly increasing*
Pattern bargaining	Significantly dampening**	Significantly dampening**	Insignificant
Peak-level coordination, high governability	Significantly dampening*	Significantly dampening**	Significantly dampening**
Peak-level coordination, low governability	Significantly dampening**	Significantly dampening**	Insignificant

\*  $p \leq 0.05$  \*\*  $p \leq 0.001$

<sup>+</sup> Increase of unit labour costs

Source: Traxler et al. (2001: 270).

Most importantly, there is only one category of wage bargaining which is *not* responsive to differences in monetary policy: uncoordinated bargaining. In contrast to this, any form of voluntary coordination of bargaining is sensitive to monetary policy in the way one should expect: that is, a significantly dampening effect of a non-accommodating monetary policy on labor costs. This dampening effect also applies to peak-level coordination under low governability which records the lowest structural capacity for internalizing externalities. This indicates that a non-

accommodating monetary policy can indeed work as a substitute for a lack of effective vertical cooperation. Although this tends to increase unemployment, this effect remains insignificant by conventional standards according to the econometric analysis (Traxler et al., 2001). The shift from an accommodating to a non-accommodating monetary policy thus causes significant real costs (in terms of rising unemployment) only in a situation of uncoordinated bargaining. Under these circumstances, given peak-level coordination backed by high governability, such a change in the monetary regime even combines with real benefits in the form of a decline in unemployment.

These findings plausibly suggest that the main divide in terms of responsiveness to monetary policy is between coordinated and uncoordinated wage bargaining. The explanation for this observation lies in the fact that any kind of attempt at horizontal (i.e. economy-wide) coordination is of macroeconomic relevance, such that the bargainers involved have to take account of the responses of monetary authorities to their bargaining outcomes. Conversely, the monetary authorities can deliberately target the bargainers and influence their behaviour even in advance of wage accords, by means of signalling the monetary consequences of a certain wage agreement. Put otherwise, coordinated bargaining enables the actors to embark on concertation of wage policy and monetary policy. The real benefits arising from the coincidence of a non-accommodating monetary policy and highly governable peak-level coordination indicate that this combination can most effectively make use of concertation. A possible explanation for this is that peak-level coordination is better prepared than pattern bargaining to comprehensively concert all relevant, interdependent policy fields, such that the benefits of price stability and wage moderation can more effectively be translated into positive employment effects. The Dutch 'miracle' (Visser and Hemerijck, 1997) is probably the most obvious example of such successful setting. This kind of *intentional* interaction between wage policy and monetary policy is impossible in the case of uncoordinated bargaining. On the one hand, it is



not rational for the bargainers to internalize monetary policy effects because none of the numerous bargaining units is so comprehensive that it exerts a notable macroeconomic impact. On the other hand, the monetary authorities cannot deliberately address the bargainers due to the fragmentation of the bargaining process. As a consequence, a wage policy which is regarded as inflationary by the monetary authorities can be disciplined only *ex post* in that growing unemployment that ensues from the move to monetary nonaccommodation restricts the scope for further wage increases. This explains the observed increase in unemployment in the wake of a shift to monetary nonaccommodation that coincides with uncoordinated bargaining (Table 3).

These findings also help explain why there has been a convergence of labor cost growth across Europe despite the significant differences of the national bargaining systems in their structural capacity for internalizing wage externalities (Table 2). One important determinant of this convergence has been the general shift to nonaccommodation which has been able to have such a notable impact on wage movements, since virtually all European countries have sought to coordinate their wage policy (Table 1). As Table 1 also shows, these efforts have often taken the form of tripartite, state-sponsored coordination which –often captured as ‘social pacts’ in the literature (e.g. Fajertag and Pochet, 1997)– have explicitly aimed at improving one country’s competitiveness by lowering comparative labor costs. As a result, wage setting has converged towards *decreasing* growth rates of pay to an extent that real wages have remained far behind productivity growth in Europe (Schulten and Stueckler, 2000; Schulten, 2001). Hence, the coexistence of national fragmentation of bargaining and economic integration has created a risk of deflationary wage bargaining rather than inflationary wage policies.

Transnational coordination of bargaining, initiated by the unions, is a means of overcoming this risk. As delineated above, however, this project is still in its infancy, such it is too early to empirically examine its performance.

## CONCLUSIONS

The above findings on the development of bargaining suggest that europessimist prospects for disorganization as well as eurooptimist scenarios of Europeanization do not hold. Coordinated bargaining still prevails in Europe, as it has adjusted itself to the changed economic circumstances. There is no reason to expect EMU to cause lagged disorganization in the future, since coordinated bargaining has survived despite extremely unfavorable economic conditions, as compared to the wider OECD. There is evidence that coordinated bargaining systems in the EU have had to stand much more restrictive macroeconomic demand policies than their uncoordinated counterparts which all –but the UK– are located outside Europe (Soskice, 2000). As Soskice (2000: 69ff) argues, an especially deflationary macroeconomic policy mix has been imposed on continental Western Europe as a consequence of the circumstances of economic integration, namely the hegemony of the Bundesbank throughout the area covered by the Exchange Rate Mechanism (ERM), and the Maastricht criteria for accession to the EMU. The stability pact has reinforced this policy orientation in the eurozone.

The coincidence of persistent attempts at economy-wide coordination and organized decentralization indicates that the national bargaining systems have adapted themselves to these economic pressures in line with their constituent structures. This is path-dependent development which is based on symbiotic relationships between the actors and the established structures, implying high costs of radical change (North, 1990). Comparative analysis has shown that there are two key structures that buttress the organized route of adjustments. Across the OECD, coordinated bargaining significantly clusters with the predominance of multi-employer bargaining and elaborate participation of organized business and labor in public policy-making (Traxler et al., 2001, Traxler, 2001). Both structural properties make the parties to collective bargaining so much relevant in macroeconomic terms that there is a strong incentive

for all actors, including the state, to cooperate and concert their policies. An organized approach to decentralization is most suitable under these circumstances, as this promises to reconcile the requirements for coordination and flexibility. This contrasts with the situation in countries (e.g. the USA, the UK and New Zealand) where single-employer bargaining prevails and the role of organized business and labor is rather negligible. The scope of each single-employer settlement is far from exerting a noticeable macroeconomic impact. Due to this fragmentation there is no need to incorporate the bargaining parties in public policy-making. In all these countries one finds progressive disorganization of industrial relations. As regards the EU, only the UK matches the disorganized scenario, while the conditions in all eurozone countries work in favor of organized path dependency.

This power of organized path dependency also accounts for the rise of transnational coordination of bargaining. Neither the social nor the macroeconomic dialogue had been established without unions having their grip on the labor market by means of multi-employer bargaining across Europe. This also questions the pessimist perspective on Europeanization, as far as Europeanization is seen as contingent on the emergence of genuinely supranational institutions. This perspective is right, when arguing that centralized, 'euro-corporatist' collective bargaining is not feasible (e.g. Marsden, 1992). However, decentralized mechanisms are sufficient for effective coordination, as the crossnational comparison has shown. In the case of the eurozone, establishing such a decentralized framework for transnational coordination creates less difficulties than building centralized pan-European institutions. Above all, it is only a decentralized framework for coordination which can be compatible with the continued diversity of the national bargaining institutions. In fact, the way in which bargaining has become 'Europeanized' so far exactly follows the decentralized route to coordination.

Nevertheless, the future of this spill-over of coordination to the European level is still dubious. This is not only because the employers are

not interested in this undertaking. Even more essentially, the relationship between national and transnational bargaining is highly ambivalent. In *structural* terms, national coordination is conducive to transnational coordination, because transnational coordination cannot work without corresponding institutions and practices within the member states. Yet in terms of policy *goals*, national and transnational coordination conflict with each other, since the former has been committed to competitive wage policies, something which the latter intends to overcome. Since wages are still set within the national boundaries, transnational coordination may be reduced to symbolic politics at worst, when it will continuously be crowded out by coordination bound to national interests.

At any rate, there is overwhelming evidence of institutional continuity of bargaining in the eurozone which in turn means lasting diversity across the national bargaining systems. There is far less clear evidence regarding the performance effects of this development, although mainstream reasoning stresses the propensity for inflationary wage policies under these circumstances. The standard argument is that any kind of national bargaining represents a case of intermediate centralization in the eurozone. Intermediate systems are too small to significantly influence the macroeconomic development, implying that they do not bear the full burden of the negative macroeconomic consequences of their pay hikes (e.g. Henley and Tsakalatos, 1992; Peters, 1995). One finds this argument most pronounced in accounts committed to the hump-shape hypothesis according to which intermediate systems perform worst, as outlined above. Since complete centralization of bargaining is regarded as unfeasible, the demand for decentralizing bargaining to the company level has been put forward mainly by the neoliberal economic policy community (Crouch, 2000). This program for bargaining in the eurozone is misleading for several reasons. Due to the path dependency of bargaining complete decentralization is as unfeasible in Europe as centralization is. Furthermore, the above analysis has shown that intermediate systems perform well, provided their bargaining rounds are coordinated. Last but not

least, the neoliberal program even fails to grasp a key point underlying the hump-shape hypothesis. Accordingly, the performance of intermediate bargaining is particularly poor due to the cartel-like effect that results from the fact that the products covered by a sector-level collective agreement are more substitutable for each other than they are for products outside the agreement's scope (Calmfors and Driffill, 1988: 31-39). This does not match the situation of the national economies within the single market which have been recording a high and still growing mutual trade penetration.

There is another scenario which traces the tendency towards inflationary wage policies in the eurozone to changes in the incentive structure of the bargainers in Germany (Soskice and Iversen, 1998). Accordingly, EMU as such has not significantly changed the bargaining conditions in the eurozone countries except for Germany, since there was only one 'single real bank (i.e. the Bundesbank due to its monetary hegemony) in Europe even before EMU. Yet EMU has substantially changed the German situation, since the Bundesbank, when consistently pursuing its nonaccommodating monetary policy, could directly target the national bargainers, in particular the pattern-setting metal industry. As the ECB will not directly address the German bargainers, they become relieved of the disciplining pressures of monetary nonaccommodation.

The problem with this argument is that it does not systematically consider the fact that the national economies interact with monetary policy also in areas other than wage formation. Empirical evidence suggests that the German economy is especially sensitive to European monetary policy due to certain structural properties (Baumgartner and Url, 1999). This generally high sensitivity of the German economy is likely to keep also its bargainers responsive to monetary policy, even though direct control, as exerted by the Bundesbank, has disappeared. Another reason for continued efforts to moderate wages emanates from the fact that Germany is especially vulnerable to economic developments outside the eurozone as a result of being one of the eurozone's main manufacturing exporters

(Arrowsmith and Sisson, 2001). Most essentially, pattern-setting (as is established in Germany) performs very well, regardless of what kind of monetary regime is given (Table 2). In line with this, real wages grew less in Germany than on average in the EU during the last years (Arrowsmith and Sisson, 2001; Bahn Müller, 2001). As Germany's bargainers will thus hardly change their behavior and the bargainers of the other eurozone countries operated under conditions similar to EMU even before the introduction of the single currency, one may assume that EMU will not significantly change the context and performance of the bargaining systems.

This assumption complements the above findings on the path dependency of bargaining, especially those on the continuity of coordination which is most important to performance. However, one has to specify this assumption, since the labor cost effects of alternative bargaining systems somewhat differ, depending on whether analysis only controls for monetary policy (Table 2) or examines its interaction with bargaining (Table 3). Although wage setting is coordinated in all eurozone countries, the incoherence of the structural capacity for internalizing wage externalities is enormous in that almost all countries belonged to either of the two extreme groups of very well or very poorly performing categories of coordination during the late 1990s (Table 1). This is mainly due to deeply entrenched differences in governability. Hence, the eurozone has not become more coherent since that time. Despite this incoherence there has been a clear convergence towards declining labor cost growth for more than a decade for two main reasons (Traxler et al., 2001): the shift to monetary nonaccommodation and the extraordinary national efforts to cope with the single market and to meet the Maastricht criteria. None of these factors will last. As outlined above, the ECB is unable to target each of the national bargaining systems. After accession to the eurozone the relevant interest groups which have so much strived to achieve this goal (Pochet, 1999) will hardly accept further sacrifices for the sake of EMU. As monetary policy cannot vary across countries in the eurozone, Table 2 indicates the

performance of alternative bargaining institutions under EMU more appropriately than Table 3 does. This means that, *ceteris paribus*, wage movements across Europe may diverge rather than converge in the future.

Aside from growing trade penetration in the eurozone, there are two institutional factors that might countervail these tendencies towards divergence. At national level growing divergence of wage movements may prompt government responses in those countries recording poor performance. In this case, the path-dependent (and thus most probable) response is state-imposed coordination. At European level, transnational bargaining coordination may consolidate. What appears to emerge in response to the coordination initiatives mentioned above, is a special kind of transnational pattern bargaining, with Germany as the gravity center and the core countries of the former Deutschmarkzone as the other participants.

While state-imposed coordination may dam up inflationary tendencies, it threatens to fuel deflationary wage rounds. Effective transnational bargaining coordination would be best prepared to avoid inflationary as well as deflationary wage policies.

Although setting up transnational coordination procedures is less difficult than building a centralized pan-European bargaining system, its effectiveness is uncertain under the given circumstances. As we have seen, the effectiveness of coordination depends on the ability to overcome the horizontal as well as the vertical problem of cooperation. The main problem in the eurozone is that more than half of its countries lack bargaining governability needed to cope with the vertical cooperation problem. Since the vertical cooperation problems aggravate with bargaining centralization, high governability is even more needed for transnational coordination than for its national counterpart, as the former represents a more centralized mode of coordination than the latter. It is thus no exaggeration to say that bargaining governability is the Achilles heel of transnational coordination.

Regardless of this, transnational coordination is feasible in the eurozone, since it is the essence of pattern bargaining that its effectiveness does not hinge on an encompassing and complete accord among all the bargaining units of the overall system. What is actually needed is a critical mass capable of setting the pace, while the other bargaining units simply follow. In all the OECD countries recording a long tradition of pattern bargaining (i.e. Japan, Germany and Austria) the critical mass of the pattern setter (i.e. the metal industry) represents less than 15 per cent of the total number of employees (Traxler et al., 2001). Put otherwise, the effect of pattern bargaining clearly transcends the formal scope of the initiating bargaining unit. Likewise, complete participation of all national bargaining systems across the eurozone is not needed for coordination in the context of EMU. In the case of EMU the critical mass for effective coordination across the eurozone would be reached if the coordination process covers a range of bargaining units which are so economically important that their coordinated policies secure the achievement of macroeconomic goals in the eurozone.

#### **NOTES**

1. One finds less pronounced resistance among employers in a few sectors like construction and road haulage, where incoming workers from low-standard countries outside the EU tend to distort inter-firm competition (Marginson and Sisson, 2001).
2. For instance, one standard assumption is that there exists only one single (i.e. monopoly) union per country.
3. Such a scaling becomes possible only by means of ranking the distinct coordination modes according to their comparative performance. Such an approach, however, results in tautology when using this measure as a predictor of performance.



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