EMU and Wage Bargaining:

The Americanization of the European Labor Market?

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September 1998

Introduction

The advent of Economic and Monetary Union (EMU) in Europe is bound to have significant consequences for European labor movements and their role in the European political economy. This paper speculates about those consequences by exploring the possible effects of EMU on unions' core function of wage bargaining. It focuses particularly on what is likely to happen to the structure of wage bargaining throughout the EMU when the different national bargaining structures, characterized by varying degrees of coordination above the company level, are no longer separated from each other by national currencies and are instead regional structures within essentially a single labor market, where labor costs are denominated in a single currency.

As the title suggests, a possible result of EMU might be an Americanization of the European labor market. Such a labor market would be one in which wage setting is highly decentralized and there is very little coordination, collective agreements set wages for a very small portion of the labor force, and unions are weak. But this is only one possibility, lying toward one end of the range of possibilities. Toward the other end is what we can call Europeanization, in which wage-setting is highly coordinated across the entire currency area, whether by a high degree of Europe-wide centralization in wage bargaining or otherwise, cross-border collective agreements cover a very large portion of the labor force, and unions are strong. Between these two limiting cases is an array of possibilities in which national systems persist or are even strengthened in varying degrees, so that there is a "re-nationalization" of wage bargaining, there is partial and varying coordination across national borders, coverage of collective agreements varies among sectors and nation-regions, and unions continue to have the varying degree of strength they now have in the national systems. Neither of the limiting cases at opposite ends is very likely, at least in the short or medium run. More likely is some variant of the intermediate situation. But there are reasons to think this might be unstable, so that there would be tendencies for change in the direction of Americanization or Europeanization. If so, change in the direction of Americanization might well be more likely in the long run.[1]

The paper begins with a brief review of EMU, emphasizing those features of it with especially important implications for wage bargaining structure. It goes on to sketch the alternative forms the European bargaining structure might take as a result of EMU, considers their likelihood, and explores some implications that changes in the bargaining structure might have for the operation of the European political economy. It concludes with a discussion of certain basic features of the political construction of

[1] . By Americanization I of course do not mean that the European labor market would literally look just like the American labor market but that collective bargaining would have a diminished role in wage setting approaching that in the American labor market.

Europe, most strongly exemplified by EMU itself, which emerge as decisive in shaping the constraints and opportunities facing unions in Europe.

The Design of EMU

On January 1, 1999, eleven of the fifteen current members of the European Union (EU) will enter the last of the three stages in the process of transition to monetary union. At that point, the exchange rates among their still separate national currencies will be "irrevocably fixed" and the conduct of monetary policy will be taken over by the European Central Bank (ECB). The transition will be completed on January 1, 2002 by the replacement of the separate currencies with a single common currency, the euro.[1] Just by itself, establishing a single currency creates a new, more decentralized wage bargaining structure in the EMU area as a whole, as we argue below. However, EMU's design has two specific features which can be expected to have important additional consequences for wage bargaining within the area: a distribution of authority over fiscal policy which combines the virtual absence of fiscal federalism with severe constraints on member state fiscal policy, and -- the source of those constraints -- EMU's institutionalization of an anti-inflationary macroeconomic policy regime.[2] These specific features of the way in which a common currency is being established as well as the decision to establish it are the result of political choices. Those choices embody responses to fundamental historic problems of peace in Europe as well as problems posed by the changing international political economy, conditioned by power relationships among the European states and their domestic political configurations.[3] Thus, the consequences of EMU for European labor are decisively shaped by the particular political structure of European integration.

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1 . Three countries, Britain, Denmark and Sweden chose not enter EMU at the beginning of the third stage, leaving the decision to enter until some later time. Greece was not eligible to enter because it failed to meet the criteria for membership. Denmark will be a virtual member insofar as it keeps its currency pegged to the euro but Britain's and Sweden's currencies will continue to float for the time being.

2 . I use the concept of macroeconomic policy regime as formulated in Temin (1989) and applied in Forsyth and Notermans (1997), and Notermans (1993 and forthcoming).

3 . The forces driving European integration are a large, complex and much debated matter. For major contributions to our understanding of those forces, see Cameron (1995), Dyson (1994), Henning (1998), Milward (1992), and Moravcsik (1998). Our concern here, however, is with the consequences rather than the causes of the particular political construction of Europe.

EMU was incorporated into the EU's treaty-constitution by the Treaty on European Union (TEU) signed at Maastricht in 1992.[1] It provided for the establishment of a monetary union -- a single currency area -- comprised of EU member states which met a set of economic performance criteria, in a three-stage process. EMU effectively goes into operation with the transfer of authority over monetary policy from the separate national central banks to a new European Central Bank (ECB) at the beginning of the third stage in January 1999**.** The ECB, together with the national central banks which sit on its governing board, comprise a European System of Central Banks (ESCB). The "primary objective" of the ESCB is specified as price stability, and it has no mandate to reconcile that objective with others, such as growth or employment, except that as long as its primary objective is achieved it is to "support" the EU's general economic policy. To assure that the ECB prioritizes price stability, it is to be independent: the politically responsible governments of member states cannot compel it to take other objectives into account nor are the ECB or the national central banks to seek or take instructions from any EU or national institutions. It is formally even more independent than Germany's Bundesbank, on which it is essentially modelled, for the ECB's mandate and status is fixed by the EU's treaty-constitution and not merely by statute as in the Bundesbank's case. Similar independence of national central banks is a condition for membership in EMU.

On the face of it, EMU divides authority over the principal instruments of macroeconomic policy. While transferring authority over monetary policy to the ECB, it leaves authority over fiscal policy in the member states. The EU's power to tax and spend remains minimal, with a budget corresponding to little more than one percent of Community GDP. Thus, there is very little scope either for using fiscal policy as a tool of macroeconomic policy at the EU level for the single currency area as a whole or as a mechanism for adjustment to "asymmetric shocks" through "fiscal federalism."[2] At the same time, however, the member states' discretion in using fiscal policy is severely constrained during the transition to EMU by "convergence criteria" on which eligibility for membership is to be determined. These limit current budget

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1 . The 1957 Rome Treaty, which launched what was then called the European Economic Community, and its successive revisions provide what is in effect the EU's constitution. It prescribes an unique combination of intergovernmental and supranational institutions through which the economic and political integration of Europe has been organized, comprising more than an international organization (such as the UN) but less than a federal polity (like Canada, Germany, or the U.S.). EMU marks a major new advance in the integration process. Some of the distinctive features of that process of particular importance for this discussion are taken up below on pp. 35ff. A brief chronology of European integration and a description of the institutions are provided in Appendix A. For more detail on the provisions of the TEU with respect to EMU, see Gros and Thygesen 1992: Appendices 1 and 2.

2 6. For an excellent analysis, see Eichengreen (1997).

deficits to 3 percent of GDP and public debt to 60 percent of GDP,[1] while limiting inflation to 1.5 percent above and long-term interest rates to 2 percent above the average of the three "most performing" member states, as well as requiring membership in the Exchange Rate Mechanism (ERM) and meeting its narrow margins for exchange rate fluctuations for two years.[2] Once the currencies of eligible countries are merged, stringent rules set forth in a "Stability Pact," agreed at the December 1996 Dublin Summit and finalized by the June 1997 European Council meeting in Amsterdam, are intended to assure continued compliance with the restrictive policies prescribed by the convergence criteria.[3] Thus, fiscal policy capacity at the member state level is severely impaired without an offsetting enlargement at the EU level. Together with the monetary policy prescription, then, EMU commits Europe to a highly restrictive macroeceonomic policy regime dedicated to preventing inflation regardless of the cost in unemployment.[4]

While this leaves Europe without the capacity to counteract "symmetric shocks" that depress demand, and hence employment, throughout the single currency area, the absence of fiscal federalism, plus the narrow scope for national fiscal policy left by the stability pact, means that the burden of adjusting to "asymmetric shocks" that alter the relative economic position of regions previously separated by national currencies is concentrated on the labor market. Once there is a single currency, changes in

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[1] 7. The restrictive character of the 3 percent budget deficit ceiling is suggested by the fact that Britain's budget swung from approximate balance to a 6 percent deficit in the early 1990s recession. Thus the deficit criterion is not a cyclically adjusted "structural" or "constant employment budget" deficit but the current figure regardless of the state of the economy. The language of the Maastricht Treaty actually allows the deficit criterion to be interpreted flexibly in view of the state of the economy, so that the "substantial effort to reach this level is taken into account along with the eventually exceptional or transitional nature of the overspending," but it has in practice been applied strictly. On the other hand, the 60 percent debt criterion has not been applied strictly -- having met the deficit criterion, Italy and Belgium was not barred from entry despite debt that is roughly double the limit.

[2] . The ERM is a set of rules for limiting exchange rate fluctuations among members of the European Monetary System (EMS) established in 1989, to be superseded by EMU in 1999.

[3] 9. The pact prescribes fines for member states when their current budget deficits exceed 3 percent unless GDP declines by 2 percent or more or there are other limited mitigating circumstances. The 2 percent decline corresponds to a very steep and exceptional recession. Eichengreen and Wyplosz (1998: 90) found that GDP fell by more than 2 percent in only 4 out of 186 cases in which the EU countries had budget deficits exceeding 3 percent between 1955 and 1996. The rule would thus have forced countries into pro-cyclical fiscal polices, increasing already high unemployment, in the vast majority of cases. On the other hand, the procedures for imposing the fines provide some scope for political judgments, so that it is quite possible that the potentially politically explosive fines would never be levied.

[4] . Note re Amsterdam Treaty

exchange rates will obviously no longer be available as a way to offset the adverse employment effects of economic processes that have differential effects on the individual member state/region's "competitiveness." Such employment effects can be cushioned even in a single currency area if it is also a single, though multi-tiered, fiscal area, in which revenues flow from those living in the separate lower-tier jurisdictions comprising the area to a central government budget (as well as to the separate jurisdictions), and transfers flow from that budget back out to those in the component jurisdictions. There can then be offsetting changes in the territorial distribution of taxes and transfers. The changes can take the form of "automatic stabilizers" -- e.g., taxes from adversely affected units fall while transfers to them increase -- or they can take the form of funds deliberately provided to the adversely affected units by the single currency area's central government.[1] Since even at best such "fiscal federalism" is unlikely to entirely eliminate the employment effects in those units, some of the adjustment will occur through labor market mechanisms. There are basically two: labor in an adversely affected unit can either move or stay and accept a reduction in labor costs. EMU is distinguished by the extent to which the burden of adjustment is concentrated on those costs.

Although free movement of labor is one of the "four freedoms" the Single Market was supposed to establish, durable barriers of language, culture, and differences in employment-related institutions such as social security entitlements have kept labor mobility among member states very low, at least by comparison with the U.S. Even between regions within the same European country mobility is lower than in the U.S.[2] With labor mobility as well as fiscal federalism so limited, the burden of adjustment is concentrated almost entirely on labor costs, including the "social wage." To the extent that a deterioration in relative (unit) costs in a particular member state or region cannot be reversed by productivity improvements, there are likely to be pressures for nominal wage reductions or low increases, as well as cuts in non-wage costs that erode bargained or statutory social benefits relative to those in less adversely affected regions. Such pressures may of course occur even in the absence of asymmetric shocks, insofar as employers (and governments) no longer able to seek competitive price advantages by currency depreciation turn instead to wage and benefit cuts ("internal depreciations") to reduce labor costs. Given variations in trade unions' capacity to resist, according to one argument, regions with stronger unions would lose competitiveness to regions with weaker unions, intensifying the pressure on the stronger unions to accept cuts to restore their regions' relative competitiveness.[3] Unions in all regions could thereby be drawn into a deflationary vicious circle of labor cost dumping, or competitive internal

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[1] 11. How much redistribution there can be is of course likely to be the subject of political controversy net contributory and net recipient units.

[2] . Eichengreen (1997b: 122).

[3] . Busch 1996: 37.

depreciations. This, could cumulatively have the macroeconomic effect of lowering aggregate income, demand, and employment throughout the Community.[1]

The extent to which this happens depends, however, on the macroeconomic policies that are pursued. Tendencies toward a deflationary vicious circle could be counteracted by expansionary policies. Such policies could stimulate employment, dampening downward pressure on nominal wages while the increased competition among unions in the decentralized EMU area bargaining structure kept sufficient downward pressure on wages to inhibit the resumption of inflationary tendencies -- i.e., the NAIRU would be reduced -- permitting a lower level of unemployment even while the ECB continued to comply with its price stability mandate.[2] However, the restrictive macroeconomic policy regime institutionalized by EMU seems more likely to reinforce rather than counteract such a vicious circle. With Europe locked by EMU into high unemployment, competitive internal depreciations would at best simply keep redistributing unemployment while making any decline difficult (apart from any demand pull from outside the EMU area). With their bargaining power severely eroded under these circumstances, unions are put under enormous pressure to make concessions to save jobs wherever they can, straining solidiarities not just within their national or sectoral organizational domains but within individual companies and workplaces. Unable to protect wages or even deliver job security, except perhaps for a diminishing core of insiders, unions face continuing declines in membership and political influence.[3]

This brief review of EMU's design accordingly suggests that EMU will unleash a dynamic with a strong tendency toward the Americanization of the European labor market. To the extent that the economics literature on European integration has addressed this issue, much of it points toward a similar conclusion, as we see in the next section. But this is true primarily of theoretical analysis based on the treaty specifications of EMU. When the political factors bound to affect the way EMU actually operates in practice, as well as the possible responses of labor market actors, are taken into account, EMU's implications are more ambiguous.

EMU and Wage Bargaining Structures

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[1] . Noé (1998). Schulten (1998: 487).

[2] . Glyn, Andrew, Communication, August 21, 1998. An expansionary monetary policy presupposes that the ECB interprets its price stability mandate as meaning an inflation target of something more than zero. The macroeconomic implications of different wage bargaining structures is discussed more fully in the next section.

[3] 16. Many factors independent of high unemployment and, prospectively, the creation of a single currency area unquestionably enter into the union decline since their postwar apogee, such as declining male blue collar industrial employment, but EMU makes it much more difficult for unions to respond to those factors by intensifying competition across the borders within which union organization remains largely confined and by making that competition take place under conditions of high unemployment.

Most of the work bearing on wage bargaining in the EU found in the economics literature is on the effects of the Single Market, and very little on the effects of EMU -- i.e., it is on the effects of integration through trade and investment short of deep integration through monetary union. It is nevertheless suggestive, however, particularly insofar as Exchange Rate Mechanism (ERM)[1] rules are assumed to leave little room for exchange rate changes. The effects of integration on wage bargaining tend to be viewed from broadly two perspectives: the structure and viability of unions and the macroeconomic performance of the European economy.

Americanization in the Light of the American Precedent

Viewing the effects of European integration from the first perspective, the possibility that integration will make European unions follow American unions down the trajectory of decline is most explicitly explored by Reder and Ulman.[2] They apply to the EU a general view of the challenge economic integration poses for unions drawn from Ulman's earlier analysis of the development of national unions in the U.S. They do not directly consider the effects of monetary integration, framing their discussion in terms of integration resulting from the "removal of nontariff barriers".[3] This, even without monetary integration, has interesting implications. But the Ulman view is implicitly applicable to the deeper integration of Europe through monetary union since the experience on which it is based is itself that of a monetary union, the U.S. Moreover, Reder and Ulman take account of the close approximation to monetary union resulting from the "recently established regime of nearly fixed exchange rates" -- i.e., the narrow band ERM before it was disrupted in 1992-93.[4]

Their view rests on the proposition that "union organization or its span of control must be at least as broad as the product market. Otherwise, nonunionized firms would be able to sell goods for lower prices than unionized firms, resulting in loss of union jobs and declining membership". Thus, union membership can be expected to decline in either of two cases:"[w]hen product markets become spatially extended or further integrated, *unless* union organization expands with the market, or union decision-making becomes more centralized;" and "[w]hen union organization shrinks within existing market boundaries, *unless* negotiated wage increases cause nonunion workers to join unions or regulations or other arrangements bar nonunion entry or operation."[5] These two cases summarize two phases in the

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1. The ERM sets margins within which movements of exchange rates among members of the European Monetary System (EMS) are confined. The EMS went into operation in January 1979 and will be replaced when the third stage of EMU begins in January 1999.

2. Reder and Ulman (1993).

3. Reder and Ulman (1993: 19).

4. Reder and Ulman (1993: 38).

5. Reder and Ulman (1993: 15-16). Emphasis in the original.

history of American unions in which they are described as facing the "same dilemma" as that now confronting European unions. The latter have

> . . . either to create more centralized structures able to cope with unified markets (as U.S. unions were able to do in the nineteenth century and again in the 1930s) or, lacking that capability, to suffer decentralization and organizational loss (as happened to U.S. unions in the 1970s and 1980s under the impact of legal deregulation and intensified international competition.[1]

Their analysis of how unification of European markets threatens unions with decline if they do not develop structures coterminous with the markets runs along familiar lines. In common with most labor historians and sociologists, they emphasize the dependence of unions on a supportive political framework. They point in particular to the role of states in providing unions within their borders with some protection against competition from beyond their borders. In this view (underlying Ulman's interpretation of U.S. union history) unions need control of competition to deliver better terms of employment than fully competitive markets would, and thus provide incentives to join and remain in unions. While unions are able to extend some measure of control over markets nationwide through organization, their ability to do so depends a lot on some protection against competition from outside those markets. States provide it not just by tariffs but also by all sorts of regulations (some of which constitute the kind of non-tariff barriers outlawed by the Single European Act) and, implicitly, by separate currencies which could be devalued unless exchange rates are fixed, as was attempted under ERM, or entirely eliminated as under EMU. Unions' ability to control competition (taking various terms of employment out of competition) within national borders also depends a lot on the whole framework of public policy with respect to labor law and "standards of social welfare, job safety, and health care." Both are undermined when states can no longer limit competition across borders; product markets then extend beyond the unions' span of control so terms of employment can no longer be kept out of competition. Moreover, separate national unions whose span of control is confined within national borders are thrown into competition with each other. Because the extent of their control as well as the public policy frameworks which reinforce it varies, "the conditions exist for social dumping".[2] Unions' ability to deliver is eroded, diminishing incentives for membership. These effects of integration reinforce other factors leading to decline, including sectoral shifts, "de facto decentralization of bargaining and a growing disenchantment with unionism".[3]

On the other hand, the authors suggest that differences between Europe and the U.S. might keep European unions from going down the American path of decline even if they do not extend their span of control to the EU as a whole. For one thing, the framework of national legal, social and political institutions, though diverse, is generally more favorable in Europe -- European employers typically cannot use permanent replacements for strikers as Americans can, employer associations play a much larger

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1 . Reder and Ulman (1993: 38).

2 . Reder and Ulman (1993: 21).

3 . Reder and Ulman (1993: 39).

role in bargaining in Europe, etc. Moreover, there is some growth of Europe-wide regulation by the EU which could progressively diminish the threat of social dumping. To be sure, not all of the institutions have favorable effects. For example, the extension of collective agreements encourages free riding, employers organized nationally refuse to bargain across borders, works councils encourage intra-company interaction of worker representatives and management at the expense of cross-company labor management relations organized by unions, etc. From the considerations that point in these alternative directions, Reder and Ulman draw no strong conclusions, even if on balance they do not judge European unions' prospects for avoiding "organizational erosion by competitive forces within the Community" to be very good.

However, they do not consider in depth the extent to which Europe-wide union structures have actually been developed nor how they have been affected by the political structure of European integration. When that is done, the importance they attach to the political framework within which unions seek to extend their strategic domain is reaffirmed, but so also is their view that the prospects for avoiding a destructive competitive dynamic, culminating, in effect, in Americanization, are not very good. To evaluate them, more attention has to be given to the political construction of Europe. But that includes not only the framework of labor law and social policy on which Reder and Ulman focus but also EMU and the macroeconomic policy regime it institutionalizes. The importance of this emerges strongly from analyses of relationships between macroeconomic performance and changes in wage bargaining structures resulting from integration.

Multiple Bargaining Structures Within a Single Currency Area

When the single currency area is established, the wage bargaining structure in that areaas a whole will be comprised of the multiple national structures already in existence within the member states. There is considerable diversity among those structures, with varying distributional and macroeconomic consequences, particularly with respect to the inflation rates with which they tend to accompany given levels of unemployment.[1] As long as the different structures are separated from each other by separate currencies, the price competitiveness of producers whose wages are set in national structures that are relatively more inflationary can be protected (though not without problems) by depreciation of the national currencies against those of countries with less inflationary structures (perhaps true even in a fixed exchange-rate regime insofar as exchange rates can never be irrevocably fixed as long as the separate currencies exist, as the 1992-93 ERM crises remind us). But when that possibility is definitively eliminated by replacing the separate national currencies with a single currency, an area-wide structure made up of the previously separated national structures is brought into being.

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1 . I.e., differences among the national wage bargaining structures contribute to differences in the NAIRU in the different national economies. We leave aside discussion of the validity of the NAIRU concept. See the discussion of the Calmfors-Drifill model below.

The likely characteristics and consequences of that structure have been explored largely in terms of the Calmfors-Drifill (C-D)model of the relationship between wage bargaining structures and macroeconomic performance in the separate national economies of the OECD area.[1] As is well known, the model defines variations in bargaining structures in terms of the degree to which they are centralized. Thus, the structures vary from the most centralized, or “corporatist,” where there are national negotiations encompassing the entire economy, through intermediate degrees of centralization, where there are separate negotiations at the sectoral level, to the most decentralized, in which there is a large number of settlements at company level. When these variations are related to variations in unemployment, they form the now famous “hump-shaped” curve (or a U-curve if related to employment), in which the most favorable outcomes, in terms of the unemployment cost of price stability, occur toward the opposite ends of the curve, in the most centralized and the most decentralized cases. In Calmfors’ words, “an intermediate extent of centralisation (wage setting at the industry level) may produce worse macroeconomic outcomes than both very high and very low degrees of centralisation”.[2]

When the the wage bargaining structure created by EMU in the EMU area labor market as a whole is conceived in terms of the C-D model, it obviously falls somewhere in the intermediate region of the scale of centralization. This is the way it is conceived by Danthine and Hunt in study that seems to best exemplify this approach.[3] Starting with two countries which both have highly centralized structures, they argue that “when two fully centralised economies integrate, one moves from two economies, each with an encompassing union able to internalise all the relevant externalities, to an economy with two unions imposing external effects on one another. One thus goes one step down the ‘corporatist’ scale with the potentially unfavorable consequences suggested by Calmfors-Driffill.” But this could be offset. “If the force of international competition is sufficiently strong, as would be the case of complete integration, the margin for manoeuvre left to the unions decreases considerably and the discipline of the market substitutes for the advantage of the global vision.”[4] This suggests that over time the competition intensified by integration forces wage bargaining structures further down the corporatist scale toward the decentralized end.

On the ground that the diversity of structures within member states persists in the face of pressures for convergence, Danthine and Hunt argue that the hump-shaped relationship between those structures and performance in the regional units (member states) remains, though it is flattened. How much it is flattened depends on how much and how fast unions adjust their strategies to the increased

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1 . Calmfors and Drifill (1988); Calmfors (1993).

2 . Calmfors (1993: 167).

3 . Danthine and Hunt (1994).

4 . Danthine and Hunt (1994: 537).

competitive pressures. The expectation is that the strategies will converge toward those of decentralized unions.

> [W]ith tougher product market competition and converging prices, the room left open for diverging wage policies narrows: rational unions, independently of the level at which bargaining takes place, are thus lead to adopting [an] increasingly similar course of action. . . [H]owever . . . This common course will be more like the (relatively) low price-low wage policies the more decentralised economies are accustomed to than the opposite configuration which is the hallmark of centralised structures. As a consequence, the adjustment to the new environment could be more difficult for the latter than for the former."[1]

Thus, the force of competition within an integrated market is likely to make unions behave more as they would in a decentralized bargaining structure than in an intermediate one. Such a shift in strategy could well result in a decentralization of union structure as well.

Although Danthine and Hunt do not consider the effect of EMU, whatever effect integration may have in forcing such convergence of union wage strategies within member states prior to EMU, EMU might be expected to strengthen the effect. Regardless of how much the diverse bargaining structures within member states persist after EMU, the main point seems to be that EMU turns them into parts of a single bargaining structure across the EMU area as a whole. Whatever the degrees of centralization within the several separate pre-EMU economies, their deep integration by EMU creates a single economy with a bargaining structure whose position is further toward the middle of the centralization curve than the more centralized separate ones that have become part of the single market, and perhaps further even from the average of all the separate ones.

If the C-D model is valid, the result would be the worst of all possible worlds from the macroeconomic point of view. This suggests that the result would be unstable and subject to pressures for change in the direction of the alternative structures at either end of the range of variation. The Danthine and Hunt analysis suggests that the change is more likely to be in the decentralization direction because unions will be driven to converge toward low price-low wage policies by the competitive dynamic they ascribe to integration. We should expect this dynamic to be intensified by those features of EMU's design -- which concentrate the burden of adjustment on labor costs -- to which we earlier attributed the potential for generating a deflationary vicious circle of labor cost dumping. But if the extent to which this happens depends on macroeconomic policies, it might well be greater insofar as the change in wage bargaining structure resulting from EMU is combined with the restrictive macroeconomic policy regime built into EMU.

There are a number of problems with any analysis framed in terms of the C-D model as initially formulated, however. The model has been called into question particularly forcefully by Soskice.[2] He argues that the essential feature of bargaining structure is misconceived in the C-D model: it is not the

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[1] . Danthine and Hunt (1994: 541).

[2] . Soskice (1990).

level at which bargaining occurs that matters (degree of centralization) but the extent to which bargaining is coordinated, regardless of the level at which it takes place and whether it is by unions, unions and employers or employers alone. He points to other flaws in the model: uncoordinated bargaining has unfavorable macroeconomic potential not taken into accoount; the "pushfulness" of local unions is not taken into account either; the model assumes a closed economy while the open economy effects are different. Moreover, the misconception of structures leads C-D to deal only with unions, overlooking the role of employers. This results in the wrong ranking of country structures on the scale of coordination to which unemployment is related. When that is corrected, there is a somewhat different result.[1] Soskice does not redraw the curve, but in his scatter diagram, the most uncoordinated case, the U.S., still performs better than those ranked as having intermediate coordination, which also do worse than the most coordinated, which do best. Since the latter do better than the least coordinated, however, the least coordinated is no longer as good as the most coordinated, as in the C-D model. Calmfors subsequently comes to that conclusion. Given more recent U.S. performance (and worse Swedish performance accompanying its move from high to intermediate coordination) the hump shaped relationship is probably strengthened, though admittedly mainly because of the U.S. outlier, albeit it a big one. There may thus still be something to the idea which makes it useful in thinking about the effects of integration.[2]

However, even when the conception of bargaining structures in the C-D model is enlarged to include employers as well as unions and analyzed in terms of coordination rather than organizational centralization, the C-D model is found inadequate as a guide to understanding the macroeconomic effects of varying bargaining structures because it fails to take into account macroeconomic policy regimes, and particularly the strategies of central banks. As argued in several closely related but somewhat differing studies,[3] the macroeconomic consequences of bargaining structures crucially depend on how wage bargainers and central banks interact with each other, and this holds for the EU as well as for individual national economies. This argument calls into question claims that optimum performance -- price stability at least cost in unemployment -- can be achieved either through coordinated bargaining or central bank independence alone: neither can do as well as the two together. The argument is based on a familiar view of how the interaction works within Germany. The gist of it, as stated by Soskice and Hall and Franzese, can be stated briefly.

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1. Calmfors reads it as a monotonic relationship (1993: 179). However, the hump-shaped relationship seems to remain even if it is attenuated and the ranking of countries on the scale of coordination is different.

2. However, this is called into question by some recent work and work in progress suggesting that at least some variants of the intermediate structure brought about by EMU may have the best rather than the worst macroeconomic effects. See Iversen (1998).

3. Soskice (1997), Hall and Franzese(1998), Iversen (1998).

The independent central bank, the Bundesbank, or Buba, sends clear signals about how much it will tighten monetary policy if wage settlements exceed what it indicates to be compatible with its price stability mission, and these signals are believed by the wage bargainers in view of past experience. The bargainers are coordinated not through any nationally centralized structure but through the pattern typically set by the large, tradable goods sector union, IG Metall, and its engineering sector employer counterparts, which is then followed by other unions, employer associations and, when extension takes place, also regional governments. The pattern set in the engineering sector and followed in the rest of the economy in turn sends a signal to the bank on how tight it needs to make monetary policy.

The institutional conditions for such interaction are absent in the EMU, however, at least at the outset. While there is a central bank (modelled on Buba) for the EMU area labor market as a whole, there is currently no counterpart to the German mechanism for coordinating wage bargaining. If coordination through pattern bargaining led by IG Metall could survive within Germany despite EMU (which is far from certain), it would be turned into a regional enclave of coordination within the larger EU economy in which there are many other less (and a few more) coordinated wage bargaining structures and, most importantly, no coordination across all of them.[1] The EMU area as a whole would have a structure in the intermediate position on the scale of coordination, with many unions of varying strength and scope, but no structure of coordination across the monetary union with which the ECB could interact. Macroeconomic outcomes should accordingly be worse than at the high and low coordination positions (regardless of whether low is as good as high or not). And indeed, according to the argument, if the European Central Bank (ECB) then acts like the Buba in pursuing price stability, as the Treaty seems to say it should, then the absence of coordinated bargaining (plus a need for the new bank to be more royalist than the king in order to establish its credibility) would make it necessary for the ECB to pursue a tighter monetary policy

[1] . Soskice points out that the German bargainers would no longer face a central bank that was in a position to credibly threaten monetary restriction specifically in response to what they do, since the ECB is concerned with what goes on in the EU as a whole. This, he suggests, would give IG Metall less incentive to exercise restraint than it had when it interacted with Buba. If so, however, it is of course also true for the bargainers in any member state who act in anticipation of the pre-EMU actions of their national central banks, suggesting an inflationary bias in the EMU labor market. On the other hand, IG Metall would seem to have an interest in avoiding wage increases exceeding those of its counterpart unions in other countries insofar as they compete in the same product market. If IG Metall exercises restraint to counteract others' undercutting, a deflationary bias might result. In fact, IGMetall is concerned that its counterparts will pitch their wage demands so as to undercut German wages, putting its members at a competitive disadvantage. It accordingly seeks to establish some coordination of wage claims based on a productivity growth norm so as to avert such undercutting (Schulten, 1998). See the discussion below, p.

for the EU as a whole than Buba had to in Germany to get the same degree of price stability.[1] Price stability in the EMU could then be achieved only at a higher cost in unemployment.

However, the argument, at least as Hall and Franzese formulate it, runs into a difficulty even when confined to Germany. It is hard to see how the interaction of Buba with coordinated bargaining can be seen as determining the German unemployment rate when the rate has averaged around 11 percent over the year ending in July 1998 even though wages rose by only 1.7 percent and prices by 0.9 percent over the same period.[2] The interaction has evidently not bought price stability at a particularly low cost in unemployment even though wage coordination in Germany is regarded as having been especially effective. A way out of the difficulty is suggested by Soskice. He makes the crucial point that since actual unemployment "depends on the level of aggregate demand," it can differ from minimum equilibrium unemployment, so actual unemployment provides a misleading measure of the effectiveness of coordination. Hence the effectiveness of coordination should be measured not by actual unemployment, as C-D and others do, but by the "minimum equilibrium rate," which is the rate consistent with sustained current account balance. Thus, even if the effectiveness with which bargaining is coordinated in Germany might permit a lower unemployment rate, actual unemployment might be higher, even considerably so, if "the German government and the Bundesbank choose a more deflating level of public expenditure and the real money supply."[3] And that is undoubtedly what has been happening; the minimum equilibrium rate of unemployment can hardly be as much 11 percent (as of July 1998 Germany has a large trade surplus and a small current account surplus[4]). But bringing aggregate demand back in as an independent variable, as must surely be done, raises the question of why the German authorities, or any other, choose a particular level of demand, associated, as in this case, with an (very low) inflation goal.[5] Thus, if

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1 . While this seems probable, it is not necessarily so. For one thing, the designated president of the ECB, Wim Duisenberg, is reported to have "rejected the idea that the ECB would go in for monetary 'over-kill' in order to prove its credentials" (Coldrick 1998: 28). More generally, how the ECB will act in practice cannot simply be inferred from the treaty provisions, since they leave some ambiguity and since the political context, which alters with the outcomes of elections as well as the configuration of political risks, cannot be ignored by any central bank, no matter how independent formally.

2 . *Economist* (1998: 100-101).

3 . Soskice (1990: 51).

4 . *Economist (*1998: 101).

5 39. With respect to the German case, it should pointed out that if a fear of inflation among Germans is the explanation, as is repeatedly claimed, that fear is more of a politically constructed one than a lesson learned from history. The alleged lesson is that inflation led to Hitler and the catastrophe he brought onto Germany and Europe, as Chancellor Kohl once more alleged recently. But this is a falsification of history. The fact is that Hitler rose to power, from obscurity, in the context of mass

variations in the institutional arrangements that structure the interaction of central banks and wage bargainers do not suffice to explain unemployment, other factors shaping macroeconomic policy targets have to be taken into account.[1] That is to say, the macroeconomic regime pursued by the economic authorities must enter into the explanation, and must itself be explained.

Whatever considerations enter into the Buba's macroeconomic policy stance, the inability of the German unions, including the supposedly mighty IG Metall, to affect it is apparent. They can deliver wage moderation, sending the Bundesbank the signal that monetary policy can be relaxed (and should be to avert DM appreciation, loss of competitiveness, and job losses), but neither unions nor any other actors can do anything to make the bank take advantage of the moderation to lower unemployment. That is presumably what the bank's independence means. But if so, there is less symmetry in the bargainer-bank interaction than the argument seems to imply: the bank issues threats which the bargainers act on because the threat is credible to them, but the bargainers do not issue threats to the bank. The bank simply reacts to what the bargainers -- and government -- do, carrying out its threat to counteract what the others do, depending on what they do; there is no countervailing threat the others can make and carry out against the bank.[2] This exemplifies a generic problem with incomes policies. Unions that deliver restraint do not just have to worry about other unions defecting; even if that collective action problem is solved by effective coordination, they have to worry that the other parties will not live up to the deal -- the government and/or central bank might not deliver the demand, and the employers might not deliver the investment, needed for employment to rise.

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unemployment, something which Adenauer, in contrast with later politicians, was very clear about. The reasons for and political functions of the falsification are interesting questions for another discussion. But it is important to keep the questions in mind and to remember that Hitler's rise was associated not with inflation but mass unemployment.

[1] 40. It can be argued that bank-union interaction does go a long way to explain German unemployment on the ground that the Buba punished the German unions for excessively high wage increases during the unification boom years of 1990-92. If so, it was evidently a case of overkill, for the result was to plunge Germany and, with it, the rest of Europe into the deep recession of the subsequent years, which was prolonged by the very slow easing of monetary policy despite the rapid reduction in wage inflation. This is attributed to the Buba's concern with re-establishing the credibility of its threats. (Carlin and Soskice 1997) But it is hard to accept that the bank's judgment that such a high price had to be exacted from all of Europe in the name of its credibility, and its ability to exact that price without any constraint, has any politically defensible basis.

[2] 41. Thus, there is no counterpart to strikes, with which unions can impose costs on employers, with which unions can threaten central banks.

For all the difficulty of solving the collective action problem in implementing incomes policies, not to speak of the problem of making sure that the other parties to the deals deliver the quids pro quo, European unions have a strong stake in going beyond national confines and establishing the capacity for coordination within the EMU area labor market as a whole. The price stability macroeconomic policy regime that has replaced the full employment regime in place in the earlier postwar period throughout Europe, and which has been institutionalized in the design for EMU, is largely a reaction against the inflationary surges of the 1970s and the apparent intractability of the problem of reconciling full employment with price stability with the institutional arrangements available.[1] The current regime threatens unions as much as the prior full employment regime had underpinned their growth. Just as the full employment regime relied on unions and other market regulating institutions to prevent deflation, so the current regime relies on eliminating the price supporting power of unions and market regulating institutions to prevent inflation, accomplished through the mix of unemployment and deregulation that is highly destructive to labor movements.[2] Although the redistribution of power inherent in that mix is undoubtedly exploited for reasons that have nothing to do with price stability, the possibility of restoring a full employment regime in Europe, short of political disasters precipitated by the deepening social costs of the anti-inflationary regime, probably rests heavily, though only partly, on changes in the European wage bargaining structure that can credibly allay fears of renewed wage-price spirals at lower levels of unemployment. The question is what kind of changes they should be. If it is really America's

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[1] 43. Keynes anticipated, in 1943, "that a serious problem will arise as to how wages are to be restrained when we have a combination of collective bargaining and full employment. Michal Kalecki, who developed independently an approach to full employment similar to the one of Keynes, argued that the problem posed a fundamental challenge to capitalism. In his view, "under a regime of full employment, the 'sack' would cease to play its role as a disciplinary measure. The social position of the boss would be undermined, and the self-assurance and class consciousness of the working class would grow. Strikes for wage increases and improvements in conditions of work would create political tensions." While he believed that "the rise in wages resulting from the stronger bargaining power of the workers is less likely to reduce profits than to increase prices," he thought business leaders' concerns for workplace discipline and political stability would lead them to regard "lasting full employment [as] unsound from their point of view." As to inflation, whether it could be prevented "would depend on the institutional arrangements of the regime of full employment." In a famous passage, he concluded that "'Full employment capitalism' will of course have to develop new social and political institutions which will reflect the increased power of the working class. If capitalism can adjust to full employment a fundamental reform will have been incorporated in it." Both quotations in Glyn (1996: 37).

[2] 44. The macroeconomic policy regime shift, its causes and consequences, are more fully explicated in Temin (1989), Forsyth and Notermans (1997), and Notermans (1993) and (forthcoming).

decentralized labor market that has made possible the permissive monetary policy which brought high employment, though with high inequality, to the U.S. as some suggest, and coordination across the whole EMU-area labor market is the only alternative promising comparable macroeconomic performance at less cost in inequality and union decline, it is clear which option European unions must prefer.

The stake European unions have in a solution to the macroeconomic problem of full employment that cross-border coordination might provide accordingly reinforces the inherent stake unions have in expanding the spatial scope of their strategic domain to keep pace with the expanding scope of the markets in which employers operate. Thus, unions have an interest in preventing inter-union wage rivalry from generating both the deflationary vicious circle of labor cost dumping to which EMU now renders them vulnerable and the inflationary vicious circle of labor cost rises, which has to be avoided if there is to be any chance of changing EMU into an instrument of sustainable full employment. What prospects are there for European unions to achieve that coordination?

Conflicting Interests and Contradictory Conditions

As is well known, the conflicting interests of individual unions in protecting the jobs and (relative) earnings of their own members pose formidable obstacles to establishing coordination among unions -- obstacles all the more formidable insofar as markets cross national boundaries. The extent to which the obstacles can be overcome depends in no small part on not only employer strategies but also the political context. We turn now to a review of European unions' efforts -- substantial but limited so far in important ways -- to establish cross border structures potentially capable of organizing coordination, and an analysis of the way in which the distinctive political structure of European integration has both supported and inhibited those efforts.

<u>The Tentative Europeanization of European Labor</u>

Although European integration gives European unions strong reasons for developing the capacity for strategic action across the whole European labor market, there are also powerful obstacles to doing so. These are familiar. For all the rhetoric about internationalism in labor movement discourse, unions are deeply embedded in national institutional structures, on which their capacity to control competition among themselves greatly depends. Reinforced by cultural specificities and national identities, this gives powerful inertial force to unions' commitment to national structures and strategies.

Despite such obstacles, however, European unions have been constructing a thickening network of transnational activities, primarily though not exclusively within the framework of the European Trade Union Confederation (ETUC).[1] Culminating a slow effort to create a trade union organization in response to European integration, the ETUC was founded in 1973. Originally consisting only of national confederations of unions, since 1991 it also includes the so-called European Industry Federations (EIFs),

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[1] 44. Details are provided in Martin and Ross (forthcoming) and Dølvik (1998), from which the following account is drawn.

international organizations of unions within particular sectors.[1] As of its 1995 Congress, the ETUC had a total of 47 member organizations, representing 46 million workers, mostly in EU member states but also some others like Norway and Turkey. These numbers have since increased with the admission of additional West European confederations and also, more importantly, several confederations from former Soviet bloc countries in Eastern Europe. For most of its first decade and beyond the ETUC, with a very small office in Brussels despite its large formal membership, lobbied and issued statements with limited influence and resonance at national level. Renewed integration in the 1980s brought new challenges, and in response, changes in ETUC's leadership, organization and capabilities gave it increased visibility and importance. It became a genuine participant in policy formation, though in a limited area, and its significance for its constituent organizations grew as their stakes in Europe were raised. Moreover, awareness of the ETUC and the relevance of European action began to filter down to unions at national and even company level. A European trade union structure with some potential for being the vehicle for a European labor movement has thus come into being.

How did this happen? The answer lies largely in initiatives taken by European political insitutions, principally the Commission, especially between 1985 and 1995 when Jacques Delors was its President, but also the Parliament.[2] This is not to say that the development of European level union organization is solely the result of those initiatives. However, they enabled trade unionists convinced of the need to operate on transborder European levels to develop the organizational instruments and political weight for doing so to a greater extent than they otherwise could have, for there was not enough of a strategic reorientation toward Europe within national unions to secure sufficient financial and political resources for a European structure to develop as much as it has. European institutions have filled the gap with both kinds of resources.

The financial support has enabled the ETUC to expand its organizational capacity. Thus, the ETUC got money to set up a unit, the European Trade Union College (ETUCO), to train trade union officials for work at the European level, to set up an expert body on health and safety, the Trade Union Technical Bureau (TUTB) to participate in legislation and standard setting and help national unions monitor their implementation, and to finance its long-standing (but only recently revitalized) research arm, the European Trade Union Institute (ETUI). Possibly most important, the ETUC's sectoral federations got funds to finance the establishment of European trade union committees consisting of worker representatives from the various subsidiaries of multinationals operating in Europe. Formally intended to

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[1] 44. For example, the European Metalworkers Federation, the European Federation of Building and Construction Workers, and the European Public Services Federation. Many of these were and some (though not the listed ones) still are the European regional bodies of International Trade Secretariats.

[2] . On Delors' role, and an inside view of how the Commission Presidency functions, see Ross (1995).

the lay the groundwork for European Works Councils (EWCs), this support was provided before the directive mandating establishment of EWCs was enacted and continued since.[1] What was important about it was that it facilitated the building of cross-border trade union networks with the potential for functions beyond those to which EWCs are formally confined. In general, EU support operated to offset, if only very partially, the fundamental advantage in resources employers have over unions, providing unions with their own independent means for performing the specific tasks that were supported, and thereby enabling them to develop their own independent positions in various EU policy arenas, ranging from legislation to technical standards, as well as covering some of the costs (including the heavy one of translation) for meetings ranging from the ETUC's Congresses to the multinational company trade union committees.

While the increased organizational capacity the ETUC gained with the help of this financial support also enhanced its political credibility within EU arenas as well as its own contituents, EU institutions also provided it with important political resources directly by drawing it into coalitions to advance joint policy agendas. Arguably most important was the process by which the initially desultory "social dialogue" between the ETUC and peak organization of European employers, UNICE, was transformed into a mechanism through which these "social partners" could negotiate agreements that could be given the force of European law by the Council of Ministers, the EU's legislative decision-making body. This procedure for negotiated legislation was embodied in the so-called Social Protocol of the 1991 Maastricht Treaty -- now part of the Treaty.[2] It was the culmination of a long effort by Delors to give some

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[1] . The directive on European Works Councils (EWCs), adopted in 1994, requires all "Community scale undertakings" with at least 1,000 employees within the members states (excluding Britain at the time) and at least 150 employees in each of two member states to establish an EWC or other "procedure for informing and consulting employees if employees request it, in accordance with rules specifying negotiating procedures. The minimum requirements are simply that companies hold meetings of EWCs or other agreed bodies once a year at company expense, at which representatives selected by employees at the various subsidiaries are provided with information about company conditions and prospects, except that additional meetings should be convened in the event of pending large changes. There is no requirement for consultation in the sense of putting pending decisions before employee representatives, receiving the representatives responses, and responding to those responses with further information, justification, and perhaps changes.

[2] 47. The protocol includes all of a "Social Agreement" consisting of several provisions slightly enlarging the EU's legislative authority in social and industrial policy matters in additition to the provision for negotiated legislation It was a protocol to the treaty rather than a part of it because Britain refused to agree to it, which would have scuttled it under the applicable unanimity rule, while the eleven other members agreed to go ahead with it anyway. The Labour government that came into office in 1997

substance to the EU's "social dimension" -- an effort which made the ETUC a participant (indirectly though actively) in the EU constitutional politics arena, while its result gave ETUC a formal role in the EU's legislative process.[1]

Yet these prime examples of European institutions' support point to how limited it has actually been in fostering the development of trade union capacity for action in the European labor market and policy arena. Most pertinently, the kind of structures of cross-border action that have been encouraged are not those that have the most plausible prospects for coordinating wage bargaining across the EMU-area labor market. Thus, the closest approximations to labor-management negotations over anything has been promoted at the top, intersectoral level, and at the bottom, transnational company level. Neither holds much promise for being developed into a mechanism for coordinated bargaining over the terms of employment.

The Obstacles to Wage Coordination from the Top-Down.

At the top, interesectoral level, there is now essentially no way in which ETUC could enter into the kind of political exchange through which the coordination of wage bargaining throughout the Euro-area could be organized, for it is not in a position to deliver policy to its constituents nor wage restraint to governments and employers.[2] While it gained entry into the European level social policy arena through the Social Protocol procedure, the scope for negotiated legislation under the procedure is circumscribed by the very narrow limits within which EU's social policy authority is confined by its treaty/constitution. This largely excludes the whole range of welfare state policies and explicitly rules out any legislation on core industrial relations issues such as pay or the rights to organize, strike, or impose lockouts. The Commission can only propose legislation within these limits, and no legislation can be enacted, under the

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abandoned its predecessor's opt-out so that the provisions of the Social Agreement are now part of the treaty and are applicable to Britain as well.

[1] 49. The first attempt to implement the procedure, on European works councils, foundered on employer resistance to the proposal, which was then enacted as a directive through the normal legislative process. Subsequently, however, agreements were reached on parental leave and the rights of part-time workers --modest in their content but significant in keeping the procedure from becoming a dead letter.

[2] . As the top ETUC official with economic policy responsibility acknowledges, "The idea of the ETUC being able to coordiante wage demands right across Europe, and making deals with the ECB [analagous to IG Metall-Bundesbank interactions. A.M.] is not, as the French say, 'serious'." But, as he points out, this leaves unanswered the question of "how then can it be ensured that collective bargaining won't be inflationary - resulting in restrictive policies and higher unemployment? Coldrick (1998: 26). A general analsysis of why Euro-level corporatism is highly improbable is provided in Streeck and Schmitter (1991).

Social Protocol procedure or the normal legislative process, unless it is proposed by the Commission, which it typically does not unless the political omens for adoption by the Council are good. This further narrows the scope for European level intersectoral negotiations since UNICE, ETUC's employer counterpart, has shown it will not even enter into negotiations about anything except proposals for legislation initiated by the Commission, and then only because of the threat of legislation if it does not negotiate.

The ETUC has not had even this limited institutionalized access to European level policy arenas in which decisions are made on issues of fundamental importance to unions, namely macroeconomic policy. This includes the Delors Committee of central bankers that designed the ECB behind closed doors, the Council of Economic and Financial Ministers (ECOFIN), a closed intergovernmental arena in which labor's influence, if any, has depended on national labor movements' role in domestic politics, and most obviously, now the ECB itself, inaccessible to any political actors, at least formally if less certainly in practice. An opening for an institutionalized ETUC voice in the economic policy arena was more recently provided by the new procedure for what is called employment policy.[1] But it is a very small opening indeed. Briefly, the procedure is that the Commission proposes and the Council (as the Social Affairs Ministers and ECOFIN acting jointly) adopts "employment guidelines," the member states submit "national action plans" (NAPS) for complying with the guidelines, which are reviewed by the Commission and Council, with progress toward fulfillment reviewed at the subsequent semi-annual Council, which may issue recommendations for better compliance to individual states, in which -- unlike monetary policy -- ultimate responsibility for employment nevertheless remains. Consistently with this absence of supranational authority in employment policy and in further contrast with monetary policy, there are no sanctions against states which fail to follow the guidelines.[2] Indeed, while the guidelines and monitoring process mimic those by which the fiscal policy obligations imposed on member states by the Stability Pact are enforced, the employment guidelines have no binding force. But the most fundamental contrast with monetary policy is that employment policy is confined strictly confined to supply-side measures.[3] The

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[1] . These were introduced by the 1997 Treaty of Amsterdam, which added a new employment chapter in the treaty (tellingly separate from the economic policy chapter which includes the provisions on the ESCB), and elaborated at the Council meeting that adopted it and the so-called Luxembourg Employment Summit in 1997. For details and analysis, see Goetschy and Pochet (1997) and Dølvik (1998).

[2] . Even the recommendations for better performance are not to be made public, in contrast with similar recommendations for better compliance with the fiscal performance obligations which are compulsory under the Stability Pact.

[3] . These are designated as dealing with "entrepreneurship, employability, adaptability, and equal opportunity," including incentive effects of taxes and benefits and improving workers' skills.

demand side, which remains the exclusive and powerful domain of the ECB, is completely fenced off from this new employment procedure, notwithstanding its crucial role in determining employment. The ECB's monetary policy choices remain decisive, setting the macroeconomic parameters (or straitjacket) within which employment policy may seek to squeeze more jobs out of the demand the ECB allows by supply side measures, thereby leaving intact the original design of EMU. Strictly limited as the employment policy arena is, the ETUC's formal access to it is also very limited. Unlike its role in negotiated social policy legislation, however narrow, its role in employment policy is defined simply by the requirement that the "social partners" be consulted by an employment committee, comprised of member state and Commission representatives, set up as an advisory (i.e. not decision-making) body to the Council, and by the Commission in the course of preparing the proposed guidelines and reviews of national performance.

To be sure, the establishment of a Euro Council ("Euro-X") may be viewed as a slight modification of the design.[1] This is an informal non-decision making body consisting of the finance ministers of states entering the EMU that meets to discuss all aspects of their economic policies bearing on their compliance with the "broad economic guidelines of the Community," as defined by the Council in accordance with the convergence criteria specified in the TEU and Stability Pact. Thus, it is a context for (non-binding) interpretation of those performance requirements by member states. The ECB, as well as the Commission and representatives of the European Parliament (to which the ECB must give reports but from which it cannot take instructions) can be invited to attend the Euro-X meetings. Who will exert any influence, if any, on whom in such meetings remains to be seen.[2] Formally, Euro-X does not alter EMU's basic design, and it is a far cry from the "counterweight" to the ECB embodied in the "European economic government" demanded particularly by the French government. Informally, it could become the context in which consensus on the needed stance of macroeconomic policy, including monetary policy, could be forged (as it could be in ECOFIN all along). This could be more expansionary than the ECB's if the domestic politics of the member states point that way, and hence a source of political pressure on the ECB it could not entirely ignore in practice. Potentially, the intergovernmental economic policy process could result in revision of the extremely restrictive provisions of the TEU and Stability pact, and, at the extreme, an abandonment of the price-stability regime in favor of a full employment regime. But this presupposes a far-reaching political shift, possibly crisis induced.

As the European level economic policy arena is now institutionalized, however, it offers virtually no scope for the ETUC to enter directly into serious discussions, not to speak of negotiations, with authoritative policy makers over measures that might be expected to induce unions to adopt a common

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[1] . Decided at December 1997 European Council meeting.

[2] . The economic guidelines formally adopted by the whole Council constitute a statement of "the general economic policies in the Community" which the ESCB "shall support, subject however to the extent to which, in its view, its primary objective of price stability is achieved. Article 105.

wage policy consistent with agreed macroeconomic performance. But, as industrial relations are now structured in Europe, there is as little scope for the ETUC to enter into negotiations with its employer counterpart over wage norms or any other terms of employment. None of the limitations of the EU's treaty/constitution preclude the negotiation of collective agreements on Social Protocol subjects or any other, including wages, by the European level peak organizations of unions and employers if their national member organizations give them mandates to do so. However, their national constituents have so far been unwilling to grant them negotiating authority on any but Social Protocol matters, and most are themselves barred from doing so by their own sectoral member organizations, whether they be national employer associations or unions, neither of which typically even give their national confederations bargaining authority. Many employers in European countries are, on the contrary, trying to drive collective bargaining down to the company level. While unions seek to blunt this drive, they have abandoned efforts to restore peak-level bargaining in Sweden (and to a large extent Denmark) where employers have pulled out, and never allowed it in other countries (Britain and Germany), although there has been some resurgence of peak-level negotiations over broad social pacts in yet other countries. As discussed below, however, such social pacts imply a "re-nationalization" of bargaining rather than increased readiness to transfer material resources and authority to European level organization.[1] The unions' reluctance to do so is only reinforced by the narrow scope for policy deals at the European level; with very little to be won at the European level, they concentrate their resources on the national level. This does not mean that the ETUC cannot trancend the limits currently set by the formal structure of the economic policy arena, by informal contacts and by developing new channels of communication. Thus it will even meet later this year with the ECB in an effort to establish "formal social dialogue between trade unions and the bank."[2] Depending on its results, such dialogue, if established, might give national unions sufficient incentive to use the ETUC as a forum through which to coordinate wage bargaining across the Euro-area labor market even if they do not give the ETUC itself any mandate to bargain on their behalf. Could this prove to be a route to the kind of interaction between monetary policy and coordinated wage bargaining that might underpin sustainably lower levels of unemployment? The possibility cannot be ruled out, though the prospects for this seem remote now.

Alternative Routes to European Wage Coordination .

If all the preceding makes anything like cross-border coordination of wage bargaining unlikely to develop from the top down, could it develop from the bottom up, building on the European Works

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1 . See the discussion of the "re-nationalization" of bargaining below, pp.

2 . *Financial Times* September 17, 1998: 2. The desirability of such direct contacts has been stressed by the ETUC official responsible for economic policy. "If the ECB is going to be sending us 'messages' through interest rate increases, we want to be able to ensure that we really understand what they are saying - and we want to be able to send messages back to them." Coldrick (1998: 26).

Councils? It might be thought that the contacts between unions at different national subsidiaries of multinationals have the potential for coordinating wage bargaining within the companies (even if management refuses to negotiate on a cross-border company-wide basis), and that this could in turn serve as the nucleus for wider, sectoral cross-border coordination. However, the companies covered by the directive account for not much more than 10 percent of the EU labor force. Moreover, even if unions could transform the EWCs from mere forums for information exchange, which is all they are under the directive, into negotiating bodies, the EWCs could just as well develop into institutions of "transnational micro-corporatism" -- that is, intra-company coordination that is detached from even national, not to speak of transnational, union structures. This could undermine national union structures without contributing anything to the construction of European structures to replace them.[1]

In contrast with the intersectoral and company level cross-border union structures which the European institutions have promoted, the ETUC's sectoral organizations, the industry federations (EIFs), seem to be the only cross-border union structures so far available with some prospect of serving as a mechanism for coordinating wage bargaining across the EMU-area labor market, and for counteracting the danger to unions of microcorporatism. The EIFs' member organizations are the national unions that actually negotiate wages, to which the EIFs are directly accountable, and from which they could conceivably be given negotiating or coordinating mandates if the unions feel the need to control wage rivalry among themselves in order to defend themselves against vicious circles of social dumping. But none of the EIFs are near this point. They are in many respects the least developed cross-border structures, and have certainly had the least support from European institutions, except for their role in setting up works councils.[2] Moreover, there is almost universal resistance to dealing with them on the part of employers, even on the very limited range of non-wage issues in the sectoral level social dialogue half-heartedly supported by the Commission. The European employer association in the most important sector, engineering, is adamantly opposed to any discussions whatesoever with the sector EIF, the European Metalworkers Federation (EMF). At the same time, there are no employer organization counterparts at all for half the European labor force. If the EIFs have the most likely -- or least unlikely -- potential for wage bargaining coordination in the EMU labor market, that potential is still very far from being realized, at least partly because the European institutions have done so little to realize it.

Nevertheless, there is the possibility that national unions which now conduct the bulk of wage bargaining above company level (i.e. multi-employer bargaining) may develop cross-border coordination of wage bargaining, in which the EIFs might be involved in some ways. Recent moves by the German engineering sector union, IG Metall, the largest union in Europe and something like the pattern setter not

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1 . Schulten (1996).

2 60. However, the fact that many of the EIFs now receive as much as three times as much in dues per member of their constituent unions than the ETUC does attests to increasing support for them.

only in Germany but throughout Europe -- a kind of "social Bundesbank" as it has been called -- indicate this may be starting to happen. At the initiative of the union's North-Rhine Westphalia region, a wage bargainer from it and each of its counterpart unions in Belgium, Luxembourg and the Netherlands sat in on each others' steel industry negotiations in 1997.[1] It seems clear that IG Metall was motivated by concern about undercutting by its DM-zone counterparts, especially the Dutch. Because the Dutch Guilder has for some time been fixed in relation to the D-Mark, greater wage restraint in the Netherlands than in Germany gives Dutch producers competitive advantage which cannot be offset by appreciation of the Guilder. With the advent of the single currency, there is the fear that this "Modells Holland" might be extended throughout the EMU area, and "ruinous wage competition" would break out. Hence, IG Metall has been pressing European engineering sector unions, and European unions generally, to agree on a common norm which bases wage claims on the sum of productivity growth and the ECB's inflation target.[2] It has been doing so in several ways. One is by extending the practice of cross-border observers in North-Rhine Westphalia to its other regions.[3] Another is by urging the EMF to adopt the norm as federation policy.[4] Up until now, however, EMF has not tackled the potentially divisive issue of wages, concentrating instead on the reduction of working hours on which agreement is easier to achieve. However, the IG Metall position was echoed by wage policy officials of unions from Germany, Belgium, Luxembourg and Netherlands in a wide range of sectors at a September 1998 meeting in Doorn, Netherlands, convened by the International Confederation of Chemical, Energy, Mining and General Workers Unions (ICEM). In a joint declaration explicitly aimed at preventing "bidding down," the unions defined their goals in the coming wage round as increases corresponding to productivity growth plus prices and employment protection, including hours reduction, and adopted a procedure for informing and consulting each other on a continuing basis, and possibly engaging in joint cross-border action. While the unions involved were

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1. Schulten (1998: 490). The actual wage negotiations in Germany are conducted by the regional bodies of national unions and employer organizations although the national organizations coordinate the negotiations internally as well as engaging in discussions -- and sabre-rattling -- with each other. For details, see Jacobi et al. (1998).

2. Schulten (1998: 487-89). The productivity-price formula is of course a standard one. However, the European Commission has been recommending real wage increases of one percent less than productivity growth, which is roughly what has been happening, as reflected in the a decline of the wage share of GDP in recent years.

3. Union counterparts in Austria, which is in the DM zone, and Italy, which is not, have been involved in similar mutual monitoring. Reported to me by an IG Metall official. Schauer (1998).

4. Klaus Zwickel, president of IG Metall, September 10, 1998, as reported in communication from Joachim Kreimer-de Fries, September 11, 1998, for which I am grateful to Jon Erik Dølvik.

confined to part of the D-Mark zone, their effort was presented as a step toward "European cooperation on collective bargaining."[1]

It does seem reasonable to expect the logic of this incipient coordination within the D-Mark zone to be extended beyond it once it is replaced by the Euro zone. Thus, efforts by groups of national unions in different EMU member states to head off wage competition such as that made at the Doorn meeting might be the most likely way in which a Europeanization of the wage bargaining structure could occur. The EIFS would probably prove to be useful in the process, and even the ETUC could play a supporting role, though without engaging in actual collective bargaining with employers any more than most national confederations do. The absence of a legal framework for collective bargaining on the European level, including the right of cross-border industrial action -- and the impossibility of providing it unless the EU's treaty-constitution is amended -- might be an obstacle. However, it would not be more of an obstacle for Euro zone coordination that evolves out of national union initiatives such as IG Metall's than if it occurred any other way.

The macroeconomic implications of such coordination along sectoral lines are unclear, however. As indicated, IG Metall's concern is that other unions in the same product market might not push hard enough rather than too much. Perhaps for this reason as well as the potential for intersectoral wage rivalry, Calmfors regards cross-border coordination on a sectoral basis as a form of intermediate wage bargaining structure least desirable from a macroeconomic perspective.[2] But this may reflect a misunderstanding of how coordination works in the German labor market where the engineering sector is typically the pattern setter. If coordination could be extended across the Euro zone along the same lines, it might provide a mechanism for interaction with the ECB that is the closest possible approximation to the interaction between German unions and the Bundesbank which will be eliminated under EMU. But that, as we saw, is no guarantee that the unemployment cost of price stability would be as low as it could be. The cost that the ECB would then impose would still depend on how it interprets its price stability mandate -- i.e., whether it behaves more like the Buba or the Federal Reserve Bank of the U.S, as Soskice puts it.[3] Paradoxically, the more it acts like the Buba, the more likely the resulting high unemployment will take European unions down the American path of decline. If Americanization of the European labor market is the outcome, the ECB might only then act more like the Fed.

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1. Communication from Joachim Kreimer-de Fries, September 8, 1998, for which I am grateful to Jon Erik Dølvik. Kreimer-de Fries is the DGB representative on the ETUC's committee on collective bargaining and represents the German unions on the coordinating committeee set up at the Doorn meeting.

2. Calmfors (1993: 170).

3. Soskice (1997).

While the first, tentative steps by IG Metall and other unions toward cross-border coordination may point to the most likely route toward the Europeanization of wage bargaining if it is to occur at all, steps toward an alternative response to EMU, the "renationalization" of wage bargaining, seem much further along.

The Re-nationalization of Wage Bargaining: Towards "Competitive Corporatism?"

Recent developments in many European countries point to the possibility that the dominant direction of change in response to EMU may be toward neither Americanization nor Europeanization but rather a "re-nationalization" of wage bargaining structures.[1] There has been a growth in efforts by employers and governments as well as unions to negotiate the adaptation to new competitive pressures by relying on existing national industrial relations institutions, perhaps modifying them in the process, to secure consensus around national strategies. This offers to unions the possibility of organizational survival, re-legitimating their role and delivering some benefits (such as due process, rights to training, etc.) at least to those members for whom there is some demand. To governments and employers, it offers diminished risks of costly social unrest and efficiency losses from low trust workplace relations that are likely to flow from unilaterally imposed change. Rather than being eroded by competitive forces intensified by the move to a single currency, then, national industrial relations institutions might be reinvigorated to cope with those competitive forces. The extent to which this happens is likely to vary, depending on how readily different national institutions lend themselves to such coping strategies, or may be modified to do so. The result would be increased diversity rather than convergence.[2]

Thus, while decentralization, even individualization, of negotiations over terms of employment has proceeded in some countries where there already was much decentralization, notably in Britain, national level tri-partite or bi-partite negotiations have been resumed in some countries where they lapsed. This is the case in Italy[3] and Norway,[4] and in more limited form in Spain,[5] though not in Sweden.[6] In the Netherlands, after a long period in which earlier, highly centralized concertation was displaced by decentralized wage-setting, less formal processes of social concertation have operated.[7] New kinds of

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1 . Dølvik (1993, 1998); Fajertag and Pochet (1997). The discussion that follows is a preliminary one. A fuller discussion will be provided in the next draft.

2 . Distinguishing between such institutional diversity and functional diversity, Streeck points out that there may nevertheless be functional convergence insofar as all industrial relations systems are "losing their grip onthe mareket forces they were once designed to control" (1997: 18).

3 . Baccaro and Locke (1999); Regini (1997).

4 . Dølvik and Stokke (1998).

5 . Fraile (Forthcoming).

6 . Kjellberg (199)8.

7 . Hemerijck and Visser (1997).

agreements over trade-offs between jobs and wages or benefits have been reached in Ireland[1] and Finland.[2] Such social concertation is reminiscent of earlier episodes of neo-corporatism but they differ in substance and procedures. Tendencies in this direction are observable even where the attempts failed, as in Germany and Belgium. In the former, the Kohl government's "Alliance for Jobs" initiative collapsed when neither the government nor employers were willing to offer what the unions regarded as a sufficient commitment to employment in return for the wide range of wage, work rule and social policy changes asked of them, but the Social Democrats promise to revive the proposal on better terms if they form the next government.[3] In Belgium, when one of the two confederations rejected a somewhat narrower incomes policy proposal, the government responded with compulsory calibration of wage changes to those in other D-Mark zone countries.[4]

In most cases, the resurgence of government attempts to forge such social pacts has been linked to the approach of EMU. Pacts have been sought to secure acceptance of (and hence better prospects for compliance with) the requirements for meeting the EMU convergence criteria.
On the other hand, the compulsion of the convergence criteria is often invoked to bring about changes sought anyway by governments, employers, and perhaps even unions, which would otherwise be politically more difficult to achieve.[5] This, as well as the continued requirements imposed by the Stability Pact, suggests that once EMU is in place, national concertation may continue to be relied on where available industrial relations institutions offer possibilities for doing so. While this may be an attractive alternative to responding to competitive pressures by allowing them to decompose the institutions, however, the question remains how the various national systems of concertation would interact with each other in the context of EMU. Contrasting possibilites can be envisaged.[6]

In the more "benign" scenario, concertation within separate national structures could provide a mechanism for a tacit coordination of wage bargaining, potentially on the basis of a productivity norm, across the whole EMU-area labor market. Wage restraint is typically one of the terms of the social pacts and often geared, explicitly or implicitly, to unit labor cost trends in trading partners. As EMU makes the relative trends become generally visible (though they are already readily comparable to companies even under separate currencies), productivity and inflation differences become more salient and agreement on the need to take them into account to avoid declining competitiveness should become easier. Insofar as such agreement is reached in the concertation processes in the various different EMU member states,

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1 . Kavanagh et al. (1997).

2 . Pekkarinen (1997).

3 . Bispinck (1997).

4 . Vilrokx and Leemput (1998).

5 . Dyson and Featherstone (1997).

6 . The contrast between benign and malign scenarios was suggested by David Foden.

convergence toward a common, non-inflationary norm is likely to occur. Thus, the existence of multiple national wage bargaining structures within the Euro-area would not lead to the worst macroeconomic outcome, as the C-D model would predict from such an intermediate structure, insofar as its component structures are themselves highly coordinated. The joint effect of actors in each national structure relating their unit labor cost trends to each other so as to avert loss of competitiveness would be restraint across the national structures.[1] Where national structures make concertation difficult, inflationary wage pressures would be counteracted by loss of competitiveness, which strengthens incentives to overcome the limitations to concertation in the national structures.[2] "Competitive corporatism" might accordingly lead to convergence toward a common non-inflationary wage norm, either implicitly through mutual monitoring or explicity through the EU employment policy procedures, whereby national strategies (supposedly formulated with participation of the social partners) for compliance with the intergovernmentally agreed guidelines are subjected to multilateral surveillance. This, in conformity with the Commission's expectations, could induce the ECB to relax monetary policy sufficiently to allow faster growth and decreasing unemployment.[3] Such a result may be even more probable if, as some have argued, re-nationalization is not so much an alternative to Europeanization as a complement to it in its more modest and plausible forms. Thus, coordination among more or less interally coordinated national wage bargaining structures with each other would be facilitated by the various forms of cross-border structures being developed at mutinational company, sectoral, and intersectoral levels, forming an increasingly dense though variegated multi-tiered European structure.[4]

But social pacts in each of the EMU member states would not necessarily aim only at keeping cost growth from exceeding those in other states. They could just as well be aimed at increasing competitiveness by keeping cost growth below what it is in their trading partners. The temptation to do so would presumably be all the greater to the extent that demand growth would be kept down by an ECB that viewed its mission as achieving something close to zero inflation, so that the only way competing units could save jobs and profits would be by increasing their share of stagnant markets. Competitive corporatism would mean that the units are alliances among the governments, employers and unions in the EMU member states rather than companies or industries. The effort to gain competitive advantage by labor cost cuts would proceed by collusion instead of coercion. Rather than relying on the weakening of

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[1] . Such a competitiveness norm appears in various forms in several countries. Schulten (1998: 484-85).

[2] . Perez (1998).

[3] . This is scenario projected by the European Commission, DG II, in Growth and Employment in the Stability-Oriented Framework of EMU, cited in Dølvik (1998): 12. The term "competitive corporatism" was coined by Rhodes (1997). There will be more about this in the next version of this paper.

[4] . Dølvik (1997, 1998), Marginson and Sisson (1996).

union bargaining and political power by market forces in the context of high unemployment to enable employers (and governments) to impose cuts, cuts would be negotiated. But the understanding of common, or coinciding, interests on which such "competitiveness alliances" are based in any individual member states can readily include an interest in cuts relative to those in other states sufficient to gain competitive advantage. To the extent that this logic operates in any of the states in which competitive corporatism is achieveable, it would seem difficult for the national actors in any of the other states to avoid seeking cuts to at least restore relative competitiveness if not to gain competitive advantage, whether through national social pacts or not. Thus, a deflationary vicious circle of competitive internal depreciations or labor cost dumping would be as likely to be set into motion by a re-nationalization of wage bargaining as it would in the absence of the national social pacts through which the re-nationalization is manifested. The ensuing increases in unemployment and insecurity seem bound to undermine the legitimacy of the social pacts and the unions that enter into them, accelerating union decline. The social pacts would come apart, as unions defect to cope with internal disaffection and lose the capacity to deliver those things giving other actors their stake in the pacts. Competitive corporatism would accordingly give way to processes of decentralization and fragmentation leading in the direction of an Americanization of the labor market.

Again, which of these scenarios is likely to materialize would depend on the macroeconomic policy pursued by the ECB. Given the restrictive macroeconomic policy regime EMU is designed to enforce, the danger that re-nationalization might degenerate into the malign scenario seems real. If it materializes, re-nationalization would not be a sustainable alternative to Americanization any more than Europeanization is likely to be under similar conditions of high unemployment. But the macroeconomic policy regime is the product of political choices, and the way it has been institutionalized reflects the distinctive way in which the political framework within which European integration has been constructed. While this makes it difficult to change, however, the regime is not immune to change if the political costs of continuing it prove too great to bear for national political leaders (who anyway get replaced, though not necessarily for the better).[1]

Alternatives to Americanization: A Preliminary Summary

The situation with which European economic integration confronts European unions has been decisively shaped by the specific features of EMU and the political framework of integration in which it is embedded, and on which the possible responses to integration open to the unions are highly contingent. Although integration gives them large stakes in developing cross-border structures through which to coordinate bargaining strategies across the Euro-area labor market, the political construction of Europe

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1 . The deflationary pressures emerging in various parts of the global economy seem likely to confront European political leaders with the need to reassess their commitment to the macroeconomic regime they have encumbered themselves with sooner rather than later.

presents them with contradictory opportunities and incentives. It has been the source of financial and political resources contributing significantly to the development of European level union organization while at the same it has channeled and limited that development in ways that narrowly limit their roles in both the political and market arenas at European level. Falling far short of a federal state as they do, the EU's political institutions provide scope for unions and other actors to try to influence policy binding on member states with respect to only a limited portion of the entire spectrum of issues, excluding issues ranging from the legal framework of collective bargaining to macroeconomic policy (insulated by the ECB's independence), that bear on the unions' capacity for strategic action across the integrated market as a whole. This reinforces national unions' reluctance to allocate material resources and transfer authority to European level union structures. Thus, Europe's political construction reinforces the national inertia of unions as much or more than it offsets it. To the extent that the development of European level strategic capacity is necesary to resist the tendencies toward Americanization, the unions are therefore left ill-equipped to to do so. This result reflects fundamental features of the political structure of European integration. Some further discussion of it may accordingly help to understand its
decisive the structure of threats, options, and incentives facing European unions.

<u>The Political Construction of Europe</u>

If, as Reder and Ulman suggest, unions can only take the terms of employment out of competition (or at least constrain competition in the terms of employment) if there is a framework of public policy that supports them, then the near absence of such a framework extending across the EU makes it very difficult for unions to expand their span of control across the EU. More than that, the whole process of European integration could make it increasingly difficult for unions to retain whatever capacity they have for negotiated regulation of the terms of employment within the jurisdictions of member states. More generally, social regulation of labor markets, by interacting social policy and industrial relations institutions (or labor regimes), is eroded at national level without being reconstituted at the European level. This, according to the compelling analysis by Streeck, is inherent in the distinctive logic of European integration.[1]

What the integration process has been producing, he argues, is an integrated market that is embedded in a political structure of "fragmented sovereignty." Sovereignty is fragmented in that member states agree to "pool sovereignty" over selected specific issues in the European institutions they set up. That is, they agree through intergovernmental "grand bargains" (in successive treaty revisions) on the specific issues on which rules binding on member states are made through an intergovernmental decision-making body, the Council, at the initiative of an administrative college, the Commission, responsible for formulating proposed rules on the designated issues, but no other. On all other issues, member state sovereignty is retained. This is notably the case for most issues concerning the regulation

[1] . Streeck (1996).

of labor markets -- social policy and industrial relations. The selection of issues, their allocation as between the two "tiers" of authoritative decision-making, is crucial. The basic division is between "market-making" issues -- the removal of barriers to transborder transactions -- which are assigned to decisions in the institutions in which sovereignty is pooled, and "market-correcting" issues -- rules prescribing various conditions under which market transactions take place, especially in the labor market -- which are largely reserved to the member states.

The important exception to this concerns market-correcting rules that could be used in such a way as to serve as barriers to transborder transactions, notably rules protecting environmental, workplace and consumer product safety, so that on those issues sovereignty is pooled to permit EU institutions to make rules applicable throughout the EU. But the "positive integration" through this "encapsulated federalism" is a marginal exception to the general pattern of "negative integration" characterizing the integration process.[1] Insofar as negative integration is achieved by removal of barriers, economic integration can proceed without the necessity of political decisions -- it can be left to the companies acting in the market. The only political decisions needed are those to remove the barriers. It proved possible to reach those decisions through intergovernmental bargaining, including the decision to ease the procedure for deciding on specific rules implementing the general commitment to market-opening.[2] However, replacing national market-correcting (or, to some, market-distorting) rules with equivalent rules binding throughout the integrated market (outside the area of encapsulated federalism) requires positive decisions, which are either precluded by prior agreement or made difficult to reach by the procedures in EU decision-making institutions, including the requirement of unanimity. The catch is that fragmented sovereignty does not protect the autonomy of member states regarding the "market correcting" institutions over which they retain formal sovereignty; instead, it assures that those institutions, notably labor market regimes, shall be exposed to competitive forces operating throughout the market integrated through pooled sovereignty, with little possibility of replacing those institutions with institutions that govern the integrated market as a whole.

The establishment of EMU is a striking and probably the most fateful instance of the selective pooling of sovereignty, or of what has been described as "asymmetrical integration."[3] The asymmetry lies in the fact that sovereignty over monetary policy has been pooled, in the ECB, while sovereignty over fiscal policy has been retained by the member states. Thus, as noted earlier, sovereignty over macroeconomic policy has been divided, or "fragmented," with the result that Economic and Monetary Union formally ends

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[1] . The distinction between positive and negative integration is drawn by Scharpf (1996).

[2] . In particular, the provision for qualified majority voting on measures to complete the Single Market, in place of the convention of unanimity, in the 1986 Single European that launched the 1992 program.

[3] . Verdun (1996).

up as only a monetary union. But this is no more the end of the story than the retention of formal sovereignty over labor regimes by the member states. Recall that the transfer of power over monetary policy to the ECB combined with the rules severely constraining national fiscal policy embodied in the Maastricht convergence criteria and (even more constraining) the Stability Pact effectively concentrates power over macroeconomic policy in the ECB, constitutionally mandated to pursue price stability and insulated from any pressures from democratically accountable governments to reconcile price stability with other macroeconomic goals such as employment and growth. This leaves member states with very little room for maneuver to use fiscal policy to try to achieve higher employment than that permitted by the ECB's monetary policy. The asymmetry in policy capability conferred on EU institutions seems especially constraining in the face of asymmetrical shocks. As we saw, while entirely losing the possibility of adjusting to such shocks by exchange rate changes, member states very largely lose the possibility of doing so through fiscal policy. And since there is virtually no possibility of cushioning the shocks through fiscal federalism and very little labor mobility with which to do so, the adjustment burden is concentrated on the remaining labor market adjustment mechanism, unit labor costs, including wage and non-wage costs, and all the other factors that enter into labor cost determination, including collective bargaining and welfare state institutions.

Thus, EMU has been so constructed as to merge the separate wage bargaining structures of the member states, stripped of whatever remained of the insulation from each other provided by separate currencies, into a single decentralized structure in which they would be subject to common market pressures. This apparently was not just a byproduct of a design shaped by other considerations. According to an interview study of various actors involved in or interested observers of the decisions shaping EMU, central bank and finance ministry officials and employers saw the design of EMU as desirable "*exactly because* it would lead to a process of harmonization through market forces." While they viewed

> . . . 'generous' welfare provisions in EU member states . . . [As] an obstacle to labour flexibility and international competitiveness, addressing these issues was seen as being politically very difficult. Thus the strategy of relying on market forces to exert pressure on domestic political actors to restructure the national welfare state, and the subsequent harmonization *via market force*, was considered attractive. Furthermore, [they] stressed the need to ensure that the EU refrained from taking on a substantial redistributive role.[1]

While the focus here is explicitly on social policy institutions, the exposure of industrial relations institutions to harmonization via market forces seems implicitly anticipated as well. And while the market forces can

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[1] 90. Verdun (1996: 76-7; emphasis in the original). This is consistent with Andrew Moravcsik's view that "The EC severely restricts formal participation in decision-making by most domestic actors other than the executive. Issues that were once handled by domestic parliaments and publics are bargained in secret sessions of the European Council, employing domestic constitutional procedures designed to handle "high politics" issues of traditional foreign policy. The so-called 'democratic deficit,' which has become so controversial in the wake of the Maastricht referenda, is not a coincidental characteristic of the EC; it is an integral part of the EC's institutional design." (1994: 3)

be expected to do their work of flexibilization within national economies, EMU could be expected to make those forces intractable to re-regulation within the larger European economy into which the national economies are integrated. Coordination of wage bargaining across the EMU-area would then be precluded. As a German economist put it, “An optimal currency area is one that is larger, possibly many times larger, than the area for which an effective wage cartel can be established.”[1] So it seems the asymmetrical EMU was deliberately designed that way -- at least by some of the actors involved -- in order to further the neoliberal project of eliminating the obstacles to labor market flexibility posed by union and social policy institutions. Something like the Americanization of the European labor market may thus be one of its principal intended consequences.

A Tentative Conclusion

This paper has explored the possible consequences of EMU for European unions’ core function of wage bargaining and hence the future role they can play in the evolving European political economy. The possibilities have been framed in terms of three alternative scenarios: Americanization, Europeanization, and re-nationalization. The tentative conclusion to which the discussion points is that EMU will release a dynamic that is more likely to result in the Americanization of the European labor market than either of the other two alternatives, not immediately but eventually, and not literally but figuratively.

Americanization implies a significant diminution of organized labor as a social force. Ultimately, this matters most because of the political role labor has played in making possible some democratic control of capitalism, in the state arena (through political parties) as well as in the workplace. In both, it provides resources that give voice to large numbers who have little other resources with which to influence the working of society compared to the resources at the disposal of those who command the institutions through which production and finance is organized. Organized labor serves as a counterforce, helping to make possible the use of voice to offset to at least some extent the power that comes with command of those institutions. This is not the place to elaborate this general argument, which is anyway familiar if not uncontested, nor to refine the general argument by incorporating the considerable variations in effectiveness with which actual unions are instrumental to democracy -- and sometimes even counter-productive to democracy. But given the importance unions nonetheless have for democracy, there is reason for concern if EMU has the effect of reducing European unions to the role they have in the U.S. There the weakness of organized labor is arguably a major contributor to the poor quality of American democracy (in which less than half the electorate votes) and the correspondingly weak democractic control of capitalism in America, in the state arena as well as the workplace. This would be yet another way in which the chosen construction of EMU will deepen the democratic deficit in European integration.

But will EMU inevitably have such an effect? As we saw, it is possible to conceive of alternative scenarios. One is Europeanization: the development of cross-border structures by European trade unions

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1 . Quoted in Busch (1994: 99).

enabling them to achieve some coordination of wage bargaining throughout the Euro-area labor market and diminish the risks of both inflationary and deflationary wage spirals. The prospects of such Europeanization seem poor. Some has occurred but mostly not in forms that would most readily facilitate the EMU-wide wage coordination of wage bargaining. This was seen as the contradictory effect of the European institutions' support of union Europeanization, offsetting the national inertia that inhibits it in some ways but reinforcing that inertia in other ways. This has encouraged another alternative to Americanization: re-nationalization. Rather than welcoming the erosion of unions by market forces as way of improving competitiveness, governments and employers in some countries have seen unions as valuable, if junior, partners in securing labor regime changes believed necessary to meet intensifed competition, including wage restraint. There has been renewed reliance on national industrial relations institutions to reach social pacts in which the terms on which the changes sought are negotiated instead of being imposed at the risk of open or tacit resistance. Such competitive corporatism could even be route to coordinated bargaining across the Euro-area labor market, either implicit or explicit. But it could also degenerate into a beggar-thy-neighbor process of competitive internal devaluations, which could undermine unions' capacity and willingness to legitimate successive sacrifices, inducing other actors to rely instead on union decline, leading in the direction of Americanization.

Which of the alternative scenarios is likely to materialize -- essentially a development in the direction of Americanization or some alternative built on the adaptation of existing European industrial relations to the new situation, incorporating them into a multi-level structure that combines various degrees of Europeanization and re-nationalization -- probably depends crucially on the macroeconomic environment in which national governments and economic actors try to respond to intensified competitive pressures. If, once EMU is in place and the restrictive convergence and stability pact requirements have consequently been met, the ESCB relaxes monetary policy sufficiently to all accelerated growth and falling unemployment, a deflationary vicious circle of competitive labor cost cuts, and with it the pressures for Americanization, could probably be averted. It would seem much more difficult to do so if the ESCB believes that the wage bargaining structure that it initially confronts will be too inflationary to permit such a relaxation.

One cannot conclude more than that the institutions by which European integration is organized, at least under EMU as currently designed, create strong pressures for the Americanization of the European labor market, even if they do not make it inevitable. If the more decentralized, deregulated American labor market is really what has produced the higher employment many Europeans as well as Americans claim it has, would its duplication in Europe provide the way out of Europe's high unemployment? Certainly not in the short run. It would take some time to reduce the unionized sector where it is still strong, so wage bargaining would still have an intermediate level structure to some extent for some years. It would take some time for market forces to undermine it and bring about convergence (downward) of diverse forms of restrictions on terms of employment. If the ECB believes permissive monetary policy is not possible until Americanization is complete, and also believes it must be extra restrictive to demonstrate the believability of its restrictiveness, Europe is doomed to high unemployment for a long time still. In the long run, perhaps, it might get the relief from high unemployment that Americanization may permit. But, paraphrasing Keynes, in the long run European integration may be dead.

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Appendix: The European Union. Chronology and Institutions

1951: Treaty of Paris. Precursor, set up European Coal and Steel Community.

1957: Rome Treaty. Set up European Economic Community. Basic constitution creating "Common Market" and political institutions (see below) for decision making and implementation. Companion treaty set up European Atomic Energy Community. The 3 Communities came to be referred to simply as the European Community.

1986: Single European Act. Modified decision making to expand scope and accelerate completion of a single market by the end of 1992 (especially by eliminating ability of one or very few member states to block nearly 300 measures needed to eliminate barriers to free flow of goods, services, capital and labor, identified by 1985 "White Paper").

1991: Treaty on the European Union -- "Maastricht Treaty" (ratified in1993). Continued political and economic integration, symbolized by renaming Community as Union. Set timetable for establishing an Economic Monetary Union (EMU) with a single currency and European central bank and set criteria for convergence of economic policies, made further changes in decision making, increased financial support for poorer regions, and took steps toward common foreign and military policy, common policies in the areas of public order and immigration, and unified communications and transportation infrastructure.

1997: Amsterdam Treaty. Established rules for enforcing budgetary discipline on member states who join the EMU, added employment chapter, expanded the Parliament's legislative role, and provided for admission of some former Soviet bloc countries to membership.

<u>Member states</u>

From 6 to 15:

6 founders: France, Germany (West), Italy, Belgium, Netherlands, Luxembourg ("Benelux")

Expansion:

- Britain, Ireland, and Denmark joined in 1973 (Norway rejected joining)
- Greece in 1981
- Spain and Portugal in 1986
- Austria, Finland and Sweden in 1995 (Norway again said no)
- Addition of some former Soviet -bloc countries likely soon after 2000

<u>European Institutions</u>

Council:

Council of Ministers: the authoritative legislative body. Adopts the laws binding on member states, but does not formulate legislative proposals. Consists of member state ministers (cabinet members) with responsibility for the particular policy area (foreign, economic, social and labor, etc) to which legislation refers. Laws adopted by unanimity or qualified majority of member states (62 of 87 votes distributed among the 15), depending on the subject as specified in the Treaty. Leadership (presidency) rotates among member states every six months.

European Council:

Heads of state or government of member states plus president of Commission. Meets semi-annually or more and adopts broad policy guidelines which shape agenda, but does not vote on legislation.

European Commission:

The “executive,” consisting of 20 members nominated by member states and appointed by Council for 5 year terms, which also selects one as President who distributes among the rest responsibility for specific policy areas and corresponding administrative departments, called Directorates General (DGs). The Commission’s members do not represent member states and cannot be instructed by them. They are responsible only to the European Parliament, but only nominally and collectively -- the EP can only reject a proposed Commission or dismiss it in its entirety, not the members individually, except for the President on whom it now votes separately. The Commission’s task is to implement the Treaty and it has exclusive authority to propose legislation to that end. Legislation is formulated by individual DGs but the Commission as a whole decides, by majority vote, to propose it. It administers the Union budget, financed by tariffs, a percentage of member states’ sales taxes, and an additional levy on member states proportional to their GNP.

European Parliament:

A legislative body, consisting of 626 members directly elected by voters in member states. It has had limited legislative power which has recently been somewhat expanded. It can vote amendments to proposals which the Commission must submit to it and now has the negative power of blocking legislation in specified areas if its amendments are rejected by the Commission or Council. Its approval of the Union’s budget as presented by the Commission is required, and it has the last word on some items accounting for a small part of the budget but which is important for unions. As indicated, it also votes on the Commission as a whole.

European Court of Justice:

A court consisting of 13 judges appointed jointly by the member states for 6-year terms. It adjudicates disputes over actions by Union institutions, member states, or private parties alleged to violate the Union Treaty or law. Cases can be brought by any of those public or private parties and national courts can also ask the ECJ for advisory opinions on allegations of Community law violations been brought to the national courts. Its judgments overrule those of national courts and law, which member states are obliged to modify accordingly.

Economic and Social Committee:

An advisory body consisting of 189 representatives of national economic interest groups (unions, employers, farmers, consumers). Most Commission proposals for legislation have to be submitted to the ESC which adopts opinions on proposals on the basis of majority votes, but the opinions have no effect on the content of the proposals or their enactment.

Committee of the Regions:

An advisory body consisting of 189 representatives of regions within member states, nominated by the states’ governments. It entitled to issue an opinion on any proposal submitted to the ESC which it determines to be relevant to the regions, but it has no more binding effect on the content of the proposal than the ESC’s opinion has.