

## CAHIER DE RECHERCHE - CEIM



Note de recherche  
Gouvernance globale du travail 10-01  
ISSN 1714-7638

### What's Next for Global Labour: Power Dynamics and Industrial Relations Systems in a Hyperglobalized World.

**DANIEL DRACHE**



Centre d'études sur l'intégration et la mondialisation  
Institut d'études internationales de Montréal  
Université du Québec à Montréal  
C.P. 8888, succ. Centre-ville,  
Montréal, H3C 3P8

**JANVIER 2013**

Tel : (514) 987 3000 # 3910  
<http://www.ceim.uqam.ca>

Les opinions exprimées et les arguments avancés dans cette publication demeurent l'entière responsabilité de l'auteur et ne reflètent pas nécessairement ceux du Projet Gouvernance globale du travail (GGT) ou des membres du Centre d'études sur l'intégration et la mondialisation (CEIM).

## **What's Next for Global Labour: Power Dynamics and Industrial Relations Systems in a Hyperglobalized World.**

Daniel Drache

### **A Turbulent Time for Labour Globally**

The dismantling of long established collective bargaining arrangements is without precedent and collective bargaining coverage has shrunk across the advanced industrial world to levels not seen since the fifties. Everywhere, fewer workers are bargaining collectively, an institution that once gave workers new power and status (ILO, 2010). Nowadays in France, the UK and the US, private sector union membership has fallen to record lows representing less than ten per cent of the workforce. For Canada, the equivalent number is about fifteen per cent which is trending downwards more slowly than in the US where contracting out and de-industrialization have hollowed out its collective bargaining system leaving it much weakened. In OECD countries union density levels have dropped from a high of sixty per cent of the work force in the 80s to just around thirty per cent (OECD, 2011). The shrinkage, contraction and retreat of labour at the negotiating table appears to be structural and long term with large scale consequences for governments, employees and the employers who have profited from the pro-market environment. Once thought to be off limits, the EU's prized social market has begun to lose ground and state workers' public pensions,

previously declared off the table, now are threatened by the global fiscal crisis (Standing, 2012).

The latest evidence from the OECD is that wages have trended downwards in many member states as unions have lost their leverage at the bargaining table. The most extreme case is that between 2000 and 2010 wage increases in the majority of US collective bargaining agreements have been negative or less than one per cent. The benchmark standard is labour's share of national income and it has been trailing the top income earners for at least two decades. The share going to capital has grown over the last two decades as investment income has produced deeply rooted income inequalities between the median paid worker and the take home pay of the corporate elite. In the global south for millions the picture is stark (Reich, 2012).

Millions are working in labour-intensive occupations from goods production to agrarian day labour without basic rights to a decent wage and proper working conditions. In emerging market economies, industrial relations and industrial democracy are in a turbulent state of transition as they respond to bottom up pressure from restive work forces demanding a more equitable share of the greatest growth decades in human history. This is not just a story about the entry of more than two billion Indian and Chinese consumers into global markets, but about new institutional arrangements, new mechanisms of adjustment, new power dynamics, and a recalibration of state policy in leading jurisdictions in the

global North and South. From Korea to India work and employment are at the centre of these renewed global processes however different they are from country to country.

The challenge to researchers is to analyze how the 'old pieces' of the global landscape are being reshaped by the global financial crisis that create room for new practices and norms. It is not so simple as to blame globalization as a job killer and it is in fact a mistake to do so. The universalizing logic is that global labour adjustment is more intense, complex and dangerous both for the global North and South as each tries to increase their share of global markets in tough head-to-head competition at the expense of the other (Rodrik, 2011).

Modern industrial relations systems carved out a unique policy space by limiting the reach of markets into the workplace which in turn was achieved through protecting job security and limiting management's traditional right to fire without cause (Drache and Glasbeek, p.208) The extension of industrial democracy into the factory system created a bottom up policy space for millions of workers post World War II. Experts named it a step toward industrial democracy, the capstone of embedded liberalism's attempt to reconcile social equity goals with international competitiveness (Arthurs, 2010).

The structural effects of privatization and deregulation have led to a widespread top down process redefining public-private industrial relations systems. What can be observed is that labour shedding is widespread,

outstripping the existing public policies to manage technological change effectively. It is driven by a matrix of forces motivated by the lure of export markets and productivity gains by labour saving technologies. In the advanced capitalist jurisdictions, labour's traditional policy space is fast shrinking under its feet.

Paradoxically the trajectory in China is likely to move in the opposite direction: a gradual filling in of China's industrial relations practices from a model of tight state and Party control to one of gradual autonomy and independence in the mid- to long-term. The hypothesis is that formalization of work and employment rights in China are likely to trend upwards rather than downwards. The 2010 dramatic illegal work stoppages and strikes in southern China's manufacturing belt are the tip of an industrial relations sized iceberg that will be repeated in other jurisdictions in dense industrial assembly zones. As this process unfolds Chinese industrial relations will arguably share more in common with the European model of labour relations where labour is recognized as social partner on the national and provincial levels.

This paper looks at four interconnected issues that impact directly on the fragility of bottom up policy spaces for the future of work and employment: labour-shedding technologies; new employment practices; the geo-economic redistribution of power; and the fragmentation of the multilateral trading system. Importantly it examines the collapse of the Anglo-American Keynesian model of

industrial relations that was predicated on a bottom up policy space to protect wage and salaried workers' social and economic rights for Canada and the US. Surprisingly, despite North American market integration, the Canadian and American models are highly divergent. Thus the enormous transformations of capitalism have seen decisive shifts in state-market relations with the emergence of industrial relations systems. It concludes that more turbulent change is underway and that the Anglo-American model of industrial relations cannot be exported to China or other countries though some fascinating points of convergence are visible.

### **Strategic Long Term Structural Change as a Job Killer**

In the past strongly focused Keynesian labour market strategies acted as a buffer to mediate the worst effects of the global business cycle. Now labour markets are in turmoil for a very specific reason. In particular, labour shedding technology leads to fewer hires in many mass production industries and large scale resource based sectors. This is due to a variety of factors, but the most important is the relentless search for 'smarter' and 'tougher cost cutting strategies' at the firm and global level, eroding the take home pay of skilled workers and undermined labour's share of national income in many jurisdictions. In its 2012 report the IMF showed that national income going to labour has plunged while the share

going to the corporate sector is at a 45 year high. A decade ago 64 per cent of US national income went to labour; today it is only 54 per cent. In Europe too there is convergence as labour's share of the pie continues to shrink (IMF, 2012). To make matters more difficult, collective bargaining in many jurisdictions throughout the advanced capitalist world has accepted close to zero per cent increases in collective bargaining agreements in recent times. Wage and benefit cutting is widespread as transnational firms want to cut wages; This was the trigger to the highly publicized six month 2012 Caterpillar strike in London, Ontario. Caterpillar, a US based multinational, demanded a fifty per cent cut from its employees making complex train engines and alleged that the plant was unprofitable. After a massive public campaign the US owners closed the plant and all work was to be transferred to the US operation. In many situations worldwide the story is much the same. Weakness at the bargaining table has left labour in deregulated market economies highly exposed and vulnerable (Standing 2012).

There are other labour shedding strategies that have proved to be a 'job killers.' Notably, the opening up of economies to international competition provides firms with a powerful incentive to capture economies of scale by becoming global exporters. The drive to realize highly profitable efficiency gains has shrunk payrolls and has made employers wary of more permanent new hires in many industries. In the US alone over 10 million production related jobs have been lost since 2000. While this phenomenon is not new by any means, the scale of the phenomenon is. Fewer workers are producing more goods than ever. In

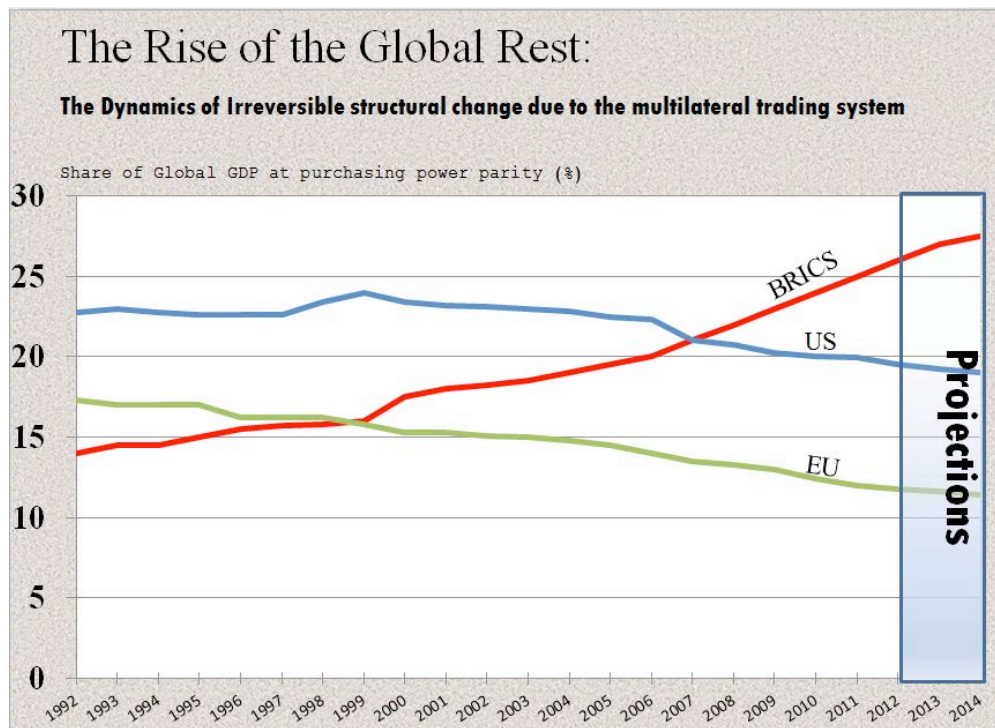


North American auto production (in the once Big Three) the work force has fallen by almost fifty per cent since the 90s (Stanford, 2011). Finally the shift to a disposable workforce comprised of contractual and semi-temp workers has become standard practice in many, if not, most of the newly emerging economies as well as in the rust belt industries in the global North. Global labour is more vulnerable and part-time—hired by third parties to work full time in factories and many industries. It is estimated that as much as twenty five percent of workers in emerging market economies have no contractual relationship with their actual employer. They are dependent on the contractor for wages, benefits and protection. Industrial relations systems have not found a way to address this inherently explosive situation (Canada Watch, 2011).

### **A Systemic Turning Point for Industrial Relations Systems**

Economically we need to know the ‘what’ and the ‘why’ the vast army of human labour is not sharing the productivity growth which economically has transformed the global south. In these difficult circumstances what institutions are needed to level the playing field? Secondly, it is critical to identify the institutions that provide workers the policy space for voice and workplace representation in the new global economy three of which are the most important. The first is collective bargaining between employees and the employer that enables workers to share in

the



productivity gains and bargain for a higher standard of living. The second is workplace representation to give employees the capacity to negotiate new rights against wrongful dismissal and arbitrary layoff as well as to provide an adequate social wage as one of the goals of collective bargaining. Finally an effective system of industrial relations codifies all these employment rights with the state and provides workers with the fundamental package of rights needed for an authentic form industrial democracy (Murray 2011).

Source: *The Economist*, 2005

In such an environment a lot of stock-taking is in order if we are to successfully understand this Braudelian moment where system, structures, processes and standards are being

redefined by innovative technology, new state practices and their impact on labour markets and wage setting. Two startling interconnected pieces of evidence that impact directly on the future of labour and human rights are:

First in 2005 *the Economist* published what would become an iconic table showing that the BRICS had overtaken the global north's share of GDP at purchasing power parity. (see table) The global pie suddenly had gotten bigger and that, incredibly, the global South's share had grown faster than the global North's. The emerging economies not only had caught up but had overtaken the advanced capitalist's once commanding position in the global economy. This seismic shift has many implications on workplace representation as a general feature between late and emerging capitalist economies. Stiglitz (2010), Rodrik (2012) and others are quite right to label this structural change as being long-term, consequential and irreversible. In a way that no economist of the right or left had predicted India, Brazil, China, South Africa have not only caught up but challenged the US dominance as the epicentre of the world capitalist system. With the BRIC countries going head to head with the advanced capitalist world for dominance of global markets wages, the everyday practice of collective bargaining faces unprecedented competitive pressures. Further and equally

important, hundreds of millions of agricultural workers remain largely outside any effective system of representational rights and are subject to widespread exploitative practices of labour contractors in India and China particularly.

Secondly in 2011 the *Financial Times* carried a small article of portentous importance with the headline, 'US hegemony of the world order had been challenged and overtaken by China.' It presented new data that showed China had become the top manufacturing country in the globe ending 110 years of US dominance. Historians remind us that China used to be the world leader between 1700-1850 and that today we are living again through a dramatic period of unprecedented regime change. If history is any guide, China will find itself cast in a new role as restless workers increasingly are acting outside the official state sponsored system of industrial relations to fight for their collective bargaining rights—an intrinsically political goal. In 2010 it is reported that there were over 100,000 non-authorized work stoppages. Put differently there were 100,000 spontaneous strikes for better wages and working conditions, the classic demand of workers left out from high growth and little redistribution into the pay packet. Economically they are trying to get a larger share of the national income or productivity bonus from two decades of double digit growth. Wages have risen but not enough and for too few of the industrial workforce. We don't know how these events will play out in China, but their impact on wages and working conditions for emerging bottom up spaces for industrial democracy is likely to be far-reaching in two aspects.

## **Multilateralism is at its Lowest Point Ever**

The first aspect is that the moral victory of the WTO legalists has imploded with the collapse of the Washington Consensus and the implosion of the WTO's Doha Round in 2011. Doha deserves its fate. Despite so much change in the international environment the WTO has barely evolved beyond a narrow gauge organization to promote the mercantilist interests of its members. It is now deadlocked, divided and exhausted after more than ten years of fruitless negotiations. Without the metaphoric knife at its throat to transform its culture, the WTO will continue to be trapped by its existing architecture in the short term. The long awaited denouement came on 29 April, 2010 when Director General Pascal Lamy finally admitted that Doha Round had imploded and there were no prospects of a 'grand' bargain. The WTO is out of gas and has shown no capacity to downsize its 'bigger than big trade' agenda (Drache 2011).

Multilateralism is at its weakest point in seven decades and given the seismic shocks to the world trading system since the 2008 financial crisis, protectionism is in large measure amazingly absent (less than 1 per cent of world trade) demonstrating, if any so demonstration is necessary, that the world trading order has learned the costly lessons of the 1930s when mountain-sized tariff walls brought global trade to a standstill. In 2011 export growth is much

lower than the halcyon days of Alan Greenspan's low interest rates responsible for fuelling double digit annual export record growth. Even China has not escaped the chill of the 2008 global financial crisis with growth now averaging around 8 percent annually. For the industrial powerhouses of the advanced capitalist societies such as the US and EU export growth hovers around four to five per cent annually, a marked slowdown compared to pre-2008. The reality is that the global economy is stuck in a vicious cycle according to the Bank for International Settlements (BIS 2012, q.Cohen 2012). The world is no closer to finding a sustainable economic model to end the destructive interaction between the financial sector, consumers and deleveraging. The struggle to contain spending and recoup tax revenue lost to output collapse means that so far there 'is not return to a balanced growth path.'

Trade politics for the 21<sup>st</sup> century require a very different trading system — one capable of handling complex and challenging issues. With its narrow-cast rules, the current system has not been able to evolve into an institution of the twenty-first century with the right ideas about institution building and the need for linkages between trade and non-trade issues. Up until now its norms and practices do not support finding diverse asymmetric solutions in the way the WTO does business (Drache, 2010). Policy space is shrinking in the area of workplace representation.

The ten year deadlock Doha Round raises many questions about the inability of the WTO to renew itself and move beyond the present boundaries set by laissez-faire free trade dynamics. Institutionally it has not demonstrated any ability to correct organizational imbalances in its formalistic rules; decision-making procedures; and a bloated trade agenda. The Doha Round was to be a development round charged with responsibility to increase pro-poor policies to correct the high costs of the Uruguay Round. The agreement was that the advanced economies had to contribute to poverty eradication and deploy trade as a critical policy tool for that broader social purpose (J George, Instit. Ec Growth New Delhi April 20 2011).

Instead the WTO has demonstrated little capacity to renew itself through a process of incremental adaptation: the key step to take essential for institutional renewal and redirection, as Debra Steger correctly notes, the rule of lawyers and the rule of formal legalism remain problematic and limiting. In response countries, from the North and the South, both big and small, from the developed and the least developed all prefer mini-multilateralism striking regional, bilateral, preferential and plurilateral trade deals. There are now over 300 of these and countries are eager to get on board for small deals rather than a WTO 'grand bargain' that often has turned into in Sylvia Ostry's acerbic words, 'bum deals' at the Uruguay Round for the global south.

## **Labour's New Conditionality**

The second aspect is that the new conditionality of labour in the global south needs to be mapped and analyzed. New forms of labour especially contractual, part-time, rural, service and casual now comprise a major part of labour markets, not the once dominant blue collar worker. Industrial workers are a rising power in China, Brazil and India all who are part of the new international division of labour. The question is, in what ways are the advanced industrial economies a model, if any, for the global south? Or should the global south be experimenting with building systems of workplace representation that are part of a larger globalization movement to protect workers' rights as found in ILO conventions, international human rights law and in the ECJ?

It is no longer evident for public authority how to define a high standard of workplace representation in a highly diverse world with competing centres of power. Every country needs to develop its own labour standards that reflect their values and policies within a general global governance framework. From a public law perspective the ILO's core conventions with respect to freedom of association, the right to organize, the right to strike and the elimination of child labour among others represent the core ideas and goals and objectives for a new global labour regime. Still global governance institutions have shown their limitation to effect a consensual agreement to adopt a single global model. Faced with this impasse,



the responsibility for best practice work and employment standards in all likelihood needs to be addressed to national authorities that are best equipped to initiate national problem-solving, rebalancing the social agenda and having the legal authority to effect strong regulatory policies to protect labour from the volatility of global financial markets.

The competitive alternative to contemporary neo-liberal market driven policies are state-centric ones. For this reason among others, countries are looking at new frames to pursue their interests. They require a whole range of institutions to protect labour, to enforce contracts, to deal with externalities, informational incompleteness; and establish national legitimizing institutions for social protection and insurance; redistributive policies; institutions of conflict management, social partnerships (Rodrik, 2002). All of these *acquis sociaux* provide a contractual basis for different forms of labour security that define one's industrial citizenship. Guy Standing has compiled a useful list. Work security provides protection against accidents and illness at work. Job security affords the opportunity to retain an employment niche. Income security delivers an adequate stable income with public policies to reduce inequality. Representation security brings workers a collective voice in labour markets and the workplace (Standing, 2011). The interstate shifting of power from the North to the South highlights the absence of adequate trade and human rights linkages in emerging market economies.

Many experts such as Dani Rodrik (2006) and Robert Wade (2008) have shown in their detailed empirical studies that the open market strategy of the

contemporary phase of globalization has not translated into higher employment levels, better wages and working conditions as the theory of free trade and global integration postulates. In his important book *Has Globalization Gone too Far?* Rodrik shows that there is most certainly a link, one that is not always positive between trade and employment. For the effective functioning of the global economic system the governance gap between mechanisms that favor economic globalization and those aiming to protect and improve workers' rights and living conditions domestically must be bridged, especially in the context of the current phase of the economic global crisis with a stalled recovery and heightened market instability. But the world is no closer to finding a sustainable growth path because it hasn't come to terms with the daunting challenge facing the US economy.

### **The Consequence of the Institutional Delinking of Wages**

The US has been a relatively closed economy enabling it to protect the good jobs in the mass production industries from overseas assembly operations. In the last two decades US companies have rushed to send jobs overseas and establish branchplants throughout the global south. The hollowing out effects of US multinationals relentless search to cut jobs and labour costs have destabilized its industrial relations system quite dramatically, once the high standard for industrial relations practices at a time of global capitalism.

The hollowing out of the American Fordist model of industrial relations anchored in its once-unchallengeable factory system of production is a key development must be given special attention (Piore and Sabel, 1984). The Fordist model of workplace production functioned as the gold standard of industrial relations practices in the postwar world for over three decades, but the model has collapsed, pushed over the edge by the free market policies of the Reagan, Clinton and Bush presidencies. For example, the structural delinking of the trade job growth and income linkage in North America has led to dramatic changes in the organization of the workplace. Collective bargaining in the US now covers less than seven per cent of the workforce in the private sector; and only 30 percent in the public sector. Twenty-three states have powerful employer friendly right-to-work legislation which further depresses wage levels. We have seen the flattening of the wage pyramid with an explosion in the number of minimum wage jobs of \$10.00 or more range, the federal minimum wage in 2011. Wage settlements hover around the one per cent or less and 99 percent of all contracts are settled without a strike. Many contracts include wage cuts for new hires and a reduction of existing pension and health benefits.

NAFTA promised competitive industries, more employment, better paying jobs and a higher standard of living for US workers (Drache 2011). These promises were only promises and when interest rates were under three per cent, the enormous US job machine created hundreds of thousands of jobs each quarter between 2000 and 2008. The boom years also saw the hollowing out of US

industry as hundreds of thousands of US jobs went to Mexico, China and other third world assembly operations. It is estimated that over ten million better paying industrial jobs have been lost by the US economy in the last fifteen years, in all likelihood forever (Binder 2010) Presently US industrial jobs as a percentage of all employment is about seven per cent of the workforce from its peak in 1970s of over 20 percent. Job creation is weak with only 100,000 monthly jobs created on average in 2012 when it is estimated 200,000 should be the target to win back the jobs seemingly gone forever. On the job front the US economy remains struck in the crisis zone.

Since the financial meltdown the US economy remains battered by the recession and threatened by China's competitiveness. Many experts believe that it has run out of technological juice and has entered into a period of relative and, in some industrial sectors, absolute decline (Cowen 2012). Since the 2008 global financial crisis the US economy needs to add about 300,000 jobs monthly to bring unemployment down to pre-recession levels (IMF 2011). Until then wages will remain stagnant, job growth weak and disappointing though there is some evidence of a modest improvement. Overall the polarization of incomes has reached levels not seen since the 1920s, a decade of unparalleled inequality. Stiglitz has well summarized the trend in these words: 'In the US one per cent of the people take nearly one-quarter of the wealth of the nation's incomes every year. In terms of wealth they control 40 per cent. Twenty five years ago, the

figures were 12 percent and 33 percent.” (Vanity Fair, April 2011) For Canada the same skewing of income is visible and pronounced. Armine Yalynizan writes that:

The lesson of the decade prior to the global economic crisis - the richest one per cent took one third of the income gains from economic growth in that time. They took eight per cent in the 1960s, a comparable period of sustained and robust growth. They’ll take it in wages, they’ll take it in dividends, they’ll take it in stock options. But they’ll take most it. (Yalynizan)

Global neoliberalism has triggered other changes most notably the replacement of the secure jobs of the salariat with the part-time highly insecure work of the precariat. It has become a distinctive socio-economic group with its truncated status who lack labour security and do not have access to social income.

### **Breaching the Postwar Link Between Wages and Productivity Growth**

According to many experts, the growth of income inequality has several contributing factors. At its core lies a single relationship that possibly, more than any other explains the collapse of income redistribution through the dominant post war industrial relations model. In the postwar world the universalization of the US styled mass consumption model had a singular relationship that created an upward pressure on wages and profits. In economic jargon wages were sticky

downwards because the US standard of living was tied to the collective bargaining cycle in core industries anchored in US prosperity. The model was founded on the principal idea that in the standard setting mass production industries wages were tied to a three per cent productivity increase to base plus a cost of living adjustment. It also provided pension, health care and other long term disability benefits. In 1948 Charlie Wilson, the then president of GM accepted the three per cent productivity automatic increase to the base and higher wages as the model of collective bargaining with the then UAW president Walter Reuther. This pact became the standard practice not only for this historic agreement but the pattern would be generalized to all industrial sectors including steel, tire manufacturing, meat-packing, mining and other mass production industries. It was not a perfect system but it was as close to a national standard for labour with the idea of industrial citizenship at its core (Drache and Glasbeek, 2008).

In essence the postwar compromise in the US gave American families access to a home, mass consumer goods, education for their kids and privately funded pensions on retirement. Women were largely out of the work force and so the Fordist wage, so named after Henry Ford's decision to pay his workers enough to be consumers, was high enough to provide (Piore and Sabel 1984). What collective bargaining achieved for the first time in the history of late industrial capitalism was to link collective bargaining to mass consumption. Consumption and wages pushed and pulled together in a myriad of ways that transformed the

US economy into a modern economy founded on the consumer appetite for mass consumption and the expansion of credit to finance it. Keynes and others would say that managing the demand side was an essential part of a larger macro strategy to stabilize the business cycle. For workers the tangible benefit was dramatically evident: as Amstrong et.al. have shown in their empirical work, in each decade between 1950s and 1980s blue collar incomes in the US and Western Europe doubled, an amazing redistribution of income unlike anything the world had seen. Class divides were bridged but not eliminated and in terms of social opportunity, the playing field was leveled to a degree no one could have predicted least of all Marx.

For Krugman and other empirical economists the great uncoupling of wages from productivity growth since the end of the golden era of capitalism in the 80s has seen incomes stagnant for middle class America and the share of wealth going to the top three per cent becoming un-precedently concentrated in fewer hands. By 2011 the US was one of the most unequal societies in the Western world and the industrial standard is now the union-free work place where workers are forced, once again as they were in the 30s, to negotiate one on one wage and working conditions with their individual employer. It can be said it is a wage relationship closely mirroring a market model of competitive capitalism with wage flexibility up and particularly down as a permanent feature. There is no productivity bonus added into base wage rates and hence without the upward pressure on wages, Krugman's and other experts fundamental point is right.

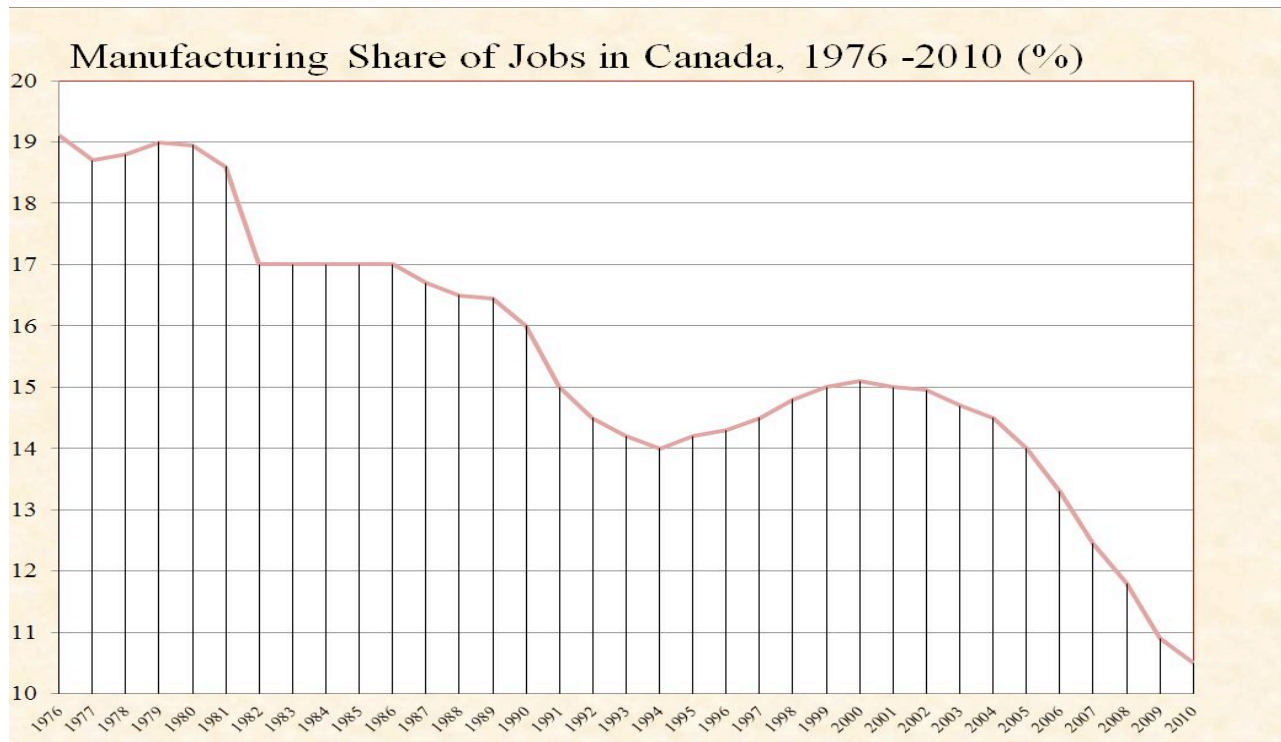
Income inequality and very high debt levels for families to cover the shortfall of shrinking disposable incomes is now a hallmark of US capitalism (Stiglitz, 2011).

A large part of the story is that the US institutional wage setting mechanism has been dismantled and the direct consequence is that a vast majority of workers have neither job security nor the expectation that wages will increase bargaining cycle by bargaining cycle throughout a lifetime of employment. The new pattern has been set by Caterpillar hydraulic parts plant in 2012. After a four month strike workers accepted a six-year contract that contained almost all of the concessions the company had demanded. These include a six year wage freeze, a pension freeze for two-thirds of senior workers and a large increase in what workers will have to pay for health care insurance. It also codified a two tier wage system for workers hired after May 2005. The old rate averaged \$26 an hour and the new one between \$12 to \$19 an hour. The world's largest producer of earth-moving equipment had record profit of \$4.9 billion in 2011 with even stronger earnings forecast for this year. Wages are no longer negotiated locally instead they are set by the global strategy of Caterpillar. Pattern bargaining like at Caterpillar guarantees leading US corporations a position of power for subsequent negotiations. Once launched down this road collective bargaining no longer operates as a wage setting mechanism for continuous economic improvement. (Greenhouse, 2012)



Research has shown that in a union-free environment workers lack proper health care, job security, higher pay and, most importantly pensions. Smaller companies don't cover health costs while some have minimal coverage with a low benefits payment ceiling. These private health care plans are subject to the powerful and intrusive decision-making review practices of American life insurance companies. Disqualification of coverage for any range of reasons has minimized the effectiveness of these minimal but costly health care schemes. A once robust bottom up policy space has shriveled and lost much of its social solidarity (Murray 2010).

It would be wrong to argue that convergence to the American industrial relations model is either automatic or has reached the same degree of magnitude in other jurisdictions. Still the shrinking of the manual core of the old working class and the dismantling of collective bargaining system is an observable deep structural change throughout the advanced capitalist world. Canada's bottom up industrial relations policy space displays a certain resiliency because it is strongly regionalized system. For example compared to US, Canadian workers are closer to Europe's social market than they are to US laissez-faire capitalism. Seventeen percent of Canadian private sector workers are unionized and the figure for public sector workers is close to 80 percent. Wage settlements are about twice as high as those in the US averaging 1.8 per cent in a period with inflation running under 3 per cent. (Jackson 2011)



### **Divergence in North American Labour Markets despite the Rhetoric of Integration**

**Source:** Daniel Drache (2012)

Superficially at least Canada has a model of industrial relations practices similar to the US. In fact despite the enormous economic pressures for convergence the Canadian system of collective bargaining practices has not buckled and remains stubbornly and distinctly divergent from its US cousin. It is shrinking and the hollowing out of Canadian industry is well advanced (see figure 1 below).

Theoretically it makes for a compelling case that globalization of markets is forced to adapt to local conditions with strong distinctive institutional practices and political values. Canada is a powerful case study of a system of collective bargaining that has evolved to the point where it now has both institutional features and practices sharply divergent from the US. The policy space remains a hybrid of institutional guarantees and a union movement that has consolidated itself through mergers into larger bargaining units.

Most important is that collective bargaining remains embedded regionally in Quebec and British Columbia and in Canada's major urban areas. It has leverage with these governments and is able to mobilize its militant base at critical times. Neither governments nor employers have been able to dismantle Canada's system of workplace representation, despite a massive effort to import the US union free workplace into Canada. On paper Canada appears to have a fragmented structure with not much possibility for solidaristic industry wide collective bargaining. This perception hides much.

The fact that the Canadian system has so many decentralized features has worked to keep it strong regionally with a very small national footprint. Importantly its gut instinct for survival is due to the talented trade union leadership at the head of some of Canada's largest public and private unions. All these factors have allowed Canada's collective bargaining system to mature and evolve in a very hostile bargaining environment. On balance it has defended its

policy space from powerful domestic and continental interests bent on shrinking it further.

The Canadian model is complex and deceptively legalistic. It is an 'opt in' model where factory by factory each group of workers is required to join by signing a card. The card is supposedly like a vote that is not universal and is subject to an expensive and cumbersome signing up drives that gives employers the right to participate in the factory floor campaign under a free speech provision; it makes a mockery of any resemblance to a universal franchise. It is a limited franchise protected and restricted by the Courts but was the model imported from the US that has maintained many of the US features. The right to strike by European standards is heavily curtailed and controlled by the Courts and provincial legislation. Companies can and do operate during a strike and can and do call on local police to protect 'replacement' workers (Fudge 2010).

Legally, workers have a restrictive right to picket that does not allow them to shut down the plant but only provide the public with information about the lockout or strike. Even the grievance procedure has been taken over by lawyers and quasi-judicial labour boards and far removed from the rank-and-file (Tucker, 2009). The mainstay of the industrial relations practice is that workers cannot be fired arbitrarily and the employer must give a 'just cause' for dismissal. This important mainstay of the Canadian model has not protected hundreds of thousands of workers who lost their jobs in the fall-out from the 2008 global

financial meltdown. With respect to human rights violations Ontario has created parallel system to protect workers from discriminatory practices in the workplace and offers the citizenry an alternative grievance based system. Still Canada's model of industrial relations has not collapsed nor succumbed to the drive for continental integration. It is in slow decline and the numbers of workers bargaining collectively has dropped relatively and absolutely (Arthurs, 2010).

### **The Sucking Sound of NAFTA's Job Creation Guarantee**

It is significant to recall that NAFTA promised large job creation, higher paying jobs, increased competitiveness for Canadian and Mexican industries and eliminating the decades old productivity gap between Canadian and American industries. In fact, the competitiveness gap grew larger rather than disappeared (Martin 2010). Jobs in manufacturing have fallen from a post war high of one in five to one in ten! For Canada—a developed economy—the NAFTA model of development has been largely job negative. Access to the giant American market has not slowed down noticeably the dramatic decline in manufacturing jobs in the economy as the accompanying table demonstrates. Since 1994 manufacturing share of all jobs in Canada has plummeted from 14 per cent of all jobs to just above 10 per cent, a drop of almost twenty-five per cent. Growth in the public sector employment has been strong after drastic job cuts and layoffs in the late

90s. Since 2002 a fifth of all workers now find employment with public authority in education, health, administration and government itself. The federal government is one of the country's major employers in 2011 with job growth significant and noteworthy.

The return to quasi-deregulated labour markets has skewed income inequality towards the top one per cent of income earners. From a labour market perspective small and medium sized employers which now employ the majority of workers outside the public sector and the auto industry have employment practices that are not too divergent from the US model of collective bargaining. Here also, Canadian industrial relations practices are not a carbon copy of the American exceptionalism that has created an industrial relations landscape and policy space unique in the world. In fundamental respects Canada does not have the equivalent of the Republican Party and even the rightwing Harper government has had to accommodate Canada's house of labour to a not insignificant degree. But Ottawa has also increasingly stepped in and ordered Air Canada and Canada Post striking workers as well as other unions back to work with fewer benefits than the employer offered in their final offer. So in critical ways bottom up space for industrial democracy is under tremendous pressure for a makeover.

The challenge globalization represents for Canada is how to acquire the policy tools and institutions that will enable it to adapt to the rapidly changing economic landscape (Rodrick 2001). The old policy space created by a modern

bottom up industrial relations system is no longer adequate for wage labour and salaried employees. The key to Canada's future lies in research and innovation where the better paying jobs require a labour force with superior skills and education. In the race to specialize in new information technology and the skill development needed Canada lags far behind the US, Japan, and Germany in R&D and in investment in higher learning. The macro-economic benefits of globalization have been equally mixed. To move up the competition value-added ladder in a free trade agreement, Ottawa has to invest more in social capital and skills training. According to the (Organization for Economic Cooperation and Development) OECD, Canada spends thirty per cent less on post-secondary education than the U.S. In fact, spending on human capital and education dropped in the 1990s, the exact opposite of what one would expect given that skill training is so important for job creation and international competitiveness .

What can China learn from Canada and the US' system of workplace representation as it enters a period where trade unions are neither representative nor autonomous according to commonly recognized international standards? With its highly legalistic features and the many restrictions regulating the right to strike and a factory by factory model, collective bargaining of the American variety is not an easy product for export. Western Europe's collective bargaining premised on autonomous rights for citizens also faces very large obstacles. As others in this volume demonstrate, China has its own three legged system of

collective bargaining with state run unions, a permanent presence of the Communist party and local officials at the enterprise and industry wide levels. The authoritarian command and control culture of Chinese institutions places visible structural limits for the emergence of a Canadian style system of grievance-based workplace representation of industrial democracy.

### **China's Industrial Relations System: Beginnings of a Great Convergence?**

The Hollowing out of the American Model	The 'Glacier Like" Filling in of China's IR Practices
Factory by factory opt-in system 23 states have right to work laws – almost union free but with silos of unionized workers in auto and other industries	Industry-wide-covering millions of production workers
Social Wage such as pensions and health care is shrinking	Social wages: food, accommodation, clothing provided by employer
Ninety-five percent of contracts signed without a strike. Strike conditions for majority of workers are rare	Unauthorized work stoppages with negotiations resulting in 43% rise in wages 2010 in affected industries. Right to strike tightly controlled by the state and not guaranteed
Wages flat or negative uncoupled from productivity.	Annual increase below productivity growth
Shrinking pension, medical and other benefits	A growing social wage still embryonic
Radical downsizing of production workers	Insatiable demand for new hires though highly sensitive to the business and export cycle
Two tier wage scale new hires are paid 20-40 percent lower wages	Wage ladders and increased recognition of seniority and skill but also reliance on labour contractors



C.B. lacks critical mass- only 8% of private sector workers are unionized	Rudimentary kinds of workplace representation specific to regions and industries but mass production workers are excluded from independent bargaining
Only 30% of public sector workers unionized- numbers expected to diminish after Wisconsin dismantling public sector benefits	Public workers remain covered by an extensive system of welfare benefits and rights and are likely to increase
Heavy reliance on contractual, part-time, 3rd party labour	Unlimited labour supply but rising labour costs means that the country can no longer rely on a reservoir of cheap labour as its engine of growth
Minimum training- reliance on more skilled immigrants	As needed on-the-job training with a minimum career ladder
Weakening of minimum wage and discharge rights (without cause)	Industry-wide work place standards fixed by national /local government officials. discharge rights and due process are rudimentary in practice

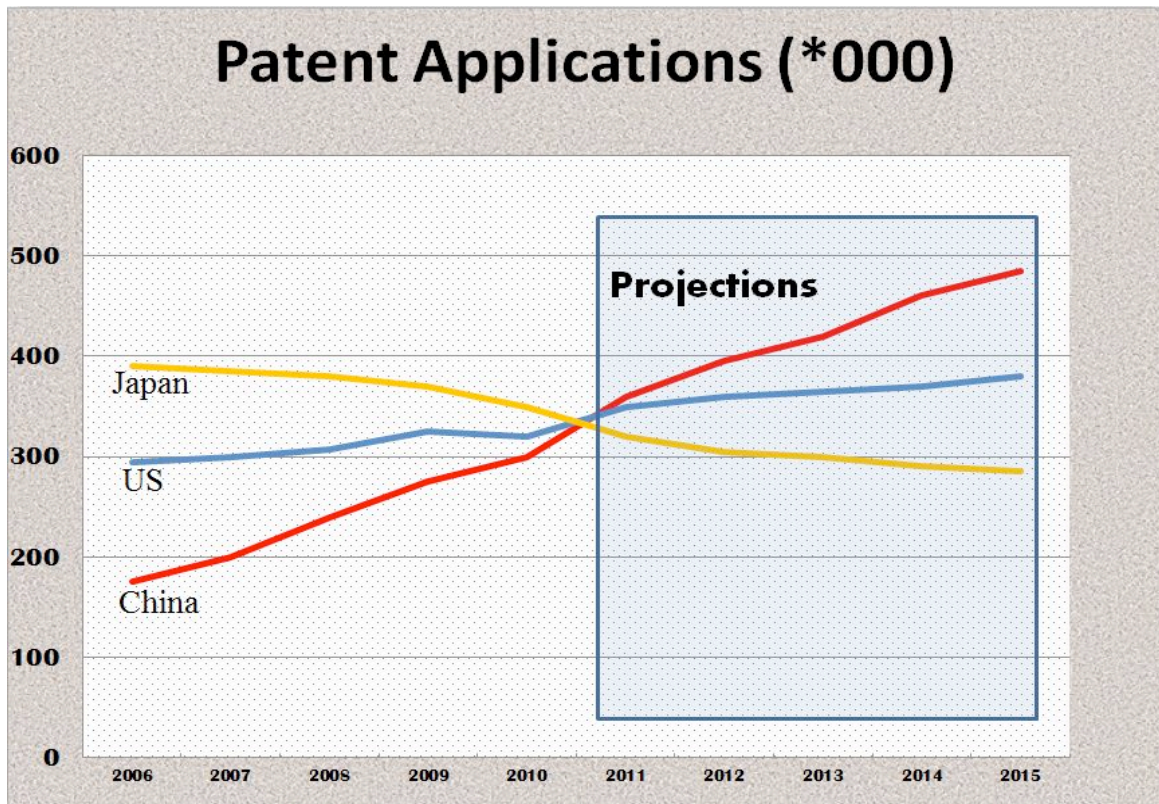
Source: Daniel Drache 2012

Under the existing regime collective bargaining at the plant level bypasses the workers themselves with wage and work setting bargaining often excluding the rank-and-file's direct participation limiting their right to independent representation. (see table US and China's IR systems contrasted). Frequently collective bargaining is industry wide as seen in the new labour contract in Hubei province to give almost 500,000 catering employees a 47 per cent wage hike over the duration of the agreement. Even with Beijing pushing through 'safe' process driven reforms, there appears little chance for a bottom up employer/employee driven model of collective bargaining in the immediate future. Even with its state organized and managed system of collective bargaining this system is not static. Wages are set to rise and take a larger share of the huge productivity growth of

the past decade. Chang-Hee Lee has shown empirically that at the national level, a very broad measure including the poorest regions of the country, the share of national income going to labour has shrunk in the last decade falling from 52 per cent in 1999 to 40 per cent in 2007.

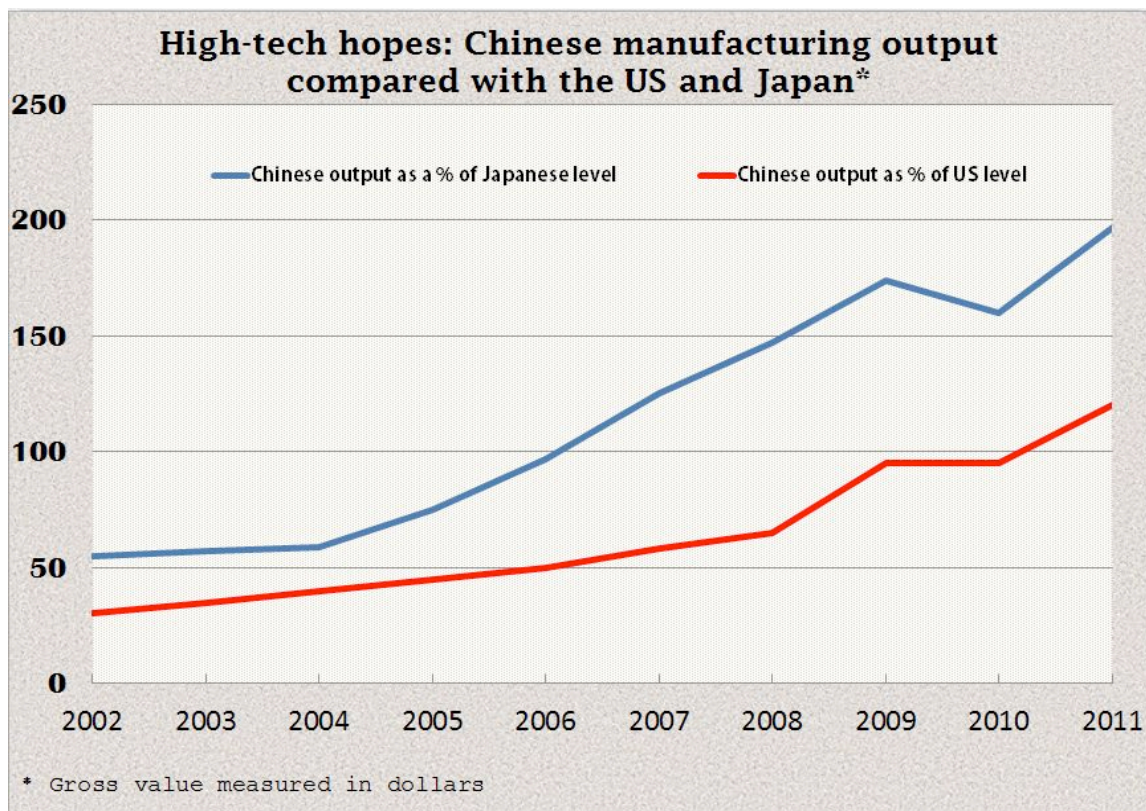
What is also true is that wage negotiations for industrial workers inside the golden handcuffs have doubled the average worker's income in the past fifteen years or so. The idea that China will continue to be a low wage mass producer of goods is a serious misconception. For China's elites these rising wage costs challenge China's ability to use more technology especially in electronics industries to be cost-effective. It is reported that between 2008 and 2010, according to a study by Germany's IFO economics institute, the average year-on-year rise in labour costs in China's engineering sector was 11.6 per cent, compared to a comparable rise of

1.9 per cent in the EU and a decline over the same period of 8.5 per cent a year in the US and 3 per cent in Japan. (Marsh, 2012). A decade ago China's low wage strategy gave it its competitive edge. Shifting to a consumption demand-driven based economy is yet to occur but



Source: Peter Marsh in: *Financial Times* (2012)

China wants more industrial champions capable of producing sophisticated products for China's booming domestic market. This kind of mutation at first glance is confusing. After all China is still a low-cost producer keen to fuel corporate profits by developing new technologies that will require better trained and skilled workers with pay and benefits to match. China is keen to reengineer its industrial foot print and there is evidence that China is moving more rapidly towards higher end goods pushed and prodded by China's increasing wage costs. (see table China's High Tech Hopes). If this is the case, China will move away



from 'building up cheap production bases for exports' and is ready to move up the value added chain by investing in innovative technologies (Marsh 2012).

Source: Peter Marsh in: *Financial Times* (2012)

For instance it is surprising to learn that Chinese manufacturing capability, measured by the quality of local suppliers and design expertise is about 75 per cent of the level of Germany, while five years ago it was only 50 per cent. Chinese factory labour is still 80-90 per cent cheaper than in many western countries. (Marsh 2012) China has to acquire a different factory system than the

one based on a crude model of mass production rooted in the 19<sup>th</sup> century mind set of hundreds of millions of workers labouring in the ‘satanic mills’ of capitalism. These are Marx’s apt words, he once employed to describe 19<sup>th</sup> century primitive industrial capitalism but are no less applicable to China’s factory system. The question is what will happen to China’s command-control system of industrial relations increasingly preventing China from being ‘a normal industrial country?’ Is this indeed one of the key factors keeping China stuck at the low end despite its growing sophistication in manufacturing? No one has definitive answer but China’s is as good as anyone’s.

### **Will There Be A Modern Democratic Chinese Model of IR?**

As China’s manufacturing capability grows it will require a different kind of workforce. The need for stronger work and employment rights are likely to trend upwards rather than downwards. We can see that the non-authorized work stoppages have a momentum of their own and there is a propensity for workers to take initiatives in highly authoritarian settings. Similar kinds of strikes shook Egypt’s cotton industry periodically in the 50s, 60s, 70s, 90s and they had a profound impact on working class collectivism even when crushed by Nasser and later the army. The parallel is not exact however; labour collectivism and work

stoppages follow a common pattern of episodic actions of defiance breaking through the tightly controlled authoritarian 'law and order' regime.

One example among many occurred in July 2012. Chinese workers and middle class activists took to the streets in Shifang, an ancient city in Sichuan to protest the building of a factory project to make environmentally toxic copper and molybdenum products. The municipal authorities suspended the factory construction faced with blooded protestors and police firing tear gas ( Bradsher, 2012). The construction may indeed recommence in the future. Push back is local and self-organized in this case by the country's environmental movement. The Shifang protests are not an isolated event though how and when something like a breakthrough will occur is impossible to predict but the proliferation of bottom up collective spaces is on the upswing despite police repression.

The bigger point is the macro-economic one. Chinese workers are at the margins in terms of per capita income and a better standard of life with characterized by a modern set of human rights including speech, association and personal freedom. From a macro perspective China's ascendancy has left behind hundreds of millions of its own citizens. Wages are sticky downwards and the state's low wage strategy has disenfranchised its labouring masses. Robert Boyer, one of the founders of the French Regulation School, in an influential and seminal study of wage movements for industrial workers in the 19<sup>th</sup> and 20<sup>th</sup> centuries showed that productivity growth in Europe and the US grew by leaps and bounds.

(Boyer , 1990) The introduction of scientific management in the workplace combined with the Pareto efficiency gains of industrial technology to revolutionize production methods pushed productivity growth to record heights. On the ground something very different was happening. Wages in the mass production industries of steel, auto, and textiles were cut and working conditions worsened. Class warfare moved from the margins to the mainstream throughout the industrial world. A simple strike turned into a bloody encounter between the state and its citizens. There was no resolution for the first forty years of the twentieth century. But the extension of industrial democracy into the work place arrived in 1945; wages became more aligned with rapid productivity growth which led to the regularization of collective bargaining.

We have already made mention that this tumultuous and singular transformative change sustained a culture of mass consumption, home ownership and access to a university education for the children of Marx's industrial proletariat on both sides of the Atlantic. China has its own trajectory but will have to learn the painful lesson that rising inequality is unsustainable. Shifting to a reliance on domestic demand is going to be an immense challenge for China that is short on democratic values and participation. It would be an error to underestimate the processes that will lead to more innovative kinds of breakthroughs and reforms. Its industrial relations system is far from broken but is in a turbulent period of transition, pushed and pulled by the sheer number of unauthorized stikes, work stoppages and rural activism against land theft and

corrupt party officials. The question is, can the Chinese state implement reforms fast enough to ensure stability and build a democratic society? Will these new bottom up spaces consolidate into change that is more formidable and long-term?

## **A Final Word**

With fewer workers bargaining collectively world-wide, industrial relations systems have to find new ways to operate in a Web 2.0 global age. The hollowing out of the US industrial relations system marks the great reversal of the age for work and employment and the ramifications are still being felt. The 2012 pattern setting agreement between Caterpillar and its workers has pushed US collective bargaining into a new, fragile and more constricted policy space. By embedding collective bargaining rights in individual workers constitutes a fundamental change where the rights of the individual have been elevated above the effective workplace representation of the trade union. In this environment the deregulation of labour law has weakened and downgraded the role of unions. (McCallum, 2011) The individual choice of workers is in fact subordinated to the collective needs of the multinational.



We have argued that a very different phenomenon is observable in China and it remains to be seen whether Chinese practices ‘kick away’ the ladder of the state run system. Canada occupies the unsteady middle ground divergent from the US model due to quite strong institutions and values of equity and fairness. It remains to be seen if the culture of adaptation pushes Canada’s industrial relations practices to the lower US standard. Across the world social rights have plateaued and bottom up spaces for work and employment are under intense pressure to turn inward.

In a more fundamental sense the interdependency of global markets offers an important lesson. The information age continues to surprise, disappoint and challenge our ways of theoretically mapping and tracking its diverse social impacts on workplace representation and collective bargaining rights. Hand held cell phones provide hundreds of millions of workers a way to communicate cheaply and effectively in the emerging market economies where trade unions have not gained the legitimacy and muscle needed to be effective social actors. Still with over a billion and half hand held phones just the sheer numbers in the hands of the poor and the powerful have tipped the scales in favour of the disenfranchised taking small and big steps. To be informed means that hundreds of millions can become social actors. It is not only a theoretical possibility but an on-the-ground phenomenon from the factories in southern China to the favelas in Sao Paulo. The cell phone and texting affords those in every kind of workplace and agrarian setting to share information and mobilize for a better life. Self-

organizing locally and transnationally has been a primary factor in the growth of new rank-and-file movements outside the formal institutions of industrial relations. So far their impact in the policy sense has been mixed. Pessimists would be wrong to write them off as failures.

Still social income and industrial citizenship remain the essential components of building a desirable identity. Up until now rapid development of emergent market economies has not required them to answer what are the lessons to take away from the financial crisis? What kinds of bottom up spaces are required for taming globalization? The lack of engagement on addressing long term structural change is disquieting and the obvious question is: What kinds of bottom up spaces are required to tame globalization?

## References

Armstrong, Philip and Glyn, Andrew. (1945). *Capitalism Since 1945* (Oxford, Blackwell).

Arthurs, Harry.W. (1971). "Collective Bargaining by Public Employees in Canada : Five Models" (Ann Arbor, Michigan, Institute of Labor and Industrial Relations at The University of Michigan), 166.

Arthurs, Harry W. (2007), "Labour and the "Real" Constitution" in: *Les Cahiers de droit*. 48, 43-64.

Barber Lionel. (2011) "The End of U.S Hegemony: Legacy of 9/11" in: *Financial Times Sept 5*.

Blinder, Alan S. (2006) "Offshoring: The Next Industrial Revolution" in: *Foreign Affairs*.

Boyer, Robert. (1990). *The Regulation School: A Critical Introduction*. New York:Columbia University Press.

Boyer, Robert (1996). "State and Market: A New Engagement for the Twenty-first Century?" in: *States Vs. Markets, The Limits of Globalization*. Eds Robert Boyer and Daniel Drache, (London Routledge).

Bradsher, Keith. (2012). "Chinese City Suspends Factory Construction Following Protests" in: *New York Times July 3*.

Chomsky, Noam. (2012) "Plutonomy and the Precariat" in: *The Huffington Post May 8*.

Cohen, Norma. (2012). "World Economy caught in a Vicious Cycle" in: *Financial Times June 24*.

Drache, Daniel. (1999) "Globalization: is there anything to fear?" (Coventry, University of Warwick, Centre for the Study of Globalisation and Regionalisation).

Drache, Daniel. (2005). "Bon Anniversaire NAFTA : The elusive and asymmetrical benefits of a decade of North American integration" (Toronto, York University).

Drache, Daniel (2010). "The Structural Imbalances of the WTO Reconsidered, A critical Reading of the Sutherland and Warwick Commissions" in: *Chaos International*.

Drache, Daniel (2011). "Reform at the Top: What's next for the WTO? A second life? A socio-political analysis" in: *Oñati International institute for the Sociology of Law*, 1.

Drache, Daniel and Glasbeek, Harry. (1992) *The Changing Workplace: Reshaping Canada's Industrial Relations System* (Toronto: Lorimer).

Fudge, Judy (2009). "The New Workplace: Surveying the Landscape" (Manitoba, Manitoba).

Greenhouse, Steven (2012). "Caterpillar Workers Ratify Deal They Dislike", *NYT* August 18, 2

International Institute for Labour Studies. (2011), "World of Work Report 2011: Making Markets Work for Jobs," xviii.

International Monetary Fund. (2012). "Annual Report 2011: Pursuing Equitable and Balanced Growth" IMF Publications.

Marsh, Peter (2012). "Industry: In search of Inspiration" in: *Financial Times June 11*.

Murray, G. and C, Yates (2010) "The Future of Collective Representation: Concepts for Union Renewal" (Orford).

OECD . (2011) *Employment Outlook*. Paris. OECD Publications.

McCallum, Ron.(2011). "American and Australian Labor Law and Differing Approaches to Employee Choice", *ABA Journal of Labor & Employment Law* v. 26 no2 (Winter ) p. 181 - 200

Piore, Michael and Sabel, Charles. (1984). "The Second Industrial Divide: Possibilities for Prosperity" (New York, Basic Books).

Reich, Robert. (2012), "A Diabolical mix of wages and European austerity" in: *Financial Times May 30*.

Rodrik, Dani (1997) "Has Globalization Gone Too Far? Institute for International Economics" (Washington, DC).

Rodrik, Dani. (2003) *In Search of Prosperity: Analytic Narratives on Economic Growth*, (Princeton, Princeton University Press).

Rodrik, Dani. (2011). *The Globalization Paradox*. (New York City, Norton & Company, Inc).

Standing, Guy. (2011). *The Precariat: The New and Dangerous class* (London, Bloomsbury Academic).

Stanford, Jim (2010). "NAFTA's Chapter 11: The Latest Giveaway" in: *Real World Economics Review*

Stiglitz, Joseph. (2010). "Time for a Visible Hand: Lessons from the 2008 World Financial Crisis." Jones, S.G., Ocampo, J.A. & Stiglitz, J.E. (Edd.), (Oxford, Oxford University Press).

Stiglitz, Joseph E. (2011). "Of the 1%, by the 1%, for the 1%" in: *Vanity Fair*.

Tucker, Eric and Fudge, Judy. (2010) "The Freedom to Strike in Canada: A Brief Legal History" in: *Canadian Labour and Employment Law Journal*. 15:2, 333-53.