Union/non-union differences and union bargaining policies 1966-1995: David Marsden and Richard Belfield (handout, PIEP meeting at CEP, 3 July 2002)

We plan to proceed along two (related) tracks:
  o A study of the relationship between institutional change and trends in pay inequality during the period 1966-1995; and
  o An investigation of the influence of union bargaining policy on pay inequality during the same period.

Data:
The data requirements are similar for the two lines of study. Currently, we are compiling a dataset of key pay differentials from the ESES results of 1966, 1972, 1978, and 1995. Simultaneously, we are gathering information from national data sources on issues such as bargaining level, contract types and coverage, minimum wage legislation, etc. (see table below). As regards union bargaining policy, we have yet to settle on an adequate measure or group of measures.

Institutional change and pay inequality:
We intend to use the ESES historical data to test the consensus of the literature according to which institutional decentralization is universal and leads everywhere to increased pay inequality. This consensus opinion is expressed clearly in Katz and Darbishire’s *Converging Divergences…*, which uses in-depth case study and secondary evidence to illustrate its argument (see précis below). Consequently, we will be using several of the conclusions of this book as a springboard for our own analyses.

As a first step, we will look at the data for a limited number of industries for the period 1966-1995 (including those examined by Katz and Darbishire) in order to see if they bear out the consensus. We wish to test the following hypotheses in particular, the results of which will determine the direction of the later stages of our research:
  o If it is true that national systems of employment relations dominated prior to the 1980s, we can expect each country to exhibit a distinct earnings structure (inequality, skill premia, etc.) in 1966 and 1972 (at least). Depending on the nature of the national system, these structures will be more or less consistent across industries.
  o As decentralization of employment relations has permitted firms in the same industry to follow different strategic paths, we expect to find greater diversity in the organization of employment relations in each country-industry cell in 1995 than in 1966.
  o By 1995, we expect to see evidence of convergence among country-industry cells towards greater internal inequality (with respect to earlier observations for the same country-industry cell). Perhaps—although this outcome would be mediated by enduring (if diminished) institutional differences—we would also see evidence that the characteristics of industries are beginning to resemble one another across countries.

Union bargaining policy:
During the period 1966-1995, unions have modified their approach to collective bargaining in most if not all of the countries included in the PIEP project. While much of this is due to change in the external environment, we are interested in investigating to what extent this is due to unions’ internal evolution (as expressed in policy). For example, as union membership dwindles in a given industry or country, how does that affect the leadership’s approach to pay setting and inequality? Though this approach raises significant endogeneity problems, we
plan at least to consider if these can be overcome. We currently have no research map for this area, but are proceeding with a survey of the secondary literature as a means of sketching out changes in union bargaining policy (see bibliography below).

**Table—Institutional data:**

<table>
<thead>
<tr>
<th>Country</th>
<th>Source</th>
<th>Data type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple</td>
<td>OECD (97) in Appendix 1, Rycx</td>
<td>Predominant bargaining level by country (1994)</td>
</tr>
<tr>
<td>Multiple</td>
<td>Visser, Ebbinghaus data</td>
<td>Net and gross levels by country and 1-digit industry</td>
</tr>
<tr>
<td>Belgium</td>
<td>SES (1995) in Appendix 4, Rycx</td>
<td>By 2-digit industry</td>
</tr>
<tr>
<td>Ireland</td>
<td>LFS (1997), Russell (Note: CSO permission required for general use)</td>
<td>By 1-digit (?) industry and workplace size</td>
</tr>
<tr>
<td>Spain</td>
<td>Meixide (1995)</td>
<td>By agreement type and 2-digit industry</td>
</tr>
<tr>
<td>UK</td>
<td>WERS (1998)</td>
<td>By 1-digit industry and workplace size</td>
</tr>
<tr>
<td>Germany</td>
<td>IAB panel</td>
<td>By one-digit industry</td>
</tr>
<tr>
<td>France</td>
<td>No information to date on relevant data</td>
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<tr>
<td>Norway</td>
<td>No relevant data available</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td></td>
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</tbody>
</table>

**Précis of argument of Converging Divergences…:**
Income inequality is on the rise in nearly all advanced industrial economies, and union decline is ubiquitous. However, the rise in income inequality is only one aspect of the general growth in inequality among employment relationship outcomes (working conditions,
prospects for advance, non-pecuniary benefits, etc.). This broad-based expansion in inequality is driven by the underlying trend for firms to decentralize the institutions of employment relations, itself a response by managers to new economic pressures that have placed a premium on competitiveness and adaptability in the face of uncertainty (namely, greater international competition and domestic trends towards market deregulation and privatization). Unions, regardless of national background, have typically constituted an obstacle to management attempts to decentralize. Thus, managers have been able to decentralize to the greatest degree in those countries in which they have also been most successful in circumventing union power. These same countries have consequently exhibited the greatest rises in inequality (along multiple dimensions).

However, decentralization has not brought an institutional vacuum (or “pure” market for labour). Rather, it has substituted a new and variegated institutional structure of employment relations for previously dominant national systems, which, historically, were both internally homogeneous and substantively different across countries. Now, though, the pressures to decentralize are moving countries away from their unique national systems towards a common, internally heterogeneous system comprised of varying mixes of four broad methods of arranging employment relations (low wage, HRM, Japanese-oriented, and joint team-based). The fact that these patterns are emerging simultaneously in several countries supports the thesis that common causal factors—increased international competition and deregulation/privatization leading to decentralization—are at work: “If common trends are apparent in countries seemingly so dissimilar [Australia, Britain, Germany, Italy, Japan, Sweden, the UK, and the US], then the probability is great that these trends are more general” (p. 2).

Introductory bibliography—Union bargaining policy: