Patterns and variations in European industrial relations [5]

1. Introduction

The evolution of the idea and practice of **social partnership** is a key element in the construction of the EU. Also described as 'social dialogue', its central message is that employers and workers, and their organised representatives, have an important role to play in the governance of the EU's economy and labour market, and in the development of appropriate policies of social and economic reform. The potential role of the social partners as 'change masters' in times of much needed reform — in order to respond to the challenges set out at the European Council of Lisbon in 2000 — was highlighted in the report of the High Level Group on Industrial Relations and Change [6]. In adopting the partnership approach, the EU and its Member States recognise that they have a joint responsibility in providing support for a coordinated approach to industrial relations and labour markets at a time when that is being increasingly challenged — by processes of internationalisation, decentralisation and individualisation that tend to make collective solutions less attractive and harder to enforce.

Like its two predecessors [7], this third report, *Industrial Relations in Europe 2004*, intends to provide an overview of the current state and recent development of industrial relations and social partnership — the organisation of its key actors, the relationships between them, the agreements they negotiate and the policies they conduct. Social partnership structures apply at various levels — within companies, in local and regional labour markets and in branches or sectors of economic activity, within single Member States and beyond them to embrace the EU as a whole. How these structures and the resulting processes and policies are connected across levels — mutually reinforcing or obstructing each other, or being merely irrelevant — is a critical issue for coordination. In the first report, *Industrial Relations in Europe 2000*, the focus was on the role and value of European-level structures and policies. The 2002 report devoted a chapter to industrial relations in the so-called 'candidate countries'. This 2004 report makes an attempt to compare all 25 current Member States of the EU.

The starting point for any overview of European industrial relations and labour market institutions must be the massive diversity across European countries, and possibly increasing diversity within them, both between sectors and firms. This diversity, already a feature of the EU before May 2004, will further increase with the EU's enlargement. Besides differences in social and economic position and interests, this cross-national diversity in industrial relations institutions and practices is a challenge to those who want to adapt institutions and design policies in order to address common problems. Increased heterogeneity within countries, not only between companies and across sectors, but also in social, regional and ethnic terms, complicates the task of national lawmakers and makes centralised solutions within national borders more difficult. Across Europe, institutional diversity and different national interests in a politically sensitive area have made harmonisation in the field of labour law and social policy in the EU more difficult, even if national diversity might in fact increase its importance. Steps towards greater unity and coordination have better chances of realisation and contributing to the solution of common problems, when diversity is recognised and understood.

To identify and understand the main patterns and master trends in this **changing mosaic of diversity** is the key descriptive and analytical task of this chapter. How different are Europe's trade unions in structure and policy? What do Europe's employers, as represented by their associations, have in common? How much deep variation in partnership relations and in policies can be observed? Which way do trends go? What alternatives are there to centralisation? What patterns of government assistance and intervention can be witnessed? How much convergence is there, and where, and why? Does it include the industrial relations institutions and practices in

(5) *This chapter was drafted by Professor Jelle Visser of the Amsterdam Institute for Advanced Labour Studies, University of Amsterdam.*

(6) *Report of the High Level Group on Industrial Relations and Change in the European Union, Employment and Social Affairs DG, Brussels, January 2002.*

(7) *European Commission,* Industrial relations in Europe 2000, *Employment and Social Affairs DG, Brussels, March 2000; and European Commission,* Industrial relations in Europe 2002, *Employment and Social Affairs DG, Brussels, May 2002.*

the 10 new Member States that have recently joined the EU? Are there particular shortcomings in the institutions and practices of European industrial relations seen from the social partnership perspective? These questions guide the survey of actors and institutions in this chapter, as their answers are the backdrop for the discussion of European-level structures, initiatives and policies. In order to see order in diversity, facilitate comparison and improve the analytical value of the chapter, considerable importance has been placed on the development of comparative indicators on industrial relations institutions: unions, employers' organisations, organisation rates, bargaining coverage, centralisation, coordination, and government intervention.

One of the master trends in industrial relations in the past two decades has been the gradual **decentralisation** of multi-employer and firm bargaining structures. In Europe, this process first became noticeable in bargaining over reduced working hours in the 1980s, but has since been extended to matters of pay. Internationalisation, technological and organisational change, multi-tasking, teamwork and client-related work processes have made standardised solutions, negotiated for entire sectors, less feasible and less efficient. Reflecting growing diversity among their affiliates and within the membership, this decentralisation trend has also affected trade union movements, in particular in relation to working hours and work-family issues.

It needs to be repeated that Member States, and sectors of economic activity within them, often set out from different starting points before being subject to common pressures towards decentralisation. In EU-15 [8], multi-employer bargaining, in some countries nationwide though more often at the level of sectors, has been common during the first three or four decades since 1945. Decentralisation in these countries often means offering more space for company or enterprise bargaining. Such a development towards multi-level bargaining requires institutional learning and experimenting, and adaptations both within unions and employers' associations. The key issue, now, is to seek **new ways and methods of coordination**, within and across policy fields, adapted to an environment characterised by more international pressure and internal diversity. In EU-10, multi-employer bargaining and collective bargaining of any kind is much less common. Here the institutions of social partnership are obviously much younger, less settled, fragile and in need of political support most of the time. The search for new forms of partnership and coordination, within and across countries, but without the obvious drawbacks of overly centralised decision-making and uniform solutions that insufficiently recognise the diversity in problems, preferences and capabilities, is a common theme in Europe, in industrial relations and in this report.

Moving away from the old economy, based on standardisation, mass production, assimilation of existing technologies and long-term employment, a new phase is being entered, where the institutions of industrial relations must facilitate, reward and address a different set of conditions: choice, commitment, inventiveness, mobility and retraining. Classic industrial relations institutions — social partnership and collective bargaining — can play a facilitating role, creating the conditions of fairness and shared rules that allow investment and risk-taking among both firms and workers. For this to happen, existing collective agreements are under constant revision, opening up to new reward systems, allowing new trade-offs between security and flexibility, and seeking better coverage of part-time work and temporary employment. The degree of **openness to procedural and substantive reform** is one of the strong points of collective bargaining and part of its adaptive flexibility.

European industrial relations offer a rich context for benchmarking and **best practice learning**. Such learning occurs in the various European organisations and forums, in the boardrooms and works councils of international firms, in the context of the European social dialogue and through the involvement of social partners in the open method of coordination (OMC), for instance in the field of employment and labour market reform. The involvement and participation of the social partners, at various levels and alongside other societal actors, is a critical resource in such learning experiences. Learning is part of a process of **Europeanisation** — bringing the European level closer to national and local discussions and practices, and European, national and local actors closer to each other, while respecting national and cultural differences. Various examples of Europeanisation will be highlighted, not just in the limited sense of a vertical or upward transfer of authority, but also in the sense of a convergent evolution of institutions, practices, values and outcomes such as democracy, growth, employment and social cohesion, as well as a growing awareness among industrial relations actors at all levels of what happens outside one's own national borders and cultures ('less parochialism'). This understanding of (horizontal) Europeanisation, with its implications of more meaningful exchange and coordination across national borders, can be reconciled with the overall decentralisation

(8) The chapter will sometimes refer to EU-15 (the Member States until 30 April 2004) and EU-10 (those that joined on 1 May 2004).

trend in industrial relations. It acknowledges the emergence of a European pattern of orientation and social relations among all participants (e.g. unions, workers, managers, employers associations, and governments) amidst a persistent diversity of nationally defined interests, identities and practices.

2. The actors

In this first part, the two main agents in industrial relations are discussed: firstly, the employees, trade unions and employee representation in the enterprise, and secondly, the employers, firms and employers' associations. In the second part, institutional variations and developments are examined, especially with regard to collective bargaining and wage-setting [9]. Although the State as the 'third actor' in industrial relations is always there — as a legislator laying down the conditions under which unions and employers can organise and are granted particular rights and freedoms — its role will be discussed in the second part. With the exception of the United Kingdom (UK) where union and bargaining recognition procedures were reintroduced under the 1999 Employment Relations Act, most of the EU-15 countries have been characterised by relative legislative stability on regulatory issues concerning union recognition, procedures of industrial conflict and the administrative extension of collective agreements. In contrast, during the past decade there have been fundamental overhauls of relevant labour legislation in the new EU Member States, especially in central and eastern Europe. In the transition to a market economy and to democratic conditions, and in preparing for meeting the *acquis* of the EU, many laws were revised or introduced for the first time in order to create the conditions for free union and employer organisation, the right to strike and dispute settlement, effective collective bargaining, employee representation and consultation, social dialogue and concertation.

2.1. Employees, trade unions and representation

2.1.1. Affiliation, organisation and reform patterns in the Member States

In response to external social and economic changes as well as internal financial and membership problems, trade unions across Europe have over the past few years restructured through numerous mergers [10]. The current wave of mergers reflects a long-term decline in the number of affiliates within the major union confederations, especially in western and northern Europe. So-called 'super-unions', creating large-scale organisations spreading across major parts of the economy, have emerged in the Netherlands (1998), Finland (2000), Germany (2001) and the UK (2002). Similar 'conglomerate unions' had already developed in Ireland (general workers), Denmark (unskilled workers), Austria and Belgium (white-collar employees). 2002–03 saw major union mergers initiated or completed in countries such as Austria, Denmark, Sweden and the UK, while the two main Greek trade union confederations are planning a merger in the near future. In Austria, the separate organisation of blue- and white-collar workers will end with the planned merger of five unions in 2005. In Germany, the separate general union of white-collar employees joined the four member-unions of the German Confederation of Trade Unions (DGB) in 2001. Mergers between three (Ireland) and six (Finland) public sector unions have been announced for 2006.

The trend towards union concentration is less pronounced in southern Europe and in the central and eastern Europe (CEE) Member States, where the process of economic and political transition was in many cases marked by the emergence of numerous competing union centres and breakaways from existing centres. There have recently been some moves towards a greater rationalisation of union structures in a number of countries, such as Hungary, though conversely a new national union confederation was set up in Poland in 2002, alongside the two existing ones.

Amalgamations and mergers are not new phenomenon in union history. What is new, however, is the scale and spread of the resulting conglomerate unions, which straddle the boundaries of sectors and occupational groups. This often entails a shift in the balance of power within confederations and may necessitate a rethinking of the role of the confederation itself, especially with regard to service provision and representation in national and European politics and social dialogue [11]. In some countries the new super-unions have now conquered a place in national concertation bodies alongside the peak federations, a development that may be interpreted as a move from centralisation (as one form of vertical coordination) to horizontal coordination.

There are several driving forces behind the current concentration trend: structural changes (shrinking domains in industry, decline of manual occupations); membership decline; corporate restructuring and privatisation of public services; decentralisation of collective bargaining; pooling resources and economies of scale in

(9) *Extensive use will be made throughout of the data and reports of the European Foundation for the Improvement of Living and Working Conditions and its European Industrial Relations Observatory Online (Euronline), http:/www.eiro.eurofound.*

(10) *For an overview, see B. Ebbinghaus (2003), 'Ever larger unions: organisational restructuring and its impact on union confederations'*, Industrial Relations Journal, *Vol. 34.*

(11) *W. Streeck and J. Visser (1997), 'The rise of the conglomerate union'*, European Journal of Industrial Relations, *Vol. 3.*

service provision and representation, both in the national and European arena. Another benefit would lie in the reduction of inter-union competition. In theory, union mergers should free resources for recruitment and make for more effective representation and servicing of members. However, mergers are also costly — as the organisation has to be restructured and officials and staff may have to be retired.

Thus far, union mergers have respected political and religious demarcations. Nearly all merger activities take place within confederations and not between them. There is also no example of a cross-national merger between unions — evidence that trade unions are deeply embedded in the history of the national welfare state, democracy and industrial relations systems. Between unions and confederations defined by occupational status (white collar staff, public servants, managerial staff) there are some examples of closer cooperation (Austria, Belgium, Denmark, Finland, Sweden), though in general the structure of trade unions in EU-15, as defined fifty to hundred years ago, resembles a frozen landscape. In contrast, the fragmented trade union structure in central and eastern Europe is still young and further changes are quite likely.

In view of the varied pattern of trade union organisation in the EU it is hard to discern any typical EU model of trade unionism. Table 1.1 shows that the number of confederations or central organisations of trade unions varies from one to six, the membership share of the largest confederation from 100 % in Austria to 28 % in France, and the number of affiliated unions in the main union confederation from 8 in Germany to over 100 in Portugal or Poland. In most Member States there are independent unions outside the confederal mainstream of 'representative' and recognised unions, though the size of independent unionism varies a great deal. In most cases, independent or 'autonomous' unionism is mostly found among professionals, managers and high ranking civil servants, some of whom may be without bargaining and striking rights. In some Member States (Denmark, Germany, Spain), religious organisation outside the mainstream is another source of independent unionism. In others, especially in Italy and France, independent unionism has strong political elements and is concentrated above all in public (or subsidised) services. In Spain, the Czech Republic and of course in Cyprus independent unionism has also a regional (and sometime linguistic) signature. In the new Member States from central and eastern Europe, for instance in Hungary and Poland, additional divisions emerged between the new unions, sometimes with strong ties to the democratic opposition against the old regime and the State-dominated unions, and those of the old unions and union centres that succeeded in reforming themselves.

Table 1.1 presents the structural characteristics of EU trade unions: the number of divisions between the main union confederations or centres; the membership share of the largest centre; the number of affiliates or member unions of those confederations; the main divisions between these affiliates; the (membership) size; and the nature of independent unionism outside the mainstream. With regard to the main divisions, three main groups of Member States can be detected:

- Member States with one dominant union confederation. This group includes Ireland, the UK, Austria, Germany and Greece among EU-15, and Latvia, Slovakia, the Czech Republic and Slovenia among EU-10. The average membership share represented by the largest union centre in this group is 84 %. Outside the ICTU and TUC, the main confederations in Ireland and the UK, there are various occupational and professional unions, usually small, though numerous in the case of the UK. The Austrian Confederation of Trade Unions (ÖGB) is unique in so far as it represents all unionised labour in the country and bridges different political affiliations of union members and officials. (The Freedom Party's recent attempts to establish its own unions have stalled.) The German confederation (DGB) has since 1949 followed a similar approach, but in its case a large organisation of civil servants (without bargaining rights), some occupational groups, and a small confederation of Christian trade unions (CGB) have remained independent. In Greece, alongside the dominant union confederation (GSEE) for the private sector, there is a separate organisation (ADEDY) for public sector unions. The two are planning a merger in the near future. In Latvia, the Slovak and Czech Republics and Slovenia, the reformed union confederations, often with historical roots that stretch back to the beginnings of the 20th century, have remained in a position of dominance during and since the transition process. In the case of Slovenia, one or more rival centres have emerged.

- Member States with union centres demarcated by occupation. Denmark, Sweden and Finland (and outside the EU, Norway) belong to this group, together with Malta and perhaps also Estonia. The average membership share of the largest union centre is much lower than in the

first group: around 55 %. In these countries there are sometimes two (Estonia, Malta, Norway) and usually three union confederations: one for skilled and unskilled manual workers, though often stretching to clerical employees and lower-grade public servants; one for white-collar employees; and one for academic professionals. In Malta, the dividing line coincides with employment in the public or private sector, otherwise Maltese trade unions follow the British tradition of occupational unions (as is the case in Ireland and Cyprus) and — rare on the European continent — in Denmark. In Scandinavia, cooperation between the three union centres has been the common pattern, though the historical dominance of the main confederation representing blue-collar workers has waned. There is hardly a basis for independent unionism outside this mainstream — a small syndicalist centre in Sweden, a Christian federation and some occupational unions in Denmark, managerial and professional unions in Finland and Estonia (and in Norway).

- Member States with union centres divided on mainly political grounds. In Portugal, Spain, France, Italy, and Cyprus, and in some of the new Member States, these divisions are within the broad left; in the Netherlands, Belgium, Luxembourg, Malta, and to some extent also in Italy, France, and Lithuania (as well as in Switzerland) they relate to the split between Christian and Social Democratic orientations and politics; in Belgium and in some of the new Member States (Poland, Hungary) there are also links with Liberal or Democratic parties further to the right of the political spectrum. Finally, additional fragmentation can occur as a conse-

TABLE 1.1: UNION STRUCTURE AND AFFILIATION PATTERNS IN THE EU

	Main union confederations (1)			Affiliates (2)			Independent unions
	No	Main divisions between confederations	Share of largest (%)	No	Main divisions between affiliates	Share of all members (%)	Source
1	2	3	4	5	6	7	8
Ireland	1		97	48(3)	occup.&sector	3	occup&mngt.
UK	1		84	71	occup.&sector	16	occup&mngt.
Austria	1		100	13	sector&status	-	-
Germany	1 (2)	private&public	83	8	sector	17	public&mngt&relig.
Slovenia	1 (2)	private&public	68	20	sector	32	polit&occup.
Greece	1 (2)	private&public	70	65	occup.&sector		?
Latvia	1		90	25	sector	10	?
Slovakia	1		95	37	sector	5	occup&religion
Czech Rep.	1		73	34	sector	27	occup&region
Denmark	3	occupation	66	19	occup.&sector	6	occup&mngt&relig.
Sweden	3	occupation	52	16	sector	1	syndic&mngt.
Finland	3	occupation	49	24	sector	1	occup&mngt.
Estonia	2	occupation	58	18	sector	9	occup.
Malta	2	private/public	55	11	occup.&sector	15	occup.&public
Portugal	2	political	65	100+	occup.&sector	10	occup.
Spain	2 (3)	political	41	12	sector	19	regional&polit.
Italy	3	political-religious	41	15	sector	15	polit&mngt.
Belgium	3	political-religious	50	17	sector&status	2	mngt.
Luxembourg	2 (3)	polit-relig&occup.	50	15	sector&status	7	occup&mngt.
Netherlands	3	polit-relig&occup.	66	11	sector	6	occup.
Lithuania	3	political-religious	61	24	sector	?	?
Poland	3	political	43	110	sector&company	?	?
Cyprus(4)	4	polit-relig&occup.	43	8	sector	24	occup&public
France	6 (7)	polit-relig&occup.	28	20	sector	12	polit&occup.
Hungary	6	political	31	42	sector	1	mngt.

(1) Only confederations that organise in several sectors and organise 5 % or more of total membership. (2) Affiliates or member unions belonging to the largest confederation, only national unions (without local organisations). (3) Without 36 affiliated unions in Northern Ireland; (4) including Turkish Cypriot organisations in northern Cyprus.

Sources: B. Ebbinghaus and J. Visser (2000), *The societies of Europe. Trade unions in western Europe since 1945*, Palgrave for the main divisions and demarcations in EU-15, updated with information from union websites (number of unions) and AIAS union file. For EU-10 Member States, information is obtained from Commission research (UCL).

quence of separate organisation of occupational unionism (Cyprus); managerial and white collar staff unions (Netherlands, France, emerging also in Luxembourg, and in Slovenia); regional divisions (Spain, Cyprus, and outside the EU in Switzerland); and divisions related to the opposition of new and old unions in the transition economies of the former communist State economies in central and eastern Europe and the former Soviet Union. Where divisions are motivated by politics, the potential for inter-union conflict and non-cooperation is large. Yet, in some countries, for example in the Netherlands, Belgium, and Luxembourg, but at particular times also in Spain and Italy, unions have been able to overcome their differences and present common policies of recruitment, bargaining and representation.

The median number of affiliated unions per union confederation is just above 20 (17 in EU-15 and 26 in EU-10). Table 1.1 shows that the most fragmented trade union confederations, with large numbers of affiliates, many very small, are found in Greece (65), Portugal (110), Poland (104), the UK (71), Ireland (48) and Hungary (42). Typically, in these countries trade unions tend to organise on the basis of companies, occupations and status, rather than on the basis of sectors. The most concentrated union confederations with a small number of large unions are found in Germany, the Netherlands, Spain, Malta and Cyprus. Typically, these unions have organised on a sectoral basis ('one employer = one union'), while many declining (manufacturing) sectors have now merged. In the two island States of Malta and Cyprus, union concentration is surely related to the small and selective economy, with a strong presence of tourism and services, but with many manufacturing sectors missing or too small to sustain separate organisation. The issue of union division and concentration will be returned to in the second part of this chapter in the discussion on bargaining centralisation and coordination.

2.1.2. Affiliation, organisation and reform patterns at the European level

Despite the massive diversity and divisions at the national level, trade unionism at the European level is characterised by a high degree of unity. The European Trade Union Confederation (ETUC) brings together all major confederations. Of the 65 confederations identified in Table 1.1, 59 are members of the ETUC. In addition to these confederations, the ETUC also serves as the European umbrella organisation for union confederations from Iceland (2), Norway (2), San Marino (2), Switzerland (2), Turkey (4), Bulgaria (2), and Romania (4), and it welcomes confederations with observer status from Croatia, Lithuania, Macedonia, Serbia and Switzerland. While coverage in the new Member States is not yet complete, the ETUC does have affiliates in all of them, usually including the largest and most representative confederation.

At its foundation, in 1973, the ETUC replaced previous European organisations which had been divided on the basis of politics, religion and ideology. During the next 30 years, the organisation steadily expanded, overcoming remaining divisions between Socialist, Christian and Communist union movements, in the end also embracing the special white-collar staff confederations. Starting with its support for the Solidarity union in Poland, back in 1980, the ETUC supported the new union movements from CEE countries early on. It established a European Trade Union Forum in 1990 to help 'cooperation and integration' and, at its 1991 Congress, the ETUC introduced an 'observer status' in order to integrate new or reformed union centres. In 1995, the ETUC granted full membership to nine confederations from six CEE countries having signed application agreements with the EU. In the following years, ratified by the ETUC Congress in Helsinki (1999) and Prague (2003), this process of enlargement was further expanded. Table 1.2 shows this expansion and can be taken as one indicator of the Europeanisation of trade unions in Europe.

Starting with 36 million members in 1973 from 14 countries, all in western Europe, the ETUC's combined membership has increased to nearly 60 million in 35 countries, spanning the whole European (sub)continent. Currently, the ETUC represents around 90 % of all union members in Europe. The most notable exceptions to ETUC membership among union organisations in the current EU are: a number of specific organisations for managerial and professional staff, which belong to the European Confederation of Executives and Managerial Staff (Confédération Européenne des Cadres or CEC) which organises some of the independent professional and managerial unions referred to in Table 1.1; and a number of organisations affiliated to the European Confederation of Independent Trade Unions (Confédération Européenne des Syndicats Indépendants or CESI). CEC was re-established in 1989 from an older organisation founded in 1951 and represents around 1 million union members from 15 countries. Although not exactly in the same categories, ETUC's 'Eurocadres' claims a larger membership of around 5 or 6 million. Both organisations are recognised, as representative for their category by the Commission. This is not the case for CESI. This umbrella organisation was founded in 1990 by seven national organisations which for various reasons had remained outside the main-

TABLE 1.2: EUROPEANISATION OF TRADE UNIONS: AFFILIATION AND MEMBERSHIP OF THE ETUC, 1973-2003

	1973	1975	1983	1990	1992	1995	1998	2003
Total membership (Mio.)	36.1	44.0	41.0	40.5	45.3	46.3	50.3	59.0
No of affiliates	17	29	34	38	46	49	68	77
No of countries	14	16	20	22	22	22	29	35
No of European industry federations	6	6	10	14	15	15	15	11

Sources: B. Ebbinghaus and J. Visser, *The societies of Europe*, op.cit., Chapter 19, updated with ETUC reports and website. The total membership includes pensioners, students, self-employed and unemployed workers, and cannot simply be translated in 'union density', i.e. membership as a fraction of the dependent workforce (wage and salaried employees) in employment (see below).

stream, such as the German civil service federation, DBB, which is barred from collective bargaining, or the federation of autonomous unions in Italy CISAL, which is politically distinct. Although attempts to coordinate the non-ETUC affiliated unions existed before the relaunching of the social dialogue in the late 1980s, it was the increased success of the ETUC as a European social partner that instigated the remaining unions to seek coordination and representation at the European level. However, since most minority organisations are now in the ETUC, staying outside the ETUC has become less attractive.

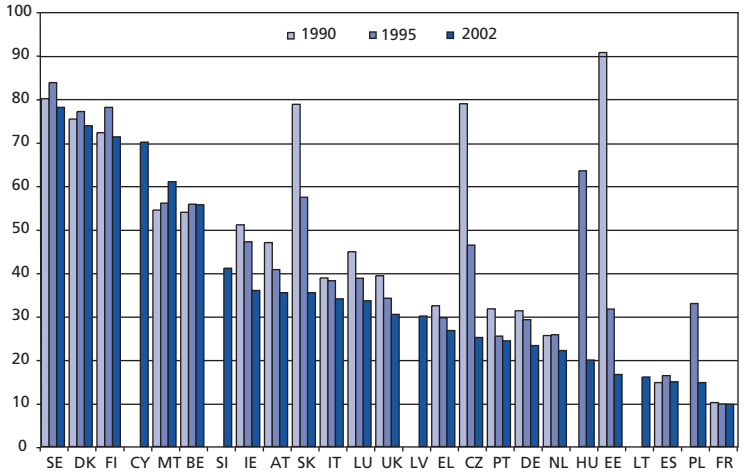
Also affiliated to the ETUC are 11 European industry federations, grouping almost all major EU trade unions in their respective sectors, along with many from the 10 new Member States and from countries not (yet) members of the EU. A process of regrouping and concentration, similar to the merger process among national unions, has reduced their number from 15 to the current 11. This process of regrouping was more or less completed in 2000. The activities of these federations will be discussed below, in the context of collective bargaining and coordination.

The important achievement of unity and the ability to speak with a common voice in Europe is somewhat hampered by the national and sectoral diversity in union structure, which together with cultural and language differences complicates the process of cooperation among Europe's trade unionists, both at the strategic level and in their day-to-day operations. There are now several forums that promote contacts across national borders: European works councils (EWC) in transnational firms; the sectoral and cross-industry social dialogue in Brussels; transnational coordination of bargaining activities in some industries; and the interregional trade union councils (ITC) in several European regions. These forums have expanded during the 1990s, also into the new Member States, with the support of the European Commission (social dialogue, regional policies). Interregional Trade Union Councils are part of the ETUC's structure and deal with practical problems of border workers as well as some strategic initiatives in regional development.

2.1.3. Membership developments

Well-organised and representative trade unions are an important part of the European social or partnership model. Indeed, union density, measured as the share of dependent employed who are members of a trade union, is higher in Europe than in the United States, in Japan, or in most parts of the world [(12)]. As can be seen from Table 1.3, there are massive differences across Europe and, in the late 1990s, the partial trend towards decline has become rather general, implicating also countries such as Sweden, Finland and Denmark. On average, union density in the EU has

Chart 1.1: Trade union density rates, 1990, 1995, 2001–02



(12) *J. Visser (2003), 'Unions and unionism around the world', in J. T. Addison and C. Schnabel (eds.),* International handbook of trade unions, *Cheltenham, Edgar Elgar, 366–414. See also* World labour report 1997–98, *Geneva, International Labour Organisation (ILO), 1998.*

declined from 32.6 in 1995 to 26.4 % in 2001, a decline of 1 percentage point per year. (Unfortunately, data for 2002 are incomplete and for 2003 not yet available.) In EU-15, union density decreased from 31.0 to 27.3 %; in EU-10 from 42.7 to 20.4 %.

Union membership is of course not the only, but it is the most commonly used indicator of union presence and influence in labour markets, society and politics. Membership relative to the size of the dependent workforce is one of the key indicators of union representation and of the support that unions have among employees and the public. Other indicators of the state of unions include recognition and presence in social dialogue and concertation at various levels including the company (works councils); coverage of employees by union-negotiated collective agreements; union services (sometimes extended to non-members) and union presence in administrative social security councils; and the standing of unions and union leaders in public opinion. Data on coverage rates will be returned to in the second part of the chapter, union presence in works councils will be covered in the following paragraph, and union presence in social security arrangements in relationship to membership developments will also be addressed.

One of the most striking things demonstrated by Table 1.3 is the enormous difference in unionisation levels across Europe — the highest levels are found in the Nordic countries, the lowest in France and Spain and in some of the new Member States, Poland, the three Baltic States and Hungary in particular. There is hardly any other variable showing so much variation — with unionisation rates in Sweden around 80 % and only 10 % in France and 15 % or lower in Poland. Treated separately, both EU-15 and EU-10 offer a varied picture. Of the new Member States, the two small Mediterranean island States but also Slovenia and Slovakia appear to have above-average unionisation levels. Persistent cross-national differences in unionisation are prima facie evidence that union organisation must be seen in the context of institutions specific to national labour markets and that the meaning and importance of union membership varies across countries.

In econometric analysis of unionisation trends in the advanced industrial countries of western Europe, and in the United States, Canada, Australia, New Zealand and Japan, it has been demonstrated that the downward trend in unionisation is related to a power shift in present-day labour markets related to globalisation, to the rise in unemployment and to structural changes in labour market participation and employment, bringing in groups with a lower propensity to unionise (service workers, workers employed in small firms) and groups that go into non-standard employment [13]. However, it has also been shown that institutions matter greatly in terms of how unions are affected and have been able to respond to change. Prominent among such institutional factors are the unions' involvement in unemployment insurance, the spread and recognition of union workplace representation, and legally or nationally established procedures of union recognition and involvement. However, it should be stressed that these factors work best in favour of unionisation where they are combined [14]. Unemployment insurance without the presence of local unionism does not attract new members, as new data from Sweden and Finland appears to show. And a high-profile social dialogue and union recognition, without strong membership representation in firms or competitive member-only services, does not solve obvious free rider problems in union organisation, as the examples from Ireland, Austria or the Netherlands clearly demonstrate.

The impact of comparatively low unionisation in many former CEE countries, but also in France, is augmented by a weak and fragmented structure of collective bargaining and inter-union rivalry [15]. Initially, following the downturn of the communist State economies in central and eastern Europe, the new opposition unions tended to advance, while the old, party-led unions were able to start reforming and keep many of their members. However, as might have been expected, the high levels of unionisation, to a large extent based on compulsory services and subscription, could not be maintained. The transition to the market economy and a more voluntary-based membership went together with sharply rising unemployment rates, falling wages, huge losses of membership and intense inter-union competition. It has been particularly difficult to found trade unions and organise recruitment and services in the new multinational firms and in the large small firms sector. These difficulties are not dissimilar from the problems faced by unions in EU-15, for instance in Ireland and the UK in the case of international firms, or almost universally (perhaps with

(13) *B. Western (1997),* Between capital and class: Post-war unionisation in the capitalist democracies, *Princeton NJ, Princeton University Press; and J. Visser (2002), 'Why fewer European workers join unions. A social customs explanation of membership trends',* British Journal of Industrial Relations, *Vol. 40.*

(14) *B. Ebbinghaus and J. Visser (1999), 'When institutions matter: Union growth and decline in western Europe, 1950–95',* European Sociological Review, *Vol. 15.*

(15) *H. Kohl and H.-W. Platzer (2003),* Arbeitsbeziehungen in Mittelosteuropa. Transformationen und Intergration: die acht EU-Beitrittsländer in Vergleich, *Baden-Baden, Nomos.*

TABLE 1.3: TRADE UNION DENSITY RATES AND MEMBERSHIP COMPOSITION, 1995–2002

	Union density rates						Change	Share of all members (%)	
	1990	1995	1997	1999	2001	2002	1995–2002	Female	Public
Sweden	80.0	83.1	82.2	80.6	78.0	78.0	-0.7	52.7	47.9
Denmark	75.3	77.0	75.6	76.3	73.8	..	-0.5	48.5	..
Finland	72.2	78.0	76.1	..	71.2	..	-1.1	50.5	..
Cyprus (1)		..	..	..	..	70.0		..	..
Malta (2)	54.4	56.0	59.2	60.9	63.0	62.8	1.3	27.0	..
Belgium	53.9	55.7	56.0	55.1	55.8	..	0.0	..	..
Slovenia		..	..	..	..	41.0	..	49.4*	76.2*
Ireland	51.0	47.1	44.4	40.5	35.9	..	-1.9	37.9	..
Austria	46.9	40.7	38.9	37.4	35.7	35.4	-0.8	31.8	39.7
Slovakia	78.7	57.3	..	..	..	35.4	-3.1	49.6*	70.9*
Italy	38.8	38.1	36.2	36.1	34.8	34.0	-0.6	38.3*	53.1*
Luxembourg	44.8	38.7	38.1	35.7	33.5	..	-0.9	..	..
UK	39.3	34.1	32.1	31.4	30.7	30.4	-0.5	43.7	47.4
Latvia		..	..	..	..	20.0	..	57.0	82.1*
Greece	32.4	29.6	28.6	26.7	..	..	-0.7	..	..
Czech Republic	78.7	46.3	..	..	27.0	25.1	-3.0	57.9*	44.5*
Portugal	31.7	25.4	24.3	..	..	..	-0.5	..	..
Germany	31.2	29.2	27.0	25.6	23.5	23.2	-0.9	31.2	39.3
Netherlands	25.5	25.7	25.1	24.6	22.5	22.1	-0.5	34.2*	28.8*
Hungary		63.4	..	32.8	..	19.9	-6.2	48.7*	70.3*
Estonia	90.6	31.6	19.3	20.0	16.6	..	-2.5	..	..
Lithuania		..	..	..	..	16.0	..	..	..
Spain	14.7	16.3	15.7	14.9	..	..	-0.4	..	31.2
Poland		32.9	.	24.2	14.7	..	-3.0	55.1*	76.6*
France	10.1	9.8	9.8	..	9.7	..	0.0	48.3*	66.3*
Average EU-25 **	..	32.6	..	27.9	26.4	..	-1.0	..	..
Average EU-15 **	32.8	31.0	29.5	28.5	27.3	..	-0.6	..	..
Average EU-10 **	..	42.7	..	22.5	20.4	..	-3.7	..	..
United States	16.1	14.3	13.6	13.4	12.9	12.8	-0.2	39.2	..
Japan	25.4	24.0	22.8	22.2	20.9	20.3	-0.5	27.4	..

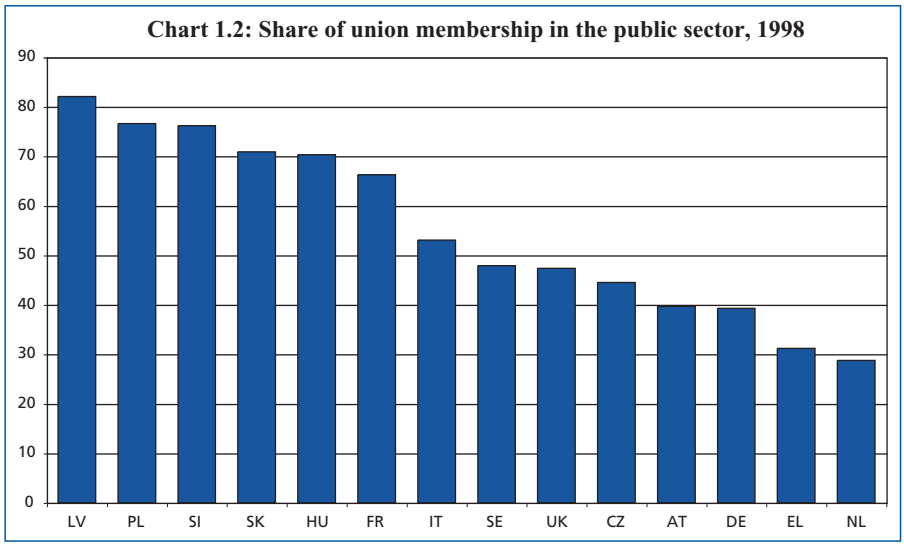
NB: Density rates for EU-15 countries are standardised, i.e. without unemployed and self-employed, retired employees and student members, along the model in B. Ebbinghaus and J. Visser (2000), *The societies of Europe*, op.cit. In the case of the Netherlands, Sweden, the UK and the United States, figures are calculated from the labour force survey. Elsewhere they are recalculated from administrative sources. See also OECD, *Employment outlook 2004*, Chapter 3 ('Wage-setting outcomes and institutions'), Paris, July 2004. The EU-10 figures are non-standardised and follow nationally based statistics collected by the Institut des Sciences du Travail of the Université Catholique de Louvain, *Monographs on the Situation of social partners in the candidate countries*, Brussels, December 2003, a research project conducted on behalf of the Employment and Social Affairs DG of the European Commission.

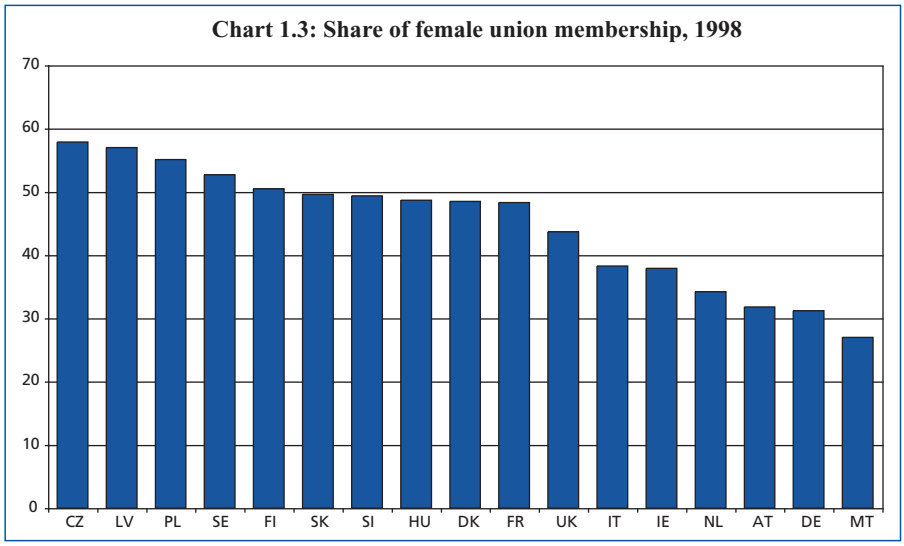
If marked with an asterisk (*), the data on membership composition (share of female members; share of members in the public sector) are calculated from sample surveys of the International Social Science Programme (ISSP) and relate to 1998. (**) weighted averages. In the case of missing data, the nearest year is taken into account.

(1) Without the northern (Turkish Cypriot) part.
(2) Non-standardised rates, without pensioners (10 % of the total membership in 2003) the union density rate in 2002 decreases to 57 %.
.. No data available.

the exception of Denmark and northern Italy) in the case of small and medium-sized enterprises (SMEs). The difference is that in the transition economies the international and SME sectors tend to have a greater weight and that the shock from old style enterprise and union relations is larger.

Another main finding is that unionisation trends in the private and public sectors have further diverged. As the incomplete data of Table 1.3 show, in France, Italy, Hungary, Poland, Latvia and Slovakia, more than half, and, in Sweden, the UK and the Czech Republic, nearly half of all union members are employed in the public sector. When comparing such compositional figures, we should however be aware that the public sector is defined in different ways in different countries. In the CEE countries, the large share of public sector unionism, besides being a heritage of the past, reflects the difficulties of unions in recruiting members in the private sector. In





many EU-15 countries, union decline in recent times has been most severe in the private sector and, on average, union density in the public sector is now two to three times higher than in the private sector [16].

The higher unionisation rate in public and subsidised services has contributed to the advance of women in unions, since women make up a disproportionate share of employment in public administration, local government, social services, health and education. It appears that in Sweden, Finland, Latvia, the Czech Republic and Poland women represent more than half of all union members, while in Denmark and, according to survey data, also in Slovakia, Slovenia, Hungary and France, women make up almost half of union membership. Women in the UK, Ireland, Italy and the Netherlands, though still under-represented, have made considerable progress in unions. In a number of countries the female density rate has now equalled or risen above the male density rate (this is the case in the Nordic countries but probably also in Poland, Latvia, the Czech Republic and Slovakia), but this is clearly related to the size and the higher unionisation rate of the public sector. The lowest density rate in all countries of both men and women are found in commercial services, in particular in commerce and retailing, hotels and restaurants, cleaning, personal and business services, among workers in non-standard, temporary and part-time jobs, and in small firms. Generally, these are the sectors where less protection of standards and rights is provided by the law or by collective agreements, and where unions have less access. Small firms, for instance, or temporary workers, are in many countries exempted from statutory norms regarding working time and consultation of employees (works councils).

2.1.4. Trade union and employee representation in enterprises

A key feature of European industrial relations is the existence of forms of employee representation in enterprises for the purpose of information and consultation. Provisions for works councils or similar bodies for information and consultation in enterprises of staff representatives, elected by and from the firm's employees, and based on law or central agreement, exist in nearly all EU Member States. In Belgium, Luxembourg and France, management is also represented and an executive company director chairs the council. In Denmark, joint bodies for representation and consultation in enterprises are established on the basis of a central agreement, whereas in Finland, the law provides for exchange of information and cooperation negotiations between management and employees or their representatives. In Sweden, legislation confers information, consultation and codetermination rights on the (local) unions. Such statutory rights have been absent in the UK and Ireland, with the exception of specific rights of information and consultation in the case of collective dismissals and the transfer of undertakings, as provided under EU law. In the UK there has been, and still are, joint consultative councils, or similar structures in some companies, though these are entirely

(16) J. Visser (2003), 'Unions and unionism around the world', op. cit.

framed by voluntary agreement between management and unions. Recent central agreements in Ireland have urged management to extend partnership to the local and company level, but this has not been followed up to a large extent. This situation is set to change owing to the implementation of EU directive 2002/14/EC which establishes a general framework for informing and consulting employees in enterprises (see also Chapter 4). This directive establishes a general framework for informing and consulting employees in the EU, providing for minimum requirements regarding information and consultation of employees in decisions that affect their interests, targeting enterprises with over 50 employees or establishments with at least 20 employees. According to the directive, Member States must make appropriate provisions to deal with non-compliance on the part of either employers or employees' representatives.

Table 1.4 offers an overview of the characteristics of employee representation in firms in the EU.

The main division that matters is between **single** and **dual channel** systems.

- In **single channel systems**, currently in Finland, Sweden, Denmark, Poland, Lithuania, Cyprus and Malta, the rights or workplace representation for the purpose of information, consultation and in some cases co-determination are expressed through workplace unions. These rights can be established by law or by (central) agreement with employers, or both. The advantage of single channel systems is their simplicity, as union and council functions are merged. The disadvantages are that non-union members, and employees in firms in which unions are not recognised, may be excluded from representation. This problem is relatively small in countries such as Sweden, Finland and Denmark, and also in Malta and Cyprus, where unionisation rates are high, but it is a problem where the basis of union membership is small, as in Poland and Lithuania. Ireland and the UK present 'single channel' cases, but on a voluntary and fairly limited basis.

- In **mixed or extended channel systems,** employee rights are in principle expressed through the union, but non-union members are included, directly (Italy) or through a supplementary channel in non-union enterprises (Czech Republic, Latvia, Estonia). Thus, Italian works councils, based on agreements with employers and the statutory rights bestowed on all employees (in firms above a certain size) are a mixed case in so far as no distinction is made between union and non-union members, and the unions voluntarily extend union rights and benefits to non-union members[17]. In the Czech Republic, Latvia and Estonia, the law provides for mechanisms of employee representation in non-union firms, additional to the rights bestowed on unions in enterprises where they are present. Under the 2001 law, Czech employees have the right to establish a works council in non-union firms. The council must however be dissolved if a workplace union is established. In anticipation of EU legislation, Lithuania will move towards a mixed or even dual model. In Poland and Estonia, government attempts to establish works councils, independent of the unions, have stalled because of the opposition of (some of) the unions, partly in alliance with employers.

- In **dual channel systems** the law provides for a separate channel of employee representation in firms, which is additional to the trade union(s). This system is found in Germany, Austria, France, Belgium, Luxembourg, the Netherlands, and has also been adopted, following the return to democracy, by Spain, and with less success, in Portugal and Greece, and during the transition in Hungary, Poland (public enterprises only), Slovakia and Slovenia (where the works council system was embedded in the 'Yugoslav' model of worker self-determination). In this model the rights to representation, information and consultation are conferred on individual workers (in firms above a certain threshold), irrespective of the trade unions. Consequently, there may be competition between the works council and the unions, though in reality lay union officials and representatives tend to play a leading role in the councils and councils may be a recruitment ground for trade unions. Works councils tend to be highly unionised and in council elections the trade union candidates tend to attract votes from members and non-members alike. Another encouraging sign is that voter turnout in workplace election tends to be high, between 65 and 85% [18].

(17) *I. Regalia (1995), 'Italy: the costs and benefits of informality', in Joel Rogers and Wolfgang Streeck (eds.),* Works councils. Consultation, representation and cooperation in industrial relations*, Chicago, University of Chicago Press, pp. 217–42.*

(18) *Data presented in L. Calmfors, A. Booth, M. Burda, D. Checchi, R. Naylor and J. Visser (2001), 'The future of collective bargaining in Europe', in T. Boeri, A. Brugiavini and L. Calmfors (eds.),* The role of the unions in the 21st century, *Oxford, Oxford University Press, 1-155, Table 4.1.*

TABLE 1.4: WORKS COUNCILS, EMPLOYEE REPRESENTATION AND EMPLOYEE RIGHTS IN (LARGE) FIRMS

	Basis	Single	Mixed	Dual	Union competition	Separate union workplace representation	Council bargains wages?	Infor-mation	Consul-tation	Codeter-mination
Sweden	C&L	Y			Some	N.A.	N	Y	Y	Y
Denmark	C&L		Y		Some	N.A.	N	Y	Y	Y
Finland	L&C		Y		Some	N.A.	N	Y	Y	Y
Poland	L	Y			Very strong	N.A.	N	Y	Y	N
Lithuania	L	Y			Considerable	N.A.	N	Y	Y	N
Cyprus	A	Y			Very strong	N.A.	Possible	Y	Y	N
Malta	A	Y			Very strong	N.A.	N	Y	Y	N
Ireland	A	Some			-	N.A.	N	-	-	-
UK	A	Some	-	-	-	N.A.	N	-	-	-
Italy	L&C		Y		Very strong	N.A.	Frequently	Y	Y	N
Czech Rep.	L		Y		Marginal	N.A.	N	Y	Y	N
Estonia	L		Y		Some	N.A.	N	Y	Y	N
Latvia	L		Y		No	N.A.	N	Y	Y	N
Germany	L			Y	Marginal	Sometimes	N	Y	Y	Y
Netherlands	L			Y	Considerable	Rarely	Possible	Y	Y	Y
Austria	L			Y	No	Sometimes	N	Y	Y	Y
Slovenia	L			Y	Considerable	Sometimes	N	Y	Y	Y
Hungary	L			Y	Very strong	Frequently	N	Y	Y	Y
Slovakia	L			Y	Marginal	Sometimes	Possible	Y	Y	Y
Spain	L			Y	Very strong	Normally	Y	Y	Y	N
France	L			Y	Very strong	Frequently	N	Y	Y	N
Belgium	L&C			Y	Considerable	Normally	N	Y	Y	N
Luxembourg	L			Y	Considerable	Normally	N	Y	Y	N
Greece	L			Y	?	?	?	Y	Y	N
Portugal	L			Y	Very strong	Frequently	N	Y	Y	N

NB: Basis for employee representation rights: central agreement = C; agreement (sector/company) = A; law = L.

Sources: J. Rogers and W. Streeck (eds.), *Works councils*, op. cit.; J. Visser (1992), 'La representación de los trabajadores en los centros de trabajo en Europe occidental: Estructura, escala, alcance y estrategia', in *Sociologia del Trabajo*, Vol. 14; A. Toth and Y. Ghellab, 'The challenge of representation at the workplace in EU accession countries: Does the creation of works councils offer a solution alongside trade unions?', Geneva, ILO, report prepared for the *Tripartite Conference: The right to information and consultation in practice in an enlarged European Union*, Warsaw, 12–13 December 2003; G. Gradev and M. Stajonevic (2003), 'Workers' representation at company level in CEE countries', in *Transfer*, Vol. 9, and national overviews in EIRO, Thematic feature – works councils and other workplace employee representation and participation structures.

A general problem is implementation of agreements and legislation on the ground. In general, works councils are a phenomenon of large firms. Even where the law provides for works council structures and employee representation in SMEs and firms with less than 100 employees, usually only a minority of these firms establish councils, or they make do with informal consultation mechanisms. In Germany, for example, the law provides statutory rights in firms with five or more employees. The establishment of a works council is not mandatory and according to survey figures from 2002, works councils cover just 11 % of all firms and 50 % of all employees within the law's scope. Coverage is related to the size and the age of the firm, with smaller and newer firms much less likely to have established a works council. (They are also less likely to join an employers' organisation or have a collective agreement. Around one third of German employees is neither covered by an agreement nor by a council.) In the Netherlands, councils are mandatory in all firms of 50 or more employees. There are councils in about half of all firms between 50 and 99 employees, whereas implementation approaches 100 % in larger firms. In France, the Ministry of Labour estimates that of small firms (10–19 employees) less than 20 % have a form of workplace representation for employees. This percentage increases to 56 % for firms with 20–49 employees and to 90 % in firms with more than 50 employees. In Greece, it appears that less than 5 % of the firms covered by the law have actually established a works council. These figures strongly suggest that where union members are absent (in small firms) there will also be less activity and pressure to set up a works council and implement whatever firms are required to do by law or by agreement.

Besides the lack of adequate information and monitoring, non-implementation is still a problem in EU-10. According to a study of the European

Foundation for the Improvement of Living and Working Conditions, there is a general lack of institutionalisation and councils are virtually non-existent in any of the new Member States (including Cyprus and Malta), with the partial exception of Slovenia, Poland (public sector), and perhaps Slovakia, and only in Hungary and Slovenia are councils comparable with the fully-fledged types in EU-15 [19]. There seem to be virtually no works councils in the Czech Republic. The law establishes a right, not an obligation, that works councils be established in enterprises where no unions are present; however, the council must be disbanded if a trade union is established. In Slovakia the law was changed in 2003 making works councils a secondary channel for information and consultation even in enterprises where unions are present. Previous legislation had provided for employee representation only in non-unionised workplaces, but few works councils had been established. As noted by the report, *Industrial relations in Europe 2002*, on the state of industrial relations in the accession and candidate countries, there is a clear lack of workers' representation especially in companies without trade unions, the number of which is growing rapidly. This is leading to a situation in which many of the new Member States, and some of the old, face the impossibility of ensuring workers' information and consultation, despite the fact that it is enshrined in their national legislation and represents an important element of the Community *acquis* [20].

Where they exist, works councils or similar (union-based) structures of employee representation exercise consultation and information rights, especially with regard to social and personnel policies. Sometimes, employees or their representatives are represented on the company board. This relationship between employee representation and corporate governance is further explored in Chapter 5 of the report. In addition to consultation with management, many works councils have a monitoring task with regard to collective agreements or statutory rights and legal prescripts, for instance concerning equal opportunity, or health and safety. In most EU-15 and in three of the EU-10 Member States, works councils or union-based representation bodies in enterprises have co-determination rights, mostly with regard to social and human resource management policies, sometimes extending to matters of economic policy, mergers, takeovers, work organisation and investment.

Usually, when councils have co-determination rights, they must be consulted over the implementation of pay systems and working-time schedules. In addition, in some Member States, the law permits elected employees' representative bodies to negotiate so-called plant agreements regulating issues not covered by collective agreement with management. This is a rather sensitive issue from the trade unions' point of view. Unions tend to consider such legislative entitlements as infringements of their bargaining rights. Trade unions have nearly always, by law or by agreement, primacy in negotiating and signing collective agreements. Yet works councils, even when established as a second channel, often play a supplementary role. This role has become more important in recent times, especially with increased attention to negotiating change and variation in working time, performance-related pay systems, secondary benefits, and the application of 'opening' or 'hardship clauses' which allow firms to suspend parts of (sectoral) collective agreements in case they face financial and business difficulties. These clauses have become more important in recent years, as will be seen below, but the application of such clauses requires the exchange of credible information and representative structures for consultation at the level of firms. Where such practices and structures are missing, or not trusted by employees, decentralisation of bargaining, with a view to creating more flexibility in response to the challenges facing firms, is often stalled.

In single channel systems, the division of bargaining tasks and responsibilities between the 'external' and 'internal' union is a matter of internal union decision and discipline. In dual channel systems, it involves the law. Usually, councils are legally barred from collective bargaining and calling a strike. Only in Spain, for historical reasons connected with the transition to democracy in the 1970s, do works councils have a recognised role in collective bargaining. But also in Germany, in spite of legal provisions, many works councils engage in collective bargaining over working hours and even pay, with or without the prior consent and knowledge of the union. In Hungary, the law that had given councils the right to negotiate an agreement if no union is present, was repealed in 2002. In the Netherlands and in Austria, councils may negotiate wages and working hours, in firms where no union is present or when the industry agreement permits such negotiations. Company bargaining in the Netherlands usually takes place with trade unions, since management prefers the professionalism and legal responsibility of 'external' and 'independent' unions. But in some non-union sectors, for instance in information technology and in business services, works councils step in. However,

(19) *European Foundation (2004),* Social dialogue and conflict resolution in the acceding countries*, Luxembourg, Office for Official Publications of the European Communities, p. 11.*

(20) *European Commission,* Industrial relations in Europe 2002*, op. cit.*

under Dutch law, while collective agreements are legally binding, it is not the case when the agreement is signed by the works council. The presumption is that councils are not independent and that employees have no choice. They can voluntarily join and leave the union, and union negotiators are not on the firm's payroll. These conditions do not apply to works councils.

Table 1.4 also presents information regarding the presence of union workplace organisations in enterprises. In single channel systems, union workplace organisation is given for unionised firms. In dual channel systems, union workplace organisation may be absent, for instance in the Netherlands. In France, legislation introduced in 1969 provides for separate union representation in enterprises. In Belgium and Luxembourg this is guaranteed by central agreement. In Germany and elsewhere this may be subject to sectoral agreements and hence it may vary considerably across the economy (usually stronger in manufacturing and public services, and absent in commercial services). The effectiveness of workplace representation and also of works councils will be influenced by inter-union competition. Where competition is strong, the works council has a stronger *raison d'etre*, since it provides for unitary representation. Council elections have the important secondary function of providing some measure of the popularity and representation claims of rival unions in, for instance, Belgium, Luxembourg, France, Spain and Italy, in the latter case also against the excessive representation claims of the independent unions.

2.1.5. Europeanisation of employee representation

The role of the EU's legislative *acquis* and its body of rules concerning employee and union rights, and the directives concerning consultation and information in multinational and national companies and establishments have already been mentioned. These are examples not only of vertical intervention and legal harmonisation, but also occasions for increased cross-border contacts and mutual learning in trade unions and companies. In addition, the particular form of legal intervention, with room for locally negotiated solutions that satisfy certain conditions, also foster a climate and experience of social dialogue and autonomous contractual arrangements (see also Chapters 4 and 5).

The European Works Councils (EWCS) Directive 94/45/EC applies to undertakings or groups with at least 1 000 employees and at least 150 employees in each of two Member States. It allows for the establishment of a EWC, representative of employees in the Member States where the group has operations, to be informed and consulted on the progress of the business and any significant changes envisaged. While not really comparable with national works councils, and generally much weaker, the importance of EWCs lies in the fact that they involve over 10 000 employee representatives directly in intercultural exchanges and practices. In a recent opinion [21], the European Economic and Social Committee (EESC) observes that various studies point to internal growth of EWCs and recognition of their positive role played in promoting social dialogue within companies. As many of the original pre-1996 EWC agreements have been renegotiated, their content has becomes richer and provides more and better facilities for transnational exchange. The developing scope of these agreements would also seem evident from the extension of the range of issues being dealt with by EWCs. Issues with a strong European dimension such as health and safety, equal opportunities policy, training and mobility and environmental policy are often included. This process of dynamic development within EWCs has probably reached its fullest expression in consultation over company restructuring in the case of relocations, mergers and closures. This issue is returned to in Chapter 5.

2.2. Employers and their organisations

2.2.1. Affiliation, organisation and reform patterns in the Member States

Cross-national differences in the organisation and roles of employers' organisations significantly affect national industrial relations practices [22]. Usually, multi-employer bargaining can be institutionalised only when employers' organisations exist and engage in bargaining. For similar reasons, statutory provisions for the extension of collective agreements to non-organised firms can be used only when the signatory party on behalf of the employer side is an employers' organisation. In other words, the prevalence of multi- or single-employer bargaining as well as the coverage

(21) *Opinion of the European Economic and Social Committee on the practical application of the European Works Councils Directive 94/45/EC, 24 September 2003, EESC 1164/2003.*

(22) *This section has benefited greatly from the research by F. Traxler and his associates, as presented in the report on* Employers associations in Europe, *covering EU-15, Hungary, Slovenia and Norway, published by the European Foundation, and from the study by F. Traxler, S. Blaschke and B. Kittel (2001),* National labour relations in internationalised markets. A comparative study of institutions, change and performance, *Oxford University Press. For this section we have also used the database established by the Institut des Sciences du Travail of the Université Catholique de Louvain,* Monographs on the situation of social partners in the candidate countries, *Brussels, December 2003, a research project conducted on behalf of the Employment and Social Affairs DG of the European Commission.*

TABLE 1.5: EUROPE'S BUSINESS AND EMPLOYERS' ASSOCIATIONS AFFILIATION, ORGANISATION RATES AND PARTICIPATION IN SOCIAL DIALOGUE

	(1) No	Member UNICE	Affiliates (2) No	Organisation rate (3) %	Participation in social dialogue Bipartite	Tripartite	UEAPME	CEEP member?
Austria	2	IV	9	100 (=WKÖ) *	Y	Y	WKÖ*	Y
Slovenia	2	(ZDS)	26	100 (=GZS) *	Y	Y	(OZS)	N
Netherlands	1	VNO-NCW	149	85	Y	Y	MKB	Y(4)
Luxembourg	1	FEDIL	24	80	N	Y	CDM, FDA	Y(4)
France	1	MEDEF	87	74	N	Y	APCM, UPA, CGPME	Y
Belgium	1	VBO-FEB	33	72	Y	Y	UNIZO, UCM, CC, PME-SDI, KAN	Y(4)
Spain	1	CEOE	148	72	Y	Y	CEPYME, PIME, PIMEC SEFES	Y
Greece	1	___	44	70	Y	Y	GSEVEE	Y
Slovakia	1	AZZR SR	37	65	N	Y	(SZZ)	N
Germany	2	BDA, BDI	54	63	N	Y	ZDH-BFD, BDS-DgeV	Y
Cyprus	4	OEB	52	60	Y	Y	(CCCI)	N
Finland	2	TT, PT	29	60	Y	Y	SY-FEE	Y
Ireland	1	IBEC	53	60	Y	Y	ISME, SFA	Y
Portugal	2	AIP, CIP	79,42	58	N	Y	AIP	Y
Sweden	1	SN	25	55	N	Y	FR, FPB	Y
Denmark	1	DA	13	52	Y	Y	Håndværksrådet	Y
Italy	1	Confindustria	110	51	N	Y	Confartigianato, CONFAPI, CAN, Confesercenti, CASA	Y
UK	1	CBI	150	40	N	(Y)	UIC	Y
Czech Rep.	2	SP CR	7	35	N	Y	(AMSP-CR), (SPCR), (EXXR)	Y
Estonia	1	ETTK	..	35	Y	Y	(EVEA)	N
Latvia	1	(LDDK)	19	30	Y	Y	(LAK)	N
Hungary	4	(CEHIC)	43	..	N	Y	(IPOSZ)	Y
Poland	2	KPP, (PKPP)	..	..	Y	Y	(ZRP)	N
Lithuania	4	(LPK)	..	..	Y	Y	(LVDK)	N
Malta	2	FOI	..	..	Y	Y	(IPSE)	N

NB: (1) General associations, without organisations specialising in representing agriculture, horticulture and fishery; cooperatives; SMEs, financial enterprises, and nationalised firms or local government; public sector, organisations representing public firms or special sectors, such as finance and banking. (2) Only sectoral affiliates or companies, without regional affiliates. (3) Expressed as a percentage of wage and salaried employees working in organised firms. Members with observer status between brackets. (4) Benelux. * Compulsory membership (in Austria in WKÖ, not in IV; in Slovenia in GSD, not in ZDS. Between brackets: members with observer status.

Sources: Reports and websites of UNICE, CEEP and UEAPME; supplemented with information from F. Traxler, S. Blaschke and B. Kittel (2001), *National labour relations in internationalised markets*, op.cit., and the Institut des Sciences du Travail of the Université Catholique de Louvain, *Monographs on the situation of social partners in the candidate countries*, Brussels, December 2003, a research project conducted on behalf of the Employment and Social Affairs DG of the European Commission.

of agreements is strongly influenced by the existence and activities of employers' organisations.

The organisation of employers varies considerably across Member States. At the cross-industry level, in countries like Denmark, Sweden, Ireland, the UK, the Netherlands, Belgium, Luxembourg, France, Switzerland, Italy and Spain, as well as in Cyprus, the three Baltic States and Slovakia, there is essentially a single umbrella organisation, representing employers' and trade interests in the private sector. Alongside these organisations we often find specialist organisations representing the small and medium-sized firm sector, in agriculture, among cooperatives and sometimes in the banking sector. Often, the State sector and public interest enterprises are excluded from mainstream business and employers' associations. They may organise separately.

In Finland, Portugal, Greece and Malta the main federation organises industrial businesses and employers only and separate organisations exist in (commercial) services. In Finland, there are now moves towards a merger, to be completed in 2005. Slovenia, like Austria, is unusual in that it has a chamber of commerce and industry, of which membership is obligatory. Alongside these, separate chambers of crafts and small enterprises, also with obligatory membership, exist. It now seems that the compulsory-membership chambers in Slovenia will cease representing

employers' interests in collective bargaining, a role which has been much criticised but had ensured full bargaining coverage in the past. Germany is the only remaining case with a division — at the national level — between the representation of employers and trade interests (in some regions, for instance Bavaria, the two structures have been integrated), although a somewhat similar situation exists in Denmark and the Czech Republic at the industry level. As part of a larger trend of reintegrating industrial relations, human resource management and social policy in general business practice, this once common division — especially in northern Europe — has now disappeared in Sweden (2000) and Switzerland (2002), following the early examples of the British CBI in 1965 and the Dutch in 1968, later followed by the Irish, the Finnish, the Norwegian and the Danish employers. With a less institutionalised and autonomous sphere of industrial relations, the Belgian, French, Italian, Greek, Spanish and Portuguese organisations of *le Patronat* had never separated these functions. Finally, in a number of countries there are two or more major federations, on the basis of a division between industry and services, or — more rarely — reflecting political and regional divisions.

Rationalisation processes have taken place also at the levels below the peak associations. This includes mergers of trade and employers' organisations in the same sector, as well as mergers of employers' associations representing neighbouring sectors. Aside from the Nordic countries, a notable number of mergers at these lower levels are reported in Italy, the Netherlands and the UK. One important reason for organisational restructuring is that employers' associations have been under pressure from their member firms to economise on resources. In response to these pressures, employers' associations in countries such as Austria, Denmark, Finland, Germany, Sweden, the UK (and Switzerland) have launched major reforms aimed at cutting budgets, membership dues and/or staff.

On the other hand, during the 1990s new federations were formed or split off from existing ones. For instance, in Ireland, associations representing the small firm sector left the main confederation in order to form a separate representative body for SMEs. New employers' organisations were created in the ICT sector in Italy and Sweden, and for the temporary work agencies in Germany and Luxembourg. Other Member States with many recent new organisations are Spain and Portugal [23]. In Portugal, four new peak associations have been set up, for SMEs in 1996; tourism in 1996; agriculture in 1995; and fishing in 2000. In general, there is quite some overlap in domains of representation, and intensive competition, between employers' associations representing large firms and those representing SMEs.

The most thoroughgoing changes, however, took place in the former communist countries during the transition to a market economy. Initially, so-called employers' organisations mainly represented State-owned enterprises, but privatisation has since resulted in a proliferation of employer and industry organisations in some countries, especially for SMEs. There are now three organisations in Poland and six or more in Hungary. Many organisations have essentially a business/trade role, focusing on economic issues and lobbying, rather than on employer issues and collective bargaining, though many participate in various national-level tripartite forums. The tripartite engagements may involve quasi-bargaining activities and have influenced public policies regarding labour and employment law, and the direction of social and economic policies in the process of transition and the accession to the EU. However, the lack of strong and representative employers' organisations at national and sectoral level is a frequently noted feature of many CEE countries.

Regular national cross-industry bargaining with trade unions over substantive pay and conditions issues is part of the remit of central employers' bodies in Belgium, Finland, Greece, Ireland and Portugal (and outside the EU in Norway). In Luxembourg such activities are channelled through the tripartite commission deciding on the application of price indexation to (minimum) wages, benefits and pensions. Cross-industry bargaining over specific issues or procedural matters is part of the role of employers' confederations in Denmark, France, the Netherlands, Italy, Spain and, in recent years again, in Sweden [24]. While falling short of bargaining, employers' confederations entertain contacts with trade unions in various private and public forums in Austria and Germany. It is probably in the UK that the main employers' body has the least 'bargaining-like' role in any area.

In the new Member States, business and employers' organisations do not engage in bipartite national cross-industry bargaining with trade unions over pay and conditions — the main exceptions being Slovenia and Latvia (on minimum wages). Instead, there is a high degree of tripartism at the national level, with employers' bodies involved in negotiation and/or consultation processes with trade unions and governments. This may result in regular tripartite agreements on minimum wages, as in Hungary, or on wider issues, as in Slovenia. Less regular

(23) *M. Behrens (2004), 'New forms of employers' collective interest representation',* Industrielle Beziehungen, *Vol. 11.*
(24) *See also A. Vatta (2001),* Gli imprenditori e la concertazione in Europa. Un analasi comparata, *Rome, Ed. Lavoro.*

or issue-specific tripartite national agreements have been concluded in Cyprus, Estonia, Latvia, Lithuania, Malta and Poland. Slovenia has tripartite national pay agreements, as well as bipartite national bargaining.

At the industry level, sectoral employers' organisations with a collective bargaining role are key components of the industrial relations systems of most EU-15 countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, the Netherlands, Portugal, Spain and Sweden. Only in Ireland and in the UK, and in the special (small State) case of Luxembourg, are there hardly any sectoral employers' associations with a bargaining role. In these countries, collective bargaining occurs essentially at company level, though overlaid with cross-industry bargaining in Ireland (and occasionally also in Luxembourg with regard to indexation of wages and benefits to price developments). In the new Member States, sectoral bargaining has hardly developed, with the notable exceptions of Slovenia, Cyprus and, to a lesser extent, Slovakia. This is due to the fact that in most of these countries sectoral employers' organisations are either weak and lack the necessary resources to participate, or that they are denied the authority to conclude sectoral agreements on behalf of their members, as is often the case for instance in Hungary and in Poland.

2.2.2. Affiliation, organisation and reform patterns at the European level

General private business interests were coordinated soon after the creation of the common market by the Union des Industries de la Communauté Européenne (UNICE). Reflecting a shift in focus with the advancement of the dialogue with trade unions, in 1987 the organisation accepted the role of 'Industrial and Employers' Association'. By that time, most national industrial and employers' associations had already merged. Initially, UNICE restricted full membership to common market countries, but later also admitted member organisations from non-Member States, for instance, Norway, Switzerland and Turkey. In recent years, UNICE has conferred observer status on member associations from central and eastern Europe and will accept them as members in the future.

Today, the representation of employers' interests at the EU level is relatively comprehensive and united. UNICE represents almost all the main national cross-industry confederations of private sector employers and business in the EU-15 countries. In addition, it has member organisations in 7 of the 10 new Member States (Cyprus, the Czech Republic, Estonia, Hungary, Malta, Poland and Slovakia) and observer members in Latvia, Lithuania, Poland and Slovenia. Currently the organisation has a total of 35 national member organisations and four observers. UNICE acts as both an employers' organisation, engaging in social dialogue and, in special circumstances, negotiations with the ETUC, and as a trade or industry association, promoting its members' interests in a range of areas and seeking to influence EU decision-making on a variety of issues.

A separate European-level body representing SMEs, the European Association of Craft and Small and Medium-sized Enterprises (UEAPME), also exists. Since 1998, UEAPME and UNICE have cooperated closely in EU-level social dialogue and negotiations with the trade unions. Furthermore, the European Centre of Enterprises with Public Participation and of Enterprises of General Economic Interest (CEEP, Centre Européen des Entreprises Publique), which was founded in 1961, represents enterprises and organisations with public participation or carrying out activities of general economic interest, irrespective of their legal or ownership status.

UEAPME has 77 national member organisations in all EU-15 Member States. The organisation only has members with observer status in the 10 new Member States. In addition it includes some European-level branch organisations. CEEP has both national federations and firms as its members. The organisation has not yet much extended beyond EU-15. Only in Hungary (and in Romania) has it admitted a full member.

In recent years, in addition to affiliation to their European peak associations, national business and employers' associations have also chosen to establish their own offices in Brussels for the purpose of representation, information exchange and lobbying. A similar development has occurred among national peak federations of the trade unions. In some cases, there is regional cooperation, for instance, in the group of Nordic countries. Another interesting development is found among Hungarian business and employers' associations. Notwithstanding their divisions, they decided in 1999 to create a joint representation in Europe in the run-up to EU membership.

At the European sectoral level, there are hundreds of organisations representing business interests. However, only a minority of these are employers' organisations, in the sense that they represent their members on employment issues or have relations with the trade unions. The main exceptions are the organisations in those sectors where a sectoral social dialogue has developed. There are currently 30 sectoral dialogue committees, in most of which joint texts (opinions, declarations, codes of conduct, etc.) on a range of issues (e.g. training, employment, fundamental rights or health and safety) have been reached. The importance and development of the EU sectoral social

dialogue is discussed in Chapter 3. The sectoral employers' organisations involved in the dialogue generally represent all EU-15 Member States, though their membership in the new Member States varies considerably.

Unlike their national counterparts and unlike the European industry federation, the sectoral employers' organisations at the European level operate autonomously from their cross-industry peak organisations. UNICE has not integrated the sectoral organisations and remains a federation of national (cross-industry) peak associations. However, UNICE does organise a so-called European employer network (EEN). This network for information exchange of some 150 sectoral employers' organisations (Fédérations européennes de l'industrie, or FEBIs) was set up in 1989 and works as a joint platform for information, support and coordination.

2.2.3. Membership developments

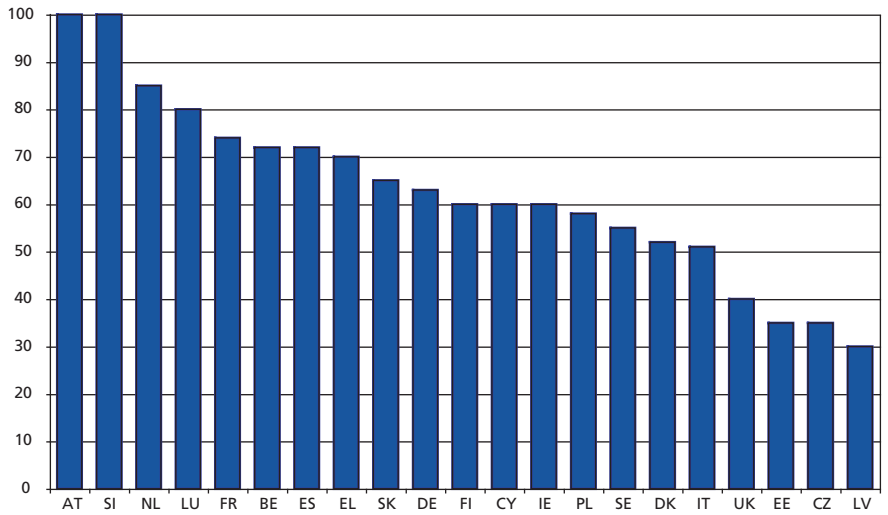
Until the 1990s, the *raison d'être* of employers' federations was mainly linked to the conclusion and administration of multi-employer collective bargaining. However, traditional multi-employer bargaining, which defined uniform working conditions, wages and working hours for entire sectors, has come under pressure (see below). Cross-national mergers and takeovers have produced more 'disembedded firms' whose loyalty with national associations may be lower. All mergers reduce membership and most exacerbate the differences between large and small firms, and complicate the association's governance if it has both small and large firms among its members. This may produce tensions in collective bargaining, but also because small firms depend on collective services provided by the association that large firms can produce more easily on their own if they need them. This is of course not new, but the differences and tensions have grown larger. Case studies from various countries and sectors demonstrate a trend towards cost-cutting, lower staff-member ratios, growing cost-consciousness among member firms, a shift to services for payment (sometimes organised through affiliated commercial ventures) and a renewed emphasis on lobbying instead of mere representation.

The organisation rate or 'density' of employers' organisations is hard to assess, due to frequent lack of data and difficulties of definition, so the figures available need to be assessed with caution. In only a minority of countries is the membership of employers' organisations documented in official statistics. Consequently, if available at all, figures on absolute or relative membership are mostly based on self-reported data from the organisations themselves. Unlike trade union membership, there are no official statistics, recorded by national statistical offices, and there are no membership surveys, based on labour force sample surveys (as in the case of union membership). The European Commission does, however, carry out representativeness studies which provide another important source of data. Chart 1.4 is therefore based on the Commission's data as well as the research of Franz Traxler and his associates, with additional information from EIRO.

Similar to union density, measuring the proportion of all employees joining a union, employer density or the employer organisation rate can be defined as the proportion of all employers (firms) joining an employers' association. However, it would seem appropriate to take account of differences in firm size, since it would matter more in terms of influence and impact on unions, collective bargaining and on employees, when large, rather than small firms join. It is therefore common practice to measure the density or organisation rate of employers as the proportion of the national workforce employed by the member firms of employers' associations.

Not counting situations where the membership of employers' organisations is obligatory by law, the average EU employer rate of organisation is 60 % (no data available for Poland, Hungary, Lithuania and Malta). In other words, three out of five employees work in firms which join an employers' organisation. This average hides huge variations across Member States. While in Austria and Slovenia, due to compulsory membership in the chambers, the organisation rate of employers is (near) complete, high organisation rates of 70 % and more are also obtained in the Netherlands, Luxembourg, Belgium, France, Spain and Greece. Having slipped in recent times, organisation

Chart 1.4: The organisation rate of employers, around 2000



rates in Germany are still above 60 %. In the range between 50 and 60 % we find Cyprus, Ireland, Finland, Sweden, Italy and Denmark. With a slow but continuous decline, the organisation rate of British employers is now estimated to be 40 %. Still lower rates are reported for Estonia, Latvia and the Czech Republic, while there is no data available for Poland, Hungary, Lithuania and Malta. It should be stressed once more that these figures are crude estimates — measurement has not achieved the degree of precision that exists for trade unions, especially since nationwide (labour force or enterprise) surveys cannot be used and employers' associations themselves are reluctant to publish this data.

But even with these caveats it can be concluded that, with some exceptions, employers' associations are a well-established phenomenon in EU-15 and that the organisation rate of employers is fairly high and stable. In all but three countries for which we have data, the organisation rate of employers is higher than the union density rate, often by a wide margin. Only in Sweden, Finland and Denmark, does union density exceed the rate of organisation of employers. We saw earlier that these were the countries with the highest unionisation levels, still little effected by the decline that hit unions elsewhere in Europe and in the world.

One of the problems of employers' organisations in the CEE countries is that like trade unions, they find it hard to gain a foothold in the newly emerging private sector, either because these firms are exceedingly small and rapidly changing, or employers, especially in the international large firm sector, are reluctant to join or form associations for the purpose of collective services and representation. Further constraints are that these organisations often lack a mandate from their members and that their financial position is often too weak to enable them to provide adequate services to member firms. Frequently, this creates obstacles to social dialogue, concertation and collective bargaining, our next subject.

3. Collective bargaining, social dialogue and concertation

ILO Convention No 98 of 1949 defines collective bargaining as 'voluntary negotiations between employers or employers' organisations and workers' organisations, with a view to the regulation of terms and conditions by collective agreements'. Collective bargaining is thus a rule-making process based on joint decisions between independent organisations. When successful, it results in agreements which specify the collective rules and conditions applying to employment and employment relations in firms, i.e. conditions of work and rules governing the relations between employees and managers. Additionally, agreements usually also define the relationship between the negotiating organisations, for instance with regard to the renewal of agreements, dispute procedures, peace obligations, recognition and facilities. All this has no counterpart in individual bargaining between workers and managers.

Another important distinction is between collective bargaining and consultation. Consultation is an advisory process in which one party seeks the advice of the other, but retains the power of unilateral decision-making. Like collective bargaining it may take place in different contexts and at different levels, within firms, sectors or regions, and in local, national and international contexts of law-making and policy implementation.

Social dialogue, finally, is the broader process and may encompass both collective bargaining and consultation. It can be organised as an autonomous, bipartite and self-governed process between workers and managers, and their representative organisations. But it can also take place in a tripartite setting with the participation of officials or agencies representing the government or the public realm. Information exchange through social dialogue can be combined with and prepare the ground for joint problem-solving, collective bargaining or unilateral decision-making. When successful, social dialogue is a process in which actors inform each other of their intentions and capacities, elaborate and exchange information provided to them, and clarify and explain their assumptions and expectations.

3.1. Collective bargaining

Voluntary collective bargaining, as defined under ILO Convention No 98, plays a key role in industrial relations in all EU-15 Member States and is a defining element in social partnership. Article 4 of the ILO Convention calls upon States to take measures appropriate to national conditions 'where necessary, to encourage and promote the full development and machinery for voluntary negotiation between employers or employers' organisations and workers' organisations, with a view to the regulation of terms and conditions of employment by means of collective agreements'. However, even in EU-15 there are large differences in the conditions and influence of collective bargaining, the level(s) at which bargaining takes place, the coverage of employees, its scope or content, and the nature of the very bargaining process, including the expression and regulation of conflict. Other differences refer to the degree of differentiation across sectors and firms, the coverage of the public sector or civil servants, and — not least — the role of the State and the law in defining organisational and bargaining rights, the implementation

and extension of negotiated agreement, and the definition of lawful strikes. This bewildering variety has remained outside the remit of the EU, but must be understood if unions or employers want to coordinate and cooperate across borders. In this first section we concentrate on bargaining coverage and the role of public policy.

3.1.1. Bargaining coverage

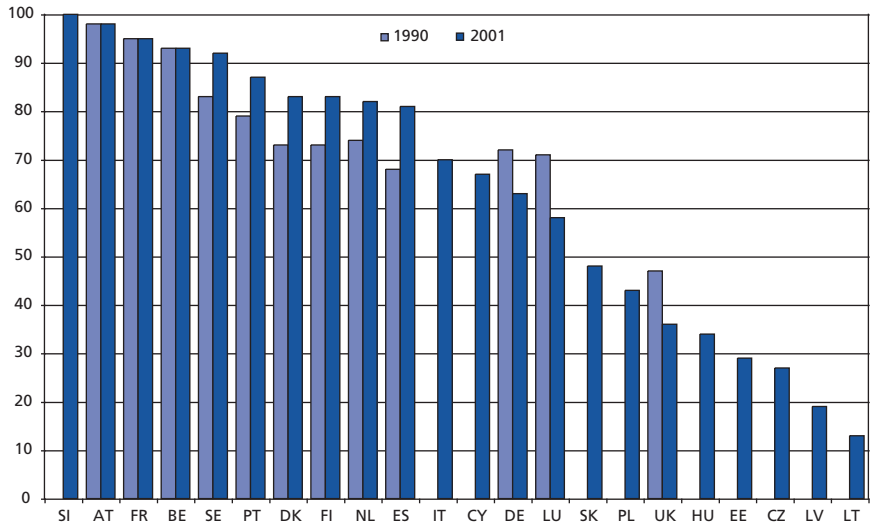
The coverage rate of collective bargaining is an indicator of the extent to which the terms of employment in an economy are regulated by collective agreement. Operationally, we define the coverage rate as the number of employees covered by a collective agreement as a proportion of all wage- and salary-earners in employment. This definition renders the measurement of bargaining coverage comparable with union and employer density. While union density is one of the indicators of potential bargaining strength and solidarity among employees, bargaining coverage measures the real rather than potential extent to which employees are subject to union-negotiated terms and conditions of employment. It may thus also be seen as a complementary indicator of union presence [25].

There are a number of reasons why employees may not be covered, even if collective bargaining takes place [26]. Firstly, unions and employers may be too weak to include all employees belonging to their domain of action. Secondly, the bargaining parties may explicitly exclude certain employee groups. In the past, they often excluded (part-time) employees working less than a certain number of hours per week, thereby excluding large numbers of women and young people. They may also decide to exclude managers or employees above a certain pay threshold. In such cases, the employment terms are regulated by individual contract or by none at all. Thirdly, certain categories of employees may be legally excluded from the right to collective bargaining. This sometimes applies in particular to public sector employees or particular groups such as the police and the armed forces, whose employment terms are regulated unilaterally by the State.

As in the case of calculating union density and employer organisation rates, there are many data and measurement problems. Comparing across countries it seems useful to take account of the fact that some groups of employees may be excluded from collective bargaining (and from the right to strike). In that case it is necessary to calculate an adjusted coverage rate, i.e. the number of employees covered by a collective agreement as a proportion not of all employees but only of those with the right to bargain. We will see that in most Member States there is hardly a difference — since only very few are excluded. In some Member States, for instance in Austria, Germany, Hungary, Luxembourg or Spain, it does, however, make a difference when public employees without bargaining rights are taken out. Besides these adjustment difficulties, a problem of comparability may also arise due to the fact that, under multi-level bargaining, many employees are covered by two (or more) agreements. This may cause double counting in statistics on coverage. Confusion may also derive from multi-annual agreements and missing specification of the date when agreements expire. Sometimes collective agreements are only reported in their first year of validity, thus excluding still valid multi-year agreements from an earlier year. In Chart 1.5 and Table 1.6, we have tried to include **all** collective agreements that are (still) valid during the year under consideration. Finally, we refer only to the **formal** coverage of collective agreements, as demarcated by their scope. Hence we do not consider the informal application of the terms of the agreement by firms not formally included by the agreement, though this may give collective bargaining additional representation and influence. Formal coverage does, however, include those employees covered by extension procedures (see below).

The aggregate or national rates of bargaining coverage for the 22 countries for which data are available are set out in Chart 1.5 and Table 1.6.

Chart 1.5: Bargaining coverage rates, 1990 and 2001



(25) R. J. Flanagan (1999), 'Macroeconomic performance and collective bargaining: an international perspective', Journal of Economic Literature, Vol. 37.

(26) See F. Traxler and M. Behrens (2002), 'Collective bargaining coverage and extension procedures', EIRO- Eironline, December.

TABLE 1.6: COLLECTIVE BARGAINING COVERAGE, EMPLOYERS' ORGANISATIONS AND UNION DENSITY

	1–10	11–20	21–30	31–40	41–50	51–60	61–70	71–80	81–90	91–100
Austria				U						Cov, E
Slovenia					U					Cov, E
France	U							E		Cov
Belgium						U		E		Cov
Sweden						E		U		Cov
Finland						E		U	Cov	
Netherlands			U					E	Cov	
Spain		U						E	Cov	
Denmark						E		U	Cov	
Luxembourg			U					Cov, E		
Ireland				U		(Cov)E				
Portugal			U			E		Cov		
Germany			U				Cov, E			
Greece			U				(Cov)E			
Cyprus						E	Cov, U			
Malta						(Cov)U				
Italy				U		E	Cov			
Slovakia				U	Cov		E			
Poland		U			Cov					
UK			U	Cov, E						
Hungary		U		Cov						
Czech Rep.			U, Cov	E						
Estonia		U	Cov	E						
Latvia		Cov	U	E						
Lithuania		Cov, U								

NB: Cov = bargaining coverage non-standardised; E = employer organisation rate (private sector); U = Union density rate. Between brackets: estimate of coverage rate based on employers' organisation rate (Greece, Ireland) or union density rate (Malta).

From a comparative perspective, the key finding is that in the EU two thirds of all employees are covered by collective agreement [27]. However, there is massive variation, from near 100 % in Slovenia, Austria and France to lower than 30 % in Estonia and the Czech Republic, and lower than 20 % in Latvia and Lithuania. The (weighted) average for the EU-15 is 78 %, for EU-10 the average is 35 %.

In comparison with union density, bargaining coverage is at least twice as high and there appears to be much more stability. It should be recalled that in the 1990s union density fell in all EU Member States and the average EU rate stood at 26 % in 2001–02. The apparent stability of coverage rates hides contrasting developments, however. During the 1990s bargaining coverage increased in Denmark, Finland, Sweden, the Netherlands, Spain and Portugal, was stable in Austria and France (where a huge increase in the 1980s was the response to new legislation creating a duty to bargain for management), while coverage decreased in Germany, the UK and Luxembourg. In the UK, continuing the trend of the 1980s, bargaining coverage has shrunk from 49 % in 1990 to 36 % in 1998. The demise of multi-employer bargaining and the failure by unions to secure recognition for collective bargaining from employers has created the conditions for decline. Data up to 2001 suggest that the decline stopped after 1998. Whether this is related to the new recognition procedure is hard to say. Under the 1999 Employment Relations Act, unions can be granted recognition as bargaining agents by the Conciliation and Arbitration Committee upon request, with or without a ballot. Until February 2004 there had been 347 applications and 81 ballots, of which 50 resulted in the union winning

(27) *Between the weighted — 66 % — and unweighted — 64 % — average there is little difference. These averages are based on 22 EU Member States. No reliable estimates are available in the case of Ireland, Greece and Malta. It should also be noted that the available data for Belgium dates from the mid-1990s and assumes that no significant alteration of coverage has occurred. The Italian figure — 70 % — may be overestimated as it excludes the millions of workers in micro-firms. Most figures for the new Member States are rough estimates, based on national (non-standardised) data reported by EIRO.*

recognition [28]. In Germany, the erosion of bargaining coverage was a phenomenon of the second half of the 1990s: the coverage rate fell from 72 to 63 % in the 'old' Federal Republic and from 56 to 44 % in the five new eastern *Länder* [29]. Most defections came from small and medium-sized firms and were related to the difficulty faced by employers' associations in binding employers to standardised collective agreements with the unions.

The context for bargaining in the new Member States from central and eastern Europe differs from that of EU-15 and Cyprus and Malta. Under the old regime, bargaining coverage was 100 %, although collective agreements often had little practical relevance and differed in their narrow focus on social welfare and health and safety at work. All countries but Slovenia saw a decline in bargaining coverage during the course of the transformation process. (The stability of coverage in Slovenia at an unrivalled level of 100 % is mainly based on the obligatory membership of chambers of commerce and industry, which has survived the transformation process but is set to change in the years ahead with voluntary employer organisation.) In the public sector there is often no meaningful collective bargaining, reflecting the old situation. Only Slovakia recently set the stage for collective bargaining in public services and in 2002–03 some national agreements were reached. The companies in the emerging private sector have been neither keen on entering single-employer bargaining nor willing and able to set up strong employers' associations which might conduct multi-employer bargaining on their behalf. A recent statistical study of the Ministry of Employment and Labour in Hungary reported a further five-point drop in the coverage rate, from 45 to 40 % between 2001 and 2002 (adjusted rates). According to the study, this suggests that private-sector employers may be withdrawing from wage negotiations and that the current company bargaining structure provides no stable framework. In addition, many countries struggle with the problem of underpayment or delays in payment, even where minimum wages and collective agreements apply. One government survey in Poland found two thirds of audited companies in breach of contract, with a tendency of diffusion from small to larger firms. These problems will be further taken up in Chapter 6 of the report.

3.1.2. Coverage rates, union and employers' organisation and the role of extension

There appears to be only a weak relationship between union density and bargaining coverage. As one can see from Table 1.6, coverage rates exceed union density rates in all Member States (Latvia appears to be the only exception), often by a very wide margin, for instance in France, Spain, Portugal, Austria and the Netherlands. In a cross-national comparison of union density and coverage rates (22 EU countries), the correlation coefficient is .41.

There is a much closer relationship with the employers' rate of organisation. The correlation coefficient between the employer organisation rate and bargaining coverage (19 countries) is .76 and highly significant. Unfortunately, we have no time series on employer organisation coverage and some of the data may not represent the actual state of affairs, but in general the impression is one of much greater membership stability among employers' organisations than in the case of trade unions.

Both employer organisation and bargaining coverage depend on the same condition: sectoral organisation. Simply put, the chances of employees having access to collective bargaining increase quite dramatically with multi-employer bargaining. Sectoral multi-employer bargaining dominates in all but 1 of the 10 Member States where coverage rates are above 70 %. The exception is France where there is a legal duty to bargain and the State plays a very large role in extending coverage (see below). Company bargaining prevails in seven Member States — Lithuania, Latvia, Estonia, Poland, the Czech Republic, Hungary and the UK — in which coverage rates are 40 % or lower. In between are countries in which sectoral multi-employer bargaining is less established (Slovakia), less relevant (Luxembourg, Cyprus) or being challenged (Germany). With a coverage rate of 63 %, or 68 % if we exclude the very small firms, Germany is still above the EU average.

In Europe, it is common for employers to voluntarily 'extend' negotiated agreements to both unionised and non-union workers. Voluntary extension to similar workers in the same firm is also recommended as good practice in ILO Recommendation No 91 of 1951. It also makes good sense from the employers' point of view, since union members-only contracts might be seen as discriminating against co-workers, who are not union members, and might unintentionally create an incentive for unionisation. *Erga omnes* or non-discriminatory application of agreements to employees 'in similar conditions' is legally required in Belgium, France, Luxembourg, the Netherlands,

(28) *S. Overell, 'Consultants do battle with the brotherhoods',* Financial Times, *26 April 2004.*
(29) *Data based on a survey of the Institute for Labour Market and Employment Research (IAB). See S. Kohaut and C. Schnabel (2003), 'Zur Erosion des Flächentarifvertrags',* Industrielle Beziehungen, *Vol. 11.*

TABLE 1.7: LEGAL OR ADMINISTRATIVE EXTENSION OF COLLECTIVE AGREEMENTS

Denmark Sweden Ireland UK	No practice of extension of private-sector wage agreements. In Denmark, extension refers mainly to the transposition of EU directives. In Ireland, extension of minimum wage provisions of Joint Labour Committees has become rare since adoption of Minimum Wage Act 2000. In the UK, all extension provisions were abolished in the1980s.
Austria Slovenia	Extension can be ordered by Austrian Federal Arbitration Office on application of one or both bargaining parties. In practice of little importance, because obligatory membership in Austrian Economic Chamber guarantees inclusive coverage. The same condition applies in Slovenia (but this may change if employers' side will be organised on a voluntary basis- outside the Chamber system).
Belgium	Extension is automatic if agreements are signed by all parties in Joint Industry Councils or in the National Labour Council. If not, the Ministry can extend multi-employer agreements by royal decree on application of one or more bargaining parties.
Finland	If agreements already cover 50 % or more employees in the sector, agreements are automatically binding for all firms and workers in their domain. The decision is taken by a special government body and can be appealed in the Labour Court.
France	On the request of one or more of the bargaining parties, addressed to the National Commission on Collective Bargaining, the Minister can extend agreements to entire sectors and/or enlarge agreements to different geographical regions or other economic sectors.
Germany	On the application of one or more of the bargaining parties and approved by a special committee for extensions, and if more than 50 % of the workforce is already covered, the Ministry can extend agreements to the entire sector. Since 1998, and only in the construction industry, the Ministry can extend minimum wage provisions at its own initiative.
Greece	The Minister can extend agreements at its own initiative, provided the agreement already covers more than 50 % in the sector or occupation.
Hungary	On application of one or more of the bargaining parties and after consultation with the subcommittee of the National Interest Reconciliation Committee, the Ministry can extend agreements to the entire sector. Applicants must provide proof of their representativity in the sector concerned.
Italy	The Constitution declares collective agreements signed by 'representative trade unions' generally binding on all employee categories covered by the agreement, but the relevant article (39) was never enacted. However, judges generally take minimum wage levels set by sectoral agreements as a reference in disputes.
Luxembourg	The Ministry can extend multi-employer agreements by decree on the application of one or more of the bargaining parties.
Netherlands	On the application of one or more bargaining parties, after (non-binding) advice of the (bipartite) Labour Foundation, and if 55–60 % or more of the workforce is already covered, the Ministry can extend agreements to entire sector.
Poland	The Ministry can extend multi-employer agreements to cover unaffiliated employers in a particular sector, if considered 'a vital social interest'.
Portugal	On its own initiative, the Ministry can extend agreements to the entire economic sector or geographical regions, and/or enlarge the agreement to different regions. Interested parties can appeal the decision.
Slovakia	On the application of one or more of the bargaining parties and recommended by a special tripartite committee for extension, the Ministry can extend agreements to employers with similar business activities and economic and social conditions.
Spain	Extension is automatic throughout the agreement's domain if signed by a majority of the representatives of each party to the agreement. Upon request by unions and/or employers, the Ministry can enlarge the agreement in cases where no bargaining exists.

Source: F. Traxler and M. Behrens (2002), 'Collective bargaining coverage and extension procedures'; EIRO - *Eironline*; OECD (2004), 'Wage-setting institutions', in *Employment outlook*, Paris, 17.

Austria, Poland, Portugal and Spain. In Italy the relevant constitutional article (No 39) has never been enacted, but as a rule judges take minimum wage provisions in agreements as benchmarks for their decisions.

As can be seen from Table 1.6, bargaining coverage nearly always exceeds the employer organisation rate. The exceptions are few: Luxembourg, the three Baltic States and the Czech Republic. In addition to weak data, in these countries there may be a tendency among employers not to engage in bargaining with unions. These five countries have in common that they rely mostly on company bargaining and that extension mechanisms, even where they legally exist, do not therefore apply. Where bargaining coverage is in excess of employer organisation rates, at least some non-organised employers apply the agreement negotiated by their organised competitors. They may do so voluntarily, under pressure of unions or in an attempt to attract good workers. As has been discussed in the report, *Industrial relations in Europe 2002*, many countries in Europe have procedures of legal or administrative extension of collective

agreements. Such public law provisions, which make the collective agreement binding for the entire sector or occupation, exist in 11 of the EU-15 countries (all but the UK, Ireland, Sweden and Denmark) and 4 EU-10 Member States (Slovenia, Slovakia, Hungary and Poland). In addition, Denmark has introduced an extension procedure for the purpose of implementing EU directives (see Table 1.7). In two countries — Austria and Slovenia — obligatory membership in employers' organisations is a functional equivalent to administrative extension and in Italy extension of contracts to employees in non-organised firms is based on judges' rulings — applying the minimum wage provisions in collective agreements also to employees working in firms not bound by them.

Table 1.7, based on the previous report and additional sources, shows the main variation in procedures. Public authorities, such as Ministries of Labour, play a crucial role in initiating the extension of an agreement in France, Greece, Portugal, and, to some extent, also in Slovakia. In these countries, and also in Spain, the Minister may also decide to 'enlarge' the agreement and apply its provisions to other sectors or regions. Several countries have established minimum requirements for extension, most commonly minimum rates for coverage of the relevant agreement prior to extension. Such requirements for representativeness apply in Finland, Germany, Greece, Hungary, Ireland, the Netherlands and Spain. Usually, the Minister must ask advice from the social partners and firms may appeal decisions. Social partners may advise on dispensations for small or starting firms, for instance in the Netherlands. Other minimum requirements are that the extension must be in the 'public interest' (Germany, the Netherlands, Poland) or must abolish disadvantages to employees or employers (Slovakia). The direct effect in terms of employees additionally covered by agreements varies. It is probably considerable in France, Spain and Belgium, although no reliable data are available. For Finland, the Netherlands, Hungary and Germany the additional effect on bargaining coverage is estimated at 19, 7, 4 and 1 percentage points respectively [30].

One of the main conclusions of the 2002 EIRO study on the extension of collective agreements was that there is 'a high stability of extension provisions — the continuity is striking' [31]. This is remarkable in view of the turbulence in unionisation and collective bargaining. In recent years, there have been fierce debates on collective bargaining and extension in France, Germany, Hungary, the Netherlands, Poland, Portugal, and Hungary.

- In **France**, in the context of several initiatives to reform the existing collective bargaining system and make it more autonomous and representative, employers have proposed to create more possibilities for opt-outs, with the possibility of offering terms and conditions of employment below agreed, and in some cases, legally established minima. This issue has also emerged in other Member States. In the context of the Agenda 2010 labour market reform programme of the **German** Government, the issue has arisen whether sectoral agreements should legally be required to contain 'opening', 'hardship' or 'inability to pay' clauses. Unions, both in France and Germany, are strongly opposed. At present, the reform project of the French employers confederation, MEDEF, seems stalled and in Germany the issue has been left to the social partners. In **Poland**, however, after months of debate, Parliament responded to employers' wishes and adopted a revised labour code introducing a rather far-reaching statutory 'hardship' clause. Accordingly, the signatory parties can agree to suspend a collective agreement for up to three years, if a company faces financial problems. This change presupposes the existence of worker representatives who can sign the suspension, but that there is no statutory workplace representation in Poland and there are no representatives in most firms. In **Hungary**, as in Germany, it has been suggested that more flexibility would make it more attractive for employers to join employers' associations and sign sectoral agreements, but so far no action has been taken. In the **Netherlands**, the issue of extending collective agreements resurfaces during each downward turn in the business cycle and has increasingly been associated with the issue of low representativeness of the unions, with less than 25 % of all employees joining a union. However, a recent study commissioned by the Dutch Ministry of Social Affairs and Employment found that most Dutch employers are rather satisfied with their (extended) sector-wide collective agreement [32]. Many appreciate the fact that extension supports equal contributions to joint funds, especially in matters of training and pensions. The survey also showed that a minority of employers is discontented and that some expect advantages from a shift towards company-level agreements. This group is large enough to make conflicts con-

(30) *OECD (2004), 'Wage-setting institutions',* Employment outlook, *Paris, p. 17; The estimate for Hungary is based on 2002 figures released by the Ministry of Employment and Labour.*
(31) *F. Traxler and M. Behrens (2002), 'Collective bargaining coverage and extension procedures', op. cit.*
(32) *M. Heijnen and C. van Rij (2003), 'Ervaringen van werkgevers met CAO en AVV', Amsterdam, Regioplan.*

cerning extension a rather permanent phenomenon. In recent years, employers in some branches (e.g. petrol stations, cleaning, transport, work agencies) have tried to escape from the obligations arising from extended sectoral agreements by negotiating separate collective agreements with non-mainstream trade unions. In one appeal case, the Minister of Social Affairs and Employment ruled that there was sufficient evidence to suggest that the 'employee association' at three temporary work agencies was not acting independently from employers. In **Portugal**, the discussion is related to the large role of the government in industrial relations, inherited from the (non-democratic) past. In **Spain**, the previous government had wanted to reform collective bargaining and scrap the principle of 'ultra-activity' (*ultraactividad*) which means that a collective agreement remains valid after its expiry, if it has not been renewed. If the end of an agreement would restore the *status quo ante*, employers would have less reason to speedily negotiate a new agreement. In the face of strong trade union opposition, the Spanish employers confederation (CEOE) backed off and signed in 2002 an agreement with the trade unions in which the principle of continued application of agreements was retained.

The 1994 OECD jobs study argued that extension stifles competition in product and labour markets, and called upon governments to discontinue this particular instrument for supporting sectoral bargaining. However, in a remarkable case, in 1997, the European Court of Justice (ECJ) defended extension on the grounds that it is a linchpin of the European social model, as defined in Treaty Articles 2 and 3. The competition rules of the internal market do not in the opinion of the EJC overrule this principle [(33)]. Careful empirical studies conducted at different times in the Netherlands have not been able to find an upward pushing effect on wages [(34)]. Supporting sectoral bargaining, it may even lower distributional conflict and investment losses (of workers in firms and firms in workers) connected to the 'hold-up' problem in bargaining. The so-called 'hold-up' problem arises from the fact that workers (employees) will tend to restrain their specific investments in the firm if they expect that, after having committed themselves, future bargaining over the distribution of the surplus will put them at a disadvantage. Such future bargaining is necessary, for instance, if the economy is hit by aggregate shocks such as unexpected inflation. Although it would be possible to write contracts for this and other contingencies at the micro level, 'it is desirable to delegate this task of adjusting contracts to aggregate shocks to corporatist organisations, so that this adjustment does not interfere with the idiosyncratic shocks', i.e. shocks that are specific to each firm or product group. Individual workers or local managers do not have much influence on negotiations which are conducted outside the firm, hence they cannot create a hold-up problem. However, in addition to sectoral negotiations conducted outside the firm, managers and workers, or their local representatives, can decide to adjust their contracts according to their specific needs when not doing so would yield separation (either the employee decides to quit or managers try to lay off the employee). This interpretation supports a multi-level approach to bargaining and predicts that under conditions of sectoral bargaining there will be fewer separations and more investment in, for instance, training [(35)]. Extension and multi-employer bargaining have therefore been important instruments in defending sectoral bargaining and coordinating wage behaviour in Europe's labour markets. This will be discussed below.

3.1.3. Coverage of European agreements

Bargaining of a kind also occurs at the European level. ETUC, UNICE and CEEP, plus, more recently, UEAPME and the Eurocadres/CEC liaison committee, have negotiated a number of European agreements, primarily to propose and renew EU legislation in the employment and social field (see also Chapters 3 and 4 of this report). They have reached such agreements on parental leave, part-time work and fixed-term work, which have been given legal force through EU directives. In July 2002, a framework agreement on telework was concluded, which is being implemented by the members of the signatory parties in accordance with their own national procedures, rather than by means of an EU directive and national legislation. These various agreements have focused primarily on EU-15. However, the directives implementing the first three agreements form part of the *acquis communautaire* which is being adopted and implemented by the new Member States, while the signatories to the telework accord invited their members in the new Member States to implement the agreement. A similar European-level 'bargaining' process driven by the prospect of EU legislation has occurred on some occasions over specific issues in a number of

(33) *EJC-C-219/97 Mij. Drijvende Bokken vs. Stichting Pensoenfonds voor Vervoer- en Havenbedrijven.*

(34) *R. Freeman, J. Hartog and C. Teulings (1997), 'AVV, spil in't spel',* Economisch-Statistische Berichten, *30 July; M. Rojer (2002), 'De betekenis van de CAO en het algemeen verbindend verklaren van de CAO's', Ministerie van Sociale Zaken en Werkgelegenheid, The Hague, werkdocumenten No 271.*

(35) *C. Teulings and J. Hartog (1998),* Corporatism or competition. Labour contract, institutions and wage structures in international companies, *Cambridge, Cambridge University Press, p. 5.*

sectors (for example, working time in civil aviation and maritime transport), while outside this process numerous joint texts of varying kinds have been concluded by the European sectoral social partners. As with cross-industry agreements, the primary focus has so far been on the current Member States. However, efforts are being made in the sectoral social dialogue to involve the new Member States.

Where EU agreements or legal texts are implemented by means of a national cross-industry or sectoral agreement, a problem of incomplete coverage may arise. While in Belgium this is solved by the legal status and full extension of such agreements when concluded in the National Labour Council, it has elsewhere required a specific extension procedure which did not previously exist. For instance, in early 2004, the Danish central organisations LO (unions) and DA (employers) signed an agreement on the incorporation of EU Directive 2002/14/EC, which establishes a general framework for informing and consulting employees, into the existing cooperation agreement between LO and DA. The existing agreement covered only an estimated 50 % of the Danish labour force in the private sector. The new agreement includes the innovation that employee groups outside LO may now obtain representation in company cooperation committees as members. This has until now been reserved for LO member unions, and LO has had mixed feelings about possible free rider effects of this extension of representation in response to an EU law. The implementation of the directive via the DA–LO cooperation agreement means that company-level joint cooperation committees will now have a duty to consult all groups of employees in the enterprise and not only those who are covered by a collective agreement between LO and DA member organisations. It is further clarified that it should be possible for employee groups outside LO to obtain representation in the cooperation committee if there is consensus about such representation. In line with the directive, the cooperation agreement will provide that employees must be informed and consulted on the development of the undertaking's activities and economic situation; the situation, structure and probable development of employment; and decisions likely to lead to substantial changes in work organisation or in working and employment conditions. LO also sees the new agreement as an important step in using the DA–LO cooperation agreement as an instrument to implement future EU directives that concern relations between management and employees.

3.2. Coordination and centralisation of wage-bargaining [36]

In recent years, facing increased economic uncertainty and the economic downturn of 2001–03, many Member States have stepped up their attempts to improve coordination of wage-bargaining. Membership of the common currency has added to the urgency to get it right in wage-setting, as wages have become more important as an adjustment variable. One of the challenges for wage-bargainers as well as for governments has been to achieve higher levels of coordination in spite of current decentralisation trends in industrial relations and firms, without stifling the growing demand for flexibility and local variation. Quite different patterns can be observed. Bargaining decentralisation may be accompanied by increased macroeconomic governance with the help of central organisations and the involvement of the government. If that is the case, confederations and central guidance, implicit or explicit via agreements, have not become obsolete. But their role in collective bargaining has become a different one — assisting the process of decentralisation by creating the conditions for stable organisation, dialogue and trust. This is what has been called 'organised decentralisation' and is designed to combine the need for greater flexibility and variation with the requirement of enhanced coordination across companies and sectors, and sometimes also across policy areas [37]. The opposite trend of 'unorganised decentralisation' is seen when the role of peak associations and sectoral organisations is diminished and individual contracting replaces collective bargaining and company bargaining supplants sectoral bargaining. Under such conditions, there is no possibility of explicit coordination, other than through the market or by force of law.

3.2.1. The trend towards decentralised industrial relations

Decentralisation is often mentioned as the master trend in industrial relations. In many countries, this process first became noticeable in bargaining over working-time reduction in the 1980s, but has since been extended to matters of pay. It has been claimed that internationalisation, technological and organisational change, multi-tasking, teamwork and client-related work processes have made standardised solutions, negotiated for entire sectors, less feasible and efficient [38]. Reflecting growing diversity in the

(36) *The focus in this section and the remainder of the chapter is on wage-bargaining. Other substantive issues in agreements between the social partners, e.g. working hours and arrangements, restructuring, social plans, training, equal opportunity, are discussed in Chapter 2 in relation to the Lisbon objectives of growth, employment and social inclusion.*

(37) *F. Traxler (1995), 'Farewell to labour market associations? Organised versus disorganised decentralisation as a map for industrial relations', in C. J. Crouch and F. Traxler (eds.),* Organised Industrial Relations in Europe. What future?, *Hants, Vermont, pp. 3–19.*

(38) *A. Lindbeck and D. J. Snower (2001), 'Centralised bargaining and reorganised work: Are they compatible?,* European Economic Review, *Vol. 45.*

workforce, decentralisation has also changed the trade unions. Yet the main driving force has come from employers. Traditionally, the creation of a level playing field and the prevention of cut-throat competition based on low wages has been valued as one of the benefits of wage and working hours standards set by sectoral or national wage agreements. Increased international competition has made this less relevant. Instead, it has become more important for internationally competing firms to have the freedom to react speedily to wage competition from foreign firms. The introduction of performance related pay, and payment by results, has also supported the demand for company level bargaining.

- In a recent survey of employers and workers in **Finland**, the stabilising effect of collective agreements through the restriction on wage competition was praised by employers and employees, and on balance, both employers' organisations and unions express satisfaction with the Finnish system of multi-level bargaining, in which company bargaining is embedded in sectoral and national agreements. However, the study also found that most employers would like the system to become more flexible and that many wanted more room for wage incentives. Large internationalised firms especially would like to see movement towards a wage-bargaining system where the company level has a larger role than at present. The employees of these large firms do not favour such a development. Employees and trade union representatives have emphasised the position of the low paid. Centralised collective agreements might be seen as providing more bargaining power and greater protection for those employees and unions whose position on the labour market is not very strong and, indeed, has proved most popular in sectors and firms where women and temporary workers make up a higher share of the workforce. It is to be noted that performance-related pay is quite widespread in Finland (affecting 50 % of white collar staff and 34 % of blue collar workers) and is accepted by a majority of employees and by the unions, though only if it affects a small part (5–6 %) of total earnings. The study also found that new firms and those with young workers showed a stronger preference for individual and company-level agreements. Professional workers and their unions, too, preferred stronger wage differentials in order to reward training, education and skills.

The **German** employers' federation in engineering (*Gesamtmetall*) mentions industrial peace as the principal advantage of sectoral bargaining. This is especially important for companies that are involved in 'highly sensitive' production alliances and high value networks that produce for export markets. The capacity of employers to take a strike, and respond with a lockout, appears to have decreased in the past two decades (39). Consequently, strike prevention has become more important. Other important advantages of sectoral bargaining mentioned by employers are legal and planning certainty. Yet, support for industry-wide collective agreements is waning, as is demonstrated by the increasing importance of associations of employers that do not require their members to comply with the conditions of collective agreements. It is for these reasons that German employers want more opening clauses in sectoral agreements. In a survey of 500 managing directors in the metalworking and electrical industry, conducted at the end of 2003, three out of four companies said that they deviated from the conditions on wages and/or holiday or Christmas bonuses stipulated in the collective agreement. Moreover, more than half of the companies reportedly applied their own working-time rules. Though the survey found no support for the thesis that German firms want to abolish industry-wide collective agreements, most managers stressed that they needed more flexibility within these agreements.

Small firms are less likely to join employers' associations. Union membership and formal rights of employee information and consultation are also less common. Employees in SMEs are usually only covered by collective agreements if there is a sectoral agreement, sometimes with the help of extension. Large firms can more easily bear the transaction costs associated with wage-bargaining, whereas it may be more efficient for smaller firms to 'buy' negotiating services collectively from employer associations and be insured against union pressure. However, these firms may be too small to attract union attention and high (perceived) costs may prevent new and small firms from entering employer associations, or they may decide to join employers associations that allow contractual opt-outs (e.g. Germany). Sometimes sectoral agreements differentiate between large and small firms. This happens in metal engineering in the Netherlands and is also quite common in Spain and France (where sectoral agreements often cover small and medium-sized firms only).

The level at which collective bargaining takes place can also be seen as the outcome of a bargaining process,

(39) *K. Thelen and I. Kume (2003), 'The future of nationally embedded capitalism. Industrial relations in Germany and Japan', in K. Yamamura and W. Streeck (eds.),* The end of diversity. Prospects for German and Japanese capitalism, *Ithaca NY, Cornell University Press, pp. 183–211.*

where employers and employees have (partly) different interests. Usually, trade unions prefer sectoral bargaining and this preference will be stronger when union representation in the enterprise is weak or not under the union's control. In this sense, the Scandinavian system of 'single channel' representation presents a better 'fit' to multi-level (industry and company) bargaining than the German or Dutch system of 'dual channel' representation. While the peace obligation may apply in both cases, based on agreement in one case and on the law in the other, German and Dutch unions fear that their policies might be undercut by works councils over which they exercise only limited control. This fear is stronger when there is competition between unions in the workplace. It is for this reason that trade unions have usually insisted on their prerogative in matters of bargaining over wages and working hours. The Italian situation, though based on single channel representation, presents another limitation. Here the largest union confederation (CGIL) opposes further decentralisation of bargaining because, in contrast with the prescription of the 1993 'incomes policy' pact, about half of the workers in firms above 10 employees, and nearly all in smaller firms, are excluded from company bargaining as they have no adequate representation. Under company bargaining, employees can make wage gains above the sectoral average determined by the government's forecasted inflation rates. Such gains have to be based on productivity improvements and can also include a significant performance-related element. Many of Italy's small firms and most workers in the south are *de facto* excluded and the induced wage drift in the south is estimated to run 2.5 % below the national average between 1995 and 2001 [40].

3.2.2. Bargaining levels

The key picture which emerges from Table 1.8 is that the setting of wages and employment terms in the EU involves bargaining activities at different levels — the sector or branch of economic activity, supplemented with company or enterprise bargaining and, in nearly half of the EU economies, also with some form of national bargaining. After the eclipse of sectoral bargaining during the 1980s, the UK is the only Member State where all or nearly all bargaining takes place at the company level, presenting an industrial relations environment resembling the US system. Sectoral bargaining is however also very weak or marginal in Ireland, France, Poland, the Czech Republic, Estonia, and Lithuania. (Bargaining in large companies substitutes for sectoral bargaining in Malta and Luxembourg.) Of these countries, Ireland is the only one in which cross-industry agreements guide wage-setting at the company level.

Multi-employer bargaining at the sectoral level has remained the dominant type of wage-setting in EU-15, though it is rare that all bargaining occurs at one level. Instead, most bargaining systems are characterised by multi-level negotiations. Eight of the EU-15 have some wage-bargaining, though not necessarily on all occasions, at the cross-industry level, covering the whole economy (Finland, Ireland, Portugal and the Netherlands), the private sector (Belgium and Greece), or the entire industrial sector (Denmark and Sweden). There are large differences regarding the importance of the different bargaining levels within the various national bargaining structures. In EU-15, there are three countries (Belgium, Ireland and Finland) where, in 2004, the cross-industry level and two (France and the UK) where the company level is dominant. In EU-10, the company-level nearly always dominates, except in Slovenia, Slovakia and Cyprus. In eight Member States (Austria, Denmark, Germany, Italy, the Netherlands, Portugal, Spain and Sweden) the sectoral level is the most important level of wage-bargaining, while in four countries (Luxembourg, Cyprus, Slovenia and Slovakia) there is either no predominant bargaining level or the dominant level varies from bargaining round to bargaining round between the cross-industry and the sectoral level (Finland).

There are also significant differences in the meaning and scope of sectoral bargaining within the different national contexts. In Ireland and the UK, and in most new Member States except Slovenia, sectoral bargaining is limited to a very few branches of activity only. In France sectoral bargaining covers in particular small and medium-sized companies, while many of the larger companies have a company agreement. In the Netherlands and Spain, large multinational firms usually negotiate a company agreement, even if there is a sectoral agreement in the branches in which they operate. There can also be significant differences between the various sectors [41]. The public sector, for example, has in most countries a rather centralised bargaining structure, while in sectors with a predominance of larger firms, the company level tends to have a greater influence on wage determination. Moreover, there are also variations in the geographical scope. While in most countries sectoral agreements are concluded at national level, in some countries (e.g. Germany, Spain and with regard to special low 'entry' wages also in Italy) there are sectoral wage agreements which are valid only in a certain region or province.

(40) *P. Casadio (2002), Wage formation in the Italian private sector after the 1992–93 income policy agreements, revised version of paper presented at the ECB workshop on wage formation in Europe, Frankfurt, December 2001.*

(41) *P. Marginson and K. Sisson (2003), 'European integration and industrial relations', in J. H. H. Weiler, I. Begg and J. Peterson (eds.),* Integrating in an expanding Europe: Reassessing the fundamentals, *Oxford, Blackwell, pp. 169–90.*

TABLE 1.8: LEVELS OF WAGE BARGAINING AND USUAL DURATION OF COLLECTIVE AGREEMENTS, 2003

	National	Sector	Company	Duration of contracts (years)
Belgium	***	**	*	2
Finland	***	**	*	2
Ireland	***		*	2
Slovenia	**	**	*	2
Greece	**	**	*	2
Netherlands	*	***	*	2
Denmark	*	***	**	3–4
Portugal	*	***	*	Variable
Spain	*	**	**	2–3
Slovakia	*	**	**	2
Hungary	*	*	***	2
Germany		***	*	1–2
Austria		***	*	1
Sweden		***	*	3
Italy		***	**	2
Cyprus		***	*	2–3
Luxembourg		**	**	Variable
France		*	***	2?
Czech Republic		*	***	Variable
Estonia		*	***	Variable
Latvia		*	***	Variable
Lithuania		*	***	Variable
Malta		*	***	Variable
Poland		*	***	Variable
UK			***	Variable

NB: *** = principle or dominant bargaining level; ** = important but not dominant level; * = existing level of bargaining.
Sources: Adapted from EIRO publications.

- A particularly important recent development in sectoral bargaining is the use of **opening**, **hardship**, **inability to pay**, **opt-out** or **drop-out** clauses, which allow firms under certain conditions to negotiate lower pay or longer working hours with their workforce than stipulated in the sectoral agreements. Such opt-out clauses have become more prominent in recent years in Austria, France, Germany, Ireland, the Netherlands, and Spain, although it is not easy to establish the degree to which employers make use of them. In **Spain** most collective agreements, affecting as many as 70 % of all employees, have a so-called 'drop-out' clause, laying down situations in which companies may fail to fulfil wage guarantee clauses. A major innovation in the 2004 agreements in **Denmark** is that the parties at the local level may now conclude local agreements that deviate in either direction, above and beneath the minimum conditions that are stipulated in the agreement. They must however inform the signatory parties at the higher level. This means more flexibility for firms, but at the same time the trade unions gain a stronger role for employee representatives, since such deviations can be concluded only in enterprises which have union-elected employee representatives and only by agreement. With regard to working-time arrangements, the Danish agreements signed in 2004 stipulate that, within the framework of a local agreement, the actual organisation of working hours may now be subject to direct agreement with the individual employee or groups of employees — a similar provision entered **Dutch** law and collective agreements after the adoption of the Working Time Act of 1996. For the employers, this is a step in the direction of 'individualisation', while the trade unions are pleased to have maintained the collectively agreed framework. **Danish** employers dropped their demand for lower bonus payments for unsocial hours and inconveniences. These new provisions can be seen as an extension of decentralisation in the bargaining system, with the sectoral agreements increasingly acting as a framework for bargaining at enterprise level.

There are also significant differences in the relationship between the different bargaining levels. In many countries, such as Denmark and Sweden, there is a supplementary relationship, whereby the sectoral agreement determines a minimum wage and actual earnings are determined in company bargaining. By contrast, the cross-industry wage agreements in Belgium and Ireland, and the central agreement for 2004–05 in the Netherlands, determine a maximum

wage increase which sets the margin for wage negotiations at sectoral and at company level. In Spain, the central agreements for 2002 and 2003 define a target rate for wage increases determined by the government's inflation forecast and the cost of living adjustment if the latter exceeds the forecast. Some countries (for example, Denmark and Sweden) report a significant 'wage drift' between sectoral-level and company-level wage increases. In other countries, for instance Germany, Austria and Italy, the positive wage drift has become very small, with increases linked to productivity and usually limited to larger and particularly well-performing companies. Increasingly, there is negative drift as well, associated with opening clauses and local social pacts in which firms extract wage or working hours concessions from local bargainers in exchange for job or investment promises [42]. In Italy this development is related to so-called 'area contracts', in which some provisions of the nationwide sectoral agreements are suspended, and a lower wage rate is agreed, in exchange for regional investment and job creation.

There seems to have been a tendency towards a longer contract duration, usually from one to two or even three years (see Table 1.8). (In Denmark, current agreements expire after three years, instead of four in the 2000–04 agreements, moving from two-year agreements in the 1990s). In Spain, too, there is some pressure to move from one to two years. This is consistent with multi-level bargaining, in which frameworks are set for longer periods and adjustments can be made at lower levels. In some countries, for instance Belgium and Finland, bargaining levels (central and industry) alternate between even and uneven years. Only in Belgium, Luxembourg and Malta, adjustments are made on the basis of an automatic price index. In Spain, the 'revision clause' in collective agreements in the private sector serve more or less the same function.

In conclusion, most countries have witnessed tendencies towards a decentralisation of wage determination, mostly by introducing more space for company bargaining within sectoral agreements, sometimes by explicitly introducing the possibility for 'opt-outs' under specified conditions of economic adversity. All this is supposedly increasing the flexibility of wage-setting. Overall, there has been remarkably little change in the importance of the principal bargaining levels. The UK is the only country in which the most important level of wage-bargaining switched from the sectoral to the company level, but that happened long before the 1990s. In France, a strong decline in sectoral wage-bargaining was observed during the 1990s, which did not mark a qualitative change since French sectoral bargaining has been highly fragmented for a long time. In the Netherlands, the breakdown of sectoral bargaining has been limited to some branches (banking, for example) while other sectors (such as commerce and catering) have tended to centralise wage-bargaining. There had always been an important market for company bargaining among multinational firms. In Sweden, cross-industry wage-bargaining disappeared in favour of sectoral bargaining at the beginning of the 1990s. In Denmark, cross-industry bargaining has not completely disappeared but may in fact have become more important in recent years. Here, decentralisation took the form of leaving more issues to be decided at the company level, above a specified minimum level. Multi-employer bargaining, even at a very general (cross-industry) level, has remained important for the funding of general purpose goods, some related to the 'old' welfare system (early retirement, disability and sickness leave), some to the 'investment welfare state' (training, parental and educational leave). A similar development had characterised the Netherlands until 2002 and 2003 when the government stepped in with more heavy armour to phase out collective funding of provisions for the 'old' welfare state. In Italy, a national tripartite agreement concluded in 1993 and reaffirmed in 1998 laid down the rules for the bargaining system, affirming the primacy of sectoral-level bargaining with a supplementary role for productivity bargaining in companies. Finally, in Spain there has been a slow decrease in the importance of company agreements and simultaneously an increase in the importance of sectoral wage-bargaining, within a renewed cross-industry framework. In short, despite decentralisation and the advance of multi-level bargaining, most EU-15 countries have shown a remarkable stability in their wage-bargaining structure, the same stability observed in bargaining coverage. However, this picture does not hold for the far more unstable and decentralised situation prevailing in many of the new Member States.

3.2.3. The measurement of decentralisation

For reasons of comparison through time and across Member States it would be useful to design a common yardstick. This paragraph therefore presents an index of decentralisation [43]. Centralisation of wage-bargaining has a vertical and horizontal dimension, with centralisation of bargaining authority and organisational concentration as core variables. The vertical dimension refers to the level at which agreements or guidelines are negotiated and to the authority of the negotiating unions and employers' associations. The horizontal dimension

(42) *W. Streeck and B. Rehder (2003), 'Das Flächentarifvertrag: Krise, Stabilität und Wandel',* Industrielle Beziehungen, *Vol. 10*

(43) *This follows the approach in T. Iversen (1999),* Contested economic institutions. The politics of macroeconomics and wage-bargaining in advanced democracies, *Cambridge, Cambridge University Press, pp. 48–57. A similar approach was suggested in J. Visser (1990), 'In search of inclusive unionism',* Bulletin of Comparative Labour Relations, *Vol. 18, Chapters 7 and 8.*

Box 1.1: The degree of centralisation of unions in collective bargaining over wages

To determine the degree of centralisation in multi-level bargaining, weights must be attached to each level reflecting the legal or customary bargaining authority at each level. Thus, if all authority is vested in organisations at the national level, it can be accorded the weight of '1', whereas if a level has no authority whatsoever it would be given a '0' [45]. Levels with real, but limited authority would be given weights between zero and one, so that

$$\Sigma_j = 1, \text{ where } w \text{ is the weight accorded to each level } j.$$

The assignment of weights depends on the level at which bargaining takes place (national, sectoral or company) and the degree of enforceability of agreements or recommendations at each level [46]. At the national level, four possibilities are acknowledged: the union confederation negotiates a national wage agreement (0.4); the agreement contains 'opt out' clauses (0.3); it negotiates only minimum rates and/or issues non-binding (in legal terms) recommendations (0.2), it sets a procedural framework for negotiations (0.1), or it does none of these things (0). The same question, with the same scores, can be repeated at the sectoral level. Are any of the activities mentioned above taking place or is all bargaining left to the company level? In addition, the formal authority of the negotiating confederation (or union) is measured by answering six simple questions: (i) Are agreements legally enforceable? (is non-implementation punishable in court?) (yes = 0.1; no = 0); (ii) Do agreements or does the law prescribe a 'peace obligation' on lower-level bargainers (0.1/0)? (iii) Do affiliates (company representatives) ask permission from the confederation (union) to commence negotiations (0.1/0)? (iv) Does the confederation (union) participate in the preparation and formulation of bargaining on the demand of its affiliates (local representatives) or otherwise prescribe the bargaining space of lower level bargainers (0.1/0)? (v) Does the confederation (union) have a (central) strike fund of significant size, from which strikers, respectively unions or local organisations, can be reimbursed (0.1/0)? (vi) Does the confederation or union have the right to veto or end a strike, by withholding permission, funding or calling for arbitration (0.1/0)? The maximum score is set at 2 x(0.4 + 6 x 0.1)/2 = 1.

For a complete measure of centralisation, these scores must be combined with information about the number of organisations (confederations, unions or bargaining units) over which bargaining authority is divided. If all authority would be vested in one confederation and one union, it reaches the maximum score 1, but if authority at each level is fragmented among many organisations, it will be lower. A simple formula is to divide the bargaining authority w at level j by the number of organisations or units at that level. Our measure of centralisation would then become:

$$Cent = \Sigma\Sigma_j / n_j, \text{ where } n_j = \text{the number of confederations (unions) at level } j.$$

As noted by Iversen, the limitation of this index is that it assumes that all confederations, unions or bargaining units are of equal size and equal influence. It disregards the possibility that some confederations or unions dominate or lead the others, because of their larger size and resources. The counting of union organisations can be approached in a similar way as the economic concentration of firms or the political concentration of political parties with the so-called Herfindahl index, which weights large unions more than small [47]. The 'effective' number of union organisations N, i.e. those that are large enough to influence bargaining patterns, is defined as:

$$N = (\Sigma_i p_i^2)^{-1}.$$

where p_i is the share of union (confederation) members organised by union (confederation) i. if N is substituted for n, the formula for centralisation is the following:

$$Cent = \Sigma\ \Sigma_j / N_j = \Sigma w_{ij} \times p_{ij}^2$$

This index [48] is theoretically well-founded as it measures the control over enterprise and/or industry bargaining by higher level agreements and organisations, and is well-adapted to the reality of multi-level bargaining systems, treating industry bargaining as nested in and potentially controlled by central bargaining, but also as a controlling force in its own right.

refers to the concentration or fragmentation of the negotiating parties at any given level. Where bargaining takes places at different levels, the authority and concentration of the actors at each of the levels needs to be taken into account.

The relationship between the confederations or peak associations of trade unions and employers and their affiliates or member organisations in the field of collective bargaining is determined to some degree by the formal provisions of the various organisations' constitutions, but also by less formal factors such as power resources, access to information, long-established routines and personal networks between organisational leaders. It has been argued that power in the union movement, for instance, gravitates from the sector unions to the national confederations if collective bargaining is dominated by central agreements during a considerable number of years [44]. It cannot be assumed, however, that the power of the national confederations is identical with the general degree of centralisation of collective bargaining, because this also depends on employers. One of the social partners can be much more centralised than the other, even though some balance is likely to develop over time. With these caveats in mind, an attempt has been made in Box 1.1 to measure the degree of centralisation of the unions in matters of collective bargaining over wages.

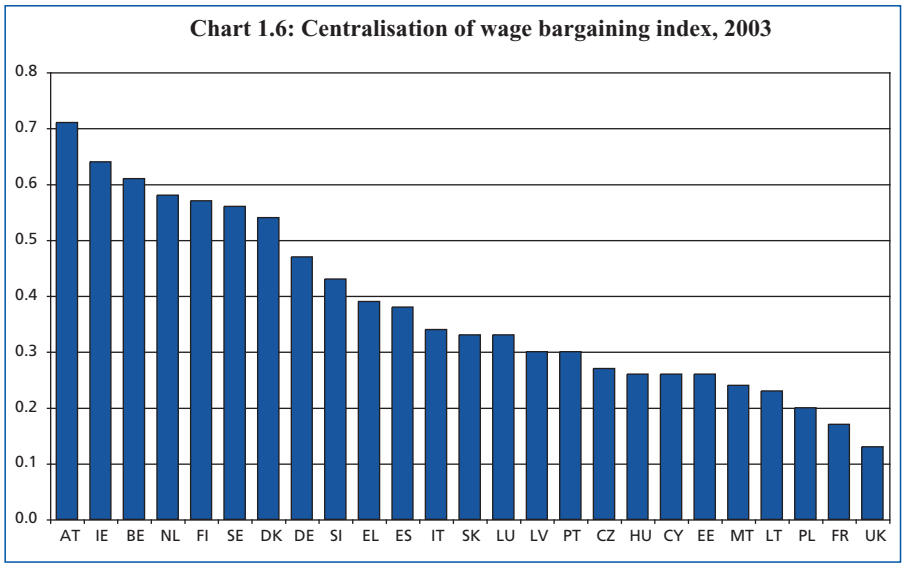
(44) *J. P. Windmuller (1975), 'The authority of national trade union confederations: a comparative analysis', in D. B. Lipsky (ed.),* Union power and public policy, *New York, New York School of Labor Relations, p. 98; also H. A. Clegg (1976),* Trade unionism under collective bargaining. A theory based on comparison of six countries, *Oxford, Blackwell, p. 54.*

(45) *At this point in time there is no bargaining authority above the national level. Union attempts to establish cross-national coordination of wage-bargaining will be discussed later in the chapter.*

(46) *With regard to enforceability the approach followed here is the one suggested by F. Traxler, B. Kittel and S. Blaschke (2001),* National labour relations in internationalised markets. A comparative study of institutions, change and performance, *Oxford University Press, although the number of items has been reduced.*

(47) *T. Iversen,* Contested economic institutions, *op. cit., p. 53; J. Visser, 'In search of inclusive unionism', op. cit., p. 172.*

(48) *In order to increase the distances at the low end of the scale (of very decentralised systems), Iversen's operational definition has been followed by taking the square root.*



The results (see Chart 1.6 and Table 1.9) clearly show a group of EU Member States with a rather centralised organisation of unions and wage-bargaining: Austria, Ireland, Belgium, the Netherlands, Finland, Sweden, followed closely by Denmark, Germany and Slovenia. Ireland is the only country in this group without a strong sectoral framework for bargaining and Germany the only country without a cross-industry one. In nearly all countries, sectoral agreements have been loosened up, either moving towards setting minimum rates only (Denmark) or by creating more space for local bargaining (Austria, Germany, the Netherlands), sometimes with 'opt outs' that allow firms to set conditions beneath the agreed sectoral level. At the low end of the centralisation scale we find the UK and France as well as most new Member States, with the exception of Slovenia and Slovakia. Decentralisation is in these countries the product of the absence of both national and sectoral bargaining conditions and union fragmentation. Finally, in between, we find the southern Member States — Spain, Italy, Greece and Portugal — together with Luxembourg and Slovakia. One remarkable finding is that in these countries there has been an upward movement in centralisation during the 1990s, especially by setting a more binding sectoral framework for wage-bargaining (Italy, Spain), in some cases supplemented by procedural guidelines or even substantive targets for wage-bargaining.

The overall picture is therefore not one of a general tendency towards decentralisation, at least not if all levels (cross-industry, sectoral and company) and the enforceability and formal power of the confederation and its affiliates are taken into account. By abandoning cross-industry bargaining, Sweden and Denmark (in the 1980s, not shown in Table 1.9) are the clearest cases of decentralisation — but coming from very high levels. In contrast, Ireland (in the late 1980s, not shown in Table 1.9), Belgium, Italy, Spain and Greece have moved in the other direction. If only the sectoral level is considered, a tendency towards more decentralisation is apparent, to some extent countervailed by the trend towards greater union concentration.

It should be stressed, again, that this description of trends is based on considering the role and organisation of trade unions and leaves employers out of the picture. It is possible to make a few general observations concerning the bargaining role of employers' organisations. In most Member States (Finland, France, Germany, Italy, Luxembourg, the Netherlands, Spain, Sweden, the UK, and all new Member States except Slovenia) affiliated employers' organisations enjoy fairly substantial autonomy and probably operate more independently of their national confederations than the unions do. There may, however, be a quite significant degree of informal power sharing, based on personal relationships, network ties and frequent meetings between industrial relations/human resource management executives of largest firms. This can contribute to explicit or implicit coordination which will be considered in the next section.

The autonomy of sectoral (and regional) employers' associations in matters of collective bargaining manifests itself through a lack of formal powers of the confederations over their affiliates. Sometimes the affiliates are required to inform their peak association, but usually the latter has no power of sanction over their (larger) member organisations, nor do they offer positive sanctions, like a 'central strike or resistance fund' comparable to the more powerful and centralised union confederations. By contrast, in a number of Member States (Belgium, Denmark, Greece, Ireland, and also in Slovenia) the formal power of the national confederations over their affiliates is more substantial. This includes the right either to negotiate collective agreements directly or to impose certain bargaining goals on their affiliates (Belgium, Ireland). In Denmark, the confederation's power rests on the appointment of mediators in the case of conflict. (The same is true for the unions.) In Slovenia, the peak association directly organises companies and thus does not have to share power with sectoral employers' organisations, while the Confederation of Greek Industries signs sectoral collective agreements which are binding for its member associations. Although collective bargaining is mostly in the domain of its member organisations, the formal power to sign contracts is retained by the Austrian Chamber of Enterprises.

TABLE 1.9: CENTRALISATION OF WAGE BARGAINING, 1990–2003

		Weight national level	Weight sectoral level	Effective number of confederations	Effective number of unions	Index of centralisation
Austria	1990	0.4	1.0	1.0	8.5	0.72
	1995	0.4	1.0	1.0	8.3	0.72
	2003	0.4	0.8	1.0	7.9	0.71
Ireland	1990	0.4	0.2	1.1	4.6	0.63
	1995	0.4	0.2	1.1	4.8	0.64
	2003	0.4	0.2	1.1	5.3	0.64
Belgium	1990	0.4	0.6	2.3	5.6	0.53
	1995	0.4	0.6	2.3	5.2	0.54
	2003	0.6	0.6	2.4	5.2	0.61
Netherlands	1990	0.4	1.0	2.4	6.2	0.57
	1995	0.4	0.9	2.3	6.3	0.57
	2003	0.4	0.8	2.1	5.4	0.58
Finland	1990	0.7	0.7	2.8	10.5	0.59
	1995	0.5	0.7	2.7	10.1	0.54
	2003	0.7	0.7	2.9	8.9	0.57
Sweden	1990	0.9	0.9	2.2	6.3	0.74
	1995	0.3	0.9	2.3	5.9	0.53
	2003	0.4	0.9	2.6	5.6	0.56
Denmark	1990	0.3	0.9	2.0	7.7	0.52
	1995	0.3	0.9	2.0	7.4	0.52
	2003	0.4	0.7	2.0	7.1	0.54
Germany	1990	0.1	1.0	1.5	6.0	0.48
	1995	0.1	1.0	1.5	6.6	0.47
	2003	0.1	0.8	1.5	5.3	0.47
Slovenia	2003	0.3	0.4	2.0	10.0	0.43
Greece	1995	0.2	0.4	2.4	18.0	0.33
	2003	0.3	0.4	2.4	14.0	0.39
Spain	1990	0.1	0.3	3.0	9.2	0.26
	1995	0.1	0.3	3.0	8.3	0.26
	2003	0.3	0.4	3.0	8.3	0.38
Italy	1990	0.1	0.3	3.4	9.5	0.25
	1995	0.2	0.6	3.5	9.4	0.35
	2003	0.2	0.5	3.5	9.1	0.34
Slovakia	2003	0.1	0.2	1.1	11.0	0.33
Luxembourg	1995	0.1	0.6	2.5	8.3	0.33
	2003	0.1	0.6	2.8	8.3	0.33
Portugal	1990	0.5	0.4	1.8(1)	12.5	0.24
	1995	0.5	0.4	1.8(1)	11.8	0.26
	2003	0.1	0.4	1.9	11.1	0.30
Latvia	2003	0.1	0.1	1.2	15.0	0.30
Czech Rep.	2003	0.1	0.2	1.7	11.0	0.27
Hungary	2003	0.2	0.2	3.9	11.0	0.26
Cyprus	2003	0.1	0.4	2.9	12.0	0.26
Estonia	2003	0.1	0.1	1.9	9.0	0.25
Malta	2003	0.1	0.2	3.3	7.1	0.24
Lithuania	2003	0.1	0.1	2.2	11.0	0.23
Poland	2003	0.1	0.1	3.1	15.0	0.20
France	1990	0.1	0.1	7.1	8.3	0.16
	1995	0.1	0.1	6.7	7.7	0.17
	2003	0.1	0.1	6.2	8.3	0.17
UK	1990	0.0	0.2	1.5	14.5	0.12
	1995	0.0	0.2	1.4	11.1	0.13
	2003	0.0	0.2	1.4	11.1	0.13

NB: (1) Only UGT is involved in central pacts, while CGTP is opposed.
Source: Calculations by J. Visser (see text), see also Appendix Table A1.

3.2.4. Explicit and implicit coordination of wage-bargaining

Coordination based on shared understanding and mutual trust may be more important than centralisation of wage-setting. This is perhaps the strongest lesson from the experience of social pacts — many of which were fully unexpected and negotiated in rather fragmented and decentralised wage-setting structures [49]. A shared understanding of the economic and social context, and of key mechanisms driving growth, productivity and employment, greatly increases the probability of wage-bargaining being conducted in a cooperative way, in which each party has an eye on their own long-term self-interest and the common good, and not only to their short-term interest or purely sectional concerns. This is for instance the key principle of the Irish reports of the National Economic and Social Council, which preceded each of the six major national partnership agreements in that country [50]. The importance of independent, valid and reliable policy analysis and the 'joint observation of (unpleasant) facts and messages' in such bipartite and non-statutory organisations as the Foundation of Labour in the Netherlands can be of great help for the development of shared understanding.

Any form of commitment by separate organisations to undertake joint decisions can be classified as explicit coordination. Centralisation is only one — extreme — form of coordination, for instance, when coordination moves in the direction of a single policy controlled by a single agent or closely cooperating central organisations. But there are less ambitious forms of coordination, for instance, if the social partners, with or without the government, accept joint rules by which decision-makers must abide or if they adopt joint targets and norms for their policy. Such a joint rule, target or norm can be the result of concertation and social dialogue, when participants are persuaded to move towards a congruent set of shared values and preferences. Or coordination can be implicit, based on the dominance or example of a particular union, employers' group or sector and resulting in setting the trend, norm or target for others. This can be combined with lower levels of centralisation and explicit coordination, though some power and visibility of the trend-setting union, employers' group or sector is needed. Alternatively, the trend or norm for pay developments can be determined by the government through explicit guidelines, a legal pay-indexation mechanism and/or the statutory minimum wage, though it would seem conceptually advisable to treat this separately, together with other possible means of government intervention (see below). Probably the weakest form of coordination occurs when social partners exchange information about their ambitions and capacity for punishing or rewarding, without actually reaching agreement or setting clear guidelines.

These considerations can be translated into the following scale for measuring bipartite coordination in wage-bargaining, distinguishing between explicit and implicit coordination and coordination between and within employers' and union organisations [51]:

5 = explicit coordination between and within peak association of unions and employers, through agreements at the national and sectoral level;

4 = explicit coordination between peak federations through agreements only at the national level or implicit coordination (without agreement) within confederations (unions or employers) at the national and sectoral level;

3 = implicit coordination through synchronisation of sectoral bargaining and pattern-setting;

2 = implicit coordination and irregular or incomplete pattern-setting;

1 = no coordination at the national or sectoral level.

If any collective bargaining is considered as a form of market coordination — against its alternative of individual contracting in unorganised markets — then it makes sense to consider also the extent of bargaining coverage. The second (weighed) coordination measure is obtained by multiplying the score on the coordination scale by the coverage rate [52]. Table 1.10 presents the results.

About half of all EU Member States have maintained or re-introduced some form of explicit coordination at the national level. In Finland, Ireland, Greece, Portugal (before 2001), and in 2003 also in the Netherlands, national agreements on wage policy have been concluded within the framework of tripartite cross-industry agreements. The two-year national agreements in Belgium move within a framework set by law. In Denmark, the sectoral agreements have since 2000 been supplemented by 'climate agreements' and other provisions negotiated and monitored at the central level. In

(49) *For an overview, see G. Fajertag and P. Pochet (eds.) (2000),* Social pacts in Europe. New dynamics, *Brussels, European Trade Union Institute and Observatoire Social Européenne.*

(50) *See NESC (2003),* An investment in quality: services, inclusion and enterprise, *Dublin, National Economic and Social Council, March.*

(51) *A somewhat similar ranking has been proposed by L. Kenworthy (2001), 'Wage-setting measures, a survey and assessment',* World Politics, *Vol. 54.*

(52) *For the purpose of comparison with the centralisation score, and for the same reasons, Table 1.9 presents the square root of the weighed coordination index.*

TABLE 1.10: COORDINATION OF WAGE BARGAINING, 2003

	Types of coordination		
Finland	Explicit coordination through national wage agreements and sectoral coordination	5	0.64
Belgium	Explicit coordination in National Labour Council, little sectoral coordination	4	0.61
Slovenia	Explicit coordination through bipartite and tripartite national agreements	4	0.63
Denmark	Some explicit coordination and broad sectoral agreements and pattern-setting	4	0.58
Netherlands	Some explicit, but mostly implicit coordination and some pattern-setting by large employers and unions	4	0.57
Sweden	Implicit coordination within confederations (unions) and pattern-setting, aided by joint institutions	4	0.57
Austria	Implicit coordination through synchronisation of bargaining rounds and pattern-setting between sectors	3	0.54
Ireland	Explicit coordination through national wage agreements, coordination within sectors absent	4	0.49
Germany	Implicit coordination through comprehensive sectoral bargaining and pattern-setting	3	0.43
Spain	Some explicit coordination between confederations of unions and employers in recent years and weak pattern-setting in sectoral bargaining	3	0.48
Italy	Implicit coordination between major employers (through strongest regional and sectoral federations) and in principle trade union confederations	2.5	0.42
Portugal	Implicit coordination between major employers, little coordination between unions	2	0.41
Luxembourg	Implicit coordination among employees and employers, no sectoral coordination	2.5	0.38
Greece	Some explicit coordination, with government assistance, little sectoral coordination	2.5	0.37
France	Irregular implicit coordination through pattern-setting in the public sector and nationalised industries	1.5	0.37
Cyprus	Incomplete pattern-setting between sectors	2	0.36
Malta	Implicit coordination among unions and employers	2	0.35
Slovakia	No national coordination since 2000, some sectoral coordination	2	0.31
Hungary	Some national coordination through the tripartite body, no sectoral coordination	2	0.28
Latvia	Some national coordination, mainly on minimum wages	1.5	0.26
Poland	No national or sectoral coordination	1	0.21
UK	No national or sectoral coordination	1	0.19
Estonia	No national or sectoral coordination	1	0.17
Czech Rep.	No national or sectoral coordination	1	0.16
Lithuania	No national or sectoral coordination	1	0.11

NB: 5 = Explicit coordination between and within the peak association of unions and employers, through agreements at the national and sectoral level; 4 = Explicit coordination between peak federations through agreements at national level only, or implicit coordination in confederations (unions or employers) at the national and sectoral level; 3 = Implicit coordination through synchronisation of sectoral bargaining and pattern-setting; 2 = Some coordination through supervision and weak, irregular or incomplete pattern-setting; 1= No coordination at the national or sectoral level. Weighted with coverage rate (coverage rates in Greece and Ireland are set at the level of employer organisation rates, in Malta at the level of the union density rate).

Spain, central agreements have set guidelines for wage conduct since 2001. In Slovenia (2002) and Hungary (2003), and in weaker versions also in Slovakia and Latvia, tripartite negotiations set the framework for minimum wages and some additional elements of wage-setting. In Italy, finally, tripartite negotiations in 2002 and 2003 have mostly concentrated on labour law reform, but also sought to influence the inflation targets set by the government. Almost all of these agreements recommend a policy of wage moderation in order to sustain non-inflationary economic development and to improve national competitiveness. In order to draw up macroeconomic guidelines and define concrete national target figures for wage increases, many Member States have tripartite or bipartite economic and social councils that provide macroeconomic expertise for the social partners (see Table 1.12, in the section on concertation). An attempt to create such a mechanism in Germany, modelled on the Dutch Foundation of Labour, has failed.

In several Member States the peak organisations of unions and/or employers engage in implicit coordination. This is the case, for instance, in Sweden (unions), the Netherlands, Luxembourg and Malta (unions and employers' groups), Portugal and France (employers). Pattern-setting is reported in six Member States: Austria, Denmark, Finland, Germany, the Netherlands and Sweden. Usually,

the dominant sectors are industrial sectors such as metalworking or chemicals, which are exposed to international competition. Pattern bargaining also occurs through large (multinational) firms, as in the Netherlands, where such companies set the trend for wage increases. Sometimes, for instance in Sweden, the leadership of industry in wage-bargaining is supported by legal provisions supplying mediation services.

In the new Member States coordination is generally weak, with the exception of Slovenia. The tradition of national wage agreements, existing in Slovakia, faltered in the late 1990s and the last such agreement was concluded in 2000. Attempts to reach agreement in Poland stalled in 2003. In Hungary, however, there have been fresh initiatives. Usually the legal status of a national agreement is a non-binding recommendation to lower level bargainers, but there is little coordination, within or between confederations, or in sectors, to put pressure behind such recommendations or monitor their follow-up.

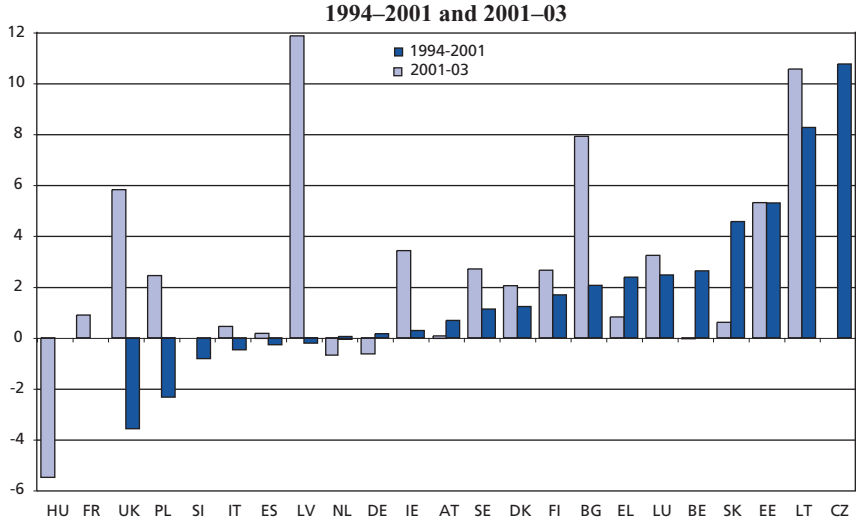
3.2.5. Recent developments in wage-bargaining — an overview

Wage-setting is arguably the area in which industrial relations and collective bargaining has the greatest direct effect on broader economic and social developments, influencing inflation, unemployment and social expenditure [53]. Its importance as a means of adapting to economic imbalances has increased with the progress of economic and monetary union (EMU) as euro-zone countries are no longer able to use exchange and interest rates to make such economic adjustments. The introduction of the euro has also added greater transparency to pay comparisons within Europe. Furthermore, the accession of the new Member States will add a new dimension to wage-setting. Wages in these countries are in general considerably lower than the EU-15 average and there will be considerable interest in the effects of EU membership on wages and economic development in the new Member States and of the addition to the single market of a group of low-wage economies on developments in EU-15.

The EU's 2003–05 broad economic policy guidelines, adopted by the Council in June 2003, state that the maintenance of sound macroeconomic conditions depends on wage developments as well as on the policies pursued by the European Central Bank and national governments. The Council calls upon wage-bargainers to seek outcomes that contribute to stable macroeconomic conditions and 'employment-friendly' growth. Governments should promote the right framework conditions for wage negotiations among the social partners. Above all, nominal wage increases are consistent with price stability and productivity gains. In particular, labour cost developments should remain moderate in the context of a possible cyclical recovery in productivity or temporary increases in inflation (for instance, related to oil price hikes). This would allow companies to increase job-creating investment. The guidelines also stress a perceived need to allow wages to better reflect productivity, taking into account productivity differences across skills and local or regional labour market conditions. Finally, the guidelines advise governments to 'foster the macroeconomic dialogue in a context of productivity-oriented wage policies'.

Across the current EU, nominal pay increases had moderated somewhat in 2002 following a rise in 2001. This reflects, with some delay, the worldwide economic downturn which began late 2000. The terrorist attacks on the United States on 11 September 2001, and the Middle East wars that followed, have added to the uncertainty facing European economies. In 2002 and 2003, there was a marked slowdown in economic growth. Taking inflation into account, real pay increases had not risen very high in 2001, despite worries about the erosion of wage restraint after entrance into the EMU had been secured. On average, wage moderation intensified in 2002, though there is considerable variation, especially outside the euro zone (see Chart 1.7). Adding productivity to the equa-

Chart 1.7: Annual average % change in real wages per employee, 1994–2001 and 2001–03



NB: PT, CY, MT, RO: n.a. ; BE, ES, IE, LU, NL, LT, PL, SI, BG: 2001-02; EL, LT, DE, ES, IE, LU, EE, LV, HU, SK: 1995-2001; LT, PL: 1996-01; BG: 1997-01.
Source: Eurostat, European System of Accounts, ESA 95.

(53) *This section is based on* Employment in Europe 2003. Recent trends and prospects, *published by the European Commission, DG Employment, and the EIRO overview on pay developments in 2003 (Eironline, 2004).*

tion, trade unions in most EU-15 Member States were unable to achieve wage rises equal to the sum of inflation and productivity increases in 2001 and 2002. It thus seems that the EU's key broad economic guidelines on pay — that increases in nominal wages should be consistent with price stability and that increases in real wages should not exceed growth in labour productivity — were by and large observed in most Member States. 2003 was a year when economic growth slowed further, whereas unemployment rose and inflation fell. This might be expected to offer a recipe for further wage moderation, as called for by the Broad Economic Policy Guidelines (BEPGs) and many governments.

The attainment of very low inflation has resuscitated an old fear, discussed at length by Keynes: the tendency of workers to resist cutting money wages even in the presence of very high rates of unemployment. When nominal rate increases are very low, the room for adjustment would seem restricted. This is probably the reason why there has been a tendency to prolong working hours as an alternative adjustment variable, leading to lower hourly wage rates.

The problem of limited nominal wage adjustment has come up in a number of euro countries. Excluding a downward adjustment of wages, the Spanish central agreement for 2003 mentions the intention to make greater use of shorter working hours (and reduced overtime) rather than wages or contracts as an adjustment variable in case of a downturn. In a Finnish study, based on a survey of the social partners and their members in 2003, it was found that adjustment to a downturn is expected to take place first of all through job losses and changes in employment levels, possibly also in working hours. Employees are not ready to accept downward flexibility of wages, even if low wages are compensated by public subsidies. However, it seems to be gradually becoming more widely accepted that, under the conditions of EMU, there is scope for mechanisms that include partial nominal wage adjustments. Using tax reductions as part of collective wage agreements is considered a positive and effective measure to achieve moderate wage settlements. This is seen as another reason for national wage agreements and social pacts, which also involve the government.

In late 2002, the central organisations in **Finland** reached a new two-year agreement for 2003 and 2004, with moderate cost effects of 2.9 % in 2003 and 2.2 % in 2004. Union demands — improved redundancy compensation and minimum working hours — were partly met and the government helped by offering tax cuts and employment measures. The agreement was ratified by the membership and will be implemented through sectoral and, in some cases, company bargaining. It is interesting to note that this agreement, like its predecessors, encourages local negotiations over performance related pay, now quite widespread in Finland.

Wage-bargaining in **Belgium** follows a pattern of biennial national agreements, the last of which was concluded in January 2003, applying to 2003 and 2004. The agreement had to be within the parameters set by the government, based on the benchmarks of Belgium's three neighbours — Germany, France and the Netherlands. The negotiators settled for an indicative rate of 5.4 % cost increase over two years. Other issues related to harmonising conditions for blue- and white-collar staff, are training and greater flexibility in the application of the government's quota system for employment creation for young people and trainees in small and medium-sized firms.

In March 2003, the **Irish** social partner organisations ratified a new national partnership agreement, called 'Sustaining progress'. It is an 18-month pay deal providing for increases of 7 %, along with measures in areas such as compliance procedures and statutory redundancy pay. The Irish Business and Employers' Confederation (IBEC) had insisted that 'deliverable mechanisms' be included in any new national agreement. With the help of new benchmarking procedures, the unions were able to secure public sector wage increases where they had lagged in past years.

In November 2002, the social partners and the government in the **Netherlands** reached an agreement for 2003, including a recommendation to lower level bargainers to settle pay increases within a limit of 2.5 % cost increases — the first such centrally agreed wage ceiling for a decade. (The 1993 'new course' agreement, recommending a 'zero' increase, had been a response to the 1991–93 recession and was negotiated without the government, albeit under a strong 'shadow of hierarchy' or threat of intervention.) A year later, it proved much more difficult to negotiate another tripartite agreement. Eventually, the social partners struck a deal, recommending a pay freeze in 2004 and a small increase, if the economy improves, in 2005. This compromise won a yes vote in a unique referendum among the membership of the Dutch Confederation of Trade Unions (FNV). As part of the agreement, the government softened its austerity measures in social security and health insurance that had already gained approval in parliament, and postponed its plan to phase out early retirement through punitive tax sanctions. However, the standstill in wage negotiations in the remainder of 2004 and 2005 was contingent upon reaching a new tripartite agreement on early retirement, by May 2004. When this proved impossible, the unions organised another referendum to reject the government's proposals and declared that they would break the standstill

on wages. The government threatened to retaliate by not extending collective agreements.

In late 2002, on the prompting of the government, a tripartite agreement was reached in **Hungary's** re-established National Interest Reconciliation Council. The agreement recommended to sector and company bargainers a 4.5 % wage increase in real terms, and a standstill in raising the level of the statutory minimum wage. In 2003, fewer than half of the collective agreements reported to the Ministry included provisions on annual wage increase, in contrast to 60 % in the previous year. The negotiated increases, however, were usually higher than the recommendations.

In June 2002, the government and social partners in **Slovenia** concluded an agreement on private sector pay for the period 2002–04. Under the deal, pay rises were to be linked to consumer price increases, while from 2004 pay would be adjusted in a new way aimed at helping Slovenia make a smooth transition to EU membership. This was taken up by a new tripartite social agreement for 2003–05, signed in April 2003 by the Slovenian Government and the social partners. This pact set the general direction for economic and social development and defines the tasks and responsibilities of the negotiating parties. The agreement's main aim is to achieve a balance between economic efficiency and social and legal security. It includes provisions on wage policy, employment, training, social dialogue, equal opportunities and taxation.

The central organisations in **Spain** concluded a cross-industry agreement in January 2003, laying down guidelines and criteria for lower-level collective bargaining in 2003. Like a similar one in 2002, the agreement puts pay moderation at the centre of bargaining, explicitly referring to the requirements of stability in the EMU. The agreement also advises lower-level bargaining to promote increased employment stability in exchange for more flexible working time. As in 2002, this was a typical 'agreement to agree', emphasising the value of 'dialogue and social concertation on criteria and content applicable at the different levels of collective bargaining'. The agreement is valid for one year with the possibility of renewal or extension. An innovation is that it provides for the creation of a Monitoring Commission (*Comisión de Seguimiento*) for the purpose of promoting social dialogue; gathering and disseminating good practices related to equal opportunities; promoting the European-level social partners' July 2002 framework agreement on telework; and fostering the promotion of 'observatories' at national sectoral level. The new agreement reflects the spirit of various EU directives in calling for 'a suitable balance between flexibility and security, establishing frameworks that allow companies to adapt internally to changing circumstances'. Also in line with EU directives, the 2003 agreement calls for equal treatment and non-discrimination on grounds of gender, ethnic group or race, while promoting the content of the European declaration on the employment of people with disabilities, signed in May 1999 by EU-level social partners.

Portugal experienced a sharp deterioration in economic performance in 2002 and 2003, with soaring unemployment, a contraction in public expenditure and low productivity. The government has proposed a new 'social contract for competitiveness and employment', which is being discussed in the Standing Committee for Social Concertation. There appears to be no consensus, with one of the union confederations in favour and the other against, and with employers insisting that the peace clause issue has to be resolved first. Under the emergency conditions of entering the EMU, there had been a string of social pacts in the 1990s, the last one applying to 2001.

In February 2003, **Poland's** Minister of Labour proposed a 'pact for labour and development' and from May 2003 the Tripartite Commission for Social Issues has been involved. In September, employers' organisations and some trade unions reached a partial agreement on minimum wages, public sector pay increases and cuts in business taxes, which was accepted by the government. However, the NSZZ Solidarnoch trade union rejected the deal and withdrew from further negotiations. The future of the social agreement initiative is uncertain.

Although national-level tripartism is operational again in **Slovakia** after a two-year break in 1997 and 1998, the social partners and the government have not been able to reach a new general agreement since 2000. The government determined the rise of minimum wages (currently at 41 % of the estimated average monthly wage) unilaterally, setting an increase of over 10 % for 2003.

December 2003, the **Greek** Confederation of Labour (GSEE) invited the central employers' federations to start negotiations replacing the 2002–03 central agreement. That agreement dealt mainly with wages and working hours, but for 2004 the GSEE also seeks improved social insurance rights for teleworkers, in line with the autonomous EU agreement of July 2002.

A tripartite agreement on the reform of the sickness fund deficits was reached in **Luxembourg**, but not on wages. Some coordination is being achieved through the 'automatic' indexation system, adjusting all wages, pensions and benefits one month after the cost-of-living index in the previous six months has gone up by 2.5 %. The decision is taken in the tripartite Index Commission (*Commission de l'indice*) which meets every three months.

Malta's second largest union (UHM, Union of United Workers) has in

2004 proposed a social pact in view of EU accession, taking its example from Irish and Dutch social partnerships.

In July 2002, the **Italian** Government, employers' organisations and trade unions — with the notable exception of the largest union confederation (CGIL) — signed a major agreement on incomes policy, labour market reform, tax concessions, and investment and employment in the south of Italy. This 'pact for Italy' exempts small firms from the dismissal protection law under certain conditions, and offers a larger window for temporary contracts and work agencies, following the proposals in the 'Biagi law', so called after the labour lawyer Marco Biagi who was murdered in April 2002. Against the background of economic slowdown and rising inflation, the pact re-affirmed the principle of earlier agreements that pay rises in sectoral collective bargaining should stay within the government's inflation forecast. However, the unions have pressed for a revision since then. In June 2003, after five months of negotiations, Confindustria, the central employers' confederation of Italy and the three main trade union confederations, including the CGIL, signed a new agreement, aimed at relaunching development, employment and competitiveness, and seeking to influence the government's future economic policy. Both trade unions and employers' organisations are opposed to the government's reform plan to move more decision-making in these matters to the regions. The 2003–04 bargaining round in Italy struggled with the decline in concertation and there were sharp disagreements over how to compensate for the *ex post* excess in inflation at the time of a cyclical downturn. The CGIL and the other unions want to renegotiate the government's inflation target, but this is resisted by the government and by employers. In view of these differences, it is remarkable that the three trade union confederations and the employers' organisations in Italy's small crafts business sector (around 1.5 million employees divided over 850 000 firms) signed a replica of the 1993 'incomes policy' agreement for the artisan sector in March 2004, setting the stage for firm-level bargaining and introducing joint union–employer bodies in small firms. In December 2003, sectoral employers' organisations and trade unions signed a renewal of the national collective agreements in the chemicals industry, without resort to any industrial action and before the old provisions were due to expire. The key provisions of the new agreement are the safeguarding of workers' purchasing power and the affirmation of the principle of social dialogue and negotiation without conflict. From January 2004, the parties will establish a joint committee to examine technical aspects of the application of the recent 'Biagi law' on the reform of the labour market.

New collective agreements for hourly-paid and salaried workers in the industrial sector were concluded on 1 February 2004 by the Confederation of **Danish** Industries (DI) and the Central Organisation of Industrial Employees (CO-I), a cartel of blue-collar and white-collar trade unions from various sectors in industry. The new agreements succeed the four-year deal of 2000. The key points of the new agreements are improvements in social policy, such as occupational pensions, parental leave and sick pay. The settlement prioritises the wish to maintain jobs and its provisions represent an increase in labour costs of nearly 1 % per year over its three-year term, leaving room for subsequent local pay negotiations which should ensure real wage increases without jeopardising the competitiveness of enterprises. An interesting aspect of industry bargaining in Denmark is that negotiations are preceded by so-called 'climate agreements' or 'agreements to agree' by the central organisations, DA for the employers, and LO for the unions. In particular, these agreements stress the value of social dialogue as a mental framework for efficient collective bargaining and seek to diminish the risk of conflict — with unions clearly concerned about attracting foreign investment, especially where large industrial conflicts attract high publicity and have strong knock-on effects in the global network economy. Soon after these agreements, the two central organisations extended the agreement to the entire private sector. Following difficult negotiations, this deal was drawn up by the Public Conciliation Service (*Forligsinstitutionen*) and was subsequently put to a membership ballot. The settlement staved off the threat of industrial action. The two key issues were the introduction of a central fund for the payment of parental leave and benefits above the statutory level; and pay compensation in the event of unlawful strikes. Eventually employers conceded the first point and the trade unions the second. The overall settlement is notable for an increased focus on social issues, but also for the more central role taken by LO and DA compared to recent years.

The first sectoral three year collective agreements in the 2004 bargaining round in **Sweden** were signed in March in four industrial sectors — paper and pulp, steel and metals, chemicals and engineering. This result had become possible thanks to the conclusion of a central agreement for nearly one million blue-collar workers in the private sector between the Confederation of Swedish Enterprise (SN) and the Swedish Confederation of Trade Unions (LO), the first such agreement in over a decade. In February 2004, after three years of negotiations, this 'adjustment agreement' provides financial benefits and other support to workers who are made redundant. Under the adjustment insurance scheme, workers (with some seniority) who are covered by LO-negotiated agreements for blue-collar workers and are given notice of a collective or individual

redundancy in a situation of 'work shortage', will receive monetary support for training, finding a new job or starting an enterprise, or, in the case of older workers, pre-retirement. The company and the local trade union must apply together for this support. Employers will pay a contribution based on their wage bill to the insurance scheme; a bipartite foundation will be responsible for the administration of the new adjustment insurance. The 2004 agreements in industry provide for a 6.8 % pay rise in three years, plus working-time cuts worth half a percentage point. They followed the model of the three-year agreements concluded in 1998 and 2001. The average pay rise in the earlier agreements was 7.5 % in 1998 and 7 % in 2002. The new agreements establish joint funds for the improvement of skills development, health and safety, and parental leave. Similar agreements followed in commerce, banking, finance, media, and construction. Bargaining in these sectors had been held back by the State's Mediation Authority (*Medlingsinstitutet*), which prefers the industry agreements to be settled first. The agreements in metal engineering and other industrial branches had been prepared by the 'impartial negotiation leaders', an institution that was introduced by the 1997 industry agreement between 12 employers' organisations and eight trade unions. These impartial negotiation leaders replace the 'State mediators' found in other sectors of the Swedish economy. The industry agreement is widely thought to have prepared Sweden for joining the EMU and heightened international competition, which requires lower levels of conflict [54]. Following the 'no' vote in a national referendum, Sweden has, however, remained outside.

In February 2004, the collective bargaining parties in the metalworking industry in the **German** region of Baden-Württemberg signed new collective agreements. The settlement, which was subsequently adopted as a 'pilot agreement' for other regions, provides for a pay increase of 2.2 % in 2004 and 2.7 % in 2005. Of each annual pay increase, 0.7 percentage points will serve to allow for a 'cost-neutral' adjustment to the introduction of the new pay framework agreement of 2002, which merges blue- and white-collar job categories into a single grading system. As part of the compromise, it was agreed that, deviating from the industry' standard 35-hours working week, up to 50 % of the employees in an enterprise can work up to 40 hours. Originally, the employers had asked for longer working hours and a general 'opening clause', with unlimited authority for local management and works councils to decide such matters. In the final settlement, the unions gained the concession that they and the employers' federation need to be informed and give their consent. Against the background of its defeat on the 35-hour week issue in eastern Germany in 2003, IG Metall regarded the outcome of the 2004 bargaining round as a moderate success. The dispute in the East German steel and metal industry had ended after four weeks when the trade union called off the strike. While employers in the steel industry conceded a gradual reduction, in the metalworking industry, employers conceded no reduction in the working week. It was IG Metall's worst defeat in decades.

3.3. Concertation, social pacts and the rise of the government

The overview on wage-bargaining showed that governments play an active role in influencing the outcome of collective bargaining in many EU Member States. They employ different instruments, varying from direct participation in negotiations (concertation) which may or may not lead to a social pact, agreement or contract, threats to withdraw support or offering compensation instead, to minimum wage legislation and indexation, or trying to use wage-setting in the public sector as a benchmark for private sector wage developments. Table 1.11 is based on the five-point scale proposed as follows:

5 = government imposes private sector wage settlements or suspends bargaining (involuntary wage freeze);

4 = government participates directly in private sector wage-bargaining and provides norms or ceilings, or tax-based compensation to achieve particular outcomes (social pacts);

3 = government determines wage-bargaining outcomes indirectly through minimum wage-setting, wage-setting in the public sector, or through threats of sanction (for instance, withholding extension or recognition);

2 = government sets minimum wage and provides institutional framework for national or sectoral collective bargaining (legal protection of agreements, extension), consultation or dialogue (recognition and consultation). (1.5 if only one of these applies);

1 = no role of government in wage-setting.

Table 1.11 shows that there is considerable variation across EU 15 Member States. In Belgium, Ireland, Portugal, Finland, Greece, followed by Italy, France, and Luxembourg the highest scores are reached, whereas the lowest scores on 'government intervention' are observed in the UK, Austria, Germany and Spain. The Netherlands, Denmark and Sweden occupy a medium position. Significantly, the most 'activist' governments are not in the 'neo-corporatist' Member States, with highly coordinated bargaining and

(54) *N. Elvander (1999),* The industrial agreement: An analysis of its ideas and performance, *Sandviken, ALMEGAs förlag.*

TABLE 1.11: GOVERNMENT INTERVENTION IN WAGE-BARGAINING

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Average 1990–2004
BE	3.0	3.0	3.0	3.0	5.0	5.0	5.0	5.0	5.0	4.0	4.0	4.0	4.0	4.0	4.0	4.1
IE	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
PT	4.0	4.0	4.0	3.0	3.0	3.0	4.0	4.0	4.0	4.0	3.0	4.0	4.0	4.0	4.0	3.7
FI	3.0	3.0	4.0	3.0	3.0	4.0	4.0	4.0	3.0	3.0	3.0	4.0	4.0	4.0	4.0	3.5
EL	3.0	3.0	3.0	3.0	3.0	3.0	3.0	5.0	3.0	3.0	5.0	3.0	3.0	5.0	3.0	3.4
IT	3.0	4.0	4.0	4.0	3.0	3.0	3.0	3.0	4.0	3.0	3.0	3.0	4.0	3.0	3.0	3.3
FR	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	4.0	3.0	4.0	3.0	3.0	3.0	3.0	3.1
LU	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	4.0	4.0	3.1
NL	2.0	2.0	3.0	3.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	3.0	4.0	2.3
DK	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	5.0	2.0	2.0	2.0	2.0	2.0	2.0	2.2
SE	2.0	3.0	3.0	3.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.2
ES	3.0	3.0	3.0	3.0	1.0	1.0	1.0	3.0	1.0	1.0	1.0	1.0	2.0	2.0	2.0	1.9
DE	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	2.0	2.0	2.0	1.5	1.5	1.5	1.6
AT	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
UK	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.5	1.5	1.5	1.5	1.5	1.2
EU-15	*2.6*	*2.7*	*2.9*	*2.7*	*2.5*	*2.6*	*2.7*	*2.9*	*2.9*	*2.6*	*2.7*	*2.7*	*2.8*	*3.0*	*3.0*	*2.8*
HU												2.0	2.0	4.0	4.0	3.0
SI												2.0	2.0	4.0	4.0	3.0
PL												2.0	4.0	2.0	2.0	2.5
SK												4.0	2.0	2.0	2.0	2.5
CZ												2.0	2.0	2.0	2.0	2.0
EE												2.0	2.0	2.0	2.0	2.0
LV												2.0	2.0	2.0	2.0	2.0
LT												2.0	2.0	2.0	2.0	2.0
MT												2.0	2.0	2.0	2.0	2.0
CY												1.5	1.5	1.5	1.5	1.5
EU-10												*2.2*	*2.2*	*2.4*	*2.4*	*2.3*

Source: Adapted from A. Hassel, *Negotiating wage restraint*, Habilitationsschrift Ruhr-Universität Bochum, 2003; updates for Greece and Luxembourg, and for 2001– 04 all EU-10 and EU-15 Member States.

NB: 1 = No role of government in wage-setting; 1.5 = government only involved in minimum wage-setting;
2 = Government tries to influence wage-bargaining by providing institutional framework for consultation or dialogue;
3 = Government determines wage-bargaining outcomes indirectly through minimum wage-setting, tax-based incomes policies, or threats of sanction (positive or negative);
4 = Government participates directly in wage-bargaining, by providing norms or ceilings (social pacts);
5 = Government imposes private sector wage settlements or suspends bargaining (involuntary wage freeze).

centralised and concentrated social partners. Intervention is strongest, and most persistent, in the more 'peripheral States', which had to make the largest adjustment in their wage-setting system before entering the euro zone. The results of Table 1.11 also suggest that 'no or little' government intervention is an option both in relatively organised 'neo-corporatist' countries (Austria, Germany, to a lesser extent also in Sweden, Denmark and the Netherlands), and in countries that have tended to follow an unorganised free market course (UK, Spain).

Variation is also found in EU-10 where most Member States have only limited instruments to influence wages and wage-bargaining is generally uncoordinated. Only in a few Member States (Slovenia, Hungary) have governments been active and successful in negotiating some kind of cross-industry pact. The national minimum wage is the most widespread instrument in seeking to influence wage developments. All new Member States, with the exception of Cyprus, have introduced a national minimum wage. (In Cyprus there are, however, minimum wages set for particular categories, including clerks, nurses and school assistants.) Usually, social partners have a say through tripartite bodies on shaping minimum wage decisions, but the government takes the final decision.

Since the adoption of a statutory minimum wage in Ireland and the UK, nine EU-15 countries now have a statutory minimum wage, which can also be seen as a form of coordination, since it functions as a reference point for the whole wage system. While in Belgium and Greece the minimum wage is set by binding national level collective agreements, in the other seven countries (France, Ireland, Luxembourg, the Netherlands, Portugal, Spain and the UK) the minimum wage has its basis solely in legislation. Therefore, the latter might be interpreted as a form of State-imposed coordination, though only in France is the impact very large. Finally, there are three countries

(Belgium, Luxembourg and Malta) that have a pay-indexation mechanism, according to which nominal wage increases are automatically and generally adjusted to inflation. In all other countries such 'centralising mechanisms' have disappeared, after having been quite important in the high inflation environment of the 1970s. However, in the post-EMU context the issue has not disappeared, especially in countries where there are significant differences between the national and the EMU inflation rate, or where government targets and actual price rises diverge. In Italy, the trade unions, especially the CGIL, have demanded an upward revision of the government's target rate, which since 1993 has been used as a benchmark for sectoral wage-bargaining. In Spain, most employees are covered by collective agreement with wage revision clauses (*cláusulas de revisión salarial*), which provide for additional pay rises when inflation exceeds certain limits. Their importance has increased in the context of wage-bargaining under EMU, since they make up the difference between actual consumer price inflation and the government's forecasted or target rate, which is often used as a benchmark for initial wage rises for the purpose of adaptation to the EMU conditions of stability and competitiveness.

Public sector wage-setting is another source of government influence, especially in the new Member States. The public sector is important in terms of relative size and because it employs the majority of union members. Although public sector wages are usually much lower, governments in the new Member States are not able to use public sector wage-setting in order to influence wage developments in the private sector. The two seem unrelated. In the private sector, collective bargaining, coordination and coverage are weak, and, in the public sector, the most common approach is that wage scales and rates for public employees are set by government decree, after quasi-negotiations (Hungary, Estonia) or perfunctory consultations with the unions. Only in Cyprus and Malta is there free collective bargaining in the public sector, and both in Slovenia and Slovakia national agreements have set the stage for public sector wage-bargaining in recent years.

No trend towards less government intervention in wage-bargaining in EU-15 can be observed, although the instrument of a wage freeze, still employed in the 1970s and 1980s, has become rare in the 1990s. But governments have not been able to extract themselves from the domain of industrial relations and wage-setting. This means that governments must also be interested in the organisation and coordination of labour markets. The reason is that governments must worry about unemployment if they want to be re-elected and that social dialogue and coordinated wage-bargaining offered suitable starting points for negotiations about adjustments in response to shocks and turbulence [55]. But State intervention is a double-edged sword. Governments might achieve a higher control over the rate of change of wages, but in exchange they surrender control over other policy issues, especially regarding social protection. This may explain the increased interdependence between the domains of industrial relations, social protection and labour market governance, and between wage and social policy when it comes to bargaining.

The new scheme for additional maternity/paternity benefits in Denmark is a good example of the growing interaction between wage and welfare issues, and of the political pressure on social partners to assume a number of 'social policy' tasks. The most discussed aspect of the 2004 agreements in industry is the introduction of a provision, known as a **revision** or **mousetrap** clause, which allows the parties to reopen negotiations if parliament adopts legislation which changes the basis of the agreements — for example, by amending the rules on unemployment benefits during temporary lay-offs, the establishment of a central fund to finance additional parental benefits, or other initiatives which increase employers' costs. Such a clause was seen as necessary to secure the agreements' relatively long duration of three years. It was also meant as a warning to the political actors against intervention in matters of the traditionally autonomous sphere of regulating pay and working conditions. In this connection, the proposal of a central fund financed by employers collectively for additional parental benefits was a hotly debated issue. A similar approach is now being pursued in Sweden and the Netherlands. If the Swedish Government decides to introduce new sickness insurance rules or amend existing working-time legislation, the signatory parties to the 2004 collective agreements in Sweden may cancel them. In the Netherlands, the 'wage moderation promises' in the 2004–05 agreement have been made contingent on a new agreement on legislation supporting early retirement under some conditions and were withdrawn when this agreement could not be reached. These interdependencies between wage and social policy are also growing at the level of firms, for instance in Germany.

The incentives for social partners and governments to enter into agreements or social pacts post-EMU will in part depend on how future uncertainty is evaluated against past experience. If an asymmetric shock were to happen under monetary union, the 'one size fits all' monetary policy requires more flexibility through the deployment of other policy instruments. Fiscal policy

(55) *The role of government intervention in wage-bargaining has been analysed in the comparative study of A. Hassel,* Negotiating wage restraint, *Habilitationsschrift Ruhr-Universität Bochum, 2003.*

is a possible response to divergent cyclical developments in the euro zone, but is unlikely to be sufficient in itself to achieve stabilisation (and may be used to accentuate cycles). Hence, it is likely that extra or early wage restraint through coordinated policies may come to be seen as a necessary means of stabilising the economy. Governments will want to avoid the risk that occasional wage hikes occur 'by accident', because the fiscal and employment consequences are now much more difficult to handle. Extra wage restraint through coordination with central organisations of unions and employers is probably preferred over the longer and less predictable path towards slowing down wage growth through a rise in unemployment.

In sum, the mere uncertainty of the macroeconomic consequences of EMU and the perceived risk of large imbalances at specific occasions may imply a precautionary motive for this type of coordination [56]. Governments should be the actors most interested in finding a substitute for lost policy instruments (e.g. monetary policy, fiscal policy restraints). Employers may be less interested, as they are likely to see decentralisation as their first choice. Yet, they may see the benefits of achieving wage moderation through coordination rather than risking conflict in an economy in which reliability is at a premium. For trade unions, the exercise of wage restraint means a lot of stress, but in a situation when they are losing ground they may have an incentive to demonstrate their ability and legitimacy as national actors.

3.3.1. Consultation and representation on statutory bodies

Representation on statutory bodies is usually the prerogative of the national peak associations of employers and trade unions. In some cases, for instance in the Netherlands, Denmark and Sweden, these tasks are now shared with sectoral unions and employer federations, as an expression of a trend towards decentralisation. As shown in Table 1.12, employers and unions enjoy formal representation on such bodies in almost all EU countries. While in most cases participation in such structures is formalised and the national peak associations are officially recognised as members of these bodies, trade union officials and employer representatives in the UK are appointed as competent individuals rather than as official representatives of their associations. The statutory bodies on which union and employers' representatives sit may be bipartite, tripartite or have a wider membership. They may have an advisory, consultative or negotiating and standard-setting role. Their remit may be general — as with the Belgian CNT/NAR, Greece's OKE, Hungary's OÉT, Ireland's NESR, Italy's CNEL or the Dutch SER — or relate to specific issues, for instance, with regard to economic development (Malta), social security administration (as in France, Germany, Greece and Italy), aspects of pay and incomes policy (Finland and Norway), minimum wage-setting or the application of labour law and the extension of collective agreements (Germany, Ireland, Luxembourg). In many new Member States, the tripartite body annually negotiates or advises the government regarding the increase of the national minimum wage and, in some cases, the index used to calculate the increase in remuneration of public service employees.

In recent times there are two major EU Member States in which the central employers' associations have scaled back their involvement in a number of such representative bodies. In 2001, France's MEDEF decided to withdraw from the direct management of the country's jointly run social security fund-holding bodies. A little later, the employers' association for small and medium firms followed suit. A decade earlier, together with its decision to stop central wage negotiations, the Swedish Employers' confederation formally withdrew from consultation boards and other government bodies in an effort to distance itself from what it considered to be excessive corporatism. However, little has changed in practice since many employer representatives have continued to serve on governing bodies, but now in their personal capacity.

In all of the former State socialist countries, tripartite concertation came to be institutionalised in the wake of the democratic transition. Hungary did so already in 1988. These bodies are usually anchored in legal statutes, but the role played by them in practice fluctuates, partly depending on the political complexion of the government. Poland's Tripartite Commission for Social and Economic Issues was established as a forum for national social dialogue in 1994. The weakness of employer representation and conflicts between the unions obstructed the work of the Commission for many years. However, since 2001, the government has introduced new legal regulations in order to revitalise the Commission. There are now also some sectoral tripartite bodies. In July 2002, at the initiative of the Hungarian Government, an agreement was reached to renew the national-level tripartite dialogue within the framework of the National Interest Reconciliation Council (OÉT). Employees are represented by all six national trade union confederations that had been part of earlier national-level tripartite forums and employers are represented by all nine national organisations. Tripartite dialogue between trade unions, employers and the State has been operational in Slovakia for more than a decade, although there was a break in

(56) L. Calmfors et al. (2001), 'The future of collective bargaining in Europe', op. cit.

TABLE 1. 12: PARTICIPATION OF UNIONS AND EMPLOYERS IN TRIPARTITE BODIES

	Tripartite bodies
Austria	Numerous statutory 'corporatist' boards
Belgium	National Labour Council (CNT/NAR); various bodies at sectoral and regional level
Cyprus	Labour Advisory Board (ESS); Economic Consultative Committee; Social Insurance Fund Council
Czech Rep.	Council for Economic and Social Agreement
Denmark	Official Conciliation Service; several institutions under the auspices of the Ministry of Employment
Estonia	National Economic and Social Council (NESC)
Finland	Economic Council; Incomes Policy Settlement Commission
France	National Commission on Collective Bargaining; Unemployment insurance fund (UNEDIC); various social security fund-holding bodies
Germany	Parity committee for extension of collective agreements; social security administrative boards; labour courts and labour market board
Greece	Economic and Social Council (OKE); Mediation and Arbitration Service (OMED); Supreme Labour Council; Labour Inspectorate; Social Insurance Foundation (IKA)
Hungary	National Interest Reconciliation Council (OÉT)
Ireland	National Economic and Social Council (NESC); National Economic and Social Forum (NESF); National Centre for Partnership and Performance (NCPP); Labour Relations Commission (LRC); Joint Labour Committees (JLC); Labour Court
Italy	National Council for Economic Affairs and Labour (CNEL); social security boards
Luxembourg	Economic and Social Council; Tripartite Coordinating Committee; Tripartite Index Commission; National Conciliation Office
Latvia	National Tripartite Cooperation Council
Lithuania	Tripartite Council; Commission of Labour Protection; State Social Insurance Council
Malta	Malta Council for Economic and Social Development, MCESD
Netherlands	Social and Economic Council (SER)
Poland	Commission for Social and Economic Issues
Portugal	Economic and Social Council (CES); Standing Committee for Social Concertation (CPCS)
Slovakia	Council for Economic and Social Concertation (RHSD); Agreement Extension Committee
Slovenia	Economic and Social Council (ESSS); Managing Board of Employment Agency; Agency for Pension and Disability Insurance; Agency for Health Insurance
Spain	Economic and Social Council (CES); National Institute of Employment (INEM); State Commission for Continuing Training (CEFC)
Sweden	Labour Court; authorities involved in the mediation process and occupational accidents/illnesses
UK	Participation of individual representatives in Low Pay Commission (LPC), Learning and Skills Council (LSC) and Health and Safety Executive (HSE)

Source: Database of the Institut des Sciences du Travail of the Université Catholique de Louvain (1997–2003) on behalf of the Employment and Social Affairs DG of the European Commission.

1997–98 and a new legal framework in 1999. At national level, the main forum for tripartism is the Tripartite Economic and Social Concertation Council, whose main activity consists of issuing opinions on measures proposed by the government in the field of economic and social policy, and, if possible, concluding 'general agreements' on such issues. There are also some efforts to support tripartism at the regional level, while public labour market bodies have a tripartite structure.

International organisations, in particular the EU and the ILO, have played an important role in promoting the setting up of such institutions and have supported their development. However, the political stance of national governments is also decisive for tripartite bodies to play a significant role in setting the agenda for reform. Despite this political dependence, and in spite of some criticism of their excessively formal nature (see Chapter 6), after a decade or so of experience, it can be concluded that tripartite consultation has demonstrated its resilience and become a constant feature in the new Member States. (In Cyprus and Malta tripartism has also taken root, informally in Cyprus and on a legal basis in Malta since 2000.) The weaknesses of these structures include the fragmentation of unions and employers' organisations in many countries as well as the poor state of the autonomous (bipartite) social dialogue at the national and especially sectoral level, something which has been stressed by the Commission in the run-up to enlargement. The Commission has indeed sought to actively promote the development of bipartite social dialogue in EU-10, and is continuing these efforts.

4. Europeanisation

In addition, there are significant trends in European industrial relations that influence national developments. Already prior to economic and monetary union (EMU), national industrial relations generally followed one of two broad tracks: attempts at cross-border agreement among trade unions in continental welfare state countries to seek wage increases within specified parameters and thereby preventing social dumping; and the adoption of social pacts in peripheral or 'catch-up' countries, prioritising national competitiveness, addressing crisis situations and preparing for EMU membership. Viewed together, the two responses look like a dichotomy between 'Europeanisation' or 'nationalisation' of wage-setting and industrial relations. The first strategy, although it had the support of the European Trade Union Confederation (ETUC) and some of its most powerful national members and industry federations, was always very weak as it had to be based on coordination among trade unions. European employers' organisations and transnational firms were not able or willing to engage in bargaining or joint coordination. The second, national strategy, has its difficulties in the post-entry context, although it may be a very valuable strategy for the new Member States, especially if they are preparing for EMU membership. Already they are expected to join the second phase of the European exchange rate mechanism some time after accession, which makes exchange rate policies a matter of common concern, with procedures for surveillance and coordination. The preparation for membership brings the Maastricht convergence criteria into play. Although some EU-10 Member States have a tradition of social pacts (Poland in the early 1990s; later also Slovakia and Hungary, and of course Slovenia) and institutional tripartism is a feature in all countries, there is still a way to go.

As EMU and economic coordination render labour costs and cost of living comparisons more feasible, there are obvious competitive and normative reasons for setting wages in line with or slightly below settlements reached in European neighbours. EU Member States have always been free to set pay awards compatible with historical productivity differences and with an element of 'catching up' on other countries. Convergence in Europe, apart from the acceptance and implementation of a common *acquis* of legal rules and standards, is in part built upon such competitive processes.

The social dialogue process and the European macroeconomic dialogue notwithstanding, concrete pay and conditions of employment are not subject to collective agreements at the European cross-industry or sectoral level. There are also no known cases of such concrete bargaining at European level within European companies, though a small but growing number of European works councils have reached some form of agreement on specific non-pay issues such as training or sexual harassment, while management increasingly deploys cross-border pay comparisons, and some unions are actively seeking to enhance transnational coordination of wage-bargaining.

For the European Metalworkers' Federation (EMF) the turning point came in the early 1990s, when the union was confronted with the triple pressure of the internal market, the recession and the preparation of EMU [57]. Several national wage-bargaining rounds ran into difficulties and wage-bargaining was no longer seen as just a national issue. In response, the EMF started restructuring itself and began to discuss the potential for transnational coordination. The EMF started with a system for information exchange, the so-called European collective bargaining information network, followed by an exchange of observers and the adoption of common minimum standards, for instance on working hours (1996) and vocational training (2001). Since 1998, the EMF tries to ensure that national unions pursue a common strategy of demanding wage increases along the formula of productivity increases plus the inflation rate. The main goal of the coordination of collective bargaining is to avoid the downward competition between different national bargaining rounds. The EMF has no means of enforcing collective decisions on its individual national affiliates. However, it has established what can be described as a system of very soft sanctions. National members have the obligation to report to the Collective Bargaining Committee on national wage-bargaining rounds.

Other European industry federations, such as the European Mine, Chemical and Energy Workers' Federation (EMCEF), the European Federation of Public Service Unions (EPSU), and the European Transport Worker's Federation (ETF), have also stepped up their transnational coordination efforts. However, they do not try to coordinate wages. Only the exchange of information of the different ways of bargaining in individual countries, including the exchange of bargaining observers, is deemed a realistic possibility. The EPSU, which organises workers in the civil service from local to European government as well as in the health sector and general utilities such as energy and water, is struggling to preserve a system of integrated public services within EU Member States. Engagement in the European

(57) See T. Schulten (2002), 'Europeanisation of collective bargaining: An overview on trade union initiatives for a transnational coordination of collective bargaining policy', WSI Discussion Paper, *No 101, Düsseldorf, Wirtschafts- und Sozialwissenschaftliches Institut in der Hans-Böckler-Stiftung.*

social dialogue and lobbying the EU institutions are important elements of its work. A third strategy employed by EPSU is cooperation with other social movements. The federation took part in the European day of national action on the General Agreement on Trade in Services (GATS) organised by the European Social Forum on 13 March 2003 and the ETUC's European day of national action for a social Europe on 21 March 2003. The link with other social movements is also visible in relation to public procurement. EPSU together with several other European Industry Federations cooperated with a range of environmental and social movements such as Greenpeace Europe and the Social Platform, itself a network of European NGOs promoting the social dimension of the EU, in lobbying the EU Council of Ministers to amend the draft directive on public procurement towards the inclusion of social, ecological and fair trade criteria in the award of public procurement contracts. Finally, the drafting and debating of the Convention on the Future of Europe including a working group on 'social Europe' inspired EPSU, as part of a broad public service coalition, to demand that 'the social and economic value of services of general economic interest are protected and formally enshrined in any new constitutional framework in Europe' [58].

Other unions are engaged in more classical union tactics. To mention only two: the European Federation of Trade Unions in Food, Agriculture, Tourism and Allied Branches (EFFAT) signed in December 2002 an agreement on vocational training with employers in the agriculture sector, to be implemented by the social partners at the national level. Additionally, it negotiated and signed a voluntary code of conduct in relation to corporate social responsibility with employers in the sugar industry in February 2003 (see also Chapter 3). In early 2003, the European Transport Workers' Federation (ETF), on the other hand, organised a European-wide strike against the EU directive on the liberalisation of access to European ports and the market for dockworkers. Partly because of these and other national strikes, the directive was rejected in the European Parliament in the final reading in November 2003.

5. Conclusion

In a changing international context it is not easy to derive clear principles from theory or identify which are the best examples to learn from. The debate on the idea that either full centralisation or full decentralisation presented the optimal solution to wage-bargaining – as defended in the famous Calmfors-Driffill hypothesis [59] – continues. While a number of econometric studies confirm the superiority of a fully centralised or fully decentralised bargaining model to intermediate ones [60], other studies conclude that the hypothesis has not stood up to facts. For example, in a recent analysis, reported by the OECD, the authors find no robust association between institutional characteristics of wage bargaining and economic performance, and much instability over time [61]. There is indeed now a huge literature on this. In a meta-analysis, Calmfors et al. (2001) found that results depended strongly on the indicators of centralisation and coordination used and the countries included in the analysis. A similar point is made by Flanagan (1999) in his overview. The analysis in Iversen (1999) and Traxler, Blaschke and Kittel (2001) suggests that, if combined with a strict monetary policy and provided that there is sufficient coordination across bargaining domains, wages set at the intermediate level of sectors (or large companies) may perform equally well or better than fully decentralised wage-bargaining (in terms of unemployment and inflation) [62]. This suggests that coordination plays an important role and that it may work as a substitute for centralisation, thus off-setting the drawbacks of a purely intermediate bargaining system.

An important lesson from cross-national comparative studies seems to be that coordination, based on shared understanding and mutual trust, may be more important than centralisation of wage-setting. This is perhaps the strongest lesson emerging from the experience of social pacts — many of which were fully unexpected and negotiated in rather fragmented and decentralised structures of wage-setting. A shared understanding of the economic and social context, and of key mechanisms driving growth, productivity and employment, greatly increases the probability of wage-bargaining being conducted in a cooperative way, in which each party has an eye to its own long-term self-interest and the common good, and not just to its short-term interest or purely sectional concerns. But the chance of

(58) *EPSU (2002b), 'Services of general interest and the Convention on the Future of Europe — You can shape the future of Europe!', Brussels, EPSU General Circular No 13.*
(59) *L. Calmfors and J. Driffill (1988), 'Bargaining structure, corporatism, and macroeconomic performance',* Economic Policy, *Vol. 6.*
(60) *See, for example, 'Wage flexibility and wage interdependencies in EMU,* EU Economy Review 2003.
(61) *OECD (2004), 'Wage-setting Institutions', op. cit.*
(62) *L. Calmfors et al. (2001), 'The future of collective bargaining in Europe', op. cit.; R. J. Flanagan (1999), 'Macroeconomic performance and collective bargaining: an international perspective', op. cit.; T. Iversen (1999),* Contested economic institutions, The politics of macroeconomics and wage bargaining in advanced democracies, *op. cit.; F. Traxler, S. Blaschke and B. Kittel (2001),* National labour relations in internationalised markets, *op. cit.*

creating and maintaining a cooperative 'mood of play' depends as much on institutions as on the disposition of wage-bargainers. Without supportive institutions, even altruistic wage-bargainers can find themselves drawn into a zero-sum conflict, in which the attempt of each agent to rationally advance its interests can lead to a collective outcome that is worse for all. The relevant institutions range from the type of joint foundations and councils for policy preparation and nationwide bargaining as exist in a number of countries; independent research bodies or committees of experts; the industrial relations machinery and law; structures of bargaining and coordination above the level of single firms; and joint investments in collective institutions for training, lifelong learning and enterprise-level partnership.

The hypothesis that either full centralisation or full decentralisation presents the optimal solution to wage-bargaining, is based on the assumption that parties adopt a non-cooperative bargaining approach. If a moderate degree of altruism is introduced — motivated by consideration of long-term, rather than immediate self-interest and by social responsibility — then even moderately coordinated bargaining may yield better outcomes, i.e. lower rates of unemployment and inflation. The real difference between centralised and moderately fragmented bargaining structures may be their vulnerability to shocks. While a cooperative mood of play can produce good results with any bargaining structure, in the face of major shocks the parties may revert to less cooperative forms of behaviour which, in systems with weak coordination, can have serious consequences.

There are large built-in tensions in both national and international coordination of collective bargaining. To the extent that there is continued decentralisation of actual bargaining levels, coordination costs will increase. Continued decline in union membership relative to employment, especially in new and growing parts of the economy will weaken the legitimacy of moderating agreements struck by unions. A threat to national coordination is likely to be provided by the internationalisation of product and labour markets, which tends to liberate companies from their historical national roots. As a consequence, national governments will have less leverage to convince companies to accept a joint policy, for instance holding back extreme salaries and bonuses for top executives.

Increasingly, national frames of reference — as in a national wage policy that is developed for the sake of the national interest or social solidarity — may lose its economic, political and moral relevance for the strongest players in the economy, namely firms that are already strongly internationalised and the managerial and professional staff in these firms. This puts greater strains on the central organisations of employers and unions when they try to define and defend national guidelines for policy. This discussion suggests that coordination through social pacts and consensual norms as a precautionary wage policy may only work up to a point. Such coordination may represent an unstable equilibrium, which may easily break down once the levels of unionisation and coverage of collective agreements fall below a critical level. Another way of phrasing this conclusion is that wage moderation through coordination may increasingly come to require skilled government intervention, a 'shadow of hierarchy' and public policy support.

There is another lesson from comparative analysis. When tensions appear in centralised bargaining, there can be significant benefits in moving towards a form of 'organised decentralisation' rather than risk an 'unorganised' breakdown, withdrawal or erosion. Learning ahead of failure means that elements of variation and flexibility must be introduced before the framework for centralised bargaining breaks down and one of the parties, in particular employers, decides to withdraw, either in one bang or by slowly investing less and less trust and resources in coordination policies among themselves and with the trade unions.

The final lesson from comparative experience concerns some of the ingredients necessary to achieve a successful system of coordinated decentralisation — both in the national and international context. To achieve successful devolution to lower bargaining levels and/or an upward shift to European-level dialogue and coordination, one needs stable and reliable partners, in whom one places confidence. Institution building through organisational reform and information exchange, together with mechanisms for conflict resolution and trust building, are crucial.