This article considers the question of how monetary union in the EU is likely to impact the preferences of governments, employers, and unions regarding the organization of wage bargaining. European Monetary Union involves a decentralization of wage bargaining (centered at the national level) in relation to monetary policy (centralized at the European level). Drawing on recent literature and on the experience of two member states (Italy and Spain), which, prior to EMU, underwent periods of intense bargaining fragmentation, the author argues that the imposition of restrictive monetary policy in a fragmented wage bargaining context in which workers nonetheless have substantial bargaining rights tends to have perverse effects. These effects ultimately led governments and bargaining actors in Italy and Spain to seek a reorganization of bargaining that gave national actors greater control over wage setting. The article considers to what extent a similar dynamic might play out in the Euro zone.

MONETARY UNION AND WAGE BARGAINING INSTITUTIONS IN THE EU: Extrapolating From Some Member State Experiences

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One of the insights of the recent literature on “varieties of capitalism” is that the economic effects of particular regulatory institutions are contingent on the broader institutional context in which they operate. This observation raises the question of how monetary union (a change in the institutional locus of monetary policy) is likely to affect other aspects of economic and social governance in the European Union (EU). By shifting monetary policy from the national to the supranational level, European Monetary Union (EMU) alters the relationship between monetary policy and other elements of economic regulation that have undergone no similar centralization.

AUTHOR’S NOTE: *The author would like to thank Peter Gourevitch, Jonas Pontusson, George Ross, Andy Martin, Peter Swenson, and two anonymous reviewers for helpful comments on earlier drafts of this article.*
COMPARATIVE POLITICAL STUDIES, Vol. 35 No. 10, December 2002 1198-1227
DOI: 10.1177/001041402237948

Key among these is the structure of collective bargaining over wages in Europe. A significant body of work by political scientists and economists suggests that the effects of monetary policy depend on the nature of the wage bargaining process on which monetary policy impinges. This means that the economic performance of the EU under EMU may come to depend strongly on the character of wage bargaining in the Euro zone. However, wage bargaining institutions themselves have been the subject of considerable change in Europe over the past decades, and the question that the literature on monetary and bargaining institutions so far has not addressed is how monetary union itself may affect the evolution of these institutions.

This article considers the question of how wage bargaining institutions in the Euro zone are likely to evolve in the new institutional context of EMU. Because the literature on monetary and wage bargaining institutions has focused on the effects of existing institutions, rather than on their origins or causes, it does not provide a ready-made theory thatwould allowus to predict how change in one set of institutions (the locus of the monetary authority) is likely to affect the evolution of other institutions (wage bargaining). I propose that, nonetheless, some observations about the contingent effects of institutions made in that literature may help us to understand how the preferences of actors who shape bargaining institutions are affected by monetary union.

Although EMU does not represent a change in the type of monetary regime faced by economic actors in Europe (almost all participating member states had adopted a nonaccommodating policy and independent central banks statutes well before the onset of EMU), it does involve a dramatic disjuncture between the level at which monetary policy is set and the level at which most collective bargaining over wages takes place in the EU (the national and subnational levels). By centralizing monetary policy without any corresponding centralization of wage bargaining, monetary union has produced a sharp decentralization of wage bargaining in relation to the setting of monetary policy. As the existing literature suggests, a restrictive monetary stance of the type that the European Central Bank (ECB) is committed to pursuing may have different effects in the fragmented bargaining context of the Euro zone than it did when monetary policy—albeit constrained by the European Exchange Rate Mechanism (ERM)—was adjusted at the level of the individual member states. Bargaining fragmentation means that unions may have different incentives in responding to a restrictive monetary policy than they did when interest rates were set nationally. This is likely to make monetary policy less effective and may force the ECB into a tighter stance than might have been possible when monetary policy was adjusted nationally. To the extent that such developments are recognized, I suggest that they are likely to produce shifts in the preferences of bargaining actors (employers in particular but also governments and national union leaders) in favor of bargaining arrangements that allow for greater coordination between wage setters and the new monetary authority in the Euro zone.

To illustrate my argument I focus on the experiences of two EU member states (Italy and Spain) that during the mid- to late 1980s and early 1990s underwent the functional equivalent of the decentralization of wage bargaining in relation to monetary policy that EMU entails for the EU at large—namely, a significant decentralization of wage bargaining in an unchanged national monetary policy context. The Italian and Spanish experiences may be seen as microcosmic examples of how the effectiveness of monetary policy is affected by a process of bargaining fragmentation and of howthis experience in turn can affect the preferences of key actors as regards the structure of wage bargaining. In both countries, attempts by national authorities to impose wage restraint in a fragmented bargaining context had perverse effects, producing sheltered sector leadership in wage setting, persistent inflation, and real currency appreciation. This experience led to a shift in employer preferences from bargaining decentralization toward a reorganization of bargaining that aimed to reestablish the influence of national actors over wage setting and greater coordination across bargaining levels and sectors.

The first section of this article sets out the problem of the relationship between collective bargaining and the move to monetary union in the EU. In the second and third sections, I review the Italian and Spanish experiences, which involve a recentralization of bargaining at the national sectoral level coupled with (in the Italian case) cross-sectoral framework bargaining at the center after a period of bargaining decentralization. I explain the changing preferences of bargaining actors (employers in particular) by highlighting the effects that activist monetary policies had onwages in the context of bargaining fragmentation. In the fourth section, I focus on the lessons that may be drawn from the two Southern European cases for the future evolution of collective bargaining in the EU. The Italian and Spanish trajectory, I suggest, may offer a preview of how the preferences of employers (as well as those of governments and unions) may respond to the disruptive effects of EMU on wage bargaining in the EU at large. However, although these national experiences lead us to expect change in the preferences of bargaining actors in favor of some form of bargaining consolidation (or coordination), they also suggest that any such process of consolidation faces great obstacles in moving beyond the national level. They do not, therefore, tell us at what level (the national, regional, or supranational level) attempts to coordinate (and possibly consolidate) bargaining in the Euro zone are likely to take place. I conclude that, given current obstacles to EU-level wage bargaining, the most likely response to EMU in fact may be a consolidation of bargaining at the national and national sectoral levels, rather than either a radical decentralization of bargaining across the EU or an effective shift to EU-level bargaining. Last, I consider whether such nationally centered bargaining can produce sufficient coordination among bargaining actors in the Euro zone to prevent the negative interaction between wage setting and monetary policy observed during periods of bargaining fragmentation in the national cases.

EMU AND THE PROBLEM OF WAGE BARGAINING STRUCTURE

As a number of authors have noted, the move toward monetary union was driven largely by political, rather than economic, considerations on the part of EU governments (Boyer, 1998; Obsfeld, 1997). Nonetheless, public acceptance of the project has rested on the notion that EMU will have a positive impact on the future economic performance of the EU. Two kinds of arguments are typically offered to justify monetary union in this sense. The first is that EMU will boost investment and growth (and by implication, employment) by eliminating transaction costs and creating greater transparency in prices, thus promoting the further integration of markets. The second argument involves the notion that the shift to a single monetary authority modeled on the German Bundesbank will allow for an extension of the German model of macroeconomic governance—and of the outcomes historically associated with that model (low inflation, real wage moderation, and (until the early 1990s) low unemployment)—to the EU as a whole (see Waigel, 1998). In this sense,EMUwas also meant to improve on the ERM of the European monetary system, which had proven increasingly untenable due to increased cross-border capital flows.

The second of these premises for EMU—that it will extend the benefits of the German model of macroeconomic governance to the EU as a whole—stands on highly shaky ground. A body of work by sociologists, political scientists, and economists suggests that the benign effects of the German model of macroeconomic governance—centering on a highly independent and nonaccommodating central bank—depended on other features of the national institutional context in which the German central bank operated. Chief among these were two features of the German collective bargaining system: the high degree of coordination among employers and among unions in the wage bargaining process (Hall, 1994) and, related to though analytically distinct from the first, the leadership of export industry in that process

(Streeck, 1994).Anumber of studies have also found support for these observations about the contingent effects of monetary policy in pooled time-series data for Organization for Economic Cooperation and Development (OECD) countries. Soskice and Iversen (2000), for example, find that a nonaccommodating monetary policy stance such as that pursued by the Bundesbank is capable of inducing real wage moderation (and hence a lower equilibrium rate of unemployment) only in countries with a limited (and presumably coordinated) number of wage setters. And, based on similar data, Hall and Franzese (1998) conclude that the employment cost of a nonaccommodating monetary policy is directly (and inversely) related to measures of coordination in wage bargaining. In yet another analysis, Franzese (2001) finds that these interactive effects between levels of coordination inwage bargaining and monetary policy regimes in turn depend on the influence of exposed versus sheltered sectors in wage setting.

Neither of the two conditions identified in this work as critical in supporting the outcomes of the Bundesbank's policies in Germany (a highly coordinated bargaining structure and export sector leadership inwage setting) holds true for the bargaining universe that the ECB faces (that of the Euro zone as a whole). Although the type of monetary policy that is pursued by the ECB is not particularly different from that pursued by the Bundesbank and other national central banks prior to EMU, the structure of collective bargaining in the Euro zone is far more fragmented than that on which the national central banks operated. This constitutes an important difference from the situation prior toEMUif one takes seriously the observations of Streeck, Hall, Iversen, and others cited above. Not only does the Euro zone encompass countries with more fragmented and less coordinated systems than the German, but even the most encompassing unions in countries such as Germany nowrepresent a far smaller fraction of theworkers affected by a given interest rate hike. Unions in any one country cannot be confident that an offer of wage restraint on their part will be seconded by unions in other member states whose behavior will also affect the actions of the nowsingle European monetary authority. In addition, with a single currency, a lesser proportion of employers and workers in the EU will be vulnerable to the threat of currency appreciation (one of the main mechanisms whereby the Bundesbank and other national central banks induced wage restraint in the past). Thus, although the character of the monetary policy that unions face may not have changed in any fundamentalway,[1] the incentives they face in responding to monetary orthodoxy may be quite different.

1. Except to the extent that the ECB tries to fit its policy to an average of inflation across the area, implying a somewhat tighter policy for some and a somewhat more lax one for others.

In otherwords, although monetary union involves little change in the type of monetary policy, the change in the locus of monetary authority fundamentally alters the character of the wage bargaining scene vis-à-vis which monetary policy decisions are made. Before EMU, wage bargaining in the EU fit a two-level coordination game in which the Bundesbank set its policy in interaction with the bargaining decisions of German unions, and other national central banks, needing to maintain their ERM parities, adjusted their decisions to the outcomes of the German coordination game. German unions knew that their actions affected the actions of the Bundesbank, and unions in other EU member states knew that their actions affected the degree of adjustment in national monetary policy that was required to maintain the ERM commitment. In all cases, national unions could assume that their actions would be reflected in monetary policy. With EMU, by contrast, there is one monetary authority looking at a plethora of uncoordinated bargaining actors, and restraint by unions in one country may not be rewarded by more lax monetary policy because lack of restraint by unions in other countries may force theECBto tighten its stance. Thus, although the basic disposition of the monetary authority has not changed, unions face an entirely newcollective action situation in responding to the central bank's actions.

All of this suggests that EMU involves a significant disruption of established patterns of coordination between monetary policy and wage bargaining in the Euro zone. Much will thus depend on how collective bargaining actors respond to this disruption, whether they seek changes in bargaining arrangements and what form those changes take. Can we predict anything about such a process of institutional adjustment from what the literature tells us about the contingent effects of monetary andwage bargaining institutions?

It will help to stipulate first that there are at least threeways in whichwage bargaining actors might respond to the disruption of established patterns of coordination in the Euro zone. The first would be to seek a further decentralization of bargaining away from the national sectoral and regional levels at which most bargaining now takes place toward the local or firm levels. This would represent a choice to abandon coordination between bargaining and monetary policy in favor of maximizing the flexibility that individual firms have in responding to market conditions. The second, diametrically opposite solutionwould be to raise bargaining from the national and subnational levels to theEUlevel. Thiswould represent an attempt to recreate the relatively centralized (and highly coordinated) framework of bargaining in which the German Bundesbank operated, and it could be done either by coordinating bargaining at the EU sectoral level (in the expectation that one sectorwould take a pattern-setting role) or through some form of cross-sectoral framework bargaining at the EU level. Yet a third possible response to the disruption entailed by EMU would be for bargaining actors to focus on consolidating their bargaining systems at the national level. This might allow national actors to turn the collective bargaining process into a substitute for the lost exchange rate policy capacity through which governments in the past could sometimes restore national competitiveness.

There are two kinds of arguments that might lead us to expect a choice by bargaining actors (employers in particular) in favor of the first option: a more radical decentralization of bargaining. The first involves structural trends in financial, product, and labor markets that are often seen to favor the decentralization of bargaining quite independently of the effects of monetary union. The internationalization of financial markets and increased ease of cross-border capital flows—along with changes in production regimes, new technologies, and shifts in occupational structures from manufacturing to services—are seen by some authors to undermine the viability of centralized forms of bargaining. Capital mobility is believed to punish bargaining systems that force firms to pay wages that are out of sync with either firm- or sector-specific productivity levels. And changes in production regimes and in occupational structure, on the other hand, are seen to encourage cross-class coalitions between employers and high-skilled workers in favor of bargaining systems that allow for greater wage differentiation (Freeman&Gibbons, 1995; Iversen, 1996; Katz, 1993; Regini, 1995). If general economic pressures indeed have such unidirectional implications for bargaining arrangements, then we might well expect employers to respond to the disruption of EMU by intensifying their efforts at decentralization.

A second line of reasoning that might lead us to predict intensified efforts to decentralize bargaining in the aftermath ofEMUderives from the notion of institutional complementarities. In the current political economy literature, those combinations of institutions that render the best economic outcomes as seen from a cross-national perspective are often interpreted as representing alternative institutional equilibria toward which countries are pressured to move. In the literature on wage bargaining, such alternative equilibria are typically found to lie at the extremes of some measure of "encompassingness," which may be either the degree of centralization (Calmfors & Driffil, 1988) or coordination (Soskice, 1990) in wage bargaining or the extent to which wage-bargaining actors themselves are organized in an encompassing manner (Crouch, 1985). The finding that there is an elliptical relationship between such bargaining measures and measures of economic performance (such as employment) is often taken to mean that, where a sufficient encompassingness (in either the level of negotiation or the organization of the actors) is not given, economic performance can only be improved by moving to the alternative equilibrium of a highly decentralized wage bargaining system. Because EMU implies a de facto decentralization of bargaining vis-àvis monetary policy, actors might face pressure to revert to the default option (or equilibrium) of decentralizing bargaining more fully.

There are, however, significant problems with each of these arguments. The idea that markets are creating unambiguous pressures in favor of a decentralization of wage bargaining is contradicted by empirical evidence. The most extensive study of bargaining in OECD countries to date (OECD, 1997) found no clear trend toward decentralization over the previous decade. It recorded a far more complex pattern, with some countries (Sweden, Australia, New Zealand, and the UK) experiencing a notable decentralization, others (Italy, Norway, and Portugal) moving in the direction of more centralized or coordinated bargaining systems, and yet others experiencing little change in their bargaining regimes. Another set of studies (Wallerstein & Golden, 1997;Wallerstein, Golden,&Lange, 1997) also finds no clear trend toward decentralization in either the Nordic or Central European countries or in the OECD at large.

The "alternative equilibria" viewof institutional change is problematic for different reasons. Even when using pooled time-series data, most of the variation in bargaining arrangements that these studies look at is cross-sectional. It is questionable therefore that the findings of these studies offer any real insight into the experience that bargaining actors in any particular country would have if they attempted to alter the structure of bargaining from one point on the theoretical curve to another. Second, even if we were to accept the assumption that the differences in this data between countries is equal in nature to that of variation within countries over time, we cannot be sure on what part of a theoretically hump-shaped curve of economic performance the current level of fragmentation in bargaining in the EU places us (whether it is a section of the curve in which more decentralization is associated with improved performance or whether it is the part of the curve on which it is associated with a deterioration of economic performance). Last, the argument that, given an absence of encompassing bargaining organizations, the best option for economic performance is that of bargaining decentralization also seems to be contradicted by the positive outcomes of recent national incomes policy pacts in countries with divided bargaining organizations (i.e., Ireland, Italy, and Portugal).

Indeed, there are as many reasons to think that the experience of bargaining wages in the absence of a national monetary policy will push employers and unions (as well as governments) in EU states to favor a consolidation (rather than a further decentralization) of bargaining arrangements. Two factors noted in the literature regarding the contingent effect of monetary policy and bargaining institutions might lead employers and unions down this path.

The first involves what we might term the *dis*coordination effect of monetary union. As noted, the fragmented bargaining structure faced by the ECB makes it more difficult for monetary policy to elicit the kind of positive interaction in which unions deliver wage restraint to facilitate a more lax monetary policy stance (or avert a tighter stance) because fragmentation aggravates the collective action problem faced by unions in delivering such wage restraint. The second effect involves the uneven sectoral impact of monetary policy and the effect of bargaining fragmentation on the relative influence over wage trends of exposed (as opposed to sheltered) sectors. One of the principal ways in which monetary policy can elicit union restraint in wage bargaining is through the threat of currency appreciation. The effectiveness of this threat, however, depends on the influence of exposed sector bargainers over generalwage and price developments, as employers andworkers in sheltered sectors are less threatened by the prospect of currency appreciation and also better able to pass on higher interest and wage costs to consumers. In the absence of an established pattern-setting system, the ability of exposed sectors to exercise influence over general wage developments is likely to be higher under more centralized (or coordinated) bargaining systems because in a fragmented bargaining setting, those sectors best able to pass on costs are free to set the pace of nominal wage growth. As Swenson (1991) has shown, this problem of controlling the inflationary impact of sheltered sectors'wage settlements was central to the establishment of centralized wage bargaining in countries such as Sweden. EMU may further aggravate this problem because it reduces the number of firms for whom currency appreciation represents a serious threat as those firms engaged primarily in intra-EU trade will be far less affected by a rise in the nominal exchange rate. The ECB may thus face increased inflationary pressures and be forced into a more restrictive stance than was expected by the architects of EMU. To the extent that these effects are recognized, governments, employers, and national union leaders may seek to recapture some of the benefit of coordination by restructuring collective bargaining so as to lessen the collective action problems faced by unions and restore the influence of exposed sectors over general wage developments.

It is early days, of course, to attempt to measure the impact ofEMUon the preferences of bargaining actors. Any institutional response to the disruptive effects of monetary union will involve trial and error on the part of all actors before playing out. However, we may be able to gain some insight into the effects that EMU is likely to have by looking at the experiences of states that underwent the functional equivalent of monetary policy centralization: namely, a decentralization of bargaining in an unchanged national monetary policy context.

In what follows, I will examine the experiences of two member states (Italy and Spain) to argue that attempts by the ECB to implement wage restraint in the Euro zone's fragmented bargaining context are likely to lead employer organizations, as well as governments, to back away from efforts at bargaining decentralization and to come to favor more centralized (or at least coordinated) bargaining arrangements. It might be argued that neither Italy nor Spain are particularly representative of other (in particular, northern European) member states.[2] However, in considering the effects of EMU on wage bargaining (and in turn on the preferences of actors regarding the organization of bargaining), what matters is not the extent to which the cases being considered reflect the character of bargaining in other individual member states. It is rather the extent to which they approximate conditions and events in the Euro zone at large because it is this area that is now the theater for monetary policy.

Italy and Spain are thus chosen for two reasons. First, the two countries underwent a significant process of bargaining decentralization at the end of the 1980s just as their central banks adopted a highly nonaccommodating monetary stance. This precisely is the situation that all actors now face in the Euro zone (a nonaccommodating monetary authority responding, not as the Bundesbank did in Germany to a highly coordinated set of wage bargainers, but to a bargaining context that is newly and highly fragmented). Second, although no single member state can fully reflect the complexity of the entire Euro zone's bargaining space, Italy and Spain had two characteristics that better approximate the characteristics of this bargaining space than did other member states that also underwent significant decentralization experiments prior to EMU (notably Belgium and Ireland) (see Visser, 2001). They represent relatively large economies with significant nonexposed or sheltered sectors (features that also characterize the Euro zone as a whole). And they lacked the kind of encompassing bargaining organizations (or actors) commonly associated with successful efforts at centralized bargaining—yet another feature that characterizes the Euro zone at large (although not necessarily conditions within other member states). The Italian and Spanish experiences thus may be looked at as microcosmic examples of the dynamics that follow from attempts to impose monetary rigor in a fragmented bargaining context and of theway in which these dynamics affect the preferences of bargaining actors as regards the organization of bargaining.

2. Both countries had a history of relatively lax monetary policies and rigid labor market institutions.Yet, by the period under study (the mid-1980s through early 1990s in the Italian case and the late 1980s through mid-1990s in the Spanish), both countries had undergone significant reforms and adopted very nonaccommodating monetary policy stances. For discussion, see Pérez (1998), Russo and Veredas (2000), and Jimeno and Toharia (1994).

COLLECTIVE BARGAINING TRENDS IN ITALY AND SPAIN

Despite different political histories, the labor regimes of Italy and Spain shared three important characteristics in the postwar period: (a) a historically divided labor movement, (b) highly politicized yet not highly institutionalized industrial relations, and (c) a fragmented and multitiered structure of collective bargaining. This history of division within the labor movement, poorly institutionalized industrial relations, and fragmentation and duplication in bargaining structure was generally thought to limit the ability of labor unions to act as strategic actors in these economies (Regini, 1984), leading political economists to categorize these countries as "underorganized" economies, ill-fitted (from an institutional standpoint) to the pursuit of negotiated adjustment policies. Until the early 1990s, events seemed to bear out this prediction.

In the 1970s and 1980s, both countries experienced negotiated incomes policy processes (national wage agreements linked to macroeconomic policy measures) that eventually ended in failure. In Italy, an incomes policy was pursued intermittently with wage accords in 1977 and 1983. Yet disagreement among the three labor confederations (CGIL, CISL, and UIL) brought the process to an end in 1984 (Flanagan, Soskice, & Ulman, 1983, pp. 546-556; Regini, 1984). In Spain, the early concertation experiment was more successful than in Italy in the sense that a negotiated incomes policy process was sustained for almost a decade (from 1978 to 1986), even though the Communist confederation (CCOO) refused to sign several wage pacts. Yet it too broke down in 1986, when the Unión General de Trabajadores (UGT) decided to join the Comisiones Obreras (CCOO) in a more militant stance. Several attempts by the Socialist government to reach a new wage pact thereafter failed to bring the unions back into the fold (Gillespie, 1990; Pérez, 2000; Royo, 2000).

In both countries, the collapse of these early concertation experimentswas followed by a period of fragmentation and decentralization in bargaining. In Italy, many firms opted for firm-level bargaining to broaden wage differentials during the 1980s (Erickson & Ichino, 1995), disrupting the traditional pattern in which contractual minima were set at the national sectoral level and then adjusted via the *scala mobile* (an automatic wage indexation mechanism). In a number of sectors, national agreements failed to be reached, and in others, they simply followed the terms of previously negotiated local agreements (Katz, 1993; Negrelli & Santi, 1990). In Spain, the end of concertation in 1986 led bargaining to default to the underlying structure inherited from the Franco period, which, with a few exceptions, was dominated by bargaining at the provincial-sectoral level. In both cases, bargaining during this period (from 1984 to 1992 in Italy, from 1987 to 1994 in Spain)

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