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The New Structure of Labor Relations: Tripartism and Decentralization

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The New Structure of Labor Relations: Tripartism and Decentralization

Abstract

Tripartism, the national-level interaction among representatives of labor, management, and government, occurs infrequently in the United States. Based on the U.S. experience, then, such interactions might seem irrelevant to economic performance and policymaking. The essays in this volume reveal the falsity of that assumption. Contributors from eight industrialized countries examine the changing nature of labor management relations, with a particular focus on the role of tripartism and the decentralization of collective bargaining. The vibrancy of the coordinating mechanisms that help shape employment conditions and labor policy contradicts the traditional belief that an overpowering unilateral decentralizing shift is underway in labor-management interactions. The contributors show that these mechanisms are in fact increasing in the face of intensified pressures, promoting greater flexibility in work organization and working time.

Keywords

labor, relations, tripartism, decentralization, management, government, United States, economic, performance, policymaking, collective bargaining, employment, policy

Comments

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Contents

Introduction: The Changing Nature of Labor, Management, and Government Interactions <i>Harry C. Katz</i>	1
1 The Irish Experiment in Social Partnership <i>Paul Teague and James Donaghey</i>	10
2 The Netherlands: Resilience in Structure, Revolution in Substance <i>Hans Slomp</i>	37
3 Collective Bargaining and Social Pacts in Italy <i>Ida Regalia and Marino Regini</i>	59
4 The Changing Nature of Collective Bargaining in Germany: Coordinated Decentralization <i>Gerhard Bosch</i>	84
5 The Rise and Fall of Interunion Wage Coordination and Tripartite Dialogue in Japan <i>Akira Suzuki</i>	119
6 Will the Model of Uncoordinated Decentralization Persist? Changes in Korean Industrial Relations After the Financial Crisis <i>Wonduck Lee and Joohee Lee</i>	143
7 The Changing Structure of Collective Bargaining in Australia <i>Marian Baird and Russell D. Lansbury</i>	166
8 United States: The Spread of Coordination and Decentralization without National-Level Tripartism <i>Harry C. Katz</i>	192

Summary: Reconstructing Decentralized Collective Bargaining and Other Trends in Labor-Management-Government Interactions <i>Wonduck Lee, Joohee Lee, and Harry C. Katz</i>	213
<i>Notes</i>	225
<i>References</i>	235
<i>Contributors</i>	257
<i>Index</i>	259

The New Structure of Labor Relations

Introduction

The Changing Nature of Labor, Management, and Government Interactions

Harry C. Katz

Although it is not clear what explains the enormous economic success of the United States in the 1990s, no one would claim that national-level dialogue, partnership, and forums through which representatives of labor, management, and the government discuss economic policies played any role in U.S. success because such activities are infrequent and inconsequential in the United States. Based on U.S. experience, one might go on to conclude that national-level social dialogue and partnership are irrelevant to economic performance and policy-making everywhere. This book shows that this conclusion is wrong.

In Ireland, the Netherlands, Germany, and Italy, national-level social dialogue and partnership and other national-level interactions between representatives of labor, management, and the government, what is referred to as tripartism, have played a positive role addressing critical economic and social problems. This book shows that there is a spectrum of recent experience with tripartism. In some countries, tripartism is insignificant (the United States), it is on the decline (Japan and Australia), and its use expanded in the early and mid-1990s and then appeared to decline (Italy). In a few countries, tripartism is flourishing (Ireland, the Netherlands, and Germany), and in others it has been used sporadically and with limited success (Korea).

This book shows that the topics addressed and the participants included in tripartite arrangements vary between countries. Tripartite activities are

not an invention of the 1990s. In a number of social democratic countries in the 1960s and 1970s, corporatism involving dialogue between representatives of labor, management, and government focused on efforts to control inflation (incomes policy) and often involved political exchanges whereby tax and other government policies were traded for wage (and price) moderation. Yet, while tripartism has some similarities with earlier forms of national-level social dialogue, a number of factors distinguish recent tripartite activities. This book describes how tripartism has come to focus more on working-time flexibility and the promotion of part-time work rather than on inflation. Tripartite dialogue also has expanded beyond traditional corporatist partners to include women's groups, representatives of senior citizens, and other representatives of "civic society."

The nature and role of labor, management, and government interactions are changing in critical ways beyond the replacement of corporatism with more varied forms of tripartite dialogue and policy-making in countries where corporatism flourishes. Chapters in this book, tracing developments in Japan, Korea, Australia, and the United States, find that although tripartism has not been central to economic policy-making in recent years in those countries a variety of other "coordinating" mechanisms provide interactions that help shape employment conditions and labor policy. The fact that there has been so much vibrancy in these coordinating mechanisms goes against the notion, popular in some quarters, that there is an overpowering unilateral decentralizing shift underway in labor-management interactions. These coordinating functions are, in fact, increasing in the face of intensified pressures promoting greater flexibility in work organization and working time.

At the same time, individualization and other, often related forms of decentralization in the structure of labor and management interactions are on the rise nearly everywhere and affect both the processes through which employment conditions are being determined and employment outcomes, including pay, working time, and work organization. So, even within countries, there are complex and somewhat contradictory shifts underway in the structure of labor, management, and government interactions.

CONNECTIONS WITH PREVIOUS RESEARCH

The research outlined in this book has connections to a number of previous research streams in the field of comparative industrial relations and comparative political economy. One link is provided by the question of

whether countries with particular structures for collective bargaining perform better than other countries. Calmfors and Driffill (1988), who claimed that countries with either highly centralized or highly decentralized collective bargaining structures were more successful in terms of economic performance (low inflation and strong economic growth), investigated the macroeconomic effects of the structure of collective bargaining. Their research triggered much debate. Soskice (1990), for example, criticizes as overly simplistic the ordering of collective bargaining systems used in the Calmfors and Driffill analysis, pointing out that informal forms of coordinated bargaining, such as *Shunto* bargaining in Japan, are often important and are not captured well in the measure of bargaining centralization used by Calmfors and Driffill. I have argued that recognition of the various components of bargaining structure limits the value of categorizing national bargaining systems along a single centralization-decentralization spectrum (Katz 1993).

Soskice (1990) went on to argue that the extent of coordination within corporate-bank relations and other institutional arrangements produces a critical differentiation between “coordinated” and “uncoordinated” market economies. In a related analysis, Traxler (1995a) claims that a distinction between “organized versus disorganized decentralization” is necessary to account for the widespread nature of the pressures for decentralization and better captures the various paths of national development. Sisson and Marginson’s (2002) account of the various forms of bargaining coordination within Europe provides recognition of the increased role that coordinated bargaining plays within and across countries. Other related analyses appear in what has come to be called the “varieties of capitalism” research literature (Hall and Soskice 2001). This literature builds on Soskice’s distinction between coordinated and market economies to examine the depth and implications of the various forms of corporate and industrial relations structure that appear within advanced industrial economies.

This book extends the varieties of capitalism debate by providing in-depth analysis of the changing nature of labor, management, and government interactions in a number of key countries. With a common focus, the chapters that follow examine how the structure of collective bargaining has evolved since the early 1980s. The evidence shows that in all countries there was pressure for decentralization and in nearly all countries in the 1990s there were efforts to create some form of national-level tripartism. Exactly how tripartism connected to the more decentralized bargaining that was simultaneously spreading in those countries is one of the key issues examined in the country chapters.

THE PLAN OF THE BOOK

This book includes country chapters written by leading researchers about developments in Australia, Germany, Ireland, Italy, Japan, Korea, the Netherlands, and the United States. The country chapters examine the changing nature of labor, management, and government interactions with a special focus on tripartite dialogue and labor policy-related forums. Early drafts of these chapters were presented at a conference cosponsored by the Korean Labor Institute and the ILR School of Cornell University in Ithaca, New York, on October 5 and 6, 2001. The policy and research questions that motivated the conference are highlighted below.

The Nature of Tripartite Dialogue and Labor Policy Making

With the limited success that incomes policies had in restraining inflation in a number of countries in the 1960s and 1970s, one might have expected that tripartism would have lost its appeal. In this light, the negotiation of prominent tripartite accords in the 1990s in Ireland, Italy, and the Netherlands, and the national employment pact in Germany is quite surprising. What are these tripartite accords and pacts about and what has led to their formation? And, how do these recent pacts compare and contrast with earlier forms of corporatism?

On the one hand, it appears that recent tripartite pacts have much in common with the previous corporatist interactions that occurred in incomes policies. Both give central importance to wage moderation, even though the specific pressure for such moderation, the need for monetary discipline in order to conform to European Union and related monetary union pressures, adds a new twist to recent tripartite activities. On the other hand, with an emphasis on workplace and employment flexibility, promotion of participatory processes, and inclusion of social security reforms, recent tripartite pacts seem to be broader in scope as compared to earlier corporatist agreements. But is this breadth in recent tripartite pacts real and, if so, is the breadth really new?

It also is important to examine how the process of tripartism has changed. For example, are new parties representing the interests of civil society and are new modes of interaction between the various involved parties critical to the operation of recent tripartism? And perhaps most importantly, is there evidence that recent tripartism is working, in the sense that it is meeting the parties' or society's objectives? The analyses that follow shed light on these issues and help identify whether there is one best way to structure or operate tripartism.

There was much theorizing in previous research about the factors that

influenced the success of corporatism, including the degree of encompassing interest representation, union democracy, and social democratic political strength (Schmitter 1981, Regini 1997 and 2000, Streeck 1982, Crouch 1985, Baccaro 2000). Schmitter (1979) argues that mechanisms that shielded union leaders from popular pressures assisted corporatism in the 1970s and 1980s. Baccaro (2002), in contrast, claims that it was the spread of internal democracy in unions that was a key to the success of tripartism in Italy in the 1990s. Was union democracy also central to the success of tripartite activities in other countries in recent years? More generally, one of the most important contributions of this book is analysis of how the preconditions affecting the success of recent national tripartite pacts compare and contrast to those that influenced earlier corporatism.

The Decentralization Push of the 1980s and 1990s

Previous research shows that in nearly all countries in the 1980s and 1990s, the locus of collective bargaining shifted downward, often from a national or multicompany level to the firm or plant level. This shift included the breakdown of a national confederation-level agreement in Sweden, the erosion of national tribunal pay setting and the spread of enterprise bargaining in Australia, and the decline of multicompany bargaining in the United Kingdom and the United States. In these and other countries pay was increasingly being set, partially if not fully, at the plant or enterprise level. And where multiemployer bargaining persisted, as in Germany and Italy, its influence declined as sectoral or national agreements in those countries increasingly provided only minimum employment terms rather than contractual standards as in the past.

In nearly all countries, as shown by previous research, the intensity of local bargaining, involving local unions, works councils, or work groups increased dramatically in recent years. Much of this bargaining involved qualitative issues concerning work organization and work restructuring. In some cases local bargaining included increased use of contingent pay methods, as pay in one way or another became linked to plant, firm, individual, or some other measure of economic performance. Informal interactions between labor and management took on greater importance as part of work restructuring, which in some cases amounted to “concession bargaining” (i.e., highly pressurized efforts to stave off a plant closing or layoffs). In the process, work rules, working time, and work organization, often under the rubric of a search for greater workplace flexibility, took on greater importance.

The push for the individualization of pay or work practices provided further impetus to the decentralization of collective bargaining. As pay-for-knowledge, skill premiums, bonuses, and gain-sharing systems spread, any higher-level pay agreements increasingly served as frameworklike pay minima.

In the United Kingdom and Australia, the replacement of collective contracts with individual contracts provided an even more extreme form of bargaining structure decentralization. Even more widespread was the decline in union coverage and strength. In nearly all countries, the percent of the work force covered by collective contracts declined and nonunion employment became the ultimate decentralized way to set employment terms.

There were, of course, some exceptions to these trends. For example, with a longstanding tradition of heavy reliance on enterprise-level bargaining in the private sector, Japan experienced less downward movement in the locus of bargaining, at least as suggested by evidence up until the mid-1990s. Evidence of stability in the locus of wage setting in Japan is seen in the lack of an upward trend in inter-enterprise variation in Shunto wage increases as of the mid-1990s (Katz and Darbishire 2000, 232). At the same time, by the mid-1990s, some signs of increased pay variation did appear within Japanese firms through greater use of ability-based pay and variation in annual bonuses (Katz and Darbishire 2000, 236). Yet, previous research has not clarified whether, in the face of pressures resulting from sluggish economic growth from the mid-1990s on, Japan has begun to experience more extreme changes in the structure of labor, management, and government interactions. Japan is just an illustration of the questions that exist concerning the scope, nature, and implications of recent changes in the structure of interactions in other countries.

The Interaction between Decentralized Collective Bargaining and Tripartism

How has decentralized collective bargaining interacted with tripartite activities and what is likely to evolve in the future? By the mid-1990s in Italy, Ireland, Germany, and the Netherlands, the emergence (or in some cases, reemergence) of tripartite agreements led some to claim that the structure of collective bargaining was being recentralized (Baccaro 2000). Yet it is possible that plant and local collective bargaining will continue to spread while national pacts, focusing on wage moderation and workplace flexibility (and other matters), are forged in these countries. Or tripartism might spur various aspects of decentralized collective bargaining

by promoting the development of local labor-management partnerships or through pay or productivity mandates or targets.

Australia provides an interesting case that might shed light on future possibilities in other countries. In Australia, the push for greater enterprise-level bargaining in the 1980s and early 1990s occurred under the rubric of an incomes policy provided through a national union-government agreement, the “accord,” which included a number of rounds. To some extent the accord facilitated union acceptance of the simultaneous decentralization underway in the structure of collective bargaining as the Australian labor movement “favored a decentralization of bargaining toward the enterprise level provided this occurred within a strong centralized framework (at national and industry levels)” (Bray 1991). The accord, however, was ended in 1996 by the newly elected conservative government of John Howard. The extent to which the accord provides a precursor or future road map for national tripartite agreements in European countries and elsewhere warrants clarification. More generally, one of the tasks of the research in the country chapters that follow is examination of the interaction between decentralization in the structure of collective bargaining and national-level tripartism.

Another debate that surfaced as collective bargaining decentralization has proceeded concerns the extent to which this shift is transitory. Decentralization is likely to be transitory if it is essentially a mechanism through which employers gain bargaining power advantage. The idea here is that it is the *process* of decentralization that is most important. Employers in this view benefit most from the ability to play plants (and local unions) off against one another, that is, to whipsaw local unions. Yet this might only be a transitory need as, after gaining lower wage outcomes or wider skill differentials through whipsawing, employers then might prefer a return to centralized bargaining because of the advantages it provides (stability, predictability, and economies of scale).

A way to understand the potential temporary advantages to decentralized collective bargaining is to recognize the possibility that employers need decentralized bargaining to gain concessions because central unions are unwilling to grant the concessions employers desire, while local unions are more willing to do so given that they feel more direct pressure from workers threatened by employment losses. The question of whether or not these transitory advantages are critical arises because previous research has not clarified the reasons why employers’ favor bargaining decentralization. Examination of recent developments can also clarify whether the structure of collective bargaining truly has been recentralized in recent years and the breadth of any such recentralization.

Shifts in Bargaining Power

In the 1980s and early 1990s, the impetus for the decentralization of collective bargaining clearly came from management. It was management that was either directly pushing for decentralization in its bargaining and public demands, as in Australia, or indirectly promoting decentralization as the device to provide pay and work rule concessions, as occurred commonly in the United States and even in Germany.

As the labor market improved in the late 1990s, however, in many countries labors' relative bargaining power improved and this shift reduced employers' whipsaw leverage. The United States was an extreme example as the labor market strengthened to the point that a debate ensued regarding the extent and permanence of "hyper-mobility" and the associated possibility that highly skilled labor could "call the shots" in the labor market. The bursting of the dot.com bubble in spring 2000 in the United States and the subsequent economic downturn, however, then markedly altered the state of the labor market. As a result, it is a propitious time to examine the effects that economic conditions exert on bargaining structure. For, if the intensity of the pressure for the decentralization of bargaining structure is found to be linked to the state of the economy, then this would lend credence to the notion that a key determinant of bargaining structure is bargaining power.

Furthermore, if relatively stronger labor movements are unable to reverse bargaining decentralization, this may reflect either a shift in labors' preferences (and if so, it would be interesting to know why labor has come to prefer decentralized bargaining) or the fact that it is total and not relative power that drives bargaining structure. Total power concerns the total profits (i.e., economic rents) that are available for distribution. There is some previous economic research suggesting that centralized collective bargaining spreads when total power is high, as in this circumstance labor and management have reason to join together in centralized forums to divide up the large available economic rents and symmetrically, when economic rents shrink, the parties are pushed to decentralize collective bargaining (Hendricks and Kahn 1982). This can explain why the push for decentralization strengthened in the 1980s and early 1990s in the face of globalization and economic deregulation.

Yet it is not clear whether recognition of the role of total power really helps explain recent events and whether the effects of shifts in the parties' total power can be disentangled from the effects of shifts in relative bargaining power. One of the tasks of comparative research is to make use, as best as possible, of variations in labor and management's power over

time and across countries to clarify the influence and effects of relative and total power.

Bargaining power is only one among a number of possible causes of shifts in the nature and locus of labor, management, and government interactions. I, and others, claim that work reorganization and corporate or worker interest diversification have been a key pressure for the decentralizations occurring in the structure of collective bargaining and corporations (Katz 1993, Purcell and Ahlstrand 1994). While bargaining power and diversification matter, a strong role also is being played by work reorganization as unions and workers have become "co-managers of the internal labor market" (Streeck 1984). Decentralization has been linked to the elevation in the importance of local bargaining because the process of identifying efficient (or acceptable) team work systems and the successful implementation of new work practices apparently requires the active participation of local actors and local experimentation with new packages of employment practices. Analysis of recent trends thus can help clarify the role played by these and other forces and thereby help identify the causes and consequences of decentralization in the structure of collective bargaining and its extreme variants, individualization and deunionization.

The chapters that follow go a long way in providing answers to the many critical questions identified above. Where currently available evidence remains limited, the chapters at least help clarify the key issues that remain for future research.

1 The Irish Experiment in Social Partnership

Paul Teague and James Donaghey

McDonalds, the fast food chain restaurant, has an outlet just off O'Connell Street, the main thoroughfare in Dublin. In 1987, it advertised part-time vacancies and within a day a huge queue had formed composed of different strata of people all sharing the common desire of getting employment. Fast-forward a decade and the scene is radically different. Traffic in Dublin's city center is in gridlock, and the new prosperity of the country can be seen by the huge amount of construction activity and hustle and bustle of people in the streets. Even if we set aside unhelpful metaphors such as the Celtic Tiger, it is difficult not to reach the conclusion that the economic (and social) transformation experienced by the Republic of Ireland in the nineties was nothing less than spectacular.¹ The country has switched from being a basket case to one that enjoys virtual full employment. A national framework for social partnership has been in place during the economic upturn period. It would be excessive to argue that social partnership was the main driver behind the economic revival. A multitude of factors, positively interacting with each other, fueled the high growth rates. At the same time, social partnership has made an important contribution to economic transformation.

This paper assesses the Irish experience of social partnership. We pay particular attention to what type of coordination was promoted by the various national social agreements. A number of overlapping arguments are advanced. One is that social partnership in Ireland is contained within a multidimensional framework, some parts of which echo traditional "corporatist" practices and procedures while others are more innovative in character. We suggest that the social partnership framework is not exactly

a model of coordinated decentralization and is better described as an open method of labor market coordination. A second argument is that while the Irish experience of social partnership holds important lessons for other countries, claims that it represents a new model of labor market governance should be treated with caution. Irish social partnership is a combination of old and new employment relations practices customized to suit domestic economic and political conditions. Third, whether social partnership has fully secured its declared purpose of promoting a form of economic development that combines competitiveness and fairness remains an open question.

The paper is organized as follows. The first section develops our meaning of coordinated decentralization and situates its relevance to Irish social partnership. Then a number of contextual points are developed to set the scene for our discussion of social partnership. Next the wage bargaining element of Irish social partnership is set out and evaluated. After this assessment, the discussion turns to the theme of enterprise partnership and shows how this concept has grown in importance in recent years. The conclusion brings together the various arguments of the paper and makes some observations about the future of the social partnership framework.

COORDINATED DECENTRALIZATION AND THE IRISH EMPLOYMENT RELATIONS SYSTEM

A popular argument is that national employment relations systems in Europe are gravitating in one way or another toward a coordinated decentralization model of employment relations. Coordinated decentralization is usually interpreted in two different ways in the literature. One fairly narrow perspective is that it involves the “loosening” of centralized or sector-level collective bargaining systems. On this view, tightly integrated extrafirm bargains are no longer sustainable in the face of a variety of economic and social transformations that are encouraging greater economic decentralization. The new competitive environment is no place for tight institutional constraints. Organizations must be permitted to make emergency deviations from established industry or national pay rates. Alternatively the centralized bargaining machinery must only produce framework agreements that set indicative guidelines (as opposed to binding rules) for pay increases and improvements in working conditions (Ferner and Hyman 1998; Traxler 1995a). The second view of coordinated decentralization is more expansive in outlook. It is a story of how the *complementarity* and *fit* between decentralized institutions can

produce highly coordinated labor markets. On this account, coordinated decentralization gives rise to systems of national institutional comparative advantage, leading to high grade, yet distinctive forms, of economic performance (Soskice 1999).

The evolving system of Irish social partnership approximates neither perspective on coordinated decentralization. On the one hand, it amounts to more than defensive adaptations to employment relations institutions to counter the dissolving effects of globalization, technological innovation, and social change. On the other hand, Ireland does not possess tightly integrated, complementary labor market institutions, which have given rise to a specialized institutional pattern of comparative economic advantage. In the Irish context, achieving close institutional fit between different parts of the employment relations system is neither seen as possible nor particularly desirable. Addressing market (and institutional) failures, the main motivation for seeking coordination in the first place, is still considered important, but it is done by what we call the open method of coordination.

The open method of coordination as developed in Ireland has five properties. First, the governance of wage determination remains the core function of the social partnership arrangement. This is the social glue that holds together the entire system. On carrying out this function, Irish social partnership embodies the same tensions and dilemmas associated with more established "corporatist" methods of wage setting. A second and more distinctive attribute of Irish social partnership has been the emphasis placed on producing a *procedural consensus*, as opposed to building complementarities, between employment relations actors to guide the search for solutions to identified problems. Complementarities between labor market institutions smack too much of seeking a "static equilibrium" within a social partnership arrangement, causing them to be too fixed and rigid in what they do. A procedural consensus, on the other hand, assumes a greater capacity on the part of institutions to change over time so that they are more able to keep pace with fast-changing business and labor market conditions.

The third feature of open coordination is that decision-making inside the social partnership framework does not solely involve tough bargaining to reach an accommodation between competing employment relations interests, but also "deliberative" type interactions that rely more on evidence-based and reasonable discussions to advance policy ideas. In old-fashioned employment relations language, social partnership should be as much about integrative bargaining as distributional bargaining (Walton and McKersie 1965). The motive behind this development is to challenge

adversarial attitudes and behavior that have been longstanding features of Irish employment relations and encourage cooperative forms of management and employee interactions. Thus much is made of terms such as *shared understandings* and *joint action* in social partnership circles.

Fourth and notwithstanding the early observation about the centrality of the wage bargain, open coordination has sought to widen the scope of social partnership agreements so that they include public policies designed to promote social inclusion. In concrete institutional terms, this has led to “new” social groups, such as those representing the unemployed, gaining entry into the negotiating process to conclude social partnership deals. Fifth, open coordination places less emphasis on traditional methods of labor market regulation that use constraining rules to tie employers to particular employment practices. More prominence is given to designing “enabling” or supportive public programs that would advance the competitive performance of organizations while ensuring that employees enjoy decent working conditions.

This open method of coordination that guides Irish social partnership raises a wide range of fascinating questions. For example, can civil associations be integrated into a social partnership arrangement in a manner that confers on them the same “public status” enjoyed by employers groups and trade unions? What types of social inclusion programs have been produced by the social partnership agreements and how do they relate to the pay deals? We do not have the space to address properly these questions despite their obvious importance. Our focus is primarily on the evolution of managerial-employee interactions under social partnership. In addressing this matter we will be concerned with traditional employment relations issues—how have the social partnership agreements affected labor market outcomes, what has been the fate of the unions, and so on. At the same time, we try to shed light on the importance of some of the proclaimed innovative aspects to social partnership in Ireland. In particular we assess whether social partnership is promoting new credible commitments between Irish employers and trade unions and whether the social partnership agreements have balanced equity and efficiency in labor markets. But before we get on to these topics a number of preliminary remarks are required to explain the dynamics of Irish employment relations.

MANAGEMENT-EMPLOYMENT INTERACTIONS IN IRELAND: SOME PRELIMINARY REMARKS

Adversarialism and voluntarism are well-established features of Irish employment systems. To a large extent, this is an administrative legacy of

British rule in Ireland. The organization and behavior of employers and trade unions had a strong "British" voluntarist feel to them. With regard to organized labor, its most pronounced feature was its fragmented structure. Every occupational segment, no matter how small, seemed to have its own trade union organization. Moreover, in many cases, trade unions competed for similar type workers. A second feature of trade union organization was its decentralized orientation. On the one hand, the authority of the Irish Congress of Trade Unions (ICTU), the federal body for organized labor, was carefully circumscribed so that its main role was one of coordination. On the other hand, local shop stewards enjoyed considerable autonomy, thereby ensuring that they were frequently the pace setters on employment relations matters. Employer organizations displayed many of the fragmented organizational characteristics of trade unions. In addition, national employer organizations were relatively weak bodies with little capacity to drive an employment relations agenda from the center. Both employers and trade unions had a predilection for decentralized employment relations relatively free from legal and government interference. Both sides preferred to take their chance in a free collective bargaining tussle rather than allow the government to regulate employment relations through legal procedures and rules.

Before the current social partnership regime, which started in 1987, the Irish system of collective bargaining system lacked order. The institutional level of collective bargaining differed across the economy. In the public sector, bargaining was centralized: wage rates and most terms of employment were set by national negotiations. Some local bargaining did take place, but this was usually limited to matters such as working conditions, the availability of overtime, or changing job rules. In some spheres of the market economy, most notably in the construction industry, sector-level bargaining prevailed. Again, a certain amount of supplementary enterprise bargaining took place. Overall, decentralized, enterprise-level bargaining was the norm in the private sector. Various efforts were made to bring order to this fragmented bargaining system by promoting centralized incomes policies, especially in the 1970s, but without much success (Hardiman 1988).

Unlike some "continental" European countries, Ireland has no legal extension rule that ensures that all "relevant" workers are covered by a collective agreement. No reliable data exist on collective bargaining coverage, but the consensus view is that sector-level agreements led to more spreading of bargained terms as compared to other contract forms. Where enterprise bargaining was the norm, the picture appears patchy: a going-rate of sorts emerged in some industries, but was absent from other indus-

tries. A minimum wage was only introduced in 2000. Before then, low-paid workers received a certain level of protection from two wage-fixing mechanisms, the Joint Labour Councils (JLCs) and the Joint Industrial Councils (JICs). These two bodies established a floor for pay and working conditions in certain low-wage sectors. Since the early 1980s a notable trend has been the steady growth of a nonunion sector. An important driver behind this development has been the arrival of new multinational companies in the country, particularly those based in the United States. All in all, before the mid-1980s Irish employment relations were voluntarist in character and the structure of collective bargaining was fragmented.

Another important contextual point to note is the extreme openness of the Irish economy. In Ireland's formative years, Irish governments sought national self-sufficiency through a strong program of protectionism (Mjøset 1992; Lee 1989). This policy was a wholesale failure. In the fifties, the political and administrative elite engineered a complete policy reversal and introduced a regime of unfettered economic openness. Generous tax incentives were created to attract foreign direct investment and many multinationals, particularly those based in the United States, took up the offer. The result is that foreign companies now dominate the tradable sector in the country. Economic openness was advanced by Irish entry into the European Union (EU) in 1973. Deeper economic integration with the rest of Europe exposed many parts of Irish indigenous industry for the first time to international competition. The process of economic openness has continuously increased ever since. As a result, Ireland is probably the most-exposed EU economy.

This has led to two powerful dynamics, one of constrained discretion and the other of guiding economic policy-making. Placing such an emphasis on attracting foreign companies to advance industrial development has encouraged governments to act in a self-restraining manner. For example, an unwritten assumption is that the labor market cannot be regulated too much as it might discourage multinationals from moving to the country. At the same time, public policy has been designed to maximize the positive spillover effects that can be derived from foreign direct investment. A case in point is the range of programs developed to build "backward linkages" between foreign and domestically owned companies. This policy mix of constrained discretion and guiding has left an imprint on Irish employment relations. On the one hand, the adversarial orientation of the "British" model of industrial relations sits uneasily with efforts to project Ireland as a warm home for multinationals. On the other hand, the disorganized character of the employment relations system may hold

back the capacity of organizations to “appropriate” new ways of doing things.

THE SOCIAL PARTNERSHIP EXPERIMENT

While the preceding contextual remarks provide the necessary background to discussing the evolution of social partnership, it is important to stress the contingent nature of the birth of this arrangement. Social partnership owes a great deal to the election of a Fianna Fail minority government in 1987. The political hue of this political party is right-of-center. Nevertheless, it was strongly committed to tackling the dire economic and social situation prevailing in the country through a program of social consensus (Manseragh 1986; Fianna Fail 1987). A national pay deal was seen as the centerpiece of this economic strategy. A national consensus quickly formed with a bipartisan approach being followed by the two largest parties, Fianna Fail and Fine Gael (also a center right party and the largest opposition party) in the area of economic policy. Both trade unions and employers were supportive of this move toward a centralized wage agreement. For the trade union movement, national pay determination was a way of avoiding a Thatcherlike offensive, which was causing big damage to organized labor in the United Kingdom. For employers, centralized bargaining held out the promise of stable employment relations. Moreover, they did not want to be seen standing apart from a “national effort” to pull the country back from the economic abyss (MacSharry and White 2000). In addition to dealing with the country’s domestic economic difficulties, the social partners and political parties were of the view that a consensus-based employment relations system would better place the country to become a member of a European monetary union (Teague 1995; MacSharry and White 2000). Thus a variety of pressing internal and external economic pressures pushed employment relations actors toward national wage setting.

Altogether there have been five separate national agreements. The process got under way in October 1987 with the Programme for National Recovery (PNR). The PNR was followed by further agreements in 1990 (Programme for Economic and Social Progress, PESP), 1993 (Programme for Competitiveness and Work, PCW), 1996 (Partnership 2000), and 2000 (Programme for Prosperity and Fairness, PPF) (Government of Ireland 1987, 1990, 1993, 1996, 2000).

The first three agreements more or less replicated centralized wage agreements as practiced elsewhere. The key representatives of employers and trade unions—the Irish Congress of Trade Unions, the Federated

Union of Employers, the Construction Industry Federation, the Confederation of Irish Industry—and four agricultural organizations (three for the PNR in 1987) negotiated the terms of these agreements. By 1994, all of the five parliamentary parties in the Dáil (Irish parliament) had been involved in governments that oversaw social partnership agreements. This covered a broad ideological spectrum involving the left-wing Democratic Left; the center left Labour party; the center right parties, Fianna Fail and Fine Gael; and the right-wing Progressive Democrats.

After the negotiation of the PCW in 1993, the institutional complexion of social partnership changed. In particular, a fourth community pillar was introduced into the social partnership framework. The bodies included the National Women's Council of Ireland, the Irish National Organization for the Unemployed (INOUE), and the Council of Religions in Ireland (CORI). CORI and the INOUE are highly vocal on the issue of social exclusion. Nominally these groups participated with full social partner status in the negotiations that produced in 1996 the fourth social agreement, Partnership 2000. But the trade unions, employers, and government negotiated the core element of the agreement, the pay deal, alone.

The civil associations had greatest influence on the “social wage” component of the national agreement. Like other “corporatist” wage deals in Europe, the Irish government makes a number of commitments on public expenditure and taxation to facilitate the pay deals concluded by the employers and unions. In the literature, these commitments are referred to as corporatist *quid pro quo*. A feature of these commitments is that the design, implementation, and evaluation of the public expenditure commitments usually remain “in-house” concerns of the relevant government departments.

Bringing civil associations into the social partnership framework opened up this relatively closed form of public policy-making. A new deliberative form of policy-making was introduced, allowing civic associations a more active role in the decision-making cycle (NESF 1997). The hope was that these associations would improve the quality of public programs through their possession of greater knowledge of the various dimensions of a particular social problem (O'Donnell and Thomas 1998). Unfortunately, no convincing research has been completed that assesses whether this initial expectation has actually been realized.

WAGE BARGAINING AND IRISH SOCIAL PARTNERSHIP

Since 1987, wage bargaining has been the mainstay of the various social partnership agreements. Table 1.1 describes the basic terms of the wage

TABLE 1.1. BASIC PAY TERMS OF NATIONAL PAY AGREEMENTS

<i>Year</i>	<i>Basic pay increases</i>	<i>Other pay and tax features</i>
I: PROGRAMME FOR NATIONAL RECOVERY, 1988-90 INCLUSIVE		
1988	2.5%	Special pay awards for public servants delayed.
1989	2.5%	Tax cuts of £225 million agreed over three years.
1990	2.5%	Low-paid workers given "special consideration".
II: PROGRAMME FOR ECONOMIC AND SOCIAL PROGRESS, 1991-93		
1991	4.0%	Special rates for the low paid: year 1; 4.25 in year 2; and 5.25 in year 3 for the low paid.
1992	3.0%	Local bargaining of 3% permitted in "exceptional cases".
1993	3.75%	£400 Million in tax cuts promised.
III: PROGRAMME FOR COMPETITIVENESS AND WORK, 1994-96/7		
1994	2.0%*	Public service pay deal: 3.5 years: 5 month pause; 2% in year 1; 2% for year two; 1.5% for next four months; 1.5% for next three months; 1% for final 6 months.
1995	2.5%*	Tax cuts focusing on low and middle earners.
1996	2.5% for first six months* 1% for next six months*	Special consideration for the low paid after year 2.
IV: PARTNERSHIP 2000, 1997-2000		
1997	2.5%	Public service pay deal: Phase 1: 2.5% of first £220 basic for nine months, then 2.5% of the balance of full basic pay for 3 months. After first year, as private sector.
1998	2.25%	Provision for local negotiation of further 2% rise in years 2 (private sector) and 3 (public sector).
1999	1.5% for 9 months, 1.0% for 6 months	£1 billion on full year cost basis to be made available for tax relief.
V: PROGRAMME FOR PROSPERITY AND FAIRNESS 2000-2002		
2000	5.5%	Further tax cuts.
2001	5.5%	Public service pay issue to be resolved by benchmarking body: 4% to be allowed for substantial change in public sector organization.
2002	4% for the next nine months	National minimum wage established to have reached £5 per hour by the end of the PPF.

* Private sector excluding construction.

settlement contained in each agreement. It shows that all five agreements have contained relatively low increases to nominal wages in Ireland. A feature of all the wage deals has been the link between the pay awards and projected economic growth rates. In addition to these basic terms, three of the agreements—the PESP, Partnership 2000 and the PPF—included local bargaining clauses. Under these local bargaining clauses wages were capped: a ceiling was placed on what pay increases an employer could give at the enterprise level over and above the pay award set out in the national agreement.

Figure 1.1 suggests that some wage drift, particularly with regard to the manufacturing sector, occurred during the life span of the various agreements, but it never got out of control. Since 1990, the correlation between the pay increases recommended in the agreements and actual manufacturing wage increases are relatively close. The greatest degree of drift occurred in 1996 (the final year of the PCW) and 1999 (the final year of Partnership 2000). These figures, however, should be read with caution, as official Irish wage statistics are not always accurate. Moreover, a certain level of deviation from negotiated rates was only to be expected in the context of super economic growth and a tight labor market. But the consensus is that social partnership did deliver wage moderation.

The various pay agreements have delivered real product wage moderation. Figures from European Economy (2001) show that for most of the 1990s productivity increases outstripped wage increases, causing unit labor costs to fall. This is supporting evidence for those who claim that the social partnership agreements helped produce a super-competitive economy in Ireland. Falling unit labor costs amounts to a real depreciation of the Irish wage system vis-à-vis other economies, particularly those of the EU, thus allowing the country to steal a march on their rivals. At the same time, real wages have increased for Irish workers. Although workers in some industries have fared better than others during the lifetime of the partnerships, nearly all types of workers have experienced substantial improvements in their living standards. All in all, under social partnership wages have been increasing above inflation, allowing real take-home-pay to improve, but at the same time have not been keeping pace with productivity improvements, thereby contributing positively to economic competitiveness.

A debate has flared in recent years about the distributional effects of the pay agreements. There are two overlapping parts to this argument. One is that while the share of profits in gross domestic product (GDP) has increased significantly, the wage share has fallen. Figure 1.2 shows that that since the start of 1987 the general trend has been for the share of

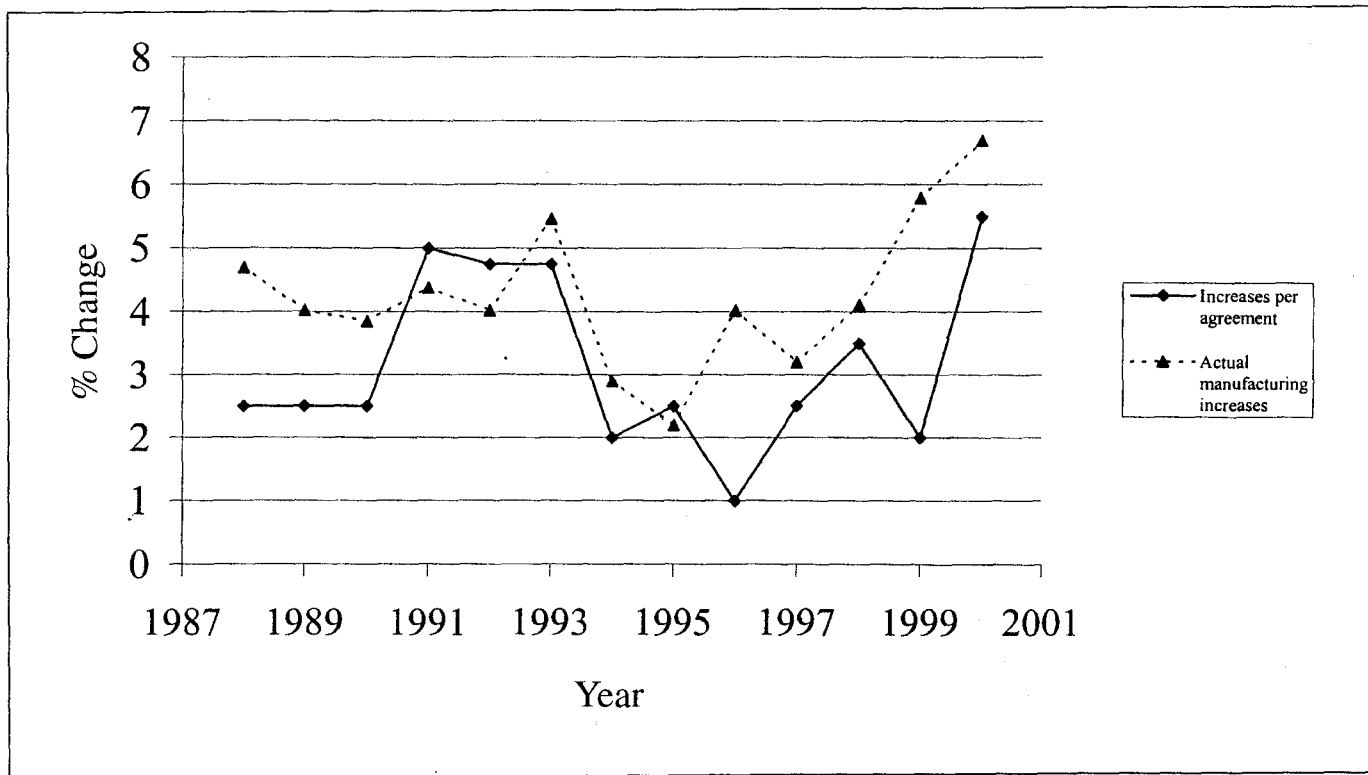


FIGURE 1.1 ACTUAL MANUFACTURING WAGE INCREASES COMPARED TO WAGE INCREASES PROVIDED IN AGREEMENTS

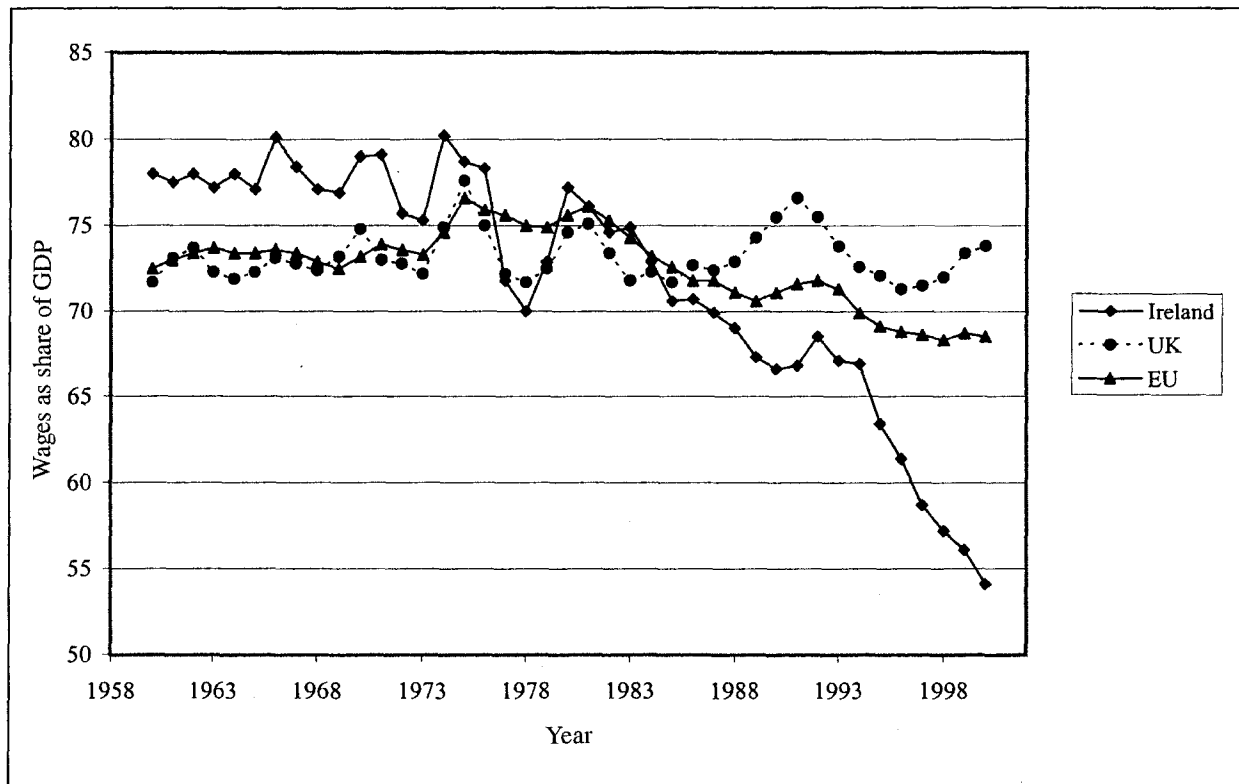


FIGURE 1.2 WAGES AS PERCENTAGE SHARE OF GDP

wages in national income to decline across Europe. But the fall appears to have been sharper in Ireland than elsewhere, particularly since the mid-1990s. Even the United Kingdom, one of the homes of neoliberalism, has not experienced such a marked shift from wages to profits. These figures should be treated with caution. Ireland has a low rate of corporation tax for multinationals—the lowest in the EU. Some foreign companies with operations in the country tend to register profits in Ireland but shortly afterward repatriate them to the “home” country. Transfer pricing policies of this kind inflate GDP figures and thus distort the proportion of wages (and profits) in this set of national account calculations. Nevertheless, even allowing for these shadowy accounting practices, the trend tarnishes the claim that the social partnership regime is producing an equitable distribution of the fruits of economic growth. Workers have experienced real improvements in living standards during the lifetime of the present agreements, but employers appear to have fared better. This should be a cause for concern.

The second part of the argument is that wage inequality has increased under social partnership. It is widely accepted that income inequality increased during the 1990s, but this is also true for wage inequality (Barret et al. 1999; Cantillon et al. 2001). A popular argument normally made about “corporatist” wage bargaining systems is that they insert both a floor and ceiling into pay structures, thereby compressing wage differentials. The Irish national pay deals appear not to have produced such solidaristic wage outcomes. This trend has been used to support the argument that social partnership as practiced in Ireland is essentially neoliberal in character (Allen 2000). This argument is an overstatement. The Irish labor market has not followed an “Americanized” path characterized by impressive job generation performance alongside stagnant real wage growth for many low-income workers. As mentioned above, most workers have experienced an appreciable increase in wages in Ireland: there has been a rising tide of economic prosperity.

Nevertheless, rising wage inequality is a troublesome development, but whether it is regarded as one in policy circles is a moot point. This observation is an important point for it touches on a critical debate on the economic and social content of “Third Way” European social democracy. Supporters of this approach are coy on the matter of wage inequality, but there is a suspicion that they regard it as acceptable for some workers to receive higher wages than others, provided that everybody is progressing up the wage curve. Increased wage differentials between employees are interpreted as a sign of the new diversity in occupational structures brought about by the growth of service industries and an indication that

meritocracy and effort are being rewarded in the economy. Not everybody is happy with this approach: social democrats of a more traditional orientation suggest that to accept increases in wage inequality is to abandon commitments to social justice. This debate is likely to continue for some time in Ireland and indeed in other EU countries. Our assessment of this debate in the Irish context is that the increase in wage inequality is a matter of concern as it threatens the survival of the entire social partnership framework.

SOCIAL PARTNERSHIP AND LABOR MARKET PERFORMANCE

At the start of the present round of social partnership, the Irish economy faced two major problems: high public debt and high unemployment. In 1987, public debt stood at 118.2 percent of nominal GDP and unemployment was at 16.8 percent. Ireland's economic mess began in the 1970s with traditional Keynesian expansionary policies being pursued. Of the two problems identified, the poor fiscal state of the country was seen as the priority for remedial action. Over a fifteen-year period, due first to an austere stabilization program and then a prolonged period of revenue enhancing economic growth, Ireland has reduced significantly its public-sector debt. In fact, Ireland was able to enter the European Monetary Union (EMU) in 1998 with a fiscal performance superior to any of the other participating countries with the exception of Luxembourg.

When social partnership was initiated in 1987, unemployment stood at 16.8 percent. In addition, emigration was running at a frighteningly high level as people left the country to secure a better life elsewhere. This situation has been dramatically turned around. In 2002, unemployment stood at 4.2 percent, half the EU average. Moreover, to relieve labor market shortages, Ireland has started "importing" labor to the extent that immigration now exceeds emigration. Behind this big fall in joblessness has been a hugely impressive employment-generation machine. To the extent there has been a miracle of any description in the country it has been on the employment front. As figure 1.3 shows, since 1987 Ireland has been one of the EU's star performers in terms of job creation. Market- or business-related services have been the main source of the new jobs.

Ebbinghaus and Hassel (2000) argue that a motivation behind many of the recent social pacts in Europe has been to bring about welfare state reform. Countries like Germany and Italy are seen as financially over-committed in terms of pension provision and other social benefits. As a result, social partnership agreements are being used to reduce the fiscal demands made by these social protection systems. But this has not been

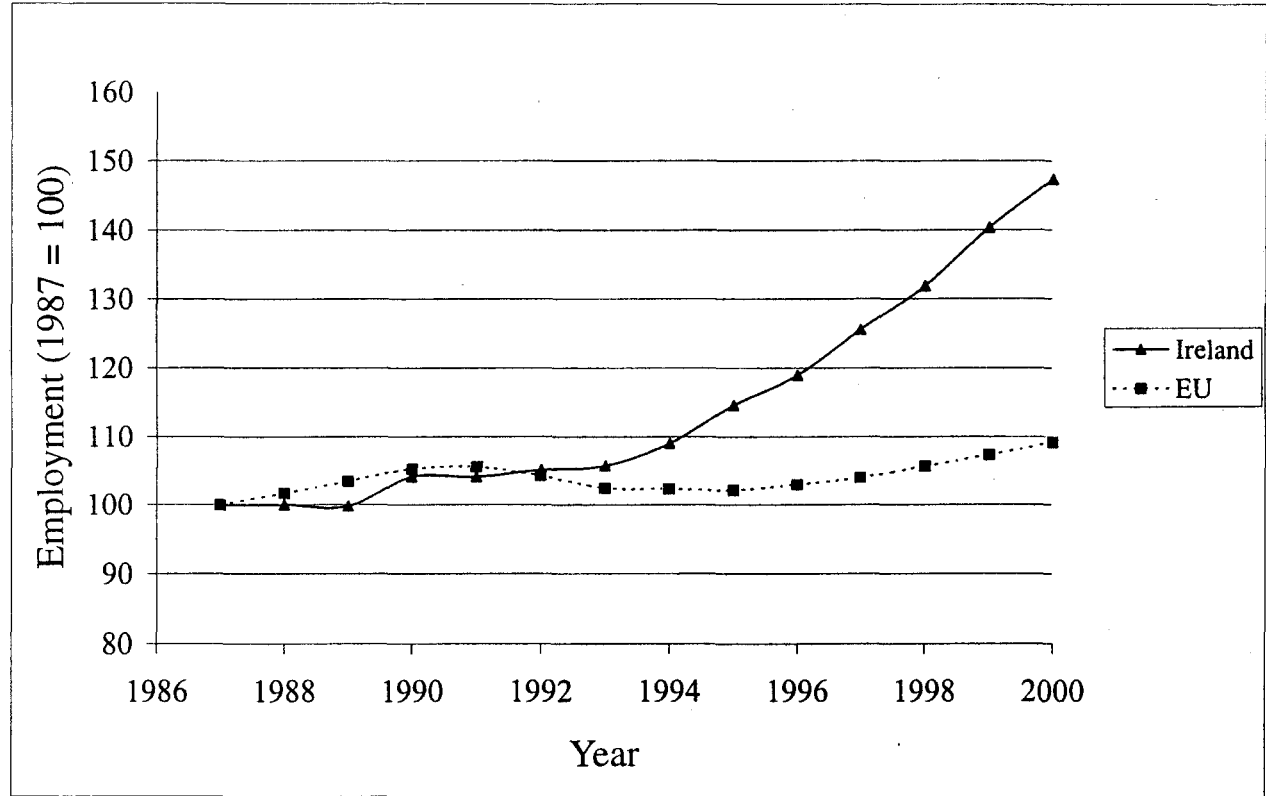


FIGURE 1.3 EMPLOYMENT GROWTH 1987-2000

an issue in the Irish context, as the country never really developed a Swedish or German type welfare system. Rather, a feature of successive national agreements has been a trade-off between wage moderation and tax reductions. The focus on tax cuts has been designed to improve the take-home pay of workers. In 1987, the lower tax rate was 35 percent whereas those in the upper tax bracket paid 48 percent. In 2001 these figures had dropped to 20 percent and 42 percent respectively. The plan is that by the end of 2002 those earning the national minimum wage are likely to have been taken out of the tax net completely. One argument gaining ground is that too much emphasis has been placed on tax reductions and in the future social and health provisions need expansion by increasing public expenditure.

EMPLOYMENT RELATIONS UNDER SOCIAL PARTNERSHIP

The Fate of the Trade Unions

As outlined above, the Irish trade union movement has traditionally been highly fragmented. However, since 1980, mainly as a result of mergers, the trade union movement in the Republic of Ireland has undergone large-scale reorganization. Between 1981 and 1999, the number of trade unions fell from eighty-six to forty-six. A merger in 1989 created Ireland's biggest union, called SIPTU. In 1999 this union had a total membership of 226,659, which amounted to just over 45 percent of the membership of trade unions that hold negotiating licenses. The top three unions, SIPTU, IMPACT, and MANDATE, have 59 percent of total trade union membership while the ten largest unions make up 86.4 percent of total union membership. The absolute numbers of those in employment and belonging to a trade union have increased over the past few decades. Yet when we turn to trade union density levels, the figures are less comforting for organized labor. Since the mid-1980s, Irish trade union density levels have been declining, from a high of nearly 48 percent in 1983 to just over 35 percent in 1999. If the period of social partnership is specifically examined, trade union density has fallen from 43.8 percent to 35.0 percent.

Although social partnership cannot be said to have been disadvantageous to organized labor, it clearly has not been as supportive as some would have wished. Two different views exist about the cause of the decline in trade union density. One view is that the decline is due to employer union avoidance and substitution strategies (Gunnigle 2000; Gunnigle, O'Sullivan, and Kinsella 2001). The other view is that trade union membership has simply not been able to keep pace with the quite spectacular increases in employment. While both factors have been at play,