

**ECONOMIC AND MONETARY UNION:
IMPLICATIONS FOR INDUSTRIAL RELATIONS
AND COLLECTIVE BARGAINING IN EUROPE**

by Jon Erik Dølvik

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Preface

This paper is a preliminary version of an article for the book *EMU and the European Model of Society*, edited by George Ross, Brandeis University Boston, and Andrew Martin, Center for European Studies, Harvard University (forthcoming). The book contains national and comparative studies of how the process of monetary integration in Europe over the last decade has affected national labor regimes and the challenges EMU raises concerning the interaction between welfare policies, labor market policies and macro-economic policies in Europe. In the paper there are references to the concept of the European Model of Society (EMS0). This refers broadly to the extensive web of employee and citizen rights that have been embedded in national welfare states, organized labor markets and institutionalized patterns of democratic interest representation in economic and political governance, marking most West European countries in the post-war period. Assigned to ensure social protection against the vicissitudes of the market, the notion of EMS0 has in recent years frequently been invoked to highlight a legacy of social cohesion, equity and partnership, claimed to distinguish Western Europe from the American model of free market capitalism. Whether it makes sense or not to speak of a common European social model, it is certainly pertinent to analyze the impact of strategic policy choices at the European level, such as the establishment of EMU, in terms of their implications for the assumed values and qualities of the EMS0.

A central concern of the book is that the most serious threat to the EMS0 is the high unemployment that has marred many EU countries during the transition to EMU. A core issue is hence how the macro-economic regime of EMU will influence the conditions for bringing down unemployment, and what changes would be required if the EMU shall become an instrument for promoting employment, social cohesion and political accountability in Europe.

This paper discusses, in this context, the implications of EMU for European collective bargaining and industrial relations. Working on the paper, I have benefited from the various draft national chapters prepared for the book and from useful comments and discussions at the Brandeis University Conference “EMU and the European Model of Society” 11-12 December 1998; at the project workshop at the Free University of Brussels 25-26 June 1999, and at the International Conference of Europeanists “Europe 2020”, Council for European Studies, Chicago, March 1 – April 1, 2000. Valuable comments were also received from colleagues at a seminar at Institute of Industrial Relations, UC Berkeley, 24 September 1999.

I would like to thank Emmanuel Mermet at the European Trade Union Institute (ETUI), who generously provided updated figures and data on wage-related developments in the EU; Sofia A. Pérez and Andrew Martin for useful comments and encouragement, and Philippe Pochet at Observatoire social européen for sharing all the stuff he constantly is producing on this issue. Thanks also to ARENA and Fafo for supporting my work in this field and to the Institute of Industrial Relations at UC Berkeley for kindly receiving me as a visiting scholar.

This paper is still a work in progress and it goes without saying that the author is solely responsible for the content. All comments are welcome.

Jon Erik Dølvik, April 2000

Visiting scholar, Institute of Industrial Relations, UC Berkeley.

Senior researcher, Fafo Institute of Applied Social Science, Oslo; associated to ARENA- Advanced Research on the Europeanisation of the Nation-State, University of Oslo.

Address: Fafo, Postbox 2947 Tøyen, N-0608 Oslo, Norway

Phone: + 47.22/088 600, Fax: +47.22/088 700

E-mail: Jon.Erik.Dolvik@fafo.no

Abstract

The EMU implies daunting challenges to industrial relations in Europe. With monetary policies governed by the ECB, limited space for fiscal policies, intensified regime competition and fiercer struggle for market shares, the adaptability and responsiveness of the national industrial relations systems become ever more crucial for the ability to foster growth, employment and social cohesion in Europe. But in contrast to the many predictions that EMU will prompt sweeping changes or fragmentation of national labor regimes, the analysis in this article suggests that continuity of the ongoing transformations of national industrial relations that in recent decades have evolved in response to European market-building, monetary integration, and general economic internationalization is a more likely scenario, possibly combined with development of a modest form of transnational co-ordination of collective bargaining among sectoral trade unions in euro-core countries.

The implications of EMU for national industrial relations are contradictory: Micro-dynamics indicate a need for greater labor market adaptability, macro-dynamics indicate a need for flexibility and coherence in aggregate wage developments – leaving the actors with complicated strategic choices over how to respond. With sticky institutions and no universal best way of organizing labor markets under international capitalism available, national systems have adjusted in different ways. Some convergence of outcomes can be spurred between countries alongside increased differentiation within, but significant diversity prevails as regards employment institutions and performance. Despite considerable strain and stagnant labor markets in many countries, most national regimes of collective bargaining and trade unionism have shown greater resilience than widely expected. The deregulated Anglo-American model remains an outlier in Europe, centralized institutions of collective bargaining have prevailed, and in several of the countries considered least fit for the EMU the adjustment process has been accompanied by a remarkable revitalization of centralized concertation and modernization of labor market governance.

Still, the revival of national concertation during the stagnant transition periode is no guarantee that wage policies will remain attuned to the requirements of the EMU regime once the euro is established, especially if the economic picks up. Without monetary and limited fiscal stabilizers at the national level, there is indeed a risk that wage policies as one of the few remaining instruments of national economic adjustment will oscillate pro-cyclically, providing a case for coordination of European wage policies with the fiscal and monetary policies of the EU institutions. Reviewing the recent initiatives of bargaining coordination among European trade unions, the article suggests that transnational sector-coordination and national cross-sectoral coordination are not alternative but complementary elements in what might evolve into a twofold model of European pattern-bargaining under EMU. Acknowledging that the more EMU fulfills its promise of increased growth and reduced unemployment, the more arduous such coordination of bargaining will become, and the higher the risk of conflicting monetary and wage policies, the article emphasizes that the overall implications of the EMU for industrial relations are crucially contingent on the regime of macro-economic governance that evolves – and vica-versa – making industrial relations an unknown x in the political economy equation under EMU.

Finally, containing both opportunities and threats for the European unemployed and trade unions, it seems, in the wording of Sisson (1998), clear that “the pressures EMU brings for further economic and political union will add greater urgency to the debate over the reconstruction of European industrial relations”.

Introduction

During the postwar era, encompassing national systems of industrial relations and multi-employer collective bargaining were considered a cornerstone of the European Model of Society (EMSO) in most EU countries. In recent decades, mass unemployment, structural change and economic internationalization, reinforced by the Single European Market, have put these systems under strain. In this context it has become a common view that the newly established Economic and Monetary Union (EMU) will produce radical changes in existing patterns of European industrial relations. In itself, the supra-nationalization of monetary policy and economic governance implies a relative decentralization of national collective bargaining systems, covering only pieces of the Euro-zone economy. Improved transparency of prices and wages, together with elimination of the currency risk by foreign investment, is, moreover, supposed to intensify competition both among producers and nation-states. Without the possibility of adjusting the national exchange rate (and interest rates), and with fiscal policies constrained by the EU Growth and Stability Pact, the brunt of adjusting to fluctuating economic circumstances and preventing rising unemployment will increasingly have to be shouldered by the labor market actors. This poses the dual challenge of increasing labor market flexibility and enhancing policy co-ordination both within and across national systems.

The implications of the EMU for industrial relations are therefore uncertain and contested. It is often suggested that the EMU will prompt erosion and fragmentation of existing national systems (Mahnkopf and Altvater, 1995; Danthine and Hunt, 1994; Dixon, 1998; Martin, 1999), in the longer run implying a shift towards more Anglo-American-style systems of company-based wage setting, union decline, and labor market deregulation. Others suggest that a continuation of recent tendencies towards reinforced tripartite concertation is a more likely scenario in many Euro-zone countries (Traxler, 1998a; Visser, 1999; Fajertag and Pochet, 1997). A third interpretation, with support in major European trade unions, is that a Euro-wide system of co-ordinated collective bargaining will have to be constructed to prevent destructive labor cost-competition and rising unemployment and inequality under the EMU (Jacobi, 1998; ETUC, 1999a and b; Schulten and Bispinck, 1999a). The latter view, especially, raises controversial issues about the appropriate form, content, and levels of bargaining and policy co-ordination under EMU, and whether a more profound Europeanization will require a break-up of current patterns of national industrial relations and trade unionism.

With a special view to the consequences, or challenges, for organized labor – frequently claimed to be the group facing the most severe losses under EMU – I will in this article suggest that the implications of EMU for industrial relations are contingent on the macro-economic trajectory that evolves. Faced with fiercer regime-competition and contradictory pressures for adaptation of national systems, the responses of the social actors and the governments will expectedly depend heavily on the effects of EMU on growth and employment, and, hence, on the macro-economic policies adopted by the EU authorities and the ECB in particular. As indicated by the national case studies in this volume, several scenarios are foreseeable. Indeed, parallel with the shifts to variants of hard-currency and/or stable exchange-rate-regimes in most West European countries during the last decades, the diversity of national industrial relations systems has persisted, if not increased (Ferner and Hyman, 1998), indicating that such regimes can go together with very different patterns of labor market organization. Indisputable, though, is that the EMU strengthens pressures to improve the adjustment capacity of national labor markets and increases uncertainty about the future development of European industrial relations. This is all the more so, as the impact of EMU coincides with broader dynamics of change associated with technological innovations and the growing interconnectedness of the global economy.

The interaction between macro-economic policies and industrial relations under EMU – two stylized scenarios

When analyzing the industrial relations implications of EMU, it is necessary to distinguish between micro-effects stemming from stronger competition and macro-effects stemming from changes in the European economic-policy regime, as well as between effects on individual national systems and

aggregated effects on the Euro-economy as a whole. Moreover, it is important to bear in mind that the consequences are likely to vary significantly between countries and regions, especially between countries of the former DM-zone and formerly soft-currency countries in the EU periphery. In order to sort out the main industrial relations implications of these complex and interdependent factors, it can be helpful to sketch some alternative stylized scenarios.

The *zero-scenario*, which might serve as a reference for analyzing subsequent change, would rest on the assumption that the economies and industrial relations systems in the major Euro-zone countries (and many of those remaining outside) for quite long have become accustomed to operate under the conditions of fierce competition, strict monetary policies and high unemployment, indicating that the constraints of the Euro-regime to a large extent have already become domesticated. In this base-scenario, the emerging Euro-regime will thus merely be perceived as a codification of dynamics and trends we have seen spelled out during the 1990's. Accordingly, a continuation and, perhaps, reinforcement of the present mix of institutional diversity and convergent outcomes of national bargaining would appear most likely, possibly complemented by a protracted Europeanization mainly in the form of weak co-ordination of national bargaining. The central issue related to this status-quo scenario will be the perennial question how the present trends of transformation of European industrial relations will influence national systems in the longer run.

In the *vicious-circle* scenario, which can be seen as a fortified version of the former, the ECB's restrictive monetary approach and the inability of the nation-states to pursue effective stabilization policies are assumed to lock the entire Euro-economy into a trajectory with permanently sluggish growth and high levels of unemployment in major parts of the Euro-zone (Noé 1998, Boyer 1994). Coming on top of the micro-pressures for restructuring, the space for national collective bargaining will diminish further and the strains on trade unions will be severe, probably causing erosion and, in some countries, a break-up of current patterns of industrial relations. The experiences from the transition period indicate, however, that in several countries such a scenario will induce governments and the social actors to stick to their recent return to centralized social concertation in order to bolster competitiveness, but consent to labor market and welfare state reform will probably be harder to achieve in the unfriendly climate of low growth and harsher regime competition. The key question then will be how long the trade unions in particular can sustain such a policy, which is likely to imply considerable sacrifices and limited gains, probably causing mounting internal tension and erosion of collective bargaining in the longer run. This scenario will thus confront governments with the prospect of policy gridlock and the unions with the delicate choice between trying to preserve their role as responsible societal partners by engaging in various defensive exchange processes focused on supply-side labor market and welfare reform, on the one hand, and turning to a more oppositional stance with the risk of being bypassed and marginalized, on the other. In this scenario, the outlook for any substantial Europeanization of collective bargaining may appear bleak, as the unions can be supposed to focus on preserving whatever is left at the national level, while having very limited clout to establish themselves as a credible force at the European level. The governments and the employers, on their part, will have very weak incentives to engage in European coordination of pay, since the combination of unemployment and fiercer competition for market shares will probably deliver wage restraint anyway.

If, by contrast, the EMU is accompanied by a more *virtuous circle* of rising growth, possibly combined with a more accommodating monetary and fiscal policy approach, the room for maneuver in collective bargaining will increase and the outlook for trade unions will appear brighter. The processes of micro-adjustment and restructuring will be

smoothened by growing employment and income and the need for labor market and welfare state reform will be easier to accept for the unions. Yet, also this scenario ingrains uncertainties as to the future of collective bargaining. Whereas the former scenario implies a prolongation of the trade unions' struggle for survival during the last decades, higher growth rates and declining unemployment may easily trigger off a catching-up process in wage-setting, by which national and lower level unions aim at taking back some of the last decades' losses, raising delicate questions for the ECB and European governments, but also for the peak associations of labor and capital. It is probably first in such a situation that the conditions for a substantial Europeanization of wage setting can occur. In order to prevent wage-inflation to take hold and to avoid an undesired tightening of monetary policies, governments and possibly the ECB may see potential advantages in forms of coordinated wage restraint at European scale. The main unions, on their part, will command some potential bargaining capital which can be exploited in incomes-political exchange at the European level, however posing the question whether the national (and lower levels) unions are prepared to engage in European coordination which would then imply forgone wage increases at home. Equally uncertain is how the employers' side would react. With higher growth and likely scarcity of key personnel, many employers can be expected to prefer keeping wages as an instrument in competition for manpower and would indeed also see advantages in enjoying greater leeway for using relative wages as a parameter in product market competition. The question thus is whether the collective actors, in such a situation, would be internally prepared to participate in some form of European coordination of wage and economic policies, which would require delegation of substantial power to European agencies and presuppose a willingness to enforce membership compliance with higher-order commitments. If so, this would accentuate conflicts about the appropriate level and form of coordination, and sensitive power-issues related to which actor-constellation would emerge as a credible and legitimate referent for the ECB.

In other words, it may seem as the interests of the involved actors in developing joint wage policies as a key lever for European collective bargaining will vary inversely with the kind of European macro-economic policy approach that evolves: In the *vicious scenario*, the trade unions might have an interest in Europeanization of wage policies in order to prevent competitive, downward wage-bidding, but the ECB, the employers, and the governments will presumably lean back and mainly rely on the disciplining force of the markets. In the *virtuous scenario*, the governments and perhaps even the ECB might see an interest in coordinated European wage restraint to prevent inflationary pressures, whereas the employers and the trade unions can be expected to carry ambiguous interests. As individual national unions can be tempted to maximize the benefits of decentralized bargaining, and the employers most likely will remain divided and ambivalent, the implications for industrial relations will probably hinge on the trade unions' ability to resolve their internal collective action problem and sacrifice individual gains for the sake of higher order common goals, that is, to maximize employment growth by preventing European wage inflation and retaliating interest rate hiccups.

Whether this can best be done at the national or the European level is a central matter of the remaining sections. In practice, neither of the two scenarios sketched above can be assumed to evolve in stylized form – reality will probably hover somewhere in between, with divergent developments in different regions – further blurring the picture of how monetary integration might influence the conditions, perceptions and interests of different industrial relations actors. Clear, however, is that developments will hinge decisively on what kind of macro-economic development that evolves. If the recent shift towards a more virtuous path should take hold, the conditions for sustaining it will conversely be highly contingent on the responses of the collective actors – making industrial relations a crucial unknown x in the EMU political economy equation.

Still, compared to the pre-existing alternative – continuity of the ERM under the hegemony of the German Bundesbank – the EMU represents both threats and opportunities for organized labor. Irrespective of the flaws of the currently restrictive, asymmetric EMU design, the creation of a European regime of economic governance might entail potentials for becoming a buffer against the vicissitudes of the global finance markets. If released from its current constraints, the evolution of EMU might stimulate consciousness and public deliberation of the needs and conditions for renewal and, as suggested by Sisson (1998), perhaps also re-construction, of European industrial relations and the institutional links between labor market policies and economic policies in contemporary Europe.

Europeanization and re-nationalization – alternative or complementary pathways?

With a unified European market and a common EU regime of macro-economic governance, national industrial relations systems will cover only pieces of the Euro-economy. Experience from the evolution of national industrial relations would suggest that trade unions, in such a context, sought to prevent destructive competition over jobs and investment by extending the reach of their policies and developing collective bargaining at the European level.

Conversely, with reference to the well-known Calmfors-Driffill (1988) thesis of a hump-shaped relationship between the degree of collective bargaining centralization and economic performance, it has been suggested that maintenance of independent national bargaining systems actually might represent the worst possible solution under EMU, that is, an intermediary degree of centralized wage setting in the Euro-economy (see Danthine and Hunt, 1994; Martin, 1999: 12). According to this interpretation, such a situation might allow organizations of insider groups with strong market power to insulate themselves against the economic pressures for adjustment to the EMU-requirements, in effect causing higher unemployment among less productive groups of labor market outsiders. By encouraging excessive and insufficiently flexible wage growth, likely to harm profitability and prompt retaliating measures by the ECB, such national dynamics might constrain investment and economic growth, and, other things being equal, cause unemployment to rise from its already high levels in many Euro-countries.

From neo-liberal circles it has thus been argued that the EMU requires a thorough deregulation and decentralization of wage setting systems in Europe (Siebert, 1998). From neo-keynesian circles it has, by contrast, been argued that the combination of European economic governance and national wage setting systems will unleash a dynamic of competitive wage dumping, with detrimental macro-economic effects (Noé, 1998; Martin, 1999). Without institutions for Euro-wide co-ordination of collective bargaining and economic policies, it is thus feared that the interplay between market forces and national regime competition will prompt fragmentation, increasing inequality, and eventually dismantling of the inherited EMSO labor regimes (Busch, 1994; Mahnkopf and Altvater, 1995; Schulten and Bispinck, 1999a).

National developments during the period of EMU transition¹ might point in a somewhat different direction, however. As pointed out by Ferner and Hyman (1998: xii), the 1990s have paradoxically shown “in some countries, the revival of ‘neo-corporatism’ which a few years ago was almost universally regarded as defunct”. Whether this revitalization of national systems of concertation (Fajertag and Pochet, 1997) – or ‘competitive corporatism’ (Rhodes, 1997) – merely reflects a temporary ‘beauty-test’ effect of the EMU qualification race, or represents a sustainable mode of national adjustment to the new EMU environment is disputed. Even more so is the question whether social pacts within the confines of the nation-state will merely add to the effects of regime-competition or can be made compatible with the quest for policy coordination under EMU. The feeble EU authority in social and labor market policies, together with the reluctance to cede sovereignty among most national social actors, have long inhibited development of European collective bargaining (Dølvik, 1997). Recent union initiatives might indicate that the establishment of EMU has given new impetus to coordination of bargaining at a European scale, however.

¹ Besides bringing down inflation and interest rates, most important being the reduction of public budget deficits to below 3 percent of GDP and public debt to below 60 percent of GDP.

The EMU clearly imposes new strains on national bargaining systems, but it is less clear how much it adds to the already significant co-ordination problems that have faced national social actors operating under the constraints of internationalized competition, global finance markets, and the shadow of the German Bundesbank. The EMU undoubtedly makes these constraints and coordination challenges more compelling but probably also more predictable. Representing the culmination of a long process of monetary and financial integration in Europe, it might, moreover, be suggested that many of the changes flowing from the EMU-regime have been anticipated and adjusted to by national governments and social actors during the transition period (Pochet, 1998 a). If so, the key questions are whether the social actors are able to sustain these practices once the EMU is there and the threat of being left out of the Euro-club has vanished, and whether the aggregate effects of national strategies can be expected to fit with the overall requirements of the EMU regime.

In the remainder of this article I will suggest that persistence of economy-wide coordination of collective bargaining at the national level is an essential but insufficient precondition for promotion of higher growth, employment and social cohesion under EMU. In contrast to the critical view that national social pacts will only aggravate labor competition and eventually be torn apart by the strains of EMU, I will suggest (1) that the EMU strengthens the incentives for the national peak associations and governments to engage in social pacts, while at the same time making such ventures harder to accomplish; and (2) that maintenance of encompassing national bargaining systems is indispensable as a basic building-block of any viable model of European policy coordination. In short, if labor solidarity breaks down nationally, it is hard to imagine that it can somehow be reinvented at the European level. Conversely, unless national collective bargaining is complemented by trans-national coordination, there is indeed a danger that pro-cyclical wage-inflation during economic upswing and deflationary wage-bidding during recession will inhibit development of accommodating, growth-oriented macro-economic policy at the EU level, and that the EMU thereby will cause higher European unemployment and increased pressures on the national industrial relations systems in the longer term. Hence, the suggestion that re-nationalization and Europeanization are two sides of the same (Euro) coin. Whether the collective actors are prepared to match this dual challenge is consequently a central issue to be discussed in the subsequent sections.

Although these questions can be properly answered first after some years, when the Euro-economy has gone through a full business cycle, my hunch is that the EMU in the short-medium term is unlikely to trigger paradigmatic system changes in the direction of Americanization or European collective bargaining. More likely is a prolongation of recent trends of incremental adjustment of national industrial relations, which, combined with the protracted evolution of European social dialogue and union efforts at coordinating bargaining across borders, indicate that path-dependent continuity and modest reform is a more likely medium-term scenario. On this background, a careful analysis of recent years' industrial relations trends – nationally and at the European level – would seem to give a better indication of future developments than the dramatic projections, which have tended to color the debate so far.

In this perspective, I will in section 1 provide a brief overview of the changes in the frameworks of national industrial relations under EMU and review some main trends in national industrial relations during the recent period of EMU transition, with particular attention to the resurgence of tripartite national concertation: - Is such a national mode of adjustment sustainable and conducive to the promotion of employment and labor solidarity under EMU? In section 2 I analyze the prospects for establishment of a Euro-wide system of collective bargaining (coordination) and discuss at what level and in what form such a development might realistically evolve. Finally, in section 3, some tentative conclusions are suggested as regards the possible implications of EMU for the future development of European industrial relations.

1. Implications of the EMU for national industrial relations systems

1.1. Main challenges

In order to disentangle the structural implications of EMU for national industrial relations actors, it is, as mentioned, analytically useful to distinguish between micro-effects and macro-effects, although these are indeed intrinsically intertwined.

If we start with the *micro-level*, the enhanced transparency and comparability of prices and wages across boundaries are, other things being equal, expected to reinforce price competition, reduce profit margins and pose stronger pressures on firms to keep labor costs down². Henceforth the EMU is assumed to fortify existing pressures for restructuring and rationalization of production across Europe, as indicated by the wave of mergers and acquisitions that has accompanied the run-up to the Euro. While many employers are concerned that improved comparability will trigger undue upward convergence of wages (KPMG, 1997; Siebert, 1998; Norman, 1998), many trade unions fear that this, especially through benchmarking in MNCs, will diminish the room for pay increases and reforms that affect labor costs, possibly creating pressures for downward harmonization of employment conditions (EMF, 1998).

Although the equalization of factor-prices predicted by international trade theory is disputed, enhanced capital mobility is by most scholars supposed to speed up the protracted historical trend of *labor cost convergence* in the EU. According to an overview reported in Sisson *et al.* (1998), the standard deviation of wages in current EU countries fell from 39-46.9 in the 1970s to 36.4-30.4 during the 1980s. The average wages in Spain rose from 20 percent of the German in 1970 to 66 percent in 1990, and from 42 percent to 71 percent in Italy during the same period. Generally, it is assumed that national unit labor costs are approximately the same in the Euro-zone, since nominal wage differences largely reflect variations in productivity (Schubert, 1997; CEC, 1998; see also appendix A1 showing recent data on hourly labor costs and productivity growth in the EU). Under a price stability regime like EMU, *wage growth* must largely *reflect productivity growth* if loss of competitiveness and jobs are to be avoided. With currently above average productivity growth in several peripheral Euro-countries, this should allow for some upward adjustment and equalization of relative wages. Such adjustments might become harder to accomplish, however, both within and across countries, as the ECB policy of price stability will leave limited scope for nominal wage increases. In countries with a compressed wage structure, cross-national labor costs convergence within industries will imply pressure for increased differentiation of labor costs among industries within national systems, making solidaristic wage policies harder to sustain (Dølvik and Steen, 1997).

According to Marginson and Sisson (1996), economic integration is hence likely to prompt *convergence between countries* and *divergence within countries*. Although the majority of employees still work in firms and sectors that are not directly exposed to international competition – as in much of the private and public services sectors – the competitive pressures on export-competing firms can be supposed increasingly to be passed on to domestic input sectors. Besides the productivity norm for wage-growth, this will presumably leave less room for income redistribution and taxation of the productive sectors under EMU, and spread the quest for rationalization and restructuring throughout the national economies (Streeck, 1999). The micro-dynamics of international competition are thereby supposed to interact with *macro-dynamics* of ‘*regime-competition*’, indicating that national states and organizations will engage in tougher competition over attracting investment and jobs by offering the most favorable conditions for companies – e.g. in the fields of taxation, infrastructure and alike. As governments can not any longer use exchange rate adjustments to redress problems of competitiveness, they will have to rely on other instruments to control domestic production costs, notably taxation, regulatory policies, incomes policies and education and training. Moreover, with

² How much the EMU will add to the general competitive effects of market integration is less clear. While some tend to suggest it merely implies a codification of the already established single market, others tend to argue that it is first with the single currency that the single European market is elevated from a formal to a real event (Münchau, 1998).

enhanced macro-economic stability and the risk of currency alignments eliminated inside the Euro-zone, the increased *predictability* of FDIs will probably strengthen competition and induce *changes in investment patterns*, according to many observers strengthening the attractiveness of the low-cost countries in the EU periphery, which previously have been regarded as unsafe havens of investment. Possibly contributing to a certain agglomeration effect and improved bargaining strength of labor in the catching-up regions, this may, other things being equal, detract from growth and labor demand in the high-cost core, aggravating strains on the IR-systems in the latter countries.

In the official EU view the EMU will, due to dynamics of the kind sketched above, “inevitably modify the structural parameters of national economic systems and, hence, the differences across countries” (CEC, 1998), that is, *a market driven harmonization* or convergence of social outcomes is foreseen. How this will affect different national systems of industrial relations will depend on the macro-effects of EMU, however. If the vicious, deflationary scenario proves correct, a situation of virtually zero-sum competition will evolve, amplifying the micro-dynamics and conflicts of interests between regions and posing severe pressures on national industrial relations systems. If, by contrast the virtuous scenario takes hold, it will alleviate the pressures, smoothen the process of restructuring and reform, thereby also reducing the basis for destructive competition on social standards between countries and regions.

In principle, the single European currency can improve the conditions for coping with common problems of economic decline or instability, so-called *symmetric shocks*, in the EU, and represent a buffer against the volatility of the global finance markets, thereby improving the effectiveness of national fiscal policy (Dølvik, 1998a). By adjusting European interest rates, the ECB can, if it will, promptly stimulate (or dampen) growth in the whole Euro-zone, thereby circumventing the insurmountable collective action problem which has so often hindered joint responses to economic crisis in the past. The relaxed ECB attitude to the plummeting exchange rate of the Euro during its first year, amounting to an effective devaluation of 20-25 per cent vis-a-vis the dollar and the British pound, illustrates the point and has in fact triggered a strong growth impulse in the Euro-zone. As suggested by Martin and Notermans (1999), however, the particular EMU design, and the cautious approach applied so far, might indicate that the ECB will be less inclined to use the interest rate to stimulate than dampen growth (and employment, which it basically sees as a supply-side issue) in order to safeguard price stability³. The budgetary consolidation pursued during the convergence process and the removal of the risk that more expansionary policies will prompt a run on the national currencies might in principle also allow for more efficient use of coordinated fiscal policies under EMU. Given that the rules of the Stability Pact are applied⁴, and the fact that several of the countries (even under the current recovery) are close to the 3 percent deficit limit, the possibilities for stimulating employment by means of coordinated fiscal expansion during slump seem delimited, however⁵.

The effects of EMU on national industrial relations will be more directly felt with regard to regional or nation-specific economic crisis, so-called *asymmetric shocks* (Eichengreen, 1993 and 1997). The discrepant structures of the national economies in the Euro-zone imply that different countries and regions from time to time will face disparate economic developments and monetary policy needs, representing

³ At the time of revising the paper, the International Monetary Fund (IMF) just suggested in its annual assessment of the euro-zone economy that the ECB should ‘cautiously explore’ the possibility that higher growth in Europe would not necessarily generate the inflation with which it has been associated in the past, suggesting that technological and other changes (cf the so-called ‘new economy’) could generate increases in productivity that could hold inflation in check (Financial Times, ‘IMF sees ‘new economy’ boosting Europe”, April 4, 2000).

⁴ The Growth and Stability Pact transforms the restrictive convergence criteria – the most important being the 3 percent ceiling on budget deficits - into permanent rules and allows for imposition of fines on non-compliant member-states.

⁵ Critical observers have thus suggested that a political redefinition of the modus operandi of EMU – that is, a less narrow interpretation of the ECB mandate and a re-negotiation of the Stability Pact - is required if the EMU shall evolve into a viable political and economical project (see e.g. Soskice, 1997; De Grauwe, 1997; Martin and Notermans, 1999).

great dilemmas for the ECB. - Should it for example bother most about the possible need for cooling down strong-growing economies in the periphery or stimulating stagnant countries in the Euro-core?

Such dilemmas entail the risk that the common monetary policy will aggravate nation-specific problems by functioning *pro-cyclically* in countries with a deviant cyclical pattern⁶. Insofar as the EMU regime remain unaltered, however, the individual countries have no choice but to compensate for the loss of macro-economic instruments by strengthening their domestic ability to cope with fluctuating economic circumstances. As national governments (1) can no longer cushion particular problems of competitiveness or economic shocks by adjusting the exchange rate, i.e. devaluation, and (2) the space for using fiscal policies for counter-cyclical purposes are delimited by the Stability Pact, *the brunt of economic adjustment will increasingly have to be shouldered by actors in the labor market*.

With currently very limited cross-border labor mobility, which is a major source of adjustment in the US, and with virtually no EU fiscal stabilizers, the domestic system of labor market organization and collective bargaining will attain a key role in economic adaptation at the national level⁷. Unless (1) national labor markets are sufficiently flexible, (2) wage bargainers internalize the low inflation requirement of the EMU-regime, and (3) take ample account of the need to safeguard company competitiveness by adopting moderate and flexible wage policies⁸, “variations in unemployment levels may well replace those in exchange rates as the key variable in economic adjustment” (Boyer, 1994: 116). In order to prevent rising unemployment the alternative left for national trade unions is, according to this interpretation, that increased flexibility of labor costs and/or employment conditions replaces the former flexibility of exchange rates, virtually amounting to a privatization of the responsibility for employment (Visser, 1999). The industrial actors are thus “forced into the role as lock-keepers, co-responsible not only for national economic welfare but also for the smooth functioning of the European internal market, altogether facing trade unions with the unpleasant task of squaring the circle” (Mahnkopf and Altvater, 1995: 102, 104).

According to business-close scholars, the need for flexible, market-driven adjustment under EMU will require *decentralization* of bargaining and deregulation of labor markets (UNICE, 1999; Dohse and Krieger-Boden, 1998). A study by Verdun (1996) even suggests this was a major purpose behind the support for EMU among employers and many governments⁹. Also the European trade unions seem to recognize the need for improved labor market adaptability - as recommended by the European employment strategy - but they tend to argue that this objective is more efficiently achieved through negotiated adjustment. According to comparative research on the relationship between the organization of collective bargaining and macro-economic performance, however, the stability and macro-flexibility requirements would seem to indicate a need for stronger *centralized co-ordination* of wage setting at the national level¹⁰. As pointed out by Boyer and Dore (1995),

⁶ Such concerns have led many observers to suggest that the EMU, in order to prevent growing regional cleavages and ensure stability, would require development of arrangements for regional transfers (buffer funds), or automatic fiscal stabilizers like in the federal US economy (see Martin and Notermans, 1999).

⁷ Only about one percent of households in the UK, Germany and France, even fewer in Italy, Spain and Belgium, change their region of residence in a year. Of the 150 million employed in the EU less than 2 million EU citizens and 5 million residents from third-countries work abroad, while the annual cross-border flows of labor represent less than a tenth of a percentage of the EU workforce (see Visser, 1999).

⁸ According to the European Commission’s recommendation of the economic-policy guidelines for 1998, “[with respect to] labour productivity growth, wage increases should take into account the need to strengthen, and subsequently maintain, the profitability of capacity-enhancing and employment-creating investment, whilst supporting the purchasing power of wage earners” (CEC, Economic Guidelines 1998 and Economic Report 1999)

⁹ In contrast to this interpretation, Calmfors (1998), suggests that the EMU actually will provide weaker incentives to engage in labor market reform in many countries, because of weakened reform benefits in terms of reduced interest rates or more expansionary policies.

¹⁰ In fact, a number of comparative studies suggest that aggregate real wage-flexibility tends to be superior in countries with encompassing organizations and strong cross-sectoral co-ordination of wage setting (see e.g. Traxler and Kittel, 1999; OECD, 1997; Katzenstein, 1985; Cameron, 1984 and section 2). This reflects that there is no mechanism in place, which ensures that the aggregate effects of market-led wage setting at company levels, especially in countries with yet strong

“If an international financial system imposes the ideal of virtual price stability, each national system will have to adapt accordingly. Yet it does not go without saying that decentralized bargaining between companies and their employees will automatically lead to income distribution which is compatible with general economic policy objectives in terms of external trade balance, growth and job creation. It is in this context that income policies take on special importance”.

Thus, the quest for serving as economic ‘shock absorbers’ and safeguards of macro-economic stability on the one hand, and promoters of labor market flexibility on the other, entails *contradictory implications* of EMU for national industrial relations actors. Besides the constraints of the Stability Pact, the impact of regime and tax competition probably means that fiscal rigor and curbing of indirect labor costs (pay-roll taxes etc) will become more important as means to ensure national competitiveness and economic adjustment under EMU – so-called *internal devaluation* – and presumably more so in countries with uncoordinated bargaining systems with low aggregate wage flexibility. As shown in the national case studies, most of the Euro-countries are still struggling to consolidate their budgets and face increasing strains on the social security systems, due to low employment ratios and aging populations. Together with high indirect labor costs, which tend to exclude manpower with low productivity from the labor market, the reduction of social security costs and reform of the *welfare-state/labor-market nexus* have thus become burning issues in key Euro-zone countries. The threats of tax competition, capital exit and electoral protest tend to aggravate this by making politicians more wary of rising taxes, indicating that employees and unions in the public sectors will face severe constraints under EMU. The central role of the social partners as financial contributors and sometimes co-managers of the social security systems implies that comprehensive reform is hard to accomplish without consent from the social partners. Taking also into consideration the contentious character of welfare and labor market reforms, this might create further incentives for governments, and perhaps employers, to search consensus and legitimacy through *concerted strategies* rather than reverting to unilateral approaches (Ebbinghaus and Hassel, 1999). Besides the increased premium on wage moderation, this might provide trade unions with some bargaining capital in tripartite political exchange (Dølvik, 1998a), underscoring the ambiguous industrial relations impact of the EMU. Taking also into account that the *orbit of comparison* and solidarity will change – presumably tempting employers to compare labor costs with less paid groups in other countries, and unions to compare with better paid comrades – it seems plausible to suggest that although the EMU might render centralized national coordination more important, it will, as mentioned, probably also become more difficult to accomplish (Dølvik, 1993).

1.2. General trends in European industrial relations

When launched in the 1980s, the single market and the EMU-programme were, as mentioned, widely expected to strengthen contemporary tendencies of deregulation, decentralization and demise of national industrial relations systems and trade unionism (see e.g. Streeck, 1991; Baglioni and Crouch, 1990; Streeck and Schmitter, 1992). Today, it can, as will be shown in this section, be noted that the changes in European industrial relations have been less dramatic and unequivocal than foreseen some 10-15 years ago. Even though the quest for a strong social dimension of European integration has not been fulfilled, national trade unions and systems of industrial relations have shown greater *resilience* and adjustment capacity than initially expected (Ferner and Hyman, 1998). Some commonalities are readily observable – such as wage moderation and more decentralized collective bargaining (Fajertag, 1998; Sisson *et al.*, 1998) – but if we look at trends in employment, union density, collective bargaining coverage and levels, as well as the role of the state, the picture is still one of significant *diversity and ambiguity* (Ferner and Hyman, 1998; Visser, 1999).

unions, fit with the need for macro-economic prudence and flexibility required to protect employment. In decentralized bargaining systems monetary policy usually plays a more important role in ensuring short-term macro-economic flexibility. With the monetary policy option gone, decentralized labor market systems will under EMU have to strengthen alternative means of macro-economic adjustment, probably requiring stronger budgetary rectitude in order to preserve room for counter-cyclical fiscal policies within the narrow bands of the Stability Pact.

If one looks at developments in *employment* since the mid-1980s, the general picture has been marked by stagnation and severe fluctuations, but also striking variations between countries. According to Martin and Notermans (1999), the sluggish employment growth in the EU in the 1990s can be seen as bearing witness to the social costs of the shift to non-inflationary macro-economic policies flowing from the process of monetary integration. Yet, this shift has gone together with quite different employment trends and levels among EU countries. While the registered employment share in countries like Italy and Spain remains around 50 percent of the 15-64 population, and is between 60 and 65 percent in core Euro-zone countries like France and Germany, it is significantly higher in Portugal, the Scandinavian countries, the UK and Austria, with Denmark on top with 77 percent in 1997¹¹. The employment growth during the transition to the current EU economic regime displays similar diversity; while employment fell significantly in most countries in the early 1990s – much due to the tightening of German economic policies after the unification boom - jobgrowth prevailed in countries like Ireland, Portugal, Austria, Denmark, and the Netherlands. In the recent recovery labor markets have remained stagnant in core Euro-countries like Germany, Italy, and, until the last two years, France, compared to rising job growth in several of the countries in the periphery, the UK, the Netherlands and Scandinavia. The last decade's shift to a hard-currency, low-inflation regime has thus been accompanied by divergent and distinctly different employment paths in the EU/EEA countries, illustrated by the discrepancy between an annual employment growth of 1.8 percent in the DM-zone country Netherland over the last decade, as compared with an EU average of 0.4 percent, and negative or virtually zero growth in Germany, Italy and France up till 1998 (Visser and Hemerijck, 1997; CEC, 1999).

This underscores that the impact of introducing a non-inflationary macro-economic policy regime is *highly dependent on the pattern of labor market organization and collective bargaining* in each country, indicating also that demand-side expansion in itself is insufficient to overcome the employment crisis in the EU. What seems to be an important characteristic of the countries that best have managed to combine the transition from the inflation-prone full-employment regimes of the 1970s with a favourable labor market development is, according to a recent ILO-study of the Netherlands, Austria, Denmark and Ireland, that they have succeeded in maintaining fairly coherent systems of collective bargaining and social partnership, allowing the transformation of economic policies and labor markets to be pursued without disrupting social cohesion and legitimacy (Auer, 2000). This indicates that the successful pursuit of macro-economic stabilization policies is crucially contingent on structural, supply-side features of the labor market, among which the system of bargaining itself appears not as an external constraint but an intrinsically critical precondition for virtuous change.

If one look at the trends in the levels and coverage of *collective bargaining* over the last decades, the expectation of a universal decline of collective bargaining does not hold true – neither inside nor outside of the EU. The collective bargaining coverage in the OECD-area was on average 72% in 1980, 70% in 1990 and 68% in 1994, rather an indication of *stability* than change (OECD, 1997). The slight fall in coverage mainly reflects a radical drop in the countries with decentralised bargaining systems, such as the US, the UK and New Zealand, whereas it has been stable in most other countries.

Despite a greater role for company bargaining in most countries, there has, except for the Thatcherite political strategies to abolish union power and nation-wide bargaining in the UK, neither been any general tendency towards dismantling the centralised levels of wage negotiations in the EU countries (OECD, 1994 and 1997). Whereas sectoral bargaining has replaced confederal negotiations in some countries, like Sweden and Denmark, centralised, nation-wide agreements still prevail, and in a number

¹¹ The differences are less pronounced with regard to annual manhours – reflecting the great differences in part-time work – but also the volume of work varies significantly between EU countries (see Visser, 1999). In fulltime man-years the employment share (16-64) was in 1996 in Portugal 64%, the UK 59%, Denmark 54% as compared to 42% in Spain, 43% in Belgium and Italy, 46% in the Netherlands and 49% and in Germany. The average EU unemployment rate – surpassing 11 percent, more than 18 million people, in the mid-1990s – reflects great differentials among countries, varying today from more than 15 percent in Spain to below 5 percent in countries like Denmark, Austria and the Netherlands.

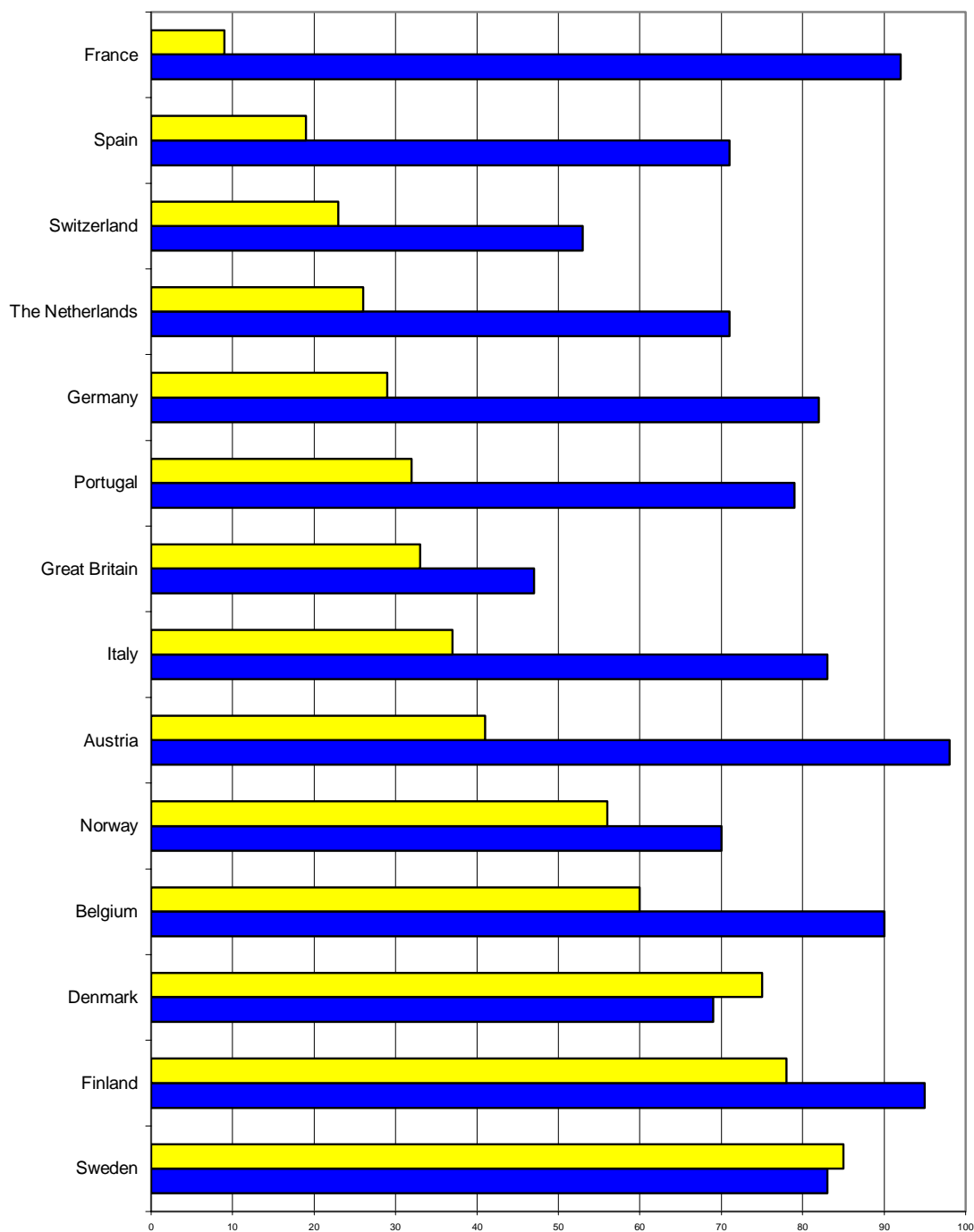
of countries – such as Italy, Ireland, Spain, Portugal and Finland – a notable re-centralisation has, as mentioned, taken place as part of tripartite strategies to adjust to external pressures and the EMU in particular (see e.g. Regini, 1997; Fajertag and Pochet, 1997). Thus, except for the UK, the dominant tendency has been towards more *multi-tiered, articulated bargaining systems*, expressed in the much used notion of centralised decentralisation, reflecting the tendency that central agreements define frameworks, guidelines and (productivity) criteria for implementation at lower levels. In several countries such trends have gone together with a tendency to allow more latitude for local exemptions from central agreements, perhaps most pronounced in Germany where the threat of employer flight from collective bargaining has led the trade unions to accept various kinds of opening/hardship clauses (Hassel, 1999). In many countries, often illustrated by the Dutch examples of *à la carte* agreements, there has also been a trend to allow more room for local and individual leeway as to the choice between pay increases, working time reduction, training, and other social benefits (Freysinet, 1998b)

There are several factors which may have contributed to the persistence of centralised bargaining systems in Europe. (1) Probably more important than the resilience of unionism has been the high propensity to organise and apply collective agreements to the whole workforce on the *employer* side – e.g. in countries like Germany, Belgium, the Netherlands and Austria organized employers cover from 76 to 96 percent of private sector workers (Visser, 1999). The degree of associational monopoly is also considerable; on average the largest employer association cover companies with three out of four private employees and the largest union confederation attracts three out of five organized employees. (2) In continental Europe a variety of legal and institutional *mechanisms for extension of collective agreements* to non-unionised companies have served to underpin co-ordinated solutions. In Scandinavia the system of mediation and dispute management has – as shown by Torgeir Aa. Stokke (1998 and 1999) – often played a similar role. The crucial function of institutional extension procedures, which exist in 10 EU countries, is that they create strong incentives for employers to organise and influence collective bargaining. By helping to resolve the collective action problem on the employers side, this inhibits free-riding and prevents emergence of a non-organised sector from undermining collective bargaining, thereby highlighting the *key role of the state* in facilitating centralised co-ordination (Traxler 1996 and 1998b).

In countries where no such institutional framework exists and wages become a key parameter in inter-firm competition, however, the employers evidently have a strong incentive to avoid collective bargaining and union recognition whatsoever. As shown by Franz Traxler (*ibid*), the dismantling of centralised bargaining in the UK and the New Zealand triggered a dramatic drop in coverage rates. In effect, only 3 of 10 employees in deregulated national models were in 1990 covered by collective agreements, against 8 of 10 employees in institutionally ‘organised’ models. Thus, in contrast to the convergence thesis, comparative studies show increased polarization between ‘exclusive’ and ‘inclusive’ national models of industrial relations – in practice, between Anglo-Saxon countries on the one hand and the other European countries, on the other. So, although economic and monetary integration have strengthened competitive pressures and company discretion almost everywhere, the social actors have chosen very different responses (in terms of collective bargaining strategies), once again underscoring the crucial role of *institutions* in mediating such effects¹².

¹² Most importantly, the formation of preferences, strategies and perception of interests at the employers’ side are not simply determined by external market forces, they are decisively influenced by incentive-systems shaped by political frameworks, regulations and organisational structures at domestic arenas.

Figure 1: Trade union density (1995) and collective bargaining coverage (1990) in selected West European countries



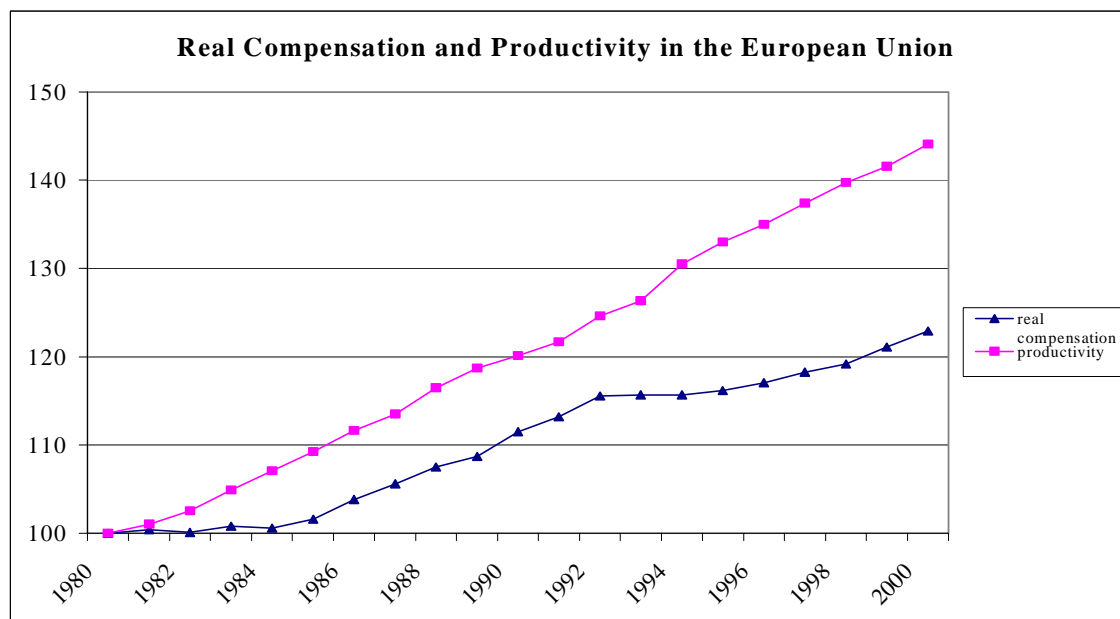
The darker bar shows collective bargaining coverage

Source: Visser (1996), OECD (1997), Kjellberg (1998).

Despite persistent institutional diversity, however, a significant feature is the convergence of outcomes in terms of reduced wage growth and increased profitability in the 1990's (Schulten, 1998; Mermet, 2000), reflecting the shift in bargaining power between capital and labor during the crisis-ridden years of transition to EMU (see appendix A2 and figure 2 and 3, next pages).

As shown in appendix A2, the shift to low-inflation policies during the 1980s and 1990s was accompanied by a corresponding drop in wage growth, but also a *decline in wage compensation as share of GDP growth* (see figure 3). This has implied that wage formation in effect has been decoupled from productivity growth in virtually all EU/EEA countries – with the UK and Greece as partial exceptions (Mermet, 2000; CEC, 1998)¹³. In general, labor productivity has risen by more than 40 percent since 1980 in the current EU member-states, whereas real wage compensation has risen just above 20 percent. Hence, unit labour costs have decreased and profitability increased in virtually all EU countries. With some important exceptions, however, this has not triggered the desired virtuous circle of investment-driven employment growth, leading defenders of conventional economic thought to blame alleged labor market rigidities and many trade unions to question the wisdom of continued wage moderation.

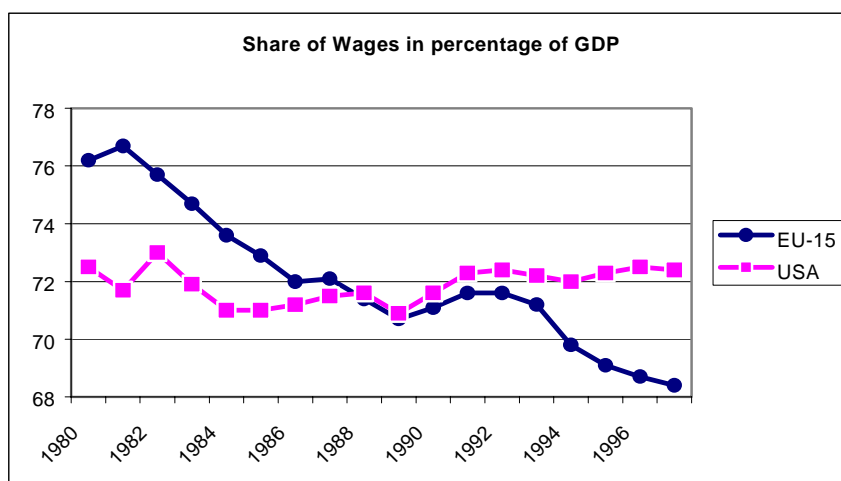
Figure 2: Development in real wage compensation and labor productivity in the current EU member states 1980- 1999. 1980=100



Source: Mermet (2000), based on CEC, 1998 and 1999a.

¹³ The gap between productivity and real wage growth was pronounced in the early 1980s, then the compensation levels almost kept pace with productivity during the upswing from 1986, before the gap again widened from 1992-93 – indicating a close relationship with the economic cycle, but a less clear relationship with the pace of monetary integration (cf the upswing phase in the late 1980s).

Figure 3: Development in wages as share of GDP in the United States and current EU member-states 1980-1999



Source: Mermet (2000), based on CEC, 1998 and 1999a.

Compared to the resilience of centralised collective bargaining and the high density among the employers in most EU countries, *trade union membership* has shown a much more mixed development over the last decades. In the mid-1990s almost 41 million of the 128 million employed workers in western Europe were member of a trade union (Ebbinghaus, 1999). In addition, the unions had some 13,5 million members without a job, mostly retirees. The overall union density – the proportion of employed workers joining a trade union - is thus down to 32 percent, nearly ten percent lower than in 1980, but still more than twice the rate of the United States. Density in the private sector is just above 25 percent, in the public sector around 50 percent (Ebbinghaus and Visser, 2000). Also the development in unionisation reflects periodical fluctuations and very *different national trends*, however. While it dropped drastically in the main Anglo-Saxon countries and France during the 1980s, the decline was weaker and far from universal in other countries (OECD, 1997). In the first half of the 1990s, union density has in several countries tended to stabilise and actually increased in seven of the EU/EEA countries – Italy, Spain, Belgium, the Netherlands, Sweden, Finland and Denmark – and remained unchanged in Norway (Kjellberg, 1999)¹⁴. Evidently, the diverse trends in unionisation have less to do with irresistible determinants of economic integration and structural change than with the diversity of national institutions and policies; a common feature of the main countries with high and growing unionisation is that they are small and have systems of unemployment insurance administered by the trade unions (the so-called Ghent system) – like in Belgium and several Scandinavian countries (Visser, 1996)¹⁵.

Such factors should remind us that relative numerical size is no proxy for union power or strength, as the sources of union power and the meaning and role of union membership may vary considerably

¹⁴ Yet, a study by Wallerstein *et al.* (1997) of the eight most corporatist countries in Europe showed no general change in unionisation since the 1950s; the weighted average remained around 42 percent, despite marked variations over time and between countries.

¹⁵ It also seems that to the extent union centralization goes together with a strong presence at the workplace – as in the Scandinavian countries - it favours unionisation (Kjellberg, 1999: 60). The presence of statutory works councils, on the other hand, tends to detract from the level of unionisation (Blaschke, 1999), in the same way as dominant statutory regulation of worker rights and extension of collective agreements have an ambiguous effect on the incentive of employees to organize.

between countries¹⁶. Accordingly, there is apparently no simple or linear relationship between trends in unemployment, union membership and wage growth in the EU countries over the last decades, except that wage growth clearly has been more *equality-oriented* and in many cases more moderate in countries with rising union membership and centrally co-ordinated bargaining (Freeman, 2000: 38). This might indicate that differences in trade union strength over the last decade have been more important when it comes to the distribution of employment and welfare opportunities than to levels of wage growth.

Worth noting is also that the decline in union density in several countries was more pronounced in the years prior to the single market and EMU in the 1980s than it has been in the 1990s. Whether this mainly reflects decelerated growth in low-unionised sectors during the recession, or that the trade unions have recovered from the shocks of the 1980s and become better attuned to the post-industrial working-life, is hard to say. The restructuring of the labor force and production has posed strong pressures on unions to adjust their structures and policies, in many countries accompanied by a wave of union mergers and acquisitions (Waddington *et al.*, 1997; Waddington and Hoffmann, 1999; Streeck and Visser, 1998). Still, many national trade union movements have shown greater ability to persist, adjust and assert themselves through the economic hardship and transformations of the 1990s than was widely perceived a decade ago or so (Ferner and Hyman, 1998). Thus it may seem as if the predicted demise of national industrial relations and unionism in the early 1990s was based on exaggerated projections and generalizations of the effects of the political turn to Reaganomics and Thatcherite neoliberalism in the 1980s (Wallerstein and Golden, 1996), rather than reflecting inherent determinants and dynamics of internationalization and European integration – the industrial relations impact of which appears to be more contradictory than until recently almost universally assumed (Hyman, 1994)¹⁷. *The pressures for economic convergence associated with European economic and monetary integration since the mid-1980s have thus been accompanied by quite diverse, if not polarized (Traxler, 1996), developments of national industrial relations institutions – underscoring the crucial role of the state and the scope for political choice in mediating the social effects of economic integration (Dølvik, 1998a).*

It is in my view hard to understand the relative consolidation of national trade unionism and industrial relations in Europe without taking into account the *twofold effect* of European economic integration: On the one hand it has put national unions under pressure and undermined parts of their past power-sources, on the other it has made them more indispensable for national governments' ability to govern and assure legitimacy to the transformation of national economies into the new context of the single market and EMU. This ambiguity is underscored by the fact that the relative weakening of national unions simultaneously has forced them to embark on processes of modernization which in a number of countries seemingly have made the unions more attractive as social partners and bolstered their political capital and leverage. The *asymmetry* between economic and political integration in the EU has implied that the losses inflicted on national unions have not been compensated by the build-up of a fullfledged supranational regime of labour market regulation. On the other hand, the EU has, through nourishing the idea of European social partnership and enacting minimum labor standards, provided the trade unions with certain opportunities and resources that have contributed to improve their *political credibility* at home and given some protection against the impact of unfettered market competition (Dølvik and Visser, 2000). In this ambiguous way, European integration has created a structure of incentives and pathways that has induced some modest steps towards Europeanization of

¹⁶ French unions have undoubtedly been weakened over the last decades, but their societal impact and mobilizing force is still far greater than their shrinking membership would seem to indicate, presumably also reflecting the notion of French trade unionists as a kind of labor cadre as opposed to the notion of union membership as a kind of social insurance and labor citizenship sometimes invoked to characterize union membership in the Scandinavian countries (Lind, 1995).

¹⁷ Paradoxically, it may be that in several countries the implementation of the single market and EMU projects during the economic bust of the 1990s has led to political recognition that well-functioning and coherent national industrial relations systems are essential for national adjustment, prompting efforts of revival and renewal rather than the dismantling many considered as almost inevitable during the economic boom of the late 1980s.

unionism and labor market policies, while at the same time encouraging national actors to continue investing the bulk of their resources in making the most of whatever left of regulative and innovative capacity in their national systems (Streeck, 1995; Martin and Ross, 1999; Dølvik, 1997) – thereby both restraining and facilitating the role of trade unions in reforming European labor markets in a direction compatible with international competitiveness and the requirements of the EMU regime.

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

1.3.1. Uneven responsiveness and discrepant points of departure

What Traxler (1998a: 2) has coined as *structural responsiveness* refers to the ability of national wage setting institutions to internalize wage externalities in the EMU context by keeping increases in total labor costs in line with the EU inflation-rate and responding to both country- and sector-specific changes in productivity resulting from inter- and intraindustry restructuring, which is supposed to accelerate. The ability to achieve low inflation is not simply a matter of central bank independence and tough monetary policy. As shown by Hall and Franzese jr (1998), historical and comparative evidence indicates that it is highly contingent on institutionalised interaction and anticipatory signalling-processes between monetary authorities and wage bargainers. The less responsive wage setting institutions, the more draconian monetary policies are needed to offset inflationary pressures, i.e. the higher unemployment is required to keep labor costs and inflation under control.

In the EMU context this accentuates three types of questions, first, whether the single national systems and the sum of their behavior will provide sufficient overall responsiveness to prevent harsh monetary policies and rising unemployment; second, how the transfer of monetary policy to the ECB might influence the responsiveness of national systems, and in view of the former, third, whether European coordination of wage policies is required to construct viable means of communication and interaction between monetary authorities and wage bargainers in the Euro-zone.

The debate on what kind of wage-setting system is most responsive has been associated with the struggle between advocates of the corporatist interpretation (the more centralized incomes-policies the better macro-economic performance, Cameron, 1984; Bruno and Sachs, 1985), the neo-liberal interpretation (the more decentralized, market-based wage-setting, the better, Weede, 1996; Siebert, 1998) and the 'hump-shaped' interpretation (that the former are both good, the problem is the intermediary systems, Calmfors and Driffill, 1988). Several studies have recently suggested that none of these interpretations conform with reality, however. According to a recent OECD study (1997) there is little evidence that any certain bargaining system is either better or worse on performance criteria than others, while Iversen (1994 and 1999) suggests that the performance is highly contingent on the kind of monetary policy regime¹⁸.

In a recent study, Traxler and Kittel (1999) have analyzed developments in (unit) labor costs, which actually is the causal link between bargaining institutions and macroeconomic performance and the key issue of adjustment under EMU, in 18 OECD countries for the 1970-1990 period. The study highlights the essential role of bargaining governability (local compliance) in ensuring effective coordination. As well known, the perennial problem of horizontal coordination has been its inclination to break down, especially during economic boom, because of defection by union rank-and-file, as happened with several 'social pacts' in Britain, Italy and Spain in the 70s and 80s¹⁹. The

¹⁸ Iversen (1994 and 1999) has analysed the effectiveness of centralized (cross-sectoral) vs industry-level bargaining under different monetary regimes. His studies indicate that in terms of unemployment and inflation there are several equilibria, reflecting that the combinations of centralized bargaining/accommodative monetary policies and decentralized bargaining/non-accommodating monetary policy both are superior to the inverse alternatives.

¹⁹ Traxler and Kittel (1999) differentiate between (i) uncoordinated (decentralized) bargaining; (ii) pattern-bargaining; (iii) state-imposed coordination (authoritative wage control); (iv) intra-associational coordination by peak associations (i.e. central employers or labor organizations internally synchronize bargaining of their affiliates); (v) inter-associational peak level coordination; (vi) state-sponsored coordination (tripartite 'incomes policies').

governability of collective bargaining is very much assumed to hinge on the legal and institutional frameworks provided by the state, especially as regards peace obligations when agreements are in force and union monopoly of strikes.

Based on regression analyses, the study of Traxler and Kittel provides results which specify and to some extent transcend former knowledge in the field. First, they found that economy-wide coordination can both provide better and worse results than any other systems, and is effective only when the problem of vertical coordination is overcome, either through decentralized pattern-bargaining, state enforcement, or centralized coordination. The latter definitely performs worst if bargaining governability is lacking, as expressed for example in the high wage drift in many Scandinavian countries in the 1980s. Second, unless appropriate legal frameworks provide local compliance, decentralized uncoordinated bargaining is the (second) best solution. According to Traxler (1998a, see also OECD, 1994), an important reason why decentralized, market-based bargaining systems perform worse than governable, coordinated systems, is that imperfect product-market competition enables employers and employees to share rents from their companies' dominant market position, thus externalizing the costs of wage increases. Contrary to widespread assumptions (Garret and Way, 1995), the study found no systematic relation between the share of public sector union membership and labor cost responsiveness.

Based on developments in the 1970-80s, the study of Traxler and Kittel (1999) suggests that the bargaining systems of the Euro-zone historically can be divided in three groups as regards structural responsiveness. As seen in table 1 (below), the division between Euro-countries with high and low responsiveness largely follows the distinction between the former hard-currency DM-zone and the other EMU countries, with Belgium as an exception and France in a peculiar intermediate position.

Table 1: The structural responsiveness of bargaining systems of the EMU member-states 1970-1990 (EU member-countries not joining the EMU in parenthesis)

Bargaining patterns ranked by responsiveness	
1 Pattern-bargaining; voluntary peak-level coordination (with high governability)	Austria, Germany, Finland, the Netherlands (Sweden, Denmark)
2 Uncoordinated bargaining; state-imposed coordination	(the UK) France
3 Voluntary peak-level coordination (with low governability)	Belgium, Spain, Ireland, Italy Portugal (Greece)

As this divide constitutes contrasting capacity to control unit labor costs, it is, according to Traxler (1998a), evident that a scenario with highly uneven responsiveness of national wage-determination under EMU is most likely. In view of the reforms associated with the resurgence of social pacts and the convergence of wage growth in the 1990s, a central question, though, is whether national characteristics have changed since the 1980s. According to Traxler (1998a: 10), none of the changes observed in the 1990s reflect a substantive change in bargaining governability, notably legal reforms which introduce statutory peace obligations during the validity of agreements, which he also considers unlikely to occur because of their conflict-provoking potential. As a shift to uncoordinated, decentralized wage setting through dismantling of existing institutions appear equally improbable, state imposed wage moderation appears as the most likely adjustment strategy in countries with weak responsiveness, according to Traxler (1998a: 11). The prototypical example of this strategy is

Belgium, where the Government has enacted competitiveness legislation according to which wage growth above the average of the neighboring countries will trigger wage laws by Royal decree (Pochet, 1999a).

From this retrospective overview it would seem likely that the EMU would be marked by highly uneven national, and possibly insufficient overall responsiveness of labor costs, unless the shift to EMU in itself induces changes in behavior that are not reliant on legal reform. The fact that most of the countries belonging to the former DM-zone were marked by high responsiveness gives ground to hypothesize that a kind of causal connection exists between monetary regime and wage behavior (see Iversen, 1994 and 1999). For example, Hemerijck and Visser (1998) suggest that the shift to coordinated wage restraint in the Netherlands in the early 1980s was triggered by the introduction of a hard Guilder regime. As wage setting behavior actually has shown significant change during the transition to EMU one might further speculate whether this shift merely reflects the difficult labor market situation and the imperative of qualifying for EMU entry, or whether the awareness that wage bargainers cannot any longer be bailed out by national central banks actually has induced more lasting changes in the organized actor's strategies. However, the vanishing linkage between national monetary policy and wage setting might, especially in smaller countries in the former DM-zone, work in the opposite direction and encourage free-riding. A positive shift in responsiveness might alternatively occur if the trade unions succeeded in developing efficient European coordination of wage policies (see section 2) and macro-economic policies under EMU.

The uneven historical responsiveness of national collective bargaining in the Euro-zone indicates that the implications of EMU will vary significantly between different countries, regions and institutional systems. In the countries belonging to the *former DM-zone*, the combination of tougher competition and elimination of currency appreciation vis-a-vis European trade partners indicate that the changes in conditions for collective bargaining are likely to be limited (Visser, 1999).

In the countries *outside* the former *DM-zone* - with an industrial structure deviating from the Euro-core and a record of high inflation and lack of economic rigor - the transition to EMU has, by contrast, been expected to provoke profound changes in the systems of industrial relations and macro-economic governance. Having ceded the possibility of compensating sluggish productivity growth and competitiveness by devaluing the national currency, there has been widespread concern that countries like Spain, Portugal, Italy and Ireland will prove incapable of adjusting to the EMU regime in a credible, sustainable way. With systems of industrial relations often marked by confrontation, fragmentation, and weak co-ordination capacity - in several cases going together with inflexible and segmented labor markets (Crouch, 1993) - there has in particular been concern that a catching-up dynamic of wage growth, driven by strong insider groups and improved growth prospects, will exacerbate unemployment problems and social cleavages.

Besides the rough distinction between core and periphery countries of the Euro-zone, a third, very mixed, category consists of Greece, the UK and the Nordic countries - whereof only Finland joined in the first round. While Greece was not allowed to enter because it did not yet meet the convergence criteria, the UK, Denmark and Sweden have so far chosen to stay outside for more or less domestic political reasons (although change may be underway). As the only Nordic participant, Finland represents a particularly interesting case; in view of the frequent asymmetric shocks hitting the Finnish exports of paper and pulp, the social partners and the government have agreed to construct a new kind of domestic 'shock absorbers' by means of national buffer funds, replacing the former tradition of frequent devaluation (Bolt, 1999; Pekkarinen, 1998). The '*control-group*' of countries remaining outside represents contrasting industrial relations traditions with the decentralized UK system of market-based collective bargaining on the one extreme and the still quite centralized Swedish system on the other. The 'outs' are supposed to comply with the overall economic-policy guidelines and the Stability Pact within a modified ERM-system, but they maintain their formal sovereignty in monetary policies. To what extent they are able to exploit this option, and how that

might influence labor market developments in these countries, may in fact represent the most relevant frame of reference for judging the industrial relations impact of EMU in the Euro-zone, although also the outsider countries will be substantially affected by the developments in the Euro-zone.

On the basis of the rough distinctions made above, it might seem as if the ability to meet the industrial relations requirements of the EMU regime varies virtually *inversely* with the magnitude of the national challenges. A closer look at the changes that have taken place during the period of transition to EMU might suggest that the picture is more nuanced, however.

1.3.2. The inflationary periphery – recentralization and social pacts

In the supposedly least responsive countries, the transition to EMU has been accompanied by notable changes in both practices and institutions of industrial relation. In Italy, Spain, Portugal and Ireland, there has in the 1990s been a salient trend towards re-centralization of wage negotiations, social pacts and state intervention, through which the actors have tried to internalize the EMU constraints and develop clearer procedures and definitions of the respective roles to be played by centralized, industrial and company bargaining (Regini, 1997). To varying degree these changes have been coupled with attempts at increasing flexibility, curbing insider-power, and reducing indirect labor costs by reforms in the systems of labor market regulation and social security.

Glatzer (1998) highlights how similar changes in macro-economic policies in Spain and Portugal have been accompanied by very different employment stories. Although *Portugal* has been marked by many of the same rigidities and insider-outsider cleavages in the labor market as Spain, Glatzer points out that "the policy shift away from a crawling peg and devaluation, to first a strong escudo policy, then participation in the EMS, and finally membership in EMU [has been] compatible with continued low rates of unemployment" (1998). By contrast, the transition was in *Spain*, until the last years' recovery, marked by labor shedding and persistently high unemployment. This was partly due to rivalry between quite strong unions within an unco-ordinated bargaining system, which, together with generous unemployment compensation and social assistance, contributed to a wage shock in Spain. In Portugal, strict employment protection, weak and accommodative unions, and considerable downward wage flexibility in a context of shallow social concertation – presumably eased by extensive cohesion-transfers -- enabled a more smooth transition into EMU²⁰. Still, like in Greece, which aims at joining the EMU from 2002 (Ioannou, 1998), the shallow institutions of wage bargaining and coordination cause concern among observers that increased growth and investment under EMU might unleash a spiral of wage growth that might put jobs in the less productive sectors in jeopardy (Glatzer, 1998).

As in Spain, the governments' shift to hard currency regimes in *Italy* highlighted, according to Perez (1998) and Della Sala (1999), how the limitations of relying on tough monetary policies in a fragmented bargaining system eventually led to the revival of tripartite concertation. Initially the Italian governments sought to impose macro-economic stability unilaterally without union collaboration, in accordance with the conventional economic wisdom that has guided the EMU design "betting that wage restraint could be achieved in a more de-centralized context by relying on tight monetary policy and a strong currency stand" (Pérez, 1998; Soskice and Iversen, 1999). Both in Spain and Italy this backfired severely and triggered off domestic wage inflation, partly due to the tendency of the least competitive sectors to take the lead in wage-setting. It was, according to Pérez (1998: 26-29), recognition of this misconception that led the government, the employers and the unions in Italy (and subsequently in Spain) to agree on quite far-reaching initiatives to restore centrally coordinated wage restraint and reform the bargaining system (see Della Sala, 1999). In July 1992 the famous Scala Mobile system of wage indexation was abolished in Italy, and in July 1993 a constitutive agreement on frameworks and procedures for wage bargaining was settled, defining central guidelines based on

²⁰ In contrast to widespread international scepticism, both Spain and Portugal also managed to meet the convergence criteria without noteworthy budget cuts; instead privatization of state enterprises, economic growth and improved tax collection substantially increased public revenues (Glatzer, 1998).

inflation targets for industry based negotiations, while opening for local wage increases in strict accordance with productivity improvements (Ragini, 1997; Negrelli, 1999). Subsequently this paved the way for partial reform of the pension system (1995), more flexible employment regulation (1996) and a comprehensive agreement on employment promotion (1998).

As shown by Della Sala (1999), the remarkable, sweeping changes in Italy were indeed facilitated by the *historical juncture* of political and economic crisis, accentuating the perceived urgency not to be kept outside of the EMU²¹. Della Sala (1999) and Ragini (1997) also suggest that the transformation of Italian industrial relations reflects longer term learning-processes, recognition of shared interests between key national actors, and changing domestic power relations, propelled by increasing international interdependence. Rather than merely tactical-opportunistic adjustment to EMU-requirements, it seems that the reforms have been part of a more profound endogenous process of national modernization in which the EMU programme served as an instrumental *external catalyzer* for building of domestic reform coalitions (the 'vincolo esterno'-effect, Dyson and Featherstone, 1996). In view of the above changes, Ferrara and Guilmina (1999) even go further and suggest that the Italian trade unions were rescued by Europe. Still, so far GDP and employment growth has remained sluggish, partly due to the tough austerity programme implemented to make Italy fit for EMU.

In *Spain* the process of reform has been more protracted and less marked by political emergency; after the failure of the PSO government of Gonzales to win acceptance for any kind of reform or social pacts, causing lasting deadlock, the incoming conservative government, with strong support by the employer side, in 1997 got the unions to resume dialogue on reregulation of employment protection and enter a kind of social pact, which according to the actors were of strategic importance for entry into the EMU (Pochet, 1998b; Pérez, 2000). As the Spanish reforms have been less comprehensive and appear more fragile than the Italian, considerable uncertainty prevail as to the governability of wage formation – especially in the context of the recently strong recovery of Spanish labor markets. So far, however, wage growth has remained amazingly moderate (Pérez, 2000).

Traditionally it has been assumed that the coordination of wage-formation is critically dependent on the export sector organizations as leading, powerful actors (Crouch, 1986 and 1993). The decline of manufacturing and the growing share of especially public sector unions have thus been seen as inimical to concertation (Garret, 1994). According to Pérez (1998), it is, paradoxically, precisely for this reason *only through re-centralization of bargaining that the exposed sectors of weakly coordinated economies have a chance to maintain influence over wage setting and contain the inflationary consequences of sheltered sector demands.* "All this means that it may be precisely in those countries where social actors lack some of the organizational capacities traditionally associated with corporatism where governments, employers and unions may be particularly eager to reestablish some form of concertation" (Pérez, 1998: 29).

A similar interpretation may indeed be applied to the employers' revived support for centralized concertation in several other countries like Ireland, the Netherlands, Finland and Norway in recent years (Dølvik and Steen, 1997). In contrast to the widely held assumption that internationalization and monetary integration erode the incentives for governments and employers to seek union cooperation (Streck and Schmitter, 1992), the recent resurgence of tripartite concertation has actually emerged as a response to such changes.

²¹ According to Perez, evidence from both the Italian and Spanish cases suggests that "although the goal of participation in EMU may have strongly encouraged the efforts of governments and employers to reach agreements with the unions, the fundamental problems and motivations that led all the three parties to seek (or agree to) a resumption of framework bargaining operated independently of the EMU deadline. The incentives leading governments and employers to seek this resumption reflect their inability to extract wage restraint and impose disinflation through a pro-active monetary stance in a fragmented bargaining context. The unions, on the other hand, were led to agree to the new social pacts by the recognition that their defense of the existing framework of industrial relations in the two countries was ultimately eroding their position as social and economic actors. These motivations are likely to persist after the onset of EMU" (Pérez 1998: 26).

This feature has not least been pronounced in the *Ireland*, where the deep crisis in the 1980s prompted a series of wide-ranging national tripartite pacts centered on improving competitiveness and modernizing the Irish economy, anchored in a broad social consensus about wage restraint (Wallace *et al.*, 1998). Although the Irish economy has belonged to the Sterling-zone, with a very different structure than the Euro-core, the social actors have been strongly committed to the entrance into EMU, and the latest social partnership agreements have according to Pochet (1998b) been tailor-made for the context of EMU and the Stability Pact. As well known, the transformation of the Irish economy and incorporation in the EMU regime has eventually been accompanied by remarkable growth in investment, production and employment – the latter in recent years increasing by 6-8 percent (Wallace *et al.*, 1998). Uncertainty has arisen, however, as to whether the policy of centralized wage restraint is sustainable in a context marked by increasing labor scarcity and absence of legal frameworks usually associated with high bargaining governability²².

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

Compared to the modernizing reform drive in countries belonging to the assumed soft flank of the EMU during the transition period, changes in the supposedly better prepared countries of the former DM-zone have been less salient.

The *Austrian* industrial relations system has been distinguished by its exceptional stability and ability to ensure moderate labor cost increases and unemployment, while allowing significant wage inequality and differentiation in accordance with local and sectoral productivity developments (Traxler 1998c).

The *Netherlands* have after the period of ‘Dutch disease’ in the early 1980s gone through a longwhile unattended process of adjustment, the favorable effects of which in recent years have triggered admiration and controversy. Following the introduction of a hard Guilder regime and fiscal austerity, the now famous Wassenaar Accord from 1982 initiated a long period of persistent, centrally concerted wage restraint. Combined with tax-reliefs, streamlining of social security, working time reductions and flexibilization of employment conditions, this has led to significant growth in especially female, part-time employment (Visser and Hemerijck, 1997). As in Italy, the centralized concertation has gone together with a decentralization of collective agreements, allowing greater latitude for local actors to chose how to utilise the benefits of growth. Due to the consistent drop in relative unit labor costs (34 percent from 1982 to 1993) marking the ‘Dutch Miracle’, it has occasionally been accused of beggar-thy-neighbor policies from unionist in competing countries. According to Schulten and Bispink (1999b), the Dutch way thus represents an idealtypic illustration why strategies of competitive corporatism (Rhodes, 1997) entail the risk of deflationary wage policies and collective irrationality under EMU (where such policies can evolve without appreciation of the national currency).

The *Belgian* system of industrial relations has during the 1980s and 90s gone through periods of forceful state intervention, wage laws and unresolved tension between rivaling unions and regions. As shown by Pochet (1999a) the shared determination to enter into EMU has catalyzed conflictual and protracted change in industrial relations. With enormous social security deficits, deteriorating competitiveness, strong and divided unions, and mounting uncertainty about the viability of the Belgian state, the government in 1993 tried to enlist the social partners in a joint reform programme (the so-called Global Plan). As this failed, a period of successive statutory wage regulations and changes in social security followed, based on the law of competitiveness from 1987. After attempts to resume dialogue failed in 1995, a new law on competitiveness was enacted in 1996, according to which wage increases in Belgium must be in line with the weighted average in German, France and the Netherlands. If the social partners are unable to agree on such a two-year wage-norm, the

²² A signal of declining commitment to wage restraint might perhaps be the first large scale nurses strike that broke out fall 1999 (see EIRO, 1999c) and the 15% wage increase over the next three years agreed in the last national wage settlement.

government has the right to decide alone²³. In the last years the situation has normalized somewhat, and the social partners settled an agreement for 1999-2000, which according to key actors may provide the basis for a new social compromise in Belgium. In view also of the severe national crisis associated with political scandals and regional cleavages, the new social pact has, in combination with election of (for the first time ever) a coalition government without the traditional power-broking parties, been considered as significant (Pochet, 1999a). Accordingly, Pochet suggests that European integration, and the single market and EMU-projects in particular, has functioned as a lever for development of a domestic, state-led reform-coalition, which probably has contributed to greater stability and responsiveness of the Belgian industrial relations system.

As the only Scandinavian country entering the Euro-club, *Finland* is perhaps the country where commitment to enter the EMU has instigated the most innovative adjustments of labor market institutions (see Boldt, 1999; Pekkarinen, 1998). This reflects that the Finnish economic cycle and production structure has deviated sharply from that of the Euro-core, frequently being hit by asymmetric shocks. After Finland in the early 1990s Finland run into severe depression²⁴, the elected "Rainbow coalition" Government in 1995 set out to bring down unemployment and break the inflationary spiral by reducing debt, cutting public expenditure and payroll taxes, and invited the social partners to negotiate a long-term programme of wage moderation and labor market reforms. Fuelled by further tax concessions, this comprehensive social pact initiated a period of rising growth and falling inflation, implying that Finland few years after the most severe depression experienced by any West-European countries after WW-2 had no difficulties in meeting the EMU convergence criteria²⁵.

Still, the membership of EMU caused concern about how to handle asymmetric shocks, prompting thorough analyzes, discussions and subsequently tripartite agreements on how to create domestic "shock absorbers" that could substitute for currency devaluations (see Boldt, 1999; Kauppinen, 1998). After several policy recommendations from the government and the social partners had reiterated the need for centralized concertation and flexible, productivity-based wage setting under EMU, the social partners in November 1997 agreed to set up two national *buffer funds*. In order to avoid the conflictual negotiation of procyclical nominal wage cuts in times of severe crisis, the build up of joint buffer funds linked to the pension system and unemployment insurance scheme is assigned to allow for adjustment of the employers' indirect labor costs to the economic cycle. To build up the funds the partners have agreed that the employers shall pay extra contributions while labor shall reduce their wage demands in a period of 3-5 years. When the aimed total funding of approximately 1 percent of GDP (roughly 1 billion Euro) is reached, it is estimated that this (possibly combined with some additional funds) is sufficient to reduce employers' indirect labor costs by some 3 percent over two consecutive years, reportedly corresponding to the effects of a ten percent devaluation (Boldt, 1999: 2). Besides the economic stabilizer-function, the fact that employee contributions and wage growth becomes explicitly coupled to the cycle builds an extra countercyclical element into the system. Another virtue of the model, according to Finnish actors, is that, in contrast to devaluations or nominal wage cuts, it does not imply beggar-thy-neighbor policies (competition neutral over the cycle).

²³ A particular hurdle in the Belgian case has been the price-indexation of wages, which the unions have been unwilling to abolish, leaving minimal scope for bargaining. The combination of almost full employment in Flanders, very high unemployment in Wallonia, and very uneven developments in productivity between the manufacturing and the service sectors, have further complicated centralized bargaining rounds.

²⁴ Due to the crisis which followed from domestic overheating flowing from previous creditmarket deregulation and collapse of the lucrative Finnish trade with the Sovjet Union, production and employment dropped by 12 percent in 1990-94, more than during the Great Depression of the 1930s, and unemployment soared towards 20 percent. The crisis was aggravated by the simultaneous shift to a non-accommodative monetary policy stance based on a fixed exchange rate with ECU, which faced with mounting speculationary pressures led to soaring interest rates (Pekkarinen, 1996; Boldt, 1999).

²⁵ Due to the previous drastic fall in labor force participation, unemployment has dropped more slowly despite strong employment growth in recent years. Worth noting is also that the fairly egalitarian wage structure has remained stable and that Finland during the 1990s has emerged as one of the fastest growing western economies in advanced telecommunication industries.

In view of the great depression in the early 1990s, the reforms of the Finnish system in parallel with the remarkable economic recovery and the transition into EMU represent a reminder that the societal effects of EMU by no means are unilinear or inevitable, indicating that civil society actually can use traditional institutions to develop new and alternative means of societal adjustment. However, in view of the tendency that corporatist crisis-management in Finland have often been followed by resurging inflation and labor disaffection (Lilja, 1992 and 1998), and that the year 2000 bargaining round is pursued at industry level (so far marked by moderate settlements), it remains to be seen how smooth the Finnish system will work in practice.

Sweden and *Denmark* have for various political reasons, together with the former EFTA-partners UK, Norway and Iceland, chosen to stay out of EMU – although changes may be underway. In order to ensure domestic stability under the Bretton Woods system of fixed exchange rates, politically determined interest rates and growing trade liberalization in the 1950s and 1960s, the small open Scandinavian economies developed a centrally coordinated pattern of wage setting based on the leading role of the competition-exposed manufacturing (metal) sectors – the so-called Aukrust or EFO-model (Aukrust, 1977). With Sweden as a partial exception, this model has largely persisted and been adjusted to changing external and macro-economic conditions (Kjellberg, 1998b), presumably fitting well with the EMU requirements. In Norway, the shift to a non-inflationary monetary regime based on a stable exchange rate vis-a-vis the euro, has over the last decade been accompanied by a revitalization of centralized incomes-policies (Dølvik and Stokke, 1998).

After a period of tough adjustment and state-imposed crisis deals in the 1980s, the interplay between macro-economic policies and wage formation in *Denmark*, whose economy is closely linked to the former DM-zone, has during the ERM-period become well attuned to EMU-requirements. As one of the few EU countries which would have had no problems in qualifying for the EMU, Denmark has retained a generous welfare state and high and growing employment, whereas wage formation has become more decentralized and flexible within a framework of centralized coordination. In September 1999, Denmark's two main private sector associations, the LO trade union confederation and the DA employers' confederation, concluded a framework agreement on bargaining procedure, the so-called "climate agreement". The agreement gives DA and LO a stronger coordinating role, but still leaves their member organisations to negotiate the collective agreements (EIRO, 1999a and b). Moreover, in February 2000, the main parties in private industries signed a pathbreaking four-year 'stability pact' (EIRO, 2000a). Thus, in the case of Danish entry into the EMU, as now recommended by dominant forces at both sides of industry, the Danish industrial relations system appear quite well prepared (Knudsen, 1998; Lind, 1999)²⁶.

In *Sweden*, the 1980s brought increasing interunion rivalry, severe economic crisis, and eventually a break-down of cross-sectoral bargaining, much due to tension as regards the role of the sheltered sectors, and growing employer disaffection (Kjellberg, 1992 and 1998b; Stokke, 1998). After a number of failed initiatives to restore coordination capacity, the official Calmfors Commission suggested that the insufficient capacity of wage coordination would make EMU-membership a risky undertaking (SOU, 1996: 158; Lundborg, 1996). In contrast to the other Nordic countries, the Swedish shift to low-inflation has accordingly relied more on economic austerity policies and eventually a floating currency regime. After a period of recession and soaring unemployment, Sweden has succeeded surprisingly quickly in rebalancing the public budgets, squeeze out inflation and enter a path of significant growth and employment creation in parallel with maintaining the most elaborate welfare state in the world (*New York Times*, November 1999). With still considerable unemployment according to Swedish standards, this transition has been accompanied by notable changes in the orientation and organization of wage setting; alongside new patterns of coordination at the sectoral

²⁶ The same largely goes for Norway, which with monetary policies aimed at keeping a stable exchange rate with the Euro, implies that macro-economic policies and wage policies in order to retain competitiveness and credibility in the finance markets will have to be even more prudent than in the Euro-zone countries.

level, major unions have expressed their commitment to keep wage growth in line with 'European norms' of inflation plus productivity (Elvander, 1997; Kjellberg, 1998b). However, uncertainty prevails as to how powerful unions in the service-sectors will behave in a context of reduced unemployment and scarcity of labor in important fields – contributing to the cautious approach to EMU membership among many of the Swedish unions (Dølvik and Martin, 1997). As perhaps indicated by the division of views on EMU membership among unions in the exposed and sheltered sectors, entrance into the EMU might provide a common frame of reference for coordination of national wage setting which is otherwise difficult to agree on²⁷.

Altogether, it seems justified to suggest that the *smaller Euro-countries* of the former DM-zone and Scandinavia have managed to combine the transformation of macro-economic policies over the last decade with maintenance and adjustment of national structures of coordination and labor market governance in a way that is *conducive* to cope with the EMU environment.

1.3.4. The critical factor – what happens in the larger countries of the Euro-core?

In contrast to significant reforms and economic progress in several of the smaller Euro-states, the dominant economies in the Euro-zone – France and especially Germany - have in the 1990s been marked by political gridlock, sluggish growth and inability to reach agreement on how to adjust the social security and industrial relations systems (see Siegel, 1998; Ross, 1998). As Germany alone stands for roughly 1/3d of total production in the Euro-zone and together with France probably around half of the Euro-GDP, the developments in these two closely integrated countries will presumably constitute the most important references for the monetary policies of the ECB. Whereas Germany traditionally has been considered as having a highly responsive co-ordinated system of wage-setting, *France* has been marked by a fragmented, statedominated bargaining system with mediocre responsiveness but low wage growth in recent years. As illustrated by the explosive conflicts over amendments in the pension system in 1995, the labor movement still command considerable political mobilization capacity, but the strong state hand in wage determination and the weakness of French unions indicate that excessive wage-moderation might be a greater problem than surging labor costs (Muet, 1997; Pochet, 1998b). Apart from pointing to the fact that the French social actors have lived with a hard-currency regime and high levels of unemployment since the turn to the 'Franc-fort'-approach in the early 1980s, I will in view of the erratic character of the French bargaining system refrain from speculation about what might happen,

The crucial question for the evolution of industrial relations and the interplay with EU macro-economic policies, however, is what happens in *Germany*. Until the post-reunification crisis in the early 1990s, the German system of industrial relations was admired as a stronghold of stable, responsive social partnership and economic success. Without joining the heated debate over whether the crisis in the German labor market is intrinsic to the model, or a result of external events, it seems plausible to follow the analysis of Streeck (1997), who suggests that the double pressures of *reunification* and internationalization brought to the fore problems of such an overwhelming magnitude that the actors as yet have been unable to find suitable ways out. As a result of the immense transfers to the East and the break-down of Eastern labor markets, the overriding challenge in Germany is, as shown by Siegel (1998), related to unemployment, financing of social security, and sluggish growth, in turn having significant implications for the system of industrial relations. Neither of these problems are a result of the EMU, albeit the fiscal rules of the EMU in certain respects can make it harder to come around them, at the same time as the evaporation of the Bundesbank may open new opportunities for some of the actors.

²⁷ Cf unions in domestic sectors might under certain conditions find it beneficial to leave the responsibility for inflation to the national central bank, in order to embark on a process of upward adjustment of relative wages, whereas the unions in the exposed sectors tend to be deeply sceptical of this, as it would in effect put the (heavier) burden of maintaining competitiveness predominantly on their shoulders. For such reasons, controversies over monetary policies (and EMU-membership or linkage) have in Sweden and Norway become associated with a struggle over the appropriateness of the EFO/Aukrust-model of wage determination.

Regardless of reasons the German crisis has faced the social partners with new and conflictual issues, raising question-marks about the future system of labor market governance in Germany (Jacobi *et al.*, 1998; Hassel, 1999). In spite of considerable concessions in terms of wage restraint and exemption clauses, union density and collective bargaining coverage have declined. Successive governments have tried to increase flexibility and reduce indirect labor costs by means of tax concessions and reforms of the social security system, but it has proven hard to break the political stalemate. The EMU was envisaged to ease the situation by halting the former appreciation of DM and improving German competitiveness, but the measures undertaken have as yet proven insufficient to get the economy off the rock. With unemployment remaining close to ten percent, proposals of more far-reaching reforms – including American-style deregulation – have been voiced ever more frequently in business circles.

It was against this background the incoming SPD government in 1998 revamped the idea of a tripartite *Alliance for Employment*, first proposed by the IG Metall-chief K. Zwickel in 1996. Inspired by the trend of social pacts and in particular the nationally successful Dutch example, the development of the “Alliance for Jobs and Vocational Training” has proved an uphill, protracted process, however. Envisaged to bring forward broad bipartisan solutions on a whole range of interlinked issues related to pensions and retirement, social security, indirect labor costs, taxation, modernization of public services, and promotion of innovation by means of training, R&D etc, a major stumbling block has appeared to be the issue of wage policies. While the employers have pushed for joint adoption of the principle of “employment-oriented” moderate wage policies as an essential part of the talks (Bispinck and Schulten, 1999c), the union side, defending the principle of *Tarifautonomie*, have been reluctant to make concrete wage guidelines or wage restraint an issue for the ‘Alliance’. On the contrary, key unions have called for an ‘end to modesty’, along Neo-Keynesian lines arguing that recent wage moderation policies have aggravated the employment crisis by restraining domestic demand.

Thus, in contrast to the eagerness by which unions in many other Euro-countries have participated in re-centralized negotiations of wage guidelines – enhancing their role in political reform processes – the dominant German unions have defended the principle of autonomous industrial pattern-bargaining. Although the unions have appeared divided on the issue, the DGB and the BDA (the main employers’ confederation) apparently broke the gridlock by laying down certain objectives for collective bargaining in July 1999²⁸, eventually stating that the ‘distributive margin’ should be based on productivity growth and primarily used for ‘job-creating’ purposes (January 2000, EIRO, 2000b). Despite tough wage claims from the IG-Metal centre and public sector unions, the year 2000 bargaining round opened with very modest regional settlements in the pace-setting chemical and metal-working sector, possibly indicating that one important hurdle in the process of reforming the institutional frameworks of the German labor market has been passed.

The development of the German system of industrial relations and wage-formation in particular is not only important for Germany; as by far the largest economy in the Euro-zone, wage-setting in Germany is supposed to serve as a major reference point for bargaining in the wider Euro-zone and thus also for the ECB. After long having played a withheld role in European trade union policies (Dølvik, 1997), German unions and the IG Metal in particular have in recent years taken a more active role in promoting European coordination of collective bargaining (see section 2). The reluctance to engage in incomes-political concertation at home has probably to do with this, reflecting that key German unions see themselves as pioneers in defining a common trade union approach in the new EMU context and establishing themselves as the main interlocutors of the ECB. Especially IG Metal actors

²⁸ Amongst others, the joint DGB-BDA declaration (July 1999) referred to the agreed goals that collective bargaining policy should be reliable in the medium and long term, give companies a stable basis for the planning of their business, employment-creating reduction of overtime, priority use of increases in productivity for employment creation, and continued reform of branch-level CB systems with an extension of ‘opening clauses’ and collectively agreed ‘corridors’ in order to allow more company-related rules (Bispinck and Schulten, 1999c).

have long expressed scepticism of the spread of national social pacts based on wage moderation, which in their view engender the danger of unleashing a competitive and potentially deflationary spiral of wage bidding, and have repeatedly called for a more offensive, co-ordinated wage policy among European trade unions²⁹. In this view, the moderate settlements in the first regional bargaining rounds in Germany year 2000, headed off by unions in the chemical sector and IG Metal in Northrhine Westphalia, are significant, presumably signalling that German unions after all are not prepared to play high poker with the ECB but will carefully explore their new role as wage pace setters in the Euro-zone.

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

As shown in this section, the transition to EMU in the 1990s went together with a decline in employment growth and rising unemployment in Western Europe, though with significant variation between EU countries. Contrary to widespread predictions, *the transition to EMU was not accompanied by dismantling, decline or convergence of national industrial relations institutions* in direction of the deregulated and decentralized Anglo-American model. The British case remains an outlier in the European context³⁰. Alongside persistent institutional diversity, the shift to a low-inflation monetary regime paradoxically went together with a resurgence of centralized concertation, social pacts and state intervention in labor market governance in many countries, especially in previously inflation-ridden countries in the Euro-periphery. In key Euro-countries, such as Germany and France, however, restrictive macro-economic policies, high unemployment and union decline caused stalemate and conflict over the adjustment of national labor regimes, contributing to a picture of *ambiguity* and *uncertainty* about the future trajectory of European industrial relations.

While trade union density continued to decline in some countries, it showed sign of stabilization and growth in other countries. Wage setting became in many respects more decentralized, but still nationwide, multiemployer collective agreements determine the framework of wage setting in the Euro-countries. Although wage increases dropped far below productivity growth, employment growth was sluggish, but significant variation prevailed, indicating the importance of labor market institutions for the ability to generate jobs at any given rate of economic growth. As the confluence of economic internationalization, the disciplining effects of global finance markets and the shift to low-inflation regimes made the scope for demand-driven employment growth ever narrower, the mainstream of European trade unions apparently came to the view that, under such circumstances, *wage moderation* and *supply-side reform* in the labor markets and the welfare states are indispensable elements in national strategies for maximising employment opportunities.

A common feature of the national social pacts was attempts to agree on central frameworks for adjustment in the *labor-market/welfare-state 'nexus'* and deployment of bargaining to company levels, assigned to prompt greater ability to adapt to changes in markets, technology, production and social structures, as well as strengthening incentives to work and improving competitiveness. Hence, the dominant trend was towards *negotiated re-regulation* and development of more *multi-tiered*, articulated patterns of industrial relations, marked by a twofold movement of re-centralization and decentralization, where central decision-making became more oriented to defining frameworks, objectives and guidelines aimed at enhancing discretion and adaptability at the local level (Negrelli,

²⁹ According to this view, the Dutch 'employment miracle', for instance, does not demonstrate that wage moderation works, it rather indicates that Dutch jobs have been created at the dispense of employment in other countries – suggesting that wage-moderation policies amount to a zero-or-minus-sum-game where there are few winners and many losing workers and unions.

³⁰ I haven't discussed the prospects for UK industrial relations in case of entry into the EMU, but in general it might be suggested that the decentralized British system of wage formation is fairly responsive (Traxler and Kittel 1999) although it has in recent years shown higher labor cost growth than most of the other EU countries (Mermet 2000). Due to the decentralized bargaining structure, British unions are, however, poorly equipped to play any active role in European wage policy coordination. It might be asked though whether British entry would create incentives for a certain strengthening of the central associations' role in national pay policies.

1999). As suggested in Dølvik (1993), the new wave of re-nationalized ‘competitive corporatism’ is thus markedly different from the ‘neo-corporatism’ of the 1970s, being more oriented to supply-side issues and less associated with macro-political exchange brokered by state financial concessions. In contrast to the suggestion that it is all a matter of micro-oriented supply-side reform (Rhodes, 1997), a common feature has nevertheless been the coupling of such factors with *the crucial role of overall wage formation for the stabilization of macro-economic policies* – a linkage that has been accentuated by the monetary integration process in Europe. As pointed out by Ferner and Hyman (1998) the resurgent importance of the ‘social wage’ in this context – still under strong influence of organized labor – seemingly strengthened governments’ and employers’ interest in social concertation and brought national trade unions some new *political leverage* and bargaining capital in the search for social trade-offs compatible with competitiveness.

Contrary to the expectation that international market-building and monetary integration would make tripartite concertation obsolete, *the discipline of proliferating market pressures and external constraints apparently was a precondition for the revival and renewal of societal concertation in the 1990s* (Visser, 1998; Martin and Notermans, 1999). While strong and encompassing unions, together with forceful labor governments, were usually seen as a precondition for the thriving of neo-corporatism in the past, the new pattern of social pacts was in many countries facilitated by the contrary – significantly weakened and less cohesive unions interacting with unstable and disempowered (coalition)governments with shaky legitimacy (cf Regini, 1997). These features were particularly salient in countries where economic decline and severe political crisis – as in Italy – together with the ultimate imperative of reaching the EMU deadline, generated a climate of *emergency* (now or never) conducive to reform. While Della Sala (1999) points out that the EMU-programme in Italy served as an external catalyzer that was instrumental in building a domestic reform-coalition with a joint interest in economic and political modernization and crossing of traditional power oligarchies, others have, as mentioned, even suggested that Italian unions were rescued by Europe (Ferrara and Guilimina, 1999). In various forms similar junctures appeared to be important in many of the countries where concertation was revived – such as Ireland, Finland and the Netherlands - according to Visser (1999), enhancing joint learning and mutual trustbuilding, alongside a need for *borrowing legitimacy* by bringing labor back in as co-responsible reformpartners at critical moments of national development.

Hence, rather than reinforcing class conflict and accelerating the decline of national collective bargaining and trade unionism, *the transition to EMU passed surprisingly smoothly and became associated with an unforeseen process of modernization, cross-class coalition-building and renewal of national industrial relations in several of the countries that were considered least prepared and ill-fit for the leap into the Euro*. This is all the more striking when taking into account the conflict and gridlock over domestic welfare and labor market reform in some of the larger countries of the Euro-core, where the external pressures for adjustment was considered less compelling.

Despite the uncertainty about what might happen now that the euro has been established, the prediction that capital mobility and a common monetary policy (EMU) would propel a wholesale break-up or Americanization of national industrial relations in Europe appears, at least thus far, weakly founded. A basic reason for this may be that the decentralized territorial entities of the multi-tiered European industrial relations framework, in contrast to the American situation, are still embedded in fairly coherent national polities, in which social institutions, legislation and state support facilitate multiemployer-bargaining and cross-sectoral coordination, while delimiting cross-national labor market competition and mobility. Besides political factors, an essential reason for the breakdown of multiemployer pattern bargaining in the US was precisely the unions’ inability to ensure territorial control over the conditions for purchasing labor, due to the legally enhanced competition from non-unionised firms and companys’ easy access to extra-territorial supply of mobile labor. By contrast, in most of the EU countries, various extension rules delimits the emergence of a significant segment of non-organized firms reaping benefits of staying outside the jurisdiction of

collective agreements, underscoring the *critical role of the state* and the broad political commitment to a notion of social partnership both nationally and at the EU-level in preventing a withering of national industrial relations (Dølvik and Visser, 2000).

From a European labor point of view, the revival of national concertation has not been unequivocally positive, however. The regained recognition of trade unions as societal partners has gone together with a stronger state hand in industrial relations, significant *union concessions* and greater scope for the play of market forces in labor market adjustment, leading influential union voices to question whether the gains have been worth the price. Still, in view of the alternative – which probably had been a more adversarial, unilateral imposition of change – union adherents of social pacts contend that this has been the best available option for defending workers' interest, influencing the social profile of the adjustment process and restoring the *credibility of unions as societal actors*. It still remains to be seen, however, whether the new pattern of tripartite concertation points towards a new, lasting European social compromise or peace formula (Streeck, 1998), amounting to a streamlined version of the EMSO labor regime fit for global competition and the EMU. While the developments reviewed above have taken place during a period of economic crisis in which the social actors have seen a common cross-class interest in securing national entry into the EMU, it is reason to be less optimistic about the viability and aggregate effects of national social pacts once the EMU is established.

1.4. National social pacts: viable under the EMU?

Assessing whether national social pacts represent a viable mode of adjustment once the EMU is there, it is, first of all, important to bear in mind the inherently *fragile* nature of many of the recent social pacts and the uneven responsiveness of national wage setting systems in the Euro-zone, as highlighted by Traxler (1998a). It seems plausible to believe that the shift in monetary regime, and the awareness that wage bargainers cannot any more rely on being bailed out by national governments or central banks, has influenced the strategic considerations of many national trade union federations. But there is still reason to be doubtful about the ability of national union leaderships to ensure membership and rank-and-file *compliance* with centrally agreed policies once labor markets become more buyant – as they now tend to. Especially in the catching-up countries of the Euro-periphery it may prove hard to keep members, not least in multinational companies, from demanding equal pay with colleagues in high-cost/ productivity countries pursuing equal jobs, in particular if encouraged by Northern unions' tempted to act as 'sirens' for invidious wage comparison (Streeck, 1998; Visser, 1999). Although the social pacts have enabled the unions to ensure a shift to employment-oriented, responsible wage policies in a context of sluggish labor markets, the task will become harder if the EMU, as promised, brings about a period of growing prosperity. In other words, *the more economically successful the EMU becomes, the more critical becomes the industrial relations systems' ability to resist labor cost inflation* in order to maximize job creation, bring down unemployment and retain a sense of solidarity in wage setting.

This is not merely a challenge for the catching-up countries of the Euro-periphery. Besides the fact that ongoing changes in the composition of labor may weaken the coordinating capacity of unions, the shift to EMU might influence the conditions for solidaristic wage policies in the euro-core in an ambiguous way. Disappearance of the disciplining role of national central banks and the financial markets in a situation of recovering labor markets may indeed encourage union bargainers to adopt a tougher policy approach and face union leaderships with growing difficulties in co-ordinating the wage policies of individual unions, curbing market driven wage drift from below, and mustering support for continued modesty – as was the perennial problem which led to the break-down of incomes policies in many countries in the 1970s. With soaring profits, lower unemployment, and resurgent union competition over relative wages and membership in parts of the Euro-core, it would be rational for individual national unions, especially in the less competition exposed service-sectors

and in smaller states not being subject to penalization by the ECB, to exploit the new-won opportunities to demand compensation for the losses suffered during the 1990s.

Hence, after a long period of wage restraint, widened income inequalities and virtually no room for lifting relative wages in the lower-paid parts of the labor market, accumulated tension and frustrated demands can easily blow-out when the lid is taken off the kettle, even in countries with assumingly stable and responsive bargaining systems. Such dynamics might interact with the fact that unions in *domestic* and *exposed sectors* are affected very differently by the ceding of national monetary policies; while this reinforces the disciplinary effect of product market competition in the export-oriented sectors, it removes the direct finance market pressures on wage setting in the domestic sectors formerly caused by the awareness that excessive total wage growth would generate currency depreciation and rising interest-rates. As wage growth in the domestic shelters spill-over to production costs in the export-sectors, the shrinking manufacturing unions will probably see an even stronger interest in economy-wide coordination, whereas unions in the growing service sectors might turn to a more forceful pursuit of particularistic interests, which, other things being equal, would hamper employment growth.

In addition comes that the belief in wage moderation appears to be vaning in some important national unions, and that union leaderships may have to reassure their legitimacy after a period with little salient leverage. No union leader can in the long run survive on the basis of preventing invisible collective evils by means of heroic membership sacrifices, from time to time she/he has to bring home some tangible, individual goods in return.

Altogether, such factors indicate that the more EMU brings about domestic growth and the stronger the need for national wage coordination, the more arduous it will become to reconcile union demands and retain employee support for moderate, solidaristic wage policies at the national level – if so, entailing the risk of an *upward wage-spiral* in the Euro-zone

Such a scenario appears in stark contradiction to the long widespread concern about deflation and *downward wage-bidding* under the Euro, driven by national union strategies to safeguard employment by capturing market shares from competitors in other countries (Noé, 1998). But insofar as growth actually can be supposed to vary significantly across the Euro-zone, as do the governability of bargaining, this indicates that the most likely scenario is a development in which inflationary and deflationary wage impulses are at work simultaneously in different regions. This will face the ECB with great dilemmas and imply that monetary policy functions procyclically in certain regions.

The apparently contradictory concern with deflationary and inflationary wage spirals reflects two sides of the same coin, so to speak, namely that the reduced macro-economic stabilization capacity at the national level, combined with the quest for increased (nominal) wage flexibility, readily can trigger *pro-cyclically oscillating wage policies*. As national unions will face stronger incentives to accept real wage cuts during economic slump, they will presumably aim at making wages equally flexible upwards during economic boom – easily leading to a pattern of stop-go interaction with the ECB. Interacting with the bias of the Stability Pact towards procyclical contraction of fiscal policies during slump, such dynamics might cause *destabilizing* effects on the affected national economies and, depending on their regionale scope, add to the difficult policy choices of the ECB. The risk is therefore, as pointed out by Hall and Franzese (1998), that without any institutionalized pattern of communication between (coordinated) wage bargainers and the ECB, and with lack of stabilization capacity at the national level, a counterproductive dynamic of overshooting and stop-go interaction can evolve between the ECB and competing national wage bargainers.

Inspite of the revitalization of centralized concertation in many nation-states during the transition to EMU, and the modest wage growth under the current recovery, it seems on the basis of this analysis quite optimistic to expect that reliance on national policy co-ordination alone in the long run will prove sufficient to ensure an optimal interplay between macro-economic policies and wage setting in

the Euro-zone. This is all the more so since the pursuit of national pacts, especially during hard times, can pervert into beggar-thy-neighbor policies (see below). Therefore, to ensure that the aggregate effects of national wage policies fit with the macro-economic requirements for stability and maximal growth and employment under EMU, establishment of frameworks and procedures for *European coordination* of wage policies and macro-economic policies would seem commendable. Either national wage setting deter on the deflationary or the inflationary side, it will pose externalities that hardly can be compensated for by common monetary policies alone.

So, although the EMU makes national concertation more essential to retain a sense of social solidarity and enhance employment, the contradictory pressures on national systems imposed by the EMU suggest that such policies will be harder to persist, unless they are accommodated by more leeway for stabilizing fiscal policies at the national level (reinterpretation/negotiation of the Stability Pact) and growth-oriented co-ordination of economic policies at the European level³¹. Moreover, the more economic policies and developments turn in such a direction, the stronger becomes the need for a common framework of European guidelines and criteria that can ensure that wage growth does not veer out of control and reduces the scope for expansionary macro-policies. That is, if the aim is to maximize employment growth in the entire Euro-zone, without copying the Anglo-American model of rising wage inequality and labor mobility, the recent revival of *national concertation* of wage setting and labor market policy reform represents an *indispensable* but *insufficient* precondition.

I thereby disagree with the view that national social pacts are contradictory to the quest for Europeanization of collective bargaining and economic policy coordination. If the social actors are unable to retain solidaristic policy coordination aimed at helping the weaker parts of the labor force back into work at the national level, it is hard to see how this could be accomplished on a European scale where social identification is weaker, the structure of interests much more complex, and the mechanisms for ensuring compliance with agreed policies virtually absent. If labor interests shall be accommodated at a European scale, working national systems of interest intermediation (upstream) and implementation (downstream) must therefore be in place. This is equally critical in a strategy for cross-national coordination by means of sectoral pattern-bargaining as in the less realistic case of centralized incomes-policy on the European level; in any case the effectuation of a European wage-norm hinges on the comprehensiveness and efficiency of the national systems assigned to implement it. As noted by Sisson *et al.* (1998: 22),

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

1.4.1. Excursus: Beggar thy neighbour policies?

A central question concerning the viability of national social pacts under a single monetary policy is related to the thorny issue of beggar-thy-neighbour policies, which have been associated with various forms of excessive wage moderation, supply-side reforms and tax reliefs aimed at reducing labor costs and capturing international market shares. While the national employment leverage of such policies in a context of low economic growth and restrictive macro-economic policies is contested, many observers tend to doubt that such policies have any positive effect on employment in the European economy as a whole, besides unleashing downward pressures on social standards (Martin, 1997; Schulten and Bispinck, 1999a). Despite the plausibility of the argument, I find this view overly general and simplistic, requiring further qualification. National economic and employment growth is not exogenously given or determined by macro-economic policies alone, but is evidently affected by a variety of *endogenous*

³¹ In principle some kind of European buffer-funds assigned to serve as fiscal stabilizers might probably also be useful, cf the Finnish example.

factors, among which the role of wages and supply-side factors in the labor market cannot be ignored, as indicated by the immense differences in employment levels and the employment intensity of growth in the EU countries (Padalino and Vivarelli, 1997; Auer, 2000). To the extent that solidaristic wage policies (implying pay restraint in many highly productive industries) and reforms in the labor market/welfare state nexus contribute to eliminate obstacles to work, get more people into paid employment, boost profitability and investment, other things being equal presumably increasing disposable income and demand - as apparently has been the case in the Netherlands and several of the Nordic countries - it is hard to believe that such policies, according to a *zero-zum logic*, simply detract from growth and employment elsewhere, and hence should be denounced³².

These remarks reflect that it is hard to arrive at objective criteria for what kind of national policies should be regarded as justified and legitimate in terms of promoting national growth and competitiveness, because the entire social fabric varies in so many ways between countries. As pointed out by the leader of the IG Metal in Northrhine-Westphalia, Harald Schartau, who is one of the key players in the initiative to coordinate bargaining with Benelux unions:

“To accuse the Dutch of pursuing wage policy aimed at saving jobs by sacrificing productivity gains is to fail to understand the circumstances they are operating under. You have to take into account their social insurance schemes, working conditions and the position of women in the labor market. Then you realize that they are not pursuing a beggar-your neighbor strategy but rather a policy which is eminently sensible” (Mitbestimmung 1999: 13).

It would nevertheless seem favorable to arrive at some common perception of what kind of policies, especially when it comes to measures directly aimed at winning international market shares, should be regarded as more and less acceptable in terms of contributing to growth and social justice in the Eurozone. In the absence of any applicable definition, a possible *rule of thumb* could be to prevent national policies that simultaneously applied by other countries facing the same problem/situation would generate detrimental collective effects. Neither this is a satisfying definition, however, as one might well imagine situations where specific national problems would still justify such means, thus pointing to the need for mutually accepted understandings of under what circumstances such norms might be deviated (e.g. by wage cuts). To arrive at this kind of *common norms* is basically what the idea of European wage coordination is all about, in the same way as the quest for common minimum standards in the field of company taxation and labor protection is aimed at preventing rational individual behavior from causing collective irrationality and a race to the bottom (Dølvik, 1993). Without embracing the view that wage moderation necessarily impairs employment growth, it would in a context of sluggish growth seem advisable to establish a normative European framework formula for wage/labor cost increases that prevents national unions from becoming involved in a pro-cyclical, competitive rat-race which would steadily diminish the room of maneuver in national collective bargaining. Conversely, such a formula would be helpful in preventing that inflationary wage spirals impede employment creation during economic upturn³³.

³² One might, further ask questions like: What about economies where large shares of the population are allowed to remain outside productive work, receive minimal income and do not contribute to demand and economic growth in the European economy – should that be denounced as beggar-your neighbor policies? What about taxation of labor which have a strong bearing on both unit labor costs and consumer demand? Does it represent a less serious threat to jobs in other countries when national economies, regardless of high production costs, are allowed to slide into negative growth and stagnation? – altogether indicating the complexity of the beggar-your-neighbor-concept. The useful aspect of this, however, is that it raises awareness about the broader normative implications of national policies in a context of growing economic interdependence.

³³ An interesting example in this regard is the Finnish plan to adjust indirect labor costs (payroll taxes) according to the economic cycle, implying that indirect labor costs are increased during upswing (hence curbing wage growth) and reduced during recession (hence easing the pressure to cut wages). Within a framework formula defining the space for labor cost increases by means of inflation plus productivity growth over the cycle, this means that wage policies should be competition-neutral over the cycle.

Although social pacts aimed at controlling labor costs and making labor markets more adaptable, in my view, are essential elements in a viable strategy to boost employment in many European countries, it is important to realize that such supply-side strategies have limited employment leverage, especially on an aggregate European level, unless they, like in the US in the 1990s, are complemented by macro-economic policies that stimulate growth and labour demand (Martin, 2000). Further, reform and adjustment of employment relations are presumably more effective and easier to pursue in a context of labour market growth, which, conversely tends to make such adaptations all the more required. It therefore seems plausible to follow the argument of Sisson *et al.* (1998), that the impact of the micro-dynamics of EMU on national industrial relations will be highly dependent on the macro-economic effects of EMU. Rather than denouncing either supply-side or demand-side policies, this indicates that the challenge essentially is to create conditions for an optimal interplay between demand-side policies at the European macro-level and supply-side policies at the national micro-level. In order for the ECB to stimulate demand as far as possible without generating inflation, which in turn is contingent on the responsiveness of national labor market systems, it would seem necessary not only to coordinate wage policies at a European scale but to ensure that this coordination is concerted with the macro-policies of the ECB and the European governments.

2. From national to European concertation?

2.1. National flexibility and European co-ordination – an irresolvable contradiction?

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

Most European *employers'* associations and their European representatives have indeed been deeply opposed to any move towards European collective bargaining and prefer keeping wages and working conditions as decentralized parameters in their competitive strategies³⁴. The national *governments* in the EU, which historically have been divided over the extent to which the EU should attain a role in labor market issues, have also followed a cautious approach. The *Maastricht Social Agreement* (MSA), eventually incorporated in the treaty in Amsterdam 1997, explicitly states that the EU has no mandate to interfere in issues of pay and industrial conflict. The last decades of monetary and market integration has nevertheless been accompanied by a gradual expansion of the EU role in labor market policies and emergence of a European level of industrial relations. The MSA extended the regulatory competence of the EU and entrusted the European *social partners* with the task of *negotiating* European minimum *labor standards*. Besides the Council's adoption of the European Works Council directive in 1994, this has eventually led to the signing of three legally binding European *framework agreements* on parental leave, part-time work and temporary work. Regulations on equal treatment at work concern pay issues and the economic policy guidelines of the ECOFIN have repeatedly expressed views on the scope and principles of pay policies, especially as regards the public sector.

³⁴ UNICE, the Union of Industrial and Employers' Confederations of Europe, which comprises member associations from all over Europe, is the dominant cross-sectoral employer representative at European level (Strøby Jensen, 1998). The UNICE view is straightforward: "It is sometimes argued that wage bargaining at European level is the logical consequence of EMU and a necessary part of a European strategy for employment. According to UNICE, this is wrong. Wage negotiations are based on many factors such as competitiveness, productivity, taxation, cost of living etc. They must therefore remain the responsibility of national industrial relations systems" (UNICE, 1999: 14). As UNICE, in contrast to the ETUC, does not include employers' associations at sectoral or industry level, very few of the member associations are mandated to pursue collective bargaining except for the social dialogue negotiations on EU labor standards. This is also the case with CEEP, mainly organizing (semi)public enterprises, UEPME (organizing SMB-firms) and EURO-COMMERCE. The industry associations at employer side, on their part, have been reluctant to constitute as an union interlocutors at all, and are indeed strongly opposed to any notion of European collective bargaining.

The EU employment and legitimacy crisis flowing from the German post-reunification recession led, moreover, to creation of a European *employment strategy*, eventually written into the Amsterdam treaty. Modestly emphasizing co-ordination of national labor market policies, this implied a formal acknowledgment of the EU's responsibility for employment and a commitment to dialogue with the social partners in promoting supply-side oriented employment and labor market reform (Foden 1998b)³⁵. Lately, the leap into the EMU encouraged a further step, as the EU governments agreed to creating a *macro-economic dialogue* among the ECB, finance ministers, the Commission and the social partners, as inscribed in the European Employment Pact adopted by the EU Cologne Summit early June 1999. Seemingly, the launch of the Euro and the European employment strategy has created a certain political and institutional *spillover* dynamic.

This has certainly been one of the main motives behind the European *trade unions'* domestically contentious support of EMU. Their '*yes, but*' support was, first, based on the hope that the EMU would release monetary policy in Europe from the restrictive hegemony of the German Bundesbank and pave the way for economic policies more attuned to the need for growth in the wider European economy; and, second, that the EMU would create new momentum behind the unions' demand for a Political and Social union (Foden, 1998a and b). The design of EMU has certainly not matched the trade union expectations, and the ETUC has constantly called for a more expansionist interpretation of the Maastricht Treaty and creation of a European economic government with power to ensure coordination of monetary, fiscal and wage policies at a European scale. With less than 10 percent of the total GDP in the EU stemming from imports, there is according to the ETUC a strong case for a Keynesian revival at the European level (ETUC, 1999a; Coldrick, 1998).

From the early 1990s, the prospect of EMU and the negotiating option enshrined in the MSA gave impetus to deepened trade *union cooperation* in the ETUC and its associated European Industry Federations (Dølvik, 1997 and 1999; Martin and Ross, 1999)³⁶, but their declared ambition to develop transnational co-ordination of collective bargaining came to naught (Keller, 1995 and 1996). With the advent of EMU this debate gained *renewed momentum*, however, fuelled by the concern that trade unions would be played off against each other in an intensified competition over jobs and income. This issue has accentuated important differences of views and interests among national unions from high-and-low-cost countries, reflecting also the diversity of national institutions and traditions of industrial relations, alongside different understandings of what wage policy is conducive to bring down European unemployment³⁷. While leading German unions, like the IG Metal, have called for more aggressive wage policy coordinated at the *sectoral* European level, several other unions seem to prefer more modest cross-sectoral coordination on the *confederal* ETUC level based on national concertation. This controversy is thus directly linked to what role macro-economic policies have to play in explaining and overcoming the European employment crisis – to what extent it does reflect supply versus demand-side problems - and what kind of wage policies would fit with different notions of monetary and fiscal policy.

³⁵ The Employment strategy builds on the annual drawing up of guidelines for national labor market policies and peer review of the member-states' compliance with the agreed priorities and measures, and does as such not imply any further supranationalization or new regulatory powers to the EU. Key issues have so far been to enhance best practices and learning with focus on employability (training), adaptability (reorganization of labor markets) entrepreneurship and equal opportunities. The Employment strategy has generally been well received by the trade unions, but the question is whether such supply-side measures are sufficient (as the ECB seem to mean) to bring down unemployment or need support by macro-economic demand-side policies to gain headway.

³⁶ The ETUC membership consists of 68 national confederations from all over Europe and 16 European Industry Federations, altogether representing more than 50 million members. This corresponds to an overall density of 32 percent in the EU, down from some 36 percent in the mid-1980s (Ebbinghaus, 1999).

³⁷ As mentioned, key German unions regard lack of consumer demand as a major part of the problem and recommend an 'end of modesty', while leading unions in several of the faster growing economies, such as the Netherlands, Ireland, the Nordic countries, Spain and other 'cohesion countries, in contrast, seem to believe that classical unemployment is part of the problem and see wage restraint as an important ingredient in national strategies to maximize employment.

2.2. Different pathways of Europeanization of collective bargaining

The basic rationale for European coordination of pay bargaining stems from the *asymmetric relationship* between the three main determinants of macro-economic policy under EMU – *monetary, fiscal and wage policies*. While in the past these three policy levers were all determined by interacting agencies at the national level, they are under EMU distributed over multiple levels and the actors are assumed to operate independently of each other. With monetary policies governed by the European Central Bank, fiscal policies pursued by the nation-states within the restrictive frames of the EU Growth and Stability Pact, and wage policies determined by decentralized national actors, there is, as earlier indicated, an inherent risk that policies will pull in different, if not contradictory, directions, leading to sub-optimal out-comes. In contrast to the various institutionalized and informal patterns of communication that usually helped facilitate some policy congruence at the national level, the original EMU design entails no mechanism of interaction or coordination between the main actors³⁸. Besides the trade unions' aspiration to inject wage policies as a lever to gain some clout in influencing EU policies, the main purpose of coordinating wage policies on a European scale is hence to enhance *predictability* and means of *communication* between wage bargainers and the ECB - thereby allowing for more expansionary monetary policies, a better attuned interplay between the different pillars of economic policy, and thus higher employment growth than would otherwise be the case.

The hurdles are considerable, however. According to what formula or criteria can Euro-wide co-ordination of wage policies be pursued³⁹, and how could it be designed and implemented in a credible and trustworthy way? In theory one can imagine a whole range of models, but in reality the only possible approach is to rely on an analysis of the conditions, capabilities and interests of the actually involved organized actors. From the outset it can be taken for granted that centralized collective bargaining on wages between organized employers and unions at the European level is out of question – at least in the short-medium term⁴⁰. The development of a fully-fledged, macro-corporatist European incomes-policy is accordingly equally unlikely, also because the EU institutions lack authority, coherence and means to engage in such a venture. Hence, in the short and medium term the issue is first and foremost whether the *trade unions* are capable of developing a workable form of *coordination among themselves*, and whether this might enable creation of a feasible mode of interaction with the macro-economic authorities of the EU.

In principle Euro-wide co-ordination of collective bargaining can be envisaged at three different levels: (1) The *multinational company level*, possibly related to European Works Councils; (2) the *sectoral/industrial level* organized by the European Industry Federations (EIFs); and (3) at the *cross-sectoral, confederal level* organized by the ETUC.

2.2.1. The company level

The EMU enhances the opportunities for management to pursue coercive comparison and benchmarking of labor performance, which, together with establishment of European Works Councils, can be supposed to stimulate cooperation between unions in different national branches of transnational European companies. In some of those the management promotes development of company-based employment relations systems, in certain cases possibly providing the basis for evolution of framework agreements on labor standards and 'armslength' bargaining relations (Marginson and Sisson, 1996). Insofar as only a small minority of European workers are employed in transnational and the development of cross-border company-bargaining might conflict with

³⁸ On the contrary, the ECB is obliged not to receive political instruction or sever its independence through bonds with external actors, precluding that the ECB can enter into any kind of overt European policy concertation.

³⁹ For a good discussion of different criteria, see Mermet (2000), highlighting the question whether the basis for calculating (hourly) productivity gains should be national, sectoral, regional or company-wise.

⁴⁰ Apart from the vociferous resistance of the employers and the absence of appropriate legal and institutional frameworks, the trade unions are not equipped and probably not interested in such a radical step.

coordination at the national and/or European industry level, such a path would fit poorly with the objective of economy-wide coordination. Unless properly anchored in a system of industrial coordination, it might even impede such an objective.

2.2.2. The sectoral and regional levels

More appropriate appears therefore the sectoral/industry level where the national industry unions, normally in command of national collective bargaining, are organized under the auspices of the European Industry Federations (EIFs). Such a pattern of coordination might take the form of voluntary coordination between national unions in a group of countries, as the German IG Metal in recent years has initiated with a number of neighboring unions (see Gollbach and Schulten, 1999), or be organized on a broader European basis within the framework of the EIFs.

In view of the role of *IG Metal* as frontrunner in German pattern-bargaining and the largest union in several of the most competitive core industries in Europe, it is not surprising that it sees itself as having a particular responsibility in pioneering wage coordination in the Euro-zone. As illustrated by table 2 below, IG Metal has initiated extensive *regional networks*, which probably have come furthest in the border-regions of North Rhine-Westphalia where the Belgian, Dutch and German unions have exchanged information, compared claims and attended each other negotiations in recent years (Schartau in Mitbestimmung, 1999; Bahnmüller and Bispinck, 1999). The objective is to achieve a gradual alignment of claims and in the longer term also synchronized timing of negotiations and the validity of agreements.

Table 2: Cross-border Collective Bargaining Networks of IG Metal Districts

IG Metall District	Partner Unions
Berlin/Brandenburg-Saxony	NSZZ Solidarnosc (Poland) KOWO (Czech Republic)
Düsseldorf (North Rhine-Westphalia)	FNV Bondgenoten (Netherlands) CNV Bedrijven Bond (Netherlands) CCMB (Belgium) CMB (Belgium)
Hamburg (Coastal District)	CO-Industrie (Denmark) Svenska Metall (Sweden)
Munich (Bavaria)	GMBE (Austria) SKEI (Slovenia) KOWO (Slovak Republic) KOVO (Czech Republic) VASAS (Hungary)
Stuttgart (Baden-Württemberg)	FIOM-CGIL (Italy) SMUV (Switzerland)
<i>Under development:</i>	
Frankfurt (Hesse, Rhineland-Palatinate, Saarland)	CFGT (France) CGT (France) FO (France)
Hanover (Lower Saxony, Saxony-Anhalt)	AEEU (United Kingdom)

Source: Gollbach and Schulten, 1999.

A resembling regional initiative was in 1997 taken by a broader range of industry unions and confederations in *Belgium, the Netherlands and Germany*, later joined by Luxembourg unions. The background was that Belgian unions were faced with systematic comparisons of their wage performance with that of their three main trading partners (see Kreimer-de Fries, 1999; Pochet, 1999b). On a meeting in *Doorn* (Netherlands) in September 1998, the participants declared their joint commitment to prevent wage competition by developing information exchange and co-ordination of collective bargaining on the basis of an *inflation plus productivity growth formula*. This margin of manoeuvre might be used in different ways in the various countries and sectors but should according to the declaration aim at both increasing worker purchasing power and pushing employment-enhancing measures such as working time reduction, training and better working conditions, besides requests for tax harmonisation and other government measures. A permanent working group has been set-up, and at a new conference in Haltern (September 1999) the participants established that the joint guidelines had been respected.

Although the development of this kind of regional networks of bi/multilateral coordination between national unions in the Euro-core may seem as the most realistic path, the prospect of such a *variable geometry* of coordination centered around Germany raises thorny questions about the changing boundaries of union solidarity and the coherence of national union policies. First, if German industry unions aspire to harmonize wage policies around the German borders, including neighbor regions at very different levels of competitiveness and productivity, one might envisage a conflict of objectives between *external coordination* and *internal cohesion* in Germany⁴¹. Second, and perhaps more controversial, is that the establishment of a nucleus of coordination in the Euro-core might imply evolution of a segmented, *exclusive pattern of coordination*, causing concern among national unions outside the former DM-zone about “fragmentation of the European social space” (Freyssinet, 1998a or b).

Such considerations indicate that a viable mode of industry coordination would have to be orchestrated by the EIFs. Most headway in this direction have been achieved by the *European Metalworkers Federation* (EMF), whose member unions, representing some 5.5 million workers, at a conference in November 1998 expressed their joint commitment to coordinate bargaining policies along similar lines as the IG Metal and Doorn initiatives (EMF, 1998). Eventually the Euro-FIET, the Textile, Clothing and Footwear Federation and several other EIFs have expressed their ambition to follow suit. In all these instances the EMU and the desire to prevent downward wage competition have been explicitly referred to as the main motivation for coordinating policies on the basis of an inflation-plus- (balanced share of) productivity growth formula. Besides the development of databases, common guidelines and European bodies for designing joint policies, the EMF strategy also entails build-up of *regional networks* for information exchange, comparison of claims and mutual attendance in negotiations⁴².

Subsequent developments have confirmed the difficulties of arriving at a comprehensive mode of Euro-wide coordination, however; while the Austrian, Benelux and German unions in the metal-sectors appear to be making a real effort to implement the EMF-guidelines, the follow-up among the

⁴¹ Although this might be resolved by agreeing on productivity-related criteria for wage growth, it accentuates questions about the territorial scope for such calculations. While German industry-unions in the past have aimed at harmonizing wage growth on the basis of national productivity growth in the relevant German sectors (cf the swift upward approachment of East- and West German wages after reunification), such a mode of coordination entails the potential for increased wage differentiation within Germany (Weiler, 1998).

⁴² While the EMF has adopted common standards for maximum annual working time and overtime, the inflation+productivity-formula allows the member unions notable leeway with regard to interpretation and implementation. In opposition to the quest of the EMF secretariat (led by R. Kuhlmann, IG Metal) for a tougher line, including sanctions against non-complying member-unions, the reference to ‘a balanced part of productivity growth’ as well as the statement that training and working time reductions could be seen as an alternative to wage-increases were integrated to overcome scepticism of the IG Metal approach among several EMF member unions.

Scandinavian metalworkers' unions have been more hesitant⁴³ and the unions in the other EU countries have as yet taken no steps to implement them (Pochet, 1999b). A striking feature is, according to Pochet, that the French and Italian unions have been at the sidelines, both seemingly giving priority to maintain or boost national employment in exposed sectors. Thus, a two-tier pattern of coordination may be evolving, in which a core of unions belonging to the former DM-zone cooperates closely, whereas the unions in the surrounding countries rely more on national coordination.

Despite the question marks that can be raised concerning governability and the tendency of regional segmentation, these initiatives clearly illustrate (1) a *significant shift* in the awareness and determination of many European trade unions, particularly in the Euro-core, to embark on a process of wage-coordination under EMU; and (2) that the *German unions* and IG Metal in particular aim for a *leadership* role in developing a kind of European 'pattern-bargaining' at sectoral level.

The evident objection which can be raised against a sectoral mode of European wage coordination is that, in theory, it may lead to a situation that, according to the Calmfors (1993) thesis, resembles the worst possible; that is, an *intermediate* level of European coordination where a sectoral wage cartel subject to limited price-competition can pass on cost-increases to other sectors and thus trigger price inflation (Dølvik, 1998b). If unions in the most productive industries of the Euro-economy manage to establish themselves as pattern-setters for wage increases, there is thus a risk that an upward labor cost spiral may spread and henceforth jeopardize jobs in less productive regions and sectors. In that case, European sector-coordination might serve to break up national systems of coordination and harm employment. Given the strong product-market competition, the soft form of the evolving sector-coordination, and that the wage policy of core unions of these networks supposedly will be followed closely by the ECB, the emergence of a Euro-wide 'wage cartel' with capacity to externalize the costs of their policies appears quite unlikely, however. The question is still whether coordination on the European sectoral levels, which clearly has come furthest, can be made compatible with the broader requirements of the EMU by establishing operational productivity-related formulas for wage cost increases⁴⁴ and/or coupling such sector-strategies to an overarching framework of cross-sectoral coordination.

2.2.3. Cross-sectoral coordination

The confederal level has as yet been the most developed insofar as organizational integration, relations between management and labor, and interaction with EU authorities are concerned. As many of the key national confederations - such as the DGB and BDA in Germany as well as the TUC and CBI in the UK- carry no bargaining mandate in wage issues nationally, it is hard to imagine that the social dialogue between ETUC, UNICE and CEEP can serve as arena for binding exchange, or coordination, on wage policies. The question is rather whether the ETUC can attain a role in coordinating union bargaining policies at the sector and national levels, and, if so, whether such a strategy might be complemented by some kind of concertation with the EU institutions within the newly established EU macro-dialogue.

The ETUC is, as mentioned, built on a *two-pillar structure* where the membership of *national confederations* is complemented by 16 *European Industry Federations*. Already in the strategy debate on Europeanization of collective bargaining in 1992, and later in the struggle over an internal ETUC bargaining order in 1995-96, it had become clear that the affiliates held very different perceptions as regards the role of confederal versus sectoral actors in coordination of bargaining (Dølvik, 1997).

⁴³ Although especially the Danish metallworkers' union have been critical of subscribing to what they see as an overly German-dominated approach and the Nordic organizations have wanted more flexible guidelines, they have agreed to initiate closer cooperation on exchange of information and demands, and recently the Norwegian union (Fellesforbundet) invited the Nordic compatriots to attend the wage round in year 2000.

⁴⁴ Apparently even representatives of the European Commission DG-II judge the inflation+productivity formula quite positively and as a fairly adequate guideline for wage policy under EMU.

Many of the Latin, Nordic, British and Belgian confederations favored a cross-sectoral mode of coordination under the auspices of ETUC, but this was strongly opposed by especially the German unions who, in line with domestic traditions and power-relations, insisted on the primacy of the sectoral/industrial unions in bargaining.

This issue re-surfaced with the Doorn-process and the EMF initiative. Eager not to be bypassed, the ETUC secretariat swiftly embraced the new regional and sectoral initiatives, and launched itself into a masterminding role, which won support at the ETUC Congress in Helsinki 1999. The resolution “Towards a European system of industrial relations” confirmed the primary responsibility of the industry federations but emphasized the “need for coordination by the ETUC to ensure *overall coherence* of trade union demands” (ETUC, 1999b). Besides the establishment of a new ETUC collective bargaining committee, it is hoped that the ETUC position as union representative in macro-economic dialogue with the EU institutions will ensure ETUC influence on the processes.

This perspective gained some support from EU governments during the short interlude between the finance-ministers of France and Germany late 1998⁴⁵, who called for closer coordination of wage-policies and macro-economic policies under EMU. As the main proponents of this approach among the finance ministers of the ‘Euro-11’ soon left the arena, the European Employment Pact adopted by the Cologne Summit in June 1999 became watered down but still comprised an invitation to the social partners to take part in *a macro-economic dialogue* with the Ecofin, the European Commission and the ECB. The overall aim of the Employment Pact is to improve the interaction between wage developments and monetary, budget and fiscal policies, alongside continuation of the so-called Luxembourg Process to strengthen labor market policy co-ordination and the so-called Cardiff process to improve the functioning of European markets (EIRO, 1999c).

During the preparations of the first political meeting in the macro-economic dialogue, held early November 1999, it was underscored that the dialogue should be “*a confidence building exercise*” involving information exchange and no binding commitments⁴⁶. According to trade union sources, the opening session contained no surprises. The different parties exchanged views in line with their publicly well known positions and seemed to share a fairly optimistic assessment of the economic prospects. With increasing profitability, investment and consumption, indicating accelerating growth and somewhat lower unemployment, it seemed (at the time) to be broad agreement that the stability objectives were not under threat, that wage bargaining for the time being was not undermining price stability, and that no major changes in the macro-economic policy mix were required⁴⁷.

⁴⁵ In a joint declaration early 1999 the French and German Finance Ministers (Strauss-Kahn and Lafontaine) called for “an adequate macro-economic policy-mix in support of non-inflationary growth and the maintenance of social peace”, which they explained required an “optimal combination of wage and income developments, monetary policy and fiscal consolidation”. Only if monetary authorities, governments, and wage bargainers “act coherently” Europe would be able to create more jobs, in their view, also calling for a neutral monetary policy which should lower interest rates if wages stay behind productivity and unit labor costs fall, thereby stimulating the economy and easing the task of Finance Ministers to consolidate the budgets (Visser, 1999: 30-31). While the Ministers also recognized the need for labor market reform, they suggested that “the neoliberal mantra of deregulation of the labor market has contributed more to stalemate of reforms than to the creation of jobs”.

⁴⁶ The Commission amongst others further emphasized that the dialogue should be a “macro-economic rather than a social one”, “ensure efficiency” by limiting the number of participants, and “maintain confidentiality”. Besides the political level of the dialogue where the social partners are allowed four representatives each, plus three accompanying persons, a parallel technical committee with identical representation is set up to prepare the talks. At the first political meeting the ETUC was represented by the General Secretary (Italian), the President (Austrian), a representative of the unions of the EU Presidency (Finland), of the European Metalworkers Federation, and of the German DGB, besides the chairs of the ETUC Collective Bargaining and Employment Committees. At the technical level the ETUC delegation consisted of union representatives from Belgium, Finland, France, Germany, Ireland, Italy, Portugal, Sweden and UK, plus the chair of the ETUC Employment Committee.

⁴⁷ Nonetheless, just before the meeting the ECB raised interest rates by a half percentage, according to press reports merely to curb excess liquidity and cancel the reduction in spring 1999, which had been pursued to offset deflationary threats that were no more of concern. According to the general secretary Emilio Gabaglio, the ETUC “expressed concern about the possible effects of last Thursday’s increase in interest rates on employment and the economic recovery, [...] took the

The *ETUC approach* in the macro-dialogue is apparently to challenge the ECB view that unemployment predominantly is structural and that higher growth rapidly will cause inflationary pressures. With reference to Commission reports, suggesting that macro-economic factors are important causes of Europe's mass unemployment and that a major part of the unemployment is not structural, the ETUC tries to persuade the ECB and the Finance Ministers to maintain a growth-stimulating policy-mix – 'to give jobs a chance'. Another central point for the ETUC is to win support for coordinated initiatives to curb tax competition, which constrains fiscal policies. Referring also to the trade unions' efforts to support the convergence process through social pacts, the considerable structural reforms undertaken in the European economies as part of the single market process, and the initiatives to coordinate bargaining in accordance with the stability-enhancing inflation + productivity formula, the upshot of the ETUC position is to convince the ECB and the Finance Ministers that the situation is now ripe for the EU as an 'economic entity' to follow in the track of the United States, where expansionary monetary policies, combined with technology-related productivity and efficiency gains in the "new economy", have enabled sustained high growth of production and employment, low inflation, and moderate wage growth for a record-long period⁴⁸.

After the first meeting of the macro-dialogue, the ETUC spokesman, general secretary Emilio Gabaglio, seemed fairly content: "Neither we, the Bank, nor anyone else came to the meeting to make binding commitments. We want those in power to understand better our concerns, and we want to understand better theirs. I think we made a good start in doing that. If this leads-on in the future to all of our decisions being taken on the basis of a fuller appreciation of each other's situations, then the Cologne dialogue will have made a worthwhile start".

Whether such information exchange and confidence building in the longer turn can lead to changes in behavior, or provide basis for evolution of some kind of soft/tacit concertation at the European level can first be judged after some time. The experience from establishment of resembling institutions at the national level has often been, however, that joint assessment of the economic situation, shared learning, and information about the rationale and perceptions of the respective actors, has had a positive effect by *creating trust* and providing a more adequate basis of knowledge for the respective actors' judgement of the likely effects of different policy options (see e.g. Visser, 1998).

2.3. Towards a two-fold model of European pattern bargaining?

The exposition above might indicate that the prospects for coherent trade union co-ordination of collective bargaining under EMU are dim. Different approaches prevail inside the European trade union, and the EIFs and the ETUC are marked by internal heterogeneity, incongruent structures concerning sectoral/industrial boundaries, fragile mandates and presumably weak capacity to ensure compliance with agreed policies (Visser, 1999; Ebbinghaus, 1999)⁴⁹.

Still, although the hurdles are significant one should not overestimate the problems. In my view, we might now be witnessing the emergent contours of a twofold model^{of} European 'pattern-bargaining' that potentially can link together national and transnational coordination of wage policies and help accommodate the need for national flexibility and European coherence. Such a model would entail

opportunity for frank discussions.. [and] insisted that the ECB, at the very least, must be just as ready to act quickly to reduce interest rates again if the recovery gets into trouble." (ETUC Press Release 36/99).

⁴⁸ At the time of re-editing this paper, a report from the International Monetary Fund, as earlier mentioned, forwarded a resembling view, suggesting that underlying changes in the economy might imply that higher growth is less likely to propel inflation than the ECB has hitherto assumed (Financial Times, "IMF sees 'new economy' boosting Europe", 4 April 2000).

⁴⁹ Both Visser (1999) and Ebbinghaus (1999) suggest that the recent mergers and tendency to establish conglomerate mega-unions – especially in Germany – might cause even less compatible (idiosyncratic) structures, undermine the confederations, and as a result further complicate the development of cross-national coordination.

- (1) European cross-national pattern-bargaining on sectoral level, probably led by the IG Metal/EMF-process, defining the margins for collective bargaining in the Euro-zone, interacting with
- (2) National cross-sectoral coordination of collective bargaining, either through centralized concertation or by industrial pattern-bargaining, conditioning (upstream) national participation in European co-ordination and transposing (downstream) European margins and parameters into national systems in accordance with different national and sectoral conditions.

In such a model, persistence of social pacts and/or coordination through industrial pattern-bargaining within the nation-state is not inconsistent with, but a precondition for developing a mode of sectoral cross-national coordination that does not impede social cohesion and employment growth nationally. Conversely, the development of cross-national sector coordination can provide a framework that helps preventing the pursuit of national concertation from perverting into beggar-thy-neighbor policies or falling apart as a result of competitive domestic wage inflation. A condition is that the European coordination mainly aims at defining normative criteria, guidelines and corridors for wage increases that allow ample *leeway for adjustment in accordance with national and sectoral differences in productivity*. By ensuring that the trend-setting actors in the chosen European front-industries, notably the metal sectors⁵⁰, are embedded in structures of ties and commitments to their fellow unions in less productive sectors at the national levels, the actors would, in such a model, face strong incentives to take the externalities of their policies into account when determining the strategy and criteria for wage claims.

Moreover, by constituting a clear pattern-setting referent for the ECB, such a model can reinforce the incentives for the leading unions to act in a manner compatible with the macro-economic requirements of the EMU. Thereby the conditions for establishment of a credible *signaling system* and interaction between the key unions, the ECB and the EU authorities are improved. This might in turn provide the trade unions, represented by the ETUC, a platform for acting on the basis of a certain strength and autonomy when entering into macro-economic exchange at EU level, besides creating stakes and incentives for the development of a more binding mode of interest accommodation between different national and sectoral union actors inside the ETUC. In this sense, European sector-coordination should not be seen as an alternative to, but a necessary prerequisite for, the possible evolution of an arm's-length pattern of *soft concertation* at European level.

It might be objected that such a model of twofold pattern bargaining looks fine in theory, but is utopian in practice. The development of common wage norms that fit economies and sectors with such immense heterogeneity is indeed no easy task. And how can such a model be assumed to work when the key unions cover only a limited share of the workers in the relevant European industries, and only a handful of the core unions in e.g. the EMF seem committed to engage in such a venture?

First, it is important to recognize that European wage norms can not aim at regulating or adjusting relative wage differentials between countries. Their prime function is to define economically viable criteria for national wage growth, and here the recent proposals of an 'inflation + productivity' framework actually appears as a reasonable rule of thumb, though entailing complicated issues related to the operational definition and scope for calculating productivity growth – national, territorial, sectoral, branch, company? Second, it is worth reminding that even in countries where economy-wide coordination have remained strong, the pioneer unions in the exposed sectors represent only some 15 percent of employment and have a smaller share of the actual workers as members. The reason why the coordination still works is that agreements struck by the wage-leading unions are generalized

⁵⁰ It is in this regard significant that one of the five ETUC representatives in the first macro-dialogue meeting was the general secretary of the European Metalworkers Federation, Reinhard Kuhlmann, who comes from the German IG Metal.

throughout the economy, partly by legal statute, partly through imitation by other unions and firms. Full coverage is accordingly not necessary for coordination to have an effective impact; it is sufficient that the main bulk of companies in the leading sectors comply.

According to Traxler (1998a), the studies of Oliver *et al.* (1985) and Granovetter (1978) suggest that in a situation with many dispersed and interdependent actors, effective coordination can be achieved insofar as a relatively small *critical mass* of key actors commit themselves to act in concert. The concern about the narrow regional scope – or variable geometry - of the emerging European coordination initiatives might in such a perspective seem exaggerated. In practical terms, it would probably *suffice* to curb detrimental wage spirals and provide a credible referent for the ECB if the unions in the *Euro-core* managed to construct an adequate degree of responsiveness and coherent coordination among themselves – for example through the EMF/Doorn-process. Combined with the divergent economic developments discussed earlier, this analysis suggests that it might be an advantage that the main nucleus of coordination does not include the whole range of periphery unions. Such an all-encompassing form of coordination would probably be in-effective, lack credibility and rob the unions in those countries for an indispensable means of adjustment, notably the opportunity to prioritize national objectives until their economies become better attuned to the EMU requirements.

In short, the above analysis suggests that the evolving multitiered and multispeed patchwork of cross-national coordination in key sectors, combined with cross-sectoral concertation within national boundaries, may fit reasonably well with the functional requirements of EMU. If true, the EMU will not require any far-reaching centralization of collective bargaining at European level, or erection of anything resembling a European replica of former national models of macro-corporatism. The locus of collective bargaining will remain at the national level but the actors are likely to become embedded in an increasingly dense web of European commitments, guidelines and framework understandings, which altogether point towards a step-wise, uneven, articulated and predominantly horizontal mode of Europeanization of collective bargaining and trade unionism. In such trajectory of nested interconnectedness outcomes can be expected to become more convergent across states, but the institutional diversity and national distinctions are likely to prevail. This does not preclude that the evolution of arm's-length coordination or virtual European collective bargaining, in some sectors, under certain conditions, might be transcended by a more profound "transnationalization" of collective bargaining. The history of industrial relations suggests that path-breaking institutional change has tended to emerge as responses to major crisis and conflicts (Sisson, 1987). To the extent that unions in the Euro-core succeed in synchronizing their bargaining rhythm and demands, at some time possibly causing industrial conflict in one country to spread across the borders, it might indeed represent such a hot political potato (also for the EU institutions) that the possibility of more sweeping transformations in the political and institutional frameworks of European industrial relations cannot be disregarded.

Summary and conclusions

This article has shown that the EMU implies daunting challenges to industrial relations in Europe. With monetary policies governed by the ECB, limited space for fiscal policies, intensified regime competition and fiercer struggle for market shares, *the adaptability and responsiveness of the national industrial relations systems become ever more crucial for the ability to foster growth, employment and social cohesion in Europe.* But in contrast to the many predictions that EMU will prompt sweeping changes or fragmentation of national labor regimes, the analysis in this article suggests that *continuity* of the ongoing transformations of industrial relations that in recent decades have taken place in response to European market-building, monetary integration, and general economic internationalization is a more likely scenario.

The industrial relations implications of EMU are *contradictory*: Micro-dynamics indicate a need for greater labor market adaptability, macro-dynamics indicate a need for flexibility and coherence in aggregate wage developments – leaving the actors with complicated *strategic choices* over how to respond. Such responses are not determined by anonymous market forces, but by social and political actors who are embedded in *path-dependent* institutions of national traditions, identities and power-relations. With sticky institutions and no universal best way of organizing labor markets under international capitalism available, national systems have adjusted in different ways. Some convergence of outcomes can be spurred between countries - alongside increased differentiation within - but significant *diversity* prevails as regards employment institutions and performance. Despite considerable strain and stagnant labor markets in many countries, most national regimes of collective bargaining and trade unionism have shown greater *resilience* than expected.

The deregulated Anglo-American model remains an outlier in Europe, centralized institutions of collective bargaining have prevailed, and in several of the countries considered least fit for the EMU the adjustment process has been accompanied by a remarkable revitalization of centralized concertation and modernization of labor market governance. If we assume that the crisis of the German model is overcome by modification of the existing frameworks rather than by abolishment, my analysis suggests that the prevailing mode of national industrial relations have become reasonably well attuned to the EMU requirements.

Among the diverse patterns of national adjustment important *commonalties* can be disentangled. A common feature has been a shift to more *competitiveness-oriented* policies, where wage moderation, curbing of indirect labor costs, devolution of bargaining, greater discretion for decentralized actors (including possibilities to exempt central agreements), and generally more emphasis on flexibility and differentiation of employment conditions, have been central ingredients. This has gone together with a more *active state role* in labor market governance aimed at strengthening incentives to work, restricting access to social transfers, and promoting training and employability through adoption of more Nordic style active labor market policies. Rather than through unilateral state action, this has predominantly been accomplished through *negotiated reform* and state facilitated search for new social trade-off between equity and efficiency, solidarity and competition, in a context of open markets. While the role of the state during the hey-day of Keynesian welfare-corporatism was described as de-commodification of labor – through public spending and protection – a reverse process of *re-commodification* of labor and active use of market mechanisms in social re-engineering has evolved. If social regulation in the Fordist past aimed at correcting markets through instituting absolute rights and duties, labor market regulation has in recent years become more oriented towards procedural conditioning of the relationship between capital and labor. Instead of fixed regulations we have seen more use of *soft regulation*, through which outlining of objectives, criteria, minimum standards and provision of incentives rather than sanctions, are assumed to encourage evolution of shared norms, self-regulation and learning among the actors. These trends are not only visible in the field of labor market legislation, but applies to much of the trend towards articulated bargaining in more multi-tiered systems. This indicates that the concept of new governance – designated to capture a mode of regulation by which the role of public authority is being transformed into that of a mediator and facilitator of *joint problem-solving* through *networks* of social actors (Kohler-Koch, 1996) – has made some inroad into the labor market field.

So, although the transition to EMU has come together with a surprising reinvigoration of inherited labor market institutions, the changing conditions under which these institutions operate have implied a significant renewal of their functioning and content. In this sense, many of the European labor regimes have gone through an ambiguous instance of *institutional stabilization* and *qualitative transformation*. The contours of a leaner, more flexible and streamlined version of the European social model are visible, suggesting the conclusion that EMU will not abolish the EMSO labor regime but add to the pressures for adjustment and renewal. These trends have probably less to do with EMU than with the restructuration of markets and domestic social change, but in several countries the EMU

program served as an important catalyst of change – the *vincolo-esterno*-effect (Dyson and Featherstone, 1996).

Whether these developments point towards a viable peace-formula between capital and labor in Europe (Streeck, 1998), replacing the broken postwar settlements, is too early to say. Considerable *uncertainty* remains as to the actors' capacity and commitment to sustain social concertation when the EMU qualification race is over, especially, perhaps, if the promise of increased growth and employment does materialize. Ongoing structural changes in production and the composition of labor and social interests cast doubts about the actors' ability to muster legitimacy and domestic support for continued participation in concerted reform processes.

Depending on its macroeconomic effects, the EMU might contribute to aggravate or alleviate these strains. Macro-economic demand policies and labor market reforms are somehow economic and political complements (Allogoskoufis *et al.*, 1998); the unions in particular need light in the tunnel to participate in burdensome adjustment processes. As suggested by Allsopp and Vines (1998), "for EMU to succeed we need labor market reform, fiscal constraint and an appropriate monetary policy to generate recovery, growth and reduced unemployment" – complemented by responsive and responsible wage policies (Visser, 1999: 14). In many respects the predominant winds of change in the European labor regimes resemble the Anglo-American 'third-way' rhetoric. But as pointed out by Martin and Notermans (1999), an essential prerequisite of the American 'employment miracle' has been the accommodating policy of the Federal Reserve, accentuating the question whether the expansionary monetary policy element of the American recovery can be replicated under EMU. If, by contrast, the trajectory of sluggish growth and restrictive economic policies of the EMU transition period prevails – or, as feared by the most pessimistic observers, is aggravated – there is indeed a risk that the struggle for market-shares unleashes a spiral of competitive wage-bidding, with decreasing scope for national bargaining, downward social harmonization, and (in the longer term) erosion of national industrial relations.

To forestall such dynamics, national concertation needs to be complemented by cross-national coordination of union wage policies under EMU. Such a venture can not be expected to gain much headway, however, under the *vicious scenario*, since unions will have very limited clout and be inclined to defend whatever left at the national levels. If a more *virtuous trajectory* of higher growth and accommodating economic policies takes hold, coordination of collective bargaining both within and across the nation-states becomes all the more important to prevent inflationary pressures from strangling the upswing and to remove structural obstacles to labor market expansion.

In this view, it seems pertinent to follow Sisson (1998: 1) who suggests that "*the pressure EMU brings for further economic and political union will add greater urgency to the debate over the reconstruction of European industrial relations.*" As shown in section 2 of this article, the trade unions have in recent years taken notable initiatives to develop structures and policies for cross-national coordination of bargaining, primarily on the sectoral level but also at the confederal peak-level. Although these initiatives are unevenly developed and mainly comprise unions from the Euro-core, they point, in combination with persistence of internally coordinated national systems, in direction of a twofold model of European pattern bargaining, which altogether seem reasonably well attuned to the requirements of EMU. In order for the trade unions to gain some leverage on the macro-economic policies of the EU and in order to develop a better and more predictable interaction between fiscal policy, monetary policy and wage policy, it would, furthermore, seem helpful if the newly established macro-economic dialogue between the social partners and the European economic policy authorities evolved into a forum for more ambitious exchange than purely mutual information.

The developments depicted above indicate that the leap into the EMU actually has created some *spillover dynamics* to the field of industrial relations. The monetary integration process and the associated constraints on national governments have apparently triggered renewed political awareness

of the essential role of labor market organizations in mastering change and fostering economic prosperity and social cohesion, and have given new impetus to the Europeanization of trade union policies. Taken together with the prior development of negotiated EU framework regulations within the social dialogue, and the establishment of the European employment strategy, these changes have brought into being frameworks and coordinates of what might be considered as a *nascent European system of industrial relations* and collective bargaining (see table 3).

In such a European context, the core issues of collective bargaining will, as analyzed in section 2, be settled within national systems of industrial relations but the actors will become increasingly embedded in a multi-layered network of European commitments, parameters and framework agreements. The likelihood of centralized European collective agreements, as we know them from national experience, is low. More likely is an uneven, stepwise evolution of soft regulation and horizontal coordination between national actors.

Table 3: Model of Multi-tier Bargaining

	Multi-sectoral	Sectoral	Company
European level	European framework agreements, Social dialogue Macro-economic dialogue	Co-ordination of collective bargaining policy European framework agreements/social dialogue	European framework agreements European Works Councils
National level	National framework agreements and “social pacts”	Comprehensive sectoral agreements	National company agreements
Company level			Company/plant agreements

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

Whether this will unleash processes of learning, reconstruction and Europeanization of industrial relations that are sufficient to withstand the pressures of rougher competition in increasingly global markets remains to be seen. Hopefully, Keith Sisson is right when contending that “not only does the EMU appear to be a better economic context in which to handle them, but also an opportunity, via co-ordination, to reduce the more damaging aspects of regime competition” (1998:11).

Appendix

Appendix A1: Hourly labor costs in the industry 1996 (in ECU) and increase in labor productivity 1999 in EU countries

Country	Hourly Labor costs 1996	Increase labor productivity 1999
Germany	26,5	1,5
Belgium	25,8	1,2
Austria	24,6	1,7
Sweden	23,9	1,3
Denmark	23	0,7
Netherlands	22,6	0,9
France	22,5	1,3
EU11	21,6	1,3
EU15	20,2	1,2
Finland	19,7	2
Japan	19,4	
Luxemb	18,9	1,1
USA	17,5	
Italy	17,2	1,3
Spain	14,9	0,7
Ireland	13,8	4,2
Greece	9,6	2,7
Portugal	6,1	2,4

Source: Mermet, 2000 (forthcoming).

Appendix A2: Development in inflation, labor productivity, nominal wage growth, and real wage growth in the current EU member-states 1980-2000

EU 15	Inflation	Labor Wage Growth	Nominal Wage Growth	Real Wage Growth
1980		1		
1981	12	1	12,4	0,4
1982	10,6	1,5	10,3	-0,3
1983	8,5	2,3	9,2	0,7
1984	7,4	2,1	7,2	-0,2
1985	5,8	2	6,8	1
1986	3,9	2,2	6,1	2,2
1987	3,7	1,7	5,4	1,7
1988	3,9	2,6	5,7	1,8
1989	5	1,9	6,1	1,1
1990	4,9	1,2	7,5	2,6
1991	5,6	1,3	7,1	1,5
1992	4,7	2,4	6,8	2,1
1993	4,1	1,4	4,2	0,1
1994	3,3	3,3	3,3	0
1995	3	1,9	3,4	0,4
1996	2,6	1,5	3,4	0,8
1997	2,2	1,8	3,2	1
1998	1,5	1,7	2,3	0,8
1999*	1,3	1,3	2,9	1,6
2000*	1,6	1,8	3,1	1,5

* Figures for 1999 and 2000 are estimates

Source: Mermet, 2000 (forthcoming), based on European Commission 1998, 1999a).

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