FREER LABOUR MARKETS, MORE RULES? HOW TRANSNATIONAL LABOUR MOBILITY CAN STRENGTHEN COLLECTIVE BARGAINING

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ABSTRACT

This article investigates how internationalisation through labour mobility can strengthen collective bargaining in coordinated market economies. It shows how new political cleavages generated by internationalisation can foster the re-regulation of labour markets and how the alliance between trade unions and employers in sheltered sectors of the economy can increase domestic coordination to limit wage competition. These two mechanisms explain why the opening of the labour market for EU workers and services in Switzerland has been followed by a re-regulation process in which collective bargaining coordination has strengthened despite the weakness of organised labour and the resistance of export industries. Following the opening of the labour market, the coverage of collective

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bargaining has increased and the number of workers covered by extended collective agreements nearly tripled.

Keywords: Internationalisation; varieties of capitalism; industrial relations; labour mobility; re-regulation; Switzerland

INTRODUCTION

The impact of internationalisation on the 'coordinated market economies' (CMEs) of Continental Europe has been contested in the comparative and international political economy (Hall, 2007). A first strand of research argues that the decreasing cost of transactions across borders undermines political economies that have cooperative systems of industrial relations and generous welfare states and leads to their convergence towards a more liberal model. Internationalisation spurs employers to push down wages, undermines the power of organised labour, limits state capacity and leads to the disorganisation of industrial relations (Lillie & Greer, 2007; Martin & Ross, 1999; Streeck, 2009).

A contrary strand of research, most notably inspired by the Varieties of Capitalism (VoC) approach (Hall & Soskice, 2001), argues that convergence is not to be expected because of the functional or path-dependent logic. The functional logic is that internationalisation fosters specialisation in high-quality production, which can only be ensured through a coherent set of mutually reinforcing institutions, such as generous welfare states, vocational training systems and coordinated wage bargaining (Hall & Soskice, 2001, p. 36ff). Following up on this, the path-dependent logic is that employers' interests in CMEs have been structured by coordination arrangements to such an extent that deregulation is not a viable option (Thelen, 2000; Thelen & Van Wijnbergen, 2003). In CMEs, strategic cooperation with labour and across firms based on high skills and high productivity is integral to employers' competitive strategies. More recently, Thelen (2014) proposed a more dynamic version of this argument, outlining that even if change happens, outright deregulation is only a single, rare occurrence of institutional change outside of dualisation, and what she calls 'embedded flexibilisation'. Again, change in the face of internationalisation is more likely to be incremental than radical.

Unlike approaches that focus on functional logics or employers' interests, this article explains the resilience of non-market coordination in labour relations by emphasising political-electoral mechanisms and cross-class protectionist coalitions to deregulate domestic markets against the will of export-oriented employers. It shows how internationalisation creates new domestic alliances that can foster self-preserving change in the sphere of industrial relations. Within the political sphere, internationalisation creates new cleavages within right-wing political forces. These can lead pro-internationalisation forces to seek support from social democrats and trade unions through measures that compensate for market-making. In the sphere of industrial relations, internationalisation can lead employers in traditionally sheltered economic sectors and trade unions to maintain and even expand coordination arrangements against the domestic liberalisation pressures championed by exposed economic sectors.

Empirically, the article uses Switzerland as a 'pathway case' (Gerring, 2007) to highlight causal mechanisms that have not been deeply explored in the literature. In this country, labour market openings for EU workers and services, a specific form of economic internationalisation, have reinforced non-market coordination in industrial relations, notably by strengthening labour market control and increasing the coverage of collective bargaining. Indeed, coverage increased from an estimated 39% in 2001 to 48.6% in 2013 (Visser, 2013). This is a puzzling development given Switzerland's traditionally weak labour movement and powerful employer segments opposing this process, particularly in the export sector. However, there are also equivalents in countries such as Norway (Dølvik, Eldring, & Visser, 2014); therefore, it is exemplary of broader dynamics of institutional change in labour markets in the context of labour mobility. The article makes three main contributions to the political economy literature, particularly the VoC approach.

First, the VoC approach has been criticised for its overly functionalist understanding of continuity and its inability to explain change (Hall & Thelen, 2009). Institutional continuity is often understood to be a result of the mutually reinforcing dynamics of institutional arrangements without much room for contestation or political conflict (Howell, 2003, p. 110; Schmidt, 2009). An underlying assumption of the approach, or rather the stylised way in which it is often applied, is that each institution present in capitalist models fulfils a specific economic function without much regard for the political conflicts that generated it in the first place. However, institutional arrangements may also display redundant, or non-functional, elements that may be used by political actors to trigger change (Crouch & Farrell, 2004).

This article treats continuity and change as essentially political and contested processes. It shows that institutional continuity has less to do with a form of 'institutional inertia' than with the continuous effort of actors to maintain, restore or expand existing socioeconomic arrangements in which coalitional politics play a central role (Hall & Thelen, 2009, pp. 20–21). Second, without downplaying the role of employers' interests in coordination, it shows how the persistence of coordination in the face of internationalisation can be underpinned by party-political mechanisms that have been thus far ignored in comparative political economy, notably the rise of radical right parties as a backlash against internationalisation. Third, though most studies on internationalisation have focused on trade liberalisation and the pressures it exerts on manufacturing, this article investigates the domestic impacts of the integration of markets on labour and services in the EU. In this case, internationalisation happens through different mechanisms, and the potential transformative power or labour mobility to impact the institutions of coordinated capitalism has been considered even more important than trade (Menz, 2005).

The article is organised as follows. The next section outlines the debates on internationalisation and CMEs, emphasising the political logic of backlash in the spheres of both party politics and industrial relations. The section 'Cases and Methods' presents the empirical analysis of Switzerland as a pathway case. It describes the post-war model of labour market regulation in Switzerland, focusing on state-controlled labour migration control and loose corporatist regulation of labour relations. The section 'Transnational Labour Mobility and the Politics of Collective Bargaining in Switzerland' outlines the political dynamics of labour market opening and domestic re-regulation. The conclusion draws some implications for the analysis of the domestic impact of internationalisation.

INTERNATIONALISATION, COALITION POLITICS AND RE-REGULATION

Economic internationalisation, or the lowering of the costs of economic transactions across borders (Milner & Keohane, 1996, p. 4), has been understood as an important cause of disruption in CMEs. In these countries, such as Germany, Japan, and the smaller countries of Western and Northern Europe, 'firms rely more heavily on non-market relationships to coordinate their endeavours with other actors and to construct their core competencies' (Hall & Soskice, 2001, p. 8). Hence, strategic coordination rather than arms-length competition prevails in the sphere of industrial relations (institutionalised social partnership), corporate governance (close inter-firm and bank-firm networks), social protection (self-government by interest associations) and training (oriented towards specific skills) within a set of mutually reinforcing institutions (Hall & Gingerich, 2009). For instance, wage formation in CMEs is typically embedded in deeply institutionalised collective bargaining arrangements, insulating this process from unleashed market forces (Hall & Soskice, 2001).

The liberalisation of markets for goods, capital, services and labour from the 1980s onwards has been considered to undermine these coordinated characteristics and to lead to disorganisation, notably by altering the balance of power between labour and capital (Milner & Keohane, 1996; Strange, 1995). The erosion of centralised wage bargaining in Sweden in the 1980s was used by many as proof that CMEs were converging towards a more liberal model, be it as a result of globalisation pressures or of endogenous dynamics (Pontusson & Swenson, 1996). However, examples of radical disorganisation in Europe have been relatively rare, at least up to the Eurozone crisis. On the contrary, surprising cases of re-coordination — through the setting of centralised wage bargaining arrangements — could even be observed during the 1990s, notably in countries where no tradition of coordination existed, such as Italy, Ireland, Portugal and Spain (Hardiman, 2002; Molina, 2006). In the face of such resilience, many scholars, most notably those using the VoC approach, have focused on the role of employers in the maintenance of coordination arrangements. In CMEs, prevailing institutionalised power relationships (notably the institutionalised power resources of labour) make specialisation a more rational strategy than a radical departure towards deregulation (Thelen & Kume, 2005, p. 12; Thelen & Van Wijnbergen, 2003). This article takes issue with these arguments on the basis of two main points.

First, the state and electoral politics in general have been relatively absent from the VoC approach, which has been criticised for its apolitical and overly functionalist bias. Recent analyses of the re-emergence of coordination in European countries, notably through negotiated social pacts, have argued that employer interests cannot fully explain changes in coordination and that government preferences and party-political factors play a more determining role (Baccaro & Simoni, 2008, p. 1337; see also Avdagic, 2010). Second, coordination is a fundamentally political problem given the diverging interests of employers in different sectors (Thelen & Kume, 2005). Even if export-oriented employers want to preserve coordination arrangements in sectors subject to international competition to preserve skills and social peace, it may be more difficult to explain why they would favour coordination in inward-oriented and nontradable sectors. They may want to maintain wage moderation across the economy if coordination is presumed to be more efficient than outright deregulation to deliver wage restraint (Erne, 2008; Hancké, 2013), but observing employers actively and deliberately promoting coordination has been a rather rare occurrence in the recent period.

Acknowledging that existing research sometimes downplays the role of politics in institutional change, this article puts forward two political mechanisms whereby internationalisation can foster domestic coordination via both the political and the industrial sphere, namely the reconfiguration of party-political cleavages and the emergence of protectionist cross-class coalitions rallying employers in sheltered sectors and trade unions (see also Afonso, 2012).

Politics: Internationalisation and the Reconfiguration of Domestic Political Cleavages

Early research in international political economy has emphasised the way CMEs, and especially small European states, have sought to compensate international economic integration through domestic compensation measures (Cameron, 1978; Katzenstein, 1985). Researchers have been interested in how increasing economic insecurity due to globalisation is similarly 'compensated' by higher social expenditure (Burgoon, 2003; Rodrik, 1998). The economic insecurity caused by globalisation translates into electoral demands for protection, which spurs policymakers to increase social spending (Walter, 2010). Most analyses within this strand focus on public social expenditure because of the availability of the data, but demands for protection against internationalisation may translate in a variety of ways. Internationalisation may not only generate demands to 'compensate' it but also protectionist strategies to foster 'national autarky' (Burgoon, 2009, p. 149). Hence, demands for trade protectionism, price- or wage-setting measures, and support for right-wing populist parties who advocate limiting immigration (Swank & Betz, 2003) may be understood as attempts to limit the impacts of internationalisation. Labour markets and internationalisation through migration are a case in point here.

More recent research has argued that globalisation, or 'de-nationalisation', gives rise to new political cleavages between 'winners' and 'losers' of this process, crosscutting existing class cleavages (Kriesi et al., 2006). As a result, internationalisation in its diverse forms has given rise to a triangular pattern of political competition in which social-democratic and liberal parties have increasingly had to compete with conservative right-wing populist parties in Western European countries. Whereas this process has been documented at the levels of both electoral demand and supply, its consequences for policymaking have only recently begun to be analysed (Afonso, 2010; Afonso, Fontana, & Papadopoulos, 2010; Erne & Imboden, 2015; Wyler, 2012). In many ways, this fragmentation of political forces can give rise to new patterns of coalition-building in policymaking. The increased fragmentation of political forces makes it more difficult to build up parliamentary majorities. If one considers that right-wing parties and employers advocate international economic liberalisation, left-wing parties want social 'compensation', and populist right parties want 'autarky', the alliances amongst these different groups ultimately determine the political strategies that are pursued in response to internationalisation. Liberalisation cum social regulation can be a viable policy compromise between social democrats and liberals if the radical right is left out, for instance when its claims are not compatible with commitments at the international level. As will be shown, this is exactly what happened in the Swiss case, and the 'freer markets, more rules' re-regulation strategy was a compromise between liberal and social-democratic political forces using an essentially 'redundant' institution, direct democracy.

Industrial Relations: Employer Preferences and Cross-Class Protectionist Coalitions

Internationalisation has been believed to influence power resources within industrial relations in a variety of ways, with diverging consequences for the maintenance of domestic coordination in capitalist arrangements. Conversely, a variety of authors (e.g. Milner & Keohane, 1996; Strange, 1995) have argued that internationalisation primarily empowers the holders of mobile capital over labour and nontradable business by increasing their 'exit' options. This process of differential empowerment may allow mobile capital to challenge existing coordination arrangements based on a relative balance of power and a push for deregulation, lower taxes, and more flexibility for firms in industrial relations. Conversely, Thelen and Van Wijnbergen (2003) argued that in CMEs, export industries are so dependent on existing institutional arrangements that deregulation or delocalisation strategies are not viable options. Following up on this, increased competition and new modes of production ('just in time') may even make companies more responsive to the demands of labour because they increase the costs of industrial conflict.

With respect to this second perspective, the idea that all employers are mostly driven by considerations about international competitiveness on world markets across the whole economy tends to downplay competing interests amongst employers in exposed and sheltered sectors. The assumption that the interests of employers as a whole are aligned with those of the export industrial sector is problematic in a context in which the bulk of employment creation has mostly taken place in nontradable service sectors (Iversen & Wren, 1998, p. 507). Export industrial sectors that are already confronted with competition on world economic markets may stick to their coordination arrangements as a matter of competitiveness, as argued by the VoC approach. However, as far as public regulatory frameworks are concerned, they may also want deregulation in sheltered sectors. For instance, export industries may typically prefer deregulation in domestic markets, such as in construction, because domestic prices are typically fed into production costs.

The preferences of employers in nontradable economic sectors in which services or work have to be delivered on-site, such as construction, security services or maintenance, are different. The opening up of markets to international competition through the liberalisation of transnational service provision across borders puts a great deal of pressure on companies, especially if this pressure is exerted through wages (e.g. if foreign companies bring their own 'posted' workers from abroad). In this context, the strengthening of coordination arrangements, such as through the universal applicability of collective bargaining outcomes, can be understood as a way for employers in these sectors to insulate existing arrangements from wage competition if they are able to cooperate with trade unions, which have no interest in local wages being pushed down. As I will show, the liberalisation of labour and service markets in the EU is susceptible to generating these kinds of coalitional patterns.

CASES AND METHODS

The empirical part of this article focuses on transnational labour mobility, a form of internationalisation that has not been paid much attention in the literature on comparative capitalism, and its impact on Switzerland, a country that has been mostly ignored in the VoC literature.

First, most existing analyses of the domestic impact of economic internationalisation have focused on capital mobility and the possible threats of relocation that employers may use in collective bargaining (Raess, 2006). However, in nontradable sectors, such as construction, restaurants, hotels and retail trade, which represent a considerable part of employment in advanced capitalist economies, relocation is not possible because most of the work has to be done on the site itself, regardless of the price of local labour. In such sectors, the 'internationalisation' of the workforce can serve as a functional equivalent to relocation if employers want to bring wage costs down (e.g. through the import of migrant workers accepting lower wages or subcontracting to companies from cheaper countries that can 'post' their workers for a limited amount of time) (Dølvik & Visser, 2009; Lillie & Greer, 2007, p. 552). The free movement of services and labour within the enlarged EU is a prominent instance of this because it has considerably expanded the possibility for companies to either employ foreign workers or hire foreign subcontractors to 'post' their workers (Menz, 2005, 2009). This has become especially important after the latest EU enlargements because of the accession of new countries with substantially lower wage levels and weaker social protection arrangements than those in Western Europe (Dølvik & Visser, 2009; Donaghey & Teague, 2006). This increasing discrepancy across EU countries is considered to favour regime competition in this domain (Cremers, Dølvik, Bosch, & Germany, 2007; Lillie & Greer, 2007).

Second, most analyses dealing with CMEs have been guided by the evolution of its paradigmatic case (Germany), whereas smaller European countries have been paid much less attention. Switzerland, in particular, has been ignored most of the time in comparative analyses because it is not a member of the EU. Somewhat similarly to Japan, Switzerland has been found difficult to classify in indexes of coordination or corporatism; these two countries often appear as outliers partly because of the weakness of their trade unions and their low coverage of collective bargaining as compared to other CMEs (Hall & Gingerich, 2004, p. 15; Siaroff, 1999, pp. 183–187). Switzerland can be considered a CME because of the significant degree of institutionalisation or labour market arrangements and the close networks of coordination in other spheres of the economy, such as corporate governance (Afonso & Mach, 2011), but it surely displays strong liberal elements. The structural weakness of labour, which accounts to a large extent for the uncertainties regarding its degree of coordination, has partly been compensated by the strong patterns of participation of trade unions in policymaking – a dimension difficult to measure – underpinned by their pivotal role in the institutions of direct democracy (Oesch, 2007). Direct democracy can be considered a 'redundant' institution that can be mobilised by political actors to trigger or resist change, as presented by Crouch and Farrell (2004).

In this context, the Swiss case is interesting with respect to the domestic consequences of labour market internationalisation because the political mechanisms from which coordination came about do not correspond to the hypotheses put forward by stylised accounts of the VoC approach. Therefore, the opening of the Swiss labour market to both migration and transnational service provision has been accompanied by a substantial movement of re-regulation enhancing the role of collective bargaining in labour market governance. The rules for the extension of collective bargaining outcomes have been made easier, newly created 'tripartite commissions' gathering employers and trade unions have been set up to monitor labour market developments, and enhanced labour market control has been put in place. Public authorities have been allowed to establish sectoral minimum wages – a possibility that existed in the law but was to be used only in exceptional circumstances – in a country where state intervention in the economy has been kept to a minimum (Trampusch & Mach, 2011). Moreover, the number of workers covered by a collective labour agreement made universally applicable has increased substantially over the last 15 years, thereby keeping collective bargaining coverage relatively stable despite substantial employment growth, particularly in services. These developments are especially puzzling given the weakness of trade unions in this country, which have one of the lowest degrees of union density amongst all CMEs – approximately 19% – and the strong opposition of employers in export industries to this whole regulatory process.

In this article, Switzerland is used as a 'pathway case' to explore causal mechanisms that have not been analysed extensively in the literature (Gerring, 2007). The analysis relies on documents and archival records, as well as a selected number of interviews (quoted in the text) with the main organisations involved in the process of labour market re-regulation, most notably employer organisations, trade unions, and the State Secretariat for Economic Affairs.

TRANSNATIONAL LABOUR MOBILITY AND THE POLITICS OF COLLECTIVE BARGAINING IN SWITZERLAND

In this section, I first retrace the interaction between labour migration policy and industrial relations and the underlying power relations between the main actor coalitions. Then, I outline how the reconfiguration of party cleavages and an alliance between trade unions and domestic business have fostered increased domestic coordination.

Industrial Relations and Immigration Control

Labour market regulation in Switzerland until the 1990s could be characterised by loose coordination arrangements in collective bargaining on the one hand and tight immigration policy despite a sizeable foreign workforce on the other hand, the latter allowing to some extent for the former (Oesch & Rieger, 2006, p. 274). Hence, the rationing of the labour supply created by immigration control in a context of full employment prevented the emergence of a substantial low-wage sector in a context of low regulation (no national minimum wage and collective bargaining coverage at about 50% of the workforce) as compared to other CMEs. The opening of the Swiss labour market to EU workers and services in the 2000s would strongly challenge this equilibrium (Afonso, 2013).

The regulation of pay and employment conditions in Switzerland has been traditionally characterised by weak direct intervention of the state and the predominance of sectoral collective agreements (*Gesamtarbeitsverträge*). Swiss labour law is limited to a small number of domains (health and safety at work, working time, rest periods, and protection of women and young workers), thereby leaving the core aspects of employment contracts to collective bargaining between social partners (Fluder & Hotz-Hart, 1998, p. 275). There is no statutory minimum wage, and collective bargaining is relatively decentralised. Collective labour agreements emerged around the First World War and progressively became institutionalised in the 1930s and 1940s, notably when the first significant collective labour agreements were signed in the watchmaking and machine industry (Crouch, 1993; Mach, 2006). Bargaining is essentially conducted at the sectoral level, with economy-wide coordination happening through cohesive employer organisations

(Eichenberger & Mach, 2011). A substantial movement towards decentralisation has happened in recent years, however.

Conversely, a characteristic feature of the Swiss labour market since the Second World War has been its massive reliance on foreign labour. Apart from Luxembourg, Switzerland has been the West European country with the highest share of foreigners within its workforce, with about one-quarter of workers not holding Swiss citizenship. Built-in institutions prevented this factor from translating into the emergence of a massive low-wage sector. Similarly to other CMEs that have relied upon the massive import of 'guest workers' to sustain growth in the post-war era, most notably Germany, in Switzerland the mixture of immigration controls, effective enforcement of labour standards, full extension to immigrants of union representation and social rights, and partial integration of foreign workers in training and retraining kept the supply of unskilled labour to domestic employers low enough to sustain labour market pressures for upward restructuring (Streeck, 1995, p. 23).

More specifically for the Swiss case, a number of built-in dispositions within immigration policy have allowed for wage stability, even in the lower segments of the labour market. In this respect, immigration policy has entertained close connections with industrial relations.

First, immigration quotas introduced in the 1960s as a response to a series of direct-democratic initiatives by extreme-right parties lowered the supply of foreign labour. Although such quotas progressively lost their effectiveness in actually limiting immigration because of the growing importance of family reunification (not covered by quotas), this nevertheless created bottlenecks in the labour market that allowed for wage stability. Second, a series of rules on the 'primacy' of Swiss workers in the labour market obliged public authorities to check for conditions of employment and their compliance with usual wage standards before allocating employment permits to foreign workers. This prevented newcomers from filling in positions substantially below usual wages, especially in sectors not covered by collective bargaining. Finally, a series of precarious residence permits, partly tied to employment status, combined with the lack of compulsory nationwide unemployment insurance until 1976, made it possible for Switzerland to maintain full employment partly by 'exporting' or 'privatising' unemployment. This was particularly striking during the crises of the 1970s, when Switzerland lost approximately 330,000 jobs (approximately 10% of employment) without experiencing mass unemployment. In the meantime, approximately 245,000 workers left the country because their permits were not renewed (Fluckiger, 1998). It must be mentioned, however, that trade unions campaigned early on against this type of precarious permit but did not have much success until the 1990s, when this type of permit became incompatible with the principles of free movement and equal treatment championed by the EU.

Therefore, the liberal nature of employment and wage-setting policies was also possible *because* of the protectionist nature of immigration policy: An immigration policy ensuring the control of access from the outside allowed loose coordination on the inside. If the labour market had been totally open to immigration, the liberal nature of internal regulation would have been more problematic with respect to the maintenance of wages. It is precisely this process which is outlined in the next section.

European Integration and the Free Movement of Labour and Services

The new regulatory framework of labour mobility in the EU, especially after EU enlargement, is considered to challenge the equilibrium of labour market governance in CMEs in two ways: first, by potentially unleashing an unlimited supply of low-skilled workers through individual independent migration, and second, by allowing foreign companies to employ their workers in other countries without fully complying with local industrial relations arrangements (Lillie & Greer, 2007).

Individual migration and the end of restrictions on immigration control can potentially undermine existing industrial relations arrangements by unleashing an unlimited supply of low-skilled labour. Before the 2004 enlargement, intra-EU migration flows had remained largely marginal. Much of the discussion around labour mobility 'bemoaned how little movement was actually taking place' (Donaghey & Teague, 2006, p. 652). On the brink of the last enlargements of the EU, however, the important wage differentials between the EU15 and new Member States created concerns over the impact of migration movements of eastern workers on industrial relations systems. In the mid-1990s, Streeck (1995) was already arguing that the massive migration of eastern European workers would be 'incompatible with high labour standards, an extended welfare state, and a normalised pattern of high-wage and high-skill employment' (p. 23). This is partly why, after the 2004 enlargement, most European countries besides Ireland, the United Kingdom and Sweden chose to implement transitional restrictions on the free movement of workers (Gajewska, 2006; Krings, 2009).

In addition to potentially fuelling a low-wage sector more characteristic of liberal market economies, the liberalisation of immigration control can also allow foreign companies to bypass local industrial relations arrangements through unrestricted transborder service provision (Cremers et al., 2007). Free service provision across borders, which allows companies in one Member State to 'post' their workers in another Member State for a limited amount of time while they remain legally employed in their country of origin, has more direct implications for national VoC than independent migration because it makes it possible to exploit regulatory gaps in domestic regulations (Menz, 2005). If foreign companies were allowed to provide services in a country without complying with local wage agreements and compulsory social contributions, there would be no incentive for local companies to comply with them either, which would thereby initiate a movement of disorganisation of organised capitalism. Evidence of such dynamics has already been observed in Germany in the 1990s (Hunger, 2000; Menz, 2005).

Even though Switzerland is not a member of the EU, these developments have had a profound impact on Swiss labour market governance. Because Swiss export industries are so dependent on the EU's internal market, the Swiss government has been eager to negotiate access to it on the basis of reciprocity. This has included the opening of the Swiss labour market to EU services and workers.

Political Cleavages and Domestic Corporatist Compromises

Throughout the 1990s, the radical-populist Swiss people's party SVP became the largest party in Switzerland, making opposition to Europe and immigration its main leitmotivs. It would oppose any sort of integration of Switzerland in the EU, differentiating itself from centre-right parties (FDP – Liberals and CVP – Christian Democrats) that favoured a bilateral approach. Over the same period, the Swiss government negotiated a series of bilateral agreements with the EU, notably on the free movement of workers, which provided for the opening of the Swiss labour market for EU workers and services (Fischer, Nicolet, & Sciarini, 2002). This series of bilateral agreements was considered of utmost importance by the export economy. In this context, the issue of free movement of workers was indisputably the most debated amongst the bilateral agreements because of persisting wage differentials between Switzerland and neighbouring countries and the wide politicisation of this issue by the SVP. Interestingly, party coalitions on this issue have been different from those typically prevailing in the field of social and economic policies, in the sense that they did not feature a typical left–right cleavage:

> When it comes to labour market opening, it makes everybody realise that it's sensitive, that one cannot have too many enemies. In social policy it's mostly left against right, but on labour market opening it's not left against right, and this means that you have to collaborate with the left. They (the government) have realised that against a coalition SVP-Swiss Democrats and the left, this was too dangerous. (SGB trade union official Interview CH7)

Hence, three distinct blocs could be observed. The radical right SVP was opposed to any sort of opening of the Swiss labour market for EU workers. Centre-right parties favoured closer economic integration with the EU in a bilateral manner. Social democrats and trade unions were in favour of labour market opening in principle but demanded guarantees for the protection of wage and social standards. Trade unions made clear that they were ready to oppose the bilateral agreements as a whole in a popular referendum if measures of labour market protection were not put in place. Considering that a popular referendum on this issue was unavoidable, it was necessary for employers and centre-right parties to build broad political support, given the lack of a clear majority. Even though there is a grand coalition in Switzerland, when right-wing parties disagree, the low degree of parliamentary discipline creates a situation close to that of a minority government. If they want the bilateral agreements to come about, centre-right parties have to rally trade unions and social democrats through compensations on labour market protection (Interview 6, 7).

After a hard-fought corporatist procedure, a compromise was achieved by coupling labour market opening with a set of so-called domestic 'accompanying measures' aimed at preventing risks of wage dumping: a loosening of formal requirements for the extension of collective labour agreements in cases of 'observed abuses', a new law on posted workers, and the establishment of tripartite committees in charge of monitoring labour market developments in each canton (Fischer et al., 2002; Interview 2). When it came to extending free movement to new EU member states after the EU enlargement in 2005, this strategy was once again used by trade unions to achieve side payments for their support of European integration despite the stronger initial reluctance of employers, particularly in the export economy:

> We have taken a very tough stance; we've said that we couldn't support the agreement if we weren't sure that guarantees against wage dumping were not provided. Then there was this meeting with the head of the department, and he had a press release ready. It said that the head of the economic department had heard the concerns of the social partners, but that there was a general trust in the existing flanking measures. And there,

> we've said that if it was only about signing that press release and giving our support, we could stop right there because we disagreed totally. It wouldn't be like that. The State secretariat for economic affairs, the right, the employers, everybody was against reinforcing the flanking measures at the outset. [The Swiss Employers' Union and Economiesuisse, the export industry association] have made fun of our demands. They said that those 150 labour inspectors we were asking for were ridiculous, that it would be a control machine, the police in every company. As if it were something totally absurd. (SGB official, Interview CH7)

Despite this resistance, however, it soon became clear that employers would need the support of trade unions in the upcoming referendum, in which the SVP would oppose the extension of the bilateral agreements in any case (Interview CH 8).

This time, trade unions achieved a further loosening of formal requirements for the extension of collective labour agreements, thereby securing their power of collective bargaining as well as reinforcements in the staffing of the labour inspectorate (Conseil Fédéral, 2004a, 2004b). The project was accepted by all major parties in parliament except the SVP, who supported the referendum launched against the agreement. The package was eventually accepted by a majority of Swiss voters in 2005. The pivotal role conferred on trade unions by the divisions amongst right-wing parties over European integration allowed them not only to be strongly involved in policymaking in a typical corporatist-compromise pattern, but also to further institutionalise corporatist structures in this domain, reinforcing their strength in collective bargaining (Interview CH2, CH7).

Employer Cleavages and Cross-Class Protectionist Coalitions

Though the political process of labour market re-regulation has been underpinned by a reconfiguration of political and partisan cleavages, it has also been made possible by coalitions between trade unions and some segments of employers within the sphere of industrial relations. The process has revealed a cleavage between export-oriented industries (such as the machine industry), which would have been willing to introduce competition on domestic markets by fully liberalising transnational service provision, and sheltered economic sectors (such as construction). These sectors are typically faced with strong trade unions and all-encompassing collective bargaining arrangements. Employers in exposed economic sectors were willing to open the Swiss market to foreign service providers without any measure of labour protection as a way to bring down wage costs:

> Export industries have no interest in protecting domestic businesses and Swiss wages. For them, the high level of wages is a loss of competitiveness in world markets. … To build their factories in Switzerland, they would have had an interest in there being no law on posted workers. For their production plants, … it would have been cheaper to hire Polish contractors. The same for machine maintenance or services. That's all cut on production costs. They clearly made it explicit. For them, foreign competition already exists every day, it occurs on product markets on the global stage. (Head of section labour relations, SECO, Interview CH2)

By contrast, employers in sheltered sectors of the economy had an ambivalent stance towards the re-regulation process. They were dependent on a large supply of foreign labour but were keen on ensuring conditions of equal treatment regarding compliance with local wage standards for the temporary posting of workers. They did not want foreign companies to use their comparative advantage through lower wage costs. Hence, employers in construction, a sector typically composed of small- and medium-sized companies, were initially reluctant about favouring enhanced labour control that would imply higher bureaucracy costs, but they eventually rallied trade unions in their claims to protect the Swiss labour market from risks of wage dumping, notably through an extension of requirements for the universal applicability of collective labour agreements beyond signing parties. Because the construction industry is represented within the main employer body UPS (Union Patronale Suisse), this gave rise to a disputed interest intermediation process:

> There were two camps… . Representatives of the construction sector were clearly in favour of protecting their businesses, especially in border regions …. On the other hand there were those who said that they wanted nothing. Nothing needs to be done. In-between, there were those who were negotiating, those who defended our position vis-à-vis both sides, and vis-à-vis the unions. … It took a little something to force the hand of the board of directors [to accept the principle of flanking measures]. We had to tell them that we had to continue on this path because otherwise there was no chance of winning the referendum. (Member of management, Swiss Employers' Union, Interview 8)

Partly drawing upon these alliances, an interesting phenomenon occurred on the brink and in the aftermath of the labour market opening: an increase in coordination in the Swiss labour market as a whole. The number of collective labour agreements extended through *erga omnes* extensions increased substantially, from 14 in 1995 to 35 in 2000, 41 in 2003, and 64 in 2006 (Oesch, 2007), until reaching 73 in 2014. The number of workers covered by such agreements increased from 360,000 (8.6% of the workforce) in 2003 to 588,000 (13.3%) in 2007, and 992,000 in 2014 (20%). Moreover, the overall degree of coverage of collective labour agreements (CLAs) has remained stable (at approximately 48%) despite an increase by 8% of the size of the workforce during this period. Interestingly, this did not happen as a result of the procedure linked to 'observed abuse', but through regular procedures in a preventive fashion. Domestic companies in sectors other than construction have used these tools to set minimum standards to prevent foreign companies from undercutting them on the Swiss market (Oesch, 2007). Hence, in some vulnerable sectors, such as security services, in which foreign competition was perceived as a threat by local economic actors, solutions have been sought to build a sufficient organisational base in terms of employer associations to re-regulate the sector. In this sector, employers took the initiative to organise from scratch so as to meet the quorum for *erga omnes* extension (Interview CH2).

This process can be considered relatively astonishing given the weak organisational structures of the Swiss labour market. However, re-regulation efforts have essentially consisted of setting minimum standards in a context in which there was no minimum wage, not executing a full re-coordination. It must be acknowledged that the re-regulation of the Swiss labour market has not prevented substantial problems of enforcement of those minimum standards. Whereas 59,000 workers were posted in Switzerland for a period of up to 90 days in 2010, a study carried out by the federal administration showed that 36% of controlled foreign companies posting workers in Switzerland did not fully comply with pay and work standards set in collective labour agreements, and only 30% of those were eventually sanctioned with financial penalties (Secrétariat D'Etat à l'Economie, 2011, p. 62).

CONCLUSION

In this article, I have shown the political mechanisms whereby economic internationalisation through labour mobility can foster the strengthening of domestic coordination arrangements in a coordinated market economy. Ihave shown that coordination can be fostered by a reconfiguration of domestic coalitions within the spheres of both politics and industrial relations. I have explained the surprising resilience and even expansion of non-market coordination in Swiss collective bargaining by a specific configuration of political alliances between liberal and social democrats on the one hand and trade unions and employers in domestic sectors of the economy on the other hand.

By doing so, I have shown that the domestic consequences of internationalisation are determined not only by functional or path-dependent logic but also by the configuration of political and interest coalitions.

To conclude, it may be important to assess the value of the competing explanations available in the literature, such as employer interests, institutionalised labour power and institutions. First, it has been made clear in the empirical analysis that the actors that were usually thought to support coordination in CMEs – export-oriented employers – did not support it for other sectors in which they would have preferred effective liberalisation through market opening. Therefore, actors that were often understood in the VoC literature as strong supporters of non-market coordination advocated deregulation instead. Second, institutionalised labour power also faces some limitations considering that trade unions in Switzerland display one of the lowest degrees of membership across CMEs, approximately just 20% of the workforce. It must be acknowledged, however, that trade unions are given substantial additional power by direct democracy. Besides [such] power resources, one should also take into account the specific preferences of trade unions and internal cleavages within them. In this respect, the strengthening in the early 1990s of the construction unions, which became stronger than the metalworkers' unions, may also explain the determination of unions to impose conditions for labour market protection, contrasting with their unconditional support for European integration in the early 1990s[1].

It appears that the mechanisms underpinning re-regulation in this case may not be specific to the Swiss case alone because they are not only due to the incentives provided by its institutional context. Hence, re-regulation processes sharing many similarities with the Swiss case have been observed in countries such as Ireland prior to the dramatic changes that have taken place with the Eurozone crisis (Krings, 2009), in Norway (Alsos & Eldring, 2008), in Austria (Afonso, 2012) and in Denmark (Seikel, 2015) in the aftermath of labour market opening to workers and services from new EU member states.

However, it remains to be seen how effective regulation is in preventing downward wage competition because enforcement in a transnational setting has proven to be especially problematic (Lillie & Greer, 2007). Additionally, it also remains to be seen to what extent domestic re-regulatory initiatives within the EU will remain possible in the future, set against the broad understanding of EU competition rules applied amongst others by the European Court of Justice (Dølvik & Visser, 2009; Höpner & Schäfer, 2010). Finally, the outcome of the Swiss referendum vote held on

9 February 2014 supporting the reintroduction of immigration quotas for all source countries has considerably challenged the equilibrium between opening and coordination analysed in this article. First, the new rules on *erga omnes* extension are legally tied to the bilateral agreement with the EU. If the agreement becomes obsolete because it cannot be reconciled with the outcome of the referendum, the strengthening of the collective bargaining framework will come under stress. Political actors such as the SVP have argued that the measures to strengthen collective bargaining are no longer needed if immigration control is reinstated. Additionally, in the face of concerns about the high value of the Swiss franc, influential segments of the Swiss business community have called for a massive programme of deregulation that would leave little room for enhanced collective bargaining (Ermotti, 2015).

NOTE

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