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Economic Integration and State Responses: Change in European Industrial Relations since Maastricht

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(forthcoming in *British Journal of Industrial Relations*)

Abstract:

The article analyses industrial relations change in the six largest EU countries since 1992 in relation to increased internationalisation pressures. Based on qualitative and quantitative analysis, it distinguishes between associational and state governance, and detects that despite a predominant, but not universal, trend of weakening trade unions and collective bargaining, no overall liberalisation has occurred in the political regulation of employment (employment policies, welfare state, labour law, state support to collective bargaining, public sector). Rather than as converging towards neoliberalism, industrial relations emerge as more politically contingent and dependent on multiple forms of power, which are affected by internationalisation in different ways.

Introduction

Recent international political developments have raised scenarios of 'new statism' countering the previous trend of global state retrenchment, as exemplified by alarmed covers of *The Economist* ('The Rise of State Capitalism', 12 January 2012; 'The New Nationalists', 19 November 2016). This article takes a longer historical perspective to discuss whether, within industrial relations (IR), such scenarios are really new, and to explain the apparent contradiction between internationalisation and re-nationalisation.

Debates on state and globalisation have oscillates between two extremes. In the early 1990s, the study of IR reached the peak of its 'methodological nationalism'. Colin Crouch, in his *Industrial Relations and European State Traditions* (Crouch 1993), identified the decisive influence of long-term state traditions (notably: state-Church relations; guilds' legacies; opening to trade) on IR. Most comparative studies of IR from that period – tellingly organised by country chapters – shared, at least implicitly, the same preference for the nation state as the most relevant level of analysis. Twenty-five years later, that preference is widely questioned. In the EU even more than elsewhere, transnational pressures on the three main actors of IR (state, capital, labour) have driven significant changes, raising questions on the capacity of national IR institutions to survive. Important recent accounts contrast with

Crouch's one sharply, by identifying a neoliberal convergent trajectory (Baccaro and Howell 2017), preferring transnational levels of analysis (Erne 2008) or indicating the weakening of national wage bargaining institutions (Visser 2013). As units for comparative analysis, economic sectors have gained more importance besides, or even in replacement of, countries (Katz and Darbishire 2000, Bechter et al. 2012). Tellingly, Crouch himself in his more recent work laments the weakness of states facing multinational corporations and neoliberalism (Crouch 2011). Recent interpretations of IR in terms of institutional diversity, as in the comparative capitalism literature, focus less on state institutions and political factors than on firm-level ones, and stress diversity amongst a narrow group of capitalist types rather than among national states.

The change that has occurred in IR since ca1990 is associated, chronologically and, this article shall argue, causally, with uneven internationalisation, and in particular the increased power of mobile capital vis-à-vis immobile labour and national states. While this is a global trend, it has been particularly marked, and concentrated in time, in Europe, where it has been supported by the most integrated economic regional bloc (the EU) and it has been affected by the full product- and labour market integration of adjacent regions with different wage levels and labour/capital compositions. The East-West integration that started after the fall of the communist regimes and was crowned by the EU enlargements of 2004-13 finds no equivalent in other continents.

And yet, in this most integrated continent, with visible shared strains on employment relations, country diversity is still apparent not only in formal institutions but in outcomes too, as in the case of different and even diverging labour market developments since the 2008 crisis. This paper combines qualitative and quantitative observations to move beyond convergence vs divergence debates to identify, drawing on Wright (2000), how different international pressures affect different sources of labour power, and to analyse both associational and political forms of labour market governance.

The article addresses the question of the endurance of state-level IR institutions and of the validity of political sociological approaches through three steps. Firstly, a review of debates on change in IR defines the explanatory role of internationalisation after 1990 and sketches a possible interpretative approach. Secondly, a historic-institutional summary of the developments of this period in the six largest EU countries by population and purchase-power parity GDP (Germany, United Kingdom, France, Italy, Spain and Poland) highlights instances of internationalisation effects. Finally, the article uses the available, if imperfect, quantitative data to 'measure' the degree of convergence amongst those six countries. In line with recent insights from Thelen (2014) and Crouch (2015) it expands the focus from IR in the narrow sense to broader social policies that impact employment. But it goes further, by distinguishing between different modes of governance and different arenas of labour power, to reveal a more complex trajectory of change than convergence and explain

the re-politicisation of industrial relations that internationalisation is, counterintuitively, producing.

Change of industrial relations and internationalisation

The perceived immobility of the Varieties of Capitalism (VoC) approach as codified by Hall and Soskice (2001) has inspired a surge of interest in the problem of change in IR (Crouch 2005, Streeck and Thelen 2005). While providing descriptions and classifications of ways in which institutional change does occur, institutional debates are yet to provide robust answers to the more crucial questions, i.e. why and in what direction change occurs. The VoC itself has moved forward through the consideration of actor-based factors, and in particular the dynamics of contestation and defection (Hall and Thelen 2009). However, that approach remains ill-placed to analyse actor-based factors, as it has little to say on more political dynamics such as mobilisation, discourse and conflict. On the other side, historical and discourse-based institutional approaches have focussed on those processes more, but again with outcomes that are either descriptive or excessively abstract. To take the authoritative example of Streeck's (2009) analysis of institutional change in Germany, the dense and theoretically-informed account of institutions is not matched by similar detail on the actors behind the institutions. The ultimate explanation of change in German capitalism is identified by Streeck in the increased autonomy and liberalisation of financial institutions, which while having great consequence as an historical and theoretical argument, results itself in a degree of economic determinism allowing less autonomy to the dynamics of labour relations.

Against this backdrop of unsatisfactory institutional accounts, Baccaro and Howell (2017) elaborated an alternative regulation-theory inspired thesis of a common neoliberal trajectory across all OECD countries since the mid-1970s. They define 'trajectory' not merely as a parallel movement, but, importantly, as convergence, if not in institutional forms, at least in institutional functioning (Baccaro and Howell 2017: 15-16). The convergence thesis is partly confirmed by the small-N study by Thelen (2014), who identifies the same global liberalisation trend of IR, although in different forms and with different outcomes thanks to compensation through labour market and welfare policies. By contrast, Kim et al. (2015), in the same OECD set of countries as Baccaro and Howell, identify stability within three broad types of IR, and Crouch (2015) maintains that there is change within, but also enduring diversity among, both broad types and individual countries.

Neoliberal convergence presupposes a more synchronous process of change than at any time in the history of IR hitherto characterised by historical institutional diversity even if on the backdrop of some common macro-developments in economy and technology. Synchronicity is unlikely to occur without common forces driving a simultaneous change in capitalist regulatory mode. Neoliberalism is generally

defined as a political project involving the state (Jessop 2002) and aiming at 'bringing about a market order' (Baccaro and Howell 2017: 16), restore elite power through dispossession of lower classes (Harvey 2005) and promote market competition and a limited state (Schmidt and Thatcher 2013). As a political process, it cannot be easily explained by non-political factors such as technology, which has historically been compatible with different political projects, and arguably still is, as exemplified by ideas such as 'accelerationism' (Srnicsek and Williams 2016). Outside technological determinism, the most likely explanation for neoliberalism and its sudden rise since ca1990 is the shift in power balance between labour and capital induced by 'globalisation', in particular with the collapse of state socialism in 1989-91, the formulation of the 'Washington consensus' in the same years, and the creation of the World Trade Organization in 1995.

Within Europe, these forces can be linked to more specific policy developments starting around 1990: in the 1980s, countries like France, Germany and the UK were still going in very different directions – not to speak of Eastern Europe. Since then, European integration accelerated through increased market integration through the single market (1992), Economic and Monetary Union (1999), Maastricht's 'Social Chapter' (1991) and EU enlargement to countries with different capital/labour compositions and socio-political traditions (2004-13). These developments potentially affect all main IR actors, by fostering the internationalisation of capital, the mobility of labour, and the replacement of national with supranational regulations. Between 1992 and 2012, the amount of Foreign Direct Investment (FDI) in the EU multiplied by eight (data: UNCTAD); the share of internationally mobile EU workers more than doubled (data: Eurostat); and the number of EU labour market policies, whether 'hard' or 'soft', exploded, including directives, EU-level collective agreements, employment policies, EMU constraints and structural reforms requirements.

At the outset of the 1990s these processes were still mostly neglected in IR research (Giles 2000). In the case of the European Communities, Crouch concluded his 1993 book by dismissing the chances that they could affect national IR (Crouch 1993: 350). Research on the role of multinational capital in European IR relations was only starting and sceptical arguments about the existence of transnational corporations (Hirst and Thompson 1996) were influential in labour studies. Even less attention was paid to migration: Castles (1986) had just written his 'obituary of the guest-worker in Europe' and Messina (1990) was claiming that labour migration in Europe had ended.

The implications of globalisation for labour relations became soon apparent. The fast rise of FDI created pressures for 'races to the bottom' and 'regime shopping' (Cooke 2001). Labour mobility, despite being inherently lower than capital mobility, raised questions over the state's control over a territory and therefore the idea of national models (Ferrera 2005), and the future of national regulations such as collective bargaining and the right of strike (Dølvik and Visser 2011). European Court of

Justice rulings, the EU enlargement (Meardi 2012, Crespy and Menz 2015) and the imposition of 'structural reforms' in crisis countries (Meardi 2014, Erne 2015) appeared to confirm earlier criticisms of the EU's role in IR and welfare states as 'negative' and 'market-making', rather than 'positive' and 'market-correcting' (Streeck 1995). In this situation, the national models which were so visible in the 1990s to the then prolific comparative IR literature quickly started to be seen as 'in flux' (Bosch et al. 2009), 'in crisis' (Dølvik and Martin 2014) or even 'failed ideas' (Lehndorff 2012).

This article approaches the issue by treating countries as unique historical cases and avoiding pre-conceptions of 'national models', which involve excessive risks of functionalist, teleological and normative simplifications. It attempts to advance Crouch's institutional approach through a political sociological lens that integrates and advances IR and historical institutional theories. On one side, it places, with Polanyi, the inherently political dimension of labour at the centre of the study of IR, which challenges economic functionalist views (whether pro-convergence or divergence), and allows more precision on which specific institutions matter most (the political ones). On the other side, it takes from IR the idea of inherently contradictory and 'structurally antagonistic' relations (Edwards 1986) and from sociology that of dynamic power relations (Wright 2000) to argue that institutional change is endogenous to capitalist employment relations: all compromises contain the seeds for their own contestation as they raise ever higher expectations on either side and open up ever new possibilities for political contestation or exit strategies. Analytically, this means paying attention to both long-term political institutional constraints, and shifting power balances between labour and capital. Wright (2000) identifies different forms of labour power (associational and structural), and different spheres of power balance (market, production and politics), which can lead to very different historical forms of class compromise (e.g. in the USA and Sweden) and are affected by globalisation in different ways.

These theoretical insights raise the broad hypothesis that the forces of internationalisation have different effects in different countries, and on different forms of labour power. Specifically, we expect the opening to foreign capital, migration and EU politics to vary across countries. And we expect capital mobility to weaken labour's political and market power, but to increase its production power in industrialising countries (Silver 2003); migration to undermine labour's associational and market power in receiving countries, but to increase its political one given the national-political nature of border controls (and the opposite in sending countries); and international organisations to have differential effects depending on their specific policies, but generally to reduce labour's market power through monetary and trade integration, and its political power up to the point where they provoke nationalist or internationalist reactions. The variation of national institutional setting, international exposure and power effects would counteract deterministic convergence, confirming for IR a degree of autonomy from the economy and an inescapable political dimension.

The developments in the six largest EU countries

Most analyses of change in IR have either focussed on only one or two countries, or on larger datasets of OECD or EU countries. Either approach has strengths, but also symmetric weaknesses in terms of either generalizability or depth. In order to seek an optimal mid-way between coverage and detail, this paper focuses instead on the six largest EU countries, accounting for 71% of the EU population. The selection has deeper methodological-comparative reasons than the simple numerical weight. Country size matters for IR. There is a systematic difference between larger and smaller countries in terms of associations' strength: corporatist countries tend to be much smaller than the pluralist ones (Olson 1982, Katzenstein 1985, Crouch 1993). Moreover, size matters not just for the dependent variable of this article (change in national IR), but also for the independent one, i.e. internationalisation and specifically Europeanisation. Large countries, *ceteris paribus*, are less dependent on trade and FDI, are more slowly impacted by sudden population movements, and have more weight in international organisations' decisions.

The specific number of six is chosen for simple clustering reasons: the gap between the sixth and the seventh largest member state (Poland and Romania) is the largest in the list of EU countries by population. Moreover, the 'big six' group includes a theoretically interesting geographic and socio-political variety (East and West, North and South, centre and periphery), despite the limitation of not including any Nordic country.

A historical and qualitative investigation of Europeanisation since 1992 was conducted primarily through interviews, document analysis and systematic national press analysis based on the main centre-left paper, as the one most likely to report about both economy and employment relations.¹ A total of 49 semi-structured interviews with leading experts and protagonists from employer associations, unions, government departments, foreign investor associations and migrant associations were conducted across the six countries and in Brussels.² The research was conducted in the local languages, to test the penetration of internationalisation by following it beyond the internationalised networks of cosmopolitan elites that are usually examined by research on transnational factors. While interviews were with actors that had been responsible for international contacts (foreign investment agencies and associations, trade union international offices, policy makers dealing with EU rules implementations), their accounts were then checked through local information and documentation. The research involved, in each country, a stay of at least one month including attendance to union, employer association and governmental meetings and conferences. Table 1 presents a summary of the analysis with regard to the national IR effects of the internationalisation forces in the six countries.

The research detected a number of international effects, but also their unevenness. FDI (as a share of capital formation, capital outflows, employment, as well as pace of increase), migration (as share of the population and of new employment) and EU policies (as relevance and compliance) have different weight in each country, and this is in part reflected in the IR consequences. Of the three pressures identified, the most important appeared to be FDI, followed by labour movement and as last the EU – but all these three forces are mediated by national institutions and the results are different country by country.

FDI

Although multinational companies tend to abide to national collective bargaining systems (Marginson and Meardi 2009), their impact on national employment relations is particularly visible in countries more dependent on foreign sources for capital investment. This is the case in particular for post-communist **Poland**. In the early 1990s, large investors such as Fiat and Lucchini Steel engaged in foundational conflicts with the unions with the clear objective of setting new rules in employment relations: new laws on privatisation, strikes, trade unions and social dialogue were conditioned by those conflicts. Similarly, the loss of major investment plans by Asian manufacturers to neighbouring Czechia and Slovakia in the early 2000s pushed the government to further liberalise the labour market. Foreign employers were the main actors behind the creation of a new, and more assertive, employer association in the late 1990s (PKPP-Lewjatan) and foreign companies drove the introduction of new working patterns in service sectors such as banking and retail.

Even in Western Europe foreign companies have been vocal and FDI has become a more pressing issue. In **Spain**, Volkswagen and Ford had a strategy of changing traditional employment relations, which was largely successful but only because it was concomitant with a generational change in Spanish trade unions (Hauptmeier 2012): foreign capital and state path dependency interacted, rather than counteracting each other. More recently foreign companies have not openly contested the Spanish system, preferring to rather ‘hollow out’ sectoral collective bargaining by offering better and different company agreements. The American Chamber of Commerce in Spain limits its public criticism to rather secondary issues such as the long lunch breaks. In **France**, large foreign companies are major players in the employer association Medef and in the chambers of commerce, but when US investors express vocal criticism, in a rather anti-American political environment, it generally backfires. When the CEO of Titan International wrote a letter to French industry minister Montebourg to complain that ‘the French so-called workers. . . don’t work longer than 3 hours a day’ and that the ‘crazy French unions own the French government’ (*Les Echos*, 19/2/2013), it attracted universal contempt. In the workplace, though, threats of relocations by multinationals such as Bosch in the mid-2000s were instrumental in achieving company-level concessions, especially on

working time. In the **UK** the influence of multinationals, in particular in undermining sector collective bargaining, dates back to previous decades and, within a liberal environment, foreign employers no longer differ markedly from national ones.

FDI has become a factor in IR also where it has a lesser weight as a share of capital investment. In the 1990s, perceived low attractiveness for FDI was a core issue in the 'Standortdebatte' (location debate) in **Germany**, which contributed to paving the road for major welfare reforms. The American Chamber of Commerce in Germany criticized the works council reform of 2001, but to no avail. Despite the radical tone of its public opposition to co-determination, the main work of AmCham Germany is actually on advising US companies on how to pragmatically adapt to German regulations and on how to minimise their undesired aspects. Even more than in France, threats of relocations, e.g. by Siemens, achieved important company-level concessions and contributed to the fragmentation and decentralisation of collective bargaining in the mid-2000s. **Italy** is, in this group, the country with the lowest inflows of FDI, which only surged with a wave of privatisations around 2000. Multinationals remained marginal in Italian debates until 2010, when Fiat-Chrysler (the largest Italian manufacturer, led by an Italo-American CEO and headquartered in London) withdrew, after threatening relocation of production, from the Italian employer association, from sectoral collective bargaining and from national union representation arrangements. This move against previously encompassing national regulations (defined by Fiat's CEO as 'folklore' – *Repubblica*, 28/6/2012) triggered the weakening of the Italian employer association, whose density fell from 33% in 2009 to 25% in 2014, and further tensions in national collective bargaining.

Migration

Although populist fears of dramatic disruption of labour organisation through increased and unfair migrants' competition are wide of the mark, there have been impacts on the behaviour of national actors and on national regulations. In the **UK**, the large and unplanned surge of intra-EU immigrants in the mid-2000s led unions to experiment more with community organising, e.g. with the London Living Wage campaign and with migrants' union branches, but gave space also to spontaneous protests such as the one for 'British jobs for British workers' at the Lindsay refinery in 2009, and, over time, to mass discontent with the social implications of immigration that resulted into the Brexit vote of 2016. Some government policies were amended to face labour standard issues emerging from immigration, although rather inconclusively: the Gangmasters Licencing Act of 2004 was prompted by the death of Chinese cockle-pickers, agency work and zero-hour contract regulations were improved and a higher minimum wage was announced in 2015. In the case of the 2009 Lindsay dispute, the government defended the employers in principle but promoted a good settlement for local protesters in practice. In **Spain**, large and unprecedented immigration from both North Africa and Central and Eastern Europe

became a central ground for augmented political and state-sponsored servicing roles for trade unions, especially on regularisation and on work permit policies, which went hand in hand with tripartist governance attempts in the 1990s and 2000s. Pressures in construction led to tighter regulations on subcontracting in 2006. **Italy** witnessed fewer immigrants than Spain and less expansion in construction, but the implications for IR were similar, forcing the government to introduce draconian rules and penalties on agriculture gangmasters in 2016, including making the violation of collectively agreed wages a criminal offence. In both countries, immigration occurred in deeply segmented labour markets, with more limited effects for the primary, more formal segment. In **France**, unions mobilized foreign undocumented workers in spectacular occupation strikes in 2008-10, to gain their regularization through high visibility actions, which in turn, despite the low level of corporatism in France, achieved stronger political roles and social legitimacy for the unions themselves. Labour standard issues with posted workers at large companies such as Alstom re-legitimised the legally-binding nature of French sectoral agreements, and President Macron made the revision of the Posted Workers Directive a symbol of his program.

Germany limited the opening of its labour market to workers from the new member states to 2011 and witnessed slower labour immigration, but waves of refugees in the early 1990s and in 2015. Trade unions stepped up their efforts to increase the share of foreigners in workplace representation, and to defend them better in collective bargaining and in access to apprenticeships, especially after the crisis of 2008-09 highlighted their higher vulnerability. In 2011, the end of transitional arrangements on free movement from the new member states triggered deep changes in labour market governance, with the introduction first of sectoral minimum wages, and, in 2015, of a national minimum wage (a significant change to traditional *Tarifautonomie*) as well as facilitations for the extension of sectoral collective agreements. **Poland** is different in so far as it was affected by mass emigration. The post-2004 emigration wave, combined with demographic decline, helped moving the labour market from mass unemployment to labour shortages within few years and improving the structural power of labour: real wages increased at the fastest rate in the OECD, especially in the sectors most affected by emigration. The minimum wage was raised from 40% to 50% of the average wage between 2008 and 2013 and the government elected in 2015 proposed a number of social reforms including improvement in pensions, child benefits and trade union rights. However, the preponderance of labour 'exit' on 'voice', exemplified by emigration, high employee turn-over and mass temporary employment, consolidated the liberal nature of the Polish labour market. Labour immigration became relevant only after 2010, mainly from Ukraine: in 2016 the OPZZ union set up a Ukrainian branch, and social dialogue started on policies to fight the exploitation of migrant labour.

The EU influence through Directives and 'soft' policies is mediated by countries' different traditions of 'compliance' (Falkner et al. 2008). None of the six large member states, in reason of exactly their size and relative power, is a particularly compliant country in Falkner's classification. The EU legal influence is more visible in countries with more distant legal traditions. In the **UK**, European social legislation was adopted after the Labour party victory of 1997, but over time it became apparent that it did not substantially impact employment relations, e.g. in the case of Information and Consultation rights. In **Poland** the adoption of the *acquis communautaire* occurred with more apparent enthusiasm, but it clearly failed to foster social convergence with Western Europe. Both Poland and the UK are outside the EMU and therefore less affected by European economic governance, whether soft or hard, and both countries opted out from parts of the Charter of Fundamental Rights of the EU.

In the EMU countries, the EU sponsored labour market reforms through its 'flexicurity' promotion, but in general employment policies have remained too 'soft' to produce much mutual learning among member states. In **Germany**, the Rüffert European Court of Justice ruling of 2008 resulted in changes to procurement rules rather than to collective bargaining. The liberal reforms of the early 2000s were of domestic origin and inspired EU policies, rather being inspired by them. Through Jacques Delors, **France** had influenced the origins of EU social regulations, rather than being influenced by it. Later on, 'flexicurity' was more openly discussed than in Germany, but was also translated into national versions of the concept, such as transitional labour markets, and France remained an exceptional case in not liberalising temporary employment.

In **Italy** and **Spain**, EMU constraints played a role in promoting tripartite social pacts and reforms of indexation and of the welfare state in the 1990s, although judgments of these countries' social systems being 'rescued by Europe' (Ferrera and Gualmini 2004) proved misplaced in the light of the subsequent crisis. The traditional neglect of EU social regulations (despite political pro-Europeanism) changed with the structural policies recommended or imposed by the EU since 2010 on countries with high debt-to-GDP ratios. Two European Commission's proposals with radical implications for employment relations were particularly influential in Italy and Spain, and from 2015 in France: first, 'new wage setting frameworks in order to contribute to the alignment of wage and productivity growth at sector/company level' (European Commission 2012), i.e. the decentralization of collective bargaining; second, the liberalization of employment protection through a flexible 'single open-ended contract' that would overcome labour market segmentation (European Commission 2010). Italy and Spain passed deeper reforms along these lines in 2011-14 under pressure from the European Central Bank, than over the previous 20 years (France introduced similar reforms in 2016). The changes did not entirely embrace EU recommendations, especially in Italy, and led to a slow-down of collective bargaining, but not, to date, to its collapse. While if deepened and fully enforced they could

radically alter national institutions, they seem to have also created enough political resistance to slow them down.

A quantitative assessment of change

The previous section listed evidence of differential effects of transnational factors on national systems. To assess the cumulative effects on national employment relations, we need synthetic indicators. Quantitative ones present many limitations when taken individually, but sufficiently composite indicators may be able to tell a story more robustly. In recent years, quantitative data have been used both to underpin the classification of countries within IR typologies (European Commission 2009, Kim et al. 2015) and to criticise them (Bechter et al. 2012, Baccaro and Howell 2017).

The distinctive feature of this analysis is the combination of two analytically independent axes, i.e. associational and state governance of IR. This is different from Baccaro and Howell's quantitative analysis, which focuses on five indicators of which four are purely associational (bargaining centralisation, bargaining coordination, union density and conflict rate), and only one includes, besides associations, the state (tripartite bargaining). Baccaro and Howell do consider the state, but dismiss social policy and individual labour rights as mechanisms to legitimise liberalisation. My approach also differs from Kim et al. (2015) insofar as they merge state- and association governance within two outcome-focused axes, equity and efficiency. By contrast, I argue here that the state should be included in IR analysis much more intimately and dialectically, because of the unavoidably political nature of IR and because of the redistributive interactions between collective bargaining and welfare state. In particular, the neglect of the welfare state in IR (and vice versa) causes a number of shortcomings, not least the inattention to gender issues, on which IR interact most closely with legislation and welfare policies (O'Reilly and Spee 1998). This approach is therefore closer to that by Thelen (2014), who distinguishes between IR, labour market policies, and welfare state.

If at the peak of trade union power, IR and social policy tended to be studied and discussed separately, the recent shift of social policies towards activation and risk governance call for their closer integration (Crouch 2015). In line with both corporatist theory and regulation theory (Hollingsworth and Boyer 1997), this is possible by analytically distinguishing the three modes of governance of economy (market and corporate hierarchies), polity (at the national-level, national law and national government actions) and society (at the national level, mostly associations, although networks and communities may also be relevant). I exclude from this analysis a fourth possible mode of governance, community, as apparently less influential within Europe (Crouch 2015), and treat market institutions (corporate law and financial regulations) as essentially constant across the six countries, given the

integration of product and financial markets and the rise of multinational corporations in the EU (although there are some differences in the strength of pure capitalist institutions such as property and investment rights, the only significant deviation in this regard among the six countries, according to the 2015 Index of Economic Freedom (Miller and Kim 2015) is the imperfect protection of property rights in Italy). The research then focuses on the degree to which state and associational regulations intervene by distorting in favour of the employees the outcome that market and corporate management would produce in the theoretical (yet unrealistic) scenario of full atomisation and freedom from social constraints.

The analysis compares two snapshots, at the outset of the Europeanisation trends identified above, which was also the final point of Crouch's (1993) analysis, i.e. 1992 and 2012, twenty years later and the last year with sufficient data availability.³ It produces a graphic representation of the degrees of state and associational governance on two orthogonal axes. Both indexes of associational and state governance are multidimensional, as indicated below (the source of the variables in bold is the ICTWSS database, version 5.0 of 2015 (Visser 2015); sources for the other variables are indicated in brackets.)

The index of associational governance is made of three components of equal weight, i.e. the organisation level of each side of the employment relationship, and their interrelations through collective bargaining. The specific variables are the following (Table 2).

1. Trade union density (**UD**)
2. Employer density (**ED**)
3. Interrelations, made of three measures:
 - 3.1. Collective bargaining coverage (adjusted for employee with right of collective bargaining) (**AdjCov**)
 - 3.2. Co-ordination of collective bargaining (1-5 scale - **Coord**)
 - 3.3. Actual level of collective bargaining (i.e. predominant level of collective bargaining adjusted by frequency of decentralisation, opening clauses, derogation, articulation) (**CWB**)

Unlike Baccaro and Howell, I do not include strikes, as notoriously the most difficult indicator to compare over time and across countries, and because it is of ambiguous interpretation: are more strikes a sign of stronger unions, or of weaker institutions? Nor do I include tripartism, which I consider under state governance instead given its increasingly political, rather than corporatist, nature (Avdagic et al. 2011). By contrast, by using the new indicator of 'actual level of collective bargaining' instead of the simpler 'predominant level' employed by Baccaro and Howell, I can also account for the increasingly important processes of derogation and articulation, which were central for Crouch and Traxler (1995) and are behind Baccaro and Howell (2017) idea of institutional conversion of collective bargaining. I also add employer organisation, which is less systematically measured and has not been paid as much

attention as unionisation, but whose importance has been demonstrated by the effects of disorganisation in places like Eastern Germany and Central Eastern Europe.

The state governance axis of employment relations governance is more complex and includes more dimensions. The IR literature has identified five main categories of state intervention in employment relations (Meardi 2014), and these are measured through the following variables (Table 3).

1. Statutory regulations
 - 1.1. Legislation on works councils: works council status (0-2 scale - **WC**) multiplied by works council rights (0-3 scale – **WC_RIGHTS**)
 - 1.2. Existence of a minimum wage (nationally: 2; no:0; in certain sectors: 1 - **NMW**)
 - 1.3. Minimum relative to average wages of full-time workers (OECD.*Stat*)
 - 1.4. Strictness of Employment Protection – Individual and collective dismissals (regular contracts) (OECD.*Stat*)
 - 1.5. Strictness of Employment Protection - temporary contracts (OECD.*Stat*)
2. Rules of the game
 - 2.1. Government intervention in collective bargaining (1-5 scale - **GOVINT**)
 - 2.2. Mechanisms for the legal extension of collective agreements (0-3 scale – **Ext** – the indicator does not include functional equivalents of mandatory extension and therefore underestimates the degree of state involvement in Italy)
3. Public goods provision
 - 3.1. Unemployment benefits replacement level, summary measure, which provides an indication of the ‘reserve wage’ (OECD.*Stat*)
 - 3.2. Social expenditure as a share of the GDP (OECD.*Stat*)
4. Support to actors
 - 4.1. Social Pacts (sum of negotiated and signed pacts, three-year average - **ALL**)
 - 4.2. Presence of a National Tripartite Commission (dummy indicator – **TC**)
5. As an employer
 - 5.1. Public sector’s share of employment (OECD.*Stat*)
 - 5.2. Public sector’s regulation distinctiveness - composite indicator of five equal-weight variables:
 - 5.2.1. public sector’s union density (**UD_pub**)
 - 5.2.2. public sector collective bargaining centralisation (European Commission 2013)
 - 5.2.3. public sector collective bargaining coverage (**CovPub**)
 - 5.2.4. legal constraints over public sector collective bargaining (European Commission 2013)
 - 5.2.5. unilateralism in public sector collective bargaining (European Commission 2013)

Each of the five categories is given equal weight as they have all been important areas of change in IR historically. Robustness checks show that varying the weight does not change the overall picture significantly, i.e. the relative position of countries in the scatter chart does not change. One sensitive variable is 'support to actors' through social pacts and tripartite commissions: if removed, on the grounds that some analysts (Ost 2000, Erne 2008) see these as merely illusory phenomena, Italy's degree of state regulation falls below that of Germany. Yet the Italian case is exactly one where the incidence of social pacts (but not that of its muted tripartite commission) is stronger, as in the case of agreements strengthening collective bargaining articulation and employee workplace representation in 1993 or improving welfare benefits in 2007.⁴

Both the associational and state regulation data can be summarised in composite indicators, to classify countries on two axes. To overcome the heterogeneity of the data, they are all normalised on a 0 to 1 scale, where the minimum and the maximum value (0 and 1) are placed at the minimum and maximum recorded value for any OECD country in 1992-2012 (standardisation would not make sense as it would force the same standard deviation on each indicator, despite their very different distribution). Conceptually, it is important to stress that all indicators involve some degree of intervention through either limitation of employer discretion or labour decommodification: forms of state intervention that directly support marketization are not included here. In an abstract, perfectly liberal labour market, the values on both axes would be zero.

Figure 1 displays the position of the six countries in 1992 and 2012 and reveal some interesting situations. First, there is little evidence of convergence. The distances among the six countries are very similar in 1992 and 2012. It is also difficult to group them into 'types', although two couples of countries (France and Spain; Germany and Italy) are close. In particular, the presumed 'southern European' type (European Commission 2009) is not visible: there is no evident reason why Italy, with its higher union power and its less interfering state, should be classified with France rather than with Germany (the position of Italy as the country with the strongest degree of associational governance may be surprising but is accounted by higher union density and collective bargaining coverage than in Germany).

Although there is no clear sign of convergence, there are indications of important change. The most frequent one is of a weakening of associational governance, accounted in particular by a decline in union density and collective bargaining. On this axis a predominant trajectory of liberalisation is visible, but without convergence: the countries that liberalise most are those that were already most liberal in 1992 (UK and Poland) and are most influenced by FDI and migration. The two exceptions here are France and Spain. The position of France has hardly changed between the start and end points, but not because there has been no reform or innovation: rather, changes have gone in different directions and have compensated each other over the period (e.g. the Aubry laws fostering collective bargaining, and the Fillon one

decentralising it). Spain moves slightly to the right side. Like for France, its 2012 position is the net result of years of contrasting trends rather than linear change, with the most important development being the effort at better co-ordinating IR during the 1990s; nonetheless, radical reforms at the end of the analysed period are reversing the trend.

The dominant trend of associational regulation decline has not led European countries to neoliberalism, though. An ideal laissez-faire type would be at zero on both axes. Ideal types are not registered in the real world, and for comparative purposes the figure includes the USA, the reference case for neoliberalism: while it is close to zero on the associational axis, it is still at over 0.2 on the state one, thanks to some minimum wage, public sector and welfare state interventions. Across countries there is no systematic change, and there is even one clear case of movement towards more state regulations, the UK under New Labour.

Neoliberalism is distinguished from laissez-faire exactly for the role of state power – yet still in the pursuit of employer interests. Why did the state interventions in protection of employees not decline across our cases? The functionalist/instrumental explanation of neoliberalism legitimation (Baccaro and Howell 2017) finds some corroboration: the introduction of minimum wages is often associated with the hollowing out or even direct undermining of collective bargaining, and the focus on individual employment rights, in the UK and in the USA, did cast shadow on the collective ones (Pollert 2005, Piore and Safford 2006). Nonetheless, closer historical analysis raises doubts on generalising such functionalist argument. The interventions listed here go in the opposite direction to the neoliberal one of dispossessing employees and restoring employer discretion, which is meant to include limited and non-interventionist state, rejection of Keynesian demand management, labour market flexibility and removal of welfare benefits (Hay 2004). The introduction and increase of minimum wages and unemployment benefits, and the endurance or increase of social expenditure, have been generally opposed by the employers; when they were enacted by right-of-centre governments on occasion, it was in response to social demands, for electoral reasons or to limit protest (e.g. the abandonment of pension cuts in Italy in 1994 and in France in 1995, or, more recently, the increase of minimum wages in the UK and Poland). The increase in social expenditure (with the exception of post-communist Poland), although largely linked to the ageing society rather than increased public generosity, cannot be interpreted as simple neoliberal legitimation. Its functions may be changing, in particular towards activation and therefore market promotion, but most public expenditure still provides ‘decommodification’ of areas of people’s lives (Esping-Andersen 1990) and public governance of market-originating risk (Crouch 2015). Therefore, if the crude figure of social expenditure does not tell the story of *how* money is spent, it still is a good indicator of market correction, across countries as well as time. If we can therefore speak of neoliberalism in Europe, it is in a variety of ‘social market’ versions or in a neo-Polanyan, state-embedded and protected form

(Gamble 2006) – not in a Reaganite ‘government is the problem’ sense, and not in the hyper-market version employed in most academic and political debates.

The broader inclusion of the state is where this analysis differs from Baccaro and Howell’s (2017), who, by employing a one-dimensional axis of neoliberal change, and neglecting the roles of welfare state, public sector and social security, overestimate, or at least over-simplify neoliberal convergence in labour market regulation. The alternating trends of Spain (in the regulation of collective bargaining) and UK (in public sector policy), for instance, directly challenge their argument that centre-right and centre-left governments pursue the neoliberal strategy in the same way (Baccaro and Howell 2017: 185). In fact, whether government political orientations matter depends itself on the specific state political traditions, such as majority vs proportional systems of representation, with more policy continuity in the latter (e.g. Germany), but more discourse convergence (e.g. on modernisation in the UK) in the former given the electoral competition for median-voters.

One last indication from the two axes is the weak correlation, whether positive or negative, between them, which challenges two competing classic interpretation of the relationship between states and IR. On one side, classic corporatist theory, which sees associational governance as an alternative to statist one and implies the deficiency of hybrid cases such as ‘statist’ forms of corporatism (Streeck and Schmitter 1985), would have forecast a negative correlation, i.e. a trade-off between the two forms of governance. Yet the only instances of such a trade-off across time are in the UK and Spain. On the other side, power resources theory (Korpi 1983) postulates a positive relation between labour movement strength (in particular union density) and both egalitarian collective bargaining and welfare state policies. The chart does display a degree of positive correlation between the two axes at given points in time ($R^2=0.21$ in 1992 and 0.37 in 2012), yet this is paradoxically due mostly to the French and Spanish cases, where in fact union density is below average – which goes exactly against the theory. Moreover, there is no positive correlation over time, as the average for state regulation doesn’t change between 1992 and 2012 despite the decline of associational governance and specifically union density. It appears, therefore, that large EU countries are best treated and understood as historically unique configurations, rather than cases fitting a universal law or trajectory.

Conclusion

Combining quantitative and qualitative information allows to address both ‘how’ (directions of change) and ‘why’ (historical causes) questions. Parallel strains on labour and collective bargaining have weakened associational governance in most large EU countries since 1992: the partial exceptions of France and Spain might only be late movers. Historical analysis suggests a causal link with the internationalisation

processes that have occurred, with a structural shift of power from labour to the more mobile capital. The fact that the pressures are visible everywhere regardless of the 'Variety of Capitalism' strongly confirms that we are witnessing, in essence, one form of capitalism.

Yet capitalism coexists with different IR institutions. Mixing capitalism and IR into one single assessment would conflate two very different levels of abstraction, i.e. the historic mode of production and the distinctive institutional way in which this is regulated. In other words, if all employees in Europe perceive the pressures of the same globalized capitalism, their employment security, social benefits, representation in the workplace still largely depends on the country they work in – and this depends on institutions and on power balance.

International pressures operate differently depending on the power resources they affect (Wright 2000), and their interactions with national states. The rise of multinationals and competition for FDI has had the most straightforward effect: it has generally weakened labour's political, market and social power, with some positive effects only in the isolated cases where it promotes industrial upgrading. Migration has weakened labour's market and social power in receiving countries, but it has generally increased its political power given governments' vulnerability to protest on this issue. This explains major concessions to labour in all five receiving states (free movement of labour also prompted stricter regulations on posted workers and collective bargaining in Sweden, Denmark, Norway and Switzerland). Conversely, in Poland, emigration increased labour's market power, but not the political one. EU rules have had different effects depending on the period, the specific policies, and the member states, but overall it may be concluded that EU employment policies and regulations are strongly mediated by national traditions (Falkner et al. 2008, Meardi 2011), the EMU has weakened unions' market power by enforcing unit labour cost competition, and the most recent governance changes in the EMU have 'renationalised' conflict (Erne 2015), weakening trade union associational power but not necessarily the political one (it may not be a coincidence that radical labour-friendly parties have entered government in the two countries most deeply affected by new EU coercive demands, Greece and Portugal).

The focus on discrete power effects on internationalisation and the inclusion of politics advances the typologies and interpretations of the last quarter of a century, from Crouch (1993) to Baccaro and Howell (2017). It explains how the EU increasing preference for capital interests has, paradoxically, increased the national political (state) dimension of IR, as labour could best react through politics. As Figure 1 shows, the only case of clear neoliberal shift (towards the SW corner of the chart) is Poland, the country with the most unfavourable labour/capital composition and with historical traditions that clearly push change in that rejection. Yet even in Poland, and in other Central and Eastern European countries, that trend seems to have reached its limits with the election of populist government with a strong-state and paternalistic social policy agenda in 2015. Overall, this finding of liberalisation in

associational governance not matched by the same trend in state governance confirms the historical account by Thelen (2014), but with the added important specification that the difference is between *modes*, before than between *areas*, of governance.

State-level developments have been too widespread and varied to be seen as merely instrumental. Historical attention to power relations within institutional traditions offers a deeper interpretation. If capitalism is under less pressure from organized labour, it still needs state protection from socio-political instability (or arguably, from itself). This confirms the unavoidable political dimension of labour relations, and more particularly, their historically institutionalised political nature in the largest European countries. Brexit, as a political event largely driven by social concerns over free movement of workers, appears therefore as an extreme case of a broader trend, rather than an exception.

The process of change described in this article raises important issues. The shift from associational to state regulation may not be enough to prevent a degree of liberalisation, as in the UK case, where the relative increase in state regulation is weaker than the fall in the associational one. But it also raises new problems for democracy, with regard to space for institutional voice, to the implementation and sustainability of regulations, and to the political systems' capacity to process complex economic and social demands. If, as Wright (2012) indicates, the most likely dimension of social transformation is the political, state-power one, the declination of associational and political resistance deserves deeper exploration (Hyman 2015).

The analysis presented here has a number of limitations that require more discussion and investigation. Apart from being only focussed on the national level and overlooking regional and sectoral variation, and from looking at processes rather than outcomes (Thelen 2014, Crouch 2015, Kim et al. 2015), it is based on two snapshots, of which some (Germany and Poland in 1992, Italy and Spain in 2012) are taken on subjects in fast movement. More recent changes are not yet reflected in quantitative indicators.

The available recent evidence, however, suggests that the latest crisis is not a mere continuation of a 30-year trend (Baccaro and Howell 2017), but rather an instance of governance change (Crouch 2015). The more recent reforms in Spain and Italy, but also in Germany, Poland and the UK (and arguably in Sweden) indicate change, but again no convergence. The associational indicator is being further lowered in some countries, especially through collective bargaining decentralisation in Spain and Italy and the reduction of union rights in the UK. Yet at the same time, and despite cuts to the welfare state in several countries, the indicator of state regulation tends to move upwards, most clearly in Germany where the introduction of a relatively high minimum wage and the reinforcement of collective agreement extension in 2015 bring state regulation axis above the 1992 level. Policy interventions are visible

elsewhere, from the cautious introduction of universal unemployment benefits in Italy, to the national living wage and proposed stronger protections for dependent contractors in the UK, to redistributive policies and limits to precarious work in Poland. Frequent capitalist state regulation and paternalistic – rather than neoliberal – social policies are less surprising if we take a broader picture at international liberalisation and look at the relative success and expanding social policies of emerging economies with strong states (e.g. China, Brazil, Mexico, Turkey, Indonesia, South Africa). In Europe, internationalisation, through EU policies, multinationals and migration, tends to prompt political counter-movements in the Polanyian sense of social protection – not necessarily democratic, but always specific to local polities.

¹ *Frankfurter Rundschau, the Guardian, Le monde, Repubblica, El País, Gazeta Wyborcza.*

² Germany: CDU, die Linke; DGB, Ver-di, IG Metall, IG BAU; DBA, American Chamber of Commerce; Polish Social Council. UK: Department of Business, Innovation and Skills; TUC, Unite, Unison, GMB; CBI, EEF, ECIA; Federation of Poles in the UK. France: Ministère du Travail; Medef; CGT, CFDT. Italy: PD; CGIL, FIOM-CGIL, CISL, FIM-CISL; Assolombarda, American Chamber of Commerce; Anolf. Spain: Ministry of Labour, Consell Treball; CCOO, UGT; CEOE, Foment, PIMEC; Polish Association Madrid. Poland: Ministry of Labour; Solidarność, OPZZ, Budowlani; PKPP-Lewjatan, KbiN, American Chamber of Commerce; Migrant Workers' Association. EU: EC, Social and Employment Affairs; BusinessEurope; EPSU.

³ Interpolated values (linear) for missing values between available data are used. There are two exceptions to the interpolation methods. First, for employer density and public sector union density in Spain, given that in this country historical change has not been linear but curvilinear, the closest available data are used instead. Second, for public sector's union density and collective bargaining coverage in Poland, as there are no data at all in the ICTWSS database, estimates from Eurofound on-line information are used.

⁴ Like Baccaro and Howell, and as standard in the analysis of composite indicators, I run a Principal Component Analysis (PCA) on the indicators. On associational governance, PCA confirms the strong correlation between the collective bargaining variables, and adds a particular strong one between collective bargaining coverage and employer density (0.95). Employer density adds therefore little additional information, but it adds weight to the capital side of co-ordination that has become central in comparative capitalisms debates. On state governance, PCA indicates strikingly little correlation among the many indicators used here – and no factor that would have a clear empirical or theoretical reason. The original 'raw' indicators are therefore used in the axes.

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TABLE 1
Internationalisation and IR change

	FDI		Migration		EU	
	Magnitude	IR effects	Magnitude	IR effects	Magnitude	IR effects
D	Medium 20% GDP	Labour- weakening (concession barg.)	Medium 15% workforce	Regulations (minimum wages)	Low 'domestic politics'	Restructuring, reform agenda
F	High 39% GDP	Labour- weakening (influence in employer org, concession barg.)	High 12% workforce	Mobilisations (strikes)	Medium 'neglect'	Employment recommendations
UK	High 48% GDP	Labour weakening (coll. barg. decentralisation)	High 13% workforce	Regulations (gangmaster and agency rules, Brexit)	Low 'domestic politics'	Employment law but opt-out from Lisbon Treaty, Brexit
I	Low 16% GDP	Labour weakening (calls for change, Fiat's 'exit' from coll. barg.)	Medium 8% workforce	Increased segmentation	High 'dead letter' ECB	Employment recommendations
E	High 44% GDP	Mixed (distinctive policies)	High 15% workforce	Increased segmentation	High 'domestic politics' ECB	Employment recommendations
PL	High 41% GDP	Mixed (prominence in employer org)	High (as exit) 0.5% workforce	Labour- strengthening	Medium 'dead letter' accession conditionality	Employment law, social dialogue capacity

Sources: share of FDI stock in GDP: UNCTAD, 2010; share of foreign-born in working-age population: EU LFS, 2007; 'world of compliance' on EU regulations: Falkner et al. (2008).

TABLE 2
Associational governance indicators

	TUDens	EmplDens	CBCov	Coord	Centr(level)
1992					
Germany	33.9	68	77.5	4	3.55
France	9.6	74	94.5	2	3.10
UK	39.8	48	43.5	1	1.67
Italy	38.9	66	80.0	3	3.85
Spain	16.5	72	88.6	2	3.50
Poland	29.7	20	35.6	1	1.00
2012					
Germany	17.9	58	54.9	4	2.85
France	7.7	75	98.0	2	2.25
UK	26.2	32	29.3	1	1.00
Italy	36.9	56	80.0	3	2.85
Spain	17.1	75	77.5	3	2.65
Poland	12.7	20	14.7	1	1.00

TABLE 3
State governance of employment relations

	WC	MW	MW%	EPLr	EPLt	Gov Int	Ext	UB	SE	SP	TC	PS%	PSreg
1992													
D	6	0	0	2.58	3.25	2	1	29	25.5	0	0	0.21	0.70
I	4	0	0	2.76	4.75	4	0	3	20.8	0.67	1	0.19	0.65
F	4	2	46	2.34	3.63	3	3	38	26.6	0	1	0.29	0.74
UK	1	1	0	1.03	0.25	1	0	18	19.9	0	0	0.19	0.48
PL	1	2	33	2.23	0.75	3	0	38	24.9	0.67	0	0.43	0.86
E	2	2	34.7	3.55	3.75	3	3	34	21.8	0.67	1	0.16	0.86
2012													
D	6	1	0	2.87	1	2	1	24	25.9	0	0	0.15	0.61
I	4	0	0	2.76	2	2	0	33	28	1	1	0.16	0.49
F	2	2	48.5	2.39	3.63	3	3	39	32.5	0	1	0.27	0.73
UK	2	2	38.9	1.2	0.38	1.5	0	16	23.9	0	0	0.24	0.44
PL	2	2	32.4	2.23	1.75	2	1	20	20.6	0	2	0.21	0.50
E	2	2	36.5	2.21	2.69	4	2	35	26.8	0.67	1	0.23	0.46

FIGURE 1
Change in Industrial Relations, 1992-2012

