ROUTLEDGE REVIVALS

The Role of Employer Associations and Labour Unions in the EMU

Institutional Requirements for European Economic Policies

Edited by
Gerhard Huemer
Michael Mesch
Franz Traxler

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Preface

The present volume is based on the proceedings of an international symposium organised by the *"Arbeitskreis für ökonomische und soziologische Studien"* (Working Group for Economic and Social Studies) entitled "Institutional Requirements for European Economic Policies". The conference was held in Vienna on September 5th and 6th, 1998.

The Arbeitskreis is comprised of representatives of the Austrian Federal Economic Chamber, the Austrian Federal Chamber of Labour, the Austrian Federation of Trade Unions, and the Federation of Austrian Industry. Its goal is to carry out scientific research on issues that are of long-term importance to the Austrian economy and that relate to the activities of the organisations mentioned.[1]

With the start of European Economic and Monetary Union, the year 1999 marks the beginning of a new stage of integration in Europe. A common currency for 11 EU member states substantially changes the conditions under which economic transactions take place and it establishes a new framework for macro-economic policy in Europe.

By "European economic policies" we do not mean "European" in a geographical sense, but in the sense that certain essential characteristics of Europe's economy and society are shared by all—or at least by many—member states of the EU and are therefore also elements of a common European identity. The symposium was intended to analyse and discuss in depth how these characteristics will or could be affected by the recent institutional changes brought about by the integration process and in addition also by intensifying global competition.

The main focus was on those aspects of change in institutional and other framework conditions in which social partners are involved as actors in policy-making and therefore share responsibilities for outcomes: for successes as well as for failures. Contributions were grouped around three basic subjects: What constitutes the European economic and social model? What are the consequences of EMU for macro-economic policy, especially monetary policy and wage formation? Finally, what are the institutional and other requirements for policy co-ordination at the European level?

It was the intention of the organisers of this symposium to bring together social scientists and practitioners of the Social Partnership for a fruitful debate.

The Arbeitskreis expresses its thanks to all contributors and also to the editors on whose shoulders not only rested the main responsibility for preparation and organisation of the symposium but also for making this publication possible within one year after the event. Finally, we should like to express our appreciation for editorial assistance by Marjorie Fiebinger (language editing), Lina Zehetner (Zehetner GesmbH, formatting), and the publisher.

Günther Chaloupek
Chairman of the *Arbeitskreis für ökonomische und soziologische Studien*

Vienna, March 1999

Note

1 To mention only the most recent one: Michael Mesch (ed.), Sozialpartnerschaft und Arbeitsbeziehungen in Europa (MANZ: Vienna 1995).

1 Does a European Social Model Exist and Can It Survive?

BERNHARD EBBINGHAUS

Introduction

More than ten years ago, when the project of the Single European Market was on the European political agenda, Michael Emerson—on leave from the European Commission— wrote a small monograph entitled *What Model for Europe?* (1988). He begins his book with an anecdote from a conference at which an American economist criticised Europeans for their employment problem and recommended the adoption of the American model of an unregulated labour market. This provoked the sharp reply of a European politician: "You do not understand that Europe operates on a different model" (Emerson, 1988, p. 1). A decade later, we still quest for a European social model as a base for transnational co-operation and cohesion, in particular, in the debate on EU social policy. An answer to the query might depend on the lens we use: From afar, when we compare the European welfare states with the advanced market economies of North America and Asia, we can recognise Europe's shared distinctiveness, whereas, when we look closer, we perceive intra-European, cross-national diversity. If there is—or should be—a model that takes the lead in European integration, this blue-print would have to portrait as much about Europe's unity of shared social values, institutions and structure as it would about how to manage historically-entrenched cross-national diversity.

The quest for a European social model is not merely an academic endeavour but also an issue of political relevance for European integration. An analysis of the congruence of European societies helps us to understand the sources and potential for political and economic transnational co-operation. The European Commission has made explicit reference to the "European social model" in order to advance a common social policy agenda and to include social partners in the process. An analysis of the European socio-economic model is also of importance for understanding its comparative advantages and the continued viability of this model, given global competition. Thus, we might ask whether European market societies distinguish themselves from other leading industrial world regions, in particular from North America and the Asia-Pacific region. In a comparison of the triad of "global players"—to borrow from the jargon of international business—we can indeed detect some distinct European features vis-à-vis the USA and Japan, and some trends towards convergence within Europe (Boyer, 1996; Kaelble, 1987; Therborn, 1995).

When we look more closely, we find that there is not one European model, but that Europe is built on a "variable geometry" not only of political membership but also of partially overlapping social institutions and sets of national models that co-exist across Europe (Ebbinghaus and Kraus, 1997). There are significant cross-national variations among the major components of *the* European model that have been entrenched in national social institutions over centuries. Moreover, because national modes of regulation, in particular social policy and industrial relations, serve an important integrative function for nation-states, they are reluctant to transfer competencies to the European level. The scope of EU redistributive social policies and transnational regulation in labour relations is rather limited, particularly in such matters as social insurance, strike laws, or workplace representation (Leibfried and Pierson, 1995; Marks et al., 1996; Ulman, Eichengreen, and Dickens, 1993).

But even if European unity has been built on a distinct mix of national socio-economic models, the question remains whether these socio-economic institutions and social practices are still viable under on-going globalisation pressures and further steps toward European integration. With the Single European Market and European Monetary Union (EMU), European economies are increasingly facing "regime competition" (Streeck, 1995) vis-à-vis the other OECD countries and developing markets. For instance, Swedish neo-corporatism and the German "social market" economy, hailed in the past for their successful combination of competitive export-oriented market economies and advanced welfare states, have become heavily undermined in the 1990s (Pontusson, 1997; Streeck, 1997b). As these are prime examples, the debate on the "end of corporatism" (Lash and Urry, 1987) or the German "Standort" (Immerfall and Franz, 1998) is disclosing cases of the multiple threats to the viability of Europe's model. But even if the malaise of these two important economies may not be the fate of their smaller neighbours, their economic problems will have repercussions on the whole European Economic Area.

Certainly, transnational pressures cannot be denied—external competition and internal challenges will require the adaptation of both national and European-level socio-economic institutions (Grahl and Teague, 1997). The question remains whether Europe's only possible response is to follow the Anglo-American liberal deregulatory path on which at least Britain has set her course. Whether regime competition will undermine the present models or lead to downward spirals of deregulation and fragmentation is hotly debated, yet thus far the issues remain largely unresolved (Abrahamson, 1991, Streeck, 1995, Scharpf, 1996). The public and academic debate is swayed by examples of national economies both within Europe and outside Europe that fare better than others, and these are seen as possible "models" for adaptation. Most recently, such show-cases include the US job-machine, the radical welfare state reforms of New Zealand, the Dutch employment "miracle", the Irish economic growth record, and the Danish turn-around in unemployment.

While the term "model" as used in public debate often implies a masterplan, it is used here as shorthand for the way in which specific combinations of institutions and social practices govern marketsociety relations in a particular nation-specific combination. This conception of socio-economic models goes beyond a narrow focus on the governance of markets, macro-economic policy, and production systems, to include the employment relations, labour market organisation and social policies. In fact, one would expect that different models arise more from the non-economic spheres than from the mode of economic governance.

In the brief comparative analysis presented here, the focus will be on the main aspects of economic governance, industrial relations employment regimes, and the welfare state. In this chapter, we will first analyse the main trends and cross-national differences in these areas, comparing the European Economic Area with the USA and Japan. While there has been some convergence in macro-economic development, especially in inflation rates and economic growth, there are still important cross-national differences in the degree of internationalisation between the "global players" and within Europe. With the help of some main indicators, I will map the cross-national differences in labour relations, labour market trends, and welfare state policies. This supports the thesis that there are still marked differences throughout Europe. In a second step, four different European models will be described. Each model represents a particular combination of economic governance, industrial relations, employment regimes, and welfare state policies. Finally, at the end of this chapter, I consider the repercussions of the

Table 1.1 Socio-Economic Indicators, Europe, USA and Japan, 1990s

Model	Country	Trade (%GDP) 1995	Bargaining coverage 1990	Wage spread (males) 1994/3	Employment ratio 1995	Unemploy-ment rate 1990–6	Taxation (%GDP) 1995	Social exp. (%GDP) 1993
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
Nordic	Sweden	62.7	83	1.36	77.9	6.0	49.7	38.0
	Denmark	54.8	..	*1.38	72.9	8.4	51.3	31.0
	Finland	58.3	95	1.46	71.0	13.3	46.5	35.4
	Norway	59.1	75	*1.32	72.4	5.4	41.5	29.3
Centre	Germany	41.2	90	1.37	64.9	7.4	39.2	28.3
	Austria	62.7	98	1.67	63.0	4.0	42.4	25.8
	Belgium	82.4	90	1.38	56.6	10.1	46.5	*27.0
	Netherlands	76.7	71	1.56	65.2	6.8	44.0	30.2
Southern	France	40.0	92	1.60	59.0	10.9	44.5	27.3
	Italy	45.2	..	1.65	51.2	11.4	41.3	25.0
	Portugal	58.5	79	1.72	65.3	20.1	33.8	16.3
	Spain	41.5	68	..	55.8	5.8	34.0	22.5
	Greece	36.8	..	..	54.9	9.0	41.4	17.2
Anglo-Saxon	UK	49.3	47	1.74	68.3	8.5	35.3	23.4
	Ireland	92.4	..	..	55.3	14.2	33.8	20.1
	USA	22.5	18	2.13	73.3	6.2	27.9	15.6
Japanese	Japan	16.7	23	1.60	74.1	2.6	28.5	12.4

Source: (1, 4–5) OECD Historical Statistics, 1997,(2) OECD Employment Outlook 1994, (3) OECD Employment Outlook 1996. Notes: (*) 1990/91, (6–7) OECD in Figures, 1997.

coexistence of different models for European integration as well as the particular problems involved and their viability. Indeed, since national adaptations of the particular models are needed, the main task of bringing the collective actors together to co-ordinate the reform of the given institutional arrangements remains largely a national affair, in spite of whatever we might be able to learn from other models.

Global Convergence or Cross-National Diversity?

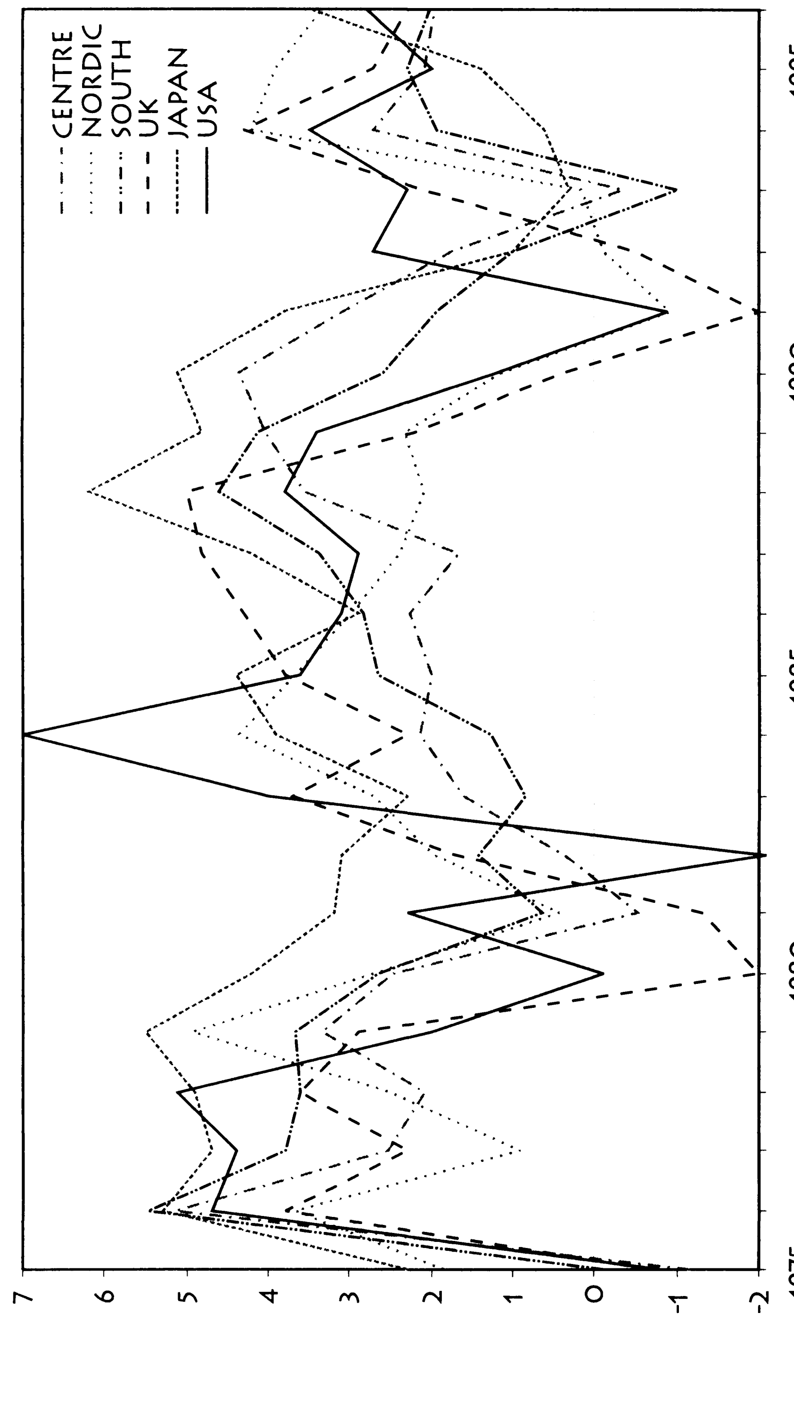
Does the European Economic Area resemble the American and Japanese economies, and have Europe's economies become more like their global competitors? Or can we still speak of a distinct European way? The globalisation debate has led to a revival of the convergence thesis (Boyer, 1996), though at the same time many comparative institutional studies point to persistent cross-national diversity (Berger and Dore, 1996, Crouch and Streeck, 1997). A brief comparative analysis of some major aspects of the socio-economic development with the help of a number of selected indicators (see Table 1.1) provides an overview of the main patterns and trends. In order to show convergence or divergence, we have described four aspects that are different in Europe than in the USA and Japan, though these are areas in which we can also find ***intra***-European variations. These aspects are:

(1) *economic performance:* Europe has, by and large, a lower growth performance but higher trade dependency than Japan or the USA;
(2) *industrial relations*: Europe is marked by a higher degree of interest organisation and co-ordinated bargaining as well as a more equal wage structure;
(3) *labour market:* Europe suffers more from severe unemployment and a less flexible labour market;
(4) *welfare state*: Europe differs in its larger public budget and deficits, which finance more advanced social protection.

Economic Performance

Sustained economic growth, which in turn fosters welfare and employment, is a paramount indicator of economic performance. With the oil price shocks, the post-war golden age of record economic growth ended: Average growth rates declined to post-war lows in the early 1980s, affecting all parts of

Graph 1.1 GDP growth rates (in %), 1975–96



Europe, North America and even Asia. However, despite high dependency on oil, Japan fared far better than any other economy in the 1970s and 1980s and the USA was not hit as hard by the economic downturn as many European countries were. While the European economies followed a similar downward cycle, some were more severely hit by the recession of the mid-1970s and early 1980s: The UK and continental countries had growth rates of less than 2% in the first half of the 1980s, while the Scandinavians, the USA, and Japan did somewhat better. Note that Japan and the modernising Southern economies had higher growth rates until recently, due to the late-comer catching-up effect, and the fact that in contrast to the Nordic and continental European countries, the USA and UK oscillate through more pronounced up-and-downs. Yet by the early 1990s, recession had set in again and now all advanced economies, including Japan, the USA and UK seem to be converging around modest growth rates between 2% and 4% (Graph 1.1).

This convergence in economic growth, together with a narrowing of inflation rates, indicates how close European economies have grown with the Single European Market and the preparation for EMU. Today, the European Union is the largest "single market" in terms of consumers (373 million in 1996), compared with the US domestic market (265 million), which is one-third smaller and Japanese home market (126 million), which is much smaller, but more protected. However, in terms of economic strength (whether measured in GDP per head in US dollars or purchasing power parity), the US and Japanese economies still perform better than the Single European Market, and even most national economies in Europe. Yet today Japan faces a severe economic crisis, while the USA has good growth prospects. Also, some European countries share this good fortune, in particular, Ireland's now booming economy stands out for attracting foreign investment.

Europe is remarkable, however, in terms of its trade dependency (measured as combined export and import in percentage of GDP): The European single market countries, in particular the smaller economies were always more internationalised than the large domestic markets of the USA or Japan. While the two other "global players" are much less dependent on imports and exports, each national economy in Europe is at least twice as internationalised. Some smaller countries, such as Belgium, Ireland and, of course, Luxembourg, import and export nearly as much as their national gross domestic products. It should be noted, however, that the largest share of this trade dependency is due to the internal European market and not to world-wide trading. In the past, the European export economies were relatively dependent on the US dollar and Japanese yen exchange rates. The euro will provide better conditions for intra-European trade and might bring some advantages to the world market in the future, if it is able to become the second most important international currency after the US dollar.

Industrial Relations

The relations between organised capital and labour assume an important role in modern economies: They shape the environment for economic growth and social welfare. In Europe industrial relations at the national as well as the workplace level differ from those in North America and Japan, though there are also pronounced differences within Europe. In some countries with corporatist labour relations, especially in Scandinavia and continental Europe, trade union movements have gained an institutionalised role in national politics and economy (Crouch, 1993), while the two other "global players" have traditions of business or enterprise unionism. In the Nordic countries, unions have negotiated representative rights at the workplace level, while in some continental European countries, the state has legislated "dual" workplace representative structures with participation rights for employees. Such participation rights are unknown in North America and Japan (Rogers and Streeck, 1995).

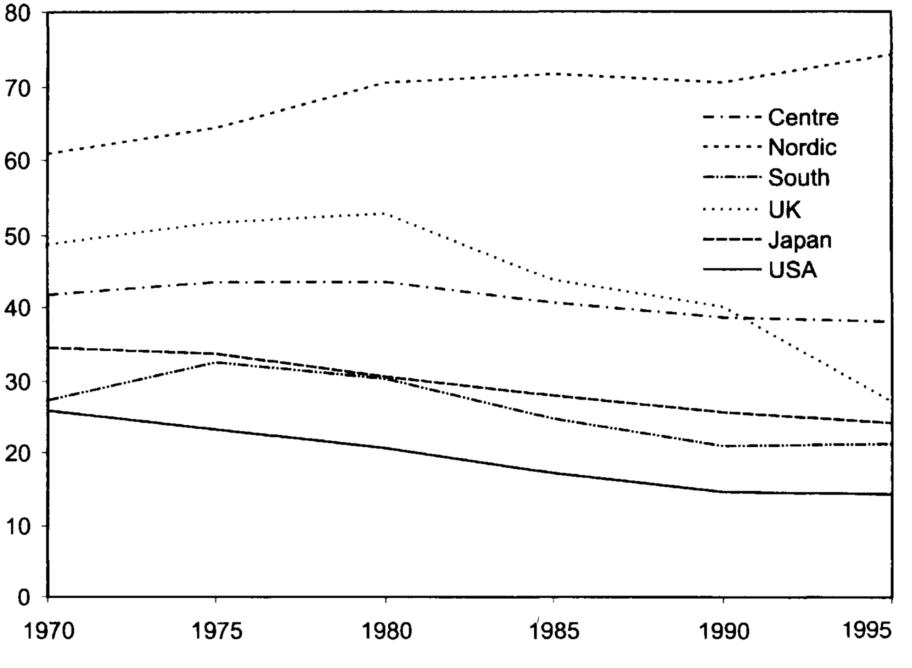
In terms of membership strength, union density (measured as the share of the dependent labour force that is unionised) is higher on the average in Europe than in the USA and Japan (Visser, 1991). The American and Japanese union movements have suffered from severe declines in membership. But there are large cross-national differences in membership levels and trends across Europe (Ebbinghaus and Visser, 1999): The Nordic countries with union-led unemployment funds have gained in membership during the last decades, while most other countries have lost members. In particular, membership in France and the UK declined most dramatically, followed by Italy and Ireland, but also more gradually by the Netherlands and Austria. Instead of convergence, we find persistent—if not growing—divergence in the level and composition of union membership across Europe and vis-à-vis North America and Japan (Graph 1.2).

Employers associations— at least in the countries with neo-corporatist or social partnership traditions— are more centralised, more representative, and more co-operative than American employers, who often choose an anti-union strategy. The most important difference is the high coverage rate of collective agreements in Europe (ranging from 67% to 98% in 1990), compared to the USA (18%) and Japan (23%), although the UK (47%) and

Switzerland (53%) are moderately low (Traxler, 1994). In addition to the "social net" provided by the welfare states and stricter employment legislation in Europe, a larger section of the dependent workforce is collectively protected, thanks to a higher degree of union and employer organisation, and, where those are weak, *erga omnes* extension of collective agreements by the state.

As a consequence of the more co-ordinated bargaining structures and strategies, Europe (but also Japan) have less wage dispersion than the USA, which is free-market-oriented. Whereas American unskilled workers (those at the lowest decile of the income distribution) earn only around 40% of the median income, the lowest wage group ranges from around 60% in southern Europe and Japan to around 70% and more in Germany and Scandinavia (Traxler, 1994). Progressive taxation and social transfers may reduce these market induced income inequalities, yet again this holds true less for the US and Southern Europe. As a consequence of the residual welfare state, relative poverty levels are highest in the USA (17% after tax and transfers), followed by southern European countries (Italy, 14%), whereas Germany,

Graph 1.2 Net union density (in %), 1970–95



France, the Netherlands and the Nordic countries range below 10% (Esping-Andersen, 1990; Esping-Andersen, 1996a).With their more egalitarian wage structure and the lower post-tax / post-transfer income inequality, most European countries show a different conception of "fair share" in the value and profits gained from work. However, international competition, higher wages and non-wage labour costs tax the economic growth potential in the less productive sectors, such as private services, and hamper job creation, particularly for the less skilled.

Employment Trends

Large differences among the three "global players" can also be detected in respect to the structure of unemployment and the changes in it. One telling measure of the level of activity is employment ratios—that is, the share of the working population (15–64) with gainful employment. Both the US and Japanese labour markets have reached levels beyond 70% since the late 1970s and early 1980s respectively, whereas the European average has been below 65% ever since the first oil price shock in 1973. However, the Nordic countries (also Luxembourg and Switzerland) stand out with employment levels that are higher than those in the USA or Japan, despite their better welfare provision in case of non-work. Unlike the Nordic countries, the UK or the USA, the continental European societies still show a relatively low participation rate for women. They also use early retirement as an "exit" route to reduce labour supply during periods of mass unemployment. While labour market rigidities, through strict employment rights and practices, provide an obstacle to job growth, some of the high-value production systems in Europe profited from job tenure rules and internal labour markets. As in Japanese firms, these rules provide an institutional incentive for skill investment (vocational training), peaceful employment relations, and social acceptance of new technologies.

While for Japan with its tradition of life-long employment, and the USA with its relatively flexible labour market and wages, unemployment is less of a political concern, it has become the most urgent political problem in Europe. In the mid-1990s, the EU has about 20 million unemployed (11%), compared to only 8 million in the USA (6%) and 2 million in Japan (3%) (OECD 1997). Again, there are considerable intra-European variations: Spain stands out with a jobless rate of more than 20% followed by Finland, Ireland, France and Italy. Persistent unemployment in these countries goes