

## BOOK REVIEW

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Franz Traxler, Sabine Blaschke and Bernhard Kittel, *National Labour Relations in Internationalized Markets: A Comparative Study of Institutions, Change and Performance*. Oxford: Oxford University Press, 2001. 350 pp.

The impact of economic internationalization on national industrial relations has been a lively debated issue for at least a decade and a half now; yet no agreement has been reached. Do national labour market institutions really converge under global economic pressure, as neoliberalists claim? And if so, what will the outcome of such a convergence be: which model is the superior one? Or rather, is the result when different industrial relations systems meet the same challenges a divergence? Moreover, what impact do different national industrial relations arrangements have on macro-economic performance?

Based on a large amount of national, aggregated data, the present book, by a team of Austrian scholars, is one of the most well-researched attempts thus far to answer these questions. The study covers 20 OECD countries from 1970 to 1998. The reason why only OECD countries are covered is, according to the authors, that the internationalization process has been most marked in that area.

A guiding hypothesis of the book is that 'the direction of convergence has been reversed in the course of the three decades under investigation'. The need for corporatist incomes policies increased in the 1970s due to the first oil shock, while the trend shifted towards disorganized industrial relations in the following decade. The trend got even stronger in the 1990s, since the fall of the Soviet bloc opened new possibilities for 'regime-shopping': companies found new countries with relatively high-skilled labour, working for low pay, and under poorly developed labour market regimes. Another hypothesis is that the changes in national industrial relations mainly is a matter of path dependency, that institutions might 'predetermine their own alterations', beyond efficiency considerations (pp. 18–19).<sup>1</sup>

The book is divided into five parts, of which the first discusses the theoretical and methodological framework for the analysis. The second part, 'The Organization of Interests: Patterns and Dynamics', focuses on the main social partners: organized business and labour. Employers' organizations which are only active in the public sector are excluded, though, 'due to the fundamental differences between the capitalist firm and the state as an employer' (p. 38). According to the authors, the growing public sector has also led to an increasing structural difference between employers' associations and trade unions; while the former have become more homogeneous, the latter have undergone sectoral heterogenization because of the incorporation of the public sector (p. 56). Another reason for this growing organizational difference

might be that the employers' associations seem to allocate more powers to the peak level than their trade union counterparts do (p. 72).

The authors make a distinction between primary and secondary associational power. Primary power is defined as membership strength, while secondary power is resources extracted from third actors. In practice, secondary power is achieved through corporatism: through participation in state regulation. Since states integrate employers and unions in public policy in a rather similar way, the authors find little to explain by traditional class theory.

Regarding primary power, the authors pick up the debate about the factors behind trade union density. Several possible variables are thoroughly discussed: unemployment, dependent employment, share of employees in manufacturing, share of public employment, closed-shop practices, the degree of centralization of power and the so-called Ghent system. By far the most important variable turns out to be the Ghent system: the union-led unemployment schemes, funded by state subsidies, which exist in Belgium, Denmark, Finland and Sweden. The fact that the unions manage the system brings them in contact with workers seeking for jobs or receiving unemployment benefit, thus the high density.

The conclusion is in line with some previous studies, such as Western (1993). Still, it would have been interesting if the authors had also discussed Anders Kjellberg's findings. Also according to Kjellberg (1998: 75; 2000: 531) the Ghent system is very important, but there is another variable of about equal importance: the combination of strong peak and local levels. Centralization (strong national unions and union confederations) prevents fragmentary union coverage, promotes bargaining power and facilitates solidaristic wage policies, while decentralization (an extensive network of local union branches well integrated into national unions) brings the unions closer to their rank-and-file members. Kjellberg bases his results on comparisons of largely the same countries as Traxler, Blaschke and Kittel. Yet the studies are based on different methodological approaches. Regrettably, it would most likely be very difficult to test the influence from both the Ghent system and the central-local level with the regression techniques Traxler, Blaschke and Kittel use due to the multicollinearity problem.

For many reasons, comparing employers' associations density is very difficult. Several measurements can be used, which all give different results. Moreover, many employers' associations themselves lack reliable data on their membership strength, and even when they have good data, they are often less keen to present them in public. The only 'easy' country in this respect is Austria, since membership of the main employers' confederation, WKÖ, is compulsory for all firms in the WKÖ's domain – which on the other hand makes Austria less interesting for international comparisons!

Despite the difficulties, Traxler, Blaschke and Kittel make some observations and conclusions that challenge several 'established truths'. One is that employer density is not particularly outstanding in the Nordic countries. The widespread assumption of Nordic employers' confederations' extraordinary strength is true only with regard to centralization. Moreover, also with regard to centralization, union density has in no way influenced employer density or vice versa, which is rather astonishing from a historical perspective, since employers organized as a response to the growing strength of the trade unions. The authors explain this with the states' use of different labour market incentives. Also, for employers, according to the authors 'the product market is more important than the labour market as a reason to associate' (p. 96).

The theme for the third part of the book is 'Wage Regulation and Bargaining'. Already in this part's first sentence the authors state that 'Bargaining over the terms of employment is the key issue of labour relations' (p. 105). In other words the third part is very central: accordingly it contains about 100 of the book's total 300 text pages. The main issue is of course the changes in collective bargaining. In almost all the countries analysed, organized business has pressed for decentralization, or rather dismantling, of collective bargaining, while their union counterparts have tried to maintain as much as possible of the traditional system. The focus is on wage bargaining, since it 'takes place on a more regular base than bargaining over other aspects' and 'is more institutionalized than other types [of bargaining] and thus represents the backbone of any country's bargaining structure' (p. 108).

Employers are considered the key agents of change. Unlike trade unions, employers' associations can easily adopt new, 'individualistic' labour market approaches, even if such approaches could damage the organization's central strength – which a decentralization of industrial relations would most likely do. Consequently, since collective bargaining is limited to the nation-state, the globalization process is more threatening to unions than to employers.

Collective bargaining in general got more decentralized from 1970 to 1996. According to the authors, however, the decentralization process is mainly a result of national economic policy regimes; the impact of so-called post-Fordist production systems is less important. A particularly clear case is Portugal, which did not see any serious decentralization because the employers did not press for it. Traxler, Blaschke and Kittel largely agree that wage formation was mainly 'corporatist', that is state-sponsored or state-imposed, in the 1970s, while a shift towards uncoordinated bargaining occurred from the early 1980s onwards.<sup>2</sup> Yet, both tendencies were too weak to lead to international convergence. Instead the authors highlight path dependency as an explanation for different national outcomes of the decentralization drive. Furthermore, in almost half of the countries analysed the main level of bargaining was still the same at the end of the period as in the early 1970s.

Also important is the number of employees covered by the collective agreements; organized industrial relations depend on the collective agreement, as opposed to completely individualized labour contracts. Traxler, Blaschke and Kittel show that internationalization has not affected bargaining coverage very much; at least it has not led to any international convergence. In five of the countries analysed, Finland, France, Portugal, Spain and – with some reservations – the Netherlands, bargaining coverage even grew over the period 1980–96. In three countries, Belgium, Sweden and most likely Austria, the level remained stable. It could be added that the coverage rate in these three countries was so high already at the beginning of the period that it could barely be expected to increase. Only in five countries, Australia, Germany, Japan, the UK and the USA, did the coverage actually decline over the period. According to the authors, this might also have been the case in Canada and Denmark, but the data are not reliable enough to draw any certain conclusions.

The findings raise another question, though far beyond the limits of the present book. If bargaining coverage has largely remained the same despite the drive for decentralization, one might ask what has happened with the content of the agreements; do unions still bargain for the same issues? Are the regulatory strengths still the same, or are the collective agreements rather turning into 'empty shells', which set up a few frames, but leave most of distribution of wages, working hours, etc. to the firm level? There is some evidence that this has been the trend in strongly

organized Sweden, which together with an individualization of labour market rights makes the industry-wide collective agreements less regulatory and with that less important for the individual, even though the bargaining coverage is still as high as before (Fransson and Thörnqvist, forthcoming).

The fourth part of the book discusses the relation between labour relations and macroeconomic performance, mainly measured as total national (nominal) labour costs. The authors find no significant evidence for the neoliberal proposition that strong unions with high density should increase labour costs; nor does bargaining coverage affect performance negatively, as neoliberal apologists claim. Yet the relationship between labour relations and economic performance is not just a matter of labour costs and wage setting: it is also a question of government policies. Hence the authors also focus on employment and inflation, since wage formation is not mainly a state matter under free collective bargaining. The findings confirm the beneficial effects of corporatism/tripartism, but with two reservations: one, the employers' associations have been the key actors, not the trade unions, which is usually assumed in literature on corporatism; and two, the impact has declined remarkably since the late 1970s and has today more or less ceased to exist.

Furthermore, the authors find support for the 'hump-shape' thesis. In the words of Calmfors and Driffill (1988), the hump-shape thesis says that, from a macroeconomic perspective, both centralized and decentralized bargaining are superior to sectoral bargaining, since market forces work better at macro- and micro-levels than at a meso-level of governance. When testing the hypothesis further, however, Traxler, Blaschke and Kittel find no correlation between 'humps' and labour costs. The core problem, according to the authors, concerns the methodological differentiation between 'centralization' and 'coordination', a problem underestimated in most previous research. Hence, they make several more analyses with respect to different forms of bargaining coordination. The macroeconomic variables used are labour costs, inflation, unemployment, the so-called Okun index (unemployment rate plus inflation), and output growth. Two forms of bargaining coordination stand out as overall better than the others: peak-level coordination under high governability<sup>3</sup> and pattern bargaining. Actually, these two forms of bargaining prove even better than uncoordinated bargaining to prevent inflation, contrary to what neoliberals claim.

To conclude, Traxler, Blaschke and Kittel arrive at two important distinctions compared with Calmfors and Driffill's original version of the hump-shape hypothesis. First, considering state regulation of bargaining the analysis shows several more functionally equivalent arrangements than Calmfors and Driffill expected. Second, the shape of the hump must be revised, since the forms of bargaining that differ most in performance all rely on central-level coordination: the important factor is whether the governability is high or low.

The book concludes in four brief chapters, in all less than 20 pages. The part is titled 'Instead of Convergence: Neoliberalism and Lean Corporatism as Alternatives' and brings together the findings on convergence vs path dependency from previous chapters. The conclusion is that there is no support for an international convergence. The authors do not deny converging tendencies from market pressures, but they have influenced industrial relations indirectly, processed and filtered through institutions. There is also a door open for future convergence, or in the words of the authors: 'The internationalization of markets may enforce convergence across countries in

two ways: natural selection eliminating all arrangements but one best solution; or the spread of opportunism eroding collective institutions' (p. 287).

The main trend, however, is a divergence in two main directions: the neoliberalist way and 'lean corporatism'. When the preconditions for a functioning Keynesianism disappeared in the 1970s, the possibilities to maintain 'classic' corporatism disappeared too. Instead, countries with strong corporatist traditions largely moved towards 'organized' decentralization, which together with a non-accommodating monetary policy, constitutes 'lean corporatism', while countries with already weakly organized labour relations experienced a shift from pluralism to neoliberalism. Both ways are to some extent adaptations to market discipline. Yet, under neoliberalism, market forces are simply imposed on industrial relations, and due to a necessarily tough monetary policy, wages are moderated largely through unemployment increases. Under lean corporatism, on the other hand, 'market forces are so inserted into labour relations that their actors' sensitivity to monetary signals increases: all forms of coordinated bargaining strongly respond to monetary policy, in stark contrast to uncoordinated bargaining' (pp. 300–1). Lean corporatism creates a network-style labour market governance.

From a political viewpoint, Anthony Giddens (2000) has argued that after the high-point of the Asian crisis there is not as much room for neoliberal claims as before; neoliberalism is being replaced at the core of political dialogue by 'third way politics'. I am not sure if Traxler, Blaschke and Kittel agree with me, but in my opinion the parallel between 'lean corporatism' and the so-called third way is in many respects striking. Whether either or both of them is the best answer to future problems remains to be seen. To conclude from the present book, however, even in a globalized world economy there is still much room for organized industrial relations; and corporatism is not dead, it is just reshaped.

## Notes

1. The central concept 'institutions' is defined as 'a set of rules that define and limit the set of choices for the actors' (p. 11).
2. Traxler, Blaschke and Kittel distinguish between three main forms of state interference in private sector wage bargaining: state-imposed regulation, when the state acts as a sovereign power, for instance by statutory wage freezes or compulsory arbitration; state-sponsored regulation, when the state joins the bargaining round/s as conciliator between the main parties or as an additional party (bi-/tripartism); and non-interference, which in practice means uncoordinated bargaining. When discussing bargaining modes in a broader sense, the authors also use the concepts inter-associational coordination (characterized by peak-level agreements, settled between employers' confederations and trade unions), intra-associational coordination (coordination by the peak levels of trade unions and/or employers' associations) and pattern bargaining (see p. 146 and pp. 176–80).
3. 'High governability' means that national labour law provides a framework that enables the parties to bind their rank-and-file (p. 240).

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