



THE CONTINGENCY THESIS OF COLLECTIVE BARGAINING INSTITUTIONS

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Employment-enhancing policies are a collective good. Hence, they are burdened with a collective action problem. While there is general interest in a high level of employment, any single actor in the labour market may be tempted to take a free ride, thus externalising the costs of employment policies to the “others”. The possibility of overcoming this collective action problem depends on whether institutions exist that set an incentive for the actors to co-operate for the sake of employment (that is to internalise the costs of their self-interested strategies).

In this respect, the institutions devised to regulate bargaining over employment terms have attracted attention, since labour costs are commonly assumed to affect (un)employment. From a cross-nationally comparative perspective, the bargaining institutions are all the more interesting, since their structures vary widely throughout the OECD countries. To the extent to which these institutional differences translate into differences in labour cost growth, they are also expected to bring about differing employment effects according to neo-classical reasoning.

The complexity of bargaining and its institutional implications

To study the comparative impact of (national) differences in the bargaining institutions on unemployment, one has to clarify the dimensionality of

the collective action problem of bargaining. In principle, co-operation on behalf of employment (that is internalising the negative externalities of distributional conflicts) involves three types of interaction: (a) the interaction between the manifold bargaining units; (b) the interaction between these bargaining units and political and monetary authorities; and (c) the interaction between the representatives of each bargaining unit and their rank-and-file.

Mainstream reasoning on the socio-economic effects of the bargaining institutions has focused on the interaction of type (a) and (b). In the case of type (a) the debate has concentrated on centralisation as the decisive institutional property of bargaining (Cameron 1984, Calmfors and Driffill 1988). Other accounts have argued that coordination of the distinct bargaining units matters more than centralisation, when it comes to internalising negative externalities (Soskice 1990). From this perspective, cross-sectoral centralisation (understood as the level at which the collective agreement is formally concluded) is just one special form of macroeconomic coordination among other, more decentralised forms of coordination. Other contributions have emphasised that the effectiveness of macroeconomic coordination is contingent on the sectoral structure of the economy, i.e. the relative strength of the internationally exposed sector and the sheltered sector (Garrett and Way 1995). Research on the interactions of type (b) has focused on how alternative bargaining institutions relate to alternative political regimes, mainly operationalised as party composition of governments (Lange and Garrett 1985) and to alternative monetary regimes, generally operationalised as the degree of central bank independence (Hall and Franzese 1998).

The studies of both interaction type (a) and type (b) centre on how the elites (that is the representatives) of the employees, the employers and other actors interact with one another. Therefore they refer to what one may call the horizontal dimension of the collective action problem of bargaining.

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In comparison to this, type (c) represents the vertical dimension of the problem: the interaction between the representatives of the employees and employers and their rank-and-file. Effective co-operation requires resolving the horizontal as well as the vertical co-operation problem. Coordination efforts launched by the elites of the two sides of industry cannot work without the support from their rank-and-file. The economic incentives for co-operation set by the government and the central bank, as described in studies dealing with interaction (b), can hardly stimulate such support, since they merely address the representatives of organised business and labour. The vertical problem of collective action remains thus endemic: any individual contract or any local collective agreement may bypass higher-level agreements on co-operation. Empirical evidence suggests that the vertical problem is even more severe than the horizontal problem. When experiments with income policy and “pacts” on wage moderation and employment fail, they usually do so due to insurmountable problems of vertical co-operation manifest in excessive wage drift, wildcat strikes and other forms of non-compliance.

This means that the vertical problem deserves no less attention than the horizontal problem, which has been so hotly debated in the literature. However, one might question this point by arguing that it is precisely the centralisation of bargaining at the cross-sectoral level that resolves both problems at once. Such reasoning overestimates the governance capacity of hierarchy, as formalised in centralised structures, in a context of voluntary institutions: the central-level parties to collective bargaining (i.e. the peak associations of the unions and employer organisations) are usually voluntary associations which can hardly bind their members simply by fiat (Crouch 1993). Moreover, the impact of centralisation on coordination is contradictory. On the one hand, centralisation fosters attempts at horizontal coordination, since central-level actors tend to internalise externalities due to their encompassing domain (Olson 1982); on the other, growing centralisation can even exacerbate the problems of vertical coordination for a variety of reasons. The opportunity of the rank- and-file to participate in the association’s decision-making process decreases with growing centralisation. As a consequence, the propensity of the rank- and-file to comply with decisions (i.e. central-level collective agreements) will decline. Furthermore, cen-

tralisation tends to politicise bargaining, since the influence of organisational politics and ideology on the demands and bargaining outcomes grows, while market forces will become less influential in determining the bargaining process. Centralisation also renders the distributional outcome of a certain agreement more transparent (Rueda and Pontusson 1997). All this fuels distributional conflicts among the distinct groups covered by the central agreement and thus threatens to undermine the agreement’s effectiveness.

The contingency hypothesis on the performance of bargaining

The upshot of the above reasoning is that the horizontal collective action problem of bargaining and the vertical problem must be treated as two dimensions which are independent of each other because they each impose a conflicting logic of collective action on the bargaining units. While centralisation facilitates horizontal coordination, it makes any vertical coordination more difficult. This brings us to four hypotheses on the performance of bargaining, i.e. the ability of bargaining to internalise externalities.

- The performance of any kind of horizontal coordination efforts is contingent on whether the vertical problem of coordination can be resolved.
- The economic performance of horizontally coordinated, centralised bargaining systems will be superior only, when effective means of vertical coordination are given. If they are lacking, then the performance of such systems will be worse than any alternative setting.
- Due to their conflicting logic, resolving the vertical problem of coordination requires special mechanisms which are distinct from those designed to cope with horizontal coordination.
- For the above reasons, voluntary institutions such as unions and employer associations are hardly able to assure effective vertical coordination. Hence, they need external support which no other actor than the state can provide. This need increases with growing degrees of centralisation. Therefore the performance of horizontally coordinated, centralised bargaining is contingent on state provisions for ensuring vertical coordination (i.e. compliance of lower-level actors).

Comparative empirical research based on an elaborate data base (covering 20 OECD countries for the period from 1970 to 1996) (Traxler 2002; Traxler 2003; Traxler, Blaschke and Kittel 2001) strongly supports the contingency thesis with regard to both types of horizontal interaction. When summarising these findings in the following paragraphs, we cannot go into details of either operationalisation or econometric model specifications for the sake of brevity. Most importantly, the capacity for vertical coordination is operationalised as “statutory bargaining governability”. This is based on Traxler and Kittel (2000), who have shown that statutory provisions for legal enforceability of collective agreements and for the peace obligation during the agreements’ validity significantly improve the capacity for vertical coordination (i.e. bargaining governability). The measure of bargaining centralisation is taken from Traxler, Blaschke and Kittel (2001). According to an assessment of alternative centralization measures this is one of the two best measures available (Kenworthy 2001). Performance is measured in terms of growth of unit labour costs, inflation and unemployment. Since the results for these performance indicators, as found by the above studies of the contingency thesis, point to the same direction, they can be discussed altogether. It should be noted, however, that the explanatory power of the models is lower (but still statistically significant) in the case of unemployment, as compared to labour costs and inflation. This indicates that bargaining has primarily nominal effects, whereas unemployment is also strongly affected by other factors such as macroeconomic demand (Soskice 2000).

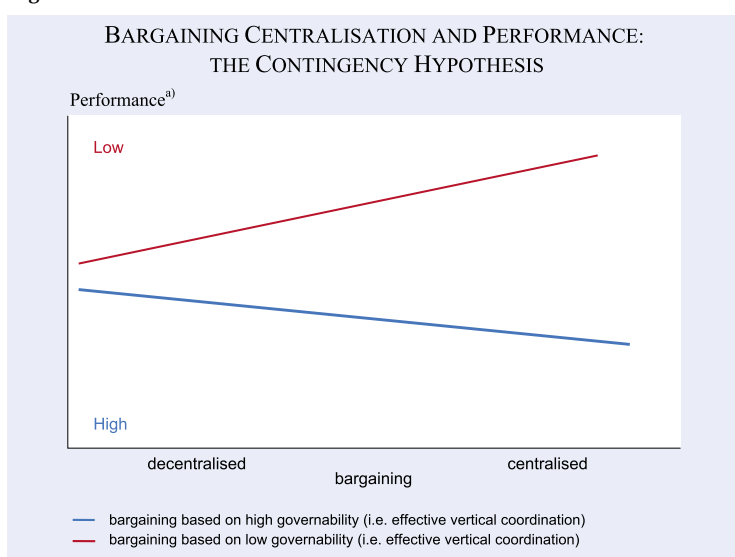
As already mentioned, there is a debate on whether centralisation or coordination actually matters, as far as type (a) of the horizontal interaction process is concerned. Hence, it is reasonable to apply the contingency hypothesis to centralisation as well as coordination of bargaining. The results for centralisation are documented in Figure 1. Most essentially, bargaining centralisation brings about its widely presumed beneficial effects only when backed by high bargaining governability (i.e. effective vertical coordination). Yet in industrial relations systems

burdened with low governability, performance significantly declines with growing bargaining centralisation, such that centralised bargaining is indeed the worst case in these circumstances. Overall, the contingency effect of bargaining centralisation is evident in the fact that centralisation buttressed by effective vertical coordination and centralisation plagued by ineffective vertical coordination cause contrasting performance outcomes (Traxler 2003). As an implication, the performance of effective and ineffective vertical coordination progressively diverges, when bargaining becomes more centralised.

Turning from centralisation to horizontal coordination in the broad sense, one has to specify its possible manifestations. As the cross-national comparison of bargaining systems suggests, one should differentiate between four main categories (Traxler, Blaschke and Kittel 2001):

- The first category is peak-level coordination in the course of which the peak associations of the unions and employer associations have the leading role in the coordination process. Depending on the number of actors involved, peak-level coordination may be bipartite (which corresponds with centralised bargaining), tripartite (if the state joins the bargaining process as a third party) or unilateral (when only one peak of the two sides of industry is engaged in coordination by means of internally synchronising the bargaining policies of its affiliates).

Figure 1



^{a)} Macroeconomic performance measured in terms of growth of unit labour costs, inflation and unemployment.

All figures are heuristic functions of the hypothesised relationship, since the degree of observed bargaining centralisation relative to the theoretical zero and full centralisation is not known.

Source: Traxler (2003, p. 16).

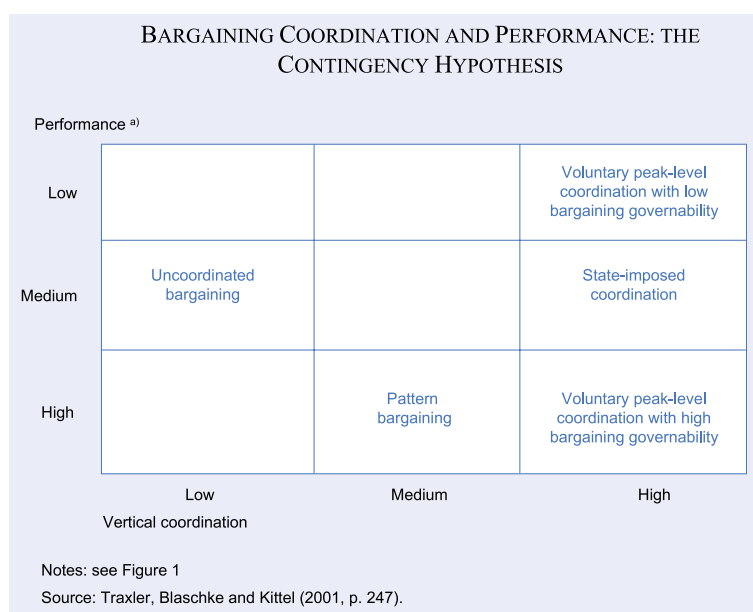
- There is also the possibility of coordination by pattern bargaining, resting on the leading role of a certain bargaining unit or a cartel of contiguous bargaining units below peak level. In most countries where pattern bargaining takes place, the bargaining units representing the metal industry set the pattern for bargaining in the other sectors of the economy.
- Third, horizontal coordination may authoritatively be imposed by the state within a statutory framework of compulsory income policies. State-imposed coordination thus contrasts with the above forms of voluntary coordination.
- Finally, collective bargaining may remain uncoordinated.

authoritatively enforced under these circumstances. Last but not least, any provision for vertical coordination is pointless in a context of uncoordinated bargaining. This means that the contingency effect is present only as far as peak-level coordination is concerned. The findings also indicate that there is no “one best way” of bargaining. Peak-level coordination backed by high governability as well as pattern bargaining show above-average performance. However, peak-level coordination performs worst, if governability is low. In comparison to these settings, uncoordinated bargaining and state-imposed coordination record an average performance.

Figure 2 shows the performance of these four categories of bargaining, as found by cross-nationally comparative analysis (Traxler, Blaschke and Kittel 2001, Traxler and Kittel 2000). In a way analogous to bargaining centralisation, there is a contrasting performance effect of peak-level coordination, depending on whether bargaining governability is high or low. This is because all forms of peak-level coordination are comparatively centralised settings. As regards the other categories, bargaining governability is insignificant. In the case of pattern bargaining this follows from its rather decentralised coordination mode, such that it needs less vertical coordination than its peak-level counterpart. There is no significant interaction of bargaining governability with state-imposed coordination, since both horizontal and vertical compliance is

The findings on centralisation (Figure 1) complement the findings on horizontal coordination (Figure 2). This is because the scale of the contingency effect of vertical coordination increases with centralisation. As the detailed quantitative analysis reveals (Traxler 2003): distinct degrees of centralisation do not differ significantly in performance, when bargaining governability is high; likewise, rather decentralised forms of bargaining do not show significant differences in performance, regardless of whether bargaining governability is high or low. This confirms the proposition that there are functionally equivalent settings. Depending on the given configuration of bargaining governability, the performance of decentralised bargaining may be similar to more centralised settings. Therefore, centralisation (in combination with high governability) is just one specific form of effective coordination along with other, more decentralised modes of coordination.

Figure 2



Empirical research in the contingency hypothesis has also addressed type (b) of the horizontal interaction process. In this respect, the focus is on the interaction between bargaining coordination and the monetary regime (Traxler, Blaschke and Kittel 2001, Traxler 2002). Put more specifically, the question is whether alternative bargaining settings differ in their responsiveness to monetary signals, that is, in their ability to internalise the economic effects of a given monetary regime. The finding (which is common to differing model specifications of this ques-

tion) is that the main divide is between horizontally coordinated and uncoordinated bargaining systems. While uncoordinated bargaining is not responsive to the monetary regime, any category of coordinated bargaining is responsive in the way one would expect: a shift to a more restrictive monetary regime significantly dampens labour costs and inflation. The explanation for this divide is that a strategic interaction between the bargainers and the central bank is possible only in a situation of coordinated bargaining. Given uncoordinated bargaining, it is not rational for any single bargaining unit to internalise monetary policy effects because none of the numerous units is so encompassing that its bargaining policy has a noticeable macroeconomic effect. Conversely, the monetary authorities cannot deliberately target the bargainers due to the fragmentation of the bargaining system. In contrast to this, the macroeconomic relevance of coordinated bargaining sets an incentive for the bargainers to respond to the monetary regime. Likewise, the monetary authorities can strategically target the bargainers. It is worth mentioning that the distinct categories of voluntary coordination differ in what kind of monetary parameter they are responsive to. Whereas peak-level coordination with high governability and pattern bargaining significantly interact with the degree of central bank independence, peak-level coordination with low governability responds far more to actual monetary policy (Traxler 2002). This difference reflects the differing capacities for internalising externalities, as summarised in Figure 2: Due to their high capacity for wage moderation, peak-level coordination with high governability and pattern bargaining are best prepared to anticipate the consequences of monetary conservatism, as institutionalised in an independent central bank. Peak-level coordination characterised by low governability is less able to do so because of poor capacity for vertical coordination. Hence, an actual shift to restrictive monetary policy is needed to moderate wage demands in this case. In other words, monetary contraction may compensate for a lack of high bargaining governability, insofar as this enables peak-level coordination to internalise externalities even when bargaining governability is low.

Turning from the nominal to the real effects, one finds a result analogous to that for interaction (a) of the bargaining process: the effect on unemployment of the interaction between bargaining and the monetary regime is less clear than in the case of labour costs and inflation. What can be said, how-

ever, is that a conservative (that is stability-oriented) monetary regime is most likely to cause significant real costs (in terms of growing unemployment) in a situation of uncoordinated bargaining. This is because any possibility of strategic interaction is absent. Hence, the monetary authorities can discipline uncoordinated bargaining only *ex post* by means of monetary contraction bringing about an increase in unemployment which in turn significantly restricts the scope for further wage increases.

Conclusions

There are two main conclusions that can be derived from the above findings. In scholarly respects, they explain why recent elaborate studies which have focused on the horizontal interaction of the bargaining process have not found any systematic effect of bargaining on performance (OECD 1994, 1997, Traxler and Kittel 2000, Traxler, Blaschke and Kittel 2001). This is because centralisation as well as coordination of bargaining produce contrasting performance effects, contingent on their capacity for vertical coordination. This underscores the need to combine studies in the performance of bargaining with a systematic analysis of the problem of vertical coordination in general and rank-and-file compliance in particular.

As regards policy implications, the conclusion is that debates on the reform of bargaining cannot simply centre on the degree of centralisation or coordination. Given the contingency of bargaining effects, the outcome of a certain change in the bargaining system may significantly vary with the context (i.e. the existing statutory framework for bargaining governability and the monetary regime). For instance, the decentralisation of bargaining, which has become so popular as a means of improving performance, may even deteriorate the macroeconomic performance of a bargaining system under certain circumstances. In particular, this holds true for decentralisation causing a shift from coordinated to uncoordinated bargaining in the case of systems capable of effective vertical coordination. Moreover, the above findings indicate that institutional differences in the bargaining systems translate into nominal rather than real performance effects. This suggests that the reform of bargaining can hardly be seen as the focal policy area, when it comes to stimulating employment.

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