

TRADE UNION RESPONSES TO CROSS-BORDER
COMPETITION IN THE ENLARGED EU:
EVIDENCE FROM THE AUTOMOTIVE
AND CONSTRUCTION SECTORS

by

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Abstract

This dissertation explores under what conditions West and Central-East European trade unions cooperate with each other. It focuses on the automotive industry, which is a critical case for East-West labor transnationalism in view of the importance of cost comparisons among car plants in different countries. The analysis of Polish-German union relations at three car and car component manufacturing companies, Volkswagen's engine plants, GM and MAN, shows that the German unions sought to establish cooperative links with their Polish counterparts in the areas subject to cross-border comparisons, when no national negotiation channels were available to them and thus the danger of underbidding by the cheaper Polish plants was particularly high. The Poles, in turn, cooperated in exchange for the Germans' support, only if they expected to benefit more from the Western assistance than from local solutions. Alternatively, they did not hesitate to utilize their comparative advantage of lower wages and inferior working conditions to attract new production.

The resulting cooperation was based on reciprocal exchange. The Germans helped the Poles build up their organizations and assisted them during disputes with the local management, whereas the Poles committed themselves not to underbid the Germans during investment distribution rounds. Overall, East-West European labor transnationalism was guided primarily by cost-benefit considerations. The evidence on GM unions' reactions to the economic crisis of 2008-2009 corroborates this assertion, showing that German employee representatives used enhanced government access to secure the interests of their sites at the cost of other locations, which led to deep divisions in the once unified cross-border GM labor front.

The last chapter tests the above arguments against evidence from the construction sector, in which the inflow of CEE workers to West European labor markets constituted a major source of competitive pressure. It shows that the mechanism governing interactions between Polish and German construction unions resembled the one identified in the car industry. Specifically, the scope of cooperation remained narrower due to the German union's attachment to national solutions and limited gains derived by the two Polish organizations from participating in migrant workers' assistance schemes.

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Introduction

Cross-border labor cooperation is hardly a new concept. In the nineteenth century, trade unions belonged to undisputed ‘champions of internationalism’ (Logue 1980: 7), placing the unification of the world’s working people on top of their agenda. The classical Marxist writings did not only assume commonality of interests among industrial laborers in different countries, but also argued that the struggle for the realization of joint goals would lead to the formation of common workers’ identity. Cross-border activities undertaken in the period of the First and the Second International, as well as symbols of international labor organizations to a great extent reflect this early course towards an ‘imagined universal class’ (Hyman 1999: 94).

In the twentieth century labor internationalism lost most of its previous appeal. During WW1 and in its aftermath, labor movements across Western Europe assumed an important position in the political economic systems of their countries. In exchange for mitigating workers’ discontent and preventing their radicalization during periods of economic hardship, they were granted the right to bargain collectively and won major improvements in working conditions. Following WW2, many West European states witnessed a historic compromise between capital and labor, as the latter offered industrial peace and steady demand for industrial products and gained income stability, better working conditions and extensive social provisions within national welfare states. In the golden years of corporatism, these labor-capital exchanges orchestrated by the state would bring tangible gains to union constituencies. At the same time, they diverted the organizations’ interests and resources away from cross-border activities, turning labor internationalism into a distant, elusive goal.

In the last decade of the twentieth century, however, the first cracks began to appear on West European countries' corporatist structures. The transnationalization of financial markets and the expansion of industrial production beyond nation state boundaries enabled employers to escape local compromises and thus avoid high costs incurred by such deals. Even if they have not completely withdrawn from national settlements, an exit option allowed them extract far-reaching concessions on the workers' side. The state's role as an arbiter between capital and labor also greatly diminished due to a growing role of supranational decision-making, while the choice of liberalization and deregulation as EU integration's leading principles put the ideological foundations of corporatist settlements under considerable strain.

These profound changes mirror the developments in the capitalist system prior to the period of labor's national embeddedness. At the same time, they point to a growing need for unions to coordinate their actions across borders. This necessity stems from at least two factors, closely corresponding with two basic functions of labor movements. First, in regard to the economic dimension of union activity, cross-border cooperation constitutes an alternative, but increasingly important channel to secure the basic level of working conditions within multinational companies (MNCs) and to prevent the management from playing off employees at different production sites against each other. Second, as argued by Wood (2006: 1) unions can be considered as 'agents for democracy', acting as interest-aggregating bodies and providing workers' political representation (see also Erne 2008; Stevis and Boswell 2007). Since the balance of power relations shifted significantly in favor of capital, it is the unions' task to make sure that the voice of 'vast numbers of the earth's <have-nots> and a large number of <have-somes>' (Turner 2003: 2) is still heard within the transnationalized European and global

economy. Bringing the economic and political dimension together, it is difficult to deny the need for cross-border union activism. But what factors make labor organizations ‘go transnational’?

Addressing the above question, this dissertation focuses on a setting that seems least conducive to the emergence of labor transnationalism. It seeks to identify conditions for the emergence of cross-border links between West and Central-East European (CEE)¹ unions in the automotive industry, where competitive pressure emanating from production internationalization on one hand and from East-West labor cost differentials on the other has been particularly high. To this end, it examines the relations between Polish and German labor representatives at Volkswagen’s engine plants and at GM and MAN. Despite important similarities between the firms, the timing and intensity of unions’ cooperative ventures varied significantly across the three cases, thus providing important insights into the question of why and under what conditions Western and CEE unionists cooperate with each other.

Union relations at Volkswagen’s (VW) engine plants took a form of reciprocal exchanges between Polish and German unionists. While the Poles committed themselves not to take over extra production from the German sites in the middle of the products’ life cycle, the Germans secured new investments at the Polish site and supported the local *Solidarność* unit in the course of its dispute with the local management. Union cooperation was based solely on gentlemen’s agreement between plant-level union leaders, but it nevertheless involved effective coordination and was sustained for a long period of time.

The GM case study first reconstructs cooperative links among West European unionists, developed in reaction to the management’s whipsawing practice and the related threat of restructuring and plant closures. It then shows how, in the absence of the above concerns, Polish

¹ The terms ‘Central-East European states’ (CEE) and ‘new EU member states’ refer to the eight postcommunist countries that joined the EU in 2004. ‘Old EU member states’ are West European countries that were EU members before the 2004 EU enlargement.

employee representatives abstained from cooperation and ensured the growth of their facility thanks to local concessions. Finally, it traces a shift in East-West European union relations from mutual underbidding to the formulation of a joint bargaining strategy during the Astra IV's investment site selection process, which provided for mutually beneficial exchanges between the Poles and the Westerners, thus making the case similar to that of VW's engine plants. Further evidence suggests, however, that labor transnationalism at GM remained fragile and did not fully replace concession bargaining at West European sites. It also excluded areas in which Polish workers' interests would suffer as a result of cross-border cooperation.

Lastly, MAN is an instance of labor transnationalism's failure. For most of the examined period, German unionists were struggling to prevent the relocation of bus production to Poland, but they also made modest attempts to create a platform for cross-border exchanges with Polish and Turkish employee representatives. In view of direct competition over production capacities and the resulting interest conflict between workers at Polish and German sites, however, cross-border union cooperation did not emerge. Instead, the Easterners did not hesitate to utilize their comparative advantage of lower wages and inferior working conditions when this channel proved more efficient in attracting new production to their site.

Drawing of the results of the empirical research, I explain the variation in cooperation patterns between Polish and German automotive unionists and, in more general terms, between Western and CEE labor representatives, through a dynamic interplay of the *structural features* of CEE manufacturing industries, the *interests* of workers in old and new EU member states and the *strategies* employed by trade unions to cater to these interests.

The point of departure for the main argument is a scholarly assertion regarding the specificity of a current wave of the automotive industry's expansion to the postcommunist

region. Contrary to initial predictions, the inflow of foreign direct investments (FDI) to CEE car sectors did not result in the establishment of factories manufacturing low value-added products for West European vehicle producers. Since the late 1990s, automotive sites in CEE have been experiencing a well-documented shift towards higher value-added production, accompanied with the closing of the West-East productivity gap. Similar developments can be traced in relation to manufacturing as a whole, which makes it possible to apply the causal mechanism identified in this study to the analysis of union relations in other industries and country configurations.

The FDI-led upgrading of CEE manufacturing competences resulted in the launch of parallel production at ‘old’ and ‘new’ Europe’s locations, which however was accompanied by significant East-West labor cost differentials. This intra-firm heterogeneity of wages and working conditions became a matter of concern for West European unionists since it increased their non-cooperation costs, i.e. costs that would be incurred by Western workers if cross-border underbidding between Western and CEE plants prevailed. Consequently, in the areas exposed to inter-plant performance comparisons, in which they could not make use of national strategies, the Westerners had an interest in coordinating with their CEE counterparts. Even though the threat of underbidding had existed earlier among West European locations, the creation of parallel CEE sites modified the rules of intra-company competition, as a loss associated with the failure to coordinate with the Easterners would be much higher than during previous ‘West-West’ benchmarking rounds.

As for the CEE side, I argue that workers employed in FDI-led industries in the postcommunist have not yet faced relocation and disinvestment threats to an extent known from West European locations but instead welcomed new production inflows in the aftermath of painful economic transition. Any engagement in cross-border cooperation with the Westerners

was preceded by an analysis of costs and benefits derived from transnational coordination *vis-à-vis* alternative, national strategies. Accordingly, CEE unionists cooperated with their West European counterparts only in exchange for assistance, be it investment guarantees, protest support or organizational help, when their goals could be achieved to a fuller extent through cross-border cooperation than through plant-level negotiations or mere compliance with the management's demands.

All in all, the unavailability of national solutions was a key variable behind East-West European union exchanges. It served as a 'push' factor for West European unionists, eager to regain control over the spheres subject to international benchmarking. At the same time, it 'pulled' CEE labor organizations onto the transnational arena, making them seek for Western unions' support when new investments and/or organizational growth could not be secured via national channels. The resulting cross-border union cooperation was interest-driven: the Westerners got reassured that Easterners would not underbid them, while CEE unionists used the advocacy of their stronger West European colleagues to improve working conditions and/or to create new job opportunities at their sites. Similar to exchanges between West European unions, however, East-West European labor transnationalism was highly dependent on the set of goals pursued by individual union organizations and national alternatives available to them at a given time point. In this respect, it remained far from the nineteenth century ideal: even though it catered to the workers' economic interests and increased their influence on corporate affairs, it was prompted by cost-benefit considerations rather than by solidaristic sentiments.

This dissertation consists of six chapters. Chapter 1 starts with the study's background, puzzle and research question. It then discusses the literature on factors underlying labor transnationalism and outlines the main elements of the research design.

Chapter 1 is followed by three empirical chapters, each taking a form of a case study examining interactions between Polish and German unions at a different automotive company. Chapter 2 studies union relations at Volkswagen's engine factories, where cross-border cooperation was most advanced. Chapter 3 explores East-West union interactions at GM, portraying a shift from mutual underbidding to cross-border coordination based on reciprocal exchange. Chapter 4 presents the case of MAN's bus unit, where unions failed to cooperate across borders.

The presentation of empirical evidence is followed by an analytical Chapter 5, which identifies the mechanism behind cross-border union exchanges in the East-West automotive context, discusses the generalizability of the findings as well as the relevance of other cooperation factors. The last section illustrates the impact on 2008-2009 economic crisis on union relations by reconstructing GM employee representatives' reactions to a planned, but eventually not concluded sale of Opel to a Canadian-Russian consortium Magna/ Sberbank.

Chapter 6 examines whether the logic governing East-West union exchanges in the automotive sector is valid outside the manufacturing context. To this end, it reconstructs Polish-German union relations in the construction sector, where the 'import' of cheap CEE labor constituted a major source of competitive pressure. The chapter concludes that unions' interactions followed the mechanisms identified on the basis of the car industry evidence. Specifically, the scope for reciprocal exchanges in construction remained narrower in view of the German union's adherence to national solutions and limited gains derived by the two Polish unions from their engagement in migrant-targeting schemes.

The concluding part summarizes the findings, presents the contribution of the study and points to its limitations. It also outlines alternative scenarios for the future of East-West European labor transnationalism and gives suggestions for further research.