

## I

**Introduction***Trajectories of European Industrial Relations*

As with most academic monographs, ours has both empirical and theoretical goals. The primary empirical goal is straightforward enough: to examine the evolution of industrial relations in Western Europe from the end of the 1970s up to the present. The time period is designed to capture the break in post-war political economy that began with the crisis of Fordist economic growth experienced by most advanced capitalist societies in the 1970s and to trace how national industrial relations systems have fared since. Our purpose is to evaluate the extent to which liberalization has taken hold of European industrial relations institutions. We undertake our examination through five detailed chapter-length country studies – of Britain, France, Germany, Italy and Sweden – and quantitative analysis of these five countries plus an additional seven Western European countries and three non-European ones. The book offers a comprehensive description and analysis of what has happened to the institutions that regulate the labor market and relations between employers, unions and states in Western Europe since the collapse of the long postwar boom.

We argue that liberalization in the realm of industrial relations is best understood as involving an expansion of employer discretion: greater influence and control on the part of individual employers over wage determination, hiring and firing and the organization of the workplace. Thus, liberalization should be evident in the reconstruction of industrial relations institutions to expand employer discretion. This is likely to include, but not be limited to, decentralization and individualization of bargaining, deregulation of the labor market and decollectivization, involving a decline in the strength, size, centralization and coverage of class organizations, primarily trade unions. We also argue that institutions are often quite plastic, in that the same institution can, under different circumstances, come to function in a quite different manner than in the past. Understood in this way, liberalization may also take place through the “conversion” (Streeck and Thelen 2005) of existing institutions from discretion-limiting

to discretion-enhancing. As such, evidence of liberalization can be found in changes in the form of institutions (the dismantling of existing institutions and the creation of new ones), in a greater ability on the part of employers to bypass or ignore institutions that limit their discretion and in changes to the manner in which existing institutions function.

Our country case studies, encompassing a wide range of types of political economy and including the largest economies in Western Europe, show a clear liberalizing trajectory from the end of the 1970s to the present. In all cases, employers had greater discretion over their firms and their workforces at the end of the period than at the start. While liberalization has taken place in different ways and at different speeds, and European political economies currently rest at different locations along a liberalizing trajectory, they all appear to be heading in the same direction. The most striking feature of our survey of industrial relations developments across Western Europe is not the range of national variation at either the start or the end of the roughly thirty-five-year period under investigation, but rather the transformation in industrial relations institutions that has taken place everywhere across that period. The landscape of industrial relations has changed in fundamental ways since the end of the 1970s, and everywhere in the same direction, involving an expansion of employer discretion.

Given our empirical findings, our theoretical concerns should come as no surprise. The primary theoretical goal of this book is to provide a critical examination of some of the central claims of comparative political economy (CPE), particularly those involving the role and resilience of national institutions in regulating and managing capitalist political economies. The field of CPE is one of the most intellectually vibrant within political science and comparative macrosociology, focusing upon the origins, trajectories and performance of national economic institutions in a comparative framework. CPE has long been dominated by theoretical approaches that emphasize three linked arguments. The first is the central, independent role of institutions themselves in mediating between structural economic change and the choices available to political-economic actors; institutions play an important role in insulating national political economies from common economic pressures (Hall and Taylor 1996; Steinmo, Thelen and Longstreth 1992). By institutions, scholars mean everything from a financial system to organizations such as unions or employer associations and widely accepted practices such as collective bargaining. Thus, institutions have provided middle range explanations for national differences.

The implication of a CPE that relies heavily upon institutional analysis has been a theory of change that emphasizes the role of history and of path-dependent effects (Pierson 2004). Thus, a second and related argument within CPE is that institutions encourage incrementalism and path dependence. Institutions are argued to be highly resilient and resistant to change, encouraging economic and political actors to defend existing institutions or to make

relatively minor changes along an existing path. This tendency was accentuated in the initial formulations of the Varieties of Capitalism approach (Hall and Soskice 2001b). Thus, institutions created in the quite distant past can continue to shape the behavior of actors in the present, and to make radical changes in the direction of a given political economy unlikely.

It follows, and this is a third linked argument, that the field of CPE has traditionally been hostile to the idea that the main institutions of advanced capitalist societies are undergoing similar transformations and becoming more alike. For at least the last thirty years, the field has been dominated by approaches and empirical studies that emphasize the enduring diversity and range of distinct national capitalisms. The resilience of institutions has been used to argue for continuing institutional heterogeneity in capitalist political economies, even in the face of heightened international economic constraints. Even when institutions have clearly undergone substantial change, the expectation of those working within the CPE field has tended to be that change will be shaped by local interests and nationally specific factors, so that there is no reason to anticipate common trajectories of change or common cross-national patterns; rather, the institutional landscape of advanced capitalist societies is likely to remain characterized by national diversity even in the face of powerful liberalizing pressures (Thelen 2014).

There are good and legitimate reasons for all this. Any common trajectory of capitalist political economies is likely to be hidden by the long periods of time involved, by the incremental nature of most institutional change, by differences in the timing of change over the last three decades or more, by a privileging of form over function in the analysis of institutions and by habits of mind and the sociology of knowledge production; most of us have made deep intellectual investments in understanding comparative (usually national) difference, and CPE has a laudable commitment to local knowledge. One can add that it derives also from the gradual displacement of capitalism – as opposed to markets – as an object of scholarly inquiry that has taken place within much of the social sciences, and with it the inability to make sense of transformational change across the advanced capitalist world. The simple reality is that contemporary analysis of political economy has been much better at explaining differences than identifying commonalities.

Our book builds upon recent work within the CPE field that has begun to contemplate the possibility of more radical, transformative institutional change (Campbell 2004; Hall and Thelen 2009; Streeck 2009; Streeck and Thelen 2005). The book takes issue with each of the core arguments of the field noted above, proposing instead (i) that institutions are heavily dependent upon the social, political and economic contexts within which they operate for the manner in which they function and the outcomes they generate; (ii) hence that institutions can change quite rapidly, both in form and in function; and (iii) that a careful examination of contemporary capitalist political economies reveals a

common liberalizing tendency in the trajectory of industrial relations institutions, as everywhere employer discretion has expanded and the balance of class power has shifted against labor.

The plan for the book is as follows. Chapter 2 lays out the theoretical argument of the book, examining the literature on institutional change as a starting point for rethinking the sources and mechanisms of change and the relationship between the balance of class power, the transformation in capitalist growth models, and the role of political-economic institutions. The chapter proceeds to elaborate a meaning of liberalization in the sphere of industrial relations as fundamentally involving an expansion of employer discretion, before outlining an understanding of institutional convergence as movement along the same trajectory rather than institutional identity. Chapter 3 provides a quantitative analysis of institutional change in industrial relations for twelve Western European countries. We also include in the analysis three additional liberal market economies (of which there are very few in Western Europe). The quantitative analysis indicates important elements of a common liberalizing trajectory, particularly with regard to trade union organization, industrial conflict and collective bargaining decentralization. Nonetheless, this analysis also demonstrates important continuing differences in institutional form. We argue that due to the limitations of available cross-country measures, large-*N* analysis is at best able to capture liberalization as change in institutional form but not liberalization as institutional conversion, and we make the case for detailed case studies and process tracing of institutional change.

There then follow five chapters, Chapters 4–8, each containing a detailed country case study. These cases have been chosen to run the gamut of varieties of capitalism, to include centralized and decentralized cases and those that have seen a resurgence of social concertation. In short, we have chosen “hard” cases for an argument that claims to have identified a common trajectory of institutional change. Together, they provide remarkable variation in institutional setup. Each country case follows a common outline, beginning with a stylized portrait of the industrial relations system at the end of the 1970s and of the extent to which institutions enabled or constrained employer discretion in wage setting, work organization and labor market regulation. The chapters then trace the process of institutional change over the subsequent thirty years, concluding with a stylized portrait of the industrial relations system in 2015. We pay particular attention to moments of crisis in industrial relations, when reform efforts multiplied, and to the relative roles of employers, unions and governments in the process of institutional reconstruction.

Chapter 9 provides a comparative analysis of the case study evidence, examining mechanisms of institutional change and the extent and form of liberalization in industrial relations. The chapter then proceeds to a discussion of the role of trade unions, employer organizations and states in institutional change. The case studies indicate both that employer organizations in practically every country underwent radicalization in the course of the 1980s and 1990s and

were thus more willing to contemplate quite dramatic change, and that states – often thought of as largely passive or ineffective actors in the current period – were crucial players in creating the conditions for wide-ranging liberalization. Chapter 10 steps back from the quantitative and case study evidence to locate the liberalization of industrial relations within the broader framework of the collapse of Fordism, explaining how the crisis of institutions enabling the transmission of productivity increases into real wages and aggregate demand has led to the emergence of different post-Fordist growth models, all characterized by inherent instability.

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## 2

## Arguing for Neoliberal Convergence

This chapter makes the theoretical case for institutional convergence, along a neoliberal trajectory, among the political economies of Western Europe. We will elaborate further below what we mean by neoliberal convergence, but it is worth emphasizing at the onset the degree to which the field of CPE has traditionally been hostile to the notion of convergence. For more than thirty years, for the great majority of those working in the field, the mission of CPE has been all but conterminous with identifying and explaining the enduring diversity and range of distinct national capitalisms. Many of the seminal works in the field have argued that broad economic changes – whether understood as the product of shifting regimes of accumulation, deindustrialization or the forces of globalization – are experienced differently and have very different effects in different countries. The result has been that the dominant theoretical approaches in CPE are dubious about the likelihood of common consequences, similar trajectories or institutional convergence (Berger and Dore 1996; Campbell 2004; Garrett 1998; Hall and Soskice 2001b).

The absence of expectations of convergence in these analyses is primarily a result of the centrality that has been accorded to institutions in the discipline of CPE and the characteristics attributed to political-economic institutions. Indeed, “the idea of persistence is virtually built into the definition of an institution” (Thelen 2009, 474) and contemporary theories of CPE have, to a large extent, been built on the back of institutionalist theorizing (Hall and Taylor 1996). Institutions have provided middle range explanations for national differences that mediate between broad structural explanations, which tend to anticipate convergence in industrial society, and narrowly political arguments about agency, which privilege partisan policy choices.

The remainder of this chapter is organized into three sections. The first surveys the literature on institutional change within CPE to demonstrate its persistent resistance to convergence arguments. The second section lays out our

argument that institutions are inherently malleable, capable of functioning quite differently in different economic contexts, and that therefore there are strong reasons to anticipate convergent institutional change. We argue that in the current period of capitalist growth, the trajectory of institutional change is best characterized as neoliberal. The third section of this chapter sketches out an alternative approach to CPE and to emerging capitalist growth models – one heavily informed by the power resources approach, regulation theory and heterodox economics – which, we believe offers an explanation of the broad liberalizing character of institutional developments in the sphere of industrial relations over the last thirty five years. We will return to this alternative approach in the final chapter of the book to sketch out the implications of the universal tendency toward liberalization of industrial relations that we describe in the empirical core of the book for the stability and future of contemporary capitalist growth.

## 2.1 Theorizing Institutional Change

This is not the place for a comprehensive review of the evolution of institutional theorizing. Suffice it to say that, following on the heels of Shonfield's magisterial *Modern Capitalism* (Shonfield 1965) and the efforts of the contributors to the volume *Between Power and Plenty* (Katzenstein 1978) to explain divergent responses to the oil shock in the mid-1970s, academic attention shifted from an emphasis on one political-economic institution to another: corporatist institutions (Schmitter 1974), organized labor (Cameron 1984), financial institutions (Zysman 1983) and employer organization and institutions of employer coordination (Soskice 1990, Swenson 1991). But all the while, the structuring role of institutions has remained central.

The resilience of institutions has been used to explain the absence of widespread convergence in capitalist political economies and the persistence of distinct national institutional sets, even in the face of heightened international economic constraints. Institutions mediate common economic pressures, distribute power among actors and offer solutions to coordination problems facing market economies. As Steinmo, Thelen and Longstreth (1992) argued, institutions have independent power to structure the distribution of economic power and the behavior and even interests of economic actors.

The implications of a CPE that relies heavily upon institutional analysis has been a theory of change that emphasizes the role of history in politics and generates path-dependent effects (Pierson 2004). It illustrates, in Shonfield's marvelous phrase (Shonfield 1965, 88), "the way in which a living tentacle reaches out of past history, loops itself round, and holds fast to a solid block of the present." It is these characteristics of institutions that contribute to expectations of continuity, of minor incremental change along an established path and of a stickiness in which strong pressures exist for actors to use established institutions to respond to new economic conditions.

Institutionalist approaches within CPE received a new urgency in the 1990s, when wide-ranging political and economic developments raised once again the possibility of a broad convergence in the institutions of advanced capitalist political economies. It was in this context that the varieties of capitalism (VoC) literature associated with Hall and Soskice (2001b) emerged. This approach identified firms as the primary actors within capitalist economies, seeking to “bring firms back into the center of the analysis” (Hall and Soskice 2001b, 6) suggesting less prominent, less strategic roles for both state actors and organized labor. In this approach, institutions are important primarily for their ability to solve coordination problems for firms. Thus, the importance of institutions for VoC theorists is less that they distribute power or sanction behavior, and more that they facilitate information flows among actors, permit “decentralized cooperation” (Culpepper 2001), and solve familiar collective action problems, such as the underprovision of training. Among capitalist economies, this approach identified two broad ideal-typical types of political economy: liberal market economies (LMEs) and coordinated market economies (CMEs). The former rely primarily upon unregulated labor and capital markets to solve coordination problems, while the latter rely more heavily upon nonmarket forms of coordination.

The tendency within most CPE to an account of limited institutional change was accentuated in the initial formulations of the varieties of capitalism. The familiar mechanisms of path dependence and positive feedback were bolstered by the role of institutional complementarities and comparative institutional advantage. Institutions are rarely able to perform their roles in isolation; rather, there are likely to be interactions and complementarities among institutions. These complementarities imply that there is a tendency for institutions to reinforce each other, forming interlocking ensembles of institutions spanning the various spheres of a political economy with the result that a particular set of institutions is highly resistant to change. Furthermore, because countries enjoy a particular “comparative institutional advantage” for specific types of production, this in turn encourages actors, particularly employers, to reinforce and defend those institutions rather than to challenge and transform them. Thus, for example, in a central claim of the VoC approach, skills serve as the link between institutions and a production regime; the ability to emphasize either general or industry-specific skills is reinforced by an interlocking set of training, social welfare and industrial relations institutions, which in turn affords a comparative advantage in certain kinds of production (Estevez-Abe, Iversen and Soskice 2001).

It followed that this approach was deeply skeptical of the likelihood of convergence: “nations often prosper, not by becoming more similar, but by building on their institutional differences... Thus, much of the adjustment process will be oriented to the institutional recreation of comparative advantage” (Hall and Soskice 2001b, 60, 63). If anything, institutional arbitrage is likely to consolidate difference, rather than erode it. As Thelen (2009, 474) notes of the resulting



theoretical edifice, “as illuminating as this framework has been on the question of institutional reproduction, scholars working in this tradition have generally had much less to say about institutional change over time.”

The VoC approach was, in many ways, the culmination of more than a generation of scholarship in CPE. It built upon the emphasis within that tradition on the resilience and diversity of national models of capitalism, with the resilience explained by the path-dependent qualities of institutions. To this tradition, it added theoretical rigor by embedding path dependence in arguments about institutional complementarities and comparative institutional advantage. And it further offered a micro-foundational argument to explain why actors should be expected to defend existing institutions.

It should be said that there has always been some dissent from this emphasis upon cross-national diversity and limited institutional change within the field of CPE (Coates 2005). Regulationist approaches to political economy, whether in their French (Boyer 1990), British (Jessop 1990a) or American (Kotz, McDonough and Reich 1994) versions, have been far more interested in institutional change by virtue of their assumptions about the inherent instability, conflictuality and dynamism of capitalism. This alternative view of the way capitalism functions, one we share, is something to which we shall return later in this chapter. For this tradition, and what gives it its name, the importance of institutions is that they are mechanisms for permitting *regulation*. Regulation was the “master-concept” developed to explain the period of largely stable growth for three decades after the Second World War” (Neilson 2012, 161). What resulted was essentially a punctuated equilibrium model that emphasized temporal discontinuity and a degree of synchronicity across the advanced capitalist world in the timing of structural economic change: the form of economic growth known as Fordism everywhere went into crisis at some point in the 1970s, to be replaced by post-Fordism, though one that went by almost as many names as there were regulation theorists.

But even here, in an ironic example of theoretical convergence, distinct national models of capitalism have come to dominate the landscape of regulationist theorizing, particularly that associated with Robert Boyer (Boyer and Saillard 2002, Part V). Delineating the core dynamics of the emerging growth model (or “regime of accumulation”) gave way to identifying its institutional prerequisites, with the unsurprising result that the focus of much regulationist research has become the variety of national regulatory mechanisms: “Examining the extent of convergence in terms of the regulation of core capitalist forms is lost from the research agenda, and instead the theme of national diversity shifts attention to the contingent political struggles that endogenously generate specific path-dependent national trajectories” (Neilson 2012, 169). Nonetheless, the regulationist tradition of political economy remains distinct in its emphasis upon the changing physiognomy of capitalism itself and its inherent crisis tendencies. As such, it remains an important theoretical tool, to which we return in the last section of this chapter.

Quite recently, in part in response to the perception that the early formulations of the VoC approach were somewhat static and functionalist, theorizing and debate over the degree and form of institutional change have moved to the center of the field of CPE. This has taken place on the back of a less functionalist, more political reading of the dynamics of capitalist political economies, one that emphasizes contingency, power, contestation, the fragility of the political coalitions that undergird institutional construction (Streeck and Yamamura 2001, Streeck 2009) and the ideational preconditions for institutional embedding (Blyth 1997, Culpepper 2008).

It bears mentioning that there always were internal differences within the VoC literature. For example, while in Soskice's account (1999), employers in CME countries were conceptualized as having prestrategic preferences for coordinating institutions, employers' support was considered to be strategic as opposed to prestrategic in Thelen's account (2001), and contingent on labor's countervailing power. This second interpretation was from the very beginning much closer to that of power resource theorists such as Korpi (2006a) or Streeck (2009) than the first.

Over time, from this more political stream within the VoC approach have come a renewed emphasis upon institutional experimentation, a less functionalist interpretation of the process of institutional reproduction and greater space for actors to reassess their interests and contemplate institutional change (Hall and Thelen 2009). It is also important to note that even in its original formulation, this approach allowed for the possibility of convergence on the LME variety of capitalism, noting that it is easier to deregulate CMEs than for LMEs to develop coordinating mechanisms and musing that institutional reform in one sphere "could snowball into changes in other spheres as well" (Hall and Soskice 2001b, 63–64). We would argue, and our cases indicate, that the unraveling of CMEs and the further liberalization of LMEs in the sphere of industrial relations had been well under way for more than a decade when this statement was written.

The most fully formulated argument in favor of gradual or incremental transformation – in which an accumulation of small, barely perceptible changes becomes transformational over time – came from Streeck and Thelen (2005). They acknowledge that most institutional approaches understate the degree and significance of change, that intensified competition and a greater commitment to market liberalism have exerted real pressure on institutions and that one cannot assume that economic actors will always seek to defend existing institutions rather than modify them. They identify a series of mechanisms by which incremental changes can have transformative effects (Streeck and Thelen 2005, 31). For example, the same institutions can take on new functions, latent effects can be activated, existing institutions can atrophy and peripheral institutions can take center stage. In a similar fashion, Campbell (2004) has articulated a more "actor-centered institutionalism" (the term originates from Scharpf (1997b)) in which entrepreneurial actors, working within existing sets