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

<table>
<thead>
<tr>
<th>Year</th>
<th>UK</th>
<th>Germany</th>
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</thead>
<tbody>
<tr>
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<tr>
<td>2010</td>
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</tbody>
</table>

Source: Visser 2012
Union Density in Germany and the UK

Source: Visser 2012
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)

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<tr>
<th>Variable</th>
<th>Factor1</th>
<th>Factor2</th>
<th>Uniqueness</th>
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<td>barg coverage</td>
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<td></td>
<td>0.42</td>
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<tr>
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<td></td>
<td>0.10</td>
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<tr>
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<td>0.13</td>
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<tr>
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<tr>
<td>conflict rate</td>
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<td>0.07</td>
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</table>

blanks represent abs(loading) <0.5
Factor Scores for 15 Countries

![Factor Scores for 15 Countries](image)
Country Groupings

- Nordics
- CMEs
- LMEs
- Mixed

Graphs showing conflict and institutionalization for different 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

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- 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)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sectoral agreements in manufacturing</th>
<th>Sectoral agreements in services</th>
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<td>50.4</td>
<td>32.4</td>
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Coverage Rate of Betriebsraete (% of workers)

Source: IAB, own elaborations
Real Wages and Labor Productivity (Source: EU KLEMS)
German and Swedish Wages

Source: OECD STAN
Private consumption and exports as percentage of GDP (constant prices)
Contributions to GDP Growth

![Graph showing contributions to GDP growth in Germany from 1995 to 2015. The graph illustrates the yearly growth contribution (3-year moving average) of import-adjusted exports and import-adjusted internal demand. The graph notes that the data is based on Own elaborations on AMECO & OECD data.]
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

- Wage Increases
- Expansion of Demand
- Productivity Increases
- Collective Bargaining
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
Thank You!