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**Europeanization of  
Collective Bargaining**

Centralization Costs and Optimal Wage Bar-  
gaining Area

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# Abstract

The Treaty of Maastricht (1993) and the Treaty of Amsterdam (1999) strongly institutionalised and formalised the relationship between the social partners at the level of the European Union (EU). It is self-evident that notion of social dialogue also includes collective bargaining, the conclusion of agreements between the social partners. Collective bargaining, however, is a delicate flower. Indeed, quite a number of questions pop up over which opinions, especially between the social partners, diverge. Then there is the reality of the power relationship between the European social partners; the European trade unions are nearly powerless when it comes to pushing the employers to the bargaining table. The social partners were empowered, within the social dialogue, to negotiate agreements, which the European Commission can subsequently adopt as directives (Article 137 to 139 EC). This formalised process, termed 'bargained legislation' by Biagi (1999), grants the social partners a mandate to initiate legislation in certain areas. Although many other substantial rights and regulations, such as a labour dispute law, are lacking at the European level, the process of 'bargained legislation' is a stronger instrument to influence legislation than most social partners in the European Union member states have at their disposal (BIAGI 1999). Notwithstanding this potential, however, at the inter-industry level only three agreements, affecting substantial portions of the European workforce, have to date been concluded. These covered minimum standards on parental leave, part time work, and fixed-term work (HORNUNG-DRAUS 2001). Since the European Commission introduced some of these topics into the social dialogue as early as 1990, the number of successful agreements must be considered extremely low, and it is only fair to conclude that the new framework did not boost the Europeanisation of industrial relations.

Similar observations can be made about the organisation of industrial relations interests at the European level. On the one hand, transsectoral organisations such as the ETUC or UNICE as well as a great and growing number of European sectoral employer organisations and unions have been established in the past. On the other hand, these European umbrella organisations, consisting of the corresponding national organisations, are poorly endowed by their members with financial and personnel resources. Moreover, the national organisations delegate little or no bargaining authority to the European level organisations (KELLER 1995; BOOCKMANN 1999). These findings suggest two related questions: Why don't the social partners utilise the institutional framework provided by the Treaty of Amsterdam to a larger extent? And why are the European-level umbrella organisations so poorly endowed with resources and authority by their national member organisations?

In order to analyse these issues we will give an overview of European Industrial Relations focussing on Collective Bargaining. By doing so, the process of the Europeanisation of collective bargaining will be described. The result of this process can only be understood by considering the institutional and legal framework including the organisational structure of the social actors in the different EU-countries. These more or less institutional arguments will be complemented by the microeconomic analysis of the social actors' behaviour within a rational choice framework

These Discussion Papers partly represent preliminary work. They are published to encourage comment and to participate in current discussions. Use should take account of its provisional character.

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## 1. Europeanization of industrial relations: fact or fantasy?\*

What is, if any, the impact of EU-European integration on national and supranational actors, legal arrangements and policy processes in the realm of collective bargaining? We use a broad concept of collective bargaining to identify possible European dynamics, embracing all sorts of bipartite or tripartite cooperation and concertation on labour problems, involving both sides of industry and perhaps governmental authorities that are aimed at either resolutions, the preparation and implementation of policies, or binding collective agreements. We ask how collective actors - employers, employees and their respective representatives - react to increasing economic integration. Do they react in different national contexts differently? How do the social partners handle the 'twin pressure of decentralization and internationalization' (Waddington 2001)? Can we observe a change in the nature of negotiation issues, for example, a change from substantive to procedural issues or from quantitative to qualitative issues? Who is negotiating, and has the level of negotiations changed in terms of European, multi-employer, single-employer plant-level bargaining? Are the national industrial relations in Europe about to be absorbed into supranational industrial relations? Or is the process of Europeanization stalled somewhere between intergovernmentalism and supranational institution building?

Many observers, be they Euro-pessimists or Euro-optimists, imagine European industrial relations only as supranational centralized industrial relations (see Keller, Bansbach 2001; Keller 1995; Streeck 1993, 1994, 1996). But that is not at all compelling. Other developments would also rightly be coined 'European'; for example, a process of convergence of the European national systems, formation of a European supranational collective bargaining system, conclusion of new tripartite social pacts at the national level, the conclusion of new bipartite intersectoral agreements, unilateral initiatives by national social partner organizations aimed at cross-border coordination of collective bargaining or pan-European company bargaining within multinational companies as a reaction towards European integration. Essentially neglecting the conceivable impact of bargaining structures on macroeconomic performance (see Burda 1999; Dølvik 2000), we concentrate on the micro-dynamics of these different processes of Europeanization. These processes may overlap each other, and they may involve spontaneous or government driven developments in various intensities. Their sequence and relative force in our view depend on the interests and the resources available to the three main actors in the European policy arena of industrial relations: the employees, the employers and the governmental institutions. We use the idea of an optimal collective bargaining area to analyse the different actors' engagement in a European collective bargaining area or areas. In particular, we seek to answer to the question of why even the extant, admittedly limited authority of the social partners to regulate labour issues is not fully utilized. While resistance on the employers' side is often thought to account for the infant state of European collective bargaining, we also ask from a club-theoretic perspective whether national unions can be expected to have a strong interest in delegating bargaining authority to supranational bodies.

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Our analysis proceeds in three steps. In section 2, we give an overview of what has happened in European industrial relations to date. Section 3 outlines the concept of optimal collective bargaining areas that is then applied in section 4 to explain the behaviour of the main actors and to understand their interests and intentions. Section 5 contains our conclusions.

## **2. The history of European industrial relations and labour policy: spontaneous versus driven institution building**

In the history of European industrial relations four periods can be distinguished, wherein active periods of Europeanization take turns with rather passive ones. The first period, 1957 to 1972, sees the foundation of the European Economic Union and first approaches and proposals for the establishment of uniform European social policies. The second period, 1972 to 1980, is dominated by the 1974 Social Action Programme, which could serve as a legal basis for subsequent collective bargaining initiatives. Influenced by Prime Minister Thatcher, the years 1980 to 1986 turned out to be a period of deregulation. Many proposals for directives failed to obtain approval in the European Council. With the Single European Act in 1986, qualified majority voting in the European Council was introduced, and in 1989 the Maastricht Treaty provided the social partners to some extent with the means for hard law making<sup>1</sup>. Thus we shall concentrate on the post-Maastricht period.

The voluntary social dialogue of the pre-Maastricht period - beginning in the early 1970s - generated at the intersectoral or interprofessional level joint opinions and declarations (Keller, Bansbach 2001). The so called Val Duchesse-dialogue, initiated by Jacques Delors, tried to involve the European peak associations of 'management and labour' - mainly the European Trade Union Confederation (ETUC), the Union of Industrial and Employers' Confederations of Europe (UNICE) and the European Centre for Public Enterprises (CEEP) - into the process of European social policy making. The European Commission aimed for framework agreements as points of reference for national sector and intersectoral bargaining (Keller, Bansbach 2001; Blanpain 2000; Falkner 2000; Kluth 1998). The Commission even succeeded in introducing a legal framework for binding procedures on the basis of a voluntary agreement signed by the social partners on 31 October 1991, which then became part of the Social Protocol (Keller, Bansbach 2001), firstly annexed to the Maastricht Treaty and later included in the Amsterdam Treaty (Articles 136-139). These articles provide a procedural framework through which agreements of the social partners could become European directives. The resulting possibility of a process that could be termed 'bargained legislation' (Biagi 1999) provides the social partner with an instrument to create hard law.

The Maastricht Treaty sometimes appears to mark a watershed at the intersectoral level of the Social Dialogue. The Commission itself comments:

"The entry into force of the new provisions in 1993 launched the cross-industry social dialogue into a new era. The social partners' right to be consulted on proposals in the social field and to opt for agreement-based rather than legislative measures now makes them central players in the European social arena. The "joint opinions" period has thus gradually given way to the negotiation of European framework agreements." (Commission 2000, p. 8; Keller, Bansbach 2001, p. 422).

To date there are only three voluntary framework agreements concluded: on parental leave (96/34/EC) in 1995, on part-time work (97/38/EC) in 1997 and on fixed-term contracts (1999/70/EC) in 1999, all initiated and pushed by the European Commission. A further negotiation on temporary agency work between ETUC, UNICE/UEAPME (European Association for Craft and SME) and CEEP broke down in May 2001 (EIRO 2001a).

The low number of agreements is one indicator of the relatively slow progress of European collective bargaining. The directive on the establishment of the European Works Councils (EWCs) clearly illustrates the initiating role of the Commission. After more than 400 pre-Directive agreements and several failures (see Figure 1 for the three main proposals), the directive was legislated as a result of a Commission's initiative in 1994 (in detail see Lecher, Nagel, Platzer 1999; Lamers 1998; Blanpain, Windey 1994; Marginson et al. 1997). This new institution might influence the Europeanization of collective bargaining, due to its natural European character. For example, in a recent study Carley (2001) analysed agreements of EWCs and management in eight multinational companies. He found that this so called Euro-bargaining certainly deals with collective bargaining issues although in most cases core issues such as wages and working time are omitted. The active involvement of EWCs in the protests against restructuring plans of multinational companies, such as in the cases of Renault 1997, ABB Alstom Power 2000 or General Motors 2001, provides another channel of influencing European industrial relations (Carley 2001; EIRO 1997).

In the early 1960s, the immediate predecessors of the current sectoral social dialogue evolved. Until the end of 1998, sector dialogues occurred in joint committees and the informal working parties. They had mainly consultative purposes and provided the Commission with information. In 1998, the old structure was replaced by unitary social dialogue committees. According to the Commission, these committees 'shall be consulted on all developments at Community level having social policy implications, and develop and promote the social dialogue at sectoral level' (Commission 1998; Keller, Bansbach 2001, p. 429). In the meantime, sector dialogues led to more than 100 non-binding joint opinions and recommendations (van den Toren 1999; Keller, Bansbach 2001).

Following the breakdown of the negotiations on temporary agency work at the intersectoral level, the issue was actually negotiated within the framework of the European sectoral social dialogue committee for temporary agency work. On 8 October 2001, Euro-CIETT (the European Committee of the International Confederation of Temporary Work Businesses) and Uni-Europa (the European regional organization of Union Network International), an international organization grouping services and white-collar worker' trade unions, signed a joint declaration on temporary agency work (EIRO 2001b).

The Commission-driven intersectoral and sectoral Social Dialogue must be contrasted to more spontaneous initiatives. A famous non-Commission driven approach to a European coordination of collective bargaining at sector level is the initiative of the European Metalworkers Federation (EMF). In the early 1990s the metalworker unions established a network of institutions<sup>ii</sup> in order to determine minimum standards, such as the standards on working time and training defined in 1998, and to establish a joint commitment to European guidelines for national collective bargaining with the intention of preventing downward competition (see Schulten 2002; Schulten 2001, the former provides also an overview of other European Industry Federations, which is followed by the example of EMF).

(insert Figure 1 about here)

Another example for spontaneous cross-border coordination is given by the cooperation between Belgian, Dutch, German, and Luxembourg trade unions, which met in September 1998 in the Dutch town Doorn. This regional group adopted a joint declaration which emphasised the need for close cross-border coordination of collective bargaining under EU Economic and Monetary Union. Transnational working groups were established, and the parties agreed to exchange information as well as observers regularly, and to meet at annual summit conferences with leading representatives from all major national union organizations from the four countries. In Doorn, the trade unions agreed on a set of joint bargaining guidelines in order to prevent possible downward competition on wages and working conditions. Unions should seek bargaining outcomes at least equivalent to the sum of the development of prices and the increase in labour productivity (EIRO 1998).

Another example of cross-border collective bargaining is an initiative launched by the German Metalworkers' Union IG Metall, which established a network for collective bargaining in 1997 in order to cooperate with metalworkers' unions of neighbouring countries. Within this network mutual exchanges of trade union observers, joint information systems and training, as well as common working groups and mutual recognition trade union membership are implemented (for more detail, see Schulten 2002).

Following the merger of two pharmaceutical companies, the two affected German and French chemical unions agreed to coordinate collective bargaining policy. Other interregional cooperation exists between Austrian, German and Swiss construction workers' unions as well as between some Nordic unions. Schulten (2002, p. 11) points out that interregional cooperation is mostly centred around German trade unions.

These and similar processes also helped to form the collective actors – or social partners in European jargon - themselves. One main actor is ETUC (European Trade Union Confederation), founded in 1973 by 17 national organizations affiliated with the International Confederation of Free Trade Unions (ICFTU). It has since expanded to represent 60 million members (90 percent of unions members within the European Union), who belong to 74 National Trade Union Confederations from 34 European countries and 11 European industry federations. ETUC replaced previous European organizations, divided along political, religious or ideological lines, to represent workers at European level and to foster their interests in the European institutions. It monitors the workers' group in the Economic and Social Committee (ESC) and is represented in the various advisory committees in which the social actors operate (Blanpain 2000; Ebbinghaus, Visser 2000).<sup>iii</sup> Within ETUC, the delegates of the Executive Committee and Congress come from the affiliated organizations in proportion to their membership, and decisions can only be taken by a two-third majority vote.

To maintain its position against its rival organization, the *Confédération Européennes des Cadres* (CEC), ETUC founded in 1992/93 a joint venture with Euro-Fiet, called Eurocadres, which is a sector organization for white-collar employees. Eurocadres is recognized by the Commission, and it claims to have five million members among managerial and professional staff (ETUC 1999). Another trade union organizations closely affiliated to the ETUC is: EFREP/FERPA (European Federation of Retired and Elderly Persons). In addition, the ETUC coordinates from its headquarters in Brussels the activities of the 39 ITUCs (Interregional Trade Union Councils), which organize trade union cooperation at a cross-border level (Ebbinghaus, Visser 2000; ETUC 2002).

ETUC has rather limited financial resources despite a marked improvement following reform in 1991. Since then, the budget increased to nearly 4.4 million euros (or 10 cents per affiliated union member) in 1996 (Dølvik 1997; Ebbinghaus, Visser 2000). ETUC is financed by fees from the affiliated union confederations. It has also a rela-



tively small staff – 36 before the 1991 reform, and around 45 since then – compared to constituent national unions and confederations. However, some supporting institutions, such as those for research (ETUI: European Trade Union Institute), training (ETUCO: European Trade Union College and AFETT: European Training of Workers on the Impact of New Technology) and technical standards (TUTB: Trade Union Technical Bureau) are largely funded by the European Commission, as are language and travel support for social dialogue activities (Ebbinghaus, Visser 2000). Finally, it has to be mentioned that the national unions delegate almost no bargaining authority to the ETUC or the European industry federations (EIFs) notwithstanding their official commitment towards the Europeanization of union action (Turner 1993; Keller 1995; Traxler 1996).

Several EIFs existed at the beginning of the 1990s, of which 14 were affiliated with ETUC (Visser, Ebbinghaus 1992; Ebbinghaus, Visser 2000). This total has now shrunk to 11, in part due to mergers among the EIFs (ETUC 2002). The two largest of these are the European Public Service Unions (EPSU) and the EMF. The different EIFs have varying organizational structures and statutes. Some of them can be regarded as truly European, others organize themselves only at the regional level or as European Committees (Ebbinghaus, Visser 2000). After the reform of ETUC in 1991 the affiliated EIFs received one third of the delegate votes of the ETUC congress and executive committee. However ETUC support for the EIFs is regarded as half hearted since the sectoral activities of the latter might undermine the position of the former (Ebbinghaus, Visser 2000).

With its limited resources, the ETUC attempts to promote transnational and cross-border contact among local union officials and public authorities, but it has to rely on national federations. The resulting Interregional Trade Union Councils (ITUC) are recognized by ETUC, and have observer status at the ETUC congress since 1991. In recent years ITUCs have also increased and expanded across the EU's eastern border (ETUC 1999, for an overview Ebbinghaus, Visser 2000).

On the employers' side, various associations are active (for an overview Blanpain 2000, Tyskiewicz 1991; Hornung-Draus 1998, 2001, see for the Europeanization of interest representation by specific national business associations Wilts 2001). UNICE is the main representative of Europe's employers. Created in 1958, it is the European intersectoral confederation of central national business organizations (industry and employers' organizations), which organizes 34 umbrella business federations from 27 European countries plus six federations as observers. As one of the most prominent social partners at the European level, UNICE is represented in the different European organs (Timmesfeld 1994; Tyskiewicz 1991). The sector Euro-associations of business are not incorporated into UNICE, which therefore does not represent any sector interests. In the early 1990s, UNICE initiated an informal European Employers' Network to coordinate employer organizations in order to obviate incoherent social-policy strategies of industry associations (Hornung-Draus 1998).

Another employers' organization is CEEP, which represents the employers of the public sector. This European organization has both national federations and firms as its members. It was founded by state-owned firms in the common market countries in 1961 because UNICE was unwilling to include them. Given the larger role of politics and state control and more harmonious labour relations, CEEP has shown more willingness through the years to participate in the social dialogue and to agree with the unions than UNICE (Ebbinghaus, Visser 2000).

A different type of association comprises inter-industry associations, which represent special categories of firms. Predominant among them is UEAPME (European Association for Craft and SME), which was originally formed in 1979 as a result of the amalgamation of various European trade associations and organizations of medium-sized

enterprises. Its member organizations currently represent a total of 5 million businesses employing some 20 million people. The organization has a number of committees spanning the major policy areas of the EU. The main stated objectives of UEAPME are to inform its members about developments in European policy, promote joint action on the part of national organizations at European level and ensure that the interests and views of its members are understood and reflected by the EU institutions. In 1998 UNICE and UEAPME signed a cooperation agreement.

A further organization, Eurochambres, represents more than 1,500 Chambers of Commerce and Industry, most of them having public law status, and their national organizations in 36 countries, with over 15 million businesses of which 95 percent are SMEs.

Finally, there are employer organizations that embrace sector Euro-associations such as EuroCommerce (representing retail, wholesale and international trades) or COPA (Committee of Agricultural Organizations in the EC), the associations of agriculture.

How can the European level behaviour of social actors, their doings in some circumstances and their inactivity on other occasions, be explained?

### **3. Analytical framework: optimal bargaining area**

To grasp the logic of the development, we borrow from the economic theory of clubs, pioneered by Tiebout (1956) and Buchanan (1965). We then enrich it with arguments from the theory of optimal currency areas originally developed by Mundell (1961) and McKinnon (1963). It is not only by analogy but also by direct use that we build upon the theory of optimal currency areas. It will serve us in a first step to sketch the macro-economic frame of any Europeanization of collective bargaining by highlighting its benefits and costs and hence potential trade-offs.

The fixing of exchange rates within EMU and the EURO eliminates one major channel for the adjustment of macroeconomic imbalances. Additionally, fiscal policy cannot serve as an alternative adjustment channel due to the stability pact (Martin 1999; Dølvik 2000). In the presence of imbalances, one has therefore to resort to other adjustment mechanisms: to product and factor markets. Mundell pointed out that a high integration of factor markets, including factor mobility and flexible price mechanisms, is crucial for a well functioning currency area. Furthermore, factor markets and especially the labour market have to react in similar ways to monetary impulses across the currency area (Burda 1999; ECB 2002; European Commission 2002).

Even conventional wisdom accepts that there is no common European labour market (Burda 1999; Marginson, Sisson, Arrowsmith 2001). Persistent barriers such as language, culture, labour law and labour market regulation or policy institutions contribute to low cross-country labour mobility, compared for instance to the states of the US (Decressin, Fatas 1995; Jovanović 1997; Eichengreen 1993, 1997; Obstfeld, Peri 1999; Heise 2000; Angrist, Kugler 2002). Consequently, the major burden of any adjustment is put on labour costs, including wages, and by implication the burden is put on collective bargaining (Martin 1999; European Commission 2002). But how do the labour market institutions cope with such pressures? By developing European-wide institutions and European collective bargaining? Our answer builds upon the analogy between optimal currency areas and optimal bargaining areas (Heise 2000). The optimal size of a currency area is determined by the trade-off between gains in the microeconomic efficiency due to reduced transaction costs and the elimination of the exchange rate risk on the one hand, and, on the other hand, the loss of macroeconomic efficiency due to the

removal of an adjustment channel and the necessity of pursuing only one monetary policy for all member states. These latter costs depend not only on the differing institutional frameworks in the member countries of the currency union but also on differing preferences with respect to the macroeconomic policy mix. Applying similar efficiency criteria to the question of an optimal area for collective bargaining, one can argue on the one hand that pan-European centralized or coordinated collective bargaining might result in reduced transaction cost. Additionally, a coordinated reaction to the monetary policy of the European Central Bank could reduce adjustment costs resulting from changes in monetary policy (Dølvik 2000; Calmfors et al. 2001).

On the other hand, there might be increased costs from uniform wage policies for regions that differ widely with respect to labour costs, labour costs increases, GDP per capita or inflation rates and unemployment. The data do indeed vary greatly across Europe (see Table 1). Any uniform wage policy across Europe may be expected to hamper the competitiveness of some countries while perhaps improving it for others, creating or aggravating labour market imbalances that would not be mitigated given the low labour migration. Wage uniformity would be likely to nurture macroeconomic imbalances – overheating economies in some countries and increasing unemployment in others.

It is unclear whether a European guideline for wage increases such as a distributive margin – inflation rate plus productivity increase – would secure enough flexibility, because an overall formula does not allow reaction to regional labour market problems, high unemployment or regional exogenous shocks, and is therefore likely to prolong differences in unemployment rates. A more flexible rule would be needed (Dølvik 2000), but that would also increase the discretionary scope for the national bargaining partners to deviate from the rule in order to improve their own competitive advantage, thereby undermining the rule. This tendency is strong for reasons given below.

(insert Table 1 about here)

Further distributional effects from a European collective bargaining area have to be accounted for, because benefits accruing to one group might be at the expense of others. They might be weighted differently, depending on their incidence, but they will certainly determine the willingness of the single national actors to join European bargaining institutions. The economic theory of clubs is, it seems to us, a promising vehicle for analysing the calculus of different actors to pool resources and/or activities. Clubs are organizations that provide shared collective goods exclusively to their members and spread the costs of these collective goods over these members. Hence everyone who wants to join the club has to calculate the costs and benefits of joining, and the incumbent members have to analyse the marginal cost of admitting another member to the club. Among the costs to be borne are not only the costs of providing the local public good, but also the costs of deviating from some members' preferences in the case of diverging preferences with respect to the public good. We shall scrutinise the cost-benefit calculus of the different actors in the next section in order to derive hypotheses about whether or not these actors have an interest in the Europeanization of collective bargaining, which type of European bargaining they will prefer, and what the resulting collective European bargaining system will look like.

## **4. The actors' costs and benefits of Europeanizing collective bargaining**

### **4.1. Employees' organizations as central actor**

In section 2 it was shown that at first sight the European trade union movement is based on a strong and solid organizational infrastructure; a second look, however, revealed that the ETUC and the European industry federations are poorly endowed with financial and personnel resources (Turner 1993; Keller 1995; Traxler 1996). One wonders why the national unions are not able or not willing to organize their European activities in such a way that the scope for bargaining provided by the social protocol is used in order to bring directives on their way?

A club theorist would expect unions to consider not only the gains from economies of scale, reductions in transaction costs and increased union power, before they organize on a pan-European level, but also the costs caused by increased organizational heterogeneity and stronger differences in preferences.

This trade-off might vary according to different areas of union activity. Besides wage bargaining, unions deal with the collection and distribution of information among members, they have to reconcile differences of interest and articulate the resulting compromises (see Faith, Reid 1987). If the cost of Europeanizing bargaining, collecting and distributing information, interest mediation and voice activities vary, then the likelihood of Europeanization will correspondingly vary along these functions. In the following remarks, we therefore try to establish the most important aspects of unions' cost-benefit-calculus with respect to Europeanization.

#### **4.1.1. Employees' and unions' incentives for Europeanizing collective bargaining**

##### Race to the bottom

The most prominent reason given in the literature for European collective bargaining or its coordination is the danger of social dumping, wage dumping or a race to the bottom (see, for example, Bordogna 1996; Blanpain 1999; Dølvik 2000; Ebbinghaus, Visser 2000; Heise 2000).<sup>iv</sup> The absence of a European labour market is to be contrasted with the strongly integrated European product markets. Their integration led to intense competition for market shares, foreign direct investment, and employment among European countries, companies and their workers within the common market. This competition is even more severe in the EMU due to the higher market transparency, reduced transaction costs and the elimination of exchange rate risks (Dølvik 2000). Under these circumstances, high-cost producers will lose market share and employment to low-cost countries and companies as long as the cost differentials are not matched by similar productivity differentials (Streeck 1997). If employment enters positively in the utility functions of employees and consequently of unions, then employees and unions share to some extent the product market interests of their employers (Traxler 1996). In this case it can be rational for national unions to negotiate moderate wage increases, namely, below the wage increases in competing countries, and to make concessions on costly working conditions in order to reduce labour costs and increase employment (Martin 1999). Such a competitive cut in labour costs is equivalent to the classic beggar thy neighbor policy of competitive devaluation under a flexible exchange rate regime (Burda 1999). As the same behaviour is rational for all unions in the EU, this wage and working condition competition can result in a race to the bottom (see Mahnkopf, Alt-

vater 1995). The diverse social pacts in the different European countries (see, for example, Fajertag, Pochet 1997, 2000; Martin 1999; Hassel 2001) include elements of such undercutting competition (Dølvik 2000; Hyman 2002). It might be most severe within multinational companies (MNC), because management can threaten to relocate production from one European subsidiary to another if employees are not willing to engage in wage concessions (Calmfors et al. 2001; Hyman 2002; Sisson, Arrowsmith, Marginson 2002). In the end, wages and working conditions will have worsened in most or all countries without improvements in the relative competitive situation (see Mahnkopf, Altvater 1995). One has to expect not just a race to the bottom, but a rat race to the bottom.

In as much as the renationalization through social pacts and the decentralization through company-orientated collective bargaining are triggered by the integration of the Common Market and the EMU, one can regard both processes as forms of Europeanization (Martin 1999; Marginson, Sisson, Arrowsmith 2001).

To avoid the misery of a downward spiral, unions have to follow a strategic imperative (see for example Traxler 1996; Martin 1999; Calmfors et al. 2001): they should protect the working conditions and interests of all workers who are competing with each other in order to prevent undercutting. By forming a union on the European level that aims to maximize the utility of the whole European workforce, the negative spillover from a wage cutting country to the other countries is internalized. As mentioned above, this process might be even stronger within MNCs. Stopping the rat race to the bottom is a strong incentive to coordinate collective bargaining at the European level (Calmfors et al. 2001), but as with all public goods, there might be incentives for national unions to deviate from the agreements of such a European bargaining area to gain competitive advantages. Only if national unions were prepared to establish a pan-European club that ensures the compliance of its member unions, the negotiation task would benefit from Europeanization.

### Raising rivals cost

The labour cost and productivity differentials in Europe are substantial: according to Heise (2000), the country with the highest productivity is three times as productive as the country with the lowest productivity. Similar relations can be observed for labour costs (EIRO 2002). As mentioned previously, the member unions of ETUC have voting rights within ETUC that reflect their size. The bigger a union is, the more voting rights it has, and in a democratic organization voting rights reflect power. This size effect increases the probability that one national union or a group of unions from different countries with similar productivity can influence to some extent the policy of the European peak organization. In such a case they might be tempted to utilize negotiations to raise the labour costs in other countries. If they were successful, market shares and employment would shift to the countries with the more influential unions. This 'raise rivals' costs strategy is well established in the analysis of firm behaviour and industry structure (Salop, Scheffman 1983; Brennan, 1988; Granitz, Klein 1996; Choi, Yi 2000). It has important implications for collective bargaining (Boockmann 1999; Haucap, Pauly, Wey 2001) and bears some similarity to the race to the bottom story. Such a risk would impose high costs of organizational centralization on weaker unions, because they would fear losses in employment. The weaker unions should then refuse European coordination or centralization of collective bargaining and a substantial transfer of power to the supranational organization. In equilibrium one would expect as many bargaining areas as groups of similar productivity exist or in a greater bargaining area only a very small power transfer and/or veto rights for all member unions. Even within the Doorn group, for instance, which can be regarded as the most highly coordinated bargaining

area in Europe, there is only an exchange of observers without any voting rights, meaning that there is no power transfer. Such a calculus would lead to Europeanization in terms of regionalization whereby these regions could be parts of states, whole states or cross border regions.

Some observers conceive of the high wage increases in eastern Germany, orchestrated by West German unions and employer associations during the unification process, partly as a result of such a raising rivals' costs approach (see FT.com 2002). This development most likely harmed the eastern economy and its employment. Similarly, one can view the demands for worldwide labour standards as an attempt to raise the labour cost of developing countries and to protect the employees in the industrialized countries.

### Preference costs

A major task for any European peak organization and an indicator of its capacity to organize interests is the formulation, articulation, and implementation of common positions towards relevant topics (Traxler 1996). Obviously, the more heterogeneous the preferences and the positions of the employees and unions in Europe are, the harder and the more costly this task will become. These costs comprise not only increased organizational and negotiation costs, but also the important cost that arises insofar as members' preferences deviate from the compromised joint position. Club theory again suggests having as many union clubs as (country) groups of homogenous preferences in Europe (Williams 1966; Berglas 1976). These preference groups can differ from the productivity groups mentioned in the previous paragraphs; hence, they add another layer of bargaining areas to Europe, which has regional as well as sectoral dimensions. The size and members of these subgroups may also differ between the different union functions and bargaining issues. In the case that these issues should be resolved by a European peak organization it seems probable that along the differing or even conflicting preferences on diverse issues varying coalitions will emerge, blocking each other and the whole peak organization.

Nobody can reasonably doubt the existence of such differences in preferences among employees and unions across Europe. They are the result of cultural, social and historical factors. Thus, most Dutch and Scandinavian unions are in favour of part time work, while German unions oppose it, still adhering (more or less) to the ideal of the fully employed male bread winner (Visser 1998). To take another example, the member unions of the EMF could not agree on the banning of Sunday work. The German, Belgian and French unions favoured a ban, whereas the Nordic unions opposed it because their national agreements gave their members the right to work on Sundays (Sisson, Arrowsmith, Marginson 2002).

A solution to the problem of preference heterogeneity could be sought in the lowest common denominator. However such agreements would erode the national agreements in countries with higher standards (Baumann, Laux, Schnepf 1996), reason enough for unions from countries with high standards not to join a pan-European club.

### Information exchange

Even without a transfer of power, there are possible benefits from supranational coordination and consultation from improved information flow and learning. By informing each other of collective bargaining outcomes, working conditions, and employer strategies, national unions become equipped with evidence and examples from other countries that might be useful for national collective bargaining and therefore they might improve their bargaining positions. ETUC, for example, provides its members with information about the collective bargaining outcomes in different countries through an annual report on the coordination of collective bargaining (see, for example, ETUC Ex-

ecutive Committee 2001). Information exchange is particularly intensive within the Doorn group, probably because the similarity of the economic structure of these countries flags increasing returns to information exchange (Ebbinghaus, Visser 2000; Calmfors et al. 2001). Such information can also be used to learn from each others' experience by analysing and adopting the collective agreements concluded by the other European unions. For example, using a Dutch agreement as a model, Spanish unions signed a contract with a employers' associations to ease dismissal protection in order to bring more people into permanent instead of fixed-term employment (Visser 1998). The costs of generating such information is usually higher than the cost of distributing it. Hence, the gains will increase with the constituency that receives the information and, as a consequence, information gathering and distribution should be centralized in any process of Europeanization.

### Union officials and their interest

Looking from a public-choice perspective, we assume that union officials are not only motivated by their official goals – improving the lives of the union members – but that they are also pursuing to some extent their own selfish interests: personal income, social prestige, benefits and power. How does this influence their engagement in favour of the Europeanization of collective bargaining? Democratically elected union officials should exert the will of the so-called median voter or they will be voted out. But as elections only come up periodically, and informing about the officials' activities is costly for union members, officials have a discretionary scope to pursue their own interests. This scope grows with union size because of rising information costs and greater spread of benefits. There is no strong incentive to control the officials, and the well-known free rider problem results (Vaubel 1986). Within transnational unions, language and cultural differences aggravate these problems. Following this reasoning one should expect that officials, who want to increase their discretionary scope, should support the formation of a pan-European union and the European coordinating of collective bargaining.

However, the same assumptions of rational and selfish officials can be used to derive a contradictory hypothesis. The different means of Europeanization, ranging from the formation of a pan-European union over the foundation of cross-border unions to a close coordination of collective bargaining, imply by definition a substantial transfer of power and social prestige from national unions to the European peak organizations. While this would create few highly attractive positions in the peak organizations, it would also devalue most top jobs as well as the second and third tier positions in the national unions. National officials, likely to loose on average from the Europeanization of their organization, will resist it. The almost failure of the merger of five German service sector unions into a single one –Ver.di– could be interpreted in such a fashion. The largest of the five unions, the Public Services, Transport and Traffic Union (ÖTV), almost withdrew from the merger because many medium-level officials opposed it. And it seems that this opposition was triggered by the planned reduction of regional districts from 160 to 110, which would have caused a similar reduction of district officials (EIRO 2000, 2001c). Similar behaviour would lead to resistance of most types of changes and consequently to resistance to any type of Europeanization.

Although the transfer of power from national unions to the supranational level is rather unlikely because competing bureaucracies in general are not willing to surrender competencies (Niskanen 1971; Alesina, Angeloni, Schuhknecht 2002), there have been mergers in several countries. In Austria, for example, the metal workers union merged with the textile union. Similar mergers took place in Germany (Waddington 2001). Most of these mergers, however, saw a small and weak union disappearing in a domi-

nant one (Waddington 2000). Such union mergers as a last resort are incentive-compatible even from a public-choice perspective.

#### **4.1.2. Legal and institutional obstacles to the Europeanization of collective bargaining**

The Europeanization of collective bargaining is not just a matter of the unions' interests and willingness but also of their capacity to Europeanize collective action and negotiations and the limitations caused by legal and institutional restrictions.

In principle, the unions' ability to act on a European level can be restricted by differences in national legal and institutional frameworks and in organizational structures (Keller 1995). The diversity of national industrial relations systems has persisted into the present (Table 2; Ferner, Hyman 1998a; Dølvik 2000). We select a few issues to highlight capacity barriers to Europeanization. Major sources of obstacles for cross-border union mergers or even cooperation are national specificities stemming from differing structures, history, concepts and traditions (Burda 1999; Taylor 1999; European Commission 2002). For example, in countries like Denmark, Finland, Germany or Sweden, there are strong and centralized national or at least sector unions; in other countries, the union movement used to be split along political lines (France, Italy, Portugal, Spain) or religious lines (Belgium and to some extent Netherlands); and some unions even have formal affiliations to political parties, such as in Great Britain and to some extent in Ireland (Brugiavini et al. 2001). Some of these competing national unions, like the Portuguese CGTP-IN and UGT or the French CGT and CFDT, have rather antagonistic relationships to each other that hamper European coordination (Visser 1998; Daley 1999). And frictions still prevail between communist and non-communist unions across Europe and consequently between communist unions and ETUC (Moreno 2001). These splits in the labour movement are reflected in the extent of the dominance of a single union federation. Each of the largest confederations in Austria, Germany, Greece, United Kingdom, and Ireland represent more than 80 percent of the unionized employees, while in Spain, Italy and France the largest federations represent less than 40 percent (Visser 1998). The overall union density, too, varies extremely: from below 10 percent in France to almost 90 percent in the Scandinavian countries (Ebbinghaus, Visser 2000; Table 2).

Given these differences in structure, ideology, and organizational strength of the national unions, what are the appropriate coordination partners for sector bargaining in countries with unions diversified according to political and religious denominations? How could a pan-European union reconcile such differences in interests and ideology, if most national unions and union federations are not able to do so (Traxler 1996; Moreno 2001)? Again, the theory of optimal bargaining areas tells us that a high heterogeneity of structures, interests and relevant institutions in and among the national states is a major source of costs (see Hallett, Weymark 2002). Through union mergers and conglomerate unions, the national idiosyncrasies and the resulting costs are substantially increased (Ebbinghaus 1999; Dølvik 2000; Waddington 2001). Additionally, the internal frictions caused by the mergers consume resources that could be used otherwise for cross-border cooperation.

Another problem arises from the differences in national union power. If there should be some agreement on the European level that is not enforced through European directives, then it must be implemented by the national organizations. Although there would be an agreement on the European level there could be still national employers (or even unions as explained above) opposing it. In such a case the implementation of the agreement hinges on the ability of the national unions to enforce it. In such a case some na-



tional unions would not be able to compel these agreements, due to the great differences in power, illustrated by some of the figures in table 2. However, such differences in enforcement could be viewed as means of gaining a competitive advantage that will endanger the whole agreement.

Other obstacles stem from the different legal and institutional bargaining frameworks (Traxler 1996). In some countries the state is involved in collective bargaining on a regular basis. In others it is explicitly excluded; for example in Germany due to the constitutional principle of Tarifautonomie. But even without involvement in bargaining itself, the state can influence the outcome in terms of coverage rate by extending the agreements through public law, such as the German Allgemeinverbindlicherklärung (erga omnes regulation). This path of influence is absent in Sweden, Denmark, and the UK, yet rather important in Austria, Belgium, and France (Table 2; Calmfors et al. 2001 or see the different contributions in Martin, Ross 1999).

Another important institutional source of variance between European countries resides in the legal regulation of collective action. The types of industrial action that are allowed or forbidden vary widely between the EU countries. For example, in Denmark, Germany, Italy, and the Netherlands the extent of strikes is restricted by so-called proportionality rules, which require a balance between the final goal, the impact, and the extent of a strike (Table 3; Calmfors et al. 2001). In some countries general strikes for political reasons are a legitimate part of the political culture (see Italy or Spain in 2002); in other countries such as Germany political strikes are forbidden in general, and the rule is observed.

There is also considerable variance in Europe with respect to the bargaining level, ranging from multi-employer bargaining on the national level through sector level to single-employer bargaining (Table 2; Calmfors et al. 2001). Furthermore, some unions are involved in administering the social security system, such as in Scandinavian countries and to a lesser extent in Germany and France. (For an overview Brugiavini et al. 2001). Given these differences, what should a joint strategy look like and how should it be implemented?

(insert Table 2 about here)

(insert Table 3 about here)

Obstacles to joint action also arise from crucial differences in legislation on working conditions, such as working time, health and safety regulation, part-time work, dismissals and to a lesser extent wages. This leaves a rather narrow scope of matters not fixed in one of the countries of the envisaged bargaining area and therefore in principle amenable to pan-European collective bargaining. If the Europeanization of collective bargaining were restricted to only those areas negotiable in all member states, then its scope would be narrow, if not minimal. Belgium serves as an extreme example. The Belgian state intervened 1996 by introducing a wage setting system that limited wage increases to just below the average increases in neighbouring countries. Hence, even the negotiability of wages was considerably lost (Ebbinghaus, Visser 2000)<sup>v</sup>.

It is a truism that the upcoming enlargement of the EU will increase the heterogeneity of member states and the resulting obstacles for common European collective bargaining (see Martin, Cristescu-Martin 2001).

### 4.1.3. Taking stock in between

Looking at unions in Europe from a club-theorists perspective, we presented contradictory hypotheses about the interest of national unions in a Europeanization of collective bargaining. We also argued that the institutional framework is hindering the development of a coordinated bargaining strategy. Consequently, no one should expect Europeanization in the sense of a pan-European union emerging to undertake pan-European collective bargaining (for the same conclusions, see Calmfors et al. 2001). It should be clear that this negative prognosis is not so much a result of insufficient European harmonization or a lack of European institutions, as alleged by Euro-sceptics. In their view, whether or not European-wide industrial relations can develop depends upon the ability of the European Union to set an institutional framework based on hard law (see, for example Keller, Bansbach 2001; Keller 1995; Streeck 1993, 1994, 1996). We contradict the hypothesis that unions have a more or less natural interest in the centralization of union activities on the European level with the argument that there are important reasons why they should oppose such centralization. Hence, we view the weak interest of national unions to delegate bargaining authority and resources to European actors as another major factor of the slow progress towards a European coordination of collective bargaining.

As outlined, the lack of interest appears to result from a cost-benefit calculus on the part of national unions. The cost-benefit ratio varies between functions and among European sub-areas. Several European cross-border regions have a more similar structure and more closely related problems than the corresponding national states. The substantial number of 39 regional cross-border co-operations among unions in 1998 within ITUCs is therefore no surprise (Ebbinghaus, Visser 2000). Similarly, the benefits of exchanging information – learning from each other and having better arguments during negotiations – are at least sufficient, while the costs are low. No wonder, then, that the ETUC distributes information about what happens in the different countries among its members.

Similarly, the differences within industries are smaller than in the whole economy. Hence, coordination at the sectoral level causes fewer costs should therefore be more probable. European sector organizations in the metals and construction industries have taken steps towards the coordination of wage demands (Fajertag 1999; Kuhlmann 1999; Ebbinghaus, Visser 2000), suggesting the distributive margin mentioned above as guidelines for national bargaining. This probably reflects greater homogeneity and stronger competitive pressure within this industry.

Our analysis and the empirical evidence lead to a rather heterogeneous picture of the Europeanization of collective bargaining. Depending on the field of union activity, the negotiation topics and the industry, almost every outcome – ranging from the centralization on the European level over rationalization and industry or sectoral bargaining to company bargaining – is possible and/or existing in reality.

## 4.2. The employers

Where are the employers positioned in the European policy arena? Why would they or their national associations belong to associations at the European level? How much competence and how many resources will be transferred from national employer organizations to the EU-level? Even if EU-level structures are present, are they able to organize and to enact their common interests? And what would this imply for the collective regulation of wages and working conditions at the European level?

In section 2, we presented an overview of employer organizations at the European level and their recent developments in the context of the social dialogue as a response to European integration. A key factor in the development of a European strategy for the representation of business interests can be seen in product-market interests. Evidence is provided by the employers' reaction to the introduction and extension of qualified majority voting for European legislation. It became necessary for employers to coordinate their positions and their lobbying at the European level so as to develop a truly European position with which they could convince a number of governments sufficient to constitute a potential blocking minority of their views. Moreover, a multitude of sector- and sub-sector-specific business organizations (FEBI: *Fédérations européennes par branche d'industrie*) were created to defend the companies' interests in the different stages of the creation of the single market. While the original purpose of the FEBI was directed at purely economic matters subject to European legislation, the social dimension of the Single Market included in the Single European Act of 1987, and especially the development of the social dialogue between employers and trade unions at European level, led to increasing involvement of FEBI in social policy issues. Therefore, it is exceedingly difficult to attribute the observed development of mixed associations to labour market or product market interests. What does the theory explain and predict?

The relatively meagre empirical and theoretical literature on employers' associations generally offers two approaches to understand employer collective action: the first focuses on interest, the second on resources as its main explanatory variable of collective action. Interest-related concepts are based on collective action theories (Olson 1965), on the status of labour and capital and their interrelationship (Offe, Wiesenthal 1980) or on organization theories (Schmitter, Streeck 1981). Resource-related approaches to employer collective action focus on the interaction between external and internal power resources of employers' organizations (van Waarden 1991) and the tensions between governability and associability (Traxler 1998b, 1999, 2000). In our view, the need for organization as well as organizability decisively determines the employers' approach to industrial relations. Below, the willingness and capability will be linked to the purposes and functions which associations serve, using a club-theoretic framework. Collective-action-problems at association level are related to the economic problems of clubs and club goods: With firms as individuals and the clubs being organizations of organizations, the national peak organizations become clubs of clubs. The European organizations are, then, in some cases associations of associations of clubs.

#### **4.2.1. Rationale of employer representation at the European level and organizability**

##### Purposes of collective employer activity

Collective employer activity has four main purposes: opposition to unionism, control of procedures, taking wages out of competition, and responding to State policies. In pursuit of these objectives, associations perform five main functions. These are: representation of employers in collective bargaining (labour-market interests), lobbying, public and media relations, provision of a forum for debate, and provision of specialized services (product-market interests). The last element includes information, research and advice, education and training, and individual assistance to individual members with disputes. Business associations may specialize in representing either product-market interests (pure trade associations) or labour-market interests (pure employer organizations); or they may combine both interests (mixed associations) (Traxler 1998b). In both areas, they act on the one hand as lobbies and rent-seeking cartels; on the other hand, they can

facilitate the pursuit of club goods in a number of ways, reducing problems of free-riding and resolving prisoner's dilemmas (Crouch 1999).

The individual employer has three basic reasons to accept collective agreements, which represent the benefits of centralization. These are a show of strength on the part of the trade unions and/or the state, the hope of deriving actual benefits from such settlements, or a wage increase fostered by the employers' associations due to its potential incentives to raise rivals' costs. Standard wages can be used as a barrier to entry to product markets if producers differ in labour productivity (Haucap, Pauly, Wey 1999). Any hope of benefiting from collective bargaining can hardly be based on the labour market itself due to the structurally asymmetrical power relationship and the resulting advantages of individual settlements to employers. Benefits are more likely to stem from the specific product market interests of groups of firms, which prompt them to opt for collective settlements in the labour market (Traxler 1996). The classic reason for firms being interested in multi-employer bargaining is to reduce competition on working conditions among employers. A cartel arrangement of this kind covering working conditions thus serves to contain competition between firms in product markets. European collective agreements would therefore have to correspond to product market interests of firms. This is the case if European collective agreements offer comparative advantages in global competition. Additional benefits are the provision of public information goods or the reduction of costs of negotiation (transaction costs). The main costs of centralization are preference costs. Differences in preferences are predominantly related to product-market competition and differences in productivity.

#### Optimal club size

Given this rationale, what is the optimal club size to coordinate and centralize employer's interests? Competing logics put conflicting demands on an association's structure and size. Two trade-offs, one between the logic of membership and the logic of influence, the other between preference costs and the benefits of centralization, determine the organizations' production set and the optimal level of centralization of employer's interests. Their optimal size is reached where the marginal benefits of a supplementary activity or member equates their marginal costs.

While the logic of membership represents the association's need to retain its legitimacy in relation to its constituency, the logic of influence follows the strategic requirements for effective interest policy. In the course of transforming individual member interests into collective goals, employer organizations on the national or European level have to demarcate their representational domain in terms of membership and tasks. They must be able to recruit members and they have to make their members comply with associational goals and collective decision (Traxler 1998b). Attracting members becomes easier, the more closely the domain is suited to a certain group of employers or the better the club good is tailored to the needs of the club's members. In tension with this logic of membership, the strategic imperative for employers demands control over as many segments of the labour market as are covered by concerted union activities. Otherwise, there is a risk of becoming played off against one another.

Individual firms have more resources than individual employees and sometimes even than the European employer federations to push through their preference. That allows them to short-circuit the federations if necessary. The reduced incentive for collective action among firms forces employers' federations to adopt more particularistic structures than unions have. As a striking example, there is not one single sectoral European employer federation member of UNICE, which means that UNICE is not in a position to standardize the sector interests of firms. Thus a transfer of competences or substantial additional resources from national employer organizations to the EU-level has not

matched the extension of EU competence through successive revision of the EU Treaty so far. Compared with the amount of work and number of topics covered, the secretariat of UNICE, with a permanent staff of nearly 35 employees, is extremely small. This is less staff than it is employed by its counterpart on the workers' side, the ETUC, or by certain sectoral business federations at the European level (Hornung-Draus 1998).

The recent reform of UNICE's decision-making procedures is a perfect illustration of the transfer of competence. Concerning negotiations under the social chapter, results still have to be adopted by consensus of the affected member federations. For entering into negotiations a potentially even more restrictive rule has been introduced: 80 percent of votes from affected federations must be in favour of negotiations. Another example is the transfer of competence and resources from the FEBI to the EEN. Its competences are simply in the field of information and consultation, to promote convergence of views and positions and to prevent proliferation or duplication of overlapping agreements. Every member federation retains its full autonomy and the right to make its own final decisions (Hornung-Draus 1998, p. 229).

#### **4.2.2. Employers' organizability**

The Europeanization or centralization of collective bargaining is not just a matter of willingness but also of organizability. The organizability can be restricted by differences in the national legal and institutional frameworks and in organizational structures.

##### Differences in the national legal and institutional frameworks

The diversity of national industrial relations systems and employers' organization has persisted into the present (Table 2). The overall coverage rate of employers' organizations varies widely. In Austria, Denmark and Sweden, 90-100 percent of the employees are covered in organized firms. Otherwise it varies from below 40 percent in the UK, France, Ireland, and Portugal to almost 70-80 percent in Finland, Italy, Netherlands and Spain. A major and general trait of employer representation is given with organizational overlap, dual or multiple memberships even, as mentioned, with rivalry of associations. Many employers belong to associations with different and sometimes conflicting policies on major aspects of industrial relations. The literature on employer associations assumes that overlapping memberships necessarily lead to disunity and fragmentation among employers and within associations (Plowman 1978; Windmuller 1984). The involvement of the FEBI in European social policy involved the risk of duplication, fragmentation and incoherence of the employers' position at the European level, although the national member organizations of the FEBI are generally the sectoral members of UNICE's member organizations.

##### Differences in organizational structures

The ability to organize is further hampered by the dual structure of business representation at national level, where the chambers of industry and commerce (based in most countries on mandatory membership) and voluntary organizations coexist, sometimes cooperating, sometimes competing. The voluntary business organizations exist as a single system in which product-market and labour-market interests are covered by the same organization. Some of the pertinent examples are the CNPF (Conseil national du patronat Français) in France, FEB (Fédération des entreprises belges) in Belgium and VNO-NCW (Verbond van Nederlandse Ondernemingen – nederlands Christeelijk Werkgeversverbond) in the Netherlands (Hornung-Draus 2001). Or they exist as a dual system, in which economic and social matters are treated by different sets of organizations. This dual structure of voluntary business representation exists in Germany, where

social matters are dealt with by the employers' organizations organized by economic sectors, all of which are affiliated to the BDA (Bundesvereinigung der Deutschen Arbeitgeberverbände), and economic matters by trade organizations like the BDI (Bundesverband der Deutschen Industrie) representing the manufacturing industry, the BDB (Bundesverband Deutscher Banken) representing private banks etc. Dual representation also exists in other countries, like Denmark, Sweden, Iceland or Turkey. In all European countries, except Austria, the chambers of industry promote product-market interests and are not responsible for social policy, nor do they act as social partners and negotiate with trade unions. The Economic Chambers therefore cannot become members of UNICE.

In many countries where there were dual organizational structures at the national level a consolidation took place by way of mergers. Examples include Ireland, where the Federation of Irish Employers (FIE) merged with the Confederation of Irish Industry (CII) to become IBEC (Irish Business and Employers' Confederation), and Finland with a similar merger between the employer and business organizations of the Finnish manufacturing industry. In Norway, the consolidation went even further, including in the merger at the national level not only the old employer and business organizations but also the chamber of commerce and craft. The Netherlands presents a somewhat different case in that there exist two horizontal organizations at national level, representing employers and industrial interests, a largely overlapping membership but with ideological differences: the NWC had an explicitly Christian profile, while the VNO was ideologically neutral. They merged to become the VNO-NCW.

### Conclusion

To sum up, we can identify an employer rationale to join factor-market-related clubs to a certain extent. Primarily, this extent hinges on a rationale based on product market interests and characteristics. Costs and benefits of centralization will vary with firm size and product and factor market structure. A club size corresponding to the European Single Market does not seem to be optimal from this perspective. The conclusion of intersectoral agreements, the cross-border coordination of collective bargaining or pan-European company bargaining within multinationals are more reasonable expectations. This negative prognosis is not so much a result of insufficient European harmonization or a lack of European institutions; rather, it hinges on the costs exceeding the benefits to organize collective bargaining in clubs at supranational level. Otherwise, in sectors where labour is mobile across borders, such as construction, civil aviation or road haulage, there might be an employer interest in taking wages and major conditions out of competition on a cross-border basis.

## **4.3. Governmental institutions**

The third main protagonists in European industrial relations are the national governments and the political institutions at the European Level. Governments and parliaments make take very different roles in industrial relations:

1. The role of regulator: The state regulates the economic, political, social, international and legal environment of industrial relations.
2. The role of employer: The state in itself is a big employer and decides or negotiates the terms of the work relationship together with the other partners in industrial relations.

3. The role of the labour process coordinator: Labour process co-ordination can range from very weak attempts to persuade to participation in social contract negotiation through corporatist procedures or authoritative intervention.
4. The role of conflict resolver: The state can intervene in industrial conflicts by arranging conciliation, mediation and arbitration.

Again applying the economic theory of clubs, European directives to harmonize national legal regimes now reveal the problems of collective action between governments. The European Union is a group of countries deciding together on the provision of certain public goods including labour market issues. However, such common decision mechanisms might be useful, because of spillovers, social goals, and to prohibit defective behaviour, which would result in rat races (see section 4.1) or other dilemmas. The countries are heterogeneous either in preferences and/or in economic fundamentals. The trade-off between the benefits of coordination, centralization and/or deepening integration arising from economies of scale or externalities, and the costs from the loss of policymaking independence, and of increased heterogeneity of preferences due to a greater number of members endogenously determines the size, depth, composition, and scope of the union. Hence, there is a trade-off between enlargement and deepening of coordination. The total benefits and total costs of the formation of international organizations are a function of the amount of cooperative activity. Each national government is trying to maximize its own net gain, the difference between individual costs and benefits.

Which powers are national governments likely to delegate to international agencies? Why should legislators choose not to decide themselves but to delegate decision-making competences to other actors such as international organizations? Rational actors will be ready to transfer as much competence as maximizes the expected net gains. The task, then, is to identify costs and benefits connected with the relevant alternatives. The arguments in politicians' utility functions are popularity, ideology and income. Following the 'law of the inverse salience' and the 'dirty-work hypothesis' (Vaubel 1986), the national governments are not likely to give away very important powers, namely policy instruments that have a decisive influence on elections. Rather, they will try to get rid of their unpleasant activities, their dirty work. If delegation of powers can create asymmetry between credit and blame attributed to the politician as a result of the policy decision of the delegated body, then such delegation can be beneficial to the politician. Unpopular policies that need to be enacted are delegated to an international body which forces a country to implement the unpopular policy and which cannot be opposed (the so called scapegoat-argument). Delegation can be used as a tool to protect one's policies against reversal, to enhance credible commitment and information, and to reduce decision-making costs. Delegation of powers also involves costs. By delegating decision-making powers, legislators decrease ex ante and ex post their impact and control on the policy. There is always the risk that a delegated body drifts away from the preferred position of the national government. In addition there are coordination costs, reversal costs, monitoring costs and the forgoing of utility as a consequence of reduced rent seeking (Voight, Salzberger 2002).

On the other hand, if the economic theory of bureaucracy applies, the officials in international agencies try to maximize their power; their demand for additional power and resources is unlimited. It follows that international agencies are willing to take any work they can get. European organization may develop a momentum of its own. In a positive analysis, one will expect that competing bureaucracies may not be willing to give up responsibilities easily; instead, bureaucracies at different levels of government will compete over the allocation of resources and responsibilities (Niskanen 1971). Thus, the

division of labour is not demand determined, but exclusively supply determined (Vaubel 1986, p. 36).

The bureaucratic competition may lead to excessive centralization in policy areas in which the supranational bureaucracy has managed to gain prerogatives (Alesina, Angeloni, Etro 2001). Hence, one might derive from this the Commissions' bureaucratic interest as the main motivation for its interest in European social dialogues and collective bargaining and an explanation for the pushed institution building we have described in section 2. Otherwise, in comparison to national agencies the power of the European agencies is limited. The role of social policy of the European Union has been limited and remains highly decentralized and national: the national industrial relations systems have retained their redistributive social policies, labour law, and collective bargaining as domains within their commanding jurisdiction with the exception of the instrument of bargained legislation.

At the national level, government involvement in wage bargaining institutions has increased. Governments facing tighter constraints related to monetary integration and increasing public debt levels have turned to new forms of income policy in order to control pay bargaining through social pacts (Fajertag, Pochet 1997, 2000; Martin 1999; Hassel 2001). Moreover, wage bargainers in some countries have explicitly started to take note of wage developments in other countries. In the Netherlands, wage bargainers have been careful to keep wage increases below the going German rates, which has resulted in complaints about a Dutch beggar-thy-neighbour strategy. In Belgium, the reference to wage bargaining in the neighbouring states was even legislated by the government (Ebbinghaus, Visser 2000). In Sweden, the Edin norm was based on European pay developments. Given the extent to which national policy makers lost economic policy options over the last decade due to financial Europeanization, fiscal constraints and monetary integration, it is likely that governments will search for paths to defend and maybe increase their remaining policy autonomy.

## **5. Conclusion and some speculation on the development of European collective bargaining**

Within our club-theoretic framework of optimal collective bargaining areas, we put forward several conclusions and predictions regarding the process of the Europeanization of collective bargaining.

Firstly, although the main driving forces of the process – increased market integration and more intense competition – are not unique to Europe but instead a global phenomenon, the European development of collective bargaining will precede the developments elsewhere, because the homogeneity of actor preferences inside the EU is higher both along country lines and along class lines, and the market integration in Europe is more highly developed than in other regions due to the European Single Market and EMU.

Secondly, Europeanization or internationalization does not compellingly require a supranational standardization of collective bargaining and the transnational unification of social actors. In contrast, to safeguard revenues of the economic integration of product and financial markets, flexible factor markets are necessary, for which reason micro-level social actors should not attempt to centralize factor market-based negotiations at the supranational level. In contrast to the literature, the club logic applies not only for employers, but also for employees and national governments. We recognize not so



much a lack of ability but rather a limited willingness of both social partners, employers and unions, to arrive at European solutions. There is only one actor with a zeal for predominantly European solutions: the European Commission, which pushes most of the agreements and institutional developments. This is in sharp contrast to the Euro-pessimists view of a lack of interest by the Commission in regulating social matters.

Thirdly, we expect no pan-European collective bargaining in the foreseeable future (see Calmfors et al. 2001; Burda 1999). A more probable outcome is a differentiated and fragmented collective bargaining system that is not oriented on European borders. Depending on differences in preferences, cost, structure and union function, different bargaining areas and patterns will emerge. For some purposes, like the coordination of wages, bargaining in cross-border areas and the patterns illustrated above might be the most predominant outcome. The Eastern enlargement of the EU will give even more credit to this argument. For other union tasks, like information sharing, European centralization seems to be more efficient. A special case is within-company bargaining. Although not explicitly analysed in this chapter, all the criteria discussed above apply to it. It can be expected that the employee groups within MNCs are more homogenous than the employees across MNCs. Hence, coordination is cheaper and thus more probable within the MNCs. Consequently, European company bargaining is another tier in the Europeanization of collective bargaining (see, for example, Marginson, Sisson 1996; Taylor 1999).

These expectations and appraisals regarding the process of Europeanization of collective bargaining are in deep contrast to both of the two main schools of thought, the Euro-pessimists and the Euro-optimists, corresponding to proponents of soft law and hard law. They anticipate a deeper centralization of industrial relation systems, differing only in the perception of the cause of the time lag between economic and social integration. In the neo-corporatist Euro-pessimistic view, whether or not European-wide industrial relations can develop hinges upon the ability of the European Union to set an institutional framework based on hard law. Keller (1995) and Streeck (1994) criticize this lack of a supranational legislation that would protect institutionally the status of trade unions as Euro-social partners. The contents of soft regulation are rather limited and mainly not binding. In short the major barriers to Europeanization are seen in the lack of European institutions and in the self-restraint of the employer associations. Therefore it is a typically corporatist view to regard the common market and the principle of subsidiarity as a programme of deregulation opposing social principles and as a strategy of socio-political *laissez-faire* (see, for example, Streeck 1993, 1994, 1996; Altvater, Mahnkopf 1993). Hence European social relations are held to lie outside of the possible outcome of integration. Euro-optimists, on the other hand, see soft law or soft regulation as a more positive development (see, for example, Kenner 1995, 1999; Teague 2000). This school of thought identifies a delay on part of trade unions in organizing their activities at a European level as the main obstacle to European industrial relations. The level and the quality of union moves to integration, it is argued here, lag one or two steps behind the process of political and economic integration. Platzer (1991) in particular points to the poor infrastructural resources as well as to the lack of authority of the European trade union federations (similar Cella 1994). The internationalization of markets and the establishment of trading blocs influence the efficiency and the effectiveness of any nationally restricted union policy. The globalization of competition undermines the joint interest of labour and capital to regulate industrial relations. Instead of using a protective strategy to respond to the new situation, their preferred alternative, the argument recommends that the unions should pursue a strategy of trying to extend collective bargaining to the supranational arena. However for the reasons given above, they might

lack the willingness to do so, which would also explain why the appropriate organizational structure is lacking at the EU-level.

Both the neo-corporatist and the more optimistic literature assume that trade unions are interested in and internally capable of European-level formation. Granted that there are institutional and organizational barriers and a limited authority of the social partners to regulate labour issues, these approaches do not explain why the extant institutional framework is not fully utilized by the actors and why the unions do not devote more resources to their European peak organizations.

Additionally, a fourth factor should not be neglected. The increased market integration and the resulting competitive pressure may lead to regime competition among the member states. Furthermore, as mentioned above, many countries attempt to improve their position in this regime competition by national social pacts. These social pacts very often include official or more informal elements of wage bargaining and other collective bargaining topics. Hence, one can observe a renationalization of collective bargaining in certain areas.

With the enlargement of the EU, the heterogeneity within EU regarding economic fundamentals, the preferences of employees and employers, and the structures and traditions of unions will substantially increase. Consequently, the costs of centralization and coordination of collective bargaining will rise at all levels too. Hence the enlargement will aggravate the problems of the Europeanization of collective bargaining, and another fragmenting factor is added to the process.

In sum Europeanization of collective bargaining is a combination of partly parallel, partly competing and partly complementing processes of centralization, renationalization, regionalization and decentralization.

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Figure 1: Time table of IR institutional building in the

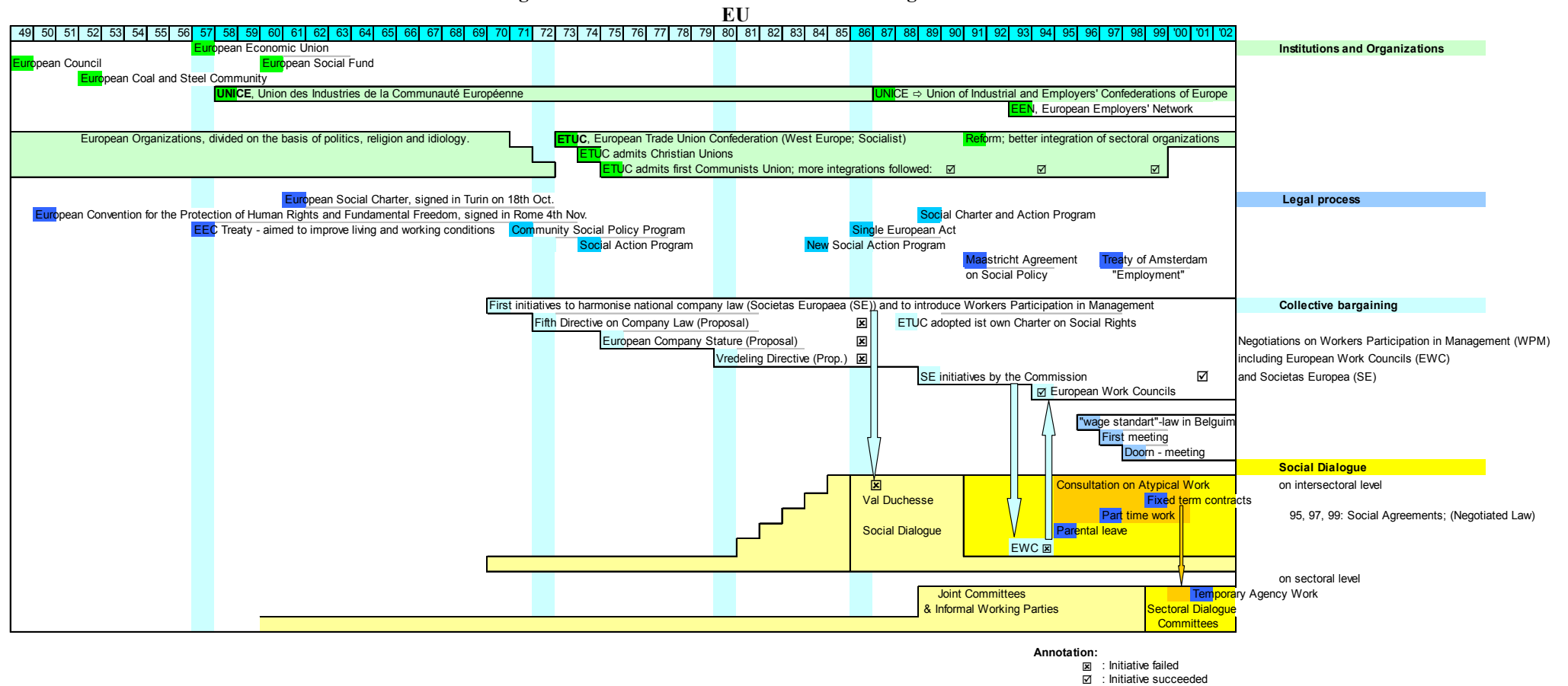


Table 1: Macro-indicators of the EU 15

Country	Unemployment rate, 2000 (%) <sup>a</sup>	Total GDP, 2000 (in billion EUR) <sup>a</sup>	Total employment, 2000 (in thousand (000s)) <sup>a</sup>	Inflation rate, 2000 (%) <sup>a</sup>	Increase in remuneration, 2000 (%) <sup>a</sup>	Hourly labour costs in manufacturing industry, 1999 (in EUR) <sup>b</sup>	Minimum wages, 2001 (in EUR) <sup>c</sup>	Extension of agreements through public law, mid-90s <sup>d</sup>
		GDP per capita, 2000 (in EUR) <sup>a</sup>	Employees, 2000 (000s) <sup>a</sup>					
EU 15	8.4	8 524	157 764	+2.1	+0.5	20.6	-	
		22 520	132 799					
Austria	4.7	205	3 683	+2	+0.1	25.1	-	significant
		25 260	3 185					
Belgium	6.6	248	4 120	+2.7	+0.1	27.4	1 163	significant
		242 40	3 459					
Denmark	4.5	174	2 707	+2.7	+0.9	25.4	-	absent
		32 580	2 459					
Finland	11.1	131	2 361	+3	+1.3	20.9	-	limited
		25 350	2 041					
France	10.2	1 405	23 378	+1.8	0	23.7	1 126	significant
		23 250	20 716					
Germany	7.9	2 025	36 324	+2.1	+0.4	28.4	-	limited
		24 640	32 374					
Greece	11.1	123	3 946	+2.9	-	9.9	473	n.a.
		11 650	2 304					
Ireland	4.3	103	1 342	+5.3	-	15.6	1 009	negligible
		27 320	292					
Italy	10.8	1 165	20 930	+2.6	-0.6	17.9	-	absent
		20 180	15 033					
Luxemburg	2.3	21	180	+3.8	+0.8	22.8	1 290	n.a.
		46 590	163					
Netherlands	2.7	401	7 363	+2.3	+1.2	24.4	1 207	limited
		25 190	6 592					
Portugal	3.9	115	4 897	+2.8	-	6.2	406	limited
		11 520	3 578					
Spain	14	609	14 450	+3.5	-1.3	16.2	516	limited
		15 250	11 487					
Sweden	5.5	248	4 122	+3	+3.2	25.6	-	absent
		28 010	3 665					
United Kingdom	5.6	1 550	27 639	+0.8	+2.4	19.2	1 124	absent
		25 970	24 397					

Sources:

a: Eurostat (2002)

b: EIRO (2002)

c: Clare (2002)

d: Calmfors (2001)

Table 2: Selected characteristics of IR-systems in the EU I

Country	Percentage of workers covered by collective agreements, mid-90s <sup>a</sup>	Dominant organizational demarcation line, 1990s <sup>b</sup>	Density (net): active union members as percentage of dependent labour force, 1995 <sup>b</sup>	Trade union density (the proportion of those in employment who are union members), 2000 <sup>c</sup>	Employers coverage: percentage of employees covered in organized firms, 1990s <sup>b</sup>	Collective bargaining: main level, 1990s <sup>b</sup>	Dominant wage bargaining level in the EU, 2000 <sup>c</sup>	Collective bargaining coverage: share of employees covered by collective agreements, 1990s <sup>d</sup>
EU 15				30.4				
Austria	97	-	38.9	39.8	100	sector	sectoral level	98
Belgium	82	religion	59.8	69.2	80-90	national/sectoral	intersectoral	90
Denmark	52	collar-line	75.9	87.5	90-100	sector	intersectoral/	>80
Finland	67	collar-line	78.8	79.0	60-70	national	intersectoral	95
France	75	political	8.6	9.1	30-40	sector/ firm	company level	82
Germany	80	collar-line	26.5	29.7 (1998)	80-90	sector	sectoral level	W.90
Greece	n.a.	n.a.	n.a.	32.5	n.a.	n.a.	sectoral level	n.a.
Ireland	n.a.	pol. affil.	44.4	44.5	30-40	national/ firm	intersectoral	>70
Italy	n.a.	political	32.4	35.4 (1998)	70-80	sector	sectoral level	70
Luxemburg	n.a.	n.a.	n.a.	50.0 (1998)	n.a.	n.a.	sectoral/ company level	n.a.
Nether-	79	collar-	22.9	27.0	70-80	sector	sectoral level	81
Portugal	80	political	31.8	30.0 (1999)	30-40	sector	sectoral level	79
Spain	67	political	12.5	15.0	60-70	sector/ firm	sectoral level	>70
Sweden	72	collar-line	87.5	79.0	90-100	sector	sectoral level	83
UK	35	pol. affil.	32.0	29.0	20-30	firm	company level	47

Sources:

a: Calmfors (2001)

b: Brugiavini (2001) and EIRO (2001d)

c: EIRO (2001d)

d: EIRO (2002)

Table 3: Selected characteristics of IR-systems in the EU II

Country	Financial resources <sup>a, b</sup>		Legal framework <sup>d</sup>	
	Employer's association	Trade unions		
Austria	n.a.	-membership dues <sup>c</sup>	Conclusion of collective bargaining agreements	Yes
			Works councils	Yes
			Consultation rights	Yes
Belgium	n.a.	n.a.	Staff representation	Yes
Denmark	n.a.	n.a.	Collective bargaining	Yes
			European works councils	Yes
			Right to take industrial actions	Yes
Finland	-membership dues -others	-membership dues -other	Recognition of trade union	Yes
			European works council	Yes
			Right to take industrial action	Yes
France	n.a.	-membership dues	Compulsory recognition of trade union	Yes
			Other form of staff representation	Yes
			European works council	Yes
			Right to take industrial action	Yes
Germany	-membership dues	-membership dues	Right to join a trade union or an employer's association	Yes
			Collective bargaining agreements	Yes
			Work councils	Yes
			European works councils	Yes
Greece	-membership dues	-membership dues	n.a.	
Ireland	n.a.	-membership - dues	No compulsory recognition of trade union	
			Recognition of trade union	Yes
			European works councils (EWCs)	Yes
			No right to take industrial action	
Italy	-membership dues -state -other	-membership dues -state -other	Compulsory recognition of trades union	Yes
			No European works councils	
Luxemburg	-membership dues -other	-membership dues -other	Right to join a trade union	Yes
			Staff representative committee	Yes
			Works councils	Yes
			Employee participation in company management	Yes
Netherlands	-membership dues	-membership dues -other	Union recognition	Yes
			Right to take industrial action	Yes <sup>vi</sup>
Portugal	n.a.	-membership dues	Compulsory recognition of trade union	Yes
			European works councils	Yes
Spain	n.a.	-membership dues -other	Compulsory recognition of trade union	Yes
			European works councils	Yes
Sweden	n.a.	n.a.	Compulsory recognition of trade union	Yes
			Right to take industrial action	Yes
United Kingdom	-membership dues	-membership dues	Compulsory recognition of trade union (England and Wales)	Yes
			European work councils (England and Wales)	Yes
			No right to take industrial action (England and Wales)	

Sources:

a: EIRO (2001e)

b: Own compilation on the basis of the research project "Survey Concerning the Representativity of Social Partners Organizations"

c: Traxler (1998a)

d: Mayne/ Malyon (2001)

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- <sup>i</sup> 'Soft' law is characterized by its non-binding nature. Dealing with more or less general principles, 'soft' regulations often provide minimum provisions preparing the way for further negotiations. Examples of this form of agreements are joint opinions, declarations, resolutions, recommendations, proposals, guide-lines, codes of conduct, agreement protocols and agreement proper (Sisson, Marginson 2001). 'Hard' law agreements or 'negotiated laws', in contrast, typically set standard provisions while dealing with specific rights and obligations rather than general principles and include sanctions. In practice, there is no strict dividing line between 'soft' and 'hard' regulation and there might be cases involving both (Biagi 1999; Sisson, Marginson 2001).
  - <sup>ii</sup> This network includes the EMF Collective Bargaining Committee, Selected Working Parties, the Collective Bargaining Conference, the EMF Summer School, the European Collective Bargaining Information Network (named EUCOB@) and Interregional Cross-Border Collective Bargaining Networks (For a detailed description see Schulten 2002).
  - <sup>iii</sup> In 1974 ETUC admitted most Christian unions in Western Europe. However, it took another 25 years to overcome the remaining divisions between socialist, Christian and communist union movements and special status organizations like white-collar, public service or professional unions (Ebbinghaus, Visser 2000; Moreno 2001).
  - <sup>iv</sup> 'Social dumping' is a somehow misleading phrase. Dumping is defined as selling something below its costs or as selling abroad below the price of the home country. Both definitions are not met by collective bargaining and social policy within Europe.
  - <sup>v</sup> It is true that this arrangement was firstly negotiated by the social partners in the run-up to EMU and then made law. However, the legislation eliminated the opportunity to deviate from this rule at some later point in time.