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Abstract

This paper discusses the development of labour relations during the 1980s and 1990s in OECD countries. It argues that a proper understanding of the different trajectories in different countries requires paying attention to how labour unions developed firm-level capacities in the period prior to the 1980s. In those case, labour unions were able to impose costs on employers during the corporate reorganisations of the 1980s and 90s as a result of their firm-level strength. If employers were strongly organised as well, they were able to internalise those costs and build on them as a resource in organisational change. By the end of the 1990s, therefore, labour relations in West European countries converged on two very different poles: one where organised labour continued to play an important role in the organisation of the economy, and another which was highly hostile to organised labour.

Keywords: Labour relations, economic adjustment, labour unions, employers, convergence

1. Introduction^o

As trade barriers fall, product and labour markets open up, and multinational companies are actively searching for best practice models to emulate, most observers of labour relations expect the different national systems to converge on a singular model (Katz and Darbshire 1999; Kerr et al. 1964; Locke et al. 1995).

A careful look at labour relations institutions and their interrelation with economic performance at the turn of the century, however, reveals important differences between the advanced capitalist economies. By and large, countries can be classified into two large groups (with a few notable exceptions). On the one hand, we have countries where wage bargaining is relatively coordinated, and follows relatively centralised patterns. At the same time, in those countries, companies know some form of co-determination, or broadly speaking institutionalised voice of workers in company affairs. These countries are: Sweden, Germany, the Netherlands, Belgium, Austria, Switzerland, Finland, Norway, Japan and Italy, and will be called the coordinated market economies.

The other group, which consists primarily of the Anglo-Saxon economies (including Ireland), and Israel, has neither of these two institutions of labour relations. Wages are primarily determined through decentralised market action, and companies are characterised by managerial unilateralism. These economies will be called liberal market economies.

How should we understand these differences? What explains why, despite economic and market integration, despite active attempts by governments in almost all OECD countries throughout the 1980s to restructure their labour relations systems, and despite the growth of multinational companies transferring labour practices across borders, labour relations systems have not converged on a single model, but along two very different models instead? Put differently, why have labour relations tended towards either of two models – with the northern European countries (and Italy) converging on a version of the

^o I thank David Soskice and Andrew Martin for discussions on the topic of this paper.

German model, and the Anglo-Saxon economies converging upon a deregulated model?

This essay will argue that the answer to this question is provided by two elements: one, the organisation of business in advanced capitalist economies, and, two, how business internalised the institutions of labour relations in its product market strategies. In the mature “Fordist” model of the late 1970s (Boyer 1979; Boyer 1986; Flanagan et al. 1983; Piore and Sabel 1984), countries entered the period after the second oil shock differing along two lines that were crucial for future developments (the historical background of these endowments are not further explored in this paper –see Lange et al. 1982 for such treatments). The first dimension where countries differed was the ability of business to coordinate its political-economic activities, i.e. the ability to block political changes and to form institutional frameworks which provided them with collective goods that might help companies upgrade their operations and adopt high value-added product market strategies. The second dimension had to do with the position of labour unions in the firm: (how) did labour unions manage to construct and “colonise” the firm-level institutions of workers’ representation and turn them into extensions of their own activities.

The substantive argument of this paper is that if the ability of business to coordinate its activities was strong and if unions were the institutionalised representatives of the workforce in 1980, adjustment in the 1980s and 1990s followed a negotiated, and largely labour-friendly pattern, resulting in (mainly industry-level) coordinated wage-bargaining, and strong institutions of co-determination. However, if business coordinating capacity was low, and unions were either extremely weak or adversarial firm-level actors, developments in the 1980s led to a deregulation of the labour relations framework, which was vigorously pursued in the 1990s as well.

Remarkably, other possible relevant explanations seem to shed only little light on this process. First of all, partisan politics played a remarkably small role in this process (Soskice 1999): despite a conservative government in Germany, the Netherlands and Belgium for most of the 1980s (and a large part of the 1990s in

the German case), the restructuring of labour relations systems did not follow the deregulation path adopted in the UK under Ms Thatcher's Tory government –or under the Labour government in Australia. State policies may have played a catalytic role, or may have mattered in interaction with other elements of labour relations restructuring, but always within a broad framework set by employer coordination and local union strength.

The initial strength of labour relations institutions in 1980 is an equally weak predictor of developments in the last two decades. The UK entered the period with very strong local union structures, and the labour relations system in Australia had evolved into a highly centralised one in the 1970s (Katz and Darbishire 1999). Yet precisely these two countries have seen the most profound changes in their labour relations systems, and in both cases, these led to a profound deregulation and “de-unionisation”. Conversely, even the weakest case of institutionalised firm-level workers’ participation, the Netherlands, has witnessed only minimal labour market deregulation while income inequalities have not been widened as they have in the UK or the USA.

The balance of this paper will develop the argument in three steps. The next section provides a short sketch of labour relations institutions –both the common elements and the differences—by the second oil shock. Section 3 will discuss developments in the 1980s and demonstrate that the interaction between employers’ ability to coordinate and unions’ ability to occupy firm-level institutions of co-determination led to two very distinct patterns of labour relations by 1990, which were further reinforced through the product market strategies that businesses were able to pursue as a result of these institutions. How, then, the systems reacted to the recession of the early 1990s provides the fourth part of this paper. The fifth part offers a short conclusion.

2. From post-war settlement to crisis: converging production regimes

This first section will set the stage for the period under consideration in the remainder of this paper. The most remarkable thing about the post-war period is probably that, whatever the initial starting points of many national economies

immediately after the Second World War, most advanced capitalist economies (the OECD countries) appeared to move in the direction of a singular production regime. This production regime, which was institutionally expressed in a post-war settlement between capital and labour (Lange, et al. 1982), shared a limited number of particular defining characteristics (see (Aglietta 1982; Boyer 1979; Coriat 1979)

First of all, shopfloor and workplace organisation was distinctly Taylorist: work was divided into small parts which were prescribed in detail, so that it could be carried out by relatively low-skilled workers. The prevailing production model was mass production: low-skilled workers, standardised parts, and general purpose machines produced long runs of the same good. Economies of scale allowed for lower unit costs.

In this model, wages were, as far as possible, taken out of competition through a variety of mechanisms. In most of the Northern European countries (and in a particular variation on that theme, in Japan) centralised wage negotiations levelled wages, the same was obtained through a state-led incomes policy (in France and, to a lesser extent, Italy), or via central "signposts" as in the USA and the UK.

The third central feature of the post-war system that all OECD countries shared, was that between unions and management, the division of authority was clear: labour unions occupied the "social" terrain (i.e. wages and working conditions), whereas management occupied the strategic domain (product market strategy, investment and the organisation of production). Even in what was certainly among the most socially explosive polities of the post-war period, i.e. France, the stubborn refusal by the strongest labour union, the Communist CGT, to implicate itself in practical management questions and restrict its interventions to wages, de facto accepted this division of authority.

Finally, the role of governments was to stabilise the macro-economic environment through Keynesian policies --the result of this was that the state became an important third player in the industrial and labour relations regimes through taxation (Schmidt 1982; Cusack 1999)

One of the most remarkable aspects of this post-war set-up was its pervasiveness, especially if the wide diversity of economic and political starting points is taken into account (Armstrong, et al. 1991). In the UK and the USA, where craft-based labour union structures had dominated both the pre- and post-war political economy, mass production became the norm, management ruled the companies while labour unions controlled wages (with some, but rapidly diminishing, impact upon training systems –see (Tolliday and Zeitlin 1992; Wood 1997), and the state remained at a distance from labour relations. In the "Latin" countries France and Italy, where the union movement was dominated by Communist labour organisations, company organisation followed essentially the same pattern –Turin and Billancourt became the biggest enemy of the working classes as well as the place where their hopes for social progress and revolution were lodged— and the state's role in the economy grew steadily (Howell 1992; Reynaud 1978; Sellier 1984). In Germany, Austria and the Low Countries (and in Sweden in a pre-war move), the post-war settlement was formally agreed through an explicit social pact. In Germany, where the Nazis had forced the economy back into shape, the social market economy was installed after monetary sovereignty was restored in 1949 (Markovits 1986; Thelen 1991). In Belgium the new arrangement was officially sanctioned through the Social Pact of 1944 and the Productivity agreements of the mid-1950s, while the Netherlands settled things through the Great Exchange of 1945 (Hancké 1991; Hancké and Slomp 1993). In Sweden the Saltsjöbaden agreement of 1938 became the formal beginning of the new era (Martin 1984). Finally, in Japan, installing the new model took longer because of the --now forgotten, but then highly salient-- radicalism of the labour movement, but by the mid-1950s, Japan too had fallen in line with the other advanced capitalist countries (Kume 1998). In sum, wherever one looked, and abstracting from the many idiosyncrasies that governed post-war Fordism, very similar things were going on in many different countries: by the late 1960s, all of these countries shared an insitutional set-up for governing the economy which was, in all its superficial variation, remarkably similar.

It was, initially, far from clear if the crisis of the 1970s would upset this rapid move toward convergence. As late as 1977, the Mc Cracken report on the crisis in

the OECD countries diagnosed it as an "unfortunate bunching of circumstances" that were highly unlikely to repeat themselves --bad luck. Yet, as the crisis wore on, and many countries failed to regain their former growth path, a different thesis was launched: the Western economies were going through a profound, structural crisis, which expressed a growing misfit between the economic necessities of advanced capitalism and the institutions that governed OECD countries. Fordism itself --i.e. the social arrangements described above to characterise the post-war period-- was in crisis, and it expressed itself in each one of the countries involved. By the second oil shock, therefore, most of the OECD countries had institutions of labour relations which performed very similar roles in their respective political economies.

However, two "dormant" elements still varied despite these similarities, and these two institutional elements would prove to be crucial in the decades to come. The first of these was the organisation of business. By 1980, there were important differences between the OECD countries in the ability of business to (a) block government changes and (b) construct economy-wide institutions that allowed businesses to raise value added in production and services within the broader institutional framework of the economy (Soskice 1999; Soskice 1990). (It is an empirical question beyond this paper why business in some countries lacked or had this ability.)

Thus, by the end of the 1970s, while all advanced industrialised nations were converging on a singular production model, and had re-arranged their institutional frameworks accordingly, there were systematic differences in these two elements of the institutional framework. The interaction between these two, as I will develop below, also explains the stylised labour outcomes sketched in the first section of this paper.

Table 1: Employer co-ordinating ability

	<i>OECD co-ordination index</i>	
	1980	1994
Austria	3	3
Germany	3	3
Japan	3	3
Norway	2.5	2.5
Italy	1.5	2.5
Denmark	2.5	2
Switzerland	2	2
Finland	2	2
Sweden	2.5	2
Netherlands	2	2
Australia	2	1.5
New Zealand	1.5	1
UK	1.5	1
USA	1	1

Source: OECD Employment Outlook 1997; also cited in Soskice 1999

The second element was the position of labour unions in the companies (Hancké 1993; Kjellberg 1983; Turner 1991). The literature on corporatist adjustment which emerged in the 1970s and 80s in an attempt to make sense of the different fates of different countries in reconciling low unemployment and inflation had ignored that labour unions were and are not simply national actors in the macro-economy. They were also --and as developments since 1980 were to prove forcefully-- actors in the companies. Recruitment, grievance handling and local negotiations were all done by the local unions. In some countries, almost without exception those countries associated with strong macro-economic performance in the 1970s and early 1980s, labour unions occupied strong positions in the companies (and, often as a result, in the national economy as well) and were able to influence strategic choices made by employers there.

Table 2: Local labour union structures

	<i>strong local union sections</i>	<i>colonised representative institutions</i>	<i>index of power[°]</i>
Austria	yes	yes	2
Germany	yes	yes	2
Japan	yes	yes	2
Norway	yes	yes	2
Italy	yes	no*	1
Denmark	yes	yes	2
Finland	yes	yes	2
Sweden	yes	yes	2
Netherlands	no	no	0
Australia	yes	no	1
UK	yes	no	1
USA	no*	no	0

* On Italy: workplace representative institutions are relatively new in Italy, and unions have not yet found their place there. On the USA: while local unions are often very strong in the USA, the system as a whole is scored low, since only about 15% of the workforce is represented in the workplace by unions.

° the index of local union power is the sum of the position on strong local union sections and the colonisation (whereby yes = 1 and no = 0)

Source: derived from analyses in Kjellberg 1983; Hancké 1993: 599-600; Hancké 1996

3. From the second oil shock to recession: divergence in the 1980s

In response to the broad economic and industrial changes of the 1980s, firms were pushed to reorganise. Where local unions were strong, they were able to force employers to do this in a way that took into account workers' (and unions') interests. These union strategies then interacted with employers' organisation. In some countries, as a result of the strong organisation of employers, this was done in a highly co-operative manner, either through the autonomy granted to labour unions and employers as a result of what is called in Germany "Tarifautonomie" (a condition existing in many other countries as well), or as a result of a labour-dominated government that restricted the room to manoeuvre of employers. Conversely, in cases where local unions were able to impose restrictions on change but where employers are poorly organised, as in the UK and in a different

way in France, an alliance between the state and capital was a necessity to break out of the stalemate that ensued. The end result in these cases was a labour-exclusionary path.

The result was that by the very early 1990s, before the recession of 1992-1994, countries increasingly started to fall into two large patterns (Hall & Soskice 2001; Thelen 2001). The first of these was the group of countries that linked export success to strong macro-economic performance in the 1980s: Germany, for example, Sweden, and Japan. In these economies, inflation and unemployment were systematically lower than in the others, exports and world market shares were higher, and in large measure, these two elements were considered to be closely linked (see, e.g. Soskice 1990). The second group consisted of what were then considered as the losers among the advanced capitalist economies: the UK and US. These countries not only had a very bad macro-economic performance in the 1980s among all the OECD countries, they de-industrialised at a more rapid pace than other countries and were unable to hold their ground against foreign competition (see (Dertouzos et al. 1989).

Table 3: Gross Union Density Rates¹

	1975	1980	1985	1990⁴	1995
France	22.8	17.3	14.5	12	9.1
Germany ²	36.6	41.0	39.3	34	28.9
Italy	47.2	54.4	51.0	40	39.9 ³
Netherlands	38.4	35.3	28.6	25	25.6
UK	48.3	52.9	44.2	42	32.9
USA					14.2
Japan					24.0

¹ including retired workers. Sources: for France, Germany, Italy, Netherlands and UK in 1975 and 1995: Ebbinghaus/Visser 1999; for France, Germany, Italy, Netherlands and UK in 1980 and 1985: Visser 1990; for USA and Japan: ILO 1997: World Labour Report 1997-98 (Geneva: ILO).

² until 1985: only West-Germany

³ data for 1994

⁴ data for 1988 (source: OECD 1991)

Remarkably, this positioning of countries on economic performance mirrored labour outcomes. In the latter group, the reorganisation of labour relations had been very hostile to organised labour (in the UK and the USA), the power of labour as an actor in the political economy has dramatically decreased, and union density (a primary indicator of labour influence) had fallen sharply.

In the other, strongly performing group, the outcomes for labour were also much less negative. Changes that took place, did so on terms that were negotiated between organised labour and employers (e.g. in Sweden, Germany, and Belgium); the position of labour in the broader political economy, while it has changed, and while the 1980s have certainly been a difficult decade for labour movements in these countries, has remained relatively stable; and union density has remained relatively high or, at least, stable.

Looking back over the 1980s with the conceptual framework discussed above in mind, helps understand what happened. In the first group of countries (those exemplified by the USA and the UK), business was structurally unable to construct the institutions needed for a systematic upgrading of the economy. In large measure this was related to two elements: the prevalence of short-term finance, which forced companies to adopt a short-term time horizon in designing strategies, and the absence of institutions which persuasively provided collective goods such as inter-company training systems and standard-setting mechanisms. Unable to upgrade, business searched for a deregulation of the economy.

However, local unions were too strong in the companies in most of these countries, and the stalemate which ensued could only be circumvented through forceful action by the state. In the UK, Ms Thatcher set out to combat the unions with a vigorous legal offensive unmatched in other OECD countries. In the mid-1980s, both the printers' union and the miners' union --among the strongest labour unions in the world-- were crushed as a result of this political offensive. In the USA, President Reagan did the same by breaking the PATCO strike and hire permanent replacements for the air traffic controllers on strike (see the analysis of then Federal Reserve Chairman Volcker's comment in Brenner 1998).

By the late 1980s, therefore, the labour relations landscape had changed profoundly in these economies: beside deregulated capital and product markets, labour markets too had been deregulated to allow businesses more freedom in restructuring companies.

Developments in the second group contrast sharply with this image. Attempts by management to restructure companies were also met with resistance by labour unions. Yet rather than searching for solutions outside the institutional frameworks, business used the underlying institutional frameworks to upgrade product market strategies (Streeck 1991). Long-term finance and the well-established training system allowed management to adopt alternatives to the deregulation path and pursue those to their advantage. Institutions such as Co-determination or the training systems, which were very favourable to workers, were internalised by businesses as mechanisms for upgrading products and production processes. While Germany and Sweden are well-known illustrations of this latter development, the Japanese export sector provides an equally convincing example: workers' voice was institutionalised so that the organisation of production could be permanently upgraded (see the elogy in Womack et al. 1991).

In sum, by the end of the 1980s, the many different institutional arrangements in the OECD countries that had existed only a decade before had moved to cluster around two poles (Hall & Soskice 2001). One was the deregulation pole, exemplified by the UK, the USA, Australia, New Zealand and Israel. This pole combined deregulated labour markets, decentralised wage setting mechanisms, weak national union movements, and unilateral decision-making by management within companies. At the end of the 1980s, these countries appeared to get the worst of all worlds: very weak macro-economic performance, outdated and uncompetitive mass production industries, and extremely weak trade performance. We will call this group the liberal market economies (LME). Note that since Australia had developed a centralised bargaining system before 1980, Australia's and New Zealand's governments were Labour when the economy deregulated, and Israel's labour relations system was changed despite the power of the labour union Histadrut, most of the conventional predictors for

these changes seem not to hold: the weakness or conflictual stances of labour movements, or the absence or presence of conservative governments.

Table 4: Unemployment rates 1980-1997
standarised unemployment rates

	1980	85	86	87	88	89	90	91	92	93	94	95	96	97
France	6.3	10.1	10.2	10.4	9.8	9.3	9.0	9.5	10.4	11.7	12.3	11.7	12.4	12.4
Germany	3.2	7.9	7.5	7.6	7.6	6.8	6.2	5.6	6.6	7.9	8.4	8.2	8.9	9.9
Italy	7.5	8.5	9.2	9.9	10.0	10.0	9.1	8.8	9.0	10.3	11.4	11.9	12.0	12.1
Netherlands	6.0	8.3	8.3	8.0	7.6	6.9	6.2	5.8	5.6	6.6	7.1	6.9	6.3	5.2
UK	6.4	11.5	11.5	10.6	8.7	7.3	7.1	8.8	10.1	10.5	9.6	8.7	8.2	7.0
Japan	2.0	2.6	2.8	2.8	2.5	2.3	2.1	2.1	2.2	2.5	2.9	3.2	3.4	3.4
USA	7.0	7.2	7.0	6.2	5.5	5.3	5.6	6.8	7.5	6.9	6.1	5.6	5.4	4.9
OECD	5.8	7.8	7.7	7.4	6.7	6.2	6.1	6.8	7.4	8.0	7.9	7.5	7.6	7.3
EU 15					9.5	8.7	8.1	8.4	9.1	10.7	11.1	10.7	10.8	10.6
G7	5.5	7.1	7.1	6.7	6.1	5.6	5.6	6.3	6.8	7.2	7.1	6.8	6.8	6.6

sources:

OECD Statistical Compendium 1999/2 (Paris, OECD 1999; for 1982-1998, except D from 1981-1992),

OECD Labour Force Statistics 1976-1996 (p. 557; Paris, OECD 1997; for D from 1981-1992),

OECD Historical Statistics 1960-1987 (Series 'Economic Outlook; p. 41; Paris, OECD 1989; for 1977-1981)

The other pole was the one formed by "the usual suspects," the northern European economies: Sweden, Denmark, Germany, Austria, Switzerland, Belgium, Finland and Norway. However, Japan and Italy belong here as well. Again, few of the normal predictors for labour success --the formal position of labour; the colour of government-- seem to explain this grouping. This pole combined stable and relatively centralised --or at least co-ordinated (Soskice 1990)-- wage bargaining systems, peaceful workplace labour relations, an institutionalised system for workers' voice in company decision-making, and relatively strong national labour movements. We will call these the co-ordinated or organised market economies (CME).

What all these countries also shared, and which separated them from the first pole, was strong industry- or, as in Japan, group-based associational activity, which provided individual companies with broad collective goods (training, technology transfer) that allowed them to usefully internalise the constraints

imposed by the position of labour unions in the companies. They systematically searched for higher value-added product markets, and upgraded their production processes to do so. The result was very strong export performance, co-operative labour relations, low unemployment and strong national union movements.

Table 5: Export performance 1980-1997

	1980	85	86	87	88	89	90	91	92	93	94	95	96	97
France	183	212	209	214	231	256	270	281	295	291	310	329	347	391
Germany	306	395	392	394	415	455	457	444	443	420	454	483	508	565
Italy	143	172	173	181	190	205	219	220	234	257	284	318	316	336
Netherlands	101	118	121	125	137	146	154	161	165	168	179	191	201	215
UK	169	195	203	215	216	226	238	236	246	255	279	300	321	347
USA	190	274	258	257	272	297	317	334	350	355	371	391	405	449
Japan	358	337	359	395	457	509	548	581	619	639	696	792	888	1002

exports in bn US-Dollars, US-Dollar exchange-rates and price levels of 1990
source: OECD Statistical Compendium 1999/2 (index code: 9005FSA)

Again, the conventional arguments explain only little of the developments in this group. Germany restructured under the Kohl government, while Sweden did so under a mixture of Social-democratic and "Bourgeois" governments. While most of the unions in this grouping are rather pragmatic, both Belgium and Italy have strong wings of militant trade union (FGTB in Wallonia and the CGIL in Italy). And while all the unions started from a relatively strong position in the early 1980s, they were not all the same. Sweden, and Norway, for example, had highly centralised collective bargaining systems and union density rates over 85%, while the unions in the Netherlands had weakened seriously in the 1980s, and Germany's density rate was medium but stable.

4. Labour relations in a globalising economy: 1992-2000

These two basic models of labour relations provided the basic matrices for the different OECD-countries to enter the 1990s. Changes in global competition increasingly led to debates about the usefulness of the different models. Moreover the world-wide recession, which was especially deep in Europe and out of which

the continent emerged only slowly, put significant pressures on the labour relations systems. This section will analyse the responses of the different systems along the lines of the co-ordinated (CME) and liberal market economies (LME) outlined above, and interpret the evolution over the last decade in light of the different needs of employers –against the background of institutional resources for unions-- in these two groups of countries.

Two changes took place within the group of the CME. First, and most importantly, the German model itself was undergoing rapid changes. Wage co-ordination remained very important, but a growing proportion of wages was set at the company level, allowing businesses to attract and reward skilled workers over and above the tariff wages. Co-determination institutions gradually shifted from relatively autonomous works councils that constrained management choices to integrated parts of management, frequently pushing companies to restructure in ways that managers were very weary of trying on their own. Not surprisingly, as a result, the link between unions and works councils, which had been very close until the late 1980s, gradually loosened. Thus the system of labour relations changed to the initially envisioned dual system (in the Works Constitution Act of the 1950s), with relatively independent non-union works councils in the companies and industry unions at the industry level.

Employers were very careful to construct labour relations systems in such a way that they obtained both the benefits of peaceful, “responsible” sector-level wage determination systems and the co-operation of their local workforce through the works councils. In fact, during two conflicts in the mid-90s, which might have led to a (partial) destruction of this relatively orderly structure, the system remained in place. In 1995, the wage round led to a strike in Bavaria, where metal sector employers came out against the hard-line of their confederation and sided with the unions. Again, in 1996, when some companies tried taking advantage of a new sick pay law which allowed companies to pay only 80% of compensation instead of the previous 100%. As soon as large companies moved in that direction, works councils called their bluff by making their own co-operation in restructuring contingent upon management’s attitude toward the new law. The result was that all large companies which were eyeballing the new provisions,

backed down, and that the sick pay law died a relatively quiet death (Thelen 2000). Decentralisation, which took place in German industrial relations like elsewhere, was, as this suggested a highly co-ordinated and negotiated matter, leaving largely intact the positions of the different actors.

During the same period, the centralised systems of the Scandinavian countries came under serious pressure, which forced them to reconstruct their labour relations systems along the lines of this reconstructed German model.

Developments in Sweden are perhaps most emblematic of the changes. In 1992, the central employers' federation SAF simply abolished its central wage bargaining unit, while many large Swedish companies (Volvo, ABB, Ericsson) were developing plant-level restructuring plans that involved new, less formal and institutionalised patterns of workers' participation (Martin 1995; 2000). From a highly centralised wage setting system, these economies therefore shifted to a highly co-ordinated, but primarily industry-based collective bargaining system, which left more room for wage developments at the company level (Iversen 1995). Within companies, local unions gradually developed their already existing role of management partners in restructuring (Pontusson 1994; Pontusson and Swenson 1996; Thelen 1993)

Developments in Italy in the last two decades have followed somewhat of a pendulum pattern. Initially a highly structured labour relations system, it collapsed in the early 1980s, following a managerial assault on labour relations institutions, led by FIAT (Locke 1990). Throughout the 1980s, however, the negative effects of a labour relations system without an institutional voice for labour became clear to both management and governments, and gradually attempts were made to reconstruct a collective bargaining system, which combined a relatively strong central role for unions and co-operative shop-floor structures. In the 1990s, in exchange for dropping the automatic wage indexation system, employers reintegrated unions into collective bargaining structures to build a national system (Locke & Baccaro 1995). The fear of employers was that without unions, local collective bargaining would relatively quickly become highly politicised, and re-centralisation was the answer. Yet on the other hand, workplace restructuring in the 1980s had led to a decentralised decision-making

structure in the plants, where employers were very dependent upon active co-operation by the workforce. The outcome in Italy was therefore a relatively co-ordinated sectoral wage bargaining system and decentralised institutions of workers' representation in the plants (Katz & Darbishire 1999).

The most remarkable thing about labour relations in Japan in the past decade is perhaps how little has changed there. First of all, as in most of the other CMEs, there has been relatively little additional decentralisation. Japanese labour relations had been highly (notoriously) company-oriented before, and remained so. However, wages, which were relatively co-ordinated across major firms in industries, remained so as well throughout the 1990s. However, within firms wage variation increased, primarily as a result of a growing part of wages being based on skill (while the role of seniority in wage determination is declining –see Katz & Darbishire 1999). In short, as in the other CMEs, the Japanese system now combines relatively co-ordinated sectoral wage bargaining arrangements with relatively flexible plant-level arrangements, within which wage differentials reflect skill differentials. The only element where Japan is somewhat different from most of the other CMEs, is in unionisation rates, which have declined, largely a result of unions being unable to organise new sectors in economy.

Importantly, these developments in the national labour relations systems were not taking place in an international vacuum. Especially in the European Union, the run-up to EMU added considerable additional institutional pressure for a convergence toward some version of the flexibly co-ordinated German model. The Bundesbank and IG Metall, the most important union in the exporting sector, have, over the last two decades been engaged in a signalling game, in which wage inflation (i.e. wages negotiated by IG Metall) and interest rates (i.e. the for macro-economic policy) were tightly linked (Hall 1994). However, the Bundesbank was also *de facto* the central bank for all of the EU-member states in the DM-zone, since all other central banks followed it to avoid speculations against their national currencies. Replicating the German Bundesbank – IG Metall setup, many initiatives were taken in other EU-countries over the last decade to align wage developments with those in Germany (the main trading

partner), and the outcome was that in most countries some form of co-ordinated wage bargaining emerged or was strengthened (Pochet and Fajertag 1997).

By the turn of the century, therefore, the CMEs were converging on different versions of a common model that was matched a flexibly centrally co-ordinated wage bargaining system with decentralised decision-making structures in the companies. In Germany, the labour relations model had changed to better articulate employers' needs for flexibility with the existing labour relations institutions, in Sweden, the relative move away from centralised wage bargaining led to a highly co-ordinated flexible wage-setting system, and against this background union-led forms of workers' participation were extended throughout the economy. After a few years of experiments with rampant decentralisation in labour relations, Italy returned to a centralised structure in the 1990s, but one which left space for companies to develop new initiatives. Moreover, these developments in Europe received a strong push from European integration: the tighter interdependencies between the economies in Europe forced unions to take into account both collective bargaining procedures and outcomes in their main trading partners when devising domestic strategies. In Japan, finally, industrial and labour relations had always been highly sensitive to the needs of individual companies, but within a rather tightly co-ordinated collective bargaining framework.

In stark contrast to developments in the CME, deregulation was consolidated within the LME. In the UK, the decentralisation of collective bargaining since the 1980s was accompanied by a collapse in multi-employer bargaining. Moreover, the small structuring role that employers' associations had played in the previous decades, decreased even further. The result was that the coverage rate of collective bargaining dropped dramatically, to reach 22% in private sector. Moreover, unions, who had organised over half of the workforce for most of the post-war period, saw their share of the workforce fall to below 35% --further proof to many of their relative irrelevance (Howell 1995). Most importantly, perhaps, in many cases, unions started negotiating wages and working conditions on management terms. Instead of a survival of the perennial conflict-ridden industrial relations system, the UK witnessed a wave of co-operative collective

agreements in the 1990s: at Vauxhall, Rover, Ford, and BT (Katz & Darbshire 1999).

Ironically, the change in government in the spring of 1997 mattered relatively little to these developments. While the Blair government certainly softened things for the unions by passing laws which abolished the most labour union-hostile measures taken by the Thatcher and Major governments, the state was careful to do so in ways that would not endanger the basic logic of the UK production system. Moreover, even though German-style labour market institutions, such as the dual training system and a form of works councils were advocated in policy debates, little institutional change took place, in fact.

The US labour relations system under President Clinton underwent a similar evolution. Initiated by (the union-friendly) labour minister Robert Reich, the government tried to test how a "German-style" labour relations system could be set up, which raised training standards and gave workers an institutionalised voice in the company. However, none of these debates actually led to new institutions in the labour market. While a lot of experimentation with new models of work organisation, joint decision-making and even wage setting was going on, especially in the strongly unionised sectors such as the car and the telecommunications industries, they did not originate from the government-initiated debates.

Perhaps the most important development of the 1990s was the growth of non-union employment in these and other important sectors of the US (Katz & Darbshire 1999). In the 1990s, new (trans)plants (many of Japanese, but some also of German origins) in the car industry, and new companies in telecommunications (MCI and Sprint, most notably) aggressively side-stepped the union-based collective bargaining system. Outside these industries, unions were, with only a few exceptions, unable to organise the workforce in the new low-end and high-end service sector. As a result, the highly deregulated labour market regime was spread over the entire economy.

In both these countries, unemployment fell dramatically in the 1990s. While it is unclear if the causes have to be found in expansionary macro-economic policies or

instead in labour market flexibility, there is little doubt that the structure of the labour market, which punished the unemployed and forced them to take jobs at any wages (including wages that do not cover living expenses, hence the growth of the working poor in the UK and US), has been an important instrument in both the US and the UK. By the late 1990s, however, the unemployment rate had fallen to extremely low levels, and there are signs that workers are exploiting their renewed labour market power: in the first quarter of 2000, US inflation jumped up.

The Australian labour relations system is the last in this short review of the LMEs. From 1983-1996, the country had a Labour government, yet the changes the labour relations system underwent were very similar to UK and US. Collective bargaining decentralised, within the companies managerial unilateralism was installed while the few representative institutions lost in importance, and union density fell from 50 to 38 % for men in 1986-94, 39 to 31 % for women (Katz & Darbishire 1999).

In the 1970s, the Australian labour relations system became a highly centralised model, based on a union-government framework agreement that set wage guidelines. However, in 1988 a labour court case opened up the possibility of decentralisation. Initially, this was supported by the unions, since a decentralised wage-setting system gave locals room for adding to the central wage guidelines that the national union was obliged to follow. Problem for the unions emerged in 1993, however, when the enterprise agreements, to which unions were mandatory signatories, were replaced by enterprise flexibility agreements (EFA). The big difference between the two was that the latter did not require unions to sign the agreements. Instead, EFA allowed employers to reorganise workplaces and then take reasonable steps to inform the personnel, but without necessarily passing via the unions. The result was that workplace bargaining increased rapidly in the 1990s: from 22% of enterprise agreements in 1994 to 60% in 1995.

After 1996, the Labour government was voted out, and the conservative government which replaced it, passed the Workplace Relations Act. The most

important new element in this act was the individualisation of wage settings. Thus, in less than ten years time, the Australian labour relations system had gone from a relatively centralised, union-centered system to a highly decentralised one, in which unions could be circumvented by management.

As these three short accounts of labour relations on the LMEs demonstrate, the UK, US and Australia were moving in the same direction. Whereas in the CMEs, decentralisation of labour relations took place in a highly co-ordinated manner, often negotiated between unions and employers, in the LMEs decentralisation was a means for employers to circumvent the existing union-based labour relations system. The result was that by the late 1990s, bargaining coverage was low and falling, and that the room for individual management to reorganise had increased, unfettered by unions.

5. Conclusion

This paper has argued that understanding the divergent developments in labour relations in advanced capitalist economies over the last two decades requires shifting the attention to two institutional elements which have been ignored by most previous labour relations studies: the strength of employers, and the position of unions in workplaces. Where employers were strongly organised, they were able to circumvent the obstacles that strong local unions might put up, through the construction and reproduction of institutions which allowed them to pursue high value-added product market strategies. In this process, the labour market institutions then also became instruments for such an organisational upgrading. The outcome in these countries was an evolution of labour relations along a path that was described as flexible wage co-ordination at the sectoral level, while institutions of workers' representation were internalised in management strategies in product markets. Moreover, the influence of unions was not weakened in these countries, since employers were careful not to endanger the cooperation of workers in company restructuring. And, perhaps most importantly, the role of the state in the process was relatively small: strong

unions and employers negotiated the changes among themselves, sometimes against the state's wishes.

In the second group of countries, where employers were weakly organised, the outcome was, independently of the prior position of labour, a turn toward a deregulatory path, often initiated by the state. This was made necessary by the endemic inability of business to coordinate, which made the construction of a high-end escape route impossible. The state thus stepped in to reorganise the labour relations system in line with the strategic choices of employers.

As a result, labour relations systems at the end of the twentieth century were converging not on one, but on two models. The first, typified by the Anglo-Saxon economies, was the liberal market economy; the second, of which the essential characteristics are summarised above, was called the coordinated market economy. The most important development of the 1990s was, perhaps, that national labour relations systems in these two broad families converged on two basic configurations. In the CME group, the systems moved toward a transformed version of the German model, with strong, mainly sectoral wage co-ordination and institutionalised forms of workers' representation in the companies. In the LME group, the national systems moved toward a decentralised wage-setting system and managerial unilateralism within the companies along the US/UK model.

These reconfigurations of the national labour relations systems were tightly linked to product market strategies. In the CME, the weight of industrial employment remained high, and the export successes of these economies were related to the institutions that supported competitiveness. Moreover, innovation followed an incremental path, which relied heavily on the skills in the workforce. The LME, in contrast, witnessed a strong de-industrialisation in the 1980s and 1990s, a concurrent shift to (high and low-end) service sector employment, and the adoption of an innovation pattern that relied on rapid shifts in and out of new markets (implying rapid hiring and firing practices). By the late 1990s, therefore, the two different models of labour relations became articulated into two

relatively stable configurations where institutions, labour market practices and company strategies were closely linked.

Globalisation thus appears to have had the opposite effects of what most observers expected. Instead of leading to convergence on a single model, or even on the absence of clearly defined national models, whereby local company and union strategies shape different outcomes (Katz & Darbishire 1999), the material in this paper suggests that at a higher level of aggregation, (at least) two relatively stable models existed, and these two models show no sign of getting closer to each other.

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