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## Labour Unions, business co-ordination and economic adjustment in Western Europe, 1980-90

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**discussion paper**



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**Labour Unions, Business Co-ordination  
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Bob Hancké

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## **Abstract**

This paper discusses the development of labour relations during the 1980s in Western Europe. It argues that a proper understanding of the different trajectories in different countries cannot be understood by taking into account either state policies or employers preferences alone. Through their local sections, labour unions are able to impose costs on employers when these want to reorganise firms in order to adapt to changing markets exigencies. Adjustment therefore is conditioned by the organisation of employers in the economy, and of unions in the firm. The paper combines these two dimensions, and discusses their impact upon patterns of adjustment in labour relations during the 1980s in Germany, Sweden, Belgium, the UK, France and the Netherlands.

## **Zusammenfassung**

In dem Papier wird die Entwicklung der Arbeitsbeziehungen in Europa während der achtziger Jahren analysiert. Dabei wird davon ausgegangen, daß ein angemessenes Verständnis der unterschiedlichen Anpassungspfade in den jeweiligen Ländern unmöglich ist, wenn nur auf die staatliche oder die Interessenspolitik der Arbeitgeber Bezug genommen wird. Durch ihre betrieblichen Organisationseinheiten können die Gewerkschaften den Arbeitgebern Kosten aufzwingen, wenn diese ihr Unternehmen reorganisieren wollen, um sich veränderten Marktbedingungen anzupassen. Deshalb wird die Anpassung von dem Organisationsgrad der Arbeitgeber und der Gewerkschaften in den Unternehmen geprägt. In dem Papier werden diese beiden Dimensionen zusammengefaßt und ihr Einfluß auf Veränderungsmuster in den industriellen Beziehungen während der achtziger Jahre in Deutschland, Schweden, Belgien, Großbritannien, Frankreich und den Niederlanden diskutiert.

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## 1. Introduction

The 1980s are, even more, perhaps, than the 1970s, a transitional period in the political economies of OECD countries. In the 1970s, there was at least some hope, and definitely a wish that the pre-1973 world would return. The famous Mc Cracken report in 1977 e.g., a report written by a group of economic experts, interpreted the crisis as an unhappy "bunching" of circumstances, not the beginning of a period of structural adjustment. Only ten years later, by the mid-1980s, political-economic analyses *only* interpreted the crisis as structural adjustment.

Signs of structural adjustment —but as of yet unclear from where to where— are everywhere: the shift to monetarist economic policy and inflation-control as the primary government goal, experimentation with new modes of production (sometimes relying more on machines than (de-skilled) workers, sometimes on a highly qualified, flexible workforce) the reorganisation of the advanced industrialised countries in three trade blocks (NAFTA, EU and ASEAN), the restructuring of large companies into decentralised business units, etc. In short, whatever appeared to be conventional wisdom —or stronger, perhaps, taken for granted— in the last years of the 1970s, was entirely disqualified as outdated economic or industrial policy ten years later.

The same thing happened in the labour market as well. If there is one general observation on the developments in European political economy during the 1980s that is accepted by most observers, then it must be that the relative power and assertiveness of the parties in the labour market has been reversed. Whereas during the 1960s and to a large extent during the 1970s as well, labour unions commanded the agenda of industrial relations, in the 1980s employers have come to occupy that field —in part pushed by the ideological turn toward the market, in part as a result of increased international competition in export sectors which limited the possibilities for positive-sum type adjustment strategies.

Propelled by these changes, the study of the political economy of advanced capitalist countries gradually changed in character. Dominated in the early 1980s by analyses of neo-corporatism, with most of the research attention directed toward the organisational structures of labour unions and their relations with government and employers (Berger 1981; Goldthorpe 1984b), the field changed and by the mid- and late 1980s was directing much of its attention to the role of employers' organisations (Swenson 1993; Soskice 1990; Thelen 1994).

Two ideas are at the basis of these analyses. The first is that employers — capital— are far more important in capitalist economies than labour, since it determines, perhaps not always unilaterally but nonetheless in a highly autonomous manner, *when*, *where* and *what* to invest, thus determining in large part both aggregate employment and the quality of work. In recent years, therefore, a veritable flood of works argued the increased importance of capital in determining the evolution of collective bargaining and changes in company organisation in Western Europe.

The second observation is that employers in fact always were far more critical in the creation and organisation of the post-war political economy of Western Europe than most of the labour-centered analyses presumed or accepted: even in the social-democratic flagship Sweden, employers played a critical role in shaping the post-war settlement (Swenson 1995), and without the strong employers' associations, German capitalism might well look remarkably like the Anglo-Saxon variant. As the post-war settlement unravelled, in other words, important new studies shed a different light on its origins than what was generally accepted.

With the new interpretation came the realisation of diversity among the advanced capitalist states. Labour outcomes have been very different in what appeared up until the late 1970s as a large block of very similar countries with very similar political-economic institutional arrangements (Boyer 1979; Lange et al. 1982; Gourevitch et al. 1984; Armstrong et al. 1991). In all countries, labour unions have gone through a protracted crisis of adjustment, but not everywhere did this crisis have the same consequences. (Turner 1991). In the UK, for example, the labour unions were literally smashed in the 1980s (Hyman 1995; Howell 1995). In France, it appears that unions have become largely irrelevant outside the public sector and in a very few sectors and large enterprises where they remain protected (Rosanvallon 1988; Mouriaux 1993; Daley 1996). To some extent, this is also what happened in the Netherlands (Visser 1990a). In a very small group of countries, unions appear to have kept much of their ground: in Germany, despite the dual challenge of unification and European integration (Silvia 1994, Turner 1996), and in Sweden, despite the gigantic employment crisis the country faces Martin 1994; Mahon 1995). In Sweden and Germany, but also in Belgium and Austria, the path of economic and industrial adjustment embarked upon in the 1980s was considerably more benign to labour than in other countries. And in a country like Italy, the general outcome, which was already uncertain because of the gigantic exercise in self-reconstruction taking place inside the labour movement, has become even more unpredictable as a result of the general political volatility since 1992 (Locke 1990; Locke 1995).

Why did these adjustment paths differ as much as they did? Why were the labour relations outcomes at the end of the 1980s so different in the various European countries, ranging from highly co-operative, as in Sweden, Germany

and Belgium, over labour-irrelevant, as in France<sup>1</sup> and the Netherlands, to labour-exclusive, as in the UK? Why is it that, despite the supposed general move away from Fordist mass-production in all European countries, the modes of labour integration into this new order diverge so fundamentally?

The argument that I will make in this paper borrows tremendously from the newly (re-)discovered role of capital: because of their strategic role in capitalist economies, and because of the organisational advantages of capital over labour, employers play a considerably more determining role in contemporary capitalism. The major weakness of much of the postwar literature on the impact of social-democratic politics on a variety of fields in the political economies of OECD-countries is that it has gradually blended out this determining role of capital in capitalist economies. The renewed attention for the role of employers in the literature thus provided a welcome corrective to this literature.

However, things are not quite as simple as they seem. In a fragmentary and sometimes tenuous way since the First World War in most countries, but streamlined, rationalised and institutionalised since WW II, employers have been forced to come to terms with institutions of the working class in developing their strategies. Labour unions, social-democratic parties, and the legal and institutional frameworks as a result of their policies have precisely been the checks on the *laissez-faire* capitalism of the previous period. And these institutions matter in understanding adjustment in capitalist economies.

This paper amends the new orthodoxy by re-introducing labour unions into the picture and attempts to interpret the role of the state as a result of the interactions of employers' strategies and those of labour unions. The explanation for the differing paths of adjustment builds on three elements: (a) the strength of local (i.e. firm-level) labour union institutions in the early 1980s; (b) the strength and position of employers' associations in the national political economy of the early 1980s; and (c) the alliance between labour or capital with the state.

Substantively, the argument is the following. In response to the broad economic and industrial changes of the 1980s, firms were pushed to reorganise. Where local unions were strong, they were able to force employers to do this in a way that took into account workers' (and unions') interests. These union strategies then interacted with employers' organisation. In some

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<sup>1</sup> I call the outcome in France labor-irrelevant, since rather than attempting to crush unions, as e.g. Thatcher did in the UK, and Reagan in the USA, government and industry searched for a way to circumvent labor. That this eventually led to the virtual disappearance of the labor unions was a for employers fortunate by-product of this strategy, but, I would contend, not the ultimate goal. The ultimate goal was, rather, to try and build a German-style "responsible" labor union and industrial relations system (see Howell 1992; Weber 1986; Morville 1985 for details).

countries, as a result of the strong organisation of employers, this was done in a highly co-operative manner, either through the autonomy granted to labour unions and employers as a result of what is called in Germany "*Tarifautonomie*" (a condition existing in many other countries as well), or as a result of a labour-dominated government that restricted the room to manoeuvre of employers. Conversely, in cases where local unions were able to impose restrictions on change but where employers are poorly organised, as in the UK and in a different way in France, an alliance between the state and capital was a necessity to break out of the stalemate that ensued. The end result in these cases was a labour-exclusionary path.

The remainder of this paper develops this argument in three steps. The first section establishes the baseline of the early 1980s: using only two dimensions—the strength of local labour unions and the strength of employer associations—I will schematically classify the six cases that will figure in the rest of this paper: Germany, Sweden, Belgium, the UK, France and the Netherlands.<sup>2</sup> The second section links these initial starting points to the consequences it had for industrial relations outcomes in the 1980s. For each of the countries it interprets the developments between 1980 and 1990 in light of the initial starting point: the relative power of local unions and employers. The third section summarises the findings and links them to the broader debate on historical institutionalism.

Before embarking upon this comparative analysis, one small clarification is in order. Precisely because of the nature of the variables in the argument—local union strength and the strength of employer associations—a lot of sub-national variation is likely: even similar institutional arrangements which favour labour unions may produce very different results because of the actions taken by labour unionists and employers, and employers are intrinsically stronger or weaker in particular sectors or in particular regions, as a result of how the sectoral, regional or firm production profile inserts them into the international economy.<sup>3</sup> Yet despite this variation, broad national patterns persist, because of the constraining features of national economies, laws and traditions. For example: despite considerable differences between large companies in France, even the "most progressive" ones rely on a number of industrial readjustment strategies such as a mild form of labour-exclusion ("labour-irrelevance?"),

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<sup>2</sup> I selected these cases because they capture the variation I want to highlight and because I am reasonably clear about developments during the 1980s in them.

<sup>3</sup> For example: industrial relations have always been more peaceful in the chemical sector than in the car industry, for reasons that are related to the product itself. Chemicals are capital- and R&D-intensive products, and wages account, in big chemical firms, on average only for some 10% of product cost. Hence industrial strife never takes the form there it does in labor-intensive standardised commodity-producing industries such as the car industry. See also Herrigel 1995b and Locke 1995 on different regional industrial orders.

relatively narrow tasks, mass-production strategy, state-guided adjustment and relatively hierarchical relations with their suppliers, which are also found among the “most conservative” ones. Similar things can be said for German or English firms: the variation within each of these countries, should not be taken solely to imply the absence of similarities, especially in comparative perspective. Despite increased variation between companies, firms in these countries have retained a set of characteristics which is very distinctive from the organisation of the firm in other countries.

Second, even the most vocal proponents of internal variation attribute it to the internationalisation of product markets that large firms face, a phenomenon which is generally thought to have gained importance only in the 1980s, with increased competition from Japanese firms in market segments where European firms were dominant, and the liberalisation of trade between the US, Europe and Japan (for example: Sabel 1989; Herrigel 1995a; Locke 1990).<sup>4</sup> The stylised pictures of national profiles in 1980 therefore date from a period when there was arguably more homogeneity inside national models than today.

## **2. The political economy of Western Europe in 1980**

The purpose of this section is to establish a basis for comparison between the different national industrial relations systems that adjusted very differently during the 1980s. The demise of the post-war settlements in the late 1970s, ironically enough, was heralded at a moment that labour unions were numerically and even politically at their peak in all or most of the European countries (see Visser 1990b for the figures; and Crouch & Pizzorno 1978 for discussions of their role in the political economies of Western Europe). Precisely the recognition of the different post-war settlements ultimately led to a revival of the national trajectories literature.

However, as most of the analyses in political economy in the period between 1975 and 1985, this debate completely ignored the role played by capital in the construction of the post-war settlements. Once employers are added in as a relevant variable, we recognise that there are very different modes of labour integration in the different countries in this analysis. In what follows, I will build a classification system for the countries discussed here, on the basis of the position of the local union in the company (see Hancké 1993 for details), and of the coherence in employers organisation (see Soskice 1990;

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<sup>4</sup> Andrew Glyn points out that the internationalisation of the economy may well be a rather hollow phrase: the proportion of exports to GNP and imports penetration was, in 1990, not much higher than in 1913, and only slightly higher than in 1950 and in 1970. See Glyn 1995b.

Soskice 1991). In part this reflects the emergence of a relatively large new literature on shopfloor organisation (see, for example, Thelen 1991; Turner 1991; Locke 1990). But in part this also follows from the observation that strong employer organisations and strong national unions appear to be positively correlated in all the cases discussed: in 1980 one only found strong national union movements in countries with strong employers associations. The recent literature on the role of employers in the organisation of the economy since 1945 suggests in this regard that the strength of the national union was a direct result of the strength of the employers associations rather than vice versa. The national union strength was, in other words, probably as much a product of employers' strength as the result of an independent power basis.

A similar correlation does not hold for local unions, however, which suggests that the power basis of local unions is different and has different consequences for the operation of industrial relations: in the UK weak employers organisations co-exist(ed) with very strong local union structures, while in the Netherlands the opposite is true: local unions are very weak, but capital is highly organised. Table 1 organises these points in a schematic way.

**Table 1: Classification of national cases, 1980**

	<b>strong local unions</b>	<b>weak local unions</b>
<b>strong employers association</b>	Germany Sweden Belgium	Netherlands
<b>weak employers association</b>	UK	France

*German, Swedish and Belgian* unions usually show up in comparative tables as cases of high to very high centralisation. Alongside this strong central structure, however, exist equally strong firm-level unions, which act both as representatives of the workforce in large (export) companies and as recruitment channels for the labour unions. Characteristically in all three countries, the labour unions control the official institutions for workers participation. In Germany, over 75% of the members of works councils are union members and they coordinate these actions with the labour union sections (*Vertrauensleute*). In Sweden, local "shopfloor clubs" (*Verkstadsklubben*) not only negotiate company agreements with the firm since the 1976 Co-determination Law, they

also recruit every newly arrived worker. In Belgium, finally, in principle all of the works councilors are elected on a union slate, and firm-level negotiations are fully under control of the local and regional union officials. In all these committees, moreover, small grievances are quickly handled by the local unions. Local unions are, as this short stylised sketch shows, a critical factor in the firm for both workers and employers (Kjellberg 1983).

Employers, in turn, are well-organised in these three countries. In Germany, the industry federations are (or were up until recently at least, if we are to believe recent reports of associational breakdown), capable of sanctioning individual firms which broke out of central arrangements on issues as diverse as collective bargaining, training and general social policy (see Silvia 1994 for details of both strength and recent breakdown). In Sweden and Belgium, the organisation is in part reflected in those employers associations as well (Soskice 1990). Additionally, in Sweden, large companies in the export sectors are part of large financial conglomerates -holdings- which allows for high coordination capacities among the large firms (Kurzer 1993). In Belgium, most large firms are subsidiaries of German multinationals in the engineering and chemical sector; the others are intergated into the financial world in a similar way as in Sweden.

The situation in *the UK* contrasts sharply with this picture. Employers in the UK constitute, by many accounts, a strongly atomised mass of firms, who, individually and without much regard for broader goals, pursue cost-cutting strategies. The results are best shown in training matters, where individual firms, caught between an awareness of the need for higher skills but paralysed by free-riding possibilities, opt not to train their workers (Soskice & Finegold 1988).

Local unions, on the other hand, are, as a result of their historical development, very strong. They can, as the heroic (but ultimately futile) resistance of the printing unions against technological innovation and work reorganisation between the 1960s and 1986 demonstrated, block many changes without employers being able to push through reform. Yet in contrast to unions in Germany, Sweden and Belgium, British unions are not integrated in firm-level decision-structures, primarily because they do not exist, and the labour unions have never shown any interest in creating them as tools for their policies. This seriously limits the possible constructive dimensions of labour union action, and as a result, local unions need not figure in employers' calculations if these manage to circumvent them and implement changes after all.

In *the Netherlands*, local unions are simply weak or close to non-existent. As a result of choices made immediately after the Second World War, Dutch unions traded local representation for a strong voice in national corporatist

settlements —an act known as “the Great Exchange” and a feat for which the country rightly became famous. As a result, labour unions in the Netherlands never were strong in the firms: works councils are not controlled by the union confederation FNV the way they are in Germany, Sweden or Belgium; and even where union officials are council members, it is an important point for them to develop a line that is highly independent from union policy (Hancké & Slomp 1996).

Dutch employers are considerably more organised: the employers' confederations are legitimate representatives of their companies in collective bargaining with the labour unions, and their position is equally unquestioned by the state (Windmuller et al. 1987; Windmuller & Gladstone 1984). Yet, as Flanagan et al. (Flanagan et al. 1983) point out, the country's dualist (or, perhaps better, three-sided) economic structure is reflected in the representation of employers' interests. The economy is dominated by important international financial groups (ING group and ABN-AMRO are among the ten largest European banks), and by multinational corporations (Philips, Shell, AKZO), who frequently opt out of the conventional collective bargaining game by raising wages against negotiated collective agreements to obtain the necessary qualified workforce (Kurzer 1993). What emerges, therefore, among employers, is a dual structure, with large exporting companies and the financial sector on the one hand, who, in a relatively coordinated way escape collective bargaining and incomes policies clauses that are too strict, and the small firms and domestic companies, on the other, who follow the path set out by the tripartite negotiations.

The final national case is *France*. That French employers are weak is one of the few unquestioned commonplaces in comparative political economy. The French state was, especially since the Second World War, so dominant that large firms came or remained under its *aegis* and were unable develop strategies of their own. On many occasions, French firms had to accept nosy micro-management from the state, their ultimate owner (Zysman 1977; Zysman 1983).

Better hidden, however, are the labour unions' weaknesses in the plants. For a variety of reasons, labour unions were, after 1968 when local union sections were recognised by law, never very interested in the workplace as anything else than a crude recruiting ground. Essentially, French unions refused to take seriously the representation of workers' interests in the workplace, refuted firm-level negotiations as “class collaboration,” and geared most if not all of their energies toward an uneasy mixture of industry-level wage bargaining and macro-political action. As a result of this political history, the workplace was and is virtually unknown to French unions, and French unions increasingly lost the few beachheads left in firm-level decision-making:

throughout the 1980s, the three union confederations for workers combined lost the majorities they held in the works councils (see Ross 1987).

This scheme is the basis for the rest of this paper. Combining these two dimensions —the organisation of employers and the role of local unions in firm-level decision-making— helps us understand the different paths of adjustment in the different countries. Where local unions were strong, much depended on how employers were able to deal with this "*obstacle*." Where employers were also well-organised, the path of adjustment was generally relatively favorable to labour. Where they were not, the state was called in to help employers in their search for a deregulated labour market. Interestingly, in countries where neither labour nor capital was strong, the state was able to reorganise industry roughly on its own terms.

### **3. Different adjustment paths in the 1980s**

In analysing adjustment paths in the 1980s, three actors need to be taken into account: labour unions, whose strength is deduced from their local structures, employers' associations, and the state. The state may be an autonomous agent (Skocpol et al. 1985), but this does not necessarily imply that the state is also capable of implementing its policies. For the purposes of this paper I assume that it needs a certain degree of co-operation from the other central actors in the economy for policy-making and, above all, implementation. Simply put: when either labour or employers are fundamentally opposed to state policies, policies do not change. In a coalition with the other party in the triangle, however, state policies can reach, at least in part, their stated goals. In order to understand the particular patterns of adjustment, the crucial factor is therefore how the state entered into a coalition with labour or employers in situations where a stalemate appeared to emerge.

#### **3.1. Strong local unions and coordinated capital: the search for flexible adjustment in Germany, Belgium and Sweden**

In essence, the strength of local labour unions makes unilateral changes by employers impossible in these countries. Both unions and (even officially non-union) bodies of workers' representation are involved in firm-level reorganisation, frequently with the help of labour union-affiliated outside experts.

Two paths of adjustment are, given this setup, possible. In the first, adjustment is negotiated and takes place outside the state, and sometimes in clear opposition to state government policies. This was the case in Germany after the coalition change (from SPD-FDP to CDU-FDP) in 1982, in Belgium under the conservative governments of the early 1980s (1981-1987) and under the Swedish bourgeois government between 1976 and 1982. In all three countries - albeit less so in Sweden - governments made attempts to change important parts of the labour market, but ran up against a (*de facto*) united block of labour unions and employers. In Germany and Sweden this led to very small changes within an otherwise stable collective bargaining system. In Belgium, labour unions and employers, unable to block policies, engaged in fragmented acts of "civil disobedience," expressed in under table the negotiation of substantial "non-wage" wage increases (restaurant checks, *in natura* gifts, gold coins, ...).

The second possible path is found in Belgium and Sweden, with the Social-Democratic parties in office —1987-90 in Belgium and 1982-90 in Sweden. From then on, unilateral attempts at changing the nature of collective bargaining come to a halt and, sheltered by the Social-Democratic parties' belief in the fundamental freedom of collective bargaining, unions and employers cooperatively embark on a rationalization path to make industry more competitive.

In the sections that follow, I will discuss in detail the German case and the first period in Belgium as examples of the first (labour-capital alliance) pattern of adjustment, and Sweden 1982-1990 as an example of the second (labour-state collusion) pattern.

## Germany 1982-89: careful reform

Very early on in its first legislature, the Kohl government tried to reorganise the labour market. After the 1970s decade under the labour-friendly Brandt and Schmidt (SPD) governments, both ideological considerations and new macro-economic orthodoxies led the first center-right government in close to a decade to try new conservative paths. Very early on, however, the government realised that without the help of employers and labour unions, new policies were impossible to implement.

Laws were passed which aimed at strengthening the position of employers. The best-known example is the so called art. 116 of the labour law (AFG), which punished unions by denying unemployment benefits to workers in companies that stopped producing as a result of strike actions in other companies. The wrath of the DGB unions against this law is understandable since they organize strikes according to a mini-max principle: the minimum

number of strikers necessary to reach a maximum effect. However, despite the legal changes, the effect of art. 116 on labour relations has, according to most observers, been minimal. Witness the strikes in the metal industry in the spring of 1995, which brought employers to the negotiation table to bargain over wage increases which even centrist newspaper observers considered reasonable from the beginning. More important even is the fact that strikes, although often used as a threat, are simply not important in the practice of collective bargaining (see Wood 1996 for details).

Often government initiatives were considerably more benign and therefore presumably produced more effect in Germany. Typical examples are the reorganization of active labour market policy (AFG), or the lowering of early retirement requirements. Since these policies left the position of the parties in the labour market basically unchanged, while allowing for more flexible adjustment, they were supported by both workers and employers.

One thing is important to keep in mind. Even though government policies in the early Kohl years were designed to tip the balance in favour of employers, they should not be seen as copies of Reagan-Thatcher policies. German Christian Democracy, first of all, has a strong “labourite” wing, i.e. people close to labour without being Social Democrats. The union movement is, after all, party-political neutral since World War II, and counts at least one Christian-Democratic member in its executive committee. Second, the German polity is designed in such a way that government needs the support of organised labour (as well as employers) for its policies; any too aggressively deregulatory policies would definitely endanger this support. Hence blind comparisons with the policies of Reagan and Thatcher in the Anglo-Saxon countries would be dangerously misleading.

There is also serious evidence that employers’ associations, large firms and the financial sector were very reluctant to start a deregulatory offensive. The primary reason was that it was, given their prior strategies, not in their interest to do so. But, at least as important, for many firms the costs of engaging unions in an “ideological” conflict —given that it was impossible to wipe out labour in every relevant institution where it was represented because of legal protection— was simply too high, not in the least because any adjustment strategy relied on the cooperation of the local unions and the works councils, which were protected by law. In sum, instead of unilateral deregulation, collective bargaining remained the modus of change.

The most dramatic examples of how adjustment in Germany took place on a *negotiated* instead of *legislated* basis, however, are the reorganisation of working time and the permanent discussions on the dual training system. In 1984, IG Metall organized a series of large-scale strikes to force employers to negotiate a 35 hour working week. After a few months, the conflict was over,

after what appeared to many as a setback for the labour unions. In the late 1980s, however, an accord was reached to place the 35 hour week in and in 1995 reduced working time was a fact in many industries. Apart from signals emanating from Bonn, it is remarkable what a small role the Kohl government played in the entire matter.

Similarly, in the early 1980s Bonn attempted to deregulate the basic workers' training system.<sup>5</sup> Up until then, this was a highly regulated system, in which unions and employers discussed the organisation and contents of the training system and were jointly responsible for its administration. Acting in what it considered to be the interest of employers, the government proposed changes to bring the system generally more in line with what it thought of as capital's interests. Very quickly a coalition of employers and unions (led by the former) emerged which persuaded the government to drop the matter altogether. In 1995, as a result, training is organised in essentially the same parity-based way as in 1980.

All these examples point to the same conclusion. Cornerstones of the German system of labour relations (still) are the subject of negotiation between employers and unions, and changes are a result of these negotiations, not of government initiatives. The weak spot of the system, as current events suggest, resides in the *internal* delegitimation of the parties involved - as e.g. today's quarreling inside the large metal employers federation *Gesamtmetall*.

## Belgium 1981-87: the search for a new social pact

In Belgium, the first period (1981-87) is, as said, characterised by a period of deregulatory attempts, but which neither employers nor unions followed blindly. While employers started a debate on working time reorganisation and greeted a number of policy measures designed to restructure working time, other proposals and measures were severely criticised - most importantly the government-imposed wage freezes between the devaluation of 1982 and the return to office of the PS-SP in 1987. Powerful employer representatives criticised the across-the-board nature of the measures, which impeded them to attract qualified workers, and unions (but some employers as well) pointed out that workers were paying a larger share of the costs of adjustment —especially since large companies' return to profitability had improved considerably after the 1982-83 devaluation and concurrent measures.

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<sup>5</sup>Many thanks to Stewart Wood, who is working on this topic for his Ph.D. dissertation at Harvard University, for discussing this example with me and thus helping me see clearer. As is hopefully clear from the short treatment in the text, I owe the entire example to him.

In response to these restrictive government policies, labour unions and employers quickly found each other in the firms. Since wage increases were formally prohibited by government, alternatives mushroomed: under-the-table raises, lump-sum bonus payments, supplementary payments in kind, such as restaurant checks, or suddenly appearing *gifts* from a company to its workers—a golden Krugerrand, for example.

The deregulation policies of the governments were generally greeted with some enthusiasm by employers, and while they were particularly supportive of proposals on working time flexibility (Wijngaerts 1985; Hancké 1985), they were at the same time very careful not to upset the general social peace in the collective bargaining system. Despite the general reduction of collective bargaining activity in the National Labour Council (NAR), the *de facto* labour market policy center, neither unions nor employers withdrew from the NAR and two of the four intersectoral agreements concluded in the NAR in this period (which, just like laws, cover a particular policy area and are numbered) dealt with issues that were generally seen as (a) of great social importance and (b) reflected strong preoccupations of the parties in the labour market without the other refusing the talks: CAO 39 on new technologies (1983) and CAO 42 on flexible working time (1987). The first raised the level of workers' participation in technical innovation so that—theoretically at least (see Albertijn et al. 1990)—in combination with other existing measures, they opened the books of the company almost fully to shop stewards, and allowed for some control over investment, traditionally an exclusive employers' prerogative. The second collective labour agreement was an attempt by the labour unions to control the wild spread of flexible working time arrangements, (frequently negotiated or supported by the local union), but mainly on terms suggested by employers. Even over heavily ideological issues, labour unions and employers kept their lines of communication open in the difficult years 1982-87.

In all between 1982 and 1987, the year when the Socialist Party returned to office, the system of collective bargaining underwent important changes, but not many proved to have had much more than a temporary effect, and those who did, were not of the kind to fundamentally weaken the labour unions. Governments played a more important role in labour relations, but as soon as it became clear that the social partners would find solutions of their own that were perfectly compatible with government policy, freedom of collective bargaining was restored. Unions and employers went through a series of vicious rhetorical rounds in those years, but never truly questioned each others legitimacy.

In retrospect, it became clear that unions and employers associations used the intrusive government policies as a way of restructuring Belgium industry so that it became more competitive (primarily by introducing

productivity-increasing reorganisations and new technologies) and overall profitability soared.<sup>6</sup> Collective bargaining decentralised in this new setting, but it never totally left the control of the industry unions: local variation, e.g. local wage drift, was always an important element in Belgium (as in Germany and Sweden) even before the 1980s; between 1980 and 1987 collective agreements at the company level increased, but so did sectoral agreements. These latter more often were framework agreements but they covered far more areas than the more detailed agreements concluded in the years before. Any assessment of developments in Belgian labour relations is therefore incomplete unless it addresses stability and continuity as much as change.

### Sweden 1982-90: Labour's march not halted ?

The same is, perhaps even more dramatically so, true of developments in Sweden. By now, there is a small growth industry which documents the breakdown of centralised collective bargaining in Sweden and, hence, the demise of the Swedish model. Two lines of arguments dominate this analysis. The first emphasizes the economic motives of employers in their moves to break out system (Pontusson & Swenson 1996; Swenson 1995): first in the mid-1980s, when in reorganising workplaces, employers in the engineering sector decided that only wage differentials allowed them to attract the skilled workers they needed (Elster 1989; Ahlén 1989), and again in the early 1990s, when SAF disbanded its collective bargaining unit in order to force unions to decentralize collective bargaining. The second argument amends this economic line by pointing out that neutralizing LO also weakened the political power and electoral appeal of the SAP –which in turn created more fruitful conditions for further decentralization of labour relations (Martin 1994).

However compelling this account may seem in its analytical transparency and logic, it ignores fundamental issues and, upon closer look, misrepresents the changes that have taken place in Sweden since the second half of the 1980s. Perhaps the most problematic aspect of this new debate is that, with the emphasis on employers, unions almost disappeared from the debate. In theory, many of the arguments are based on cross-class alliances (see, for example, Swenson 1989) but generally, the analyses convey an image of unilateral capitalist control over the economy.

Furthermore, and one of the most important weaknesses of the “older” literature on Sweden as well, the debate has primarily concentrated on the central unions as the most important actors in the Swedish political economy,

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<sup>6</sup> Glyn 1995a demonstrates that throughout the 1980s, profitability in Belgium soared compared to most trading partners.

and thus ignored the central actors in this paper: the unions' workplace organisations, which enable the unions, and therefore the collective bargaining system, to be much more flexible in responding to change than most observers suggest.

By emphasising unilateral capitalist control over the economy, and by ignoring the local labour institutions, many of these arguments end up mischaracterising the Swedish model as extremely rigid (Locke & Thelen 1995 Pontusson 1994; Swenson 1993; Kurzer 1993). Instead of the simple quasi-socialist economy, the system was always a flexible three-tier system: central wage negotiations between SAF and LO were followed by branch negotiations, which were succeeded by company bargaining. As a result, there was sufficient room for wage differentials to make a career in industry possible, even if the “wage drift” was lower in Sweden than in other countries —but that was precisely the consequence of having strong labour unions, which raised the lowest wages (Martin 1994). Volvo, for example, the largest industrial company in Sweden, always used its clout in the labour market to attract the qualified workers it needed.<sup>7</sup>

The basis of the argument on rigidities as a result of centralised collective bargaining is of course, as anybody familiar with the debate knows, the oft-asserted “Fordist” character of Swedish industry. Sharp hierarchies, Taylorist work organisation and production for a mass market constituted the micro-basis for the centralised collective bargaining system, since it made possible an in-company standardisation of wage rates and other working conditions that would probably be impossible to sustain in a more flexible economy, relying on fine gradations of skilled workers (Pontusson 1994).

The problem with this (asserted yet undocumented) argument is that it is simply wrong. Swedish companies were flexible producers long before others: Volvo started out as a producer of small series of highly specialised trucks for extremely small market segments, and remained so until the mid-1950s (Glimstedt 1993). MTM and similar devices for controlling the labour process — the core of “Fordism” (Braverman 1974; Coriat 1979)— were not only *not* introduced until very late in Sweden; in what are considered the formative years of the Swedish model, the 1930s and 40s, employers were extremely reluctant to make them a central part of the organisation of the factory, since they thought they would evoke major conflicts, and make life in the factory

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<sup>7</sup>The company always topped the results of central collective bargaining, by adding an extra at the end of branch bargaining or pattern bargaining (interview with ex-Volvo shop steward Björn Mattson in Torslanda, April 1993).

unbearable for workers and managers.<sup>8</sup> Workers may not have the industry-specific skills associated with the (German) diversified quality production model (Streeck 1992), but Sweden has, by all accounts, a highly educated workforce, with a high emphasis on basic skills (languages, broad scientific and technical subjects) and communicative skills. Finally, the Swedish export sector is all but a mass production sector: among the main exporters are Volvo and ABB, quasi-customised producers (especially true now that Volvo has dropped its 200 series and only produces for the high end with the 850 and the 900 series).

From this reinterpretation of the past to today is only a short step. Since Swedish industry was never truly “Fordist,” the turn of Swedish industry toward more flexible production methods, did not herald the elimination of “Fordism.” The demise of the Swedish model is therefore not a by-product of the post-Fordist turn of Swedish industry. Instead, what appears to have happened in the Swedish collective bargaining system, is, much less dramatic than most accounts suggest, a shift from a formal three-tier system (in, say, 1980) to a formal two tier-system, with strong union coordination at the central and branch level (in the early 1990s). Currently, after the abolition of the SAF collective bargaining unit, LO plays a critical role as a behind-the-screens coordinator of the union side in branch negotiations (still a long way away from decentralised negotiations), resulting in inter-industry wage agreements which are roughly comparable to those of the heyday of the solidaristic wage policy. More dispersion has occurred at the firm level, but here as well, the results diverge not nearly as sharply as some interpretations suggest. Even an attempt by the three largest firms in the engineering sector, and Sweden’s main exporting companies —*Volvo, ABB and Electrolux*— in the first half of 1995 to split the Metalworkers union over wage policy, failed miserably because *Metall* was able to coordinate the collective bargaining strategies of the three concern unions. In short, despite attempts by employers to radically decentralise, the collective bargaining system remains highly coordinated by labour unions.<sup>9</sup>

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<sup>8</sup> The information is from Henrik Glimstedt, who made these points at a talk on the “Rise and Demise of Fordism in Sweden,” presented at the WZB, unit “Economic Change and Employment,” on 13 December 1995.

<sup>9</sup> Locke & Thelen 1995 argue that one should read these effects differently: it is, not the “absolute” degree of decentralisation which matters in understanding the demise of the Swedish model, but the fact that the core element, symbolic of labour union identity, i.e. central bargaining, disappeared which is important. Relative to the core strategies, and relative to the existing previous situation, this change, which is extremely small for other countries (in fact, would mean a tremendous *centralisation* of collective bargaining in the UK or the US), implies a major reconfiguration, and decentralisation, in Sweden. In my view, this not only overstates the outcome in Sweden; it also misleads observers: Sweden never was what it was made out to be (i.e. it was always less centralised and with important local structures and practices which diverged from the central pattern), just as it is not what it appears to be now, according to accounts (i.e. it is less decentralised and more coordinated).

Employers may have tried to drive a wedge between the local unions and the national structures, they were careful not to alienate the local unions. For it is one thing to demand more flexibility from the national union, it is, given the highly legally protected position of the local union in the firm, simply impossible to circumvent the union in the firm. Hence the same companies that attempted to drive a wedge between the locals and the national union, carefully attempted to integrate unions more closely into firm-level decision-making. In part this was a direct outcome of the legal changes regarding co-determination in the 1970s, but in part this was also Swedish industry's response to the changing conditions of international competition.<sup>10</sup>

Strong local union structures mattered in a second way. The persistence of relatively "un-decentralised" collective bargaining is a direct result of the high unionisation rate in Sweden—for all of the 1980s over 90%, and remaining at that level, despite the economic turn and rising unemployment.<sup>11</sup> Because of this, unions actually speak in the name of and retain "control over" their workforce. And the high unionisation rate, in turn, is a direct result of the strong local unions, which organise basically every worker the moment he or she enters the workplace (in fact, the local union also performs the functions that are associated with works councils in other countries, so there is no competition from that side).

This story on Sweden thus tells a slightly different tale than both the old and the current orthodoxy. The changes that have taken place in Sweden are, first of all, not nearly as dramatic as many accounts suggest: instead of a formal three-tier system, constructed around solidaristic wage policy, we find today a formal two-tier structure, which is more flexible, but still contains many of the solidaristic elements. Moreover, the argument that decentralisation was needed because the structure was inherently inflexible, is simply wrong: wage differentials may have been less in Sweden than elsewhere, they existed, and the three-tier structure allowed large exporting firms to pay higher wages. Finally, the conventional picture of Swedish industry's production profile, the micro-foundations of the model, has been amended: Swedish industry, then and now, was always much more "post-Fordist" than the new interpretation suggests; these were the actual market resources that the unions have at their disposal which explain the strong role of the locals in the companies. What the (Social-Democratic) state added, was the legal and otherwise institutional protection that would make it impossible for employers to dismantle the union

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<sup>10</sup>The best-known of these company-level initiatives is probably ABB's T-50 program and the organisational changes associated with that (Mahon 1995).

<sup>11</sup>Some argue that the threat of unemployment provides, because of the union monopoly over unemployment administration, a rational incentive for workers to join unions (Rothstein 1990). Given the extremely low unemployment figures in Sweden for all of the postwar decades, especially the 1980s (when unionisation reached its peak), the argument is highly implausible: the threat of unemployment was practically non-existent, and Swedish workers knew this.

structures: the Co-determination laws, the labour union monopoly over unemployment benefits and the (relative to other countries) commitment to active labour market policy.

## Belgium, Sweden and Germany compared: local unions as a power basis

What these three cases share, is the position of local unions in the politics of the firm. As a result, any changes initiated by governments or employers have to pass through jointly or union-controlled bodies of workers representation for implementation. And because these locals play such a critical role in the strategic horizons of companies, employers carefully pre-empt conflicts by (a) self-restricting their own alternatives and (b) involving local unions sections, directly or indirectly through works councils, in restructuring operations. The strength of the local also acts as a safeguard against initiatives directed at the outside labour unions. Aware of the need to retain co-operative relations inside the company, employers are careful not to attack the sectoral union too strongly.

The point about this local setup is that it can be the result of legal arrangements, as in Germany, but it requires strategic actions from the part of the labour unions as well. Germany, Belgium and Sweden have legally very different modes of workers' participation: in Germany it is dual, with a non-union controlled, workers-only works council; in Belgium dual with a union-controlled joint (i.e. employers also) works council; and in Sweden it is a single system in which the labour union represents workers both inside and outside the company. Whatever these differences, in all three, the labour unions made this setting theirs, and thus created the basis for local power.

A concluding note appears necessary here in order to avoid accusations of naive optimism. Employers in Sweden, Germany and Belgium obviously realise the importance of the local representative bodies and they therefore attempted to redraw the lines between the national and the local union. This move would allow them to attack the national union more easily without having to fear (or at least not strongly) revenge in the plants (see Hohn 1988 and Kern & Sabel 1990 for Germany; Mahon 1995 on Sweden; Hancké 1991 for Belgium). This scenario of increased local participation without a transfer of power to the national level —local productivity coalitions (Windolf 1989) or micro-corporatism (or dualism, in the words of Goldthorpe 1984a), as it is sometimes referred to— it is crucial to remember, is also a possible outcome of this initial setting. As of yet, it is unclear which way the coin will fall.

### 3.2. Weak employers and strong locals: the British state deregulates

The second situation is fundamentally different from the first, in that one of the two parties is strongly organised, whereas the other is extremely weakly organised. As a result, solidly entrenched local unions, can unilaterally block modernisation. Employers are incapable of breaking through this dense institutional carcan, and the result is a conflictual stalemate. In order to unblock the situation, the state was called in. Legislative measures were introduced which curtailed the power of unions and allowed industry to reposition itself internationally.

For historic reasons, in part having to do with the capital structure of the companies, UK employers chose the low and not the high road. Since equity markets are notoriously more nervous and less patient than banks with debt stakes in companies, companies in such a financial regime inevitably have to live with short-term requirements on their results. Hence UK employers favoured the deregulatory option, since this provided them with the best guarantees for short-term benefits and short-term adjustment possibilities when the tide turned; this, in turn, would then be reflected in the quarterly company reports –the main determinants of the share price (Zysman 1983).

Yet employers are weakly organised, too weakly even to be able to push through such an “existential” option. The Confederation of British Industry by and large is incapable of organising its members, and holds no authoritative command over companies, especially not in collective bargaining (Hyman 1995). Moreover, given the shopfloor strength of British unions, it is rather unlikely that UK employers would have succeeded had they pursued such a policy in the companies. Unions in the UK always commanded the shopfloor, sometimes against management’s wishes, and as late as the 1970s, shop stewards in fact played a double role, simultaneously as workers’ representatives toward management and as (unpaid) personnel managers, a role appreciated by most employers. In short, changes on the shopfloor, or outside the factory but with direct effects on the shopfloor, were bound to meet with strong resistance by the unions.

Two things were necessary, therefore, for any change in this setting to succeed. The first was that a coalition needed to emerge between employers and government against the labour unions. This happened with the election of Margaret Thatcher as prime minister in 1979. The second was an outright attack, by the government and management, on the organisational heart of the UK unions: the locals. This happened, many times over, throughout the 1980s. The end result was exactly what employers wanted: a deregulated labour market which allowed UK employers to compete solely or primarily on cost, an employer-friendly labour relations system (with many legal and otherwise

institutional constraints on union activities), and generally considerably weaker and poorer labour unions. As Howell reminds us, the reliance in much of the earlier literature on the pure market power (sometimes filtered through organisations) of unions, ignored the role of the state in providing political resources for the unions. Once this political support disappeared, the labour unions were remarkably naked (Howell 1995).

For the purposes of this paper, the story starts with the election of Margaret Thatcher. After the famous Winter of Discontent in 1979, there is little doubt that British public opinion was “fed up” with labour unions. The unions had blocked the country on several occasions during stoppages that winter, and the general inability of the Labour government to deal with them certainly precipitated Labour’s defeat in the elections that year. Whatever was true of the popular images, they were close enough to the experiences of the British to legitimise aggressive action by government against the labour unions.

Soon after assuming power, the government therefore passed its first of a series of legislative packages aimed at eliminating the institutional basis of British unionism. In all, during the 1980s, six such packages were passed, aiming at the internal operations of the labour unions (internal democracy; leadership elections), strike action (balloting; picketing; solidarity actions), wage flexibility, the abolition of anything that remotely gave unions bargaining or consultation rights in macro-economic decision-making. These measures, it is important to retain, at the same time delegitimised the labour unions as “macro-agents,” as actors in collective bargaining and seriously constrained the room for action of their locals.

The Conservative legal and institutional offensive was in part helped by and in part sustained a serious deterioration of the UK labour market. Between 1979 and 1983, in part as a result of government policies designed to curb inflation and stabilise prices, unemployment soared from 5.3% to 12.9%. Not only did this contribute to the precipitous drop in the bargaining power of workers, it also put downward pressure on union membership. Between 1979 and 1984, the TUC member unions lost close to 3.5 Million members, and density went from over 54% to just a little over 45% –i.e. 9 percentage points. The growth in real earnings slowed from 4.6% (1978) to 2.5% (1983) and 1.9% (1984). In sum, the political offensive of the conservatives coincided with an economic situation which weakened unions even further (all figures from Hyman 1995).

It was, under these circumstances, hardly a surprise that labour unions stacked one defeat in battle upon the other. Between 1982 and 1987, several (symbolically as well as substantively) important strikes were fought and lost. The two most important of them were probably the Miners’ strike of 1984, which played against the background of privatisations of the nationalised sectors, and

the Printers' strike in 1986, which threatened some of the strongest UK unions in what must have appeared to many as the single most protected union bulwark – Fleet Street, where the unions, because of their strategic position in the newspaper production process, had managed to keep making a newspaper the closest thing to time travel in a pre-industrial workplace (Sisson 1976). In both cases, the conflict was long, and required stamina and plenty of resources from both parties. In both strikes, unions and government in the miners' case, and unions and newspaper magnates in the other (the Australian Rupert Murdoch), quickly became aware of – beyond the usual class hype surrounding such conflicts – the historic role of the conflict. The unions' loss was therefore all the more relevant in both. In the case of the mining industry, they heralded the privatisation of many of the other nationalised industries, thus dismantling the terrain where trade unions and Labour were strongest. The defeat of the printers demonstrated to any union in private industry watching, that new tactics, with government blessing, would be deployed in the class struggle.

The first consequence of this reorganisation of UK labour relations was a deregulated labour market, which allowed employers to adjust their workforce flexibly, in line with the short-term requirements of capital markets. Since such an unstable system leaves little place for deep investment in "human capital," UK workers remain under-trained in modern production technology, thus forcing UK industry to aim for variants of cost-cutting strategies in order to aim for the low-cost end of product markets (Soskice & Finegold 1988). Cheap labour makes cheap products.

The second important effect has to do with the labour unions. The combined attacks on their structures and finances by the Conservative governments, and the reversal of the bargaining positions, have left the UK unions extremely weakened. Their membership is currently at an all-time low – the point, indeed, as Hyman (Hyman 1995) points out, from where the descent into oblivion started for those labour unions that, for all practical purposes, have ceased to play a role of importance in their countries (first and foremost, France). TUC membership was estimated to be below 7 Million in 1994, and density below 34% (from over 54% in 1979). The weakness is also reflected in collective bargaining: British unions engage, more than ever before in their history, in bargaining on employers' terms. Aggregate wage growth, currently around 1.5% (1993 and 1994) is one indicator of their weakness in the labour market, but qualitative evidence, of "New Realism" among labour unions, and of single-union enterprise agreements, containing non-strike clauses entirely unimaginable only ten years ago, even more convincingly makes this point.

In some ten years time, the Thatcher decade, British industrial relations therefore went from the economic radicalism that characterised the 1960s and 1970s, where union strategies aimed as much as possible at maintaining the status quo in every important aspect of labour market regulation, to

managerial unilateralism. And since managers are forced to deliver to shareholders –stakeholders do, at least until the next Labour victory, not exist in the UK, and there are serious doubts if they ever will– they choose the low-road: low costs, low wages and low quality. Since the Thatcher decade, no union will stand in their way.

### 3.3. Weak locals and weak employers: the French state reorganises

Few countries have seen changes as encompassing as France in the 1980s. The country witnessed not only a major reconfiguration of labour relations, but also dramatic changes in macro-economic policy with the adoption of the *franc fort*, and a recomposition of capital as a result of privatisations and financial reform. At the end of the decade, therefore, French industry had seriously reorganised and was on its way to becoming one of the most competitive OECD-industries.

The starting point, for the purposes of this paper in 1980, is simple and well-known to any student of political economy. Organised labour is weak, and so are employers. Since neither of the two is able to impose its view of society, but both of them are strong enough to block initiatives from the other, what results is a social “stalemate.” The only actor capable of unblocking the situation, is the French state, who has, indeed, become the most important economic actor after the Second World War.

Two elements, one internal, the other external, shook up this stalemate. The first was the crisis of French industry in the early 1980s, the other the microprocessor revolution. These two forced French industry to rethink fundamental elements of the stalemate such as the organisation of the company, forms of workers’ participation, relations with owners, etc.

In the early 1980s, French industry went through a severe crisis. The results of the largest exporting companies left little doubt that the French version of Fordism had run its course, and was turning into an obstacle for further development. The first crisis dates back to 1980, when Peugeot, financially over-extended after a merger with Citroën and Chrysler Europe, suddenly found itself facing a major productivity crisis, but was unable to finance the necessary investments. Because it was considered exceptional, the state subsidised Peugeot out of the crisis. A few years later, however, Renault, the other (state-owned) car maker faced a crisis of the same proportions: in 1984, the company lost FF 12 Billion, and in 1986 it was wryly listed by *Le Figaro* (1 Aug 1986) as the top loss-making firm in the world. After these two, French industry went from one corporate crisis to another (Cohen 1989). In

1982, *Thomson* posted losses of over FF 2 bill. In 1986, the steel firms *Usinor* and *Sacilor* combined lost FF 4 bill. (Hart 1992: 109 ff.).

These losses were more troubling than they appear: the French government had just embarked upon a path of what became known as “désinflation compétitive,” thus not only pre-empting any hopes of an expansionary policy (Halimi 1992); as a result of this policy, interest rates were extremely high. The highly indebted, loss-making large firms thus were forced to quickly and structurally reorganise in order to shed debt, become profitable and rely on self-financing.

Technological change offered in part the opportunities for French firms to reorganise in a way that was needed. Employers relatively quickly realised that they could only take advantage of the microprocessor revolution if they integrated workers more closely into production. This would not only make the investment itself relatively easy to write off, it would also allow for productivity increases and product flexibility, which would position French industry competitively.

Here labour relations matter: the central strategic question for large companies, who want to embark on a path of innovation is one of labour relations. Even if and when management decides to change, for example, work organization, labour unions are generally unwilling to support them in this modernization process, afraid that it will destroy their already tenuous position in the workplace, and the fundamentally conflictual nature of workplace industrial relations makes serious changes virtually impossible. In other words, in a conflictual workplace setting such as the one in French companies, even “enlightened” management is in itself an insufficient source of change because of the obstacles that the labour unions provide. How then can French companies move out of this trap? How can they simultaneously depoliticize human resources management, by-pass obstinate unions and create more cooperative workplaces that rely on workers’ skills in order to produce a different type of goods?

First, in the first half of the 1980s, companies tried to reorganise by rapidly introducing new technology and by engaging the labour unions in a battle in order to redefine the power relationship. Both failed. Even new technology, French engineers discovered to their surprise, need people to staff them and the unions were, true to the French model, simply too solidly entrenched to be dislodged. Because the unions, as elite organisations of the working class, were especially well-equipped for the class warfare inflicted upon them by employers, every attempt to decimate them, ultimately failed.

Yet, two things had changed after 1981, the year the left took over French government, and together they would, inadvertently but certainly, change the

nature of labour relations and human resources in French companies. The first was a series of laws, passed in 1982, whose aim it was to fundamentally change French labour relations - the so-called Auroux laws. The other was that French companies, basically exhausted by the regular gigantic conflicts of the semi-skilled workers (O.S.), wanted to deal with job content, qualifications and job classifications, for once and for all. In part in response to the unions, who seized upon the social conflicts to mobilize against any change, in part forced by technological change, employers began to redesign jobs and negotiate job classifications.

These two parallel attempts to reorganize work on the shopfloor had three (largely unintended) effects. The first one was that slowly but steadily, the workforce was restructured. Not only were they now less workers, who worked with more modern technology, but the type of work they performed, required considerably broader skills than before. As a result, these workers relied on other means to make their grievances and demands known than the strikes and negotiations that had characterized industrial life before. Instead of conflicts, these workers were talking to each other and their supervisors. This change in workers' attitudes coincided with a partly state-imposed, partly management-driven attempt to decentralize decision-making on the shopfloor. In 1982, the PS government introduced a series of laws to modernize industrial relations, the Auroux laws (Gallie 1985; Moss 1988). One of the sections of the law dealt with shopfloor teams of workers who discuss the organization of their part of the workplace: the *groupes d'expression direct* (GED). Beside these GED, which were looked at it with a mixture of fear and amazement by management, companies began to create their own teams and introduce their own methods of participative management, most of which were, in conception at least, borrowed from Japan (Howell 1992). Whatever the actual intentions of the state and management policies, their net effect was that *voice* now not only implied conflict, but could mean cooperation in the workplace as well.

The third effect was that the new composition of the workforce and the new firm structures that had emerged, created a large set of new challenges for labour unions. The first was organizational. The unions were incapable of dealing with the decentralization of decision-making, because they never developed the type of shop-floor capacity that these new organizational models required. It was not until after 1968 that unions were allowed to organize in companies, and even after that their primary focus has been on the economy at large, not firm-level union work (Eyraud & Tchobanian 1985). The second was identity. Their structures had been geared toward the low-skilled industrial worker –of which there were less and less: the workers who remained after rationalizations, were typically more skilled than those that went. Finally, none of the unions had a good idea of how to deal with participative management and decentralized decision-making. In order to define their strategies, they relied as much if not more than French management on a sharp division of authority in the workplace, and the new participative structures that were

emerging created gigantic problems with that preassumption (Linhart 1991). Add to this firm-level picture of union problems the general disenchantment of workers with the politicized French labour unions, and the outcome was a serious drop in membership, in votes in workplace elections and in influence generally. (Mouriaux 1993; Rosanvallon 1988).

In the face of these new challenges, the divisions between the reformist and the radical unions —FO being in the first camp, the CGT in the second and CFDT permanently hovering in between— became more explicit than ever, and gradually began to translate into very distinct patterns of adjustment. The CGT remained in its fortresses and persisted in denouncing capitalism's evils. FO, on the other hand, realized that there was a huge opportunity for shopfloor organization, set up grassroots sections in most of the companies where it was active, and opted for membership services as a way of tying the workers to FO. The CFDT, finally, gradually moved from a less hierarchical version of the radical CGT approach to the FO stance.

The end result of all this was precisely what appeared to be impossible given the parameters of the French institutional structure. The labour unions, first of all, ended up in a situation of considerable weakness in the firms. Union density, one of the prime indicators of market power, dropped to all-time lows in the private sector during the 1980s, and there is no indication of the downward trend changing. Far more important, perhaps, than these numerical losses, is the loss of influence, both vis-à-vis workers and vis-à-vis employers and the state. Currently, there are more works councillors elected on non-union slates than union lists --despite the representational monopoly of the unions, which guarantees them a competition-free first round. Even the "ideological" disenchantment of French workers with the unions is tremendous. An opinion poll published by *Le Nouvel Observateur* (May 1994), for example, claimed that roughly three quarters of the French workers would like unions to be stronger generally and particularly in the workplace, but not the unions that exist now. The distance between workers and unions also shows up in international strike statistics: France currently ranks among the lowest of the OECD countries with regards to strikes. None of the large employers take unions seriously as negotiating partners and if it were not for the legally defined position in a number of state agencies (Duclos 1995), neither would the French state. And perhaps most telling, where strategic partnerships between unions, employers and the state exist, they are organized around principles of competitiveness that the employers define, not the issues of social justice that were traditionally at the core of union programs.

Labour unions basically disarmed, the French workforce today is considerably more cooperative, and frequently happily participates in what could be described as local productivity coalitions. In many manufacturing firms, considerably more broadly skilled workers are making decisions about

production in teams, directly deal with suppliers, and administer a large part of their own work. This reorganisation, while invoking continuities with the old Fench model of firm organisation, also demonstrates French industry's capacity for adaptation and innovation, which allows it to position itself more favourably in international markets. In return for their involvement in company affairs, workers then receive not only higher wages, but also implicit job security.<sup>12</sup>

### 3.4. Coordinated capital and weak local unions: managerial unilateralism in the Netherlands

The central defining characteristic of the situation in the Netherlands is that unions get most of their authority and legitimacy from the goodwill of employers. Once these reconsider, therefore, the labour unions do not have a strong fall-back position as a result of their local strength. However, because of the particular characteristics of the national economy's insertion into the international economy (for example, relatively low manufacturing content, niche production where it exists and generally high on finance and other business services), the outcome may be relatively benign to the work force: unions may lose control over collective bargaining, but this is not necessarily to the detriment of employees and workers.

It was against this background that the changes in the 1980s unfolded. As in the other countries discussed here, in the Netherlands too the stable world of mass production and stable growth was over. As in other countries as well, large parts of economic life began to decentralise. And as in other countries as well, this had consequences for the labour unions and for their position in the system of industrial relations.

Two developments seem especially relevant. The first has to do with the union role in the macro-economy. The Netherlands have long been heralded as a corporatism showcase, in which unions debated, in tri-partite settings, the direction of the economy (see, e.g. Windmuller et al. 1987; Katzenstein 1985; Wolinetz 1989). It should immediately be added that this characterisation was always overly favourable to the role of unions: instead of being a strong party in negotiations, they had simply abdicated the responsibility for decision-making to a body of experts, the Socio-Economic Council (SER), which consisted of employers, unions and the state, and who would pragmatically (but guided, of

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<sup>12</sup>It is somewhat outside the purview of this paper, but the adjustment model is not wholly without negative consequences: because of the characteristics of the new model —reliance on diplomas as entry tickets into the labour market, geared toward low unit labour costs, etc.— it is essentially *exclusionary*. Not everybody's a winner in the new French model.

course, by orthodox economics) set targets for wage growth. Even if the unions disagreed with these goals, they simply lacked the means to make a fist.

Yet whatever the exact role of the unions, there is little doubt that it diminished sharply in the 1980s as a result of the reduced margins for redistributive policies. The slowdown of economic growth laid bare the problems of these models based on wage bargaining by distant peak associations and the state. When wage bargaining then decentralised in the 1980s, the impact of unions diminished even more.

The second development has to do with the shopfloor and, by extension, the company. As a result of the Great Exchange in the immediate postwar years, unions were never very strong there. For most of the postwar period this did not matter much, since economic growth and the purported role of unions in macro-economic policies put the emphasis on the national organisation anyway. In the 1980s, however, lower levels in labour relations began to develop their own dynamic, which was considerably more independent from the national level than before. And because the unions did not control these lower levels, this resulted in a serious loss of legitimacy (Looise 1989).

In large measure, this is a direct result of the institutionalised systems of workers' participation in The Netherlands (Teulings 1989). As in Germany, Dutch companies have an employee-only, formally non-union works council. In Germany, this "union-free" status never mattered, or at least not until recently, since the labour unions organised themselves in order to control these institutions and make them extensions of their own operations. As a result of the Great Exchange, the Dutch unions never managed to do so as well: there is, in fact, a sharp divide between union and works council in Dutch companies. When labour relations decentralised in the 1980s therefore, the local unions lost whatever legitimacy they had to the works councils.

Disarmed at the firm level, and without a real role at the national level, the Dutch unions could, in essence, do nothing more than stand and watch how employers, helped by the Dutch state dismantled parts of the welfare state and deregulated the labour market.

Employers were, however, split over the deregulation of the labour market. For the large multinational firms –*Philips, Shell, Akzo, ...*– regulation was not a large problem: in the capital-intensive industries (chemicals and petrochemicals), wages account for such a small proportion of total costs that any raises there are entirely inconsequential. In sectors where wage competition was or might be strong, in contrast, Dutch companies had already shipped all but the extreme high-end products (and these usually only in the beginning of their product cycle life) to low-wage countries. For the large multinationals, as for the financial sector, deregulation was not a vital necessity.

For the small firms, things were different. Since wage costs mattered a lot, they were in favour of a more deregulated wage-setting regime. However, there were two important obstacles to this. The first was that, as in most other European countries, small firms were the junior partner in many of the employers' associations, which were dominated by the large firms. As a result, the demands of small firms did not easily find a place in the programs. Second, since wages were only one of a large set of issues in labour relations, there was some fear that far-reaching changes there could have unwanted, and even very negative repercussions for the small firms in some of the other fields.

Because of these interconnections, it was hardly a surprise that the system as a whole survived, at least formally. However, deregulation did take place in the 1980s, and the question is therefore how to understand this. Was it, as in the UK, the result of deliberate government policies? Or was it negotiated in order to raise Dutch industry's competitiveness, as was the case in Belgium? The answer is that it resulted from neither of these. The deregulation which eventually ensued was, in contrast to the UK, not a matter of the state, but rather the perverse consequence of existing rules. In principle, no actor was in favour of changing the rules or the legislation, but in practice, many secondary considerations pushed the companies to undercut the legislative protection of workers. Hence many new informal arrangements emerged, against which the labour unions did not have an answer, because they were too weak in the companies and branches, and therefore lacked the organisational means to block the attempts at deregulation.

This effect was extremely clear in individual labour law, and particularly in regulations concerning lay-offs.<sup>13</sup> As a rule, employers have to ask the director of the local Labour Office for his administrative approval if they want to fire workers. The director decides on the basis of the employers' arguments yes or no; no appeal is possible against this decision within the framework of labour law, only in civil court. Roughly 80000 such demands are submitted each year, more or less 85% of which are granted.

The unions are in favour of the regulation, because it is extremely clear cut: the employer's wish is granted or not. Small firms appreciate it, because it is inexpensive: if, after the procedure, the company's wishes are granted, there are no gigantic sums to be spent buying off the worker. After authorisation from the employment office, the worker can be fired without further costs. And for the large firms, the costs of hiring and firing a worker are marginal given the company budget, so for them, as for the small firms, the situation is acceptable. Because of this "objective coalition," the regulation easily survived the 1980s.

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<sup>13</sup>Many thanks to Antoine Jacobs of the university of Tilburg, who presented this example during a lecture series on comparative labor law at the MSH Ange Guépin in May 1996, and spent some of his time discussing the general trends in Dutch collective bargaining with me during that period.

Yet in the margins of the official labour contract system, new types of contracts emerged, which effectively circumvented the strict protection offered by the employment legislation (see Wijgaerts 1985 for an overview). Instead of regular contracts of indeterminate duration, which are subject to the regulations described above, employers more often hired workers with fixed-term contracts, which, by definition, end when the contract ends, without administrative authorisation. A large new family of labour contracts, some based on existing forms such as interim work or free lance contracts, others “on call,” emerged, all of which served to give employers flexibility in their use of the workforce, without imposing any costs, since none of these were subject to the lay-off regulations. And, finally, new models of firm organisation emerged—a growth of sub-contracting and outsourcing, as well as the creation of independent business units—which made a flexible readjustment of composition and volume of production and services possible without large costs for employers. Estimates suggest that, combined, these new contract types account for some 20% of the labour market—adding in the large proportion of part-time workers in the Netherlands provides a picture in which almost half of the work is done outside the boundaries set by “typical” labour contracts.

The big movers behind this model are the small firms, for whom their own general business uncertainty has become increasingly incompatible with the stability that the employment legislation provided. In principle it would have been easy, as one might expect, for the labour unions to block these developments. For two reasons, however, this appeared to be impossible. The first is simply that these new regulations do not go against the wishes of a sizeable part of the workforce, a fact illustrated precisely by the comparatively high proportion of part-time workers.

Second, and considerably more important, the labour unions are simply unable to block these developments in the companies. In the field, they are too weak—here the competition, probably lost already, with the works councils makes itself felt. The works council are legally obliged (as the German works councils have to) to protect the general interests of the workforce *within the framework* of the general interests of the company. They are, in other words, not able to act autonomously against management. Furthermore, since the works councils often define themselves in strict independence, sometimes even in opposition to the labour union, the autonomous power basis that would result from a tandem consisting of works council and local union, as in Germany, is unable to develop (Hoffmans 1992; Van der Heijden 1992). The result is, by default, managerial unilateralism (Hancké & Slomp 1996).

What makes the case especially interesting from a comparative point of view, is the minimal role of the state in the whole process. Beside a general willingness to leave discussions over the direction of the labour market to unions and employers—which led, in effect, to a situation in which management

imposed its viewpoint because the unions were too weak to block them— the Dutch state limited its role to ratifying rather than instigating the deregulation.

The Dutch case therefore demonstrates quite convincingly how the “neo-corporatist” institutional protection that the unions had mustered over the years, simply did not provide enough buffers against deregulation attempts. The explanation is simple: because the labour unions did not develop strong local structures in the companies, and therefore did not manage to impose themselves as the legitimate representatives of the workforce, they ended up in a lethal competition with the works councils—to the benefit of management. As soon as management attempted to *de facto* deregulate the labour market, the unions were unable to block it from above, and to impose costs in the firms when the firm level gained in importance. This organisational weakness allowed management to pursue its own, mildly deregulatory path. Neo-corporatism, as the Dutch experience makes clear, indeed does not translate downward.

#### **4. Conclusion**

Throughout the 1980s, two lines of research in comparative political economy corrected the analyses of the 1970s and 1980s. The first was increased attention to employers as critical economic actors; the second was the relevance of local unions. Combining these two lines of research leads to very interesting answers about how and why particular adjustment patterns of industrial relations were followed—and probably also, because of the central importance of labour relations in the political economy of the 1970s and 1980s, for other dimensions of economic adjustment.

Local unions matter, since they define the room that employers have at their disposal in attempts to reorganise industry and economy. Broadly speaking, the general adjustment pattern in Germany, Sweden and Belgium was co-operative. The reason is, in this view, not primarily because employers figured unions to be important partners in industrial adjustment—itself endogenised as an effect of production strategies pursued by employers— but because the costs of engaging labour unions, through their local sections in the firm, were considered, probably correctly, prohibitively high. Instead of confronting labour unions, therefore, employers incorporated them into their plans and industrial-economic adjustment followed a very different path than in the other national political economies.

Note, however, that the substantive outcome was not the same in these three countries. In Germany, workers were generally involved in new product strategies toward the high end of the market, and the process was supported

and controlled through the local unions and the works councils. Team work, or *Gruppenarbeit*, in the car industry during the second half of the 1980s is the best-documented example (Turner 1991), but examples can be found in textiles, banking (Quack & Hildebrandt 1995), and in the chemical industry.

The Swedish outcome looks very similar. ABB and Volvo are the best-known examples of new patterns of work force integration linked to high-end production controlled and supported by labour unions. The few cases where employers attempted to confront labour ended in defeat and they too were forced up-scale.

The new settlement in Belgium is of a different nature. It followed a period of intense social strife and attempts by government and employers to deregulate the labour market. Instead of the *status quo ante*, however, the unions were aware of possible cost-competitiveness problems and the final results were firm-level productivity coalitions within a generally stable collective bargaining system. Belgium currently has among the highest wages in the EU, but also highest labour productivity; unit labour costs are therefore among the lowest in the EU. This cost advantage was linked to production for the sub-top and high end of the market and resulted in a relatively stable new system. Whatever separates Germany, Sweden and Belgium, they share that local unions managed to force adjustment out of the deregulation option in favour of a high-end strategy.

In the other cases considered, the initial situation was less benign to organised labour, and that shows in the final results. Again, however, the different starting points produced very different outcomes. In the UK, the result was nothing less than all-out class warfare, in large part because the labour unions, through their strong locals, were strong enough to resist steam rolling by employers. Yet, not being integrated into firm-level decision-making structures, and generally not interested in the firm as an arena for strategic social change, the unions were unable to add much in the form of ideas to the fist they made. Once broken, their resistance turned out to be an empty shell.

In the Netherlands and France, respectively, the situation was different still, because one actor among the three —labour, capital and the state— was clearly dominant: employers in the Netherlands and the state in France. The two others were by and large dependant upon their initiatives. The line this actor took then provided the guiding thread and adjustment roughly followed this line. In the Netherlands, the outcome was relatively straightforward managerial unilateralism, but not blind deregulation.

The French experience was somewhat different. The ubiquitous state attempted reforms, which virtually all failed in their goals, but combined they changed the French system. For organised labour, the outcome was simply

disastrous, because the strong politicisation of the labour movement forced the state and employers to exclude them. But it was, by most measures, not nearly as disastrous for workers and employers: French companies may today still be a far cry from the (idealised) German model (Albert 1991), but they do offer their work force careers built on co-operation and broad skill acquisition (Méhaut 1994).

In both the Netherlands and France, labour unions have become largely irrelevant actors, unclear about how to cope with the new situation. In these two countries, union density levels dropped far below any of the other cases considered here, and decentralised collective bargaining appears to have taken the strongest hold of all the countries discussed here. Yet in both countries, firm-level islands exist where new co-operative relationships have developed between (subordinate) unions and management.

In conclusion, then, this paper made two contributions. The first is that it put local unions on the map, both of academic analysis and of the employers' cognitive world. Without bringing local unions into the strategic calculations, it is in many cases simply impossible to understand employers's strategies, government policies and industrial relations outcomes. The second contribution is that it raises the analysis above simple institutionalist models by emphasising the *actions* of local unions. For one should not ignore that expressed in terms of the purely formal institutions, Germany and the Netherlands share exactly the same works councils system, heralded in most of the analyses of the German situation (Streeck 1991; Slomp 1990). Yet they ended up on opposite sides of the analysis in this paper. France and Belgium share the same (other) works councils model, but again, ended up in different places. What put Belgium and Germany, on the one hand, and France and the Netherlands, on the other, in the same categories for the purposes of this paper, were the actions of local labour unions in occupying the field offered by these institutions.

Institutions therefore always have many different possible faces, and adequately understanding their effects statically, i.e. without taking into account the different uses actors can make of them, is impossible. If this paper contributed anything to the contemporary debate in political economy, I hope it is that reconstructing such strategic choices, both in the past, when new institutions were built, and now, when they appear to "constrain" economic actors and these therefore try to redesign them, is a necessity for understanding labour outcomes. Since institutions are dynamic and "plastic," one cannot deduce their effects from their shape; what actors actually do with them, is just as important.

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