European Integration online Papers / ISSN 1027-5193

Special Issue 1, Vol. 13 (2009), Art. 10

How to cite?
Niechoj, Torsten. 2009. Does supranational coordination erode its national basis? The case of European labour market policy and German industrial relations. In: Kröger, Sandra (ed.): What we have learnt: Advances, pitfalls and remaining questions in OMC research, *European Integration online Papers (EIoP)*, Special Issue 1, Vol. 13, Art. 10, http://eiop.or.at/eiop/texte/2009-010a.htm.

DOI: 10.1695/2009010

Does supranational coordination erode its national basis? The case of European labour market policy and German industrial relations*

Torsten Niechoj
Macroeconomic Policy Institute (IMK) at the Hans Böckler Foundation, Germany
E-Mail: torsten-niechoj@boeckler.de

Abstract: During recent decades improved supply chain management, innovation in information technology, new financial instruments, etc. have changed the economic environment for production in the EU significantly. This led to and was accompanied by increased coordination of economic policy and the use of a new mode of governance, the Open Method of Co-ordination. Simultaneously, at the national level tendencies of fragmentation in industrial relations appeared. Is this mere congruence, or is it possible to establish causal relationships? For the case of Germany the impact of coordinated European policies on industrial relations at national level is assessed. Potential consequences for supranational economic governability are discussed.

Keywords: economic policy; policy coordination; open coordination; collective bargaining; industrial relations; Germany; political science

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1. Introduction

During the last decades the international economic environment has significantly changed, especially in the European Union (EU). Transaction costs have decreased not least because of rapid innovation in information and communication technology as well as improvements in transnational supply chain management. New competitors struggle for market shares. The creation of new financial instruments on the one hand opens different forms of access to capital, but it also raises costs when financial actors demand higher returns. At the same time the international division of labour has increased as a consequence of systematically reducing barriers to international trade and investment.

These developments were taken up and speeded up by policies of the EU and its member states.

European integration has been pushed ahead by the intentional liberalisation and expansion of financial markets, the introduction of a common currency for most of the EU citizens, and a further removal of barriers to the free trade of goods, services and labour within and through the single market. These processes were accompanied and executed by several modes and means of governance, ranging from hard to soft governance. With the Euro monetary policy is nowadays centralised in one hand, the quasi-autonomous European Central Bank (ECB), and is effective for all members of the European Monetary Union (EMU). It was accompanied by monitoring of the public budgets in the Stability and Growth Pact (SGP), which as governance mode is much less strict than monetary policy. Although sanctions are possible in principle, only mild forms of binding policy coordination take place between European and national levels in the field of fiscal policy. All other fields of economic policy – employment, wage and general economic policies – are subject to the Open Method of Coordination (OMC), a formally non-binding kind of policy coordination. Through procedures between both levels, EU and national, all actors try to agree on best practices and effective policy measures. Except for the Macroeconomic Dialogue, guidelines for the member states result from these procedures, namely the Employment Guidelines (EG) and the Broad Economic Policy Guidelines (BEPG), which were pooled in the Integrated Guidelines (IG) in 2005.

Contrary to optimistic expectations, however, these policy measures and procedures have not led to economic prosperity. Although the EU offers a broad range of guidelines, best practices and implementation processes – since 2000 reshaped and concentrated in the Lisbon agenda and its focus on competitiveness, growth, and to a lesser extent social cohesion –, the economic situation for the EU as a whole is still characterised by sluggish growth, stagnant employment and persistent unemployment. Furthermore, in the field of industrial relations the experience with the outcomes of the new soft and open forms of governance is mixed (Schäfer and Leiber this issue). While supranational economic coordination is indeed emerging in the fields of monetary and fiscal policy, we still observe a broad range of institutional settings at national level in other policy fields, and especially in industrial relations.. In some member states formerly consensual models of social partnership between management and employees are on the retreat and seem to be replaced by more conflictual forms of social exchange at both industry as well as company level. Concession bargaining between management and labour at the company level, undercutting collective wage and employment standards set in labour contracts at the industry or national level, are spreading in a number of EU member countries (Sisson and Artiles 2000).

In this contribution, the interdependencies between EU economic policies and national industrial relations are addressed. This means that we must examine the scope and the impact of EU governance on the national level, in order to shed some light on both the impact of the EU on the national level and potential repercussions of national developments in industrial relations on EU coordination. EU guidelines or rules might alter the rules for national bargaining in two ways. Directly through changes in legislation or hard governance and more indirectly through the outcomes of economic policy, which may cause an increase or a decrease in economic growth and employment that in turn affects the social actors' bargaining power at the national, sectoral as well as the firm level. Therefore, the question is addressed which policies – hard or soft, monetary, fiscal or wage policies – have changed the conditions for the national level and to what extent national factors played a role for developments in industrial relations.

Due to the different cultures, social models and stages of development within the EU, especially after the EU Eastern enlargement, a comprehensive assessment of interdependencies would have to include all member states and sound evaluation of national developments. Here, another approach is chosen. By using the case of Germany to illustrate this relationship between EU and member states we do not argue that the example of Germany can be generalised for all member states or that Germany is per se an institutional or political role model that other countries have to adapt to. On the contrary, the German Rhineland model of a coordinated market economy seems to lose coherence. What is claimed is that Germany, being the largest economy of the EU, necessarily has an impact on the future evolution of the EU because of the size of its gross domestic product (GDP) and its relevance for intra-EU trade and wage differentials. Therefore, the case of Germany is of special interest and might also shed some light on future prospects of a coordinated and coherent EU economic policy.

To highlight causal mechanisms and potential feedbacks, the paper is organized as follows: In the second section, I identify the modes of governance of the current EU economic policy, and in section 3 I analyse their influence on the national wage bargaining systems. For Germany, I investigate the substantive and institutional outcomes of the recent labour market policies and reforms (section 4). Then, potential consequences of these ongoing changes in national industrial relations for the European Union are discussed in section 5. The last section concludes.

2. Maastricht and beyond: The economic policy framework of the EU

After the single market, enacted in 1987, the Maastricht Treaty – ratified in 1993 – set the basic framework for European economic policy and the regulation of production and exchange (Dyson 1999). It deepened integration and prepared the EU for the monetary union of 1999, and the establishment of the ECB as an autonomous body, created by intergovernmental treaty in charge of price stability. Price stability is interpreted by the Central Bank as an inflation rate target nearby and below two per cent (European Central Bank 2003). The ECB can take, and also implement, the relevant decisions single-handedly, which is a direct or hard mode of governance.

As an essential element to support monetary policy, fiscal discipline was seen necessary (Dyson 1999). The national budget, however, is a principal competence of the parliaments; its limitation is always met with resistance. Therefore, national fiscal policies are not concentrated at the European level, but only coordinated through the SGP. The aim of the pact is to compel the EU countries to keep their national budgets balanced in the medium term, by a 3 per cent current deficit target, and to limit their level of indebtedness (to 60 per cent of their GDP). In case countries deviate from these targets, an excessive deficit procedure can be started, and eventually legally binding financial sanctions can take place, although sanctions have not been applied as of now, and there has been more room for discretion and for country-specific situations since 2003 (EcoFin Council 2005).

Additionally, a framework of best practice procedures and common guidelines was established. Since 1993, the BEPG have comprised economic policy recommendations addressed to the member states. It was highly disputed to what extent these guidelines should be compulsory (Dyson and Featherstone 1999). Finally, a procedure was established that is based on a common agreement of guidelines and implementation without sanctions. Similar in procedure, the summit of Amsterdam triggered the creation of the EG to improve the quality and quantity of employment at the national labour markets (Goetschy 1999). As a result of the streamlining process of the newly arranged Lisbon Strategy (CEC 2005) both guidelines, the BEGP since 2003 and the EG since 2005, are valid for a three year period; moreover, the focus has shifted to implementation, and they were united in one paper in 2005, the so called Integrated Guidelines (Integrated Guidelines 2005).

Together with further procedures dealing with poverty and social cohesion these guidelines employ a type of governance coined 'Open Method of Coordination', officially introduced with the Lisbon Strategy, but having its forerunners in the EU since the 1970s and in coordination procedures of other international organisations (Schäfer 2006; Kröger this issue). Contrary to the community method and to autonomous supranational actors like the ECB, the OMC is a softer mode of governance, where policy decisions are the result of a mutual coordination process, and are laid down only in outline. Convergence is achieved by means of best practice and peer pressure. It is open with respect to output, and it includes a broader range of actors compared to the community method, including employer associations and trade unions in particular. Ideally, coordination creates policy learning and adoption of best practices (Hodson and Maher 2001). On the other hand, the choice of soft governance over hard forms indicates, as Schäfer (2004) argues, that the European Council, at that time dominated by social democratic governments, established the OMC essentially not to trigger policy learning but to maintain leeway for national programmes in the policy fields of the OMC.

Partly, this mode of governance is also used in the Macroeconomic Dialogue, an outcome of the

Cologne summit of 1999 (European Council 1999) bringing together representatives of the Council of Ministers, the Commission, the ECB, trade unions and employers to coordinate fiscal, monetary, wage and labour market policies (Heise 2002; Niechoj 2005b). This dialogue, however, is purely a forum for information exchange, and it issues neither reports nor guidelines.

The essential element of SGP and OMC is the preservation of the member state's sovereignty concerning the structure of budgets and policy measures, not transferred to the EU level. This indicates that (neo-)functionalist arguments of an ongoing integration and supranationalisation of the EU have their limits. Hard governance or supranational institutions are not an option for labour markets, social security and state budgets by now. Here, the institutional and cultural differences, as well as the interest of the state in retaining its autonomy and authority are enormous (Moravcsik 1993); the potential gains, if there are any, cannot overcompensate for this. OMC, however, offers a way out. Aiming at policy learning and focusing on best practices, differences in interpretation can be overcome and, effective measures can be identified and hence implemented. This strategy of smoothing the differences preventing further policy integration through the backdoor of policy learning is contingent on the governments' willingness to accept and implement recommendations of the OMC. If the OMC is not fully integrated in national discourses and decision processes the, existing conflicts of interest preventing a deepening of integration are hard to overcome. Moreover, OMC procedures do not act in a vacuum. They are accompanied by harder forms of governance that also shape policy concepts, measures and outcomes.

Having sketched the modes of governance seminal for economic policy, now their substantive output, i.e. the economic policy concept emanating from these governance efforts is analysed. For this purpose, the IG can serve as a pars pro toto (Integrated Guidelines 2005; Niechoj 2005a). They contain recommendations for all policy areas related to the economy, and they are consistent with the Lisbon Strategy and all other coordination processes. As considered necessary to regain economic strength and competitiveness, the IG propose structural reforms on the commodity and labour markets – privatisation, decentralisation and flexibilisation – which seek to promote potential growth through intensified competition, increased division of labour, and reduced transaction costs. A so called 'sound' macroeconomic framework should ensure a situation of stability and certainty for structural reforms and competition. This includes balanced national budgets to consolidate government finances in the medium term, a monetary policy focusing primarily on the stability of price levels, and a wage policy that keeps wage increases at moderate levels, i.e. equal or less the sum of productivity gains and inflation.

The concept behind the guidelines has remained more or less unchanged since the beginning; the streamlining process as a reaction to the ongoing debate on the Lisbon Strategy of the 2000 summit confirmed the validity of the guidelines by extending the period of the application of the guidelines and by focusing on implementation and not revision of the guidelines (CEC 2005). Nevertheless, it can be disputed whether better implementation is indeed what is needed. Some authors doubt this and identify the policy concept itself as the reason of the poor performance of the EU. In their view, deregulation of labour markets accompanied by restrictive monetary and fiscal policy was the root of, rather than the solution to the economic recession, because it destabilised and lowered effective demand (Allsopp and Artis 2003; Arestis and Sawyer 2003).

3. Hard and soft forms of governance: What it means for national industrial relations

This section presents an overview of studies, in order to identify which part (or combination of parts) of the EU economic policy framework – soft or hard modes of governance, monetary, fiscal and wage policies – had an impact on the national level, or to be more precise: on national industrial relations. The case study in the following section then deals with the substantive and institutional changes as they manifest themselves in Germany. Here, channels of influence from the European level to national-level industrial relations are sketched.

The EU and its policy framework is only part of the story. Changes at the national level are part of a broader phenomenon, the internationalisation of trade and production, comprising innovations in information and communication technology as well as financial products and improvements in transnational supply chain management or the emergence of new competing economies outside the EU. Internationalisation was first and foremost a driver of slow but thorough restructuring of inter-firm competition. It created new cost, finance and sales conditions for companies within Europe, and globally. Nowadays, for companies it is possible to raise their global sourcing options, to use international production locations and to credibly threaten to relocate plants. This again puts pressure on wages and employment standards, as the social partners at company level try to increase corporate efficiency by lowering wages and extending working times (Traxler 2003; Grahl and Teague 2003). The EU did not cause all this, but it fostered the development by creating the single market and the monetary union, while at the same time trying to control and use this trend of internationalisation. The means were increased coordination of economic policy and common political initiatives, thus, the Lisbon Strategy, to become the most competitive economy in the world.

This also holds for the financial system. Traditionally, in most of the Continental-European countries the financial markets were underdeveloped, or, to be more precise: they were largely unnecessary because of the bank-oriented financial system, where banks fostered long-term relationships with their clientele and supervised management decisions. With the liberalisation and expansion of financial markets in Europe, the conditions for investment financing changed enormously from the bank-oriented system in most of the EU-countries toward a market-oriented system – even in Germany with its long tradition of bank-financed investments (Höpner 2001; Frangakis 2009). As a consequence, we can observe a shift from growth to profit-rate orientation in most countries, caused by the growing influence of shareholders, mostly large funds, with short-term interests and much looser integration in management (Stockhammer 2004).

The same Janus-faced impression of economic integration appears with respect to the most recent Eastward enlargements, by which twelve new member states, which generally have low levels of coordination in their industrial relations systems and significantly lower wage levels, joined the EU (Weiss 2004; Dauderstädt 2003). Enlargement offers great advantages for the EU as a whole. It creates new markets, fosters catch-up in the new member states, and intensifies the international division of labour. Nevertheless, it will also lead to new cross-border supply and production chains, and it is frequently used by management to exert pressure on wages and working conditions by playing plants off against each other.

Looking at wages in EMU, we observe a moderate development of wages after Maastricht and likewise a significantly reduced inflation rate. As a result of the monetary union, wages are directly comparable, and currency devaluations are no longer possible. As an effect of the low wage increases, no inflationary pressure emanated from wage increases (Hein 2002; Schulten 2008). The EU supports this moderation of wages. The Lisbon Strategy and its procedures try to push ahead the flexibilisation of labour markets and moderate wage increases. The EU countries receive recommendations as to how they should improve training for the labour force and make the labour market more adaptable to economic change. The guidelines and recommendations are aimed primarily at structural changes in the labour market, seeking not only to boost training, but also to make labour more flexible and to strengthen the incentives to take up work (Goetschy 1999; Watt 2004). The current policies promote wage diffusion, flexibilisation of working times, decentralisation of wage bargaining and moderate wages (Hein and Schulten 2004; Hein and Niechoj 2007). They therefore follow a neo-classical approach to the labour market, whereby rigidities should be reduced as far as possible. Measures that promote social cohesion and protection are an issue in the guidelines and recommendations of the EU, when it comes to implementation, the member states prefer deregulation and market enforcing policies (Rubery et al. 2008).

However, the impact of all these recommendations and procedures on national level is disputable. Although labour market reforms are often in line with the recommendations of the IG, a direct causal link of EU and national policies is hard to establish; national labour market policy normally refers not to the European recommendations (Linsenmann 2007). As the introduction of only soft modes of governance in the field of employment policy at the Amsterdam summit has shown reasons might be that states were not interested in too strict guidelines; that apart from some ministerial units, national actors are involved in the establishment of recommendations only to a limited extent; and that participatory aspects and the inclusion of the national level, in theory an essential part of the OMC, lack practical implementation (Smismans 2006). Moreover, establishing a culture of common knowledge and mutual learning is a long-term project (Pfister this issue).

Regardless of whether or not the employment strategy of the EU was reasonable, it can be shown that fiscal and monetary policies were not tied in with the employment strategy very well. It is precisely these policy fields, however, that the impact of the EU is more obvious.

The creation of both the ECB and the SGP stem from the fear of governments, especially the German government, that after monetary union member states might tend to exert loose fiscal policies and push the central bank towards a loose monetary policy too (Dyson and Featherstone 1999). In order to bind the states and prevent such policies, the status of the ECB was enshrined as an autonomous actor solely responsible for interest rate policy for all member states of the eurozone. Agreement was relatively easy to achieve, first because the Euro and the monetary union was a high-valued good for all countries; and secondly, to agree was a prerequisite for the whole exercise. The Germans, the country with the strongest currency, were both interested in a stable currency union and in a position to set rules ensuring this. Thus, monetary policy was accompanied by a set of rules for fiscal policies, still a responsibility of the member states (Stark 2001). Tentatively institutionalised in the Maastricht treaty and later extended at Amsterdam, deficit procedures for states deviating from balanced budgets were established in the form of a pact, the SGP. Since the pact cannot directly intervene in national budgets, but can compel the EMU member countries to adopt adjustment measures, and can enforce these by means of legally binding sanctions, this mode of governance is not as hard (and binding) as monetary policy but harder as the OMC. The pact has been put to the test several times so far by long lasting deficits above the 3 per cent criteria; countries were never sanctioned, however. This was both due to political and economic reasons. On the one hand it became clear that the shadow of sanctions was not enough to ensure balanced budgets, on the other hand more leeway for automatic stabilisers and the necessity to take into account country specific conditions were recognised as economically reasonable (Niechoj 2005a). For most of the EMU countries it holds that the discussion on the relaxation of the pact remained within the government and the ministries. Sometimes, as in Germany, factions within the government and the political parties referred to the EU pact as an external pressure to push for stricter fiscal rules within the country. As the example of Germany recently showed, this helped to introduce a so called debt brake, i.e. a fiscal corset to guarantee (nearly) balanced budgets in the medium term (Föderalismusreformkommission II 2009). But as the example of Switzerland, the first European country that introduced a debt brake, indicates, the SGP cannot solely be held responsible for stricter fiscal rules within the member states – Switzerland is not a member state of the EU.

Concerning the outcomes of SGP and ECB policies, fiscal and monetary stimuli were insufficient or sometimes even counterproductive. Since the beginning of the convergence process to the monetary union in 1994, growth remained unsatisfactory or even declined between 1994 and 2003, and unemployment was still high. At the same time that inflation rates fell and converged, growth and employment were not positively affected (Hein and Niechoj 2007).

Since the start of EMU, the common inflation rate has been very close to the ECB target rate of 2 per cent. Nevertheless, monetary policy has been more or less restrictive (Bibow 2002). The ECB keeps the inflation rate low but sometimes does so at the expense of high nominal and real interest rates. A constellation, however, in which the real interest rate is higher than the real growth rate, causes the danger of excessive debts for debtors because they are not able to pay the debts alone by their growth, which in turn limits investment by firms.

As in the case of monetary policy, fiscal policy did not support growth in the EMU either (Bibow 2004). Quite often fiscal policy acted pro-cyclically, which means, it lowered expenditures in an economic downturn and raised it in an upswing. That way fiscal policy intensifies economic crisis and provokes overheating in an upswing. In addition, public investment – which serves as a basis for private investment and promotes future growth – declined (Hein and Niechoj 2007).

In contrast to the Lisbon targets, European economic policy could not succeed in raising the growth rate and correspondingly contributed nothing to reducing unemployment in the desired way. Especially Germany, which represents roughly 30 per cent of the EU 12 (1) GDP, has not performed very well (Hein et al. 2004). Both monetary policy and the SGP set strict limits for a growth and employment promoting national policy. Much softer limits were set by the recommendations of the OMC. Here, the member states have a lot more leeway to act.

Against this background, three related reasons why sluggish growth and decentralisation alter power relations among the social actors can be identified.

1. Competition has intensified on the national labour market, mostly independently of the EU, but also due to EU-influence or due to non-acting of the EU. Not least because of the employers' associations' resistance against supranational social rules and bargaining procedures, there is still no European system of industrial relations which could serve as a barrier against wage competition among states and regions (Hyman 2001). So the European level has not promoted procedures that would shelter national bargaining systems. In addition, it has created some pressures at the national level by establishing guidelines and recommendations favouring decentralisation, deregulation and privatisation.
2. Without a European coordination system for wage policy, companies are able to use the threat of international plant relocation as a tactical tool to achieve cost cutting at the company level (Peters 2001). The availability and economic attractiveness of outside alternatives cause a shift in the relative distribution of bargaining power between management and labour in favour of the party that possesses the most attractive exit option (Emerson 1962; Bacharach and Lawler 1981).
3. None of the policies have been able to counter sluggish growth and still high unemployment in the EU. In such a constellation of job shortage and a low rate of new investment, it is very difficult for trade unions to negotiate wage settlements which guarantee distribution-neutral wage increases (Hein et al. 2004). In the face of high unemployment, employees and trade unions lack attractive exit options, which weakens their negotiation position. All they can do is focus on the prevention of dismissals. In order to reach this aim, they have to agree to moderate wage increases or even freezes or cutbacks and further concessions such as working time extension.

Whether this potential pressure on industrial relations translates into institutional changes and/or distributive changes at the national level is exemplified by means of a case study in the next section.

4. Collective bargaining decentralisation in Germany

The interest in Germany can be traced back to its former role as a quasi ideal type of a 'coordinated market economy' (Soskice 1999; Hall and Soskice 2001), i.e. an economy characterised by a complementary set of institutions including stable and cooperative relations among companies, the state, banks and trade unions. In the past, Germany's system of industrial relations proved to be resistant to procedural changes and shifts in power relations. Now elements of Anglo-Saxon-type regulation enter the German institutional setting. If the German institutional system is undergoing severe changes, this could point to a situation in flux for other EU member states of a corporatist-coordinated type; they might be undergoing similar changes. A prerequisite for this would either be that EU policies have an impact on the German situation or that – independently of the influence of the EU – the restructured German industrial relations system affects other EU member states. In order to clarify to what extent EU macroeconomic policies and coordination procedures contributed to changes at the national level, and to what extent national labour market reforms were inspired by the EU or national factors, the development of industrial relations in Germany in the last years is depicted.

The late 1990s mark a turning point for labour market reforms in Germany. Reunification did not only lead to enormous fiscal transfers within Germany and – after a short unification boom – to tendencies of stagnation; it also caused politically hard times for the trade unions under a long period of conservative governments. Therefore, in 1995 the chairman of the Metalworkers' union, Klaus Zwickel, launched an initiative for more macroeconomic coordination, addressed to chancellor Kohl (Zwickel 1999). But it was not only until 1998, when the first Red-Green German government led by Social Democrat Gerhard Schröder, was elected, that this idea was picked up and a so called 'Alliance for Jobs' was established. Although this corporatist attempt to commit government, trade unions and employers' associations to a common economic strategy was not very successful (Niechoj 2002), it paved the way for local alliances at company level. Contrary to Zwickel's original intentions, these local alliances introduced concession bargaining in the following years, that is, they pushed through reductions in wage increases, longer and more flexible working hours in exchange for – usually formal – employment guarantees. As their main instrument, they helped establish opening clauses allowing individual companies to deviate from sector-wide union contracts (Massa-Wirth 2007). Data based on the 2005 WSI Works Council Survey indicate that 75 per cent of all companies with a works council used an opening clause, predominately in the area of working time policy (Bispinck 2005). The renegotiation of industry-wide wage and employment standards by utilising opening clauses has rapidly spread (Berthold et al. 2003; Rehder 2003). This spread of concession bargaining at the company level had a significant impact on the creeping erosion of industry-wide employment and compensation standards: By sometimes violating the industry-level labour contract, unions and works councils felt (and still feel) impelled to negotiate ever more drastic concessions in exchange for a few (if any) company give-backs. With the monetary union, wages are now directly comparable within the EU. Collective wage and working time provisions are now becoming maximum rather than minimum standards in Germany (Schmidt 2001).

This trend was supported and intensified by policy measures of the Red-Green government. In 2003, the economic situation was characterised by an economic downturn after the internet bubble as well as high and persistent unemployment. Furthermore, these times were not only economically but also politically difficult ones. The Red-Green government was in a severe crisis that triggered Chancellor Schröder to propose and, from 2003 on, implement what was called the 'Agenda 2010', a policy framework for labour market reforms. The following implementation laws, the Hartz laws I–IV, were named after Peter Hartz, a trade-union related advisor to Gerhard Schröder, who developed most of the specific tools of the laws. The concept itself was explicitly inspired by UK's New Labour policy; other best practices within the EU or their guidelines gave no (visible) impulses to the development of theAgenda 2010 (Levy 2004).

The laws aimed at flexibilisation of the labour market and establishment of a low-paid sector, which were seen as specifically German problems before the Hartz reforms (see e.g. Streeck and Trampusch 2005). For this purpose, temporary and fixed-term employment was fostered, new types of low paid part-time jobs with reduced social security entitlements were introduced ('midi jobs', 'mini jobs'), the incentives to work were intensified by reduced transfer benefits, tougher controls and the rule that occupational attainment gives long-term unemployed no right to refuse any kind of jobs offered to them by their placement officers. The duration of (income-related) unemployment insurance benefits was reduced to one year, after that unemployment assistance benefits lose their character as wage replacement and are paid independently of the unemployed person's last income (and contributions); these assistance benefits (Hartz IV-benefits, or ALG II) are contingent on the recipient's willingness to be available for the labour market. In certain non-profit sectors, low-paid (publicly-subsidized) work outside the regular labour market (the so-called '1-Euro jobs') were made available. Moreover, self-employment for low income tasks was fostered (the 'Ich AG'). These reforms were actually a success in extending wage dispersion and a-typical and low paid jobs (Bosch and Kalina 2007). Together with an economic upturn and reduced numbers of people looking for jobs, these policy measures explain the lowered unemployment rate before the financial market crisis (Horn et al. 2008b).

Both local alliances for jobs and the Hartz reforms led to severe changes of the industrial relations system in Germany. Institutionally, a gradual erosion of the industry-wide labour contract has taken place. Industry-wide collective bargaining coverage has been steadily declining, while at the same time company-level union contracts have become more important, especially so in East Germany (Kohaut and Schnabel 2003; Schmidt et al. 2003). The degree of bargaining centralisation is further diminished because of the opening clauses in industry-wide union contracts, which have increased the options for local management and works councils to deviate from existing wage and working time standards that had previously been fixed at the industry level (Bosch 2004; Bispinck and WSI-Tarifarchiv 2004). A trend towards aggregate income stagnation has been the result of wage moderation at the industry level, the spread of secondary bargaining rounds at the company level, and the establishment of a low-paid sector by the Hartz reforms. In most of the years since the mid-1990s, collectively agreed wages stayed well below the sum of inflation and productivity growth. Furthermore, effective wage development fell short of even these modest collectively agreed wage increases, and declined more and more (Schulten 2008).

Macroeconomically, the result of this wage restraint was weak domestic demand and an increase in export dependence (Horn et al. 2008a). Such a strategy of low wage increases promoting exports might work for a small country, where the competitive advantages can outweigh the losses due to restricted domestic demand; in the case of Germany's large economy deflationary pressure on wages spread to all EU countries, and weak EU demand was the result.

Most of these policies were in line with the recommendations of the EU's Integrated Guidelines, although several measures, such as the cuts in unemployment benefits, explicitly did not foster social cohesion. Contrary to the debate on fiscal deficits in the context of the 2003 excessive deficit procedure of the Stability and Growth pact, from 2003 onwards (Niechoj 2005a), the recommendations of the guidelines did not enter public discourse, and there was little information beyond the catch phrase of the EU's becoming the most competitive economic area in the world. Therefore, no direct link between public opinion and support for changes in policies can be established. National factors – political constellations and German unification – seem to be more important for the concrete evolution of labour market (de-)regulation in Germany and for the increasing fragmentation of its coordinated market economy than European recommendations and soft governance of the OMC. It has to be noted that although changes caused by internationalisation might affect other European corporatist countries in a similar way, the German case cannot be taken as an indication of a general tendency toward fragmentation among the coordinated market economies. The reasons for the erosion of industrial relations in Germany are due to a specific national constellation after the unification. Nevertheless, these developments might lead to repercussions for the European level and other member states.

5. Repercussions for the European Union?

Although Germany is still viewed as a quasi ideal-type of a coordinated market economy by most scholars in the field of comparative political economy, the developments of recent years demonstrate that the German industrial relations system is undergoing profound changes towards fragmentation and uncontrolled decentralisation. Germany switches from a strategy of high wages, compensated by high productivity, within a framework of coordinated bargaining (Streeck 1991) to a model of low-paid jobs with low productivity and more and more company-based wage bargaining.

The effects of these developments are not restricted to Germany. As Germany is the largest economy in the EU, all performance indicators of the EU as a whole depend a lot on Germany's development. Moreover, in a common monetary union wage developments in one country have to be taken into account by other member states, in order to prevent losses in wage competitiveness. The argumentation runs as follows. The rising significance of secondary bargaining at the company level in Germany is seriously threatening the (national) coordination function that was hitherto provided by industry-wide labour contracts – local pacts increase the heterogeneity of wages and employment standards in the German economy. Additionally, the labour market reforms raised the pressure on workers to accept lower wages significantly. As a result, unit labour costs were much lower compared to other member states of the EWU (see Figure 1). This fostered exports, but it also weakened private consumption (see Figure 2 and Figure 3) and increased and still increases pressure on other member states: In order not to lose competitiveness all other countries have to keep their unit labour costs close to the German level. How and whether this is realised within the states, depends on their political constellations and institutions. Decentralisation and wage restraint via opening clauses or company-level alliances for jobs is only one possibility. It is, however, not restricted to the Germany case, but can be observed in the whole EU (Sisson and Artiles 2000; European Foundation 2008). Moreover, in most of the recently integrated Eastern European countries, collective agreements are not the predominant form of wage bargaining (EIRO 2005). Consequently, a European-wide trend towards a system of uncoordinated bargaining is a possible option. German wage restraint and export orientation has a share in this, nevertheless the presumption of a parallel development might better suit as a description of the ongoing changes.

Figure 1

Figure 2

Figure 3

A second repercussion might affect the European level of governance itself. In the face of a shift from industry to company bargaining, the remaining torso of the sectoral collective bargaining system can no longer guarantee a common wage level, it cannot restrict wage competition among companies, and it cannot hedge against disinflation in recessions. Weakening the ability of the trade unions to set wages together with the employers' associations at the industry level diminishes the balancing effect of collective agreements over the business cycle and among companies. Trade unions have seen this and tried to establish a common and cooperative wage policy in the EU (European Trade Union Confederation 1999; Gollbach and Schulten 2000). The trade unions' coordination strategy, however, has serious shortcomings. A necessary prerequisite for such a coordinated system of collective bargaining and interest-mediation is the existence of encompassing associations that are able to homogenise their members' interests and provide for effective local implementation of bargaining results. However, neither interest homogeneity nor reliable implementation channels exist for the eurozone, let alone the EU 27. Studies on the nascent European industrial relations system demonstrate substantial interest heterogeneity among the relevant national peak level trade union organisations (Marginson and Sisson 1998; Schulten 2003). Especially trade unions from small countries have strong incentives to free-ride by defecting from international coordination and moderating wage demands as they experience net employment gains in the current system of wage regime competition. So, even if some kind of wage coordination might be established at European level, the actors of this coordination might lack interest and steering capacity to do so.

This again has significant impacts on monetary policy at the European Union level. If wage coordination is not on the agenda, and reliable forecasts for wage developments are difficult to establish, this will lock in the current and partly insufficient form of interplay between wage bargaining and the ECB for a long time (Franzese 2003). After its last policy revision in 2003, inflation forecasts are based largely on wage forecasts (European Central Bank 2003). Without some form of coordinated wage policy both nationally as well as EU-wide, employers and trade unions are ex ante not able to reliably signal their positions and planned wage outcomes. Interest rates ex post set by the ECB to match the numerous and sometimes inconsistent wage settlements necessarily have a tentative character and frictional losses can therefore not be prevented.

But not only monetary policy, also the OMC processes have to face new challenges. All soft governance hinges on the commitment and cooperation of the corporative actors involved (Commission, national governments, employers' associations, and trade unions) and on their ability to implement what was agreed on. Policy learning alone does not lead to anything without proper implementation. Implementation, however, is undermined when the willingness to cooperate and the capacity of actors to act decreases. In Germany a part of the spectrum of actors, trade unions and employers' organisations, have lost much of their capacity to act. A possible scenario is that the trade unions begin to ask themselves what they can gain by participating in European coordination procedures, when the OMC does not support corporatist structures within the member states. A corporatist coordination strategy depends on corporatist actors.

6. Conclusion

The Maastricht framework combines hard and soft modes of governance. As a whole, it modified the economic situation for firms within the EU. Not surprisingly, the improvements of the single market, the establishment of the eurozone and deregulation of financial markets, as well as the monetary policy of the independent ECB and to a lesser degree fiscal coordination had a deep impact on economic activity. The impact of softer forms of governance, namely the OMC and its IG, is harder to verify. As demonstrated for the case of Germany, national labour market policy was more or less in line with the EU recommendations. National political actors, however, did not really rely on the EU in shifting the labour market towards flexibilised labour contracts and decentralised bargaining. As the case of German labour market reforms suggests, the implementation of policies is still dependent on national developments and interest constellations. Hence, mostly the harder forms of supranational coordination promoted the fragmentation of industrial relations.

Independently of the question whether recommendations of the EU were only congruent or causally linked, the results of the policy concept of competitiveness and sound macroeconomic policies were unsatisfactory in the case of Germany. Increased wage differentials and real wage losses could not guarantee high employment and growth, but instead fuelled wage competitiveness in Europe. A loss in control over wage negotiations aggravated monetary policy and simultaneously shifted responsibility to the Central Bank, which gains in importance. It also diminished the capacities of trade unions and employers' organisations to participate in coordination processes, may it be OMC or other procedures of coordination. Therefore, the EU level is affected by changes in industrial relations at national level as well.

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Endnotes

(*) I would like to thank Heiko Massa-Wirth for numerous insights and discussions on issues of this paper and Margitta Mätzke for helpful comments. Futhermore, I would like to thank the editor of this Special Issue, Sandra Kröger, and the discussants of the workshop “OMC within the Lisbon strategy” (28–29 November 2008, Vienna), especially Oliver Treib and Johannes Pollack, as well as the referees for stimulating comments.

(1) EU 12 covers Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and United Kingdom.

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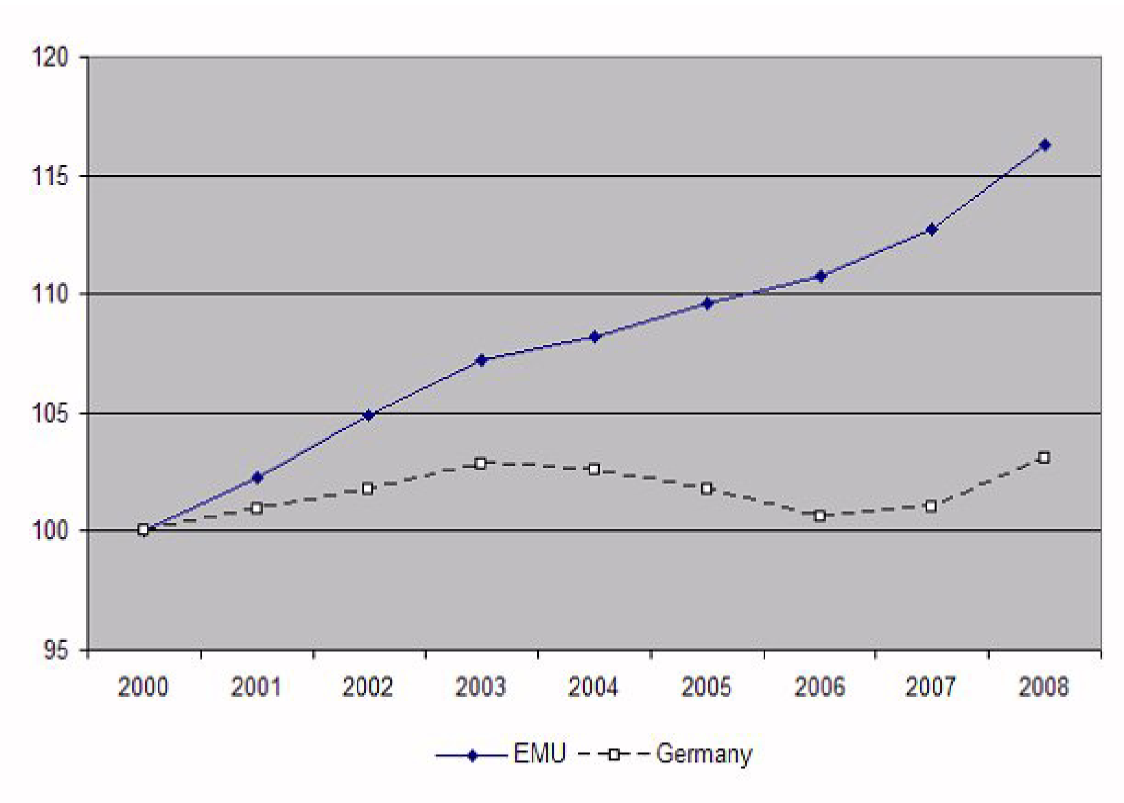
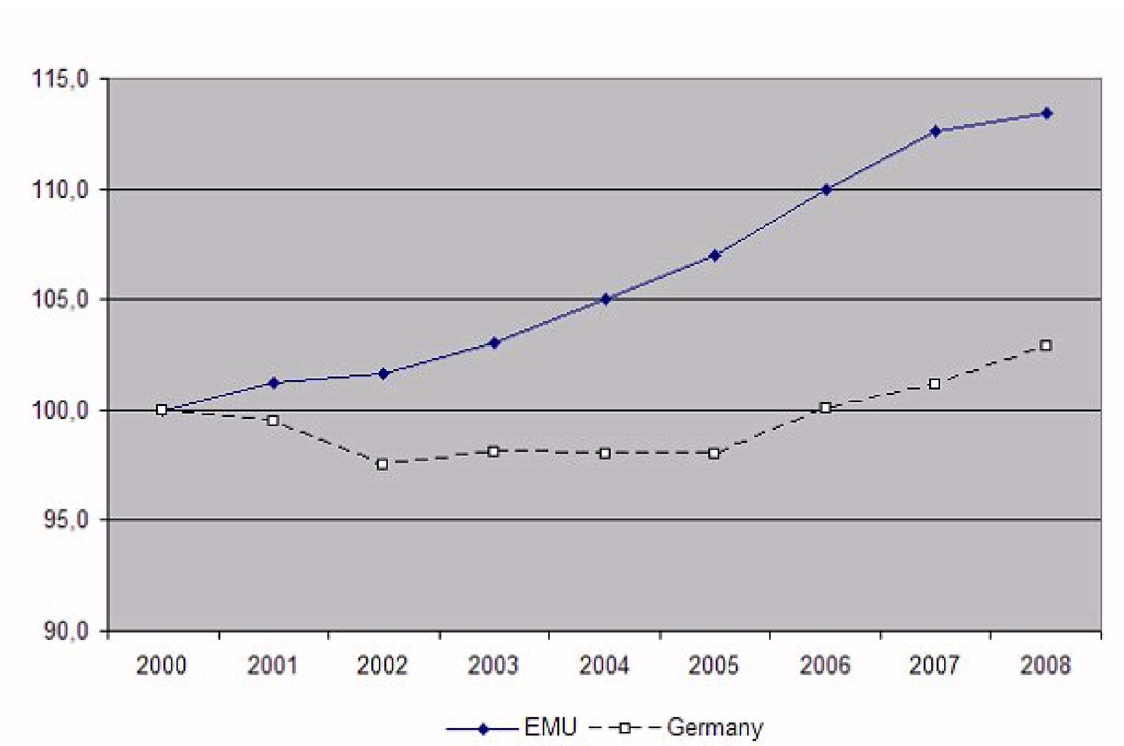
Figure 1: Unit labour costs 2000-2008 in Germany and EMU (Index: 2000=100)



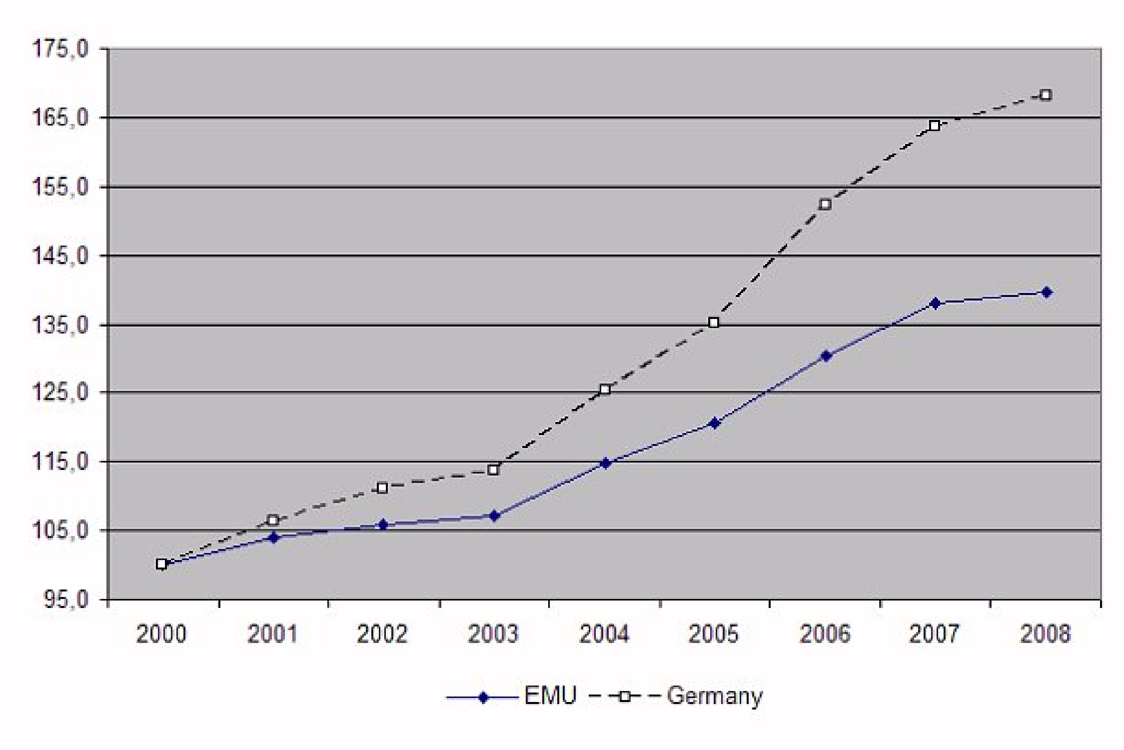
Source: AMECO database April 2009

Figure 2: Private consumption 2000-2008 in EMU and Germany (Index: 2000=100)



Source: AMECO database April 2009

Figure 3: Foreign demand 2000-2008 in EMU and Germany (Index: 2000=100)



Source: AMECO database April 2009