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Changing Labour Markets: Implications for Industrial Relations

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It seems today that markets have triumphed everywhere. With the demise of the Soviet Union, with the introduction of a market economy in China, with increasing trade on a global basis, and with the increasing privatization of many public services, markets are more important than ever before as a means of organizing economic life. Labour markets are inextricably tied to product markets, and both are clearly becoming more competitive.

Competitive markets have numerous advantages. They are innovative and promote the efficient production of goods at a minimal cost. Globalization has brought variety to American consumers, lowered product costs, and given new opportunities to many firms. Competitive markets, however, require the support of government and a host of social institutions. The market requires that public, non-market institutions handle things like education, the regulation of health and safety, protection against consumer fraud or market monopolization, prohibition of child labour, and many, many other things. Moreover, market economies tend to be unstable beset with periodic bouts of insufficient aggregate demand and high unemployment. So we need government to use fiscal and monetary policy to maintain macroeconomic stability. Globally competitive markets have developed more rapidly than the public institutions that are needed to support and regulate them, with important implications for the labour market and industrial relations.

Today, workers are less shielded from competition than at any time in my lifetime. This situation has been driven by global economic integration and public policy shifts both in labour and product markets. Over the 1980s and 1990s, the United States reduced the availability and generosity of unemployment insurance, reduced assistance to persons with disabilities, reduced prevailing/area wage standards, allowed the real value of the minimum wage to decline, insisted that single mothers previously on welfare go immediately to work, decreased enforcement of many employment laws, and otherwise reduced the social safety net. These policy changes combined with more fundamental shifts in macroeconomic, trade, and regulatory policy, taken together, increased competition in product markets, making workers more vulnerable.

The challenge of the global economy today is to build appropriate international institutions. The question is how to replicate on an international basis the success we have had in Canada, the United States, and other advanced market societies, in ensuring that product and labour markets serve the common good, not merely the good of business enterprise. For that, market outcomes

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often must both be channeled (regulated) and modified (or supplemented) for social ends. For instance, we need to regulate child labour on a global basis. However, the most immediately pressing global economic issue today is probably macroeconomic. Institutions are needed beyond the International Monetary Fund and the World Bank to prevent global recession and make international financial markets engines of prosperity. Industrial relations as a discipline has long recognized the importance of institutions for the appropriate operation of labour markets. We can as a discipline make an important contribution to meeting the challenges posed by the deregulation and the globalization of labour markets.

The present moment is one of prosperity in North America. In the United States, we have recently had record lows of peacetime unemployment, and labour markets have been tight enough that real wages have been increasing for about two years. Moreover, real wages have been rising faster at the bottom and middle of the labour market than at the top, so that economic inequality has actually declined. The expansion has not gone on long enough to reverse the secular decline in real wages in the United States since 1973, a decline that was particularly marked for men with less than four years of college education. I understand that Canada has shared these long-run, structural problems of declining real wages and rising earnings inequality but to a lesser extent than the United States, in part reflecting a series of policy differences that David Card has characterized as small differences that matter. In both countries, however, we see continued public concern over more contingent and less secure employment, even now at what probably is the cyclical peak of the business cycle.

Nonetheless, the current moment is one of shared prosperity – albeit prosperity against a longer-run and continuing set of structural labour market problems occasioned by greater competition.

Ideologically, the recent past has been a period of market celebration, of revival of the idea of laissez faire, of smaller governments, and of less social intervention in markets.

The U.S. stock market has regained new heights after suffering a series of sharp breaks in late summer. With lower interest rates, it has shrugged off expectations of lower profits for many companies stemming from reduced foreign sales and price deflation (particularly for basic commodities and agricultural goods). The economic crisis that began and still continues in Asia, spread to Russia, and has recently enveloped Brazil, is still being dismissed by our markets as inconsequential.

All of this reminds more than a few people of the late 1920s. In 1928-29, the U.S. stock market soared while European stock markets declined, agricultural and commodity prices fell, Britain stagnated, and Germany collapsed. At present, something like 40 percent of the worlds' population lives in countries in recession, with devastating effects on the standard of living in places like Indonesia and Russia. I hope that it does not take a second Great Depression to convince leaders in the United States and elsewhere that with a world market, we need to develop global institutions regulating financial markets and implementing counter-cyclical macroeconomic policy.

This will take an intellectual as well as a policy shift. Ideologically, the recent past has been a period of market celebration, of revival of the idea of laissez faire, of smaller governments, and of less social intervention in markets. Starting in the 1980s, particularly in English-speaking countries, politicians like Margaret Thatcher and Ronald Reagan popularized the ideas of less government, lower taxes, reduced expectations for social services (and a reduced social safety net), and less regulation of labour and other markets. The recent rise of centre-left governments in Europe and the United States has not truly reversed this tide; Tony Blair and Bill Clinton are still profoundly oriented toward the market, whatever their commitment to social investments.

The celebration of the global market is still with us, and is applied to matters that might be deemed quite separable, for instance, the unrestrained flow of short-term capital. George Soros has called the dominant intellectual perspective one of 'market fundamentalism, 'pointing out that like religious forms of fundamentalism, it is undertaken with a zeal for an idea that is quite absolute. Market fundamentalism must be challenged and debated.

Industrial relations, as a discipline, can make an important contribution to the debate about the global financial and economic system. Since the path-breaking work of the Wisconsin School early in this century, our discipline has rejected market fundamentalism and pointed out that markets need to rest on appropriate government and non-government institutions.
Collective bargaining is one, but only one, such institution. It is a particularly effective vehicle for employee voice, income redistribution, protection of health and safety, and representation of other employee concerns.

Industrial relations has been, and can be again, a field that speaks to the most vital issues of the day, insuring that the market provides a good outcome for us not only as consumers but also as producers and as citizens deserving democratic voice.

Nonetheless, institutional industrial relations scholars always saw the importance of additional forms of market intervention besides collective bargaining. That is why they helped develop the Social Security System, unemployment insurance, workers compensation, wage/hour regulation, and the prohibition of child labour. Industrial relations theory long has supported counter-cyclical macroeconomic policy to alleviate the problem of unemployment. All these things are part of the industrial relations tradition. The challenge today is to apply those ideas to the global marketplace. It is a big challenge but one that is important for our field.

Industrial relations, as a field of scholarly study and as a vehicle for training new practitioners, has had an alarming tendency to narrow and contract. At the level of public policy it has too often been overshadowed by neoclassical economics with its analysis of, and its celebration of markets. On the other side, it has tended to be replaced by human resource management, with its emphasis on the unilateral determination of employment conditions by the employer and its focus on issues internal to the firm. It is important that industrial relations regain leadership in studying both firm level and public policy issues.

Industrial relations will have to change as a discipline if it is to meet these intellectual challenges. Historically, labour economics has been the primary part of economics studied by industrial relations students and scholars. We need to go beyond this field, my own home within the discipline of economics, and learn more about macroeconomics, financial markets, and international trade. Only by doing so can we gain the expertise and authority needed to address the global economic issues that are so important today. The disciplines of sociology and law need greater attention in our field, as intellectual means for understanding and improving the institutions of modern market societies. Of course we need to continue to study labour relations, employee involvement, human resource practices, diversity, and other applied aspects of our field. But industrial relations has been, and can be again, also a field that speaks to the most vital issues of the day, insuring that the market provides a good outcome for us not only as consumers but also as producers and as citizens deserving democratic voice.

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