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Social dialogue in times of crisis: what we can learn from the past?

(Part 2: Social dialogue and recession in the 1970-80s in industrialized economies)[1]

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The 30 "glorious years" after World War II, which were characterised by sustained economic growth, almost full employment and a steady increase in the standard of living in most industrialized countries, were followed by a period of economic downturn, high inflation, mounting budget deficits and increasing unemployment. The sharp increase in international competition and the steep rise in energy prices, especially after the first oil shock in 1973, resulted in a nearly universal decline in traditional manufacturing, a highly unionized sector which for decades had been the backbone of national economies. National industrial relations systems had to adapt to a very different environment and deal with new tasks.

Some country examples

In **Belgium,** this crisis had a dramatic impact on collective bargaining and other forms of social dialogue, especially after 1975. The lack of consensus between the social partners on issues such as reducing labour costs and lay-offs prevented, for a short period, the continuation of traditional national inter-industry dialogue. The government "took drastic measures, imposing a far-reaching income policy, freezing wages and limiting the effects of negotiated cost-of-living clauses"[2]. But, finally, wage moderation was achieved through a combination of legal and negotiated measures. In February 1981, new legislation was enacted which provided for mandatory wage restraint measures in the event that employers and unions could not conclude a national agreement; the agreement was, however, reached and rendered binding by royal order.

The well known case of **Ireland** shows that social dialogue, especially when supported by the State, can provide a response to serious economic difficulties. Faced with serious structural problems of high unemployment and inflation, the social

[1] Part 1 (An introduction) was published on 23 March 2009.

[2] Blainpain, R. (1987) 'Recent trends in collective bargaining in Belgium'. In: Windmuller JP. et al. *Collective bargaining in industrialised market economies: A reappraisal*. Geneva: ILO.

partners and the government managed to conclude in 1987 *The Programme for National Recovery*[3] which was the first in a series of tripartite agreements. While this agreement dealt essentially with wages whereby the unions agreed to moderate wage increases in return for tax concessions[4], subsequent partnership agreements have been far reaching in their content and have addressed a wide range of social and economic issues.

In **Italy**, "the recession witnessed sweeping changes in the structure and content of collective bargaining as well as in the parties that conduct it."[5] The State intervened in various ways: by playing an active role in settling national labour disputes, by adopting "negotiated legislation"[6] and, since the early 80s, taking part in major tripartite agreements. The tripartite agreements of 1983 and 1984 dealt not only with automatic wage indexing, but also with the broader issues of promoting employment, reducing working time and regulating the labour market. Italy continued the use of tripartite agreements (pacts) in the 1990s.

The **Netherlands,** in the 1970s and the first half of the 1980s underwent the traumatic experience of a sharp rise in unemployment, structural difficulties, high interest rates and growing budget deficits. These difficulties presented not only a challenge to the Dutch Welfare State, but also to the traditional "polder system" which was based on compromise in the social dialogue model and obtaining public support for policy measures[7]. Relations between interest groups became hostile, and it seemed to be impossible for employers and workers to reach an agreement[8]. At the same time, public policies changed and became, after many years of relaxed centralized wage policies, much more interventionist. As unemployment and inflation rose in the 1970s, Keynesian demand models were replaced by new policies, the subject of much controversy and debate, which suggested that wage restraint was a suitable antidote against stagflation and would help to enhance employment[9]. Based on the so-called Vintaf-model[10], the famous Wasenaar agreement between the social partners, reached (quite surprisingly after years of disagreement) in 1982, represented

[3] European Foundation for the Improvement of Living and Working Conditions (2007) Programme for National Recovery (PNR), Dublin.

[4] Heyes, Jason (2004) The changing role of labour ministries: influencing labour, employment and social policy. Geneva: ILO.

[5] Giugni, Gino (1987) 'Recent trends in collective bargaining in Italy'. In: Windmuller JP. et al. *Collective bargaining in industrialised market economies: A reappraisal*. Geneva: ILO.

[6] Drafted in consultations with the social partners or reproducing the content of national agreements, e.g. the Wage Protection Act in 1975.

[7] Butter, Frank A.G. den (2006) 'The industrial organisation of economic policy preparation in the Netherlands', *Serie Research Memoranda*, No. 0007. VU University Amsterdam, Faculty of Economics, Business Administration and Econometrics.

[8] FNV confederation vetoed a national agreement on wage moderation and working time in 1979.

[9] Butter, Frank A.G. den, op cit

[10] In such a model the stock of capital equipment is supposed to consist of vintages of investment goods each of which has its own technical coefficients. Increases in the real product wage surpassing the growth of labour productivity embodied in the capital goods, result in a reduction of the economic life span of capital goods and the related number of jobs. Such a reduction explained the fall in employment. The concomitant increase in average labour productivity, as a consequence of scrapping capital goods with a relatively low labour productivity, explained the further growth of output.

a real turning point in the fight against economic misery and unemployment in the 1970s and early 1980s. It was also the starting point for the recovery of labour market and employment performance in the late 1980s and 1990s[11]. The Agreement stated that "structural improvement in employment requires: recovery of economic growth; stable prices; improved competitiveness of companies coupled with better rewards". Paradoxically, it was the Government which made a major contribution to the conclusion of this agreement, as "compelled by the looming shadow of state intervention, the social partners got together and accepted each other as bargaining partners"[12]. The Agreement, only one and half pages long, thus had a major impact on collective bargaining and Dutch industrial relations in general. The basic trade-off was between wage moderation and working time.

Japan entered a period of prolonged recession in the mid-1970s. The crisis brought about structural changes and, in many industries such as steel, shipbuilding and engineering, severe problems of redundancy appeared. However, unlike most other industrialized countries, Japan managed to go through this period without persistent inflation, high unemployment or numerous strikes. Some observers think that the Japanese system of collective bargaining, complemented by an elaborate joint consultation system, facilitated the transformation and modernization of the Japanese economy during this period and helped avoid major social conflicts.

In the 1980s, the **United States** was badly affected by a dismal economic performance which was followed by a weak recovery. At the same time, innovations and cost cuts in response to severe foreign competition combined with government deregulation put enormous pressure on the industrial relations system. Concession bargaining was largely adopted: the dominant questions being how best to provide *job security* and *income security*. Many of the concession bargains of the 1980s drew on well-known techniques for coping with economic adversity – advance notice of change, retraining, severance pay, early retirement bonuses, work-sharing, interplant transfers, moving allowances, supplementary unemployment benefits, attrition clauses and the guaranteed annual wage[13].

Any lessons?

In terms of industrial relations, the main lesson from the 1970s and 1980s is that the crisis may have disruptive effects even on well-established industrial relations systems. However, these disruptions are temporary if the systems have the capacity to adapt, if they are supported by appropriate public policies and efficient institutions, and if there is a common will to find a compromise. As illustrated by the case of Ireland, a positive experience of using social dialogue as a tool to address the crisis may usher in the beginning of a new and lasting era where industrial relations can contribute to prosperity.

[11] Visser, J. and Hemerijck, A. (1997) *A Dutch miracle: job growth, welfare reform and corporatism in the Netherlands*, Amsterdam, Amsterdam University Press.
[12] idem
[13] Cullen, Donal E. (1987) 'Recent trends in collective bargaining in the United States'. In: Windmuller JP. et al. *Collective bargaining in industrialised market economies: A reappraisal*. Geneva: ILO.

Finally, experience with “concession" bargaining shows the pragmatism of enterprise-level bargaining. Nevertheless, in the context of the current crisis, which was not sparked by high wages, the application of wage moderation as a general model would seem more than problematic.

Coming soon: Social dialogue and the Asian financial crisis