

Editorial

Steffen Müller and Claus Schnabel*

Industrial Relations: Worker Codetermination and Collective Wage Bargaining

<https://doi.org/10.1515/jbnst-2018-0053>

Trade unions and employers' associations, collective bargaining, and employee representation at the workplace are the cornerstones of industrial relations systems in many developed countries. Germany stands out as a country with powerful works councils and a high coverage rate of collective bargaining agreements, supported by encompassing interest groups of employees and employers and by the state. The German case and the perceived stability of its industrial relations regime have attracted considerable attention among researchers and politicians, which also has to do with the country's high productivity, comparably few strikes, and relatively minor employment problems.

However, in recent years industrial relations in many countries have come under pressure. Increasing global competition, technological, demographic and organisational change, new forms of work, and other developments have challenged the traditional systems of industrial relations. Union membership and density have fallen in most developed countries (Schnabel 2013), whereas employers' associations have remained relatively stable (OECD 2017). Across OECD countries, the share of workers covered by a collective agreement has shrunk from 45 percent in 1985 to 33 percent in 2015 (OECD 2017: 126). What is more, in the EU more than one third of employees has no formal representation at the workplace in the form of a trade union, works council or similar committee and/or a health and safety committee (Eurofound 2016: 74). At the same time, industrial relations systems have tried to adapt and become more flexible, and there has been some kind of decentralization in many countries.

*Corresponding author: **Claus Schnabel**, School of Business and Economics, Universität Erlangen-Nürnberg, Nürnberg, Germany, E-mail: claus.schnabel@fau.de

Steffen Müller, Leibniz-Institut für Wirtschaftsforschung Halle, Halle, Germany, E-mail: Steffen.Mueller@iwh-halle.de

Against this background, two out of the four papers in this issue analyse the prevalence of formal industrial relations institutions – i. e. collective bargaining and worker codetermination – and the reasons for their decline. As the literature usually assigns positive effects on productivity to works council existence and moderating effects on wage inequality to the presence of collective bargaining, both papers can be useful starting points for debates on the institutional roots of the productivity slowdown and rising wage inequality. The other two papers take a German and a European perspective in asking whether these institutions indeed improve the industrial relations climate – an aspect worth being analysed in its own right but also because it forms the theoretical basis for explaining positive economic effects of unions and works councils.

In the first article, Michael Oberfichtner and Claus Schnabel take a broad look and investigate whether and where the traditional German model of industrial relations still exists. Using data from the IAB Establishment Panel, they show that collective bargaining coverage and worker codetermination via works councils have substantially fallen over the last 20 years, with the exception of the public sector. Less formalized institutions such as voluntary orientation of uncovered firms towards sectoral agreements and alternative forms of employee representation at the workplace have only partly attenuated the erosion in coverage. The traditional German IR model (with both collective agreements and works councils) is more likely to be found in older and larger establishments, and it is less likely in owner-managed establishments, in single and foreign-owned plants, and in exporting establishments. The problem is that three out of five German plants did neither exhibit bargaining coverage or orientation nor any kind of worker representation in 2015. This is mainly the case in small and medium-sized establishments, particularly in the service sector and in eastern Germany. The authors conclude that the traditional German model is clearly on the retreat and that the outlook is rather bleak.

The second paper by Peter Ellguth and Susanne Kohaut takes a closer look at the sharp decline in collective bargaining coverage in Germany in the last 20 years. The authors investigate which part of this decline can be ascribed to structural change. Using IAB Establishment Panel data and decomposition techniques, they find that structural factors such as changes in industry affiliation, the creation of new (and mostly uncovered) companies, and the shift towards high-skilled work are of high relevance for the long-term decline in bargaining coverage. They point to the dwindling works council coverage and to substantial differences between small and large plants, with structural changes playing a more important role in larger establishments. The fact that the major share of the decline in bargaining coverage remains unexplained in the decomposition analysis allows only speculations about

“changes in behaviour” of the relevant actors and opens up opportunities for further research.

In the third article, Julian B. Adam focuses on employee codetermination in Germany and asks whether works councils really affect voluntary quits by workers. Also using data from the IAB Establishment Panel and exploiting an exogenous variation in works council authority resulting from the 2001 reform of the German Works Constitution Act, he finds that the presence of full-time works councillors and increases in the number of works councillors substantially reduce the number of quits. Importantly, this reduction is entirely driven by collective voice effects and only proves to be statistically significant in plants that are subject to a collective agreement. The author provides two possible interpretations of this finding: either the effectiveness of works councils strongly depends on trade union support or works councils mainly are guardians of collective agreements.

The final paper by John T. Addison and Paulino Teixeira takes an international perspective and provides cross-country evidence on employee representation at the workplace and industrial relations performance from the 2013 European Company Survey. The authors investigate the relationship between employee representation and management perceptions of the industrial relations climate, employee motivation, (sickness) absence from work, and staff retention, plus (for a subset of the data) strike incidence. Their results are quite nuanced and sometimes differ between industrial relations regimes. Interestingly (and controversial), the authors find no strong suggestion that works councils or union bodies are associated with a better industrial relations climate or that they are positively associated with industrial relations quality when compared with an absence of representation. They also do not find that worker representation improves staff retention, which stands in contrast to the results in the previous paper by Julian B. Adam for Germany.

Taken together, the four studies represent a fine collection of empirical research on various facets of industrial relations and their outcomes in modern labour markets. In our opinion, one of the biggest challenges for collective bargaining and worker representation will be to remain relevant in a world of work that is changing rapidly (see also OECD 2017). In postwar and united Germany, unions, employers and government have been quite successful in “holding the shop together” (Silvia 2013). However, the fact that there is no obvious and clearly superior alternative to the current regime of industrial and labour relations may not be sufficient to guarantee the survival of the present system.

References

- Eurofound (2016), Sixth European Working Conditions Survey – Overview Report. Publications Office of the European Union, Luxembourg.
- OECD (2017), Collective Bargaining in a Changing World of Work, Chapter 4, Pp. 125–186. in: OECD Employment Outlook 2017, OECD, Paris.
- Schnabel, C. (2013), Union Membership and Density: Some (Not So) Stylized Facts and Challenges. *European Journal of Industrial Relations* 19 (3): 255–272.
- Silvia, S.J. (2013), *Holding the Shop Together*, Cornell University Press, Ithaca, NY.

Article note: This article is part of the special issue “Industrial Relations: Worker Codetermination and Collective Wage Bargaining” published in the *Journal of Economics and Statistics*. Access to further articles of this special issue can be obtained at www.degruyter.com/journals/jbnst.