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Foundations and Perspectives of Trade Union Wage Policy in Europe

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Trade Union Wage Policy in Europe**

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WSI-Discussionspaper No. 129

August 2004

Wirtschafts- und Sozialwissenschaftliches Institut
in der Hans-Böckler-Stiftung, Düsseldorf

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1. Introduction

Since the 1980s most European trade unions have lost much of their organisational and political power and influence.² Against the backdrop of persistent mass unemployment and increasing numbers of precarious jobs, trade unions in most European countries have suffered significant losses of membership. At the same time, trade unions are weakened by neoliberal reforms of labour market institutions and welfare state regimes, whereby they often lose their former channels of access and influence on political decision-making.

The increasing political and organisational weakness of the European trade unions is not without repercussions on collective bargaining and wage formation. Conceptions of solidaristic wage policy, developed and applied by the trade unions in the post-war period, are in deep crisis, and trade unions are less and less capable of fulfilling their political and economic core function – namely to “take wages out of competition”. The dominant maxim, instead, is the neoliberal concept of competitive wage policy, in which the development of labour costs is the core parameter of international competition between countries and regions as business locations.

The crisis of solidaristic wage policy has far-reaching consequences in the realms of both distributional politics and economic policy. The position of wage earners in the income distribution has gradually deteriorated vis-à-vis the recipients of capital income, while the income differentials between different segments of the workforce have substantially increased. At the same time wage policy is becoming increasingly incapable of fulfilling its main macro-economic functions. During the past decades, wage policy could neither contribute to sufficiently strengthening pri-

¹ This paper summarises key results of a large study, recently published in German under the title „*Solidarische Lohnpolitik in Europa*“ (Schulten 2004a).

² For a comprehensive overview over the development of the European trade unions see, for instance, the study by Boeri, Brugiavini and Calmfors (2001).

vate consumption, nor was it an adequate safeguard against deflationary tendencies in the development of prices.

Overcoming the defensive position in collective bargaining has become a matter of survival for the European trade unions, without which they are unlikely to surmount their political and organisational weaknesses. Considering the degree of political and economic integration in Europe, trade unions can no longer stick to purely national strategies. Since the 1980s the key political projects of European integration have played a major role to force the neoliberal reorganisation of European capitalism (Bieling and Steinhilber 2000). Especially the introduction of the European Monetary Union has turned out to be an important political catalyst, which put the need for a Europeanisation of wage policy and collective bargaining on the trade unions' agenda. A number of trade union initiatives have meanwhile developed, aiming at European coordination of wage policy. The first goal of these initiatives is to lay down a set of shared ground rules and objectives for national wage policy, which are supposed to prevent competitive underbidding of labour costs and wage dumping. Although the majority of these initiatives are still on their initial stages one can already identify several points of contention and impediments to full success, which might obstruct effective collective bargaining coordination. The experience hitherto indicates that it will not be enough to establish collective bargaining coordination as a mere technocratic procedure. The trade unions need an overarching political project instead, which will amount to nothing less than striving for a reconstruction of solidaristic wage policy in Europe.

2. The Concept of Solidaristic Wage Policy

Against the backdrop of an increasing socialisation of wage policy and the recognition of its macroeconomic significance, in the first decades of the 20th century European trade unions started not only to demand for as high as possible wage increases but to justify these demands with economic arguments. In addition to the *moral economy* of trade union wage policy an independent *political economy* has emerged which is not only based on normative concepts such as fair compensation or equitable income distribution, but which also claims to be economically "rational" in

order to contribute to a better functioning of capitalism³. The concept of *solidaristic wage policy* as it was developed by the European trade unions in the post-war period can be understood as an integrative approach connecting both *moral economy* and *political economy* of wage formation (*Table 1*).⁴ The core importance of solidaristic wage policy lies in the principle of de-commodification, according to which the price of labour is not set by supply and demand, as it is for a regular commodity, but instead by collective agreements, which are themselves the result of political struggles and regulation. From the perspective of trade unions, solidaristic wage policy includes both normative and economic objectives.

At the outset of every collective bargaining round there are more or less clearly articulated normative views about distributive justice, with which the trade unions justify their wage claims, and which form the most important political-ideological resource for political mobilisation of trade union members. In this, trade union wage policy always faces a twofold distributive conflict, comprising distribution between capital and labour on the one hand, as well as potential distributional conflict “within one class”, that is, between different groups of employees, on the other hand.

Regarding the former, distributive conflict between capital and labour, the trade unions seek to obtain significant wage increases. In the moral economy of trade union wage policy, one can distinguish two variants of this. The first variant is the concept of *expansive wage policy*, in which the goal is to correct the current income distribution between capital and labour, deemed inequitable by the trade unions. A redistribution of income from capital to labour could be reached by expansive wage increases, that are, wage increases that exceed productivity growth. The second, more modest variant is the concept of *productivity-oriented wage policy*, which aims at a situation in which capital and labour get an equal share in the fruits of productivity growth. The normative goal of this more modest variant is not the modification of the existing income distribu-

³ The concept of the moral economy was originally developed by the British social historian Edward P. Thompson (1971), who sought to conceptualise the relevance of everyday norms and values for economic behaviour. Later it was especially Peter Swenson (1989), who made the concept amenable for the study of trade union wage policy and promoted an integrated approach comprising both the moral and the political economy. See also Schulten (2004a 136 ff.).

⁴ The term solidaristic wage policy was coined originally in Sweden during the 1920s, and after the Second World War it was used to characterise the Swedish collective bargaining system (Swenson 1989). I will use the term more broadly in this article, in order to depict the basic principles of solidaristic wage policy, which extend beyond the specific Swedish context and could be found in one way or another in almost all European countries. (see also Schulten 2004a.: 134ff.).

tion between capital and labour, but in principle neutrality of wage policy in its distributive effects.

Table 1: The Concept of Solidaristic Wage Policy

Distributional Conflict	Between Classes (Capital and Labour)	Within Classes (Between different Groups of Employees)
Principal Goals of Wage Policy	High Wages	Egalitarian Wage Structures
Normative Goals (Moral Economy)	Redistribution (Expansive Wage Policy) Distributional Neutrality (Productivity-Oriented Wage Policy)	Equal Pay for Equal Work Fight against Wage Discrimination Reduction of Wage Dispersion
Economic Goals (Political Economy)	Stabilising Demand (Consistency between Mass Production and Mass Consumption) Improving Innovations and Productivity Safeguarding Monetary Stability	
Institutional Precondition	Multi-Employer Bargaining	

Source: Author’s compilation on the basis of Schulten (2004a)

With regard to the distributional conflict “within one class”, the normative goal is to fulfil the principle of “equal pay for equal work”. What is at issue here is wage setting according to criteria that are politically agreed upon and “objective” in the sense that they relate to things like an employee’s skills or a workplace’s tasks, and not to the economic situation of the firm in which an employee works. Another facet of the principle of equal pay for equal work is that it also seeks to eliminate wage discrimination of specific groups of employees, such as women, migrant workers etc.. Finally, solidaristic wage policy aims at reducing overall wage differentials between the different groups of employees in order to get a more egalitarian wage structure.

The moral economy of wage formation finds its complement in the *political economy* of trade union wage policy, according to which the concept of solidaristic wage policy is associated with certain macroeconomic functions of wage developments, aimed at fostering economic growth and stability. *In the first place*, this pertains to the function of wage policy as one crucial factor to *stabilise consumer demand* in order to make sure that mass production and mass consumption are in a consistent relation to each other. This demand-function of wage policy has to be supported by collective agreements that exhaust the growth of productivity or even supersede it as well as by a more egalitarian distribution of income.

In the second place solidaristic wage policy has a specific function of *fostering innovation* at company level, because it prevents enterprises from trying to obtain competitive advantages primarily by way of reducing their labour costs. Solidaristic wage policy acts as a “productivity whip”, forcing the firm onto a trajectory of permanent innovation. Connected with solidaristic wage policy, therefore, is a particular model of capitalism, which pursues a “high-road-strategy”, with the nexus of high wages and high productivity as the centrepiece of that strategy.

In the third place, solidaristic wage policy fulfils an important function for safeguarding monetary stability. In boom-times the orientation toward an egalitarian wage structure and a parallel development of wages across sectors and firms prevents competitive outbidding of particularistic wage claims and can thus curb the danger of wage-price-spirals⁵. In times of economic slowdown solidaristic wage policy forms an important safeguard against deflationary tendencies that can result from wage cuts in absolute terms and a disproportionate amount of wage restraint.

The realisation of solidaristic wage policy hinges on a number of political and institutional pre-conditions. An important aspect of these conditions is the existence of politically influential trade unions with high mobilisation capacity. In addition, the trade unions need centralised collective bargaining institutions, facilitating the regulation of wage structures above the firm level. Collective bargaining must have a high degree of centralisation, and bargaining agreements must either be reached on the national level, or when reached on the industry level, they must be coordinated across industries on the national level. Only then is it possible to attain an overarching orientation

⁵ Potential inflationary dangers can be the result of an expansive wage policy, by contrast, if labour unions are able to achieve collective agreements above the productivity growth over longer periods of time. The expansive variant of solidaristic wage policy, unless it generates productivity growth that ex post justify the expansive wage increases, depends on a supporting economic policy, which prevents firms from shifting their increased labour costs onto the prices.

of wage policy, capable of fulfilling the normative and economic goals of solidaristic wage policy.

3. From Solidaristic to Competitive Wage Policy – Long-Term Trends in Europe

In the first two decades after World War II the European trade unions were more or less successful in putting the concept of solidaristic wage policy into practice⁶. The majority of (western) European countries established fairly robust centralised collective bargaining institutions, which ensured the orientation of wage policy toward national goals and complemented the prevailing Keynesian approaches to macroeconomic policy. The periodic wage increases tended to follow the growth of productivity and generated a parallel development of capital and labour incomes, as demonstrated by the fact that the share of labour incomes in national income remained fairly constant over time (*see Table 2*). Moreover, existing wage differentials between the different groups of employees could be levelled in many European countries, so that in many places the overall wage dispersion could significantly be reduced. Bolstering private consumption, securing monetary stability, and fostering productivity growth were the effects of the relatively successful implementation of solidaristic wage policy, which also contributed to the largely prosperous and smooth economic development.

Against the backdrop of a strong political expansion and thriving of the European labour movement, the European trade unions were even able to realize the expansive variant of solidaristic wage policy during the first half of the 1970s. For the first time the trade unions accomplished wage increases above the growth of productivity for several collective bargaining rounds, which effectively led to a drastic increase of the wage share (*see Table 2*). It also went along with a convergence in the income levels of different groups of employees and a decline of wage dispersion. The radicalisation of solidaristic wage policy, however, was taking place in a period of time in which the lasting prosperity of the post-war era was already coming to its ultimate close, and the development of the economy started to be characterised by shrinking growth rates, increasing unemployment, and an overall crisis-prone development. To make things worse, wage policy could not act as an anchor for macroeconomic stability any more, because expansive wage policy

was not set up to fulfil this role, so that wage agreements began to contribute to a significant increase of inflation.

Table 2: Adjusted Wage Share* in the European Union (1961-2000)

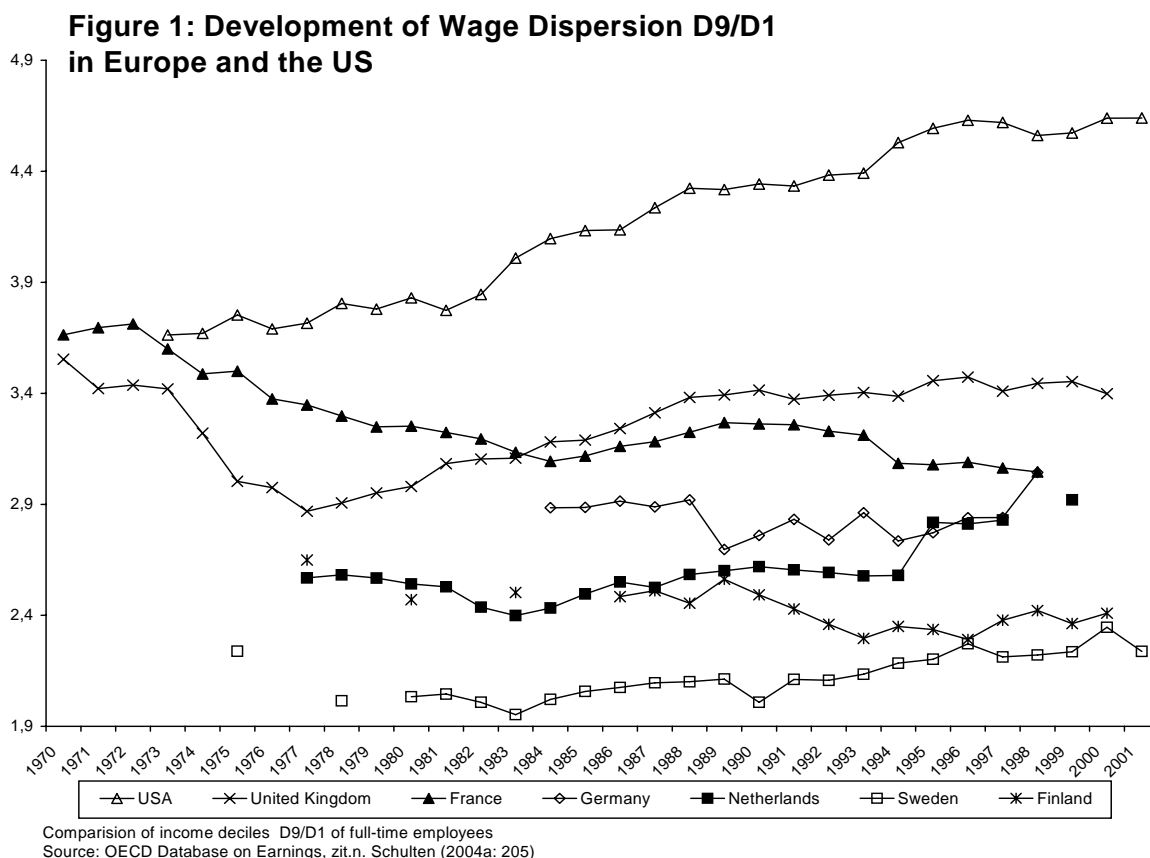
	1960	1961-1970	1971-1980	1981-1990	1991-2000
Austria	75,6	75,9	76,3	73,0	69,2
Belgium	66,7	67,2	72,2	72,1	72,1
Denmark	67,7	71,5	74,3	72,6	68,2
Finland	76,7	76,0	73,5	71,9	66,7
France	74,7	74,8	76,1	75,2	68,8
Germany	70,6	71,6	73,7	70,9	68,1
Greece	89,7	86,5	70,9	73,5	67,2
Ireland	78,3	78,3	76,3	71,6	62,6
Italy	76,6	75,0	76,6	74,3	70,3
Luxembourg	58,0	59,4	67,5	68,1	63,5
Netherlands	62,1	68,0	73,2	66,7	65,4
Portugal	68,2	67,5	80,9	73,8	75,0
Spain	69,6	72,4	74,0	69,9	68,4
Sweden	68,1	70,9	72,7	68,8	67,2
United Kingdom	71,0	72,3	73,0	72,8	72,3
European Union	72,1	72,9	74,4	72,4	69,2

*Nominal compensation per employee in % of GDP at factor costs per employee
Source: European Commission (2003)

The worldwide economic crisis of the mid-1970s marked the beginning of the end of a period of time in which the European trade unions had managed to reach their principle goals in the field of wage policy and collective bargaining. Since then, the paradigm of solidaristic wage policy has increasingly given away to a new neoliberal paradigm of *competitive wage policy*. Drawing on neoclassical wage theory, wages are solely seen as labour costs, and as such are a key variable in the global competition between countries and regions for capital and investment. In this role, wage policy is also being held responsible for economic development and the safeguarding or creation of employment. The neoliberal concept of competitive wage policy pursues a dual strategy. On the one hand “moderate” wage developments, that is, wage increases constantly below

⁶ For the following passages see Schulten (2004: 164ff.)

the level of productivity increases, are supposed to foster the price competitiveness of the domestic companies vis-à-vis their foreign competitors. On the other hand competitive wage policy calls for a significantly greater extent of wage dispersion, in which wages are a function of the respective economic situation in individual firms and industries.



The crisis of solidaristic wage policy has a material and a political-institutional dimension. In material respects, the European trade unions have rarely been able to realise their distributional goals in recent years. Since the 1980s wage increases have practically continually remained below productivity growth in almost all European countries, which led to a nearly continuous decline in the share of wages in national income and to the massive redistribution of income from labour to capital (Table 2). At the same time the previous trend toward reduced wage dispersion in the economy has reversed, and the extent of wage inequality between different groups of employees has drastically been on the rise again, even though there is still considerable variation among the different European countries (Figure 1).

With regard to the political-institutional dimension, the crisis of solidaristic wage policy manifests itself in an increasing decentralisation of collective bargaining, and its shift to the company level. Even though there has not been a full-fledged systemic change of the collective bargaining systems in any western European country except the United Kingdom, and centralised collective bargaining still remains the most important institutional form of wage formation in Europe (Schulten 2004b), the company level of regulation has become more and more important within the existing centralised bargaining structures. The regulatory power of centralised bargaining agreements is getting undermined to an increasing extent⁷.

Moreover, during the 1990s new forms of institutionalised labour relations have evolved, which structurally enforce the principle of competitive wage policy (Bieling and Schulten 2003, Schulten 2004a: 245ff.). On the national level this includes new tripartite social pacts, which commit the trade unions to a competition-oriented wage policy in the context of competitive corporatism⁸. The firm-level counterpart of this are the company-level “pacts for competitiveness” burgeoning in many European countries. The latter are based on a kind of “concession bargaining”, in which the company usually promises a limited job guarantee and in return expects consent, on the part of its employees, with various measures designed to reduce labour costs, concessions that in part openly violate regulations of the centralised wage agreements.

The transition from solidaristic to competitive wage policy essentially reduces the role of wage formation to a mere managerial parameter at the disposal to individual firms, whereas its macro-economic governance capacity is largely lost. The consequences of this micro-economically rational strategy of competitive wage policy are dysfunctional when considered in a macroeconomic perspective. In Germany, for example, the extremely moderate development of wages in recent years is one of the factors explaining why private consumption has fallen short of its potential by far, and important possibilities for economic growth and new employment could not be used. Equally problematic are the consequences of competitive wage policy for the development of prices, because the strategy is permanently creating deflationary pressure, driving up real in-

⁷ Moreover, most of the new member states of the European Union in Central and Eastern Europe do not have centralized wage setting institutions, and collective bargaining agreements – to the extent that they exist at all – are mostly negotiated at the company level (Schulten 2004b).

⁸ A classical example is the social pact concluded in the fall of 2003 in the Netherlands, in which the trade unions agreed to two years freeze of basic pay (Schulten and Mühlhaupt 2003).

terest rates and hindering investment activity⁹.

Finally, within Europe the concept of competitive wage policy essentially boils down to the attempt to solve national economic and employment problems by means of wage dumping and at the neighbouring countries' expense. Such Beggar-thy-Neighbour policies can be successful niche-strategies for smaller countries for a certain period of time, but sooner or later they will always prompt counter-reactions on the part of the other countries. The largely parallel development of wages in most European countries indicates that a European dynamic of competitive underbidding has already got in motion. Counter to the neoliberal prediction, this significantly diminishes the potential for economic growth and employment, and it is at its core a strategy of continually worsening the position of wage earners in the distributive struggle.

4. Attempts at European Coordination of Trade Union Wage Policy

With the establishment of competitive wage policy the European trade unions are step by step losing their core function to place political limitations on competition over wages and labour costs. Politically and institutionally secured de-commodification of labour is replaced with the mounting re-commodification, which is driven by the neoliberal restructuring and the de facto undermining of existing labour standards and social security arrangements. In view of these developments the European trade unions are caught in a vicious circle. In their core competency of wage policy their influence is waning, which is the decisive factor contributing to their loss of legitimacy, mobilising capacity, and attractiveness vis-à-vis potential new members, which only weakens their bargaining power in collective bargaining further. Therefore, regaining innovative capacity on the terrain of wage policy is one of the central tasks in which the future relevance of European trade unions will be decided.

In view of the extent of European integration already attained, it is reasonable to assume that lastingly overcoming competitive wage policy will not be feasible when restricted to the national level. European integration with its key political projects – such as the Single European Market and the European Monetary Union – is itself one of the crucial factors contributing to the present

⁹ For the current connection between wage development and deflationary pressures see Hein, Schulten and Truger. (2004).

situation in which the national economic institutions, once supporting and facilitating solidaristic wage policy on the national level, are subject to permanent competition between national regimes and institutional arrangements. The Single European Market has dramatically increased the intensity of competition on the product markets and thus intensified the pressure on companies' wages and labour costs. At the same time the Single Market project has spurred a comprehensive transnational wave of restructuring within the companies and along with this broadened companies' exit options from national collective bargaining arrangements (Andersen 2003). Furthermore, the European Monetary Union has created a new macroeconomic context, in which the development of wages has direct repercussions on the price-competitiveness of firms, as the instrument of exchange rate policy is not available as a tool for adjustment any more (Schulten 2001a). Finally, the actors in charge of European economic policy, such as the European Central Bank, the EU Commission's General Directorate for "Economic and Financial Affairs", and last but not least the European Council have an important function in lending crucial political and ideological support to the paradigm of competitive wage policy by elevating that paradigm into the status of a guiding principle in their regularly published "Broad Economic Policy Guidelines".

In view of all these developments, there are currently no reasons to believe that the loss of governance capacity at national level will be compensated with new, supra-national regulatory structures at European level. Some people refer to the consultation between employers' associations and trade unions in connection with the European Social Dialogue as "European collective bargaining" (e.g. Sadowski, Ludewig and Turk. 2003), but this is misleading as these talks are in practice part of a mainly "symbolic Euro-Corporatism", (Schulten 2004a: 262ff.), and has a completely different functional logic. The European Social Dialogue is a precarious institution, only feasible if it remains limited to issue areas which either have a high degree of overlap in the interests of European trade unions and employers' association or have primarily symbolic character.

For coping with wage setting and distributive conflict, the European Social Dialogue is not a suitable instrument. Even if the EU-Treaty had not explicitly excluded wage policy from the EU's responsibility (Art. 137, No. 5 of the Treaty), initiatives in the area of wage setting would have been unlikely to appear on the agenda of the European Social Dialogue, because the structural conflicts of interest between employers and trade unions are so prominent in this area (Streeck 1999). While for the trade unions limiting wage competition on the European level is

one of the crucial preconditions for regaining some of their strength in national collective bargaining, the employers' enhanced power position is the result of precisely that lack of European wage regulation and results from the possibility to use the European wage competition strategically in the national collective bargaining.

As European level collective agreements are not forthcoming in the near future, the European trade unions must search for alternative ways in which wage competition on the European level can be politically restrained. In contrast to the European Social Dialogue, which has always had also the function to commit the European trade unions to the predominant projects of European integration (Hyman 2004), in this task the trade unions can hardly hope for much support from the European institutions. The Europeanisation of wage policy will therefore have to be initiated in the context of autonomous and unilateral cooperation among the European trade unions themselves.

Since the late 1990s, a number of new trade union initiatives have in fact evolved, which seek to coordinate wage policy and collective bargaining at European level¹⁰. The pioneering initiative is the *Doorn-Initiative*, set up in 1997 between Germany and the Benelux countries, which for the first time set up shared transnational guidelines for collective bargaining policy¹¹. Moreover, almost all European Industry Federations, organising the national industrial labour unions, have meanwhile initiated more or less far-reaching initiatives for a European coordination of collective bargaining at sectoral level. The European Metalworkers' Federation (EMF) plays an important role in leading the way, and its approach for European level coordination of trade union collective bargaining is furthest developed both with regard to its substantive and conceptual positions and with regard to its implementing institutions¹². Most of the other European trade union committees have learnt from the EMF's experience when devising their own schemes of wage policy coordination.

Since the year 2000 the European Trade Union Confederation (ETUC) has also been working on

¹⁰ For an overview over the different trade union initiatives on a European coordination of collective bargaining see: Dufresne (2002) and Schulten (2003, 2004a: 276ff.).

¹¹ The Doorn-Initiative has the name of the Dutch town Doorn, in which the trade unions of the participating countries met in the year 1998 and agreed on a common policy statement about the transnational coordination of collective bargaining, the "Statement of Doorn", the first written agreement of its kind.

¹² For a detailed case study about the EMF's strategy for collective bargaining coordination see. Schulten (2001b; 2004a: 284ff.).

a European coordination of wage policy at cross-sectoral macro-level. An independent initiative on the part of the ETUC became necessary on the one hand in order to consolidate the different sectoral approaches and give them some degree of substantive coherence. On the other hand, it also became a forum for the ETUC for developing its own positions for the coordination of wage policy at macro-level, which was important as a tool for gaining some leverage in dealing with the other EU institutions and social actors (European Central Bank, European Council, European Commission, Macroeconomic Dialogue, etc.) as an autonomous and powerful macroeconomic actor.

While the European trade unions had considered collective bargaining an exclusively national task until in 1990s, they have successfully established collective bargaining as a central European political arena since then. The ETUC (1999) has even declared the coordination of collective bargaining – along with European social policy legislation, the European Social Dialogue, and the European Works Councils – as one of the four pillars of a “European system of labour relations”. The trade unions’ conception of coordination explicitly does not seek to establish a supra-national system of wage formation or to reach European level collective bargaining agreements, however, but instead focuses on the coordination of *national* collective bargaining policies.

At the core of all these trade union initiatives toward coordination is consultation and mutual agreement on shared guidelines and targets, which, when implemented, constrain competitive underbidding of wages and labour standards, and promote the gradual convergence of national minimal standards for collective bargaining. The central point of all these initiatives is the return to a productivity-oriented wage policy, which taps the full potential of distribution as determined by the national development of prices and productivity¹³. The initiatives subscribe to the concept

¹³ For instance, the EMF’s 1989 resolution entitled “Collective bargaining with the Euro” states: “The key point of reference and criterion for trade union wage policy in all countries must be to offset the rate of inflation and to ensure that workers’ incomes retain a balanced participation in productivity gains. The commitment to safeguard purchasing power and to reach a balanced participation in productivity gains is the *new European coordination rule* for coordinated collective bargaining in the metal sector all over Europe.” (EMF 2001: 336, my emphasis). In most of the trade union initiatives at coordination the question of which specific numbers for the price and productivity guidelines should form the basis of wage setting coordination was not further specified. While the ETUC has lately appeared to approach a post-Keynesian view according to which – especially in the Euro zone – the national trend of productivity growth and the European Central Bank’s target rate of inflation are considered adequate guidelines, (Janssen and Mermet 2003), most national trade unions still consider their country’s inflation rate the decisive point of reference in wage negotiations.

of a *wage policy neutral which is neutral to competition* and uphold this as an alternative to the predominant pattern of *competitive wage policy*. In this alternative conception the participants take a conscious decision to give up trying to obtain national competitive advantages on the expense of neighbouring countries by means of wage restraint. Furthermore, the trade unions have begun to define minimum standards in other areas of collective bargaining policy (such as working times, or questions of vocational training and further training), which should be implemented in the national collective bargaining.

The European trade unions associate both distributive and economic policy goals with their approach of a European coordination of collective bargaining (Traxler and Mermet 2003). Regarding distributional politics, a European coordination of wage policy is supposed to halt the trend, going on for 20 years now, of redistribution from labour to capital incomes and ensure a fair share of the employees in the fruits of productivity growth again¹⁴. Beyond that, the ultimate goal is to strengthen the principle of decommodification of labour again by setting politically negotiated limits for competition based on labour costs. Apart from the distributional goals, the European coordination of wage policy is supposed to contribute to a situation in which wages can fulfil their constructive and supportive macroeconomic steering function again and contribute to securing a dynamic economic development. Both the reinforcement of private consumption and the support of monetary stability are part of this function. With their economic policy the European trade unions presume comprehensive macroeconomic coordination at European level, which enables wage setting policies, monetary, and fiscal policies all to be oriented toward the goals of growth and employment promotion¹⁵.

¹⁴ The demand for a return to the productivity-oriented wages policy has the problem, however, that it cements the distributive conditions of the past few years, so that many trade unionists see it merely as a minimal demand, which could be superseded with a more expansive wage policy, once conditions permit.

¹⁵ For this see the contributions in Hein, Niechoj, Schulten and Truger (2004).

5. The Trade Unions’ “Coordination Approach” – Problems of Implementation and Future Perspectives

With the European “coordination approach” the European trade unions have developed a new strategy for overcoming the crisis of trade union wage policy in Europe. From the perspective of the trade unions, this approach comprises at least four strategic advantages:

First, the strategy takes the existing variety of different national collective bargaining systems as its starting point and refrains from aspirations at a comprehensive institutional reconstruction of European bargaining structures towards a harmonised system.

Secondly, the strategy seeks to overcome the dichotomous view of national versus European collective bargaining policy and connect the two levels with one another in a potential win-win constellation, in which the stabilisation of the national collective bargaining and their coordination on the European level mutually support each other. The coordination approach intends to make the transnational interdependencies of national wage setting visible and connect the wage policies of the national trade unions with one another in such a way that the power and bargaining positions of the trade unions are strengthened on both the national and the European level. At the same time it rescues the European trade unions from the illusion that the mere transfer of collective bargaining competencies from the national to the European level could compensate for the weaknesses of the trade unions in the domestic arena.

Third, the coordination approach frees the trade unions from their obsession with supranational collective bargaining agreements, an obsession that will always be paralysing, as it always sees union activity on the European level limited by the lack of an organised counterpart on the employer side. All experiences with the European Social Dialogue have clearly shown that the European employers’ associations will refuse to accept any European level collective agreements as long as they are facing no powerful political and trade union actors at European level.

The coordination approach emphasises a *fourth* point, namely the necessity to build new and autonomous trade union structures in Europe and to create a European trade union *movement* capable of independent action. Accordingly, the trade unions have developed numerous new collective bargaining institutions at European level and are in the process of further building transnational networks of cooperation among national trade union actors, so that the density of communication and exchange among the European trade unions has considerably increased.

Various political and institutional problems and obstacles still persist, however, which have so far stood in the way of an effective coordination of trade union wage policy. The first, fundamental problem of all trade union coordination initiatives is the fact that the entire approach is voluntaristic. The European trade union organisations have neither the legal right nor the political power to commit their national member federations to a certain behaviour. From a legal perspective, the European coordination guidelines are nothing more than declarations of goodwill, or expressions of a moral obligation, which national union federations define for themselves and which need active support of the national unions to become effective.

As the trade unions act in the national arena in the first place, and also draw on their bases of power and legitimacy as defined in the national context, the political authority of the European trade union organisations is rather weak vis-à-vis their national member associations. This holds especially for the core task of collective bargaining. Accordingly, all the resolutions about European coordination of collective bargaining are careful to emphasise the bargaining autonomy of the national trade union associations. The European trade union organisations have no instruments at their disposal, with which they could impose “hard” sanctions and punish any violation of the mutual agreements by one of the national member associations or even put a stop to this “misconduct” on the part of this national union federation¹⁶. The voluntaristic network character of the trade unions’ coordination approach creates a structural dilemma for the European trade union organisations. The more national member associations violate the European coordination guidelines and pursue the strategy of competitive wage policy, the greater the pressure on the remaining organisations becomes to follow suit and back out of the coordination of collective bargaining as well.

Besides these problems with enforcing the politically binding character of the coordination approach, structural obstacles in its implementation on the national level are a second large complex of obstacles. What is at issue here is the question whether the national trade unions have enough political power to enforce collective bargaining agreements that abide by the European coordina-

¹⁶ The only conceivable sanction would be the expulsion of the national member association from the European trade union organization, but this would be not as easy to enforce in the first place, and in the second place not be desirable, as it would not ensure a change of behaviour on the part of the national union concerned. The powerlessness in dealing with national trade union confederations violating the negotiated European coordination guidelines has become very clear in the context of the social accord concluded in the Netherlands in the fall of 2003 (Schulten and Mülhaupt 2003). The majority of the European trade unions in the ETUC had de facto strongly rebuked the Dutch labour unions’ agreement with two consecutive years of pay freeze, but officially the European trade union organisation did not even issue a critical statement.

tion guidelines vis-à-vis their employers. An additional problem is that European coordination of collective bargaining hinges on certain political-institutional preconditions that must exist in the national collective bargaining systems. (see Table 3). For instance, the coordination on the macro-level as aimed by the Doorn-Initiative or the ETUC can only be effective if there are either centralised collective bargaining agreements at national level, or if bargaining policy is coordinated on the national level by national peak level confederations. In Germany and the UK the trade union peak organisations, such as the DGB (Deutscher Gewerkschaftsbund) and the TUC (Trade Union Congress), do not have any collective bargaining competencies besides few exceptions in select issue areas. The sectoral coordination by the European Industry Federations faces similar problems, as they too depend on industry-level collective bargaining or at least a sectoral coordination of company bargaining. The problem is greatest for countries in which collective bargaining is widely decentralised and wage formation takes place only at company level, like in the United Kingdom or most of the Eastern European countries. In the political-institutional logic of the British collective bargaining system, for instance, it makes much more sense to pursue European coordination of collective bargaining not on the level of sectors, but on the company level, for instance in the context of the European works councils. (Marginson 2001).

Table 3: National Collective Bargaining Systems and Attempts at Transnational Coordination of Trade Unions’ Collective Bargaining Policy

Level of Collective Bargaining within Nation States		Transnational Coordination of Collective Bargaining	
		Interregional	European
National	Cross-sectoral Collective Agreements/ National Coordination	Doorn-Initiative	European Trade Union Confederation (ETUC)
Sectoral	Sectoral Collective Agreements	Transnational Networks of Sectoral Trade Unions	European Industry Federations
Company	Company Agreements	Bi- and multilateral Contracts within Transnational Corporations	European Works Councils

Source: Own composition

An increasing decentralisation of national collective bargaining structures and a growing role of company agreements would work against any macroeconomic orientation of wage policy. Effective coordination, therefore, depends on the existence of coordinated wage setting institutions on the national level (Traxler/Mermet 2003). Even then, national and European coordination of collective bargaining are compatible only if their substantive orientation is the same, which is by no means automatically the case. As pointed out above, during the 1990s wage policy in many European countries has become part of a national-level competitive corporatism, which has as its main goal the implementation and smooth functioning of *competitive wage policy*, and which is in fundamental opposition to the concept of the European coordination approach, in which the central idea is to constrain wage competition (Schulden 2004a: 252ff.).

In view of the voluntaristic character of the European coordination approach and in view of the many institutional and political problems of its implementation at national level, the strategy's prospects of success at first sight look bleak. A pessimistic outlook is also backed by the fact that the coordination initiatives of the European trade unions have hardly had any discernible bearing on national collective bargaining disputes so far, and many European countries do not fulfil the requirements of the European coordination guidelines (Schulden 2004c). As the political project of European coordination is still a relatively young one, which aspires nothing less, than a comprehensive reversal of a trend that had dominated wage setting in Europe for the last 20 years, one should not prematurely predict the failure of this approach, in spite of the considerable obstacles. After all, the European trade unions have been successful in establishing wage policy as a new policy field at European level without any support from the EU institutions and against the resistance of the European employers. The trade unions' coordination approach thus still has a lot of potential for future development, which must be acknowledged as an obligation and a mission for the trade unions' future political development. However, there is a need for both enhancing European cooperation among trade unions institutionally and further developing the coordination approach substantively, until it becomes a vibrant and attractive political project.

The political relevance and binding character of the positions for collective bargaining policy developed at European level is highly dependent on suitable institutions and procedures of interest mediation, designed for making sure that national wage disputes are integrated into a process of European level coordination. Because of the political structure of the European trade union organisations as a confederation of national member associations, all forms of hierarchical coor-

dination are a priori inapplicable. Since the field of wage policy plays such a central role for their political legitimacy and recruitment of members, the national trade unions will not be willing to turn decision rights over to the European level in the short and medium run. The European trade union organisations will thus have to live with the fact that they have no truly “hard” means of sanction at their disposal for enforcing their wage policy goals. Even responding to frequent demands and significantly enlarging the organisation and staff of the European trade union organisations’ central offices in Brussels, which have remained understaffed up to now¹⁷, would only improve the potential for intensified cooperation, but by itself it could not be the *solution* for the coordination problem.

In order to increase the binding power of wage policy coordination at European level, the European trade unions must look for new, non-hierarchical forms of coordination. One possibility could be the “Open Method of Coordination”, which has stirred so much interest within the EU over the last few years. The procedure was first developed in the context of the European Employment Strategy and has evolved into a new form of governance in many policy fields since then. (De la Porte, Pochet and Graham 2001). The Open Method is at its core a form of governance that seeks to implement goals determined at European level while at the same time maintaining the formal autonomy of the national actors. Permanent monitoring and benchmarking of the strategies chosen are the tools at the disposal of EU-level actors, with which they seek to contribute to the diffusion of “best practices”.

When transferring this mode of governance to the coordination of wage policy within the European trade union organisations, the analogy with employment policy would suggest the following procedures and practices: (Schulten 2003: 133): The European trade union organisations first determine certain goals for wage policy and develop time schedules for the short, medium, and long term implementation. Then the national member associations develop action plans with specific targets and measures for national collective bargaining. On the European level these national action plans and their implementation are then subject to a procedure of permanent monitoring. At the same time good practices of collective bargaining policy are identified in a procedure of “trade-union-benchmarking”. This practice could help the European trade unions to shift from ex-

¹⁷ The Brussels-based central office of the European Metalworkers’ Federation (EMF), with its about 6.5 million members throughout Europe, has 12 staff members at this time. By contrast, the local office of the German Metalworkers’ Union (IG Metall) in Cologne alone, which is in charge of about 45,000 members, has a staff of about 20 people.

post coordination to ex-ante coordination of wage policy. In this the rules of coordinated behaviour could become more than a criteria for the evaluation of the results of finished collective bargaining rounds after the fact, but instead manifest themselves ex ante, in the formulation of trade unions' wage claims (IG Metall 2003, Janssen/Mermet 2003).

For the European trade union organisations the Open Method of Coordination has the advantage that they can use this method to increase the political pressure needed for the implementation of common wage objectives in national collective bargaining rounds, without questioning the formal autonomy of the national member associations. Systematic procedures of monitoring and benchmarking would provide the European trade union organisations with new tools of governance, which comprise at least "soft" forms of sanctioning defection on the part of national trade unions by building up the permanent obligation to justify such behaviour. However, implementing the Open Method of Coordination in the field of wage policy presupposes a certain minimum set of institutional arrangements as well, which do not necessarily exist in most of the European-level trade union organisations. Apart from the further expansion of the central offices of the European trade union organisations, the main task in this context is in efficiently connecting the national resources of the trade unions across national borders.

Whether or not this effective coordination of wage policy will become a reality is not only a function of the European trade unions' success in building adequate institutions and procedures. The experience with non-hierarchical forms of governance such as the Open Method of Coordination suggests that such practices have the desired results primarily when they are backed by a hegemonic political project that is shared by a majority of the participating actors (De la Porte, Pochet and Graham 2001). This draws the attention back to the substantive and normative foundations of the European coordination approach.

The substantive core of the European coordination approach has so far been the demand for a return to a productivity-oriented wage policy, since only this approach is able to limit the scope of competitive underbidding of wages and labour costs. Ironically the European trade unions draw on a wage policy conception, which in its heyday after World War II had the function to impose wage restraint and limit the trade unions' wage claims (Schulten 2004a: 108ff.). Nowadays, by contrast, against the backdrop of the development that had been dominant in Europe since the 1980s, the productivity-oriented wage policy today appears as an ambitious far-reaching union agenda to push for higher wages, which can only be realised in the long run, and in hard

collective bargaining disputes, if it can be realised at all.

The fundamental weakness of the concept of the productivity oriented wage policy, however, has always been its thoroughly technocratic character, which ignores the existing conflicts of interest and the social dynamic of collective bargaining disputes. Some of the Keynesian models of macroeconomic coordination have the same problem, that trade unions and wage *policy* are superfluous at the end of the day, as the “optimal” scope for wage increases is always already given – exogenously prescribed by the macroeconomic model. Even though the European trade unions meanwhile subscribe to the Keynesian arguments for coordination of wage policy at European level, their own strategy of coordination is always informed by redistributive goals as well. An approach of collective bargaining coordination that amounts to nothing more than the technocratic registering of certain “wage formula” for coordination would be doomed to failure from the outset. What is needed instead is a European coordination of wage setting and collective bargaining policy, acknowledged as a political project that at its core aims at the reconstruction of solidaristic wage policy.

The cornerstones of a “European solidaristic wage policy”, understood as a mission statement for European trade unions, have already been formulated by the ETUC (1999) a few years ago. According to this agenda the goal of collective bargaining policy is,

- To secure a fair income for workers and employees;
- To prevent competitive underbidding of wages and working conditions;
- To counter income inequality, which is still very high in some countries and to limit the scope of the low wage sector;
- To contribute to the harmonisation of living conditions throughout Europe, and
- To put the principle of equality between men and women into practice.

The reconstruction of solidaristic wage policy in this sense, unlike the technocratic fixation on productivity-oriented wage policy, has to be an appealing and attractive political project, which comprises the spheres of moral and political economy in equal measure, and which takes the different dimensions of the distributional conflict (both within and between the classes) into account. Only on the basis of such a political project will the European trade unions be able to mobilise their members for a European coordination of collective bargaining and strive for a new model of wage policy beyond the current hegemony of the neoliberal paradigm of competitive wage policy.

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