

# 1. Introduction

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Collective bargaining is a process of negotiation between the representatives of an employer (or employers) and of workers.<sup>1</sup> The intention of these negotiations is to arrive at a collective agreement that will govern the employment relationship.<sup>2</sup> This typically covers issues such as wages, working time, and other working conditions. Since collective agreements also regulate labour relations they are likely to address the rights and responsibilities of the respective parties. Collective bargaining is premised on a well defined employment relationship and the freedom of workers and employers to associate to an organization that represents their interests. It is a means to address work-related issues in a way that accommodates the interests of all parties concerned. Collective bargaining involves a process of joint decision making and is thus distinct from other forms of governance such as government regulation, individual contracts and/or the unilateral decisions of employers.

## 1.1 NEGOTIATING FOR SOCIAL JUSTICE

The origins of collective bargaining can be traced to the industrial revolution in the 18th and early 19th centuries, a period of profound technological, economic and social change that started in the United Kingdom and then spread to Western Europe, North America, and other parts of the world (Kaufman, 2004). The transition from manual home-based to mechanized factory-based production dramatically increased the intensity of production and transformed labour relations. At the same time demographic changes and the steady flow of people from the countryside to industrial cities led to a rise in the numbers of people available to work in factories. Workers sought to protect themselves from the effects of new production methods and increased competitive pressures by forming organizations capable of representing their interests to employers and the government (Windmuller, 1987).

Some of the first workers' organizations were guilds of craft workers who regulated entry to the trade. Others functioned as mutual benefit societies, offering protection against loss of income due to illness, unemployment or old age. Some of these early organizations reconstituted themselves as representatives of wage earners in large-scale industries. Faced with problems of child labour, long working hours, low wages and unsafe working environments, these early trade unions demanded improvements in wages and working conditions. Since they had the power to withdraw all labour in support of their demands, employers could either bargain with them or face a strike and loss of production. Collective bargaining thus emerged as a means to balance otherwise unequal (individual) bargaining power in employment relations and redress the deep inequalities and injustices of the period. Collective agreements also protected workers from some of the adverse effects of competition by establishing a *common rule* – standard rates of wages and conditions of work for wage earners in a particular factory, trade, industry or region.<sup>3</sup>

Many employers resisted these early attempts by workers to engage them in a process of joint rule making. Their actions were supported by public policies that derived their justification from the doctrine of economic liberalism. These gave preference to individual contracts of employment thus weakening trade unions and retarding the development of collective bargaining (Windmuller, 1987). The tide began to turn when some countries amended their laws to remove restrictions to the formation of a trade union and legal obstacles to the right to strike. This was followed by enabling legislation that protected the right of trade unions to conclude collective agreements.<sup>4</sup>

Against the backdrop of a severe economic depression in the early 1930s, growing awareness of the limits of free markets and rapidly declining living standards, policy makers in many countries took steps to promote collective bargaining as a means of regulating wages and working conditions.<sup>5</sup> For example, in the USA, the National Labour Relations Act in 1935 (also known as the Wagner Act) provided employees with the statutory right to form, join and assist labour unions and conduct collective bargaining. It included among 'unfair labour practices' the refusal of the employer to bargain with a union that the majority of workers have chosen as their bargaining agent (Iserman and Wolman, 1947).<sup>6</sup> In France, following a general strike, the incoming government, employers' confederation and union signed the 'Matignon Agreements' on 7 June 1936, which removed obstacles to trade-union organization, granted a 40-hour work week and led to the enactment of the right to collective bargaining. The new Collective Agreement Act of 24 June 1936 permitted the extension of collective agreements in an occupation or industry as a way of protecting

employers and workers from competitive labour practices which might otherwise undermine standards in collective agreements (Hamburger, 1939).

It is worth noting that in some countries the regulation of collective bargaining emerged from agreements between employers and unions. For example, in Sweden, following a period of industrial conflict, employers' organizations and trade unions negotiated a 'December compromise' in 1906 which recognized freedom of association and other rights. This led to the conclusion of a number of other agreements and culminated in the Basic Agreement of 1938. Legislation simply codified rights that had become generally recognized in collective agreements.<sup>7</sup> Similarly in Norway, an agreement between the employers' association and worker confederations in 1935 set out the procedure for collective bargaining.<sup>8</sup>

By the mid 1930s, a report of the International Labour Organization (ILO) noted 'the increasing importance of the collective agreement as an element in the social and economic structure of the modern industrial community . . . in many countries the collective agreement is now a recognized method of determining working conditions' (ILO, 1936, p.265). The legal and institutional arrangements that developed for the conduct of collective bargaining differed across countries. In some countries, notably those in continental Europe, collective agreements were incorporated into the legal system as a new source of regulation. Others such as the United Kingdom emphasized the voluntary nature of collective bargaining and autonomy of the parties. In Australia and New Zealand, a system of arbitration was put in place and its awards were the outcome of collective bargaining (Bamber and Sheldon, 2007).

In 1944, in the wake of the Second World War, the ILO adopted the Declaration of Philadelphia, annexed to the ILO Constitution, which reaffirmed its founding statement that 'labour is not a commodity' and that 'lasting peace can be established only if it is based upon social justice', and recognized the 'solemn obligation of the International Labour Organization to further among nations of the world programmes which will achieve: . . . the effective recognition of the right to collective bargaining'. The international community adopted a series of new international instruments including the Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87) and the Right to Organize and Collective Bargaining Convention, 1949 (No. 98) which came to be basic international law on the subject (Rogers et al., 2009).<sup>9</sup>

These international instruments gave renewed impetus to the development of collective bargaining. The institutional arrangements for collective bargaining continued to vary, reflecting the policy orientation of

the government, the priorities of workers, employers and their organizations and historical institutional factors. For example, many countries in Western Europe developed a tradition of multi-employer bargaining at a sectoral or inter-sectoral level. In countries such as the USA and Japan, single-employer bargaining at the enterprise or establishment level became the predominant mode of collective bargaining. Some authors attribute this to a historical compromise which reflects the nature of industrialization. For example, employers in the chemical, clothing, construction and metalworking industries in countries such as France, Germany, Italy and Sweden engaged in collective employer action in order to counteract the influence of strong industrial unions and neutralize the (individual) workplace from trade union activity. In the USA and Japan, the relatively large employers that emerged during early stages of industrialization insisted on single-employer bargaining (Sisson, 1987).

Collective bargaining was also gaining ground in the developing world in the 1960s and 1970s. In French-speaking Africa, collective agreements tended to be negotiated at the industry level. In English-speaking Africa, most collective bargaining took place at the enterprise level, with the exception of countries such as Kenya and Ghana where it took place at the industry level. Some post-independence governments adopted relatively interventionist approaches to wage and income policies and kept a tight rein on the union movement.<sup>10</sup> Collective bargaining was also expanding across Latin America, although it was limited to particular sectors such as the oil, energy, metallurgical, building and transport sectors. As a general rule, collective bargaining was conducted at the enterprise level, with the exception of some industries in countries such as Argentina, Mexico and Venezuela (Bronstein, 1978). In Asia, some governments repeatedly stated that its practice be subordinated to the objectives of economic and social development and limited the scope of collective bargaining. Collective bargaining developed largely at the enterprise level, with the exception of a few countries and industries (ILO, 1976). In later years, industrial relations in developing countries tended to shift away from the pervasive state intervention that characterized the early independence period. With the transition from authoritarian to democratic rule in many countries in Asia, Latin America and Africa, industrial and economic democracy was extended to workplaces, and employers and unions assumed more responsibility for establishing employment conditions (Fashoyin, 1991, 2010).

Collective bargaining became widely recognized by scholars as a key instrument for regulating working conditions and employment relations in a manner that ensures fairer distribution of productivity gains; improves working conditions and enhances the dignity of workers; takes wages out of competition; legitimizes rules and institutionalizes industrial conflict.<sup>11</sup>

Some of the legal literature stressed the importance of collective bargaining as a counterbalance to the power of the employer. For example, Kahn-Freund, a preeminent legal theorist in writing on labour and the law states:

The conflicting expectations of labour and management can be temporarily reconciled through collective bargaining: power stands against power. Through being countervailing forces, management and organized labour are able to create by autonomous action a body of rules, and thus to relieve the law of one of its tasks. (Kahn-Freund in Davis and Freedland, 1983, p. 69)

Over time the scope of collective bargaining expanded in many countries to include issues such as job security, training, parental leave and equal opportunity. Chapters 2, 3 and 4 in this volume provide insight into issues on this expanded bargaining agenda. Through collective bargaining, innovative, responsive and reflexive forms of regulation were crafted in respect of issues such as working time, as discussed in Chapter 3. In other countries, particularly those where collective bargaining was only beginning to emerge, collective agreements addressed a more limited set of issues, sometimes only referencing minimum standards prescribed in national law.

Towards the end of the 20th century, rapid economic and technological change and the integration of product and labour markets exposed enterprises to greater competition and placed pressure on labour standards. Policy makers were increasingly concerned with the need to promote labour market flexibility (Brodsky, 1994). The regulation of labour markets, whether emanating from collective agreements or governments, was seen as a source of inflexibility (discussed further in the next section). In this context, some of the literature on collective bargaining began to emphasize the role that unions could play in enhancing enterprise flexibility, efficiency and competitiveness.<sup>12</sup>

In some countries a rollback of policy support for collective bargaining, structural changes in labour markets, rising unemployment and an increase in non-standard forms of employment (fixed-term, temporary agency and part-time work) resulted in a decline in both union membership and the coverage of workers by collective agreements.<sup>13</sup> In others, collective bargaining coverage remained stable as innovative bargaining practices were adopted and collective bargaining structures adapted. For example, faced with growing demands for enterprises to be more flexible, efficient and competitive, sectoral and inter-sectoral agreements in countries such as Austria, Belgium, Denmark and Italy began to allow for subsequent articulation of wages and working time through negotiations at the enterprise level. In practice, this meant that the focal collective agreement concluded at the most important bargaining level delegated

particular issues to regulation at a lower level, within a binding framework. This ‘organized decentralization’ within a multi-level bargaining system helped maintain a high degree of coordination of bargaining activities and high levels of collective bargaining coverage, while at the same time enabling the parties to address the specific needs of enterprises and of workers at their workplace (Traxler, 1995).

In 1995, in the context of increasing globalization and growing concerns over labour standards, the Copenhagen World Summit for Social Development defined a set of ‘fundamental’ workers’ rights. This paved the way for the adoption in 1998 by the ILO of the Declaration on Fundamental Principles and Rights at Work according to which member States have a constitutional obligation to respect and abide by the principles concerning four fundamental workers’ rights, namely: freedom of association and collective bargaining, the elimination of forced labour, the abolition of child labour and the elimination of discrimination at work. These core labour standards are widely cited in bilateral trade agreements, international financing contracts and in corporate social responsibility policies. Chapter 11 addresses a particularly important development, which is the inclusion of these core labour standards in international framework agreements between global union federations and multinational enterprises.

The status of collective bargaining as a fundamental right has been reinforced by a number of landmark decisions. In 2007, the Supreme Court in Canada ruled that Canada’s Charter of Rights and Freedoms protects the right of union members to engage in collective bargaining.<sup>14</sup> In 2008, the European Court of Human Rights for the first time recognized the right to collective bargaining as an essential element of the right to form and join trade unions as protected by Article 11 of the European Convention on Human Rights.<sup>15</sup>

As Chapter 10 shows, the global economic crisis that unfolded in 2008 revealed a number of imbalances, not only in the financial industry, but also in respect of the labour market institutions, such as collective bargaining, that provide countervailing power to powerful financial and business interests. The asymmetric nature of globalization allowed for greater ease in the movement of capital (not labour) and tilted bargaining power in favour of employers. Before the economic crisis, wages had been stagnating, wage inequality had been increasing and the share of national income going to labour had been declining in many countries (ILO, 2008). As Chapter 6 shows, some of the causes of the widening gap between low and high wage earners were the weakening of trade unions and erosion of collective bargaining institutions. The *raison d’être* of collective bargaining over a century ago had been to balance power and by so doing obtain a fairer share of productivity gains, promote equity, facilitate stability in

employment relations and advance social justice. In the face of significant economic progress but growing inequality and other imbalances which threatened jobs and incomes, the ILO adopted the Declaration on Social Justice for a Fair Globalization (2008) which again places collective bargaining at the heart of efforts to ensure that economic and social progress go hand in hand.

## 1.2 DEBATES OVER THE VALUE OF COLLECTIVE BARGAINING

Freedom of association and the right to collective bargaining are fundamental workers' rights and recognized as such in most of the world. They are key tenets of democracy and an essential means through which workers are able to balance bargaining power and negotiate improvements in their working conditions. Yet while collective bargaining may enjoy recognition by the international community as a fundamental right, its value has repeatedly been called into question on grounds that collective bargaining institutions create obstacles to the flexible adjustment of enterprises, are a source of labour market rigidity and have a negative effect on efficiency. This viewpoint is particularly pervasive in policy circles. While rarely pushed to the point of denying workers the right to join a trade union, labour relations frameworks are designed in such a manner as to privilege individual rights over collective rights (Lee, 1998). For example, the *OECD Jobs Study* (1994) argued that:

there is a need in both the public and private sectors for policies to encourage greater wage flexibility and, in countries where the scope for increasing such flexibility is limited, to reduce non-wage labour costs. Actions on these fronts would involve changes in taxation, social policy, competition policy and collective bargaining. (OECD, 1994, p. 49)

The latter included the deregulation of collective wage institutions (specifically phasing out the extension of collective agreements) and the decentralization of collective wage setting to the enterprise level in order to increase wage and labour cost flexibility.

This view is supported by a neo-liberal discourse, premised on the theories such as those of Simons (1944) and Friedman and Friedman (1980) which promote the deregulation of labour markets and the dismantling of institutional support for trade unions and collective bargaining as a way of improving economic performance. According to this view, collective agreements impose restrictive practices (for example, shorter working hours, work to rule and so on) which reduce productivity and put a brake

on enterprise flexibility. Collective bargaining raises wage levels (and labour costs) to the point that unionized enterprises begin to restrict or reduce employment. The displacement of workers to the non-union sector depresses wages there and exacerbates wage inequality overall. Enterprises may also pass these (inflationary) wage increases onto consumers as higher prices eroding the real wage of all workers and undermining macro-economic stability. In developing countries, this argument typically posits 'insiders' against 'outsiders'.<sup>16</sup> Collective bargaining is seen as a tool to protect the interests of a small labour aristocracy, harming the income and employment prospects of the majority of workers outside formal labour markets. Most empirical analysis of this type has focussed on the union wage mark-up and its effect on efficiency, employment and inequality.<sup>17</sup>

Path breaking theoretical work by Freeman and Medoff (1984) recognized the monopoly face of unions, which could be used to raise wages above competitive levels through collective bargaining. However they argue that not only have these features been exaggerated in anti-union theories but that unions have a second face. This 'collective voice / institutional response face' gives unions a very different appearance. It provides workers with a voice in decision making at the enterprise that can be harnessed to improve labour relations, worker participation and managerial performance. The results of their studies show that unions are associated with a reduction in wage inequality; a larger proportion of compensation allocated to social benefits (for example pensions, health insurance, and so on); less labour turnover; the retention of skills and increased incidence of firm-specific training; improvements in workplace practices and increased productivity.

What Freeman and Medoff's work and the empirical studies that followed in the institutional tradition show is that unlike the behaviour of monopolistic enterprises, which merely set prices to maximize profit, the *process* of collective bargaining (that is, the exercise of 'voice') provides unions (and employers) with incentives to behave in a responsive manner. Through collective bargaining, parties identify common as well as conflicting interests. On this basis, they are able to negotiate trade-offs among conflicting interests and agree to enhance joint gains. For example, both enterprises and workers can benefit from increases in productivity, higher profits and higher wages. The trade union may also agree to greater flexibility in working time (and a reduction in overtime premia) in exchange for workers' having greater choice over the duration and scheduling of their working hours. The rigidity / flexibility dichotomy is somewhat simplistic. Collective bargaining can be a tool for balancing employers' interests for workplace flexibility with workers' interest for worker-oriented forms of flexibility.

If we are to understand unions and collective bargaining as a Janus-faced

(two-faced) institution, what circumstances then lead to the predominance of one face (the institutional responsive face) over the other face (the monopoly face)? A comprehensive review of the empirical literature on the macro and micro-economic effects of trade unions and collective bargaining concludes that the outcome is contextually specific and depends on the economic, institutional, political and legal environment in which unions and employers negotiate – and that shapes incentives (Aidt and Tzannatos, 2002). It is the configuration of institutions – within a particular context – that makes the difference. It is thus important, from a comparative point of view, to consider that whereas a particular aspect of collective bargaining may lead to a favourable outcome in country X, it may have a different effect in country Y because the rest of the institutional structure differs. Thus many of the contributions to this volume examine the theory, policy and practice in a particular national context.

It is also important to bear in mind that apart from the configuration of institutions, there is also likely to be variation in the *form* a particular institution takes. For example, the literature points to the important role that bargaining coordination plays as a determinant of labour market and macroeconomic performance in higher income countries.<sup>18</sup> However, trade unions and employers' associations may influence or synchronize wage settlements in very different ways. Examples include national tripartite social pacts between government, employers' organizations and trade unions; centralized collective bargaining arrangements; national employers' organizations and trade union confederations which play a coordinating function; and informal means of coordination such as pattern bargaining (for example, the collective agreement in the metal sector in Austria and Germany acts as a trendsetter).

Returning to the policy debates, having reviewed a body of empirical analysis, the OECD undertook a formal reassessment of its policy advice.<sup>19</sup> In 2006, the OECD was more cautious in its policy advice:

It would be useful to take fuller account of the fact that national industrial relations practices are part of the social and political fabric, implying that bargaining structures are not easily changed by government action . . . Recent experience also suggests that greater allowance be made for the potential contribution of centrally coordinated bargaining . . . (OECD, 2006, p. 88)

Despite the body of evidence regarding the 'collective voice / institutional responsive' face, this second face is seldom recognized. It is thus clear that despite its place as a fundamental right of workers, the superiority of collective bargaining over other methods of governance needs to be

demonstrated on an ongoing basis. This volume is an additional contribution to that end.

### 1.3 OVERVIEW OF THE CHAPTERS

Are efforts to promote collective bargaining and equity undertaken at the cost of economic efficiency? Is it a zero sum game? Can innovative frameworks that achieve both flexibility and security be transferred to different contexts? What is the role of collective bargaining and of cross-border frameworks in regulating labour standards in a global economy? These are some of the questions that the chapters in this volume seek to address. Contributing authors come from a wide range of disciplines and geographic expertise, making this a rich collection. Chapters 2, 3, 4 and 5 focus on the role that collective bargaining can play in facilitating workplace change, in promoting training, in protecting employment and regulating flexibility in respect of working time. Chapter 6 examines the role of collective bargaining in stemming the tide of rising inequality and the challenges faced in labour markets where these institutions are underdeveloped. In addressing the same issue, Chapter 7 assesses the influence of weak collective bargaining institutions on inequality in the Chilean labour market. Chapter 8 explores issues of equity and efficiency in China. Chapter 9 focuses on the macroeconomic effects of collective bargaining institutions. Chapter 10 looks at the role of collective bargaining in the context of the global economic crisis. Chapter 11 shifts the level of analysis to the global level, focusing on the role of International Framework Agreements in promoting collective bargaining. Chapter 12 concludes by highlighting four pertinent themes that run throughout the volume.

In putting together this volume, special effort has been made to balance perspectives from higher income and developing countries. We have had limited success in this regard. The availability of data meant an inevitable bias toward developed countries. However, effort has been made to explore the issues and to look at lessons and implications in respect of developing countries. While there is a strong comparative theme running throughout the volume, the authors take care not to generalize from one country to another. Instead, they examine outcomes given the particular social, economic and institutional context.

In Chapter 2, Steffen Lehndorff and Thomas Haipeter focus on the role that collective bargaining plays in curtailing redundancies and reducing employment insecurity. This is particularly important in the context of the recent economic downturn and widespread job losses. After providing some historical context, the authors examine the contents of collective

agreements on employment security. These typically include measures to promote employability (for example, training); wage cuts or the extension of uncompensated working time; job stabilization for non-regular workers; working time reductions aimed at spreading reduced work over the same number of workers ('work sharing'); and process or product innovations which seek to improve the competitiveness of the enterprise and thus save jobs. They distinguish 'defensive' strategies – which focus on the immediate survival of the enterprises primarily through wage cuts and the extension of working hours – from 'offensive' proactive approaches that seek to reduce labour costs through improvements in work organization and the competitiveness of the enterprise in the longer term. While the authors consider the adoption of proactive approaches, which include training and product innovations, a 'high road' strategy, they conclude that the 'high road' is also the road less travelled. Focussing on the metal-working sector in Germany, the authors argue that there is risk that derogations from industry-wide agreements could erode labour standards and weaken the collective bargaining structure. On the other hand, they point out that the increase in local level bargaining provides an opportunity for the revitalization of trade unions.

In Chapter 3, Sangheon Lee and Deirdre McCann focus on the role collective bargaining can play in fashioning innovative regulatory regimes that balance flexibility with the need to maintain effective labour standards. The authors begin the chapter by providing a conceptual framework on the regulation of working time. They describe the approach that emerged in many industrialized countries where strong regulatory frameworks allow space for the social partners to craft innovative collectively bargained arrangements. This makes it possible for a reduction in working hours to be accompanied by enterprise-level agreements that meet the interests of both enterprises for greater flexibility and those of workers for greater influence over their working hours. However, the authors point to the limits of this form of 'regulated flexibility' in lower-income settings. They demonstrate this in a case study of the Republic of Korea where statutory changes in working time were introduced in a context characterized by low levels of coverage by collective bargaining and rising levels of non-standard work. Rather than spur innovative agreements at the enterprise level that balance flexibility and maintain effective working time standards, it resulted in a growing working-time divide depending on employment status. Non-regular and non-unionized workers have not benefited from a reduction in working time. As the authors argue, these more innovative regulatory frameworks cannot be transplanted from countries with more developed industrial relations institutions. In developing countries where collective bargaining institutions tend to be weak,

vulnerable workers will continue to need effective protection by statutory regulation.

In Chapter 4, Jason Heyes and Helen Rainbird evaluate the role that collective bargaining plays in promoting continued vocational training (CVT) in enterprises. The authors begin by surveying the existing empirical literature and find substantial evidence of a positive relationship between union presence in the workplace and the amount of training employees receive. Focussing on Europe, where the issue of training is frequently on collective bargaining agendas, the authors examine: the institutional context within which these negotiations take place; the degree of training activity in different countries; and the way in which CVT is addressed in collective agreements (for example, funding and time off for training). They note that in some countries, limited resources and the organizational weakness of trade unions and employers' organizations present obstacles to the regulation of CVT through collective bargaining. The authors also examine a theme addressed later in this volume which is the potential of international framework agreements to promote training activities. The authors conclude with a useful analysis of weaknesses in the research to date and suggest possible areas for future study, including the impact of collectively negotiated training regimes on the quality and effect of training activities.

In Chapter 5, Fathi Fakhfakh, Virginie Pérotin, and Andrew Robinson explore the impact that the involvement of employee representatives in workplace change is likely to have on the performance of the enterprise. Unions are often thought to resist the introduction of workplace change and promote restrictive practices that reduce productivity. Using employment relations surveys for the United Kingdom and France, the authors examine the effects of workplace change on enterprise performance when union representatives and/or consultative bodies (joint consultative committees in the UK and work councils in France) are involved. The study finds that in both countries enterprises that include employee representatives in the process of workplace change achieve better performance than enterprises that implement change without employee representation. It also finds that particularly for France (but also in the UK) enterprises that have employee representation but do not involve them in change or only inform them perform worse than workplaces with no employee representation. The authors attribute this to poor labour relations and poor management practices: a channel for 'voice' does exist, yet managers do not make use of it and continue to behave in a unilateral manner. Thus it is not the mere presence of a union, but the exercise of 'voice' through negotiations and the process of bargaining that produces the productivity effects.

In Chapter 6, Susan Hayter and Bradley Weinberg review recent trends in wage inequality and examine the relationship between collective bargaining and rising inequality. They provide an overview of the theoretical literature on the effects that collective bargaining institutions have on wage inequality, contrasting ‘distortionist’ and ‘institutionalist’ approaches. The authors then examine the existing empirical literature on the effects of unions and collective bargaining on wage inequality in higher income countries. The literature confirms the view that collective bargaining institutions are associated with compressed wage structures and lower wage differentials. The empirical literature also shows that declining union membership, the decentralization of collective bargaining and erosion of bargaining coverage have contributed to rising wage inequality. The authors give separate consideration to empirical literature on developing countries where they do not find any convincing evidence in support of the popular view that collective bargaining institutions exacerbate the gap between insiders working in paid employment, and outsiders working in the informal economy. Rather than adopt a fatalistic view that these labour market institutions have a negative impact on inequality, the authors examine efforts to organize informal workers and the role that tripartite social dialogue institutions can play in promoting equity objectives. The authors conclude that collective bargaining institutions can contribute to inclusive development, but that there is a need to reverse the erosion of these institutions in high income countries and to focus on strengthening these in developing countries.

Continuing with this theme, in Chapter 7, Gerhard Reinecke and María Elena Valenzuela examine the effects of weak collective bargaining institutions on labour market inequality in Chile. Since the return to democracy in 1990, Chile has been very successful in reducing poverty, but progress in improving income distribution has been poor. The wage distribution became more unequal over the last decade, due to a widening gap between the first and the fifth decile of wage distribution, which the authors refer to as a ‘collapsing bottom’. The authors situate this within a broader context in which there have been slight improvements in income distribution, but they attribute these improvements to social transfers. The distribution of incomes in the labour market has actually deteriorated. The authors argue that the weakness of unionization and collective bargaining are key factors behind the poor performance of the Chilean labour market in terms of equity. Union density and collective bargaining coverage have declined since the return to democracy. Moreover, the pattern of unionization has further weakened the potential contribution of labour market institutions in Chile to improving the income distribution. While unions succeed in compressing the wage structure among affiliated workers, trade union

membership declines in tandem with workers' level of formal education. The unionization rate for female workers is more than five percentage points below the rate for their male counterparts, which contributes to the persistent gender gap in Chilean wages.

In Chapter 8, Chang Hee Lee and Mingwei Liu consider the effects of unions and collective bargaining in China. Many are sceptical about the effectiveness of these institutions and their independence from employers and the Party. However, the authors argue that change is leading to more democratic forms of union governance and participation. They explore the effects of different patterns of union governance on labour market outcomes. They find that better governance (that is, union election) and voice (that is, collective bargaining) are associated with less inequality, better compliance with labour law and lower turnover. Considering the rapid transformation of industrial relations institutions in China, these findings have significant implications for emerging labour market governance. However, the authors argue that the absence of freedom of association and the 'party-face' of enterprise unions may limit these potential voice effects.

In Chapter 9, Franz Traxler and Bernd Brandl quantitatively analyse the macroeconomic effects of collective bargaining, in particular on employment and income distribution. The authors begin their analysis with an overview of the theoretical literature on the socio-economic effects of collective bargaining. Using data for 18 OECD countries for the period of 1980–2000 the authors examine trends in collective bargaining coverage over this period and the relationship to different socio-economic indicators. They find that collective bargaining coverage decreased slightly during this period and that there was a polarization between countries that employ centralized and decentralized bargaining systems. Their analysis suggests that collective bargaining coverage has little to no effect on macroeconomic outcomes. However, they do find significant results in one of the models they employ: when indicators of centralization are included, collective bargaining coverage has a statistically significant and positive effect on income inequality.

In Chapter 10, Richard Freeman examines the recent financial crisis and considers the role that measures to strengthen collective bargaining power could play in averting a similar crisis in the future. He begins by analysing the collapse of the financial market and the factors that contributed to its onset, including the risky behaviour by financial actors, exorbitant executive compensation and the deregulation of the financial industry. Explanations for the crisis can be found in the relatively orthodox economic view that incentives may induce people to take actions that they might not otherwise have taken. Exorbitant compensation provided the

incentive for what Freeman calls ‘financial chicanery’. Due to the widely held liberal doctrine that viewed markets as self-correcting, there was no constraint on this type of behaviour. Instead, public officials, many of whom had previously worked in the financial sector and received aid from financial sector lobbies, supported the deregulation of the financial sector. The costs of the collapse were not borne by those responsible for it, but rather by workers. Freeman argues that the strengthening of labour market institutions could have prevented or at least dampened the financial collapse. He argues that there is an urgent need to undertake labour market reforms that would restore the balance of power between labour and capital. These should be part of the measures that are being put in place to better regulate financial markets. Collective bargaining can play an important redistributive role and reduce the incentives for those at the top. He argues that trade unions need to revitalize their organizing drives and that the framework for collective bargaining needs to be strengthened.

The penultimate chapter shifts to developments at the international level. In Chapter 11, Konstantinos Papadakis considers the role that International Framework Agreements (IFAs) between multinational enterprises (MNEs) and global union federations (GUFs) play in the promotion of sound industrial relations and collective bargaining in countries that do not have strong industrial relations traditions. The author surveys existing empirical literature on the impact of IFAs, looking in particular at how effective they are in creating a framework that promotes social dialogue between the signatories, supports the organization of workers in the various locations of production, promotes the prevention and resolution of labour disputes and enables the development of collective bargaining and sound industrial relations. Although the developments over the last decade are promising, the author identifies a number of issues that need attention in order for their impact to be enhanced and calls for further research.

In the final chapter, Susan Hayter concludes by highlighting five themes that emerge from the different chapters. The first theme concerns the role that governments play in creating an enabling environment within which meaningful collective bargaining can be carried out. The second concerns the regulatory function of collective bargaining in different contexts. In some countries, novel regulatory frameworks emerged in which collective bargaining forms part of a system of ‘regulated flexibility’. In countries with less developed industrial relations systems, collective bargaining can play an important role in the determination of statutory norms and their subsequent implementation and monitoring through collective agreements at the enterprise level. The third concerns innovative collective bargaining practices that improve enterprise performance, while also protecting

workers' interests. The fourth is that efforts to promote collective bargaining can advance equity goals without harming efficiency. The fifth theme concerns the role of collective bargaining in a global economy, particularly in the context of recovery from the recent economic crisis.

## NOTES

1. Article 2 of the ILO Collective Bargaining Convention, 1981 (No. 154) defines collective bargaining as follows: 'the term collective bargaining extends to all negotiations which take place between an employer, a group of employers or one or more employers' organisations, on the one hand, and one or more workers' organisations, on the other, for: (a) determining working conditions and terms of employment; and/or (b) regulating relations between employers and workers; and/or (c) regulating relations between employers or their organisations and a workers' organisation or workers' organisations.'
2. The ILO Collective Agreements Recommendation, 1952 (No. 91), para 2(1.) defines collective agreements as: 'all agreements in writing regarding working conditions and terms of employment concluded between an employer, a group of employers or one or more employers' organisations, on the one hand and one or more representative workers' organisations, or, in the absence of such organisations, the representatives of the workers duly elected and authorised by them in accordance with national laws and regulations, on the other.'
3. Collective bargaining was described by Sidney and Beatrice Webb as one of three 'trade union methods' for maintaining or improving working lives in late 19th century Britain, the other two being 'legal enactment' and 'mutual insurance' (Webb and Webb, 1902).
4. For example in Belgium, the repeal of section 310 of the Penal Code in May 1921 freed trade unions from legal encumbrances (for example, liability for damages incurred during a strike, fettered only by the limits imposed by ordinary law). A new Act of 24 May 1921 recognized the freedom to associate and the right to strike (ILO, 1927). In France, a law in 1884 allowed freedom of association. The Collective Agreement Act of 1919 defined the rights of associations concerning the conclusion of collective agreements and their enforcement. Following a general strike, the 'Matignon Agreements' were signed between the CGPF employers' organization, the CGT trade union and the state. They led to the Collective Agreements Act of 24 June 1936, regulating and promoting collective bargaining (ILO, 1936 and ILO, 1927). The United Kingdom passed the Trade Union Act of 1871 and the Conspiracy and Protection of Property Act of 1875 and, perhaps most significant, the Trade Disputes Act of 1906 (Pelling, 1963).
5. See Kaufman (2004) for a historical account of the development of industrial relations.
6. President Roosevelt, in his Senate address on 8 May 1937, stated that: 'The right to bargain collectively is at the bottom of social justice for the worker, as well as the sensible conduct of business affairs. The denial or observance of this right means the difference between despotism and democracy' (Millis and Brown, 1950).
7. See ILO, 1936 and Johnston, 1962.
8. See ILO, 1936 and Galenson, 1949.
9. Other relevant international instruments that have since been adopted include the Workers' Representatives Convention, 1971 (No. 135) ; the Labour Relations (Public Service) Convention, 1978 (No. 151) ; and the Collective Bargaining Convention, 1981 (No. 154).
10. See Roberts and Bellecombe, 1966; ILO, 1972; Essenberg, 1985.
11. For examples see Kornhauser, Dubin and Ross, 1954; Chamberlain and Kuhn, 1965;

- Walton and McKersie, 1965; Flanders, 1970; Clegg, 1976; and Katz, Kochan and Colvin, 2008.
12. For example, see Mishel and Voos (1992) and Ozaki (1999).
  13. For example, in Britain, legal and public policy changes initiated by Thatcher's Conservative government, together with changes in labour and product markets led to a dramatic decline in union membership and collective bargaining coverage. See Brown et al., 1997; Kelly, 1990; Pencavel, 2004; Towers, 1989.
  14. Health Services and Support – Facilities Subsector Assn v. British Columbia (2007, SCC 27).
  15. Demir and Baykara v. Turkey (2008, EctHR, Application No. 34503/97).
  16. See Lindbeck and Snower, 1989.
  17. See Aidt and Tzannatos (2002) for a review of empirical studies.
  18. Beginning with Calmfors and Driffill (1988) who hypothesized that there was a non-linear relationship between collective bargaining and the level of employment, subsequent empirical analysis could find no evidence to support this hypothesis. See Soskice, 1990; Flanagan, 1999; and Aidt and Tzannatos, 2002. Bargaining coordination refers to the degree to which trade unions and employers' associations influence or synchronize wage settlements.
  19. OECD (2006) reports multivariate evidence from 17 studies (including Bassanini and Duval, 2006), most of which find no evidence for the hypothesis that collective bargaining coverage or union density has a negative effect on overall labour market performance. It also reports results from other studies, including Baker et al., 2004, which show that any potential negative effect on 'equilibrium unemployment' is offset by the centralization and coordination of collective bargaining.

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