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The globalisation challenge: Convergence or divergence of national labour market institutions?

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1 Introduction

In recent years it has become a common view that economic globalisation renders the nation-state obsolete as a political entity, undermines employment in the industrialised countries and inevitably leads to increased inequality and the demise of corporatist labour market regimes of North European type. Interacting with external change, secular trends of postindustrialisation, new technology, flexible work and differentiation of the labour force, are supposed to erode the basis for encompassing organisations from "within". In western Europe, the single market and the EMU-programme have been expected to reinforce these trends. Accordingly, a convergence of national labour market institutions towards a deregulated, neo-liberal order tailored after the Anglo-American model have been predicted.

The thesis that globalisation has rendered the post-war social settlements in Europe obsolete, has not only become fashionable in neo-liberal business circles, it has in many countries increasingly been embraced by the "national left"– marking an interesting convergence of political thought. While the former celebrates this ultimate victory of the free market, the latter tends to prescribe a withdrawal from international integration, however.

In view of the politically powerful, fatalistic undertones of the global convergence thesis, I will in this paper focus on two questions: First, what has been the main impact of recent trends in world trade, direct foreign investment and finance markets on employment systems in our part of the world? Second, to what extent have these trends been associated with changes in the institutional pattern of collective bargaining in the OECD area?

On this basis, I will suggest that the predicted convergence of national labour market institutions is ill-founded, and that the scope for alternative developments is greater than this particular brand of economic determinism will have us to believe. The structural changes in modern capitalism do indeed ingrain serious challenges to solidaristic labour market models, but the functionalist, capital-logic concept of economic integration underlying this world-view fails to take into account the crucial role of institutions, learning and political agency in shaping socio-economic transformations. The upheavals in 1989 have made capitalism almost universal but not uniform. While economic internationalisation has been accompanied by labour market deregulation in some industrial countries, we have seen an unexpected resurgence of national corporatism in others. I will thus suggest that internationalisation and re-nationalisation of labour market governance may well be two sides of the same coin – indicating that the future will show a varied blend of convergent pressures and continued diversity in national industrial relations.

2 The global convergence thesis and corporatism – outlining the argument

In its general variant, the global convergence thesis says that increasing world trade, especially with low-cost countries, capital mobility and the global operations of multinational companies, together with the economic police-function of international finance, will propel technological change, level out wage and productivity differentials across countries, and impose drastic cost reductions, labour market deregulation and rising inequality in the western countries. If governments and social actors fail to recognise this, the outcome will be capital outflow, dire production losses and increasing unemployment in European high-cost countries, ultimately leading to the same result in a more crude way. Thus, national states have virtually no other option than to comply with the emergent order of global market liberalism.

This view presupposes, in other words, that there exists a universal best way of organising economic life and that the invisible hand of the market will ensure that only the most competitive institutional systems will survive; that is, a macro-analogy to Darwin's "survival of the fittest" applied on social institutions (cf Berger 1996).

In contrast to the technological determinism marking previous versions (cf. Kerr et al. 1960), the new convergence thesis implies that the international political economy in recent years has undergone a qualitative shift. Hence, the dynamics of globalisation are assumed to be distinct from the trends of internationalisation in the post-war era during which neo-corporatist models of industrial relations were established in many West European states. The inner rationale of such models was, as pointed out by Katzenstein (1985), precisely to find ways in which political aims of domestic solidarity could be reconciled with the need to cope with external economic fluctuations and interdependence. In fact, the small, open economies of Scandinavia, the Benelux, Austria and Switzerland, were regarded as particularly successful in reaping the benefits of internationalisation owing to the close co-operation between the state and strong working life organisations in economic, social and labour market policies.

Although there is no standard definition of corporatism, it is common to identify it with the existence of encompassing, centralised unions and employers organisations with exclusive rights of representation, privileged access to government, and institutionalised patterns of co-operative partnership, enabling them to resolve (internal and external) conflict over interest and co-ordination with the state (cf Schmitter 1979, Lehmbruch 1979, Crouch 1993). During the peak-era in the 1970s, the hallmark of neo-corporatism was tripartite incomes policies based on a dominant role of the industries exposed to foreign competition, and "political exchange" in which the state in return for union wage restraint ensured employment and welfare growth through Keynesian policies. Chiefly flourishing in the open European small-states, there seemed to be a positive connection between national exposure to foreign competition and the prevalence of equity-oriented corporatism. Today, this connection has, according to the convergence thesis, been reversed because economies based on centrally governed labour markets are deemed unable to match the requirements for competitiveness and flexible adjustment of production and labour emanating from global competition.

3 Myths and realities of globalisation

World trade, foreign direct investment and employment

Without going into statistical detail here, I will argue that the postulated globalisation of the economy is vastly exaggerated. The internationalisation of trade, direct investment and production is primarily a regionally driven phenomenon, predominantly taking place among and (especially) within the advanced economic regions in North America, Western Europe and Japan (plus a few other countries in South East Asia, Mexico and Brazil) (see e.g. Bairoch 1996, Hirst and Thompson 1997, OECD 1998).

The industrialised OECD countries actually account for 80% of world trade and the share of imports from developing, low-wage countries is regrettably small and unchanging. In 1994, manufactured imports from the so-called emerging economies did not represent more than 3,4% of total GDP in the OECD countries (OECD 1997b). In Western Europe, imports from outside countries account for less than 10% of total EU GDP, of which 90% stem from other OECD countries (Larsson 1998b), altogether implying that the EU as a whole is a much more "closed economy" than Norway has ever been in this century.

If we look at the growth of foreign direct investment (FDIs), often regarded as the engine of globalisation, the structural pattern is very much the same. FDI-flows have grown four times as much as production over the last decades, but are still predominantly an intra-OECD affair (Evans 1998). During the 1980-90s the high-wage, industrialised countries were responsible for around 70 % of incoming and roughly 90% of outgoing FDIs, heavily concentrated within each of the main regions (OECD 1998). A substantial part of outgoing investment is channelled into mergers, acquisitions and various portfolio' investments in existing ventures, and an increasing share of FDIs (today 60%) is going into territorially bounded services (Weiss 1997, Glyn 1995). Altogether, the FDI-flows are still relative modest in magnitude. Over the 1980s FDIs represented around 5-15% of total domestic investment in most OECD countries, and, as with trade, the relative share of FDI to GDP was in fact only slightly higher in the early 1990s than before WW-I (3,3% in 1989-91 vs 3% in 1914, and 18% vs 16% for trade, cf. Boyer 1996, Glyn 1995).

If we look at multinational companies (MNCs), often seen as the spearhead of footless globalisation, recent analyses suggest that most of them are still primarily "home-centred" and operate in a limited number of countries, or at most regionally. In a recent study of MNCs of the US, the UK, Japan and Germany, Hirst and Thompson (1997) concluded that 70-75% of MNC valued added was produced on the home territory. Despite some conspicuous examples of relocation to low-wage areas, especially in labour-intensive industries, productive capital is much less mobile than often assumed. FDIs are mainly motivated by access to growing markets which can supplement rather than substitute home-based production, provided adequate infrastructure and a skilled and committed workforce are at hand (Wade 1996). Once having invested in a location, most MNCs have proved reluctant to uproot themselves, because they get entrenched in specific national markets, supplier networks and institutions, implying that they face a variety of sunk costs which constitute barriers to exit. Besides the predominance of skill-and innovation-intensive manufacturing in the advanced economies, new modes of production organisation such as "just-in-time" and "flexible specialisation" can be expected to reinforce the tendency of production to be located close to the final markets (ibid.).

In this light, the prospect of massive relocation of production and jobs to low wage countries seems vastly overdrawn. The author of the ILO World Labour Report 1996/97 thus concludes that "the available empirical evidence suggests that both trade and investment flows have been only minor explanatory factors behind the rise in unemployment and wage inequality in industrialised countries" (Lee 1996, 1997) – according to the OECD (1997), accounting for less than $1/10^{th}$ of the increase.

Hence, despite growing interdependence, the international division of labour has remained remarkably stable. Rather than globalisation of production we have been witnessing a reinforced regionalisation in which major parts of the world remain outside. Bluntly put, for the bulk of developing countries it seems that globalisation of production is less of a problem than the lack of it. For employment systems in our part of the world this means that the main external challenge is still related to coping with trade and investment competition from other high-cost countries, predominantly within Europe.

Nonetheless, globalisation cannot simply be written off as a mere myth. There is no doubt that the increasingly global flows of ideas, culture, technologies, economic resources and money have attained a significance which it would be foolish to underestimate in a forward-looking perspective. And as everyone has noticed during the last year, in some areas it has already become dire reality. Let me therefore turn to the impact of financial globalisation on national employment policies.

Global finance markets and domestic policy constraints

As now well known, the political liberalisation of capital markets ensuing from the collapse of the Bretton Woods system in the 1970s, has led to a true globalisation of money and finance. This has restricted the scope for macro-economic employment policies at national level and created an international market for financial investment in companies with notable micro-economic consequences.

As pointed out by Albert (1991), we have in many European countries seen a shift in corporate funding and ownership structures away from the "Rhine-model" of production-oriented "stakeholder"capitalism, towards Anglo-American "shareholder"-capitalism. Combined with the dynamics of "regime competition", this illustrates the indirect mechanisms through which internationalisation influences domestic political systems and labour markets. While the "exit"-threat has boosted capital's bargaining power vis-à-vis governments and unions, the growth of stockmarket-driven investment in corporate shares has implied a significant twist towards more short term management strategies and stricter profitability requirements (see e.g. Crouch and Streeck 1997, Hoffmann 1998). In such a context each individual company has a strong incentive to comply with the market-investors' ruling concept of appropriate corporate strategies. In order to prevent declining share-values and unfriendly take-overs, or as a result of such events, we have in recent years seen a frenzied wave of corporate downsizing and restructuring driven as much by financial as productive considerations. As the main bulk of variable costs in the short run is related to labour, efforts to reap quick benefits by cutting staff, escaping collective commitments to the workforce, introducing more external flexibility through outsourcing, and alike, have proliferated – not seldom to the detriment of longer-term strategies for improving competitiveness through productive investment and development of skills, work organisation and functional flexibility. As pointed out by Wolfgang Streeck (1997), it is "this deregulatory bias of globalisation that seems to be at the bottom of Albert's thesis that global competition will result in the perverse outcome of the less well-performing Anglo-American model of capitalism out-competing the better-performing "Rhine model".

On the *macro-level*, a similar incentive problem can be detected. Before the current financial "melt-down", daily foreign exchange transactions amounted to more than 1,200 billion USD – of which 85% were so-called "hot money" (Evans 1997). The destabilising potential of such movements we have witnessed through the world-wide repercussions of the crises in Asia and Russia. Even in Norway, with a supposedly solid national economy, the effects have been strongly felt, illustrating the international finance markets inherent tendency to overreact, often penalising national policies considered incompatible with their preference for low inflation and sound economic policies, that is monetary stability. Interacting with domestic problems in controlling public deficits and inflation, this has during the 1980-90s prompted an almost universal conversion to a monetarist concept of economic policy, the cumulative effects of which have had very real consequences for growth, employment and industrial relations policies.

The disciplining function of global finance markets (and their inclination towards "overkill") has faced individual governments with a Prisoner Dilemma situation. Despite sluggish growth and high unemployment, the fear of capital flight, currency depreciation and imported inflation has led most western governments to a simultaneous pursuit of fiscal austerity and restrictive monetary policies. Especially in the highly integrated West European economies this has had a pro-cyclical multiplier effect, which – reinforced by the EMU convergence programme – has aggravated the employment crisis. The major exception here has been the USA, who due to the role of the US Dollar as global currency reserve, has long been able to apply more expansionary macro-economic policies, which apparently has been more important for the claimed US "job miracle" than the deregulation of American labour markets (Palley 1998, Fitoussi 1997).

Hence, it appears that the adverse incentive structure and monetarist bias stemming from the global finance-markets have represented a more important constraint on national employment policies than the internationalisation of production and trade. This means that the main negative impact on employment in our part of the world has originated from cumulative effects of national and regional policy responses, reflecting an institutionalised political rationality-trap rather than irresistible forces of globalisation. Conceived as an international collective action problem (Olson 1965), this straight-jacket of national policies cannot be resolved by individual states alone but requires co-operative political action on an international scale. Such a strategy would in my view require a co-ordinated break with the restrictive economic-policy paradigm – so that finance markets cannot play individual states off against each others – possibly combined with some way of throwing sand into the machinery of short-term financial transactions. This may appear as a distant possibility, but signals from politicians like Jospin, Lafontaine and others might indicate that the current crisis has served as a mind-opening "moment of truth", hopefully signalling that the hegemonic obsession with monetary stability can be replaced by a more balanced approach – like the Wall Street collapse in 1929 paved the way for the Keynesian New Deal, eventually complemented by the Bretton Woods regime.

In this perspective it is worth noting that the introduction of the euro will protect the participating countries against the arbitrary, direct influence of the finance markets. Thereby it might improve the opportunities to overcome the collective economic policy trap in Europe, if so strengthening the basis for a broader international co-ordination of monetary policies. That would, however, as suggested by David Soskice at the ARENA conference in 1997, require a radical political re-drawing of the restrictive EU regime of economic governance (see Soskice 1997). Whether the new majority of social-democratic governments in the EU has guts to exploit this political "window of opportunity" remains to be seen, but strong forces in the French, German, British and other European labour movements are undoubtedly exerting pressure in such a direction.

4 Towards a convergence of collective bargaining systems?

Let me then turn to the impact of globalisation on national systems of collective bargaining. Doing so, I will concentrate on the institutional framework and dominant level of collective bargaining in the OECD countries, focusing on the distinction between centrally co-ordinated systems and deregulated models where company bargaining dominates.

Collective bargaining coverage, levels and economic performance

In contrast to the global convergence thesis, I will, first, claim that there is no systematic relationship between the degree of exposure to global competition, decline of centralised bargaining and economic performance. Among the major industrialised countries, the USA is the least exposed to foreign competition but has the most deregulated labour markets. In contrast, the labour markets in the most successful exporting country over the last decades, Germany, are highly regulated and still governed by centralised collective bargaining. Nevertheless, labour unit costs and productivity have in recent years developed more favourably in Germany than in the prototypical neo-liberal models of the US and UK (Hoffmann and Hoffmann 1997). Also the small, open economies of countries like Denmark, the Netherlands and Norway have in recent years showed solid growth in international markets and employment, while maintaining and partly strengthening their corporatist systems of labour market governance. Considering also that labour productivity has grown twice as fast in Western Europe as in the USA since the 1970s (Schubert 1997), this hardly indicates that centralised bargaining and high levels of social and labour protection per se impede international competitiveness and growth. Accordingly, a recent comparative study of Franz Traxler (1996a) found no statistical connection between national exposure to trade, capital flows, service sector growth and collective bargaining coverage in the OECD countries.

Second, the expectation of a universal decline of collective bargaining neither proves to hold true. The collective bargaining coverage in the OECD-area was on average 72% in 1980, 70% in 1990 and 68% in 1994 (70% in Norway), rather an indication of stability than change (OECD 1997a). The slight fall in coverage mainly reflects a radical drop in the countries with decentralised bargaining systems, such as the US, the UK and New Zealand, whereas it has been stable in most other countries. A similar but less clear-cut pattern can be found with respect to trade union density: While it dropped drastically in the main Anglo-Saxon countries and France during the 1980s, the decline was much weaker and far from universal in other countries, and in the first half of the 1990s union density has stabilised or increased in a number of OECD countries (OECD 1997a). A recent study (Wallerstein et al. 1997) of the eight most corporatist countries in Europe actually showed no general change in unionisation since the 1950s. While the weighted average remained around 42 percent, Austria and the Netherlands experienced sharp decline between 1970 and 1990, it fell slowly in Germany and continued to grow in Belgium, Canada and Scandinavia (except Norway where it has been stable). Evidently, these changes have less to do with economic internationalisation than with the diversity of institutions and policies in the different countries. A common feature of the countries where unionisation has shown strongest growth, however, is that the systems of unemployment insurance are administered by the trade unions.

Third, despite a greater role for company bargaining in most countries, there has, except for the Thatcherite political strategies to abolish union power and nation-wide bargaining in the UK and New Zealand, been no general tendency towards dismantling the centralised levels of wage negotiations in OECD countries (OECD 1994, 1997a). Whereas sectoral bargaining has replaced confederal negotiations in some countries, like Sweden and Denmark, centralised, nation-wide agreements still prevail, and in a number of European countries – such as Italy, Ireland, Spain, Portugal and Finland – a notable re-centralisation has taken place as part of tripartite strategies to adjust to external pressures and the EMU in particular (see e.g. Regini 1997, Fajertag and Pochet eds. 1997). Thus, except for the Anglo-Saxon countries, the dominant tendency has been towards more multi-tiered, articulated bargaining systems, expressed in the much used notion of centralised decentralisation.

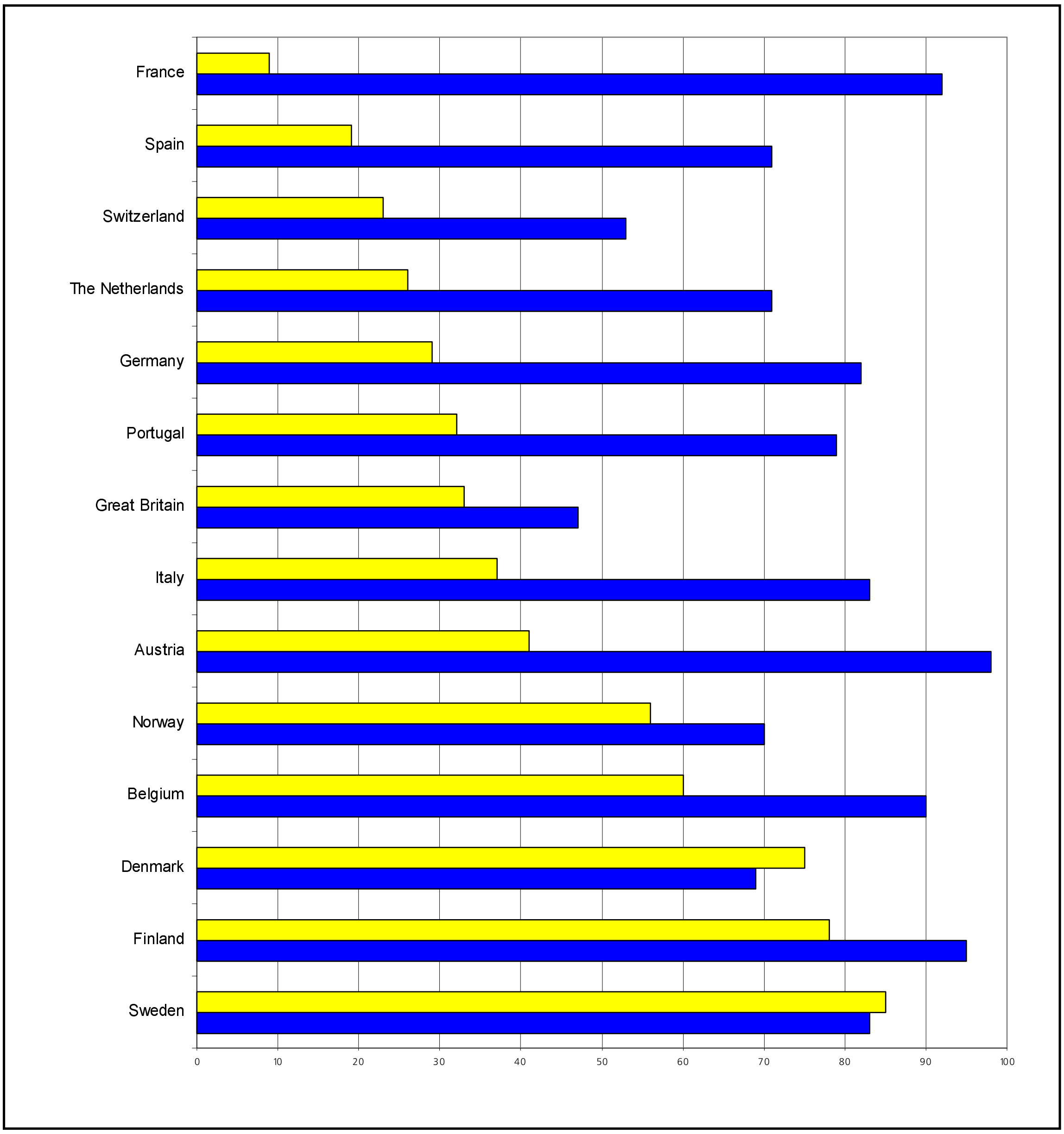
Fourth, in a recent study, the OECD (1997a) found no convincing evidence of a clear, unidirectional or hump-shaped connection between the system of collective bargaining and national economic performance. Indicating that any "universal best way" of collective bargaining hardly exists, this lends no support to the claim that global competition requires a specific, deregulated pattern of industrial relations. In view of the popular thesis that European countries, inspired by the US job growth, will have to chose between accepting greater inequality or high unemployment, the OECD study actually found a statistically significant tendency that countries with centralised bargaining have lower unemployment, much less inequality and even lower inflation than decentralised countries. The study also indicated that the few decentralising countries (the US was not among them) have experienced stronger growth in unemployment, falling employment rate, lower real earning growth, and somewhat higher inequality than the centralized countries.

So, perhaps the employers in most European countries are not simply taken hostage by the inert corporatist "iron-cage"; they may have substantial reasons to prefer institutional continuity to the competitive "jungle" which might be the alternative.

Continuity and change – the role of social institutions

There are several factors which have contributed to the surprising persistence of centralised bargaining systems in Europe. (1) Probably more important than the resilience of unionism has been the high propensity to organise and apply collective agreements to the whole workforce on the employer side – e.g. in countries like Germany and Austria employer density is 80-90% (Visser 1999). (2) In continental Europe a variety of legal and institutional mechanisms for extension of collective agreements to non-unionised companies have served to underpin co-ordinated solutions. In Scandinavia the system of mediation and dispute management has – as shown by Torgeir Aa. Stokke (1998) – often played a similar role.

Figure 1 Trade union density (1995) and collective bargaining coverage (1990) in selected West European countries. Source: Visser (1996), OECD (1997), Kjellberg (1998)



(The dark bar shows collective bargaining coverage, the light bar shows union density.)

The crucial function of institutional extension procedures is that they create strong incentives for employers to organise and influence collective bargaining. By resolving the collective action problem on the employers side, this inhibits free-riding and prevents emergence of a non-organised sector from undermining collective bargaining, thereby highlighting the key role of the state in facilitating centralised co-ordination.

In countries where no such institutional framework exists and wages become a key parameter in inter-firm competition, however, the employers evidently have a strong incentive to avoid collective bargaining and union recognition whatsoever. As shown by Franz Traxler (1996, 1998), the dismantling of centralised bargaining in the UK and the New Zealand triggered a dramatic drop in coverage rates. In effect, only 3 of 10 employees in deregulated national models were in 1990 covered by collective agreements, against 8 of 10 employees in institutionally "organised" models. Thus, in contrast to the global convergence thesis, comparative studies show increased divergence between "exclusive" and "inclusive" national models of industrial relations – in practice, between Anglo-Saxon countries on the one hand and the other European countries, on the other.

So, although internationalisation and structural change have strengthened competitive pressures and company discretion almost everywhere, the social actors have chosen very different responses (in terms of collective bargaining strategies), once again underscoring the crucial role of institutions in mediating such effects. Most importantly, the formation of preferences and the perception of interests at the employers' side are not simply determined by market forces, they are decisively influenced by incentive-systems shaped by political frameworks and organisational structures at domestic arenas.

The basic rationale of centralised incomes policies is that employers can "take wages out of competition", while they induce the unions to take external aggregate effects, e.g. on inflation and unemployment, into account when designing their strategies. Besides a risk of competitive wage inflation, employer exit from centralised coordination may imply considerable transaction costs and potential for industrial conflict, leap-frogging and unrest at the work-place, especially in countries where unions are still fairly strong. In particular it may offer key personnel and scarce labour enhanced market-based bargaining power. It is thus probably no coincidence that labour costs grew faster in the UK than other European countries during the 1980s.

Often overlooked is also that the balance of power in bargaining is contingent on the business cycle. While it is "non-conforming" employers who have wanted to exit from centralised bargaining under the recent slump, it was local unions who wanted the same under the economic boom and resurgence of class conflict in the late 1960s. Similarly, it was the trade unions, not the employers, who amid economic bonanza defected from peak-negotiations in the last Norwegian pay rounds.

Besides buffering shifting power-relations over the cycle, institutionalised bargaining may facilitate evolution of learning, shared conceptual understandings, identification and voice rather than exit. What may in the short term be perceived as a rigidity may thus in the longer term be considered as a mutually beneficial arrangement which provides collective goods such as macro-economic stability and predictability, trust-based management-labour relations, skill production and joint political influence. Hence, employer exit from centralised institutions may be efficient in promoting external micro-flexibility, but is not necessarily helpful in creating functional flexibility, and may cause harmful macro-rigidities when it comes to structural adjustment of wages, labour market and welfare systems – societal factors which tend to become increasingly important for competitiveness and the adaptive capacity in advanced production systems (Rhodes 1997).

Internationalisation and the revival of tripartite concertation

The recent resurgence of tripartite concertation in several European countries can clearly been understood in such a perspective, but also points to other features of the interplay between internationalisation and domestic labour market institutions. First, owing to harsher competition and the reduced latitude for macro-economic policies, the ability to control and adjust labour costs to shifting external circumstances has become more important to safeguard national employment and competitiveness. Under the euro, national central banks can neither disciplin national bargainers by threatening to raise interest rates – as Bundesbank has often done with the IG Metall in Germany – nor use the exchange rate to compensate for this inability. Together with enhanced comparability of wages, this tend to boost the bargaining power of national unions and increase the attractiveness of centralised incomes policies both to the employers side and national governments. Simultaneously, the euro creates a stronger interest among the central union agencies to prevent excessive wage increases which can harm employment and union membership. In this way, the ceding of national sovereignty in economic policy may paradoxically strengthen the social and political actors' incentives to engage in corporatist concertation at the national level – as recently indicated by the new German Chancellors call for a national "Bündnis für Arbeit".

This, second, points to the fact that the allegedly rigid institutions of centralised bargaining, under the influence of stronger external competition, have shown greater ability to transform their modus operandi than previously foreseen. Hence, in terms of outcomes, a notable convergence of wage growth can be detected in western Europe, alongside innovative efforts to negotiate new social trade-offs between employment flexibility and job-protection – as exemplified by the Dutch "flexurity" accord (Visser 1998). Attempts to construct a better articulation between local decision-making and central co-ordination have also been spreading – as expressed in recent reforms of the Italian and German bargaining systems. Moreover, the twin effect of stronger international competition and soaring unemployment has brought the detrimental effects of the large indirect labour costs in many continental European countries to the fore, urging initiatives to reform the social security systems. Substantially co-financed by the employers and the employees, reform of such systems have, as shown by the turbulent French and German examples, proven hard to achieve without the active consent and participation of the social partners – thus providing another incentive for concerted policies.

Rather than representing simple responses to global imperatives, these transformatory processes have been catalysed and shaped by the interaction between external and internal dynamics of change, showing that internationalisation has not made national labour market institutions less but more important for the adjustment capacity of our societies. However, if re-nationalised strategies of "competitive corporatism" under EMU shall not pervert into collectively self-defeating "beggar your neighbour" policies, they will have to be flanked by strategies for co-ordination of income and employment policies in a broader European framework.

In this perspective, the nation-state represents an indispensable but insufficient framework for solidaristic labour policies in the context of international capitalism. To overcome the political fatalism ingrained the globalisation rhetoric, I will accordingly suggest that a reconstruction of political governance and creation of international institutions with sufficient clout to re-regulate the global economy can hardly be achieved without realising that a necessary building block between the national and the global is the regional level.

5 Conclusion

In this paper, I have argued that the global convergence thesis is based on fundamental empirical and theoretical flaws: First, empirically the processes of globalisation are less universal than claimed. So far the internationalisation of production has predominantly been regionally driven and the impact on employment systems in our part of the world has been vastly exaggerated.

Second, theoretically the dynamics of globalisation cannot adequately be understood as the result of independent and irresistible market forces. They are enabled by political decisions and contingent on institutionalised incentive structures which in principle are subject to change, underscoring that the consequences of globalisation for political governance and the nation-state are neither inevitable nor irreversible.

Third, the thesis that globalisation propels institutional convergence is based on an overly simplistic and deterministic understanding of the relationship between economic dynamics and social change, between markets and politics. Rather than being separated and opposing phenomena, the evolution of markets and social institutions are decisively shaped by their mutual interaction and interdependence. With a view to the special incentive structure and penalising function of international finance markets, I have in particular focused on the multiplied Prisoner Dilemmas facing national states and social actors. Accordingly I have suggested that the probably most significant impact of globalisation on western employment systems has derived from the cumulative effects of domestic perceptions and policy responses to this rationality trap. In this respect the rhetoric of globalisation has – as a self-fulfilling prophecy – tended to become real in its consequences.

Fourth, the claim of institutional convergence seems ill-founded, as there is no "universal best way" of organising economic life and no automatic mechanism through which market integration determines particular organisational structures. As once noted by Richard Hyman (1994), the structural determinants of contemporary capitalism are themselves contradictory, leaving scope for different political and institutional choices on how to adjust and organise capitalist working life. With respect to collective bargaining systems, I have accordingly shown that internationalisation has prompted divergent national responses, including an unexpected revival of corporatist concertation. Hence, my initial suggestion that internationalisation and re-nationalisation of industrial relations may prove to be two sides of the same coin – indicating that we also in the future will see a diversity of path-dependent developments of national labour market institutions.

Finally, I will suggest that the main challenge to solidaristic labour market institutions in Europe is less of external and economic character than of internal and political character. The crucial questions are, first, whether the collective actors are capable of mustering popular support and political legitimacy to societal concertation and adjustment at home; and, second, whether they are able and willing to complement such policies with strategies for co-ordination in a broader European context. If not, the leap into the euro is likely to become a risky political and social experiment.

Notes

[1] There is an abundant literature, not least flourishing in business circles, supporting the "strong" globalisation-thesis (see for example Ohmae 1991, Reich 1992, Thurow 1996). As to the erosional impact on national industrial relations systems and the "end of corporatism"-thesis, the prototypical example is Lash and Urry's *The End of Organized Capitalism* (1987). In less categorical ways this view has found support in contributions from authors like for example Offe (1985), Baglioni and Crouch (eds.1990), Streeck and Schmitter (1992), Streeck (1993), Reder and Ulman (1993), Katz (1993), Grahl and Teague (1997) and Crouch and Streeck (1997), who with different emphasises have pointed to the interacting dynamics of economic internationalisation, technological change, shifts in the occupational structure and the spread of "diversified quality production" and "flexible specialisation" as driving forces behind the withering of corporatism and convergent tendencies of decentralisation, fragmentation and deregulation of national employment systems. For a general critique of the general "global convergence"-thesis, see for example Garret (1994), Berger and Dore (eds.1996), Hirst and Thompson (1996), Boyer and Drache (eds.1997) and Kindley and Good (eds. 1997). For contributions that challenge the claimed convergence of industrial relations, see for example Crouch (1993), Hyman and Ferner (eds. 1994, 1998), Ruysseveldt and Visser (eds.1996), Traxler (1996, 1998) and Wallerstein et. al (1997).

[2] Time and again, similar analyses have been forwarded in Norway, lately by the founders of the new white-collar association, Akademikerne, who claimed that greater pay inequality and decentralisation and individualisation of wage determination would trigger higher productivity, growth and welfare for all. Unison international experience showed, in their view, that centralised, solidaristic wage policies were inefficient, antiquated and scrapped almost everywhere except in Norway**.**

[3] A typical example of the pervasive force of this way of thinking is referred in Robert Reich's account of his time as Secretary of Labor in the Clinton administration, *"Locked in the Cabinet".* Describing an encounter with Ford Chairman, Alex Trottman, Reich asks, "Suppose you were President. What's the most important thing you'd do to reverse the widening income gap and declining earnings of half the American workforce?", Trottman replies, "The trend can't be reversed. It's inevitable in a global economy. Nothing we can do about it" (cited in Foden and Morris 1998: 7).

[4] Similarly, Wade (1996) refers a study which shows that in the early 1990s 23 percent of value added in the largest US companies was produced abroad, against 22 percent ten years earlier, hardly a revolutionary change.

[5] Hence, a new study by Cooke and Noble (1998) shows that US companies are much more inclined to invest in countries with a skilled workforce, well developed labour rights and collective bargaining systems, than in low-cost countries with inferior labour standards.

[6] As noted by George Soros, the leading financier in the world today: "What global competition has done is to benefit capital at the expense of labour, and to benefit financial capital to the detriment of fixed investments. Because capital is more mobile than labour, and financial capital is the most mobile of all, more mobile than direct investment" (LSE Magazine 9/97, New Statesman 31 October 1997)

[7] In a recent article, Rhodes and Apeldoorn (1998) come to a less drastic conclusion; although the dynamics of financial markets have implied a notable spread of Anglo-Saxon elements in European corporate governance, strengthening shareholders at the expense of institutionalised stakeholders and modifyng national systems in a market-liberal direction, this will in their view not result in convergence. Power interests of domestic elite networks, path-dependence and lock-in effects of historical development create formidable pressures for continuity, while competitiveness will depend on the adjustment rather than abandonment of which have delivered efficiency in the past. "Rather than creating a pan-European, neo-liberal regime, we argue that, alongside other forms of internationalization, the creation of the single European market integrates elements of "Anglo-Saxon" corporate governance and economic organization with estabilised national institutions, norms and rules, thereby allowing for continued national diversity within a framework of "embedded neo-liberalism" (pp.408).

[8] Not only were the substantial wage increases of the 1998 pay round pre-empted and the interest rates doubled, the whole economic policy understanding of the centrist Norwegian government was transformed over night.

[9] As recently pointed out by the Head of the International Monetary Fund, Lamfassy, short term capital movements (flight) are able to destabilise even solid national economies over night, thus eroding the effects of years of real economic efforts to get things right (Aftenposten, September 1998)

[10] According to Notermans (1996), a crucial factor behind the shift to restrictive economic policies has been the declining capacity in many countries to control inflation through incomes policies, leaving governments with no other option than using deflationary policies and hence unemployment as a means to curb inflation. Thus, in this view, the external constraint theory (financial globalisation) has mainly served as an ideological pretext to compensate for the dysfunctioning of domestic institutions (see also Forsyth and Notermans eds 1997)

[11] As underscored by George Soros, "the alternative is going to be nationalism. […] The Le Pens of the world are offering an alternative – one version of fundamentalism. [But] Any attempt to opt out of the global system is liable to release destructive forces that can't be contained. So there is no constructive escape. The only way is to correct inequalities by international co-operation. For instance by tax harmonisation […] Eventually there will have to be tax harmonisation within Europe… We will eventually have international regulation of markets. […] So if we are looking for the next positive approach I think it has to be a conceptual change, accepting reflexivity and recognising the need to keep markets stable, to impose some degree of regulation and supervision, and to find a political extension to match the globalisation of markets. Because what is lacking is the ability to impose some constraints on the market." (New Statesman 31 October 1997, LSE-Magazine 9/97).

[12] If centralised labour market models are economically inferior and therefore will be undermined by international regime competition – as suggested by the convergence thesis – one should expect this trend to be empirically detectable, especially in the strongholds of European corporatism where market integration has come furthest.

[13] The results of the OECD study find support in a recent study of Traxler and Kittel (1998). Testing different hypotheses concerning the relationship between bargaining systems and development in wage costs – i.e. the neo-liberalist hypothesis, the corporatist hypothesis and the hump-shaped hypothesis (Calmfors and Driffill 1988) – the authors found no statistical support for either. However, when introducing a measure for "vertical co-ordination" (or bargaining governability, i.e. legal or institutional mechanisms ensuring that local wage setting complies with centrally agreed guidelines), centrally co-ordinated systems show superior performance with respect to wage restraint (pp.15). On the other hand, centralised systems without such procedures, that is, with low governability, show higher wage growth than neo-liberal ones. (pp.20) Thus, the lesson to be learnt seems to be that half-way solutions are the worst; centralised co-ordination gives better results than neo-liberal solutions only to the extent that it relies on well developed mechanisms for ensuring local compliance with central agreements, either through "pattern-bargaining" of German industrial type or through vertically co-ordinated articulated bargaining. In my interpretation, this may point towards a modified or revised theory of a hump-shaped relationship between bargaining and wage growth.

[14] Acoording to the OECD study (1997a), also countries with intermediary systems show better results on income distribution and inflation than the decentralised. As to the impact of foreign competition, it is also interesting to note that the study indicates that among intermediary countries, there is a positive relationship between higher import share and lower unemployment (pp.78).

[15] Recently it has accordingly been suggested that employers may even see an interest in taking "flexibility" out of inter-firm competition (Ferner and Hyman 1998). An example of this can possibly be found in the last Norwegian pay round; in the brewing sector negotiations stricter regulations on the daily period within which normal working hours must be worked (7-17.00) were accepted by the employers side after trade union pressure. This occurred in response to the proposal of a much laxer company agreement in Coca-Cola Norway, threatening to disrupt competitive conditions between companies. However, the signed industry agreement opened for negotiated derogations on company level.

[16] The study of Traxler and Kittel (1998) thus suggests that the neo-liberalist hypothesis of a positive linear relationship between deregulation of collective bargaining and economic performance proves wrong, because it "fails to unleash that kind of competition in the labour market which assures efficient resource allocation. There are two reasons for this. Labour market imperfections are not simply due to *institutional* rigidities imposed by collective actors. In addition there are *structural* imbalances caused by the properties of labour as a commodity […]. In imperfect product markets, wage increases can be passed on to prices in a way that result in leapfrogging even under the condition of marketized bargaining."(pp.9). Hence, the authors suggest that even under company bargaining "insiders may insulate themselves from the pressures of high unemployment and extract monopoly rents particularly when their companies enjoy a competitive edge in product markets…". Similarly Freeman (1997) has pointed to the fact that wage differentials among employees with similar jobs and qualifications, in contrast to classic market theory, actually are higher in the "competitive" US labour markets than in the centrally regulated Nordic labour

markets, hence suggesting that wage outcomes in the latter come closer to the supposed "perfect market solution" than the former.

[17] For an overview and country examples, see Fajertag and Pochet eds. (1997), Regini (1997), Rhodes (1997), Visser and Hemerijck (1997), Dølvik and Steen eds. (1997), Traxler (1997), Schmitter and Grote (1999).

[18] In a similar way Rhodes and Apeldoorn (1998), suggest that "external pressures (international competation, the shift to a new macropolicy regime under European monetary union) are as likely to reinforce existing relationships as they are to break them down (we argue that this is most clearly the case with social partnership and corporatism)" (pp.418). "Rather than disrupting these forms of concertation, the movement to full monetary union is likely to lock the bargaining partners even more closely together."(pp.421)

[19] "New forms of social partnership will prove essential for macro-economic policy innovation and micro-economic adjustment" (Rhodes and Apeldoorn 1998: 420). Hence, "globalization is not demanding a global neo-liberal order, nor for that matter is market integration in Europe demanding the destruction of national distinctiveness. […] The spread of market ideology (neo-liberalism) hits its functional limits when the dependence of the markets on national institutions is revealed. Quite apart from ideological resistance, at that point a purely neo-liberal strategy becomes dysfunctional; for the effective functioning of market mechanisms still requires purposive state intervention – and in many countries social concertation and corporatism – in *re*regulating the domains of welfare, taxation, innovation, employment and education" (pp.421).

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