

3 International Pressures on Industrial Relations: Macroeconomics and Social Concertation

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The industrial relations systems of the world's market economies are under common pressure, although the reaction to that pressure has varied considerably from country to country.¹ These pressures are moving world labor markets in an atomistic direction and thus are likely to have special significance for national systems which involve coordination and tripartite social concertation. Because the main forces acting on the various industrial relations systems are economic, countries which value the concertation approach will have a hard time over the long run maintaining their current systems.² As Ezio Tarantelli pointed out, successful social concertation for macro-economic purposes depends on the presence of a centralized IR system. Any move toward decentralized wage setting undermines such concertation.³

In making this argument, we do not downgrade the importance of other institutional arrangements – political, social, and legal. Rather, we view such arrangements as explanations of the divergent responses of various industrial relations systems that national observers have identified so far. Nonetheless,

¹ References to world developments are based in part on various papers presented at the September 1989 meetings of the International Industrial Relations Association, Brussels, Belgium. These papers are: *A Comparative View of U.S. and Canadian Industrial Relations: A Strategic Choice Perspective*, Kochan, Thomas, A. and Anil Verma; *Structural Change and Industrial Relations: The U.K. Case*, Beaumont, P. B.; *Structural Change and Industrial Relations: Australia*, Niland, John and Keri Spooner; *Structural Change and Industrial Relations in Japan*, Shimada, Haru; *The Coming Divergence in Dutch Industrial Relations*, Visser, Jelle; and *Structural Change and Industrial Relations in the Federal Republic of Germany*, Weiss, Manfred. A summary report based on these papers by Jacques Rojot was also helpful.

² The interrelationship between economic forces and the practice of industrial relations and human resource management is emphasized in: *The Economics of Human Resource Management*, Mitchell, Daniel J. B. and Mahmood A. Zaidi (eds.). Oxford, England: Basil Blackwell (1990).

³ Tarantelli, Ezio (1983), *The Regulation of Inflation in Western Countries and the Degree of Neocorporatism*. Paper 60-83/sec. II(a)/4. Proceedings of the Sixth World Congress, Kyoto, Japan. Geneva, Switzerland: International Industrial Relations Association, pp. 45-77. See also his: (1986), *The Regulation of Inflation and Unemployment*. In: *Industrial Relations*, Vol. 25, pp. 1-15.

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in all countries the element of industrial relations most at risk is collective bargaining and union representation. We believe that tendencies toward non-union workforces which have been most keenly felt in the United States will develop elsewhere, even if current trends are ambiguous. And faced with that situation, countries will have to choose between political representation of employee interests, *laissez faire*, or legal structures which maintain collective bargaining in the face of adversity. Countries which still have established methods of concertation have a mechanism for making that choice consciously. Those that do not — and the United States is a prime example — are likely to have the choice made for them by a collision of market and political forces.

3.1 Three Sets of Economic Influences

Three sets of economic influences are important to an understanding of the pressures on worldwide industrial relations: macroeconomic, financial, and technological. By *macroeconomic*, we mean primarily the forces that determine domestic wage and price changes and link these changes to the level of economic activity, that is, to unemployment. We also refer to external price determination and its linkage to domestic wage and price setting under the macroeconomic heading. By *financial*, we mean the so-called “market for corporate control” and the access to capital which is crucial to that market. We also refer to the financial approach to enterprise which depicts the firm as a malleable portfolio of assets. Finally, when we speak of *technological* change, we mean primarily production function influences which change the optimum scale of production.

If the response of industrial relations systems is placed on a spectrum ranging from little change resulting from these forces to substantial adverse impact, it is clear that the United States falls at the latter end of the spectrum. Managerial strategies of union avoidance are not new to the United States; they are certainly not creations of the 1980s. However, the American style of union/management relations and collective bargaining was especially vulnerable to the three economic influences as they developed in the 1970s and 1980s. As the economic influences supported the management strategies, unionization declined. Moreover, the United States industrial relations system lacked the institutional insulation provided to it in other countries. The degree to which such insulation was provided elsewhere has determined the relative pace of change which has occurred so far.

3.2 A Simple Macro Approach to Wage and Price Setting

To understand the macroeconomic influence, it is helpful to start with a simple model of wage and price setting in the context of a closed economy. In

the labor market, the ultimate objective (or “target”) is to set W/P , that is, the ratio of wages to prices, which is both the real wage as seen by workers and the product wage as seen by employers.⁴ And in the product market, the object is to set P/W , that is, the markup of prices over costs, keeping in mind that in a closed economy costs of production other than labor net out in aggregate. For equilibrium to exist, target W/P in the labor market must equal the inverse of target P/W in the product market. Otherwise, adjustments must occur until equilibrium is reached.

Note that this is a bare bones, agnostic model. It does not specify exactly *how* the price and wage-setting process occurs. The process could be a classical supply/demand market story or a bargaining story. It could involve maximizing behavior or it could involve satisficing. Whatever the mechanism, whenever target W/P in the labor market exceeds the inverse of target P/W in the product market, inflation will tend to accelerate as a wage/price spiral sets in. When labor-target W/P falls short of the inverse of product-target P/W , there will be decelerating inflation.

How fast these adjustments occur will vary with institutional arrangements. For example, a centralized industrial relations system with a social concertation mechanism might bring about an initial reconciliation of the product- and labor-market targets, thus obviating the need for prolonged and painful periods of inflation or disinflation. Such an outcome is in keeping with the previously cited Tarantelli model.

The state of economic activity, as proxied by the unemployment rate (U) is the control rod in this model, absent a successful system of concertation. A higher U will tend to lower labor-target W/P and raise the inverse of product-target P/W , as sellers in both the product and labor markets are placed in a weaker position. That is, *other things being equal*, a slack labor market will make it difficult to sustain a high real wage. And other things being equal, a slack product market will make it difficult to sustain big price markups.

Consider, for example, a bargaining model of wage setting in which pay is negotiated by a union. With unemployment high, workers will not have an easy time finding alternative work. Strikes in support of pay demands will be hindered by worker insecurity. Management's hand will be strengthened by the ready availability of unemployed labor. Thus, in Figure 1, which shows W/P on the vertical axis and the unemployment rate U on the horizontal, the labor-market target function for W/P is represented as LL which slopes down, reflecting the weakening of labor's bargaining power in the face of increases in unemployment.

The product-market target for P/W is represented by pp in Figure 2. High

⁴ We don't deny the possibility that there is an important element of “money illusion” (focus on the nominal wage W) in the short run. Indeed, there is considerable evidence of such a tendency. However, the text refers to the longer run in which inflation is “recognized”, even if the recognition occurs with an adaptive lag.

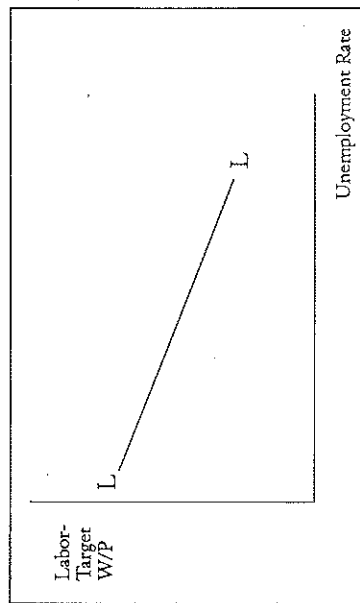


Figure 1: Labor-Market Target Function

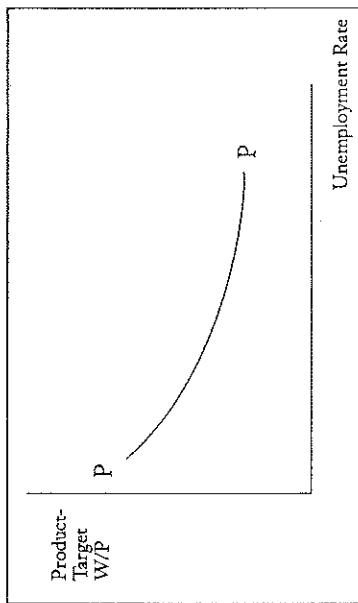


Figure 2: Product-Market Target Function

unemployment – slack in the labor market – will be associated with slack in the product market. Hence, markups will tend to be low. With substantial excess capacity, competition will tend to force firms to operate on lower margins. So pp – the product-target function – slopes down in Figure 2 which shows P/W on the vertical axis and unemployment on the horizontal.

To identify the equilibrium unemployment rate which is consistent with labor-target $W/P = \text{inverse of product-target } P/W$, it is necessary to transform pp to place it on a common diagram with LL . Since pp slopes down with P/W on the vertical axis, it must slope up on a diagram with W/P on that axis. The transformed pp thus appears in Figure 3 as an upward-sloping line.

With both LL and pp on the same diagram, the unemployment rate U^*

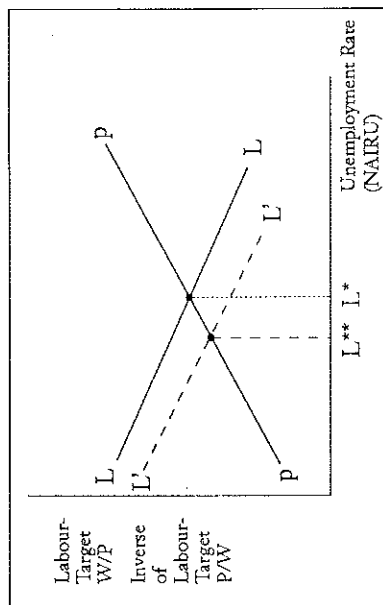


Figure 3: Effect of Weakened Bargaining Power on the NAIRU

which is consistent with labor-target $W/P = \text{inverse of product-target } P/W$ can be determined. At that intersection point, there will be no tendency for inflation to accelerate or decelerate. Thus, U^* in Figure 3 is what economists have sometimes called the “natural rate” and sometimes – and more accurately – the non-accelerating inflation rate of unemployment (NAIRU).

Institutional features can influence the relative push behind target W/P in the labor market. It is in that sense, countries will exhibit a real wage vs. unemployment trade-off. The United States was able to lower its NAIRU in the 1980s, compared with the 1970s, by following policies which reduced the push behind wages. Essentially, the union sector – where the push behind wages was centered in the 1970s – was shrunk in absolute size. This decline both lowered the union weight in total compensation as a matter of arithmetic and decreased the threat effect of unions. Thus, non-union propensities to follow union patterns were diminished. Furthermore, the rise of non-union competition weakened union bargaining power. This union shrinkage and weakening occurred under a barrage of unfavorable economic circumstances in heavily unionized sectors, deregulation in certain unionized industries, increasing importance of the financial approach to the firm (discussed below), and an adverse political/legal climate.⁵ LL in Figure 3 dropped to $L'L'$ (and U^* dropped to U^{**}) as the American wage-setting system became overwhelmingly non-union.

In certain other countries, while analogous forces developed, a reconciliation of product- and labor-market targets could not be made at low unemployment rates. Such countries had difficulty expanding employment in the

⁵ Mitchell, Daniel J.B. (1989: 2), *Wage Pressures and Labor Shortages: The 1960s and the 1980s, Brookings Papers on Economic Activity*, pp. 191–231.

1980s without re-igniting inflation. That is, their LL and pp curves continued to intersect at high NAIRUs which had developed in the 1970s.

3.2.1 Policy Problems for a Closed Economy

In the closed economy model developed so far, the main short-term macro problem is that there may be a too high NAIRU from the viewpoint of policymakers. Moreover, there may be shifts in the degree of upward pressure on wages — shifts in wage norms — which will increase the NAIRU.⁶ Use of escalation (indexation of wages to prices) may create a problem if it establishes a high real wage incompatible with a low NAIRU. It may also affect the timing of the process by which labor-target W/P and product-target P/W are reconciled. But escalation does not create confusion between the real wage as seen by workers and the product wage as seen by domestic employers since the two are one and the same.⁷ As already noted, if wage setting is centralized, the NAIRU can — in principle — be shifted down using an incomes policy based on social concertation or mandatory controls to lower the labor-target function (LL).

Although the United States economy has never been fully closed, until the 1970s external prices were not a source of substantial disturbance or divergence, that is, they tended to move along with domestic prices. This feature of pricing was partly due to the worldwide fixed exchange rate system then prevailing, partly due to a system of import controls on oil, and partly due to domestic farm price supports which sought to maintain "parity" between farm and non-farm prices. (Farm prices are effectively external for most of the domestic economy.) Wage setting could be undertaken as if the economy were closed.

In the union sector in particular, the rules of the collective bargaining process were learned and solidified within this quasi-closed economy. The macro problem of a too high NAIRU was addressed by the use of wage/price guideposts and controls in the Kennedy/Johnson, Nixon, and Carter administrations, although decentralized bargaining limited the success of this approach. Each of these episodes was based on the assumption that there was someone important to talk to on the labor side, that is, to the union leaders. By the end of the 1980s, however, the shift to a non-union workforce in the private sector would have precluded such attempts, even if there had been a political interest in trying them. And even in the 1970s, the shift to floating exchange rates and an open economy in 1973 led to severe pressures on

⁶ The idea of wage norm shifts is associated with George L. Perry (1980: 1). See his *Inflation in Theory and Practice, Brookings Papers on Economic Activity*, pp. 587–602.

⁷ The real wage is the nominal wage divided by a measure of the cost of living. The product wage in a given industry is the nominal wage divided by the price of the particular product being produced. At the aggregate level, the product wage is the nominal wage divided by a measure of the price of domestic output.

traditional bargaining in the United States which an incomes policy could not alleviate.⁸

3.2.2 Policy Problems for an Open Economy

Within an open economy, macro problems and their interactions with the industrial relations system become more complex. There are now two kinds of prices, domestic (P_D) and external (P_E). The real wage is now the ratio of wages to a weighted average of the two prices while the product wage is W/P_D . Thus, an exogenous upward shift in the external price will tend to raise target W/P_D . It will also raise target P_D/W , as firms seek to recover increased external costs as part of their markups. Since W/P_D and P_D/W cannot both shift up, a higher NAIRU rate is required to restore equilibrium.

Figure 4 illustrates this process. The labor-market target is now W/P_D as shown by LL while the product-market target is now P/P' (as domestic upward shift in external prices raises the labor-market curve to $L'L'$ (as wages must be raised relative to domestic prices to account for external prices). And it lowers the product-market target curve to $p'p''$ (as domestic prices must be raised to cover external cost increases). The combination of both adjustments moves the NAIRU to U^{***} .⁹

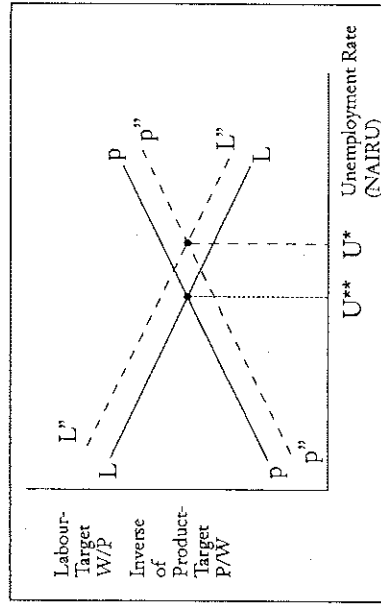


Figure 4: Effect of an External Price Increase on the NAIRU

⁸ Results of the use of incomes policy varied from country to country. See, for example, Zaidi, Mahmood A. (1986): *Do Incomes Policies Restrain Wage Inflation? Some Evidence from Australia, Canada, and the United States. Economic Record*, 62, pp. 468–484.

⁹ Note that moves from one unemployment rate to another as the result of shifts in the LL and pp curves could be consistent with a rise, a fall, or no change in the real wage. The model makes no prediction. Thus, it is consistent with the American experience in the early to mid-1980s which featured some erosion of the real wage (compared with

Various influences opened up a potential gap between domestic and external price movements in the 1970s, that is, between the real and product wage change. These include the previously mentioned shift to flexible exchange rates in the early 1970s, the development of OPEC as an independent force in setting oil prices, and a lesser willingness and ability (in the US at least) to maintain farm price parity with other prices. The new environment made formal wage indexation to prices a particular problem whenever external prices rose relative to domestic.

Put another way, guarantees of real wage protection became more difficult to offer from the employer perspective, and from the viewpoint of maintaining a low NAIRU, especially since worldwide productivity growth tended to deteriorate.¹⁰ Where institutional arrangements insisted on maintenance of the real wage — or even improvements in the real wage based on the now obsolete productivity trend — the NAIRU was increased. In various countries, discussions concerning “real wage overhangs” and Keynesian vs. classical unemployment began to take place in the late 1970s and early 1980s. Social concertation became difficult under these circumstances since lowering the NAIRU often meant that one or both parties would have to take less in real terms to accommodate such factors as higher energy prices.

The gap between domestic and external prices also created a differential between union and non-union wages, where institutional arrangements permitted such divergence to occur. Union wages were more likely to be protected from inflation by formal or informal escalation. When external prices rose relative to domestic, union wages would rise relative to non-union, creating pressure on (and incentives for) management to choose the non-union route. In the United States, short-run success by unions in the 1970s in defending the wages of their members against inflation meant a rise in union/non-union differentials which set the stage for concession bargaining and shrinkage in the 1980s.

3.3 Financial Influences

Sometimes academic ideas have considerable influence on economic events. Financial theory, as it developed in the 1950s and later, suggested that traditional caution concerning corporate debt-to-equity ratios was unwarranted. Through portfolio adjustments, stockholders could adjust for the risks associated with high debt-to-equity ratios of particular firms.¹¹ This idea opened up

productivity trends) in the face of an increase in unemployment relative to the late 1970s. And it is consistent with the increase in the real wage that characterized some European countries in the face of chronically high unemployment.

¹⁰ Productivity improvements can be represented by parallel upward movements of LL and pp in Figures 3 or 4, leaving U* unchanged, but at a higher real wage.

¹¹ The original idea appeared in Modigliani, Franco, and Merton Miller (1958), *The Cost*

the possibility of debt financing — the famous (or infamous!) “junk bonds” of the 1970s and 1980s — as a source of capital. Changes in bankruptcy laws — making it easier for firms to continue operating even if they could not meet their interest commitments, blurred the distinction between debt and equity in any case. At the same time, the related view of corporate organizations as simply financial assets within a portfolio suggested that ownership of such assets could be more fluid than had previously been the case.

The financial view of the enterprise raises an immediate problem for stable industrial relations, if such relations are conducted at the employer/union level. Collective bargaining relationships presuppose *continuity* of the parties, especially — as in the case of the United States — if long-term contracts are negotiated. Apart from the formal contract, there are numerous informal understandings which form part of the employer/union relationship. If the identity of one party to the bargain is constantly changing (or in danger of changing), there may be no real bargain at all. Revolving employers undermine employer-level bargaining.

Operating in a world dominated by the financial view makes corporate investment in human resources and in improving the employer/union relationship more difficult.¹² Such investments, unlike investments in physical assets, do not appear on the balance sheet. Rather, they appear as current costs on the income statement, and thus cut into profits. Failure to maintain past accumulated assets of goodwill in the employer/union relationship may raise measured short-term profits, since no “depreciation” of that type of goodwill is subtracted from such profits.

In theory, corporate shareholders might see through the veil of false accounting; in practice it is difficult for them to do so. Current management is therefore under pressure to obtain short-term labor cost savings. If it does not, an ownership change may lead to installation of a new management team which will do the job. In any case, the same uncertainty which affects the relation between the firm and its union(s) also affects the relationship between the firm and its managers. Managers are not necessarily continued in their posts when firms are restructured. Hence, managerial welfare is more likely to be linked to short-term profits than to long-term considerations (since the managers know they may not be around in the long term).

Undoubtedly, some observers may view such behavior as an American aberration, or — at any rate — an Anglo-Saxon phenomenon. But the financial of Capital, Corporation Finance and the Theory of Investment. *American Economic Review*, 48, pp. 261–297. After publication, it took some time for the idea to be recognized as an important contribution to the theory of finance. See Miller, Merton H. (1988), The Modigliani–Miller Propositions After Thirty Years. *Journal of Economic Perspectives*, 2, pp. 99–120.

¹² See Belous, Richard S. (1989), *The Contingent Economy: The Growth of the Temporary, Part-Time and Subcontracted Workforce*. Washington: National Planning Association, pp. 97–99.

model is clearly spreading to all market economies. Indeed, foreigners have been active players in the American market for corporate control; why should they not follow the same instincts at home? And when they do, their national employer/union bargaining systems will tend to erode just as the American system has. As union sectors shrink in importance, social concentration becomes more difficult. The question inevitably arises as to whether union officials can represent employee interests if the union sector is a (declining) minority sector.

3.4 Technological Change

It has been argued that new technology, especially that identified with computer applications, is making possible more customized production and is undermining older mass assembly line production. With such applications come pressure for "flexible specialization", the finding of changing market niches, and an emphasis on change rather than stability in workplace relations, job content, etc.¹³ Again, a collective bargaining relationship dependent on continuity tends to be undermined by such developments.

It is difficult to say how widespread the kinds of changes just described will become. Plainly, there are examples in particular industries supportive of flexible specialization, and not all of these are in manufacturing.¹⁴ However, the variation in the gap between domestic and external prices, especially through exchange rate gyrations, would have much the same effect as technically based flexible specialization. Shifts in relative prices create uncertainty and reduce the incentive to commit to large-scale, inflexible production runs.

Pressures from flexible specialization and the application of the financial approach to the firm both reduce the scale of operations. Peak production can be spun off to suppliers and subcontractors. Functions within the firm, such as maintenance or payroll accounting, can be outsourced to outside service vendors. Even within the firm, the core organization can be shrunk by using temporary employees to whom few commitments are made. Some of these employees may even work at home using computer terminals and related equipment. Temporary workers, "telecommuters", and workers at small supplier firms are more difficult to unionize than permanent workers at large enterprises.

¹³ Piore, Michael J. and Charles F. Sabel (1984), *The Second Industrial Divide: Possibilities for Prosperity*. New York: Basic Books.

¹⁴ For example, the Hollywood film industry has tended to disintegrate into collections of deal-makers and freelancers who come together for particular projects and then go their separate ways. Many employees in the industry do not have regular, ongoing employers. See Christopherson, Susan and Michael Storper (1989), *The Effect of Flexible Specialization on Industrial Politics and the Labor Market: The Motion Picture Industry*. *Industrial and Labor Relations Review*, 42, pp. 331-347.

From the viewpoint of industrial relations, the impact is much the same regardless of the source of change. Smaller firms and employing units grow relative to larger firms and units; big firm/big union relationships are undercut. Employer/employee relations become less stable. It becomes less and less plausible to argue that by influencing developments in big unionized firms, the rest of the economy will follow. Macro-oriented social concentration based on discussions with a few key players loses its rationale.

3.5 Interpreting Diverse International Reactions

Market forces of the type described will inexorably chip away at the kind of collective bargaining traditionally practiced in the United States; there is little in current American institutional arrangements which has been aimed at offsetting these forces. But in other countries, the institutions surrounding the workplace are different and have either slowed or, in some cases, prevented an American-style erosion of collective bargaining.

First, it is possible to erect *legal* barriers which either prevent management from following market-based incentives toward a non-union strategy or reduce the incentive to do so. Australia's arbitration system, under which the issue of union representation is a court decision, not an employer matter, is an example of such a legal barrier. (Nonetheless, Australian unions have had difficulty penetrating some of the newer sectors in terms of actual membership as opposed to legal representation.) Canada's slower rate of union erosion in the 1980s compared with the United States also seems to reflect tight legal controls and encouragement of public sector unionization. But note that legal structures can be changed, particularly when political winds change, as the British case clearly illustrates. The switch in Britain from a labor government to a conservative government with "new right" ideology reversed earlier unions gains dramatically.

Second, there may be *social* barriers to overt attempts to eliminate or marginalize unions. The German and Dutch cases seem to illustrate such social influences. But again, changes can occur. It might be argued, for example, that American management, too, was once inhibited by social pressures from following explicit non-union strategies. Thus, although American labor law has been little changed since the late 1940s, employer discretion under that law widened as the social barriers diminished. Foreign companies operating in the United States have adopted American-style union-avoidance strategies and may import these eventually to their home countries.

Third, *initial conditions* matter. Some countries started off with relatively high rates of unionization at the time that market forces tilted against collective bargaining. They could experience a substantial decline in union membership and yet still be left with significant unionization by the 1990s. The British case is illustrative; despite adversities similar to those felt by American

unions, British unions remain more important players in aggregate wage determination than their American counterparts.

Fourth, market forces can be *accommodated* through enterprise-sensitive bargaining. Japan is a prime example of enterprise unionism. Particularly noteworthy is the bonus system which provides a variable element of pay reflecting company economic conditions. If union pay reflects enterprise conditions, managers have reduced incentives to follow a non-union strategy.¹⁵ Of course, if – as some observers think possible – Japanese employees grow tired of high internal consumer prices, their willingness to accommodate may erode. In any case, even accommodative Japanese enterprise unionism has not forestalled a significant decline in union density.¹⁶

Finally, a fifth institutional arrangement which can reduce the adverse impact of market forces on unionization is coordinated “recognition” of the gap between real and product wages through *government guidance in wage setting*. In Australia, for example, the central arbitration authorities moved away from mechanical indexation of wages. Various social accords have sought to bring about adjustments to external price changes without resort to chronically high unemployment. Similar developments have occurred in Holland and other countries. Where real wages remain inflexible, however, high NAIRUs can result, producing chronic unemployment, especially among the youth who are the new potential entrants to employment.

3.6 Implications for Macro Performance

Atomistic labor markets of the type economic pressures are creating are likely to have different macroeconomic characteristics from those based on bargaining among major players. Although some European authors emphasize the power that even non-union “insider” workers can exert to influence employer policy,¹⁷ it is easy to overstate such influence. It has long been known that non-union workers can withhold effort within small work groups. But by definition, non-union workers lack the organization needed to impose coordinated, organization-wide costs of their employers. Moreover, one element of the economic changes described above has been declining

¹⁵ A partial alternative to enterprise-sensitive pay determination is the use of wage extension, that is, taking wages out of competition by extending union-set wages to all firms in an industry. Extension has been used in some European countries and is built into the Australian wage arbitration mechanism. American-style pattern bargaining – the extent it influenced non-union pay – played that role at one time. But with current low rates of unionization it no longer does so.

¹⁶ Freeman, Richard B. and Marcus E. Rebeck (1989), *Crumbling Pillar? Declining Union Density in Japan*, National Bureau of Economic Research, Cambridge: Massachusetts, working paper no. 2963.

¹⁷ Lindbeck, Assar and Dennis J. Snower (1976), *Wage Setting, Unemployment, and Insider-Outsider Relations*, *American Economic Review*, 76, pp. 235–239.

employment tenure. At least in the case of the United States, there is evidence that the duration of spells of employment has been reduced.¹⁸ Thus, insider power is becoming less of a factor in both union and non-union environments.

Non-union employers adjust wages with an eye toward recruitment and retention. As labor-market conditions change, they are likely to respond more quickly than employers who bargain their wages, especially under long-duration contracts. Non-union employers are unlikely to be committed to goals such as maintaining real wages in the face of external price increases.

On balance, the tendencies described in this paper suggest that wage setting is moving toward a greater responsiveness to labor-market conditions. Depending on assumptions, such responsiveness could produce a more or less stable macro economy. Sometimes, for example, lags and sluggishness can have a stabilizing influence in economic modelling. But real-world modern economies also feature monetary authorities who try to stabilize and avoid inflation. If the authorities find their task of inflation control easier, long and painful periods of stagflation can be avoided. A shift to a lower LL, with a steeper slope, suggests that episodes of inflation can be more quickly cut off without lengthy recessions. Given reasonable monetary policies, the net effect of a shift toward atomism is likely to be a more stable macroeconomic picture. Thus, one reason for countries to pursue social concentration – the pursuit of improved macro performance – is eliminated.

3.7 Social Concentration for Micro Goals

The key question in an atomistic labor market is whether employees will like inhabiting such a market and, if they are dissatisfied, what actions they will undertake. In the past, the answer was unionization. But there are alternatives to union representation available in the political arena. Thus, if social concentration has a role in the future, it will be in responding to micro-level employee concerns or establishing mechanisms to do so.

Even the atomistic labor market we have described should not be confused with a textbook auction market in which no employer/employee relationships – other than daily contracts – exist. In atomistic labor markets employees will still have ongoing jobs, will still have expectations about what obligations those jobs impose on the employer, and will still bear costs if they suffer job loss. Such costs tend to increase with the age of the employee and in most industrialized countries the median age of the workforce is rising. Thus, job security is an inevitable issue, and not one to which atomistic labor markets are prone to respond affirmatively. Economic uncertainty is pushing

¹⁸ Jacoby, Sanford M. and Daniel J. B. Mitchell (1990), *Sticky Stories: Economic Explanations of Employment and Wage Rigidity*, *American Economic Review*, 80, pp. 33–37.

employers to cut back on commitments to workers, even as the age profile of the workforce pulls in the opposite direction.

In the United States, the clash between worker desires and employer offers has led to the phenomenon of mandated benefits and legalistic adjudication of employee complaints.¹⁹ Some American states have required – or are considering requiring – that all but the smallest employers provide their employees with health insurance. Similar proposals are being made at the federal level, along with proposals for mandated family leaves in the event of childbirth or the need to care for an elderly parent. A federal law enacted during the 1988 presidential campaign now requires employers to provide 60-days' notice of plant closings and mass layoffs. State courts have become more receptive to individual "wrongful discharge" suits by terminated employees. As the union option for voicing complaints, filing grievances, and dealing with matters such as health insurance declines in the United States, the political/legal process is becoming the new employee representation plan. In an era when product markets were being deregulated, new regulations appeared in the labor market.

The difficulty with the political/legal process is that it tends to be piecemeal. Each issue – layoffs, health insurance, family leaves, wrongful discharge – is considered as an isolated matter. No mechanism exists for asking about the implications of each for the nature of the employment relationship or how the various proposals might affect economic performance.

Social concertation can be re-conceived as a process for dealing with the overall issue of what should be included within the employment relationship. Understood in that way, it could become an alternative to the older macroeconomic view of concertation as a way of avoiding inflation in a bargaining context. The older view is being undermined by shrinkage of the collective bargaining sector in many countries. But the question of who represents the employee interest in a forum of social concertation remains. As collective bargaining shrinks in coverage, other representational structures will be needed.

¹⁹ Mitchell, Daniel J. B. (1990), *Mandated Benefits, Voluntary Benefits, and the Changing American Workplace*, *UCLA Institute of Industrial Relations*, working paper.

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