



“Summary of article by Richard Locke and Thomas Kochan: Conclusion: The Transformation of Industrial Relations? A Cross-National Review of the Evidence” in Frontier Issues in Economic Thought, Volume 4: The Changing Nature of Work. Island Press: Washington DC, 1998. pp. 231-234

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## **“Summary of article by Richard Locke and Thomas Kochan: Conclusion: The Transformation of Industrial Relations? A Cross-National Review of the Evidence”**

Industrial relations are changing throughout the developed world, as unions, employers, and governments adapt to greater international competition. The result is an increasing diversity of employment practices, making it difficult to identify clear trends and patterns of change. This chapter is the conclusion of comparative international study of industrial relations, seeking to describe, explain and generalize from the contemporary changes in employment practices.

### **REVIEWING THE EVIDENCE**

A brief review of the evidence (presented in earlier chapters) identifies four common patterns of change in industrial relations. First, decisions about employment, wage bargaining, and other aspects of industrial relations are increasingly moving toward the individual enterprise level. In the past, most European countries, and Australia, had centralized industry-wide or nationwide systems of bargaining and negotiations, to a far greater extent than in the U.S. Even in the U.S., however, industry-wide pattern bargaining occurred in major unionized industries. Changes have occurred in some of the countries with the most centralized industrial relations, such as Sweden, Australia, and Italy, all of which have moved to industry or enterprise autonomy in bargaining. Movement toward decentralization occurred throughout the 1980s in the United States and the United Kingdom, as former bargaining patterns declined.

Second, decentralization was accompanied by the search for greater flexibility in the organization of work. Strict European hiring rules have been bent to allow employers greater discretion in picking new employees; youth, part-time, and/or temporary employment has risen sharply in Italy, Spain, Norway, the U.K., the U.S., Germany, and Japan. Linked to changes in hiring practices are internal efforts at reorganization, including use of teamwork, quality circles, job rotation, flexible hours and work assignments, and other innovations.

Third, there is a growing premium on skills, and a corresponding emphasis on training and retraining of workers. In Canada, Australia, and France, national governments have launched substantial worker training programs, while major reforms to enhance vocational training have been adopted in Britain, Spain, Norway, and Sweden. Performance- and/or skill-related pay systems have likewise grown in importance in many countries.

Fourth, unions are facing new challenges and declines in membership, as industries restructure, the workforce changes in composition, and the average size of enterprises declines. The

challenge has been greatest, and the decline in membership steepest, where labor laws are least favorable and business and/or government are most opposed to unions, as in the U.S., Britain, and France. But similar, though less pronounced, declines in union membership have occurred in Japan, Australia, Italy, and the private sector in Canada. In some countries -- Italy, U.K., Norway -- new types of employee associations have emerged to challenge the role of established unions.

While there are common trends, there are important institutional differences between countries as well. For example, employer efforts to reorganize work are often resisted by unions in the U.S., where reorganization may threaten job security, but welcomed by unions in Germany, where jobs are more secure. However, the employers' search for flexibility, in varied forms, can be seen throughout the industrial world.

### **CROSS-NATIONAL AND CROSS-FIRM VARIATIONS**

The pressure for flexibility arises within differing national contexts. At one extreme, in countries such as Japan and Germany, flexible, team-oriented work systems were already relatively common, and new practices introduced in recent years are only incremental changes. At the other extreme, where work has traditionally been organized along more rigid Taylorist lines, as in the U.S., Australia, Britain, and Canada, there has been much greater pressure for fundamental transformation in employment practices. There are also differences within countries; not surprisingly, new practices are most often adopted in new or completely reorganized plants, and in industries where the pressures of international competition are strongest. Many innovative work practices remain new and fragile; only in Japan and perhaps Australia is there strong government support for the new, flexible approaches to industrial relations.

Innovations in work practices and worker-management cooperation are not likely to be sustained when workers fear that increases in productivity will lead to losing their jobs. Unfortunately, demands for innovation have been increasing in recent years while job security has been decreasing almost everywhere. Employment security is generally much stronger in continental Europe, Scandinavia, and Japan than in the U.S. or Britain, though in some cases, such as Japan, Italy, and Spain, the protection available in the primary labor market does not extend to employees of small firms.

Continuous training and staff development is the best route to employment security in a changing world, yet it is unfortunately rare to find firms thinking this way. An alternative, common in America, is to shrink the number of full-time career employees, and rely on subcontractors or contingent workers for a growing number of tasks; this can accentuate gender, racial, and ethnic divisions among workers, leading to conflict (and to a diminishing number of "good jobs"). The same problems and pressures will arise elsewhere; Japan has faced an especially acute adjustment crisis in the 1990s, and will be under continuing pressure to change, perhaps threatening the lifetime employment system which is now common in its large firms.

Real wage gains have slowed, particularly in the U.S.; moderate growth has continued in Japan and several European countries. Inequality of incomes has increased within most countries, most dramatically in the U.S. Countries where centralized wage setting structures remained in place --

Germany, Norway, Japan, -- saw little if any rise in inequality. The U.S. is exceptional among developed countries in the weakness of its unions, and of its worker training programs; these factors combined with very decentralized wage determination help explain why the U.S. leads the developed world in the recent growth of inequality.

## **CURRENT TENSIONS IN EMPLOYMENT RELATIONS**

All countries exhibit an uneasy coexistence of cost-cutting and high-value-added competitive strategies. Cost-based strategies can lead to a downward spiral of wages, working conditions, and labor standards, in an adversarial atmosphere. High-value-added strategies are preferable in normative terms; it is important to explore the factors that support this choice.

Most firms engage in both strategies, sometimes sequentially. For example, in the U.S. in the early 1980s, many industries laid off workers and demanded concessions from unions; more recently, the same industries have made efforts to cooperate with employees in improving quality, productivity, and labor-management relations.

The low-cost response to market pressures and changes appears to be most frequent in countries with weak institutions, low levels of unionization, decentralized bargaining structures, and a limited government role in labor market affairs. Again the United States is the extreme case, followed closely by Britain.  
[374]

Cost-cutting may confer a short-run competitive advantage, but exerts a perverse social externality in the long run: it becomes riskier for firms to make long-term investments in upgrading skills, pushing a country toward a low-wage, low-skill equilibrium. Pressure in this direction is affecting even the countries with the strongest institutional constraints on the market.

As the benefits of flexibility and innovation emerge, there is the potential for polarization between jobs that are based on the new practices and those that are not. "This not only makes it more difficult to sustain commitment to value-added strategies at the micro level but also exacerbates the divisions among different groups within society." [375] A clear example of the resulting problems has appeared in the U.S. petrochemical industry, where cost-cutting efforts led to a growing number of less experienced, non-union contract employees doing high-risk jobs -- and to increased rates of accidents and injuries among these workers. Only recently have new training programs and upgraded labor standards addressed this problem.

It is ironic that unions are declining in influence and membership, just when a strong employee voice is increasingly needed in corporate and industry decision-making. Yet a simple revitalization of unions is unlikely to occur. What new or modified mechanisms can effectively represent worker interests? Germany's works councils provide one important model; Australia's "managed decentralism" of labor relations, standard-setting, and training programs suggest another.

The "bottom line" is that there is indeed a transformation of employment practices underway around the world. While there are common themes that affect all countries, there are also historical factors that create different conditions in different locations.

[T]here is not a single natural response to increased market competition. Nor are the variations observed simply random deviations from a single market-determined result. Instead, employment relations are shaped in systematic and predictable ways by institutions that filter these external pressures and by the strategies of the key actors. [382]