Competition and the Retreat from Collective Bargaining

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Abstract

For most of the twentieth century, collective bargaining provided the terms on which labour was commonly employed in Britain. However, the quarter century since 1980 has seen the collapse of collectivism as the main way of regulating employment. Our argument is that the tacit settlement between organized labour and employers was undermined by increasing product market competition. The paper first provides an overview of the changing map of collective bargaining, focusing on the private sector. It then moves on to ask why the retreat took place, and to explore the part played by product market competition and, in particular, by the profitability of different industries. The paper concludes with an analysis of the consequences of privatisation.

Keywords: collective bargaining, trade unions, competition, privatisation.

JEL codes: D40; J30; J50; L33.

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INTRODUCTION

A remarkable feature of the period after 1980 was the collapse of collectivism as the main way of regulating employment. Collective bargaining had hitherto, for most of the twentieth century, provided the terms on which labour was commonly employed in Britain. Employers, whether or not they dealt directly with trade unions themselves, generally followed agreements that had been made with unions. But the quarter century since 1980 saw this fall apart. This paper is concerned with how and why this happened.

The theory that guides our account of this upheaval focuses on the central importance of the markets in which employers trade. The more competitive these product markets are, the smaller are the profits potentially accessible to trade unions. Having profits for unions to bargain over may be a necessary condition for collective bargaining, but it is not sufficient. What is also needed is a trade union organisation that is strong enough to make that bargaining effective. Here the product market becomes important again, because the environment in which unions are best able to flourish is one where the employers of their members face relatively slack competitive pressures. Tougher competition forces employers to tighten their control over employment, of which reducing the leeway for unions and reducing their influence over the conduct of work is a part. It was a feature of our period that product market competition tightened for much of the private sector[i]. Privatisation had similar effects in the public sector. Our story concerns the consequences for collective bargaining.

Until the early 1980s, collective bargaining had been unquestioningly accepted by employers, unions and governments. Proposals for reform were predicated on the assumption that, while collective bargaining may have to be modified, employers would continue to face trade unions across the bargaining table. Back in 1980 the majority of large employers entered into voluntary agreements with trade unions, not simply because unions had the bargaining power to make life difficult for them if they did not, but also because collective bargaining served the interests of employers. Even if collective bargaining entailed paying a rate for the job that may have exceeded a notional market-set wage, this was perceived to be a price worth paying if most or all competitors also paid collectively bargained rates. To use the traditional phrase, collective bargaining 'took wages out of competition' and allowed employers to focus their attention on other matters.

Our argument is that this tacit settlement between organized labour and employers was undermined by increasing product market competition. Over our quarter-century the British economy became substantially more open in terms of both trade and ownership. Employers were increasingly forced to reconsider collective bargaining habits that hitherto had been taken for granted. We start our investigation of how they did it with an overview of the changing map of collective bargaining, focusing on the private sector. Where and when did the historic retreat take place? We then move on to asking why, and to explore the part played by product market competition and, in particular, by the profitability of different industries. The paper concludes with an analysis of the consequences of privatisation, which can be seen as an extreme case of product market change. Tougher competition in the markets within which employers compete, it will be argued, has been the driving force behind the weakening of their employees' trade unions. It lay behind the undermining of the collective bargaining arrangements that they had built up over the previous century.

MAPPING THE CONTRACTION OF COLLECTIVE BARGAINING

The Webb's classic definition of collective bargaining is that it occurs when the employer '…meets with a collective will, and settles, in a single agreement, the principles on which, for the time being, all workmen of a particular group, or class, or grade, will be engaged' (Webb and Webb, 1902: 173). Over a hundred years later the term has come to be used more broadly. Collective bargaining in Britain rarely results in a single agreement. For any particular workplace it is rather a constantly changing bundle of written and unwritten agreements and understandings.

The British experience is internationally distinctive in this respect, with none of the apparatus of legal enforcement that is to be found, for example, in the United States or many European countries. The century and a half during which legal enforcement was, by mutual agreement, effectively excluded from collective bargaining in Britain encouraged what has always been a relatively informal, parochial set of arrangements, varying substantially by both sector and workplace. As elsewhere, the 'principles' of engagement extend far beyond pay and hours of work. But, in the British context, any formal dialogue that takes place between employers and representatives of independent trade unions, that has an influence on the employment relationship, can be taken to constitute collective bargaining. It is, as a result, an elusive concept at the margin, made more so by the fact that perceptions of employers and trade union representatives differ substantially over what is bargaining and what is consultation (Brown and Nash, 2008: 100). We here consider two different defining characteristics: employer recognition and pay bargaining. Both can be mapped using the series of Workplace Industrial / Employment Relations Surveys, which took place in 1980, 1984, 1990, 1998 and 2004 among workplaces with 25 or more employees (Millward et al, 2000; Kersley et al, 2006).

One indicator of collective bargaining is whether or not employers say they recognise trade unions for negotiating pay and conditions. It is a question that has been asked from the start of the surveys and, as Table 1 indicates, there was a substantial reduction in recognition over the whole period. But the trends are very different for the public and private sectors. While union recognition remained a normal part of life for most of the public sector, in the private sector it collapsed from being a feature of a half of workplaces to under a quarter. Although fairly stable at the start and finish of our period, it is the halving of recognition in the private sector between the 1984 and 1998 surveys that stands out. This was rarely, it should be added, the consequence of employers' aggressively and actively derecognising trade unions. Instead it reflected in part a tendency not to recognise unions in newly established workplaces, and an inability of unions to extend recognition among continuing workplaces as they aged and grew larger (Millward, Bryson and Forth, 2000: 100). In part it also reflected a process of what has been called 'implicit derecognition', whereby individual employers gradually reduced the range of issues and the intensity with which they engaged with unions to the point at which recognition was nebulous (Brown *et al.*, 1998). As the 1980s and 1990s progressed, employers, and a new generation of managers, apparently found that they could function perfectly adequately with less involvement with trade union representatives than in the past.

Table 1 – Percentage of workplaces with 25+ employees recognising unions 1980-2004

	1980 %	1984 %	1990 %	1998 %	2004 %
All	64	66	53	41	38
Public sector	94	99	87	87	87
Private sector	50	48	38	24	22

Base: workplaces with 25 or more employees
Source: Workplace Employment Relations Survey series

Change in pay-fixing

Just what it means for an employer to say that they recognise trade unions for some of their employees is unclear. What action, if any, follows? Do they do no more than accept that unions may represent workers with individual grievances? Or, at the other end of a spectrum, is the union a firmly institutionalised part of the decision-making process, involved by right in pay fixing and work organisation? So let us consider the relatively concrete issue of whether employers rely on collective bargaining for the purpose of fixing pay for some or all of their employees. This reliance may mean no more than that they follow the terms of a collective agreement for their industry that has been concluded by relatively remote union and employer association officials. Or it may mean something much more proximal and immediate, with union representatives among the firm's employees taking the lead in negotiating the pay of its workforce.

The changing picture of pay fixing arrangements since 1984 is summarised in Table 2.[ii] This provides both the percentage of workplaces where collective bargaining is used for some part of the workforce and the total percentage of employees who are covered by these arrangements. The overall story of change for the whole economy, and of marked divergence between public and private sectors, is in line with what we have already noted for trade union recognition. Between industrial sectors, which include both private and public enterprises, there are clear variations in both the extent and timing of collective bargaining's retreat. For some sectors characterised by long bargaining traditions - engineering, metals, and other manufacturing, transport and communications - the greatest retreat from collective bargaining was in the 1980s and 1990s. There are signs of the retreat slowing or even ceasing in the 2000s, at least in terms of the proportion of employees covered. For extraction and refining, by contrast, that proportion continued to decline, despite only a small change in the workplace incidence of bargaining in this sector, implying that some large firms abandoned it. For other sectors however, notably construction, distribution and hospitality, and banking and finance, the retreat has been steady and sustained over the whole twenty-year period.

Table 2 – Percentage of workplaces with 25+ employees with some collective bargaining and the percentage of all employees covered 1984-2004

Cell percentages

	Workplaces with any collective bargaining				Employees in workplaces with any collective bargaining			
	1984	1990	1998	2004	1984	1990	1998	2004
Public sector	99	86	84	82	95	78	67*	79
Private sector	47	38	24	16	52	41	32	25
All	66	52	40	32	70	54	42	39
Energy, water supply	94	96	96	95	93	85	89	83
Extraction, metals, minerals, chemicals	53	60	47	46	72	62	54	37
Metal goods, engineering, vehicles	53	38	32	27	67	48	46	45
Other manufacturing	59	45	34	31	60	52	40	38
Construction	54	46	37	22	53	45	38	30
Distribution, hospitality, repairs	40	27	17	7	39	22	22	13
Transport, communications	88	73	60	63	91	80	63	66
Banking, finance, insurance, business services.	50	44	26	12	45	38	23	17
Other services	86	73	59	53	86	68	52*	58

* The fall in the percentage reflects temporary changes in the relative influence of Pay Review Bodies and collective bargaining, especially in the NHS – see Millward *et al* (2000: 195) and Kersley *et al* (2006:185)

The changed incidence of bargaining

Having noted the distinctive experience of the private sector, let us explore this further. Multivariate analysis permitted us to unravel some of the many factors associated with employers' propensity to engage in collective bargaining. Some of the more substantial relationships are summarised in Table 3. The table presents two models estimated for the pooled years 1984-2004. The first is estimated for the whole private sector. The second focuses on 'trading workplaces' - that is, those involved in the selling of goods or services as opposed to those which are depots, administrative centres and the like. The models identify independent associations between workplace characteristics, on the one hand, and, on the other, the use of collective bargaining to set pay for at least some workers at the workplace (whatever the level at which bargaining occurs: national, sectoral, organizational or workplace). Coefficients in the models indicate percentage differences in the probability of coverage relative to the reference category specified in the table. In addition to these pooled year models, we ran separate year regressions to see how the association between collective bargaining and workplace characteristics had altered over time.

Table 3 – The occurrence of collective bargaining within private sector establishments - regression (OLS) with specific characteristics for pooled data for 1984, 1990, 1998, 2004

		1- all private sector workplaces		2-trading workplaces in the private sector
Establishment size (reference <50):				
50 - 99		n.s.		n.s.
100 - 199		0.10**		0.11**
200 - 499		0.15**		0.16**
500+		0.20**		0.21**
Single establishment		-0.08**		-0.09**
Organisation size (reference <1000):				
1000 - 9999		0.18**		0.18**
10,000 +		0.30**		0.27**
Age >10 years		0.08**		0.10**
Proportion female		-0.12**		-0.14**
Proportion non-manual		-0.08**		-0.05*
Survey year (reference 1984):				
1990		-0.11**		-0.12**
1998		-0.21**		-0.23**
2004		-0.29**		-0.29**
Product market (reference 'local'):				
regional				-0.12**
national				-0.11**
international				-0.12**
Observations		4507		3321
R-squared		0.26		0.29

Notes:
(1) The dependent variable is available in the data set deposited at the data archive (SN 4511)
(2) Models include controls for region (10 dummies), industry (9 dummies), foreign ownership, proportion part-time employees.
(3) Analyses are weighted with workplace survey weights.
(4) ** denotes statistically significant at a 95% confidence interval or above. * denotes statistical significance at a 90% confidence interval.
(5) Probit estimation made no substantial difference to the results.
(6) Full models are available from the authors on request.

The models account for around one-quarter of the variance in the incidence of collective bargaining in the private sector. Although this is a sizeable proportion, and quite respectable for analyses of this sort, it does mean that roughly three-quarters of the variance remains unexplained. Industry, region, the size of the workplace, organization size, workplace age, and the composition of the workplace's workforce were all independently associated with the likelihood that at least some workers had their pay set by collective bargaining. The industry effects (not shown) reflect the descriptive information in Table 2, with workplaces in the Energy and Water sector most likely to use collective bargaining followed by Transport and Communication. Distribution, Hotels and Catering was by far the least likely to use collective bargaining. These industry effects are interesting for two reasons. First, they are fairly persistent over time, as we find when running the models on separate years. Second, they are independent of workplace and organization size effects, indicating that these industry effects capture something distinctive about the working environment and industrial traditions, over and above organizational size.

Workplace size was strongly associated with the propensity of private sector employers to use collective bargaining. Although this is far from a novel finding, it merits deeper investigation. Controlling for other factors, workplaces with 500 or more employees were around one-fifth more likely to use collective bargaining than comparable (in terms of the characteristics listed) workplaces with fewer than 50 employees. Having allowed for workplace size, simply being part of a larger, multi-workplace organization substantially increased the probability that a workplace used collective bargaining. Single-independent organizations had an 8 per cent lower probability of using collective bargaining than workplaces belonging to multi-site firms. Furthermore, the probability that the largest organizations – those with 10,000 or more employees – used collective bargaining was 30 per cent higher than otherwise comparable organizations with fewer than 1,000 employees. Once again, the individual year regressions indicate that these size effects are fairly persistent across time. In brief, collective bargaining was continuing to play an important role in determining the pay of at least some of the workers in larger private sector organizations at the start of the twenty-first century.

The incidence of collective bargaining is also independently associated with workplace age. Over the course of the WERS series, workplaces aged ten years or more had a higher probability of using collective bargaining than otherwise comparable younger workplaces. In 1998 and 2004 we have continuous information on the age of the workplace which allows us to identify when it was born. Among private sector workplaces surveyed in 1998, 45 per cent of those born in the 1940s or earlier used collective bargaining. The figure was half this (23 per cent) among workplaces born in the 1960s. The percentage was half again (12 per cent) among workplaces born in the 1980s. Assuming that employers choose whether or not to use collective bargaining to set pay early on in the lives of workplaces, these figures suggest a substantial decline in the adoption of collective bargaining between the 1950s and 1960s and again between the 1970s and 1980s. Among those workplaces surveyed in 2004 the big decline took place between the 1960s and 1970s: among those born in the 1960s 32 per cent were still using collective bargaining in 2004. The figure was only one-third of this (13 per cent) among those born in the 1970s. Thus, although it is not possible from this analysis to distinguish between a pure age effect and a cohort effect - that is, an effect associated with the historical date of birth of the workplace rather than its age *per se* – the evidence is suggestive of substantial declines in the adoption of collective bargaining in the three decades after the Second World War. It appears, therefore, that Margaret Thatcher's governments of the 1980s and 1990s may have taken credit for dismantling collective bargaining when, in fact, the demise of collective bargaining was already well-advanced. In any event, it is clear that the "golden age" for union pay bargaining was just after the Second World War, as Millward et al. (2000: 103) have suggested.

What about the workers who might be the beneficiaries of collective bargaining? Have their characteristics been related to its retreat? Table 3 shows that the propensity of private sector employers to use collective bargaining to determine wages does depend, in part, on the type of workers they employ. Their use of collective bargaining falls with increases in the proportion both of women and of non-manual workers they employ. The presence of part-time workers does not register as significant. We know from national surveys that trade union membership has tended to decline more in what were once characterised as manual as opposed to non-manual occupations (Grainger and Crowther, 2007: 6). Union membership has become increasingly associated with those workers with more qualifications rather than with those in less-skilled jobs. Our multivariate analysis for separate years suggests that withdrawal from collective bargaining reflects a comparable phenomenon. That is, the effects of the occupational composition of the workforce diminished over time so that, by 2004, it was no longer a significant factor influencing the employer's propensity to use collective bargaining. For anyone concerned about the protection of employment standards, the notable implication is that it has been those workers whose comparative lack of skills made them more dependent upon collective bargaining who have been the greatest losers. It is thus not only that the protections of collective bargaining have been withdrawn from a growing proportion of the British workforce; they have been withdrawn disproportionately from the workers who needed them most.

Distinctive regional differences will be of interest to labour historians aware of deep-rooted variations in local traditions of collectivism. Collective bargaining has not been abandoned uniformly across Britain. By comparison with the South-East, and allowing for differences in industrial structure, workplace size, and so on, Scotland and the North-West were significantly more likely to use collective bargaining to fix pay. The separate year regressions indicate that these differences have persisted over the last quarter century. However, there was greater regional variance in the use of collective bargaining in 1984 than there was in 2004. In 1984 employers in Wales, the West Midlands and Yorkshire and Humberside were all more likely than employers in the South East to set pay via collective bargaining, but these differences had disappeared as early as 1990. In summary, distinctive local traditions of collectivism appear to be in decline.

A substantial change that might have affected collective bargaining has been the growth of overseas ownership. Between 1981 and 2004, the proportion of shares owned by investors outside Britain rose from 4 per cent to 36 per cent. Multi-national companies may import their managerial style when taking over domestic firms, and so foreign ownership might be expected to be a relevant factor in determining whether an employer uses collective bargaining. Has the remarkable growth in foreign ownership over our period been one of the factors driving out collective bargaining? It has not. Foreign ownership was not a statistically significant factor in the incidence of collective bargaining in any of the separate year analyses, nor in the pooled years' regression.

To what extent does the shrinking of collective bargaining simply reflect the changing structure of the economy? Is it mainly a consequence of the collapse of many of its traditional heartlands? A common assertion is that union decline is due in large part to the decline both of the manufacturing industry and of the large workplaces that were once so conducive to union organization. We can use the separate year models to estimate the probability of collective bargaining, making the artificial supposition that variables such as industrial distribution and size had remained constant over time. In this way we can establish how much of the 29 percentage point decline in the incidence of collective bargaining in the private sector is due to change in these observable characteristics, as opposed to change that takes place within these characteristics**.**

The remarkable result is that only around one-tenth of the decline in the workplace incidence of collective bargaining in the private sector is due to compositional change. The remaining nine-tenths is due to within-group change, which might be interpreted as a change in, for example, employer and employee preferences and other factors that are independent of the observable characteristics of the workplace we included in our analysis. We can thus confidently reject the proposition that compositional change in the economy has played a major part in diminishing the role of collective bargaining in Britain.

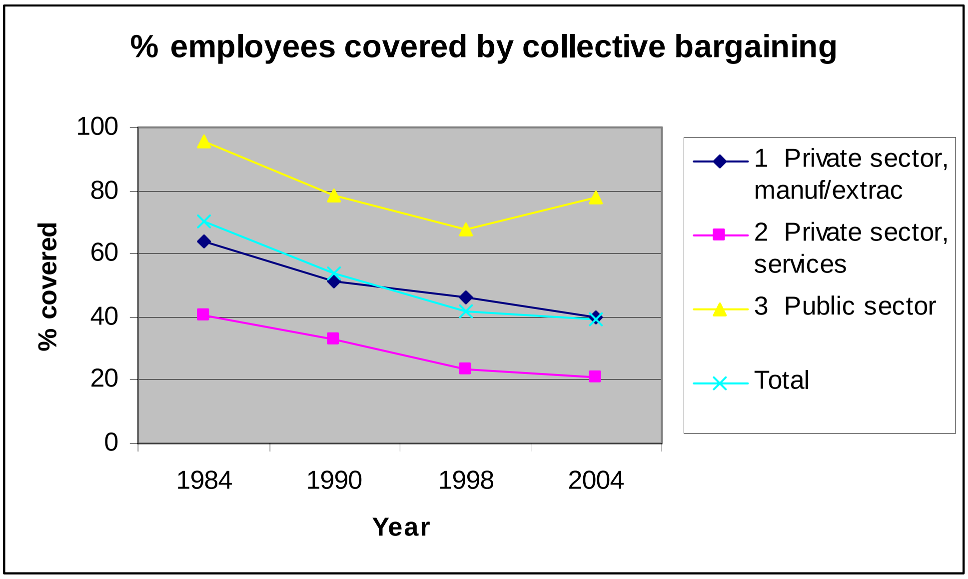
We might speculate that workplaces adopting collective bargaining in the more hostile environment of the 1980s and 1990s did so with less commitment than those where it was already established. It may be that the form of collective bargaining adopted in the late 1990s and 2000s, when 'workplace partnership' was strongly advocated by the TUC, was more shallow-rooted than the typically more confrontational form that employers had faced before. Certainly case studies in the early 2000s suggested that, unless there were high levels of union membership, worker influence tended to be superficial and partnership fragile (Oxenbridge and Brown, 2004). Employers had adjusted to relatively settled policies towards collective bargaining. For many it was of a more co-operative 'partnership' form than would have been the case twenty years earlier.

But, however settled this less confrontational form of collective bargaining may now appear to be, the disturbing implication of the data for private sector trade unionists is that the decline in coverage of collective bargaining does not appear to have lost momentum. This is apparent from the survey year coefficients in Table 2.3. Having accounted for observable workplace characteristics, the probability that a workplace set pay for at least some of its workers using collective bargaining fell by 29 per cent between 1984 and 2004. This is only a little smaller than the change in raw percentages presented in Table 2. The decline of around 8 per cent between 1998 and 2004 is statistically significant and implies an annual rate of decline not very different from that estimated for the 1990s.[iii] The decline in trade union membership that had commenced in 1980 may have been 'plateauing out' by the start of the twenty-first century, but collective bargaining was continuing to retreat.

The coverage of workers

We have identified trends in the incidence of collective bargaining and its correlates, but how does this translate into the percentage of workers covered by collective bargaining? This is depicted in Figure 1. It shows a steady decline in bargaining coverage across all three major sectors of the economy between 1984 and 2004. This continued in the private sector through to 2004, whereas coverage in the public sector recovered a little, due in large part to collective bargaining in the Health Service over changes in terms and conditions arising from the Agenda for Change initiative (Kersley et al., 2006: 185). At the start of the period, seven-in-ten workers across the economy had their pay set through collective bargaining. This had slumped to four-in-ten twenty years later.[iv] In manufacturing, coverage declined by a third over the twenty years. In the growing private services sector, it halved.

Figure 1: Percentage of Employees Covered By Collective Bargaining, 1984-2004



Note: workplaces with 25+ employees

What form does the contraction of collective bargaining coverage take at the workplace? With WERS we are able to go a stage further than household surveys such as the Labour Force Survey by observing the distribution of employee collective bargaining coverage within workplaces. Focusing once again on the private sector, collective bargaining has tended to become an ‘all or nothing’ feature of workplaces. As its coverage diminishes, so employers tend increasingly to polarise between those who use it for most of their workforce, and those who have abandoned it altogether. Private sector workplaces where a minority of workers are covered are becoming a rarity. Between 1984 and 2004, for example, the proportion of workplaces with any collective bargaining fell from 47 per cent to 16 per cent. Where collective bargaining did take place, the proportion of workplaces for which it encompassed 80 per cent or more of the workplace rose from 58 per cent in 1984 to 77 per cent in 2004. But the proportion of those where fewer than 50 per cent of workers were covered fell from 14 per cent to 8 per cent. It has become harder for a trade union to maintain a minority presence in a workplace.

This polarisation in union presence at the workplace is partly a consequence of the change in the level at which pay fixing decisions are made, which in part reflects a change in the structure of bargaining. On the one hand, employers have tended to move towards comprehensive pay-fixing arrangements for their workplaces, whether or not those involve collective bargaining (Kersley et al. 2006: 184). On the other hand, we have seen the demise of the sort of multi-employer, industrial agreements that might, for example, provide a basis for pay for a minority who are skilled craftsmen within a workplace which otherwise fixed pay without union involvement. To this we now turn.

The changing level of pay-fixing decisions

We have discussed the retreat from collective bargaining in the private sector. The closely related question is at what organisational level decisions about pay were made, whether or not they resulted from bargaining or from management *dictat.* Until the 1960s, a patchwork of industrial agreements dominated private sector pay fixing in Britain. Employer organisations and trade unions negotiated agreements that covered whole sectors – carpet-making, electrical contracting, ship-building, and so on – on behalf of their member employers. Most of these agreements were nationwide in coverage. A controversial feature of multi-employer bargaining by the 1960s had been the increasing tendency for employers to augment the industrial agreements to which they were committed with locally bargained additions. In many sectors, the pay rates arising from national agreements would be added to in various *ad hoc* and informal ways – such as piecework pay, merit rates, factory bonuses, questionable overtime pay and so on. Indeed, the consequent phenomenon, known as 'wage drift', and the high level of workplace disputes that accompanied it, had been a central concern of a Royal Commission of the 1960s into Britain's industrial relations malaise.

Table 4 – Principal locus of pay decision-making in the private sector (by percentage of workplaces covered)

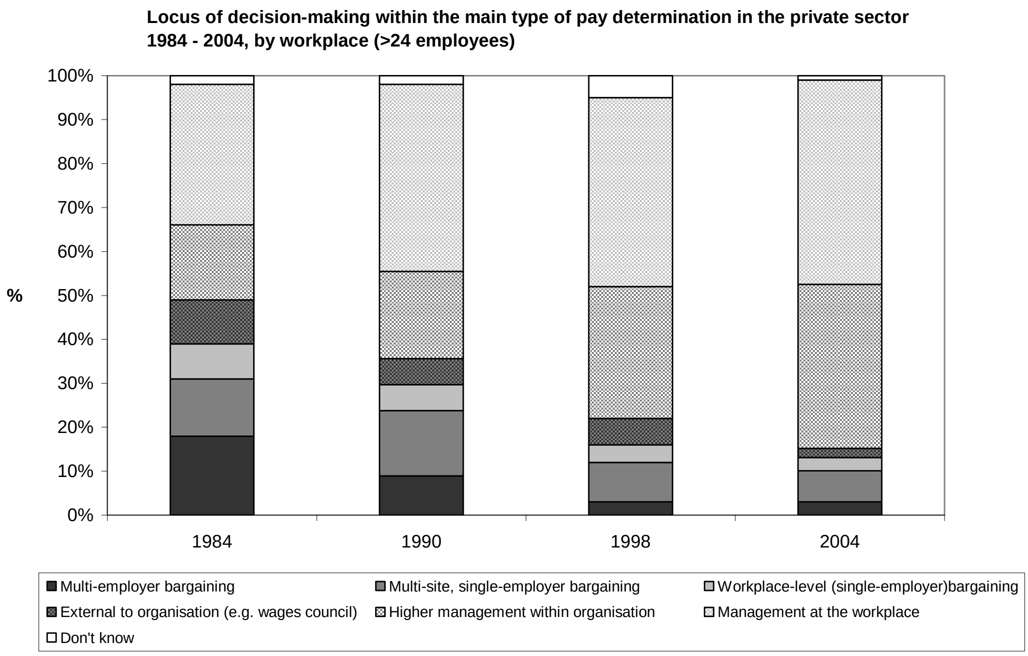
	1984 %	1990 %	1998 %	2004 %
Collective bargaining total %	**39**	**30**	**16**	**14**
of which:				
Multi-employer bargaining	18	9	3	3
Multi-site, single-employer bargaining	13	15	9	7
Workplace-level (single-employer) bargaining	8	6	4	3
Not collective bargaining total %	**59**	**69**	**79**	**85**
of which:				
External to organisation (e.g. wages council)	10	6	6	2
Higher management within organisation	17	20	30	37
Management at the workplace	32	43	43	46
Don't know	2	2	5	1
total %	100	101	100	100

Notes:
(1) The table identifies the level at which decisions are made for the pay method covering the most workers at the workplace. If a majority of workers at the workplace had their pay determined via collective bargaining they are identified as 'collective bargaining' workplaces otherwise they are labelled 'not collective bargaining'.
(2) Private sector workplaces with 25+ employees.

Then, from the 1960s onwards, and with gathering pace, employers began to break away from these 'multi-employer' agreements to single-employer bargaining, as indeed the Royal Commission had urged (Brown, 1981). Initially they tended to prefer to reach agreements with their own workforces in single-employer agreements. In multi-plant companies, these single-employer agreements were sometimes at the level of the whole company, sometimes of separate divisions within it, and sometimes they were at the level of individual workplaces. Later, employer preference tended to shift away from dealing with unions at all. Table 4, represented in diagrammatic form in Figure 2, shows what happened next.

There is a clear trend after 1984 for firms to continue to bring pay determination 'in house'. This is evident whether pay is fixed by collective bargaining or unilaterally by management. Where collective bargaining was the main pay fixing method, it is reflected in the near disappearance of multi-employer bargaining. This shrank at a much faster rate than collective bargaining *per se* so that, by 1998, it was the dominant mode of pay setting in only 3 per cent of private sector workplaces in Britain. Where workplaces were single and independent (the traditional client of employer associations), the proportion covered by multi-employer agreements fell from 15 per cent in 1984 to only one per cent in 2004. This is a miniscule level in historical terms, bearing in mind that thirty-five years earlier, along with now defunct wages councils, multi-employer agreements had covered something over 60 per cent of private sector employees (Milner, 1995: 85). It was a change reflected in the decline of their industry-based employer associations. Between 1980 and 2004 the proportion of private sector establishments that reported being members of employers associations fell from 31 per cent to 13 per cent.

Figure 2



Further analyses revealed that bargaining at more than one level also diminished, although the main decline was not until the 1990s, a quarter century after the Royal Commission had criticised the practice. Private sector employers appear to have been relatively slow to break whole-heartedly away from the apparent comfort of industrial agreements. To do so was, after all, to break with long traditions of employer solidarity in the face of the trade union challenge.

The nature of the shift to ‘in house’ pay fixing becomes clearer if we separate out single, independent establishments from those that are part of larger organisations. Workplaces where management fixed pay autonomously at the workplace level, expressed as a percentage of all single, independent private sector workplaces, rose from 59 per cent in 1984 to 92 per cent in 2004. In other words, in the great majority of single-site firms, the fixing of pay has come to be almost universally the task of on-site management. But in organisations with multiple workplaces there was a tendency from the 1990s onwards to shift the locus of decision-making over pay away from the workplace. In the 1980s, fixing pay unilaterally at the establishment level was reported to be as common as at a higher level in the organisation, but by 2004 it was almost twice as likely to be fixed at a higher level. Freed from trade union constraints and old worries about their ‘comparability claims’ employers have become both more able to respond to the opportunities and pressures of local labour markets, but also more able to follow wider corporate strategies.

PRODUCT MARKET COMPETITION AND COLLECTIVE BARGAINING

Collective bargaining has always been heavily influenced by the nature of the product market in which it occurs. The labour market is important insofar as the bargaining strength of labour, once organised, is influenced by demand and supply. For a particular occupation within a given labour market, an increase in demand for that occupation will tend to increase its bargaining strength. The product market has a different sort of influence. In a perfectly competitive product market, there is theoretically nothing to bargain over; if a union were to force an employer to pay above the market clearing wage levels then, unless there were productivity gains not available to competitors, that employer would go out of business.

Product markets are, however, rarely perfectly competitive. Employers, to a greater or lesser degree, may have some degree of monopoly power by virtue of transport costs, brand names, consumer loyalty, patents, or whatever. In such circumstances they are in a position to earn supra-normal profits or 'rents'. Unions can be expected to target sectors and firms which have relatively high profits. By organising the workers in firms facing relatively light competition, unions seek to win a share of rents. Such a share may, for example, be in the form of enhanced pay or of more control over manning levels or the conduct of work. Tougher competition in the product market poses a fundamental challenge to collective bargaining. This typically arises because retailers operating in a given product market get access to producers able to produce a particular good or service at lower labour cost, operating in labour markets beyond the organising reach of the trade union. Or the firms themselves may relocate to such labour markets. Without rents to bargain over, or without the organisational capacity to force the employer to concede a share, the union is denied the main economic basis of collective bargaining (Brown, 2008).

How far does the changing character of product market competition in Britain explain the collapse of collective bargaining that we have described? The WERS surveys since 1984 have asked employers in the private sector various questions about their competitive circumstances. One was whether the competition for their main product or service was primarily local, regional, national or international. This is a question of clear relevance because of the unavoidable geographical constraints on trade union organisation, and also because of the historically local origins and loyalties of employers' associations. Model 2 in Table 3 suggests that the probability of using collective bargaining was around 11 to 12 per cent higher among employers facing local competition than it was among otherwise comparable employers exposed to more widespread competition.

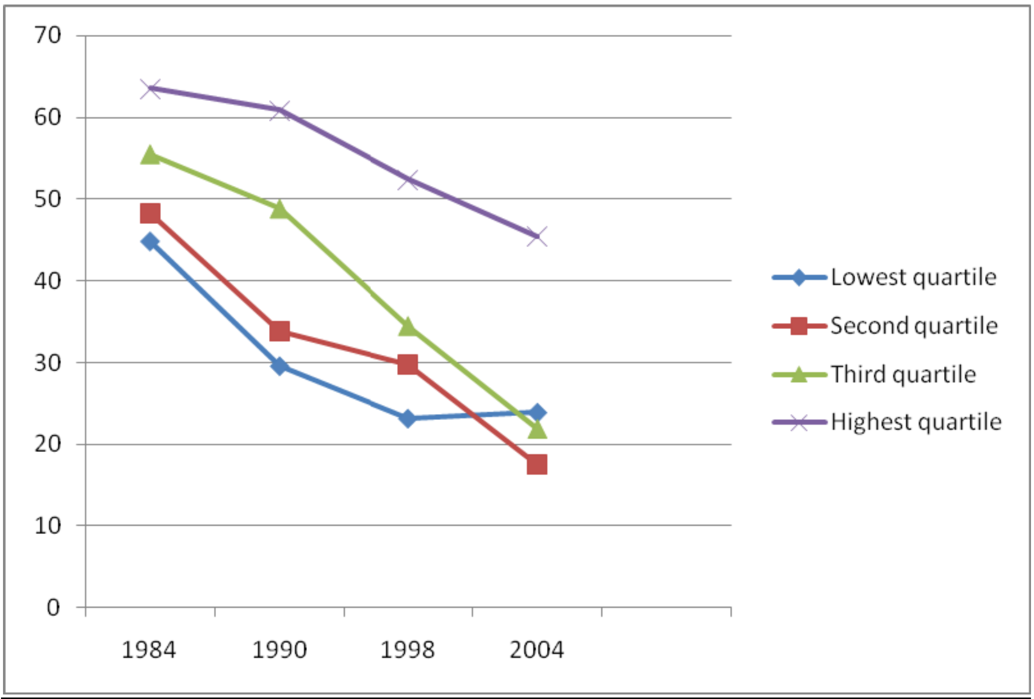
Workplaces in non-local product markets are thus significantly less likely to have collective bargaining than those in local markets. This reflects the observation of John Commons a century ago, that co-operation (or collusion) among employers in the management of labour is more feasible when they are in local competition with each other. This typically occurs when transport costs are high as a proportion of value added, or when the service is provided direct to the consumer (Commons, 1964). But this shelter for collective bargaining has been eroding. Analyses for separate years revealed the effect had diminished from 15 per cent in 1984 to 8 per cent in 2004. A local product market remains a sizeable and statistically significant support for collective bargaining, but the support it provides is declining. Solidarity among employers (as among workers) appears to be getting harder to mobilise, even at the local level.[v]

Competition from abroad has presented a challenge to successive British industries over the years – textiles, ship-building, coal-mining, footwear, and steel-making are just some of the great industries it has almost wiped out. During the post-War years of trade union prosperity, those industries that were organised by unions mostly declined with their collective bargaining institutions intact, if ultimately ineffective. The encroachment of international competition on domestic product markets has increased during our twenty-five year period. It is, then, perhaps surprising that the proportion of private sector workplaces covered by WERS which reported that their market competition derived from international sources was roughly constant – 19 per cent in 1984 and 15 per cent in 2004. Furthermore, there was no evidence that international competition was more detrimental to the presence of collective bargaining than either regional or national competition.

The explanation may be that firms and sectors with earlier exposure to tougher competition from overseas were better adapted to the ever-harder competitive environment of the 1980s and later. Whether or not they had retained collective bargaining, they had fewer adjustments to make. This apparent paradox may also arise because competitive pressure can take the form of increased exposure of local firms to national and international capital markets, rather than product markets. Ownership is increasingly divorced from the locality or country. Company ownership has increasingly moved into the hands of institutional shareholders such as pension funds and insurance companies, or of foreign shareholders with no particular national allegiance. Such owners might be expected to be more demanding than the private British shareholders who dominated ownership thirty or forty years earlier. Anecdotally this has placed growing pressure on local managers to deliver higher rates of return.

Another indicator of the competitive strain under which firms operated during the period from 1984 to 2004, wherever they were located geographically, was the number of competitors they perceived themselves to have. The surveys suggest that collective bargaining was more likely in those firms that claimed they 'dominated' the market, than those where they reported up to five competitors, and that again was greater than where they reported more that six competitors. This is fully consistent with our underlying story about the dominance of product market competition. Furthermore, the pattern of collapse in the use of collective bargaining also reflected these different degrees of competition. Bargaining fell from 50 per cent among workplaces that dominated their market in 1984 to 31 per cent among those that dominated their market in 2004. But it fell from 51 per cent among workplaces with six or more competitors in 1984 to only 15 per cent among workplaces with six or more competitors in 2004. In other words, by 2004 those firms that reported that they dominated their product markets were around twice as likely to have some collective bargaining as those that reported 'a few' competitors and those with 'many'.. Similar effects were evident for the percentage of workforces covered by collective bargaining. This sensitivity of collective bargaining to the number of the employer's competitors has been observed in previous studies (Metcalf, 2005). That these effects cease to be evident when other factors, such as industrial sector, are controlled for, confirms that the competition effect is also closely linked to sectoral and other characteristics.

Figure 3: Percentage of employees covered by collective bargaining, by quartiles of the industry profit distribution at time of survey

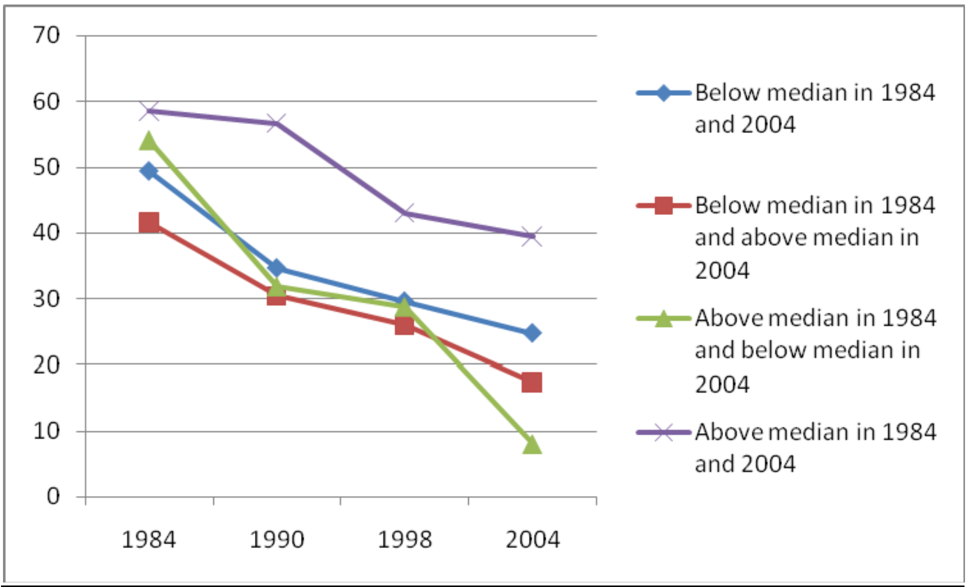


Source: WERS for collective bargaining coverage; EUKLEMS for industry profits (capital compensation)

A third way of exploring the influence of product markets is to see how far changes in collective bargaining were related to changes in 'rents', for which profitability might provide a reasonable proxy. Here we considered not a subjective perception of the relevant managers, but sectoral evidence of profitability from official statistics. This is provided by the EUKLEMS data set.[vi] Figure 3 shows the percentage of employees in WERS workplaces covered by collective bargaining, as distributed by industrial profitability. Workplaces were divided into quartiles in terms of their industry's location in the profits distribution at the time they were surveyed. Those in the lowest quartile are in the bottom quarter of the industry profits distribution, while those in the highest quartile are in the top quarter.

Collective bargaining coverage is clearly more widespread in workplaces with higher profits. Figure 3 shows that this effect is broadly evident throughout the period. This supports the view that employers are less resistant to trade unions where there are rents to share. Furthermore, the figure shows that, while collective bargaining coverage declined over the period whether profits were at high or at low levels, the decline was much less pronounced for the highest quartile. While on the retreat almost everywhere, collective bargaining has retained a foothold longer in those workplaces in sectors where profits were highest.

Figure 4: percentage of employees covered by collective bargaining in industries above and below the median profit per head



Source: WERS for collective bargaining coverage; EUKLEMS for industry profits (capital compensation)

Let us use the same data to focus a little more on the dynamics of the profitability change and collective bargaining coverage. In Figure 4 we again distinguish between four groups of workplaces, but this time we categorise them according to whether they remain in the bottom or top half of the profits distribution over time, or whether they remain in the same half of the profits distribution. As would be expected from our earlier discussion, collective bargaining held up best in workplaces in industries that have maintained the highest profitability over the period. They include, for example, financial intermediation, wholesale trading, and food and drink manufacture. Those industries which had consistently low profitability – which include, for example, construction and non-electrical machinery manufacture – saw their bargaining coverage decline, but at about the average rate.

It is the contrasting experience of industries whose profitability fortunes changed that is of particular interest. Both saw collective bargaining decline. But those whose relative profitability improved, from being below the median in 1984 to above the median in 2004, saw much less of a decline than those whose relative profitability declined. The former, the by 2004 comparatively "*nouveau riche*" industries - which include retail, and legal, technical and advertising services - saw a halving in the coverage of collective bargaining between 1984 and 2004. By contrast, those experiencing a comparative profits squeeze over the period - which include hotels and restaurants, and electrical machinery manufacture - saw bargaining coverage decline five-fold. While the revival in profitability in an industry is clearly not enough to revive bargaining coverage, profitability collapse does appear to be associated with something close to the collapse of collective bargaining.

All this confirms the intimate link between collective bargaining and the fortunes of the product markets within which it is conducted. Over our quarter century, collective bargaining has retreated fastest in those workplaces that, relative to others, were in product markets with particular competitive characteristics. Their workplaces faced more geographically local competition. They confronted more competitors. Their industries had lower profit levels. And their industries faced a relative worsening of profitability. The growth of collective bargaining in the 20th century had been nurtured by imperfect competition. Tightening product market competition has suffocated it.

PRIVATISATION – A ‘NATURAL EXPERIMENT’

A final way of looking at the question of how far product market change accounts for the retreat of collective bargaining is to take a very timely ‘natural experiment’. This was the privatisation and de-regulation of many industries, almost all of them highly unionised industries, over the period under consideration. Between the mid-1980s and the late 1990s, at different times but with similar briskness, whole industries were exposed to the rigours of private sector competition. What happened to collective bargaining?

We got a glimpse of the diversity of response from the broad sectoral divisions in Table 2. For the Energy and Water sector, the bulk of privatisations took place in 1986 in gas, in 1989 in water, and between 1990 and 1998 in electricity. But the coverage of all workplaces by collective bargaining remained between 94 and 96 per cent throughout. Another major sector affected was Transport and Communication. Here privatisation was a more extended process. For air transport it started in 1987, with ports following around 1992, buses around 1994, and rail around 1996. Telecommunications privatisations were spread from 1984 to 1993. Table 2 shows that the coverage of collective bargaining fell, but less than proportionately, from 73 per cent of workplaces in 1984 to 60 per cent in 1998, rising slightly to 63 per cent in 2004. The third of the table’s broad sectors affected by privatisation was Other Services. Dominated by government, this sector saw a large number of relatively small privatisations of research laboratories, regulatory agencies, leasing, property, broadcasting and fringe defence operations between 1990 and 2003. And here, by contrast, Table 2 shows the fall in coverage in collective bargaining to have been disproportionately large, from 86 per cent in 1984 to 53 per cent in 2004. This diversity calls for further investigation. Does it undermine our argument concerning the role of product market competition in the decline of collective bargaining?

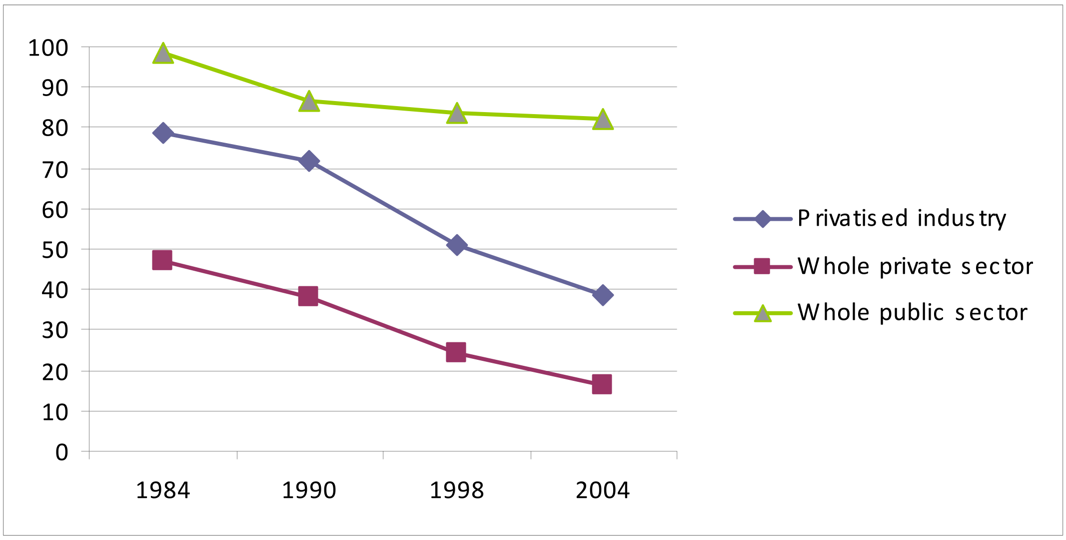
Crucial to answering this question is the fact that privatisation has not been, by any means, the royal road to perfectly competitive product markets. There is no necessary relationship between private ownership and free markets. Many of the industries sold off to the private sector had unavoidable elements of natural monopolies – railways, water, gas, electricity, communications, for example. Their product markets are to some extent inherently uncompetitive. Indeed, in acknowledgement of this, all these have official regulatory bodies – Ofrail, Ofwat, Ofgem, and Ofcom - committed to minimising their abuse of this position.

Providing trade unions could maintain their organisational strength – as they could, for example, with the railways, but not with many outsourced civil service operations – they could maintain collective bargaining coverage. A private sector natural monopoly is potentially at least as vulnerable as a public sector one to being paralysed by a well-organised union. There are, consequently, many privatised firms where collective bargaining flourishes. Their aircraft pilots, train drivers, dockers, power station workers, refinery technicians, filter-bed staff, telephone engineers, and so on remain highly unionised. Their pay and working conditions continue to be fixed by collective bargaining, although mostly by a form of collective bargaining less all-embracing than when their predecessors were nationalised. In summary, the uneven fortunes of collective bargaining in the wake of privatisation reflects the uneven success of privatisation in eliminating natural monopolies.

Let us now explore the impact of privatisation in greater detail. To identify which WERS workplaces belonged to privatised industries we looked at the percentage of workplaces that were privately owned in each highly disaggregated industry over time. Those moving from predominantly public ownership to largely private ownership were classified as 'privatised' industries. This was the case even though not all of the workplaces in those industries were privately owned by the end of the period. However, in nearly all cases the industry was predominantly publicly owned pre-privatisation and was largely privately owned post-privatisation.[vii] From this information we derived two measures of privatisation. The first was a dummy variable identifying whether a WERS workplace belonged to an industry that was privatised over the period. The second variable distinguished between industries that were privatised early in the period (1980-84), those privatised in the middle period (1984-1990) and those privatised late on (1990-2004).[viii]

We start with the overall picture. How did privatisation affect collective bargaining in the industries affected? Figure 5 presents the incidence of collective bargaining at workplace level for the whole private sector, the whole public sector and for workplaces in industries that were privatised over the period. At the outset workplaces belonging to industries that were eventually privatised looked more like public sector workplaces than they did private sector workplaces in terms of their use of collective bargaining. But during the course of the next two decades collective bargaining incidence declined more rapidly in these workplaces in privatised industries than it did in the private sector in general. Decline in the public sector was modest by comparison.

Figure 5: Percentage of workplaces with any collective bargaining

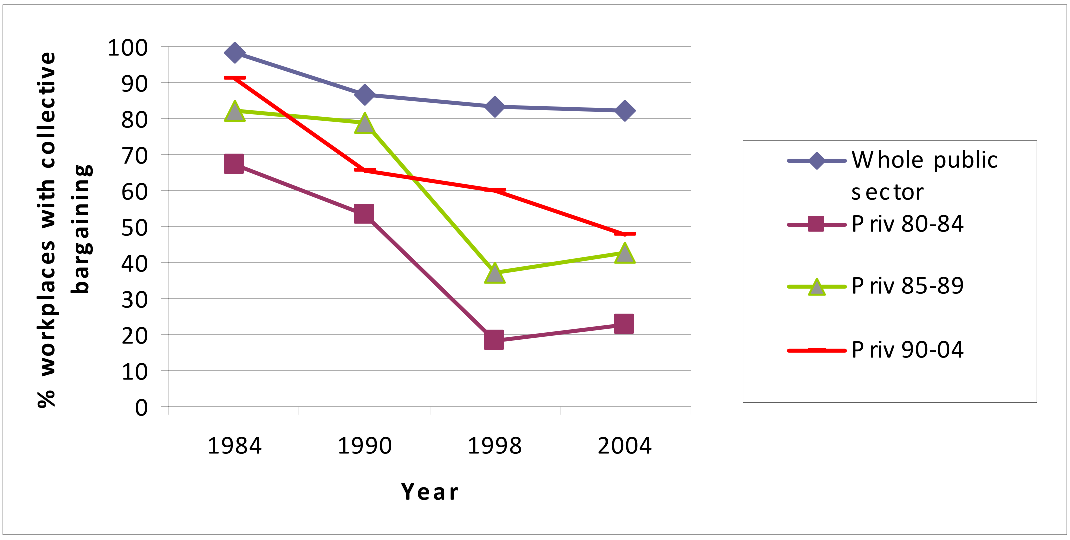


Source: WERS 1984-2004

This clearly suggests that privatisation increased the rate of decline in collective bargaining. To test it more formally we introduced the privatisation indicator into the regression analysis reported in Model 1 in Table 3. The coefficient was negative but statistically non-significant. But when we allowed the privatisation effect to vary by year, the analysis revealed a clear time-trend in the privatisation effect. Allowing for other workplace characteristics, workplaces in privatised industries had a higher pre-privatisation incidence of collective bargaining coverage than other comparable workplaces. But the subsequent decline in collective bargaining, after privatisation happened, was greater than it was for other, unaffected workplaces between 1990 and 2004, as is suggested by Figure 5. The impact of privatisation on collective bargaining was relatively slow to emerge, coming through after 1990. This may reflect the fact that many privatisations were occurring around that time, while some still had to take effect, and it is to be expected that there was a lag between privatisation and changes in the new owner's collective bargaining policy. It may also reflect the fact that the early privatisations focused primarily on changing the ownership of assets without necessarily changing the structure of markets; a recognition of the importance of market liberalisation only after this initial wave (Barrell and Pain, 2002: 36).

Analyses for single years tell the same story. In 1990, workplaces belonging to those industries targeted for privatisation were about 10 per cent more likely to have collective bargaining than otherwise comparable workplaces. By 1998 there was no statistical difference between workplaces in privatised industries and other workplaces. However, by 2004 the full effect had come through. Workplaces in privatised industries had a 10 per cent *lower* probability of collective bargaining than unaffected workplaces when controlled for other observable differences. Far from the public sector traditions of collectivism living on after privatisation, there seems to have been an adverse reaction against them by management.

Figure 6: Percentage of workplaces with any collective bargaining, public sector versus privatised sector



Source: WERS 1984-2004

We address the timing of industry privatisations more directly in Figure 6. This compares the incidence of collective bargaining in the whole public sector with its incidence in privatised industries, distinguishing between early, mid-period and late privatisations. We see again that the percentage of workplaces using collective bargaining for at least some of their employees has remained high in the public sector throughout the period. In contrast, privatised industries have seen substantial declines in collective bargaining coverage. But the patterns differ according to the timing of privatisation. First, it is apparent that early privatisations up to 1984 were targeted on industries with relatively low collective bargaining incidence.[ix] Examples would be British Petroleum, Associated British Ports, and Cable and Wireless. As privatisation progressed, so the government shifted its focus to politically tougher industries with higher levels of collective bargaining. For example, British Aerospace, British Gas, British Airways, Rolls Royce, British Airports Authority, British Steel and the water boards followed in the years to 1989. After 1990, major privatisations included the electricity industry, British Telecommunications, the coal industry, and the railways. Privatisation was pushed deeper and deeper into traditional heartlands of collective bargaining.

It is notable that coverage of collective bargaining among workplaces located in industries that were privatised in the 1980s continued to fall throughout the 1990s. It is also apparent from Figure 6 that collective bargaining incidence was already in decline in late-privatised industries prior to their privatisation. It is possible that this reflects employers' anticipation of privatisation. The post-privatisation decline in the coverage of collective bargaining in the later privatised industries has been less steep than the decline that occurred shortly after privatisation in the earlier privatised industries. But the incidence of collective bargaining in industries privatised in the 1980s appears to have stabilized since New Labour returned to power in 1997. Employers' treatment of trade unions has always been sensitive to their perceptions of government attitudes. New Labour may have sought to avoid looking too friendly toward unions, but their 'arms length' approach was undeniably more tolerant than that of their Conservative predecessors. This evidence suggests that New Labour's arrival reduced the destructive effect of privatisation on collective bargaining.

Table 5: Incidence of collective bargaining coverage, comparing workplaces in privatised industries with those in the public sector, OLS

	pooled	1984	1990	1998	2004
When privatised (ref: always public)					
1980-1984	-0.230	0.035	-0.073	-0.429	-0.406
	(4.20)**	(0.46)	(0.46)	(4.99)**	(3.42)**
1984-1990	-0.127	-0.099	0.143	-0.204	-0.233
	(4.25)**	(2.72)**	(2.42)*	(2.09)*	(4.18)**
1990-2004	-0.058	-0.098	0.208	-0.099	-0.403
	(1.37)	(1.69)	(2.65)**	(1.84)	(2.71)**
wirs1990	-0.107				
	(3.64)**				
wirs1998	-0.170				
	(6.12)**				
wirs2004	-0.196				
	(6.80)**				
Constant	0.813	0.811	0.583	0.705	0.763
	(13.57)**	(9.18)**	(4.01)**	(5.75)**	(6.68)**
Observations	2932	788	675	786	683
R-squared	0.36	0.43	0.36	0.42	0.42

Note: Models include controls for region (10 dummies), industry (9 dummies), foreign ownership, proportion part-time employees.

How robust are these findings about the adverse effect of privatisation on collective bargaining? We carried out additional regression analyses in which we replaced the dummy variable for privatisation with a variable distinguishing between the three phases of privatisation identified in Figure 6. Those workplaces in sectors that remained in the private sector throughout the period were dropped from the analysis. The results are presented in Table 5. It confirms that, throughout the period, workplaces in privatised industries were less likely to have used collective bargaining compared with 'like' workplaces in industries that remained publicly owned throughout. More importantly, Table 5 sheds some light on the timing of privatisation effects. The effects of early privatisation (1980-84) were not significant in the 1990 survey, but became statistically significant by 1998 and persisted into 2004. There is a negative association between mid-period privatisation (1984-1990) and collective bargaining incidence in 1984, consistent either with a rapid privatisation effect or else a pre-existing lower coverage differential in these workplaces relative to their public sector counterparts. In any event, the negative effect had doubled by the late 1990s and persisted into 2004. In the case of late privatisations (1990-2004), despite having a fairly high probability of bargaining at the outset in 1990, their probabilities of bargaining incidence were 40 per cent lower than those of comparable public sector workplaces by 2004.

In summary, there can be no doubting that privatisation has been a major contributor to the decline of collective bargaining. It has done this by exposing hitherto sheltered industries to increased product market competition. It is true that collective bargaining does live on in some privatised sectors, but the main reason for that is that those sectors enjoy natural monopolies. The experience of privatisation reinforces our over-riding argument, that collective bargaining in Britain has been eroded by increasing product market competition.

CONCLUSION

This has been the story of the decline of the principal means of protecting labour standards in Britain. Collective bargaining developed over the twentieth century as a result of employers' being able to compromise with organised labour. They could do this so long as the markets in which they traded were sufficiently imperfect in their competition. In this study we have used the unique data of the WERS to demonstrate that tougher competition has undermined this tacit settlement between employers and their employees' trade unions. Labour standards in the modern workplace have become more vulnerable as a result.

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None of these individuals or institutions bears any responsibility for our analysis or interpretation of the data.

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ENDNOTES

[i] For instance, import penetration of the British domestic manufacturing market more than doubled, from 25 per cent to 58 per cent, between 1980 and 2004.
[ii] The data on collective bargaining from the 1980 WIRS are not comparable with those from later surveys in the series, so our series here begins in 1984.
[iii] Although superficially at variance with the finding of Kersley *et al.* (2006:188) that the rate of decline was slowing, their analysis did not take account of the other variables included in our analysis.
[iv] This figure is based on employees working in workplaces with at least 25 employees. Coverage is lower in smaller workplaces (Kersley et al., 2006: 179-183).
[v] This result is not sensitive to the inclusion of variables capturing the number of competitors the establishment faces.
[vi] The data set contains financial information collected from official national data sources for 71 two-digit industries over the period 1970-2004. For further information go to: http://www.euklems.net/. In our analyses we use (value added – labour costs)/employment to proxy industry profitability for the 51 industries common to EUKLEMS and WERS. The principal limitation of this measure is that it takes no account of capital depreciation, which will vary across industries with different levels of capital intensity. However, it is not possible to make such an adjustment with the basic EUKLEMS data. We gratefully acknowledge the advice provided by Ana Rincon-Aznar on the use of EUKLEMS.
[vii] The exceptions were construction, road haulage and property which were predominantly privately owned at the outset but became almost exclusively privately owned
[viii] We coded our data at 4-digit SIC level. The time-series data contains SIC 1980 codes for all years except 1998 when we conducted the same exercise using SIC 1992 codes. The industries identified as privatised were: electricity generation; gas supply; water supply; chemicals manufacture; shipbuilding; train manufacture; aerospace; construction; railways; bus and coach services; road haulage; supporting services to sea transport (including docks); supporting services to air transport (including British Airports Authority and CAA); telecommunications; real estate; refuse collection and street cleaning; higher education; hospitals; social/residential homes; community services (including tourist offices). WERS does not contain some industries that were privatised such as coal mining. The timing of privatisations corresponds with other sources such as the privatization barometer (http://www.privatizationbarometer.net/database/php).
[ix] Because Figure 5 suggests some delay in the impact of privatisation, we take the 1984 level as indicative of the extent of bargaining before privatisations began for the 1980-84 group.