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Can Cross-Border Bargaining Coordination Work? Analytical Reflections and Evidence from the Metal Industry in Germany and Austria

ABSTRACT ■ To contain downward pressures on labour standards, Europe's unions have attempted to coordinate their bargaining strategies. Little is known about whether such coordination can actually work. Analytical accounts have deduced its feasibility from national experiences with decentralized forms of coordination, while empirically only anecdotal evidence on its effectiveness is available. This article contributes to the analytical debate by pointing out the different logics of national and transnational bargaining coordination. Empirically, it tests the prospects for cross-border coordination by analyzing how Austrian collective agreements in the metal industry related to their German counterparts from 1969 to 2003. We conclude by discussing the implications for EU-level bargaining coordination.

KEYWORDS: collective bargaining ■ European monetary union
■ Europeanization ■ pattern bargaining ■ transnational bargaining coordination

Introduction

Economic internationalization has brought transnational issues of industrial relations to the forefront of research (Hyman, 1999). Europe has attracted special attention, as it combines the single market with nationally fragmented industrial relations. This profound asymmetry threatens downward pressures on both material labour standards and institutions of joint regulation (Streeck, 1992, 1993) because capital, based on its superior cross-border mobility, can embark on a strategy of 'regime shopping', relocating production to what is seen as the most

favourable labour market regime. This may unleash a 'race to the bottom' with regard to national regimes, at the same time creating a barrier to the formation of a European industrial relations system.

Downward pressures on material standards are evident from the long-term decline in the adjusted wage ratio (i.e. the share of wages and salaries in national income) (Schulten, 2002). However, this contrasts with the resilience of regulatory systems, such that institutional diversity across countries still characterizes industrial relations (Ferner and Hyman, 1998; Traxler et al., 2001). Furthermore, comparative studies are inconclusive on whether a statistically significant tendency of regime shopping exists (Cooke, 1997; Cooke and Noble, 1998; Erickson and Kuruvalla, 1994; Traxler and Woitech, 2000).

Discussions on whether a European system of industrial relations is in the making have delivered highly controversial results, but it is clear that institution-building is still lagging behind economic integration (Keller, 2005). Moreover, there is good reason to be sceptical about the ability of Euro-corporatist institutions to prevent undercutting labour standards. Neither the European social dialogue nor European works councils possess this ability, because a core area of employment regulation is beyond their formal reach: that is, wages. In comparison, the unions' initiatives to coordinate their bargaining strategies across countries seem to be a more promising alternative (Sisson and Marginson, 2002; Traxler, 1996). It has become a multi-level and multi-faceted phenomenon, involving 'top-down' activities by the ETUC and its European Industry Federations as well as regionally limited, 'bottom-up' cooperation between national unions in neighbouring countries (Dufresne and Mermet, 2002; Gollbach and Schulten, 2000; Marginson and Sisson, 2004). Despite their manifold differences in formal status, coverage, and coordination principles, these initiatives share two important commonalities: their focal level of action is the sector, and they rely on 'soft' coordination mechanisms. Hence problems arise from their decentralized and voluntaristic character: achieving consensus on coordination principles, assuring commitment to and engagement with the coordination process, comparing qualitatively differing bargaining outcomes, harmonizing diverse statistical data and synchronizing bargaining systems which are disparate in terms of the timing, level and scope of action.

Empirical evidence on the effectiveness of these arrangements is sparse. Following its 2000 resolution on bargaining coordination, the ETUC collects annual data comparing national wage movements to its guideline of inflation plus a share in productivity growth. As a first study for 2000 and 2001 reveals (Dufresne and Mermet, 2002), different data sets used for this evaluation yield contradictory results for several countries. When controlling for these ambiguous cases, it turns out that four of the nine remaining countries managed to observe the guideline. The European

Metalworker's Federation (EMF) also regularly monitors compliance of its members with its coordination rule, and has registered deviations from the rule in every year (EMF, 2002, 2005). Reflecting the manifold problems of comparing bargaining outcomes across countries, it interprets its coordination rule as a 'political' rather than a 'mathematical' concept (EMF, 2001: 3) and regards the coordination process as a political success 'in a wider perspective', since it has established 'a moral claim, that no negotiation is a national issue alone' (EMF, 2002: 25–6). This corresponds with other findings on union bargaining strategies in the metalworking sectors of France, Germany and Italy between 1999 and 2003 (Erne, 2004): bargainers generally take account of the rule, but fail to meet it when employers and governments put strong pressure upon them. Since strategies for cross-border coordination are a recent phenomenon and current reviews are incomplete in country coverage, such findings on their effectiveness are only tentative, and insufficient for inferring conclusions on their structural (long-term) coordination capacity. However, it is their structural capacity for coordination which is primarily at issue, in line with union aspirations.

Since there is no reliable way to examine directly the long-term effectiveness of the European networks of cross-border coordination, one has to adopt an indirect research strategy, designed to test the key precondition for their effectiveness: the feasibility of cross-border coordination in a decentralized, voluntaristic context of full autonomy of the national bargainers. Our basic assumption is that such a context requires a non-hierarchical approach to coordination. As will be outlined in greater detail later, this leaves pattern bargaining as the prime mover of transnational coordination. We examine this assumption by analysing how German and Austrian collective agreements in the metal industry related to each other from 1969 to 2003. Our first section discusses how a decentralized approach to *transnational* coordination by pattern bargaining logically differs from its *national* counterpart. We then explain the analytical relevance of a comparison of Austria and Germany, and outline the economic and institutional background of the two countries. The next section presents the hypotheses, the model specification for the statistical tests, and the findings. We conclude by pointing out the implications these findings have for the potential of European-level bargaining coordination.

Comparing the Logics of National and Transnational Pattern Bargaining

The proposition that a decentralized setting can bring about effective bargaining coordination across countries derives its plausibility from

experience with decentralized coordination within countries. The paradigm case is pattern bargaining, in the course of which a key bargaining unit sets the pace for wage movements in other areas of the economy. Comparative analysis has shown that pattern bargaining, led by the metal industry, is a highly effective mechanism to synchronize pay increases across the economy with inflation and employment targets (Traxler et al., 2001). Note that this finding refers to long-term performance, since institutions can systematically influence economic performance only in the long run. Effective coordination by pattern bargaining thus implies that the metal industry must lead the overall bargaining process on a generalized and reiterated basis. This is the case in Austria, Germany and Japan. Following these national experiences, observers regard pattern bargaining involving a limited group of countries with Germany as the 'anchor', and the metal industry as the core sector, as the most feasible form of EU-level coordination (Sisson and Marginson, 2002; Traxler, 2002).

However, coordination *within* countries is certainly distinct from coordination *across* countries (see Table 1). The basic difference is that national pattern bargaining is usually geared to coordination of bargaining *across* the distinct *sectors* of a country's economy, whereas the European bargaining networks each aim to orchestrate bargaining *within* one sector across the *countries* of Europe. Therefore we first consider the features of pattern bargaining in the national context and then discuss their applicability to cross-border coordination.

Pattern bargaining rests on a certain configuration of interests and power. The role of a pattern-setter appeals to metal industry bargainers as a means of preventing other sectors from agreeing higher wage settlements than their own. This interest arises from the sector's exposure to international competition, making it difficult to pass on wage increases through higher prices. In contrast, more sheltered sectors are able to externalize pay rises, in turn increasing prices for inputs used by the exposed sectors. Other exposed sectors will be ready to follow the metal industry, since their interests converge. This does not hold true for the sheltered sectors, hence their compliance with pattern bargaining depends on supportive power relations and economic conditions (Traxler et al., 2001). Organized industrial relations are traditionally more developed in the metal industry than in most other sectors, as data on collective bargaining coverage and associational density indicate (Ebbinghaus and Visser, 2000; Traxler, 1994). Weaker unions in other sectors will be happy to have the agreements for the metal industry as a reference for their own negotiations. The very high degree of inter-industry penetration which characterizes the metal industry helps its wage settlements spill over to other sectors. A conservative monetary regime is another condition supporting coordination by pattern bargaining, since tightening monetary policy in response to 'excessive' wage increases also negatively

TABLE 1. The Distinct Logics of National and Transnational Coordination by Pattern Bargaining

Dimension	National Pattern Bargaining	Transnational Pattern Bargaining
Scope of coordination	Cross-sectoral within a country	Sector-level across countries
Economic background	Low inter-industry substitutability of products and limited competition between bargaining units in distinct sectors; core position of metal industry in the national economy	High intra-industry substitutability of products, leading to strong competition between bargaining units from distinct countries
Coordination goal	Wage moderation across sectors for the sake of international competitiveness	Containing competitive downward pressures on labour standards
Interest configuration		
Pattern-setter	Metal industry seeks to prevent sheltered sectors from externalizing inflationary wage increases	Large countries especially vulnerable to downward competitive bargaining
Pattern takers	Weak unions can benefit from wage-push effect; employers can prevent strong unions from breakthroughs	Small countries may free ride to a limited extent at the costs of large countries

affects the sheltered sectors. The upshot of these considerations is that cross-sectoral national pattern bargaining paves the way to wage moderation across the economy.

This profile of cross-sectoral national pattern bargaining differs from its sector-related transnational counterpart in several respects. There is a difference in goals: while cross-sectoral national pattern bargaining is directed to long-term wage moderation, cross-border coordination along sector-specific lines aims to combat ‘social dumping’. Furthermore, all the supportive factors behind national pattern bargaining, which ensue from the special position of the metal industry in relation to the other sectors, cannot work in the case of sector-specific cross-border coordination. Most importantly, the configuration of interests differs. The interrelationships between the bargaining units whose strategies require coordination are far less competitive in the national context than in the transnational case, where companies in the distinct bargaining units operate in the same market, so that their products are highly substitutable for each other.

It follows that virtually none of the factors favourable to national pattern bargaining holds for its cross-border version. The only exception is monetary policy. Generally, the need for cross-border inter-union coordination increases with declining national economic policy autonomy (Ulman, 1975). EMU has strongly reduced this autonomy, and its foundation on monetary conservatism exacerbates downward pressures on labour standards: it deprives the member states of traditional policy options to adjust to economic imbalances, leaving the labour market as the main shock absorber. Since neither fiscal nor monetary policy is available to cushion these imbalances, labour markets in general and wage bargaining in particular are especially exposed to the disciplining forces of international competition.

EMU was thus the decisive impetus for unions to initiate EU-level coordination (Gollbach and Schulten, 2000). However, while EMU generates the need for coordination it does not guarantee its fulfilment; this requires a supportive configuration of interests. Put more specifically, such coordination cannot work without pattern-setters. Collective action theory suggests that these can be found in large countries, because they are more vulnerable to competitive bargaining and thus more interested in cross-border cooperation than their small counterparts. Given the higher foreign trade dependence of small countries, their benefits from competitive wage restraint in terms of enhanced international competitiveness exceed the costs caused by a decline in domestic demand. The reverse cost-benefit ratio applies to large countries, since foreign trade accounts for a smaller share in the economy. It is thus no coincidence that Germany, by far the biggest economy of Europe, is also the centre of gravity for 'inter-regional' initiatives for cross-border bargaining networks. Conversely, there is no special interest for small countries in cooperation; it is rational for them to 'free ride'. Therefore, the presumptive pattern-setter must offer them an incentive to cooperate by bearing a disproportionate share of the costs of cooperation. This means that the pattern-setter has to tolerate that smaller countries orient their bargaining strategy in a way that keeps their own pay increases slightly lower than its own. This is what Olson (1965: 35) calls 'the "exploitation" of the great by the small'. Differences in national wage levels can also be subsumed under this reasoning. As low-wage countries are less interested in transnational bargaining coordination than high-wage countries, the former can be treated as 'small' actors in this context. This confines the group of prospective pattern-setters to large, high-wage countries.

One can infer from this that there are two essential preconditions for sector-specific cross-border coordination: i) unions will be drawn into coordination initiatives if their countries are subject to a common regime of monetary conservatism; ii) the initiative must include a country which

is so large that its unions are able and willing to take on the role of the pattern-setter.

Research Design: Comparing Austria and Germany

To examine the above assumptions empirically, one has to compare one large country with one or more small countries subject to a common, conservative monetary regime over a long time period. The wage level of the large country should be higher than that of the small country. Among the large countries, Germany is the only candidate for this analysis. From the 1980s onwards, one European country after another surrendered to the hegemony of the *Bundesbank* and tied its exchange rate to the *Deutschmark* (DM), leading to de facto monetary union with Germany. We include Austria as a small country in this analysis, since it was the first country (in 1981) to peg its currency explicitly to the DM. Before that time, its exchange rate policy had been oriented towards a 'basket' composed of the currencies of its main low-inflation trading partners (Tichy, 1997). This had entailed noticeable deviations from the German exchange rate policy on several occasions during the 1970s, although both countries had pursued a stability-oriented 'hard currency policy'. In addition, wage levels have been higher in Germany than in Austria. For instance, in 2000 labour costs per hour in manufacturing were €26.34 in Germany and €23.60 in Austria, according to Eurostat.

We compare the two countries with regard to bargaining outcomes in the metal industry which, as already noted, operates as the national pattern-setter in both Austria and Germany as well as the pace-setter at EU level. This analysis covers the bargaining rounds from 1969/1970 to 2003/2004. Hence we can differentiate between two relatively long sub-periods according to the relationship between the currencies of the two countries. As will be delineated in greater detail below, both countries formed part of cross-border networks in the metal industry over the entire period under examination, with variations in formal status, function and territorial coverage over time.

A brief summary of the institutional context will help understand and interpret the following quantitative analysis. We will first address the national level and then turn to the supranational.

The Austrian and German systems of collective bargaining have manifold similarities. Most essentially, industry-level multi-employer bargaining, backed by strong employers' associations and unions and by a statutory peace obligation during the validity of agreements, prevails in both countries. In both countries, the metal industry sets the pattern for bargaining in the other sectors. Separate bargaining for (large-scale) industry and (small-scale) craft production is also common practice.

Likewise, there is one principal bargainer for labour: *IG Metall* (IGM) in Germany, and *Gewerkschaft Metall-Textil-Nahrung* (Union of Metal, Textiles and Food Industries, GMTN) in Austria.

Both systems of labour law provide a dual structure of labour representation, consisting of unions and works councils. While they are formally independent, widespread unionization of works councils has resulted in a high degree of incorporation into the union organization. Labour law in both countries has established a clear division of labour between unions and works councils, giving priority to the former in all matters of collective bargaining. Most importantly, Austrian and German works councils are not entitled to negotiate wage increases with management, unless authorized to do so by multi-employer agreements. This has become increasingly common in both countries, as multi-employer bargaining has undergone a process of 'organized' decentralization, beginning with agreements on flexible working time from the mid-1980s onwards, followed by provisions for flexible wages since the 1990s. However, it is important to note that the rationale behind decentralized wage bargaining differs. In Germany the collective agreements contain exit clauses, authorizing management and works council to undercut the standard rate under certain circumstances. In Austria employers have to pay extra for more flexible wages according to the 'distribution option', as occasionally laid down by multi-employer agreements.

This brings us to the differences between the two countries, which may affect the capacity for cross-border coordination. The timing of the bargaining rounds is completely different: in Germany there is volatility, as the validity of agreements varies between bargaining rounds, usually from one to two years. In Austria bargaining was similarly volatile until the late 1970s, but has since been strictly standardized in annual rounds. Since then, negotiations about new agreements have always been opened in autumn. As a consequence, the countries' bargaining rounds became asynchronous. The Austrian collective agreement is concluded roughly six months after the preceding German pilot settlement.

The purview of the industry agreements also differs in branches, territory, and the type of employees covered. Austrian agreements cover not only metal-working but also such branches as mining, iron and steel production and the manufacture of gas, steam and hot-water equipment, all of which are outside the German metal-working agreements. In contrast to Germany, however, since 2001 the Austrian agreement has not included the electrical and electronics sector. In territorial respects, the Austrian agreements cover the whole country, whereas agreements are concluded separately for the distinct bargaining districts in Germany – though collective bargaining for the German metal industry is in fact highly coordinated, since a 'pilot agreement' in one region is copied by the other districts.

Bargaining is still formally differentiated by employee status in Austria, because GMTN organizes only blue-collar workers, while the *Gewerkschaft der Privatangestellten* (Union of Salaried Private Sector Employees, GPA) represents white-collar employment, and separate agreements are signed by each union. This differentiation has lost importance since the early 1990s, when the two unions started to negotiate wage agreements jointly, resulting in fairly similar outcomes for the two groups, and recent agreements have harmonized their employment terms. In Germany, differentiation by employee status has never been important and has disappeared completely since the former independent union of white-collar employees joined the merger which created ver.di.

The structure of employer organization also differs. What the metal industry agreements embrace in Germany is covered by one single employer association, *Gesamtmittel*. In Austria a bargaining cartel of several sub-units of the Chamber of Business, WKÖ, negotiate the industry agreement jointly on behalf of the employers. WKÖ membership is compulsory, hence employer density and collective bargaining coverage are 100 percent. Finally, the bargaining climate is more adversarial in Germany than in Austria. As well as warning strikes that often accompany negotiations, the German metal industry regularly sees major disputes. In Austria the last sector-wide strike occurred in 1962, and there has never been a lockout.

The metal industry unions have a long tradition of cross-border networking. Aside from the International Metalworkers Federation (IMF), the oldest arrangement that bands the unions of Austria and Germany together is the DACH network: the title stands for the abbreviations of the three participating countries, Germany, Austria and Switzerland, but also means literally 'roof' and figuratively 'umbrella'. DACH existed before the 1970s, but none of the participating unions knows the year of its foundation. This reflects its informal character: union representatives of the three countries meet once a year to exchange information and views, without any ambition to arrive at common decisions. DACH is concerned with bargaining matters but has not been limited to them. Union representatives report that the network has contributed to mutual understanding of the country-specific problems and practices of bargaining.

As a platform to discuss bargaining issues, DACH has receded in significance in parallel with growing weight of EMF as an umbrella of not only EU member states but also other European countries, and as a vanguard of cross-border bargaining coordination. GMTN joined EMF no earlier than in the late 1980s. Meanwhile, one of the seven regions into which the EMF Steering Committee is differentiated consists of Austria, Germany, and Switzerland. Under these circumstances, DACH nowadays works as a mechanism to concert and advance common interests

within EMF and IMF. Attempts at explicit coordination that includes Germany and Austria have gathered momentum with the 1993 EMF statement on bargaining principles, formulated in response to the approach of EMU. Accordingly, the unions should orient their bargaining goals towards inflation, productivity and a redistributive component (Gollbach and Schulten, 2000). In 1998 these principles were confirmed and translated into a 'coordination rule', identifying inflation and a 'balanced participation' in productivity growth as the key reference for national bargainers. While this rule is not enforceable, EMF has made considerable efforts to set up the institutional preconditions for effective coordination. This includes a comprehensive information system, designed to prepare bargaining and monitor outcomes. To assure comparability across countries, the national unions are expected to inform about the estimated value of their whole agreement, taking both quantitative and qualitative components of the agreement into consideration.

Coordination by EMF is complemented by 'inter-regional' bargaining networks comprising neighbouring countries. The *Wiener Memorandum* of 1999 brought together IGM Bavaria, GMTN, and their counterparts from the Czech Republic, Slovakia, Slovenia and Hungary. Aside from special seminars and conferences organized within this framework, the union leaders and the members of the working group each meet once a year to exchange information on economic trends, and to discuss their bargaining policy in the light of the EMF coordination rule as well as other bilateral issues, such as outsourcing and relocation of companies. Further bilateral cooperation between these neighbouring countries takes place at sub-regional level.

Hypotheses, Model Specifications and Empirical Findings

The above analytical assumptions, together with basic information on the two countries, enable us to refine our hypotheses on the preconditions and effectiveness of cross-border bargaining coordination:

- 1) There will be no significant interaction between the bargaining outcomes in the two countries during the period of national monetary autonomy (from 1969/70 to 1979/80 in terms of bargaining rounds), since differences in exchange rate policy give rise to differing leeway for collective bargaining.
- 2) For the period of monetary union (from 1980/81 to 2002/03), there will be a statistically significant, positive correlation between the bargaining outcomes in the two countries.
- 3) Since large countries as the pace-setters must bear the main burden of coordination, wage increases in Austria are expected to be slightly

(i.e. not significantly) below those in Germany during the period of monetary union.

Our hypotheses mean that economic conditions, as given by the monetary regime, dominate the cross-border union contacts that did not change in nature until the end of the 1980s. Accordingly, we assume that the shift to *de facto* monetary union stimulated bargaining coordination. In consequence, cross-border union networking is predicted not to bring about cross-border coordination of collective bargaining during the first sub-period. The proposition that economic and monetary integration translates into pattern bargaining may require further explanation. The causal link between them is social learning (Teague, 2000). As outlined above, economic integration creates a certain configuration of interests that makes a cooperative solution possible provided the actors involved realize that compromising makes all of them better off.

The third hypothesis implies that some kind of ‘beggar-your-neighbour’ policy is inherent in cross-border coordination by pattern bargaining. This raises the question: what is the difference between cross-border pattern bargaining and purely competitive bargaining policies that the former aims to contain? Statistically, this difference can be captured by testing whether the scale of deviation of pay increases between the smaller country and the larger reaches conventional levels of statistical significance. Significantly negative deviations indicate competitive bargaining; insignificantly negative deviations, in combination with a significantly positive correlation between the wage movements of the two countries, indicate cross-border coordination, with the smaller country orienting its wage policy towards the larger one in a utilitarian, self-interested way. In this case, undercutting by the smaller country remains limited, while its wage increases are still significantly tied to the wage settlements of the larger country.

Following Sisson and Marginson (2002: 199), we define coordination as a mechanism ‘to achieve the same or related outcome in separate negotiations’.¹ Outcome is understood as the scale of increase in minimum pay, as fixed by the collective agreements that are concluded by the countries’ principal unions, IGM and GMTN.² This is because the EMF coordination rule has also adopted the scale of pay increases as its reference for pay policy. Changes in working time specified in the agreements are taken into consideration, but other qualitative provisions are ignored. To make the outcomes of agreements comparable with regard to different length of validity, they were standardized on a yearly basis.

In addition, interviews with union representatives were conducted, focusing on their view on the bargaining process. In accordance with our general proposition that wage policy in the smaller country follows the larger one, we concentrate here on the views of GMTN in order to identify the

criteria that guided its bargaining strategy. A 'wage formula' in the strict sense has never existed, since bargaining is seen as a political process that requires equipping the bargainers with certain room for manoeuvre. Nevertheless, traditional references for bargaining have been Austria's economic growth, overall productivity growth and inflation during the last year, together with forecasts for the coming year. Hence the introduction of the EMF coordination rule did not require GMTN to revise its bargaining line. The unemployment rate is also considered in the course of preparations for the bargaining round, as a factor affecting the union's bargaining power. A GMTN official conceded that special attention is paid to German developments because of its strong impact on Austria. Nevertheless, any explicit orientation of GMTN towards the outcome of the bargaining rounds in Germany was denied.

Figure 1 presents the difference in gross wage increases between Austria and Germany over the entire time period. The direction of bargaining results for the two countries has converged since the early 1980s, and the scale of results has done so especially from the mid-1990s onwards. In addition, Austrian pay increases exceeded those in Germany more often than the reverse.

To test rigorously whether and how Austrian bargaining interacts with the German bargaining outcomes, we employ a multivariate analysis. In line with the GMTN bargaining criteria indicated above, growth of GDP (ΔY), productivity growth (ΔQ), inflation (P) and changes in the unemployment rate (ΔU) enter the model as control variables, when estimating the impact of German wage movements in the metal industry ($W_{m,BRD}$) on the Austrian ones ($W_{m,AUT}$). It is impossible to include both past and forecast values of the economic variables because of multicollinearity problems. Therefore we use the actual values of the year during which the bargaining round in Austria occurred as a proxy. Put in standard linear fashion, these specifications yield the following regression model, designed to test the first and second hypotheses.³

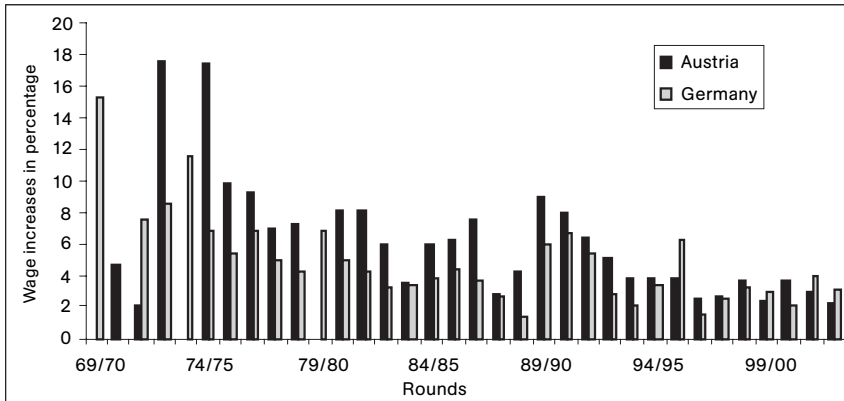
$$W_{m,AUT} = \beta_0 + \beta_1 \Delta U + \beta_2 P + \beta_3 \Delta Q + \beta_4 \Delta Y + \beta_5 W_{m,BRD} + \varepsilon$$

The results for this model are reported in Table 2. As regards the period before monetary union, none of the explanatory variables, including the German collective agreements, has a significant impact on Austrian bargaining outcomes.⁴ This supports our first hypothesis that collective bargaining in Austria did not systematically interact with German bargaining before the two countries formed a *de facto* monetary union. Thereafter, the results show that Austrian gross wage increases significantly parallel the German. Hence, monetary union has given rise to cross-border coordination.

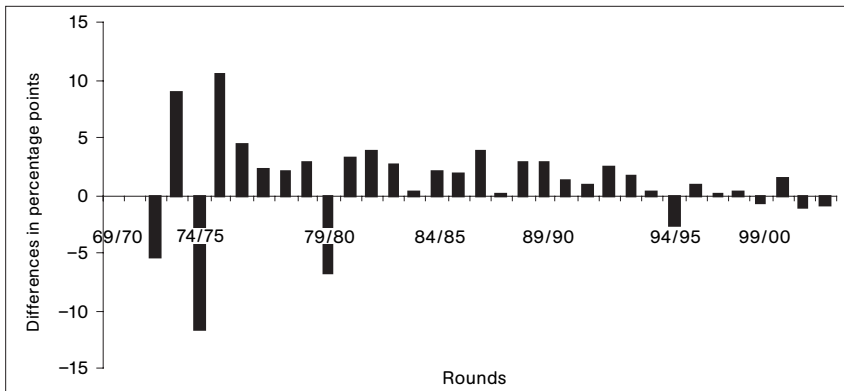
While our first two hypotheses deal with the question *whether* the Austrian bargaining rounds systematically relate to the German ones at

FIGURE 1. The Difference between Austrian and German Bargaining Outcomes

Wage increases in Austria and Germany



Differences in percentage points, Austrian minus German values



all, the third hypothesis refers to *how* they do so. The related measure is the scale of difference in standardized bargaining outcomes between the two countries. The *t*-test for comparing means from distinct samples can be employed for examining whether the period-specific average pay increases in Austria significantly differ from the German. Since we found a coordination effect only for the time of monetary union, we could confine our analysis to this period. To give a complete overview of the wage movements, however, we also include the time before monetary union. Table 3 documents the differences in wage increases, averaged over selected periods of time. For any of these periods, the difference is positive from the perspective of the Austrian unions. For 1980/1981 to 2002/2003, the period central to our third hypothesis, Austrian wage increases were higher than German by 1.28 percentage points on average. With $p = 0.001$, this difference is even statistically significant. These findings run counter to

TABLE 2. Regression on Wage Increases in the Austrian Metal Industry

Dependent variable: $W_{m,AUT}$ Variable	Period	
	1969/70–1979/80	1980/1–2002/03
C	–25.42932 (25.52396)	–0.580083 (1.188636)
ΔU	60.39168 (59.55990)	–0.267549 (1.004959)
P	1895.825 (963.0655)	–55.05484 (53.30336)
ΔQ	7.398468 (8.236460)	0.716948 (0.491583)
ΔY	4.534257 (4.551188)	1.505606** (0.634136)
$W_{m,BRD}$	–16.82213 (8.189932)	0.429783** (0.181288)
R -squared	0.830740	0.757105
Adjusted R -squared	–0.015560	0.681200
N	7	22
F -test (Prob.)	0.640859	0.000178
F -statistic	0.981615	9.974419

Notes: *** = $\alpha \leq 0.01$, ** = $\alpha \leq 0.05$, * = $\alpha \leq 0.1$.

$W_{m,AUT}$	Gross wage increase negotiated by GMTN (or predecessor), standardized on a yearly basis. Data source: GMTN
β	Parameter
P_t	Inflation rate. Data source: OECD 2004 <i>Leading Indicators</i> , 2004.
ΔU	Change in unemployment rate. Datasource: OECD <i>Economic Outlook</i> , 2004.
ΔQ	Overall productivity growth. Datasource: OECD <i>Economic Outlook</i> , 2004.
ΔY	Growth of GDP (current values). Data source: OECD <i>National Accounts I</i> , 2004.
$W_{m,BRD}$	Gross wage increase negotiated by IGM during the bargaining round preceding the bargaining round in Austria, standardized on a yearly basis. Data source: WSI Tarifarchiv.
ε	Error term

our third hypothesis, which assumes that cross-border bargaining coordination implies the ‘exploitation of the great by the small’. In contrast to what collective action theory implies, national unions do not necessarily adopt a utilitarian, self-interested policy line when it comes to relating their own bargaining strategy to the development in neighbouring countries. In the case of Austria’s relationship to Germany, the positive deviation can be traced to a corresponding difference in economic development. Table 3 also compares the two countries in terms of differences

in economic growth, productivity growth and unemployment. Over all periods considered, Austria performed better with regard to all three indicators, and the performance differentials widened with the exception of GDP growth. Therefore the Austrian union found more leeway for wage increases than the German.

Conclusions and Broader European Implications

The above analysis has shown that a strictly decentralized approach to cross-border coordination, based on pattern bargaining, can work as an effective means of containing competitive bargaining. Moreover, the coordination potential of this approach is even higher than the analytical considerations of this article suggest. In contrast to our initial assumption, the pattern-setting union of the large country is not necessarily compelled to 'pay' for cooperation by their counterparts in small countries by conceding them somewhat lower wage increases. The constituent property of this kind of coordination is its very special interplay of economic conditions and coordination strategies. In this respect, the crucial finding is that wage bargaining in Austria became coordinated with German bargaining in parallel with Austria's shift to de facto monetary union with Germany, while this shift was not reflected by intensified explicit coordination initiatives. In contrast to this, the coordination network of Austria, Germany and Switzerland (DACH) that existed at the time of this double move from monetary autonomy to monetary union and from uncoordinated to coordinated bargaining across the two countries had been established long before these changes, and remained unchanged as the sole cross-border network long afterwards.

It follows that economic conditions rather than transnational networks and intentional action constituted the driving force behind the rise of coordination. This can also be seen from the actors' perception of the

TABLE 3. Differences in Wage Increases and Economic Performance^a

Period	Wage increases ^b	Unemployment rate	Productivity growth	GDP growth
1969/70–2002/03 ^c	1.16 (1.64)	–1.54	0.88	0.45
1969/70–1979/80 ^c	0.84 (0.34)	–0.08	0.26	0.88
1980/81–2002/03 ^c	1.28 (3.71)***	–2.19	1.07	0.30

^aAustrian minus German values (difference in percentage points).

^bStandardized increases in gross wages.

^cData on economic performance refer to calendar years.

*** $p \leq 0.01$; t -tests for paired samples; t -values in parentheses.

process. As noted, one of our GMTN respondents said that the union does not orient its policy towards the German agreements. This is because they are argued to be usually less favourable to the employees than the Austrian agreements. This statement is confirmed by our findings on the differences in gross wage increases. However, a statistically significant interaction of Austrian with German bargaining outcomes is also apparent. One can infer from this that the Austro-German case of cross-border coordination rests on latent rather than manifest processes. It is economic interdependence, crystallized in monetary union, which performs a latent function of bargaining coordination. Hence, European economic integration is not merely a challenge to collective bargaining. In addition to stimulating cross-border coordination initiatives, it is a force that also contributes to their coordination effectiveness. Geographically, cross-border coordination activities are most developed among the countries recording a long period of monetary union with Germany, originating in the former 'DM zone' (Marginson and Schulten, 1999; Marginson and Sisson, 2004).

This brings us to the implications of our findings for the European level. There are two issues: first, the generalizability of the above findings, and second, the special contribution of cross-border pattern bargaining to EU-level coordination. Although the bargaining systems of Austria and Germany differ in several respects which are seen as notable obstacles to cross-border coordination (asynchronous timing of the bargaining rounds and manifold differences in the scope of the agreements), they also show strong similarities, namely multi-employer bargaining and more or less the same reference criteria for negotiations. These similarities may cast doubt on whether cross-border pattern bargaining can work in the case of countries which are more disparate.

This question has become all the more important, since the incoherence of the national bargaining systems has drastically increased within the EU since enlargement in 2004 (Marginson and Traxler, 2005): multi-employer bargaining is lacking in the majority of new member states. As numerous analytical studies show (Soskice and Iversen, 2000; Traxler et al., 2001), the responsiveness of wage policy to monetary policy varies with the institutional properties of the bargaining system. These variations may go hand in hand with differing ability to participate in transnational coordination activities, although these studies are not directly applicable to the problem of sector-level coordination, as they all focus on national bargaining systems as a whole and their capacity for economy-wide coordination.

On balance, one cannot rule out the possibility of participation in cross-border sector-level pattern bargaining even when the bargaining system is not supportive. This is because pattern bargaining is a rather robust coordination mechanism which draws its effectiveness from economic forces

rather than from a special institutional set up, as we have seen earlier. For instance, UK experience shows that *intra*-industry coordination by pattern setting can emerge even under single-employer bargaining (Marginson and Traxler, 2005). This is because relatively high intra-industry degrees of substitutability of products and homogeneity of production propel processes of imitation and benchmarking which can be converted into pattern bargaining if there are unionized leading companies whose single-employer settlements set a going rate for the sector.⁵ Along with certain other sectors, the metal industry meets these minimum preconditions for participation in cross-border pattern bargaining in almost all countries. Minimum preconditions, however, probably enable a country only to play the passive role of a 'patterntaker'. There is good reason to assume that only multi-employer agreements empower national bargainers to set a cross-border pattern, because only this kind of agreement can visibly and credibly reduce uncertainty about what the going rate is.

We turn now to the relationship of cross-border pattern bargaining to EU-level coordination processes. Given decentralized coordination as the only realistic option at this level, there are three possible mechanisms (Sisson and Marginson, 2002: 214): 'synchronized bargaining', where the coordination effect comes from simultaneous negotiations in the distinct countries; 'target setting', in which the national bargainers each follow an agreed coordination rule in their separate negotiations; and pattern bargaining in the above sense. Although a synchronization of national bargaining rounds is under discussion by the ETUC (Dufresne and Mermet, 2002), this is not a feasible option for the foreseeable future. As noted above, the timing of bargaining has even diverged in the long run in the Austro-German case. The fact that cross-border coordination in Austria and Germany has evolved and consolidated despite this divergence also indicates that synchronization is not an essential ingredient for such coordination. In contrast to this, target setting, formalized in coordination rules and common standards, has formally developed into the core mechanism of EU-wide union-led coordination efforts (Marginson and Sisson, 2004). Because these targets are non-binding, however, they can hardly be effective without being buttressed by pattern-setting machinery. Large countries in which the overall process can obtain an anchor are at the heart of cross-border pattern bargaining. Hence, the direction of coordination depends on bargaining outcomes in the large countries. If they take account of the need to combat downward pressures on standards, then they become vulnerable to free riding strategies in the smaller countries. This cooperation problem makes EU-wide target setting important. Its main task is to stabilize expectations and generate mutual trust, such that the pattern-setting effect of economic interdependence can work for the sake of containing competitive bargaining strategies. Put more specifically, this means keeping the bargainers in large 'anchor' countries in line with

the agreed bargaining principles and assuring that their counterparts in smaller countries do not deviate negatively from them too much. At EU level, target-setting and pattern bargaining are thus complementary, inter-related mechanisms. The former can be seen as the 'software' of cross-border coordination, and the latter as its 'hardware'.

On an EU-wide scale, it is easier to find conforming followers than pattern-setters capable of consistently observing the common principles. This is for two reasons. It is not very hard for the small countries to follow, since they usually perform better in economic terms than their large neighbours. The effectiveness of the overall process hinges on the pattern-setters. While it is rational for the bargainers of the large high-wage countries to take on this role, their capacity to do so is critical. The capacity to guide bargaining in Europe in accordance with EU-level coordination principles is tied to a powerful system of multi-employer bargaining, which is not standard in the very large European economies enjoying relatively high pay levels. Single-employer bargaining prevails in the UK. In Italy and France, multi-employer bargaining is not well prepared to deliver outcomes that continuously exceed the inflation rate. This leaves Germany which is commonly seen as the primary candidate for a European pattern-setter. However, two recent developments have made this prospect doubtful. One is enlargement and the divide between the eurozone and the rest of Europe. Even though pattern bargaining appears to require rather limited coverage (Traxler et al., 2001), one may doubt that the German pattern suffices to unleash a European-wide effect. Second, accelerating bargaining decentralization threatens to hollow out multi-employer bargaining. As is the case of other sectors in Germany, multi-employer agreements in the metal industry have introduced various opening clauses that authorize management and works councils to undercut the standard rate, not only in cases of 'hardship', but also if this proves necessary to achieve sustainable levels of employment (Dribbusch, 2004).⁶

The upshot of these considerations is that in response to growing economic integration, cross-border pattern bargaining, comprising a large country and neighbouring smaller ones, is likely either to work already or to come to work in inter-regional areas. The scope of these distinct areas will probably reflect similarities in levels of wages and productivity (Ulman, 1975). More uncertain, however, is whether EU-level union initiatives are able to govern 'bottom-up' coordination by pattern bargaining in a way that contains competitive bargaining across Europe.

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NOTES

- 1 There is a debate whether pattern bargaining should be conceptualized as a process or an outcome (Capelli, 1990; Ready, 1990). In accordance with our definition of coordination, our notion of pattern bargaining includes both dimensions, since we want to examine whether intentional and unintentional processes (i.e. union coordination activities and EMU) result in effective coordination in terms of outcomes.
- 2 For Germany, we take the collective agreement for *Nordwürttemberg-Nordbaden*, which is usually the pilot agreement for the sector. In Austria the wage agreements for the metal industry cover increases in both minimum wages and actual pay. We disregard here the clauses on actual pay, since there is no counterpart in Germany.
- 3 We assume a linear relationship between unemployment and wages. However, we also tested the nonlinear relationship (Phillips, 1958) by using the reciprocal and squared value of unemployment. This non-linear specification did not change the results, underscoring the robustness of the model. Inspection of the regressors showed no serious problems of multicollinearity. Another statistical problem is that regressing wages on such economic variables as current inflation may create an endogeneity problem, even though the bargainers orient their policy also on forecasts, as noted above. Since it is hard to find instrumental variables in our case, we omitted the economic variables, such that $W_{m,BRD}$ remained as the only regressor. Related results did not differ from those of the model in Table 2.
- 4 In the case of the economic variables, one may find this lack of explanatory power amazing. This finding indicates that political factors, such as union power and package deals within the framework of corporatist incomes policies, dominated merely economic orientations. These factors are hard to measure and are not central to our research question.
- 5 In this respect, *inter*-industry coordination by pattern bargaining is more demanding, because it has to work with less supportive spill-over effects across companies.
- 6 For this reason, the EMF review, designating Germany as the only country that fully met the coordination rule in 2004 and 2005, should be taken with a grain of salt.

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