

POLÍTICA **C**OMPARADA

What are unions for? **The changing role of trade unions** **in modern economies.**

Anke Hassel

2012 / 06

Abstract

Even though the financial crisis has strong negative effects for the labour market, trade unions have not gained support. Globalization, the service economy and the new orientation of the centre-left have contributed to the marginalization of trade unions worldwide. Trade unions as forces for social justice in a highly insecure and unjust environment have to shift towards a more comprehensive approach including supply side policies and addressing the concerns of young people and labour market outsiders in order to stop their demise.

“

During the 20th century, trade unions were key actors in economic policy.

”

Introduction

The 2008 financial crisis' bail-out is one of the biggest moments of redistribution from the poor to the rich and from the public to the private sector in recent history. However, despite the enormous injustice this entails, it has done nothing to empower trade unions – those organizations whose role it is to ensure social justice and workers' rights: Rather the opposite, trade unions are on the verge of extinction, particularly in those countries where the role of financial services is furthest advanced.

During the 20th century, trade unions had a firm place in modern market economies. Union organizations were the counterweight to business and employers striving to compensate for the individual workers' vulnerability to market risks. As an economic and political organization, trade unions could raise wages, improve working conditions and promote centre-left political parties who presented their interests in the political arena. **Social insurance and redistribution, employment protection, health and safety and the expansion of the middle class over the last 100 years were directly connected to the work of trade unions.** Their role and functions emerged in the process of industrialization in the late 19th century. Over time, trade unions became a fixed actor in the economic policy of advanced industrialized countries. Only two decades ago, no observer would have expected trade unions to disappear from the scene.

Today, the situation has fundamentally changed. Since the mid-1980s trade unions have been rapidly losing influence and power in almost all industrialized countries. The loss of employment in manufacturing, the rise of service sector employment, the emergence of global value chains as well as political and policy changes have altered the way we look at the labour market today. Instead of constant wage gains for the standard worker, wage restraint is on the cards; labour markets are liberalized, centralized collective bargaining structures are dismantled and social inequality is continuously rising. Trade unions have in many countries almost completely retreated into the public sector. They have had little clout to change these processes. **The whole western world has embraced a process of marketization and liberalization, in which collective organizations only play a marginal role.** In some countries, such as the United States, trade unions are marginalized to an extent that we can envisage a world without trade union influence at all. Why is this case? And what is the new role of trade unions in the future?

“

Marketization and liberalization has marginalized the role of trade unions.

”



The Keynesian Welfare State built upon the management of national labour markets.



A new world of work

Trade unions were at the height of their strength during the first three decades after World War II. The Keynesian Welfare State (KWS) was built upon steady institutions and regulations that controlled capital movements internationally, heavily protected employment and social risks domestically and was based on the manufacturing base of advanced industrial countries. According to Bob Jessop, there were certain features that made the Keynesian Welfare State unique (Jessop 2007):

The Keynesian Welfare State aimed to secure full employment in relatively closed national economies and did so mainly through demand-side management and integrated national infrastructural provision. Managing national labour markets was an important policy component. Social policies generally instituted economic and social rights for all citizens so that they could share in growing prosperity even when not employed in the high-wage, high-growth manufacturing sectors. Third, the Keynesian Welfare State was primarily based on national economic and social policies that were pursued within the historically specific. Fourth the Keynesian Welfare State was much more oriented to the state in the sense that state institutions, public companies and state-led planning were employed actively to correct market failure. Also, economic actors such as employers' associations and trade unions acted under the close auspice of the state and were licensed and often supported by state agencies.

This model of economic development gradually eroded due to slower growth in Western countries during the 1960s, inflationary shocks in the 1970s and subsequent liberalization of capital markets. **A crucial component of the shift in economic policy away from a 'mixed economy' as described by Shonfield, to an overwhelmingly liberal and private economy, was a new political understanding that put a premium on market coordination as opposed to state correction (Shonfield 1965).**

The policy shift also grounded in economic theory, which now claimed that contrary to Keynesian assumptions demand-side policies led to price increases but had no effect on the real economy. Only supply side policies could redirect national economies onto a growth path. Supply side policies targeted market regulation and subsidies. Rather than accommodating and facilitating regulated markets, these were now prone to rent-seeking and inefficiencies.

“

Supply side policies focused on labour market deregulation, flexible adjustment and competitiveness.

”

“

Supply side policies, activation and flexibility are still key policy recommendations for dealing with the crisis.

”

State failure, rather than market failure, moved into the center of attention and the state itself became a key target for policy reform.

In that context, trade unions were forced to assume a different role. Rather than being the key institutional pillar for underwriting stability, protection and egalitarian wages, the role of trade unions shifted. They were increasingly perceived by policy-makers and business as organizations that presented obstacles for supply side reforms, flexible adjustment and competitiveness. They met political opposition to what they were aiming to do – not just by centre-right governments, but also by the centre-left. Policies of the ‘Third Way’ as initiated and developed by the government of Tony Blair in the United Kingdom embraced supply side policies as well as public service reforms and had a similar sceptical view of trade unions as the centre-right. Trade unions therefore not only met increasing opposition by business but also in the political arena.

However, the shift in approach towards economic policy and the retreat of the state was not uniform and did not accord to economics textbooks. Public spending hardly dropped and actually increased in many countries. Supply-side policies were sustained by demand through public spending, tax breaks, increasing public debt and continuous monetary stimuli through low interest rates. Also, policy-making in many advanced countries still heavily relied on union cooperation for wage restraint, union financing of centre-left parties and was constrained by trade union opposition to labour market deregulation and welfare reforms. **But on the whole, unions found it ever more difficult to defend their role as policy-partners on matters of economic development and social justice.**

Over time, a new economic and political reality developed. Flexible labour markets, activating social policies, supply side economic policies have largely succeeded as policy blueprints – even after the financial crisis of 2008. They were reinforced by policy-recommendations by international organizations such as the OECD, the World Bank and IMF, and became part of the policy agenda by the EU Commission. Today they are part of the parcel of Troika recommendations in the conditionality section of bail-out programmes (Armingeon and Baccaro 2011).



Union decline and decentralization of wage bargaining institutions occurred throughout the OECD world.



The changing effects of trade unions and wage bargaining institutions in the OECD

Trade unions found it difficult to defend and adjust their role in the new economic paradigm. While the Keynesian Welfare State suited their membership and ambitions well, the move towards supply side adjustment left them with a dilemma of either fighting the policy change or becoming agents of change themselves. **In many places, trade unions did not manage to do either successfully and were subjects of a long-term organizational and political decline.**

This can be shown by looking at the two pillars of labour power in the market place: the proportion of wage and salaried workers who are organized by trade unions and more centralized or coordinated collective bargaining structures (Baccaro 2008, 2).

The most important indicator for the changing role of trade unions is their membership strength. Membership levels vary substantially across the OECD world and range between

7% in France and 70% in Sweden. This reflects the very different ways in which trade unions can access workplaces and social security administration for recruiting and retaining members. More important, however, are the patterns of change. In Eastern Europe trade union membership has virtually collapsed over the last two decades, as trade unions could not make a credible switch from being part of the socialist state apparatus to genuine membership organizations. But also in Western Europe, some countries saw drastic decline in union membership. Trade union membership in Germany dropped by 36% between 1990 and 2010. Similarly, Irish, Australian, British and Greek trade unions saw membership decline by more than 20%. Spanish trade unions, which were among those with rather low density rates, managed to keep their membership stable around 15%. As membership declined it became concentrated in former pockets of trade union strength. In Germany and Belgium, unionization rates are particularly strong in manufacturing. In many other countries, unions are now confined to the public sector. **In no advanced country union membership in private services is higher than in manufacturing or the public sector.**

“
*Labour
 market
 institutions do
 not improve
 economic
 performance
 any more.*
 ”

Also wage bargaining institutions decentralized, which further weakened trade unions. Centralized wage bargaining institutions for sectors or the economy as a whole can set standards and conditions for a big group of workers. Decentralization makes wage bargaining under weak economic growth more difficult. Again, in a wide range of countries bargaining institutions decentralized over the last two decades. Only in Slovenia are wage bargaining institutions more centralized today than in the past. In Sweden, Germany, Australia and Austria, the level of centralization has declined. Collective bargaining decentralization has been pushed by employers seeking to have more flexibility at the local level. In Sweden, Germany and Austria these processes have taken place within a stable framework of bargaining coordination. Most Western European countries, including Spain, still have bargaining structures that are centralized at the sectoral and regional level.

The same is true for the coverage of wage bargaining. Again, in many countries there has been a decline in wage bargaining coverage, which goes hand in hand with wage bargaining decentralization. The more firms opt out of centralized bargaining structures, the fewer workers are covered by centralized collective agreements. Coverage today ranges from 34% in the UK to 99% in Austria. Spain has a high level of bargaining coverage with 86%.

The effects of trade unionism and wage bargaining institutions on economic performance have changed over time, too. While earlier research has found evidence that higher level of centralization and unionization were related to better economic performance, this correlation has weakened over time. In the period of high inflationary pressure of the 1970s and 1980s centralized wage bargaining helped to deliver wage restraint and to bring down inflation. Therefore, countries with higher levels of unionization and centralization fared better than others. However in recent years these effects can no longer be observed due to the effect of a low inflationary environment. Today, centralized wage bargaining is not systematically correlated with better performance (EU Commission 2008). However, the opposite is also not the case. There is no stringent empirical argument for the case of decentralized wage bargaining.

As an effect of the crisis, reforms of wage bargaining institutions have been part of the proposals for countries that have sought help from the European Stability Fund. Bargaining decentralization aims at allowing for more flexible wage adjustment. Facilitating wage adjustments downwards within firms in a low-inflation environment is a new phenomenon, which has not been part of

“
Positive effects of trade unions on social equality have diminished.
 ”

the tradition of collective bargaining in Europe or elsewhere. In the coming year there will be much experimentation with new bargaining mechanisms.

Whether the recent legislative reforms in Spain will add to flexibility or just unilaterally shift the bargaining power away from trade unions towards the employers remains to be seen. Some observers expect negative effects: they assume that the reform would lead to the loss of 800,000 jobs, adding to the social, economic and public finance crisis (Meardi 2012). It is also expected to increase legal disputes at the company level.

Moreover, for a long time, it was assumed that wage bargaining institutions helped to compress wages and therefore contribute to social equality. Recent research has started to doubt these results and questioned the effectiveness of centralized wage bargaining structures on social equality (Baccaro 2008). **Empirical analysis on the role of unions and wage bargaining institutions on wage equality concluded that trade unionism today face reduced space for wage compression.** This can be explained by more elastic labour demand curves, particularly for the low skilled, and greater wage premia demanded by the high-skilled as a result of skill-biased technical change. On the other hand, this analysis also implies that the decline of trade unions and wage bargaining institutions are not responsible for growing inequality. Rather technological change and globalization are the key variables.

This suggests that the capacity of trade unions to contribute to social equality by compressing wages has largely been lost. On the other hand, if skills are driving wages, then trade unions could refocus on a new role in the delivery of skills (Baccaro 2008). Some European countries such as Germany and Austria have a great deal of experience with high quality vocational training systems that produce high quality skills at the workplace. The Nordic countries are very active on life-long learning. In Denmark trade unions are a key driver of active labour market policy and training. In general, trade unions have been more accepted and appreciated in countries, where their contribution to training has been institutionalized.

Restructuring the Welfare State

During the transition from the Keynesian Welfare State to a new policy paradigm of supply side adjustment the role of trade unions changed but often they

“

Supply side policies by trade unions are important but underdeveloped.

”

remained crucial actors in national and regional policy-making. Many governments cooperated with trade unions in order to facilitate labour market adjustment and welfare reforms. Research on tripartite concertation between governments, trade unions and employers has shown that particularly during the 1990s in preparation of European Monetary Union, trade unions were important partners of governments for economic policy making (Avdagic et al. 2011, Hassel 2006). Tripartite agreements were particularly helpful in countries, where political institutions did not allow for clear majorities and strong governments and negotiations were perceived to be more effective than unilateral policy decisions. However, after the introduction of monetary union in Europe, tripartite negotiations lost their importance. This is mainly due to the fact that the first decade of the monetary union led to economic prosperity in many peripheral countries such as in Southern Europe, but also Ireland. Moreover, since interest rates were low and all countries were seen as solvent, governments could ease adjustment pain with public spending. For instance, during the 2000s Spain witnessed an impressive improvement of labour market performance. Primarily driven by the boon in the construction sector and combined with large waves of migrants working in agriculture and construction, the Spanish economy boomed. During these years there was little need for tripartite negotiations.

“

New social risks among labour market outsiders are not sufficiently covered by trade unions.

”

At the same time, policy-makers also confronted the task to realign social security with emerging social risks. The mature welfare state had developed structures that focused primarily on social insurance of old age and unemployment, thereby protecting largely labour market insiders with permanent, full-time positions. With the increase in service sector employment and ongoing industrial restructuring, the share of labour market insiders declined and increasing parts of the labour force started to work in insecure and part-time employment. In many countries, the transfer-heavy and insurance based social security system added to the polarization between insiders and outsiders on the labour market. **Conflicts emerged within political systems but also within trade unions as to how to reallocate public social spending to protect outsiders and insure new social risks.** The main trade unions were often caught bare-handed as union membership is concentrated among insiders and much weaker among outsiders. They were largely defenders of the old welfare state when it came to pension and labour market reforms. In some cases, as in France, unions defending the rights of labour market insiders managed to convince outsiders that these were their rights in equal measures as they hoped to become labour market insiders one day. On the whole, political alliances between centre-left parties and trade unions that supported insider focused social rights started to crumble (Häusermann 2010).

“

In the current economic environment there is little need for tripartite negotiations.

”

The question of how to insure the social risks of new groups on the labour market and how to redistribute social spending and protection between generations has thereby moved into the center of attention. Current generations of pensioners enjoy the benefits of the golden years of the Keynesian Welfare State which younger generations will not be entitled for. Early retirement provisions, training support and unemployment protection and benefit have been cut in the majority of countries. At the same time, the gap between insiders and outsiders has widened with younger generations generally belonging to the group of labour market outsiders. **On the whole, unions sided firmly with the insiders – protecting employment rights for permanent employees in order to avoid an overall erosion of protective legislation.**

In addition, the financial crisis has limited policy options further and austerity implies more cutbacks in welfare entitlements. More policy adjustments are on the table. Austerity measures across the OECD require further restructuring of labour markets and the welfare state.

As trade unions draw legitimacy from social justice arguments and act as interest organizations, their approach of protecting insiders has been increasingly challenged. High levels of youth unemployment have not contributed to the rejuvenation of trade unions in Europe. Rather the opposite: union membership among the young is lower in countries where the gap between insiders and outsiders is particularly pronounced. In Spain, only 2% of the younger population under the age of 25 are members of a trade union. In other countries, such as Denmark, unionization rates go up to 30% among young people. Compared to the overall unionization rates of 80% in Denmark, this is still very low. Trade unions find it very hard to attract young members; while at the same time, unions also find it hard to address the concerns of young people.

“

Trade unions need to address the concerns of young people.

”

As a force for social justice and an actor in the reform of the welfare state, trade unions would need to widen their outlook from current membership interests to broader concerns of society. Rather than allocating political capital in fighting pension reforms and labour market deregulation, the concerns of young generations have to do with access to education and the labour market, as well with work-life balances and equal opportunities. In order to pick up on these concerns unions would need to reform their political agendas and priorities. As centre-left political parties will have to move their electoral strategies towards reconciling insider and outsiders' interests, unions will have to move with that flow in order to remain political agents.

“

In the current economic environment there is little need for tripartite negotiations.

”

Conclusion

The electorate in advanced industrialized countries has become increasingly skeptical and critical of the responses to the financial crisis. Taxpayers have to foot the bill for bailing out the financial service industries. Banks themselves have contributed very little to the solution of the crisis. Long term austerity will lead to welfare cuts and lower level of living standards in many countries. Given the highly unequal distribution of burden after the crisis, trade unions should have been able to cash in much more from the dissatisfaction of many voters.

The very fact that the financial crisis has not benefited unionization points to the underlying long term structural changes of modern economies and labour markets which have altered the role of trade unions. Globalization, the service economy and the new orientation of the centre-left have all added to the marginalization of trade unions. They themselves were not able to revitalize their own organizations sufficiently to adjust to new times.

Trade unions could play a different role in the new economy. But this requires a more convincing and modern outlook vis-à-vis labour markets, social policy and advocacy. Trade unions as forces for social justice in a highly insecure and unjust environment would require leaving behind many successful experiences of workers' representation in the manufacturing sector. It is not clear how to manage the shift, which so far only in the Nordic countries has taken place. It will remain to be seen how and to what extent European unions can make the leap of faith.

References

- Armingeon, Klaus and Baccaro, Lucio(2011). *The Sorrows of Young Euro:Policy Responses to the Sovereign Debt Crisis*. Manuscript.
- Avdagic, Sabina. 2011. *The emergence of pacts: analyzing negotiation processes and bargaining outcomes*. In: Social pacts in Europe: emergence, evolution, and institutionalization. Oxford University Press.
- Baccaro, Lucio. 2008. *Labour, Globalization and Inequality: Are Trade Unions Still Redistributive?* Discussion Paper No. 192. International Institute for Labour Studies of the International Labour Organization.
- EU Commission. 2008. *Industrial Relations in Europe 2008*. Brussels
- Hassel, Anke. 2006. *Wage Setting, Social Pacts and the Euro. A New Role for the State*. Amsterdam University Press.
- Häusermann, Silja. 2010. *The Politics of Welfare State Reform in Continental Europe: Modernization in Hard Times*. Cambridge: Cambridge University Press.
- Jessop, Bob. 2007. Towards a schumpeterian workfare state? Preliminary remarks on post-fordist political economy. In *Globalization and Welfare*. ed. Ritu Vij, 106--19. Houndmills: Palgrave.
- Meardi, Guglielmo. 2012. *Peripheral convergence in the crisis? Southern and Eastern European labour markets and industrial relations*. Paper for the SASE Annual Meeting, Boston, 28-30 June 2012.
- Shonfield, Andrew. 1965. *Modern Capitalism — The Changing Balance of Public & Private Power*. Oxford University Press.

POLÍTICA COMPARADA

Motivación

Política Comparada, del Laboratorio de la Fundación Alternativas, analiza la realidad política, económica y social española desde una perspectiva comparada. El propósito de la colección es observar cómo se sitúa España en el contexto de las democracias avanzadas, aprender de la experiencia de otros países, así como propiciar un debate informado sobre cómo afrontar mejoras. En esta serie intervendrán académicos internacionales de primera línea que, con rigor y pedagogía, expondrán reflexiones útiles para todos los que se interesen por la política.

Belén Barreiro,
Directora del Laboratorio de Alternativas

Coordinador: **Pablo Beramendi**, Profesor de Ciencia Política en la Universidad de Duke (USA)
Colabora: **Julio Embid**

Anke Hassel is professor of Public Policy at the Hertie School of Governance in Berlin, Germany, and a member of the faculty of the Berlin Graduate School for Transnational Studies.

es profesora de Políticas Públicas en la *Hertie School of Governance* en Berlín (Alemania), y miembro de la *Berlin Graduate School* de Estudios Transnacionales.

Documentos publicados

- 2011/Nº 01. **Dualización, Socialdemocracia y Políticas Activas de Mercado de Trabajo.** **David Rueda.**
- 2011/Nº 02. **Por qué la corrupción no se castiga.** **Víctor Lapuente Giné.**
- 2011/Nº 03. **Quality versus Equality: Hard Choices in Higher Education.** **Ben Ansell.**
- 2011/Nº 04. **Insiders vs. Outsiders: Distributive implications of pension policies in increasingly flexible labor markets.** **Silja Häusermann.**
- 2011/Nº 05. **Identidad y cambio institucional: Los efectos de la competición política.** **Francesc Amat.**