

# ENTIRE VIEW

## Policy Report

### European, National and Transnational Industrial Relations: Visible and Invisible Hands in European and National Wage Setting

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## **Background**

Given that the European industrial relations system consists of many national industrial relations with national actors embedded in national institutional frameworks makes the implementation of any European wage strategy and policy extremely challenging. The high complexity and diversity of the European industrial relations system makes it nearly impossible to govern wage developments from a European perspective. In this research project, the complexity of the European industrial relations system was analysed in order to find pathways or examples on how a European wage strategy can be realized.

In this research project, it was evidenced that over time, i.e., since the start of the new Millennium, the complexity and number of industrial relations actors has even increased since industrial relations structures became increasingly decentralized. This trend towards decentralization also implied that the transnational coordination and governance of wages became increasingly difficult as more actors needed to be involved. Against this background, this project aimed to identify characteristics of some industrial relations systems which allowed for coordination.

## **The development of wages in the EU**

The European economy is challenged by the increased exposure to the world economy with European companies competing all over the world. In past decades, it has become increasingly challenging for European companies to compete with other countries who try to gain advantages on the basis of lower wage costs. More specifically, in many countries in Europe, wages are relatively high compared with other international regions even though there is no doubt that wages are, on average, certainly not too high as European workers are highly educated and productive, reflected in the highly competitive unit labour costs by which companies based in Europe are characterized. Nevertheless, in the past two decades, there has been pressure on the development of wages, as wages would need to be governed in order to maintain the competitiveness in the world economy. For example, wages should develop in a way that optimises the mutual interests of all employees in the European Union (EU), instead of other companies, sectors or countries trying to gain an advantage over others. Hence, it is important to coordinate wages thorough the EU so that fairness and competitiveness goals can be optimized. In this context, the research project was able to show that wages and wage costs

developed in a sustainable way but that there is no clear European pathway in the sense that different countries are characterized by very different developments which appear to be not controlled or governed by policy makers at a national and European level.

## **The development collective bargaining in the EU**

The project has shown that in all EU member states collective bargaining takes place although in very different forms, i.e., on very different levels and with different implications for the setting of wages and working conditions for different types of employees. It was also shown that the share of employees who are covered by a collective agreement also differs substantially across the EU, i.e., collective bargaining coverage varies across the member states. The main reasons for differences in collective bargaining coverage is that trade unions are involved in a variety of ways, able to bargain over wages and working conditions as well as adhering to the different legal systems that exist in countries throughout the EU, which ultimately affects how easy or difficult the process is for trade unions to bargain collectively over wages. As mentioned earlier, one megatrend in the development of collective bargaining systems in the EU is that collective bargaining institutions and structures became increasingly decentral. Even though there is a high degree of variation in terms of how decentralization worked in different countries as well by how decentral collective bargaining systems are actually characterized, one main stylized fact is that collective agreements were increasingly made in addition or in expense to higher level agreements, such as in particular sectoral collective agreements. In an increasing number of countries, it became not only possible for companies to deviate from higher level collective agreements via so called opening, hardship, or opt out clauses, but it also became a common practice that wages and working conditions were being regulated predominantly on the basis of agreements with a narrow domain. Furthermore, along with decentralization of collective bargaining systems, the number of agreements and actors involved increased. As the number of actors increased, any form of coordination of individual actions and interaction was hampered. As shown in the project, this trend made the coordination and governance of wages in the EU certainly more difficult or in some cases even impossible.

## **Does collective bargaining matter at all in the EU?**

Against the background, that we found in the project that the role of collective bargaining and its effects are not always clear and some actors mentioned that collective bargaining is not important for the governance of wages we reflected on the role and impact it has. Against this background we found already in our literature review that one important stylized fact to appreciate in (mainstream) economic literature was that until the 1980s the relevance of collective bargaining was either (largely) dismissed or regarded as inefficient for the functioning of markets. This is, because collective bargaining, as one form of a non-market institution, was considered to be either not necessary or even disruptive for the efficacy of the labour market and therefore causing suboptimal performances and therefore still some policy makers are influenced by this.

This perspective rested on the assumption of perfect markets and was strongly challenged by empirical evidence and theoretical developments from within the wider field of institutional economics which gained inspiration and momentum from the work in the field of institutional economics as well as other social science disciplines including specialized industrial relations research. In subsequent debates more attention was given to differences in the institutional structure and functioning of labour market institutions in general and in particular to different systems of collective bargaining, i.e. to differences in the level and degree of coordination of collective bargaining.

More specifically, the academic literature shifted increasingly towards analyses of the impact of different organizational structures of collective bargaining in which specific configurations of power, interests, and norms have formed and arguments over their relative importance and implications on economic outcomes such as wages, employment and firm survival.

As regards the impact of collective bargaining in general, literature distinguishes between two main kinds of effects of collective bargaining. First, collective bargaining has implications for the demand side of the economy. This is because wages as well as employment are directly or indirectly set or regulated in a negotiation process between representatives of workers and employers and the outcome of these negotiations, i.e. the level and changes in wages and employment, affect the purchasing power of the workers, and therefore of consumer demand and prices.

Second, collective bargaining also has implications for the supply side, since bargaining outcomes affect labour costs, (labour) productivity and therefore the competitiveness and ability of companies to survive. Hence, collective bargaining also affects the ability of companies to employ workers. Moreover, since collective bargaining may also cover many non-wage issues, additional supply-side effects including skill formation as a factor for firm competitiveness are affected. The latter impact of collective bargaining on skill formation, i.e. qualifications, (vocational) training and development of the workforce, should certainly not be underestimated as skill formation is associated with a fundamental collective-action problem and therefore with the systematic risk of market failure.

Furthermore, the outcome of the negotiations in collective bargaining is likely to have distributive effects not only between “capital” and “labour” (i.e. on the wage/profit share), but also among the workforce. The academic literature (overwhelmingly) agrees that almost any system of collective bargaining tends to lead to a more egalitarian wage distribution within the workforce.

Independent from within group effects on the worker and employer side, there can also be a trade-off between demand-side and supply-side goals and interests. The question of whether the demand-side or supply-side effect has more weight and in particular which side should be prioritized is largely a question of economic and political perspective as well as one of power and strength between the two sides in the bargaining process, i.e. between trade unions on the one side and the employers side on the other. Ideally, if both sides are “equal” partners and share mutual interests, collective bargaining can be a way to synchronize the interests of both sides in order to achieve mutually beneficial outcomes.

Since collective bargaining is a means to synchronize demand and supply side interests it could enable wage setting in such a way that consumer demand is stimulated fostering economic growth while also (excessive) wage demands are moderated securing (long term) employment as well as firm competitiveness and survival. Thus, collective bargaining enables the worker and employer side to synchronize different demand and supply side interests and goals.

Furthermore, if collective bargaining covers a large domain, i.e. a substantial number of workers in a sector or country, the implications of the outcomes of bargaining are, of course, of a wider, e.g. country wide, relevance. However, independent of the range of the domain, the

ability of collective bargaining to synchronize demand-side and supply-side considerations is usually described as wage synchronization or, as the ability of the bargaining system to internalize the (negative) consequences/effects of their bargaining outcomes.

In the following sections, different theoretical approaches on the impact of collective bargaining are presented which share the assumption of collective action from theoretical literature that different collective actors have differing abilities to maximize their (self)interests. More specifically, the following theoretical approaches have in common the idea that the ability of different bargaining systems to synchronize wages depends very much on differences in collective bargaining systems and different (collective) actors associated with different abilities of bargaining units to externalize negative costs upon others, i.e. upon the economy and society. However, the approaches differ fundamentally over the nature and functioning of the different systems.

## The diversity of unions and collective bargaining in the EU

Previous studies and reports on the role and impact of unions and collective bargaining is not only diverse in terms of different theoretical approaches, but also characterized by different perspectives and disagreements. However if there is one agreement in the literature as well as in the political debates then it is that unions and collective bargaining can be very different in different companies, sectors and in particular in different countries. In fact, all analyses that investigate and examine not only one country or sector, but also a group of countries and/or sectors, repeatedly emphasize that unions and collective bargaining can vary substantially across countries and sectors.

More specifically, the comparative literature identifies that not only unions differ substantially because of differences in their institutional and organizational structures, strengths and power as well as in their “cultures”, which manifest themselves in different bargaining strategies, but also the way that collective bargaining is organized and structured and how many workers are covered by a collective agreement, can vary substantially across countries and sectors.

Furthermore, collective bargaining also varies quite substantially across countries and sectors in terms of the topics covered in the bargaining process. The topics negotiated typically include wages, but very often include non-wage topics as well. Sometimes, wages are even excluded from the negotiation table but only include non-wage topics which are sometimes even more important and potentially “conflictual” than wages.

Although the topics included in collective bargaining are manifold, these topics often include working time issues, forms of pay and incentive schemes, the implementation of organizational change, voice systems, as well as (vocational) training schemes. In addition, in some countries, there is a variation in what topics are covered in collective bargaining by different collective bargaining units.

As explained in the following, all these cross-national and cross-sectoral differences in unions and collective bargaining are usually based on different traditions in different regions of the world as well as varying contextual factors in different countries and sectors and are therefore largely exogenously given for the majority of firms in the majority of countries. However, in

some countries some firms do have some flexibility and are able to select bargaining structures according to the various firm and worker's characteristics.

The global landscape of unions as such, as well as their influence on wages and non-wage issues in particular, is diverse. For example, unions differ widely across countries, sectors and firms with respect to their ability, e.g. their "strength" and "power", to represent the interests of their constituents, i.e. of their members as well as of workers in general. Naturally, the stronger and more powerful they are relative to their "opponents" or bargaining partner, e.g. the management or an employers' organization, the more likely it is that unions can exert an influence. As explained in this chapter, differences in the strength and power of unions also explains whether the demand-side or supply side interests dominate or succeed in collective bargaining. However, these differences in union abilities are mainly based on two (interrelated) factors. First, on their ability to recruit members and second, on their socio-political support from the state.

As regards the latter, in some countries unions enjoy extensive support from the state via, for example, the provision of funds and/or laws that support union activities, such as for example in some Scandinavian countries, while in some other countries, state authorities are found to be rather less-supportive and (at least for some time) hinder union activities such as for example in the UK in the 1980s.

As regards their ability to recruit members, in some countries such as Denmark, Finland, and Sweden, more than 60% of all workers are members of a union while in others, such as Estonia, France, and Lithuania, less than 1 in 10 workers join a trade union. In addition, our study points towards a large within-country variation of union density varies substantially across different sectors. More specifically our findings show that, on the one hand, there are still some "traditional" union strongholds such as the steel industry in almost all countries, but on the other hand, in many (personal) service sectors, trade unions have almost no members at all. Thus the variation in union membership numbers, which is often used as a proxy for union power and influence, can (still) be very high in some countries and sectors despite a general and global trend of declining union density.

Apart from the fact that union density varies across countries, sectors and firms, unions also differ with respect to their organizational structure as well as their role in a socio-economic country context.

Differences in the organizational structure of unions, e.g. whether unions are organized on a national, sector or company level, is usually decisive in whether collective bargaining can be held on a distinct level, e.g. whether bargaining outcomes cover workers and firms for a whole sector or not. For example, in some countries unions are very concentrated (i.e. un-fragmented) in the sense that only a few unions and union confederations exist, while in other countries a high variation in different unions exists. Examples of the first system are in particular Austria, but also Germany and the Netherlands. Examples of the second type are France, Italy, and Spain where many unions and union confederations exist and are organized along either political, religious, occupational, or regional demarcations. A high degree of fragmentation also complicates any coordination of the activities of different unions for collective bargaining.

Differences in their role in the socio-economic context of countries are decisive for whether unions take part in wider public policy making. In some countries (e.g. Austria or Sweden) trade unions are not only consulted by state authorities on labor market policies but even help develop and implement policies in formalized boards. Usually, in such (so-called) tripartite boards, representatives from the government, employers' organizations, and unions try to find compromises on joint labor market policies. Such policies include for example, wage issues directly via taxation of wages including income tax policy but also non-wage issues such as for example working time arrangements or employment protection. Hence, in some countries unions are able to influence wages, employment and ultimately firm survival via their participation in public policy making. However, in other countries this influence is completely absent or there is only an indirect and informal influence via lobbying activities.

Hence, unions as such and their influence on wages, employment and firm survival can be very different and these differences appear to be persistent over a long period of time, i.e. over decades, even though there is a general decrease in trade union membership across industrialized countries.

Similar to the variation and diversity in unions, collective bargaining also shows a high degree of variation. This variation includes the range of collective bargaining and agreements, i.e. how

many workers are covered by a collective agreement, and how bargaining works, i.e. on how the bargaining process is structured, organized and institutionally embedded in economies and societies.

As regards the range of collective bargaining and differences in the number of workers that are covered by a collective agreement relative to the total number of workers, i.e. collective bargaining coverage, this varies substantially across firms, sectors and countries. While in some countries such as for example in Turkey, Poland, New Zealand or the US less than 20 percent of workers are covered, in other countries such as for example Denmark, Netherlands, Slovenia, Sweden, Finland, France more than 80 percent of workers are covered by collective agreements. In some countries, e.g. in Austria and Belgium, almost all workers are covered by a collective agreement.

The reason why collective bargaining coverage varies across countries is explained by differences in the strength and power of unions, for which union density is certainly one good proxy, but also, in the institutional structure and organization of collective bargaining. However, another important reason can be found in differences in the legal support for collective bargaining which is provided by the state. For example by differences in the provision of automatic extensions of collective agreements, i.e. *erga omne* regulations. Such regulations exist in the labor law regulations of many European countries and allow for the extension of the provisions of collective agreements beyond the members of the signatory parties, e.g. of unions and employers organizations.

However, to evaluate the importance of collective bargaining and therefore union influence, the question is how widespread is the use of the extension of collective bargaining agreements?. Here, again, countries differ and there are some countries where the extension is widespread and almost “automatic”, e.g. in France, while in others, e.g. in Germany, an extension is rather exceptional because of procedural hurdles. In any case, differences in such legal regulations for the range of collective bargaining are important factors that affect how wages and employment are determined.

Apart from differences in the range of collective bargaining and how many workers are covered by collective agreements, countries also show a high degree of variation in how the bargaining process is structured and organized. Therefore, in the following, two main dimensions in the

structure and organization of collective bargaining are differentiated. The first is the level at which collective bargaining takes place and the second is the degree of coordination of bargaining between different bargaining units.

Collective bargaining can differ with respect to the level at which collective bargaining takes place. Academic literature usually distinguishes between three main levels. First, the decentral level if collective bargaining takes place at the company level, second the intermediate level if collective bargaining takes place at the sectoral level, and third at the central level if collective bargaining takes place at the national level.

If collective bargaining takes place at the decentralized level, representatives of unions and the management of a company bargain over wages and working conditions for workers in that company alone. Thus, the bargaining unit and its domain is the company. If collective bargaining takes place at the intermediate level, representatives from (sectorally organized) unions and employers' organizations bargain for companies and workers in the whole sector. Thus, the bargaining unit is the sector. Analogously, if representatives of country level unions and employers' organizations bargain, the unit is the country. Usually, at the country level, representatives from the union and the employers' organization come from their peak-level union and employers' associations. Of course, it is also possible that collective bargaining takes place (simultaneously or in parallel) at different levels. In cases where a mix of different levels of bargaining exist, literature refers to a multi-level, multi-layer or multi-tier, bargaining system. Accordingly, in such multi-level bargaining systems, companies and workers might be affected by more than one collective agreement.

The above categorization refers to typical bargaining units and levels as various exceptions and country and sector variations exist. For example, it is possible that collective bargaining takes place for different branches of one company as well as for a small group of companies. Also, depending on the definition of the sectoral domain, cross-sectoral bargaining for a group of sectors may also exist. Furthermore, in some countries (e.g. Belgium) a further regional differentiation exists and in some other countries a differentiation between different groups of workers (e.g. Austria). As regards the latter, typically a differentiation is made between blue and white-collar workers.

In addition, in some countries central level bargaining is completed or supplemented by tripartite consultations or negotiations that include the state as another bargaining party. Usually, this high level bargaining which is often described as social pacts, focuses on various issues such as for example pension and welfare state reforms in general, that are only indirectly relevant for wage setting but may sometimes target wage setting directly. Such wage pacts were observable in many European countries in the 1990s when countries prepared for the introduction of the Euro. However, although wage pacts may not directly set wages, there is an interrelationship between pacts and collective bargaining systems which also affects employment and firm survival.

There is also variation across countries in the coverage of workers and companies within each of the levels. For example, in the case of company collective agreements, differences across countries can be seen in whether the terms and conditions defined in collective agreements apply to all workers within a company or only to those who are members of a union. Also, for example, in the case of sector collective agreements if all companies within the sector are covered or only those who are members of the employers' organization that signed the collective agreement. As outlined earlier, such differences in sectoral coverage are largely explained due to differences in national labor law and the provision of extension mechanisms, i.e. erga omne regulations.

There is also a variation across countries as to which levels are typical and predominant. Usually in the empirical literature if at least 2/3 of the total number of workers covered by any collective agreement fall within this level, it is defined as predominant. Using this definition of predominance of specific levels of collective bargaining, (currently) in countries such as for example Austria, Denmark, and Germany the sectoral level is predominant, while in Finland it is national; company agreements are most common in, , for example, Australia, Hungary, New Zealand, UK, and the US. Countries, which are characterized by a combination of bargaining at different levels include Greece, Italy, Norway and Sweden.

In addition to the level, collective bargaining can also differ with respect to the degree of coordination of different bargaining units. Different forms of coordination exist since bargaining systems, e.g. the number of bargaining units that exist at different levels, as well as the legal framework in which bargaining is embedded can be very different in different countries and sectors. These different forms of coordination include different ways in which

coordination is established and maintained as well as different dimensions, i.e. whether different units at the same level coordinate their activities and/or whether coordination spans across different levels.

As regards coordination within and across levels, the academic literature typically differentiates between horizontal coordination if bargaining units coordinate their activities at the same level and vertical coordination if bargaining units coordinate themselves at different levels.

How both forms of coordination work, differs between countries and includes also informal ways of horizontal coordination such as for example the sectoral coordination via wage leadership or pattern bargaining - as typical for example in Austria, Sweden and to a certain degree also in Germany. Also, vertical coordination differs in its form and organization between countries but frequently works via the governance of lower-level bargaining units by higher-level union or employers' associations. Therefore, vertical coordination is also described in the literature as governability. Typically for governed collective bargaining systems, sector and/or national bargaining units limit and guide the topics and outcomes of lower level agreements.

For example, higher level agreements define which topics and issues can be negotiated (or not). Often wages are negotiated at one level and working conditions at another level. Sometimes, in the case of vertical coordination of bargaining, the higher level sets guidelines on the bargaining outcomes such as bandwidths of wage increases within which lower level bargaining units can negotiate further increases. Also, as another example, bargaining is governed if the lower-level agreement is allowed to diverge from sector agreements and under which specific conditions derogations from higher level agreements are allowed.

The degrees of coordination also differ across countries, not least since the horizontal and vertical coordination differs with respect to its form and organization, and ranges from the absence of any coordination and governance at all, i.e. uncoordinated and ungoverned bargaining, to a high degree of coordination. While uncoordinated and ungoverned bargaining is typical for the majority of countries in the world, in some countries bargaining can be very highly coordinated and governed.

As regards governed bargaining, i.e. vertical coordinated bargaining is typical in countries such as Austria, Belgium, Denmark, Finland, Germany, Luxembourg, the Netherlands, and Sweden,

even though these countries differ with respect to the institutional form, processes and scope of governability. For example, as briefly outlined earlier, it is common in some of these countries that higher-level collective bargaining concentrates on wages and leaves many non-wage issues to negotiations at a lower level. Also, it is common that higher-level collective agreements define specific corridors for negotiations of wages at the lower levels. Such a coordinated division of topics and responsibilities between bargaining units at different levels is characteristic of Scandinavian countries.

Furthermore, in some governed collective bargaining systems, higher level bargaining units negotiate and define rules and procedures for any derogations or opt-out option by lower level bargaining units. The idea behind allowing derogations or opt-outs is that lower level bargaining units are able to make tailored adjustments in a flexible way. For example, if a company is faced with an unforeseen situation which might harm the survival of the company, (temporary) deviations from higher-level collective agreements could be allowed and negotiated at the company level. Again there are differences between countries in how strict and wide ranging derogations are. For example, in some countries derogations are usually only allowed temporarily in cases when individual companies face (well defined) economic hardship.

Furthermore, there are also differences between countries in cases where different collective agreements apply to companies and workers. While, in the vast majority of countries so called in melius regulations ensure that in cases where more than one collective agreement applies, workers are not disadvantaged, in some countries in pejus regulations can apply which imply that workers can be worse off if a lower level collective agreement deviates from a higher level agreement.

As outlined earlier, collective bargaining systems vary substantially across countries and these differences are based on different country traditions. Even though national collective bargaining systems are (still) characterized by distinct country characteristics, these systems have also transformed and adapted to the changing needs and demands of the economy and society over recent decades.

Academic literature on these transformations has identified a number of large and small changes and different reasons for these changes (e.g. Baccaro and Howell 2017; Brandl and Ibsen 2019) but agrees that the main change throughout industrialized countries is the increasingly

decentralized nature of collective bargaining. More specifically, that in the majority of countries sectoral and national level collective bargaining was hindered and/or lower level collective bargaining was strengthened at the expense of higher-level bargaining. Sometimes, these changes were initiated by collective bargaining actors themselves and at others, imposed upon them by state authorities which were also influenced by international organizations such as the IMF or the OECD.

However, while in almost all countries collective bargaining has become increasingly decentralized, it has never led to a full erosion of historically grown collective bargaining systems but rather to the introduction of yet another layer of bargaining which has made national collective bargaining systems increasingly complex. Thus, decentralization has never replaced national collective bargaining systems but rather made national collective bargaining systems more perforated, multi-layered, and complex, i.e. hybrid.

## **The importance of the governability of the wage setting systems**

In this research project, it was shown that the governability of wage setting systems is a key element for policy makers to maintain or increase the competitiveness of the European economy. It was explained and demonstrated that if industrial relations structures and mechanisms have a high degree of governability, it is possible to align wage policies and strategies to mutually agreed goals. Conversely, systems which lack governability fail to achieve mutually beneficial goals and are associated with a poorer economic performance. It was also shown that the same applies for the transnational level which was investigated in this research project in further detail. As shown in the project, some wage setting systems have demonstrated the ability to adjust their processes and outcomes to the changing needs of the economy and were able to pursue different wage policies. However, within the new system of economic governance in the EU, various changes in the socioeconomic environment of wage setting can be observed and there are reasons to believe that previously observed relationships may have changed, but the fundamental principles remain the same.

### **Key findings**

This research project was able to reveal a number of important transformations in industrial relations including, most notably, the increasing complexity and the increased number of wage setting actors. Both of these transformations were shown to have a detrimental effect on the governability of wages and the implementation of common wage strategies and policies in the EU. It was also shown that some of these transformations are rooted in long-term trends which have continued in recent years, and other transformations were induced by the economic crisis in 2008. However, independent from the roots of these transformations, all of these trends impede the governance of wages from a European wide perspective but are not irreversible. Independent from these developments, the project also showed that highly coordinated collective bargaining systems offer the opportunity to realize different wages policies. Such wage policies could include wage led growth strategies as well as wage moderation strategies. The analysis showed that it is not necessarily important what the goal or the target from the European Semester is, what is important is that actors need to understand the mutual and long-term benefits. If this is known, many actors made clear that they are willing to implement

policies. However, it would, of course, also be beneficial if national social partners who are responsible for the implementation are also involved the preparation and design of the policies. This research project also evidenced that even though there is scope for improvement for all collective bargaining, i.e., industrial relations systems, all systems need to be legally and organizationally strengthened in order to increase their efficacy and functioning, with Nordic and continental European systems demonstrating to being better suited than other systems. Ultimately, completely liberal and deregulated systems are not equipped with the capacity to implement higher level, or European level, wage policies at all.