

Fellowship initiative  
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# EUROPEAN ECONOMY

Economic Papers 488 | April 2013

## Wage Bargaining Institutions – from crisis to crisis

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European Commission

Directorate-General for Economic and Financial Affairs

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“I regard the growth of wage bargaining as essential.  
I approve minimum wage and hours regulation.”  
(John Maynard Keynes, 1-2-1938, Letter on recovery  
policies from the Great Depression to President Roosevelt)

## Introduction

Collective bargaining<sup>1</sup> as we know it is the product of major crises in the past, not least the Great Depression of the 1930s, which became the inspiration for multi-employer bargaining and many of the rules that today ensure wide-ranging coverage of wage agreements. As shown in the above citation, Keynes favoured a greater role for trade unions, collective bargaining and minimum wage setting, presumably because of the stabilizing effects and as instruments to help preventing deflation. Collective bargaining and wage regulation, like setting mandatory minimum wages by law, put a downward floor on deflationary pressures and cutthroat competition. Moreover, stabilizing wages reduces uncertainty about future costs and prices. This reduction in uncertainty can contribute to raising business and human capital investment decisions, which depend strongly on expectations. Also, bargaining and wage regulations reduce the dispersion of pay among firms, and narrow the dispersion of earnings. Keynes would probably also be prepared to argue that collective bargaining and wage regulations can help recovery by assuring that the benefits of economic growth are more equally spread among the populace. In the concluding chapter of his General Theory he did in fact argue that, on balance, inequality rather than equality may inhibit growth and investment. His argument that without a “means of securing a simultaneous and equal reduction of money-wages in all industries, it is in the interest of all workers to resist a reduction in their own particular case” (Keynes 1936:264) is relevant as ever. It may be taken to imply that under rules that extend wage decisions to all or most of the workers, it will be easier to gain acceptance for short-term sacrifices such as nominal wage cuts or forsaking indexation. Broad ranging coverage of collective bargaining, including most workers, may thus be seen as helpful in achieving across-the-board adjustment or internal devaluations.

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<sup>1</sup> This essay has been written during my non-resident fellowship in 2012-13 at the European Commission, DG Economic and Financial Affairs, in the framework of the ‘The Future of EMU and Economic Growth Perspectives for Europe’ program. A first draft has been presented at Ecfin’s Annual Research Conference, 21-22 November 2012. I like to thank Tony Atkinson, Georg Fisher and Juan Jimeno for their inspiring comments and suggestion. Further thanks go to Ecfin officials Alphonso Arpaia, Karl Pichelmann and Alessandro Turini for their constructive critique and support. Needless to say, that all mis-judgements and errors are the author’s responsibility.

Reverting back to a more classical economic view in which the short-term adaptability of real wages (and wage costs) matters most, in the great recession of 2008-2012 collective bargaining is often seen by policy makers and their economic advisors as the problem rather than the solution, notwithstanding that “it is as clear as it was in 1929 that the real economy does not operate according to some laissez-faire ideal and the Achilles heel of market capitalism is not labour institutions but an unregulated financial market (Freeman 2011:255). The systems of multi-employer bargaining that in post-war Western Europe became the cornerstone not just of wage setting but of labour market regulation more generally, are currently the target of critique, even outright attack, by national and international public authorities and financial centres of power.

A similar critique of wage bargaining institutions as standing for rigidity and impeding adjustment in the labour market was launched two decades ago by the OECD in its Jobs Study (OECD 1994a), but toned down considerable in later reports which tried to evaluate the effect of the recommendations that had been issued (OECD 2004, 2006). Based on its analysis of the 1980s job crisis, the OECD had recommended to “refocus collective bargaining at sectoral level to framework agreements, in order to give firms more leeway to adjust wages to local conditions; introduce opening clauses for local bargaining parties to renegotiate sector agreements; (and) phase out administrative extension” (OECD 1994b). In its first evaluation, five years later, the organization admitted that member governments had been extremely reluctant to follow these policy recommendations (OECD 1999) and in an updated analysis in 2004, the OECD conceded that the evidence had probably not been as straightforward and convincing as had been presented in the 1994 study (OECD 2004). In addition to “persistent doubts concerning the efficacy of the policy recommendations” (OECD 2004:132), the organization conceded that the general trends of rising wage inequality and persistence of low pay had made governments wary of instituting reforms that tend to make such trends worse (*ibid.*). Finally, the organization noted that the power of governments in this policy domain is often limited, not only because of union opposition, but also because wage-setting institutions “are deeply embedded in the social and economic fabric” of member states (*ibid.*).

In its final evaluation of the Jobs Strategy, the OECD concludes that under conditions of efficient coordination inclusive bargaining models (based on wide-ranging coverage, achieved with some form of centralised or coordinated bargaining, the help of administrative extension, and/or high rates of unionisation) can perform as good as the exclusive, decentralised systems it had initially recommended (OECD 2006). Overall, the organization now stresses that knowledge of what works best in this area is limited and that complementarities and interaction effects with other policy domains (employment protection, social security, activation, training and skills) cannot be ignored (see also OECD 2012a). Nonetheless, the thrust of the Pact for the Euro of March 2011 and the ‘Six Pack’ of regulations on economic governance adopted by the European Council in October 2011, goes in the direction of reforms that limit extended coverage and multi-employer bargaining, and favour company bargaining over central and industry bargaining. This is the exact opposite of the lessons of the 1930s and it is remarkable to a social scientist how such recommendations can be made on the basis of what appears to be very limited econometric evidence and generally poor understanding and measurement of institutions.

Institutions like the wage bargaining institutions discussed here mediate economic and social pressures, distribute power among actors, and offer solutions to co-ordination problems facing market economies (Hall and Taylor 1996). For workers collective bargaining has a protective function (providing adequate pay and working conditions), a voice function (allowing the expression of grievances and aspirations) and a distributive function (securing a share in economic growth and the fruits of training, technology and productivity). For employers the key function of collective bargaining is probably the aspect of conflict regulation. Management control tends to be more effective when it is legitimised through joint rules (Bendix 1956). Beyond guaranteeing employee rights as called for in Convention 98 of the International Labour Organization (ILO), laws on collective bargaining sometimes cite the additional justification that collective agreements have a stabilizing function in the economy, making it possible for firms to plan their operations and for workers to go on with their lives. From a macroeconomic perspective this contribution to reduction of uncertainty tends to underpin investment and growth, as was stressed by Keynes. Finally and also mentioned in many laws on the subject, collective bargaining relieves the state and politicians from the complex task of setting standards and solving coordination problems in an area with high conflict potential and a high risk of implementation failure. It is for this reason that national law and EU legislators have allowed, even encouraged, the possibility to derogate by collective agreement from legal minimum standards, a possibility which is now widely used on matters of working time, employment protection, and information and consultation in the enterprise. Legal flexibility is usually seen as an important advantage of collective bargaining, and usually highly valued by the contracting parties (Flanders 1968; Van der Meer, Visser and Wilthagen 2005).

Whether actual collective bargaining does make a positive contribution to economic growth, employment, welfare and equity depends on how it is organized and on the policies conducted by trade unions, firms and employers' associations, governments and central banks. In this essay I do not study these policies directly, as has been done in many wonderful case studies. Instead, I approach the policies of unions, employers and governments through the lens of institutions. Institutions are commonly understood as rules, norms or contracts (North 1990: 3), as social constructions "that cannot be changed instantaneously or easily" (Mahoney 2000:512). For a sociologist, an institution or institutionalized structure refers not merely to formal (legal) rules, contracts and procedures, but also to regularized patterns of action, norms and commonly accepted ways of doing things, which may have as much or more force than formal rules in determining individual and organizational behaviour. They can be seen as reference points around which actors and their constituencies build "legitimate and sanctionable expectations" (Streeck and Thelen 2005).

In this essay I investigate the institution of collective (wage) bargaining and the rules that govern its conduct and outcomes. Voluntary collective bargaining between trade unions and employers or employers' associations plays a key role in democratic capitalism and is, or has been, a constituent element of the social organisation of labour markets (Streeck 2005). This is recognized in ILO convention 98, which has been ratified by the parliaments of all 25 European countries in the sample used for this survey, and by three of the five non-

European countries.<sup>2</sup> Article 4 of Convention 98 calls upon the public authorities 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”. We shall see that this has translated in quite different policies.

There is an abundant literature on the effects of wage setting institutions on economic performance and social outcomes. Most contributions agree that bargaining structures, usually measured as degrees of centralisation, coordination, coverage and unionization (Calmfors 1993; Calmfors and Driffill 1988; Calmfors et al 2001; OECD 1997, 2004, 2012) differ in their capacity to internalize the costs of pay bargaining, but they disagree as to which bargaining structure performs best. Few models and results have stood the empirical test (Aidt and Tzannatos 2002; 2008). One consistent finding is that collective bargaining, especially where it is ‘inclusive’, covers most or all wage earners, and is centralised, compresses the distribution of earnings relative to market pay-setting (Blau and Kahn 1996; Iversen 1999; Visser and Checchi 2009; Wallerstein 1999), but that its effect on aggregate efficiency is limited, or highly dependent on which countries, years, and variables are included in the estimations (Flanagan 1999). There are many problems with specifying the best (combination of) variables, their measurement, and the construction of indicators and models representing bargaining behaviour and bargaining pressure (Kenworthy 2001; Traxler, Blaschke and Kittel 2001).

Achieving comparability across time and countries of institutional features is a challenge and requires an effort to translate qualitative data from a variety of sources into meaningful quantitative indicators. Presenting new data and new harmonized measures of bargaining coverage, unionization, extension mechanisms, coordination and centralisation, including the articulation of multi-level bargaining and the use of opening clauses, this essay tries to set new standards for comparison and thus enhance the potential for robust economic and sociological analysis of the changing role of wage bargaining institutions in modern political economies. Based on a thoroughly revised, expanded and updated version of the ICTWSS Database (Visser 2013), organized in a country/year format<sup>3</sup>, the present essay includes data from 30 countries<sup>4</sup> and allows, for most countries and variables, the construction of time series covering half a century (1960-2011). For all the selected countries I have been able to use

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<sup>2</sup> The U.S. and Canada do not ratify ILO convention 87; this has to do with the reluctance of U.S. Congress to accept any international treaty obligation that regulates domestic affairs, and with the dispute about competences between the federation and the states in Canada.

<sup>3</sup> ICTWSS stands for Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts, a Database originating in 2007 as part of a project on unions and social pacts (Avdagic, Rhodes and Visser 2011). The updated version (4.0) of this open access Database will be released with this essay in April 2013 and can be found at the website of the Amsterdam Institute for Advanced Labour Studies AIAS, [www.uva.aias.net/data](http://www.uva.aias.net/data).

<sup>4</sup> All current member states of the European Union (EU) except Bulgaria, Cyprus, Malta and Romania; plus Australia, Canada, Japan, New Zealand, Norway, Switzerland and the United States. All but two (Latvia and Lithuania) are member of the Organization for Economic Cooperation and Development (OECD).

multiple data sources, international and domestic databases, as well as research published in journals, reports, edited books and monographs.<sup>5</sup>

Most of the data and indicators used in this essay relate to the private sector, or allow a differentiation between public and private sector where it is relevant. Institutions and practices of wage formation in the government sector can be quite different, but will not be reviewed here.<sup>6</sup> I have also decided to leave out—partly for reasons of space, partly because my knowledge in these fields is inadequate—institutions, such as mandatory minimum wages, employment protection legislation or unemployment insurance, that may have a strong bearing on wage setting and the bargaining strength of unions.

This is a survey of national institutions, perhaps assuming too much homogeneity across sectors or rather assuming that national institutions still reflect, mostly, developments in the manufacturing industries where these institutions in most cases originated. If there are trendsetting agreements they usually, though not always, are anchored in manufacturing and it is in manufacturing that opening clauses and individualisation of pay setting have been pioneered. Many scholars have claimed that, in the wake of decentralizing tendencies in industrial relations, intra-national or cross-sectoral differences in employment relations and pay setting have increased since the 1980s (Becher, Brändl and Meardi 2012; Katz and Darbishire 2000; Marginson and Sisson 2004) and some have even claimed that the variation in industrial relations practice resulting from local bargaining and the emergence of productivity coalitions at some plants and in some sectors but not in others leads, or has led, to the end of distinctive national systems of industrial relations (Locke 1992). This announcement seems premature to me and the relevant question for comparative analysis is not whether intra-country differences have increased (they probably have), but whether they have become larger than the inter-country differences. There are reasons for doubt, not only because the large impact of national law, politics and institutions, and the often observed non-occurrence of cross-national institutional convergence (Crouch 1993; Goldthorpe 1984; Hall 2007; Visser 2004). Recent surveys by researchers from the European Central Bank (ECB) and Ecfin at the European Commission, which distinguish between rules and practices existing in four different ‘compartments’ of the economy - agriculture, industry, market and non-market services – found surprisingly little variation in bargaining institutions and practices between industry and market services, and concluded that adding a sector dimension “does not add much value to the knowledge of the main features of collective

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<sup>5</sup> Unable to identify and use different data sources, or detailed studies, I have dropped EU member states Bulgaria, Cyprus, Malta and Romania from this survey, since I could only rely upon the EIRO (European Industrial Relations Online) database. EIRO is developed and maintained by the Dublin-based European Foundation for the Improvement of Living and Working Conditions. It is a highly valuable source and without its wealth of data entries it would have been impossible to write this essay. However, as a decentralised data collection which must take account of view of the social partners, its information is inevitably of varying quality and cannot be taken as the last word. I have generally used only data (for instance on union membership, coverage or extension) that can be cross-checked with other sources.

<sup>6</sup> For an excellent recent overview of labour market regulation and collective bargaining in the public sector in EU member states I recommend chapter 3 (‘Public Sector Collective Bargaining in Transition’), written by Lorenzo Bordogna and Roberto Pedersini of the University of Milan, to be published as chapter 3 in the forthcoming *Industrial Relations in Europe 2012* report of the European Commission (DG Social Affairs and Employment).

bargaining structures” (Ecfm 2007; Du Caju et al 2008). In this survey I shall mention developments in sectors where they matter most—when discussing decentralization, opening clauses and trendsetting agreements.

This essay has been organized in three main sections, dealing with bargaining coverage, the structure of bargaining, and bargaining coordination respectively. Under coverage or the extent of collective bargaining and pay setting, I will also discuss the connection with union density, employer organization, and administrative extension. In the section on bargaining structure the main issues are decentralisation, multi- or single-employer bargaining, the level at which most bargaining takes place, the organization or articulation of multi-level bargaining, and the existence and use of opening clauses. The discussion of coordination includes an attempt to identify different mechanisms through which wage leadership may be established, varying from state controls to social pacts, and from associational controls to trend- or pattern setting behaviour. In the conclusion I will come back to the issues broached in the introduction and evaluate the direction of the observed changes and what that probably means in terms of outcomes.

## **Bargaining coverage**

Bargaining coverage denotes the proportion of employees or wage earners to whom a collective agreement signed by a union or worker representative and the employer or employers’ association applies.<sup>7</sup> As the combined result from the organization and action of trade unions, employers and the state, bargaining coverage is a more adequate expression of the degree of collective organization in the labour market than the unionisation rate (Flanagan 1999). There are large differences between the two measures, both across countries (Chart 1A) and over time (Chart 1B).

[Charts 1A and 1B about here]

The message from Chart 1A is straightforward. The correlation between levels of union density and bargaining coverage is weak ( $r=.54$ , average rates 2000-9, 30 countries): there are few countries, mainly in Northern Europe, with high rates in both dimensions (upper right corner in Chart 1A); there are quite a few countries, mainly the non-European OECD members and C.E.E. countries, with low rates in both dimensions (lower left corner); but there many countries with low unionization and high coverage rates (upper left corner). Significantly, the lower right corner – high unionization and low coverage rates – is empty. The story told by Chart 1B is also clear. Until the late 1970s the gap between bargaining coverage and unionization rates narrowed. On average, across the 22 countries

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<sup>7</sup> Throughout this essay I shall use the expression ‘wage earners’ as shorthand for ‘wage and salary earners’ and ‘employees’ as shorthand for ‘workers and employees’, unless there is a clear reason for making the distinction. As with other indicators of wage bargaining institutions, bargaining coverage pertains to wage earners in a formal employment relationship, thus excluding the unemployed, own account or self-employed workers and professionals, and informal or undocumented workers.

used for this comparison<sup>8</sup>; both rates went up, but unionization levels went up more, especially since the late 1960s. Since the 1980s the gap has again widened, from 20 to 30 percentage points. Around 1980 the growth of unionism stopped in many countries and union density rates began to drop (Visser 1991); initially bargaining coverage rates held up, but from the 1990s in many countries—some in Western Europe but especially outside Europe—bargaining coverage rates began to fall as well.

Since the wage-effects of negotiated agreements in most countries, at least in continental Europe, exceed union membership by far and goes beyond the firms represented at the bargaining table, the estimation of wage differentials between union and non-union members, or between unionized and non-unionized firms, makes sense in the North American or British context, but is meaningless in many European countries. As a rule, employers apply, or are by law required to apply, the contract negotiated with the union to non-union members and often the law forbids discrimination between union and non-union members in terms and conditions of employment. Moreover, in many countries, sector agreements are extended beyond the membership of the employers' federation(s) that negotiated and signed the agreement to non-member firms. In this situation the analysis should determine whether or not the unit of analysis is covered by a collective bargaining contract. However, the coverage of such contracts may be so complete or inclusive, that there are very few wage earners left who are not covered. Comparative analysis, both within and across countries, may gain more from distinguishing between firms or workers covered by different bargaining arrangements, for example company versus sector bargaining (Jimeno and Thomas 2011), or agreements that extend to non-organized firms and those that do not (Teulings en Hartog 1998; Hartog, Pereira and Viera 2002), but this presupposes that these regimes do not overlap and do not influence each other. These assumptions are violated in most countries, as we will see below.

In general, we have better data, supported by surveys, registries and administrative records, and much longer time series, on union membership than on bargaining coverage (Visser 1991; 2006; for bargaining coverage see Traxler 1994; Ochel 2001). Annual labour force or household surveys on bargaining coverage are rare (currently only in Canada, the USA, and the U.K.) and probably most reliable if all bargaining takes place in the enterprise, since employees covered by industry, extended and national agreements, especially when not renewed each year, may not know whether there is a collective agreement in force which applies to them. Enterprise surveys have been conducted in some countries, in recent years, on an annual basis (Germany) but more commonly on a rather irregular pattern (France, U.K., Hungary, Estonia). Only about half of the European countries conduct a register of valid collective agreements based on the requirement to lodge the agreement with the Ministry of Labour in order to gain binding normative effect<sup>9</sup>. In some countries employers' associations (for instance in the Netherlands) or major unions, union federations or union-related

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<sup>8</sup> For obvious reasons I have left C.E.E. countries out; data on unionization is available (and meaningful) only since 1989 and reliable estimates for bargaining coverage exist in most countries for the 2000s only.

<sup>9</sup> Such registrars, some of which can be used as a data source, exist in Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Luxembourg, the Netherlands, Poland, Portugal and Spain, and for 'higher-order' agreements, but not for company agreements, in the Czech Republic, Lithuania, Slovakia and Slovenia (see Schulten 2005; also CCNCC 2004).

foundations (in the Scandinavian countries, the Czech Republic, Germany, Italy and in the Netherlands) also have assembled databases on collective agreements, their coverage and content, at least in recent years. Historical data, tracing developments back to the 1960s, can be found in Milner (1995) for Britain; and Ochel (2001) for most OECD countries.

Within the advanced capitalist world there is a remarkable difference in bargaining coverage, and thus in the extent of collective organization of labour markets, between continental Western Europe and the rest. This difference has increased over time and was never as large as today (Chart 2). The gap between continental Western Europe and the five non-European countries of the OECD has in fifty years nearly doubled from 30 to 55 percentage points. The United Kingdom (and Ireland, for which we have data only from 2000) and Central and Eastern Europe, with mean coverage rates of around one-third of all wage earners, are situated closer to the non-European countries, with a mean coverage of one-fourth, than to continental Western Europe where, on average, collective agreements apply to four out of five wage earners.<sup>10</sup> Within continental Western Europe, there are hardly differences between the North, South and Euro-core (of France, Germany, Austria, Belgium and the Netherlands), notwithstanding quite large differences in unionization, bargaining behaviour, the role of the law and many other features. It can be taken as an indicator of the place that collective bargaining has conquered in the management of the economies of continental Western Europe, that the coverage rate in continental Western Europe has hardly changed in the past fifty years despite many changes in the labour market, e.g., feminisation and the rise of flexible work; downsizing of large firms, outsourcing and new forms of employment contracting; and many changes in the organization of negotiations, not least a general trend toward decentralisation, to be discussed later.

[Chart 2 about here]

Naturally, mean values calculated for groups of countries may hide important variations and different histories across countries.<sup>11</sup> In continental Western Europe bargaining coverage rates in 2010 range from 99 percent in Austria to 49 percent in Switzerland. This is almost the same difference as in 1960 when the same two countries were at the extreme ends of the range. Indeed, the rank-order across countries within continental Western Europe has hardly changed; if we correlate the ranking of countries in the 1960s, 1980s and 2000s, we get coefficients (Spearman's rho) above .90. The only major change in continental Western Europe is the erosion of collective bargaining in Germany after the unification of East and West Germany in 1990. For other stories of rapid decline and continuous erosion we have to go across the Channel and outside Europe. In C.E.E. collective bargaining got never established outside the former state sector and some larger (multinational) firms arriving from Western Europe. What we

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<sup>10</sup> This is an unweighted mean (the weighted mean is closer to 70 percent), since I treat here continental Western Europe (or elsewhere in the text the Eurozone) not as one labour market represented by one set of institutions, but as a fragmented labour market represented by as many sets of institutions as there are different countries. This is further warranted by the fact that there was no convergence; the standard deviation slightly increased during this fifty years from 12.8 to 15.3.

<sup>11</sup> For the annual for each country I refer to the dataset, extracted from the newest version of the ICTWSS 4.0 database, which will be available with this essay.

observe here is not so much decline but rather a non-starter in large parts of the economy.

The coverage statistics used in Chart 2 refer to the entire economy (public and private sector) and are adjusted for the possibility that certain groups in the public sector may not have bargaining rights (Traxler 1994). For about half of the countries it is possible to estimate coverage rates in the private and public sector (Table 1). They show that coverage rates are invariably lower in the market sector than in the public sector, and that the trends in private sector coverage are more or less the same as in the entire economy.

[Table 1 about here]

### **Single- or multi-employer bargaining**

In most Western democracies multi-employer bargaining became in or after the 1930s recession or during the years of post-war reconstruction the dominant type of wage setting. In the 1950s, after considerable political conflict, Japan settled for single-employer (enterprise) bargaining; the U.S. experience with multi-employer bargaining was weak and short-lived, as it was based on union policies capable of maintaining pattern bargaining within and across manufacturing industries (Katz 1993). In Britain multi-employer bargaining has disappeared in nearly all sectors in the course of the 1980s and 1990s (Brown 1993). Under single-employer bargaining each employer bargains independently; under multi-employer bargaining employers combine in associations that have obtained a mandate to conduct negotiations and make binding decisions on behalf of their member firms. First, multi-employer bargaining may be advantageous for employers, at least in some sectors in which they face fierce low-wage competition. It may help to take wages out of competition; in recessions it may help them to avoid cutthroat competition and in tight labour markets it can protect them against 'whipsawing' union bargaining tactics (Commons 1909). This matters most for employers in labour-intensive industries. Second, multi-employer bargaining takes place far away from the workplace and may help to keep distributional conflict out of the workplace. Sisson (1987) has shown that in many continental European countries the desire to insulate the influence of unions from workplace management has been a major motive for employers to create or go along with centralised bargaining. Third, multi-employer bargaining may constitute a saving on bargaining or transaction costs, especially in homogenous industries and in the case of small and medium-sized firms. Finally, governments use multi-employer bargaining as a quasi-legislative tool, for instance, for setting minimum wages standards in particular industries, obtaining employer cooperation with training policies or establishing 'voluntary' schemes for occupational pensions. Naturally, multi-employer bargaining does restrict the freedom of individual companies and local unions to do as they like, and both companies and local unions may have deep ideological reasons to prefer autonomy ('self-government'), even at the expense of economic rewards. From the point of view of workers, multi-employer bargaining has advantages as well as disadvantages. Unskilled workers tend to do better under industry-wide or, better even, economy-wide bargaining, whereas skilled workers may gain more from company bargaining, especially where it allows some individual pay bargaining (Iversen 1999). The voice function is probably more intense when bargaining is conducted 'on site', because workers will have more control over their representatives. It seems easier to monitor what management does and new issues and developments are more swiftly recognised.

The key to a high bargaining coverage rate is multi-employer bargaining. A simple cross-section correlation between multi-employer bargaining as the predominant type of bargaining and the national bargaining coverage rate yields a coefficient of 0.77.<sup>12</sup> This association also holds over time. Wherever multi-employer bargaining breaks down and is replaced by single-employer bargaining, the coverage rate decreases promptly and dramatically, meaning that fewer companies choose to apply the contract or negotiate a contract with the union if given a choice. The most prominent example of this course of events is Britain. In the 1980s, encouraged by government policy, employers began to discontinue multi-employer bargaining. Bargaining at the sector level had been the mainstay since the 1930s, although with a significant and often informal second layer of pay bargaining at company and plant level, which had been growing in strength during the 1960s and 1970s (Clegg 1979). According to the Workplace Employment Relations Survey of 1990, around that time still about half of total coverage was due to sector agreements. There were still occupational agreements across firms in sectors like metal engineering and construction and throughout the 1980s multi-employer bargaining had persisted in industries such as textiles, footwear, retailing, and clothing, although its function has often shifted to the setting of only minimum employment terms (Marginson et al. 1988:141). Overall, the coverage rate had fallen from 71 percent in 1979 to 54 percent in 1990 (40 percent in the private sector). A similar survey in 1998 found that sector agreements accounted for less than one-third of total coverage, and most of these were in the public sector (construction being one of the few exceptions). Bargaining coverage decreased to 36.4 percent in 2000 and 31.2 percent in 2011 (23 percent, respectively 17 percent in the private sector).

There is no similar case of bargaining decline in Western Europe. In Ireland collective agreements seem to cover about one-third of wage earners in the private sector, but with the exception of construction Irish companies never engaged in sector bargaining and there is no evidence that coverage was much higher before the 2000s.<sup>13</sup> Even under the partnership programs, which were regularly renewed between 1987 and 2009 and based on national agreements between the government and the peak associations of trade unions and employers, collective agreements in the private sector were negotiated at company level and gaining union recognition remained a highly contentious issue. The Irish case demonstrates that we cannot use multi-employer and sector bargaining as synonyms. In some countries in C.E.E.—the Czech Republic and Hungary for instance—there is multi-employer bargaining based on coalitions of employers, often a particular capital group, but the resulting agreements are not sectorally demarcated and it has proved very hard to extend such agreements beyond the original group of firms.

New Zealand and Australia are instructive cases for studying the effects of the withdrawal of government and employer support for multi-employer bargaining. Traxler, Blaschke, and Kittel (2000:209) call New Zealand “the only case of a purely discretionary fall in [bargaining] coverage. Awards, extension provisions, and unions’ monopoly on bargaining rights were repealed with the passage of the 1991 legislation.” The 1991 Employments Contract Act removed the employer’s

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<sup>12</sup> N=30; mean values for 2000-2009.

<sup>13</sup> There is scant data on bargaining coverage in Ireland, some coming from one-off surveys (O’Connel et al 2005), and I have been unable to find data for years before 2000.

duty to bargain with trade unions, gave equal weight to non-union agents and made individual employment contracting the primary base for employment (Harbridge 1993).<sup>14</sup> "The ECA destroyed socially determined wages by limiting the arbitration court's jurisdiction to the interpretation of employment contracts, eliminating unions in sectors where workers were least able to organize themselves, eliminating automatic transmission of wage increases through general wage orders and clauses on relative wages, and allowing employers to avoid collective bargaining entirely. (...) After 1991 unions representing workers with weak labour market positions — like those in agriculture, construction, retail, wholesale, accommodation, and restaurants — simply collapsed (...). Multi-employer contracts fell from 77 percent to 20 percent of all contracts, and individual contracts and wage scales became common even in the public sector." (Schwarz 2000:102). "Prior to the 1990s, the enterprise bargains affected 25 percent of workers, in contrast to 40 percent by industry" (Schwartz 2000:79). By 2000 multi-employer bargaining had effectively collapsed (Harbridge, Crawford and Hince 2002) and bargaining coverage had decreased from 61 percent in 1990 to 25 percent in 1997 and 18 percent in 2010.

Institutional destruction is often irreversible; examples of recreating collective institutions in the labour market, perhaps without their original faults, are unknown to me. The incoming Labour government of New Zealand passed a new industrial relations act in 2000, which gave some support to unions and collective bargaining, but this has not brought back multi-employer bargaining or institutionalised union representation in the workplace. New Labour in Britain, which held office between 1997 and 2009, did not really have a strategy for industrial relations, as it acquiesced in and in some aspects supported the anti-union policies of the Conservatives before them. Glyn and Wood (2002:209) note that "a glaring absence" in New Labour's approach to economic policy "concerns wage bargaining". The new legal procedures for union recognition, introduced in 1999 and modelled after the U.S. example, have not led to a reversal of the de-unionization trend or a rebuilding of collective bargaining as a vital and inclusive institution in Britain (Brown 2001).

In Australia the changes were only slightly less radical. For about one century federal and state courts had set wages through judicial proceedings (with compulsory arbitration at the federal level and in four of the six states), ruling on cases presented to them by trade unions and employers associations (Dabscheck and Niland 1981:305-7). Coverage of these awards, setting wage minima and sometimes wage increases, topped up in industry agreements, was about 80 to 90 percent (Schwartz 2000:76). Following federal award decisions in 1988 and 1991, and a legal change in 1992, the Labour government abandoned the centralized approach that had characterized Australian wage setting since the beginning of the century and reduced the impact of national arbitration and sector awards, allowing more flexibility for enterprise bargaining and contracts negotiated outside the unions. The Workplace Relations Act of 1996, after the victory of the conservative-national government, was a landmark in that it provided in federal legislation for the replacement of sector bargaining by workplace bargaining and the possibility of individual contracts, and gave equal

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<sup>14</sup> The New Zealand Council of Trade Unions took a complaint to the ILO in 1993 alleging the Act to break Convention 98; this complaint was upheld by the ILO Review Committee which noted the "incompatibility between ILO principles on collective bargaining and the Act's philosophy, which puts on the same footing individual and collective employment contracts, and individual and collective representation ..." (ILO 1995:84).

status to contracts negotiated by non-union organizations (Griffin and Svensen 2002; Pencavel 1998; Quiggin 2001; Schwartz 2000). Together with the (partial) discontinuation of sector bargaining, coverage has more or less halved – from 80 percent in the 1980s to 40-45 percent (Campbell, 2007).

We usually think of the United States as dominated by plant-level bargaining, but even in the U.S. multi-employer bargaining had since the 1930 advanced in many parts of manufacturing, coal mining, construction, and transport, but whatever had remained came to an end in the 1980s. Not unlike Britain, the structure of bargaining affecting unionized employees in the early 1980s was a mixture of multi-employer, firm-wide, and plant-level bargaining, though with a much bigger weight for plant-level bargaining, and at a much lower level of coverage (Katz 1993). During the 1980s multi-employer bargaining ended, either because entire agreements were abandoned, for instance in the steel industry in 1986; or a growing number of firms withdrew from existing agreements, as happened in the intercity freight industry and in underground coal mining (Kochan, Katz, McKersie 1986:128-30; Katz and Kochan 1992:195- 97).

Countries in which collective bargaining takes place at the company level have in common: a low and declining coverage rate; low and declining union density rates; and the absence or non-use of mechanisms that allow the extension of contracts to firms that do not participate in negotiating the contract. The contrast between sector and company bargaining is pictured in Chart 3, showing the difference in coverage rates in excess of union density. Under company bargaining, agreements include only a small proportion of wage earners who are not member of the union (7.1 percent), presumably those (free-riders) who elect not to join the union although they are covered under a union-negotiated contract. Closed shop provisions, making union membership in such situations compulsory, were widespread in British manufacturing until it was made unenforceable in the 1980s, in New Zealand until the 1990s, and in some parts of Australia, Canada, and the U.S., although in each case federal law allowed member states to opt out, or even outlaw, such provisions. As a trend beginning in the late 1970s, many states in fact did outlaw such provisions. In contrast, under sector bargaining, on average, more non-union (41.2 percent) than union members (35.8 percent) are covered by collective agreements.

[Chart 3 about here]

### **Unionization and employer organization**

Since the 1980s unionization has been declining – a trend that began in the 1960s in the U.S. and Japan, spread to France after the mid 1970s, affected many countries in the 1980s (but not yet Germany, Belgium, Italy, Spain or Scandinavia), and became more or less general in the 1990s and since. After the end of communism, after four decades of compulsory membership in monopoly unions, union membership became a hard to sell article in Central and Eastern Europe, and, averaged over the eight C.E.E. countries in this survey, union density continued to fall from a respectable 37.5 percent in 1995 to about 15 percent in 2010. The trends portrayed in Chart 4 are remarkable in how similar the downward movement in unionization has become since the 1990s. A comparison between Chart 2 (coverage) and Chart 4 (unionization) shows that developments in unionization and coverage in the U.S., the U.K. (since 1980), and C.E.E. more or less track each other. Partly this is also true for Northern Europe, where coverage

and unionization have until the 1980s expanded together. More surprising, and in need of explanation, are the contrasting development in unionization (declining) and bargaining coverage (stable or, until recent, upward) in the Euro-core countries (with one exception: Germany) and in Southern Europe.

[Chart 4 about here]

Under conditions of single-employer (company) bargaining, union decline almost always translates in a decreasing coverage rate; under conditions of sector bargaining this co-evolution is absent. Under single-employer bargaining the scenario is quite simple. Employers may withdraw union recognition as a credible threat in seeking a cheaper or less constraining contract, or else relocate employment to a non-union environment. Newly established firms may refuse recognition to begin with and base the choice of where to invest on how difficult it is to avoid union action. Union contracts tend in this case to become associated with older firms and investments, and coverage and unionization rates tend to decrease together with declining employment in older firms and sectors. Legally mandated union recognition procedures, based on elections in which workers must choose between offers from the union and threats issued by the employer, as is the U.S. have done little to stop the erosion that results from this logic. These recognition procedures, which since 1999 apply with some modic tend to stop short of imposing a duty to bargain on the employer.

It is telling that France is the only country in this sample where there has been a large increase in coverage in spite of union decline and the growing importance of enterprise rather than industry bargaining. This outcome can be interpreted as resulting from public policy, including the imposition of a duty to bargain on employers. “The multiplication of legal obligations to negotiate and dedicated financial incentives has not only contributed ‘mechanically’ to the increase of enterprise bargaining in firms with union delegates, but has also led to the production of special issue agreements in small firms where there is no tradition of collective bargaining’ (Naboulet 2011:5). In later years, the promotion of firm-level bargaining was tied directly to the working time legislation. While approximately two million French workers were covered by firm-level agreements in 1983, by 2002, that had doubled (Andolfatto 2004:115). In 1981, just before the Auroux reforms of the incoming socialist government imposed a duty to bargain on employers, a mere 9 percent of French companies signed a company-level agreement (Eyraud and Tchobanian 1985:242). This shifted dramatically after the Auroux reforms; in 1983 43 percent of the firms to which the law applied had signed a company agreement, in 1985 71 percent had done so (Van Ruysseveldt and Visser 1996:110). Ferec and Loos (1988: 153-6) estimate that in a period of four years the coverage of enterprise agreements increased from 24 to 35 percent of employees in non-agricultural firms with 10 or more employees. Many of these agreements co-exist, and overlap, with industry agreements, the coverage of which increased from 80 to 86 percent in the same four years. According to recent surveys bargaining coverage based on enterprise agreements has further increased to 61 percent of the non-agricultural wage earners employed in firms with 10 and more employees (Naboulet 2011); whereas coverage based on industry agreements has decreased to about 50-60 percent (MTES 2012). Unlike Britain, however, the erosion of sector bargaining in France did not entail its abandonment; it remains an instrument to define minimum pay and working conditions in sectors with many small and medium-sized enterprises, even though many agreements do no more (and sometimes less) than reiterating laws on minimum wages and employment conditions.

Enterprise agreements, on the other hand, have been mobilized as the preferred channel to extend public policy into the enterprise, especially in the domain of working time regulation, work organization and financial participation.

When collective agreements apply to whole sectors, employers who seek a change in the contract face different strategic options and cannot easily escape collective arrangements by switching to a non-union environment, at least not when staying in the same sector and country. They can outsource activities to sectors with cheaper collective agreements; make greater use of 'flexible employment contracts'; discontinue membership in the employers' association that negotiates the sector contract (but this will not change anything when the contract is extended by law to non-organized firms); or work hard to obtain a change in the sectoral contract, for instance making it into a framework agreement for local negotiations. All of these strategies have been used and are visible in the data, but the overall impact on coverage rates is not a priori clear. For instance, outsourcing to cheaper contracts, or greater use of flexible employment in for instance manufacturing, may be matched by an increase of collective bargaining activities and coverage of agreement in sectors such as cleaning, catering and security, and for agency work, part-time and fixed-duration employment, as has been demonstrated in the case of the Netherlands (Visser, 2013).

Table 2 splits the sample in three—twelve countries with predominantly enterprise bargaining, fourteen with predominantly sector bargaining and four with mixed systems—and compares bargaining coverage and union density rates in 2010 and 1995. The first observation is that unionization levels have decreased in all 30 countries. In all but four—Belgium, Italy, Norway and Spain---the drop was significantly above the 10 percent level. Developments in bargaining coverage are mixed; a significant decrease—more than 10 percent—happened in thirteen countries. Nine of these are in the 'enterprise bargaining' group, two in the mixed group (Australia and Slovakia) and two in the industry bargaining group (Germany and Portugal). A significant expansion of bargaining coverage, of more than 10 percent, occurred in just three countries, each from rather low levels: Switzerland, due to a change in the extension regime (see *infra*), and Latvia and Lithuania, where collective bargaining has just taken off and numbers remain very low.

[Table 2 about here]

The German case is interesting, because during four decades since the foundation of the Federal Republic sector agreements between powerful unions and employers' associations, usually negotiated at the regional level but with a high degree of uniformity across regions, had been a mainstay. Schnabel estimates bargaining coverage until 1990 at 90 per cent of 'versicherungspflichtigen Arbeitnehmer' (employees under compulsory insurance) (1995: 61), which translates in about 85 percent of all employees (80 percent in the market sector). Bispinck (1995: 81), based on data of the Federal Labour Ministry, gives a similar figure. However, after the unification of East and West Germany, and the transplant of the institutions of the Federal Republic to the east, both unions and employers' associations began to suffer from member disaffection (Hassel 1998). Schroeder and Weißels (2003:670-1) show that the density rate of Gesamtmetall, the major employers' association in metal engineering, had always been above 70 percent before 1989, but dropped to 62 percent in 2001 and averaged just 27.5 percent in the five states of former East Germany. Data derived from the annual

establishment survey (IAB Betriebspanel) of the Institut für Arbeitsmarkt- und Berufsbildung show that from 1996 to 2010 that in the entire economy bargaining coverage decreased from 77 to 63 percent in western Germany, and from 68 to 50 percent in eastern Germany (Ellguth and Kohaut 2011). Combined, bargaining coverage in Germany decreased from 76 to 61 percent; from 73 to 56 percent in the private sector. The number of company agreements has more than doubled, but this has not compensated for the loss in coverage of sector agreements: sector agreements cover 52 percent of the wage earners, down from 69 percent in 1996; company agreements cover 9 percent, up from 7 percent fifteen years earlier. The main explanation for the erosion of collective bargaining coverage is disaffiliation from employers' associations and the establishment of new firms that do not join these associations in the first place, a phenomenon that was particularly intense in eastern Germany and is more general among small and medium-sized firms (Hassel 1998). In response, many employers' associations have created a special membership of firms who do not partake in collective bargaining and thus will not be bound by sector agreements. (This possibility always existed in the UK and the Netherlands where, unlike Germany, many large firms took up membership in sectoral organizations but negotiated their own agreements. In Germany car manufacturer Volkswagen was one of the few large private sector firms with its own agreement). Pay clauses in collective agreements may, however, have an effect beyond the formal reach of collective agreements. Addison et al 2012, using IAB data, report that the proportion of employees that work in firms which claim to pay heed to the terms and conditions established by the relevant sector agreement has gone up from 17.9 percent in 2000 to 22.4 percent ten years later. They also find that these firms do pay more than firms that do not claim to orient their pay policies on the sector agreement; they pay however less than covered firms. Another difference is that firms that are not formally bound by the agreement can renege on their promises without legal injunction.

Company bargaining is critically dependent on the existence of effective union or employee representation. Multi-employer (sector) bargaining, in contrast, presupposes the existence of effective employers' organization. The low and declining coverage rates in C.E.E. are probably more due to the weakness of sectoral employers' organizations than to the poor state of the unions, although the two contribute to each other. In Estonia there are "only tentative signs of the development of industry-level bargaining outside the public sector" (Kohl and Platzer 2004:176) and "for many branch-level unions, there is no counterpart with which they can conclude an agreement" (idem, 177). This applies for instance in manufacturing. In Latvia "there are no collective agreements at branch or regional level in the classic form seen in Western Europe" (idem, 180). The conclusion of such agreements "is hindered by the fact that either there is no employer organization, or that several such organizations exist in a state of mutual rivalry" (idem, 181). In Lithuania the dramatic decline in unionization is cited as the main cause; under current law, there cannot be a collective agreement in companies where there are no trade union. In Poland sector agreements mostly "exist in that area of the economy financed by state institutions"; many just repeat the provisions of the Labour Code and the "lack of any dynamic to collective bargaining is mainly attributable to the weakness of employer associations" (Kohl and Platzer 2004: 193-4). This has not changed since, and during the 2000s unionization has continued to decline along with bargaining coverage (Gardawski, Mrozowicki and Czarzasty 2012). In the Czech Republic "applicable labour law poses narrow limits on the scope for free collective bargaining." (idem, 197). Here employers' associations often refuse to negotiate or renew collective

agreements and there is a rise in the use of individual contracting, and in collective agreement without any minimum wage rate increase (Myant 2010). In Slovakia sector agreements used to be fairly widespread, but rather vague in content and not implemented (idem, 2011). Their number and coverage have declined in recent years, according to the EIRO reports. In the early years after transition there had been some government support for sector bargaining and some unsuccessful attempts to recruit employers as bargaining partners in Hungary, according to Neumann (1997:189), who concludes that multi-employer bargaining has not become an effective regulatory mechanism. This is also due to the fragmentation and legitimacy crisis of the unions. Kézdi and Kónya (2011), using an establishment survey, affirm that sector bargaining in the private sector is, or has become, rare in Hungary and that overall no more than 20 percent of wage earners are covered. These results are in line with previous research (Horváth and Szalai, 2007). Slovenia, with well-established sector bargaining and, until recently, compulsory organization of employers in Chambers, is the exception among the post-communist countries.

Data on the extent of employer organization is sparse and I have no precise recent data for the non-European countries. For the 25 European countries in the sample, using averages for 2000-2009, a rather strong correlation ( $r=.80$ ) exists between the level of employer organization and the bargaining coverage rate. This is much stronger than the association between unionization and bargaining coverage ( $r=.50$ ). Only for a handful of countries (Denmark, Germany, Norway, Sweden) we have some historical data, showing that the rate of organization of employers and the coverage rate move in the same direction. Table 3 clearly shows that the relation between bargaining coverage and employer organization is much stronger than the relation between coverage and unionization. Dividing employer organization and union density rates in three 'states', of 'strong', 'medium' and 'weak', with cut-off points at 66 and 34 percent for employer organizations and at 50 and 25 percent in the case of unions, we get a rather neat picture. Coverage rates go up at higher levels of employer organizations, independently from the level of unionization. This is not proof that employer organization is the cause of high coverage rates. Rather, both move together and are determined by the degree and institutionalisation of sector bargaining, which in turn may depend upon public policy support, in particular the instrument of extension.

[Table 3 about here]

## Extension

In most countries it is possible for the Minister, the courts or some public agency to extend collective agreements to non-organized employers in the same sector or occupation. By extending collective agreements, the legislator intends to support multi-employer bargaining and provide for a minimum floor on pay, working hours and other terms and conditions of employment in firms that operate under broadly similar conditions, usually a sector or branch of the economy. Among the European countries in our sample, only four do not have this legal instrument: Sweden, Denmark, Italy, and the U.K.. (In the UK a limited possibility of extension existed until 1980, but was abolished by the Conservative government.) Outside Europe, until the legal changes in 1991 in New Zealand and in 1996 in Australia, pay awards in both countries used to be extended to entire industries or occupations. This is still possible in Australia, albeit on a smaller scale.

Extension is a legal act in which (clauses in) a collective agreement negotiated between one or more unions and one or more employers' associations is (are) declared binding on firms that are not member of the contracting parties. Extension as defined here does not include employers who, by custom and practice, orient their pay policies on the collective agreement. Thus the 22 percent of employees in Germany working in firms that voluntarily follow (parts of) the sector agreement (Addison et al 2012) are not included, neither are the 500,000 workers in France whose pay is based on a "racommendation patronale" (MTES 2012:332). Such a one-sided and voluntary orientation can be revoked if conditions change; in the case of extension firms are bound even under adverse conditions, unless there are specific dispensation rules and firms qualify for them.

Traxler and Behrens (2002), who have probably written the best overview of rules and practices of extension in Western Europe, distinguish between: (i) *extension* based on the '*erga omnes*' principle, when an agreement is made generally binding within its field of application by explicitly binding all employers and all employees who are not members of the parties to the agreement; (ii) *enlargement*, which provides for a collective agreement concluded elsewhere to apply in sectors or areas where no union and/or employers' association capable of collective bargaining exists, thus applying the agreement outside its original scope: and (iii) *functional equivalents*, such as compulsory membership of the employers' association that negotiates the contract or legal provisions requiring government contractors to comply with the terms of a relevant collective agreement, as stipulated in ILO convention 94. By extending the provisions of an agreement to a larger constituency, such rules fulfil the same function as extension although they fall legally in another category. Extension type (i) is quite common, but the thresholds differ a great deal; enlargement or extension type (ii) is rare and found only in four countries: Austria, France, Portugal and Spain; here the procedures are quite similar. Extension type (iii) exists in six countries but play a large role especially in Austria, Slovenia and Italy.

In Austria, Belgium, Luxembourg, France, Greece, Portugal, Spain, and Slovenia *erga omnes* extension applies quasi-automatically or '*ex lege*'. In these systems public authorities, such as Ministries of Labour or in the case of Austria the Arbitration Court, play a crucial role in initiating or sanctioning the extension of an agreement. In Austria, France, Greece, and Portugal usually the full range of provisions covered by a collective agreement is regularly extended, while in Ireland, for instance, only provisions on minimum wages and working conditions can be extended, a provision used only in the construction industry. In the wake of the 2007 rulings of the European Court of Justice (ECJ) in the Viking and Laval cases<sup>15</sup>, which to the dismay of the unions gave a restrictive interpretation of the EU Posted Worker Directive of 1996, most countries follow the Irish example and only extend the minimum standards on core employment conditions (pay, hours, health and safety) to temporary and posted workers (Dølvik, Eldring and Visser

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<sup>15</sup> *Viking* concerned a Finnish seafarer union that had threatened industrial action against a Finnish shipping company planning to relocate a ship to Estonia and work with lower-paid Estonian workers. The ECJ ruled, with reference to the Charter of Fundamental Rights, that there exists a right to strike in the EU, but that the threat of union action in this particular case was a disproportional restriction of the freedom of establishment. *Laval* involved the Swedish construction workers union that had organized a picket in order to pressure a Latvian company with a concession to build a school in Sweden to sign a collective agreement. The ECJ deemed the union's action disproportional and in breach with EU law, because no national rules on minimum wage exist in Sweden as is required under the Posted Workers directive.

2013). Austria, France, Portugal and Spain also allow enlargement, usually at the initiative of the Minister, with the possibility of appeal. Enlargement is not relevant in Belgium, Luxembourg and Greece since the extended agreements are already covering the entire national economy, or give full coverage to the mechanism of automatic price indexation of wages.

In the majority of cases, the contracting parties (unions and employers association), together or each of them, can file a request for extension with the relevant public authority (usually the Minister of Labour). Usually, in order to be approved, the collective agreement must pass the test that it is representative. In many countries the threshold is set at 50 or 51 percent (Finland, Germany, Greece, also in Spain for some procedures, but often, for instance in the case of provincial agreements, extension is applied automatically). In the Netherlands and Latvia a supermajority of 60 percent is required, although this may be lowered in some specific cases. In Switzerland, following a referendum on opening the labour market to EU migrants, the unions achieved a victory in lowering the threshold to 30 percent. Note that these thresholds nearly always regard the level of employer organization. Some countries apply a 'public policy' test; the agreement must 'fulfil a public interest' (Germany), 'satisfy a vital social interest' (Poland) or 'not violate a public interest' (the Netherlands). In some countries, each of the parties in the tripartite committees that handle extension requests, can veto an extension decision. Germany is the most prominent case where the employers' federation has used its position to limit extension. Finally, in C.E.E., extension, although legally possible, is used rarely because there are very few sector agreements that qualify (Table 4).

[Table 4 about here]

On the basis of the different rules summarized in Table 4 I have tried to distinguish between four different regimes, using the following coding:

- 3 = extension is virtually automatic and more or less general (including enlargement);
- 2 = extension is used in many industries, but there are thresholds and Ministers can (and sometimes do) decide not to extend (clauses in) collective agreements;
- 1 = extension is rather exceptional, used in some industries only, because of absence of sector agreements and/or resistance of employers;
- 0 = there are neither legal provisions for mandatory extension, nor is there a functional equivalent.

As shown in Table 4, in seven countries there are or were functional equivalents to extension provisions. The contents and mechanisms vary widely and it is not always possible to estimate the specific impact of these equivalents on collective bargaining coverage. Provisions such as mandatory membership of employers' associations, as applies in Austria and until recently in Slovenia, seem to have a strong impact on bargaining coverage. In New Zealand and Australia the award system had a huge influence on coverage, accounting for as much as two-thirds of coverage in Australia until awards were scaled down, and less than 25 percent since (OECD 2004:153). In Italy, the Courts' use of collective agreements to award minimum wage decisions has widened actual coverage to an estimated 80-90 percent; however this must also be seen in the context of the absence of a statutory minimum wage. The effects of mechanisms tied to public procurement

are more difficult to estimate, and these mechanisms have attracted criticism from the ECJ (Dølvik and Visser 2009).

Together with employers' organization and multi-employer bargaining, mandatory extension of agreements is crucial for reaching coverage rates as high and stable as in continental Western Europe. As shown in Chart 3, the proportion of non-union members covered by collective agreements increases significantly, reaching very high levels when extension is quasi-automatic. Chart 3 also shows, however, that extension is not the only way to reach high levels of bargaining coverage. In Scandinavia it is through union action, including the possibility to organize solidarity strikes, that this has been achieved. In Denmark and Sweden collective agreements cannot be declared binding on non-signatory parties; but unions have been strong enough to make non-organised employers sign a so-called 'adhesion agreement'. In Sweden, many employers sign so-called 'substitute agreements', also called 'affiliate' or 'overarching' agreements (*hängaftal*) with trade unions, which means that they apply the conditions stipulated in the relevant industry agreement (Kjellberg 2012:59). Where they do not sign such agreements and benefit from the peace clause established by it (see *infra*), firms are usually forced, through strike action and secondary pickets, to pay the locally applicable 'going rate'. This practice has however come under pressure due to the ECJ rulings in Viking and Laval, and understandably Swedish and Danish unions, together with the governments and in the Danish case also employers, are very upset about the limitations posed by EU law on their model of industrial relations (Dølvik and Visser 2009).

It is hard to tell how much extension contributes to bargaining coverage. Excess coverage or the gap between union density and bargaining coverage rates is a nice way to visualize the influence of extension, as was done in Chart 3, but it is not the right way to gauge the extra coverage produced by extension (Calmfors et al 2001). If anything, not union density but the extent of employer organization is the relevant yardstick. However, both employer organization and union density are endogenous to extension—without extension the extent of employer organization would probably be lower and the level of unionization higher. For employers, extension tends to raise the costs of non-organization. If employers' want to influence the contract that binds them as non-member, they must join the organization that negotiates the contract; in any case it makes less sense to quit if they will still be bound by the contract. For unions, extension cuts two ways (Flanagan, Hartog and Theeuwes 1993: 424): by eliminating the competition from low wage non-union firms or sectors, legal extension reduces the incentives for employer resistance to unions. It also reduces the incentives for consumers to shift purchases to the non-union sector and therefore increases union bargaining power. On the other hand, by providing for free what unions charge for, legal extension encourages 'free riders' among the potential union membership. Some data on the direct effect of extension on coverage is available. In Germany, the effect of extension is very small; coverage of employees through extension has decreased from about 5 percent in the early 1990s to as few as 0.6 percent in 2004. In Hungary 1.5 percent of the employees were covered through extension in 2000. In Slovakia the figure was 8-9 percent in 2001, but has decreased since. There were no (sectoral) contracts extended in 2010 and 2011. In the Netherlands, coverage based on extension has stabilised at around 11 percent; in Finland at 20 percent. In Austria the effect of coverage is estimate at a magnitude of 30 percent, in Belgium at 20 percent—roughly the excess above the level of employer organization (Van Ruyseveldt 2000). Christovām (1998:174) cites Ministry data from which it appears that the bargaining coverage rate in 1996 before extension was 55

percent in Portugal (1998:174). Most sources put coverage after extension in Portugal at 90 per cent or higher (Barreto and Naumann 1998: 417; Hartog, Periera and Viera 2002; Xavier 2004:204), although there are signs of a recent decline and in the second half of 2011, after the change of government, no extension decisions have been issued by the Labour Ministry. In Norway, the use of extension as a means to cover migrant labour posted by foreign companies has increased beyond the construction industry to shipyards (Dølvik, Eldring and Visser 2013). A similar development to stem the undercutting of wages and conditions by migrant workers posted by foreign (EU) companies has taken place in Switzerland. Fluder and Hotz-Hart (1998) claim that extension procedures were little used in Switzerland, but this has clearly changed. According to data from the Swiss federal statistical office, currently as many as two-fifths of the 49 percent of the employees covered by collective agreements are covered through extended agreements. The lowering of the threshold in 1999 has clearly contributed to the reversal of trends in bargaining coverage in Switzerland—trended downward from 50 percent in the mid 1980s to close to 40 percent in the mid 1990s, but since edged up to between 46 and 49 percent (Hartwich and Portmann 2011).

In view of criticism and demands for deregulation, the stability of the institution of administrative extension is surprising, a feature that was already highlighted in the study of Traxler and Behrens (2002). There are very few examples of legislation on extension being repealed. In 1980, the incoming Conservative U.K. government repealed Schedule 11 of the 1975 Employment Protection Act and ended the (quite limited) British version of extension. But this example and the experience of Australia and New Zealand, stand in contrast with the European experience, where the institution of extension has expanded rather than decayed, at least until 2010 or 2011 when the administrative extension came under international pressure in Ireland, Portugal, Spain and Greece. In Spain and Portugal the extension regime belongs to the inheritance of the previous authoritarian-corporatist regime. When Greece, in 1990, overhauled the legal basis for collective bargaining in an attempt to limit direct state intervention, it introduced at the same time a system of virtually automatic extension to replace the state orders that had applied to everybody. All countries but one (Lithuania) from Central and Eastern Europe introduced rules on contract extension along with laying the legal foundations for free collective bargaining. In Spain, amendments in 1999 and 2005 expanded the possibility of enlargement. Elsewhere (Finland, the Netherlands) there were smaller changes, usually clarifying the threshold criteria.

Some of the expansion and shoring up of the institution of extension must be seen in the light of increased cross-border competition and movement of services and labour within Europe. This has directly contributed to the introduction of an institution that did not exist in Norway, to its expansion in Switzerland, and a much wider use in many other countries, although at the same time restricted to minimum conditions in the agreements (Dølvik, Eldring and Visser 2013). In Germany, a 1998 reform empowered the Minister of Labour and Social Affairs to extend minimum wage agreements by decree, based on the Posted Workers Act of 1994, thus making it possible to bypass a veto by employers. Since 2000, several new industries have been included in the Act, such as cleaning, electrical work, mining, postal services, security services, waste disposal, personal care, and temporary agency work. These have typically been industries with growing shares of workers posted by foreign firm, and where trade unions have managed to build coalitions with domestic employers struggling to survive, against the

opposition of employers in export industry and the general peak association. In 2009, the Ministry of Labour estimated that the industries covered by these extensions of minimum conditions employed around three million workers.

## **Conclusion**

The conclusion of this section on bargaining coverage is straightforward. There are two sets of conditions that lead to high bargaining coverage, of say 70 percent or more of all employed wage earners. This first set or trajectory, common in continental Western Europe, is based on the combination of three institutional variables: sector (or national) bargaining; a high level of employer organization; and a frequent, though not necessarily 'automatic' use of administrative extension of agreements. The three variables cannot be considered independent from each other, as extension conditions employer organization, which is the basis for sector bargaining, without which extension is impractical. If one of the components is taken away, the house of cards will probably fall. The second trajectory is much less common and found only in Northern Europe. Here the basis for a high coverage level is sector (or national) bargaining and a high level of unionization. Thus even if sector bargaining does not reach everybody due to the limited size of employers' organizations and the absence of administrative extension, unions are strong enough to force non-organized employers to apply the sector agreements and sign an 'adhesion agreement'. The first trajectory is dependent on continuing state support; the second trajectory on the ability of unions to maintain high levels of membership and support. The latter may depend on some unique features such as union involvement in the organization of unemployment insurance and similar benefits (Ebbinghaus and Visser 1999).

Crucial for both trajectories is the willingness of employers to continue negotiating agreements together, at the sectoral or even cross-sectoral level—one of the key issues in the next section of this essay. Union decline has now gone on for quite some time and the second trajectory —of trade unions pressing employers into broadly covering agreements with a meaningful regulatory content on pay and other working conditions—must be considered off limits for union in nearly all countries. Even in Scandinavia, unions have great difficulty in pressuring employers in line, as will be seen in the next section, on top of which they have now met a serious obstacle in EU law as interpreted by the European Court of Justice. The implication is that high coverage levels will continue to depend on public policy—at least a non-reversal of past policies of open or tacit support for collective bargaining. Where a political break with the past did take place, coverage has decreased dramatically, as the examples of the U.K., New Zealand and Australia have shown. Recent events in countries like Ireland, Portugal and Greece depending on international financial assistance show that public policy support for collective bargaining is not at all self-evident, and may be reversed into open discouragement, and severe narrowing, of extension.

In its 1994 Jobs Study the OECD advocated the phasing out of administrative extension. The two main arguments had been (i) that when unions can expect contractual wage rates to be imposed on non-organized employers "an important restraint on wage demands, namely the need to avoid pricing their members out of work, is removed" (OECD 1994b: 16); and (ii) that "incumbent firms may be more willing to yield to high wage demands if they are sheltered from competition from firms engaging lower-wage workers" (ibid). In its recent analysis, the OECD (2004; 2012) admits that both propositions are far too simple.

Unions may have many reasons to avoid pricing their members out of work, and the ability or obligation to negotiate contracts, and sometimes sacrifices, affecting everybody in the labour market may be one of them. As to the second point, there is no limit to low-wage competition and in a deflationary environment it may be a good thing, from a public policy point of view, that unions (and employers associations) are able to maintain, and raise, a minimum below which no firm and no worker is allowed to offer or accept employment.

Bargaining coverage is a measure of union presence, not of union pressure in the labour market. Coverage rates tell us something about the size or reach of collective agreements, but nothing about the content, tightness, costs or benefits of these agreements. The nature of agreements varies across countries and sectors; some have a standard character, setting the minimum and maximum pay rates for a job; more common are agreements which set minimum standards; yet, there are also agreements which set only frameworks and leave pay setting to the firm's management or to individual bargaining, or they offer a default just in case local negotiators fail to reach agreement. I will discuss this under decentralisation and opening clauses in the next section. Legal effects of collective agreements vary as well (Blanpain 2004; CCNC 2004). The standard is that collective agreements have a (horizontal) obligatory effect on the contracting parties (this does include a peace obligation for the duration of the contract in the Nordic countries, in Germany, Austria, Switzerland and the Netherlands, but not in Belgium, France, Italy or Spain) and a (vertical) normative effect on the members or these parties, which usually implies that individual employment contracts cannot offer terms and conditions that are less favourable. Due to such normative effects collective agreements can serve as a substitute for legislation. Later, when opening clauses are discussed, it will be seen that this favourability principle has recently become under pressure. The profoundest difference as to legal effects is found in the U.K. and Ireland, compared to all other countries, including the Anglo-Saxon countries outside Europe. Collective agreements in the U.K. and Ireland (save a small minority in the Irish case) entail neither an obligatory nor a normative effect, but acquire legal effects only as implied terms in the individual employment contract. Strictly speaking, they are "binding in honour" only and cannot be claimed in court (except where it concerns the statutory national minimum wage, introduced in 1999 in the U.K., and a year later in Ireland, or in the case of specifically registered agreements used only in the construction sector in Ireland). The issues of 'opening clauses' and 'favourability' that have become so hotly debated in the context of German collective bargaining are therefore much less relevant in the British context, also because private sector bargaining is now done almost entirely at the company level.

Finally, bargaining coverage rates, like union density and employer organization rates are calculated for the employed dependent labour force, as documented in official statistics based on national annual surveys.<sup>16</sup> In some countries there is a large market for informal or undocumented labour—an estimated 30-35 percent of employment in Greece, 20-25 percent in Italy, and 15 percent in Portugal, to mention only the extreme cases. Including these workers lowers the effective coverage rate significantly—from 65 to below 50 percent in Greece, from 85 to below 70 percent in Italy, and from 90 percent to below 80 percent in Portugal. For the case of Greece, Zambarloukou (2006:217) makes the point, rightly, that

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<sup>16</sup> The ICTWSS database uses the series of 'employees in employment' from OECD Labour Force Statistics; for the two non-member states (Latvia and Lithuania) the equivalent is calculated from the European Labour Force Survey of Eurostat.

“the presence of numerous small enterprises and an undocumented labour force has always meant that labour relations are less regulated than the official bargaining system might imply. Moreover there are large tourist and agricultural sectors that rely heavily on seasonal employment where it is easy for employers to use flexible employment arrangements that are not found elsewhere.” To this we can add the large influx of migrants in Greece from the Western Balkans and some former Soviet republics after 1989.

High coverage rates may overstate the actual level of collective bargaining activity in yet another sense. In France and Portugal, for example, many sector agreements have no expiration date, are rarely renewed and simply out-dated. A French Ministry study of collective bargaining in 2011 criticises that most sector agreements are characterized by “une ancienneté forte et une activité conventionnelle peu dynamique” (MTES 2012: 320). Of the 900 officially registered sector agreements (of which more than half are extended to non-organized employers) only five percent had been (re-)negotiated in the last five years; the large majority was two decades old. A similar criticism has been raised in Portugal where in 1998 20 percent of the existing agreements had not been renewed in a decade (Christovâm 1998). In both countries the content of these agreements is limited; they rarely if ever stray from labour conditions covered by law. Like most laws, these agreements are applied *erga omnes* and for an indeterminate time. Stalled negotiations over renewal imply, however, that agreements become out-dated, obstruct organizational change and fall behind legal amendments. This has been a constant critique of employers in Spain and Portugal, who for this reason advocate contracts for definite periods, and not to be prolonged when a new agreement cannot be reached. The problem of sector agreements failing to catch up with rises of the statutory minimum wage has come up again and again, especially in France (MTES 2012).<sup>17</sup>

## Bargaining structure

Decentralisation has been the name of the game in industrial relations since the 1980s—reversing the long-term trend since the 1930s, which was intensified during the turbulent years following the energy and currency upheavals of the 1970s, when many countries experimented with voluntary or state-led incomes policies (Addison 1981; Armingeon 1982; Flanagan, Soskice and Ulman 1983). In this essay I do not deal with changes in bargaining levels within firms, between headquarters and business units, or across various plants or establishments within the same company. This means that I can define decentralisation, simply, as a downward movement of placing the locus of decision making over wages and working hours closer to the individual enterprise.

In recent decades, in many (not all) countries industry or sector bargaining has taken the place of national (cross-industry) bargaining where it existed, and local or enterprise bargaining has gained a more prominent either replacing sector bargaining or as an additional layer. When company bargaining replaces industry

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<sup>17</sup> “De nombreuses branches ont vu leur bas de grille rattrapé par le SMIC, ce qui témoigne du problème récurrent de l’extrême vulnérabilité des premiers niveaux des grilles, appelés à être dépassés par le nouveau montant du SMIC à chaque revalorisation de ce dernier” (MTES 2012: 310).

bargaining, though never at the same scale and usually with much lower coverage as we have seen in the previous section, this is called 'disorganised centralisation'. When company bargaining has become as an extra layer nested within sector or national agreements, usually together with a smaller role for cross-industry bargaining, 'organised decentralization' is the term (Traxler 1995). As part of further decentralisation, local bargainers have gained more freedom, among others through the use of 'opening clauses', or by allowing and encouraging individual bargaining about some features of the contract. The *à la carte* provisions in many Dutch collective agreements, allowing workers to trade a part of the wage (or other benefits) for working time, sabbatical leave or study periods (and vice versa), are a case in point.

By placing decisions within a sector or national economy under the same authority, centralisation contributes to harmonizing pay and working conditions. Usually centralisation of pay bargaining at the sector level, or nation-wide, reduces inequality across firms within the sector (nationwide, across sectors). Centralised pay policies of unions typically endorse the principle of 'equal pay for equal work' as a way to legitimize centralized decisions, which put a limit on wage rises of members who work in the most profitable firms (Iversen 1999; Visser and Checchi 2009). On the same grounds, they may accept inequality within firms, if based on education, skill and performance, though especially in the Scandinavian case, and also in the Netherlands and Italy during the 1970s, a strong current of 'levelling' earning differentials related to skill, education and status, combined with the effects of price indexation, tended to narrow within-firm differentials as well. This has been identified as one of the main reasons why in particular Swedish employers became so opposed to centralized wage policies (Pontusson and Swenson 1996). A similar adversity against 'over-centralizing' pay policies has also been documented in Denmark, the Netherlands and Italy (see the contributions in Baglioni and Crouch 1990).

In addition to de centralisation understood as decision making at lower levels, it has also a component of less state interference in the setting of wages and employment conditions, and allowing more flexibility in the application of legal norms, for instance by allowing derogation from legal standards and offer less than minimum terms conditions, contravening the common legal 'favourability' principle that 'extra' is always possible but 'less' is forbidden. The expectation that de-centralization will lower the degree of state intervention in wage bargaining and that industry or company bargaining will restore control over crucial variables that impact on the allocation and remuneration of labour, has been mentioned as another motive for employers to bring national cross-industry to an end (Calmfors et al 2001). This motive is sometimes shared by trade unions tired of recurrent government intervention, for instance in Denmark and the Netherlands in the early 1980s (Due et al 1994; Visser and Hemerijck 1997). Finally, neither unions nor employers are internally united in their preference of the optimal level of bargaining. As noted before when discussing administrative extension, small and medium size enterprises, and firms mainly operating in domestic markets, may prefer sector or even national bargaining, as do unions representing member in low-wage sectors. In contrast, employers operating in export industries and skilled workers in these industries tend to be attracted by the flexibility, and potentially higher wages, associated with enterprise bargaining.

It is not easy to assess the extent of decentralisation comparatively across time and countries. Within a country we may have a good sense of developments, for

instance when bargaining moves from the national to the industry level, or when sector agreements disintegrate. But it is much harder to establish whether sector bargaining means the same thing in different countries, especially with different arrangement for multi-level bargaining. In order to get as close as possible to a decentralisation index that can be used for diachronic and synchronic analysis, I decompose decentralisation in three components: (i) the dominant level at which collective bargaining takes place; (ii) the articulation of lower and higher levels of bargaining in case of multi-level bargaining; and (iii) the existence and use of opening clauses (and individual contracting) or the degree to which deviation from (minimum) standards in a downward direction are possible. I will discuss developments along these three dimensions separately before proposing a composite indicator of decentralisation.

### **Level of bargaining**

In a national economy collective bargaining takes rarely place at one level. Some firms (and sectors) bargain on their own, others negotiate jointly, and some negotiate at more than one level. The exception—all firms bound by the outcome of negotiations at the same level—occurs when there is a central agreement with binding effect on all employers, or a government order which replaces or suspends all pay bargaining—something that happened in many European countries after WW II or at times of acute crisis, for instance to prevent a wage hike during a currency devaluation. An executive order of this kind may declare the results of any bargaining that contravenes it “null and void”, as for instance the Dutch Wage Act of 1970, reformed in 1987, is entitled to do in the case of an extreme recession or calamity.<sup>18</sup> The other extreme, with all collective bargaining happening in the company is also rare; usually, there is some multi-employer bargaining, at least for some skilled occupations, in a sector like construction.<sup>19</sup> Furthermore, there are often large differences between the private and public sector—usually pay setting is more centralised in the public than in the private sector (Bordogna and Pedersini, 2013). In what follows, the focus is on the private sector.

Disregarding occupational and regional bargaining, because it plays a minor role and is mostly a variant of sector bargaining<sup>20</sup>, I distinguish between collective bargaining at (i) national, central or inter-industry level, (ii) industry, branch or sector level, and (iii) the company or enterprise level. I do not discuss

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<sup>18</sup> Since 1982 there has never been an intervention and the amended law of 1987 has never been tested, though its potential use has on many occasions (1992, 1993, 2004, 2010) served as a 'shadow of hierarchy' to gain concessions from the unions (Visser and Hemerijck 1997; Avdagic, Rhodes and Visser 2011).

<sup>19</sup> According to the European Company Survey of 2009, this extreme was best represented by Lithuania where according to respondents (managers and workplace representatives) 94 percent of total bargaining coverage results from company bargaining. In fact, the first multi-employer agreement was signed in October 2012 and covered construction workers and designers in Western Lithuania.

<sup>20</sup> The regional (state, provincial) level is relevant in Austria, Germany, Spain and France (Du Caju et al., 2008), but it adds little to decentralization in these countries, since bargained wage rates tend to be harmonized across regions in the same sector, albeit with persistent differences between Eastern and Western states in Germany. Compared to sectoral agreements, occupational agreements play a minor role in Denmark, Sweden, Belgium, Austria, and in the public sector in Germany, reflecting status distinctions within the union movement and in labour and social insurance law. In recent times there has been a move towards integration of blue- and white-collar agreements.

decentralization of bargaining *within* the company, although control over bargaining taking place in workplaces, plants and establishments in larger companies can be, and has been, a major issue of contention, for instance in Britain during the 1960s and 1970s. Throughout this essay and in all my indicators, company- or enterprise-level bargaining is considered the lowest bargaining level. Finally, instead of using a three-point scale, as used by Calmfors and Driffill (1988) in their seminal paper, I use a five-point scale, allowing for two mixed situations (quite like the OECD 2004 study):

- 5 = bargaining predominantly takes place at central or cross-industry level and there are centrally determined binding norms or ceilings to be respected by agreements negotiated at lower levels;
- 4 = intermediate or alternating between central and industry bargaining;
- 3 = bargaining predominantly takes place at the sector or industry level;
- 2 = intermediate or alternating between sector and company bargaining;
- 1 = bargaining predominantly takes place at the local or company level

In order to identify whether a bargaining level is dominant we need some empirical cut-off point. Arbitrarily, I take two-thirds of the private sector coverage rate; thus, if collective agreements negotiated at a particular level account for at least two-thirds of the total private sector coverage rate, than that level is dominant. If it accounts for less, but for more than one-third of the coverage rate, we have a mixed or intermediate situation, between two levels. A mixed situation also occurs when bargaining levels alternate and/or it is impossible to assess which of the two contributes more to actual regulation of employment relations. For the sake of analytical clarity, however, it is important to distinguish between industry and company agreements as *alternatives* or *supplements*. The latter is dealt with later, under articulation of multi-level bargaining. Here, I will deal with the first aspect, bargaining levels as alternatives, as if all bargaining were taking place in a single-level setting and the three possible levels are competing with one another.

For most countries it has been possible to collect data allowing an estimation of the distribution between company and sector bargaining in the private sector. The figures given below refer to the years after 2000. For some countries it is necessary, and possible, to reconstruct time series, based on reading of secondary literature, enterprise surveys and archives of registered collective agreements. On that basis we can put some markers at shifts in the UK, France, Slovakia, Australia and New Zealand. With the exception of the five countries just mentioned, the distribution between sector and company bargaining has been remarkably stable, with a very slight increase of company bargaining in countries like Denmark, Germany and the Netherlands, yet a continuing dominance of sector bargaining.

- (i) *Company or enterprise bargaining is dominant.* Countries where company bargaining accounts for more than two-thirds of private sector coverage are Ireland (92%), the UK (88%), the Czech Republic (85%), Hungary (81%), Poland (92%), and the three Baltic states, Estonia (>80%), Latvia (>80%), and Lithuania (>90%). Four of the five non-European countries—Japan, Canada, the U.S. and, since the 1990s, New Zealand—are also in this category.
- (ii) *Mixed cases,* with company bargaining accounting for one-third to two-thirds of private sector coverage, are Luxembourg (40%), Slovakia (57%) and Australia (40-50%), and, since the 1980s, France, with an

equal share for enterprise and industry bargaining (40-50%). According to recent figures, an astonishing 62 percent of employees in firms with 10 or more employees are covered by enterprise agreements (MTES 2012). France is a difficult case to assess, however, since there is a tendency of enterprise and industry agreements to co-exist (Freyssinet 1993:280). Clearly, with the exception of some sectors (construction, textiles, transport, metal manufacturing, excepting cars and ships) enterprise bargaining is by far the most vibrant part of collective bargaining. Due to extension sector agreements may reach a higher coverage, but the impact on actual working conditions is much smaller. Italy during the 1980s can be placed in the same category, for the same reasons. In some industries sector agreements were negotiated only after a series of enterprise agreements had been concluded (Locke 1992; Regini and Regalia 1995). However, in the 1990s the dominant position of industry bargaining has been restored in Italy (Regalia and Regini 1998).

(iii) *Sector bargaining is dominant.* Countries where company bargaining accounts for less than one-third of bargaining coverage and sector agreements are clearly dominant are: Austria (company bargaining accounts for 5% of the private sector coverage rate), Belgium (<10%), Finland (10-15%), Germany (7-9%), Greece (<20%), Italy (<15%), the Netherlands (<20%), Norway (<25%), Spain (<15%), Portugal (declining from 15% in 1985 to 7% in 2005), Sweden (<10%) and Switzerland (16%). Denmark with company bargaining accounting for circa 30% is the borderline case here.<sup>21</sup> The percentage in Greece looks high but this maybe misleading. Before legal changes 1990 company bargaining was essentially forbidden; since 1990 it has been allowed, through special provisions, mainly in the state sector. In many other countries too, company bargaining is a feature of the (former) state monopolies (postal services, railways, air transport, et cetera) where privatisation, and lifting of civil servant's status, usually led to enterprise agreements.

In the past more than today, collective bargaining and pay decisions in many countries occurred at the highest, national or cross-industry level, sometimes mixed or alternating with industry (or local) level bargaining (levels 4 and 5). In the following I will discuss trends by group of countries. An element of decentralization, not further discussed is the suspension of indexation mechanisms in wage contracts (Denmark 1983; Netherlands 1983; Switzerland 1991; Italy 1992; Sweden 1993). In Belgium and Luxembourg indexation continues to play a role and it is punishable for employers to pay less than the indexed wage. In Belgium in 1976 indexation was suspended for nine months, and reduced after 1981 (as in Luxembourg between 1981 and 1984).

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<sup>21</sup> The OECD ranks Sweden and Denmark, together with France, among the countries where company bargaining has recently become the dominant level (OECD 2012, Table 3.1). While this may be right in terms of the growing weight of within-company negotiations regarding actual levels of pay, including show stewards control over individual pay reviews (see *infra*), especially in Sweden the industry agreement is by far dominant in terms of bargaining coverage. Moreover, a point that is missed in the OECD assessment is the importance of the industry or broad sector or multi-sector agreements for establishing dispute and mediation procedures, as well as peace clauses for company bargaining. In short, neither in Sweden nor in Denmark has company bargaining emerged as an alternative for industry bargaining (see Kjellberg 2012).

In Scandinavia there has been a move away from the centralised wage agreements that had characterized wage bargaining until the early 1980s. In the case of Sweden and Norway the 're-birth' of industry bargaining took many years, and some conflict. Finland, the other Nordic country, has continued its tradition of centralised (tax-based) incomes policy based on social pacts between the central union and employers' organizations, with government tax support.

In Sweden wages had been set in annual centralised bargaining rounds since 1956. The system broke down in 1983 when employers and unions in engineering negotiated a separate agreement. During the next decade, wage setting was characterized by "a see-saw between centralized and industry-level negotiations" (Vartiainen 2001:36). In the 1990s and since, with exception of a central round in 1991-2 following the recommendations of a expert group and a rare government threat to impose a wage freeze, negotiations have taken place at industry level. Elvander (2002: 214) calls the Stabilization Drive of 1991-2 "the most comprehensive and centralised state intervention in the labour market in Swedish history (even if it was carried out with the more or less voluntary cooperation of all the parties concerned)". Industry bargaining has been dominant since.

Norway had a similar history of centralized agreements established in the late 1950s, but between the mid-1970s and the early 1990s bargaining oscillated between centralization and decentralization, interspersed with government intervention. Agreements were reached through compulsory arbitration in 1978, 1981, 1982, and 1984; wage freezes were imposed in 1979, 1988 and 1989, and direct participation of the government in wage bargaining (social pacts) occurred in 1975-1977, 1980 and 1993-4 (Dølvik and Stokland 1992; Sivensind et al 1995). Dølvik et al (1997:55) observed a "renaissance of corporatist incomes policies in Norway" in the late 1980s and early 1990s, a development which they attributed to the exceptional influence of oil in the Norwegian economy, the large swings in international energy prices, and "the specific problem of containing cost pressures in an oil economy where domestic sectors represent an ever-growing proportion of employment." However, the incomes policy trend did not continue and after an internal reorganization of the main union confederation in 1994, central bargaining has since been reorganized in four broadly based industry cartels and industry bargaining has become dominant.<sup>22</sup> These cartels usually negotiate agreements for two years, with local bargaining in the second year. Central agreements have now become the default option in case industry-level negotiations fail—an option that was used for the last time in 2000.

From 1951 to 1979 general issues, including wage increases, were determined in negotiations between central union and employers' organizations in Denmark, in two-year agreements. Special issues were dealt with by affiliates, in sector bargaining. In 1981 Denmark returned to the practice of the 1930s and 1940s based on industry and company bargaining. This was marked, especially on the side of employers, by "a tendency to minimize the influence of the main organizations" (Due et al 1995a: 132), partly compensated by a move towards much broader bargaining units through the merger of employers' associations and cartel building among trade unions. Some centralising features have remained however (Due et al 1995b). The conciliator's right to concatenate across jurisdictions the union membership ballots needed to end a conflict when

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<sup>22</sup> Usually the cartel for private manufacturing settles first and this is still called the 'central settlement' in Norway.

negotiations break down, is a core feature of the Danish model. Irrespective of whether negotiations are centralized or decentralized, this has a “powerful centralising effect” (Galensen 1952: 112). Moreover, Parliament may adopt the conciliator’s proposal and impose a settlement, as it did on several occasions in the 1970s and 1980s, and again in 1998 (over the issue of working hours). This follows a precedent set in 1933, when in the wake of the world-wide economic crisis, employers threatened a general lockout to impose substantial pay reductions, but Parliament, dominated by social democrats, intervened and prolonged all existing wage agreements along with the decision to devalue the Danish kroner (Due et al 1994). Central agreements on non-wage issues have continued and sometimes, for instance in 2004, they have influenced the ‘climate’ for wage bargaining (Visser 2004). Employment regulation, which in most countries is set by law, is in Denmark based on agreements between the social partners. Only through central agreements the inclusive coverage, which is a defining element of law, can be approached.<sup>23</sup>

Finland has since 1968 a history of two-year central incomes policy pacts which has continued into the 2000s. When the incomes policy pact of 2005, set for 2½ years, expired in mid 2007, employers in the engineering industry were pushing hard to emulate the Swedish example and put an end to central-level bargaining. However, after a four-year interlude of industry bargaining, central bargaining made its comeback in 2011 and another ‘wage moderation’ agreement for two years was reached with some tax compensation thrown in by the government.

In the section on bargaining coverage I have described the shift from industry to enterprise bargaining in the United Kingdom during the 1980s and 1990s. Before 1980 the U.K. had a troubled history of both voluntary and involuntary incomes policies, which culminated in the 1970s in the Social Contract negotiations between the unions and the Labour government, in an attempt to moderate wage demands and gain control over high inflation rates (Addison 1981; Crouch 1979). Rather than a form of centralised negotiations—which they were not, if only because of the lacking employer counterpart—the Social Contract can be classified as an attempt at coordination, an attempt that ultimately failed (Regini 1984). Since 1980 there were no centralising forces in UK collective bargaining.

Although both countries share many features of industrial relations, unionism and collective bargaining, wage setting in Ireland has allowed a much larger role for central or national agreements, both in the 1970s, and again between 1987 and 2009, when the central organizations negotiated eight social pacts or, as they were called in Ireland, partnership programs. “All eight pacts included agreement between employers, unions, and government on the rate of wage increases in both the private and public sector for a three-year period (though shorter in the 2006 and 2008 pacts).” (O’Donnell, Adshead and Thomas 2011:89). However, with the deepening of the recession in 2009 Ireland bid its farewell to central pay agreements. Under the last social partnership programme that was supposed to run from 2006 till 2016, a new pay formula had been renegotiated in September 2008, at the onset of the crisis, but this formula came almost immediately under pressure, with employers calling for the agreed pay increases to be deferred. When late 2009 the negotiations over a severe cut in public sector pay broke

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<sup>23</sup> Whether central agreements are inclusive enough has been an issue, in particular, in relation to implementation of EU directives which, in Denmark, has taken place, mostly, on the basis of central agreements between unions and employers. For this purpose, the Danish labour market parties have accepted a type of legal or administrative extension (Nielsen 2006).

down, the employers formally ended central negotiations and Ireland faces for the first time in almost a quarter century a phase of enterprise bargaining, industry bargaining being of negligible importance outside the construction industry. However, the problem is very much in the public sector and in June 2010 IBEC, the Irish business and employers' confederation, and the private sector unions signed a protocol over how to deal with local pay claims.

Wage bargaining arrangements and developments in the core area of the Euro—Germany, France, Austria, the Netherlands and Belgium, as well as non-Euro member Switzerland—are quite diverse. Industry bargaining has been the mainstay in Germany, Austria and Switzerland, and with few exceptions—the central agreement of 1973 in Austria—national (inter-industry) agreements are unknown. There are strong centralising elements in the Austrian model, based on the monopolistic structure of the unions and compulsory membership of employers in Industry and Commerce Chambers, and the possibility, before 1983, to centrally decide which sector can bargain first, but this is relevant for coordination rather than centralization, and will be discussed later.

France, in contrast, has all but abandoned industry bargaining and marginalized its importance. After 1945 and until 1968 collective bargaining was eliminated from the company level; the main concern of employers and employers' associations had been to keep unions and conflict away from the workplace (Saglio 1995). This changed after the belated recognition of the unions in the Grenelle agreement of 1968, which led to mandatory union representation in the firm. Up until the early 1980s industry bargaining remained predominant, though reforms to make its role more important failed. The Auroux Laws of 1982-83, of the socialist government, shifted the locus of bargaining to the enterprise, making it obligatory for employers to negotiate (not necessarily agree) wage changes with union representatives in the enterprise, and instituting direct employee representation in the enterprise. These reforms ended the monopoly of trade unions to express workers' views within the workplace. Whatever were the expectations, the effects of the Auroux reforms have been dismal for the French unions, which, divided and ever more fragmenting, appeared overwhelmed by the shift to the enterprise level as the principal locus of representation and bargaining (Howell 1992). During the 1990s, the Left's return to government and its decision to further reduce working time forced employers into more rounds of enterprise bargaining. For many workers not covered by enterprise bargaining, especially in the SME sector, wage setting has become increasingly influenced by the statutory minimum wage. Central agreements, signed by some of the unions, on non-wage issues like unemployment insurance, training, wage classification, working time schedules, et cetera, have continued to play a role, but they are irrelevant for wage setting.

Developments in Belgium and the Netherlands have diverged—with more state intervention and central level bargaining in the former and a return to industry bargaining, with more autonomy from the state, in the latter (Hemerijck et al 2000; Van Ruysseveldt and Visser 1996). From 1960 to 1975 employers and unions in Belgium negotiated six 'social programming' agreements, with (minimum) norms for changes in wages and social benefits, as well as a string of welfare and employee rights (including enterprise-level union representation in 1971). These agreements became the cornerstone for the post-war development of the Belgian welfare state and industrial relations. Central pay norms guided lower-level negotiations—at industry level and, after 1971, also at company level. The system of national collective agreements between employers and trade

unions broke down in 1975. With few exceptions, all efforts to reach compromise, in bipartite or tripartite negotiations, failed; only in 1981 a central agreement was reached. Beginning with a suspension of indexation in 1976, and again in 1982, “government intervention has become so common and so far-reaching that one may reasonably speak of a transformation of the Belgian system of industrial relations” (Spineux 1990:50). In 1986 a new cycle of two-yearly central agreements began, but these agreements were “relatively limited in content, and their impact was largely symbolic (Vilrocx and Van Leemput 1998: 337), since they had to be negotiated within narrow margins dictated by the government. The government intervened with a wage freeze in 1993 and after failed social pact negotiations in 1996 and 1997, legislation was adopted that allows unions and employers to negotiate wage increases, provided that they do not exceed the average wage increases in neighbouring and competing countries (France, Germany and the Netherlands). Since 1998 there have been seven two-year central agreements within this legally imposed ceiling; the agreements for 2005-6, and for 2011-12 failed to gain a union majority and were imposed by government order.

In the Netherlands the post-war state-controlled wage policy ended much later than in other countries, in 1962, when it was replaced by a system in which all negotiations, at industry or company, level had to be vetted by the central organizations (briefly, between 1966 and 1967, there was a return to government controls). Until 1982 the result was a mix between (usually failing) central-level negotiations, industry bargaining, and frequent government interventions, mostly in the form of imposing a ceiling. This pasticcio ended with the Wassenaar agreement of 1982, when unions and employers were able to make the concessions to each other (wage moderation and giving up indexation in exchange for working time reduction) that prevented yet another government intervention (Visser and Hemerijck 1997). Since, industry bargaining dominates, but at times of economic downturn the government works hard and is usually capable of casting a “shadow of hierarchy” on bargaining tables in order to obtain a commitment to wage moderation agreement from the unions in exchange for some concessions of employers (working time, social policies) and/or the government (delay or change of planned social policy reforms). Social pacts of this type were concluded in 1982, 1992-93 and 2003-4, while the lowering of wage demands in the 2009-10 recession was tied to government commitments to support the financing of temporary shorter working hours. These agreements are no more than non-binding recommendations, but they carry nonetheless considerable weight and have proven effective in lowering wage demands and contractual wages (Visser and Van der Meer 2011)

The four countries from Southern Europe have each experimented with (tripartite and bipartite) central-level bargaining (Pochet and Fajertag, eds. 2000; Pochet, Keune and Natali, eds. 2010). Italy is probably closest to the industry-level bargaining model; in Spain there is a larger role for national agreements; Portugal has a difficult history of incomes policy pacts, abandoned in the 2000s; Greece has a continued history of highly centralised negotiations with a large role for the state, as employer, arbitrator, mediator and legislator.

Two major changes have marked the developments in industrial relations in Italy. In 1970 the Workers’ Statute mandated union recognition and worker representation in (larger) Italian enterprises; this sanctioned an additional layer of formal and informal bargaining within what since 1962 had become the dominant level of industry settlements with agreements that were renewed every

two or three years. From time to time, tripartite negotiations and social pacts at the national level (1976-78, 1983-4, 1992) imposed national norms (or ceilings) on lower-level bargaining, for instance by limiting the extent of price indexation (Regini 1984; Regalia and Regini 1998). In the 1980s bargaining had a strong local component; the industry level was in fact squeezed between a strong centralizing element, embodied in the indexation ('scala mobile') mechanism on the one hand, and a rather strong, but varying influence of enterprise bargaining on the other. The 1992 central agreement, with government participation, ended the price compensation mechanism, thus making room for a resurrection of industry bargaining (Treu 1994). The social pact of 1993, which has been interpreted as making Italy's wage bargaining system more inflation-proof and fit for participation in the Euro (Ferrera and Gualmini 2004; Regalia and Regini 1998) laid the foundation for the second major change. It restored a formal two-level bargaining system with a leading role for multi-annual industry agreements in which wage increases became related to forecasted inflation, to be adjusted every two years. Within the framework of these agreements, representatives of the unions bound by the agreement were allowed to engage in company bargaining, with wage increases related to productivity increases. Albeit contested by some employers and some unions (Molina 2005), this bargaining structure has maintained its validity and was re-affirmed in the central agreement of 2009 signed by two of the three principal unions, with modifications (past inflation rather than forecasted inflation will determine for wage increases in industry agreements, the pay clauses of which will be re-negotiated every three rather than two years). With exceptions (metal engineering, local government), industry agreements have been renewed without great difficulty within the new framework of 2009.

In Spain collective bargaining became legally possible only after 1958, when striking was still a criminal act (until 1965) and free unions were forbidden (until 1977). Bargaining became common at industry level and was organized on a regional (provincial) basis; this structure was more or less retained in the relevant legal statute of 1980 (Perez Dias and Rodrigues 1995). After the return to democracy, Spain experimented with almost a decade of national wage agreements and central incomes policies. This came to an abrupt end in 1985. In the next decade, all attempts to resuscitate national bargaining failed and wage bargaining reverted back to the previous industry/provincial model. However, after 2001 there was a return to a much softer version of incomes policy agreements on a bipartite basis, albeit "once again under the shadow of state hierarchy" (Molina and Rhodes 2011: 189). These annual framework agreements establish guidelines and norms for industry, provincial and company bargaining, linking pay rises to (forecasted) inflation and productivity gains. These agreements were renewed each year save 2009, when negotiations broke down amidst the financial and economic crisis. The most recent national framework agreement, signed in February 2012 and lasting till 2014, re-affirms the existing industry-based bargaining model, albeit with more room for company bargaining.

After the fall of the longest lasting authoritarian regime in Europe in 1974, Portuguese industrial relations went through a very troublesome period, with highly adversarial relations between employers and unions, and bitter rivalries within the union movement, a large role for legislative and administrative intervention, and a rather rigid system of fragmented (and small scale) sector bargaining (Barreto 1992; Pinto 1990). In 1986, following intervention of the International Monetary Fund (IMF), the government concluded its first incomes policy pact with the minority union. Similar pacts, which tried to cap wage

developments and set a framework for negotiations in sectors, followed in the period 1987-1992, and again from 1996-2001, but their effectiveness was often limited by the abstention, or outright opposition, of the majority union and, on some occasions, the employers' federation in industry (Campos Lima and Naumann 2011). Many social pacts have been signed since, but not on wages, and wage negotiations have mainly taken place at industry level.

With the end of compulsory arbitration and framed by the new law on collective bargaining and mediation of 1990, minimum wage levels and wage increases in Greece have been mainly determined by the national general collective agreement, which is usually negotiated for two years. In principle, this agreement establishes a minimum and is the basis for further (top-up) industry- and company-level negotiations. Most negotiations that do take place are at the industry level, with company bargaining taking place only in the state sector (Kritsantonis 1992:624). "Overall, there is little indication of decentralization of collective bargaining" (Zambarlounkou 2006: 217).

In C.E.E. company bargaining has prevailed, Slovenia and, to a lesser extent and perhaps no more, Slovakia being the exceptions. In the early years of transition there were four years of national agreements on non-wage issues in Czechoslovakia and, after its division in the Czech Republic. There was a social pact in Poland in 1993 and a pact attempt in 2003, but the effects on wage setting were minimal. In Hungary, Estonia and Latvia minimum wage setting can be based on national agreements, but levels are too low and enforcement is too weak as to matter much for company bargaining, which happens only in the largest firms with the strongest union representation. These firms are usually located in the state sector or they are foreign-owned by West European (and Scandinavian) parent companies. "Slovenia is the only post-communist society where social pacts have been concluded systematically since the mid-1990s and have also been influential ..." (Stanojević and Krašovec 2011:232). In Slovenia annual incomes policy pacts were reached in 1994, 1995 and 1996; biannual central wage agreements in 1999 and 2001; and two three-year long incomes policy (and reform) pacts covered 2003-5 and 2007-9. In 2009, the national agreement was not renewed and bargaining reverted back to the industry level.

In Japan, Canada and the U.S., and in New Zealand from 1992 pay bargaining in the private sector essentially occurs at the enterprise level. In Australia, like New Zealand, until the 1990s for most workers pay had been determined on the basis of 'awards' issued by industrial tribunals through a quasi-judicial system of conciliation and arbitration and extended throughout each industry beyond the signatories of the original award. Reform from a highly centralized wage-setting arrangements to industry and enterprise bargaining was set in motion during the various stages of the Accord (1983-1993) between the Australian trade unions and the Labour government, and culminated in the Workplace Relations Act, adopted in 1996 when the National-Conservative returned to power. This act prioritized enterprise and individual bargaining, although some elements of the arbitration system have been retained, with 'safety-net awards' for the bottom end of the labour market (OECD 2004). When Labour returned to power in 2006 it strengthened the minimum wage protection element.

[Table 5 about here]

Table 5 shows the frequency distribution of the dominant bargaining levels at four points in time. The conclusion can be drawn that back in 1960 and still in

1980 there were three groups of countries—with central, industry, and enterprise bargaining, respectively. In 1980 industry bargaining was by far the most common type. This has changed since, not least because of the fact that in six of the eight post-communist countries wages are set at enterprise level. In 1995, but clearer even in 2010, there are two groups of countries—10 with industry bargaining (or 13 if one includes industry bargaining with an element of central guidance); and 12 with enterprise bargaining (or 16 if one includes a combination of enterprise with some industry bargaining). Pure central-level bargaining has become rare—in 2010 our only case is Greece, where under the national agreement for 2010-12, signed and then made into law in July 2010, wages in the private sector have been frozen forbidding any further negotiation round at lower levels. In 2011, however, central agreements, based on tripartite bargaining involving the government, were also reached in Finland and, after the unions failed to endorse the agreement, imposed by law in Belgium. We cannot conclude, therefore, that central-level bargaining has become a phenomenon of the past.

### **Multi-level bargaining and articulation**

The distinction between bargaining levels is only a first approximation of the reality in each country and it is surely not enough to assess the extent of decentralisation that has occurred. The next step is to make a distinction between single- and multi-level bargaining systems, in particular with regard to pay. This is particularly relevant for large firms. According to the European Company Survey of 2009, in EU countries with a dominant role for sector or central agreements, more than half of all employees covered by collective agreements fell under sector agreements determined *without* additional firm-level bargaining. This describes the situation in services and in small firms, rather than in manufacturing and in large firms. In several sector agreements in manufacturing, large firms have sought and obtained the possibility to deviate from sectoral standards. This has been the case in recent agreements in, for instance, Sweden, Denmark, Austria, Germany, the Netherlands and Italy. However, it is important to distinguish between ‘opening clauses’ in sector agreements, which allow a derogation from the (minimum) standards stipulated in the agreement, and institutionalised versions of two-level pay bargaining.

Institutionalized two-level pay bargaining during the same contract period, varying from one to four years, exist in Belgium (two years), Denmark (four years, changed to three, recently two years), Finland (two years), Greece (two years), Italy (two years, recently changed to three), Norway (two years), Spain (one year), Slovenia (three years, recently one) and Sweden (currently three years). In Belgium, Finland, Greece, Portugal, Spain and Slovenia, pay bargaining can involve as many as three levels (national, industry and company), although company bargaining over pay is rather exceptional in these countries. In Scandinavia and in Italian manufacturing and in large firms additional local (enterprise) bargaining is customary.

In Finland, “the system is ‘tighter’ in the sense that, as a rule, no local bargains are assumed to take place. (...) (O)nce the collective agreement has been signed, the employers have the right to apply this agreement unilaterally by just increasing everyone’s wage by the specified amount and resuming normal business management” (Vartiainen 2001:31). Such a single-level bargaining model also applies in Austria, Germany, France, the Netherlands, and Switzerland. This does not mean that there is no positive pay drift, based on awards and allowances

awarded by management above the levels established in the contract or that such awards are not from time to time the subject of plant-level negotiations. The point is that there is not a systematic second bargaining round and that any agreement at that level must be informal (or extra-legal) unless it is explicitly mandated.

Back in the 1960s and 1970s, in the context of what was then called “betriebsnahen Tarifpolitik” (wage policy close to the enterprise), IG Metall, Germany’s powerful metalworkers’ union, wanted to close the gap between contractual and actually paid wages (‘drift’), a gap which had begun to rise with the return to near-full employment in the late 1950s. Rather than leaving the award of extra payments to management or to informal negotiations with the works councils, the union wanted to institute a second layer of negotiations through “opening clauses” (“Öffnungsklauseln”) in the industry agreement, allowing renegotiations of designated issues to be formalized in enterprise agreements, subject to control of a union-based committee (Bergmann et al 1976: 215-6). It did not happen, due to the combined opposition of employers and works councillors who wanted to retain control over an issue that was crucial for their re-election (Kädter 2003; Thelen 1991).

Countries where company bargaining dominates have by definition a single bargaining model (within the limits of this paper, which does not deal with decentralisation or centralisation of pay-setting within companies). With multi-level bargaining it is crucial that ‘the different levels are integrated so as to prevent them from mutual blocking their respective purpose’ (Traxler 1994: 174). Crouch has tried to capture this with the concept of *articulation*, which is close to the concept of ‘governability’ of collective agreements negotiated at one level and applied or renegotiated at another (see Traxler, Blaschke and Kittel, 2001). “An articulated organization is one in which strong relations of interdependence bind different vertical levels, such that the actions of the centre are frequently predicated on securing the consent of lower levels, and the autonomous action of lower levels is bounded by rules of delegation and scope for discretion ultimately controlled by successively higher levels (Crouch 1993: 54-5).” A multi-level bargaining system is articulated when it is strong both at the central and local level, for instance when competent union representatives negotiate at the company level but are bound by the rules of an industry agreement that define and limit the issues open for renegotiation and guarantee a peace obligation for such lower-level negotiations. Articulation denotes a two-way relationship. It clearly differs from the top-down exercise of authority and control implied in the concept of centralization. The examples of articulated systems that Crouch had in mind all came from Scandinavia, with strong union representation in the company guaranteed by centrally agreed rules defining recognition and responsibilities. For reasons of analytical clarity, the concept of articulation should be treated distinct from the issue of *hierarchy between different agreements* and the rather common legal *principle of favourability* which holds that lower-level agreements can only improve (for the workers involved) what has been agreed upon in higher-level agreements. This is an issue that comes up both in single- and multi-bargaining settings (for instance in deciding whether collective agreements can have clauses that are less favourable for workers compared to statutory regulation), which I will discuss in the section dealing with ‘opening clauses’.

For the purpose of comparison across time and countries, I have tried to capture ‘articulation’ in a scale, which has its peak (highly articulated) in the middle (score=3)<sup>24</sup>:

- 5 = no additional bargaining on pay (contractual wage increases are maximum rates; additional pay is management’s discretion);
- 4 = additional bargaining on pay is rare (and mostly informal), subject to a peace clause;
- 3 = additional bargaining on pay is diffused, takes place under control of the union, is regulated and defined by the sector (or central) agreement, and subject to a peace clause;
- 2 = additional bargaining on pay is diffused, takes place under control of the union and is limited by the sector (or central) agreement but is not subject to a peace clause;
- 1 = additional bargaining on pay is diffused, not constrained by existing higher-order agreements and not subject to peace clause;
- 0 = no or limited sectoral bargaining.

Unarticulated systems are found at both ends of the scale; when central or industry agreements (or mechanisms such as indexation) ‘fill’ all the space for pay bargaining that exists and additional bargaining can only happen informally, or, in contrast, when central and industry agreements (and the contracting parties) have limited ‘governance capacity’ and company bargaining proceeds largely unchecked.

There appear to be two conditions conducive to *stable* company bargaining nested within sector (or central) agreements: (i) a *strong and competent union-based workplace representation*, and (ii) a *peace clause established by the higher-order agreement*. The first condition helps trade unions to overcome resistance against delegating more power and responsibilities to local negotiators. It is to be expected that when it has no or only limited workplace rights and representation, or must rely on a non-union institution over which it has limited control, the union will be more reluctant to delegate pay decisions to the local level as this may mean delegating power to local management. In cases where employee representatives respond to their local rank-and-file rather than to the union, because they are not bound by union rules or not dependent on the union for their re-election, unions fear that decentralisation risks frustrating solidaristic union goals such as ‘equal pay for equal work’ or work-sharing in times of high unemployment. In the German union movement (informal) local wage pressure was often denounced as *Betriebsegoismus*, selfish behaviour of insiders who happen to work in the most profitable firms (Streeck 1984).

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<sup>24</sup> I have made this choice because, I hold that this variable is a complement to ‘level of bargaining’ and is of limited use, perhaps also misleading, when used as a stand alone variable. However, in the case of preference for an ordinal (high-to-low) scale, my scale can easily be recoded as follows:

- 5 = Highly articulated: clear division of roles between agreements at different levels and local negotiations under peace obligation (=3 in my coding)
- 4 = Articulated: division of roles between agreements, no peace obligation (=2)
- 3 = Poorly articulated: no or unclear division of roles (=1)
- 2 = Unarticulated: additional bargaining (other than wage drift) is limited or absent, and legally not foreseen or allowed (=4 and 5)
- 1 = Does not apply: no or very limited bargaining at sectoral (or national) level (=0)

The second condition—local pay bargaining taking place under the obligation to refrain from striking—is for obvious reasons most important for the employer, although it may also serve the national union if it wants to prevent that central strike funds are raided by local groups for particularistic goals. Sisson (1987) has shown that in many continental European countries the desire to keep distributional conflict out of the workplace has in the past been a key motive for employers to create or go along with centralised (industry) bargaining. On the other hand, it might be expected that rapid and recurring changes in the technology, organization and management of work have made standardised solutions for rewarding work, negotiated for entire sectors, less feasible and less efficient (Lindbeck and Snowers 2001). Local bargaining under the obligation to observe peace seems the better of two worlds (see also Jimeno and Thomas 2011). Employers may dislike the idea to bargain twice and they may prefer either industry bargaining (usually the position of SME's in domestic sectors, especially when faced with low wage competition from without, for instance through the posting of workers) or enterprise bargaining (usually the position of large firms, especially in the internationally exposed sectors). The peace obligation may lose its value if unemployment is high, unions are weak and the union strike threat is hardly taken seriously—the situation prevailing in CEE.

In Scandinavia local (enterprise) bargaining is common during the currency of a central or industry agreement. These negotiations have in the past accounted for about half of the total wage increases (Calmfors 1990; Elvander 1990). In these countries, local union representatives can act as agent for the workers in such negotiations. These representatives have protection and information, consultation and negotiation rights under the basic agreement between the central organizations of trade unions and employers' associations, in some countries (Sweden most notably) supplemented by the law. Other countries with union representation in the workplace and industry-level agreements are Finland, Belgium, France, and Italy. In countries with a dominant role for company bargaining, like the U.K., Ireland, the Baltic states, Poland and the Czech Republic workplace rights of employees tend to be expressed through the union, but coverage is often limited.

A *dual* system of representation, based on works councils elected by the firm's employees, exists in Germany, Austria and the Netherlands. Other countries with a dual or non-union channel of representation are France, Belgium, Luxembourg, Spain, Portugal, Greece, Hungary, Slovakia and Slovenia. In some of these countries this is combined with union workplace representation established by law (France, since 1969) or central agreement (Belgium, since 1971). In Belgium, at enterprise level, union delegates can negotiate and sign a collective agreement, but it seems that indexation and national agreements have 'eaten up' all the space for pay bargaining. Consequently, industry and company bargaining mostly address non-pay issues, not affected by the ceiling imposed by the central agreement. In Hungary the first conservative administration led by Orban (1998-2002) removed the exclusive right of unions to negotiate collective agreements and introduced a legal provision allowing works councils to sign collective agreements in the absence of union organization in the workplace. But this did not help, because in spite of being mandatory, effective works councils exist only where there are unions, and without union support and legally barred from calling a strike councils can beg but not bargain. The provision was repealed in 2002 when the socialists returned to power. In the Netherlands works councils cannot legally negotiate a collective agreement but they sometimes sign a so-called covenant with management if there is no trade union. This has been given some recognition in extent law on the basis of the principle that "where the emperor is

absent, he has lost his rights". This practice is not very widespread, however; the normative effect of such agreements is not entirely clear (are its terms binding in individual employment contracts?) and when in need of serious concession bargaining most employers turn to the unions. Surveys in the 1990s showed that Dutch employers generally prefer to negotiate with the (external) union rather than with the (internal) council, since they want to avoid internal conflict and expect more professionalism from union negotiators (Teulings 1996).

In a dual model employee rights of representation, information and consultation in the company are conferred not on the union but on individual workers. Originally designed to keep unions from the workplace, and for this reason sometimes opposed by the unions, trade unions in continental Western Europe have made their peace and effectively colonized the councils. In most countries—France may be the exception due to its extremely fragmented and divided union landscape—unions usually gain large majorities in workplace elections, and most councillors are union members. However, works council members are bound by statutory and not by union rules. Formally, works councils have a monitoring, not a negotiating role as regards collective agreements (The Spanish legislation of 1980, conferring bargaining and striking rights on both the union and the works council is exceptional, probably explained by the legacy of works councils emerging as quasi-unions during the Franco regime, when trade unions were still outlawed), and they must see to the implementation of the agreement for the entire and not just the unionized part of the workforce. Legally works councils must act in a cooperative manner and they cannot call a strike. Works councils can negotiate 'enterprise agreements' or, in the Dutch case 'covenants', with management, but these agreements are assigned a lower or secondary legal status compared to the collective agreement negotiated by the union. Enterprise agreements cannot re-negotiate or undo matters already determined by collective agreement. This is where "opening clauses" start to matter—when working hours and pay issues are delegated to the council (or union representatives, and the outcomes of local negotiations can deviate from the standards set by the collective agreements and are allowed to break the hierarchy implied in the "favourability principle" that holds that lower agreements cannot contravene the rights established by higher agreement—a contested issue that will be discussed in the next session.

If there is no union representation in the enterprise, direct or indirect via the works council, or if the works council operates at cross-purposes with the union, one of the ingredients for articulated two level bargaining is missing. This is for instance the case in the Netherlands. In a context of union pluralism, control over the works council by any one union is often limited and union representation outside the council exists only in very few companies. Dutch trade unions have therefore been reluctant to embrace multi-level bargaining and delegate more power to the local level. (For different reasons, many employers appear to have the same view.) Instead, Dutch unions have accepted more openings for individual bargaining. Based on experiments in the 1990s and following a central recommendation in 2001 by the Labour Foundation (in which the central organizations of employers and unions cooperate), it is possible for individual workers to exchange, within limits, more (or less) working time for less (or more) pay and thus safe time or money for extended leave or retirement. Such *à la carte provisions* exist now in agreements covering more than half of the workers.<sup>25</sup>

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<sup>25</sup> Labour Inspectorate, annual reports on collective bargaining, Ministry of Social Affairs and Employment, <http://www.minszw.nl/arbeidsinspectie>

Whether this is a good solution from the point of view of 'union organizing' is debatable. The fact is that after two decades of membership decline, Dutch trade unions simply don't have the resources and representatives to negotiate and monitor an extra bargaining round in the enterprise, and works councils are either too weak or too independent from the unions to delegate this task to them.

In Germany and Austria the works councils, dominated by one united or monopolistic union, are in a stronger position, and sometimes capable to act as a union, although this is not a foregone conclusion as works councillors remain dependent on the entire workforce for their re-election, not just the part that is unionized. In Italy, too, local bargaining stands on relatively solid ground, especially in manufacturing and in the North and Centre of the country. Even in France, with a unionization rate of no more than five percent in the private sector, the annual Acemo surveys (see Ammosé 2004; Naboulet 2011) show that, averaged over the period 2005-8, 31 percent of the non-agricultural firms with 10 or more employees has some union representation, increasing from 12 percent in firms between 10 and 49 employees to 85 percent in firms with 200 and more staff. This is quite comparable with Germany, where 80 percent of the establishments with 200 or more employees have a works council, but only seven percent in establishments with less than 50 employees. The qualities in this comparison may differ, though.

In 1995 some union confederations reached an agreement with the employers on starting a three-year experiment during which firm-level agreements on single issues could be signed by either an elected employee representative or an employee mandated by a national trade union in small firms in which there was no union delegate. This was an innovation in so far it authorized non-union labor representatives to sign collective agreements. According to Howell and Kolins Givan (2011:243) this was a *post hoc* legitimization of a practice that had evolved since the Auroux legislation. The mandating procedure was widely used for enterprise agreements on working time and especially in small firms many agreements were signed without the signature of a union delegate. Fully 70 percent of work time agreements were reached using the mandating procedure in 2001, and unsurprisingly, the smaller the firm, the more likely it was to reach agreement without the signature of a union delegate. This has not overcome the gap in representation and coverage between large and small firms (Dufour 2002). Data for 2005-8 show that of the French enterprises with 200 and more employees, 81 percent negotiate some agreement with one or more union, works council or employee delegate; of the enterprises between 10 and 49 employees, just 8 percent does (Naboulet 2011). This pretty much reflects the earlier cited statistics on union presence in the enterprise.

Beneyto (2004) estimates that in one-third of Spanish companies there is union representation, and we can be sure that these are the larger firms. A similar percentage is reported in a survey of Portuguese establishments in 2007 (Dornelas 2009). However, the same survey found that employer's unilateralism is rampant, with four out of five respondents declaring that remuneration, working time and job classifications are decided without any form of trade union participation or employee representation. In Greece only a small minority of firms have union representation. 96% of all Greek firms in 2004 employed less than 21 workers, which is the minimum for demanding union representation and recognition (Zambarloukou 2006).

Characteristic of local bargaining in Scandinavia is that, with a central or industry agreement in force, it takes place under a peace obligation—the second pillar under articulated two-level bargaining. Peace obligations are sometimes found in Dutch or German collective agreements, but the fact that works councils are legally barred from strike action does make such clauses less important. Peace clauses are alien to collective bargaining in France, Italy, Greece, Spain and Portugal, since they have been seen as limiting the individual right to strike, backed by the constitutions or laws in these countries. Important though it is, the presence of a peace clause must not be overstated or considered in isolation from other ‘governance’ elements in collective bargaining such as mechanisms for dispute regulation during the lifetime of the agreement and for the renegotiation of agreements when they expire. These are issues that have called for a good deal of attention in, for instance, Norway and Sweden during the 1990s, as they do currently in Spain and Portugal. The guarantee of a peace clause does not prevent positive wage drift, even if the central (or industry) agreement leaves no room for further pay concessions. As explained by Vartiainen (2001), under the agreement the employer has no option but to pay what has been agreed, because not to do so is a breach of contract. In tight labour markets, however, or under conditions of strong employment protection of the incumbent workforce, workers can always slow down, refuse overtime, work inefficiently or protest otherwise in order to extract additional increases. Consequently there will be positive wage drift—sometimes 30-50 in excess of the agreed wage increase (Calmfors 1990), figures also cited for the Netherlands and Austria in some years (see Guger 2001; Hartog 1998, 2002). On the basis of establishment data, Jung and Schnabel (2009) claim that in the mid-2000s some 30-40 percent of German firms paid on average 10-12 percent above the pay scales in the collective agreement, though other sources show negative drift—or payment under the contractually agreed increases—in some years.

For positive drift, in a tight labour market works councils only need to veto overtime and in other ways exercise bargaining leverage against management (see Streeck 1984); for negative drift the tables are turned and with much unemployment around management needs only to make a credible threat to relocate production to make workers accept pay or working time concessions. If positive wage drift is anticipated in the central or industry agreement, by setting lower basic wage increases, this may be efficient (Holden 1991). (In the next section we will see that ‘opening clauses’ are sometimes bought by a higher initial rate of wage increases, which later can be lowered in firms that cannot pay them). Positive wage drift, based on formal or informal bargaining, becomes problematic when inflation is low and the central or industry contract must essentially accept a standstill in nominal wages (and accept a real wage decline) in order to create room for local increments. This is very hard to accept in a situation where many workers have no access to local bargaining. This is probably the principal reason why the largest union confederation in Italy has opposed the greater weight of enterprise bargaining within the two-tiered system. In response to such criticism, under the new rules in operation since 2009, sector agreements in Italy can set aside some money for ‘equalizing pay’ between workers employed by firms with and without additional bargaining. Conversely, the tighter constraints on local bargaining in a deflationary context has led sections of the Swedish, and Italian, employers federations to argue for a removal of pay clauses from the sector agreement, or abandon sector bargaining altogether.

The problem of articulation (and governability) was foremost in Britain and Italy during the double-digit inflation years in the 1970s and 1980s, when local bargainers often dictated the situation on the ground without much regard of

what had been written in the sectoral (or national) agreement. Italy's bargaining situation in those years has been described as under-institutionalised (Cella 1989) and out-of-control (Tarantelli 1986). Wage bargaining in Britain during the 1960s and 1970s has been described as basically two unconnected bargaining systems, or worlds, one formal (mostly at the industry level) and one informal (mostly at the plant or even workshop level) (Donovan 1968; Clegg 1979).

Lack of articulation is also a constant theme in the literature on collective bargaining in Spain, Portugal and Greece. Costa (2012:405) sums up for Portugal "the coexistence of different models of social policy regulation; a high level of juridification of industrial relations; the heterogeneous and sometimes contradictory character of labour standards; a pluralist and competitive model of relationship within and between trade unions and employer organizations and the political party system; a central role of the state in the labour-capital relationship even though the legal and institutional apparatus is based on the principle of separation of powers and on its capacity for self-regulation; increasing impediments for collective bargaining, etc." A catalogue of failed reforms can be found in Donzelos 2010 and the labour lawyer Xavier (2004:194-5) cannot find a coherent system of collective bargaining "because these forms of bargaining (i.e. interprofessional, sectoral, regional or company, JV) are not articulated". According to Barreto (1992:471), "the tension between an over-regulated and highly legalistic framework and voluntary collective bargaining may help explain why formal company bargaining is so rare in the private sector, and why industry bargaining has so little impact on working conditions and terms of employment in leading or even average enterprises." He sees this as a legacy of the corporatist regime, which compensated the repression of unions and limitations on collective bargaining by a set of legalistic rules of protection.

This problem, and the same legacy, has also beset post-Franco Spain. Statutes that discouraged bargaining over change, reorganization of work and worker mobility, and a confused combination of regional and sectoral bargaining based on the law of 1980, became the target of critique of employers. Perez-Dias and Rodrigues (1995: 180) classify the Spanish system of collective bargaining as unarticulated; provincial-based industry bargaining did neither create incentives nor set a floor for enterprise bargaining. Whether this has much improved after the 1994 reform is unclear. For different reasons unhappy with the effects of decentralization made possible by that reform, the central union and employers' organisations signed in 1997 an agreement on collective bargaining with the tacit goal of avoiding further government intervention (Blasco and de Val Tena 2004:217). This agreement follows the union preference for a multi-level bargaining structure with sector agreements at the national (rather than provincial) level, and limited devolution to the company level. This has by and large become the prevailing model for the 2000s.

Greece's collective bargaining has been described as centralized, unarticulated and shallow, with various levels of bargaining co-existing but each level having a low capacity of regulation (Koukiadis 2009). The content of agreements is poor—mainly dealing with remuneration and allowances (Yannakourou 2006). Company bargaining outside the state sector is rare.

Besides improving the governability of agreements—for instance through guarantees that see to the proper implementation and monitoring of agreements; procedures for handling conflict during the lifetime of the contract and when it must be renegotiated—the problem of poor articulation can be solved in two

directions: centralization or decentralization. The Scandinavian countries, spurred by employers, have pressed for more decentralisation in what is still a fairly centralised system, giving more weight to enterprise-level bargaining, though within the protection of the sector agreement. The U.K. has found the solution in abandoning multi-employer bargaining and formalizing the previously existing, informal practice of company bargaining. In Italy employers are deeply divided about which course of action to take, but appear to have compromised on a model that promised to re-regulate the relationship between industry and company bargaining by designing a different role to each, preventing duplication. The recent break away, in 2011, of Italy's car manufacturer Fiat from the employers' federation and the decision of Fiat's management to negotiate an enterprise agreement with the two smallest of the three metalworkers' unions, demonstrates that the tensions have not died. Finally, where multi-level bargaining is absent and rejected by employers (the mantra of Dutch employers remains that bargaining twice is paying twice), the demand for more pay and working hours flexibility has manifested itself primarily in the creation of more room for variable or individualized (rather than basic) pay, and opening clauses to deal with local situations (see the next section).

Table 6 summarizes this discussion, showing that fully articulated bargaining ("3") is rare. Most countries are either stuck with a more centralized solution, usually because there is no enterprise-level representation that has the trust of the unions and capability to confront management in bargaining, or local bargaining proceeds without strong checks and balances. Overall, the time trends support the thesis that multi-level bargaining has become more common and that this is a further expression of decentralisation.

[Table 6 about here]

## Opening Clauses

Opening clauses are closely connected with setting aside the legal favourability principle. That principle, which has been a cornerstone of collective labour law in most countries (Blanpain et al. 2004; Sciarra 2006), assures that collective agreements can only deviate from the law and that lower-level agreements can only deviate from higher-level agreements in ways that are favourable for workers. Opening clauses allow to agreeing *less* favourable terms and conditions than those stipulated in the contract. Here, we must distinguish between *hardship clauses*, which are exceptional and temporary, and *opening clauses*, which allow deviation from contractual obligations under a much wider class of circumstances. Hardship clauses, which allow a temporary suspension of (pay clauses in) the contract, have been used in many countries to face the immediate closure and loss of jobs in firms falling on hard times. They often come with social plans that accompany restructuring and guarantee benefits in case of collective dismissals. Opening clauses, as discussed here, are a different phenomenon—one might call them 'institutionalized derogation' in the sense that the possibility to apply the contract in ways less favourable than has been agreed is no longer tied to exceptional circumstances and not necessarily reversible in the next contract period. Rather than being exceptional, temporary and reversible, opening clauses become an institutionalised method of governing industry (and national) agreements.

The most diffused form of an opening clause occurs when, in a two-level bargaining setting, the sector contract has no clause on pay increases or pay rates (or working hours), except perhaps as a default in case lower-level bargainers cannot reach an agreement. In a single-level bargaining setting, opening clauses usually take the form of 'delegating' certain issues to enterprise-level bargaining, or by allowing deviation from the contract and apply or renegotiate different solutions when particular conditions specified in the industry (or national) contract obtain, be it financial stress, impending job loss, restructuring, or issues of competitiveness. While in the first (multi-level bargaining) case, the union has 'signed away' its control over pay (or working hours) bargaining to the lower level for the duration of the contract; in the second (single-level bargaining) case, the (central) union is of pretends to be 'master of the contract' and must give its permission to use the opening clause on a case by case basis. In reality the difference may be less stark, and the union may have little control over forms of 'wild-cat cooperation' between its local membership and the firm's management. Finally, I make a distinction between opening clauses used for re-negotiating working hours (for instance longer weekly or daily schedules; different overtime hours and rates, annual time accounts, et cetera) and pay issues (including variable pay). To be clear, opening clauses on working time or on pay allow companies under certain conditions to deviate from, and go below, the (minimum) standards set by the sectoral (or central) agreement. Almost always they must still respect the statutory norms on maximum working hours and minimum holidays (or leave) and the statutory minimum wage. This includes the minimum pay and hours provisions in agreement that have been declared legally binding.

For the purpose of comparison I have designed the following scale:

- 5 = opening clauses are exceptional (one-off hardship clauses only, related to specific cases of bankruptcy or restructuring);
- 4 = opening clauses exist, limited use, on working time only;
- 3 = opening clauses exist, limited use, also on pay;
- 2 = opening clauses exist, use is widespread, including pay.
- 1 = opening clauses are generalised; the sector agreement sets only a framework for local bargaining or defines a default in case local negotiations fail;
- 0 = does not apply (no sectoral or national agreements).

In the following survey I focus on developments in manufacturing; this may be sufficient in countries where collective agreements in metal engineering or chemicals set the trend for other sectors (Germany, Austria, Sweden, Denmark, Norway, see below). For other countries central agreements, recommendations, or legal reforms remain crucial and are the source for what follows.<sup>26</sup>

The current interest in 'opening clauses' is very much influenced by changes in wage bargaining in German manufacturing during the past two decades. In

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<sup>26</sup> This section draws heavily on two overviews of the European Industrial Relations Observatory (Eiro, online version), one published in 2005 (Eiro, TN0503102S) called 'Changes in National Collective Bargaining Systems', directed by Thorsten Schulten of the WSI (Schulten 2005), the other published in 2012 (EIRO, TN1203020S) called 'Industrial Relations and Working Conditions Developments in 2011' by Maurizio Curtarelli, Jorge Cabrita, Peter Kerckhofs, Karel Fric, Camilla Galli da Bino and Andrea Broughton (Cultarelli et al 2012).

Germany, as in many other countries, collective agreements set standards that serve as minimum and deviations can only be favourable to workers. Yet, opening clauses have become part of collective bargaining and specify when and to what extent firms are allowed to reduce working conditions below the normatively binding standards of the collective agreement (Kohaut and Schnabel 2007). Formally, under par 4 of the German law on collective bargaining, such deviations are only allowed when the bargaining partners explicitly make a provision for them.<sup>27</sup> Opening clauses made their entry in German collective bargaining in the 1980s. They were exclusively on working time and can be seen as the price unions had to pay for their successful campaign to reduce weekly working hours. These negotiations became tied to attempts to increase the flexibility of employment, new frameworks for performance evaluation and rationalisation of work processes, and involved the works councils (Bäthge and Wolf 1995:248-9; Müller-Jentsch 1986:239-40; Thelen 1991:161-75).

Opening clauses on pay first appeared after German unification as informal alliances or pacts between works councils and management, as attempts to safeguard jobs by lowering wages (Kädtler 2003; Schnabel 1995; Streeck 2010). According to a survey by the union-affiliated research institute WSI, in the early 1990s 15 percent of all companies covered by collective agreements violated the agreements and the law (Bispinck and Schulten 2003). According to Schnabel (1995) more and more employers expressed dissatisfaction with the relatively high wage rates and limited differentiation between regions, branches, and (small and large) firms in sector agreement. The tragic state of East German industry, the one-to-one conversion of the East-German currency into the German mark, and the policy of the unions to reach in few years the same wage levels as in the West pressed many firms out of business. The response of many employers, initially only in the east, but spreading to small-and medium-sized firms in the west, was to pay below the agreed norms, often in agreement with local workers (and union members) who hoped to keep their jobs. Underpayment was practiced by about one-third of all firms, according to a survey of the Deutsche Institut für Wirtschaftsforschung (Schnabel 1995:70). Unions seemed to tolerate this, but for obvious reasons they did not advertise this magnanimity. Attempts to move to broad framework agreements and leave implementation to local bargaining failed. In 1993, after strikes in the metal industry about convergence to be fully realised in 1996, the unions conceded the introduction of limited opening clauses whereby, in the definition of Jacobi, Keller and Müller-Jentsch (1992: 256), "economically weak firms were given the possibility of deviating from national industry contracts". However, IG Metall almost always used its veto, presumably out of fear that it would set precedents for West Germany (Schnabel 1995). The response of East German employers was to leave their associations in droves.

In the 2000s opening clauses became institutionalised and both the metal-engineering union and the union in the chemical industry struck an agreement with the corresponding employers' association about the conditions under which to use opening clauses. According to the IAW collective agreements database 39 to 66 percent of all firms are covered by a collective agreement with opening clauses (Heinbach 2005), although the same author cites lower numbers of firms

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<sup>27</sup> In 2001-2, encouraged by some sections in the business community, the opposition in German parliament tried to change the law and create more room for company bargaining, freed from the constraint of setting more favourable conditions than the union-negotiated sector agreement unless based on explicit opening clauses. This attempt failed, however, and when returning to power the , Christian Democrats seem to have dropped the issue.

using these clauses based on the IAB establishment panel. About one third of these clauses are about pay; 50 percent are about working time (Brändl and Heinbach 2010). Most clauses are restricted in time and rely on an agreement with the union (metal-engineering) or the works council (chemical industry) or, in few cases, a ballot of the workers. Haipeter (2013) argues that in both industries the use of opening clauses has stabilised at a level of about 10 percent, and that the quality or what employers have to do to trigger the opening clause has improved.

The introduction of opening clauses in Germany has been associated with wage increase in covered firms, because unions demand compensation for increased flexibility (Fitzenberg and Franz 1999; Brändl and Heinbach 2010). Alternatively, one can think of this as an insurance premium. In return firms can pay less in case of negative shocks to prevent layoffs. Ellguth et al (2012:9) find that opening clauses exist more often in sectors with firms that pay above medium wages; but that firms below the median use the opening clause more often. They estimate that firms pay for these clauses with a 7 percent higher wage than otherwise would be the case, but that the use of opening clauses triggers a reduction of 9 percent (Ellguth et al 2012:12). Brändl and Heinbach (2010) make a distinction between firms who can pay the increase and firms who cannot. The first will use the opening clause only when business situation worsens; the second will use them immediately. The overall effect depends on the distribution, and on the size of the increase triggered by the introduction of opening clauses. The job effect should be positive, as it lowers rate of job destruction in event of downturn, and is neutral for the second group. After controlling for selection bias, these authors find a small but positive effect of employment (of about 0.8 percent).

In Austria, Belgium and the Netherlands, like Germany, the work-sharing policies of the 1980s were combined with opening clauses on working time. In Belgium the use of these clauses, combined with reductions in hourly pay, was promoted with government subsidies conditional upon reaching local agreements on working time flexibility. Changes in working time legislation, in the Netherlands in 1995 and in Austria in 1997, transposing the EU working time directive, have supported negotiated flexibility by allowing derogation from legal norms by means of collective agreement.

In Austria, beginning in the mid-1980s industry agreements have included opening clause that leave the regulation of working hours and working time schedules to local bargainers, within an overall norm of a shorter working week. In this specific area, industry agreements have become framework agreements, laying down the norms binding local bargainers, through negotiations without the possibility of striking, in their search for solutions tailored to their company situation (Traxler 1997). The metal-engineering working agreement of 1993 and the electro-technical agreement of 2009 contained opening clause on pay. Within the metalworkers' collective agreement concluded in the autumn of 2011, a so-called location clause was negotiated: companies that in the last three years did not have a positive operating result can split the collectively negotiated wage increase in a general and a contingent (individualized and performance related) part. The 1993 agreement had foreseen a similar solution—a lower general increase and a larger share for variable performance related pay. In their survey among managers and staff, Auer and Welte (1994) found that many works councils in Austria had been ill-prepared and experienced difficulties in legitimising lower wage increases than were considered standard for the industry. This made them unattractive partners for management and that may

have been the main reason why employers, in spite of their preference for more variable pay, made little use of the opening clauses.

In the Netherlands, the central agreement of November 1982, which was no more than a recommendation, spurred a general 'opening' of all contracts that expired later than December 31<sup>st</sup>. "Parliament accepted a special 'umbrella' law which allowed the opening of existing agreement and the suspension of price compensation in order to facilitate negotiations over job redistribution and working hours reduction" (Visser and Hemerijck 1997:101). These negotiations took place both at industry and enterprise level, with the industry agreement setting the general norm for a reduced working week but otherwise acting as a framework for local negotiations on, inter alia, annualization of working hours, weekly or monthly schedules, leave arrangements, part-time work, and, much later, in the 2000s, models for buying or selling working time for pay on an individual basis. The openings in industry agreements towards supplementary bargaining on pay issues began after the pace-setting New Course agreement of 1993 (Visser 1998), which generally promoted more flexible and individual, performance related pay, together with guarantees for union or works council involvement in evaluation procedures. However, like in Austria, many works councils seem over-burdened and surveys suggest that in matters of pay bargaining most employers prefer to deal with the union rather than with the works council (Teulings 1996). It should be added that in the past ten to twenty years there has been a general move from 'standard' agreements which set norms for minimum and maximum rates of pay for each job, to 'minimum' agreements, in which additional adjustment, through negotiations or by employer fiat, are foreseen. Currently, about half of all agreements are minimum agreements (Zielschot 2010). Framework agreements are still rare (the best known examples are in the printing and media industry). In main agreement in metal engineering, reached in 2009, is a framework agreement on matters of pay, leaving remuneration to be decided at the local level through pay reviews assisted by the union or works council; on working time and holidays it is still a minimum agreement.<sup>28</sup>

In Switzerland the pressure of employers for decentralization mounted in the early 1990s. Some firms defected from the employers' associations so as not to be bound by the sector agreement. In the machine tool industry the sector agreement had always been a framework agreement and wages had been set at enterprise level. In 1993 the agreement introduced for the first time a so-called 'crisis clause' allowing firm falling on hard times to cancel the 'thirteenth month salary' and to increase working time without increasing the wage (Bonoli and Mach 2000:158). In 1998 working time was annualised (without conceding a general reduction in working hours, as in the other countries, while working hours in Switzerland are already much longer), first in the machine tool industry, then in the chemical industry and in banking. Wage bargaining in these two industries also moved to enterprise level, with the blessing of the unions in banking but against their opposition in chemicals) (ibid).

Saglio (1995) characterizes the hierarchical organization of law and collective bargaining at different levels in France as rather rigid and sometimes

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<sup>28</sup> In Switzerland the agreement for the metal industry never contained a pay norm, but left this to be decided at the level of firm. Works councils and union representation is voluntary in Switzerland—there is no law mandating employee information or consultation, as is the case in the EU (Hotz-Hart 1992; Oesch 2007).

modifications are not even possible to the advantage of the worker. But he adds that enforcement of industry agreements has been poor and that “there are examples of collective agreements that have remained virtually unimplemented because employers consider their wage provisions excessive.” (Saglio 1995:210). Referring to the 1980s and early 1990s, he claims that although minimum wage guarantees are compulsory, “exceptions are now often permitted as a means of reducing unemployment” (ibid.) and that many firms tend to follow the recommendation of the employers’ association rather than the agreements they sign (idem, 219). This happened, apparently, long before the law was changed and sanctioned derogation from the law, and from the contract, in 2004. According to Saglio (1995) it was simply a matter of employers’ associations and unions wilfully looking away; they had never shown much interest in monitoring the implementation of the agreements they signed. Lallemand (2006:56), likewise, sees a shift around 1980, but he emphasizes the much larger role of variable pay, stimulated by enterprise bargaining, and the consequent increase in inter-firm earnings differentials. These developments have been driven, paradoxically, by the working time reductions of the socialist governments. Industry-level bargaining sets no longer a floor on local negotiations, since “a set of legal exemptions first introduced in the 1980s steadily eroded the primacy of the industry level, capped by a 2004 law on social dialogue which reinforced the autonomy of firm-level negotiators in almost every domain save wages.” (Culpepper 2006: 37). The 2004 reform inverted the favourability principle and privileged standards negotiated at company level over those specified in sector agreements on a range of issues, with the exception of minimum wages and job classifications. Under certain conditions trade unions, if gaining a majority in works council elections, can invalidate the results of these local negotiations (Keune 2011). The consequences of the legislation was that the autonomy of the firm from the wider industrial relations system was enhanced together with a relocation of employee representation from the trade union to non-union, firm-specific institutions like the works council of the employee delegate (Jobert and Saglio 2005).

In the Nordic countries the issue of opening clauses appears less threatening to sector agreements, and less contested. It is more through individual bargaining, within the greater autonomy of local union bargaining, that this kind of decentralisation has occurred. Stokke and Thörnqvist (2001:262) claim that “wage setting in Danish manufacturing is much more decentralised than in the other Nordic countries.” The example they give is that increase in minimum rates agreed in sector agreements function only as a guideline and not as a binding commitment for what is to be accepted as a ‘minimum’ in local negotiations and that “the only way workers enforce such an increase is to threaten or engage in a short unofficial strike (ibid.)”. But that is now also the situation in Sweden, although the ECJ ruling in the Laval case has reversed the thinking in Swedish unions on this issue and they seem to return to negotiating minimum pay rates in sector agreements (Dølvik, Eldring and Visser 2013).

In Denmark, in addition to a shift from national to industry bargaining, and articulation of local bargaining, there was decentralisation in a further sense: from standard job-related wages to person-related pay by means of the gradual replacement of what in Denmark is called the ‘normal wage’ by the ‘minimum wage’, sometimes also called “moveable pay system” (Due et al 1995:134). “Under the normal wage system the collective agreement lays down the pay rate that is actually paid for the kind of work covered by the agreement. In the minimum wage system the wage collective wage agreement lays down a wage rate in addition to which

most employees receive extra payment based on a very wide variety of criteria (Nielsen 2006:22).” Originally designed for craft workers who could negotiate piece rates locally, this system gradually diffused to other jobs and sectors (Scheuer 1998). During the 1990s the minimum wage system changed somewhat in character and began to take the form of pay sum bargaining over the ‘aggregate size of the pay rise for the group of workers represented by the shop steward’, leaving it to management to allocate the award to individuals (Scheuer, 1998). The idea to set one-third of the agreed increase aside for local bargaining was in 1993 pioneered by the agreement for municipal workers, at the time rejected by other unions, but generally accepted in 1995 (Due et al 1995a: 41). In theory, such allocations are based on individual bargaining or pay reviews; however, “in practice the negotiation is very often carried out by the shop steward” (Nielsen 2006:22). In 2004 62 percent of the private sector employees had their wages decided by a combination of industry and company bargaining, and for only 22 percent the industry agreement was the final word. It is unusual for company to set lower rates than the minimum conditions stipulated in the sector agreement, but it is not impossible or unlawful, as in fact these issues are based on self-regulation between unions and employers, without a role for the law. However, the trendsetting collective agreement in industry of 2004-8 contained an experimental clause offering local negotiators the opportunity to overrule a number of central issues in the sector agreement and make their own rules concerning the issue. The same clause was inserted in the sector agreement for the food industry, which still applies the ‘normal wage system’. According to Danish contribution to the recent EIRO study (Cultarelli et al 2012), enterprise bargaining over wages and working hours applies to 85 percent of the private sector workers covered by collective agreements. Since many industry agreements, applying to a majority of private sector employees, do not set pay rates, it might be argued that a general principle of derogation applies, conditioned by the consent of the local union. No specific derogations are needed.<sup>29</sup>

Developments in Sweden came later but have moved in the same direction. When ending centralised bargaining in Sweden, employers in the leading export and manufacturing sectors wanted a very small role for bargaining at the sector level. In engineering they failed to replace sector-level by enterprise-level bargaining, but succeeded in transforming the sector agreement into a framework agreement. In services and in the construction sector agreements remain binding on pay issues. Martin concludes that already in the 1990s “local bargaining controls much more of total earnings, more of which is calibrated to performance, with an increasing residue that is individualised” (1995: 282). This trend has continued

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<sup>29</sup> In 2005, answering the question “Is there a legal possibility to conclude so-called opening clauses within intersectoral and/or sectoral agreements, which allow the parties at company level—under certain conditions—to diverge from the provisions laid down in higher-level agreements (for example, can an agreement at company level include lower wage increases in comparison to what has been agreed at sectoral or intersectoral level)?”, the author of the Danish report, Carsten Jørgensen, replied: “The mentioned understanding of *opening-clauses* is the basic rule of centralized decentralization in DK. The company level ‘fills out’ the minimum rules of the framework agreement at sectoral level, but can as a main rule not go lower than the level of the sectoral agreement. In the trendsetting collective agreement in Industry, however, a recently inserted experimental paragraph (spring 2004) gives the parties to the agreement the opportunity to overrule a number of central issues in the collective agreement and stipulate their own rules concerning the issue.” In 2011, in response to the question “To what extent are there derogations from collective agreements?”, Jørgensen and his co-author write: “There are virtually no limits set in the central framework agreement to what can be agreed at company/local level, *provided* the local parties both agree. This obstructs unilateral decisions, and this is why derogations seldom occur.”

and spread to most sectors. According to the Sweden's National Mediation Office, in 2008 wages for most workers in the private and public sector were fully or partially set at the local level.<sup>30</sup> In many industries, especially for skilled and professional workers, sector agreements do no longer include a clause on minimum pay standards; or they contain only default standards that apply if unions and employers cannot reach agreement at the local level. Collective agreements in manufacturing tend to incorporate provisions for local pay review and opportunities for individuals to negotiate their own wages, usually under guidance of union representatives in the workplace (Granqvist and Regnér 2008). It is not clear when these changes started and became widespread, probably somewhere in the 2000s. Specific opening clauses, in the form they apply in Germany, are rare in Sweden. Proposals of the industrial employers to add such clauses to industry agreements have routinely been rejected by Swedish metal workers union. In 2009, however, under pressure of sharply rising unemployment combined with the government's refusal to raise the level of unemployment benefits (as a supplement to the union-administered funds), the metal workers union conceded a temporary two-years 'Crisis Agreement' reminiscent of German-style opening clauses (Kjellberg 2012:63).

Although some examples of opening clauses exist in Norway, their use appears to be not widespread. In the central agreement of 2000 opening clauses were introduced concerning some aspects of working time; in the industry agreements for 2004-5 agreement a clause was inserted allowing local bargainers to postpone the general wage rise. Such clauses had existed in the 1980s but been revoked in 1990. There are also collective agreements without a pay clause, leaving all negotiation to the local level. They are mainly used in the government sector, however.<sup>31</sup>

In the mid-2000s Finnish employers in the technology sector pushed hard for local pay bargaining. This was why they wanted the system of national pay rounds based on tripartite pacts to end. When the last national incomes policy agreement expired, in mid-2007, unions and employers compromised by negotiating new agreements at the sector level, against the preference of the employers in the technology sector who had wanted to set wages exclusively at the enterprise level. In the collective agreements for 2008 and 2009, the unions conceded opening clauses on working hours and overtime. The agreements in the technology sector for 2009 and 2010 were the first to move pay bargaining down to the company level with no general, industry-wide, nominal wage pay increases set for the second year. The technology employers wanted their agreement to become the trendsetter for the rest of the private sector, but they were unsuccessful. In 2011 the central organizations of employers and unions negotiated a new national incomes policy agreement for two years (2012-13) under pressure and with help from the government. The technology employers signed the agreement, but they will probably not rest their case. The new agreement has no provisions for opening the contract through local negotiations.

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<sup>30</sup> Annual report on collective bargaining and wages, "Avtalsrörelsen och lönebildningen"; <http://www.mi.se>. The report for 2010 stated that for 55 percent of all employees covered by collective agreements, the final distribution of the national (industry-level) agreed wage increases was decided at company level; for only 11 percent of the employees everything was decided at the industry level.

<sup>31</sup> According to the National Mediation Agency, in 2004 68 percent of government employees had this form of wage setting.

The contrast with Southern Europe is large. Here, hierarchical layering of agreements based on the favourability principle has usually found strict legal protection, and, with the exception of Italy, there has been little space for effective pay bargaining at the company level. Opening clauses have been rare. However, under much international pressure, recent legal changes and central agreements have opened Pandora's box and allowed the inversion of favourability in the hope to stimulate local bargaining and wage flexibility. It is too early to say whether such opening clauses will be used on a large scale and stimulate local pay bargaining—given the limited representation and union weakness, one may be allowed to think that it is unlikely and that the outcome will rather go in the direction of reinforcing the power of employers to decide without much consultation.

In Italy, under the rules of the 1993 agreement, enterprise bargaining can only improve the conditions already set at the industry level. However, on many non-pay issues it is not always clear what the standard is, or the standard is not enforced. Consequently, rather than to the existence and application of specific opening clauses in the agreements, the variation at the local level is linked to the implementation of sometimes rather vague framework rules set at the sector level which leave significant autonomy to management or, in larger firms, to local bargainers. Formal opening clauses were first introduced in the chemicals sector agreement in 2006 and at the time fiercely criticised by the largest union in metal engineering. Until recently, these opening clauses did not apply to wages, but to working time and the use of flexible employment contracts. The tripartite pact of 2009, signed by two of the three main union confederations, re-affirmed the hierarchical relationship between sector and company bargaining. However, together with a lengthening of the contract period from two to three years, the new agreement allows the suspension of sectoral wage rate increases in case of emergencies. The fear that the agreement sanctions the erosion of sectoral norms was one of the principle reasons why the main trade union confederation had refused to sign. In 2010 Fiat, which is the trendsetting firm in metal-engineering, tested the pact by a round of concession bargaining including radical changes in working practices and dismissal protection in two of its plants, on threat of closure and relocation. Workers voted in favour in the ballots organized by the company and the two plants were removed from the sector agreement. Soon after, Fiat withdrew from the entire sector agreement. In June 2011 a new central agreement, with the signature of all three union confederations, set new rules on enterprise bargaining. Enterprise agreements can introduce temporary and experimental modifications to rules set by industry agreements, in accordance with and within the limits established by the industry agreements and provided the majority of union delegates at the local level accept them. The new rules have been applied in a few industry agreements since. When the government introduced, under pressure of the ECB, in August 2011, a decree-law with the possibility of derogation, by collective agreements, from legally-established dismissal protection guarantees, the employers could only rescue their agreement by promising not to use this possibility, prompting Fiat to leave the main employers' organization.

In Spain, also under international pressure and with the unions opposed, the government changed the law in 2010 to widen the conditions allowing pay clauses at company level to be lower than the sectoral minimum standard. A year later, another reform further weakened the (traditional) hierarchy of agreements

at the expense of sector and regional agreements, favouring company bargaining. Another aim was to increase working time flexibility and more generally the capacity of Spanish companies to adjust changing economic circumstances. Both issues have been taken up in the central framework agreement of February 2012. That agreement clearly widens the norms on working time, shifts and overtime, and it steers a middle position between the small and medium enterprises that want to retain a binding sector agreement and the large firms that bet on the expected flexibility of enterprise agreements free of sectoral constraints. Thus, the agreement retains the sectoral bargaining structure, but allows a greater use of opening clauses on a wider range of issues—working time, remuneration systems, shift work and work organization. These opting-out clauses can only be applied in case of a persistent drop of revenues, but that should not be a major constraint in the current economic malaise.

In the case of Portugal, the troika of IMF, EU and ECB pushed the government to encourage decentralization and give more negotiating rights to works councils, which are generally very weak. This would de facto create a wide-ranging opening clause, allowing local agreements to settle below the sectoral standard, if these standards continue to exist. The government is also under pressure to limit the period during which collective agreements that have expired remain in force while waiting for a new agreement to be signed. (In Spain the 2011 reform established deadlines and mediation procedures for this problem.) Back in 2004 the conservative government had restricted the so-called “ultra-activity” of collective agreements, causing a sharp fall in the number and coverage agreements, but this measure was found to be unconstitutional and repealed by the next socialist government.

In Greece, the ‘troika’ has required radical changes to collective bargaining as a condition for international financial assistance. New legislation in 2011, against fierce union opposition, inverted the existing hierarchy of agreements to give precedence to those concluded at company level at the expense of sector agreements, even if the terms and conditions concluded are inferior. It also introduced the possibility for companies to negotiate with their workforce through appointed delegates where unions are not present, a measure of particular relevance to small enterprises with no union representation and hitherto covered by sector agreements via administrative extension.

Irish and British collective agreements do not establish legally binding norms and as a rule they contain no contractual obligations such as a peace clause, but many agreements include a provision for the use of agreed procedures for the resolution of disagreement over the interpretation of agreements. As a rule, collective agreements are not subject to legal regulation, pay rates cannot be claimed in court and cannot be extended to non-contracting parties, unless they are covered, in the Irish case, by a so-called registered agreement under the auspices of a Joint Industrial Council. In Ireland such registered agreements, which must satisfy many formal requirements, exist only in construction. Under the partnership programs, which contained general rounds of pay rises for the private and public sector until 2009, companies could always claim an ‘inability to pay’. The use of these clauses varied and was often contested by the unions. New Irish legislation sets out a detailed process by which individual employers can seek temporary derogation from the sector-level minimum pay on grounds of inability to pay, mainly relevant for the construction sector. These are more wide-ranging than the individual employer exemptions under the National Minimum Wage Act 2000, which had hardly ever been used. An exemption is to be for a maximum of 24 months and a

minimum of three months, with employers barred from seeking exemptions if they have already been granted an exemption for the same workers in the previous five years.

In Central and Eastern Europe, companies falling on hard times often pay less than stipulated in the collective agreement or the mandatory minimum wage. For this they do not need opening clauses, except in Slovenia where the situation is really different. Some laws on collective bargaining, for instance in the Czech Republic and Slovakia, exclude derogation or agreeing terms less favourable than stipulated in the law or in higher-order agreements. The impact of economic uncertainty and the current recession show in a different fashion, however. In Slovakia fewer sector agreements have been signed in the private sector, and none extended since 2009. In the Czech Republic since 2008 fewer collective agreements stipulate a specific year-on-year wage increase; in 2010 such rate increases were agreed in less than half of all agreements. Amidst the uncertainty of the economic crisis, many employers refused to sign up to binding rules on remuneration.

Poland is another instructive example. It is rare for collective bargaining in the private sector to agree to terms and conditions of employment that are more favourable than the minimum stipulated in the law. Actually, many agreements stipulate conditions below legal standards, although the proportion of agreements with sub-minimal norms appears to have decreased from about one-half to one-fifth of all agreements, according to the state's inspectorate. Nonetheless, in 2002 the socialist government felt it necessary to amend the law on collective bargaining and allow for the suspension of (clauses in) the agreement in case of financial hardship. The idea seems to have been that this additional flexibility would make collective bargaining more attractive for employers. The incidence of such hardship clauses increased in following years, but bargaining activity (numbers and coverage of agreements) decreased, belying the government's expectations. Firms facing financial difficulties did not go to the trouble of suspending or renegotiating particular provisions in the collective agreement; they rescinded the entire agreement instead (Towalski 2005). The fact that they usually were not bound by the collective agreement signed by the association when they still were member, made exit cheap and attractive.<sup>32</sup>

Slovenia, with a tighter regime of national and industry bargaining, does allow for opening clauses in some cases. In May 2008, the central union and employers' organizations signed a one-year agreement applying to firms and workers not covered by specific industry agreements. In that agreement, which has since been renewed, companies operating at a deficit are allowed to postpone the basic pay rise by six months, subject to agreement with the local (company) union representatives. Many industry agreements foresee a larger share for variable, performance-related pay and a lower basic pay increment.

It is possible to conclude that opening clauses, in the sense of 'institutionalised derogation' from contractual (minimum) standards, did not play much of a role until the job crisis of the early 1980s. In many countries they became part of the

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<sup>32</sup> Apparently the bylaws of employers' associations, and Polish collective labour law, do not provide for what in German is called "Nachwirkung" or continued application of the collective agreement, binding the firm even after leaving the association to the terms of the agreement signed by the associations until its expiry.

repertoire in sectoral bargaining over working time norms, allowing more differentiation in work organization. In few instances this was matched with greater differentiation in pay, but opening clauses on pay issues did not become an issue in sector bargaining until the 1990s, foremost in post-unification Germany. Around the same time, decentralisation of wage bargaining in Denmark, later also in Sweden, Norway, Switzerland and the Netherlands, opened much wider margins for local and individual bargaining. It was not until after 2000 that opening clauses and dispensation rules became the new standard in sector agreements in large parts of continental North Western Europe. This development was probably related to the increased length of collective agreements, since more unforeseen adverse events can happen the longer the contract period and companies naturally want to take insurance against such risks.<sup>33</sup> In this connection a remarkable inversion of perspectives, and power balance, has occurred. In the inflationary years of the 1960s and 1970s large firms that wished to plan or forecast costs in the medium-term often favoured multi-annual agreements. In return unions often demanded cost-of-living adjustment clauses to guarantee real wage increases in nominal contracts. During the stabilisation policies during the job crisis of the 1980s and 1990s these indexation clauses disappeared in all but few countries. In the deflationary situation of the 2000s, opening clauses, or the removal of pay clauses from industry-level bargaining, appear to be for employers what indexation was for the unions in times of inflation: a protection against uncertainty.

## Conclusion: the three indicators combined

In this section dealing with the structure of collective bargaining I have tried to survey developments in what has traditionally be understood as bargaining centralisation, based on an assessment of the level of bargaining; the articulation or governance of multi-level bargaining; and the use and variation in opening clauses. For the purpose of evaluating the general movement in centralisation or decentralisation I want to take into account each of these aspects of bargaining structure. My indicator of centralisation simply combines the three dimension. After some experimentation, I have decided to use the following formula:

$$\text{Centralisation} = (2 \times \text{Level} + (\text{articulation} - 1) + (\text{opening clauses} - 1)) / 4^{34}$$

I have decided to give the same weight to 'level' as to 'articulation' and 'opening clauses' combined. Furthermore I have recalibrated the overall scale, first, by resetting the scales for articulation and opening clauses on grounds that in any system there will be some informal bargaining and use of hardship clauses, and, second, by resetting the outcome to a 1-5 scale, making it directly comparable to the level variable.

[Charts 5A and 5B about here]

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<sup>33</sup> To give an example: in Germany the average length of collective agreements has gone up from 1.1 years in 2000 to 2 years in 2010; Austrian collective agreements are renegotiated every year and this should lower the need for opening clauses to address unforeseen adversity.

<sup>34</sup> If level 2 applies (mixed between company and enterprise bargaining) I have halved the values for articulation and opening clauses, since they apply only to industry agreements. If level 1 applies (company bargaining) the values for articulation and opening clauses are '0' and the value for level and centralisation are the same.

Comparing 'level' and 'centralisation' (Chart 5A), it will be seen that the centralisation variable, taking into account articulation and opening clauses, differentiates nicely among the many country where industry bargaining is dominant. The eleven countries which have the same score of '3' on the 'level' variable, vary quite significantly on the 'centralisation variable, from Portugal (3.5) at one end to Sweden and Denmark (2.0) at the other. Chart 5B shows the decentralisation trend at three points in time: 1980, 1995 and 2010. Charts 5A and 5B demonstrate that the addition of "articulation" and "opening clauses" to our understanding and measurement of decentralisation of pay bargaining helps to differentiate among the many countries where sector or industry bargaining is dominant. We now see that this means different things in countries with and without an institutionalised second or third layer of bargaining, and—even more so—when sectoral standards have been watered down or made renegotiable at the local level.

## **Bargaining Coordination**

Bargaining coordination can be defined as integration or synchronization of pay policies of distinct bargaining units (Soskice 1990; Traxler and Brandl 2012: 74), alternatively as "the degree to which minor players deliberately follow along with what major players decide" (Kenworthy 2001:75). Relative size, union concentration or employers' associations holding a monopoly of representation can contribute to coordination as defined here. While full centralisation and full coordination amount to the same thing (Soskice 1990), fully decentralised bargaining, at the level of companies, might be highly coordinated, for instance if all negotiations were conducted by the same union, or employers took advice from one major association before signing agreements. These examples are extreme but not fanciful. Austria comes close to the situation of one union (federation) monopolizing all employee representation existing in the country; the General Employers' Association in the Netherlands, while not signing agreements, assists in the preparation and negotiations of most of the seven hundred or so company agreements in country. Conversely, highly centralised bargaining at the level of peak-level confederations can be rather uncoordinated, when there is poor monitoring and implementation at lower levels.

## **Modes or mechanisms of coordination**

Although coordination has been widely used and preferred over centralisation as an indicator to assess and explain wage developments (see: Soskice 1990; Nickell 1997; OECD 1997, 2004), its measurement is not at all clear (Kenworthy 2001). Many authors have followed and expanded Soskice's attempt to rank the eleven countries in his study according to the degree of coordination of wage outcomes he observed in the 1980s and then identify the institutions or mechanisms that were thought to have generated these outcomes such coordination. To do this includes inevitable a great deal of historical analysis and there is an obvious danger of functionalist and tautological reasoning—from the observed degree of wage coordination and restraint to the institutional arrangement that somehow must account for it. Instead, Traxler, Blaschke and Kittel (2001) have proposed to make a distinction between six different institutional "modes" or "mechanisms" of

coordination, based on activities by major players that aim at securing coordination of wage setting “regardless of whether these activities were successful in terms of coordination effects” (2001:148). They distinguish between: (i) state-imposed coordination, as in Belgium where since 1997 the room for wage increases is defined by the state and tied to developments in France, Germany and the Netherlands; (ii) state-sponsored coordination, for example by means of a tripartite incomes pact, as in Finland or Ireland during most of the 1990s and 2000s; (iii) inter-associational cooperation and agreement between the peak associations of unions and employers (Sweden until 1983); (iv) intra-associational guidance based on the actions of one or more peak associations (on the employers’ side, as in Switzerland, or on the union’s side, as in Japan, or both (the Netherlands during the 1980s and 1990s); (v) trend-setting behaviour, or one sector setting the pace for others, as in Germany or Austria; and (vi) uncoordinated bargaining, as in the United Kingdom. They distinguish further (see also and Traxler and Brandl 2012) between solutions with high and low governance capacity, which in whether agreements are enforceable by the parties that conclude them. They consider, for instance, tripartite pacts and government participation in wage setting in general as rather unstable solutions with low governance capacity. I have decided to use their approach using the following codes:

- 6 = State-imposed bargaining (incl. statutory controls in lieu of bargaining)
- 5 = State-sponsored bargaining (this includes pacts)
- 4 = Inter-associational by peak associations
- 3 = Intra-associational (“informal centralisation”)
- 2 = Pattern bargaining
- 1 = Uncoordinated bargaining.

These codes follow a scheme from state (5, 6) to self-regulation (2,3,5) to market (1), but imply no scale or rank-order.

State-imposed bargaining, based on statutory controls, has become exceptional. Limiting the analysis to the period after 1990, this mode of coordination has only been used in Belgium and, in 2010-11, in Greece. More common is a mode of coordination based on state-sponsored bargaining or social pacts. Social pacts during this period have been negotiated, with varying success, in a range of countries, on a rather frequent basis in Finland, Ireland, Italy, the Netherlands, Portugal, Spain and Slovenia; more exceptional in Norway, Germany, Luxembourg, Greece, Poland, Estonia and Hungary. Only in Finland, Slovenia, and Ireland, wage policy pacts have for many years become the dominant mode of coordination. In the Netherlands tripartite pacts, or bipartite agreements negotiated under a ‘shadow of hierarchy’ of the government, have been instruments to adjust expectations and moderate union demands in times of crisis. In Norway (1993-97), Italy (1993, 2009) and Spain (1997) they have contributed to reform of the bargaining system—moving to a trendsetting model in the Norwegian case, and framework rules for industry and company bargaining in Italy and Spain. The experience of Portuguese wage policy pacts is contested (see Avdagic, Rhodes and Visser 2011 for the assessment of the immediate and lasting institutional effects of pacting in these countries).

Besides the three cases—Finland, Ireland, and Slovenia —where social pacts can be seen as tax-based incomes policies, the Norwegian and Dutch pacts, and the rather unsuccessful attempt in Germany to forge an “Alliance for Jobs,

Competitiveness and Training” between unions, employers and the federal government (1998- 2001) are attempts to improve co-ordination among labour market actors and between market (wage, productivity) and public (monetary, fiscal) policy decision makers. When successful, social pacts do establish mutual expectations and norms concerning the bargaining conduct of unions and firms, and the budgetary and fiscal policies of governments. In so doing, they do not formally constrain industry- or company-level negotiations, nor do they prevent firms from designing different pay-systems and incentive structures (Regini 1997). Such coordination attempts tend to be unstable and easily break down when the main union and employers’ associations signing these agreements face a crisis of representation in key sectors or international firms.

Another way of phrasing this conclusion is that coordination of wage bargaining, usually for the purpose of moderation and adjusting wage demands at times of crisis, may increasingly come to require government intervention and public policy support. Such interventions can add carrots (union-friendly legislation, delay or reconsideration of reforms) to sticks (wage ceilings, as in Belgium, or a freeze imposed under international pressure, as in Greece). Such interventions are likely to be incompatible with decentralisation in the long run, since they tend to impose relative-wage rigidities in parts of the economy that, at the same time, are unenforceable in other parts of the economy (Calmfors et al. 2001). Yet, some countries keep trying as they may have few other instruments, or, as Finland’s Prime Minister stated at the press conference announcing the successful negotiation of the most recent tax-based wage moderation pact: “There are a limited number of things that Finland can affect on its own. A pay contract supporting industrial peace and competitiveness, purchasing power and employment is in our hands.”

Inter-associational coordination based on binding central agreements of the type existing in Sweden, Norway and Denmark until the early 1980s have become rare. Such central agreements have mutated into framework agreements—for instance in the Netherlands since 1982 or in Spain since 2002, and they may be useful, both as a guidance to bargainers and as a tool to show good-will and defend the autonomy of wage bargaining (and its rules) against state interference. Where major union or employer confederations provide guidance without agreement between them, or where agreements are opposed by major unions or employers’ associations, as has happened on many occasions in Italy and Portugal, coordination is at best intra- and not inter-associational, and contested.

In addition to the tensions within and between sectors and firms, another reason for the eclipse of inter-associational coordination through central agreement is the decline of the market or membership share of the peak associations involved. In 1960 the three (blue collar and strongly industrial-based) confederations of trade unions in Denmark, Norway and Sweden, represented respectively 82, 80 and 75 percent of all union members in their countries; twenty years later this had decreased to 71, 68 and 61 percent; today these organizations represent 60 percent in the case of Denmark, 53 percent in Norway and only 44 percent in Sweden. Equally, the main union federation in Finland only represents the minority of unionized employees. Powerful federations and unions that represent white-collar employees and professionals with higher vocational and academic education and have different interests and ideas about equality and remuneration of work, rival the blue-collar union establishment. On the employers’ side powerful industry federations representing the larger firms in international manufacturing have taken over from the traditional peak federations. In other

countries, for instance Belgium, Italy, Portugal, France, nearly all C.E.E. countries, to a lesser degree in Spain, the Netherlands and Switzerland, associational coordination has been marred by conflict between different union confederations.

Trendsetting arrangements have become dominant in Austria, Denmark, Norway, and Sweden, and probably always were in Germany and Japan. The Japanese Shunto or Spring Offensive is the quintessential example of synchronization in wage bargaining. Since 1955, it has become customary for the main enterprise-based trade unions in Japan to conduct annual negotiations for wage increases on a national scale; the negotiations with large companies start in February and about half of the wage settlements are made by the end of March, coinciding with the beginning of the fiscal year. Taking the annual wage increase set by the top firms in major industries as the benchmark, smaller companies, government agencies, and non-unionized employees negotiate their wages during April and May (Sako 1997). All wage settlements last for one year. It appears that the wage effects of union pattern bargaining in Japan have weakened in the 1990s during the long period of deflation. In its high days the Australian award system created an “almost automatic transmission of wage gains from one sector to another” (Schwartz 2000: 76). The metal industry played a big role in setting the trend (Schwartz 2000: 77), at least until 1967, and was crucial in shaping wage differentials between skilled and unskilled, and between manual and white-collar workers. In the United States pattern bargaining had been strongest in the auto-industry and in related sectors where the United Autoworkers Union was active. Such pattern bargaining, “informally had served to centralize bargaining at the multi-employer level” (Katz 1993:11), but inter-industry as well as intra-industry pattern bargaining weakened and became ineffective in the 1980s (see for instance Erickson 1992 on the aerospace industry, one of the industries in which the UAW had been leading).

There are scattered examples of such pattern bargaining based on company bargaining in, for instance, Greece, the Netherlands or Italy. Ioannou (1998:103) is cautious and writes that “the available information does not suffice to draw firm conclusions, but it may be that ‘protected’ sectors (the public utilities and state monopolies such as electricity, telecommunications, airways, banking, railways, etc.) had a wage-leadership role, compared to the ‘exposed’ sectors mainly in manufacturing and commerce.” Through the years, most innovations in HRM in the Netherlands were first negotiated in company agreements for the largest multinational players in the Dutch economy, and subsequently have been emulated in sector agreements (Huiskamp, van Ours, and Venniker 1990). For instance, the first post-war multi-annual wage agreement in the Netherlands, with price indexation, was negotiated by Philips in 1965.<sup>35</sup> And although it did not fit in the system of annual negotiations, and was officially disapproved by the Board of Mediators, the central organizations and the government, indexation made its appearance in the main metal-engineering agreement in the same year. By 1970, following the introduction of value added tax, most agreements in the Netherlands contained price indexation clauses. In Italy, usually the agreement for the metal sector and, within it, Fiat, has acted as the pace-setter for other sectors; occasionally the public sector often took the lead—for instance in 1984

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<sup>35</sup> Cost-of-living indexation in collective agreements had become popular during the Great Depression of the 1930s, after the devaluation of the Dutch guilder. By 1940 half of all collective agreements included a form of price indexation (Fase 1980:388-9). Indexation was outlawed by the German occupying administration and had no function in the post-war regime of centrally guided annual wage rounds, lasting until 1962.

when a protocol signed by the public sector employers set the example for more employee involvement and participation in the firm on issues of productivity and work organization. However, state controls in Greece, social pacts and the activities of peak-level associations in the Netherlands and Italy carried more weight as coordinating mechanism than did such scattered instances of trend setting.

A very high level of employer organization, especially in industry, combined with pattern bargaining led informally by the powerful metalworkers union (IG Metall), allowed Germany in the 1970s and 1980s to emulate the high degree of wage bargaining coordination found in Scandinavia during these years. "Though in many cases sectoral collective bargaining is formally undertaken at the regional level, it is centrally directed by the sectoral peak associations on both sides. So-called pilot agreements reached in key areas of the engineering industry (usually Baden-Wuerttemberg) are the model for the rest of the sector and exert influence on all other industries as well. This creates a special German form of 'pattern bargaining' with IG Metall as pacesetter. In general, other industries settle wage increases within 1 percent of the engineering agreement." (Jacobi et al 1992:248). This model has been remarkably stable and has continued, with brief interruptions, in the years after 2000, in spite of the decline in employer and union organization. As a result of pattern bargaining wage dispersion across industries did not widen strongly, although it was, and is, less compressed than in countries with central level bargaining. Within industries the trade unions tried to conduct wage policy based on solidarity (but less rigorous than in Sweden) by compressing wages at the low and high end of the wage spectrum, but this has now clearly changed, as we have seen in the section on opening clauses. It is not clear when pattern bargaining in Germany began – in the late 1950s or early 1960s with the economy approaching full employment and the successful IG Metall campaign for a free Saturday? – and the metal-engineering union was not always the first to settle. In the mid 1970s there were years that the public sector unions went ahead of the pack and, according to Bispinck (1995: 78) they were the 'wage leaders' after re-unification, from 1991 to 1993. Bergmann et al (1976: 246-7) claim that German unions, and in particular IG Metall, did accept macro-conditioning of its wage demands during the first phase of the "concerted action" (1967-76), a kind of tripartite pact, and that this concertation was important for the unions' acceptance of the decisive wage pause in 1967 following the first recession in post-war Germany. These authors also suggest that this type of coordination ended after the strike wave of 1969. The "Alliance for Jobs, Competitiveness and Training" (1998- 2001) is said to have had little influence on wage setting (see Hassel 2003; Streeck 2010). This is partly conditioned by the strict autonomy of wage setting in Germany against intrusion by the state, anchored in the founding or basic law of the Federal Republic in 1949.

Since the early 1980s, the metal-engineering industry has de facto gained the role of wage leader in Austria and co-ordination based on associational control has accordingly declined (Traxler 1998). The agreements negotiated by the (blue-collar) metal workers union and the union for employees in the sector define the pay rises and framework for bargaining in all other sectors. Pattern bargaining in Austria has been accompanied with a high degree of wage dispersion across sectors. Before the 1980s, still based on industry bargaining, co-ordination was provided through the peak associations which controlled not only the timing of negotiations but also their agenda, prepared in a kind of informal, but highly centralised partnership between the unions, the employers and the government (Guger 1993; 2001; Marin 1984). Austria has retained its highly monopolistic set-up of union and employer

organization, and the absence of rivals on either side does part of the explanation of the stability of the system. As far as its macroeconomic effects are concerned, Austria's pattern bargaining does not simply mean that a strongly unionised sector is able to negotiate a union wage premium (or other benefits) which then spill over to other sectors, as was the case of pattern bargaining in the U.S. and Australia. By contrast, Austria's pattern bargaining "internalises the externalities" of wage increases, so that it delivers a special kind of incomes policy. This is evident from the fact that the rates of pay negotiated do not fully exploit the metalworking industry's own productivity increases. Since metalworking operates in the "exposed" sector, this prompts it to give high priority to the maintenance of international competitiveness and employment (Traxler 1998).

Coordination based on trendsetting is of a more recent vintage in Scandinavia and is not uncontested. According to Due, Madsen and Jensen (1995a: 127) "the late 1980s and the early 1990s will in all probability be regarded by historians as a crucial period in the development of the Danish system of labour market organisations and collective bargaining". Originally the central employers' federation had tried to persuade the unions, without success, to maintain a kind of central bargaining, but more as a framework for lower level bargaining (idem, p.141). The unions, especially those of unskilled workers, saw this as an attack on solidaristic wage bargaining. Soon the newly formed Industry Employers Federation by-passed its own peak federation, the Danish Confederation of Employers, and pushed its agenda of decentralisation. It found allies in the unions of skilled workers. The outcome of the power struggle within the employers' camp was a decisive decentralisation, but based on greater employer concentration and fewer agreements. In 1987 the employers in metal engineering and a cartel of unions led by the skilled metalworkers union concluded an unusual four-year contract with a provision for adjustment after two years. This settlement "was virtually 'carbon-copied' by the other bargaining units" (Scheuer 1998: 163); it meant a change in wage leadership (Bøje and Madsen 1994: 100) from the unskilled workers, represented through the main union federation in 1985 to the skilled workers of the metalworkers union in 1987, with an increased role of the salaried employees within a newly formed union cartel in following years. Initially, wage leadership was still disputed—in 1989 a group of unions led by the union in commerce was the first to settle and in 1991 public sector unions moved first (Scheuer 1992: 262), but gradually the industry sector—represented through a broad cartel of unions—gained its role as wage leader.

In Norway pattern bargaining, with a leading role for the main agreement in the private sector, gained currency after a spell of industry-level bargaining in the 1980s following twenty or thirty years of central bargaining. After a series of state interventions in the late 1980s and a social pact in 1993, Norway evolved towards the trendsetting model and central agreements are now only the default option in case industry-level bargaining fails.

The institutional development in Swedish wage setting is comparable with Denmark but with a more antagonistic role of the main employers' federation once it said its goodbye to central bargaining and corporatism. Here, too, the employers in industry, representing many international trade mark companies, and the skilled engineering and employees' unions took the lead in breaking ranks with their peak associations and settled separately, beginning in 1983. The following decade Sweden switched between central and industry negotiations, even with some state coordination in 1991-2. After the final goodbye of employers to central bargaining in 1991, the main union confederation advocated a "coordinated national bargaining" strategy.

Employers did want to shift wage negotiations to local level, with only minimum wages to be decided at the sector level. A kind of pattern bargaining emerged with services (trade and commerce) taking the lead, followed by engineering, in the 1993-94 pay round. Co-ordination among employers succeeded in seeing to it “that the agreements were free from all sorts of wage indexation and wage development (wage drift compensation) clauses.” (Vartiainen 2001:30). In the 1995-6 round LO coordination broke down. The next round, in 1998, was again an uncoordinated one, but with a more diffused sense of the need for moderation (Vartiainen 2001: 39). Similar large bargaining rounds occurred in 2001, 2004, 2007 and 2010, although the last one lead to a much greater spread in the length of agreements in different industries and, consequently, more problems for trendsetting in the future (see Kjellberg 2012). Crucial in the Swedish case is the 1997 Industry Agreement, negotiated between the industrial engineering employers and a cartel of ten unions. The Agreement established a private-law mediation institute, a permanent joint structure with impartial chairpersons for negotiations and a sectoral Economic Council with four independent academic economists. This agreement has become the basis for the new law on statutory conflict mediation of 2000, applying in industries like building, transport, banking or commerce. Elvander (1999: 24, 39) judged the 1997 Industry Agreement “the most important innovation of the rules of the game for bargaining and conflict resolution on the Swedish labour marked since the Basic Agreement of 1938” and “a prerequisite for decentralized wage formation” (also Elvander and Holmlund 1997). Calmfors et al (2001) considered the Industry Agreement as the preparation for Swedish entry into, or alignment with, EMU. In 2009 the Industrial Engineering, dissatisfied with union concessions on the issue of employment protection and restrictions on secondary strikes, gave notice to the 1997 agreement, but a new and tighter agreement has been renegotiated and signed in 2011, with more power for impartial mediators, stricter negotiation rules and stronger incentives to maintain the manufacturing industry’s wage leadership role. This came after a challenge during the recession, when a group of unions pushed hard for the norm to be set by unions in the retail and commercial services sector rather than by a manufacturing sector which was experiencing tremendous in difficulties and rapidly losing jobs. In the 2011 rounds the industry sector prevailed, however.

In Finland, finally, the employers in engineering did not have it their way. After the end of a string of central wage pacts, the employers offered the unions in 2009 a so-called ‘wage anchor’ model on the basis of the collective agreement concluded in the technology industry. This multi-annual agreement offered a general wage increase only for the first year, and some very open commitments for following year. The unions rejected the proposal, arguing that the technology sector had not agreed anything. In 2011 Finland returned to the practice of concluding another incomes policy pact.

The effectiveness of trend-setting arrangements depends on a number of conditions. This is nowhere clearer than in Austria where both the union and employers’ side hold an absolute monopoly of representation, backed by the law, and can therefore not be challenged from without. This props up a lot of centralisation within these organizations, for instance in insisting that bargaining is synchronised in time, something that would be unfeasible, and unenforceable, in countries where there are competing unions and competing employers’ organizations. In Scandinavia, the central organizations have still some important functions and powers: the handling of the basic agreement with the other side; regulation of the voting system after proposals by the conciliator (in Denmark and Norway) and management of the joint industrial action fund to be applied in strikes

or lockouts. The centralising role of conflict-resolution institutions, mentioned earlier, must not be underestimated. Both in Norway and Denmark it is possible to end disputes over the renewal of agreements by means of a single mediation procedure for the entire private (or public) sector, empowering the mediator to treat several settlements as one entity in the ballot (Elvander 2003). This is a strong centralising element in an otherwise decentralised system of wage setting like for the Danish one and an useful method to gag radical unions and out-of-step employers, for instance in the Norwegian oil industry. Mediation institutions were set up in all four Nordic countries in the early 20<sup>th</sup> century (Elvander 1990), but these institutions had been weaker in Sweden, where a strong doctrine of freedom from state interference in these matters had prevailed (Elvander 2002:210).

The foregoing discussion suggests that ‘modes of coordination’ may exist in combination—trendsetting in Austria, Germany, Sweden, Norway and Denmark is combined with associational controls and even an element of state support. For instance, in both Denmark and Sweden the clout of employers’ associations in industry has increased (in Denmark during the 1980s and 1990s, in Sweden since the late 1990s). Such combinations also exist regarding other forms of coordination—for instance a combination between state-imposed norms in Belgium and inter-associational coordination based on national agreements, or social pacts and informal centralisation, based on norm setting and guidance by associations in the Netherlands. Even in countries listed under a predominant mode of uncoordinated bargaining there may be weak and secondary elements that influence wage bargaining. France is a case in point. The *Salaire Minimum Interprofessionnelle Garantie* (SMIC) was and still is a central instrument in shoring up France’s entire wage structure. Setting its level became highly politicized, playing big in presidential elections. Before they were sold off in the 1980s and 1990s, the government often used the so-called ‘socially responsible’ firms—Saint Gobain, Rhône Poulenc, Renault, Gaz de France or *Electricité de France*—to set an example for responsible wage bargaining and introduce new models of participation and industrial relations (Howell 1992).

## **Extent of coordination**

It is unfortunate that we cannot rank these types of coordination. Moreover, as became clear in the previous discussion, a mode of coordination does not present a stable and self-contained equilibrium, and the same mode may represent different degrees of actual wage bargaining coordination. In order to explore this further I will combine the indicator of ‘modes of coordination’, based on Traxler, Blaschke and Kittel (2001) with Kenworthy’s indicator of the “degree, rather than the type, of coordination” (2001:78). What this indicator does is to refine the measurement of the different types of institutions and predict the extent of coordination based on a prior idea about which institutional arrangements are in place and how these arrangements might work. Compared to the Traxler-Blaschke-Kittel indicator it is based on more refinement in the measurement of institutional arrangements. Compared to the indicator of the degree of coordination used by Soskice and the OECD, among others, it is less impressionistic. Rather than measuring coordination directly, which is very difficult and prone to measurement error, Kenworthy’s approach is based on a hypothesis or “set of expectations about which institutional features of wage setting arrangements are likely to generate more or less coordination.” (2001:

80). The advantage is that this measure allows for variation in the extent of coordination within a particular mode of coordination, and that it can be ranked. I have slightly adjusted the scores used by Kenworthy (2001:79), mainly to differentiate between situations in which associational coordination is based on unity or divisions between the confederations involved, and between contested and uncontested forms of trendsetting industry bargaining. My scores are as follows:

- 5 = a) centralized bargaining by peak association(s), with or without government involvement, and/or government imposition of wage schedule/freeze, with peace obligation (example, Sweden prior to 1980);  
b) informal centralisation of industry-level bargaining by a powerful and monopolistic union confederation (example, Austria prior to 1983);  
c) extensive, regularized pattern setting and highly synchronized bargaining coupled with coordination of bargaining by influential large firms (example, Japan prior to 1998);
- 4 = a) centralized bargaining by peak associations with or without government involvement, and/or government imposition of wage schedule/freeze, without peace obligation (example, Ireland 1987-2009);  
b) informal (intra-associational and/or inter-associational) centralisation of industry and firm level bargaining by peak associations (both sides) (example, Spain 2002-8);  
c) extensive, regularized pattern setting coupled with high degree of union concentration (example, Germany most years);
- 3 = a) informal (intra-associational and/or inter-associational) centralisation of industry and firm level bargaining by peak associations (one side, or only some unions) with or without government participation (example, Italy since 2000);  
b) industry-level bargaining with irregular and uncertain pattern setting and only moderate union concentration (example, Denmark 1981-86);  
c) government arbitration or intervention (example, U.K 1966-8, 1972-4.);
- 2 = mixed industry and firm-level bargaining, with no or little pattern bargaining and relatively weak elements of government coordination through the setting of basic pay rates (statutory minimum wage) or wage indexation (example, France most years);
- 1 = fragmented wage bargaining, confined largely to individual firms or plants (example U.K. since 1980).

Clearly there is a relation between the institutional 'mechanism' and the actual 'extent' of wage bargaining coordination, but it is far from perfect. Table 7 portrays this for three broad periods—the years up to 1979; 1980-1994; and 1995-2010—showing for each period the single peak mode or most frequent mechanism of coordination and the average degree of coordination. We observe that in the most recent period, the highest levels of wage bargaining coordination (a value of 4 or higher) are reached in Belgium, Finland, Austria, Norway, and Japan, but that this is based on very different mechanisms—state imposed central bargaining in Belgium, social pacts in Finland, trendsetting behaviour based on industry bargaining in Austria and Norway, and enterprise bargaining in Japan. A slightly lower average value (3 or higher but lower than 4) is reached in Denmark, Sweden, Germany, the Netherlands, Ireland, Spain, Italy, Slovenia and Switzerland, again based on very different mechanisms: trendsetting in Denmark, Sweden, Germany and Switzerland; social pacts in Ireland and Slovenia;

associational coordination or informal centralisation in the Netherlands, Spain and Italy. An average value of 2 or higher but lower than 3 is usually the result of state policies, in particular the use of minimum wage setting (and indexation) as a guide to wage bargaining, or attempt to involve unions and employers in joint actions, and is found in France, Luxembourg, Portugal, the Czech Republic, Hungary and Slovakia.<sup>36</sup>

[Table 7 about here]

## Conclusion

There appears to be no general trend in wage bargaining coordination. In the Nordic countries there is less coordination now (and less centralisation) compared to the years prior to 1980, but more than in the 1980s and early 1990s. In Italy, Spain, Belgium and Ireland, coordination has increased—possibly in response to EMU membership. Through the years there is not much change in France, Luxembourg, Portugal or Greece, or—at a higher level of coordination—in Germany, the Netherlands, Austria and Switzerland. Uncoordinated bargaining prevails in the Anglo-Saxon countries and, since free collective bargaining became possible, in large parts of Central and Eastern Europe. Here, too, not much has changed and Slovenia has remained just as exceptional as it was twenty years ago.

The second conclusion is that the extent of coordination is, as expected, fairly strongly related to the level of unionisation and the extent of bargaining coverage ( $r=.61$  and  $.71$  respectively for the years 2000-2009). Thus, at higher levels of unionization and bargaining coverage, states, employers' associations and union federations appear to invest more in the co-ordination of wage bargaining. It is only at very low levels of unionization and with limited bargaining coverage that bargaining is allowed to go un-coordinated.

Finally, and to be stressed again, modes of coordination rarely operate in singular fashion. Coordination in which the state takes a leading role greatly depends on cooperation with associations (social pacts), and what sets failed social pacts aside from successful pacts is probably the weakness of the associations involved. Also, coordination through trendsetting appears to depend strongly on an order that is upheld by associational controls, especially on the employers' side.

## Conclusion

In this essay I have tried to describe the main institutional trends and variations in wage setting and collective bargaining. How, then, are we interpreting the observed changes and resulting variations? What do they tell us about the underlying forces and conditions? In what direction can we expect more change? And most importantly, what consequences must be attributed to the observed differences and changes in the institutional set-up of wage bargaining?

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<sup>36</sup> For annual values I refer to the ICTWSS database (Visser 2013).

The first section dealt with bargaining coverage. Here, the most striking finding is the persistent difference across countries. In about half of the countries in this survey the majority or more of all wage earners in employment is covered by one or more collective agreements negotiated between the union(s) and the employer(s). In most countries in this group, all but one (Slovenia) located in Western Europe, coverage rates are above 70 and relatively stable. In the other half collective bargaining covers only the minority of workers, in some cases - most prominently Japan and the U.S. - only one-sixth or less. This group includes the non-European members of the OECD, the UK and Ireland, and all but one of the post-Communist countries of Central and Eastern Europe. The principal institutional feature guaranteeing broad coverage is multi-employer bargaining and the future of high coverage levels will no doubt depend on the future of multi-employer bargaining. This presupposes employer organization and mechanisms for preventing non-organized employers to undercut contractual wages, i.e. administrative extension or, failing that, a strong and solidaristic union organization. Government policies are crucial in this area, for instance by mandating a duty to bargain or by allowing solidarity strikes to defend a common wage norm throughout the national territory (Dølvik, Eldring and Visser 2013). The opposite is also true; the three most spectacular cases of bargaining decline - the United Kingdom, New Zealand, and Australia - were engineered by governments determined to limit the reach of union power based on multi-employer bargaining (Howell 2005; Harbridge, Crawford and Hince 2002; Cooper and Ellem 2008).

The second section, on bargaining structure, showed some major and persistent differences in the organization of bargaining, especially in the choice of bargaining levels (enterprise, sector, national) and the practice of single- or multi-tiered bargaining. Assembling data on bargaining levels, articulation of bargaining across levels, and the use of opening clauses (and its functional equivalents), there is overwhelming evidence for a converging trend towards decentralization of collective bargaining, a process that began in the 1980s, was in some cases reversed, but grew more intense after 2000 and during the current recession. Three main factors can explain this development (see Visser 2004). First, due to increased international competition (both on the side of capital and labour, the latter through 'cheap labour' migration), the ability of sector or industry agreements to create a level playing field and prevent low wage competition has greatly diminished. Second, changes in the organizational operation of firm and management of labour (diversification of the firm's activities, non-wage aspects of human resource management, increased role for social policy above the state-guaranteed level) have decreased the relative advantages of sector agreements and have created a mismatch between the sector agreement and the firm's activities. Third, international competition and increased financial and business volatility have increased the importance of rapid readjustments to changing market conditions. Such readjustments appear easier to negotiate, and more readily imposed, at the enterprise than at the sector level. Firm-level agreements enveloped within sector agreements, under a peace clause and without a strict hierarchy of favourability, may be, from the employers' view, the best of two worlds. Unions tend to be caught between their principles and their members who, working in the larger firms, will do much to keep their jobs and the employment protection that comes with them.

Finally, in the last section, on coordination, not much of a trend was found, but, again, differences across countries are, and have remained, large. At higher levels of unionization and bargaining coverage, governments, employers' associations

and union federations appear to invest more in the co-ordination of wage bargaining than in countries with limited bargaining coverage and weak union representation and power. High levels of coordination can be obtained through different mechanisms - social pacts, associational controls and agreements, trend setting or state action - and typically some of these mechanism combine.

Judging by many indicators surveyed in this essay, wage-setting institutions are in a state of turmoil, change or outright crisis. This is particularly true for trade unions but applies no less to the key institution that has been around since the 19th century but became popularized in the 1930s and the reconstruction years after 1945: the nationwide sector agreement. National and industry-level bargaining is still practised in many industries and countries; it explains most of the high levels of coverage reported in this survey. But industry-level agreements have changed, in some cases beyond recognition and they are rapidly losing the characteristics that were the hallmark of industrial unionism—the type of unionism that was promoted by president Roosevelt in his New Deal legislation, supported by John Maynard Keynes, and became dominant in Western Europe rather than in the United States. Through broad and all-inclusive sector agreements, industrial unions tried to standardize the relationship between skill, effort and pay in order make workers as much as possible independent from the variability in labour markets and companies, equalizing conditions throughout the industry, and redistributing and equalizing bargaining power between stronger and weaker groups (companies, regions, occupations) in the sector (Streeck 2005). The decentralization of recent years, moving from standard to local rates, and by allowing individual pay setting and sub-standard pay rates for sub-standard firms, has put an end to this. Formally, the sector agreement may look the same but its content and functions have changed. "The sectoral agreement may survive ... but only by denying itself most of the characteristics that have defined [it]" (Visser 2005: 24).

Berthold Huber, leader of Europe's largest union, IG Metall, in an internal union publication of 2005, has identified the key issue in the transformation of the sector agreement. "Even if the core idea of the sector agreement remains unchanged - he writes - many certainties of the wage policies of the past fifty years no longer automatically apply. Most notably, this is the case with the 'convoy principle', which allowed weaker companies and sectors to achieve good wage results in the wake of the strongest (companies and sectors)" (cited in Dufour and Hege, 2010:41). In a related analysis of the Pforzheim agreement of 2004, in which his union accepted a 'controlled' use of opening clauses, Huber (2005) observes that the 'will' of employers to respect the sector agreement has decreased and that due to higher unemployment, lower levels of unionisation, fiercer international competition and more firms struggling to stay in business, trade union are no longer match in a game in which its own core membership fear for their jobs and can easily be pressed into concession bargaining. In some sense there has been an inversion of roles between sector and enterprise bargaining although sector bargaining has formally and legally kept its dominant place. Where collective bargaining outcomes used to establish the parameters for plant bargaining, from the late 1990s on settlements at the sector level were often the reflection of the local 'alliances for work' that were forged have between works councils in large firms and their employers (Rehder 2003).

This tendency is not limited to Germany in recent times. The decentralising tendencies in Sweden and Denmark, or in the Netherlands, although operating in a different way and allowing far more individual bargaining or pay reviews, with

or without union assistance, point in the same direction of accommodating a far greater variation in pay and working conditions across firms in the same sector. France is another case in point. Here the sector agreement has always been a rather formal affair with limited regulatory power. Thus, the strategy of successive governments to promote and use enterprise bargaining as a conduit for public policy did not require the destruction or transformation of sectoral bargaining, it could just be ignored and something else was built alongside. Once the groundwork for enterprise bargaining had been laid by the Auroux reforms of 1982-1983, each new law on working time reduction—from the Robien laws of 1993 to the second Aubry law of 2000—called for local negotiations. In large industrial firms and in the public sector, where French trade unions still maintain a presence, the typical deal was to exchange working time flexibility and increased productivity for job security; in small firms and low-skill service sectors, without union representation, working arrangements and employment conditions appear to have deteriorated and external flexibility increased, without any trade-off. As a consequence and despite the continued existence of multi-employer bargaining in many sectors, the gap in employee protection, remuneration and working conditions of workers employed firms of different size, and those with and without unions, appears to have increased (Lallemand 2006). This dualisation appears to have happened in spite of a very high coverage rate, reflecting the continued existence of sector agreements that often did no more (and sometimes less) than reiterating laws on minimum wages and employment conditions.

Here, in the transformation of the sector agreement and in the much greater role assigned to company and individual bargaining, we observe convergence throughout the sample. During the recent recession and under international pressure, the Southern members of the European Union have joined the trend. In Greece, Portugal, Spain and Italy, but also in Hungary and Ireland, the reforms on which international loans or accommodating policies of the European Central Bank were made conditional, have favoured the reversal, or abandonment, of the favourability principle establishing the hierarchy of sector over company bargaining, and in other ways prioritized company bargaining and the use of opening clauses (see Glassner and Keune, 2012). The question is whether this common trend toward decentralization and prioritizing of enterprise over sector bargaining will bring the end to all multi-employer bargaining and coordination? Will it also, together with the continued decline in unionization lead to a much narrower and selective coverage of collective bargaining?

These questions address the debate over the nature of capitalism in the 21<sup>st</sup> century. In the literature on Varieties of Capitalism the fundamental divide runs between ‘liberal’ market economies (LMEs) and ‘coordinated’ market economies (CMEs). (Hall and Soskice 2001) This divide goes back to the question of how employers co-ordinate their activities — mostly through the market or through various arrangements that allow firms to achieve joint gains through co-operation? Coordinated collective bargaining and wage setting is only one of the various institutional arrangements distinguishing CMEs from LMEs; as relevant are the institutional arrangements for corporate governance and employee involvement in firms, for employment protection and vocational training, the existence of durable ties between firms and their suppliers, and financial arrangements that can supply firms with ‘patient’ capital.

One of the key issues in this essay concerned the issue of multi-employer bargaining - whether and how employers cooperate or fail to cooperate in

determining wages and negotiating with trade unions. There are two variables that address this issue; first, the level of bargaining, i.e. whether employers negotiate at the company or sectoral (or across-sectoral) level; and the extent of coordination. Surely, reviewing the trends in these two variables can yield only a partial answer as to whether CMEs and LMEs have converged towards a more 'liberal' version of capitalism and only a partial picture of the real varieties of capitalism and where to locate individual countries - two key questions that have inspired a lively debate about Varieties of Capitalism (see Bohle and Greskovits 2012; Glyn 2006; Hancké, Rhodes and Thatcher 2007; Schmidt 2002; Thelen 2009; Streeck 2009).

In fourteen of the 30 countries in this sample multi-employer bargaining at the sectoral (or higher) level is dominant; in twelve countries single-employer bargaining at the company or plant level prevails (Table 7). This division is rather stable. There are four cases of radical transformation: the United Kingdom, New Zealand, Australia, and France. In the UK and New Zealand multi-employer bargaining more or less disappeared, in Australia it was relegated a much diminished role, in France it was transformed due to the much increased role of enterprise consultations and bargaining promoted by successive French governments after 1981. Arguably, level of bargaining is a poor indicator of the 'solidarity' among employers and, as I have argued and documented in the preceding pages, 'beneath the surface of stability' (Visser 2005) of the sector agreement there have been major changes due to changes in the articulation of central and local bargaining and the wider use of opening clauses.

Chart 6 plots the extent of wage bargaining coordination in the years after 2000 against the values for the 1980s. The first impression is that little has changed, as most countries are situated on or near the diagonal.<sup>37</sup> There are six countries with major changes - New Zealand and Australia, where the neo-liberal policies and the abolishment or phasing out of judicial controls took away incentives for employer cooperation on matters of wage setting; Japan and Switzerland where employer coordination, albeit still at a comparatively high level, had weakened; Ireland and Italy where, compared to the 'decentralised' 1980s employer (and union) coordination in wage setting has been promoted through social pacts of various kinds, although in both countries recent events--the collapse of social partnership in Ireland, and the exit of Fiat from the employers' federation and sectoral agreement, indicates the fragility of volatility of coordination achieved through social pacts (Avdagic, Rhodes and Visser 2011). Note that in the UK changes had occurred earlier, during the 1980s.

[Chart 6 about here]

The picture of chart 6 suggests persistent diversity rather than convergence. However, as suggested by Thelen in her British Journal of Industrial Relations 2009 lecture, one may miss a key aspect of change and convergence - in the direction of a smaller, more selective and exclusionary coalition among employers, and between unions and employers, as the basis for coordination in industrial relations - unless taking into account variables allowing us to see the size of the coalition of interests involved in (continued) coordination (Thelen

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<sup>37</sup> Note that the eight post-communist countries, with 'missing values for the 1980s' are not represented in Chart 6; using the values for the 1990s instead of the 1980s, the three Baltic states and Poland would be located near the UK or US; Hungary, the Czech Republic and Slovakia near France; and Slovenia near Austria; on this see also Bohle and Greskovits 2012.

2009). Her prime case is Germany and the shrinkage of collective bargaining coverage in this CME 'par excellence'. She interprets the erosion of bargaining coverage, which "has resulted both from individual firms (especially small firms) opting out of these agreements, but also from a creeping expansion in the number of workers in various non-standard employment relations, especially in services" (p. 482), as a narrowing or more segmented version of the coalition supporting the German system of multi-employer bargaining and coordination, as this now "covers a shrinking core of workers, concentrated especially though of course not exclusively in large manufacturing firms" (ibid.). She refers to Goldthorpe's 1984 paper on "corporatist and dualist tendencies in modern western economies", in which he contrasted the "dualist" strategy of "restoring market control by making the basis for organised interests smaller and more exclusive" to the "inclusive" strategy of corporatist involvement of interest groups in economic management on a wider basis (Goldthorpe 1984: 330). While he saw dualism and corporatism as opposite answers to the economic difficulties of capitalism under conditions of democracy and strong labour rights, Goldthorpe did broach the possibility of coexistence of both tendencies within the same society. He did for instance discuss the policies towards migrant workers during the 1960s and 1970s in, among other countries, Austria and Germany as examples of exclusionary or dualist policies within a corporatist setting of interest representation, basically creating two sets of rights and representation. He contended, however, that such combinations would be inherently instable given the contrasting ideological implications (idem, 339).

Bargaining coverage is a neat indicator to pick up such changes in the broadening or narrowing of interest representation and coordination around multi-employer bargaining. We immediately see the difference between Japan and Germany, both CMEs, with a bargaining coverage rate of 16 and 61 percent of (formally) employed workers in 2010, or between West Germany in the 1980s, when coverage amounted to an estimated 85 percent of wage earners and Germany today. Or indeed, between the more exclusive and liberal version of coordinated capitalism of Switzerland, with a coverage rate of 49 percent in 2010, and the more organized and inclusive version in Sweden, where collective bargaining reaches 91 percent of the employed workers. In both countries the coverage rate went up, in Switzerland thanks to new rules on administrative extension of agreements to non-organized firms, in Sweden due to the increased rate of collective organization of employers, without apparent help of the state. On this indicator alone, it would seem that, unlike Germany, most CMEs have become more inclusive - as bargaining coverage has increased or stayed at very high levels. But this misses other elements of gradual change or erosion pointing in the direction of a more selective or segmented version of coordination and multi-employer bargaining.

In assessing the inclusiveness of CMEs we must also look at bargaining structure, in particular the erosion of sectoral norms on pay and working hours, and we must take into account the degree of union decline. Looser sectoral norms, through opening clauses or allowing a much greater scope for company and individual pay setting, increase the within-sector differences between firms, most often between large and small firms. Declining unionization levels go invariably together with a concentration of union members in the public sector and among older workers in jobs with employment protection. It is to be expected that in enterprise bargaining a union representation bias weighs much stronger than in national and sectoral bargaining, if only for the simple reason that in many small firms there is no union or works council representation.

If my reasoning is correct, inclusiveness can be approached as an additive measure of the bargaining coverage rate, bargaining centralisation (level, articulation and opening clauses), and the union density rate, each with the same weight (with coverage and unionization rates rescaled on a five-point scale). Portraying 'inclusiveness' as a second dimension, orthogonal to coordination, as proposed by Thelen (2009), we find not only, as expected, that LMEs are far less inclusive in terms of representation than CMEs, but also that there are large differences among the group of CME countries. The Nordic countries, but also Belgium and Austria, occupy the upper-right corner, high on coordination and inclusiveness, whereas Germany, still high on coordination, has become much less inclusive. The other countries are more or less where we expect them - Switzerland in the middle -high on coordination, but fairly exclusive; France, low on coordination, but as inclusive as Germany, owing to state policies in this case; some Southern European countries fairly inclusive, but this may now change (and does not take into account the large informal sector).

Coordination appears to have taken over from centralisation, not only as a variable in comparative studies of wage restraint but also in reality. There is an important asymmetry between the two: coordination can help to deliver wage restraint but, unlike centralisation, it cannot assure a common improvement for all, or bring relative gains for the weakest groups in the labour market. Coordination is therefore quite compatible with the observed trend in increased earnings inequality, whereas centralisation is not. In a recent analysis the OECD has documented, in great detail, the decline of labour's share in the national in nearly all developed market economies (OECD 2012). Within the declining income share for labour, the share that goes to the top one percent has surged ahead, whereas the share of workers at the bottom end of the skill ladder has slumped. Earnings in the middle ranges, where most unionists are (Checchi, Visser and Van de Werfhorst 2009), have stagnated or contracted. Explanations of this development—an inversion of the trend toward more equality and a larger share for labour that originated in the 1930s—invariably cite the information and communications technology revolution, which boosted capital and productivity growth but threatened the routine jobs held by union members. Increased competition is another part of the story, since it narrowed the margins of whatever capital and labour can divide, and undermined the bargaining power of unions to claim its share of that smaller margin. The OECD analysis concedes that decentralisation of wage bargaining may have worsened the position of the low skilled, by disorganizing the sector agreement and its 'convoy principle' of lifting the boat with the strongest.

Besides the issue of how wage setting institutions affect inequality, there is the question how they affect growth. Can the "wage problem" (Hall 2007) still be defined as: how to assure that wage increases are moderate enough to assure adequate profit levels as the basis for current and future investment, yet high enough to sustain levels of demand consistent with growth and full employment? Is it the case that under the rules of decentralised yet coordinated wage setting only the first - moderate wages - can be delivered, but not the second - sustained demand consistent with growth and full employment? Wasn't that asymmetry the fundamental policy design mistake of the previous Great Recession?

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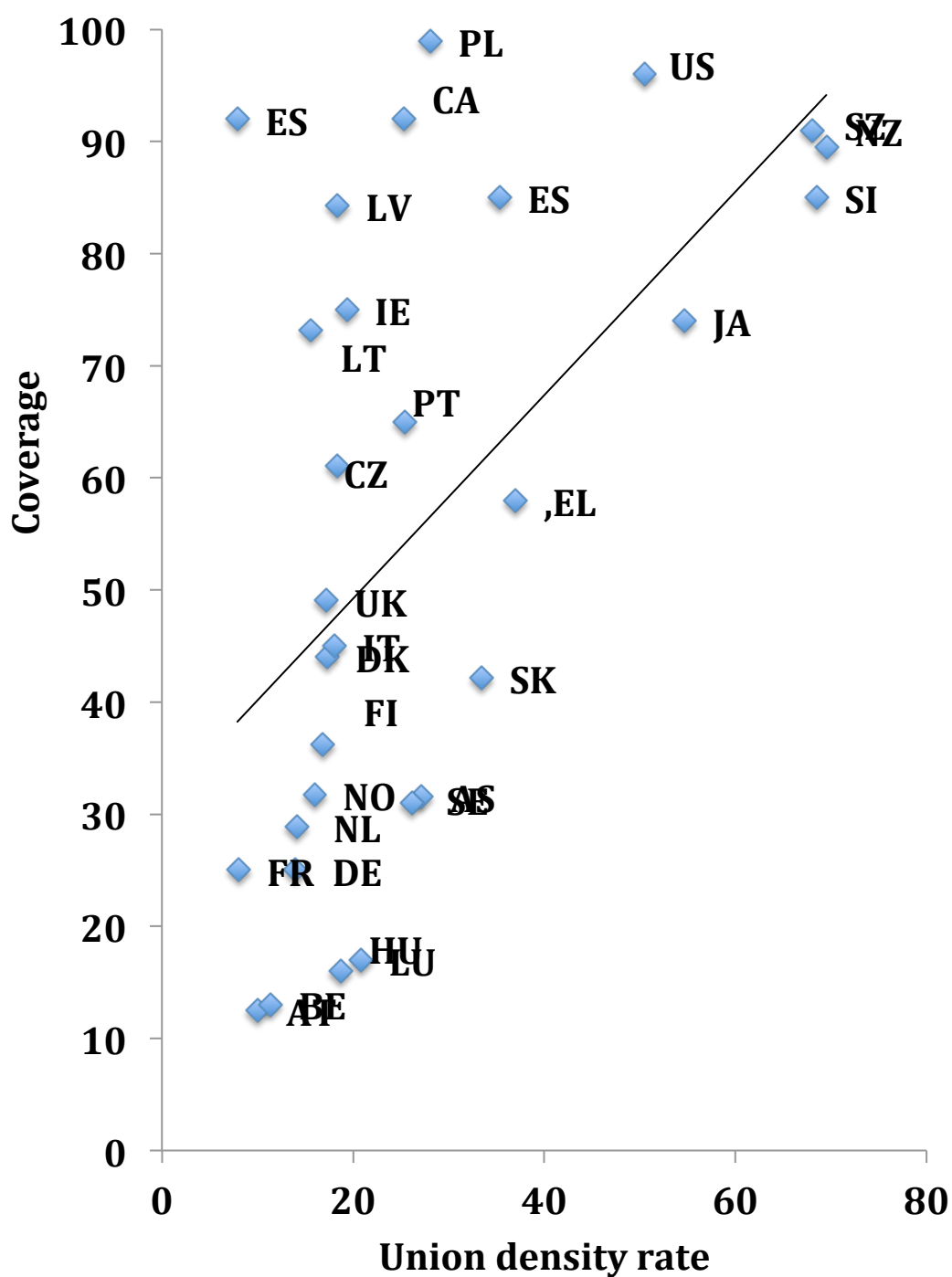
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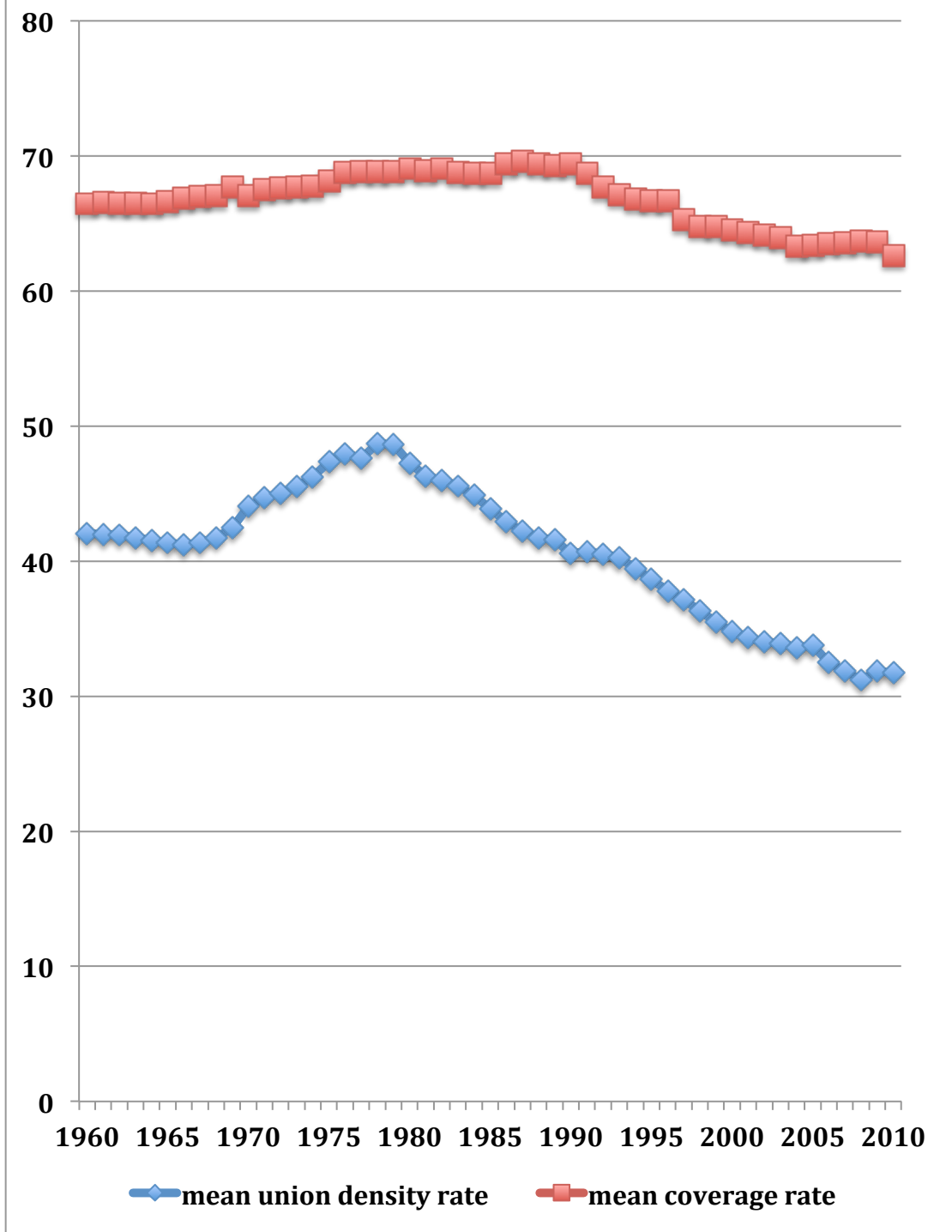
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**Chart 1A: Coverage and Unionization rates, 2010-11**



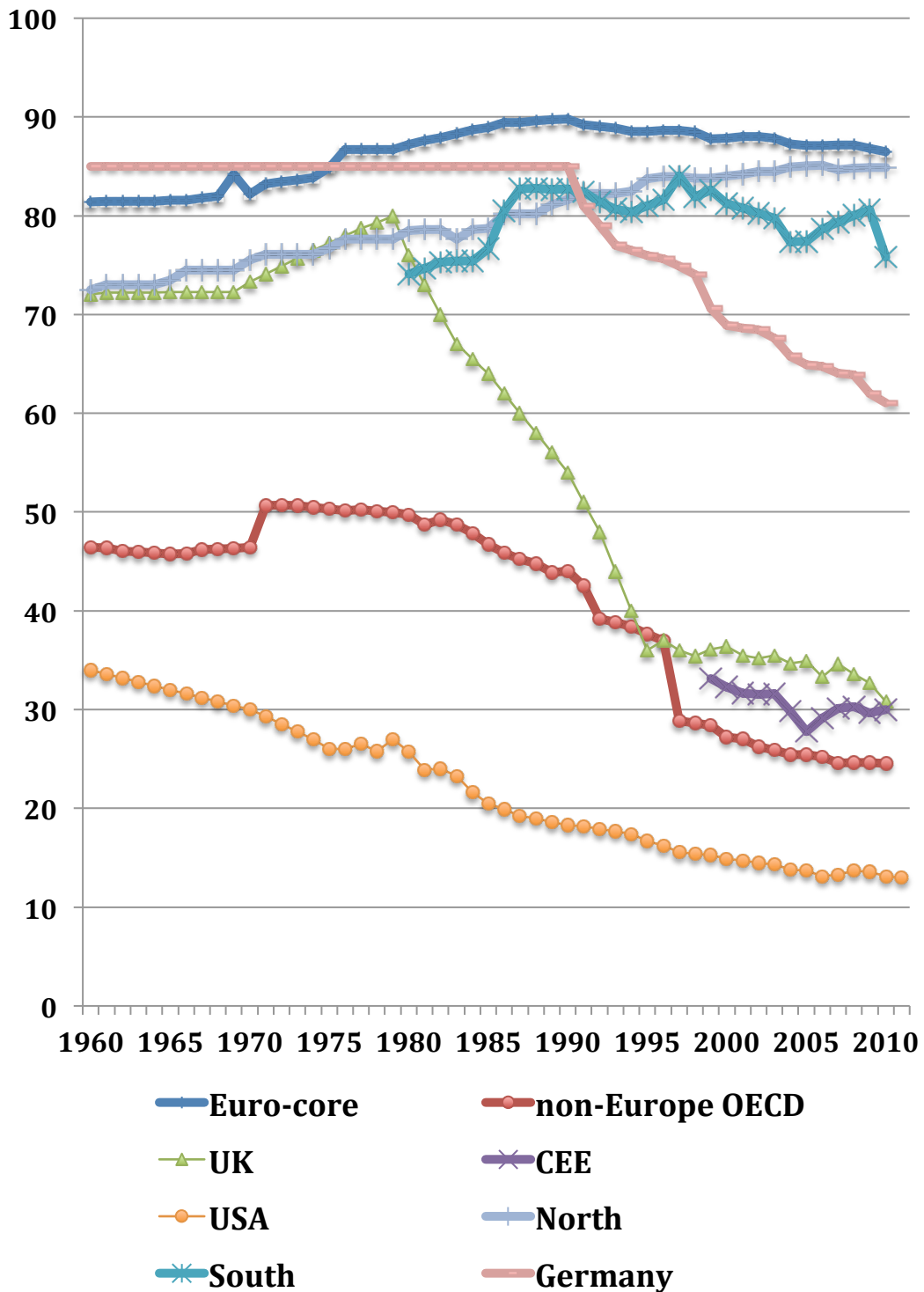
Source: ICTWSS Database 2013

**Chart 1B: Unionization and Coverage rates 1960-2010, average 22 countries**



Source: ICTWSS Database 2013

## Chart 2: Coverage rates 1960-2010



Source: ICTWSS Database 2013

Euro-core: Austria, Belgium, France, Germany, the Netherlands.

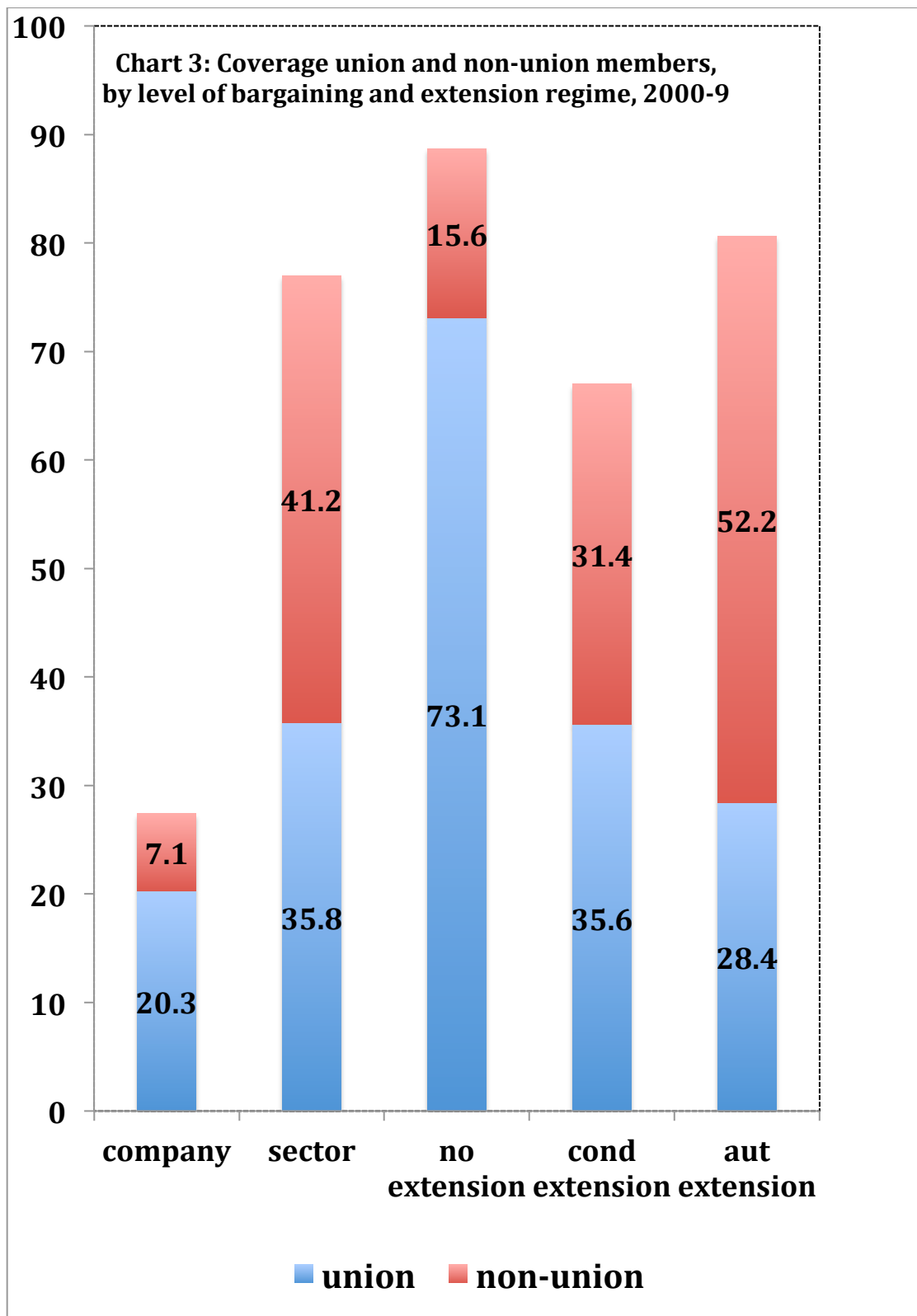
North: Denmark, Finland, Norway, Sweden

South: Greece, Italy, Portugal, Spain

East: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia

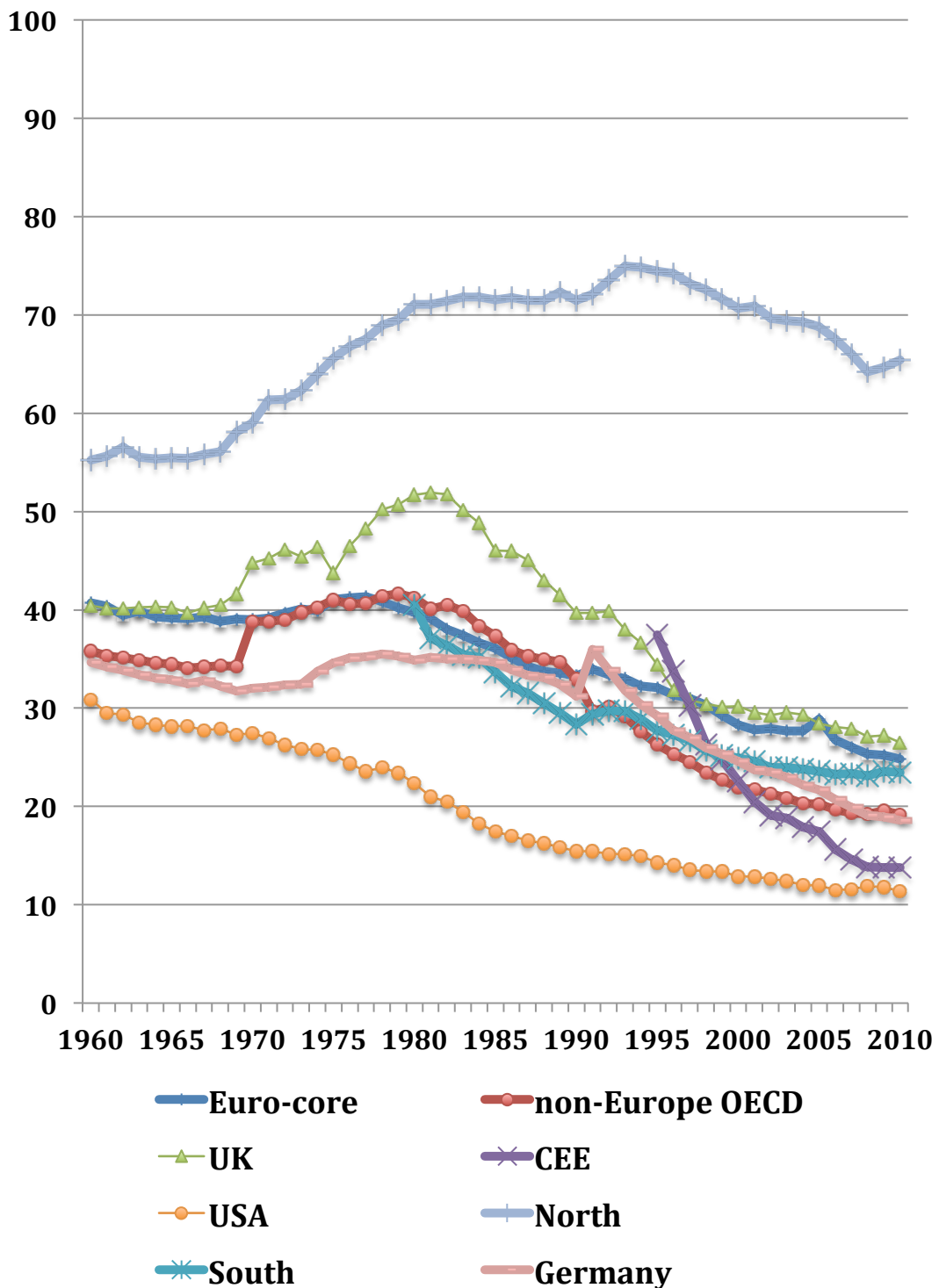
Non-Europe OECD: Australia, Canada, Japan, New Zealand, United States

Germany: before 1990 West Germany



Source: ICTWSS Database 2013

### Chart 4: Union density rates 1960-2010



Source: ICTWSS Database 2013

Euro-core: Austria, Belgium, France, Germany, the Netherlands.

North: Denmark, Finland, Norway, Sweden

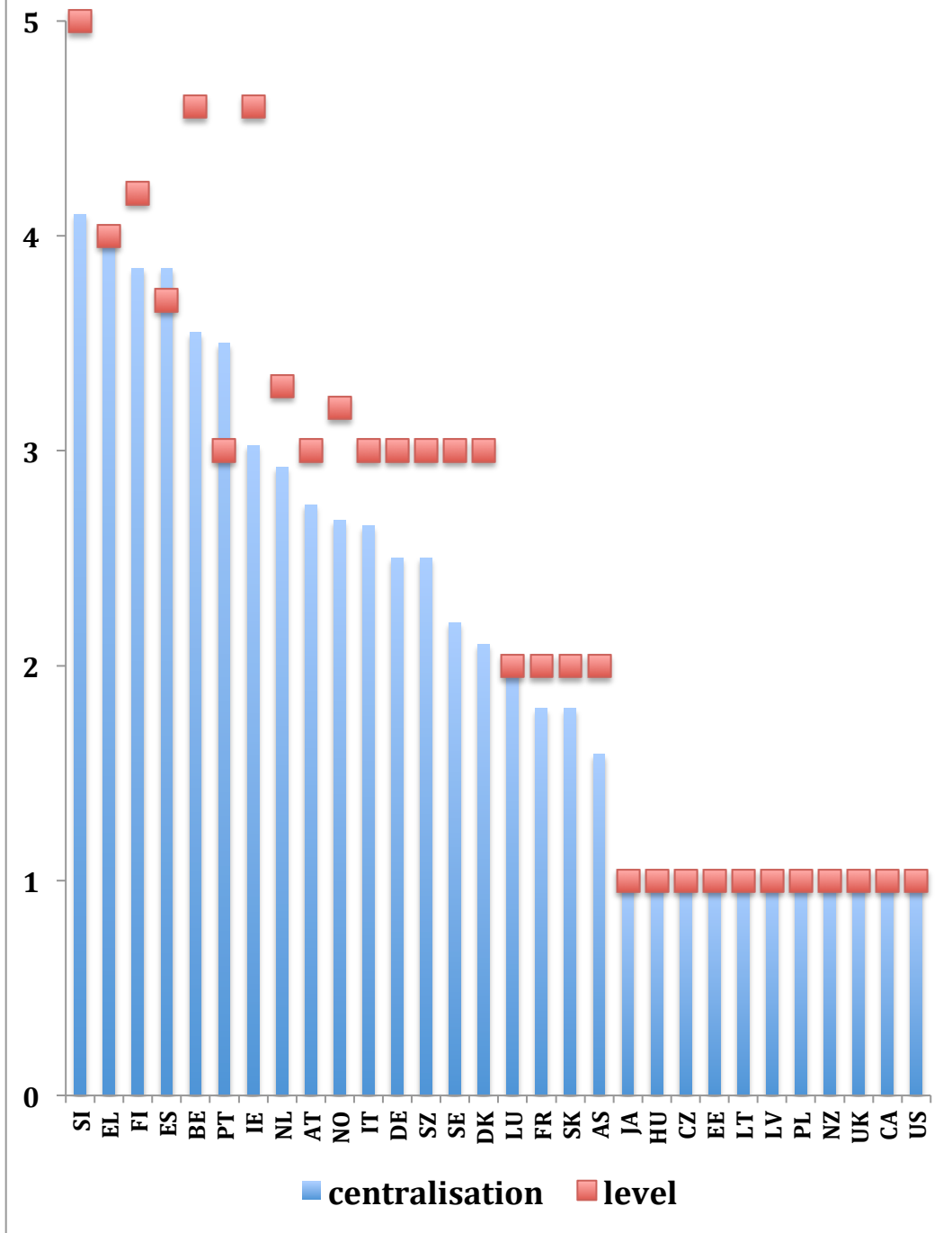
South: Greece, Italy, Portugal, Spain

East: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia

Non-Europe OECD: Australia, Canada, Japan, New Zealand, United States

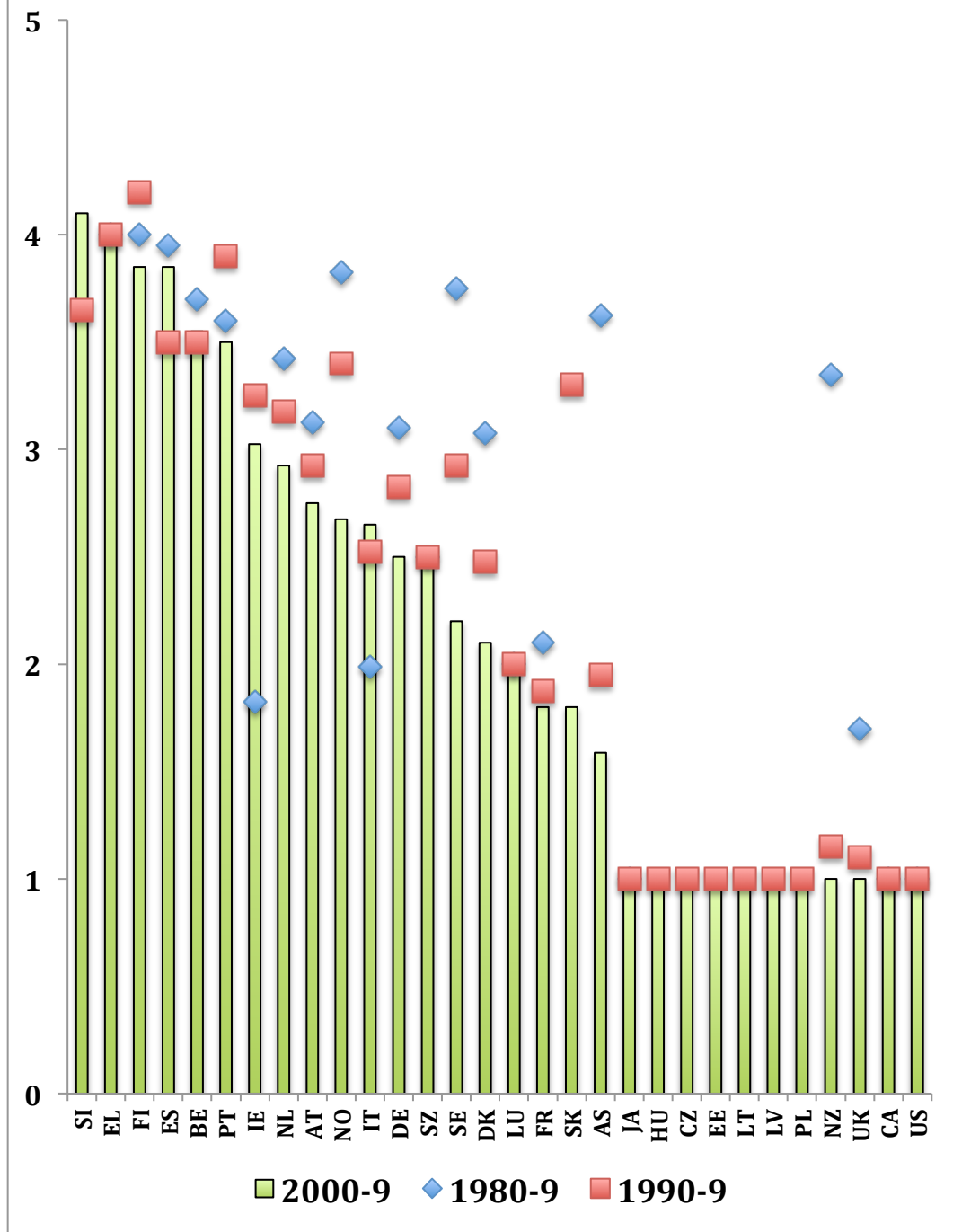
Germany: before 1990 West Germany

**Chart 5A: Dominant level and centralisation of bargaining, 2000s**



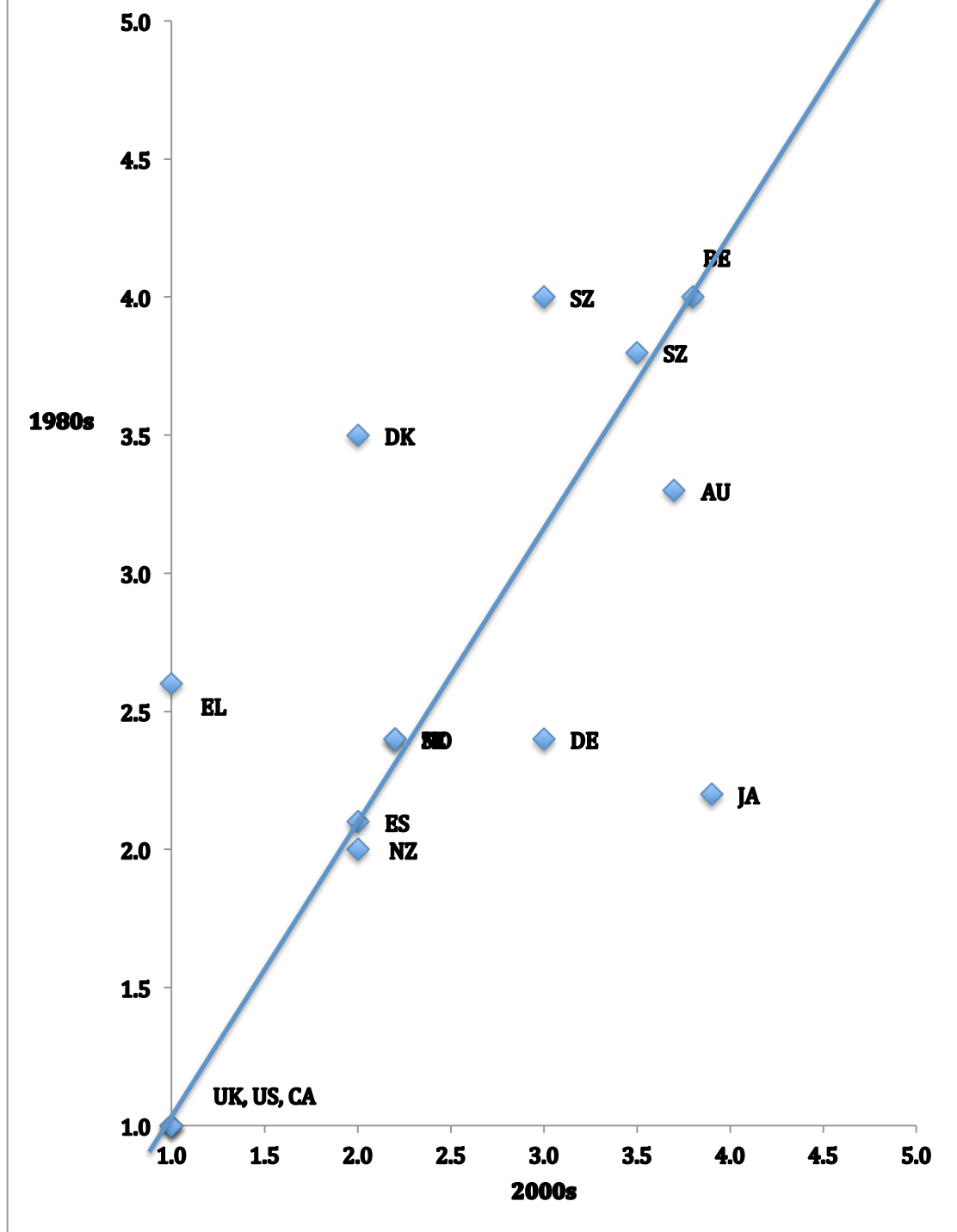
Source: ICTWSS Database 2013

**Chart 5B: Decentralisation,  
1980s-2000s**

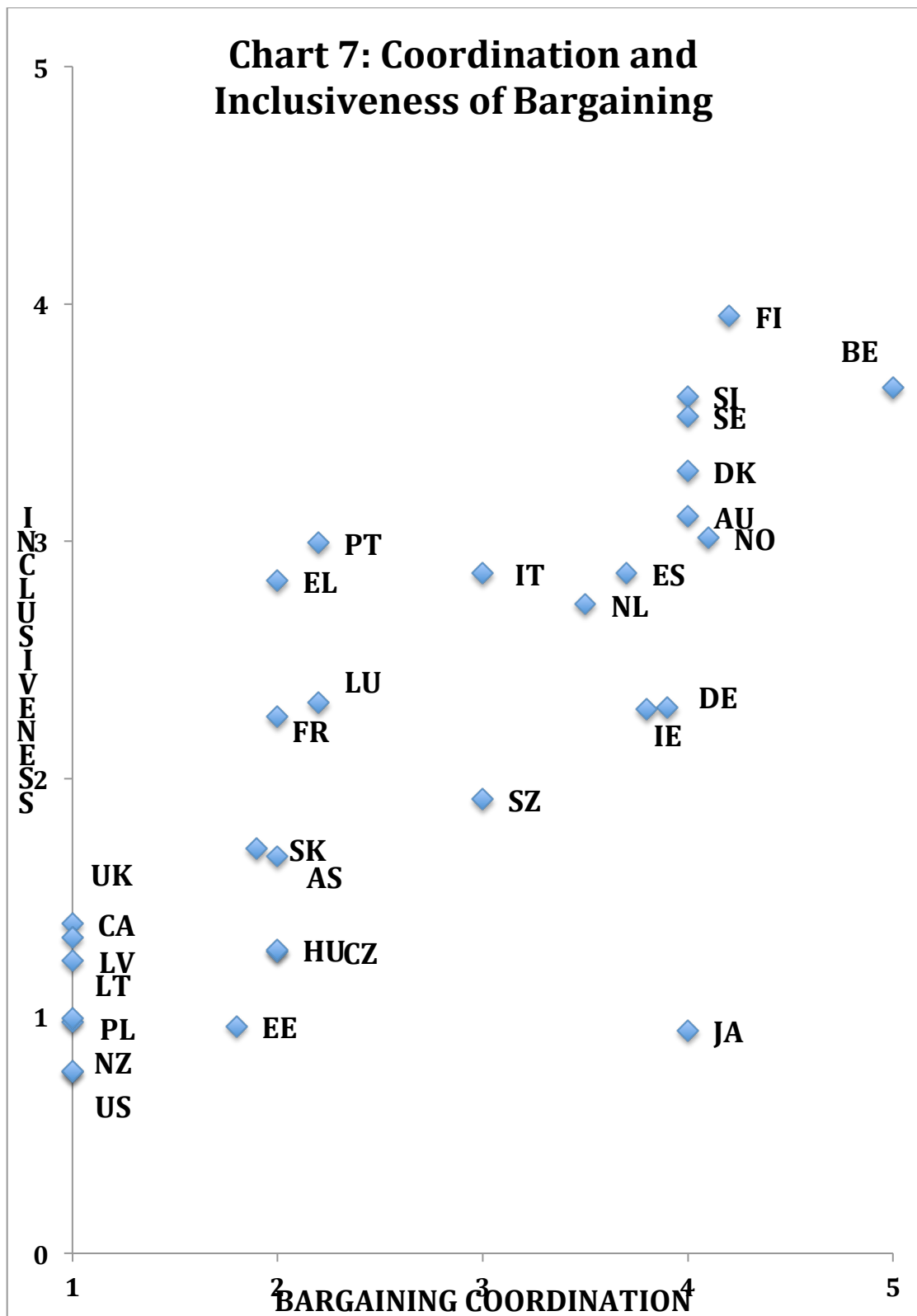


Source: ICTWSS Database 2013

**Chart 6: Extent of coordination, 1980s - 2000s**



Source: ICTWSS Database 2013



Source: ICTWSS Database 2013

**Table 1: Coverage rates in the market and non-market sector, 1990-2010**

	1990		2000		2010	
	market	public	market	Public	market	public
Finland	80b	100b	82	100	85	100
Sweden	72b	100b	90	200	87h	100h
Denmark	75	100	75e	100e	77h	100h
Norway	62c	100c	61g	100g	59i	100i
Austria	98		98		98	
Netherlands	74	100	82	100	82	100
Germany	78	100	66	97	58	97
France	93	100	90f	100f	90i	100i
Spain	67	100	80	100	72j	100j
Portugal	94b	100b	87	100	85h	100h
Hungary	45d		40f	47f	33j	29j
Slovakia			34f	59f		
Slovenia					90	100
Ireland			33	100	32	90
UK	40	78	23	74	17	65
Australia	78a	92a				
Canada	30b	80b	20g	76g	18	71
USA	13	43	10	42	8	41
Japan	23				16	
New Zealand	55	94				

Source: ICTWSS Database 2013

Notes: a=1988; b=1989; c=1992; d=1993; e=1997; f=2001; g=2002; h=2007; i=2008; j=2009

**Table 2: Changes in bargaining coverage and union density 1995-2010**  
**Company (lower panel) versus sector bargaining (upper panel)**

	Bargaining coverage			Union density		
	1995	2010	+/-	1995	2010	+/-
Austria	98.3	99.0	0.7	41.1	28.4	-12.7
Belgium	96.0	96.0	0.0	55.7	50.6	-5.1
Germany	76.0	61.1	-15.0	29.2	18.6	-10.7
Netherl	82.3	84.3	2.0	25.7	18.6	-7.0
Switzerl.	41.7	49.1	7.3	22.7	17.2	-5.5
Finland	85.0	89.5	4.5	80.4	70.0	-10.5
Sweden	94.0	91.0	-3.0	83.1	68.4	-14.7
Norway	72.0	74.0	2.0	57.3	54.8	-2.5
Denmark	84.0	85.0	1.0	77.0	68.5	-8.4
Italy	85.0	85.0	0.0	38.1	35.5	-2.6
Spain	80.0	73.2	-6.8	16.3	15.6	-0.8
Portugal	94.0	80.0	-14.0	25.4	19.3	-6.0
Greece	65.0	65.0	0.0	31.3	25.4	-5.9
Slovenia	100.0	92.0	-8.0	49.1	26.3	-22.8
France	90.0	92.0	2.0	8.8	7.9	-0.9
Luxemb.	60.0	58.0	-2.0	43.5	37.0	-6.5
Slovakia	51.0	37.5	-13.5	56.1	16.9	-39.1
Australia	70.0	45.0	-25.0	32.1	18.0	-14.1
Ireland	40.0	42.2	2.2	48.1	33.5	-14.6
UK	36.0	30.8	-5.2	33.1	26.5	-6.6
Estonia	29.0	25.0	-4.0	32.4	8.1	-24.3
Latvia	18.0	25.0	7.0	28.3	14.0	-14.3
Lithuania	7.5	13.0	5.5	32.7	10.0	-22.7
Czech Rep	56.3	47.1	-9.2	43.5	17.3	-26.2
Hungary	47.0	33.5	-13.5	49.1	16.0	-33.1
Poland	42.0	28.9	-13.1	20.2	14.1	-6.1
Canada	36.7	31.6	-5.1	33.7	27.4	-6.3
Japan	21.5	16.0	-5.5	24.4	18.4	-6.0
New Zeal.	43.3	17.0	-26.3	27.2	20.8	-6.4
USA	16.7	13.1	-3.6	14.3	11.4	-2.9

Source: ICTWSS Database 2013

**Table 3: Employer organization, union density, and bargaining coverage,  
Mean values for 2000-9**

<b>Employer organization</b>	<b>Union density</b>			<b>Total</b>
	Weak <25%	Medium 25-49%	Strong 50 and more	
Strong (>66% )	6 / 76.1	4 / 84.8	<b>5 / 86.9</b>	15 / 82.0
Medium (34-66%)	5 / 36.3	<b>4 / 43.6</b>	0	9 / 39.5
Weak (<34%)	<b>6 / 25.2</b>	0	0	6 / 21.3
Total	17 / 45.1	8 / 64.2	5 / 86.9	30 / 57.1

Source: ICTWSS Database 2013

Note: number of cases (countries) and average bargaining coverage level for each combination

**Table 4: Extension of collective agreements, enlargement and functional equivalents: procedures, scope and conditions**

Country	Initiative	Extended to	Minimum requirements for extension	Use*	ICTWSS coding 2010
Australia	Widespread until 1980s, related to arbitration and award system; limited after 1996, but some revival of awards after 2007			Still relevant	2
Austria	Extension automatic	Agreement automatically applies to all employees of employers affiliated to signatory organisations. <i>Enlargement possible</i>	n.a.	Extensive	3
	Mandatory membership of Chamber of Economy for companies			Near complete coverage	
Belgium	On request of signatory party but virtually automatic	All employees and employers in a given sector.	-	Extensive	3
Canada	None (except in province of Quebec)			No	0
Czech Rep.	Minister	Companies and employees "under similar economic and social conditions"	?	Very limited	1
Denmark	Request of social partners	All employees and employers	Only used for transposition EU law (i.e. on non-pay issues)	No	0
Estonia	Minister	All employees and employers in a given sector.	If there is a sector agreement, and both unions and employers agree.	Very limited	1
Finland	Automatic (ex lege).	All employees and employers in a given sector.	At least 50% of employees in field of application must be covered prior to extension (since 1998)	Quite relevant	2
France	Near automatic (ex lege); on formal request of Min. or social partners.	All employees and employers in a given sector. <i>Enlargement to other sectors or regions possible</i>	n.a.	Extensive	3
Germany	On request of at least one party to the collective agreement.	All employees and employers in a given sector.	At least 50% of employees in field of application must be covered prior to extension, extension must be in public interest; approval by special collective bargaining committee required	Limited	1
	Since 1998 Minister can extend minimum wage regulation in some industries on its own initiative. Some federal states have passed laws on public procurement which require contractors in construction and transport to comply with provisions defined in collective agreement. Attempts have been made - unsuccessfully - to legislate nationally on this issue. ECJ has passed negative verdict when applied to posted workers			Limited, but increasing	
Greece	Automatic when	All employees and employers in a given	Employers already covered by agreement	Extensive	3

	national agreement; initiative Min. or social partners.	sector.	must employ at least 51% of employees in sector or occupation.		
Hungary	Min. after request by one or both contracting parties.	All employees and employers in a given sector.	Applicants need to present proof of their majority status.	Limited	1
Ireland	Contracting parties, if registered agreements (ERA)	All employees and employers in a given sector/region or company, if registered agreement.	Parties to the agreement must be 'substantially representative'.	Exceptional (only ERA's in building)	1
	Joint Labour Committees (JLC's) may be established by Labour Court to define minimum rates of pay and employment conditions in particular sectors by Employment Regulation Order (ERO). JLCs are made up of representatives of employers and workers, and chaired by a representative of the Minister. ERO's have become rare after adoption of minimum wage legislation in 2000			Rarely used	
Italy	Based on art 39 of Constitution (not followed by legislation), courts use collectively agreed minimum wage levels as point of reference when assessing whether wages and salaries conform with the constitutional requirement for fair pay.			Very extensive	3
	Furthermore, collectively agreed wage levels are taken into account in awarding public contracts, in order to identify 'abnormally low' bids.			?	
Latvia	Min. after consult of contracting parties	All employees and employers in a given sector.	At least 60% of employees in field of application must be covered prior to extension	Very limited	1
Japan	Min.	Extension beyond enterprise or locality possible	Two-third of workers represented by unions	Extremely rare, due to enterprise bargaining	0
Lithuania	None			No	0
Luxembourg	Automatic	All employees and employers in a given sector.	-	Extensive	3
New Zealand	Until 1991, linked to arbitration and award system; abolished since			No	0
Netherlands	Request of one or more contracting parties	All employees and employers in a given sector.	Agreement must cover 60% of employees prior to extension (50% in special cases) and must not go against public interest	Relevant	2
Norway	Request of one or more contracting parties	Request of one or more contracting parties	Some industries (with high share of workers posted from abroad)	Limited	1
Poland	Motion to establish multi-employer agreement filed by bargaining party	All employees within a given multi-employer jurisdiction.	Competing union must not have become involved in negotiations within 30 days after the motion was filed.	Very limited	1
	Minister	All employees of employers conducting comparable activities.	Extension must satisfy a 'vital social interest'.		
Portugal	Min., on own initiative; near	All employees and employers in given	In case of enlargement,	Extensive	3

	automatic	sector; <i>enlargement to other regions possible</i>	interested parties can appeal		
Slovakia	Min. or request by contracting parties	All employees of those employers not covered by the agreement which perform similar business activities and are subject to similar social conditions	Should remove disadvantages for workers or firms not covered. Employers can veto (which they often do) in tripartite body at Ministry	Limited	<b>1</b>
Slovenia	Automatic, Min., or one of contracting parties	All employees and employers in given sector	n.a.	Extensive	<b>3</b>
	Compulsory membership (until recent) for companies of Chamber of Commerce and Industry, and Chamber of Crafts			Near complete	
Spain	Automatic, request of one of parties in case of enlargement	All employees and employers in a given sector or geographical area; <i>enlargement to other sectors or regions possible</i>	Automatic if agreement is signed by representative organizations	Extensive	<b>3</b>
Sweden	None			No	<b>0</b>
Switzerland	Federal Min. on request of one of contracting parties	All employees and employers in a given sector	Threshold lowered from 50% to 30% in 1999	Quite important (since 1999)	<b>2</b>
U.K.	None, limited before 1980 and abolished since			No	<b>0</b>
U.S.	None			No	<b>0</b>

Note: enlargement *in italics*; functional equivalents for contract extension shaded.

Source: adapted and updated from Traxler and Behrens 2002; OECD 2004; European Commission 2003; Blanpain 2004; CCCN 2004; EIRO country profiles.

**Table 5: Level of bargaining 1960-2010**

level	1960	1980	1995	2010
5	4	3	2	1
4	5	4	2	3
3	6	11	12	10
2	1	1	3	4
1	4	3	11	12
cases	20	22	30	30

Source: ICTWSS Database 2013

Note: number of cases (countries) in which bargaining took predominantly place at specified level

**Table 6: Articulation of bargaining related to single- and multi-level bargaining**

Organization of bargaining	code	articulation
Multi-level (national/industry bargaining AND enterprise bargaining)	5	None
	4	SE, DK, NO in 1960s and 1970s; IT 1968-73 or thereabout
	3	DK, NO, SE since 1980s
	2	IE 1987-2009; IT since 1993
	1	IT 1974-1992, UK until 1980s; IE in 1970s
Single-level (national/industry bargaining OR enterprise bargaining)	5	EL, ES, FR, LU, PT, SK most years; NL most years until 1993
	4	AU, DE, SI most years; BE since 1971; AS and NZ most years until 1990s; NL from 1993
	3	None
	2	None
	1	None
Single-level (enterprise bargaining)	0	UK since 1980s; CEE (except SI and SK); JA, US; NZ since 1992; IE 1980s, from 2009.

Source: ICTWSS Database 2013

**Table 7: Type and extent of coordination of wage bargaining**  
Most frequent mode and average extent per period

	1960-79		1980-94		1995-2010	
	mode	extent	mode	extent	mode	extent
Belgium	4	3.9	5	4.3	6	4.9
Netherlands	4	3.9	4	3.8	3	3.6
Switzerland	3	4.0	3	3.7	3	3.0
Austria	3	5.0	2	4.2	2	4.0
Germany	2	3.8	2	4.0	2	3.8
Luxembourg	1	2.1	1	2.3	1	2.1
France	1	2.2	1	2.1	1	2.0
Finland	5	4.1	5	4.2	5	4.3
Norway	4	4.8	3	4.0	2	4.1
Denmark	4	5.0	2	3.7	2	3.9
Sweden	4	5.0	4	3.9	2	3.9
Spain			1	2.9	4	3.4
Italy	1	2.3	1	2.7	3	3.3
Portugal			3	2.6	3	2.5
Greece			1	2.0	1	2.2
Ireland	1	1.9	5	2.8	5	3.9
Australia	5	3.0	5	3.3	1	2.0
New Zealand	5	3.0	5	2.1	1	1.0
UK	5	3.2	1	1.0	1	1.0
Canada	1	1.6	1	1.0	1	1.0
USA	2	1.4	1	1.0	1	1.0
Japan	2	5.0	2	5.0	2	4.2
Slovenia					5	3.6
Czech Rep					1	2.0
Slovakia					1	2.0
Hungary					1	2.0
Estonia					1	1.5
Latvia					1	1.0
Lithuania					1	1.0
Poland					1	1.0

Source: ICTWSS Database 2013

Germany: before 1990 West Germany