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Intra-union politics and wage-setting coordination in Eurozone countries

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Abstract

This article revisits one of the established hypotheses in the literature on European industrial relations. Focusing on the context in which wages are set via central coordination, the hypothesis explores why the wage-setting system often collapses and is replaced with sectoral or company-level bargaining. The answer revolves around the issue of wage costs, with the main claim being that the change (that is, de-coordination) occurs when employers are not satisfied with the performance of cost control. This article asserts that the hypothesis has only limited applicability. In particular, it holds only if central coordination remains a potential source of high wage costs. If the system turns to a reliable mechanism for wage moderation, which is true in the Eurozone countries, the hypothesis does not hold. Under this circumstance, employers will no longer consider de-coordination as a means of cost control. Instead, de-coordination can occur as a consequence of intra-union politics, as diverse union actors interact with each other in their response to the wage issue. The article will examine this new hypothesis of de-coordination in the context of three Eurozone countries in the 1990s and 2000s: Finland, Ireland, and Belgium.

Keywords

wage setting, industrial relations, corporatism, monetary integration, Europe

Wage-setting coordination is a research topic that has been discussed extensively in the literature on European industrial relations. The term ‘coordination’ broadly refers to the extent to which wages are set by common guidelines which operate beyond the individual company level (Kenworthy, 2001; Traxler et al., 2001). Previous studies have identified diverse forms of coordination (central, sectoral, or somewhere in between) and have provided various explanations for these (see Avdagic et al., 2011; Hamann and Kelly, 2011; Molina and Rhodes, 2002).

This article revisits one of the widely held hypotheses in this research area. Focusing on the context whereby wages are set via central coordination, the hypothesis explores why the wage-setting system often collapses and is replaced with sectoral or company-level bargaining. Attention

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has centered on the issue of wage costs, with the main claim being that the change (that is, de-coordination) occurs when employers are not satisfied with the performance of cost control (Crouch, 1995; Traxler, 1995). According to this hypothesis, central coordination often produces high wage costs through generous wage norms, wage drifting, wage compression, the unions' coordinated efforts for wage increases, and so on. Whenever these happen, employers respond with de-coordination, addressing the problem by increasing market discipline against the unions.

This article provides a critical review of this hypothesis. While agreeing that wage costs play an important role in de-coordination dynamics, it asserts that the role wage costs play varies depending on the context. In particular, it argues that the 'employer-led de-coordination' hypothesis holds only if centralized wage coordination remains a potential source of high wage costs. If this condition is not satisfied, which is the case in the Eurozone countries, the hypothesis does not hold. The rationale runs as follows.

With a commitment to fixed exchange rates and monetary austerity, governments in the Eurozone place themselves in a situation in which there is no room for flexible macroeconomic accommodation. Stable management of wage costs therefore becomes very important for sustaining the economy (Hassel, 2003). Under this circumstance, central wage coordination is an effective cost-management strategy. The encompassing nature of negotiations provides unions with a better understanding of the macroeconomic consequences of wage militancy, especially in terms of a profit squeeze and job losses, which in turn motivates them to pay more attention to wage moderation (Hall and Franzese, 1998; Pontusson, 2005). As long as this consideration holds, employers will no longer seek de-coordination as a means of cost management. Instead, certain union groups, especially rank-and-file unions at the subnational level, will be more interested in that change in an effort to achieve better wage deals. From their perspective, the status quo of central coordination has placed too much emphasis on the task of wage moderation. By deviating from it and thus allowing more room for lower level flexibility, they will have a better opportunity for a de-coordinated wage push. Notice that these voices will likely be in tension with their national leadership, who will still support central coordination with a broad concern for the national economy and overall job market. Depending on how internal union politics evolve, however, the militant voices can actually result in de-coordination of the wage-setting system.

In the next section, the theoretical background of this new hypothesis will be discussed. Some methodological issues will also be discussed, focusing on research design and sampling. Then the new hypothesis will be examined in the context of three Eurozone countries in the 1990s and 2000s: Belgium, Finland, and Ireland.

Explaining de-coordination: changing contexts, changing interests

Previous studies of neo-corporatism understood European industrial relations in the broad perspective of 'generalized political exchange,' whereby unions delivered wage moderation in exchange for certain long-term policy compensations, such as generous welfare and full employment (Lehmbruch, 1984). Centralized wage coordination was an important institutional feature of this compromise. Initially, the deal was considered as a project of the left, backed up by strong unions and labor-friendly parties (Korpi, 1983). Later, other studies added the role of organized employers, arguing that employers also supported the deal because they benefited by removing wages from market competition (Swenson, 2002).

Despite the controversies regarding the origin of the corporatist compromise, there was a broad consensus as to how to make the arrangement sustainable. One prominent answer revolved around the issue of wage costs (Molina and Rhodes, 2002; Scharpf, 1991). Controlling other political or structural variables which could intervene in the process, the corporatist arrangement would be sustainable if it produced successful wage moderation. Employers would then enjoy a stable source of profits, which would help them compensate for their contribution to the policy benefits for the unions. Without successful wage moderation, however, employers could draw no meaningful benefits from cooperation. The entire system of political exchange would therefore be put in peril.

European experiences with central coordination in the 1970s and 1980s provided a good example. First of all, the performance of wage control was not superb in general. There were various labor-friendly wage norms built into the wage-setting systems across Europe, such as automatic wage indexation, which provided the unions with a virtual guarantee of wage increases at least at the rate of inflation (Ferner and Hyman, 1992). Wage drift often also added to the costs by allowing local wage negotiators to set their wages higher than what was initially agreed at the central level (Hibbs and Locking, 1996). In some countries, especially those of Northern Europe, the problem was even more challenging because the unions placed a heavy emphasis on income solidarity, thereby producing a highly compressed wage structure (Pontusson and Swenson, 1996).

Still, the good news for employers was that governments retained diverse policy tools to moderate these pressures, at least partially. Relying on loose monetary and fiscal policies along with frequent currency devaluations, governments provided employers with various side payments to enhance their competitiveness in the export market, prop up consumer demand in the domestic market, and provide easy finance for investments (Huber and Stephens, 1998; Scharpf, 1991). Reflective of the role of these active governments, there even emerged a popular macroeconomic model in which government promoted economic growth and employment at the expense of mild inflation. Except for Germany and its small neighboring countries (especially Austria), where unions were known for wage moderation, this flexible model of macroeconomic governance provided European countries with an attractive path to the corporatist compromise (Scharpf, 1991; Traxler, 1992).

To highlight the merit of this macroeconomic model, the unions did not have to commit themselves to *tight* wage moderation. Employers, nonetheless, were satisfied with the status quo because governments intervened with various accommodating policies to make them feel *as if* wages were tightly controlled. One challenge to the model, however, was that it could survive only if the unions did not exploit their favorable position. The unions learned that wage increases would entail little cost because governments were willing to offer side payments to adversely affected employers. This enabled aggressive wage increases. Unless the unions were able to moderate their temptation for militancy, the corporatist model of macroeconomic governance would turn into an institutionalized source of high wage costs, nullifying the benefits of flexible policy accommodation (Crouch, 1985; Scharpf, 1987).

Scholars were interested in what the ultimate outcome of this uncertainty would look like: moderate wage increases or wage militancy? To find an answer, they paid great attention to the internal dynamics of unions. From their perspective, the unions were not an undifferentiated entity with a ready-made notion of general class interest. Rather, they were divided along their market position (that is, public versus private, competitive versus protected, international versus domestic, Europe versus the rest of the world, and so on) and the level of productivity in their respective sectors (Garrett and Way, 1999; Swenson, 2002). Furthermore, national-level union leaderships were differentiated from subnational rank and files with regard to key policy priorities. For instance, national leaderships tended to take a broader perspective in understanding the macroeconomic consequences of wage settlement (especially with regard to national investment and employment) due to their efforts to broaden the common ground for diverse members. Such leaderships also had some distinctive political interests in strengthening and consolidating their power in national-level industrial relations.[1] The rank and file, however, were not as influenced by this broad macroeconomic perspective or specific political interests. Instead, they tended to focus more on narrow economic gains, which they could get from wage negotiations.

Building on this general insight, previous studies asked if the unions could overcome these sources of internal division in favor of sustaining central wage moderation. True, the national leaderships would be open to cooperation because of their political and macroeconomic interests, as discussed above. But the same was not true for the rank and file. Given the possibility of government accommodation, in general they pressed for higher wage increases than the leadership preferred. Unless the leadership retained strong authority over the rank and file in order to put a lid on this militancy, the corporatist compromise of central coordination would be put in jeopardy. Employers would then seek an alternative, market-driven solution to address the wage problem (Garrett and Way, 1999; Schmitter, 1974).

Such a scenario came true in several European countries, as illustrated by Ireland, the UK, and Denmark in the 1970s and 1980s. Employers suffered from the organizational failure of wage moderation. This eventually provoked them to push for de-coordination as an alternative measure for cost control (Crouch, 1995). In the UK, the centralized wage-coordination experiment, which had been effective since the second half of the 1960s, collapsed in 1980. It was replaced with company-level bargaining (Hall, 1986). In Ireland, the centralized coordination system, which had been effective throughout the 1970s, changed to a company-level bargaining system in 1981 (Hardiman, 1988). In the same year, the tradition of government mediation in Denmark also broke down and was replaced with a new system of industry-level bargaining (Due et al., 1995).

Centralized coordination in the European Monetary Union

With the advent of the European Monetary Union (EMU), however, the situation changed dramatically. As discussed in detail below, the integration process increased instability for all industrial actors by reducing the room for Keynesian accommodation. This first increased the pressure for tight wage moderation and then promoted central coordination as a reliable solution to the task (Hassel, 2003; Perez, 2002). Under these circumstances, employers no longer considered de-coordination as a means of cost management. Instead, some union groups and especially the rank and file at the subnational level were attracted to that option as a means to de-coordinated wage increases.

We will trace this causal mechanism, beginning with the impact of monetary integration. The change made obsolete many policy tools which had been previously available for flexible macroeconomic management. Currency manipulation and nation-specific monetary expansion were no longer available. Fiscal stimulation also became difficult, though not impossible, because of the policy consensus that sound fiscal practices would provide an essential mechanism for monetary unification. What all these constraints meant for unions and employers was that rising wage costs could no longer be generously compensated for as before. Instead, they would pay the price directly by incurring a serious profit squeeze and job losses (Hassel, 2003).

Fearing for the implications of this economic challenge, unions and employers began to pay close attention to the issue of wage moderation (Hanke and Rhodes, 2005; Pochet and Fajertag, 2000). As seen from the experiences of several Eurozone countries in recent decades, one popular solution was to centralize the wage-setting process. This received broad support, especially in those countries where wage-setting systems had suffered from the chronic problem of wage militancy. The expectation was that the encompassing nature of central coordination would help industrial actors develop a broader approach to understanding the macroeconomic consequences of wage settlements. In particular, the unions would be keenly aware that wage militancy at the center would push up production costs nationwide, which would cause the job market to deteriorate given the difficulty of Keynesian accommodation (Hall and Franzese, 1998; Hassel, 2003; Pontusson, 2005).[2]

Building on these considerations, several Eurozone countries began to experiment with central coordination. Researchers then shifted their interest to the question of how sustainable the new systems would remain. Answering this question leads to the core of this study. We find that most existing studies have explored the issue from the perspective of long-term system sustainability. In other words, researchers focused on certain policy constraints within the EMU as a source of long-lasting functional or utilitarian pressure for central wage moderation (Avdagic et al., 2011). They then asked if this pressure would remain strong enough to sustain the systems. Back in the 1990s, this seemed to be true because any failure to meet the Convergence Criteria meant falling behind the emerging monetary club. Once the EMU was established in 1999, however, the situation became more complicated. Some studies found that the EMU no longer retained effective means to punishing defectors from the European collective guideline, as illustrated by frequent violations of the Stability and Growth Pact (Hanke and Rhodes, 2005; Molina and Rhodes, 2007). Others, however, emphasized that there still remained effective policy constraints on currency depreciation and monetary expansion, implying that Eurozone countries would have to control labor costs tightly if they were to remain competitive in the European market and beyond (Natali and Pochet, 2009; Teague and Donaghey, 2009).

This is a debate about an ongoing process, and the present article does not intend to resolve it. We note, however, that the scope of the above studies is limited to a certain aspect of central coordination, which is its long-term trend. Its short-term dynamics are left unexplained. This article fills in this gap in the research. While it is not clear if the EMU constraints still ensure the success of central coordination in the long run, their short-term implications are readily identifiable. In particular, we pay close attention to the role of the national macroeconomic cycle. We find that poor conditions promote central coordination, whereas good conditions discourage it.

Macroeconomic conditions, intra-union politics, and the sustainability of centralized coordination

We explain these central coordination dynamics by adopting the same approach as we did in the pre-EMU cases. That is, while we examine the role of a certain external condition which influences the functional necessity of tight wage moderation (in this case, the short-term business cycle under the policy constraint of the EMU), we also explore how this external constraint works through the internal dynamics between the industrial actors involved, especially the unions. It is important though that the internal dynamics are no longer considered as independent of the external condition, as used to be true before. They exist, rather, as a part of the path-dependent, endogenous causal mechanism (Hall, 2003) that flows from the initial macroeconomic conditions down to the final outcome of wage-setting coordination.

Lying behind this change is that a strong organizational hierarchy, which once acted as an independent precondition for corporatist concentration, no longer exists in contemporary European industrial relations. This is an outcome of several structural transformations during the past few decades, which include globalization, the spread of flexible production in manufacturing, and post-industrialization and the expansion of private service sectors (Molina and Rhodes, 2002; Streeck, 1993). All these changes have made industrial actors more heterogeneous with regards to their sectoral and local interests, eventually weakening their internal organizational hierarchy. Reflective of this development, the national leaderships of such industrial actors now look more toward an alternative mode of collective action. That is, they engage with the rank and file in a more democratic and deliberative form of interaction, whereby they solicit broad support for a collective decision by means of mutual persuasion and aggregative legitimacy (Baccaro and Simoni, 2010).

According to recent studies, this subtle mechanism of collective action works best in the context of general recession, when most major economic sectors suffer from poor performance (Baccaro, 2003; Hassel, 2003). Concerned with the fact that the national economy performs poorly at a time when there is little room for government compensation, industrial actors will develop a sense of economic crisis (Avdagic et al., 2011; Pochet and Fajertag, 2000). This in turn makes it easier for them to engage in internal communication to define a consensus solution (that is, wage moderation) and a feasible way to promote it (that is, central coordination).

Looking more closely at the configuration of the preferences of the actors involved, we find employers in general are supportive of centralized solutions (Hassel, 2003). In particular, they expect that central coordination at a time of crisis will produce a wage settlement which is tight enough to assist all major economic sectors, including poorly performing ones. The situation, however, is not as straightforward for the unions. First, the national leadership will favor central coordination on the same political and macroeconomic grounds as discussed in the pre-EMU case. Many unions from poorly performing sectors will also support the solution as a matter of economic survival during the crisis period. What is the response from those unions in sectors that are still thriving? They may complain that the status quo has led to wage increases far below what they could have obtained with free negotiations. Yet, thanks to the mechanism of democratic deliberation and opinion pooling, this criticism is eventually moderated in favor of central coordination, which is framed as a legitimate solution to the national economic crisis (Baccaro, 2003; Baccaro and Simoni, 2010; Negrelli, 2000).

The present article agrees with this innovative understanding of collective action, that democracy and deliberation can be a substitute for union hierarchy in promoting a broad consensus among diverse union actors. It asserts, however, that the soft mechanism of collective action works best only in the limited context in which its theory was originally developed, that is, during economic recession. To the extent that the economy fully recovers, the common ground for centralized wage moderation shrinks. Still, employers may support the arrangement because it provides them with a proven mechanism of cost control. But unions and especially the rank and file have different considerations. From their perspective, the status quo has placed too much emphasis on the issue of wage moderation, though justifiable given the difficulty of the economy. As the economy recovers, they find more room for compensatory wage increases in many economic sectors. Under this circumstance, their goal will be best served if they withdraw from central coordination and engage in local or sectoral negotiations. First, they will be freed from the public-minded discourse prevalent in the central negotiations, and thus better able to focus on their own economic interests. The ensuing wage competition at the local or sectoral level will also bring them extra benefits by raising general wage expectations and thus ratcheting up the floor of minimum wage increase (Traxler, 1995; Walsh, 1993). Notice that the national leadership of the unions will still take a cautious approach to the issue due to their concern about wage inflation and the power position in national industrial relations. Lacking in strong hierarchy, however, they find no feasible way to maintain the status quo against the will of many ordinary members. The ground of central coordination will soon be shaken, paving the way for a de-coordinated wage push.[3]

Research design and sampling

The following analysis will examine this new hypothesis of de-coordination in a sample of European countries. An ideal research design might include collecting all European cases of central coordination and comparing them with regard to the government's monetary commitment. Controlling for other causes which can intervene in the process, the researcher will examine how the differences in monetary conditions produced different causal dynamics for central wage coordination. For cases with no monetary commitment, we will examine if the logical steps specified by the hypothesis of 'employer-led de-coordination' were all put in place. As for the cases with monetary commitment, the analysis will see if the alternative logical sequences prevailed as predicted by the new hypothesis. In this way, we will analyze the different causal paths to de-coordination within the framework of comparative process tracing (Hall, 2003; Mahoney, 2007).

Given that many established studies (discussed previously) have already examined the cases of no monetary commitment along the lines of employer-led de-coordination, there is little use in revisiting them in this study. The analysis will therefore focus on more recent cases with monetary commitment. Resting on the new context whereby central coordination became a reliable mechanism for cost management, it will examine how the fluctuations in the macroeconomic cycle (along with the weak hierarchy in the labor movement) came to play a pivotal role in determining the dynamics of central wage coordination. In particular, the empirical analysis will use the method of comparative process tracing in the following way. First, it will classify all available observations with regard to their location in the macroeconomic cycle (that is, recession versus recovery). It will then check if the different macroeconomic conditions were systematically associated with different outcomes by either sustaining central coordination or prompting de-coordination. The analysis will also look into the real causal process to see if all logical steps specified by the hypothesis were indeed put in place. Here the point of interest is to trace how the macroeconomic variable worked through intra-union politics to produce the final outcome in wage-setting coordination.[4]

Fortunately, recent studies of European industrial relations (as discussed in the literature review above) have already conducted a part of the research, confirming that central wage coordination did indeed draw broad support from major industrial actors when the economy performed poorly. This article builds on these findings, and concentrates more on the context in which the general economy began to improve. It explores how this change influenced the preferences of diverse union actors and their internal politics, ultimately leading to the decline of central wage coordination.

One remaining issue to be discussed is the robustness of the empirical analysis. We could address the issue by checking some alternative causes of wage coordination and examining if any of these were systematically associated with the dependent variable. Given the lack of existing studies tailored to the specific topic of this article, however, it is difficult to find any established hypotheses to serve the purpose perfectly. True, there are some related hypotheses in the literature, which include the neo-corporatist hypothesis that finds that leftist power had a positive effect on central wage coordination (Korpi, 1983), the hypothesis of economic openness that finds that trade openness had a positive effect on central coordination (Katzenstein, 1985), the hypothesis of public-sector expansion that finds that the growth of the public sector had a negative effect on central coordination (Garrett and Way, 1999), and the hypothesis of wage flexibility that finds that wage compression had a negative effect on central coordination (Pontusson and Swenson, 1996). But all these hypotheses are interested in the historical origins or the long-term equilibrium conditions of central coordination, which are not directly related to the primary interest of our study: the short-term dynamics of central coordination.[5]

Building on the discussion so far, we now move on to sample selection. Two selection criteria will be applied. First, only the Western European group within the currency union will be examined, which is justifiable considering that the hypothesis of de-coordination was originally formulated in the context of affluent European democracies. The cases are then analyzed from around the 1990s, when the recent experiment with central coordination started, until the mid-2000s, which was immediately before the current financial crisis started. The crisis has brought enormous shocks to the European economies and therefore triggered serious responses regarding European industrial relations. These developments, however, are still ongoing and thus cannot be examined with established facts.

Second, the criteria for central coordination will be rather strictly defined. In particular, the analysis will deal with only those cases in which wages were set via explicitly centralized institutional procedures. This eliminates from the sample other cases in which wages were coordinated nationally, but by means of informal pattern setting, whereby some leading economic sectors set a nonofficial wage standard for the entire economy. In this system, industrial actors were given substantial room for intra- and inter-sector flexibility (Hassel and Rehder, 2001) and thus could adjust to the macroeconomic business cycle without necessitating an institutional change in the existing system. Germany presents a classic example whereby the metal sector played such a leading role. When the economy performed poorly, the metal unions (IG Metal) promoted wage moderation for the sake of overall competitiveness and employment. When the economy improved, however, they switched to a rather aggressive approach that sought compensatory wage increases. Other sectors then followed suit, spreading nationwide wage competition.[6] Building on these observations, we argue that the cases of informal pattern setting do not fit well for testing the hypothesis of de-coordination. Instead, the analysis will focus on those cases of explicit central coordination and demonstrate that wage adjustment in this context was always accompanied by a significant change in the wage-setting system.

Notice that all these sampling restrictions limit the size of the sample. This cost, however, is well justified if we recall that the hypothesis to be tested is applicable only to a limited population of countries: developed EMU countries with highly centralized wage-coordination systems. In other words, the hypothesis presents a sort of *contextual causality* whose potential for generalization is rather limited. In the same vein, the sample collected here virtually exhausts all relevant cases within the causal domain of the hypothesis (Mahoney, 2007).

In light of the discussion so far, Table 1 presents a summary trend for wage-setting coordination in 11 developed Eurozone countries. In eight of these countries wages were determined at sector or company level during the 1990s and mid-2000s, whereas Belgium, Finland, and Ireland exhibited more central forms of wage determination. This evaluation squares well with Visser's quantitative indicator (2011), entitled 'the dominant level of wage bargaining,' which presents one of the most widely accepted measures for the level of wage determination. The data range from a score of 1 for company-level bargaining to 2 and 3 for sector-level bargaining and 4 and 5 for central bargaining. We consider those countries with an average equal to or greater than 4 as cases of central coordination, whereas those with an average equal to or below 3 as cases of sectoral or no coordination. Elusive, though, are those cases whose scores fluctuated between 3 and 4 (that is, Greece, the Netherlands, and Belgium). For these cases, we refer to previous expert studies to make a qualitative judgment out of the uncertainty. Starting with Greece, wages were determined mainly through annual sectoral negotiations, along with biennial central guidelines which set the national minimum for wage increases. While this latter tier of central coordination (scored as 4 by Visser) worked effectively, country experts nonetheless think that the sectoral tier played the pivotal role because it always produced wage settlements beyond the national minimum (EIRO, 2002; Ioannou, 2000). Turning next to the Netherlands, wages were set mostly by sectoral negotiations, only rarely interrupted by temporary central agreements (scored as 4). Recently, such interruptions have occurred twice, in the early 1990s and early 2000s, when the Dutch economy suffered seriously

Table 1. Trends in Wage-setting Coordination in 11 EMU Countries (1990s to Mid-2000s).

Countries	Dominant level of coordination	Main characteristics*	Visser's measure of the dominant level of wage bargaining (2011)*
Austria	Sectoral	Pattern setting by the metal sector	2.8
Germany	Sectoral	Pattern setting by the metal sector	2.9
Greece	Sectoral	Backed up by a nationwide minimum floor for wage increases	3.5
France	Company	Backed up by various legal and administrative guidelines	2.0
Italy	Sectoral	Pattern setting by the metal sector	3.0
The Netherlands	Sectoral	Pattern setting by the metal sector, only rarely interrupted by central tripartite negotiations	3.4
Portugal	Sectoral	Pattern setting by the metal sector	3.0
Spain	Sectoral	Pattern setting by the metal sector	3.0
Belgium	National	Central bipartite bargaining, occasionally interrupted by insufficient government intervention	3.4
Finland	National	Central tripartite bargaining, occasionally interrupted by free sectoral bargaining	4.3
Ireland	National	Central tripartite bargaining which occasionally allowed differential settlements across economic sectors	4.3

Notes: * All qualitative and quantitative information was collected for the period 1990–2005, except for Belgium (1998–2005) and Finland (1995–2005), where the wage-setting systems were fully centralized only after 1998 and 1995, respectively.
Sources: Ferner and Hyman (1992, 1998); Royo (2002); Visser (2011).

from Europe-wide economic recessions (EIRR, 2003c; Visser and Hemerijck, 1997). Belgium, meanwhile, presents a case of central coordination. While there were sectoral negotiations which had to be renewed every year, the terms of the negotiations since 1998 have been determined mostly by biennial central agreements (scored as 4) which set the *maximum* ceiling of wage increases for sectoral agreements (Arcq and Pochet, 2000; EIRO, 2001; 2003; 2007b).

Building on these observations, we now present Belgium, Finland, and Ireland as the ideal cases for testing the hypothesis of de-coordination. In these cases, central coordination produced an impressive performance regarding wage moderation, proving itself as a reliable mechanism for cost control (Arcq and Pochet, 2000; Kauppinen, 2000; Teague and Donaghey, 2009). Entering the 2000s, however, the countries began experiencing ebb and flow in their efforts for central coordination. The next section examines what this fluctuation looked like and what lay behind it.

Hypothesis testing: comparative historical analysis

The analysis starts with Table 2, which presents some detailed information regarding the recent fluctuations of wage-setting coordination in Belgium, Finland, and Ireland. As briefly discussed above, initial agreement for central coordination was reached and sustained in the context of

Table 2. Trends in Wage-setting Coordination in three EMU Countries (1990s to Mid-2000s).

Countries	Years with wage agreements	Macroeconomic conditions around the years with wage agreements	Level of wage-setting coordination	Characteristics
Finland	1995, 1997	Poor	National	Tripartite negotiations between the unions, employers, and the government.
	1999	Good	Sectoral	Free sectoral negotiations.
	2000, 2002, 2004, 2006	Poor	National	Tripartite negotiations between the unions, employers, and the government.
Ireland	1987, 1990, 1993, 1996	Poor	National	Tripartite negotiations between the unions, employers, and the government.
	1999, 2002	Good	National, but along with sector-specific settlements and incomplete implementation	The public sector was given additional wage increases. Some private sectors also did not abide by the national guideline.
	2005	Poor	National	Tripartite negotiations between the unions, employers, and the government.
Belgium	1998, 2000, 2002	Poor	National	Bipartite negotiations between the unions and employers.
	2004	Good	National, but only with incomplete implementation	Some large industrial sectors did not abide by the national guideline.
	2006	Poor	National	Bipartite negotiations between the unions and employers.

Sources: EIRO and EIRR (Specific references are provided in the country analysis to be followed).

serious recession. As the economy improved, however, there emerged a notable tension inside the unions (between the national leadership and the subnational rank and file) regarding the wage issue, which led to the de-coordination of the centralized system. Then the system was re-coordinated for tight wage control as the economy worsened again.

All these within-case variations improve the analysis by increasing the number of *sub-cases* to be examined and also by diversifying their configurations. More specifically, we now have a total of nine *sub-cases* (three for each country), which are differentiated by diverse configurations of the independent and dependent variables. Of these nine, we focus on the cases of *de-coordination*. While the cases of *initial coordination* and *re-coordination* are also interesting, we do not discuss them in depth because they are already explained by existing studies which predict strong inter-class support for central coordination during a time of economic crisis.

Finland

Finland's bargaining system was characterized by nonbinding central negotiations for most of the postwar period. Its performance was never good, being mired in wage militancy and industrial strife. Luckily though, these problems did not pose a formidable challenge to the Finnish economy because trade with the Soviet bloc, along with strong wood-processing industries, provided a solid basis for economic growth and employment (Lilja, 1998). Entering the 1990s, however, the situation changed dramatically. The Finnish economy was hit hard by a series of economic shocks, such as the Soviet meltdown and the collapse of financial bubbles at the end of the 1980s, which produced a large-scale recession unprecedented in the postwar period (OECD, 1992: 11–18). The government, however, could not help because it was tightly constrained by the policy guidelines of the emerging EMU, which placed a heavy emphasis on price stability and budgetary balance. Under these circumstances, unions and employers began to believe they faced an economic emergency. Tight cost control seemed to be the only reliable way out of the crisis. This shared understanding then provided a fertile ground for central coordination as a means to peaceful wage moderation (Kauppinen, 2000). The 1995 talks for the 1996–97 bargaining round marked the official start of this cooperative approach (EIRR, 1995). From that year on, central talks provided effective national guidelines for wage moderation.

Toward the end of the 1990s, however, the mood of cooperation began to be shaken. The Finnish economy fully recovered from the economic turmoil of the early 1990s. According to the *OECD Economic Outlook*'s database, real economic growth, which had stayed around an average of –3.0 percent during 1991–94, reached a high of 5.8 percent during 1995–99. Lying behind this change was the rebound in Finnish exports, which was promoted in part by tight wage moderation. Consumer demand and business confidence soon followed suit (OECD, 1995: 87–9, 1998: 83–4). Impressed by this development, the OECD officially recognized Finland as one of the most successful recovery stories in the 1990s (EIRR, 1997b).

With this shift in the macroeconomic climate, the unions began to raise their voices for compensatory wage increases to put an end to the past several years of wage stagnation. De-coordination of wage negotiations was seen as one essential step for promoting this goal by freeing them from the public-minded macroeconomic discourse of centralized talks (EIRO, 2000). Although the national leadership, and especially the leadership of the SAK (the largest and most powerful union confederation in Finland), remained cautious about the change due to their concerns about wage inflation, the voices for de-coordination spread to many unions in several core industrial sectors, such as the chemical, wood-processing, and electronic sectors (EIRR, 1998).

The 1999 negotiations for the 2000–01 round were the test case for whether the tripartite talks could survive the mounting militancy. Feeling the pressure from rank-and-file unions and also in an effort to save the central talks, the SAK leadership put forward a demand for wage increases which was higher than in the past several bargaining rounds (EIRR, 1999c; Hamann and Kelly, 2011: 105). Employers and the government, who had been satisfied with the performance of central negotiations (Kauppinen and Waddington, 2000), responded amicably by expressing their willingness to discuss the issue within the existing framework of wage negotiations (EIRR, 1999e). Nevertheless, negotiations did not go smoothly because of disagreement among the participants regarding the level of wage increases. Dissatisfied with the delay, several SAK unions (mainly from the chemical, wood-processing, and electronic sectors) began galvanizing opposition to the central talks. Joined by several other sectors, they broadened the opposition to cover as many as 10 major industrial sectors inside the SAK. Faced with such widespread criticism, the SAK leadership could no longer continue its negotiations. The central talks collapsed and were replaced with free sectoral negotiations (EIRR, 1999a).

Entering the early 2000s, the Finnish economy changed again, this time toward stagnation. Output growth in Finland decelerated sharply from 5.8 percent in 2000 to 0.5 percent in 2001 (OECD, 2001: 88–9). A weak trend in exports and business investment also persisted throughout 2002 and 2003, leading the OECD to consider the Finnish economy to have entered 'uncertain, risky' terrain (OECD, 2003: 123–5). With this unfavorable macroeconomic development, the unions began to take a cooperative approach to wage moderation. The SAK leadership was then able to build up a broad consensus for central coordination from inside the Finnish labor movement. The negotiations for the 2001–02 round marked a revival of cooperation (EIRR, 2000b).

Ireland

Ireland exhibits slightly different dynamics. Like Finland, the country experienced a decline in central coordination in the wake of economic recovery. But there was no explicit shift toward free sector-level negotiations. Instead, at issue was the degree to which the seemingly identical forms of national agreements produced different wage standards across major economic sectors. This subtle path to de-coordination was again driven by rank-and-file unions, whose preferences were shaped by the changing climate of the Irish economy.

The Irish wage-setting system, following the collapse of central coordination in 1981, was characterized by company-level negotiations. Its performance was never good (Hardiman, 1988), as illustrated by the prevalence of wage-inflation spirals throughout the 1980s (whereby an initial failure of wage moderation provoked inflation which in turn pushed wages higher). The situation became more challenging when the conservative Fianna Fáil was elected to power in 1987. The new government was strongly committed to anti-inflationary monetary integration as envisioned by the emerging EMU. Emphasizing the principle of monetary and fiscal austerity, the government declared that it would no longer engage in Keynesian-style policy accommodation as before. Instead, the unions and employers should take responsibility for wage costs. If they failed, then they should pay the price by incurring profit squeezes and job losses. Alarmed by such a drastic policy shift, industrial actors began a serious search for a stable mechanism for wage moderation. This then provided a solid basis for the success of national wage talks in 1987, which were followed by three more triennial agreements in 1990, 1993, and 1996 (O'Donnell and O'Readon, 2000).

As the end of the 1990s neared, however, the support for central wage talks began to wither. The Irish economy fully recovered from the recession of the early 1990s. Real economic growth, which had been on average 3.9 percent in the first half of the decade (1991–94), soared to 12.0 percent in the second half (1995–99). Lying behind this dramatic improvement was the massive inflow of foreign direct investment, which was attracted in part by successful wage moderation and the deregulation of private businesses (OECD, 1999: 92–4). While there was a mild economic decline in the early 2000s, which pushed the growth rate down to 8 percent during 2000–02 (OECD, 2000: 138–40), this was seen as a natural adjustment following the unprecedented economic expansion of the 1990s. Consumers and the government continued to spend by relying on their vastly expanded revenues (OECD, 2001: 96–7).

The central talks in 1999 and 2002, which were convened to discuss the wage increase for the 2000–02 and 2003–05 rounds, proceeded under this economic boom. As in the Finnish case above, employers and the government wished to continue central talks as a means of stable wage control (EIRR, 1999d, 2002). The unions, however, had different ideas. While the national leadership (the ICTU, which is the peak confederation for all Irish unions) still hoped to continue central talks, the rank-and-file unions were clearly in favor of free sectoral or company-level bargaining. One leading voice for de-coordination came from the SIPTU (the largest union affiliated to the ICTU and one which covered several private industrial and technical sectors). As early as 1997 it announced a plan to withdraw from the 1996 national agreement (which then covered the period from 1997 to 1999) in an effort to obtain more generous pay increases. Although the plan never materialized, this was considered the first real challenge to centralized wage talks since 1987 (EIRR, 1997a). With the opening of the 1999 talks, the voices for compensatory wage increases grew even louder. This time public-sector unions were the main rallying point. Complaining that their wages had stagnated too severely over the previous few years, especially compared to private-sector wages, they pressed the ICTU leadership to take a more militant approach to central negotiations (EIRO, 1999a).

The ICTU leadership found no way but to respond to these militant voices. While engaging in centralized talks, they negotiated a rather loose form of wage settlement to allow flexible space for compensatory wage increases. In particular, they negotiated a two-tier agreement, whereby one tier would set the national wage standard and the other would provide an extra 3 percent increase for public-sector workers. The ICTU leadership also earned an agreement from employers and the government to set up a special committee, called the Public Service Benchmarking Body, which would discuss further wage compensation based on its research on the wage gap between the private and public sectors (EIRR, 2000a). Some private-sector unions also gained benefits, although in an implicit form. For instance, when the SIPTU negotiated 409 local deals following the 1999 agreement, 25 percent of the settlements ended in awarding wage increases higher than the national standard (EIRR, 2001). Considering that the compliance rates of previous settlements had stayed around 90 percent (EIRR, 1999b), this episode indicated a trend of tacit withdrawal from the central agreement. A similar story was repeated for the 2003–05 round. The negotiations were full of tension, which led to an initial collapse of centralized talks. Although the talks were restored through pressure from the government (EIRR, 2003a), the outcome was never impressive. It again failed to deliver a single national standard, providing public-sector workers with a special pay increase of as much as 8.9 percent (EIRR, 2003b).

Entering the mid-2000s, however, the macroeconomic context changed. First, there was a growing concern that labor costs had risen too much during the past several years of wage militancy. According to the *OECD Economic Outlook*, the annual growth rate of unit labor costs (which had remained as low as 0.6 percent in the 1990s) surged to an average of 4.1 percent in the first half of the 2000s, claiming a toll on Irish exporters in the European market (OECD, 2004: 85–6). In addition, inflationary pressure was piling up in the economy, following a decade of uninterrupted consumption which had created asset price bubbles, especially in the property and financial sectors (OECD, 2005: 89–90). With these growing concerns regarding the prospects of the Irish economy, the unions and employers revived their cooperative approach. The 2005 talks marked a new start for the approach, with the ICTU leadership joining employers and the government to sign up to an austerity-oriented triennial wage settlement (EIRR, 2006).

Belgium

Turning next to Belgium, the macroeconomic setting was similar to that in the Finnish and Irish cases. Industrial relations were characterized by confrontation rather than consensus until the end of the 1990s. While there were various efforts for bipartite national talks between the unions and employers, none of these were successful in producing voluntary agreements for wage moderation (Vilrokx and Van Leemput, 1998). Such a malfunctioning system was indeed a burden on the Belgian economy, whose small size meant that its prosperity rested on export-market competitiveness. The situation was made even more painful as the Belgian government maintained a steadfast commitment to anti-inflationary monetary integration, excluding active Keynesian accommodation as a policy option (Van Gyes et al., 2000).

It was in this context of economic hardship that the unions and employers forged a broad consensus for wage moderation. In particular, they agreed on the principle that wages should increase no higher than those of their main trading partners: France, Germany, and the Netherlands. In fact, the Central Council for the Economy (CCE), a quasi-governmental economic advisory board with representatives from the unions and employers, had already been publishing such a guideline on a regular basis since the mid-1990s. Now the social partners began to pay closer attention to the guideline, which paved the way for the success of central talks in 1998 (Arcq and Pochet, 2000). From that year to 2004 three more national talks were convened biennially, which all ended successfully with voluntary central agreements.

Approaching the mid-2000s, however, the consensus for central coordination began to waver. After passing through the recession of the early 2000s (OECD, 2001: 82–3, 2002: 69–70), the Belgian economy was heading for recovery. By mid-2003 the optimism spread further as a rebound in exports began to produce a spillover effect throughout the rest of the Belgian economy by improving consumer demand and business investment (OECD, 2004: 72). Real GDP growth, for instance, reached 3.5 percent in 2004. Although this was still a moderate figure, being only a little higher than the average of 2.8 percent for the 11 EMU countries listed in Table 1, it was the highest level of growth the country had experienced since 1990.

Reflecting this gradual shift in the macroeconomic climate, the unions began to take a more militant approach to wage bargaining. The 2004 talks for the 2005–06 round were a test of whether central coordination could survive the changing economic context. Here the pivotal actor was the FGTB/ABVV, one of the major union confederations in Belgium and one with a social democratic orientation. Back in the 1980s and 1990s, the confederation was the main player blocking every effort to establish central wage agreements. Thereafter it switched its position, making voluntary central coordination a viable option for wage control in Belgium (Van Gyes et al., 2000). While there was another major union confederation, the centrist Christian Democratic CSC/ACV, which also participated in the wage-setting process, this organization was not a main concern because it always supported central wage talks.

Looking more closely at the configuration of the preferences inside the FGTB/ABVV, its leadership were in favor of central talks along with the guideline provided by the CCE. This approach, however, was heavily criticized by rank-and-file unions and especially those from Wallonia, the home of outdated heavy industries. Businesses in the region lacked a capacity for job creation because of structural decline over the previous decades. The unions therefore were not attracted to the idea of trading wages for jobs, but focused more on maximizing their short-term wage gains (Arcq and Pochet, 2000).

Under this circumstance, the Walloon unions became the rallying point for the demand for compensatory wage increases in the 2004 negotiations (EIRO, 2005). Although the FGTB/ABVV leadership stayed the course to conclude a new central agreement with employers, the opposition did not back down. As soon as the leadership signed up to the deal for a 4.5 percent pay increase for the 2005–06 round, the Walloon unions mobilized a strong anti-pact campaign across various economic sectors. They eventually had the agreement rejected at the rank-and-file referendum which was supposedly convened to approve it (EIRO, 2005). The government then stepped in to break the stalemate and enforce the agreement.

It is interesting that even at this stage of government unilateralism, large unions in several industrial sectors remained defiant. They organized large-scale industrial action and eventually managed to secure high wage increases beyond the national standard: the construction and printing sectors earned a 4.75 percent increase, the chemical sector earned more than 5.00 percent, and the petroleum sector earned a 7.00 percent increase. In this way, the national wage agreement was only incompletely implemented (EIRR, 2005).

After the period of failed negotiations (2005–06), the economic climate in Belgium changed again, this time in the opposite direction. The CCE set the tone with a warning message. In its official annual report published in 2006, it warned that wage increases over the past few years were clearly higher than those of the country's three competing partners, thus posing an immediate threat to the competitiveness of Belgium's export industries (EIRO, 2006a). Soon after the report was released, central talks were convened to discuss a solution. The government, employers, and the CSC/ACV (the Christian Democratic section of the Belgian labor movement) all argued for the necessity of tight cost control in the upcoming round of 2007–08 (EIRO, 2006b). The leadership of the FGTB/ABVV also expressed its willingness to cooperate and signed up to a bipartite central agreement in 2006. This time, the Walloon unions remained silent and let the agreement pass in the referendum (EIRO, 2007a, 2007b).

Conclusion

This article has revisited one of the established hypotheses in European industrial relations. It asserts that de-coordination of central negotiations occurs when employers are not satisfied with the performance of the existing system. The article has confirmed that the hypothesis holds insofar as centralized coordination remains a potential source of wage militancy. If the system turns to a reliable mechanism for wage moderation, the hypothesis does not hold. Now it is employers who defend the status quo of centralized coordination, whereas de-coordination can occur as a consequence of intra-union politics, depending on national macroeconomic constraints.

Overall, the article presents a theoretical advance on the existing scholarship, which has tended to examine the topic of de-coordination mainly from one fixed perspective. Namely, the change occurs because of pressure from employers, while unions always resist it. The underlying assumption is that de-coordination is a project of market liberalism, whereas central coordination is a project of democratic corporatism. This article sets the issue free of this unwarranted determinism. It confirms that the preferences of industrial actors are not universally fixed, but rather are subject to change depending on the context. Focusing on the case of the unions, it also confirms that the actors do not exist as homogenous, undifferentiated entities, but rather have diverse voices which reflect diverse economic and political interests. Building on this innovative understanding, the article presents a context-based explanation of institutional change, whereby diverse industrial actors constantly update their institutional preferences based on their perceptions of the changing environment.

From a broader point of view, the article also contributes to one of the general theoretical debates in contemporary European industrial relations. This has revolved around the question of how to evaluate the relative power of structural and economic forces versus institutional and organizational forces in explaining the dynamics of wage-setting systems. One battleground has been the (re)emergence of central wage coordination in several Eurozone countries in recent decades (Molina and Rhodes, 2002). In explaining what led to this development, some studies have emphasized the role of economic and structural conditions, such as the economic and policy constraints of the EMU (Ferrera and Gualmini, 2004) and the poor state of national economies (Molina and Rhodes, 2007). These conditions, according to such studies, posed an enormous challenge to European economies and eventually promoted a cooperative response from all affected economic actors. Other studies, however, have criticized this perspective as being too functionally deterministic. They instead emphasize the role of other institutional and organizational factors in promoting central coordination, such as the legacies of preexisting wage-setting institutions (Hanke and Rhodes, 2005; Traxler, 1995), the internal decision-making process of industrial actors (Baccaro, 2003; Baccaro and Simoni, 2010), and the macroeconomic performance of central coordination (Natali and Pochet, 2009).

Reviewing these debates and also taking into consideration more recent developments in European industrial relations in the 2000s, a growing number of studies now adopt a more integrated approach. They consider both types of causes as indispensable for central coordination (Avdagic et al., 2011; Hamann and Kelly, 2011). Namely, while the structural and economic factors increase the pressure for central coordination, they cannot explain the success or failure of central coordination unless assisted by other institutional and organizational factors. This article adds validity to this integrative approach. Focusing on selected Eurozone cases which have exhibited some fluctuation in central coordination in recent years, it finds that the change is best explained by looking at the macroeconomic cycle in association with certain internal dynamics of the labor movement.

Notes

1. For references, see Molina (2006).
2. For the purposes of theoretical and conceptual clarity, notice that my discussion deals with only a limited part of central coordination in recent decades: the matter of under what circumstances the efforts for central coordination emerged and were sustained. My review therefore does not present any overarching assessment of the phenomenon itself. In particular, it does not provide any direct implications for assessing the ultimate nature of central coordination – whether it was a market-oriented project or a socially inclusive alternative. Notice that despite the broad consensus that the efforts for central coordination were driven by the need for tight wage moderation, scholars have debated how the task of wage moderation was fulfilled and what the corporatist deals looked like. One popular view claims that the unions were forced into concession bargaining without any notable rewards (mainly because of various structural and organizational changes in recent decades), which makes the notion of a general political exchange no longer valid (Hassel, 2003; Regini, 1997). Others, however, challenge this view, arguing that the central deal still retained considerable compensatory measures for the unions' cooperation, as illustrated by staged welfare reforms (as opposed to radical cutbacks), various job-promoting policies, and other policies for socially excluded groups (Brandl and Traxler, 2005: 640–1; Roche, 2007). The implication here is that the fact that central coordination was motivated by wage concerns does not necessarily make it a market-oriented project. There should be further integrative study (research incorporating all the diverse aspects of central coordination) to answer this question. This, of course, goes well beyond the scope of the present article.
3. To reiterate the main point, we examine de-coordination as an outcome of diverging interests between the rank and file of the unions and their leadership. While the former seek compensatory wage increases, the latter remain cautious. The former then push for de-coordination to promote their goal, considering that the latter retain no coercive means to punish them. At the meta-theoretic level, meanwhile, this situation may raise a fundamental question regarding the representative legitimacy of corporatist industrial relations (Offe, 1981; Panitch, 1977). One may ask if the choice by the rank and file ultimately reflects the unresponsiveness of the bureaucratized leadership who seek wage moderation as a means to maintain their political status in the tripartite system of interest intermediation. While certainly a valuable question to explore, this goes beyond the scope of this article. I leave the question to future critical study of European political economy.

4. Given that the union hierarchy is set to be weak across the cases, I cannot test its effect in a comparative setting. Rather, I look at the effect through within-case historical analysis.
5. I nonetheless checked these hypotheses to see if any of them provided alternative routes to de-coordination. While space constraints do not allow detailed discussion, I adopted the following steps to perform the analysis. I first quantified all explanatory variables of the hypotheses by relying on some widely accepted indicators in related studies, such as the seat share of left governing parties in parliament (drawn from the political data book from the *European Journal of Political Research*), trade union density, the proportion of exports and imports to GDP (both drawn from the OECD's online statistics portal), the proportion of general government employees as a percentage of the total labor force (drawn from the OECD's *Government at a Glance*), and the P50/P10 ratio of the national income distribution (drawn from the OECD Wages and Earning Database). I traced the short-term trends of all these indicators (for example, five and ten years) in the run up to de-coordination, but found no evidence that their trends were systematically associated with the outcome.
6. See EIRR (1989, 1990a, 1990b, 1990c) and EIRO (1999b, 1999c, 1999d) for evidence regarding flexible wage adjustment in Germany in the context of two widely cited economic booms: those around 1990 (before reunification) and in the late 1990s.

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