

**The Role of National Level Labor-Management-Government Dialogue in the  
Midst of Increasingly Decentralized Collective Bargaining**

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Abstract: This paper assesses the degree to which tripartite forums have emerged within advanced industrial economies in recent years, the factors that facilitate modern tripartism, and the implications of tripartism for economic and social outcomes. It does so by updating the analysis provided in "The New Structure of Labor Relations," by Katz, Lee and Lee (Cornell University Press, 2004). This paper reviews recent data to assess whether the trends identified by Katz, Lee, and Lee have continued in the last three years as well as reviewing recent evidence and trends from countries not analyzed in Katz, Lee, and Lee. The paper finds that the trend toward decentralized collective bargaining has persisted yet it has not interfered with the continuation of tripartism in some countries. The paper also finds evidence that effective national partnerships often involve a dense formal and informal network of political exchange, in some cases, involving new rights groups representing women, older worker and immigrants. Experiences in Ireland warrant close attention in part because of the continuing strong performance of the Irish economy and the apparent contribution made to that performance by social partnership.

Previous research has shown that a widespread downward shift occurred in the 1980s in the locus of collective bargaining, often from a national level or multi-company level to the firm or plant level. Yet, somewhat surprisingly, in the last 15 years even though in some ways the structure of collective bargaining continued to

decentralize, in a many countries this decentralization was accompanied by mechanisms that provided greater coordination and cooperation between labor, management, and government. National-level tripartism, seemingly discredited by the failure of incomes policies to stem inflation in the 1970s, resurfaced in a number of countries as an effective social policy. This simultaneously trend in both upward and downward directions in collective bargaining had unclear consequences for national economic performance and raised questions about traditional notions regarding tripartism.

To analyze the nature and implications of recent tripartism this paper draws heavily from the analysis of the seven countries – United States, Australia, Korea, Ireland, Germany, Italy and the Netherlands, provided in The New Structure of Collective Bargaining, edited by Harry Katz, Won Duck Lee and Joo Hee Lee (2003).<sup>1</sup> In addition to highlighting the key findings of that research, this paper takes account of more recent developments in the seven countries and refers to recent scholarly research on social partnership and tripartism. Special attention is given in this paper to developments in Ireland because of the interesting nature and consequences of Irish “social partnership” and the fact that Ireland provides valuable for other countries, such as Korea, where the state of tripartism is in flux.

#### The Revival of National-level Social Pacts

In the 1980s, many analysts argued that corporatism, high-level negotiations involving aggregate representatives of labor and management representatives that often directly or indirectly involved national governments, had failed and

consequently, were unlikely to recur. Corporatism had become associated with wage inflexibility and thus considered too dysfunctional for the new competitive environment.

Events in the 1990s proved this analysis wrong as the analysis provided in Katz, Lee, and Lee (2003) shows. National-level social dialogue re-emerged not only in countries with a strong tradition of corporatist policy-making concertation (e.g. the Netherlands), but it also appeared in those countries where the traditional prerequisites had been weak, as the case studies of Italy, Ireland, and Korea described in the Katz, Lee and Lee volume demonstrate.

National emergencies played a key role in promoting social pacts. For members of the European Union (Italy, the Netherlands, and Ireland) a primary motivation for the social pacts reached in the 1990s was the need to bring inflation rates and public debts into conformance with “parameters” set for membership in the European Monetary Union (EMU). The Asian financial crisis played a parallel role in Korea, leading the parties there to turn to a tripartite commission to formulate recommendations concerning labor market and labor law policy reforms. The goal in Korea was to revive the economy and maintain social peace through a difficult period of economic adjustment.

While national emergencies emerged as a distinctive new factor encouraging social pacts, this did not imply that social pacts bore no similarities to earlier corporatism. According to Teague and Donaghey, the central goal of the social partnership initiatives adopted in Ireland since 1987, like earlier corporatism, was wage moderation.

Yet, in a number of important ways the social pacts negotiated in the 1990s differed from previous corporatism, including differences in the methods used to determine pay. For example, in Ireland's social pacts pay increases were tied to projected economic growth rates and not to expected rates of inflation, as had been the case as part of past incomes policies. The social pacts of the 1990s also were distinguished from early income policies in the way the pacts allowed for the sharing productivity gains through company-level collective bargaining, as in Italy and Ireland.

The scope of tripartite agreement also broadened beyond the focus of previous incomes policies or corporatism. In Ireland, for example, the Partnership 2000 program promoted participatory workplace restructuring. Employee and union participation became attractive to Irish unionists who worried about the effects that macroeconomic targets would exert on workplace outcomes and conditions. Meanwhile, employers viewed partnership at the enterprise level as a mechanism for sustaining economic competitiveness.

Regalia and Regini describe how unstable political exchanges of the 1980s in Italy were transformed into effective tripartism in the 1990s. The making of social pacts during the 1990s was facilitated by the strengthening of the Italian union movement that was greatly assisted by the reforms that took place in 1993 involving the introduction of a new workplace representation system (RSU's). The new workplace representative bodies helped revitalize unions by reconnecting them with workers and by clarifying the relationship between shop-floor labor-management interactions and interactions taking place at other bargaining levels in the Italian

industrial relations system. In the process, cooperation among the three major union confederations was restored. In particular, the consolidation of efficient channels for employee voice and the coordination of union activities proved to be crucial ingredients in the success of the 1995 pension reforms.

In a number of countries the processes that produced the social pacts that emerged in the 1990s included participation of a broader range of interest groups than was characteristic of earlier corporatism. In Ireland, for example, in addition to the traditional labor and management representatives, representatives of the not-for-profit sector and organizations representing the unemployed, women, and the socially excluded were included in the negotiating process from the mid-1990s on. The participation of civic associations (i.e. civil society) improved the problem-solving capacity of social dialogue and helped facilitate the inclusion of new topics in tripartite discussions concerning matters such as: the rationalization of public services, education, poverty, and equal opportunities.

The involvement of various rights groups was not merely for show. For example, the evidence from Ireland clearly shows that networks involving broad social and rights groups were critical to the partnership process. As Roche (2007) explains, “Formal and informal relationships among the principals and their growing experience of the conduct of partnership talks fostered mutual dependence and trust.” Critical to the formulation of broadly acceptable outcomes in the partnership process were democratic and other political processes. Baccaro (2003) has noted how heavily Irish unions “relied on democratic mechanisms of decision making to generate coordination within its ranks and legitimize its centralized policies.” This was

essential to the acceptance of wage policies that effectively restrained potentially excessive claims from groups in certain economic sectors and promoted adherence to new “wage norms” that emerged through national partnership.

### Decentralization and Individualization

In the seven countries analyzed in the Katz, Lee and Lee (2003) volume there are common trends toward increased decentralization in the locus of labor-management interactions and collective bargaining in particular, and greater individualization in the determination of employment conditions that are not necessarily in conflict with the tripartism that also occurred in some of the seven countries. At the same time, the specific form and roles played by decentralized collective bargaining and the more individualized determination of employment conditions varies much across countries.

The increase in the amount and intensity of sub-national collective bargaining in most countries took the form of greater company or plant-level collective bargaining. In Italy, for example, Regini and Regalia report on the increasing use of company-level collective bargaining. Simultaneously in Italy, more localized collective bargaining also was appearing through an expansion in the amount of territorial collective bargaining. In the United States, in unionized settings plant-level collective bargaining intensified as company or multi-company agreements either fragmented or saw their influence weaken as they took on the role of framework agreements that allowed for more differentiation within local agreements.<sup>2</sup> Australia’s previously highly centralized industrial relations system with a heavy role for a wage tribunal system and the Australian Industrial Relations Commission, experienced a rapid spread of enterprise-

based collective bargaining and, according to Baird and Lansbury, entered a phase of “fragmented flexibility.”

In Germany, the formal structure of collective bargaining did not change as the dual interest representation system and sectoral agreements continued, yet the influence of works councils increased. As Bosch describes, “works councils have become, de facto, grassroots union organizations through their negotiation of shopfloor issues, particularly, work organization.” (Katz, Lee, and Lee 2003:11) In addition, the influence of sectoral bargaining lessened as hardship clauses that allowed for the negotiation of local exceptions to sectoral contractual standards spread, and especially in eastern Germany, some companies withdrew from sectoral bargaining.

In a variety of countries local collective bargaining became a vehicle by which shop floor productivity and workplace flexibility were used to develop particular solutions that met the needs of individual firms. Yet, although local collective bargaining came to play an increasingly important role, there was variation in the degree to which countries retained mechanisms that coordinated employment-related outcomes. While in Germany in the 1990s works councils continued to exercise a strong coordinating role, as reported by Bosch, more recent research on Germany by Doellgast and Greer (2007) raises doubts about whether works council are still effectively exerting a coordinating role.

In the Netherlands, central pay targets and other policies agreed to in national “overlag” played a coordinating role across industry-level collective bargaining. In Italy, national-level social pacts provided framework agreements and set minimum conditions for local collective bargaining.

Nevertheless, increased coordination across the various bargaining levels within country systems did not occur everywhere (and may be dissipating in Germany). In the United States, the traditional coordinating role of pattern bargaining (historically limited by the low level of unionization) weakened further and nothing replaced it. In Australia, as the role of the wage tribunal system weakened and local (and in some cases individualized) bargaining increased, the traditional coordinating role played by the wage tribunal system and the Australian Industrial Relations Commission weakened (although the influence of these institutions did not go to zero).

As collective bargaining increasingly came to focus on work practice issues, greater individualization in the determination of employment conditions spread. In European countries (Italy, Germany, and the Netherlands) and in Ireland, individualization was heavily focused around efforts to introduce greater flexibility and variation in working times. Slomp describes how in the Netherlands the resulting variety in working time arrangements led to a blurring in the distinction between full and part-time work.

At the same time that the locus of collective bargaining was shifting downward due to the fact that local bargaining emerged as the central forum to address workplace issues, economic pressures were leading to a broadening in the scope of the collective bargaining that was still occurring at higher levels. Again events in the Netherlands provide a clear illustration of wider trends. Slomp reports how in the Netherlands the scope of industry-level collective bargaining broadened to include social security benefits, employee participation, childcare, and environmental issues. The country studies consistently also demonstrate that it was the need to

address broad economic and social issues that was behind the re-emergence of national-level social pacts.

### The Effects of Tripartism on Economic Performance and Social Policy Reform

Much has been accomplished through the new wave of national-level tripartite dialogue and pacts. In the Netherlands, Ireland, and Italy social pacts successfully promoted wage moderation, which in turn helped stimulate declines in unemployment and positive economic growth. In effect, the social pacts triggered particularly virtuous economic cycles that continue to this day in the Netherlands and Ireland. The Netherlands experienced a dramatic reduction in the rate of unemployment after instituting the “Polder Model,” becoming one of the best performing economies in Europe (with the lowest unemployment rate in the European Union in recent years). In Ireland, as Baccaro and Simoni (2007) argue, the partnership agreements, ...”introduced something akin to a new wage norm in the Irish economy: the linkage of wage increases (negotiated nationally) with the ability to pay of the least dynamic portions of the Irish manufacturing sector. In so doing, social partnership agreements dramatically boosted the cost competitiveness of the most dynamic sectors and firms.” Ireland, a country that had once faced the dual economic problems of high public debt and high unemployment, now enjoys virtually full employment and impressive economic growth (and stable industrial relations).

Social pacts also led to pension system reforms and promoted labor market flexibility by stimulating legal and other institutional changes that facilitated

expansions in part-time and temporary employment. And the improvements in national economic performance and government budgetary position brought by social pacts, by helping the respective countries conform to the requirements of the European Monetary Union, also helped stabilize the European Union.

In Korea and Italy, the structure of labor relations was reformed through national-level social dialogue. As discussed above (and more fully in Regalia and Regini's chapter) in Italy, the role of workplace representation structures was clarified, as was the relationship between industry and company (and other forms of local) collective bargaining. In Korea, the Tripartite Commission legalized the right of unions to engage in political activity, made it legal for public school teachers to unionize, and established works councils for government officials. In Ireland, as Roche (2007) writes, "...compensation in the form of 'welfare buffering' and fiscal reform provided quite essential underpinnings to Irish social partnership agreements from their beginning in 1987."

While this is an extensive set of accomplishments, the items in this set provide few direct and immediate benefits to unions and the workers they represent. The labor movement clearly benefits in the long run from the virtuous economic cycle stimulated by social pacts in the Netherlands and elsewhere, and labor gains long term benefits from the stabilization of European Union and the long-term advantages of pension and tax reforms and government account balancing. Yet, for

labor, these were all long term and indirect benefits, if benefits at all. One can then understand why labor was both a reluctant partner in the formation of many of the tripartite arrangements and continues to debate whether to support those endeavors. The limited direct benefits gained by labor movements from social pacts also helps explain why unions often puts their focus not on the promotion of social pacts, but rather on the maintenance or introduction of national-level collective bargaining.

The potential of national-level collective bargaining as a mechanism to first define and then raise employment standards is clear to the labor movement. As Lee and Lee report, the Korean labor movement (and especially a key labor confederation, the KCTU) viewed the creation of industry-level collective bargaining and industrial unions as prime objectives. While some industry-level collective bargaining has emerged in recent years in Korea from this push from the labor movement (the banking industry is an interesting case), employer opposition has stifled the spread of industry-level collective bargaining.

The lack of labor movement excitement over the contributions of national-level social pacts contributes to the “exhaustion” that now seems to surround social pacts in Italy, and to some extent in Ireland. This exhaustion may have been stimulated at least in part to the fact that the hoped for benefits to be derived from workplace partnerships did not always follow. In the United States, for example, team systems and labor-management shop floor partnerships in the auto industry and

elsewhere were overwhelmed by workforce reductions and crisis in the funding of health care benefits. In Ireland, as Roche (2007) and Roche and Geary (2006) report, workplace partnerships failed to produce sizeable clear economic rewards and confronted the return of more traditional labor-management adversarialism.

For business and government, in contrast, the benefits from social pacts are both more direct and short run. The wage moderation and government budget balancing accomplished through the pacts were sufficient to convince business and government in a number of countries to support social pacts. Yet, the business community and governments have not solidly endorsed social pacts. Even in the face of the clear advantages to the public interest provided by the social pacts of the 1990s, the Berlusconi government in Italy and the Howard government in Australia, in particular, saw no value in national-level pacts. Both of these governments instead preferred to rely on the “unimpeded” market as a method to determine labor market outcomes. This pattern also clarifies that one of the key determinants of temporal and cross-country variation in the use of tripartite pacts is the political choice of governmental actors, rather than the performance of social dialogue.

A factor that made it difficult for political actors to assess the economic performance implications of national-level tripartism was the strong economic growth that took place in United States, which occurred without the benefit (and some argued because of the very absence) of national-level tripartism. My reading of the

economic evidence, supporting the claims of the “varieties of capitalism” research literature, is that there is no one best way to organize national industrial relations systems and national economies. The successful economic performance of the Netherlands and Ireland in the 1990s and later suggests that social pacts can make a very positive contribution. Yet, the U.S. economic growth experience indicates that there is an alternative market-based path to economic growth.

The country studies provided in Katz, Lee, and Lee (2003) and subsequent developments suggest that with regard to social welfare concerns, the use of national-level tripartism appears to make a clear positive contribution. For, although the U.S. (market) model provides one road to strong economic growth, it appears to be a road that includes very large increases in income inequality and the absence of forums for addressing social welfare problems. In contrast, as discussed above, social pacts helped facilitate social policy reforms in a number of countries.

At the same time, evidence from the countries analyzed in the Katz, Lee and Lee volume and subsequent events suggest that while accomplishing much, national-level tripartism does not have the capacity to completely stop (or reverse) the trend toward increasing income inequality. Income inequality increased in the 1990s and later even in the Netherlands and Ireland where social pacts were strong as well as rising in countries where tripartism was lacking (the United States and Australia). What is less obvious is whether the presence of social pacts served to moderate

market forces that otherwise would have produced even more economic inequality in those countries that had social pacts if those social pacts had not been in place.

## Summary

Growing individualization in the determination of employment conditions also posed a serious threat to the institution of collective bargaining and was detrimental to the maintenance of equity among workers. In Korea, for example, severe social problems were created by the increasing use of atypical employment and the replacement of regular and long term employment by “irregular” employees who lacked employment security and received significantly lower pay and benefits. The temporary and day workers that are not allowed to join enterprise unions in Korea are bound to be subject to individualized employment contracts and do not possess the bargaining power necessary for the promotion of decent work conditions.

Atypical work, commonly outside the influence of collective bargaining and regulated on an individualized basis, was on the rise in a number of countries. The pressure for individualization of the employment relationship also reached into the upper tier of the labor market as highly skilled employees in countries such as the Netherlands and Australia were shifted from collective to individual contracts. Meanwhile de-unionization, which Katz labels, “the ultimate form of decentralization,” spread rapidly in a number of countries with individualized employment relationships appearing as the alternative to collective bargaining in most non-union settings. In Australia, a clear challenge to collective representation emerged through the Howard government’s promotion of the Australian Workplace

Agreements (i.e. individual contracts).

All these changes make it especially difficult to construct and sustain tripartite dialogue as the power of one of the key participants in dialogue, namely unions, declined. It was only natural that employers increasingly pushed for market-based outcomes and governments increasingly went along with this push in countries where unions became marginal members of the economic and political system. With a strong trend towards lower union density and lower collective bargaining coverage, it is difficult to sustain either highly coordinated collective bargaining or effective social pacts.

While tripartism could not reverse the trend toward greater inequality and labor market segmentation, it still had a number of virtues even in the face of the fact that labor, management, and government interact increasingly at a number of different levels. While certain aspects of collective bargaining have become more decentralized and individualized in recent years, in some countries at least, this was not inconsistent with the successful use of national-level tripartism to address a variety of economic and social problems. Experiences in Ireland, in particular, demonstrate the powerful influence national partnership can play in promoting economic growth and the role that formal and informal networking and associated political exchange play in supporting tripartism.

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## Endnotes

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<sup>1</sup> References are made in this paper to the country chapters from the Katz, Lee and Lee (2004) volume through citation of the respective chapter authors.

<sup>2</sup> Other countries not analyzed in this volume, such as Sweden, also experienced more decentralized collective bargaining (Katz and Darbshire 2000).