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## Collective bargaining between decentralization and stability: a sectoral model explaining the Swiss experience during the 1990s

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# Industrielle Beziehungen

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Schwerpunkt-Thema:  
**Tarifverhandlungssysteme und Tarifpolitik in Europa**

Editorial	5
Berndt Keller <b>Sektorale Sozialdialoge – vernachlässigte Bestandteile europäischer Arbeitsbeziehungen</b>	9
Ulrich Runggaldier <b>Flexibilisierung des Arbeitsrechts und Tarifvertragsrecht: Österreich und Italien im Vergleich</b>	41
Antonio Martín Artiles, Ramón Alos Moner <b>Between Decentralisation and Centralisation of Collective Bargaining. The Spanish case</b>	64
Wolfgang Schroeder, Rainer Weinert <b>Zwischen Verbetrieblischung und Europäisierung. Oder „Can the German Model Survive“?</b>	97
Stefan Zagelmeyer <b>Die Entwicklung kollektiver Verhandlungen in Großbritannien: Ein historischer Überblick</b>	118
Nils Elvander <b>Two Labour Market Regimes in Sweden. A Comparison Between the Saltsjöbaden Agreement of 1938 and the Industrial Agreement of 1997</b>	146
André Mach, Daniel Oesch <b>Collective Bargaining between Decentralization and Stability: A Sectoral Model Explaining the Swiss Experience during the 1990s</b>	160
Neuheiten	183

## **Industrielle Beziehungen - die nächsten Themenschwerpunkte**

**Tarifpolitik in Deutschland**

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André Mach, Daniel Oesch\*

## Collective Bargaining between Decentralization and Stability: A Sectoral Model Explaining the Swiss Experience during the 1990s\*\*

*At the beginning of the 1990s, the abrupt change in economic conditions, characterized by a sharp rise of unemployment and the decline of traditional manufacturing industries, triggered a wide debate on collective bargaining in Switzerland. Employers' associations have actively sought the decentralization of the provisions contained in sectoral agreements. Although collective bargaining coverage has decreased only slightly, the functioning of Swiss industrial relations has been seriously challenged on various grounds during the 1990s. In important economic sectors, bargaining over key issues such as wages and working time has been transferred from the sectoral to the company level. Yet the general trend of decentralization and deregulation has affected the existing collective agreements in a highly uneven way. The in-depth changes in some industries contrast with the stability of bargaining in others. The scope of the present article is thus to illuminate both the general trend and the striking inter-sectoral differences within this trend. In a first step, we present empirical evidence on decentralization of sectoral collective bargaining. In a second step, we show nuances within this trend by developing an analytical framework that accounts for the pattern of change which collective bargaining has undergone in different economic sectors.*

### Die Schweizerischen Tarifverhandlungen zwischen Dezentralisierung und Stabilität: Entwicklung eines sektoriellen Modelles für die 90er Jahre

*Die brüske konjunkturelle Abkühlung anfangs der 90er Jahre und der mit ihr einhergehende, ungewohnt kräftige Anstieg in den Arbeitslosenzahlen löste in der Schweiz eine hitzige Debatte über das System der kollektiven Verhandlungen aus. Arbeitgeberverbände forderten lautstark eine Flexibilisierung und Dezentralisierung der Branchenabkommen. Obwohl der Deckungsgrad mit Gesamtarbeitsverträgen nur wenig abnahm, kam die schweizerische Sozialpartnerschaft unter erheblichen Druck während des letzten Jahrzehnts. In wichtigen Industriezweigen wurden kollektive Verhandlungen über die Löhne und die Arbeitszeit von der Branchenebene in die Unternehmen verlagert, der Teuerungsausgleich abgebaut und die Jahresarbeitszeit eingeführt. Der generelle Trend in Richtung Dezentralisierung und Deregulierung hat sich jedoch sehr unterschiedlich auf die verschiedenen Wirtschaftszweige ausgewirkt. Während in einigen Branchen die Verhandlungslogik grundlegend verändert wurde, herrschte in anderen Branchen Stabilität vor. Das Ziel des vorliegenden Artikels ist es deshalb, einerseits den allgemeinen Dezentralisierungstrend empirisch zu unterlegen und andererseits die erstaunlichen Branchenunterschiede innerhalb desselben Trends durch ein strukturelles Modell zu erklären.*

**Key words: Industrial relations, collective bargaining, decentralization, trade unions, Switzerland**

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## 1. Introduction<sup>1</sup>

Despite the celebration of „labour peace” and „social partnership” in Switzerland, Swiss industrial relations have largely remained understudied in specialized literature. The lack of reliable data, the decentralization and complexity of the system as well as the relatively good economic performance might explain the weak interest (see, however, Aubert 1989; Bauer/Baumann 1992; Prince 1994; Fluder/Hotz-Hart 1998; Fluder 1998; Mach 2000). In addition, Swiss industrial relations have featured a high degree of stability since the 1950s and, unlike in other Western European countries, did not undergo major adjustments during the 1970s and 1980s. This somewhat changed at the beginning of the 1990s when the GDP shrank for three years in a row and unemployment rose from 1 per cent in 1990 to almost 5 per cent in 1994. In the context of a morose economy, employers' associations actively asked for less regulation and more company autonomy in wage-setting. Although collective bargaining coverage decreased only slightly, the functioning of Swiss industrial relations has been seriously challenged in various respects. In a series of industrial sectors, collective bargaining over key issues such as wage and working time was transferred from the sectoral to the company level. Moreover, the widespread wage-index clauses disappeared from most collective agreements, wages increases on an individual basis were introduced into collective agreements and norms concerning working time rendered more flexible.

Yet, deregulation has affected collective bargaining in Switzerland in a highly uneven way. The experience of brisk decentralization in some industries contrasts with the notable stability in others. During the crisis of the 1990s, the traditionally marked differences in collective bargaining *across economic sectors* have not only persisted but have even been amplified. The scope of our contribution is hence two-fold. In a first step, we present some empirical evidence of the decentralization trend in Swiss collective bargaining during the last decade. In a second step, we nuance this general trend by developing a model that tries to account for the observed differences between economic sectors. However, before turning our attention to the trends of decentralization and deregulation, we briefly depict the marked changes in the economic context of the 1990s and their impact on union membership and on employers' strategies in collective bargaining.

## 2. Structural changes in the labour market and their impact on Swiss unions

Unlike most other West European countries, Switzerland passed the decade after the oil shock practically unharmed by mass unemployment, gaining thereby fame for its unusually good labour market performance. This changed at the beginning of the 1990s when the economic boom came to an end and the Swiss economy entered a re-

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<sup>1</sup> We would like to thank Roland Erne and Alex Fischer for their helpful comments on an earlier version of the article.

cession of exceptional length. As a consequence of very high interest rates (1989-92) and a brisk exchange rate appreciation (1994-96), growth rates stagnated for six years in a row (Ettlin and Gaillard 2001). Table 1 shows that during this period unemployment rates rose from below 1 per cent in 1990 to over 5 per cent in 1997. So, contrary to the 1970s when the recession had hit Switzerland harder but did not affect (official) unemployment statistics, the economic crisis of the 1990s brought along unemployment rates that the country had not known since the 1930s.

Tab. 1: Economic growth, civilian employment and unemployment during the 1990s  
(Source: Swiss National Bank, Bulletin mensuel des statistiques économiques; OECD (2000): Labour force statistics, Paris)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Real GDP growth in %	3,7	-0,8	-0,1	-0,5	0,5	0,5	0,3	1,7	2,4	1,6	3,0
Civilian employment in 1.000*	3.821	3.891	3.831	3.802	3.789	3.800	3.813	3.802	3.848	3.873	3.915
Unemployment rate in %	0,5	1,1	2,5	4,5	4,7	4,2	4,7	5,2	3,9	2,7	2,0

\* Corresponds to civilian employment minus the unemployed

The change in the functioning of the labour market, as reflected by the sudden emergence of a substantial unemployment problem, is mainly explained by a *decrease in the flexibility of labour supply*. Whereas during the recession of the 1970s, more than 250.000 foreign workers had left Switzerland and many Swiss women had retreated from the labour market into economic inactivity, these two groups were not cushioning the cyclical downswing any longer during the 1990s for two reasons. For one thing, a large part of the foreign workforce had come into possession of a permanent residence permit at the beginning of the 1990s. Furthermore, Switzerland introduced in 1982 a compulsory unemployment insurance which – unlike in 1975/76 when only 20 per cent of the entire workforce was covered by an unemployment scheme – allowed laid-off workers both to remain in the labour market and to appear in official unemployment statistics (Flückiger 1998; Schmidt 1995).

Hand-in-hand with the recession and the rise in unemployment went the structural change of the Swiss labour market. Besides the employers' offensive, in particular two structural trends affected the equilibrium in industrial relations: *tertiarization* and *feminization*. During the 1990s, the employment losses were heavily felt in both manufacturing and construction. At the same time, the service sector continued to expand. In terms of employment shares, the industrial sector shrank thus from 32 per cent in 1990 to 26 per cent in 2000, whereas the tertiary sector passed from 63 to 69 per cent (OECD 2000 and 2001). Tertiariation was accompanied by an increase in



the number of women gainfully employed, growing despite the rise in unemployment while men's participation rate sank by 3 per cent. Women's mounting participation rates went along with an expansion of (heavily female) part-time employment, passing from 25.4 to 29.3 per cent between 1991 and 2000 (BFS 2001).

As a consequence of these structural changes, the core category of industrial capitalism – male manufacturing workers – has become a minority in the Swiss labour market. Between 1990 and 1999, the share of men engaged in the industries had dwindled from 27 to a mere 20 per cent of the entire labour force. At the same time, the share of women working in the services expanded from 29 to 35 per cent, accounting thus for more than a third of total Swiss employment (OECD 2000).

Not surprisingly, these trends have given a serious blow to Switzerland's organized labour movement by stripping it of a substantial part of its members. Divided along confessional (the catholic CNG as opposed to the social-democratic SGB) and manual/non-manual lines (the workers' unions CNG and SGB as opposed to a series of employees' associations), the Swiss system of unions is rather fragmented.<sup>2</sup> This fragmentation explains why the largest umbrella federation of the country, the SGB (accounting by itself for only 50 per cent of total unionization), has traditionally focused on blue-collar workers employed in industry. As it traditionally neglected white-collar segments and occupations dominated by women, only 9 per cent of SGB members worked in 1997 in the private service sector as opposed to the 55 per cent employed in industry (Bauer/Ackermann 1998). Similarly, the SGB's share of female members amounted to a mere 20 per cent in 1999 (Bauer and Füglistner 2000).<sup>3</sup> Hence, it comes as no surprise that the changes in the employment structure have led to a substantial erosion in union membership in general and SGB membership in particular (see table 2). In fact, almost all confederations lost substantial ground in terms of membership during the 1990s.<sup>4</sup>

Quite expectedly, the loss in membership is reflected in a lower degree of unionization. Between 1990 and 1999, it fell from 27 per cent to 24.3 per cent and moved Switzerland nearer to the bottom end in the Western European ranking (Ebbinghaus/Visser 1999). The union movement responded to declining membership by concentrating its forces. During the 1990s, the unions – in particular the member

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<sup>2</sup> Besides its fragmentation, the Swiss union system is characterized by a low degree of vertical integration of the affiliated unions into the umbrella confederations. The most important function of confederations is the representation of interests at the political level. Besides political lobbying, there is only very little co-ordination of affiliated unions' bargaining which is mainly done at the sectoral level.

<sup>3</sup> In the two largest and most powerful member unions of the SGB, GBI and SMUV, the share of women lay even lower in 1999, amounting to 6 and 16 per cent respectively.

<sup>4</sup> Two notable exceptions are the non-affiliated federations of nurses and, above all, teachers which continued to grow during the 1990s.

unions of SGB and CNG – reformed their structure through a series of mergers and the creation of new coalitions.

Tab. 2: Evolution of membership in the four major union confederations  
(Source: Ackermann, various years; Bauer/Füglister 2000)

	SGB	FÖV*	VSA	CNG	Others	Total
	Schweizerischer Gewerkschaftsbund	Föderativverband des Personals öffentl. Verwaltungen	Vereinigung Schweizer Angestelltenverbände	Christlich-nationaler Gewerkschaftsbund	(teachers, policemen, nurses etc.)	
1980	459.900	160.000	144.700	103.200	146.200	868.000
1990	443.900	165.900	135.600	116.500	158.500	876.400
1995	419.800	169.400	127.100	99.200	166.500	832.900
2000	373.200	151.000	103.000	102.300°	152.000	754.000°

\* 90 per cent of the members of FÖV are also affiliated to the SGB. They are thus also included in SGB membership. But they are not counted twice in the total;

° data for 1999.

On the employers' side, collective bargaining remains in the hands of individual sectoral federations, part of the peak employers association „Schweizerischer Arbeitgeberverband" (SAV). Despite the absence of reliable data, the degree of organization of Swiss employers, and of business interests in general, is considered as particularly high in international comparison (Fluder/Hotz-Hart 1998: 272). Over the recent period, employers' associations did not undergo a decline in membership comparable to the trade unions. However, individual companies have increasingly questioned the role and the efficiency of employers' associations. Not surprisingly, various associations complained the loss of individual member firms. Dissatisfaction with the services provided by the associations, changes in the organization of production and the necessity to adjust more rapidly to increasing competitive pressures caused individual firms to resign from employers' associations or to ask for more decentralization of constraining norms in sectoral collective agreements. Partly as a consequence, some reorganization of employers' associations took place during the last decade in the engineering, textile and clothing industries, in media printing and in the hotel and catering sector.

The structural changes of the labour market and the rise in unemployment were not only paralled by a restructuring process of employers' and, above all, workers' organizations. It also had an impact on the number of employees covered by a collective agreement, decreasing from 1.400.000 to 1.267.000 between 1991 and 1999. But as is shown in table 3, the fall in individuals covered was only partially passed on to the coverage rate as the number of private sector employees also decreased during the

1990s, leading to a small drop in the coverage rate from 47 (1991) to 45 per cent (1999).<sup>5</sup>

Tab. 3: Individuals covered by a collective agreement in the private sector  
(Source: BFS, various years)

	1991	1992	1994	1996	1999
Individuals covered	1.400.000	1401.600	1.304.300	1.214.300	1.268.600
Coverage rate in %	47	49	46	43	45

Since the 1950s, Swiss industrial relations have been characterized by their stability and the peaceful resolution of industrial conflicts. „Labour peace clauses”, codified in most collective agreements and thereby both prohibiting unilateral action by social partners and establishing arbitrary institutions, largely account for this stability. Despite a slight increase during the 1990s, industrial disputes remained of little importance and did not significantly alter the functioning of collective bargaining (Häubli and Weber 2001). Nonetheless, wage negotiations and the renewal of collective agreements have become tougher and generally last longer than in the previous decades.

While data on the coverage rate and on industrial disputes do not suggest a major upheaval, a closer look at industrial relations in major industries and large companies show that collective bargaining did undergo some rather important changes in a series of sectors. It is to these changes that we turn our attention in the following section.

### 3. The shift in collective bargaining from the industry to the company level

During the 1970s and 1980s, Swiss industrial relations had featured a remarkable degree of stability. Unlike most countries in Western Europe, Switzerland's system of collective bargaining had not been affected by a trend of decentralization and deregulation up to the end of the 1980s. This is, on the one hand, explained by the already high level of decentralization of collective bargaining. Compared to other neo-

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<sup>5</sup> Yet, it must be emphasized that not all individuals covered by a collective agreement benefit from *collective wage setting*. As individual data for 1998 show, only 39 per cent of private-sector employees have their wages set by collective bargaining, 30 per cent on the sectoral level and 9 per cent on the company level. For the remaining 61 per cent wage agreements are strictly individual (BFS 2002a: 7). The difference between the coverage rate (1999: 45 per cent) and the share of individuals having their wages set by collective bargaining (1998: 39 per cent) is explained by the fact that in sectors where collective agreements stipulate wage bargaining on the company level, not all companies dispose of work councils. Hence, the employees of these companies are covered by a collective sectoral agreement (concerning vacation, dismissal provisions etc.) but in lack of a work council, wages are nonetheless negotiated individually.

corporatist countries, industrial relations in Switzerland have always been fairly decentralized, wages being set at either the industry or the company level (Calmfors/Driffill 1988; Fluder/Hotz-Hart 1998). Coordination of collective bargaining across economic sectors at the national level is almost unknown. Similarly, macroeconomic management through the active coordination of fiscal, monetary and wage policies has never been pursued in Switzerland (Traxler 1995: 198). The high degree of decentralization is illustrated by the important wage differentials between sectors: In 2000, the mean wage in the hotel and catering sector or in the textile industry was only 51 or 62 per cent respectively of the mean wage in the chemical industry (BFS 2002b).

On the other hand, as the decade of the 1980s coincided with a period of sustained growth and very low unemployment, there was little need for Swiss employers to challenge the system's stability. This, however, changed with the abrupt economic downswing at the beginning of the 1990s. As mentioned above, mounting interest rates, sluggish growth and a sharp rise in unemployment prompted employers to direct their discontent towards a system of collective bargaining that came to be considered as too rigid and excessively regulated, hampering individual firms' capacity to adjust rapidly to changing demand and ever shorter product-life cycles (Hasler/Cappis 1990).

As a consequence, the Swiss Federation of Employers (SAV) sparked off a heated debate about the state of social partnership in the country. The newly elected president of the SAV sharpened the traditionally conciliatory discourse, defining himself as „an advocate of a co-ordinated elimination of excessive regulation” (speech held in 1993) and making the decentralization of collective bargaining from the industry to the company level the priority of his presidency. In the same vein, the former head of the Federal Office of Industry and Employment pleaded in the country's leading business newspaper for autonomy in wage setting to be situated on the firm level (Hug 1993; see also Rieger 1994 on the divergences among employers). Further criticism of collective bargaining came two years later from a *White book*, signed by a group of prominent economists and business representatives, demanding market oriented reforms for Switzerland's cartellized domestic sectors of the economy and more flexibility for companies in decisions about wages and working time (De Pury et al. 1995).

This program was put into practice in different ways by the sectoral employers' associations. For one thing, the number of collective agreements concluded on the firm level increased by 11.5 per cent between 1991 and 1996, whereas collective agreements signed at the traditionally dominant industry level fell by 2.5 per cent over the same period (BFS 1999). Simultaneously, the unions' right to negotiate over wages came under pressure in industries where sectoral agreements persisted. In the second half of the 1990s, wage setting was decentralized from the sectoral to the company level in five industries: In the chemical and clothing industries (1996), in banking (1997), media printing (1999) and, to a lesser extent, watch-making (2001).

In these industries, sectoral agreements no longer contain any norms allowing unions to negotiate over effective wages above the company level.

Similarly, collective bargaining over working time was shifted from the economic sector to the single company by introducing the notion of annualized time schemes into the collective agreements of the chemical (1996), engineering (1998) and media printing industry (1999). Some elements of working time flexibility were also adopted in the collective agreements of the banking sector and the watch-making industry. Unlike the trade-off in the German metal industry, the introduction of flexibility in Switzerland was nowhere accompanied by a reduction in working time – the costly mobilization of the Swiss Metal Workers' Union (SMUV) in 1998 remained ineffective, hampered by the favourable attitude of the employees' association towards more flexibility. However, the trend of decentralization was not limited to sectoral agreements. At the beginning of the 1990s, two of the largest employers in the Swiss economy, the retail chain Migros and the airline Swissair (gone bankrupt in 2001) succeeded in decentralizing wage bargaining from the central company level to the single plants or regional branches. A prominent example of intra-firm decentralization dating back to the end of the 1980s was the case of ABB. Following its merger with Swedish Asea, Swiss BBC became ABB in 1988 and decided to shift bargaining rounds from the level of the holding company to single plants. The substitution of the powerful central works council by several local councils, which had to be newly formed, simultaneously increased the plants' autonomy and weakened the metal union's position (SMUV) within the multinational.

The common rationale behind these initiatives was the employers' aim to reduce the influence of unions on wage setting. At the same time, it meant a shift of competence from the unions operating at the industry level to the works councils active at the company or plant level. Yet, compared to Germany or the Scandinavian countries, Switzerland's network of works councils is both thinner, less solid and more fragmented through the presence of several competing unions and employees' associations. With the exception of the engineering, chemical, and perhaps media printing industries, the tradition of worker representation on the company level is actually quite low. But even in the engineering industry where wage bargaining at the company level has taken place since 1937, only about 400 out of the 600 firms covered by the sectoral agreement dispose of a works council (Oesch 2001b). This partially explains why Swiss employers were much less reluctant than their German colleagues to decentralize collective bargaining over wages and working time. Thelen (2000) argues that if the German works councils were to take on more of the bargaining responsibilities traditionally reserved for the unions, it would be likely to undermine the country's system of constructive relations. The same danger seems smaller in Switzerland. Besides lower unionization and a weaker support for the social-democratic party, a series of reasons account for this difference: Firstly, legislative provisions on

works councils, although catching up,<sup>6</sup> are still considerably less far reaching in Switzerland than in Germany; secondly, one of the dominant sectors of Swiss collective bargaining, the engineering industry, claims a long tradition of stable relationships and social peace on the company level which, at the same time, weakens the strike capacity of unions and thus reduces the risk of disruptive wage disputes at the plant level; finally, as highlighted by Soskice (1990: 41), despite the decentralization of industrial relations in Switzerland, companies continue to draw benefits from co-ordination through strongly linked employer organizations and networks that helps to prevent wage drifts.

### **3.1 *The deregulation and individualization of wage-setting***

In Swiss industrial relations, yearly wage bargaining traditionally evolved around the cost-of-living clauses which since the 1970s had gradually been embodied in most collective agreements. Whereas in 1972 only 39 per cent of all agreements made reference to inflation as a criteria of wage compensation, in 1991, 67 per cent of agreements included such a norm constraining employers to negotiate about an adjustment of wages to the cost-of-living. Over the same period, the number of agreements containing a clause of *automatic* cost-of-living compensation doubled from 8 to 17 per cent (Hess and Schwab 1992: 37). This automatic adjustment of wages to inflation came to be seen by economists and industrialists as a dead-weight at the beginning of the 1990s when the economic boom abruptly ended and gave way to inflation rates of 6.1 per cent (1990) and 5.1 per cent (1991).

Subsequently, the employers' associations heavily mobilized against the „inflationary and rigid” measure and succeeded in a short laps of time to have the norm of automatic compensation dropped from virtually all collective agreements. Between 1993 and 1995, the automatism disappeared, despite some unions' resistance, from major sectoral agreements like the ones signed in the chemical industry, in construction or in media printing. Similarly, the clause was removed from large agreements concluded at the company level like the ones of Migros, Coop (Switzerland's two biggest firms in retail trade) or Swissair. In the four years from 1992 until 1996, the percentage of workers covered by a collective agreement and benefiting from automatic adjustment of wages fell thus from 20.9 to 0.3 per cent (Wiesendanger Martinovits 1993; BFS 1997). Moreover, after the elimination of the automatic wage compensation, employers' associations successfully pushed in the same industries (chemistry, media printing) and in others (textile) to further remove from agreements the *written reference* to inflation as a criteria for wage bargaining. It is significant that after 1996, the Federal Office for Statistics ceased altogether to collect data about inflation adjustment clauses in collective agreements. Not surprisingly, the decentraliza-

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<sup>6</sup> In 1993, in order to harmonize Swiss law with European legislation, the Parliament adopted a new employee participation law, which institutionalizes information and consultation rights for workers' delegations in companies with more than 50 employees.

tion of collective bargaining and the deregulation of inflation-adjustment norms were also reflected in the advance of wage increases on a strictly individual basis. In 1994, the Federal Office for Statistics distinguished for the first time between an individual and a general part of increase in collectively agreed wages (Wiesendanger Martinovits 1994). Wage increases accorded on an individual basis were not a new phenomena in the Swiss labour market. However, new was that for the first time *collectively agreed increases* in the wage sum were not distributed on a general basis. Employers (and employers' associations) thus successfully claimed their right to decide by themselves how to distribute a part of the collectively agreed wage increase (the individual share). Thereby, they considerably undermined unions' capacity of enforcing and controlling a collectively agreed wage rise: If increases are granted on a strictly individual basis, the completion of an agreement does no longer imply rights that can be legally obtained in the sectoral arbitration court.

As is shown in table 4, since 1995 the proportion of the rise in wages distributed on a individual basis had never fallen below 27 per cent of total wage increase. In 1997 and 1998, for 12.5 respectively 18 per cent of all covered workers, the entire amount of bargained wage increase was distributed on an individual basis (BFS 1997 and 1998). A closer look at the data reveals, however, important differences between industrial sectors. Whereas in the secondary sector the greater part of wage adjustments were general, in the service sector the individual share dominated. We will come back to the rationale underlying these sectoral differences in the next section.

Tab. 4: Collectively agreed nominal wage increases, distribution between the general and individual share (Source: Wiesendanger Martinovits 1994, 1995; BFS various years).

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Inflation	0,9	1,8	0,8	0,5	0	0,8	1,6	1	...
Total nominal wage increase	2,3	1,4	...*	0,3	0,5	0,3	1,4	2,9	2,5
General nominal wage increase	2,0	0,8	...*	0,1	0,1	0,2	1,0	2,1	1,3
General share	87%	57%	...*	33%	20%	67%	71%	73%	53%
Individual nominal wage increase	0,3	0,6	...*	0,2	0,4	0,1	0,4	0,8	1,2
Individual share	13%	43%	...*	67%	80%	33%	29%	27%	47%

\* No data were collected for 1996

This growing differentiation of wages had marked consequences in practice: Over the last nine years, the increase conceded on a general basis has never been sufficient to compensate for the rise in the cost-of-living with the exception of 1994, 1998 and 2001. Thus, individualization undermined the unions' capacity to pursue a solidaristic wage policy within sectors. During the recession years of the 1990s, char-

acterized by an oversupply of low skilled workers, employers have often insisted on an individual share in order to reallocate part of the wage load towards the more skilled workers (Oesch 2001b). It is interesting to note that the economic upswing in 1998 coincided with a slight change in the trend, overlapping with the reappearance of larger shares of general wage adjustments. It seems plausible that better prospects on the labour market induced employers' associations to privilege general increases in order to contain the rise in wages on an individual basis and to slow down the rotation rate of the high skilled workforce (Hasler 2000).<sup>7</sup> Nonetheless, in no decade since World War II was the rise in real wages as modest as during the 1990s when they increased by an annual average of only 0.15 per cent as compared to 0.75 per cent during the 1980s, 2.1 per cent during the 1970, 3.45 per cent during the 1960s and 1.9 per cent during the 1950s (BFS 2002b).

What must be highlighted in this context is the new, and seemingly paradoxical, situation which Swiss unions increasingly face in collective bargaining. The focus of wage negotiation does not lie any longer exclusively on the amount of wage increase (or adjustment), but has gradually shifted towards the question of how the rise in salaries is distributed. An illustrative example for this shift are the bargaining rounds in Switzerland's largest pharmaceutical firm Novartis, where – after decentralization of wage issues from the sectoral agreement to the company level – negotiations between the works council and management failed to come to terms for five consecutive years (from 1998 until 2002). The point of controversy was not the amount of the wage increase but its *distribution* among workers: While the works councils demanded a general rise in (or adjustment of) wages, management insisted on according increases exclusively on an individual basis. The same contention prevented the social partners from reaching a sectoral agreement in watch-making in 1995 and 1998. Both times, an arbitration court had to decide on the distribution of the nominal wage increase. By formally approving the introduction of a substantial individual share, it set a precedent with extensive consequences for the unions.<sup>8</sup>

A similar evolution to the individualization of wage setting could be observed in the collective regulation of working time. The introduction of annualized time schemes mentioned earlier brought along a declining normative density on the sectoral level in favour of greater company discretion. In parallel, the diversification of working conditions (rise in work on call, in part-time work and in work during the night or at weekends) contrasted with the stagnation of collectively agreed working

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<sup>7</sup> Yet the tendencies shown by these aggregated data during years of very low inflation should not be over-interpreted.

<sup>8</sup> In 1995, the arbitration board fixed the repartition between the individual and the general share by 1 per cent to 0.5 per cent; in 1998 by 0.4 per cent to 0.3 per cent.



hours. In all of the major export industries, unions have remained been unsuccessful in reducing working time since 1990 (Oesch 2001a).<sup>9</sup>

However, we would be mistaken by drawing too uniform (and simple) a picture of the evolution of Swiss industrial relations during the 1990s. In particular, two factors must be emphasized: Firstly, the weakness of Switzerland's organized labour can only be understood in the context of an unusually long recession accompanied by an unusually slack labour market. Hence, with the economic recovery kicking in after 1997, unions regained some of the lost territory and, in particular in the low wage sector, achieved some substantial advances. Furthermore, unions obtained a partial re-regulation of the labour market as a response to the agreements between Switzerland and the European Union introducing free movement of labour (see below). Secondly, despite the economic crisis, the institutions of collective bargaining have been affected very differently across sectors. In fact, the in-depth changes in some industries contrast with the stability of the negotiations in others. In order to understand this curious side-by-side of institutional upheaval and continuity, we wish to develop in the following section an explicative model accounting for these differences between sectors.

#### 4. Variations across sectors: an explicative model

As shown in the previous section, a general tendency towards more decentralization of collective bargaining is observable over the last decade. However, this general trend has been counterbalanced by the persistence of profound differences across sectors. In order to understand these striking variations and the different trajectories of sectoral collective bargaining, two explanatory variables seem particularly relevant. In particular, the *structural characteristics* of economic sectors – referring to their *degree of exposure* to international competition and the *skill requirements* of these branches – play a central role in the preferences of employers concerning collective bargaining and in the negotiating power of individual and collective employees. With the increasing liberalization of international markets, the differences between economic sectors seem to be exacerbated.

In addition, the characteristics of trade unions and employers' associations (their organization rate and their degree of cohesion) represent a complementary factor that contributes to explain in more details the evolution of collective bargaining. Yet in the following discussion, the focus lies on the structural elements, adding organizational elements only when necessary. By hence taking into account these structural and organizational dimensions, it is in our view possible to establish a typology of collective bargaining reconfiguration and to provide a systematic matrix of interpretation concerning the recent evolution of Swiss collective bargaining. The same struc-

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<sup>9</sup> The collectively agreed 40 hours have remained unchanged in the chemical industry since 1990, in watch-making since 1988, in the engineering industry since 1986 and in media printing since 1980.

tural criteria have been used by other authors in order to identify differences in the potential for employment growth across sectors (Ferrera et al. 2000: 12). In this article, however, we resort to them in order to distinguish systematic differences in the functioning of collective bargaining:

The first cleavage between *exposed and sheltered sectors* refers to the division between a sheltered home market sector, where costs can be passed on to consumers, and export-oriented sectors, where prices are given by international competition. As shown by authors like Iversen, Swenson and Pontusson about the centralization of wage bargaining in Sweden and its breakdown in the 1980s, this cleavage can directly affect the preferences of employers' associations and trade unions on collective bargaining (Swenson 1991; Swenson/Pontusson 1996; Iversen 1996). Trade unions in exposed sectors are much more sensitive to competitiveness requirements and thus both more moderate and open to negotiate flexible arrangements on wages or working time with employers' associations than trade unions in sheltered sectors. While employers in exposed sectors are continually forced to adjust to new innovations or to reduce costs in order to remain competitive and stay in the market, companies in more sheltered sectors can more easily resort to protectionist measures and public interventions. In particular, employers' and workers' organizations in sheltered sectors are able, to a certain extent, to pass cost increases on to consumers. This option does not exist for employers in the exposed sectors.

The second structural cleavage refers to the *skill requirements* of economic branches, which both affect the preferences and the negotiating power of individual and collective actors, be they employers or workers.<sup>10</sup> Skills enhance the market position of individual workers and trade unions. In other words, the better qualified the workforce, the more interested are employers to keep the (often firm-specific) human capital. Thus, the negotiation power of individual employers is weaker in skill-intensive branches of the economy than in low skill sectors. Accordingly, individual employers relying on high skilled workers have an interest not to replace stable and peaceful collective bargaining by individual – and possibly disruptive – labour relations. On the other hand, in economic sectors with a marked low skill profile, workers resemble more closely a commodity that can be hired and fired with less economic damage than in the case of high skill sectors. As a consequence, in these sectors the employers' interest in collective bargaining is only given as long as it does not collide with the priority objective of wage costs restraint.

By combining these two structural cleavages, it is possible to establish a hierarchy of the *negotiating power of workers*, their market power being strongest in high skilled sectors partially sheltered from competitive pressure and weakest in low

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<sup>10</sup> It is somewhat schematic to delimit skill requirement across economic sectors, because they also vary within a branch or a company. However, the core workforce of each sector generally relies on similar skill profile, which give thus a good approximation for the skill requirements for the large majority of the labour force.

skilled sectors exposed to international competition. Thus, export-oriented firms relying on high skilled workers typically compete more on the quality of their products and services than on mere prices. However, although workers in these „strategic sectors” enjoy a relatively powerful market position, they have more incentives to accept wage restraint than high skilled workers in sheltered sectors which can more easily transfer cost increases to consumers.<sup>11</sup> For industrial relations, this signifies that pronounced decentralization and even deregulation of collective bargaining is most likely to happen in economic sectors exposed to international competition and relying on low skilled workers (economic sectors generally declining in industrialized countries), whereas stable and consolidated sectoral collective bargaining is most probable in economic sectors partially sheltered from international competition and relying on highly skilled workers.

As regards the *employers’ side*, these two criteria seem also to account for differences in the preferences of collective bargaining. Export-oriented companies requiring mainly low skilled workers are the most interested in the active deregulation of collective agreements in order to respond quickly to competitive pressure stemming from low wages countries. Somewhat different is the situation for employers exposed to international markets but depending on highly qualified workers. In principle, this group is interested in preserving stable industrial relations but will still ask for more flexibility. On the other hand, politics of change will find much less support in the more sheltered sectors, where employers are reluctant to decentralize collective bargaining in order to preserve the discipline among their individual members and to prevent the irruption of new foreign competitors.

In the Swiss case, a classification of economic sectors along these structural lines appears to give a very good approximation of the recent evolution of sectoral collective bargaining. In table 5, the four sectors and their corresponding bargaining logic are listed. In what follows, we will discuss in more details each case of the table.

#### **4.1 *The four trajectories of collective bargaining: some empirical evidence***

As reliable quantitative data on sectoral collective bargaining is very difficult to obtain, we have collected empirical material by interviewing over twenty representatives of employers’ associations and trade unions (see list in the annex). Our discussion of the role of the structural elements thus heavily draws on insights gained directly from the decisive actors of collective bargaining in Switzerland. We begin our account of the differences in trajectories of sectoral collective bargaining over the 1990s by looking more closely at each one of the four cases.

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<sup>11</sup> Iversen (1996: 408) calls the sheltered sector relying on high skilled workers „privileged sector” whereas the high skill sector exposed to international competition is named the „strategic sector”.

Tab. 5: Structural determinants of sectoral collective bargaining

	Exposed sectors	Sheltered sectors
<b>High skilled workers</b>	<b><u>I: Strategic sectors</u></b> <i>Engineering, chemical industry, watch-making, banking</i> (1) Flexibility, peaceful and stable industrial relations (2) Negotiation power of workers: +++ (3) Decentralization and flexibilization, maintenance of labour peace	<b><u>II: Privileged sectors</u></b> <i>Public services, construction, various crafts (Gewerbe)</i> (1) Solid sectoral regulations (2) Negotiation power of workers: ++++ (3) Maintenance of strong sectoral regulations
<b>Low skilled workers</b>	<b><u>IV: Declining sectors</u></b> <i>Textiles, clothing, shoe-making, food-processing industry</i> (1) Costs reduction as a priority (2) Negotiation power of workers: + (3) Important deregulation and decentralization	<b><u>III: Precarious sectors</u></b> <i>Hotel and catering, retail distribution, personal services (cleaning etc.)</i> (1) Minimal sectoral regulations (2) Negotiation power of workers: ++ (3) Partial deregulation

- (1) employers' preferences;
- (2) negotiation power of workers;
- (3) expected evolution of collective bargaining.

*I. The strategic sectors:* Although more flexibility in collective bargaining was introduced in these sectors as regards wages and working time, the decentralization of collective norms from the sectoral to the company level went along with the preservation of social partnership institutions and of „labour peace” clauses in the major collective agreements. This evolution could be observed for the chemical, engineering and watch-making industry as well as for the banking sector (for more details, see Oesch 2001a and b). The employers' associations clearly advocated for a decentralization of normative elements from the collective agreements to the company level in order to leave more autonomy for individual firms. However, despite these quests for reforms, they did not seriously question the value of collective agreements. This may be explained, in part, by the fact that alongside bargaining about wages and working time, industrial relations in these sectors include, as in the privileged sectors, the co-administration of a series of institutions. Besides pension funds, it is in particular through well established vocational training systems, organized on a sectoral basis and generally linked to sectoral collective agreements, that employers' associations and trade unions seek to co-operate in order to regulate qualifications in branches like engineering or watch-making. The existence of such institutions, which are part of the general functioning of social partnership, contribute to explaining the attachment of employers and trade unions in these sectors to the maintenance of sectoral collective bargaining.

Moreover, the partial decentralization in these sectors must then be seen in the context of trade unions remaining in a very defensive position. Weakened through organizational fragmentation (as in engineering industries) or the decreasing part of blue collar workers (as in the chemical industry), they did not have the capacity to trade the rise in flexibility demanded by employers against a working time reduction. As will be discussed more in detail below, organized labour was further handicapped by the fact that high skilled workers in these sectors often favoured an individual strategy instead of collective action through trade unions and thus undermined collective regulations at the sectoral level.

*II. The privileged sectors:* During the 1990s, collective bargaining has been the least affected in these sectors which include the construction industry, carpentry and several crafts from plumbing to electricity equipment. In the construction industry, which represents the major example in this category, the combined strong mobilization of workers and the preferences of employers for maintaining collective regulations at the sectoral level allowed the preservation of the major elements of the collective agreement, and this despite the severe impact of the recession on employment. Not accidentally, the construction industry represents one of the sectors where collectively agreed wage increases on an individual basis were least common and where working time has been reduced most between 1990 and 2000 (by 80 minutes, BFS 2002c).

Yet the rather high unionization rate and skill levels of workers explain only partially why employers in this sector have not followed the decentralization strategy of firms in other sectors. Being active in markets that are to some extent sheltered from international competition, collective agreements in these sectors serve employers to set minimal standards regarding working conditions and thus to regulate and limit competition among member firms (Walser 1999). It is then significant that all collective agreements with an extension of their compulsory character to the entire sector are situated in the sheltered sector,<sup>12</sup> the most important being the agreements of the construction industry, of the hotel and catering sector and of several crafts (Gewerbe), mainly producing for the domestic market (Conti 2001).

Another telling example of employers' attachment to collective agreements in the privileged sectors was the adoption in 2000 of the „companion measures”, supplementing the bilateral treaty with the European Union on the free movement of persons.<sup>13</sup> Designed to prevent the risk of wage dumping through massive immigration, the measures were highly contested. While industrialists from export-oriented sectors

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<sup>12</sup> Out of a total of 1.2 millions workers covered by a collective agreement, about one fifth are under a collective agreement with an extension of their compulsory character (Conti 2001).

<sup>13</sup> Three measures were adopted: the possibility to introduce minimal wages in case of wage dumping, the introduction of a facilitated extension of the compulsory character of collective agreements and the new law on posted workers, similar to the European directive on this issue.

employing low-skilled workers (as the textile industry, see Schmid 1999) lobbied against substantial companion measures, business representatives from sheltered sectors were prone to compromise with the trade unions or even, as was the case in the construction industry, to actively favour the regulation of working conditions through these measures. In the end, the coalition between trade unions and employers of the sheltered sectors was of central importance for the adoption of the companion measures (Fischer, forthcoming). Similar coalitions had already played a central role for the adoption of modest countercyclical government spending programs during the recession of the 1990s.

In the public sector, despite the recent abrogation of the civil servant statute in the central administration and various reorganizations in postal services, the telecom and railway sectors, the newly negotiated collective agreements are both more detailed and solid than in the private sector (see the agreements of the denationalized telecom company Swisscom or, above all, of the still public railway company SBB). However, it must be noted that, during the recession of the 1990s marked by important public budget deficits, wage increases in the public sector have - despite a higher organization rate - been somewhat below the national average of the private sector and, in particular, quite lower than in the strategic sectors (OFS 2002b).<sup>14</sup>

*III. The precarious sectors:* In these economic sectors, which are most often service activities, the mobilization capacity of workers has been particularly weak and the organization rate of trade unions remains very low. Presenting overall a quite low skill profile, wage levels in these sheltered sectors are below national average and workers neither benefit from a favourable market position nor from strong negotiation power. As a consequence, in some sectors like retail trading, only the biggest companies engage in collective bargaining, whereas the sector's employer organization is reluctant to conclude collective agreements and has actually refrained to do so, so far.

Many employers in these sectors are nonetheless interested in maintaining minimal collective regulations at the sectoral level. Thus, in the hotel and catering sector, which has the largest Swiss collective agreement in terms of individuals covered, the employers were not interested in the suppression of the collective agreement. After the major trade union of the sector had denounced the agreement in 1996 in protest against its non-respect by some employers, there was a situation without

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<sup>14</sup> This seems to be quite different from Swedish wage bargaining. As shown by Garrett and Way (1995 and 2000), changes in the sectoral composition of trade unions, especially the strengthening of trade unions of the „privileged sectors” (the public sector unions mainly) and wages increases in the sheltered public sectors had a negative impact on macroeconomic performance by raising inflation and public deficits. The changing composition of trade unions and the increasing competitive pressures have exacerbated the cleavage between exposed and sheltered sectors unions, which partially explains the breakdown of centralized wage bargaining in Sweden. In the Swiss case, with much more decentralized wage bargaining, no similar trends could be observed and public sector unions are much weaker than in Sweden.

any binding contract for over a year. Interestingly, the employers' associations decided to sign a new collective agreement which continued to feature collective norms about wages and working time on the sectoral level. This is revelatory as in this sector, the employers' attachment to the collective agreement is due as much to the concern about minimal regulations against a ruinous competition as to the (very limited) mobilization of unions. The regulatory aspect is further illustrated by the fact that the collective agreement of the hotel and catering sector is commonly extended to all firms active in the branch, rendering more difficult the irruption of foreign competitors hoping to exploit wage-cost advantages.

*IV. The declining sectors:* In these sectors, which are well represented by the textile industry, the role of collective bargaining has been most openly called into question during the last decade. Wage levels are lower than in the generally better qualified industries belonging to the strategic sectors, trade unions are both weaker and the individual market power of workers is lower than in high skilled sectors. It thus comes as no surprise that both the collective agreements in the clothing and in the textile industry are signed by only a minority of the sectors' firms.<sup>15</sup> Unlike for employers in the precarious sectors, the competition-regulatory function of collective agreements is of little interest for companies active in the heavily export-oriented declining sectors. In order to remain competitive in increasingly crowded international markets, cost reduction has been the major priority for employers at the beginning of the 1990s. The development of a quite aggressive strategy to reduce the function of collective agreements was part of this logic in the Swiss textile industry (Schaad 1997). Thus, after the departure of several important companies from the employers' association, the sectoral collective agreement was replaced by a „framework agreement" (Rahmenvertrag) which is much less constraining for individual companies.

#### **4.2 Combining the structural elements with organizational differences**

As a broad matrix, the two structural dimensions shown in table 5 predict rather well the sectoral differences in employers' preferences on the one hand and negotiating power of individual and collective wages earners on the other. Thus, they appear to account quite well for the evolution of collective bargaining in Switzerland over the last ten years. However, a more detailed analysis of the characteristics of the organization of collective actors and the institutions of sectoral collective bargaining would of course complete the general picture sketched above and provide a more precise analysis of the recent changes. The organization rate, the mobilization capacity, the strategies chosen by employers' associations and trade unions or the way collective bargaining has been institutionalized during the 1930s or after World War II intervene as complementary variables explaining the predominance of change or stability

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<sup>15</sup> A telling example in the textile industry is the fact that the newly elected president of the major Swiss business association, EconomieSuisse, is owner of a textile company that is not covered by the sectoral collective agreement.

in Swiss industrial relations. Thus, economic sectors with a similar economic profile (exposure to international competition and skills requirements) may follow different trajectories of collective bargaining because of the specific characteristics of collective actors and the path dependent effects of „social partnership” institutions.

As a particularly telling example, the different trajectories in collective bargaining in the watch-making, engineering or chemical industries could be mentioned. Although not having very dissimilar economic profiles, all three industries belonging to the „strategic sectors”, decentralization trends have been much less important in watch-making than in the engineering or, above all, in the chemical industry. This is mainly explained by the political moderation of the employers’ federation in watch-making, by the stronger position of the trade union and – of particular interest – by the absence of an employees association competing with the trade union for members and for influence.<sup>16</sup> This monopoly of the workers’ union contrasts with the situation in the engineering or chemical industry where an increasing proportion of white collar employees is, to a large extent, organized in rival employees’ associations. During the 1990s, these associations were quite in favour of flexible working time schemes and – to a lesser extent – of individual wage arrangements and at the same time did not support any uniform reduction in working time. Thus, not only in terms of membership, the employees’ associations in the engineering and chemical industries, the VSAM<sup>17</sup> and the VSAC<sup>18</sup>, have become serious rivals of the traditional unions belonging to the SGB (for more details, see Mach, forthcoming). In these sectors, *cross-class coalitions* between high skilled employees and employers’ associations had a major influence in shifting industrial relations towards more flexible and decentralized institutional settings.

## 5. Conclusions

Crouch and Traxler (1995) have synthesized the recent evolution of collective bargaining in Europe by identifying three major trends: *decentralization*, through a shift from multi-employer bargaining to single employer bargaining, *deregulation* by suppressing rules codified in legislation or collective agreements and *disorganization* through the weakening of the organizing capacities of employers’ associations and trade unions. „As a consequence, ‘productivity coalitions’ within the enterprise are supposed to replace macro- and meso-corporatist arrangements as business’ preferred form of co-operation with labour” (Crouch/Traxler 1995: 3).

As we have shown in the first half of this article, quite similar tendencies could also be observed for the recent period in Switzerland. This is somewhat astonishing

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<sup>16</sup> In the watch-making industry, the SMUV, as the traditional trade union, largely maintained its monopoly situation in the representation of workers and displays a higher organization rate and mobilization capacity than in the engineering or in the chemical sector.

<sup>17</sup> Verband Schweizerischer Angestelltenvereine der Maschinenindustrie

<sup>18</sup> Verband Schweizerischer Angestelltenvereine der Chemischen Industrie



as Swiss industrial relations were already largely decentralized at the beginning of the 1990s, only around 50 per cent of employees in the private sector being covered by a collective agreement. Nonetheless, wage bargaining as well as working time arrangements have increasingly been transferred from the sectoral to the company level in several important economic sectors. Moreover, a series of norms concerning wage adjustments were either eliminated from sectoral agreements or delegated to the level of individual companies and works councils. In a context of economic stagnation and strongly declining membership, trade unions were incapable of resisting the employers' offensive of the last decade. However, this evolution did not signify the *disappearance* of sectoral collective bargaining, but its *reconfiguration* in a more decentralized institutional framework with modified negotiation rules and sectoral collective agreements that contained less constraining norms for individual companies, but which continued to feature „social peace clauses”.

In addition, as we have argued in the second half of this article, the diagnosis of a general trend towards more decentralization ignores the persistence of strong sectoral differences in collective bargaining, differences that have even accentuated over the last decade. We have proposed a model that explains the maintenance of sectoral logics in collective bargaining with the variation in both the preferences of employers and the negotiation power of wage earners, two dimensions that vary across economic sectors, depending on the *degree of exposure* to international competition and *skill requirements*. For the recent evolution of collective bargaining in Switzerland, this interpretation seems particularly relevant and appears to be supported quite well by empirical evidence.

Finally, even if the last decade was particularly negative for the trade unions and their members (stagnation of real wages, decentralization of wage bargaining, sharp decline in membership), since the economic recovery in 1998, organized labour could celebrate two important successes which might – at least partially – counterbalance the decentralization trend and the potential threat of increasing wage differentials that goes along with this trend. The two advances refer firstly to a highly successful national campaign against low wages launched in 1998 by the largest union federation, the SGB, and secondly to the adoption of „companion measures” to the bilateral agreement with the EU on the free-movement of persons (Rieger 2001). In the first case, the SGB decided in its 1998 congress to launch a national campaign against low wages which led to a mobilization in several low-wage sectors and found a large echo in the media. In several collective agreements, especially in the „precarious” and the „declining” sectors, minimum wages were introduced or substantially raised as a result of the campaign's pressure. As a result, minimum wages in collective agreements for low-skilled workers increased by 7 per cent between 1999 and 2001 as compared to a mere 3 per cent growth in collectively agreed wages of skilled workers (BFS 2002b). In the second case, the trade unions were, in alliance with employers' representatives of the more sheltered sectors (especially from the construction industry), the decisive actors in pushing for substantial „companion measures” which were to accompany the bilateral agreements with the EU in 2000. Their implementation is

likely to strengthen collective bargaining in low-skill sectors and to bring about some re-regulation in those economic sectors which have been particularly destabilized during the 1990s.

In conclusion, as these advances partially offset the general trend of the 1990s, they remind us that the upheaval in Swiss industrial relations took place in a particularly harsh economic context of six continuous years of stagnation. It is thus too early to know whether unions will succeed in partially reversing the depicted changes towards more decentralized and less regulated collective bargaining in a context of tighter labour markets and economic expansion.

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