

**Employment Relations in a
Changing World Economy**

edited by
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Preface

This book is the product of an international network of researchers that has been meeting periodically since 1991 to debate changes in employment practices in industrialized countries. The initial meetings were held at the OECD headquarters in Paris, and subsequent meetings were held in conjunction with the ninth and tenth World Congresses of the International Industrial Relations Association.

The objectives of this network, and a sister group studying changing employment practices in Asian countries, are to help revive and reconceptualize comparative analysis in the field of employment relations and to do so by engaging scholars from different countries in collaborative projects that employ a common set of analytical concepts and methods. But at the same time we stress the need to engage in open debate to surface differences in perspectives and interpretation of events. Out of this dialogue we hope will emerge important theoretical advances and insights on how to respond to the challenges facing employment policies and institutions in our various countries.

We also hope that the range of participants in our research networks both broadens and deepens as our work progresses to its second phase, the study of changing practices across countries within specific industries. Our goal is to build a new cohort of researchers who work together in joint research projects, come together frequently at international meetings and conferences, and continue their dialogue via the modern information technologies now available to support global communications. If a new paradigm for the field of industrial relations (or employment relations as we call it here) is to emerge, it is likely to build on the ideas and data generated by networks such as this.

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Richard Locke, Thomas Kochan, and Michael Piore

Introduction: Employment Relations in a Changing World Economy

Richard Locke
Michael Piore
Thomas Kochan

Industrial relations emerged as a distinctive field of study and a locus of public policy in the aftermath of the Great Depression and the Second World War. Its focus was upon the organization of workers through trade unions and the way in which those organized workers operated to structure the economy, and through the economy, the society in which they lived. It tried to understand how that process could be channeled and controlled through public policy.

In recent years, however, industrial relations has been out of fashion. Unions have become passive actors, responding to economic pressures and social forces, seemingly without independent capacity to shape events or determine outcomes. Policy and scholarship have increasingly been dominated by neoliberal social thought. The belief that the structures that the economy requires to operate effectively are self-generating has become pervasive. Constraints imposed upon the operation of the market by government policy or through agreements negotiated among the social actors have come to be blamed for unemployment, inflation, and economic stagnation. Aggressive policies of deregulation and decontrol have spread from Thatcher in England and Reagan in the United States throughout the Western Hemisphere. Industrial relations research itself has retreated from national economic policy to niches in schools of business where, rechristened as human resource management, it has begun to prescribe strategies for individual enterprises.

The influence of neoliberalism upon public policy reached its apogee with the collapse of the Soviet Empire, and then of the Soviet Union itself, and the rush of the former communist countries to dismantle the structures of state control in order to let the natural market emerge beneath it. But the collapse of state communism has also marked the limits of the neoliberal resurgence. The transition of the

old communist regimes has made it increasingly apparent that there is no such thing as the natural market. Capitalism, these countries are learning, operates within an institutional framework. That framework does not emerge spontaneously; it must be deliberately created through law and its operation motivated and directed by public policy. Economic theory, however much it may explain market economies already in operation, has not proved to be very helpful in creating effective and efficient market systems from scratch. And the search for guidance in the practices of operating capitalist economies has revealed a bewildering variety of different institutions and approaches. It is clear that there are several distinct models of how a reasonably successful capitalist economy might operate. In choosing among these models, indeed in even specifying what they are, the kind of economics that underlies neoliberal thought must be complemented by other social sciences.

The rediscovery of the institutional and social foundations of a capitalist economy has operated to reinforce a certain residual anxiety about the role of labor in industrial society. Nobody entirely understands why spontaneous worker protest and organized labor agitation, which were such central features of industrial society virtually from its inception, have suddenly declined or even disappeared. There is thus a lingering sense that it might suddenly reemerge and that, in the vacuum created by the atrophy and disintegration of the institutions through which it was channeled, we will be faced with the kind of chaos and anarchy that it regularly produced in industry throughout the nineteenth century and in Western Europe in the late 1960s. Apprehension is heightened in the United States by the recognition that the decline of the labor movement has been accompanied by a dramatic increase in income and other social disparities, a development that, as the separate chapters of this volume make clear, is by no means unique to this country. The centrality of organized labor in many of the dramatic regime changes of recent times—in Poland and in South Africa, for example—serve to heighten this sense of uneasiness and create a nostalgia for the insights and perspective that industrial relations scholarship was once able to provide.

But it is clear that to address contemporary issues, industrial relations as a field of study will have to take an increasing international and comparative dimension. It is not simply that the emergent regimes in Eastern Europe and the former Soviet Union need to understand the impact of the alternative institutional structures in the

countries that serve as models for their own economic reforms. Developments in the capitalist world itself have brought compatibility, or lack thereof, of institutional arrangements in different countries increasingly to the fore. Even in the narrow domain of human resource management to which industrial relations as a field of study has been progressively reduced, the globalization of markets has forced individual companies to operate with ever greater frequency in a variety of different national contexts where they must reconcile—or at least justify differences in—labor policies across national boundaries. Similar forces are bringing national economies increasingly in competition with each other, creating a need for them to identify the distinctive features of their own national systems and evaluate their impact upon economic performance. The movement toward economic integration in Western Europe, and now in North America, is also underscoring differences among national laws and institutions and creating insistent pressures for reconciliation. Increased liberalization of trade under the World Trade Organization (WTO) is creating these pressures on a global scale.

We have thus entered into a form of international competition/cooperation that requires us to separate out legitimate differences in structures, institutions, and social values from hidden subsidies and unfair competition. In neoliberal theory these differences can be conveniently made to go away through deregulation, but when economic activity requires an institutional framework for its operation, deregulation cannot proceed indefinitely without the eventual disintegration of the economy itself. As we begin to reach those limits, we must ultimately decide what parts of the remaining structures to preserve and/or recast. And in the international economy toward which we are moving, this will have to be done with references to the institutions and structures of other nations, including the institutions' governing employment relations. The emergent debate about international labor standards is thus symptomatic of the basic problem that this new trading regime poses for public policy and for research. This volume represents the first phase in a project directed toward clarifying these issues and contributing to this debate.

Existing Theory and Its Limits

The last major attempt to develop a comprehensive framework for thinking about national differences in industrial relations was the

Ford Foundation's interuniversity study, a project initiated in the late 1950s. This work was heavily influenced by John T. Dunlop's *Industrial Relations Systems* (1958). Dunlop advanced the notion of industrial relations as a distinct sphere of socioeconomic activity, in the sense that politics and economics are separate spheres of activity and, like politics and economics, understandable in terms of distinctive national systems. In his analytical schema, industrial relations systems had an *output* in the sense that the economy has an output of goods and services and politics has an output of legislation. For industrial relations, he argued, that output were the rules of the workplace.

The perspective that emerged in the interuniversity study was synthesized by Clark Kerr, John Dunlop, Fredrick Harbison, and Charles Myers in *Industrialism and Industrial Man* (1960). Looking back upon that synthesis from the perspective of contemporary social science, it can be characterized as excessively functionalist, technologically deterministic, and ethnocentric. It was functionalist in that it sought to understand and explain practices by reference to their contribution to economic efficiency and social stability. It was technologically deterministic in that the evolution of industrial relations was driven by a singular technological dynamic. It reflected the ethnocentrism pervasive in American social science of the period in that the United States was seen as the technological leader and its institutions and its practices were presented as the "best practice" model for other nations to emulate. Patterns in other countries were viewed as derivative of, or deviations from, the U.S. model. The view was reinforced in industrial relations scholarship more broadly by the many European industrial relations scholars who had studied in the United States.

The major competing schools of labor studies were heavily influenced by Marxian scholarship (Hyman 1975). Work in this tradition embodied a much more acute sense of class conflict and of the role of ideology, and it had a different idea of the system's historical trajectory, though it too explained outcomes in terms of the functions they perform for interested actors. Its functionalism was embedded in a different but equally deterministic view of technology's role in the evolution of industrial society; and Marxists were, if anything, even less inclined to recognize and highlight distinctly different national patterns.

Both events and scholarship have undermined the perspectives that dominated industrial relations in the early postwar decades. Particularly influential in this regard was the wave of labor protest that

broke over Western Europe in the late 1960s, the growing recognition among European scholars that it could not be adequately captured within the framework developed by their American colleagues, and the emergence of distinct European strands of non-Marxist industrial relations scholarship. More recently the emergence of Japan, with its distinct labor practices, as a competitive power in world markets has further challenged the preeminence of the American model and the ideas about efficiency and the historical evolution of national practices with which it is associated. Finally, the changes in practice in the 1980s called into question that model even within the United States itself.

Most of the new scholarship, however, has focused upon individual countries, often in the context of particular national debates. It has thus produced a heightened awareness of national peculiarities, without generating a framework through which different national practices could be compared and evaluated. Several genuine international comparisons have focused on pairs of countries. Of these the most influential and important are undoubtedly Ronald Dore's (1973) study of Britain and Japan and the Aix-en-Provence study of France and Germany (Maurice, Sellier, and Silvestre 1986). Together these studies suggest differences among countries that are both more profound and more enduring than is consistent with the spirit, if not the letter of Kerr, Dunlop, Harbison, and Myers. More important, the framework of U.S. industrial relations theory is obviously inadequate for capturing these differences.

In a sense these two studies present different approaches. Dore follows the earlier tradition in seeking to establish the relative efficiency of the two systems and predict, on that basis, the historical evolution of practices in other countries. The novelty of his argument is that Japan, not Great Britain, and by extension, not the United States, has emerged as the best practice model. The Aix-en-Provence group, by contrast, presents two completely different but equally effective approaches to labor organization and management and traces them to factors rooted so deeply within national culture and history that convergence seems to be virtually precluded.

Both Dore and the Aix team have made efforts to extend their work to other countries but with no clear results. Dore studied a group of developing countries, looking for (but failing to find) a tendency for late developers to follow the Japanese pattern in a determinate fashion. The Aix approach has been extended by various researchers to

Japan, Great Britain, and Italy in a way that seems to reinforce the lesson that each national pattern is peculiar but does not really address the question that seems critical to the practical problems posed by the competition among countries and enterprises, namely what can be learned from other experiences.

One lesson that the Aix studies make clear, and that is also implicit in Dore's work as well, is that industrial relations alone is not a self-contained domain of activity. It has to be understood in terms of related activities and broader social and cultural structures. These include the systems of education and training and of government labor market regulation. In the United States a significant portion of what in other countries is provided by the social security system is also generated by industrial relations, and hence in comparative work we must look at welfare state provisions as well in order to compare our employment relations to those in other countries. A recognition of these interrelationships raises analytical questions that extend well beyond comparative research to the analytical framework of industrial relations itself. Changes in practice, especially in the United States, also pose a series of challenges to the analytical framework, for they have been directed, as much as anything else, at the use of explicit work rules in the governance of the workplace (which Dunlop took as the output of industrial relations systems and hence as the end point that the analytical framework was constructed to explain).

Growing dissatisfaction with traditional frameworks and interpretations has stimulated researchers to reexamine developments within their individual national settings in search of a better explanation and understanding of the changes under way (Edwards and Sisson 1990; Shirai 1983; Streeck 1991; Chaykowski and Verma 1992; Piore and Sabel 1984; Kern and Schumann 1984; Kochan, Katz, and McKersie 1986; Locke 1995; Osterman 1988; Mathews 1989). Yet to date, little effort (for an exception to this, see the Industrial Democracy in Europe Committee, 1980, 1981) has been made to look across countries to update our perspectives on comparative industrial relations and human resource policy questions. That is the task which this book begins to undertake.

The Present Project

The essays that constitute the core of this volume employ a common framework to examine changes in the employment relations and

work structures in eleven OECD countries: The United States, United Kingdom, Canada, France, Germany, Italy, Spain, Norway, Sweden, Australia, and Japan. They constitute the first phase of a longer-term project centered at the Center for Industrial Performance at MIT. The support to launch this project was provided through the Center with the aid of the Sloan Foundation and the OECD, but each of the individual studies received additional support from within their own countries. Through the sponsoring agencies, this project on work and employment relations is linked to a broader research program whose aim is to enrich our understanding of industrial competitiveness in a global economy. It is in this sense an integral part of an ongoing effort to update and, in the process, to reconceptualize our analytical model and conceptual categories so as to better understand and interpret the changing face of employment relations. The hope is that this, in turn, will enable the scholarly community to provide the analytical tools and the substantive knowledge required to reconfigure the social foundations of national economic activity in a fashion consistent with the emergent globalization of production, distribution and exchange.

The Conceptual Framework

From the beginning this project was based on the belief that significant advances in theory and policy analysis can best be achieved if carried out by scholars who possess a deep knowledge and understanding of the culture, institutions, and policy issues of the country they are studying. Thus each chapter in this volume is written by national scholars. The authors agreed at the outset to adopt a common framework that allowed considerable latitude for individual researchers to incorporate their own insights and to pursue the particular directions toward which those insights may point. The project was initially conceived of and organized by the Industrial Relations Section of the MIT Sloan School of Management, and the hypotheses of that group were the starting point for discussion and debate among the researchers represented in this volume. In that sense these hypotheses provided the initial direction for the project, so it might be helpful to readers to have a minimal understanding of these ideas as they have evolved.

The initial hypotheses were developed in three texts: *The Second Industrial Divide* by Michael Piore and Charles Sabel, *The Transformation of American Industrial Relations* by Thomas Kochan, Harry Katz, and

Robert McKersie, and *Employment Futures* by Paul Osterman. Each of these books presents a distinct series of arguments, and they are not wholly consistent with each other but do suggest a single, relatively coherent story about the recent evolution of the institutional and labor market structures of the American economy. The relevant part of that story for the domain of this project may be summarized as follows:

In the early postwar period the United States became committed to a distinct approach to industrial relations, human resource development, and social welfare policy. The key element in that approach was a process of collective bargaining between large employers and national industrial unions in key manufacturing industries. The unions were rooted in the shop, where they sought to control not only wages and working conditions but also specific work practices and career opportunities. The framework for shop-level and company agreements was developed, *de facto* or *de jure*, at the industry level and effectively took wages and working conditions out of competition. There was no interindustry collective bargaining, but the labor movement managed to impose, through the political process, a set of minimum wages and labor standards as well as a base level of old-age and unemployment insurance. And there were relatively strong patterns of imitation in collective bargaining across industries that caused wages and employment conditions to move, more or less, in tandem throughout the economy. Particularly important in postwar wage movements was a commitment in the automobile industry to a general wage-setting formula consisting of an annual improvement factor (AIF) of 3 percent plus an allowance for changes in the cost of living (COLA). The collective bargaining structure was anchored in the shop by a list of meticulously defined *jobs*, each assigned to a particular worker. The rules governing the allocation of employment opportunities, wage rates, and work practices were specified in terms of these job definitions, and it was thus through these jobs that the collective bargaining agreement controlled work practices. But apart from the negotiation and administration of these rules, the union played an essentially passive role. Indeed a clearly demarcated division of labor between workers and their union, on the one hand, and management, on the other—comparable to the sharp delineation of job assignments among workers—was established. This division of labor was such that within the framework of the collective agreement, management ran the shop and labor grieved.

This labor relations system appears to have grown up around and been predicated upon an underlying commitment of U.S. business to mass production as a competitive strategy, that is, the production of long runs of standardized products for a large mass market. The American approach to mass production involved the specialization of productive resources through the use of dedicated machinery and narrowly trained, semiskilled workers. The standardization of the product and the consequent stability of the product design and the equipment with which it was produced lent itself to the job definitions around which collective bargaining arrangements were built. Indeed such job definitions were thought to be central to efficient management and had been introduced in the leading sectors of American industry with the initial development of mass production, long before industrial unions emerged in the late 1930s. Other aspects of the postwar system—the wage floor imposed by legislation and the auto industry wage formula which served as a general pattern for the economy as a whole—were conducive to macroeconomic stability in a productive system where highly specialized resources made it difficult for price variation to stabilize the economy.

This industrial union model of collective bargaining essentially replaced an earlier tradition of labor relations associated with craft unions. The craft tradition was one in which the union played a much more active role in the training and allocation of labor and was often involved with management in the organization of the production process itself. The craft tradition was at one time strong even in the manufacturing sector, but modern industry had emerged in the United States by and large by breaking the craft unions and introducing productive techniques that minimized the dependence on craft skills. Craft unions continued in the postwar period, but as an important force largely outside the manufacturing sector. Within manufacturing only vestiges remained incorporated within industrial unions or operating as appendages to industrial collective bargaining.

Because the American system of collective bargaining, and of production more generally, is tied to narrow, semiskilled jobs, it operated independent of education, training, and human resource development. The necessary training for semiskilled labor was provided by the employer on the job and placed virtually no reliance upon prior education and experience. The skilled work force was generated on an ad hoc basis through arrangements with vestigial craft unions, by recruitment from the construction industry where craft unions

remained strong, by particular arrangements with local schools, and through the periodic recruitment of skilled migrants from elsewhere in the country.

In the 1970s these arrangements came under increasing strain and began to break down. A variety of factors appear to be responsible for the breakdown of the old structure: heightened competition due to the increasing internationalization of economic activity and the deregulation of American industry; the increasing instability and uncertainty of the business environment associated with fluctuating energy prices, exchange rates, inflation, and the like; new, more flexible productive techniques growing out of advancements in information technology and telecommunications; a shift in competitive strategy toward differentiated, high-value-added products; and a shift from blue- to white-collar jobs and from manufacturing to service industries. Piore and Sabel argue that all of these factors are associated with a shift away from mass production to a technological trajectory driven by "flexible specialization" which employs more general resources capable of responding rapidly to changes in business conditions and market demand.

The new labor relations models introduced in response to these changes seem to have first originated in the late 1960s and early 1970s in experiments in non-union companies and/or the non-union plants of otherwise organized firms, but they have been highly influenced as well by various patterns and practices observed in Japan. Relative to the industrial union model of the postwar period, they are characterized by (1) much more flexible work assignments and less easily defined and clearly demarcated jobs, (2) a greater involvement of the work force in production decisions and a consequent blurring of authority between labor and management, (3) compensation systems detached from jobs and more tightly linked to individual characteristics such as skill level or performance evaluation, (4) overall wage levels detached from the old automobile formula and often including profit-sharing and/or lump-sum bonuses as opposed to regular annual increases in the basic wage rate, and (5) enhanced employment security arrangements in which some or all of those currently employed are given protection from layoff in return for a greater commitment to the company and greater flexibility in work assignments. As noted earlier, this model was developed originally in the non-union sector. Kochan, Katz, and McKersie had argued that when these arrangements were adopted by unionized establishments, the focus of collective bargaining had to shift from the negotiation and

enforcement of rules and constraints upon managerial action to more substantive business objectives. Unions gained increased control not by imposing and policing rules but by participating in strategic company planning through arrangements like seats on board of directors and/or employee stock ownership plans (ESOP). All of this implies a weakening of collective bargaining and control at the industry level and a change (which the rank-and-file often perceive as a weakening as well) in the mode of control on the shop floor.

Companies often conceive of these new arrangements in terms of a core-periphery model, in which the new participatory arrangements and associated employment guarantees (profit-sharing systems, etc.) extend only to a portion of the labor force. Flexibility to adjust to uncertainty is then reintroduced through a peripheral labor force that has no strong company ties and can be easily hired and fired. Generally, the new arrangements are associated with an increase in skill requirements, better education, and broader training at least for the core labor force. Employment security arrangements and new compensation systems are often seen as binding this labor force to the firm and permitting greater company investment in skill development.

The new model, however, has not proved to be as compatible with unionization as the old. It has been introduced largely in non-union facilities and, even there, has not diffused as rapidly or extensively within the United States as, say, in Japan, or, even among certain European nations. The non-union bias and the rate of diffusion was one of the issues that we were anxious to explore through comparative international research.

Comparative Research—The Original Propositions

Based on the U.S. experience, the MIT team developed four broad propositions to guide the research of the various country teams. First, we argued that labor and human resource policy in today's environment cannot be understood using the narrow terms of traditional industrial relations theory or what has come to be defined as human resource management.

Second, we claimed that employment policies, procedures, and institutions had to be conceived of as fitting into *systems* of interlocking and mutually reinforcing elements: The individual components of such systems cannot be understood in isolation or changed piecemeal. This is as true of the personnel practices of single enterprises as it is for the broader institutions that structure the roles of labor,