Institutional Change in European Industrial Relations: Reformulating the Case for Neoliberal Convergence

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'Das einfache Verhalten des unbefangenen Gemütes ist, sich mit zutrauensvoller Überzeugung an die öffentlich bekannte Wahrheit zu halten und auf diese feste Grundlage seine Handlungsweise und feste Stellung im Leben zu bauen. Gegen dieses einfache Verhalten tut sich etwa schon die vermeinte Schwierigkeit auf, wie aus den unendlich *verschiedenen Meinungen* sich das, was darin das allgemein Anerkannte und Gültige sei, unterscheiden und herausfinden lasse; und man kann diese Verlegenheit leicht für einen rechten und wahrhaften Ernst um die Sache nehmen. In der Tat sind aber die, welche sich auf diese Verlegenheit etwas zugute tun, in dem Falle, den Wald vor den Bäumen nicht zu sehen'.

> 'The simple reaction of ingenuous emotion is to adhere with trusting conviction to the publicly recognized truth and to base one's conduct and fixed position in life on this firm foundation. But this simple reaction may well encounter the supposed difficulty of how to distinguish and discover, among the infinite *variety of opinions*, what is universally acknowledged and valid in them; and this perplexity may easily be taken for a just and genuine concern for the matter itself. But in fact, those who pride themselves on this perplexity are in the position of not being able to see the wood for the trees' (Hegel 1991[1821]: preface, pp. 11-2).

1. Introduction

What has been the institutional trajectory of capitalist societies over the last quarter of a century? Or to be more precise, do capitalist societies continue to be characterized by a diversity of national political-economic institutions or have common pressures and constraints encouraged an homogenization of once nationally distinct institutions? In short, are we currently witnessing institutional convergence?

This paper tackles these questions through an examination of one major institutional sphere: the industrial relations system. There is something of a disjunction here. Scholars within the field of comparative political economy remain overwhelmingly attached to theoretical approaches which emphasize the mediating role of institutions, insulating national political economies from common economic pressures, and which identify a variety of features of institutions which encourage stickiness, incrementalism and path dependence. In stark contrast, practitioners of industrial relations, particularly trade unions, are much more likely to identify a sea change in the recent past in which the balance of power between class forces has shifted towards employers, unions have largely been on the defensive, and collective institutions and forms of labor market regulation have been weakened. How are we to reconcile these two forms of knowledge (Sewell 2008)?

In this paper we argue against the mainstream of comparative political economy and confirm the instincts and experience of industrial relations practitioners. We argue that industrial relations systems across Western Europe are being transformed in a common direction, a direction that we characterize as neo-liberal. We are witnessing convergence, not in the crude sense of institutional identity, but rather in the trajectory of institutional change and in the functional role performed by often divergent institutions. This does not mean that industrial relations institutions in each European country are necessarily coming to resemble those of an archetypal liberal market economy, though there is certainly movement in that direction. The precise form and process of institutional change is shaped by different starting points and different mobilizational capacities; the inherited institutional landscape will pose distinct roadblocks and points of conflict as each society grapples with institutional change (Locke and Thelen 1995).

It is the case that there has been a surface resilience to national industrial relations institutions, with the result that some large-n studies have tended to emphasize limited, incremental change, and the persistence of distinct national institutional sets (Lange et al. 1995 ; Wallerstein et al. 1997 ; Golden et al. 1999). Nonetheless, we insist that those institutional landscapes are being transformed and in a common neo-liberal direction. Institutions, we argue, are highly malleable. In a new context, subject to a new set of pressures and constraints, the same set of institutions can be re-engineered to function in a manner very different from that of the context in which they were created. Thus resilience of institutional form is perfectly compatible with convergence in institutional functioning. This in turn raises questions about the centrality accorded institutions by scholars in the field of comparative political economy in explaining the functioning of capitalist political economies. In short, we endorse Streeck's recent plea that ‘the time has come to think, again, about the *commonalities* of capitalism’ (2009: 1 emphasis in original).

The plan for this paper is as follows. Section 2 surveys the literature on institutional change and makes an argument for the importance of institutional plasticity. Section 3 takes a first cut at exploring institutional change by looking at some quantitative evidence of industrial relations change for twelve European countries. Section 4 turns to six brief cases studies which illustrate the central argument of the paper: that industrial relations institutions have been transformed since the 1980s in a common neo-liberal direction, whether through the destruction of old institutions and the construction of new ones, changes in the manner in which existing institutions have come to function, or the emergence of parallel informal institutions and practices which allow industrial relations actors to bypass once formal institutions. These six cases have been chosen to run the gamut of varieties of capitalism, to include centralized and decentralized cases, and those which have seen a resurgence of social concertation. In short, we have chosen ‘hard’ cases for an argument which claims to have identified a common trajectory of institutional change. Section 5 provides a discussion of both the quantitative and the case evidence. Section 6 concludes by inviting a reconsideration of the key role attributed to institutions by most comparative political economic literature.

2. Institutional Change in Industrial Relations

This paper makes the case for a convergence in industrial relations institutions in Western Europe. We will elaborate further below what we mean by convergence, but it is worth emphasizing the degree to which the field of comparative political economy has been traditionally hostile to the notion of convergence. For at least thirty years, for the great majority of those working in the field, the mission of comparative political economy has been all but conterminous with identifying and explaining the enduring diversity and range of distinct national capitalisms. Many of the seminal works in the field have argued that broad economic changes - whether understood as the product of shifting regimes of accumulation or the forces of globalization - are experienced differently and have very different effects in different countries, with the result that common consequences are underplayed (Berger & Dore 1996, Campbell 2004, Garrett 1998, Hall & Soskice 2001).

The absence of convergence in these analyses is a result of the centrality accorded to institutions and their characteristics. Contemporary theories of comparative political economy have, to a large extent, been built on the back of institutions (Hall & Taylor 1996). Institutions have provide middle range explanations for national difference which mediate between broad structural explanations which tended to anticipate convergence in industrial society and narrowly political arguments about agency which privilege partisan policy choices.

This is not the place for a comprehensive review of the evolution of institutionalist theorizing. Suffice it to say that following on the heels of Shonfield's magisterial *Modern Capitalism* (1965) and the efforts of the contributors to the volume *Between Power and Plenty* (Katzenstein 1978) to explain divergent responses to the oil shock in the mid-1970s, academic attention shifted from an emphasis on one political-economic institution to another - corporatist institutions (Schmitter 1974); organized labor (Cameron 1984); financial institutions (Zysman 1983); employer organization and institutions of employer coordination (Soskice 1990, Swenson 1991) - but all the while the centrality of the structuring role of institutions has remained. Institutionalist approaches within comparative political economy received a new urgency in the

1990s when wide-ranging political and economic developments raised once again the possibility of a broad convergence in the institutions of advanced capitalist political economies. It was in this context that the Varieties of Capitalism literature associated with Hall and Soskice (2001) emerged.

It is the characteristics of institutions which have been argued to explain the absence of widespread convergence in capitalist political economies and the persistence of distinct national institutional sets, even in the face of heightened international economic constraints. Institutions mediate common economic pressures, distribute power among actors, and offer solutions to coordination problems facing market economies. As Steinmo, Thelen and Longstreth (1992) argued, institutions have independent power to structure the distribution of economic power and the behavior and even interests of economic actors. The implications of a comparative political economy that relies heavily upon institutional analysis has also been a theory of change which emphasizes the role of history in politics and generates path dependent effects (Pierson 2004). It illustrates, in Shonfield's marvelous phrase (1965: 88), 'the way in which a living tentacle reaches out of past history, loops itself round, and holds fast to a solid block of the present.' These characteristics of institutions contribute to a tendency towards continuity, to minor incremental change along an established path, and to a stickiness in which strong pressures exist for actors to use established institutions to respond to new economic conditions.

This tendency was accentuated in the initial formulations of the Varieties of Capitalism. The familiar mechanisms of path dependence and positive feedback were further encouraged in this approach by the role of institutional complementarities and comparative institutional advantage. Institutions are rarely able to perform their roles in isolation; rather, there are likely to be interactions and complementarities among institutions. These complementarities imply that there is a tendency for institutions to reinforce each other, forming an interlocking ensemble of institutions spanning the various spheres of the political economy with the effect that a particular set of institutions is highly resistant to change. This tendency is accentuated by ‘comparative institutional advantage’ for specific types of production which then encourages actors, particularly employers, to reinforce and defend those institutions rather than to challenge and transform them. The result is a theoretical edifice which anticipates that broad economic pressures will be refracted and diffused through national institutions, making institutional convergence unlikely.

It should be said immediately that there has always been some dissent from this tendency within the field of comparative political economy. Regulationist approaches to political economy (Boyer 1990; Jessop 1990) have been far more interested in institutional change by virtue of their assumptions about the inherent instability, conflictuality, and dynamism of capitalist growth. The result has been a punctuated equilibrium model which emphasizes temporal discontinuity and a degree of synchronicity across the advanced capitalist world in the timing of structural economic change. But even here, in an ironic example of theoretical convergence, distinct national models of capitalism have come to dominate the landscape of Regulationist theorizing, though each such model is marked by a greater break with the past than is anticipated within the Varieties of Capitalism theoretical framework.

Recently, however, the subject of institutional change has moved from the periphery to the center of the field of comparative political economy. This has taken place on the back of a less functionalist, more political reading of the dynamics of capitalist political economies which emphasizes contingency and compromise, the fragility of the political coalitions that undergird institutional construction (Streeck & Yamamura 2001; Streeck 2009), and the ideational preconditions for institutional embedding (Blyth 1997; Culpepper 2008).

From within the VofC approach has come a renewed emphasis upon institutional experimentation, a more political interpretation of the process of institutional reproduction, and greater space for actors to reassess their interests and contemplate institutional change (Hall & Thelen 2009). It is also worth noting that even in its original formulation, the VofC approach allowed for the possibility of convergence on the LME variety of capitalism, noting that it is easier to deregulate CMEs than for LMEs to develop coordinating mechanisms (Hall & Soskice 2001: 63). In a similar fashion, Campbell (2004) has articulated a more 'actor-centered institutionalism' (the term comes from Crouch 2007: 528) in which entrepreneurial actors, working within existing sets of institutions engage in various forms of incremental change; change remains path dependent but it can become, over time, transformational.

The most fully formulated argument in favor of gradual or incremental transformation - in which an accumulation of small, barely perceptible changes becomes transformational over time, comes from Streeck and Thelen (2005). They acknowledge that most institutional approaches understate the degree and significance of change, that intensified competition and a greater commitment to market liberalism have exerted real pressure on institutions, and that one cannot assume that economic actors will always seek to defend existing institutions rather than modify them. They identify a series of mechanisms by which incremental changes can have transformative effects: the same institutions can take on new functions, latent effects can be activated, existing institutions can atrophy, and peripheral institutions can take center stage.

However it is from Streeck writing alone (2009) that the sharpest break from the mainstream of comparative political economy over the last thirty years has appeared, and with it the most forceful argument to take instability and change in national political economies seriously. He urges scholars to shift focus from institutions, and institutional logics, to capitalism, and the logic of capitalism, and to follow through on the implications of that shift by recognizing the inherently contradictory, conflictual, anarchic and fundamentally unruly nature of economic development. Thus institutional change is the norm for capitalist societies. For Streeck change is driven much more by endogenous factors - a dialectical process in which over time the behaviors produced by the institutions serve to undermine those same institutions - than exogenous shocks, though all change takes place within the context of persistent and powerful liberalizing pressures.

It should be clear by now that we are largely in agreement with these recent developments within institutionalist theorizing. They open up theoretical space to explore transformational change within the core institutions of capitalist societies, and they permit the revival of a central question in comparative political economy: to what degree are capitalist societies currently marked by tendencies towards convergence? It is important to be careful and clear in any discussion of convergence. We are not making a coarse argument for institutional convergence in which national institutional configurations elsewhere all come to approximate that of the United States. There is little evidence of convergence as identity, a glacial flattening of the institutional landscape to an identical topography. Convergence does not require the same institutional form, and indeed, different starting points and different mobilizational capacities on the part of class actors make it unlikely that institutional forms will converge. Different institutional inheritances will pose different obstacles and create distinctive flashpoints and sources of conflict over institutional reconstruction (Locke and Thelen 1995).

Rather, we argue, convergence is more likely to involve the adaptation and reengineering of existing institutional sets to perform in a similar fashion and to generate similar outcomes, with the result that the trajectory of institutional performance across countries is convergent. Despite different starting points, and different paces of change, there is clear evidence, at least in the sphere of industrial relations, of a common directionality or drift to institutions. That common directionality is best characterized by liberalization, as we elaborate in the discussion section of this paper.

It is the plasticity of political-economic institutions, their capacity to function quite differently in new contexts, that is the basis of a reformulated notion of convergence. We certainly do not want to close off the possibility of the wholesale reconstruction of institutions: the replacement of existing institutions with a new set of institutions. There are cases of this later in our paper. But more often the mechanisms of institutional change are likely to be more subtle (Streeck and Thelen 2005: 19-30). Institutional plasticity permits a mutation in the function and meaning of existing institutions, producing different practices and consequences in new contexts, what Thelen has labeled 'institutional conversion' (2004). Earlier or submerged characteristics of an institution, long dormant can emerge under new conditions. Parallel, once secondary institutions, which played only a peripheral regulatory role during an earlier period, may emerge to take on new importance in a different context. Thus the hierarchical ordering of institutions in any bundle of interdependent institutions can change as competing sets of institutions have different valences for the actors concerned, valences which themselves shift over time. Mechanisms can also be created or given new significance that permit actors to bypass or escape from institutions altogether, creating pathways to new practices alongside the formal institutions. The result is a range of characteristics of institutions which point in the direction of permanent reinvention, change and discontinuity.

We are arguing, in short, that a focus upon institutional forms is likely to miss the malleability of institutions - the degree to which a set of institutions can appear largely unchanged but in fact come to perform in quite different ways from before - and thus the extent of institutional convergence. As Kinderman notes with regard to the German case (2005: 433), scholars have tended to focus upon ‘continuity of structure, and having established this, have inferred continuity of content.’ The remainder of this paper will illustrate the extent to which this inference is false.

3. Large-N Analysis

In this section we gauge the scope and extent of institutional change in European industrial relations by taking a large-N perspective. We rely on a number of indicators: the union density rate (the percentage of the eligible workforce who is member of the unions); an index of collective bargaining centralization indicating the main locus of bargaining (at the company, industry, national level, or somewhere in between); an index of national-level tripartite policy-making capturing the extent to which trade unions and employer organizations are explicitly involved in the design and implementation of the major public policies (in the macroeconomic, social, and labor market fields); and an indicator of conflict rate.

We focus on 12 West-European countries: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Sweden, and the UK, which we observe between 1974 (the first year after a major break for European countries: the first oil shock of 1973) and the most recent year for which data are available, i.e. 2005 in most cases.[1]

[1] Since Greece, Portugal, and Spain were dictatorships at the beginning of the period, and thus, at least in the first few years, experienced different dynamics from those of established democracies linked to the rebuilding of free trade unions and collective bargaining, we exclude them from the sample.

For union density our data are the average of two sources: Jelle Visser's database on industrial relations indicators (2009) and the OECD.stat database.[2] For collective bargaining structure (centralization/decentralization), we average two indexes which are coded analogously: the Visser's one (2009) and the Golden-Wallerstein-Lange's one (Golden et al. 2006).[3]

For involvement in macro-tripartite bargaining we rely on an index created by one of the authors of this paper in collaboration with John-Paul Ferguson of Stanford University. This index is based on the coding of monthly articles from the *European Industrial Relations Review*, a widely-used practitioners' publication detailing main events and developments in European countries.[4] Because this index focuses on explicit negotiation and pacting, it is likely to underestimate the extent of tripartite policy-making to the extent that this also occurs on a routine basis in countries such as Austria, Germany, Denmark, Sweden, and others. For industrial conflict we use the ILO data on days not worked due to strikes and lockouts, which we normalize by the size of civilian employment.[5]

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[2] The two sources provide very similar data. However, the OECD series is only available until the early 2000, while Visser's one reaches 2007 in most cases

[3] The variable *barglev2* in the Golden-Wallerstein-Lange database (2006) is available until 2000; the variable *level* in the Visser's database (2009) is available until 2007 in most cases.

[4] This indicator is based on yearly averages of monthly data and is available until 2005. It is a 0-4 index in which a country takes a value of 4 if there is a pact in place covering wages and social issues and labor marked issues (logical 'and'), 3 is there is a pact in place covering wages and either social or labor issues (logical 'or'), 2 if there is a pact in place covering wages or social and labor issues, 1 is there is a pact in place covering social or labor issues, 0 if there is no pact in place. The scores are then weighted by the extent of tripartite involvement as follows: 1 if both all unions and all employers are involved, .75 if all unions and some employers or all employers and some unions are involved, .5 if some unions and some employers or all unions and no employers or all employers and no unions are involved, .25 if some unions and no employers or some employers and no unions are involved. A pact in place is defined as an explicit agreement in which the government is involved (thus excluding purely bipartite agreements), preceded by the opening of explicit negotiations whose occurrence is reported in the *European Industrial Relations Review*. Cases of 'embedded corporatism' whereby public policy is dealt with cooperatively as a matter of routine (as is typically the case in Austria), but there is no explicit negotiation and no agreement is signed, are excluded from this definition of tripartite policy-making.

[5] The numerator is from the ILO Laboursta database (variable 9C) (ILO various years);); the denominator is from the OECD's OECD.Stat (Annual Labour Force Statistics (OECD various years-a).). The recording of industrial conflict varies somewhat across countries. In particular, the French data exclude general and political strikes and all strikes that involve more than one establishment and thus are likely to underestimate the extent of conflict in French industrial relations. Also, the French strikes data are only available until 2001 due to a break in the series and the transition to a different definition, while they are available until 2007-2008 for the other countries.

Figure 1 plots the average yearly union density rate over time. On average, the (unweighted) average unionization rate has declined by 0.35 percentage points each year between 1974 and 2007 in the 12 European countries in question.[6] The fastest linear decline has occurred in Austria (0.92 per year), followed by Ireland (0.83), the UK (0.81), Italy (0.56), the Netherlands (0.52), Germany (0.49), and France (0.45).[7] In three of the remaining countries – Denmark, Sweden, and Finland – the process of union decline has started later than elsewhere, in the 1990s as opposed to the 1980s, but is nonetheless clearly visible (see Figure 2). Belgium and Norway are the sole exceptions to the rule of union decline (at least so far). Overall, the tendency in Europe is clearly towards a generalized weakening of trade unions.

Figures 1 and 2 about here

The analysis of industrial conflict leads to similar conclusions. Figure 3 plots yearly averages of the conflict rate over time and shows a marked declining trend. Country-by-country plots and linear regressions against time suggest that the time trend is negative in all countries except Austria, where strikes have historically been a very rare occurrence. However, in 2003 there was a wave of union mobilizations in reaction to the center-right government's reforms of the Austrian welfare state, which explains the upward trend. Strike data may be interpreted in two opposite ways. A low propensity to strike may be a consequence of low labor power, but also of high labor power, if the sheer threat leads employers to cave in. Given current socio-economic circumstances (generalized decline in wage growth relative to productivity, increasing inequality), the decline in industrial conflict is almost certainly not a manifestation of growing union strength.

Figure 3 about here

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[6] The coefficient of a linear regression of the average unionization rate over time is -0.35.

[7] The above numbers are the coefficients of linear regressions of the country's unionization rates against time.

The picture becomes slightly more complicated if one considers bargaining structure. The plot of average yearly centralization scores against time reveals a pattern of decentralization in two stages: from the mid-1970s to the mid-1980s and from the early 1990s on. The intermediate period was one of partial recentralization (see Figure 4). Like union decline and demobilization, bargaining decentralization is also a general phenomenon. There are only two countries in the sample in which the linear time trend over is not negative: Belgium and Ireland. In Belgium the main locus of bargaining oscillates a lot between the national and the industry level but the trend is overall stable. In Ireland there are wider swings but greater stability: bargaining was first completely decentralized (from the national to the enterprise level) in the early 1980s, and then completely re-centralized from the late 1980s until 2008. It is worth emphasizing that available indexes of collective bargaining centralization refer to the main level of bargaining, and to the extent that the company level has increased its importance even in systems where industry and national bargaining has maintained a predominant role, they are likely to underestimate the extent of bargaining decentralization in the countries.

Figure 4 about here

The index of tripartite policy-making tells a different story from the other indicators. Surprisingly, it grows over time, at least until the late 1990s (Figure 5). At a time of declining union strength, demobilization, and bargaining decentralization, it seems that European governments are on average more likely to involve the social partners in the design and implementation of macroeconomic, social, and labor policy, than they were in the past. The tripartite index is also the one with the greatest cross-country variation (Figure 6). It is clearly increasing in Ireland, Finland, and to a lesser extent the Netherlands; decreasing in Sweden and the UK; and stable in other countries.[8]

Figures 5 and 6 about here

We now rely on principal component analysis (PCA) to uncover systematic patterns of covariation in the data presented above. Principal component analysis assumes that the data are visible manifestations of underlying hidden constructs, and expresses the hidden constructs as linear combinations of the (standardized) observed variables. The PCA identifies two principal components with eigenvalues greater than one, accounting jointly for almost 70 percent of variation in the data. Interestingly, the two principal components retained lend themselves to a rather straightforward interpretation. The first has a large positive correlation with bargaining centralization, union density, and tripartite involvement, and a small positive correlation with industrial conflict. It seems to correspond to '*macro-corporatist institutionalization*.' The second loads negatively on tripartite involvement and bargaining centralization (i.e. correlates positively with tripartite disengagement and decentralized bargaining), positively on union density, and highly positively on the conflict rate. It identifies the dimension of '*workplace mobilization*.' By construction, the two principal components are orthogonal to one another.

Table 1 about here

The crossing of these two dimensions identifies four idealtypical institutional models: 1) *agonistic macro-corporatism*, characterized by both institutional embeddedness and high mobilization capacities (North-East quadrant) – this seems the quintessential Scandinavian country of the 1970s; 2) *voluntaristic mobilization*, characterized by high levels of conflict and low macro-institutionalization (North-West quadrant) – this seems to depict adversarial industrial

[8] Austria and Denmark rely on 'embedded tripartism' (routine involvement of the social partners in public policy without explicit negotiation and pacting) and bilateral union-employer cooperation, respectively, and are therefore

relations in Britain before both Labour's 'Social Contract' and the Thatcher's revolution; 3) *labor marginalization*, characterized by low levels of both workplace mobilization capacities and institutional embeddedness (South-West quadrant) – this seems to capture the profile of French industrial relations; 4) *demobilized macro-corporatism* (South-East quadrant), expressing the key features of collective bargaining centralization in Ireland and other countries in the 1990s (see Appendix 1).

Figure 7 graphs the trajectory of the average country between 1974 and 2005 (the last year for which data for all indicators are available) based on the *macrocorporatist institutionalization* and *workplace mobilization* indexes. It traces a distinct path, which begins in the 'agonistic macro-corporatism' region (1974-1980), then moves to the 'workplace mobilization' quadrant (1981-1986, a period in which macro-corporatism experiences a momentary lapse in several countries), then traverses diagonally to the 'demobilized macro-corporatism' area (1990-1996, the era of social pacts in several countries), and finally ends up in the 'labor marginalization' cell (1997-2005).[9]

Figure 7 about here

Figure 8 plots the average *macrocorporatist institutionalization* and *workplace mobilization* scores for 12 European countries in two periods: 1974-1989 and 1990-2005. The most impressive feature of this comparison is the generalized decline in workplace mobilization capacities for virtually all countries in the sample: the graph seems to have migrated southward in the second period. Interestingly, there is no parallel westward shift, i.e. no generalized institutional deregulation. Nonetheless, the institutional space seems to have dramatically shrunk. If in the previous period all quadrants were inhabited by some countries, in the latter

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coded as cases of absent tripartite bargaining.

[9] By construction the mean point in the distribution has coordinates (0,0).

period only the southern ones are. In other words, the remaining variation in country profiles is between labor marginalization and demobilized macro-corporatism (with the partial exception of Denmark and Sweden).

Figure 8 about here

In synthesis, the large-N analysis has revealed a number of interesting patterns: a generalized decline in union density and industrial conflict, and a cross-cutting tendency towards bargaining decentralization. There seems to be clear evidence of convergence of one dimension of the institutional space uncovered by the principal component analysis, workplace mobilization, but not on the other, macro-corporatism. In other words, while workplace mobilization seems no longer in the cards for European industrial relations systems, there remains considerable variation in institutional structures such as bargaining centralization/decentralization and tripartite involvement, as well as union density levels. Whether these institutional differences correspond to fundamentally different responses to the common challenges facing European countries is something aggregate data are unable to tell and which requires more in-depth analysis of country cases, to which we now turn.

4. Case Studies

The countries examined in this section are selected from across the range of the macrocorporatist institutionalization component in the 1990s and 2000s: France and the UK, with low scores, Italy and Germany, with intermediate scores, and Sweden and Ireland, with higher scores. The six countries selected include the four largest European economies, and two small countries which in different periods have acquired a sort of symbolic status for students of comparative political economy and industrial relations. Together, they provide remarkable variation in institutional set-up. We deal with each country in turn.

4.1. France

French industrial relations at the end of the 1970s appeared an unlikely candidate for liberalization. Extensive state regulation and predominantly industry-level bargaining had combined to ensure a high degree of labor market rigidity and limited autonomy on the part of firms in the determination of pay. After the strikes of May-June 1968, the French state became more and more directly involved in the regulation of the labor market. In effect, the state came to substitute for the weakness of trade unions and collective bargaining through a more aggressive use of the minimum wage, administrative authorization for lay-offs, and generous unemployment benefits and public sector wage contracts.

However, by the end of the first decade of the 21st century, a remarkable degree of labor market and workplace flexibility had appeared as firms enjoyed greater autonomy from both state regulation and higher levels of collective bargaining. At the same time, a dense network of firm-level and firm-specific institutions for bargaining, consultation and representation - institutions that were almost completely absent in the private sector twenty five years earlier - has spread widely through French workplaces. This transformation of the institutional landscape of industrial relations took place through both the creation of new firm-level institutions and the mutation of existing institutions to take on new functions (Howell 2009).

In the context of an acceleration of economic restructuring, rapidly rising unemployment, and the perceived failure of traditional dirigiste and Keynesian policies, the imperative of labor market and workplace flexibility moved to the top of the agenda of employers and politicians in the mid-1980s (Culpepper et al 2006). It is worth noting that this imperative coincided with the 'conversion' of the French Socialist Party to the merits of market-friendly policies (Singer 1988) so that industrial relations reform was essentially a shared political project across the major political parties, albeit with small differences in emphasis.

The obstacle to flexibility was not perceived to be primarily trade unions and collective bargaining, as in so many other countries, but rather the direct regulatory efforts of the French state. Thus the problem facing the French state in its efforts to reconstruct industrial relations institutions was how to withdraw from direct regulation of the labor market in the absence of labor actors at the firm level capable of ensuring that the introduction of flexibility was genuinely negotiated rather than imposed unilaterally by employers. The resulting strategy was to tie opportunities for employers to enjoy greater flexibility in the deployment of labor to a legal obligation to negotiate change at the level of the firm. Given the weakness of trade unions inside the firm, this obligation in turn required a re-definition of who could legally bargain with the employer, or at least formally ratify workplace change.

This strategy made its first appearance with the *lois Auroux*, passed in 1982-83, during the early days of the new Socialist government (Howell 1992). Alongside some modest support for trade unions, this legislation had the effect of encouraging an assortment of forms of social dialogue inside the firm with non-union, firm-specific institutions of worker representation, including works councils and the newly-created worker self-expression groups. These innovations had the dual effect of blurring the line between consultation and negotiation and providing employers with an incentive to seek derogatory agreements with union locals, offering them greater flexibility than provided for in legislation or industry agreements. The distinction between union delegates negotiating collective agreements and works councils or worker self-expression groups consulting over work reorganization collapsed in the context of an acceleration in the process of economic restructuring. As one study of the application of these laws to small and medium-sized firms concluded: ‘bargaining always takes place with the works council, even if some union representation exists’ (Bodin 1987: 195, translation by the author).

The 1990s saw further shifts towards more decentralized bargaining and away from a trade union monopoly on collective bargaining, both in the name of permitting greater flexibility to firms, but the most substantial incorporation of these piecemeal reforms of collective bargaining into French labor law took place in the 2004 *loi Fillon* (Rehfeldt 2004). The legislation incorporated two important sets of changes. One set of changes permitted wider recourse to ‘derogatory’ collective agreements (ones less favorable than industry or inter-professional agreements), permitting them in all instances unless explicitly denied in collective agreements or legislation. This further breached the ‘favorability principle’, the cornerstone of French collective bargaining law since 1950, which had established a strict hierarchy of collective bargaining levels. Furthermore, in firms without a union delegate, firm-specific bodies such as the works council could be authorized to sign agreements, and in the absence of any elected employee representative, a union-mandated worker could sign an agreement and the workforce then ratify it.

The other set of changes attempted, much less successfully, to incorporate the so-called ‘majority principle’ into bargaining; the idea here was to have some assurance that derogatory agreements would at least be signed by institutions that were genuinely representative of workers, but in practice smaller, less representative unions retained significant influence. The consequences of the legislation, therefore, was to enhance the autonomy of the firm from the wider industrial relations system and encourage the shift in worker representation from trade unions to non-union, firm-specific institutions (Jobert & Saglio 2005).

The best illustration of the relationship between industrial relations reform and the quest for firm-level flexibility in France comes in the sphere of work time reduction. For two decades after 1981, the recipe for modifying work time remained remarkably consistent, regardless of the partisan flavor of the government: greater flexibility in the use of work-time was offered to employers in return for a reduction in overall work-time and a requirement that changes in work time be negotiated. Thus, widespread changes in work-time required that some form of worker representation in the firm exist; if it did not, it would need to be created.

The most extensive work time reduction experiment was contained in the *lois Aubry* which implemented the 35-hour work week between 1998 and 2002. This legislation sanctioned the use of union-mandated worker representatives and other alternatives to traditional collective bargaining in the negotiation of the reduced work week. In smaller firms where there was no union delegate, firm-level agreements could be signed on behalf of employees by a worker who was either mandated to sign by one of the national trade union confederations or, if not mandated, the resulting agreement had to be approved by a majority vote of employees and approved by a local labor-business commission. The mandating procedure was widely used for firm-level work-time agreements: fully 70 percent of work-time agreements were reached using the mandating procedure in 2001.

Firm-level collective bargaining increased substantially after 1981, with moments of especial growth in the aftermath of the *lois Auroux* and the *lois Aubry* (Ministère de L'emploi 2003: 111). While approximately 2 million French workers were covered by firm-level agreements in 1983, by 2002, that had doubled (Andolfatto 2004: 115). French firms have also seen a widespread increase in the number and influence of non-union worker representation, including works councils, employee delegates, a new form of delegate that fulfills the duties of both works council and employee delegate in small firms, and the innovations of mandated workers and employee referenda, at the same time as there has been only a modest increase in the coverage on union delegates (Pignoni & Tenret 2007). By 2004-05, fully 77% of firms employing 20 or more workers had some form of elected or mandated employee representative, with that figure rising to 93% in firms employing 50 or more workers (Jacod 2007: 2).

Non-union workplace representation has become steadily more important in France. In 2005, only half of firm-level collective agreements were signed by a union delegate; the remainder were signed by a works council, an employee delegate or merely ratified by employees by way of referendum (Ministère de L'emploi 2006: 204). Given that non-union forms of employee representation tend to be weaker and less independent of management than unions, the result is likely to be agreements which reflect the interests of employers more than workers.

French industrial relations have been transformed in recent years as a previous lacunae in collective regulation - at the level of the firm - has been the site of extensive experimentation and the emergence of a dense network of firm-level and firm-specific institutions. This transformation has included the construction of entirely new institutions, the mandating procedure, for example, but more important has been the mutation of existing institutions to take on new functions, such as works councils and employee delegates, and the expanded scope and usage of the mechanism of derogation.

4.2. Britain

The British case fits uneasily with the others examined in this paper. That is not because it refutes our central claim that industrial relations institutions have been subject to transformational change in a neo-liberal direction. On the contrary, British industrial relations underwent decollectivization on a massive scale in a relatively short period of time, a process powerfully characterized as 'the end of institutional industrial relations' (Purcell 1993). Two factors set the British case apart. Firstly, institutional change occurred primarily through the direct destruction of existing institutions, rather than the mechanisms of institutional plasticity and reengineering described in other cases; the task of identifying institutional change, in other words, is straightforward and visible to the naked eye.

Secondly, the last quarter century divides into a first period in which decollectivization took place under a series of Conservative governments, and a second in which there was a partial re-regulation of the labor market under the auspices of New Labour governments, offering a rebuff, albeit an extremely limited one, to neo-liberalism. That re-regulation took the form not of a return to collectivism - trade union density and collective bargaining continued to decline - but of an enhanced role for the state through legislation and state agencies. Thus while the current resting point for British industrial relations is deeply neo-liberal, characterized by a highly flexible labor market, and decentralized, individualized institutions, the trajectory of change has not been uniformly neo-liberal.

By the 1980s, under conditions of heightened international competition, and as manufacturing shrank to less than a quarter of total employment, employers came to place much greater emphasis upon flexibility in all its myriad forms. They came to see increasingly individualized relationships between employers and employees as the manner in which productivity gains could be made (Boswell and Peters 1997). Moreover, as employers became disillusioned with joint regulation of economic change in the 1970s, they became more prepared to take unilateral action in the firm. The distinctive institutional features of British capitalism -

the absence of employer coordination, of long-term relationships between industrial and financial capital, and of capacity for coordinated wage bargaining - had the effect of encouraging a response to any intensification of international competitive pressure through cost reduction, and low-wage/low-skill strategies (Wood 2001). The role and value of trade unions and collective regulation became less clear under these circumstances.

Yet despite the shifting interests and practices of employers, the transformation of the institutions of industrial relations required a central role for the state. That was both because employers were unable to change their relations with their employees without the aid of the state (whether through changes in labor law, the demonstration effect of enduring strikes, changes in macroeconomic policy, or the less tangible transformation of the industrial relations 'climate'), and because employers were, for the most part, significantly more timid and unwilling to challenge established industrial relations institutions and practices than the state (King and Wood 1999). Employers were won over to the reform project of the state, coming to support legislation about which they had previously demonstrated ambivalence, but they did not instigate or direct it.

The story of Conservative industrial relations reform between 1979 and 1997 has been told often and in great detail (Davies and Freedland 1993, Howell 2005, Marsh 1992). Its main elements can be summarized quickly, and involved a combination of a transformation in labor law, contractionary macro-economic policy, an opening up of the economy to greater international economic pressures, restructuring and privatization of the public sector to encourage new industrial relations policies, and the demonstration effect of absorbing and winning public sector strikes. Conservative governments made it clear that collective bargaining was no longer considered a public policy good and that it would support employers who sought new relationships with their employees. In some cases (the replacement of collective bargaining with personal contracts, for example), legislation legalized employer practice after courts had ruled against that practice. In short, the climate of industrial relations fostered by the state gave employers the confidence to experiment with new industrial relations institutions and practices of their own.

There were six major pieces of Conservative industrial relations legislation, each one comprising several parts and addressing multiple themes. The net result of this avalanche of legislation has been that secondary industrial action is now practically outlawed, all strikes are now much more difficult to organize (and unions place themselves at great risk when they call strikes), the closed shop is illegal, and union governance is tightly bound up by statutory regulation.

The impact on the collective regulation of industrial relations have been stark. Since 1979, British trade unions have lost 40 percent of their members, bringing union density to below 30 percent. (Brook 2002: 343). Trade union recognition fell even faster than union membership, so that recognition in the private sector halved during this period to 25 percent (Millward, Bryson and Forth 2000: 96). The coverage of collective bargaining fell from 70 percent of employees in 1984 to 40 percent in 1998 (Millward, Bryson and Forth 2000: 221). The decline in coverage was especially precipitous in the private sector where collective bargaining was replaced with unilateral management determination of pay. Another significant change in collective bargaining has been the dramatic decline of two-tier and industry-, or multi-employer bargaining. Even where it remains within the firm, bargaining shrank in scope, leaving the organization of the workplace as a matter for unilateral managerial prerogative (Brown, Deakin, Nash and Oxenbridge 2000: 617), and it took on a less formal character, resembling consultation rather than negotiation. Even where institutions of collective regulation of industrial relations remain, their character has changed.

In 1997, a Labour government returned to power after eighteen years of Conservative rule and survived for thirteen years before losing office in 2010 (!). The Labour party had been transformed during its years of opposition, rebranding itself as 'New Labour,' pursuing what its leader, Tony Blair, called 'the Third Way.' Its approach to the labor market has been to endorse the necessity of a flexible, minimally-regulated labor market with a significant low-wage, low-skill sector. Thus while the industrial relations agenda of New Labour differed in some respects from those of its Conservative predecessor, they were fundamentally convergent with the decollectivist thrust of the Conservative industrial relations reforms (Smith 2009). The distinctiveness of New Labour's approach to industrial relations lay, rather, in the government's emphasis upon the creation of individual rights at work, rather than support (legislative or otherwise) for the collective regulation of class relations.

British workers have benefitted from a range of new rights at work including: a national statutory minimum wage; more protection from unfair dismissal; enhanced maternity and paternity leaves, and the regulation of atypical work (both courtesy of the European Union); and minimum statutory internal procedures covering dismissal and grievances inside firms. The one major collective innovation has been a right to union recognition if a ballot showed majority support for a union (Department of Trade and Industry 1998). This right was hedged in important ways, in that it did not apply to small firms and required a turnout threshold on the ballot, but it is nonetheless a significant innovation in British labor law.

For all the changes since 1997, the overwhelming majority of Conservative industrial relations legislation remains in force and has been endorsed by New Labour. To this basic framework of labor law has been added limited regulation of the labor market. This regulation has taken the form of individual legal rights, enforceable through labor courts and state agencies, not, for the most part, collective rights designed to strengthen trade unions, which could then take on the role of regulating social relations through collective bargaining. Without workplace union representatives to advise workers of their rights, there has been a large increase in the use of employment tribunals and the ACAS advisory service as individualized arrangements replace unions (ACAS 2008). Thus the British case illustrates the wholesale destruction of old institutions during the Conservative period, and the emergence of new ones, and enhanced importance attached to once marginal institutions, during the New Labour's time in office.

4.3. Germany

Germany has long been a critical case in debates concerning the degree and nature of institutional change. As the most widely cited example of a coordinated market economy within the Varieties of Capitalism literature (Hall and Soskice 2001: 21-27), it has been exhibit A in the claim that an alternative model of capitalism to the Anglo-American liberal market economy is not only viable in a globalized world but can thrive, resistant to neoliberal temptation and drift.

The expectation that Germany's political economic institutions would be subject to at best incremental change along a broadly coordinated market economy path was based on the strong degree of 'fit,' or complementarity, among: financial institutions which provide patient capital; industrial relations institutions which provide employee voice and flexibility at work while taking wage costs out of competition; and a training regime which ensures high levels of industry-specific skills. Those institutions in turn provide German employers with a comparative institutional advantage in particular forms of production, what Streeck (1992) once termed ‘diversified quality production.’ The result is an employer preference for existing institutions (Thelen 2000) and the expectation that employers will defend those institutions rather than seek to dismantle them.

In fact, in the context of a widespread perception that Germany now occupies a ‘high equilibrium trap’ (Kitschelt and Streeck 2003: 1), this institutional model is unraveling. At least in the sphere of industrial relations, German institutions have been subject to quite dramatic levels of change since the mid-1990s. This has taken place not through a frontal assault upon core industrial relations institutions, but through a combination of the plasticity of institutions, primarily a change in the practice and functioning of works councils, and the erosion and retreat of collective bargaining coverage, trade unions and employer associations. Geographic escape routes have permitted employers to opt out of once dominant industrial relations practices without being forced to dismantle them. As Palier and Thelen (2010) have recently noted, institutional complementarities cut both ways, so that change in one set of institutions can in turn lead to a broader transformation of the political economic model.

The main elements of postwar German industrial relations are well known. Sectoral wage bargaining, conducted at the regional level, was complemented by a leading role for the metalworkers union ensuring a degree of intersectoral coordination and low wage dispersion across sectors, regions and large and small firms (Streeck 2009). A dual representation system provided both for non-competing industry unions, and statutory works councils and codetermination institutions. The strength of the German industrial relations model lay in the complementary, self-reinforcing relationship between collective bargaining on the part of unions and the business of works councils inside the firm. Collective agreements were effectively enforced by works councils, which in turn were heavily dominated by union candidates.

Quantitative issues could be dealt with through collective bargaining while qualitative issues could be dealt with through works councils at the firm level, taking wages out of competition and permitting flexibility inside the firm (Hassel 1999, Thelen 1991).

Powerful encompassing interest organizations also served to ensure a high degree of collective bargaining coverage and enforce the resulting agreements. Employer associations in particular played a major role in coordinating industrial relations practices in Germany, making the preferences of employers, and their continued willingness to defend existing institutions critical to the stability of the overall model of industrial relations. Employers associations and trade unions also jointly supervised the training regime which produced the industry-specific skills which permitted the high skill, high value production strategies of German manufacturing. Finally, labor law and public policy underpinned the entire set of institutions, favoring full time, permanent employment, creating codetermination rights, and subsidizing the training regime.

German industrial relations institutions weathered the oil shocks of the 1970s and the crisis of Fordist manufacturing remarkably successfully (Kitschelt and Streeck 2003; Scharpf, 1989). Indeed, it was this success which in many ways highlighted the distinctiveness, importance and durability of non-market coordinating institutions, paving the way for the theoretical framework of the Varieties of Capitalism approach. While fissures appeared in the industrial relations system in the 1980s, it was not until after the unification of Germany, in the mid-1990s, that the core industrial relations institutions appear to have simultaneously begun to erode and undergo transformation.

How much of the resulting institutional change would have taken place without the severe pressures imposed on the German political economy by the manner in which unification took place is probably unknowable. But what we do know is that the changed economic circumstances – cost pressures, the crowding out of investment by social consumption, the increased opportunities to take advantage of lower cost but high skill labor in eastern Germany and the former eastern Europe – led to a major reversal in the strategies and public policy stances of German employers, long the bedrock explanation of institutional stability. As one scholar wryly notes, ‘the disjuncture between the *stated* interests of corporate actors in Germany and the deductive-functionalist interests *ascribed* to them by the ‘Varieties of Capitalism’ literature is striking’ (Kinderman 2005: 435, emphasis in the original). The same observer suggests agnosticism as to whether this reversal is indicative of changed employer preferences or simply that under changed circumstances employers were better able to act on their long held preferences (ibid.: 436).

The change in employer strategy took place in part at the discursive and ideological level, embodied by the New Social Market Initiative championed by the Federation of German Industry, in part at the level of public policy, such as employer support for aspects of the Hartz IV labor market reforms, and most importantly at the level of practice within employer associations and at the firm level. One of the most important employer innovations was to permit association rights to employers without requiring those employers to agree to binding wage levels, so-called *ohne Tarifbindung*, or OT membership.

In contrast to some of our cases, particularly Britain and France, the state in Germany did not take as central a role in the reform and reconstruction of industrial relations institutions. It was employer practices, in response to radically changed economic conditions, that initiated institutional erosion and transformation. But as Palier and Thelen (20101) have recently demonstrated, institutional change has now been underwritten by state policy. They argue for a causal chain in which changes in industrial relations practices create pressures for dualism in the labor market, which in turn is accommodated by the state through labor market reforms which permit easier recourse to insecure atypical jobs, and welfare state reforms which create a sharper divide between social insurance and social assistance.

Turning to institutional change within industrial relations itself, the contrast between the early 1990s and the present is striking. The presence of firm level consultation in the form of works councils has shrunk, slowly in the 1980s and more rapidly since unification. Works councils covered 52.4% of private sector firms in 1981, falling to 41.6% in 1994, the first elections after unification (Hassel 1999: 488). Data are less good in the intervening period but panel data suggest a further decline to under 40% by 2005 (Streeck 2009: 40). This shift has mostly been the result of economic restructuring as smaller firms in private services have replaced the large manufacturing firms where works councils were well implanted.

Meanwhile the proportion of workers covered by a sectoral agreement declined from 72% in 1995 to 57% in 2006, with the figure much lower for the eastern part of Germany alone (Streeck 20009: 39). Hassel reports firm level agreements, long a marginal element in the industrial relations system, have increased as a share of total agreements; such agreements comprised 27% of the total in 1990 and 35% of the total in 1997 (1999: 494). Of greater importance than the coverage of collective bargaining, however, is the increasing prevalence of practices which permit – either legally or illegally – a decentralization of collective bargaining to the firm. These include a simple failure to honor sectoral agreements, concessionary agreements at the firm level with the works council under the heading of alliances or pacts for employment, and the growing recourse to ‘opening clauses’ within sectoral agreements which permit firms to modify the terms of the agreement (Kindeman 2005, Streeck 2009). In 1999/2000 22% of workplaces took advantage of such clauses, compared to 75% in 2004/2005 (Streeck 2009: 41).

When three-quarters of workplaces implement terms and conditions which deviate from sectoral agreements, it is clear that significant decentralization has taken place.

What has changed, then, is the mutually supportive relationship between union-bargained sectoral agreements and firm-level works councils. A quarter century ago Streeck warned of this inversion, noting that under conditions of high unemployment and pervasive job insecurity, works councils would come to engage in ‘wildcat cooperation’ with their employers to protect the jobs of insiders, a condition he labeled ‘microcorporatism’ in which flexibility and wage concessions were traded for job security (Streeck 1984). That practice, initially undertaken by non-enforcement of sectoral agreements or firm level pacts, has now been formally recognized by trade unions through the negotiation of opening clauses. The result has been a shredding of Germany’s dual system: by 1997 only 14.4% of plants in the west and 12.3% in the east were covered by both a valid collective agreement and a works council, and 29.5% of plants in the west and 46% of those in the east had neither (Hassel 1999: 487).

To the extent that German industrial relations rested upon centralized, encompassing interest organizations, they have also gone into severe eclipse. Union density was 32.9% in 1980 before beginning to draft downwards in the 1980s. After a brief recovery following unification, steep decline followed such that density was under 20% in 2003 (Streeck 2009: 47). Data on membership of employer associations, long a distinctive source of coordination in the German labor market, are harder to come by. While decline appears to have been less rapid, that has been the result of the critical decision made, first by Gesamtmetall and then quickly followed in other sectors, to create special forms of associate membership for firms unwilling to be covered by sectoral agreements: the OT membership noted above. By 2004, half of Bavarian employer association membership was OT and 75% of that in Saxony (Kinderman 2005: 442). Thus sectoral and regional employer associations have survived only by emptying themselves of their primary purpose. As Streeck notes, labor and business collectivity has declined ‘in parallel and together’ resulting in ‘mutual destabilization’ as sectoral agreements, works councils and interest organizations all decline (Streeck 2009: 51).

Institutional change in German industrial relations since the early 1990s has taken place through the steady erosion in the coverage of sectoral bargaining and works councils, that has resulted from structural economic change and through the increasing willingness and ability of firms to escape from these institutions either by geographic mobility or a series of escape routes now legitimized by employer and labor associations. Where these institutions remain in effect, their functioning has been transformed by changes in the practices of works councils, as they increasingly come to protect insiders at the price of permitting much higher degrees of firm-by-firm variation and flexibility. The overall result in institutional terms has been decollectivization, particularly on the labor side, and decentralization accompanied by ‘internal softening’ (Streeck 2009: 43) as agreements reached at the sectoral level are less binding and more variable at the firm level.

Institutional change has in turn been accompanied by the expansion of a secondary labor market characterized by greater recourse to temporary and agency workers and the rise of low skill part-time ‘mini-jobs’ (Palier and Thelen 2010: 129), by greater wage dispersion in place of the relatively egalitarian wage structure inherited from the 1980s (OECD 2008: table 11.1, page 286), and by greater experimentation in new working practices on the part of employers resulting in the hollowing out, to use Kinderman’s words (2005: 452), of Germany’s distinctive high road production strategies.

4.4. Italy

Italy used to stand out in the literature on comparative industrial relations as the problem case, characterized by highly militant unions, a chaotic collective bargaining structure, and a chronic inability to produce peak-level neo-corporatist agreements at a time (the 1970s and 1980s) in which they were considered necessary to bring rampant inflation under control (Lange and Vannicelli 1982 ; Cella 1989 ; Cella and Treu 1989 ; Tarantelli 1986 ; Ferner and Hyman 1992).

This situation changed dramatically in the early 1990s, when collective bargaining was considerably recentralized. In this respect Italy's trajectory stands in apparent contrast to that of other European counties. Two factors facilitated this institutional development. The first was economic: in the early 1990s, Italy found itself faced with a serious economic crisis which required swift and decisive responses by the economic policy-making authorities. The second factor was political: the old political party system, which had both shaped and constrained relations among collective actors, disappeared in the space of a few years due to a wage of corruption scandals known as 'Tangentopoli' (Bribeville).

The concomitance of both a political and economic crisis provided Italy's main union confederations, CGIL, CISL, and UIL, with a precious opportunity to assert their role as the senior partners of 'emergency' governments. Between 1992 and 1998, a series of peak-level bargaining agreements was negotiated by the three confederal unions and the Italian governments, with or without (as in the case of the 1995 pension reform agreement) the Confindustria. In July 1992, in an ill-fated attempt to stave off expectations of a forthcoming devaluation of the Lira, a tripartite agreement abolished wage indexation and temporarily banned enterprise-level bargaining. In July 1993 another centralized agreement confirmed the abolition of wage indexation and introduced a two-tier structure of collective bargaining at the industry and company level. In 1995, government and unions (but not the employers) negotiated a comprehensive reform of the pension system. This introduced a simulated funded system in the long term (with benefits proportional to paid contribution), but only marginally attacked acquired rights. In 1996, the tripartite 'Pact for Labor' introduced a moderate flexibilization of the rules regulating flexible and contingent forms of labor. In 1998, the so-called 'Christmas Pact' introduced a contractual obligation for government to consult with the social partners on all social policy issues and even to devolve decision-making authority to the social partners.

Of all these centralized agreements, the 1993 one was the most important one as it radically reformed the architecture of Italian industrial relations. Collective bargaining was to be conducted at both the industry level and the enterprise level. As far as remuneration was concerned, industry-level negotiations had the function of keeping inflation expectations in check by tightly linking wage increases distributed at the industry level with the expected inflation rates decided by the government. Also, they would guarantee purchasing power stability by compensating *ex post* for any positive difference between anticipated and actual inflation. Productivity increases would be distributed at the enterprise level through collective agreements that would link remuneration to objective indicators of firm performance.

The 1993 attributed a central role to decentralized bargaining and implicitly promoted its further extension, short of which productivity increases would not be distributed to the workers and the functional distribution of income would be modified in favor of capital (which is exactly what happened). However, enterprise bargaining failed to become more prevalent. Although the results of available studies are not strictly comparable, as they are limited to specific sectors and/or geographic areas, to enterprises of a particular size, or lack a longitudinal dimension, they all conclude that after a short-lived peak in the mid-1990s, the overall time trend of enterprise bargaining has been negative (Bordogna 1997 ; ISTAT 2002 ; Rossi and Sestito 2000 ; CNEL 2007 ; Bordogna 1999). Two forces seem to have operated at cross-purpose: on the one hand, the 1993 protocol provided unions with a ‘right to access’ to enterprise-level bargaining that was previously unavailable; on the other hand, due to the decline of density rates, unions have been increasingly unable to act on such a right.

At the end of the 1990s, the Italian corporatist system seemed well on its way to institutionalization, and there was even talk of embedding it in the Italian Constitution (Carrieri 1997). However, this opportunity was missed: the main employer association, Confindustria, became increasingly disenchanted with tripartite negotiations and, on the eve of national elections in 2001, struck a strategic alliance with the center-right coalition, whose governmental program emphasized labor market deregulation, criticized concertation as an empty rite that blocked much-needed structural reform, and underscored the need to move from job protection to employability through further labor market flexibilization (Biagi et al. 2002).

In 2002, another tripartite agreement was negotiated, exchanging the promise of tax reductions for a less rigid regulation of individual dismissals. The main union confederation, the CGIL, refused to sign this agreement and called for workers to mobilize in opposition. This call was largely heeded and the policy reform stalled. As a result, the government never implemented the new rules on dismissals that it had negotiated.

Corporatist policy-making returned in full splendor in 2007. The opportunity was once again a pension reform. While the reform of 1995 had fundamentally altered the future structure of the system, it had had only a limited impact on the transition phase affecting workers who had matured pension rights under the old regime. To prevent a short-term increase in pension expenditures, in 2004 the centre-right government unilaterally increased the minimum age for seniority-based pensions. However, it postponed the introduction of the reform to 2008 in order to avoid political problems with its base. The new centre-left government abolished the unilateral reform and negotiated with the unions a gradual increase of the minimum age for seniority-based retirement. This time all three union confederations signed the agreement.

In 2008, the centre-right coalition returned to power and the unions split again. The crux of the matter this time was the updating of the 1993 agreement and the reform of the collective bargaining structure. This was a topic that had been tabled repeatedly in the past, including during the 1998 negotiations, but that had never been dealt with due to the parties' inability to converge on a mutually-agreeable solution. The January 2009 agreement confirmed the 1993 articulation of collective bargaining on two levels (industry and company), but increased the duration of industry-level agreements from two to three years, linked industry-level wage increases to an EU-wide predictive index rather than to Italy's expected inflation, and affirmed the need for government to stimulate the diffusion of decentralized bargaining through special tax advantages. All the major employer organizations signed the agreement and so did the CISL and UIL, but not the CGIL. The CGIL's refusal was motivated by the agreement's inadequate protection of the wages and salaries' purchasing power.

While the incisiveness of the early pacts is largely gone (Carrieri 2008), the parties continue to negotiate national-level agreements, following what has by now become a predictable pattern: when the centre-left coalition is in power, all three confederations share responsibility for the final agreement; when the government is in the hands of the centre-right coalition, the CISL and UIL sign, while the CGIL digs its heels in. The CGIL seems to find it difficult to negotiate agreements with a government it does not trust.

Retrospectively (and counterfactually), it could be argued that without the centralized agreements of the 1990s, Italy's political economic situation would be worse than it currently is: the country would not have joined the single European currency, inflation would be higher, the currency would be an easy target for speculative attacks, and the public deficit would have grown due to higher interest rates, thus adding further pressure to an already restrictive fiscal policy. At the same time, the resurgence of tripartite negotiations did nothing to prevent the continuous erosion of the unions' representation capacity among active workers, especially in the private sector. Current density rates in the private sector are estimated to be less than 20 per cent (Baccaro and Pulignano Forthcoming). This makes one wonder whether, with labor so weak where it matters most – among the workers – corporatism has not become an empty shell. Also, and perhaps more importantly, by introducing and sustaining a multi-year policy of wage restraint, it may have contributed to what is currently being perceived by the Italian general public as a true and proper emergency: wage incomes that are insufficient to cover normal expenditures and basic needs of an average family, especially in large metropolitan areas.

4.5. Sweden

For much of the postwar period, Sweden was the archetypal case of corporatism, marked by centralized and coordinated bargaining between the peak organizations of labor and capital. Much of the institutional architecture of that regime remains in place; indeed the recent past has seen a revival of coordinated multi-sectoral bargaining. An examination of institutional forms only might lead an observer to use the Swedish case as powerful evidence of path dependence and institutional change that is at best incremental. In fact, we argue, Swedish industrial relations have been transformed in the last fifteen years, in part through the creation of new institutions, but more through changes in the interests and behavior of class actors and the state (Thörnqvist 1999), and changes in the practice and functioning of existing industrial relations institutions. Those institutions have come to permit, indeed to encourage, decentralized wage setting, and a high degree of individualization and labor market flexibility.

The core of the Swedish industrial relations regime between the 1938 Saltsjöbaden agreement and the early 1980s involved wage bargaining at peak level between the main employers organization and the blue collar union confederation. Wage bargaining was based on the twin principles of wage moderation to ensure the competitiveness of the export sector and wage solidarism understood to mean that workers were paid on the basis of the job they did and not the ability of the firm to pay. Centrally determined wage levels were imposed across the economy regardless of the profitability of individual firms. This industrial relations regime was never as rigidly centralized as this description suggests, and there was always some degree of wage drift, serving to manage economic pressure and defuse conflict at the firm level (Swenson 1989). Nonetheless, bargaining was highly coordinated, and the outcomes of peak level bargaining played a central role is shaping wage determination in ways that muted labor market signals.

This model all but collapsed in the decade between 1983 and 1993: external shocks, new forms of international competitive pressure resulting from European integration and the globalization of financial markets (Murhem 2003; Ryner 2002), and an accumulation of tensions and contradictions internal to the industrial relations regime changed the interests of employers and workers, particularly the former. Existing institutions no longer served to contain inflation, produce social peace, or protect managerial prerogative. By the end of the 1980s, many employers had concluded that the main elements of the Swedish model were irretrievably broken and moved to end centralized bargaining and withdraw from tripartite institutions (Johansson 2005).

However, out of a profound economic crisis in the first half of the 1990s, marked by historically high unemployment and waves of mostly wildcat strikes, a new industrial relations regime emerged. Faced with the prospect of much higher levels of conflict, employers backed away from the more radical elements of their reform program. Trade unions, traumatized by the experience of the crisis in the early 1990s, acceded to changes in wage bargaining. The role of the state was crucial in the gestation of the new industrial relations regime, not least because many of the elements of the new regime were inaugurated by the state during the crisis of the early 1990s. As Ahlberg and Bruun note, employer and union willingness to reconstruct coordinated bargaining was in part 'a conversion on the way to the gallows' (2005: 124) as the social partners anticipated increased state intervention and regulation in the event of non-action on their part.

The new industrial relations regime was put in place between 1997 and 2000. Its building block was an 'industrial agreement' reached between eight unions and twelve employers' organizations in 1997 which established coordinated, multi-sectoral bargaining for much of the private manufacturing sector (Elvander 2002). The agreement relied upon the technocratic construction of a wage norm by an independent Economic Council for Industry and new collective bargaining practices in order to encourage the acceptance of the wage norm, including compulsory mediation and a cooling off period. This was followed by two similar agreements in the public sector, one applicable to central government and the other for local government.[10] Finally, a 2000 law which created a new National Mediation Office authorized to appoint

[10] In the spring of 2010 the private services sector concluded a similar form of multi-industry agreement, ensuring that the great majority of Swedish workers were now covered by coordinated bargaining agreements.

mediators without the consent of the parties concerned, who in turn were able to impose a fourteen day cooling off period.

The result is that a large portion of the Swedish economy was now once again subject to coordinated bargaining with 60% of the Swedish labor force was covered by this type of agreement prior to the recent agreement in the private services sector. This industrial relations regime has now been used for four bargaining rounds, in 1998, 2001, 2004 and 2007. In each case, minimal conflict accompanied bargaining.

An evaluation of the industrial agreement regime which focused upon formal institutions alone would likely emphasize institutional continuity: the return to coordinated bargaining; the wage-setting role of the export sector; and the continued reliance upon self-regulation. To be sure there was institutional innovation in the form of the role of technocratic criteria for establishing a wage norm, new collective bargaining rules and limitations on the right to strike, but on the surface, neo-liberal drift appears limited.

However, this would be to miss the truly important innovation in Swedish industrial relations of the last decade, and the qualitative shift in the nature and functioning of collective bargaining. This has involved a decentralization, flexibilization and individualization of wage bargaining. Starting in the 1990s and codified in the practice of industrial agreement-type bargains after 1997, central collective agreements became thinner and more minimalist, establishing a set of principles and procedures for predominantly local bargaining, sometimes setting limited wage targets, but permitting wide discretion at the firm level. Bargaining institutions have come to function as mechanisms for permitting local variation involving not only decentralization to the firm level but also individualization within a given workforce as collective components declined as a proportion of the wage pool (Granqvist & Regnér 2008).

Central agreements under the new industrial relations regime tend to have many fewer minimum wage categories, or none at all, some guarantee of a wage increase, usually as a fallback provision in the event that local agreement cannot be reached, and a local wage pool accompanied by a set of general principles for its distribution (such as that increases be directed towards low paid workers or women).

In the most recent bargaining round in 2007 only 29% of private sector employees benefitted from some form of general wage raise. For 46% of employees, the central agreement specified a local wage pool but left it up to local bargaining to negotiate its distribution. For the remaining 25% of employees the central agreement specified no local wage pool at all, though in most cases it provided for some minimum guaranteed increase in the event of a failure to reach agreement at the firm level (National Mediation Office). In the state sector, 38% of employees had their pay determined by local bargaining with no specified wage pool or minimum guaranteed increase whatsoever, with the remainder still determined by local bargaining but with some form of minimum guaranteed increase.

Thus the re-emergence of coordinated, multi-sectoral bargaining in Sweden since the late 1990s has gone hand in hand with a fundamental decentralization and individualization of bargaining to the firm level. Central agreements offer principles and procedures for bargaining, sometimes determine local wage pools, and often provide for a guaranteed minimum wage increase, but they are not where wages are actually bargained.

These developments constitute a marked neo-liberal turn in Swedish industrial relations. The outcome of that turn is mitigated to some degree by the organizational strength of labor, such that unions remain highly influential in wage determination. Yet even the extent to which class mobilization can counteract institutional transformation is tempered by recent developments, including a decline in the coverage and vitality of workplace union clubs (interview with Anders Kjellberg, Stockholm, October 6, 2006), a decline in overall union density, down from its peak of 85% in the mid-1980s to 73%, in 2007 (Kjellberg 2009: 36), and changes to the Ghent-type unemployment insurance system, introduced by the Bourgeois coalition government elected in 2006, which pose a serious threat to Swedish unions.

All this suggests that in many places the role of unions will be one of 'monitoring' the implementation of workplace agreements rather than doing the actual negotiating (Ahlberg & Bruun 2005: 131). As such, recent developments in both institutional functioning and mobilizational capacity have encouraged the emergence of a neo-liberal trajectory for Swedish industrial relations.

4.6. Ireland

Ireland is traditionally considered a 'liberal market economy' (Hall and Soskice 2001). Its labor market institutions are of the Anglo-Saxon type: workers are organized by craft and general unions, collective bargaining agreements are not applicable outside of the union sector, and the regulatory framework is one of voluntarism. Yet the trajectory of Irish industrial relations in the last 20 years runs counter to that of most other European industrial relations systems: in lieu of decentralization, in Ireland the structure of collective bargaining was strongly recentralized. The resulting 'Irish social partnership' lasted from 21 years, from the late 1987 to the late 2008. It underpinned a period of rapid economic growth which radically transformed the image of the 'Emerald Isle' in the eyes of domestic and international commentators from basket case to 'Celtic Tiger'.

At the time social partnership was first put in place, Ireland was undergoing a serious financial crisis, which public deficit and public debt both out of control, growth stagnating, and unemployment on the rise despite a large increase in emigration. The government in power was a minority government, i.e. did not have the formal parliamentary majority needed to pass a host of unpopular fiscal adjustment reforms aimed to cut public expenditures and restore public sector balance. At the center of its adjustment strategy was a pact with the main trade union confederation, the ICTU, by which the union committed to wage moderation through centralized negotiations setting nominal wage increases for all sectors simultaneously, in exchange for cuts in income taxes. The pact was called 'A Programme for National Recovery' (PNR). It was based on the assumption that the economy would pick up again thanks to a buoyant international demand if competitiveness gains were achieved, and that the resulting export-led growth would enable both fiscal adjustment and tax cuts, which in turn would reinforce the unions' commitment to wage moderation (Baccaro 2003 ; Baccaro and Simoni 2007).

The strategy was successful and social partnership – renewed every three years through centralized negotiations – became the cornerstone of economic policy in Ireland. Seven centralized agreements in succession followed the PNR. The main terms of the deal remained constant: against the backdrop of monetary and fiscal conservatism, nominal wage containment was exchanged for a reduction in personal taxation. Wage moderation allowed the accumulation of sizeable competitiveness gains until the early 2000s, particularly in the more dynamic and internationalized manufacturing branches, dominated by multinational companies. This stimulated investment, including foreign direct one, and, particularly from the mid-1990s on, led to strong employment growth (Baccaro and Simoni 2007).

The Irish unions did not fare particularly well under social partnership. The employers constantly rejected the unions' demands to introduce statutory recognition provisions in the social partnership agreements (D'Art and Turner 2003). There was a lot of talk in these years about the extension of partnership at the workplace level. However, all measures that were taken remained purely voluntary. In fact, the Irish unions experienced a dramatic decline of density rates in the social partnership years: from 53 percent in 1987 to 35 percent in 2007 (32 percent according to survey-based data) (Walsh and Strobl 2009). The declining trend was larger than for unions in the UK (from 44 to 29 percent over the same period), despite the much greater institutional 'embeddedness' of the Irish unions than their British counterparts.

In addition, the unions were unable, and perhaps even unwilling, to use the social partnership format to move the Irish welfare state away from its liberal, 'residualist' tradition characterized by heavy reliance on means-tested provisions and flat subsistence rates (Esping-Andersen 1990 ; Cousins 1995). Public social expenditures as a percentage of GDP declined from 21 percent in 1987 to 16.7 percent in 2005, the last year for which data are available (OECD various years-b). As part of the social partnership model, the 'social partners' jointly elaborated a model of 'developmental welfare state' which was intended to reconcile the imperative of economic competitiveness, which was deemed vital for a small open economy, with the need for a social safety net (NESC 2005). With its emphasis on activation and human capital development the model drew inspiration from the Danish and Dutch systems of flexicurity (Auer and Cazes 2003 ; Wilthagen 1998), with one important difference: unemployment insurance replacement rates were much lower in the Irish than in the Danish and Dutch models (24 percent vs. about 90 percent) (Kirby 2008 ; Murphy 2007).

The Irish social partnership produced for some time one key winner (in addition to capital): the public sector employees. Although wage moderation was rigidly enforced in the private sector, public sector employees benefited not just from wage increases issued centrally and applying across-the-board, but in the years 2000 also from special awards based on 'benchmarking exercises'. These were intended to ensure pay comparability for similar jobs between the private and the public sector. The result was that by 2006 the wage gap between public and private sector was in the order of 22 percent in the favor of the former controlling for human capital and other characteristics, and was even greater for lower-skilled jobs (Kelly et al. 2009).

Wage developments in the public sector began to have systemic effects on the Irish economy from the early 2000s on. In fact, the trajectory of the Irish political economy can be divided *grosso modo* into two phases: 1) up to 2000 the model of development was centered on external competitiveness and export-led growth; 2) from approximately 2000 until 2008 the engine of growth shifted to the domestic construction industry. Consistent with this periodization, unit labor costs declined steadily until 2002 but then began to rise again (IMF 2009).

In the years 2000s a large real estate bubble developed in Ireland, even more than in other countries. This was due to two developments. First, with the onset of the EMU, monetary policy became highly expansionary in Ireland, an area of higher relative price inflation, in which real interest rates were lower than elsewhere in the Euro area. This fueled speculative investment. Second, the major Irish banks expanded dramatically their balance sheets to finance the real estate boom (Honohan 2009). Differently from the US and other countries, subprime lending and asset-backed securities played no role in the Irish banking crisis of 2009: this was entirely determined by old-style mortgage finance (Connor et al. 2010).

When the bubble exploded in the late 2008, the Irish economic policy-makers discovered to their dismay that 20 years of social partnership had led to a structural deterioration of public finances. The need to constantly lower personal income taxes to reward the unions' wage restraint had led to a severe shrinkage of the tax base and to the progressive substitution of income tax receipts with stamp duties and other forms of property-related taxes (Lane 2009: 239; OECD 2009). This deterioration had not been clearly visible in the years of the asset boom. However, when the crisis led to the plummeting of real estate prices, a huge gap opened in the Irish public finances. The nationalization of one key bank (Anglo-Irish) and the public refinancing of two other cost the Irish government a total of 45 billion Euros.

In these circumstances, the social partnership approach proved dramatically inadequate to the new challenges posed by the crisis and was unceremoniously jettisoned by the government. To regain the confidence of international markets this had to implement a drastic program of fiscal retrenchment in a very short time. This time the unions were expected to deliver not just real wage restraint as in the past but nominal wage cuts. This would have been a first in the history of centralized wage bargaining, and the unions were unwilling to let it happen.

In October 2008 the social partners had negotiated the payment of a national wage increase of 3.5 percent as part of the social partnership program. A few weeks after the agreement, the explosion of the international financial crisis rendered this provision clearly obsolete: many private sector companies used the 'inability to pay' clause of the national agreement to either freeze wage increases or even implement nominal pay cuts. For the public sector, however, no such clause was available and government imposed first a 7.5 percent special pension levy, amounting to a unilateral pay cut of equivalent amount, and then nominal wage cuts of 1 billion Euros again unilaterally (Sheehan 2010).

At present, social partnership seems dead and the unions are weighing their options, which include a return to 'free-for-all' (i.e. decentralized) bargaining as in the 1980s or even a new strategy of grassroots activism. However, the unions' organizational strength and mobilization capacities are markedly lower than twenty years ago when social partnership started. Also, and perhaps more importantly, their calls to industrial action have so far managed to mobilize the public sector but have met with unusual hostility elsewhere in Irish society.

5. Discussion

Arguments trying to assess whether national industrial relations systems are stable or fundamentally changing, and if so if they are converging towards one another, run the risk of taking the form or what logicians refer to as a 'sorites paradox' (Hyde 2005). The 'sorites paradox' was first attributed to an ancient Greek philosopher, Eubulides from Miletus. It was stated in various equivalent forms, one of which had to do with a man losing his hair: 'Would you say that a man with an arbitrarily high number of hairs on his head is hirsute?' 'Would you also say that if a hirsute man loses one hair he is still hirsute?" It would be natural to admit the truth of both propositions, but then one would also have to admit, by repeated application of the second premise, that a man who has lost a very large number of hairs is still hirsute.[11] The deduction is perfectly legitimate by the standards of classical logic, as it only involves *modus ponens* ('if p then q', but 'p', then 'q') and the chaining together of individually true

[11] Strictly speaking, even a man with no hair or with a negative number of hairs would be hirsute according to the premises.

propositions, yet it stands in sharp contrast with common sense.[12]

The paradox applies to all propositions involving slow accumulation or depletion of a particular quality, including propositions such as ‘an industrial relations system in which a number of companies defect is still fundamentally stable’. It is widely acknowledged that the origin of the paradox lies in the vagueness of natural language, which does not permit the precise identification of the boundaries within which a predicate applies. Artificial languages eliminate this kind of paradoxes by introducing predicates with sharp cut-off points at which the propositions’ truth-values shift from true to false, such as when a diabetic patient is defined in medical language as somebody with a blood sugar of more than 7 mmol/l.[13] Such cut-off points may, however, be somewhat arbitrary and everyone may not be willing to agree on them. In the absence of sharp cut-off points, trying to determine the truth status of soritical propositions such as the ones reported above is inherently flawed: when looking at what philosophers of language call the *penumbra*, i.e. a state where it is not patently clear which predicate should apply, one observer may consider that the balding man has not fundamentally changed his hirsute status and another that it has. In this case the only non-arbitrary thing to do is to try and assess the direction of the process without seeking to decide the truth value of the soritical proposition. The question becomes: is the man in question losing or gaining hair? In what follows we adopt both the ‘cut-off point’ and the ‘direction’ approaches.

The quantitative data presented in Section 3 lend themselves rather nicely to the definition of a sharp cut-off point for convergence. We would say that European industrial

[12] For Hegel, Marx, Engels, and other ‘dialectical’ thinkers the paradox unequivocally signaled the limitations of Aristotelian logic and the need to replace it with a superior logic that would admit the transformation of ‘quantity’ into ‘quality.’ See Hegel’s Logic (xxx), Marx’s Capital (xxx) and Engels’ Anti-Dühring (xxx).

[13] In the early 20th century logical neo-positivism regarded the sorites paradox as one example among many of the imperfections of natural language and of the need to substitute it with a precise language (allowing for sharp cut-off points) built on symbolic logic. See Russell (1923). See Bertrand Russell, ‘Vagueness’, *The Australian Journal of Philosophy and Psychology* 1, 1923: 84-92

relations systems are converging if the standard deviations of the two principal components identified above, macrocorporatist institutionalization and workplace mobilization, are significantly smaller at t_2 relative to t_1, i.e. if the distribution becomes less disperse over time. Table 2 reports the relevant t-tests. It suggests that between 1974-1989 and 1990-2005 European industrial relations systems not only reduced their levels of workplace mobilization on average, but also their dispersion around the mean as testified by the significant reduction in the standard deviation. In this regard, developments in Italy, Ireland, and the UK, the three countries which score highest on the workplace mobilization score at t_1, are particularly impressive, as by t_2 these countries were in line with the average of other countries (Figure 8).

Table 2 about here

No such converging trends are apparent with regard to institutionalization, however. Here the mean declined, albeit insignificantly, but the standard deviation increased significantly over time, suggesting growing divergence in institutional form. Overall, these tests suggest that there has been convergence over time on a model of workplace quiescence, but that European countries have continued to differ greatly, and even increasingly, with regard to their degree of macrocorporatist institutionalization as captured by the indicators of bargaining centralization, tripartite involvement in policy-making, and union density rates.

This second conclusion seems somewhat unsatisfactory. After all, the indicators used for the macrocorporatist component only capture institutional form and there is no guarantee that continuity in institutional form would also involve continuity in institutional function. To assess whether function has changed over time Figure 9 plots average gini coefficients (a widely-used measure of income inequality) against average macrocorporatism scores at t_1 and t_2. While the relationship is negative in 1980-1989, it becomes almost flat in 1990-2000, largely due to Ireland developing corporatist features. This comparison suggests that the outcomes of macrocorporatist institutionalization may have changed over time. Macrocorporatism was market-correcting in the earlier period but more market-conforming in the later one.[14]

Figure 9 about here

Furthermore, the conclusion about persistent diversity in institutional form needs to be qualified in light of the case study evidence presented in Section 4. The six countries reviewed certainly reveal an impressive diversity of institutional forms and paths of institutional evolution, but there seems to be a common directionality behind the national peculiarities. In France, the key problem was to ensure that workplace restructuring retained a shade of legitimacy in the eyes of the rank-and-file whose active collaboration was rendered necessary by the new forms of work organization. Given the endemic weakness of French trade unions at the workplace level, the state stepped in to literally create *ex nihilo* new collective actors who would negotiate and legitimize workplace change. At the same time, the state extended the possibility of derogation from legal and contractual rules and in so doing increased the heterogeneity of the various workplace-based regulatory systems.

In the UK, the industrial relations system was deregulated and liberalized by conservative governments in the 1980s through a combination of labor law reforms, restrictive macroeconomic policy, restructuring and privatization and public services. The labor governments that followed did not fundamentally alter the legislative and policy framework of the previous regime, but simply adjusted it at the margin it by strengthening the workers' individual rights in the workplace through legislation. No attempt was made to also strengthen

[14] The data on gini coefficients of household disposable income are from the Luxembourg Income Study. They are only available between 1980 and 2000. Macrocorporatist institutionalization scores are averaged over the same period. Regressing gini coefficients over macrocorporatist institutionalization, the linear coefficient of macrocorporatism is significantly different from zero in the first period but not in the second.

collective rights, with the exception of the introduction of statutory provisions for union recognition. Even this right to organize was, however, interpreted in liberal terms as a compromise between positive and negative freedom (the latter implying the freedom not to join trade union), and was subordinated to obtaining a majority in workplace elections (similar to the US case).

In Germany all indicators point to a severe erosion of the system of collective regulation. Collective bargaining coverage and membership in trade unions have declined. Employer associations, traditionally the bulwark of the German model, although also declining, have been able to fare marginally better than unions because they have allowed firms to retain their membership without having to abide by the wage rates negotiated at the industry level. In addition a number of practices, both legal and illegal, have further decentralized collective bargaining to the firm-level and allowed firms to opt-out of collective bargaining provisions.

Even in the three countries, Italy, Sweden, and Ireland, which at first sight seem to buck the trend having experienced a recentralization of collective bargaining, the new centralized institutions have different features and, more importantly, very different functions from the past. The type of centralized bargaining that emerged in Italy in the 1990 was an emergency corporatism intended to help governments drive through a host of largely market-conforming and strongly unpopular macroeconomic, social policy, and labor market reforms. It should have been accompanied by the further extension of a dual system of collective bargaining and the company and industry-level, but the plant-level extension of bargaining never materialized because trade unions were too weak to pull it off.

In Sweden, the collective bargaining system was recentralized in the late 1990s through a renaissance of multi-industry bargaining, the extension of compulsory mediation practices, and the introduction of cooling-off periods. However, the new coordinated bargaining featured a minimalist role for the center, whose main function became that of issuing broad guidelines, and a much greater role for decentralized and even individual bargaining than was ever the case in the heydays of the 'Swedish model'.

Perhaps the clearest example of the new role and function played by centralized bargaining is provided by the Irish case, where the centralized bargaining of the 1990s and 2000s had few of the redistributive and public-sector expanding features of classic corporatism. It rewarded the unions' wage restraint with constant cuts in personal taxation and in so doing allowed the Irish economic authorities to pursue successfully (at least for some time) what was essentially a 'beggar-thy-neighbor' strategy in which wages growing systematically less than productivity led to increased competitiveness and hence larger export and FDI shares. This strategy came to an abrupt end with the financial crisis of 2008-09, which left the Irish unions organizationally weak and in strategic disarray.

These developments suggest not only that industrial relations institutions have experienced greater degrees of change than most theorizing anticipates, but also that, despite persistent diversity in institutional forms, change has been convergent in the sense that it has moved in a common direction. That common direction is best characterized as neo-liberal. By neo-liberalism we refer to a general process of market liberalization (Harvey 2005), or the 'disorganization' of once organized political economies, involving the trend 'away from centralized authoritative coordination and control towards dispersed competition, individual instead of collective action, and spontaneous market-like aggregation of preferences and decisions' (Streeck 2009: 149).

Neo-liberalism is first and foremost a strategy of macroeconomic reform (Williamson 1989), involving trade and financial liberalization, fiscal discipline (to be achieved through expenditure cuts rather than tax increases) (see also Alesina and Ardagna 1998 ; Alesina and Perotti 1997b, 1997a), and disinflation, to ensure which governments are willing to give up full employment . In addition, it involves a series of structural reforms which are intended to be compatible with and to enable the maintenance of the macroeconomic framework summarized above. State-owned enterprises should be privatized; industries should be deregulated and barriers to competition eliminated; the welfare state should be cut-to-size; financial risks should be shifted from the state or the employers to the individual (for example by moving from defined-benefit to defined-contribution pension systems) (Immergut and Anderson 2007 ; Pierson 2001 ; Bonoli 2001 ; Myles and Pierson 2001); and labor market institutions should be restructured to reduce the level and duration of unemployment benefits, make benefit payment contingent on active search and willingness to accept available jobs, lower employment protection, and in general eliminate all mechanisms interfering with the free meeting of demand and supply (Blanchard 2006 ; OECD 1994 ; Nickell 1997 ; Layard et al. 2005 ; Siebert 1997 ; Blanchard and Wolfers 2000 ; Bertola 1990 ; Saint-Paul 2002). Finally, neoliberalism accepts the distribution of income arising from the market and makes little attempt to correct for it.

Referring specifically to industrial relations, neo-liberalism involves one or more of the following: i) greater reliance upon market mechanisms in the regulation of the labor market; ii) a shift from higher levels of collective bargaining to lower ones, closer to the firm or workplace; iii) greater recourse to individual bargaining between employee and employer or unilateral employer decision-making; iv) reduced institutional steering, whether in the form of collective regulation or statist regulation; v) a shrinking in the collective organization and collective capacity of class actors.

We would argue that the basic thrust of developments in European industrial relations, involving the generalized weakening of unions or even the substitutions of unions with other collective actors, the erosion of bargaining coverage and the transfer of ever more regulatory matters to the firm level, and the increase in the heterogeneity of negotiated provisions to match a similar heterogeneity in market conditions, is unequivocally neoliberal in character. Although neoliberalism ultimately advocates the retreat of the state (and thus resembles Marxism in this respect) and the exclusive use of the market to regulate social relations, it requires active state intervention to bring the required changes about. In addition, the state and other non-market mechanisms are in some cases mobilized to produce outcomes, such as generalized wage restraint, which the market per se would be unable to produce but which are nonetheless consistent with the overall framework.

Our claim that all European industrial relations systems have experienced a common neoliberal drift may be perceived as glossing over important differences in the evolutionary paths of countries. For example, the VofC literature has proposed a more nuanced argument according to which advanced countries have responded to the common external shocks of globalization in fundamentally different ways: economies like the UK in which business organizations were not very strong in the late 1970s have accentuated their 'liberal market economy' traits, in particular by liberalizing labor markets and decimating unions, while economies like Germany that had institutional and organizational capacities to pursue a strategy of 'diversified quality production' have not fundamentally liberalized their economies because key firms in these countries had no interest to do so.

According to this argument, important institutional changes have taken place in the

Scandinavian countries. These shared many features with Germany but their institutional arrangements were more rigid. In particular, the wage setting system had become too constraining for firm managers, who had trouble recruiting and motivating skilled employees. In these countries organized capital has led the way towards a convergence on the German model of industry-level bargaining (Soskice 1999 ; Iversen et al. 2000 ; Thelen 2001 ; Iversen 1999).

Thus, the VofC argument predicts: 1) growing divergence between the LME (Ireland and the UK) and CME countries (Germany, Austria, Belgium, and the Netherlands) over time; 2) convergence between CME and Scandinavian countries (Denmark, Finland, Norway, and Sweden). Figure 10 displays these predictions in graphical form.

Figure 10 about here

None of these expectations is borne out by the data. Figure 11 plots yearly scores of the Macrocorporatist Institutionalization principal component against time for CMEs and LMEs (left panel) and CMEs and Scandinavian countries (right panel). There is no evidence of an increased divergence in institutional trajectories between the CMEs and LMEs. The two seem to proceed in parallel. In both cases there is a reduction of the score in the 1990s and 2000s. Similarly, there is no evidence of Scandinavian countries converging with Germany. There is a parallel declining trend in both groupings of countries beginning with the mid-1990s on, but no closing of the gap. Plotting Germany, Sweden, and the UK, the beacon countries in each group, against one another, reveals that all three have experienced decollectivization from the 1990s on (Figure 12). Similar conclusions (no convergence between CMEs and Scandinavian countries, convergence between CMEs and LMEs) are reached if the second principal component identified above, Workplace Mobilization, is plotted over time.

Figures 11 and 12 about here

The finding that all ‘varieties of capitalism’ display a common trend away from centralized coordination and towards a reduction in workplace mobilization is in line with our argument that a neoliberal drift sweeps across all European industrial relations systems simultaneously. It is further strengthened by the findings of the qualitative analysis reported above, which has shown that even where macro coordination as institutional form has reemerged, it has either been hollowed out by the delegation of a much greater role to the enterprise level (in Sweden), or its internal functioning and outcomes have proven to be much more compatible with a neoliberal policy orientation than had previously been the case (in Italy and Ireland).

6. Concluding Remarks

In this paper we have made a bold claim: that a common imperative of liberalization, interacting with different national institutional configurations, is changing the landscape of European industrial relations along a similar trajectory. This does not mean that countries have converged in institutional form but that different institutional forms have been reshaped to fit the common imperative of liberalization.

An analysis of the causal factors underlying this common trajectory is beyond the scope of the paper, but a brief comment is in order. Changes in production strategies, an acceleration in the process of economic restructuring following from the deindustrialization and financialization of capitalist economies, and enhanced competitive pressures resulting from heightened international economic integration and greater capital flows across national borders, have combined to simultaneously change the interests and relative power of class actors, and to create a new set of urgent problems for state actors (Harvey 2005). These problems have manifested themselves in different ways across our cases, and to be sure, their severity and scope has varied. But the common result has been to make the attachment of class actors to existing industrial relations institutions much weaker, to create pressures for institutional reconstruction, and to provoke broad reform projects on the part of states.

What has then followed has not been an automatic or lockstep reconstruction of industrial relations institutions. Institutional change requires political action, and is more often than not accompanied by conflict. The parameters of political struggle vary wildly from country to country. That is one reason why profound changes in the economic environment have not necessarily generated a frontal assault upon existing industrial relations institutions, though there is evidence of some of this in our cases. Nevertheless, our evidence indicates that, whatever the precise mechanism of change, industrial relations have been transformed in a similar neo-liberal direction.

This argument in turn raises questions about the centrality accorded to institutional analysis in explaining the functioning of capitalist political economies. Institutions matter, certainly, but their causal primacy is less important than scholars have suggested. More important seems to be the force field within which institutions operate: the economic and class drivers which shape how institutions function (Korpi 1983 ; Esping-Andersen and Korpi 1984 ; Korpi 2006).(Korpi 2006). This is of particular importance within industrial relations where the class cleavage remains predominant, and thus changes in the relative organizational and mobilizational capacity, and in the perceived interests, of class actors are likely to overwhelm the mediating ability of institutions and facilitate either their reconstruction or their reengineering.

Figure 1: The evolution of average union density in 12 European countries

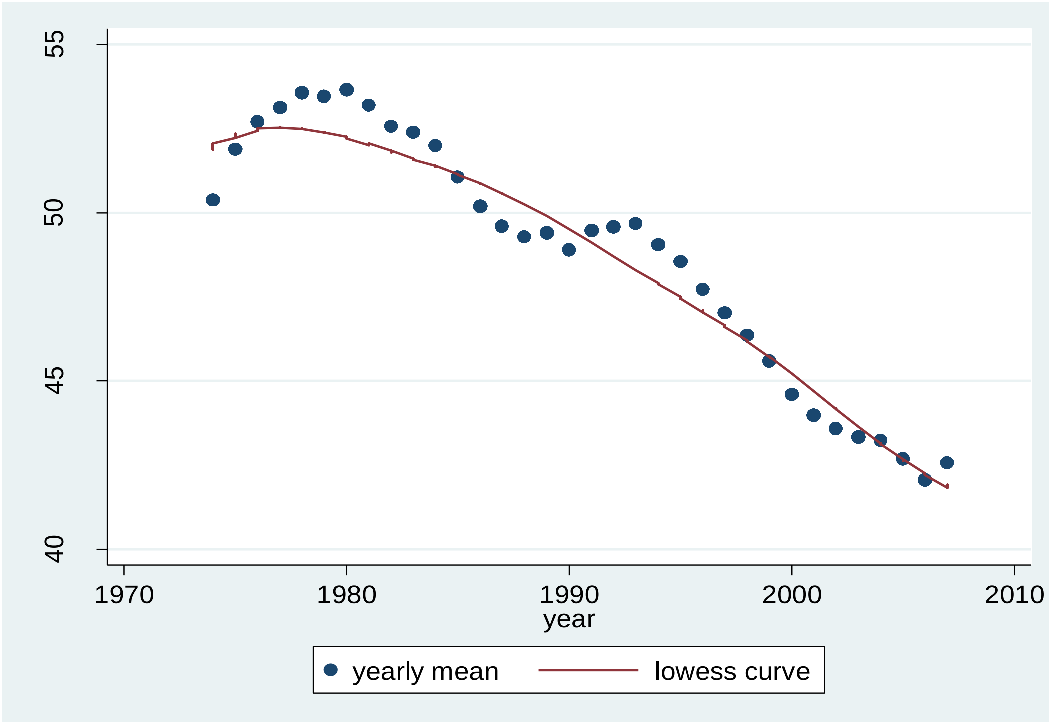


Figure 2: Union density in Belgium, Denmark, Finland, Norway, and Sweden

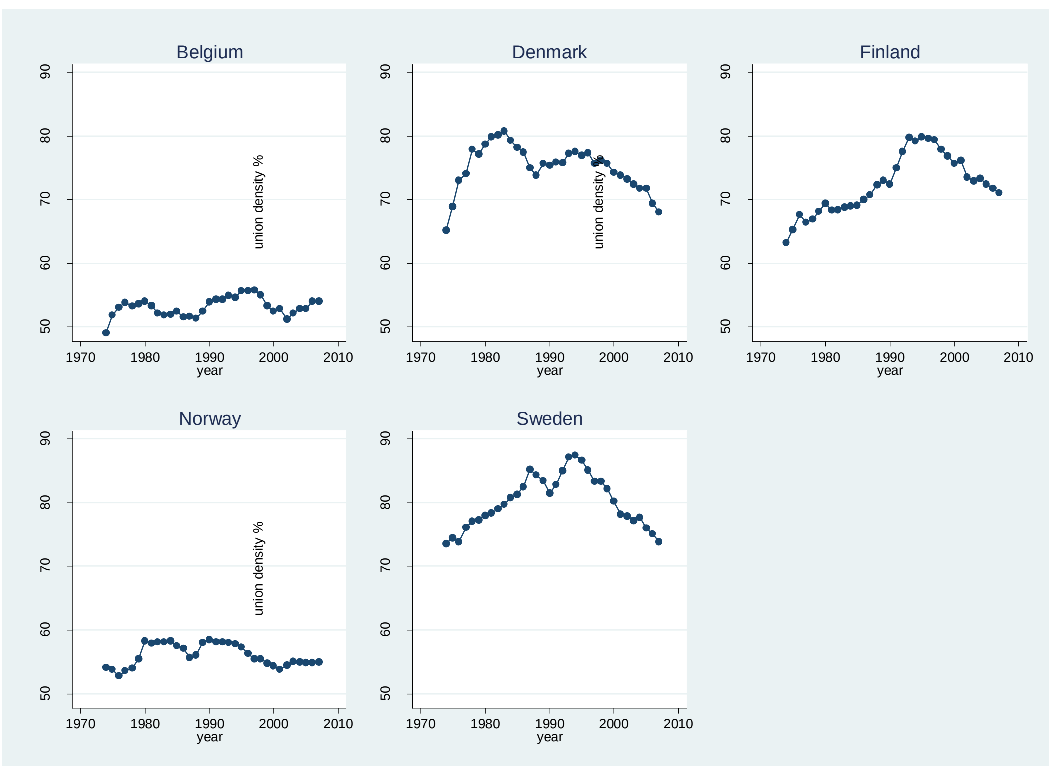


Figure 3: The trajectory of industrial conflict in 12 European countries

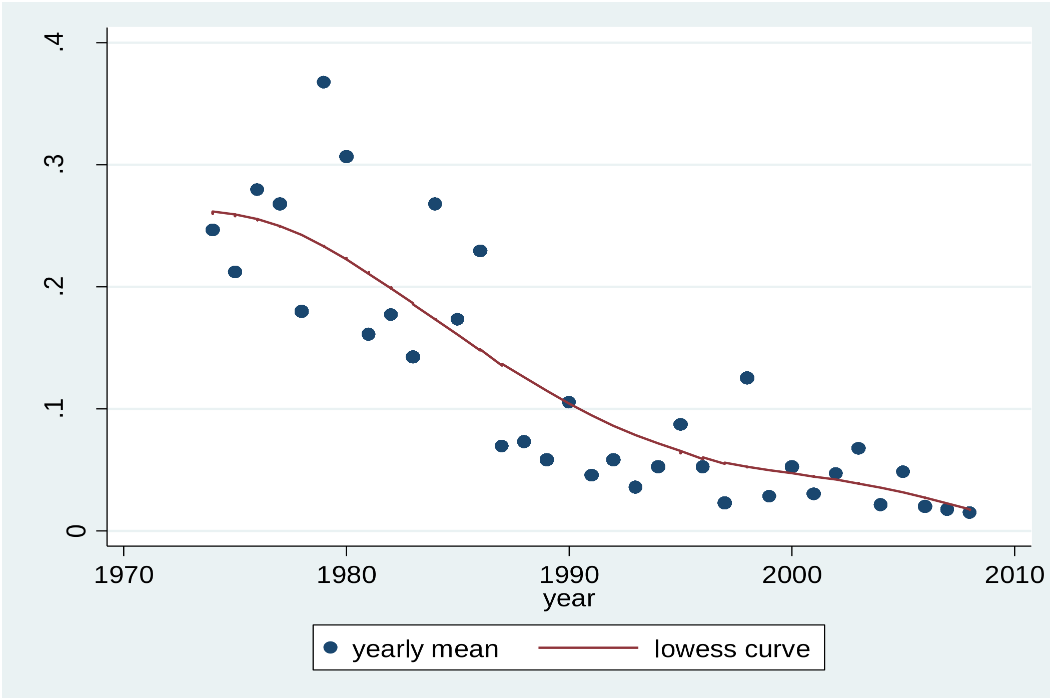


Figure 4: The evolution of bargaining structure

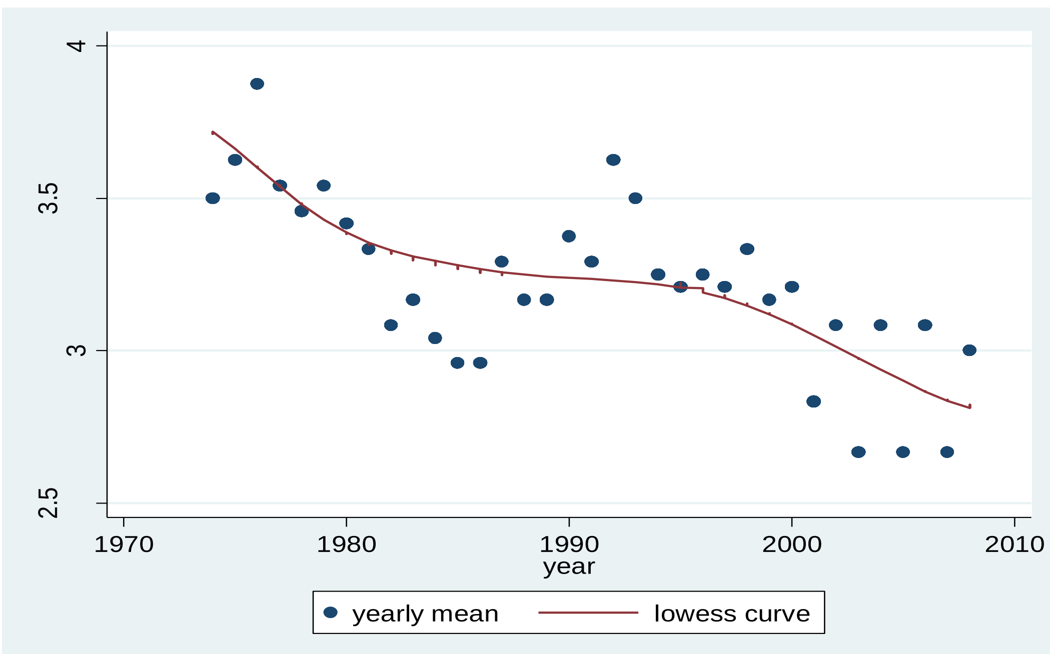


Figure 5: The trajectory of tripartite policy-making in 12 European countries

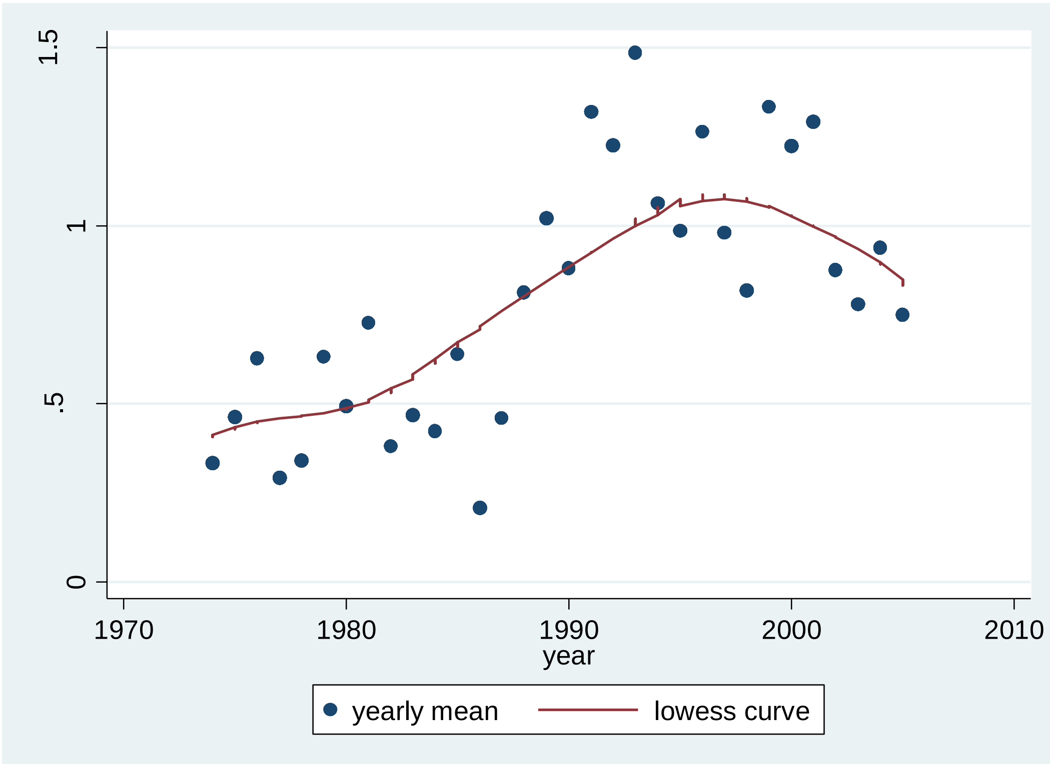


Figure 6: The trajectory of tripartite policy-making country-by-country

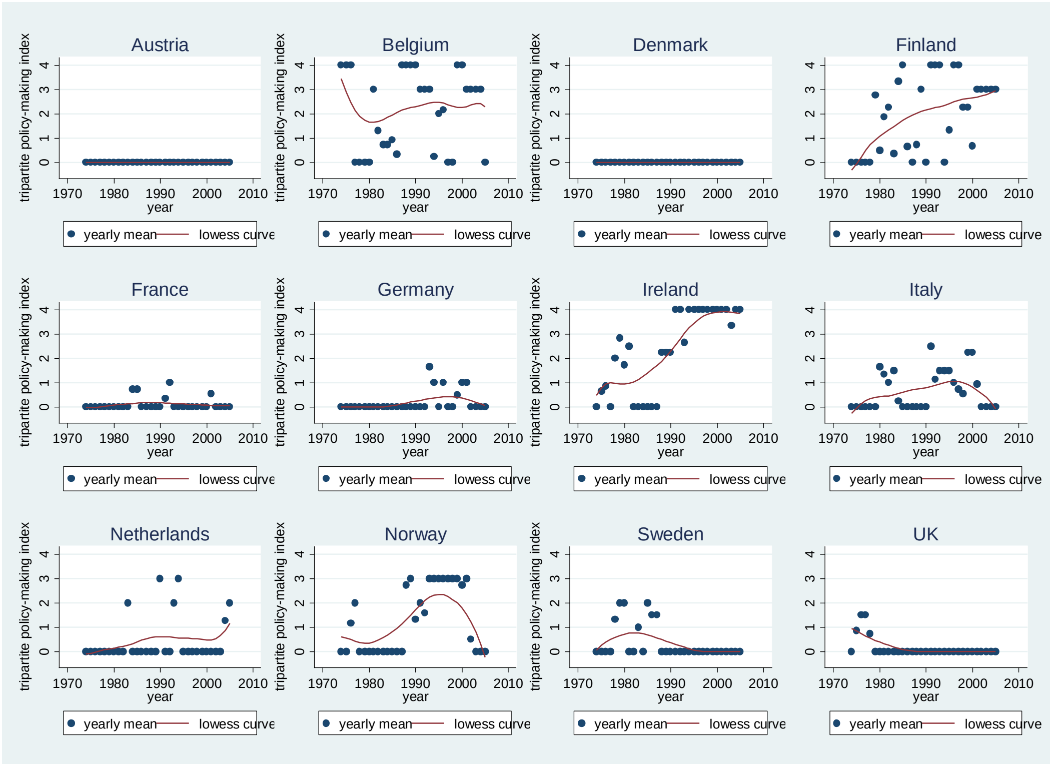


Figure 7: The trajectory of European industrial relations systems: 1974-2005 (yearly averages of principal component scores)

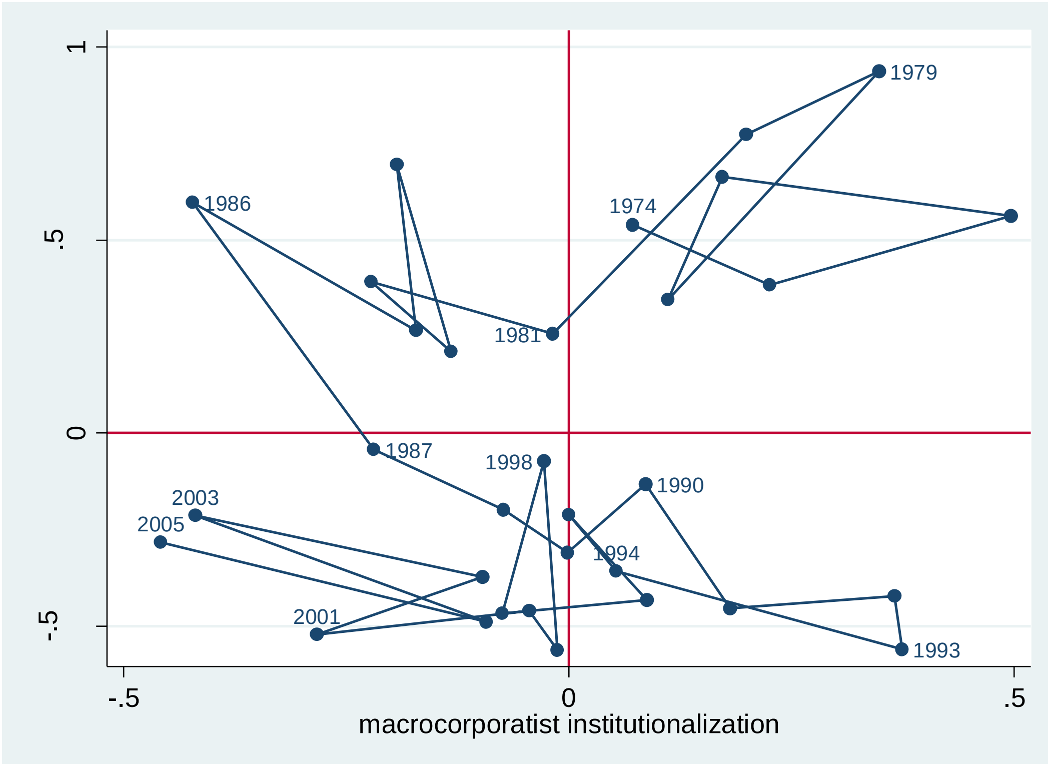


Figure 8: Average principal components scores for 12 European countries in 1974-1989 and 1990-2005

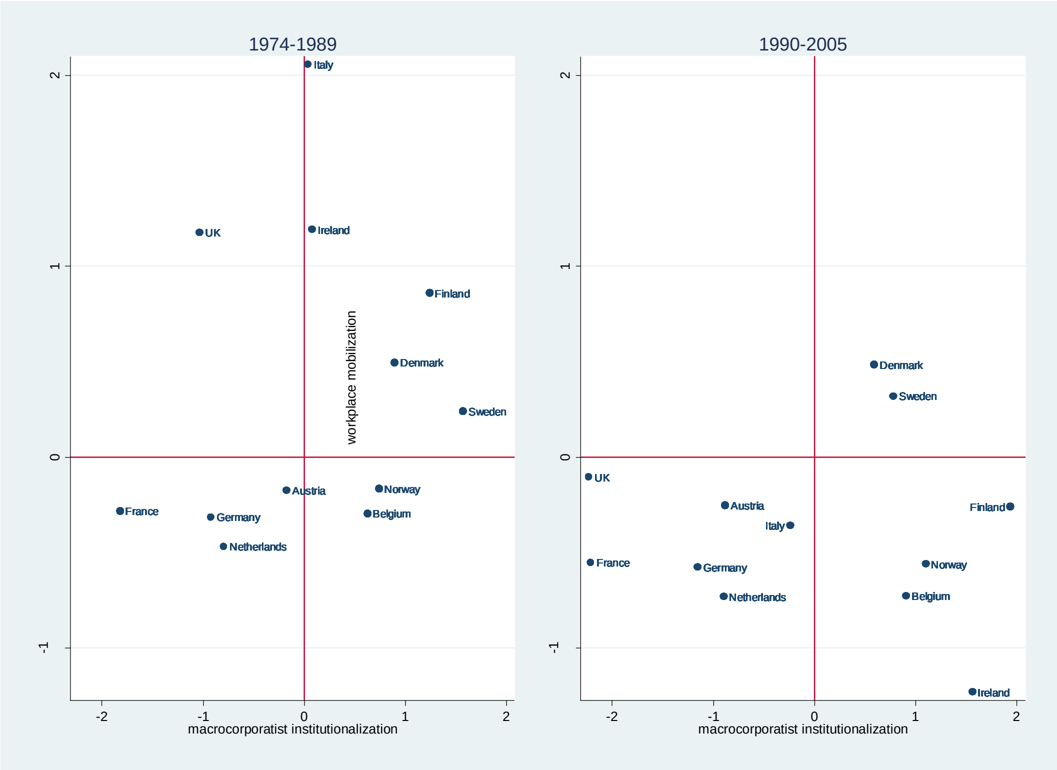


Figure 9: Relationship between Gini Coefficient and Macrocorporatist Institutionalization

1980-1989 | 1990-2000

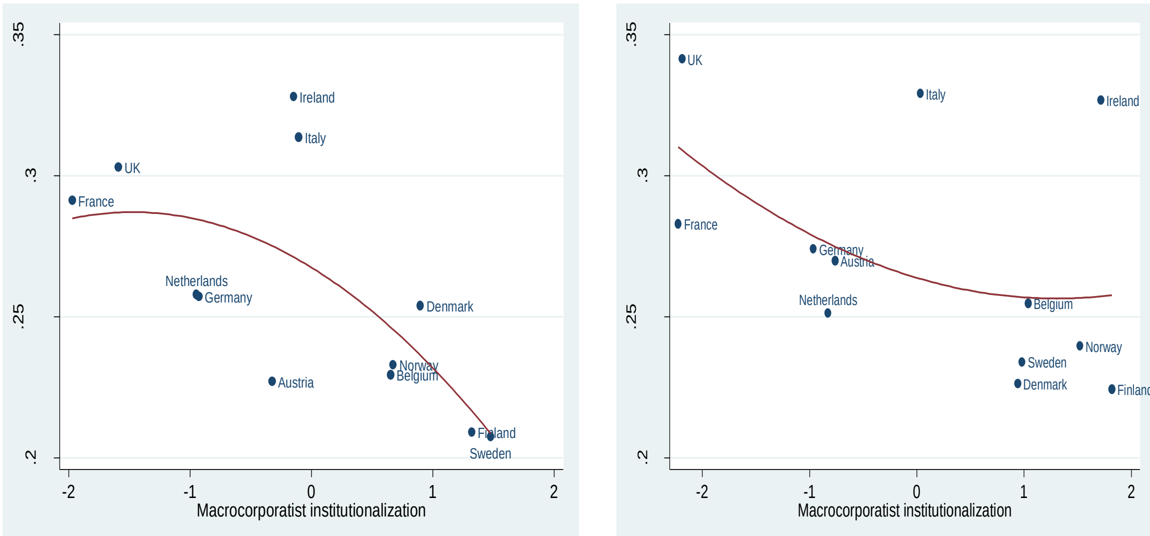


Figure 10: Hypothesized trajectory of LME, CME, and Scandinavian countries according to VofC

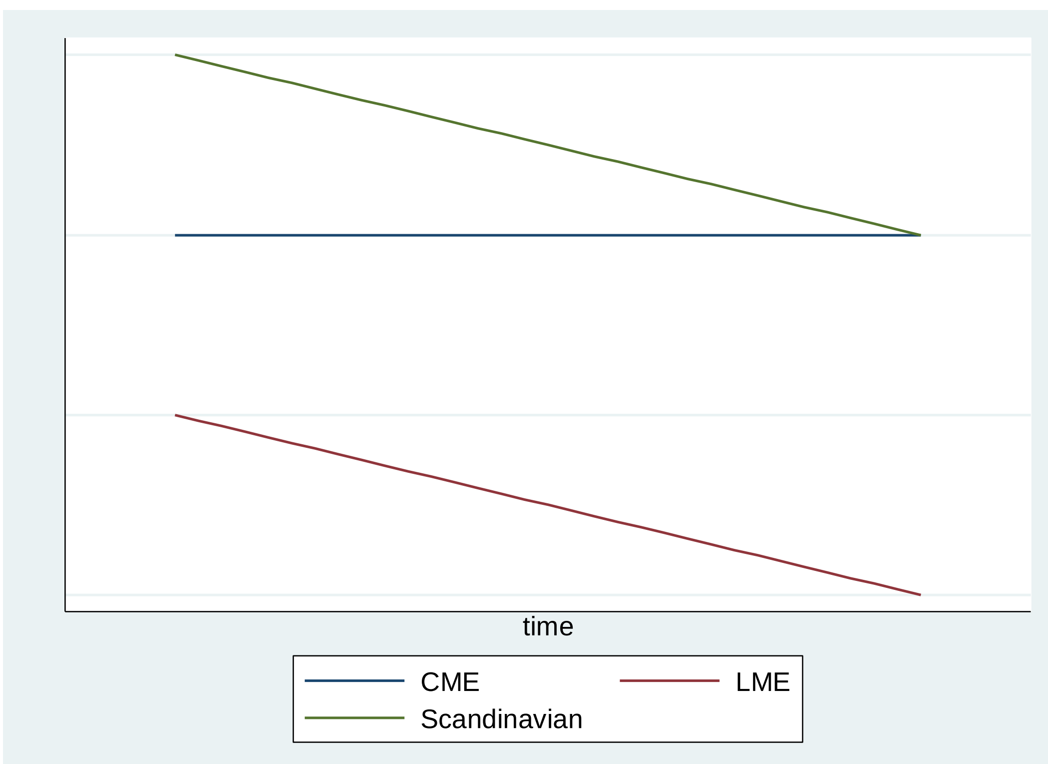


Figure 11: The trajectory of Macrocorporatist Institutionalization (Comp1) in CMEs and LMEs (left), CMEs and Scandinavian countries (right)

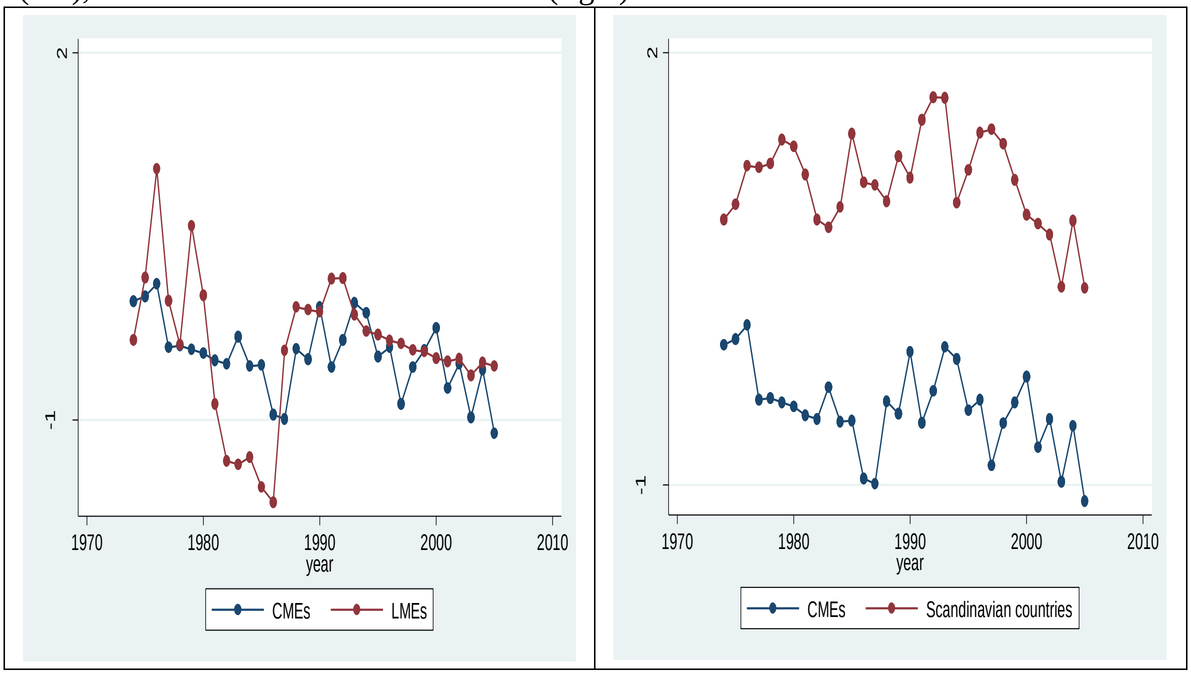


Figure 12: The trajectory of Macrocorporatist Institutionalization (Comp1) in Germany and the UK (left), Germany and Sweden (right)

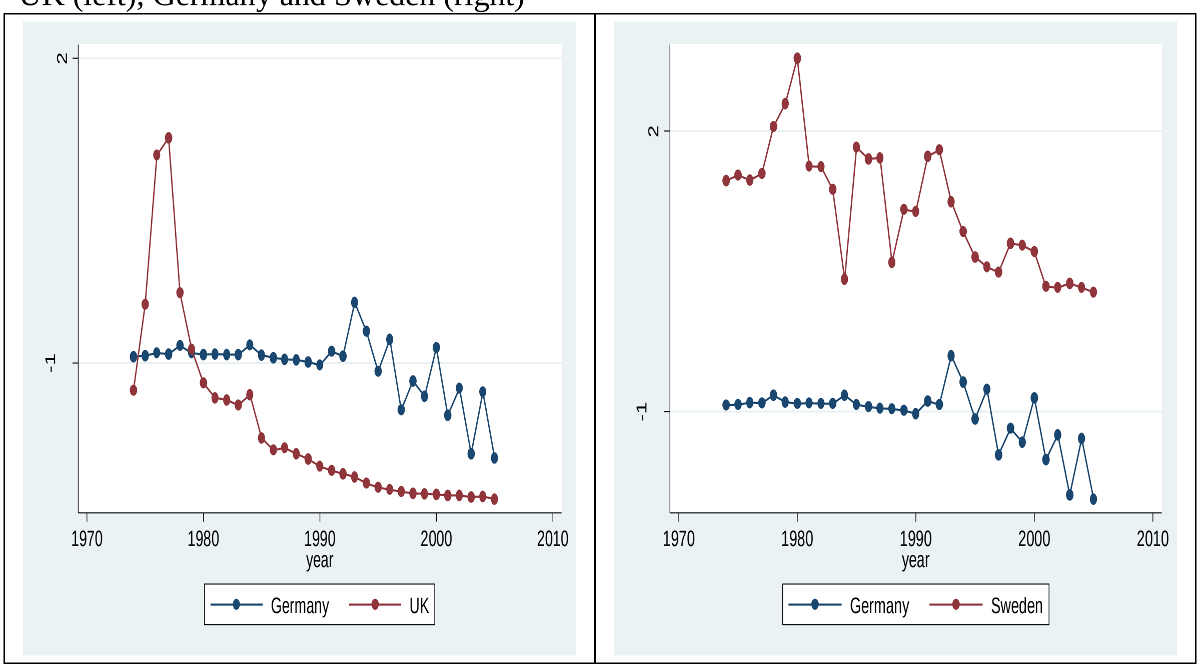


Table 1: Principal Component Analysis

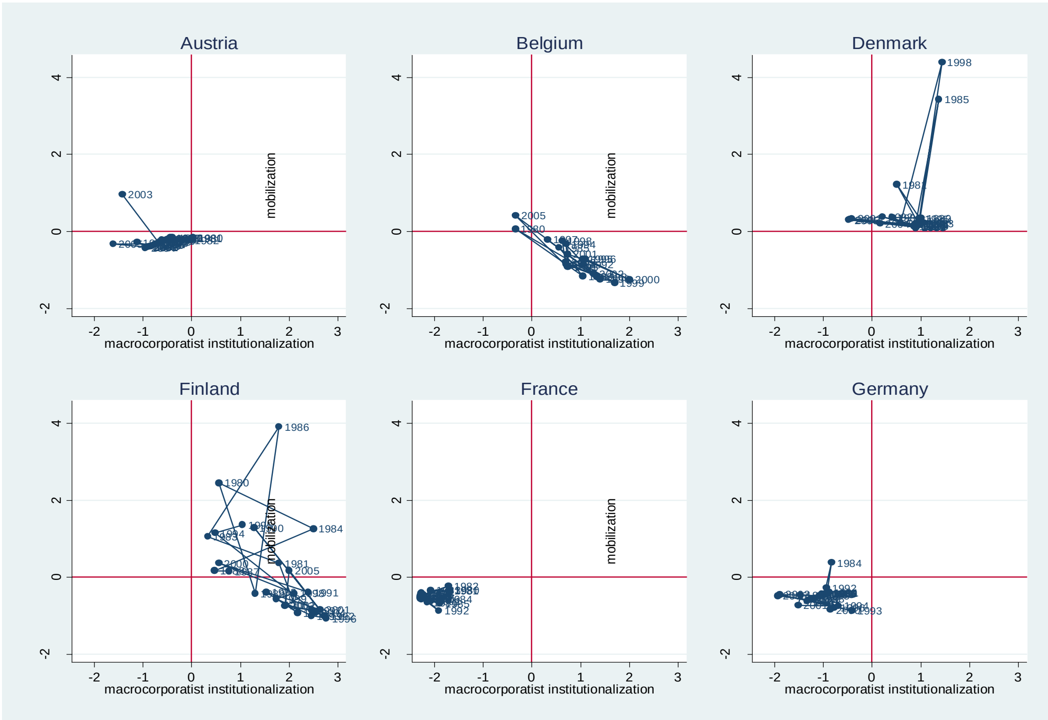
Number of Components=	4	Components Retained=	2	Number of observations=	374
	Component	Eigenvalue	Difference	Proportion of Variance	Cumulative
	Comp1	1.70797	0.651614	0.427	0.427
	Comp2	1.05636	0.244292	0.2641	0.6911
	Comp3	0.812067	0.388466	0.203	0.8941
	Comp4	0.423601	.	0.1059	1
Eigenvector	Variable	Comp1	Comp2		
	BargCent	0.6573	-0.1321		
	TripBarg	0.4687	-0.3634		
	UnionDens	0.5806	0.2828		
	ConflictRate	0.1059	0.8778		
Formulae	Macrocorporatist Institutionalization=0.66(BargCent)+0.47(TripBarg)+0.58(UnDens)+0.1(ConflictRate)				
	Workplace Mobilization=-0.13(BargCent)-0.36(TripBarg)+0.28(UnDens)+0.88(ConflictRate)				

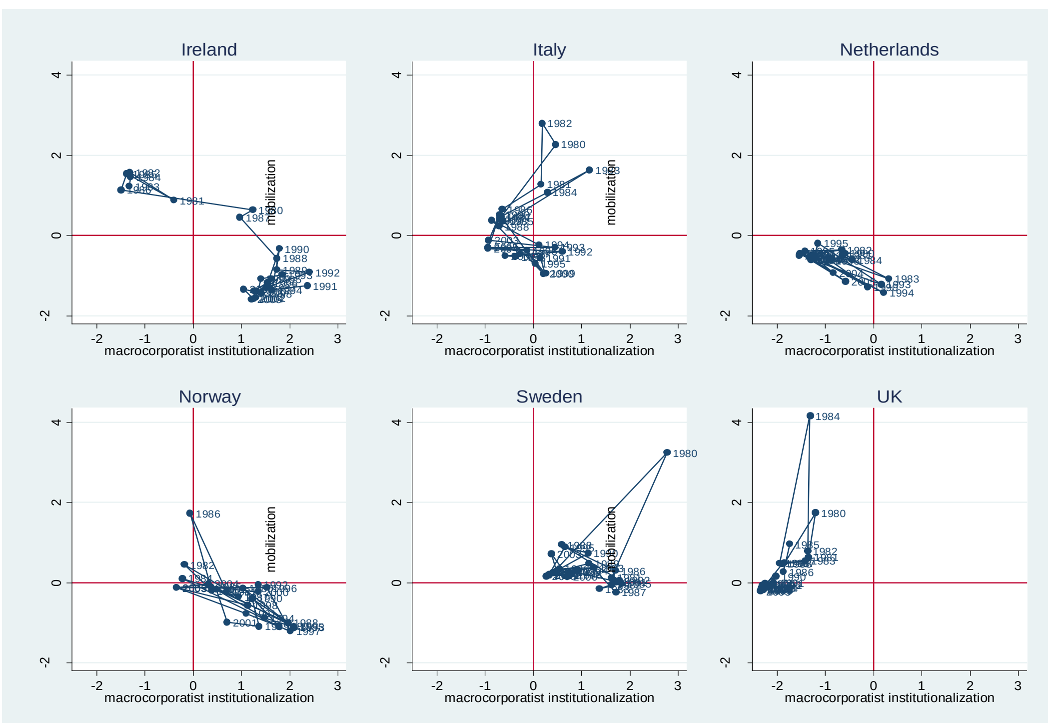
Table 2: T-tests of period differences in Macrocorporatist Institutionalization and Workplace Mobilization (yearly means and standard deviations of principal components)

Means			
	obs	Institutionalization (Comp1)	Mobilization (Comp2)
1974-1989	16	0.01	0.38
1990-2005	16	-0.02	-0.38
Difference		0.03	0.76***
Standard Deviations			
	obs	Institutionalization (Comp1)	Mobilization (Comp2)
1974-1989	16	1.20	1.10
1990-2005	16	1.46	0.62
Difference		-0.25***	0.48***

*** p<.01

Appendix: Principal components scores for 12 European countries: evolution between 1980 and 2005





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