

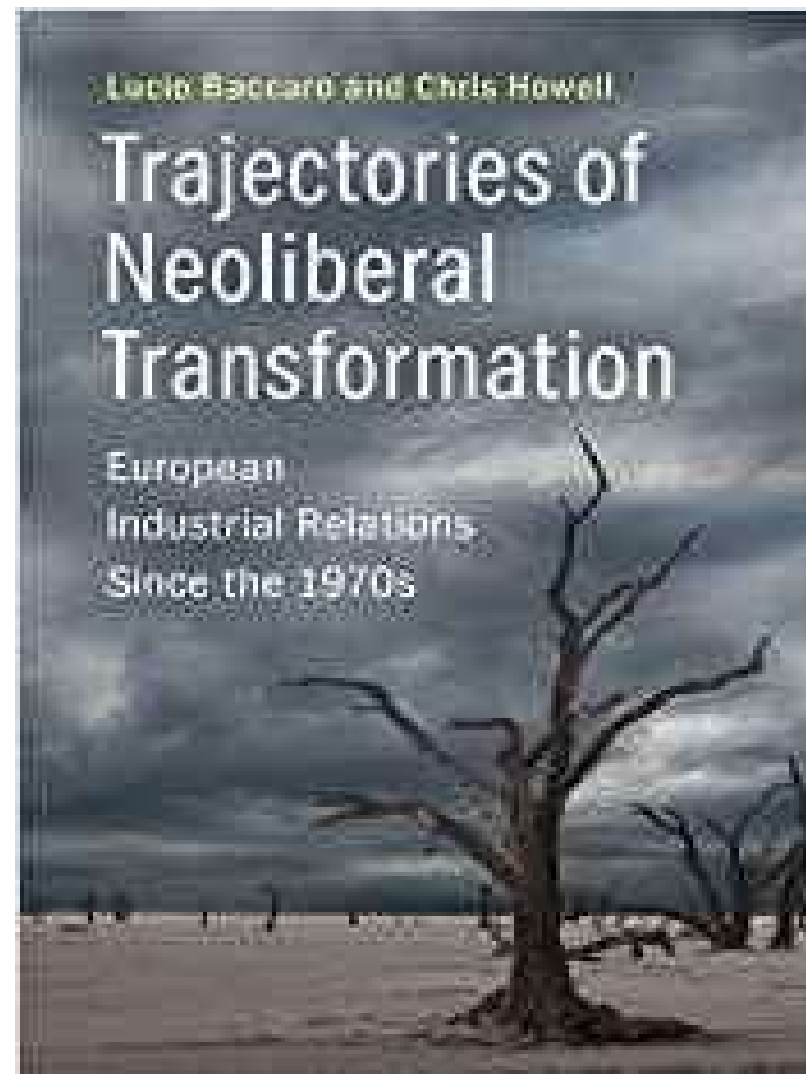


Trajectories of Neoliberal Transformation: European Industrial Relations since the 1970s

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The Background

1. Dominance of theories emphasizing the resilience of national institutions in the face of common economic shocks
 - a. Varieties of Capitalism (Hall & Soskice 2001)
 - b. Convergence within types but absence of convergence across types
 - c. The preferences of key firms as a stabilizing factor





The Argument

- > Industrial relations are undergoing a common trend of liberalization
- > Liberalization does NOT mean convergence of institutional form across countries
- > It means that *employer discretion* has increased everywhere through different combinations of:
 - Changing legal rules ('deregulation')
 - Bypassing or ignoring institutional constraints ('derogation')
 - Changes in the functioning of institutions from discretion-limiting to discretion-enhancing ('conversion')
- > Employer discretion means:
 - Freedom to hire and fire at will
 - Freedom to assign workers to tasks
 - Freedom to set the amount, type and distribution of wages





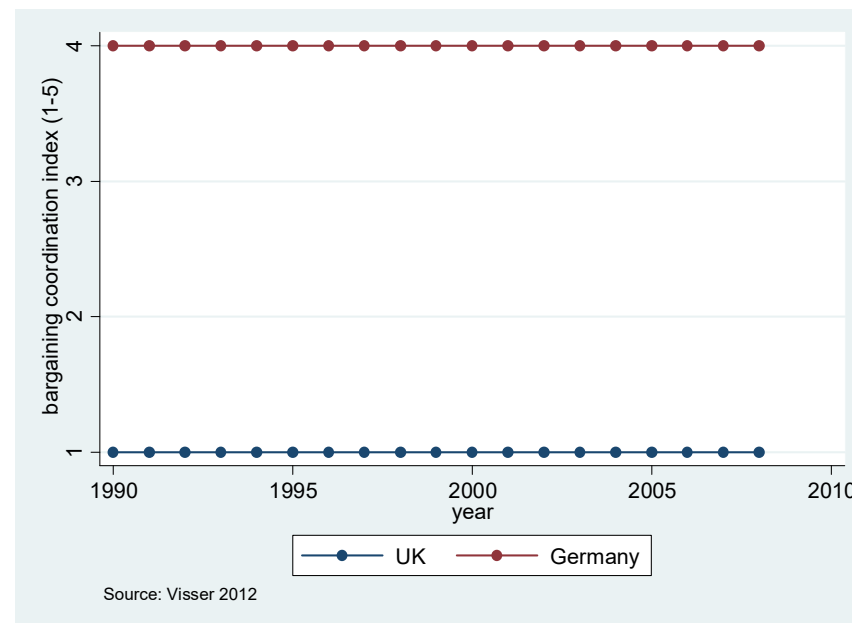
Revisiting Power Resource Theory

- > Rediscovery of 'power resource theory' (Korpi 1978; Korpi and Shalev, 1979; Esping-Andersen 1985)
- > The functioning of ER institutions (but possibly not all political economic institutions) depends on the broad constellation of social forces in which they are embedded
- > Balance of power changed everywhere to the detriment of workers and unions
- > While the institutional manifestations of this changing dynamics depend on context and starting points, the common direction of increased employer discretion is unequivocal



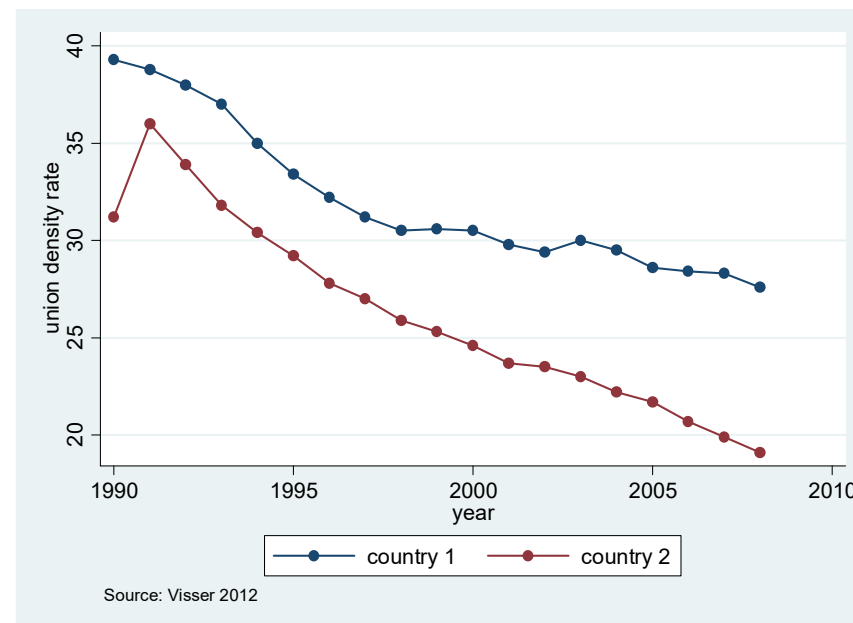


Wage Coordination in Germany and the UK



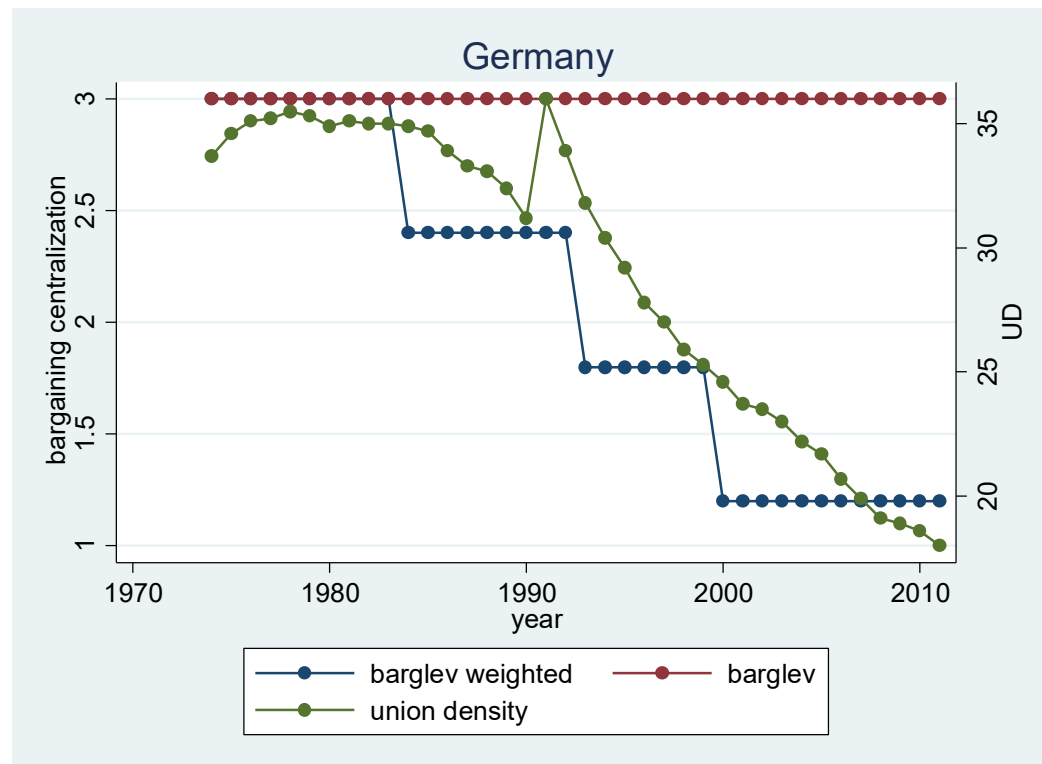


Union Density in Germany and the UK





Adjusted Bargaining Centralization and Union Density in Germany





Empirical Material

- > Quantitative analysis of industrial relations indicators for 15 advanced OECD countries
- > Five case studies of France, Germany, Italy, Sweden, and the UK
 - Snapshots at T1 (circa 1980), T2 (just before the financial crisis), T3 (mid-2010s)





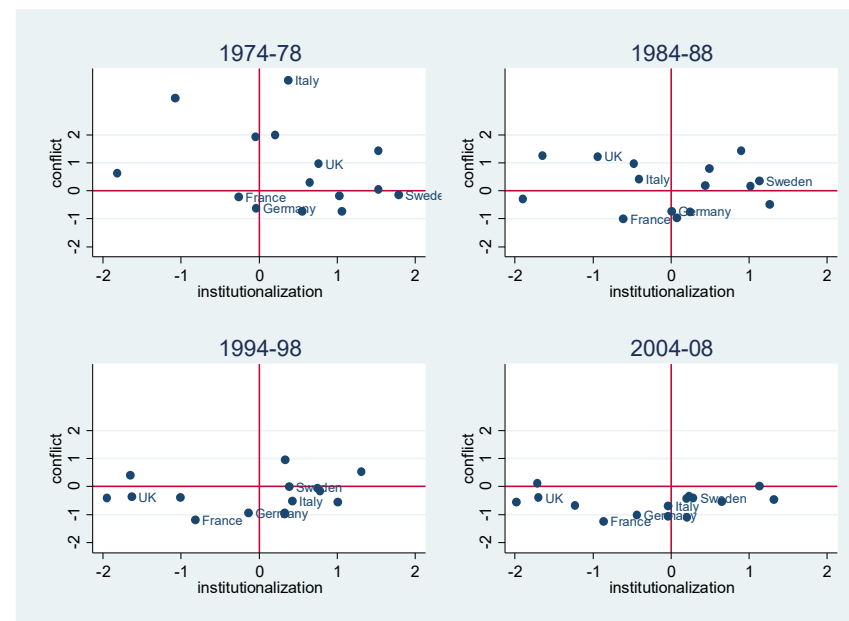
Factor Analysis (1974-2008)

Variable	Factor1	Factor2	Uniqueness
union density	0.70		0.40
barg coverage	0.74		0.42
barg level	0.95		0.10
barg level weighted	0.93		0.13
coordination	0.93		0.12
social pacting	0.71		0.49
conflict rate		0.96	0.07
blanks represent abs(loading) <0.5			



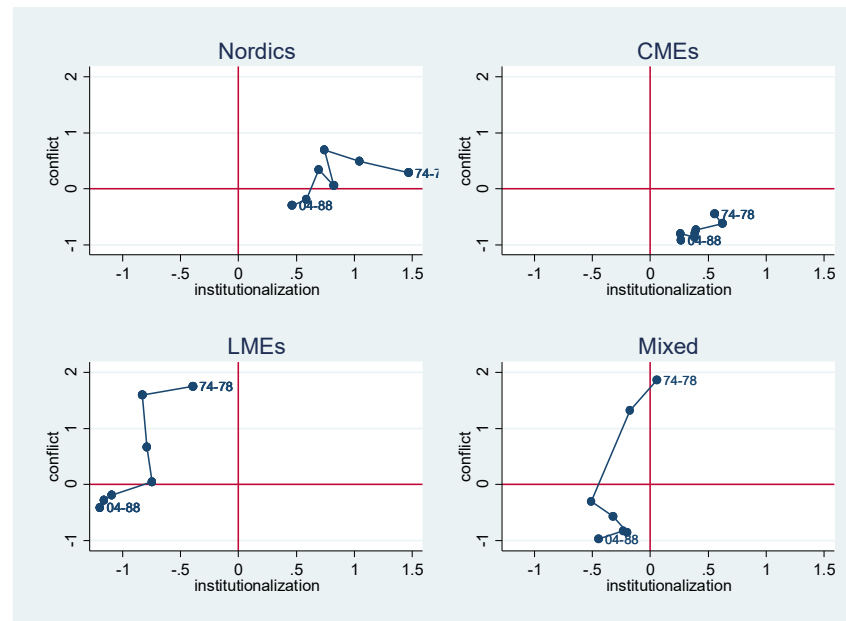


Factor Scores for 15 Countries



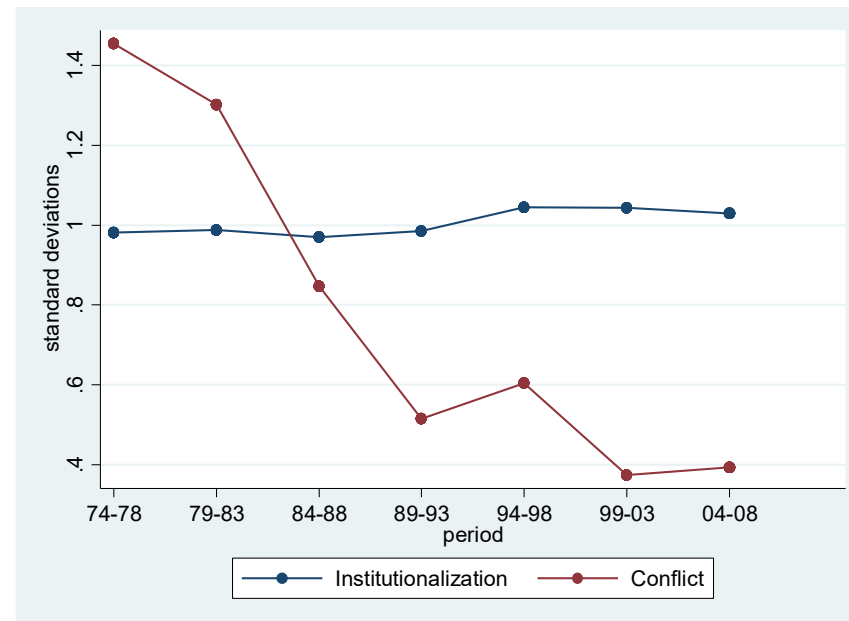


Country Groupings





Standard Deviations of Factor 1 (Institutionalization) and 2 (Conflict)





The German Case





The German Model of Textbook Fame

- > A rigid regulatory system provided for dynamic efficiencies by forcing companies to compete on quality (as opposed to costs) in high value-added production niches
 - Diversified Quality Production (Streeck, 1991)
 - The model description was carefully hedged: more price-competitive markets or fewer firm incentives to invest in skill upgrading would lead to decline

- > What happened to it?





The Coordinationist/VoC Position

- > Typical of VoC scholars (Hall and Soskice, 2001)
- > Early arguments:
 - German employers have a pre-strategic preference for CME institutions (Soskice, 1999)
 - Employers' preferences are strategic (Thelen, 2000; 2001) but globalization has strengthened labor's countervailing power (Thelen and Wijnbergen, 2003)
- > Newer argument:
 - Only the service sector has been liberalized; the manufacturing sector is still as coordinated as it once was (e.g. Hall, 2007; Hassel, 2014; Palier and Thelen, 2010; Hall and Thelen, 2010; Thelen, 2014; Hassel, 2014)
 - This is also the position of some PK economists (e.g. Storm and Naastepad 2015)





The “Liberalizer” Position

- > Liberalization is a common feature of advanced political economies, and Germany is no exception (Streeck, 2009; Baccaro and Howell, 2011; Höpner *et al.*, 2011)
- > The impetus for liberalization came from increasing employer concerns for containing costs
 - Greater price sensitivity of German exports?
- > Increasing employers’ discretion, decentralisation of collective bargaining, diffusion of price-based mechanisms in formerly coordinated arenas, restructuring of supply chains, outsourcing and offshoring





The Trajectory of Liberalization

- > Two cost shocks: increased price competition in high-end market niches and costs of German unification
 - Exiting the employer association or demanding OTV membership (Turner, 1998; Silvia and Schroeder, 2007)
 - Squeezing profit margins of domestic suppliers (Greer 2008; Silvia and Schroeder, 2007)
 - Favoring the diffusion of “wildcut derogation” or PECs (Hassel and Rehder 2001; Rehder, 2003; Haipeter, 2009)
 - Outsourcing non-essential services (Doellgast and Greer 2007; Helfen 2011)
 - Offshoring (Jürgens and Krzywdzinski 2006; Kinkel and Maloca 2009)
 - 40% of manufacturing companies between 1999-2001 and 75% for cost reduction reasons (Kinkel and Lay 2003)





National Responses

- > Alliance for Jobs in 1995
- > Alliance for Jobs, Training and Competitiveness in 1998
 - Both essentially failed
- > Unilateral government response: Agenda 2010 and the Hartz reforms
 - Deregulation of agency contracts
 - Reduction of unemployment insurance duration, activation requirements
 - Pressure on regular workers to make concessions to save their jobs (Rebien and Kettner 2011)
 - Redistribution of power between central union and WCs





The New German Model

- > Dramatic decline of collective bargaining coverage
- > The end of intersectoral wage coordination (ensuring balanced wage growth)
- > Growing pressure of atypical workers (outsiders) on typical ones (insiders), pushing the latter into concessions





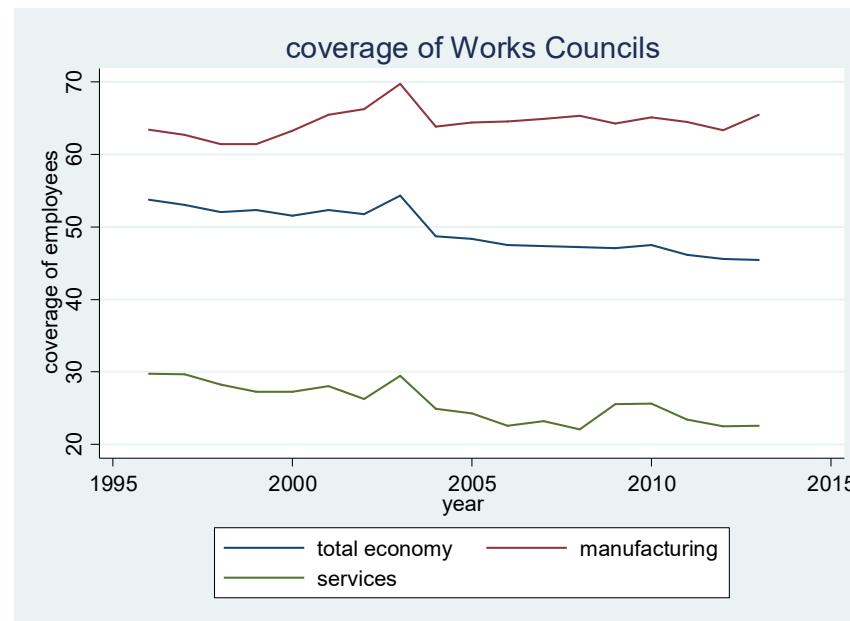
Bargaining Coverage in Manufacturing and Services (Source: IAB)

Year	Sectoral agreements in manufacturing		Sectoral agreements in services		Company-level agreements in manufacturing		Company-level agreements in services	
	%establishment	%workforce	%establishment	%workforce	%establishment	%workforce	%establishment	%workforce
1995	63.2	80.3	56.7	71.1	5.5	8.1	8.3	9.4
1996	55.4	74.9	46.3	65.4	10.9	11	11.7	10.3
1997	59.2	73	47.6	65	11.3	12.5	9.1	10.3
1998	53	70.7	44.9	62.5	5.8	7.3	4.2	6.5
1999	47.6	65.3	41.9	61.1	3.4	7.8	2.4	5.5
2000	43	63.5	46.5	60.8	3.1	6.7	2.4	4.8
2001	42.1	62.6	44.3	60.6	4.8	9.4	2.4	5.1
2002	41.9	63.9	42.7	58.7	2.8	8.4	2.1	5.3
2003	44.5	63.2	41.2	58	3.3	8.9	2.3	5.7
2004	40.9	62.5	38.6	55.2	2.6	7.4	2.1	5.4
2005	36.9	58.1	37.4	53.6	2.7	9.3	2	4.8
2006	36.7	55.3	36.6	52.3	2.7	10.8	2.1	5.2
2007	34.7	55	35.8	49.2	3.6	10.1	2-4	5.1
2008	32.2	54.6	36.3	49.6	3.6	10	2	4.4
2009	33.7	53.2	37.1	50.1	3.6	10.4	2.5	4.5
2010	29.8	51.6	35.6	50.3	2.9	11.3	1.7	4.1
2011	28.3	50.5	33.7	46.7	2.8	10.2	1.6	4.3
2012	29.3	49.9	34.3	46.9	2.6	10.1	1.7	4.6
2013	26.9	50.4	32.4	45.2	3	12.1	1.3	4.4





Coverage Rate of Betriebsraete (% of workers)

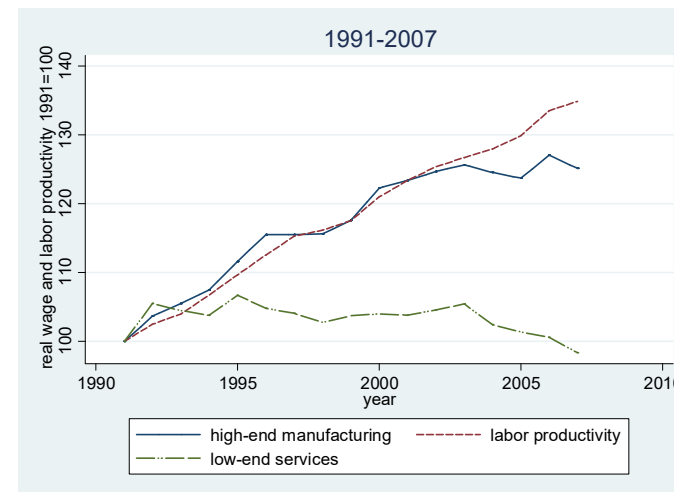


Source: IAB, own elaborations



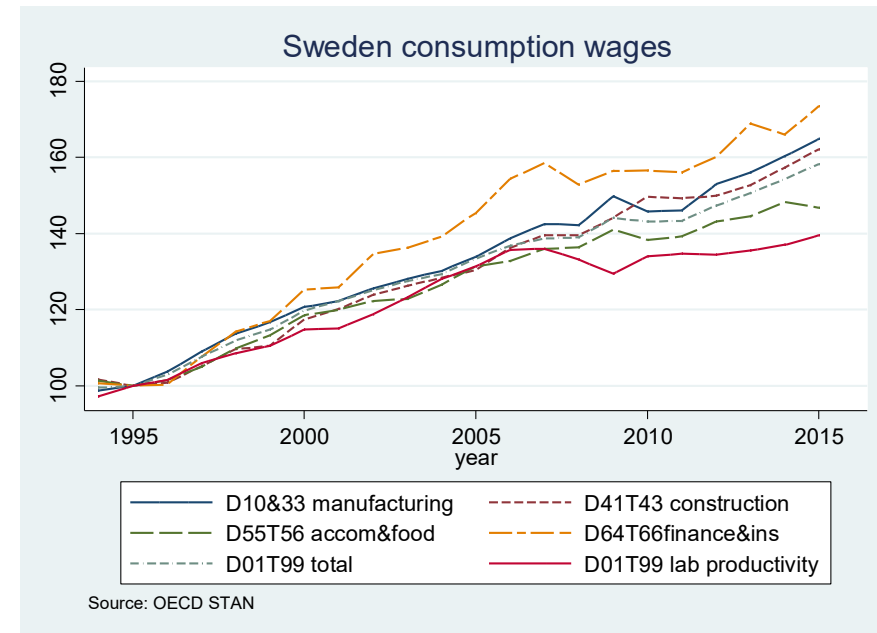
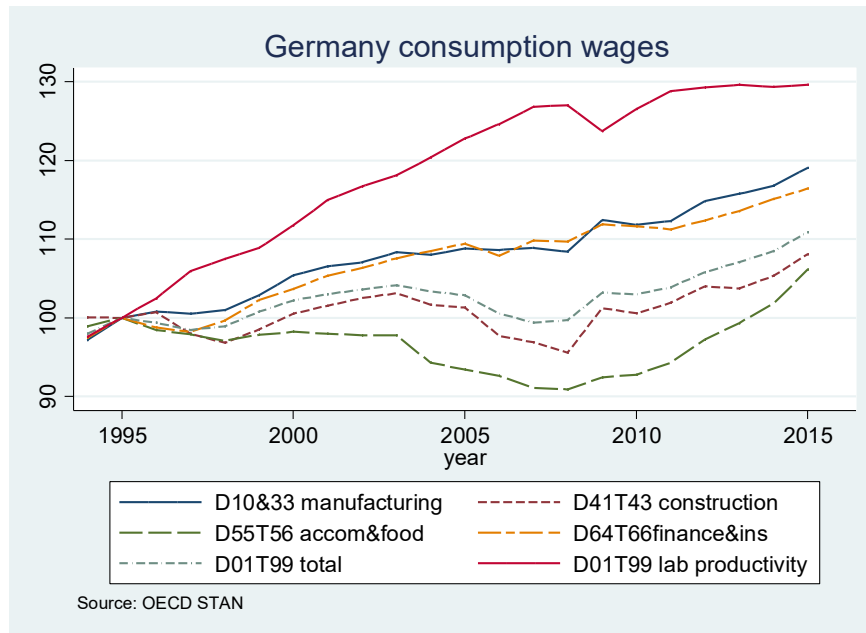


Real Wages and Labor Productivity (Source: EU KLEMS)



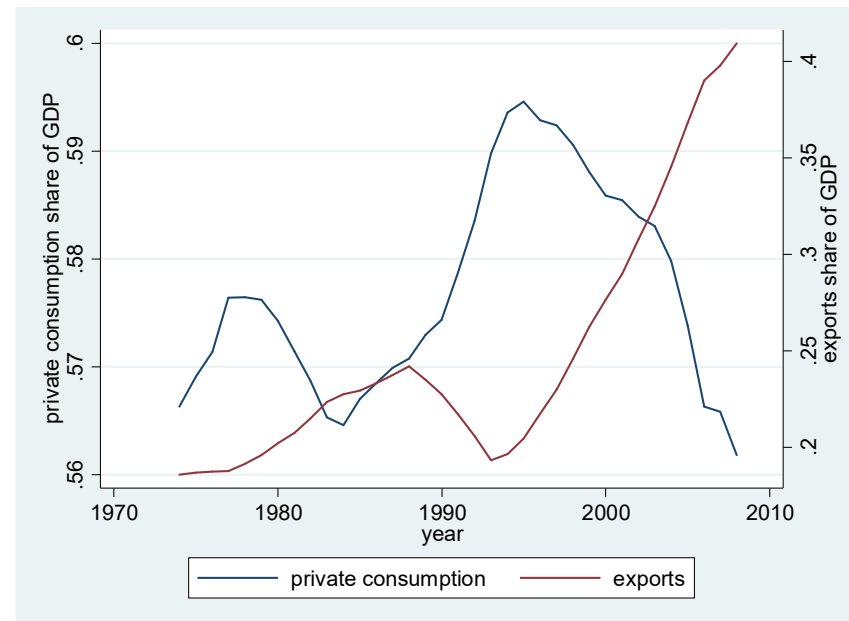


German and Swedish Wages



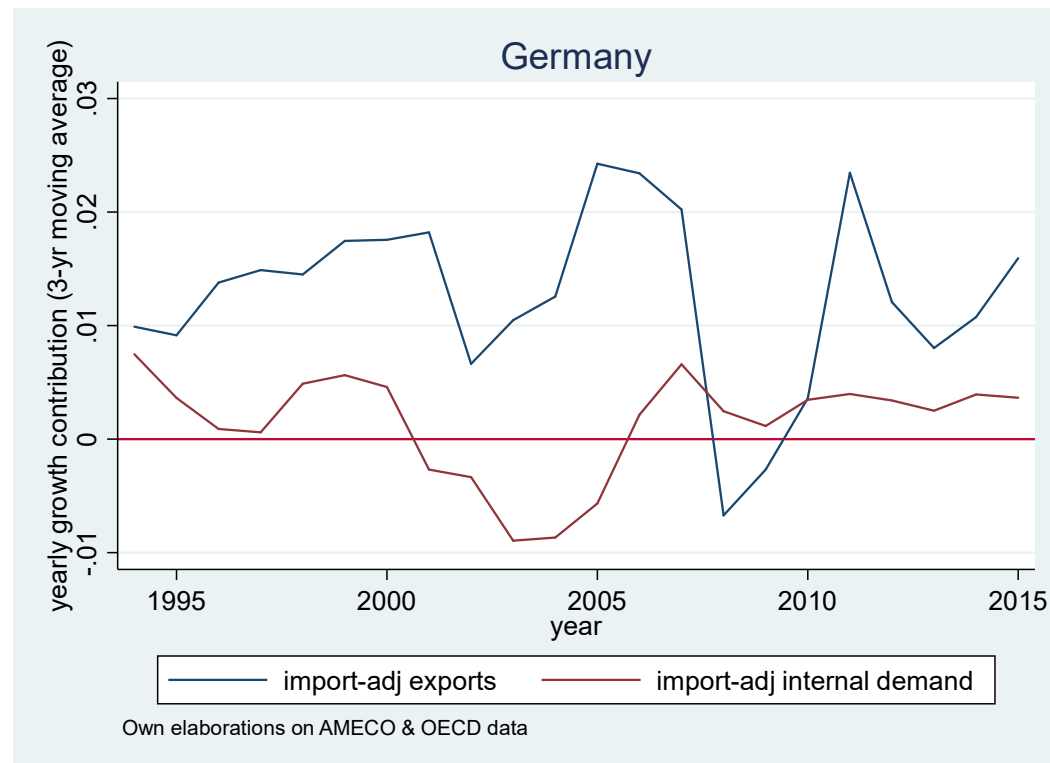


Private consumption and exports as percentage of GDP (constant prices)



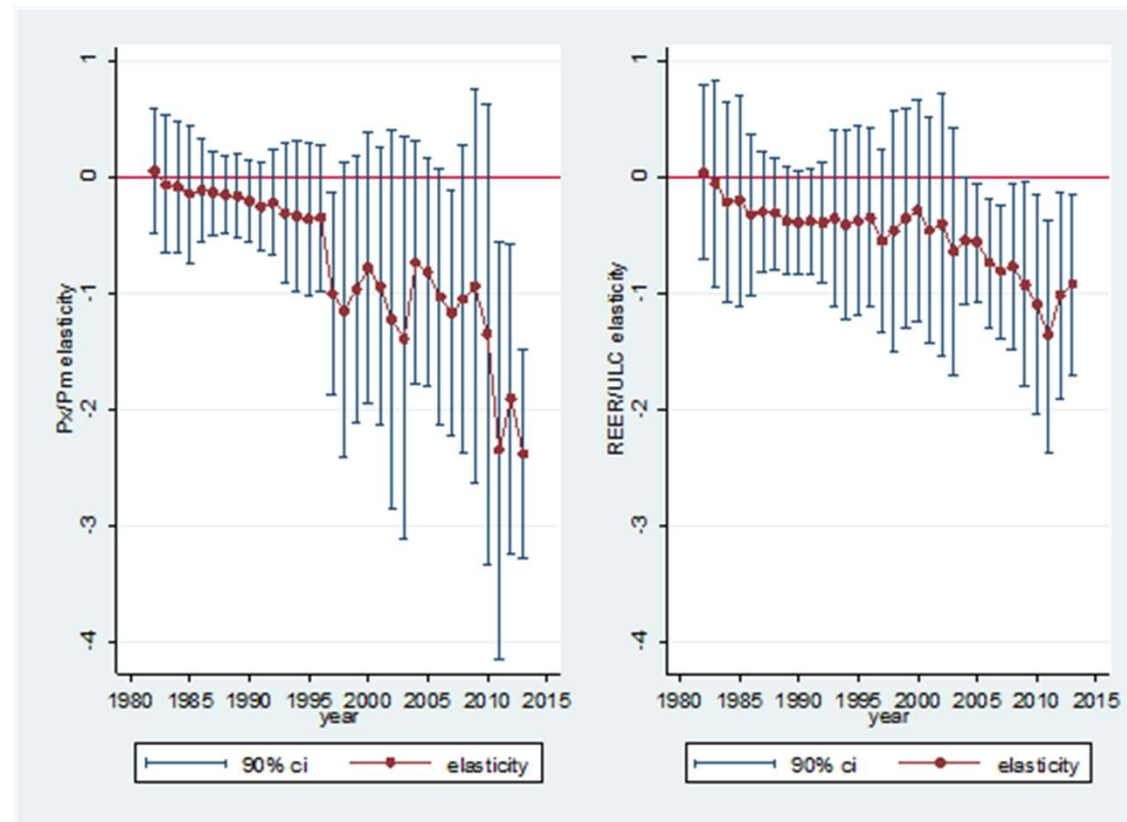


Contributions to GDP Growth





RER-Sensitivity of Exports for Machinery and Transport. Equipment Sector





Lessons from the German Case

- > Changes in employer discretion
 - Freedom to hire and fire
 - EPL for regular workers has remained constant; EPL for temporary contracts decreased; wage comparability requirement weakened.
 - Freedom to assign workers to tasks
 - Always relatively high due to post-fordist work organization and WC collaboration;
 - Working-time flexibility increased and used as a first measure to weather crisis
 - Freedom to set the amount, type and distribution of wages
 - Strong deterioration of sectoral bargaining; opening clauses; OT membership; threat of offshoring and outsourcing
 - Productivity-indexation breaks down for service workers
 - Strong increase in low-end inequality

- > Liberalization doesn't take the shape of a frontal assault on institutions; rather, of erosion and conversion of WC function





Why Does the Liberalization of Industrial Relations Matter?





Political Stabilization Effects

- > Institutionalized IR systems (centralized bargaining, high union density, neocorporatist policy-making) are associated with lower wage and income dispersion, and a lower share of top 1% income
- > Strong unions counterbalance political influence of financial capital (Acemoglu & Robinson 2016)
- > At an individual level, union members have greater likelihood to participate in elections, to vote for pro-labor parties, and higher preferences for redistribution





Demand- and Supply-Side Effects

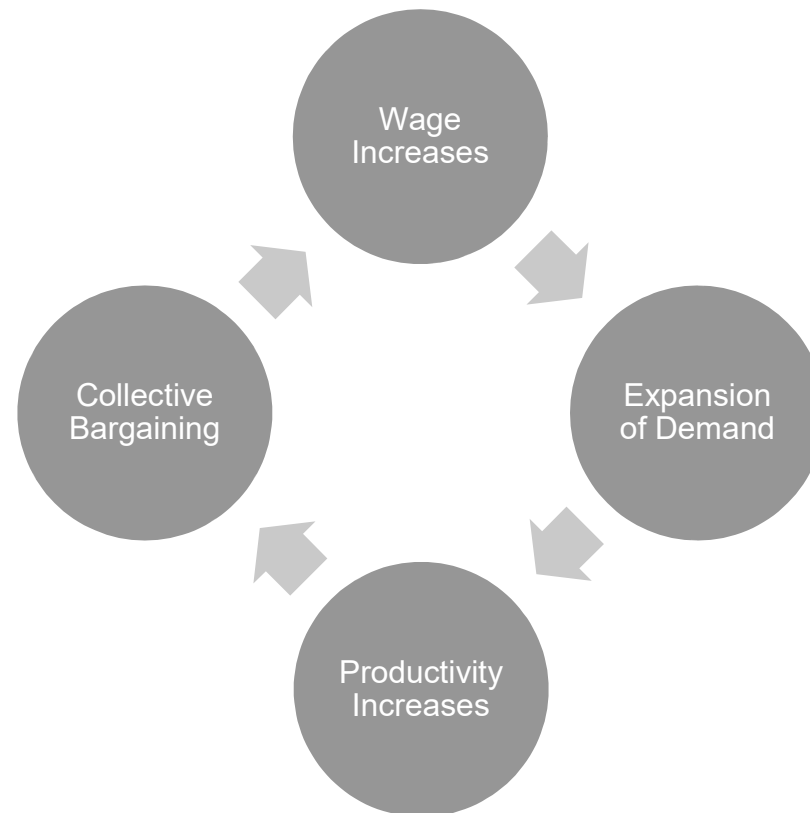
- > IR institutions affect the supply side
 - They rule out the ‘low road’ option for firms and force them to reorganize and innovate (see Streeck, 1991; 1997; Hall, 2007)
 - They stimulate productivity through various channels (Storm and Naastepad 2012)

- > But they also have important demand-side effects
 - They provide an institutional mechanism to transfer productivity increases into wage increases and domestic demand





Crisis of Fordist Wage-Led Growth





What Has Replaced the Fordist Model?

- > Real wages grow more slowly than productivity increases, as illustrated by the generalized decline of the wage share
 - The decline of the wage share is correlated with labor market liberalization

- > What feeds aggregate demand then?

- > Broadly speaking, there are two alternatives (Stockhammer 2013):
 - A credit-financed domestic consumption model which is based on access to easy credit and the wealth effect of asset bubbles (Crouch 2009)
 - An export-led model which is based on compressing domestic unit labor costs thus enhancing the competitiveness of exports (Baccaro and Pontusson 2016)





The Instability of Contemporary Capitalisms

- > Both pure models are unstable
 - Sooner or later bubbles burst and debt accumulation gives way to prolonged 'balance-sheet' recessions
 - Export-led growth is premised on trade partners not following the same strategy
 - If all countries adopt it the result is an international recession



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Thank You!

