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Collective Bargaining in the European Monetary Union
A Theory of Optimum Wage Areas

by
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1. From Optimum Currency to Optimum Wage Areas

In 1961, Robert A. Mundell wrote his seminal paper on 'A Theory of Optimum Currency Areas' in which he adressed the question: "What is the appropriate domain of a currency area?" (Mundell 1961: 657) At a point in time, when the currencies of the 'capitalist world' were tied together by the Bretton Woods agreement, the discussion arose whether a more flexible exchange rate regime could better cope with the problems of balance-of-payments crises, unemployment and inflation. Flexible exchange rates, it was argued, could serve as an appropriate adjustment mechanism in case of balance-of-payments distortions which would, otherwise, necessitate unemployment in the deficit country and inflation in the surplus country. Therefore, Mundell argued, multi-regional currency areas are no 'optimum currency areas'.

However, he soon realised that this statement depends on the underlying assumptions on labour mobility: if labour mobility is sufficiently large to serve as an appropriate adjustment mechanism between inflationary- and unemployment-regions within a currency area, it cannot be denied to call this currency area 'optimum'. However, if labour mobility is the main argument for 'optimum currency areas', we might end up not only with national, but also with regional currencies – a 'balkanization' of 'optimum currency areas' would evolve. Yet, transaction and uncertainty cost (which explain the historical rise of monetary units to facilitate barter) restrict the number of currencies. In terms of neoclassical optimisation rules: a currency area is an optimum when adjustment costs arising from restricted labour mobility do not exceed transaction- and uncertainty costs arising from the use of different standards of deferred payments and different media of exchange (currencies).[1]

For Mundell, the practical background of his analysis was the plan of the European 'common market countries' to form an economic and monetary union. Since the days of the paraphrasing of the Maastricht treaty in 1991, this plan had entered its final stage – yet, we still do not know whether the European Union will form an 'optimum currency area'. However, it has been pointed out, that the wage system will have to serve as an adjustment mechanism once the exchange rate mechanism has terminated.

It is amazing to what extent wage policy and the structure of collective bargaining systems have been neglected in the political and economic discussions that centered around the European Monetary Union (EMU). Collective bargaining is one of the very few issues that have been explicitly excluded from the Maastricht treaty as subject of European regulation (including its corollaries 'right to strike-' and 'coalition legislation') and only recently, wage policy under the conditions of EMU has been considered at closer range.[2] Yet, this has been done without putting the topic into a more general perspective.

In the following, I want to pose the question whether the European Union can be regarded as an 'optimum wage area' (part 4)? What can be understood by an 'optimum wage area' (part 2 and 3)? What will be the consequences for EMU (part 5)?

2. The wage policy trilemma

Even the most radical proponent of 'laissez faire' market capitalism would not deny that labour markets are different from ordinary commodity markets. In order to prevent ruinous competition in the labour market from taking place ('market failure'), rules and regulations are necessary: collective bargaining systems, the formation of trade unions and employers'

1. Since McKinnon (1963) and Kenen (1969) we know that there are other characteristics of an 'optimum currency area': the trading structure and the degree of openess of regions forming a currency area.
2. see e.g. Calmfors 1998; Hall/Franzese 1998; Horn 1998; Soskice/Iversen 1998; Grüner/Hefeker 1999, Heise/Schulten 1999; Horn/Scheremet/Zwiener 1999; Schürfeld 1999, Schulten/Bispinck 1999.

associations and labour market regulations (on work protection, a chartered right to strike, etc.) are accepted as long as the cost of such institutions do not exceed their benefits (see Schmid 1990). Although the discussion on the optimum level and intensity of regulations in the labour market is far from being settled, no one is seriously arguing in favour of a truely unfettered, unregulated wage area.[3] But it were industrial relations experts who first raised the question whether the integrating Europe, particularily after the formation of a monetary union in 1999, will need European-wide regulations of the labour market or whether a common currency can co-exist with a 'fragmented' wage area (see Jacoby/Pochet 1996; Keller 1997; Marginson/ Sisson 1996).

For those who favour a 'fragmented' wage area, the argument runs as follows: the national economies of the European Union show marked differences in per-capita income-, productivity- and wage levels which have not truely been leveled over the past few decades. Prospects, therefore, are moderately certain that these differences will continue to exist for the forseeable future. But if this is the case, collective bargaining agreements must respect such national differences: *a regionalisation of wage policy in the EU* must evolve. This will be even more the case in an EMU where no exchange rate adjustments can be made. In order to appreciate the argument, we need only to refer to purchasing power parity theory of exchange rate movements (PPP):

$$\text{PPP: } e = P_A/P_B \tag{1}$$

The exchange rate (e) is determined by the relative price levels of regions (or countries) A and B.

Measuring rates of change, we get the relative version of PPP-theory:

$$\hat{e} = \hat{P}_A - \hat{P}_B \tag{1a}$$

with ^ = denoting the rate of change of a variable.

3. Not surprisingly, the United Kingdom –usually regarded as the prototype of a flexible labour market and collective bargaining system– has seen an increase in the intensity of labour market regulations in the 1980s as compared to the 1970s (under the rule of 'non-intervention'), yet with one-sided restraint at the expense of negotiating options of the trade unions (and their company representatives); see Heise 1997.

Assuming, furthermore, mark-up pricing on the grounds of a model of imperfect competition (see e.g. Blanchard 1996; Layard/Nickell/Jackman 1991), we get:

$$P = a \frac{w}{\omega} \tag{2}$$

with a = mark-up; w = nominal wage rate; w = marginal productivity of labour.

In terms of rate of change:

$$\widehat{P} = \widehat{w} - \widehat{\omega} \tag{2a}$$

with $\widehat{\alpha} = 0$ (constant mark-up).

Under the conditions of a monetary union, no movement of the exchange rate will be possible, i.e.

$$\widehat{e} = 0 \tag{3}$$

Taking equation (1a) and (2a) into consideration, we know that

$$\widehat{P}_A \equiv \widehat{P}_B \tag{4}$$

and hence

$$(\widehat{w}_A - \widehat{\omega}_A) \equiv (\widehat{w}_B - \widehat{\omega}_B) \tag{5}$$

If we furthermore assume

$$\widehat{\omega}_A \neq \widehat{\omega}_B \tag{6}$$

it becomes obvious that wage policy has to care for regional (or national) differences in productivity developments:

$$\widehat{w}_A \neq \widehat{w}_B \tag{7}$$

If wage policy denies to take these differences sufficiently into account, unit labour cost (equation 5) developments differ among regions of the monetary union and –assuming ordinary values for product price elasticities of demand– the competitiveness of such regions will suffer where unit labour cost growth exceeds the union average.

On the other hand, those favouring a European regulation argue that wage formation will become the most prominent parameter in competition strategies being discussed all over Europe, once the exchange rate mechanism, which will eventually wipe out competitive advantages of wage-moderation strategies, no longer works in an EMU. And this pressure on national collective bargaining parties rises, as the starting point is one of mass unemployment which, additionally, is very unevenly spread across the EU (and, thus, put different pressure on different national collective bargaining parties). Therefore, if a process of 'wage dumping' (see Horn 1998) is to be prevented in an EMU, it is argued that a *'centralisation' of wage agreements* must evolve (see e.g. Busch 1994). To elaborate on this argument, we again focus on equation (2a):

Assuming

$$(\hat{w}_A - \hat{\omega}_A) < (\hat{w}_B - \hat{\omega}_B) \tag{8}$$

we get

$$\hat{P}_A < \hat{P}_B \tag{9}$$

Again, taking ordinary product price elasticities of demand for granted, region A will become more competitive as compared to region B. However, in contrast to mainstream allocation theory (see e.g. Lorz 1999, Schürfeld 1998) this need not necessarily lead to a beneficial process of wage competition ending in full employment in every region of the union, but contributes to a zero-sum-game within the union in the first instance: competitive gains (including employment gains) in region A will be leveled by losses in region B – such a process may well be wanted (in order to distribute asymmetric shocks more evenly across the union), yet it has to follow an agreed-upon rule in order not to be mistaken as a policy of 'beggar-thy-neighbour'. Any such attempt –for which there is empirical evidence[4]– will furthermost contribute to a process of disinflation or deflation, if such behaviour becomes the dominant (i.e. union-wide) strategy. Whether or not a

4. Martin Rhodes (1998) speaks of 'competitive corporatism' and Thorsten Schulten (1998) detects a shift from productivity- to competition-oriented bargaining in Europe since the early 1980s.

process of disinflation, if not deflation[5], will be beneficial or detrimental to overall employment growth in the union is far from obvious: it certainly depends on the reaction of the monetary authority and the impact of disinflation/deflation expectations on investment decisions of asset holder.[6]

Although 'wage dumping' is a false label for such a process as we have not assumed alterations to mark-up cost pricing, a 'race to the bottom' may prevail if not nominal rigidities will prevent it from happening.

To make the 'trilemma' complete, wage policy in an EMU is faced with the *conflicting ends of trade union members' interests* (such as equal pay for equal jobs) on the one hand, and the *functionality of a common currency area* (i.e. the ability to handle regional balance-of-payments distortions) which comprise highly diverse regional (national) economies on the other hand. The problem involved became particularily apparent during German unification (see Burda/Funke 1993; European Commission 1994: 122ff.). To elaborate on this argument, we have to assume an ordinary utility function of the trade union in region (or country) i:

$$u_i = f(w_i, P, U_i) = \alpha(w_i - P) - (1 - \alpha)U_i^2 \tag{10}$$

The trade union's utility increases with its member's real wage increasing and falls with unemployment in its region (which may be the national economy in EMU) growing.

The point to make is this: the trade union can directly determine only the nominal wage rate w_i, not so the union price level P nor the unemployment rate in its region U_i although there are certainly interdependencies between wage setting and the price level (see equation 2) on the one hand and wage setting and unemployment in its region (see the forgoing arguments) on the other hand. The more willingly the trade union takes the external effects of its wage policy into account, the less likely will be a split between the conflicting ends under discussion. The willingness depends on the preference for low unemployment as compared to high real wages (α in equation 10) and

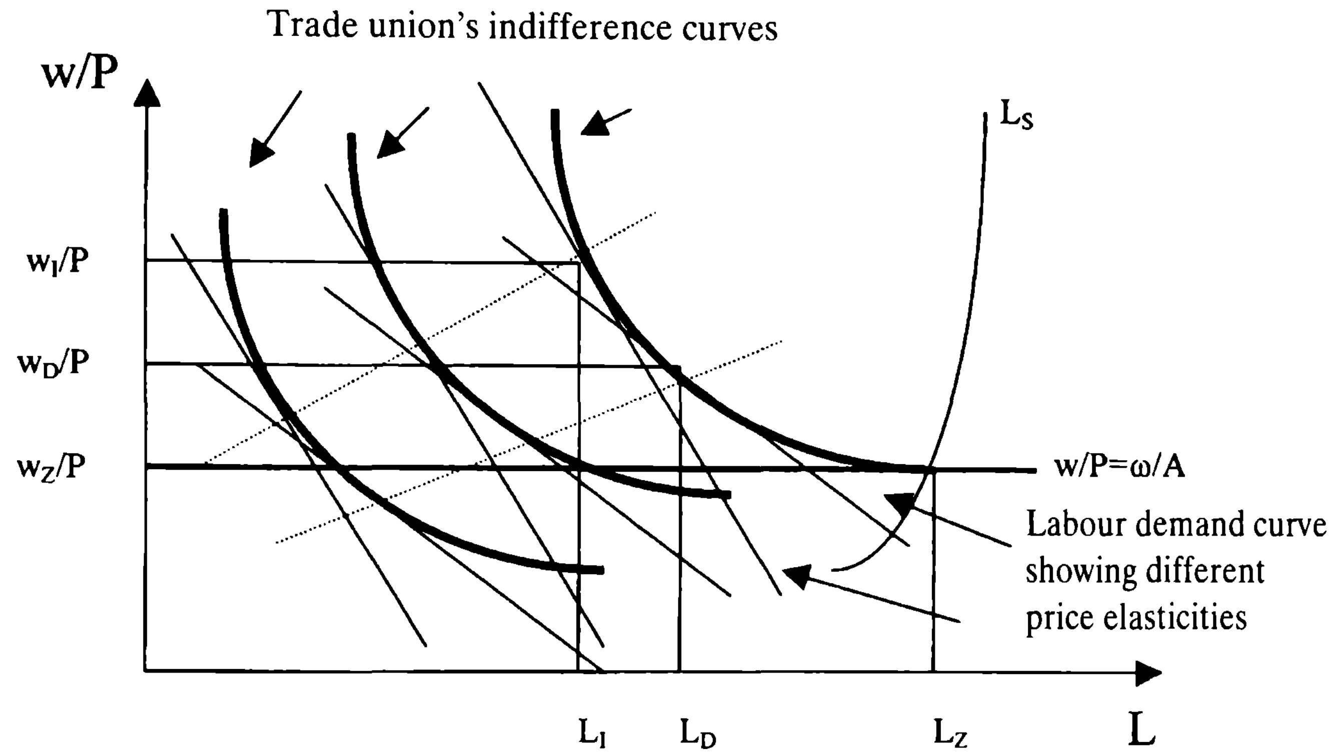
5. For which there is also empirical evidence; see Heise et. al 1999, Heise/Schulten 1999.
6. Andrea Boltho (1996: 4) is outspokenly negative about the expected effects: "Beggar-thy-neighbour policies of this kind, however, invite retaliation and their ultimate result is likely to be not a zero- but a negative-sum game. Trying to reduce nominal wages in every country would lead to higher unemployment all round, without anyone's competitiveness having improved, ...".

the price elasticity of demand for commodities produced under the trade union's wage policy rule.

Figure 1 encapsulates the idea:

Figure 1

Trade union interests versus functionality of a monetary union



The horizontal line depicts the real wage that companies are prepared to pay under the price setting assumption of equation (2) (and what may be interpreted as a long run labour demand curve). If trade unions realise that wage settlements will be completely passed on to prices –as may be the case in union-wide collective bargaining– i.e. that they cannot increase their members' welfare by increasing real wages, they will maximise employment (or, minimise unemployment): the trade union's indifference curve is tangent to the horizontal real wage curve exactly at the point of intersection with the labour supply curve L_S. However, once wage increases can be expected not to increase the union price level P proportionately –as will be the case if region i is only part of the union (i.e. if the trade union bargains only for a region, a sector or on the company level)– the willingness to internalise external effects depends on product price elasticities as indicated by the different labour demand curves and the prefences of the trade unions determining the slope of the indifference curves.[7] The lower the product price elasticity of demand (the lower the preference for low unemployment) –i.e. the steeper the labour demand curve (the flatter the indifference curve)–, the stronger will be the pressure of trade union member's interests (i.e. high real wages in region i) to ignore the functionality of a monetary union (i.e. coping with regional imbalance or, rather, not to give rise to such imbalances). In the framework of this model, most propositions about future wage policy behaviour in EMU can be presented: a 'race to the bottom' is a possible scenario (see Horn 1998), if price elasticity is high and α low, inflationary pressure is possible (see Calmfors 1999; Soskice/Iversen 1999), if price elasticity is low and α high and growing regional (i.e. inter-national in EMU) imbalances inevitable (see Grüner/Hefeker 1999; Hall/Franzese 1998), if price elasticities and, particularily, α's differ between regions (or nations).

3. Features of an optimal wage area

The wage policy trilemma, which EMU is facing, is of course a common problem for all national economies. National economies are –as is EMU– characterised by the existence of a single currency or, to put it differently, by the absence of an exchange rate mechanism to correct regional unit labour cost distortions. The entire debate about the level of collective bargaining agreements centers around the problems posed above. Yet, there are differences to my focus of attention: while the 'centralisation-debate' has focused on economic, monetary and political entities (i.e. national economies) and the impact of collective bargaining systems on their macroeconomic performance, I am concerned with the formation of 'optimum wage areas' in the sense of 'optimum level and institutional requirements for collective bargaining in terms of dealing with regional (national) balance-of-payments problems' (hence the title referring to Mundell's paper). Not EMU in the aggregate is my prime concern, but developments on the level of

7. In order to keep the figure comprehensible, I have assumed identical preference. This, surely, must not necessarily be the case. The dotted line in figure 1 show the outcome, if the behaviour of the single trade union i becomes the union-wide strategy: real wages cannot rise above the horizontal real wage curve, yet employment in region i (and the union in general) will drop even further.

regions (national economies) within EMU taking for granted that this is still the most important policy level.

The magnitude of the described wage policy trilemma and its potential to be overcome depends on:

- the degree of factor mobility, particularily labour mobility
- the degree of economic divergence of regional (national) economies which form a wage area
- the degree of homogeneity of labour market and collective bargaining institutions
- the degree of co-operation among labour market (collective) agents.

It is quite obvious that the above-mentioned wage policy problems do not arise under complete *factor mobility*: in that case, balance-of-payments distortions due to restrictions on competitiveness that arise from unit labour cost differences and their impact on regional (national) labour markets will be cured by factor mobility and, most important, by migration. However, both capital and labour mobility are still very restricted.

As long as *real convergence* of regional (national) economies (in terms of per-capita income- and productivity levels and growth rates) forming a wage area is high, the need to regionalise wage agreements is low and the similarities of interests of collective actors are great. In that case, the splits between regionalisation and centralisation as well as between the two conflicting ends of trade union members' interests and the functionality of a monetary union will be small and manageable. Or, to put it the other way around, the bigger the splits the greater the pressure on wage policy.

While the degree of economic divergence of regional (national) economies determines the internal pressure on wage policy in a wage area, the degree of homogeneity of labour market and collective bargaining institutions and regulations and the degree of their co-operation determines the manageability of the splits. The higher the *degree of institutional homogeneity*, the easier will be the communication among policy actors, the aggregation and intermediation of collective interests and, therefore, the provision of wage policy as a union-wide collective good.[8]

8. Wolfgang Streeck (1998: 170) speaks of 'organising capacity'.

Finally, the higher the *degree of co-operation* among labour market actors[9], the more likely it will be to overcome the 'coordination problem' underlying the split between regionalisation and centralisation. With low homogeneity and little co-operation, the danger of a 'beggar-thy-neighbour' wage policy is high. However, a high degree of homogeneity of labour market and collective bargaining institutions must not be mistaken as the establishment of a single wage agreement without regional, sectoral and even firm-specific disaggregation. In fact, most highly corporatist collective bargaining systems (such as the German or Austrian) show a quite unknown degree of regional, sectoral and even firm-specific flexibility (see Heise 1997, Meyer/Swieter 1997).

Taking these elaborations into account, we are now able to describe the features of an 'optimum wage area': *a wage area may be termed an 'optimum', if the mixture of factor mobility, real convergence, homogeneity and co-operation among labour market and collective bargaining institutions allow for the manageability of the splits between regionalisation and centralisation of collective bargaining systems on the one hand, and the splits between conflicting ends of collective bargaining systems on the other hand.*[10] The 'optimum wage area' must not necessarily be the nation state, yet it must not necessarily be a smaller (regional) entity.

4. Is the European Union an 'optimum wage area'?

The important question, of course, is whether or not the European Union is forming an 'optimum wage area'? Certainly, labour mobility must be regarded as strongly restricted by cultural, language and other barriers: in 1985 only 1.9 per cent of the total EU-labour force was working in a member state other than its own (see Molle 1990:211) and labour mobility has

9. The 'degree of co-operation' among labour market actors depends on the institutional structures of the bargaining system: communication possibilities, members' interests homogeneity (similar pay-off-structure in game theoretic terminology) or leadership potentials (i.e. hegemonial structures).

10. The 'optimum' criterium can be measured, for practical reasons, by regional differences in unemployment rates within a monetary union (as an indicator of regional imbalances) or, more theoretically, by weighting *adjustment costs* due to a lack in regionalisation against *gains from centralisation* due to overcoming 'beggar-thy-neighbour'-policies.

seemingly declined over the past two decades (see Flanagan 1993). It has repeatedly been pointed out that the US labour mobility, which in itself is not very high, greatly exceeds EU labour mobility (see European Commission 1990; Eichengreen 1990).

Table 1

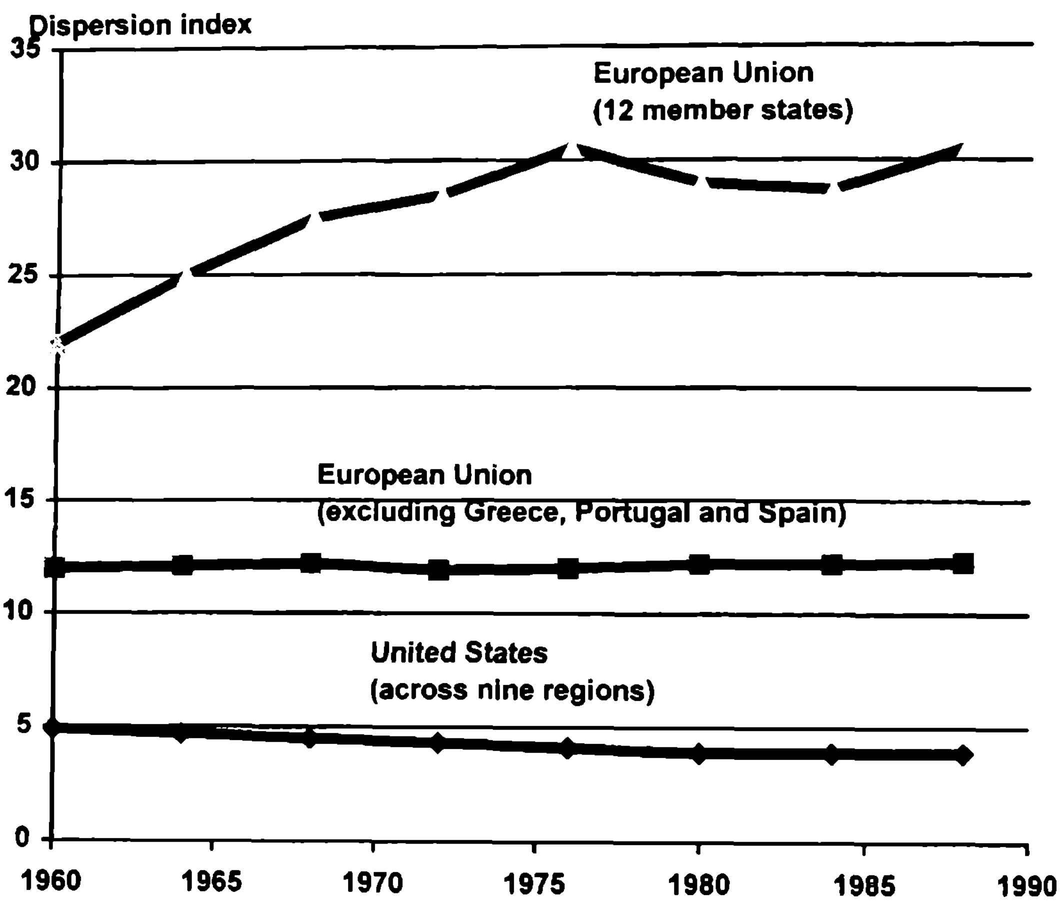
Real Divergence in the EU

	Per-capita income*	per-capita productivity**
Belgium	110.4	71.6
Denmark	141.4	94.8
Germany	118.1	100.0
Greece	52.9	—
Spain	63.0	63.8
France	109.6	87.1
Ireland	97.7	—
Italy	92.3	102.0
Luxembourg	173.5	79.1
Netherlands	107.2	92.0
Austria	118.5	
Portugal	47.9	24.7
Finland	108.1	
Sweden	118.4	
United Kingdom	100.7	77.2

Source: European Economy, No. 64, 1998 and Eurostat, Labour cost 1988;
*: 1997, EU:100; **: 1988, in manufacturing industries, West Germany: 100

In order to judge on real convergence in the EU, we will compare per-capita income and per-capita productivity (see table 1 and figure 2): With Portugal showing a per-capita income of 47.9 per cent of the EU-average and Denmark showing a per-capita income of 141.4 per cent (leaving Luxembourg out of consideration), the EU income spread is about 1:2.95 (and was not much higher in 1970!). Or, to put it differently, the wealthiest region (nation) in the EU generates a per-capita income which is almost 200 per cent higher than that of the poorest region (nation). As income reflects productivity, it is not surprising to find a very similar variation with respect to per-capita productivity levels. To prove the tremendous degree of real divergence within the EU, we can compare it with the income spread of German regions (Länder): it is about 1:1.4 among western German 'Länder' and 1:2.9 if the new 'Länder' are included.

Figure 2
Disperion of Real Output Per Capita



Note: The Dispersion Index for an area such as the European Union is a measure of the variation of a given variable across regions within that area. First, a weighted standard deviation is calculated, weighting the variances for individual regions by their share of the total population of the area. The Index is that statistic expressed as a percentage of the average for the entire area.
Source: Eichengreen 1990

An additional comparison with income dispersion among US regions (see Fig. 2) proves the point: even if the most backward EU regions are excluded, inter-regional income dispersion is more than twice as large within the European Union than within the USA.

High real divergence and very restricted labour mobility indicate the demands on the manageability of the splits in the EU. Institutional homogeneity and the willingness to co-operate on a EU-wide basis seem to be the necessary preconditions for the management of the splits. However, European labour market regulations and institutions –particularily collective bargaining systems and trade union and employers' organisations– are anything but homogenous[11]: the systems of collective bargaining range from chartered wage autonomy (which is one of the central, almost untouchable cornerstones of the 'German model') to strong governmental influence in tripartite bodies (e.g. in France, Belgium or Austria) and the complete lack of legally binding regulations (in the UK and Ireland). Additionally, the organisation of interest groups differ greatly: there are systems of unitarian trade unions (e.g. in Germany and the UK) and systems of trade unions that are distinguished (and compete for members) by political colour (e.g. in France, Italy, Spain and Portugal), of which some of the most influential (communist) trade unions are not yet members of the European Trade Union Congress (ETUC). While unitarian trade unions generally pursue a consensual strategy, the partisan trade union systems show stronger inclination towards (class) conflict strategies.

As table 2 indicates, the level of union organisation differs greatly from about 10 per cent in France and Spain to more than 80 per cent in Denmark and Sweden. But, perhaps more importantly, the coverage rate of collective agreements varies from less than 40 per cent in the UK (with a rapidly declining trend) to over 90 per cent in Italy, Greece and Austria. Finally, the level of centralisation of collective bargaining covers the whole range from the predominant firm-level in the UK and Ireland to the branch-level with low degree of co-operation on a national level (e.g. in Italy, France, Spain) to the branch-level with high degree of co-operation (e.g. in Germany and Austria) to the central level in Belgium and Denmark (with a disaggregating trend).

Following the typology of Schmidt (1996), the heterogeneity of European industrial relations and collective bargaining systems can be

11. See also Feldmann 1998:59.

Table 2

Heterogeneity of labour market institutions in the EU

Country	Level of Organisation (Trade Unions)	Coverage rate of collective agreements	Level of negotiations	Degree of co-operation
Belgium	55	90	National Branch-level	High
Denmark	80 – 85	90	Branch-level National	High
Germany	30	75 – 80	Branch-level	High
France	10	85	Branch-level	Low
Greece	30	95	National	
UK	30	35	Firm-level	Low
Ireland	47	45	Firm-level	Low
Italy	38	90	Branch-level	Low
Netherlands	25	70	Branch-level	Low
Austria	45	90	National Branch-level	High
Portugal	25 – 30	80	Branch-level	High
Spain	10 – 15	70	Branch-level	Low
Sweden	80	80	Branch-level National	Medium

Source: IDS/IPD, Industrial Relations and Collective Bargaining, London, 1996, pp. XX – XXI; WSI collective bargaining archive 1999.

summarised and condensed into four different 'models' showing the following characteristics (see table 3):

Table 3

Typology of labour relations systems in the European Union

	Consensual system	Corporatist systems	Conflictual systems	Centrifugal systems
Degree of Centralisation and Cooperation	High	Very high	Low	Low
Institutional patronage for union power	Low	Medium to high	Medium to low	High
Organisational capacity - Trade Union - Employer Organisations	 Low to medium Very high	 High Medium to high	 Medium Medium	 Medium Low to medium
Importance of Trade Unions opposing the capitalist system	Very low	Low	Very low	Very high
Importance of Trade Unions in export oriented industries	High to very high	High	Medium	Low
EU countries	Germany, Luxembourg, Netherlands, Austria	Denmark, Finland, Sweden	Belgium, United Kingdom, Ireland	France, Greece, Italy, Portugal, Spain

Source: Schmidt (1996); Schelkle 1997

5. Conclusion

It is hard to believe that the European Union of 15 member states is an 'optimum wage area' although our results are only tentative in nature: real convergence and institutional heterogeneity pose a tremendous amount of pressure on the manageability of the splits. But if the trilemma of wage policy in a European Monetary Union becomes uncontrollable, the consequences for the stability and durability of EMU can be far-reaching (see e.g. Heise/Küchle 1992; Horn 1998): the necessity for *intra-EU financial transfers of unknown magnitude* in order to supra-nationalise adjustment costs, the re-establishment of an outlet to bring about or to cushion necessary adjustments, *protectionist measures* or the *re-nationalisation of economic interests* within the EU may become possible scenarios.

Yet, these are not the only possible scenarios. The pressures arising from EMU may be sufficient to start a *process of 'catching-up convergence'*: a growing willingness to co-operate among EU collective actors and 'divergent convergence', i.e. a convergence of collective behaviour within different (path-dependent) national institutions. First steps in this direction have been made in what can be called the 'Doorn process'[12] and the 'coordination approach' taken by the European Metalworkers' Federation (see Schulten 1999).

The EU-wide trend to decentralise collective bargaining systems and to focus on the company level may be regarded, although involving institutional change on a larger scale, as a variant of the process of 'catching-up convergence' which is favoured (yet feared not to happen) by more traditional economists (see Calmfors 1999). The use or threat of using the 'exit option' by a growing number of Multinational Corporations is often regarded as spuring this type of 'competitive convergence' –yet, recent evidence casts some doubts on the existence of such spillover– and spillback-effects on industrial relations and collective bargaining systems (see Tüselmann/McDonald/Heise 1999).

A third possible scenario is that of an evolving *supra-national collective bargaining (and labour market) system*. Yet, it is not at all clear at which level a

12. In the Dutch city of Doorn, German, Belgian, Dutch and Luxembourg trade unions met in 1998 in orer to coordinate their wage policies and to deepen their organisational ties; see Kreimer-de Fries 1999.

European collective bargaining process would be best established: the 'social dialogue' is blocked by the unwillingness of the employers' organisations to act, the ETUC does not have a mandate to pursue wage negotiations at a European level, at a branch-level the European trade union federations have no counterpart on the employer's side[13], and the European works councils can clearly cover only the firm-level. An even stronger empediment for the evolution of a supra-national collective bargaining (and labour market) systems is, perhaps, the 'path dependency' of institutions incorporating traditional values and beliefs and a long history of evolution in very particular national circumastances.[14]

There are, yet, more questions than answers. The euro-skeptic position of a 'structural impossibility of European collective bargaining' faces the euro-optimistic position that "(a)s the European market continues to develop internally, there is more and more incentive for unions and other workforce representatives to collaborate ..." (Turner 1996:337). This paper intended to show, that both positions are well founded: the more likely E(M)U is to be an 'optimum wage area', the better the chances are for the euro-optimistic position and vice versa.

13. There is another problem involved here: co-ordination at the branch-level poses the important question of whether *national* or *sectoral* (or even sectorally *and* regionally differentiated) productivity growth rates should best be taken as yardstick. From a point of view of 'national solidarity', the national productivity growth rate would be appropriate. From a competitiveness point of view the branch-level would be better suited undermining 'national solidarity' (i.e. increasing sectoral wage dispersion).
14. For a very skeptical assessment of the possibility of a supra-national system of collective bargaining and industrial relations see Streeck (1998a: 434):"Any attempt at harmonization faces the problem of wide, historically grown diversity of national institutions, which not only raises often insurmountable technical difficulties but also leads to harmonization having asymmetrical consequences in different countries; usually this is enough to call forth sufficient opposition to prevent it.".

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Summary

Surprisingly, wage policy and the structure of collective bargaining systems have been discussed in relation to the process of European monetary integration only as the core adjustment mechanism in an optimal currency area. In this view, wage policy becomes very mechanistic, the question of the functioning of a common currency area with fragmented collective bargaining systems and institutions does not arise. However, this paper adresses the question whether the integrated Europe, particularily after the formation of a monetary union in 1999, will need a European-wide regulation of the labour markets and bargaining systems.

JEL classification: F0, J0 , J5