10 Searching for the EU Social Dialogue Model

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10.1 Introduction

‘Collective bargaining and social dialogue were designed into the European pro-
ject from the very beginning’ (John Monks, European Trade Unions Congress
Secretary, May 2004).

The European Union and the United States operate different variants of market
capitalism. Both systems base economic transactions on private property and rule
of law. Both have open economies with sound monetary and macro-economic
policies. Where the EU and US differ is in the role of institutions in affecting out-
comes, particularly in the labor market.

The EU relies on collective bargaining between employer associations and
trade unions to determine wages and employment and on social dialogue between
the ‘social partners’ of labor and capital, often working in concert with govern-
ment, to choose social and economic policies. The US relies on firms and individ-
ual workers to determine employment and wages in competitive markets. The EU
has high taxes that provide a strong social safety net for workers. The US has
lower taxes and a weak safety net for workers. The differences are sufficiently
large to have generated a ‘war of the models’ about how best to organize a market
economy (Freeman, 1998).

From the 1960s through the 1970s oil shock and productivity slowdown, the
rapid growth and low unemployment of Western European economies led some
analysts to generalize that neo-corporatist centralized bargaining wage systems
work better than more market based systems (Bruno and Sachs, 1984). In the
1980s Japan’s rapid economic growth and export success directed attention at the
virtues of Japanese institutions. During his visit to Harvard in 1986–87, Ezio Tar-
antelli and I debated whether the Japanese economy was more aligned to the EU
institution-affected system than to the more market-driven US.1 But Japan went
into a bad economic decade while US performance improved. From the 1990s

1 The modest unionization rates, company level unions, use of bonuses related to profits,
and limited political role of unions suggested that Japan was closer to the US than to the
EU system. But the Shunto offensive, coordination of wage settlements, lifetime em-
ployment, lead bank system, industrial concentration, and protection of small firms in the
service sector suggested that Japan was closer to the EU than to the US.
through the mid 2000s, the rapid growth and low unemployment in the US shifted sentiment in favor of more market driven variants of capitalist economies.\(^2\)

Regardless of whether more market-driven or institution influenced economies do better in a given period of time, there is generally a wide range of economic outcomes within each group. In the 1990s the US performed well in productivity and employment but Canada, with much the same economic system, had an horrific economic record. From the 1990s through the mid 2000s several smaller EU economies – Ireland, Denmark, Austria, and to some extent the Netherlands – performed better than Germany and France, among others. Supporters of the EU system often cite the smaller successes as evidence that social dialogue economies can deliver economic efficiency as well as economic security and desirable distributions of income.

When market economies run into trouble, the natural response of economists has traditionally been to seek out imperfections in the market and to suggest ways to eliminate those imperfections. This response builds on the powerful framework that economic theory provides for analyzing real market economies. The model of a perfectly functioning competitive system gives economists and policy-makers a benchmark for measuring real world divergences from the ideal and directs attention at reforms designed to bring the real world closer to the competitive ideal.

When EU economies have gotten into trouble, the economists’ response is often the same: to identify market imperfections and seek ways to eliminate them. But this seems less appropriate in a social dialogue economy than in a market-dominated economy. Why not seek out imperfections in the social dialogue institutions and search for ways to improve institutional interventions? One reason why economists do not pursue this approach is that we lack a well-specified model of the ideal institution driven economy to benchmark real world divergences from the ideal.

In the world of ideas and in policy discourse the absence of a social dialogue model creates an uneven playing field for assessing the two capitalist models and improving their performances.

\textit{EU social dialogue model, where art thou?}

This chapter begins the search for such a model. Section 10.2 documents the differences between the EU’s social dialogue and collective bargaining system and the US’s market driven economy. Section 10.3 presents my principal theme: that efficient bargaining models and the Coase theorem offer the best framework for developing the missing social dialogue model. Section 10.4 assesses evidence on efficient bargaining from laboratory experiments. Section 10.5 considers the implications from game theory analyses of bargaining for developing an efficient social dialogue system. Section 10.6 is a short conclusion.

\(^2\) For instance, in 2004, 4.9 per cent of the German labour force had been unemployed for over a year, compared to 0.7 per cent of the US labour force. OECD, \textit{Employment Outlook}, 2005, tables A and G.