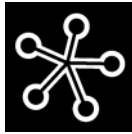


University of Amsterdam



**AMSTERDAM INSTITUTE FOR
ADVANCED LABOUR STUDIES**

WAGE BARGAINING INSTITUTIONS IN EUROPE: A HAPPY MARRIAGE OR PREPARING FOR DIVORCE?

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ABSTRACT

WAGE BARGAINING INSTITUTIONS IN EUROPE: A HAPPY MARRIAGE OR PREPARING FOR DIVORCE

This paper is written as a reappraisal of the work on inflation and wage bargaining of Ezio Tarantelli, the Italian economist who in 1985 was brutally killed by the Red Brigades. It returns to his ideas, and the discussion within the OECD, about combating inflation and free collective bargaining, as well as the relationship between corporatism and macroeconomic performance. After a critical review of Tarantelli's contribution, the paper reviews five critical institutional characteristics of wage formation in fourteen European countries and evaluates changes that have happened between 1980 and 2003. The key question is whether there is a new institutional compromise in the field of collective bargaining over wages, mixing the advantages of coordination and decentralisation, and whether that "marriage of opposites", as it was called by Tarantelli, can be stable or is foreboding a further disintegration of coordinating wage bargaining.

INSTITUTIES VOOR LOONVORMING IN EUROPA: EEN GELUKKIG HUWELIJK OF OP WEG NAAR EEN SCHEIDING?

Dit paper werd geschreven als een terugblik op de bijdrage aan onderzoek en beleid over inflatie en loonvorming van de Italiaanse econoom Ezio Tarantelli, die in 1985 op brute wijze door de Rode Brigades werd vermoord. Het paper staat om te beginnen stil bij zijn ideeën en bij de discussie binnen de OECD over inflatiebestrijding en vrije loonvorming, alsmede de relatie tussen corporatisme en macro-economische uitkomsten. Na een kritische beschouwing van Tarantelli's bijdrage, geeft het paper een overzicht van vijf cruciale institutionele kenmerken van arbeidsvoorwaardenvorming in veertien Europese landen tussen 1980 en 2003. De centrale vraag is of er een nieuw institutioneel compromis - een mengvorm van coördinatie en decentralisatie - is ontstaan en of dit "huwelijk van tegengestelden", zoals het door Tarantelli werd genoemd, duurzaam zal blijken of het begin van verdere desintegratie van de gecoördineerde loonvorming.

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INTRODUCTION

In July 1980, in the wake of the second oil crisis, the Organisation for Economic Co-operation and Development organized a special meeting with trade union officials to discuss two issues about which there was strong disagreement: fighting inflation and free collective bargaining. According to the OECD experts, combating inflation “calls for tight fiscal and non-accommodating policies, notwithstanding the high level of unemployment persisting in a number of countries even before the second oil price shock”. They are confident that “the resulting worsening of unemployment will be temporary – a side effect of restrictive policies, not their objective (p.4)”.¹ The union officials agree that inflation needs to be fought, but reject the deflationary cure proposed by the OECD as “unnecessarily costly, inefficient and indirect (p.5)”. Instead they advocate competition in energy markets and pressure on the OPEC cartel. It seems to me that history has proven the unions right and the OECD experts wrong: the worsening of unemployment resulting from restrictive policies will be far from temporary, develop into long-term unemployment for many, or withdrawal from the labour market, two developments which prove extremely hard to reverse even twenty years later.

The issue of free collective bargaining also divided the discussants. There is agreement that the stagflation of the 1970s – the combination of rising inflation and rising unemployment – had narrowed the space for free collective bargaining and compelled many governments to intervene in wage setting. Both direct and indirect state intervention in wage negotiations – the first by suspending negotiations, imposing a freeze or ceilings; the second by participating in negotiations (‘tripartism’) and sponsoring central coordination – reached a peak in the late 1970s (Chart 1). The participants feared that “genuinely free collective bargaining could be limited to ‘fair weather’ periods (p.17)”. The OECD policy makers believe, however, that after restrictive policies will have delivered lower inflationary expectations, and “with more slack in the labour market”, union demands will be more subdued and “therefore lessening the potential conflict between bargaining and economic policy (p.18).” On this point, history will prove the OECD experts right: the non-accommodating monetary policies of the 1980s and 1990s, resulting in significantly higher levels of unemployment, forced wage restraint on union and thus prepared the conditions for a return to ‘free’ wage bargaining.

Yet, as can be seen from Chart 1, state intervention, in particular in the indirect form, did not disappear and in

¹ Report of the meeting of trade union experts and OECD experts from the Economics and Statistics Department and Directorate for Social Affairs, Manpower and Education, 30th June – 2nd July 1980, Paris: OECD, *mimeo*, p. 4.

the context of preparing the Economic and Monetary Union in Europe tripartism and state-sponsored coordination became used in many countries. But had tripartism generally been seen as having failed in the late 1970s – examples can be cited from Italy and Britain (Regini, 1984), Ireland (Hardiman, 1988), and Belgium and the Netherlands (van Ruysseveldt and Visser, 1996), – it appeared more promising twenty years later. What was rarely effective in the 1970s or early 1980s – a central wage norm or incomes policy guideline in a less than fully centralised system of wage bargaining – became apparently feasible in the 1990s: soft coordination takes over from hard centralisation, or so it seemed in many of the New Social Pacts (Fajertag and Pochet, 2000). The ‘marriage of opposites’ between centralisation and decentralisation, to use an expression of Tarantelli (1986a: 216), emerges as the new compromise of the 1990s. Will it last or end in divorce?

In this chapter, written as a reappraisal of Ezio Tarantelli’s work, I intend to review the development of wage bargaining institutions in Europe since 1980 with that question in mind: has a new institutional compromise emerged in the field of collective bargaining over wages, mixing the advantages of coordination and decentralisation, or is the current situation unstable and should we expect a disintegration of centralising institutions?

In this review I limit myself to a part of Europe and cover developments during the past quarter century in fourteen countries - four from the North (Sweden, Finland, Norway and Denmark), five from the Centre (Germany, Austria, Switzerland, the Netherlands and Belgium), two from the West (Britain and Ireland), and three from the South (France, Spain and Italy). These countries reflect considerable variation in state traditions in industrial relations (Crouch, 1993), economic coordination (Hall and Soskice, 2001) and welfare state development (Esping-Andersen, 1990). The exclusion of the new democracies and transition economies of Central and Eastern Europe can be defended on the ground that there the issue is a different one: *not change but creation* of wage bargaining institutions based on democratic organisation, class conflict and market rules. Moreover, we do not have comparable data for these 25 years and the data that we have should be evaluated from a different perspective.

The second limitation is the restriction to wage bargaining institutions and the role of trade unions. I leave aside social and employment protection, training and skill-supply, product market and corporate governance institutions and policies, all of which are important in the final analysis. I impose this limit because the topic is already very complex, it fits best what I know, and – last and least - wage bargaining institutions were focal in Tarantelli’s analysis. Employers’ policies will be considered in the final part where I analyse stability and change.

The chapter is divided in three parts. Part I begins with restating Tarantelli's approach to macroeconomic stabilisation and the role of wage bargaining institutions. Next, I discuss the patterns and variation in the institutional make-up of wage bargaining since 1980. In the final part, I discuss the stability of Tarantelli's 'marriage of opposites' and speculate about its future.

I. TARANTELLI'S FIRST-BEST AND SECOND-BEST APPROACH

At home and abroad, Ezio Tarantelli participated passionately in the debate over wage bargaining, unemployment and inflation.² He judged the OECD strategy *second best*, though probably unavoidable under conditions of high inflation *and* decentralised wage bargaining. When wage bargainers are unable or unwilling to voluntarily restrain wages, inflationary expectations can only be broken by a monetary cure creating higher unemployment (Tarantelli, 1986a: 52). However, the *first best* strategy, because less costly for employment, is based on a negotiated announcement by the unions, agreed with the government and with employers, to lower wage increases, thus breaking inflationary expectations and allowing monetary authorities to support growth. This strategy is however only available *if* the unions find the will to use wages as a target for inflation, rather than the other way around, *if* the system of setting wages is sufficiently centralised to prevent free riding, and *if* there is also an accepted and efficient system of settling disputes (Tarantelli, 1986b).³

Oddly, Tarantelli lobbied tirelessly in favour of a negotiated incomes policy among policy makers and union leaders in his own country, in spite of Italy's low rating on any of the institutional conditions associated with his first-best strategy. The story has been told elsewhere (Fiorito, 2003; Brandolini et al, 2005). He wanted the unions to understand that they were key to bringing down high inflation – at one point, in 1980, running at over 20 per cent! – by non-monetarist means, by accepting the replacement of the 'backward looking' automatic indexation of wages to prices (*scala mobile*) by a 'pre-determined pay rise' which then could guide economic agents' expectations about future price developments. His ideas inspired the Social Pact ('Lodo Scotti') of January 1983 and the failed central agreement and government decree of February 1984. Outside Italy, the idea of a 'pre-determined' inflation target was picked up by policy makers in France and Spain. In Italy, Tarantelli's ideas resonated in the central agreement of July 1992, which abolished indexation, and the 'Scampi Pact' of July 1993, which revised the Italian bipolar system of collective bargaining into a two-tier system with a hierarchy between industry and company bargaining.

² He took part in another OECD expert conference, *Collective Bargaining and Economic Policies: Dialogue and Consensus*, Paris, 18-20 July 2003, for which he wrote a contribution a version of which appeared in *Laboratorio politico*, a journal of the Communist Left. In it he defended his 'first best' approach to disinflation by way of a negotiated incomes policy.

³ What is first- or second-best depends on the actor's perspective and preference. Tarantelli took a public policy perspective with a strong but *conditional* preference for full employment. His first-best strategy, a negotiated income policy, is probably second-best for the unions because of the concessions involved, the uncertainty of the future payoffs, and the organisational strain of convincing and disciplining their members. Their first-best strategy would have been an *unconditional* public policy commitment to full employment.

These explanations based on what were *emergency* conditions could not but raise doubts regarding the *stability* of the institutional solutions of 1992/3. Will governments and employers remain interested in negotiated incomes policies and accept that unions be given a voice in decisions over key aspects of government policy once inflation has been beaten and the country is safely landed in the EMU?⁴ Will such policies survive an antagonistic government, disunity in the union movement, or a renewed outbreak of distributional conflict between employers and unions? How much and what type of institution building is necessary for sustainable, inflation-proof incomes-policies oriented towards goals such as growth, job creation and social cohesion? These questions are rather acute in the present situation in Italy, where macroeconomic policy making seems rather far removed from the 'spirit' of 1993 and the inflation disadvantage with Germany has cumulated to 12 percentage points since entry in the EMU (ISTAT data, *Corriere della Sera*, 20 July 2005). Should we interpret Italy as a case where lessons about how to handle distributional conflicts were learned the hard way, but have since been forgotten?

In Tarantelli's view three institutions were required for a negotiated incomes policy: the capacity and willingness of unions to enter into cooperative solutions with employers and/or governments; the capacity of central organisations to prevent or repress free riding of local and sectional actors; and mechanisms for settling or containing distributive conflict (Tarantelli, 1986a: 76-9). Although there were occasional attempts to reach a cooperative solution, for instance during the government of National Unity (1976-78) and again in 1983-84, they never lasted very long and were contested in both the political and industrial arena. Marino Regini has shown that the combination of poor delivery on promises and the inability to manage the resulting representation crises, compounded by political rivalry and organisational fragmentation in the Italian and British union movement, proved deadly for such experiments of 'political exchange' in Italy and the United Kingdom (Regini, 1984).

On all dimensions – centralisation; union concentration; coordination and concertation – Italy was always ranked at or near the bottom of the various indicators of corporatism (Table I). Colin Crouch argues that "a strategy of neo-corporatist concertation is available only where labour market organizations – unions and

⁴ Fiorito (2003: 294) answers 'no' and argues that it is the 'paradox of corporatism' that once it has done the job of driving inflation from the expectations of economic agents, centralised bargaining and neo-corporatist concertation become unnecessary and its costs more conspicuous. Hancké and Rhodes (2005) defend the thesis that in the post-EMU situation incomes policy pacts are no longer necessary and therefore no longer the priority of governments and employers *if* wage setting is sufficiently articulated in industry- and company-based policies of skill-formation and productivity-development.

employers' associations – are capable of centrally coordinated action and are under pressure to do so without externalising costs which have to be born in making adjustments” (Crouch,2000: 279). If correct, then there was no place for such a strategy in Italy.

Table I is based on a comparison of different rankings of union centralisation, bargaining coordination and corporatism that I did some years ago for the ILO (Visser, 2001a). These studies cover the 1970s and early 1980s, the time of Tarantelli's engagement in the debate. They tell us what international scholars thought where Italy stood when its adventures with a negotiated incomes policy began. I have adjusted the rankings in the original study to 12 countries in this chapter (all except Ireland and Spain, for which no or too few rankings exist).

There is little disagreement among scholars about the extremes: Austria and Sweden are always at or near the top; Italy, France and the UK always at or near the bottom. As one can see from Tarantelli's own ranking (in column 7), he shared an international opinion about the absence of the institutions for neo-corporatist incomes policy in Italy. His ranking gave much weight to cooperation and conflict resolution, *behavioural* features that later, in a seminal contribution of David Soskice (1990), were featured as coordination rather than centralisation. It is therefore hardly surprising that Tarantelli put Austria, Germany and Japan (he did not consider Switzerland) before the three Scandinavian countries.⁵ As shown by the larger coefficient of variation across rankings, there is more doubt among scholars about the position of Germany and the Netherlands. The ranking of these countries depends very strongly on which dimension is being considered: organisational cohesion; centralisation within organisations (unions); bargaining coordination; conflict resolution or political concertation.

Lane Kenworthy (2001) has done a marvellous job in reviewing these 'first generation' indicators of wage setting and criticised their rather impressionistic nature, time invariance and mixing up of different dimensions of agency, behaviour and structure. He gives a much better press to some of the newer 'second generation'

⁵ Unfortunately, Soskice's scores on 'economy-wide coordination' (Soskice, 1990: 55) included too few of the countries of this chapter to be represented in Table I. He put Japan, Austria and Switzerland, but not Germany, before Norway and Sweden (and did not include Denmark, Finland or Ireland). Soskice emphasised employers' behaviour, whereas Tarantelli, like most scholars at that time, focused almost exclusively on trade unions. How this caused their different ranking of Germany is unclear. In international studies covering all OECD countries, the ranking of Japan, Germany, Switzerland and the Netherlands proved most unstable (Siaroff, 2001).

studies, based on more conceptual and measurement precision, as well as capturing some of the variation over time. These studies include the measures of union centralisation of Golden, Lange and Wallerstein (1999), the index of bargaining centralisation of Iversen (1999), the measures of centralisation and coordination of wage bargaining of Traxler, Blaschke and Kittel (2001), and Kenworthy's own scale for measuring bargaining coordination, now also reflected in recent work of the OECD (2004) and the European Commission (Visser, 2004).

2. WAGE BARGAINING INSTITUTIONS

Inspired by comparative studies such as Bruno and Sachs (1985), Tarantelli (1986b) and Calmfors and Driffill (1988), we now have hundred or more studies of wage bargaining institutions (“corporatism”) and socio-economic performance. For recent overviews I refer to Aidt and Tzannatos, 2002; Calmfors et al. 2001; EC, 2005; Flanagan, 1999; 2003; OECD, 2004; Traxler et al., 2001. The results are somewhat disappointing, however:

- Union density (or coverage), taken as a proxy for union bargaining power, tends to be associated with higher levels of unemployment and wages, or is insignificant.
- The impact of bargaining centralisation is unstable and depends strongly on which countries are included, how centralisation is measured and what other institutions and policies are taken into consideration.
- The effects of centralised and intermediate-level (sectoral) bargaining tend to depend on the type of monetary policy, with sectoral bargaining producing more restraint if combined with a non-accommodating monetary policy.
- How sectoral and firm-level bargaining perform relative to each other is unclear, with company bargaining producing more restraint if product markets are competitive and at low levels of union density.
- Bargaining coordination improves outcomes or mitigates the negative effects of high union density, but these effects are smaller in the 1990s than in the 1970s and 1980s, and the measures for coordination are rather crude and impressionistic.
- Studies focusing on the interaction between economic shocks and labour market institutions tend to confirm that high union density or bargaining coverage increase the probability that transitory effects of economic shocks will turn into persistent unemployment, whereas coordination tends to mitigate this effect (Blanchard and Wolffers, 2000; Nickell et al., 2003), but these results are unstable across studies (EC, 2005).
- Most studies agree (Aidt and Tzannatos, 2002; Blau and Kahn, 1999; Iversen, 1999; OECD, 1997, 2004; Rowthorn, 1992) that unions tend to reduce wage inequality and that this compression effect is strongest in countries where union density and bargaining coverage are high, and bargaining is centralised or coordinated, but this has not been checked with recent data. Some authors suggest that this has worsened the already dim employment opportunities of people with few skills, but this has not been tested in rigorous analysis (OECD, 2004: 141-2).

Bob Flanagan (2003: 178) notes that the “sensitivity of empirical results to small changes in the institutional characterization of a small sample of industrialized countries is a disturbing characteristic of much of the literature”. Results depend very strongly on which countries, variables and years are included, and there is

large scope for measurement error and omitted variables. In a recent evaluation of ten years Jobs Strategy, the OECD (2004: 133) admits that “the overall fragility of the evidence linking collective bargaining to macroeconomic performance suggest that great caution should be exercised when attempting to draw guidance for making policy choices from this research”.⁶ This caution also regards the use of indicators, many of which, according to Flanagan (1999: 1172), “do not measure the concepts stressed by theory”. He is most critical of the composite and often ill-defined index of corporatism, because one can never be sure which part of the index drives the action in a correlation.

The key debate of recent years concerns the difference between *centralisation* and *coordination*. Whilst centralisation refers to the level at which wage settlements are usually negotiated and to the enforceability of these agreements, coordination reflects the degree to which pay negotiations conducted in different bargaining units are synchronised and take into account the effects on each other and on the economy as a whole. While centralisation has been equated with formal structures, organisational hierarchies and legal rules, coordination is often associated with softer forms of guidance and influence. As is pointed out by Kenworthy (2001), coordination is fundamentally a behavioural concept, whilst centralisation is rather a structural property of the system. This creates two difficulties for designing and measuring an index of coordination.

Firstly, bargaining coordination can be generated by qualitatively rather different arrangements and its ranking is therefore far from straightforward. Franz Traxler and his colleagues (2001: 117) list three modes of ‘voluntary’ coordination, e.g. inter-associational; intra-associational and pattern setting, and two modes in which the state plays a direct (‘state-imposed’) or indirect (‘state-sponsored’) role. The case of direct state intervention is rather special. Traxler et al. (2001: .297) observe that intervention is most frequently associated with the *failure* of coordination by other means. This leaves four modes of voluntary coordination, however induced or motivated. In 2005 half of our 14 countries engaged in one or the other form of associational coordination, including pattern setting (Austria, Germany, Switzerland, Spain, Sweden, Denmark, Norway), four rely on state-sponsored coordination and tripartism (Ireland, Finland, Netherlands, Italy); two on state-imposed coordination (Belgium and France), and one does without coordination of pay bargaining (United Kingdom) (see also Chart 1). Taking into consideration whether voluntary or sponsored coordination

⁶ Ten years before, with the launching of the Jobs Strategy, the OECD was less cautious and advised its members to encourage decentralisation and differentiation of wage bargaining in response to local conditions and skill differences; reduce the scope and level of minimum wages; abandon wage-to-price-indexation; and phase out the administrative extension of sectoral agreements (OECD, 1994). Member states had been reluctant to follow this advice, however, as was admitted in the first evaluation (OECD, 1999; see also Armingeon and Beyeler, 2004)

is supported by one or both sides (intra- or inter-associational), pattern setting is regular or irregular and covers all or part of the economy, it is possible to rank coordination on a scale from 1 to 5 (see Table 2). If the understanding of wage coordination is that it is a solution to the collective action problem of securing wage restraint against the temptation of free riding (Soskice, 1990), then both mutual assurances and relative size should matter.

Secondly, since it is rather difficult to collect information on behavioural intentions and near to impossible to rank intentions across economies if we had such information (Kenworthy, 2001: 79), many authors, following Soskice, have ranked countries according to the *observed* degree of coordination of wage outcomes. The problem of that approach is that it tends to be rather subjective, difficult to verify and prone to measurement error, since it allows no control of the indicators independently of the behaviour observed.⁷ It would be possible to eradicate such subjectivism by taking the actual movement of wages as the basis for the measure of the degree of coordination, but that would make coordination as an explanatory institutional variable in the explanation of union behaviour useless because tautological (ibid.).

In my coding of coordination, I combine data on the nature of the intra- or inter-associational relationships and the coverage of such relationships. Similarly, I follow the mixed *organisational* approach, as suggested by Clegg (1976) and Windmuller (1975), combining information on the observed level of bargaining with data on the size and structure of bargaining units and agents, and the type and enforceability of agreements, strike controls and articulation of lower-level bargaining (Visser, 1990). Table 3 explicates my coding for the 14 countries of this study from 1980 to 2003, taking into account three levels of bargaining: central, sectoral (and/or regional), and company (or establishment). Although relying on different – behavioural v. organizational – data, this mixed way of gauging coordination and centralisation produces highly comparable indexes. They measure the same property (the capacity and willingness of unions to coordinate wages) in different ways and can thus be used almost interchangeably.⁸

Limiting myself to the role of unions and wage bargaining, I shall now review the five usual suspects: union density, bargaining coverage, union concentration, bargaining centralisation and coordination.

⁷ Kenworthy (2001: 77) notes that the Layard-Nickell-Jackmann (1991), Hall-Franzese (1999) and OECD (1997) coordination indicators “appear to follow Soskice’s measurement strategy, but it is difficult to know for certain because no explicit rationale is provided for their coding schemes. Plainly, there is potential for significant measurement error in such indicators”.

⁸ Taking all years together, the Spearman correlation coefficient between my index of centralisation and coordination for the 14 countries of this study is .88 and the main deviant case is Switzerland (low on *union* centralisation but relatively high on *employer* coordination).

First I clarify what I think these indicators stand for, then propose a measure and compare European labour markets during the past 25 years.

2.1. UNION MEMBERSHIP AND DENSITY

Union density, *i.e.* union membership relative to those eligible to join, is the commonly used measure for evaluating the position of trade unions in labour markets and society (Bain and Price, 1980). It indicates the *regular* support that unions are capable of mobilising in their key constituency of workers and salaried employees and thus measures the ‘associational power’ of Labour (Wright, 2000). There are several ways to gauge the extent of support for unions, *e.g.*, financial contributions; willingness to fulfil tasks in the union and supply ‘unpaid’ labour; voting for union slates and candidates in workplace elections; public opinion data; participation in union strike calls, but membership sums up most of this and it is together with electoral data easiest to collect and compare. A large membership tends to bring organisational and financial independence, allows the payment of professional staff, and devote energy and ideas to causes that *go beyond the survival* of the organisation. It conveys to workers the self-assuring idea that they may count on others and supports the group sanctioning mechanism needed to uphold the norm of membership (Booth, 1985; Visser 2002).

In most econometric treatments union density is taken as an indicator of union bargaining power or wage pushfulness (see: Flanagan, 1999). The idea is that the issuing of threats in bargaining games will be more credible when the identification with the union is strong and the pool of non-union workers or potential strikebreakers is small. However, as far back as early debates in French syndicalism, union leaders were aware that large memberships meant moderation.⁹ In his book *Unions and Capitalism*, Charles Lindblom makes the point that union size is a double-edged sword: it increases the bargaining power of unions but it also “makes obvious to all union leadership their actual responsibility for the welfare of the economy even if they do not wish to act responsible” (Lindblom, 1949: 196). Mancur Olson has popularised this point, arguing that large unions will be internally diverse and that their leaders will have *organisational* reasons to be prudent, because “the members of an encompassing union own so much of the society that they have an important incentive to be actively concerned about how productive it is; they are in the same position as a partner in a firm that has only a few partners” (Olson, 1982: 48), though he left doubt whether this was a blessing or a pain, suggesting

⁹ Albert Levy, treasurer (!) of the French *Confédération Générale du Travail* (CGT), believed that it was better for unions to have fewer but highly motivated members, “car le lourde modération entre avec le grand nombre (cited in Visser 1989: 53).”

that large organisations may also slow down decision making and represent stronger veto power (see Schwerin, 1984).

Peter Lange (1984) speculates that a large membership size gives workers more trust in the cooperation of fellow workers and thus enables “workers to extend the time-horizon over which they maximize by making them a bit more inclined to run the risk of paying costs in the present as part of conditional strategies intended to improve their own longer-term outcomes (Lange, 1984: 106).” Such trust would, in his view, be encouraged if the union used “mechanisms of verification”, like membership ballots and referendums that “allow workers throughout the union movement to gain some sense of how many of their fellow workers are inclined to cooperate (idem, 108).” In sum, union size not only enhances bargaining power but also increases the probability that the union exercises strategic capacity.¹⁰ Holden and Raum (1991) propose a model in which the incentive for bargaining coordination among employers increases with union density, reasoning that a larger union can potentially inflict more harm on firms. It is for this reason problematic to equal union density with wage pushfulness and we cannot make such predictions without taking into account the interaction with other variables, in particular union structure and coordination.

We have now reasonably reliable and comparable union membership and density statistics, often from different (administrative and survey) sources.¹¹ The union density rates in Table 4 (left panel) are calculated for employed workers and without retired workers, students, the self-employed and others without employee status, for this gives the best comparison with labour market and household survey data and the best index of the standing of the unions in the labour market.¹² The picture that emerges is one of *considerable and even increasing variation across countries amidst a general tendency of decline*, in recent years also affecting unions in countries like Sweden, Finland and Denmark. Union decline is observed in both liberal, coordinated and mixed market economies, in countries with (Austria, Netherlands) and without (UK, France) corporatist features of organisation and policy-making, and in countries with (Ireland) and without (Germany) social pacts. This suggests that there is a rather general process behind this decline, which is *endogenous* to labour market changes (rise of service employment, fixed-term and part-time contracts, unemployment, outsourcing,

¹⁰ A union has strategic capacity if its actions have predictable and discernable effects on the welfare and actions of other actors (Iversen, 1999: 94) and no strategic capacity if its decisions are unaffected by others.

¹¹ See Visser (2006) and Visser, Tergeist and Martin (2004: <http://www.oecd.org>) for an overview of methods and sources, and annual figures from 1970-2001/2.

¹² In 2001, in these fourteen countries an average of 17 per cent of the total membership had retired from the labour market, 1-2 per cent were self-employed and 7 per cent unemployed. These proportions vary across countries (Ebbinghaus and Visser, 2000).

privatisation, etc.) but with a different timing, magnitude and impact across countries, and mediated by nationally differing institutions such as union involvement in the administration of unemployment insurance, union presence in the workplace and the recognition of trade unions by firms and in the national political arena (Checchi and Visser, 2005; Ebbinghaus and Visser, 1999; Western, 1997).

Three more common developments are striking: the concentration of union membership in the public or publicly financed and regulated sector; the aging of union members; and feminisation. These three developments are found in all countries, but the concentration of union membership in the public sector is strongest where the decline of manufacturing employment and unionism has been very pronounced, as for instance in Britain, France, and the Netherlands. Female membership is strongly tied to the rise of services and new professions, partly overlapping with the public sector. Ageing is related to the instability of youth labour markets, education and later entry into the labour force and also the decline of industry and manual work.

As was pointed out before, it is not possible to make general predictions for union wage behaviour on the basis of membership or density data. However, the decline in density tends to increase the uncertainty of unions and their dependence on the decisions and support of other actors in the political and industrial arena. Many unions and union federations are in financial dire straits and the central organisations in particular have been forced to scale down staff, finances and activities, with possible negative consequences for their coordinating role. Interlocutors may take continued membership decline as a sign that unions have become dispensable or may be more readily forced into concessions. If lower density rates and more dependence on others means less bargaining power, uncertainty may nonetheless produce more assertive policies and instability.

2.2. BARGAINING COVERAGE

Bargaining coverage denotes the share of employed wage and salary earners whose terms of employment are affected by collective agreements negotiated between unions and employers. It is an indicator of the degree of *joint regulation* of labour markets (Traxler et al., 2001: 194). Collective agreements vary in regulatory effect (Clegg, 1976); some will affect only wage floors, others detail standard pay rates or do not have wage clause at all but only procedures stipulating how wages may be changed. Company agreements tend to be more detailed than industry agreements and industry agreements in Sweden are much more detailed than in France. The variation is quite endless and has further increased with the diffusion of ‘opening’, ‘hardship’, ‘opt-out’ and ‘inability to pay’ clauses in sectoral agreements (see below). The common denominator of all these agreements is that they are procedural safety nets and guarantee some degree of union control. Usually, collective agreements overrule individual employment contracts.

We can measure bargaining coverage fully comparable with union density statistics as the share of employees working in firms covered by collective agreements. Measurement errors may stem from definitional problems (what is a contract?); double counting (especially problematic in the case of multi-level agreements); and registration failures (membership or agreements that have expired, or are only registered for the year when the agreement was reached). In general, coverage statistics are more problematic than membership statistics if only because the double check with survey data is less available (on an annual basis such data is now only available in the UK). Data based on household surveys is probably less reliable as workers may not know that they are covered, a problem that can be especially large in the case of industry-wide and pluri-annual agreements.¹³ Finally, coverage statistics must be adjusted and take out those sectors or groups that have no (legal) access to collective bargaining (for instance, civil servants, police, military) (Traxler, 1994).

The coverage rates shown in Table 4 (right panel) should therefore be used with more caution than the union density rates and they are less detailed. In some countries, it is only possible to indicate the lower boundaries (OECD, 2004, Table 3.3). In all countries coverage rates exceed density rates; in some countries (France,

¹³ According to Steen Scheuer, who conducted several surveys on union membership and contract coverage in Denmark, “there is a remarkable lack of interest in collective agreements” and “only few employees know or have read their own collective agreement” (Scheuer 2004: 99).

Spain, Italy, the Netherlands, Germany, Austria and Belgium) by a wide margin.¹⁴ This reflects the greater extent of employer organisation in these countries and the possibility to extend union-negotiated agreements non-organised employers by public law (Traxler and Behrens, 2002). This data tell us something about the degree of recognition and support for union-negotiated employment contracts among employers and public policy makers, often based on rules and principles that cannot be changed without significant legal and political conflict. Bargaining coverage rates, therefore, *proxy the degree of institutionalisation* of collective bargaining and trade unions in labour markets.

Unlike union density rates, bargaining coverage rates are remarkably stable and not trended downwards. This reflects the continuation of multi-employer bargaining, usually with an added layer of company bargaining. There are only three cases of decline: the United Kingdom, Switzerland and Germany. The UK and Switzerland are the only cases in which less than half of all employees are currently covered by collective bargaining. In the UK this is related to the collapse of multi-employer (sectoral) bargaining and employer organisation; in Switzerland more likely to the function loss of the sectoral agreement, which in many cases no longer contains a wage clause. In Germany the erosion is due to the withdrawal of small firms and those in Eastern Germany from employers associations and multi-employer agreements. Bargaining coverage in the private sector was more or less stable –around 70 per cent or more – in West Germany before unification and is currently estimated at 59 per cent in Western and 36 per cent in Eastern Germany according to the IAB Panel Database for 2004. However, half of these non-organised firms nonetheless orient themselves toward the sectoral agreement and follow its basic features on pay and working time. This pushes the German coverage rate up by 10-15 percentage points. This practice of applying the agreement ‘by invitation’ of the unions is quite widespread in Scandinavia and reflects the power of the unions to some extent. Such quasi-voluntary wage following behaviour thus retains an element of coordination and confirms that firms may want more autonomy but nonetheless apply the union contract if that gains them an implicit ‘peace offer’ from the unions and lowers the risk of conflict.

The standardised coverage rates shown in Table 4 are aggregated for agreements at all levels with an attempt to avoid double counting. In general coverage rates vary like union density rates: higher in the public sector (though some categories, like the military, the police or high ranking civil servants may be excluded); in large

¹⁴ There is hardly a correlation between the two measures. Taking all years together, the Spearman correlation coefficient between density and coverage rates in the 14 countries of this study is .28 and weakening over time.

firms; in older sectors (manufacturing, banking, etc.), among workers with stable contracts and those in manual occupations. The same variation is also generally found for the coverage of workplace representation and works councils. Bargaining coverage and works council coverage overlap to a great extent, but whilst collective agreements cover employees in small firms in the case of multi-employer bargaining, the law usually exempts small firms from the obligation to create a structure for employee representation and consultation. Where there is no bargaining, there are usually no councils either and works council hardly adds to the union coverage rate based on collective agreements. For instance, in Germany only between two and three per cent of the firms not covered by collective agreements had a works council in 2002. Together these firms employed some seven per cent of German employees (these included some large firms like IBM with an anti-union policy).

The importance of mandated and elected works councils as a *second channel* of representation in addition to the union lies in the *internal extension* of the agreements negotiated by the union, that is, in the legal mandate to monitor and apply legal and negotiated standards to *all* employees in the firm, including non-union members. In *single channel* representation, workplace representation is based on union membership and the extension of standards and rights to non-members may depend on their willingness to join the union. In actual practice, the differences tend to be small, however. Union-based councils in for instance Italy represent also non-members, whereas mandated councils in Germany or the Netherlands, elected by members en non-members alike, tend to be highly unionised (Rogers and Streeck, 1995). Local union representatives and works councils have become increasingly important for the adjustment of sectoral agreements and additional company bargaining, even if the law formally denies them a role in pay bargaining. This development has taken place 'beyond the law' and is now formalised in delegation and opening clauses.

2.3. UNION STRUCTURE AND CONCENTRATION

Union structure defines the opportunity structure for competition and coalition building among trade unions and is an important element in predicting the possibilities of coordination and centralisation of union bargaining. The key indicator is concentration or the extent to which members are grouped in few large unions rather in numerous small ones. The argument that size matters draws on arguments that unions which encompass large chunks of the economy do not face the same incentives as small occupational, enterprise or even industry unions. Large unions cannot, like small unions or workplace representatives, expect to hide

behind others or externalise the costs of their actions.

Union concentration can be approached in similar ways as economic concentration of firms or political parties, using the so-called Herfindahl-index which weights large unions more than small and denotes the probability that two randomly selected union members belong to the same organization (Iversen, 1999: 53; Visser, 1990: 172; Wallerstein and Western, 2000: 372). In the political party literature the inverse of this index is called the 'effective' number of parties and by analogy we speak of the effective number of unions. Table 5 shows the changes in union concentration at the central (entire economy) and intermediate (sector) level: N_{peaks} refers to the effective number of peak associations or national union confederations (left panel); $N_{affiliates}$ to the effective number of national unions affiliated with the largest confederation (middle panel); N_{all} to effective number of all unions by multiplying $N_{peaks} \times N_{affiliates}$ (right panel).

The first number reflects the degree of unity in the labour movement and the dominance of a large central organisation and it also takes into account the share of unionised workers represented by unaffiliated unions or minority federations. It is a useful measure in assessing the degree of coordination if unions would negotiate wages or issue guidelines at the central level (across industries). There appears to be little variation over time, but across countries the differences are pronounced. There are four countries (Austria, Germany, the UK and Ireland) where most unions and union members find a common house, but in the other countries they are divided over two or more, or in one cases, France, many more peak associations. The decline of the traditional Social Democrat (and Communist) confederations, with manual and industrial membership, for instance in Scandinavia, Italy or France, is also reflected in these figures. They were in the past the main sponsors of wage coordination and their decline suggests that the organizational support for economy-wide coordination may have decreased.

Moving one level down, we calculate the effective number of unions in similar ways. The effective number of unions affiliated with the largest confederation may be thought of as the effective number of bargaining *units* (Iversen, 1999: 53). It will be a reasonably accurate approximation of the number of bargaining *agents* if unions affiliated with different confederations but in the same firm or industry form cartels and bargain jointly. This is usually the case in Scandinavia (for unions representing different occupational groups), or in Belgium, the Netherlands, Italy or Spain (for unions representing different political or religious orientations). If they do not, N_{all} will be the better measure and this applies to France in most years and sectors.

At the intermediate or sectoral level, the main trend is towards union concentration. This is partly caused by

differing growth rates (the rise of the public service unions, the decline of manufacturing unions) but union mergers and take-overs of smaller unions play a big role as well. This tendency has been particularly pronounced in countries where membership has stagnated or declined (UK, Netherlands, Ireland, Switzerland). The new 'conglomerate unions' often straddle the borders of many industries and have become little peak associations themselves, internally diverse and with decentralised decision-making in matters of wage bargaining (Streeck and Visser, 1997). This implies that the assumption of one (effective) union = one bargaining unit is becoming less realistic.

Cross-national differences in union concentration are massive but have narrowed – the UK is now much less an outlier than it once was when there were still hundreds of unions around. France beats all other countries in terms of union fragmentation, at some distance followed by Italy, Switzerland and Finland. Unions are most concentrated in Austria and Germany, in the Netherlands, Denmark and Ireland. In some of these countries there is a large union trumping all others in size and bargaining influence. There appears to be no relationship between country size and union concentration, although there should be less space for viable sectoral specialisation in small countries and more pressure toward concentration.

A large union may set a wage trend which other unions are only glad to follow. The union may then act as 'substitute peak association' by assuming responsibility for the national economy or the export sector at large, as did the IG-Metall for many years in Germany (Streeck, 1994). Thus, concentration can be a substitute for centralisation (Golden, 1993; Visser, 1990; Wallerstein and Western, 2000), just as centralisation through federation building is a response to fragmentation stopping short of amalgamation or merger. For example, the strong powers and wide ranging tasks of the Norwegian labour federation LO have been associated with the large number of small unions spread out over a large territory, whereas the dominance of some very large unions in a much more concentrated space prevented such a development in the Danish LO (Galenson, 1949, 1952). This may explain the weak association between centralisation and concentration, an empirical result that puzzled Traxler et al. (2001).¹⁵

2.4. UNION BARGAINING CENTRALISATION

Centralisation refers to the level(s) at which decisions are taken, and to the authority or enforceability of

¹⁵ Taking all years together, the Spearman correlation coefficient between my index of centralisation and concentration for the fourteen countries of this study is .51.

those decisions (Traxler et al., 2001; Visser 1990). A centralisation indicator should tell us how decisions taken by bargainers at any level are affected by decisions at one or more higher levels, or in the parlance of game theory how it changes the inside options or disagreement payoffs of bargainers at any level (Naylor, 2003). This requires the consideration of both union structure and union authority.

If each union would negotiate only one contract, if there would be no overlap in jurisdiction and all bargaining happened at one level, then centralisation equals concentration and is the inverse of the effective number of unions (Iversen, 1999: 53). However, this is not a realistic approximation of actual wage bargaining and the first point to consider is *multi-level bargaining*. If collective bargaining takes place at different levels, we need to assign a weight to each of these levels based on its importance for the overall outcome. In essence we need to know the number of levels and the authority vested in each level as it affects the next (lower) level(s). We can assign weights using information on the enforceability of agreements, strike control and actual participation of central organisations and union officials in bargaining processes at lower levels, as was done in Table 3. Enforceability depends upon the capacity of bargaining agents to implement the agreements they negotiate and presupposes a degree of control over the methods of conflict, for instance through the imposition of sanctions or the denial of support in case of conflict. This control need not and does not usually come entirely from within the union, but may be buttressed by employer sanctions and court action.

The second point to consider is that at each level there is usually more than one bargaining agent or unit. It is at this point that we must combine our data on union concentration with the information on the relative importance of levels. This renders a measure of centralisation which reflects the relative weight of each level of bargaining and the concentration or fragmentation of bargaining units or agents at that level (Iversen, 1999: 53).

Studying the centralisation data in Table 6 (left panel), a decentralisation trend is observed in Scandinavia, very strongly in Sweden and to a lesser extent in Norway and Denmark. The Swedish bargaining system was unique in its degree of centralisation in 1980, but has now become quite average, close to Germany and Denmark. There are two countries in which wage bargaining has become more centralised in recent times: Ireland most definitely, but also in Finland. The cases of Belgium and the Netherlands are less clear-cut; in the Netherlands it is rather concentration (union mergers) that drives the action, in Belgium, however, central level bargaining as remained very prominent. Ireland and Belgium have now the most centralised systems of union wage bargaining, though each significantly lower than Sweden in 1980 (or the Netherlands in 1970). They are

followed by Austria, on account of central union power and monopoly to synchronise wage bargaining, then Finland and somewhat further down, the Netherlands and Norway, Denmark, Sweden, Germany, Spain and Italy. Finally, we have five countries (Austria, Germany, Switzerland, France and the UK) with little change since 1980, but at rather different levels of centralisation, and two (Spain and Italy) where there is much change but no clear trend covering these 25 years. In Spain, the wage pacts of the first half of the 1980s were followed by decentralisation and then some re-establishment of broadly aggregated sectoral bargaining with more discipline over the local level. In Italy the fragile pacts of the early 1980s were followed by a period of decentralisation, then a new period of central agreements and pact making, leading to the reform of sectoral bargaining with articulated company bargaining, but the re-appearance of conflict between the main union confederations and the relative decline of the largest confederation sets Italy on a downward trend in recent years.

2.5. BARGAINING COORDINATION

Coordination refers to the relationships between bargaining units or agents and the strength of such links. Coordination is based on relational networking, monitoring based on exchange of partly private information and reliance on collaborative rather than competitive relationships. Wage leadership and pattern setting are forms of indirect linking; cartels and single table bargaining and joint formulation and evaluation of demands constitute forms of direct linking or aggregation of bargaining units. Data on union concentration and union structure may help us to understand how and when coordination through direct and indirect linking is feasible. Thus, stable trend setting patterns will be observed only when there is a dominant union and a unitary or at any rate dominant peak federation. Cartels will be observed at intermediate levels of union confederations but only where political or ideological rivalry is muted.

However, the increasing number of union takeovers and mergers that crosscut occupational and industry borders do no longer warrant the assumption that fewer unions means fewer bargaining units and less inter-union disputes. In addition to data on union concentration we need therefore additional information on the demarcation of bargaining units, the existence of joint bargaining, the settlement of inter-union conflicts, and

the coordination of bargaining within conglomerate unions¹⁶, in order to arrive at a meaningful institutional variable of union coordination in collective bargaining.

Soskice tried to uncover the different mechanisms that helped explain observed wage outcomes. He argued correctly that the argument about centralisation and wage outcomes developed by Calmfors and Driffill (1988) did not strictly depend on the level of bargaining but on the degree of coordination across bargaining units, and that only in the case of single-level bargaining at the central level, centralisation and coordination are the same. In decentralised or multi-level bargaining there may be other mechanisms, more or less formalised. No such mechanisms were hidden in the data on decentralised bargaining in the UK, but in other countries Soskice detected various examples: a strong monopoly on either side (Austria, Japan): pattern setting by large unions, employers or large firms (Germany, to a lesser extent in the Netherlands); employers control over conflict expression (Switzerland)), some pattern setting by the state combined with other means (France, Italy).

¹⁶ For instance, *FNV-Bondgenoten*, the largest private sector union, negotiates half of the 200 sectoral and two-thirds of the 800 company agreements in the Netherlands. Each year issuing a report with its major demands, weighing data, evaluations and forecasts of the Central Planning Bureau, the government, the central federation, and the Social-Economic Council. The union coordinates not through synchronisation but by setting targets and defining joint agenda's for its negotiators, allowing additional local issues to arise within a general approach to responsible wage development. Coordination is enhanced because negotiating union officials meet regularly, are appointed and can be moved to other tasks or districts, and all strike decisions are centralised. This example suggests that bargaining coordination without some degree of organisational centralisation may be rare.

The coordination scores in Table 6 (right panel) follow those of Soskice, Kenworthy and the OECD presented in Table 2, with some modifications because I have tried to ignore the degree of state intervention, simply noting that in all recent cases of central bargaining state sponsorship and threats of intervention have been prominent (Visser, 2004: 45).

About half of all EU Member States have maintained or re-introduced some form of explicit co-ordination at the national level. In Finland, Ireland and the Netherlands central-level coordination has occurred within the framework of tripartite cross-industry dialogue and agreements. The two-year national agreements in Belgium move within a framework set by law. In Denmark, sectoral agreements have since 2000 been supplemented by 'climate agreements' between the social partners, a similar development occurred in 2004 in Sweden and in Spain central agreements have set guidelines for wage conduct since 2001. In Italy, finally, tripartite negotiations in 2002 and 2003 have mostly concentrated on labour law reform, but also sought to influence the inflation targets set by the government, but in this case there was a deep split between the union confederations. Almost all of these agreements recommend a policy of wage moderation in order to sustain non-inflationary economic development and to improve national competitiveness. Implicit coordination, through pattern following, has remained the main form of coordination in Austria and Germany. Finally, there was little apparent union or employer coordination in these matters in the UK and France.

3. WAGE BARGAINING INSTITUTIONS IN EUROPE: HOW STABLE ARE THEY?

From the quantitative overview in the preceding pages we get a picture of considerable stability. Union density is declining, but structures of collective representation and bargaining appear rather stable. Nearly three out of four workers are covered by collective bargaining and the British example of concentrating all bargaining at the company level has not received a following (with the partial exception of Switzerland). The trend towards decentralisation of wage setting is not general and often checked by increased union concentration and coordination with employers or within the union movement itself. All but two countries – or only one, the UK, if we disregard state-imposed coordination in France - have retained or regained a form of coordination above the level of firms.

Two more observations are possible. In all (twelve) countries that have retained or even strengthened a form of central or sectoral wage bargaining or regulation, higher-level agreements or regulations *have widened the scope for adjustment at the company level* through general or conditional opening clauses under more or less control of national union representatives. But as important is the conclusion that all countries except Britain (and Switzerland) *have tried to maintain, strengthen or return to some form of coordinated wage setting*, sometimes reversing experiments with decentralised and uncoordinated bargaining. This does not, of course, mean that all countries have succeeded in raising the spectre of coordination. Some (e.g., France, Belgium) have resorted to pervasive and recurrent state intervention, with standardising and centralising effects that tend to conflict with other priorities, especially among employers. Others, like Germany or Sweden, have experienced that it is difficult to graft a tripartite practice on unions and employers steeped in autonomous bargaining.

Wolfgang Streeck and Kathy Thelen (2005) suggest that there is a fundamental asymmetry in these developments. Stepping up the degree of coordination in wage setting requires not only the willingness but also organisational and strategic capacities to overcome distributive conflict and collective action dilemmas. Decentralisation and non-cooperation are much less demanding and some of it may just happen by inaction and non-organisation. They identify several mechanisms for *gradual yet transformative change*, two of which are particularly relevant here: *drift* or neglect, when formal rules fall in disuse by not being updated, possibly because the actors cannot agree or mount the collective action required for maintenance and renewal; and *layering*, when new elements become added onto the old institution and then grow more rapidly, eventually changing the nature of the institution. The diffusion of opening clauses in sectoral agreements and re-

assignment of bargaining rights to local representatives and works councils is an example of layering, just as the continuation of a practice of enforcing standardised agreements on an increasingly diverse community of firms and workers by legal and hierarchical means might be considered a lack of bringing existing institutions 'up to date'. Streeck and Thelen observe that neglect is often deliberate, just as layering may need active sponsors. Their key point is that the thresholds of collective action needed for an all-out attack on existing institutions or for their reform through negotiations with other actors tend to be much higher; hence, we will often see incremental change like drift and layering, which cumulatively and by stealth may result in a qualitative transformation.

Given the weakening of the trade unions, we should expect that the institutional stability of collective bargaining, and in particular of the sectoral and national agreement, depends less than before upon the power of the unions and more upon the capacity and willingness of employers to continue joint bargaining. Sweden's unions, with their exceptionally high membership levels, have been able to defend sectoral bargaining against the attack of some powerful employers, but they were forced to give up nationwide bargaining. The British case illustrates the more general point that collective bargaining structures and institutions above the level of firms become fragile when they rest solely on the power of unions *even when unions are or appear strong*, as was the case in the 1970s. Labour market institutions above the level of firms will be vulnerable even in the best of times, but especially when they do insufficiently address issues and problems of production, discipline, training and allocation important to employers (Thelen, 2001). Given their "low degree of control and an unrealistically narrow scope" (Brown, 1993: 190), sectoral agreements in Britain during the 1970 's did nothing to help employers and made abandonment of multi-employer bargaining with the unions a rather costless option for them. Ending a "century-old tradition of official support for collective bargaining" (ibid.), Mrs. Thatcher gave this development a strong push in the direction of no bargaining.

The German situation suggests a different dilemma. Here, sectoral bargaining institutions are highly institutionalised, shared between unions and employers, addressing both wage and non-wage issues, and their operation is nested in congenial institutions in the company, like the works council, board representation and codetermination (Streeck, 1992). However, there seems to have grown a conflict between actual or perceived regulatory tightness¹⁷ of the sectoral agreements and the size of the bargaining units, especially after unification

¹⁷ It may be that the rigidity of German collective agreements is a "carefully constructed myth" as is claimed by VWSI-researches associated with the German unions, but if this is how German employers and politicians perceive them, and unions are unable to dispel such myths, they become part of reality.

(but perhaps even without it). When bargaining units are very large¹⁸ and cover large and small firms or regions with sharply different abilities to pay, the pressure to break down agreements in smaller units will inevitably rise. If decentralisation or differentiation is blocked and it is not possible to make bargaining units effectively smaller for a larger range of issues, employers with the lowest capacity to sustain the costs of such agreements will withdraw and coverage decreases. The conflict between the macro institution and micro behaviour becomes larger with the 'uploading' of sectoral agreements with 'social policy' and 'work-family' issues, two developments related to welfare state retrenchment and EU regulation (Trampusch, 2004). Whilst small firms and weak sectors or regions might seem to benefit most from joint collective bargaining in terms of lower transaction costs and protection against union pressure, they are least capable to sustain the increasingly complex and costly qualitative or non-wage elements of the resulting agreements.

One way out, it seems, is the customisation of agreements, offering more choice to individual companies and workers. Streeck and Rehder (2003), for instance, interpret the formalisation through 'opening clauses' of what began as an informal development of not applying the agreement, with or without the consent and knowledge of union representatives, as a (late) attempt at re-institutionalisation of the German system. Elsewhere, I have described such attempts at rescuing the sectoral agreement by giving up some of its defining characteristics as a process of 'learning ahead of failure' (Visser, 2001b). With the diffusion of 'opt out' and 'delegation' clauses in sectoral agreements, firms gain the power, under certain conditions like the consent of the union or the works council, to suspend or selectively apply particular aspects of a legally binding sectoral agreement negotiated by their representatives. This may create the 'marriage of opposites' that employers seem to like – between on the one hand more autonomy in decision making over wages and working hours, reflecting different product and labour market constraints, and on the other hand a guarantee to keep distributional conflict out of the firm and retain the life-buoy of the sectoral agreement and consent of the union.

How successful this strategy of institutional renewal – reviving the sectoral agreement by giving up some of its

¹⁸ Industry bargaining in Germany takes place at the regional (state) level, but these agreements are close copies of each other and regional variation is small. Contractual rates set for the former East German *Länder* are still lower than the national average, but differences have narrowed, as has been a consistent union objective since 1989.

distinctive features – is hard to say. I hazard the prediction that much depends on whether or not the sectoral agreement remains relevant for wages and wage structures. A sectoral agreement without a wage clause will probably disintegrate, because well-organised union groups in more profitable companies will no longer have reasons to defend the sectoral agreement as an instrument to limit the competition arriving from the external labour market. Another major variable, it seems to me, is the strength of workplace representation and its integration in the union. Where representation is strong and integrated, unions can be more confident in accepting forms of decentralisation based on the loosening of the sectoral agreement. Where union workplace representation is fragile, does not reach many (small and medium-sized) firms, is not under full control of national unions or has fallen victim to competition between them, unions have more to fear from decentralisation.

This discussion shows that bargaining institutions are both means and ends and cannot be treated as just *exogenous*, as is usually done in econometric exercises. The fight over institutions is never only a fight over social and economic outcomes. A lot of union behaviour would be quite inexplicable if we treated the union as a bargaining instrument for higher wages or some other utility function only, as Alan Flanders has reminded us. In addition to economic achievement unions stand for the attempt to regulate labour markets in such ways so as to free workers from “dependence on chance and arbitrary will of others” (Flanders, 1970: 240).

Moreover, the fact that labour market institutions such as unions and collective bargaining are contested does not imply that it is always a zero-sum conflict. The contested character of these institutions does neither rule out cooperation between contending actors nor outcomes in which some employers promote and maintain equalizing industry standards negotiated with and enforced by the unions as a strategic entry barrier against other firms. In some economic accounts this is an efficiency loss and the basis for rent seeking (Williamson, 1968), but that assumes that the market is already functioning efficiently. In Streeck’s theory of ‘beneficial constraints’ there is the possibility that joint industry standards work as incentive structures for firms and workers, motivating them to upgrade their technology and skills and enhance the product quality of the sector (Streeck, 1992). These incentives are weakened if the ‘external’ bargaining structure (across firms) discourages coordination and become undone if the ‘internal’ bargaining structure (within firms) allows inefficient employers to side with works councils and workers faced with job losses in their attempts to lower or disregard the industry’s wage and social standards on a massive scale. This requires that ‘regime’ or ‘institution shopping’ is restricted. A general ‘opt out’ to firms and workers, for instance allowing them to work very long

hours, diminish the incentive to firms to invest in a 'short hours – high productivity- high wage solution' and is a sure guarantee that overtime will remain a "thriving institution" (Flanders, 1964) needed by firms to compensate for inefficient work practices and by workers to top up their meagre income. Bad institutions work like drugs, as the British experience with the general opt-out clause (art 18(1)b) of the European working time directive shows (Barnard et al., 2003). Having become used to long hours, many firms and workers cannot survive without them.

This brings me to my final question?. How hard and binding must wage bargaining institutions be to be effective? Recent studies on wage bargaining tend to argue that the organizational and administrative centralization of wage bargaining are *less* important in achieving beneficial outcomes in wage policies than a cooperative mood of play, common understanding and trust among the major players (Calmfors et al., 2001; O'Donnell, 2001; Culpepper, 2004). There is little doubt that a common understanding of the situation and a co-operative mood played a role in the success of coordinated incomes policies in countries like Ireland, Denmark and the Netherlands and that such qualities help produce good results within *any* bargaining structure. A norm-based incomes policy, based on jointly elaborated facts and a common understanding of the situation, and rooted in joint experiences of and investments in cooperation, has undoubtedly better survival chances than where such conditions are absent. But it is unlikely that such normative commitments are sufficient, "unless the structure of pay-offs and surrounding conditions (...) are consistent with self-interest" (Lange 1984: 106).

Among the surrounding conditions are the rules and regulations that cannot be negotiated, at least not in the short-run. The crux of an institution is its binding or *obligatory* character, embodying the legitimate expectation that actors follow certain rules also when it is not expedient and in their immediate advantage (Streeck and Thelen, 2005). The older corporatist literature predicated such rule-following behaviour on particular organisational characteristics, with a strong and probably unwarranted bias towards centralisation and hierarchical control (Baccaro 2003, for a critique). Thus, wage coordination was thought to be facilitated by organisational structures and practices that allowed the unions "to 'insulate' bargaining from particularist demands and 'coerce' their members to accept the terms of the bargain once reached" and helped them to prevent disruptive competition (Lange, 1984: 106). This approach was embedded in a view that union leaders, armed with professional advice and welcomed to the secrets and corridors of macroeconomic policy making,

would be stronger motivated to endorse long-term, national and 'public-regarding' goals than their members.¹⁹ As Peter Lange (1984) pointed out, both the reformist (corporatist) and radical (Marxist) wing in the labour movement tended to share the view that members and local bargainers had to be *forced or fooled* into supporting a policy of restraint. Baccaro (2003) has criticised the corporatist writers for their failure to consider mechanisms of democratic deliberation, accountability and legitimacy within organisations such as unions. These mechanisms may provide alternative means for achieving the intra- en inter-organisational cohesion and coordination needed for concerted policy making, better adapted to the greater diversity of firms, labour markets and employment and life conditions, and to an enhanced capacity for decentralised decision making. Presumably, in a successful "marriage of opposites" one needs both: non-negotiable commitments and deliberation.

¹⁹ Mancur Olson (1982), too, made strong assumptions about the relationship between leaders and members in interest organisations like unions: in 'exclusive groups' and 'distributional coalitions' members are assumed to control the leaders, in 'encompassing organisations' *vice versa*.

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Chart I: Coordination of wage bargaining, 14 countries

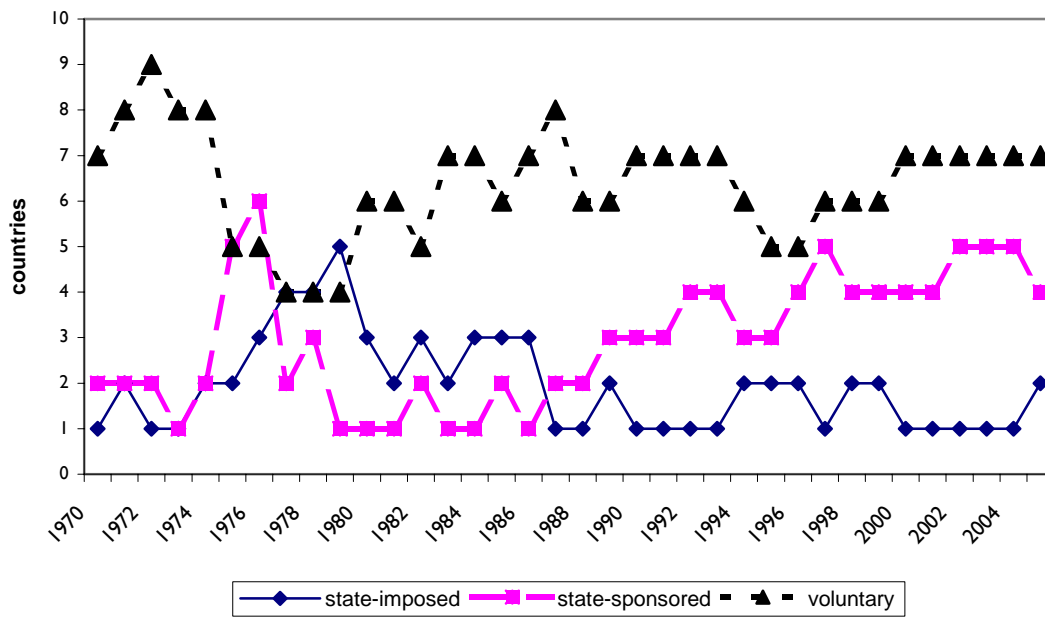


Table 1: Rankings of Centralisation, Co-ordination and Corporatism

	Union cohesion & centralisation				centralisation of bargaining		corporatism & unions		corporatism & consociationalism			super-rank	CoV.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)		
Sweden	5	2	2	3	3	5	4	4	3	4,5	3,5	3	0,299
Finland	5	4,5	(8)	5	5	8	7	4	7	8	8	7	0,256
Norway	5	3	3	2	2	4	4	2	4	4,5	2	2	0,378
Denmark	7	4,5	6	4	4	7	4	4	5	7	5	5	0,247
Germany	8	7	4	6	6	2	2	8	6	2	7	6	0,450
Austria	1	1	1	1	1	1	1	1	1	1	1	1	0,000
Switzerland	10	9	10	12	(9)	6	(7)	9	9	6	6	9	0,233
Netherlands	2	8	5	7	8	3	7	6	2	3	3,5	4	0,474
Belgium	3	6	(7)	8	7	9	9	7	8	9	9	8	0,243
France	9	12	12	9	10	11	10	10	10	11	11	10	0,099
Italy	11,5	11	9	11	12	12	12	12	12	12	10	12	0,089
UK	11,5	10	10,5	10	11	10	11	11	11	10	12	11	0,064

Columns:

- (1) Schmitter, 1981: centralisation of unions, data 1970s.
- (2) Cameron, 1984: centralisation and power of unions, data 1970s.
- (3) Visser, 1990: centralisation and cohesion of unions, average. 1970-85 (ranks of Finland and Belgium added, based on same methodology).
- (4) Calmfors and Driffill, 1988: centralisation and co-ordination of unions, data 1970s and 1980s.
- (5) Blyth, 1979: centralisation of collective bargaining, data of 1970s.
- (6) Bruno and Sachs, 1985: centralisation and co-ordination of unions and employers, data late 1970s.
- (7) Tarantelli, 1986b: centralisation of bargaining, regulation of conflict, and degree of consensus, data 1970s.
- (8) Schmitter, 1981: corporatism; centralisation, monopoly and involvement of unions, data 1970s.
- (9) Lehmbruch, 1984: organisation of unions and involvement of unions in public policy formation, data 1970s.
- (10) Crouch, 1985: corporatism; state and societal interaction, data 1970s and 1980s.
- (11) Lijphart and Crepaz, 1991: corporatism and consociationalism, data 1980s.

Source: adapted from Visser, 2001a

Table 2: Bargaining coordination, unions and employers, 2000 or later

Kenworthy and OECD circa 2000	Soskice circa 1990	Visser (revised from Traxler et al. 2001) 2000-3
1= fragmented company bargaining (UK)	1= zero employer, union or government coordination (UK)	1=no coordination (UK)
	1,5 = tacit government coordination through large firms (FR)	1,5 intra-organisational, one sided (unions or employers), low coverage
2= company and sector bargaining, unarticulated, weak government coordination (FR)	2= informal coordination, mostly within employers camp, some role unions (IT)	2= informal, one-sided, high coverage (FR)
		2,5=intra-organisational, both sides, low coverage, irregular pattern setting
3 =sector bargaining, irregular pattern setting, moderate coordination major players (SE, ES), (Kenw. also: DK, IT)	3= informal coordination, large firms and employers, medium role unions (NL)	3= irregular pattern setting, high coverage and monopoly (IT, ES), or regular pattern setting and low coverage and monopoly (CH)
	3,5= strong inter-industry coordination, strong role employers, medium to strong role unions (DE)	3,5= intra-organisational, both sides, high coverage and monopoly, regular pattern setting (DE, SE, DK)
4= sector bargaining, regular pattern setting, intra-peak coordination, government intervention, central agreements w/o peace clause (AT, DE, CH, BE, NL, EI), (OECD also DK, IT) (Kenw. also FI, NO)	4= coordination centralised and powerful employers organisations and/or unions (SE, NO, CH)	4 = inter-organisational coordination in preparing negotiations or issuing guidelines (AT, NL)
		4,5= inter-organisational coordination with binding agreements, medium to low coverage and monopoly one side (FI, NO, BE, EI)
5 = central bargaining with peace obligation, and/or government imposition and/or intra-peak coordination with full union monopoly (OECD: FI, N, and (half the time) B).	5=all encompassing union (AT) or employers, with pliant unions (JA)	5= inter-organisational coordination, with binding agreements, medium to high coverage and monopoly both sides (SE in 1980)

Sources: Visser, 2004; Kenworthy, 2001; OECD, 2004; Soskice, 1990; Traxler et al. 2001.

Table 3: Wage bargaining: levels, enforcement, conflict control and articulation, by country and year: 1980-2003

weights			description	country	years
(a)	(b)	(c)			
1.0	.0	.0	confederation(s) monopolize wage bargaining, agreements are enforced confederal control over strike decisions Industry unions implement agreements	Norway	1988-89
.8	.0	.2	confederation(s) negotiate (or implement) enforceable central agreement confederal control over strike decisions local bargaining possible	Denmark Sweden	1985 1980-82; 1985-86, 1989-90
.5	.3	.2	confederation(s) negotiate central agreements with some enforceability industrial unions conduct wage bargaining within limits confederal and union control over strike decisions, limited scope local bargaining	Finland Netherlands Norway	1981-82, 1984-88, 1990, 1996-99, 01-2002-4 1980, 1983, 1985, 1996-97, 03
.5	.0	.5	confederation(s) negotiate central agreements with some enforceability (or, failing that, defer to state intervention) industrial and local unions conduct wage bargaining within limits limited control over local unions and strike decisions	Belgium Ireland Italy Spain	1980- 1980, 1987-99 1983-84, 1992-93 1980-83, 1985-86
.2	.6	.2	confederation(s) negotiate non-enforceable central agreement, set targets and/or synchronise claims industry unions conduct bargaining, agreements are enforceable local bargaining limited	Austria Netherlands Norway	1980-92 1983-93 1981-82, 1984, 1986-87.
.2	.4	.4	confederation(s) negotiate non-enforceable central agreement, set targets and/or synchronise claims industry unions conduct bargaining, with general opening clauses union control over local bargaining and strike decisions	Austria Denmark Netherlands Norway Sweden	1993- 1980-84, 1986-7 1994- 1990-5, 1998-02 1983-84, 1987-88, 1991-92
.1	.7	2	minor involvement confederation(s) (claims, ballots, strike control) industry unions conduct bargaining, agreements are enforceable local bargaining limited	Finland Netherlands	1980, 1983, 1989, 1991-95, 2000 1980-82
.1	.5	4	minor involvement confederation(s) (claims, ballots, strike control) industry unions conduct bargaining, with general opening bargaining local bargaining circumscribed by higher level agreement	Denmark Italy Spain	1988-94, 1999- 1994- 1997-

Table 3: Wage bargaining – levels, enforcement and articulation, by country and year: 1980-2003 (continued)

weights			description	country	years
(a)	(b)	(c)			
.1	.0	.9	minor involvement confederation(s) in bargaining (ballots, strike control) unclear hierarchy between industry and local bargaining limited control over local strike decisions	France Italy Spain	1980- 1980-82 1984
.0	.9	.1	no involvement or control confederation(s) industry union monopolise bargaining, agreements are enforceable control over local strike decisions	Germany	1980-1997
.0	.7	.3	no involvement or control confederation(s) industry unions conduct bargaining with room for local bargaining (or local bargaining dominates but strictly under peace obligation and mediation rules), agreements are enforceable, control over local strike decisions	Denmark Germany Sweden Switzerland	1995-98 1998- 1993- 1980-
.0	.3	.7	no involvement or control confederation(s) unclear or unstable hierarchy between industry and local bargaining, agreements are not enforces and limited control over local strike decisions	Italy Spain	1985-91 1987-1996
.0	.1	.9	local bargaining, limited enforceability and control over local strike decisions	Ireland UK	1981-86 1979-

Weights: **(a)** central level (entire economy or private sector); **(b)** sectoral or industrial branch level; **(c)** company or establishment level

Source: Visser, own data, database of wage bargaining process, agreements and organisational data 1980-2003.

Table 4: Union density and bargaining coverage 1980-2003

	Union density				employer density ^{b)}	bargaining coverage rate			
	1980-3	1990-3	2000-3	trend		2000-3	1980-3	1990-3	2000-3
Sweden	79	82	78	stable?	55	80+	83	92**	up
Finland	69	76	74	stable?	60	95	95	95*	stable
Norway	58	58	53	down	55	70+	75	75**	stable
Denmark	80	76	72	down	52	70+	73	76**	stable
Germany**	35 ^a	31 ^a /34	24	down	63	70+	70+*	60+*/**	down
Austria	55	45	36	down	100 ^{c)}	98	98	98*	stable
Switzerland	30	23	18	down	40	50+	50+	40+	down
Netherlands	33	25	23	down	85	85	82	86*	stable
Belgium	53	54	56	stable	72	95	95	95*	stable
France	18	10	8	down	74	85	92	95*	up
Spain	9	15	16	up	70	60+	70+	80+*	up
Italy	48	39	34	down	51	80+	80+	80+*	stable
UK	49	38	29	down	40	71	47	35	down
Ireland	56	50	36	down	60	..	„	..	unknown
mean	48	45	40	down	41	77	76	74	stable
st.dev.	(21.1)	(22.8)	(23.1)		(22.8)	(11.1)	(14.5)	(18.0)	

Adjusted rates (see text);

a) West Germany; b) private sector; c) compulsory membership

* Including non-organized firms bound by agreements through administrative extension (France, Spain, Belgium, the Netherlands, Finland, Germany; and Austria through compulsory membership) or court decisions (Italy)

** Including non-organized firms not bound by a sectoral agreement but nonetheless applying the agreement (Sweden, Denmark, Germany).

Sources: Union membership and density: own data; employer density: Visser, 2006; bargaining coverage: EC, 2004; national reports (EIROOnline); OECD, 2004; for Denmark 2000-3: Scheuer (2004); for Germany, recent years (1995-): IAB and WSI data.

Table 5: Union concentration – across and within industries, 1980-2003

	central level			intermediate (sectoral level)					
	effective number of confederations			effective number of unions (largest confederation)			effective number of unions (all confederations)		
	1980-3	1990-3	2000-3	1980-3	1990-3	2000-3	1980-3	1990-3	2000-3
Sweden	2,2	2,2	2,4	7	6	6	16	14	15
Finland	2,3	2,8	2,8	12	11	10	27	30	27
Norway	2,1	2,6	3,1	12	8	7	25	20	22
Denmark	1,9	2,0	2,0	7	8	7	14	15	14
Germany	1,5	1,5	1,4	6	6	6	9	9	8
Austria	1,0	1,0	1,0	9	9	8	9	9	8
Switzerland	4,1	4,3	4,8	6	6	6	25	26	28
Netherlands	2,5	2,4	2,0	9	6	4	23	15	7
Belgium	2,3	2,3	2,3	9	10	10	21	24	22
France	5,6	7,1	6,1	10	8	8	56	59	51
Spain	2,6	2,8	2,7	8	9	8	22	26	21
Italy	3,1	3,4	3,5	9	10	10	29	32	34
UK	1,3	1,5	1,4	17	15	11	22	21	15
Ireland	1,2	1,1	1,1	6	5	4	7	5	4
mean	2,4	2,6	2,6	9,1	8,2	7,4	21,7	21,7	19,8
st.dev	(1,2)	(1,6)	(1,4)	(2,9)	(2,5)	(2,2)	(12,0)	(13,5)	(12,5)

Source: J. Visser (calculated from Ebbinghaus and Visser, 2000, CD-Rom, with updates for 2000-2003).

Table 6: Union centralization and bargaining coordination , 1980-2003

	CENTRALISATION (indicator Iversen revised)				COORDINATION (indicator Kenworthy revised)			
	1980-3	1990-3	2000-3	change	1980-3	1990-3	2000-3	change
Sweden	66	48	35	down	5	4	3,5	down
Finland	44	35	50	up	4	3,5	5	up
Norway	46	36	41	down	4,5	4	4	stable
Denmark	41	38	37	down	3	3,5	4	up?
Germany	38	39	36	stable	4	4	4	stable
Austria	52	52	51	stable	4	4	4	stable
Switzerland	22	22	21	stable	3	3	3	stable
Netherlands	34	42	45	up	3,5	4	4	up?
Belgium	46	56	56	up	3,5	4	4,5	up
France	16	15	16	stable	2	2	2	stable
Spain	43	16	31	variable	4	2	3	variable
Italy	42	38	28	variable	2,5	3,5	3	variable
UK	12	12	13	stable	1	1	1	stable
Ireland	28	55	56	up	2,5	4,5	4,5	up
mean	38	36	37		3,3	3,3	3,4	
st.dev	(14,4)	(14,8)	(14,1)		(1,2)	(1,0)	(1,1)	

Source: Visser, own data, see text; and Table 3 (for centralisation) and Table 2 (for coordination)

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Januari 2004 Joop Hartog (FEE) & Aslan Zorlu
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Januari 2004 dr Kea Tijdens

- 03-24 “Codeboek DUCADAM Dataset”
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Juni 2000 Marc van der Meer (ed), Adriaan van Liempt, Kea Tijdens, Martijn van Velzen, Jelle Visser.

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- Female agency and collective bargaining outcomes
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