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Book Review

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Book review

Baccaro, Lucio and Chris Howell (2017): *Trajectories of Neoliberal Transformation: European Industrial Relations Since the 1970s*, Cambridge, UK (261 pages, Cambridge University Press, hardcover, ISBN 978-1-10701-872-3)

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This book surveys the development of industrial relations across Western Europe, but it is of relevance for a broad range of social scientists, political economists and macroeconomists. The authors are eminent scholars of industrial relations. Lucio Baccaro is a sociologist and the director of the Max Planck Institute for the Study of Societies, Chris Howell is a political scientist. The book argues that the dominant view in comparative political economy, the Varieties of Capitalism (VoC) approach, is mistaken in emphasising national variation in labour market institutions:

The most striking feature of our survey of industrial relations developments across Western Europe is not the range of national variation at either the start or the end of the roughly thirty-five-year period under investigation, but rather the transformation in industrial relations institutions that has taken place everywhere across that period. The landscape of industrial relations has changed in fundamental ways since the end of the 1970s, and everywhere in the same direction, involving an expansion of employer discretion. (Baccaro/Howell 2017: 2).

The authors argue that there has been a uniform shift towards liberalisation, while often maintaining institutional differences. In short, neoliberalism, 'best understood as involving an expansion of employer discretion: greater influence and control on the part of individual employers over wage determination, hiring and firing and the organization of the workplace' (ibid.: 1), has made great strides forward, despite apparent resilience of substantial differences in institutions such as collective bargaining.

Baccaro and Howell combine their empirical challenge to VoC with a theoretical one by drawing on the power resources approach, French Regulation Theory and post-Keynesian economics. The book is part of a larger project and complemented by several papers – in particular Baccaro/Pontussen (2016), which has a more macroeconomic focus – that all aim at reigniting a critical political economy approach that takes power relations and economic instability seriously. In other words, it is a political economy approach that transcends disciplinary boundaries and has the potential to invigorate the field.

Chapter 2 ('Arguing for neoliberal convergence') offers a theoretical discussion of VoC and related institutional approaches. It argues that the focus on institutional differences, which have proven quite resilient, has distracted the field from realising the extent to which, through changes in the functions and working of institutions like wage bargaining or the unemployment insurance system, seemingly diverse countries have shifted towards liberalisation of industrial relations and increased employer power. Chapter 3 ('Quantitative analysis of industrial relations change') provides data to illustrate this point. Through descriptive statistics and factor analysis, it documents that there has been a common trend

towards decollectivisation of industrial relations despite persistent differences in institutional forms. Chapters 4 through 8 then give detailed qualitative discussions of changes in labour relations in Britain, France, Germany, Italy and Sweden, respectively. Among these, Britain is the only case where neoliberalism came with a clear break in industrial relations, a direct confrontation between the state and labour unions and consequently a sharp drop in collective bargaining coverage. In the other countries we observe a modification of labour relations and the welfare state towards increasing employer discretion. In France and Italy government policy was key in this process; Germany witnessed a hollowing-out of its institutionalised labour relations after unification with East German industry, with a growing number of opt-out clauses in collective bargaining agreements and many firms dropping out of collective agreements altogether.

Chapter 9 ('Actors, institutions and pathways: the liberalization of industrial relations in Western Europe') synthesises the story. It highlights that most countries moved towards liberalisation by adapting rather than overthrowing their institutions. It argues that employers have everywhere sought to liberalise bargaining, which is in contrast to the VoC prediction that in coordinated market economies employers have an interest in maintaining coordination, but also features state strategies of liberalisation and the pressures emanating from European monetary unification, in particular on Southern European countries in the course of the euro crisis. This and the earlier chapters paint a rich picture, but only offer a partial attempt to clarify the driving forces. Finally chapter 10 ('From industrial relations liberalization to the instability of capitalist growth') offers an alternative approach to VoC by sketching an analysis based on demand regimes and growth models in the tradition of French Regulation Theory and post-Keynesian theory (in particular the papers collected in Lavoie/Stockhammer 2013a). They portray the post-war era as a wage-led growth model where coordinated wage bargaining with strong unions allowed for steady wage growth which translated into high consumption growth. After the 1970s an export-led and a debt-led growth model emerge, both of which are unstable as they require either rising debt levels or rising trade imbalances.

Baccaro/Howell (2017) in conjunction with Baccaro/Pontusson (2016) thus offer a comparative political economy approach which heavily draws on post-Keynesian macroeconomics and creatively applies its debates in industrial relations. This is a welcome development as it is one of the few instances where post-Keynesian theory has a substantive impact beyond its core of heterodox macroeconomics and impacts onto other fields in the social sciences. In the spirit of furthering this exciting project, I want to make three critical comments.

First, in the reception of post-Keynesian macroeconomics there are some discrepancies compared with the original post-Keynesian literature, which accumulate to give some important differences in interpretation. Baccaro/Howell (2017) and Baccaro/Pontusson (2016) use the term 'growth models' liberally, whereas the post-Keynesian literature typically first analyses 'demand regimes'. A demand regime describes the reaction of aggregate demand and its components to a change in income distribution (or some other variable of interest). Thus demand will be either wage-led or profit-led, depending on whether the effect of a change in the wage share is negative or positive. Demand regimes are about marginal effects. That is distinct from the question about what the actual drivers of growth were in a certain period, which is what Lavoie/Stockhammer (2013b) would refer to as 'growth models', in particular export-driven and debt-driven growth models (again, note the difference in terminology). Baccaro/Howell (2017) and Baccaro/Pontusson (2016) collapse the two concepts and regard Fordism as a wage-led growth model and, by implication, the neoliberal growth models are regarded as profit-led. Not so in Lavoie/Stockhammer (2013b) or Hein/Mundt (2013), who interpret the neoliberal growth models as being underpinned by a wage-led demand regime with an autonomous increase in trade surpluses or in household debt.

Second, Baccaro/Howell (2017) lack a systematic treatment of finance. While they insert their analysis of neoliberalism into a richer macroeconomic picture, their analytical focus and, implicitly, their main drivers are in the field of labour relations. Financial factors do come in, but rather *ad hoc*. The origins of debt-driven growth are unexplained and are only loosely tied to the notion of neoliberalism. The discussion of financialisation, then, is somewhat sketchy, for example it moves from an emphasis on the profitability of the financial sector swiftly to assert that household debt-driven consumption growth is the main driver of growth in Anglo-Saxon (liberal) economies. The role of real-estate price dynamics is not discussed, despite the fact that most household debt is not consumer credit but mortgage credit. However, acknowledging these factors complicates the picture substantially. Household debt is then not directly linked to consumption, but via house prices and housing wealth. There is mounting evidence that house prices exhibit cycle dynamics that are distinct from – but powerfully impact – business cycles. It also has implications for homeownership structures which have been linked to political preferences and income distribution (Schwartz/Seabrooke 2008; Wood 2017). In short, the analysis of financialisation is not fully developed in Baccaro/Howell (2017).

Third, the book is eager to establish the fact that there has been a shift towards liberalisation of industrial relations and thus a change in the power relations, and it does so admirably, however it is weaker in explaining this phenomenon. Little attention is paid to disentangling the relative influence of external pressures (globalisation or European integration), domestic class struggles or ideational factors. On the ideational side, for the German case study, it would have been interesting to see more discussion of the role of the Max Planck Institute for the Study of Societies. Its director Wolfgang Streeck was a member of the benchmarking working group of the Bündnis für Arbeit und Wettbewerbsfähigkeit (the pact for employment and competitiveness), and dismissed demand management as a response to unemployment and argued for growing a low-wage service sector (Streeck/Heinze 1999). Similarly, if more nuanced, Scharpf (2000) argues that globalisation has reduced the options for national policies and highlights that low taxes and high inequality may be the necessary prices for high employment. The pact for employment and competitiveness was a form of supply-side corporatism and ideologically prepared the way for the more top-down Hartz reforms, both of which were pursued under the Social Democrat-led Schroeder government and resulted in the alienation of the labour unions from the Social Democrats.

Future discussions will show whether the different interpretation of growth models and the different emphasis on financial factors are errors in translation as analytical concepts get transferred across disciplinary boundaries, or whether they reflect different analytical assessments of socio-economic changes. Overall, Baccaro/Howell (2017) is a timely intervention in the industrial relations literature and a very welcome opening of a trans-disciplinary political economy debate. This represents a unique opportunity for post-Keynesian economists to engage with contemporary comparative political economy, and an overdue effort for contemporary comparative political economy to incorporate modern heterodox macroeconomics.

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