Unhinged: Industrial Relations Liberalization and Capitalist Instability

Lucio Baccaro
University of Geneva & Max Planck Institute for the Study of Societies
lucio.baccaro@unige.ch

Chris Howell
Oberlin College
chris.howell@oberlin.edu

Version 2

September 2017

Comments welcome

Abstract

This paper makes two interrelated arguments. First, based on case studies of Sweden and Germany, it argues for a generalized liberalization trend in industrial relations, affecting not just "liberal" but also "coordinated" forms of capitalism. In coordinated economies, liberalization has not taken place primarily through outright deregulation, but has involved alternative mechanisms increasing employer discretion without fundamentally altering the form of existing institutions. Second, the paper links the liberalization of industrial relations to "secular stagnation," i.e. to the growing difficulty that all advanced economies have to generate adequate levels of aggregate demand. It argues that strong unions and centralized collective bargaining were cornerstones of the wage-led Fordist model, and that the liberalization of industrial relations has undermined a crucial institutional channel for the transmission of productivity increases into real wages and into aggregate demand. Post-Fordist growth models are based on alternative drivers of growth, but are all fundamentally unstable.

1. Introduction

This paper discusses the impact of industrial relations liberalization on the instability of current capitalist growth models. It makes two interrelated arguments. First, by analyzing two "unlikely" cases for liberalization, Germany and Sweden, we document the existence of a generalized liberalization trend, not just in "liberal" (which is uncontroversial), but also in "coordinated" forms of capitalism (Baccaro and Howell 2011, Baccaro and Howell 2017), where it mostly took the form of a reformatting of existing institutions to make them serve different goals and produce different outcomes. Second, we establish a link between the liberalization of industrial relations and "secular stagnation" (Summers 2014), a trend by which capitalism becomes progressively unable to generate levels of aggregate demand sufficient to stimulate investment and produce full employment (Storm 2017). Briefly stated, we see the liberalization of industrial relations as part and parcel of the withering away of the regulation and growth regime of "wage-led Fordism," and secular stagnation as deriving from the inability to find a replacement for the stabilizing function once exercised by Fordist industrial relations institutions.

National industrial relations systems characterized by strong trade unions and industry-level collective bargaining played a key role, we argue, in wage-led Fordism. Specifically, they provided crucial institutional mechanisms ensuring the transfer of productivity gains into real wages and into household consumption. This was a key institutional innovation relative to the previous regulatory model of the interwar years, as it allowed aggregate demand to expand in lockstep with the expansion of productive potential of the economy for some time.

The wage-led Fordist model began to come apart at the seams sometime in the 1970s due to a combination of international economic shifts (*in primis* trade and capital account liberalization) and internal tensions (wage inflation and deindustrialization). The crisis of industrial relations was linked to the demise of wage-led Fordism as both cause and consequence. On the one hand, the inability of wage-led growth to adapt to trade and financial liberalization, and its endemic problem of inflation, facilitated a shift in the balance of class power which permitted the liberalization of industrial relations institutions through changes in state policy, a decline in labor's capacity to resist, and capital's greater ability to push for its first-order preference, which was using as much discretion as possible. On the other hand, the liberalization of industrial relations contributed to undermining Fordist growth further, but also created the conditions for the emergence of a new set of post-Fordist growth models, different from one another, but sharing a set of key features: industrial relations are no longer the key institution in the regulatory architecture of capitalisms; labor markets are much closer to being competitively regulated than ever before in the postwar period, and the resulting growth models are all imbalanced and prone to crisis.

The remainder of the paper is divided into two parts. First, we discuss the liberalization trend, both in general terms and as it unfolds in Sweden and Germany. Second, we examine how the liberalization of industrial relations is linked to the crisis of wage-led Fordist growth and to the emergence of alternative growth models.

2. The Liberalization of Industrial Relations

We argue, here and in work elsewhere (Baccaro and Howell 2017; Baccaro and Howell 2011), that liberalization in the sphere of industrial relations is not just a characteristic of liberal market economies; rather, liberalization has affected coordinated market economies which retain, in form at least, familiar coordinating institutions such as centralized bargaining and those that provide for worker voice and participation inside the firm. Continuity in institutional form can mask a profound transformation in the functioning of institutions.

The term liberalization is itself contested and some part of that contestation rests upon the vagueness of the term, such that its utility as a metric of institutional change is in doubt (Hall and Thelen 2009, Streeck and Thelen 2005). Recognizing the danger that liberalization can be used imprecisely, we argue that at its core, in the specific sphere of industrial relations, liberalization involves an expansion in *employer discretion,* as constraints on employers – in the form of labor law and collective regulation – diminish. Employer discretion has three interrelated dimensions: discretion in wage determination; discretion in personnel management and work organization; and discretion in hiring and firing, the degree to which the employment relation approximates the model of *employment at will*. The metric, therefore, of the liberalization of industrial relations institutions is the extent to which employer discretion expands over time. We make no claim here as to how employers will use their greater discretion along each of these dimensions, only that they will prefer greater discretion to less.

It is important, at this point, to be explicit about the relationship between social or class power, industrial relations institutions, and the stability of capitalist growth models. Institutions create a stickiness that prevents conjunctural changes in the balance of class power translating into immediate changes in outcomes (and instability in a growth model). But institutions cannot substitute for a particular balance of class power in the long term. In the current period, the liberalization of industrial relations institutions can produce two distinct situations, both of which are present in our cases. The first is when the industrial relations institutions appear unchanged in form, but the weakening of labor's organizational and mobilizational power leads to a change in the functioning of those institutions so as to permit liberalization in the sense of enhancing employer discretion (the German case). The second occurs when the industrial relations institutions are liberalized, but labor retains sufficient class power, for the time being, to constrain the discretion of employers (the Swedish case). This is rarer because one would ordinarily anticipate that labor would defend collective institutions where able, but one can imagine circumstances where unions might make the tactical decision to decentralize or even individualize bargaining in the belief that local, workplace strength will achieve better wage gains. The point, though, is that once the collective wage-setting institutions are gone, labor is entirely dependent upon its conjunctural strength, and we would anticipate greater instability in the growth model.

In liberal market economies, liberalization of industrial relations institutions implies transformation of the institutional form itself. The most common forms of this manner of institutional change are deregulation of the labor market, decentralization and individualization of bargaining, and decollectivization of class organizations. Indeed, deregulation, decentralization, individualization, and decollectivization have more or less been the playbook of the neoliberal project in Britain, the United States, Australia and New Zealand, somewhat less so in Canada.

In coordinated market economies, we argue, there has also been substantial institutional change in industrial relations which has expanded employer discretion, but that it has not taken place primarily through explicit deregulation. Rather, it has taken place through two alternative mechanisms of institutional change. The first is through a change in institutional functioning to transform industrial relations institutions from discretion-limiting to discretion-enhancing for employers. It involves what Thelen has described as “institutional conversion” as institutions come to take on different functions and generate different outcomes (2004: 36). Institutional conversion is made possible by the plasticity – the mutability of function subject to context – that is a characteristic of institutions in the political-economic realm. In a new context, subject to a new set of pressures and constraints, the same set of institutions can be re-engineered to function in a manner very different from that of the context in which they were created.

The second mechanism of change occurs when class actors are permitted to bypass or ignore formal institutions and institutional rules. This process, sometimes labelled “derogation”, can be seen when unions and employers are given exemptions under certain circumstances from labor law or higher level collective agreements. For this reason, derogation often requires a more active role on the part of the state. An industrial relations system in which actors are permitted to ignore institutional rules with impunity is *de facto* subject to deregulation. The use of derogation to permit liberalization of industrial relations without having to formally end or replace existing institutions was often more palatable than a frontal attack on institutions and could be justified as an emergency measure, or as institutional change under carefully controlled conditions.

In this paper, we will look briefly at two "hard" cases for an argument about the liberalization of industrial relations: Sweden and Germany. Germany is the archetypal CME where the expectation of Varieties of Capitalism (VoC) scholars was that employers would defend a set of coordinating institutions that permitted collective regulation of the industrial relations system, while Sweden is a country that retains strong class organizations and has reinvigorated coordinated bargaining in the last two decades.

2.1 The Swedish Case

For most of the postwar period, Swedish industrial relations have anchored one end of a spectrum from individual to collective regulation of class relations, characterized by high levels of labor strength, near complete collective bargaining coverage, and centralized collective bargaining between the peak organizations of business and labor. It was, until the early 1980s, one of the best examples of stable and successful corporatist bargaining. The Swedish model appeared close to collapse for a period from the mid-1980s until the mid-1990s. The annual centralized bargaining rounds broke down, Swedish employers withdrew from the main corporatist institutions, and, between 1990 and 1993, the Swedish state was forced to intervene to an unprecedented degree in the regulation of industrial relations. Yet somehow, collective regulation survived this period of crisis, and employers, unions and state actors reconstructed a system of industrial relations that, in many ways, looks very familiar: multi-sectoral coordinated bargaining; self-regulation by employers and unions; high collective bargaining coverage; low strike levels.

On the surface at least, Sweden appears to have largely resisted the liberalization of industrial relations institutions. In fact, however, Swedish industrial relations have been transformed in the last fifteen years, in part through the creation of new institutions, but more through a shift in the interests and behavior of class actors and the state, and changes in the practice and functioning of existing industrial relations institutions; Swedish collective bargaining institutions have been subject to a remarkable degree of institutional conversion as they have come to permit, and even to encourage, decentralized wage setting, and a high degree of individualization and labor market flexibility.

The core of the postwar Swedish model revolved around centralized wage bargaining based on two principles: wage moderation on the part of workers in high-productivity sectors in order to ensure the competitiveness of the export sector; wage solidarism understood to mean that workers were paid on the basis of the job they did, not the ability to pay of the firm or even the entire industry in which they worked. The model also evolved in important ways. The 1976 Codetermination Act both codified and replaced all previously existing legislation regulating industrial relations and also created broad new powers of information and consultation in the firm. With Sweden's single track of labor representation, these new rights accrued to unions. Further, by the 1980s wage agreements had a wide range of indexation and compensation guarantees that provided supplements to account for prices, wage drift and seniority; a system of centralized wage bargaining initially designed to moderate wages now incorporated a complex set of wage provisions independent of the wage norm set by the needs of the export sector.

Thus by the end of the 1970s, and in the context of powerful labor organizations at both national and local level, employer discretion had become severely constrained across all three dimensions discussed above. Wage bargaining was centralized and followed a pattern set by large firms in the export sector rather than the profitability of individual firms, and employers faced rigid wage supplement provisions that were also independent of their ability to pay or need to recruit. Codetermination provisions coupled with the workplace strength of unions imposed limits on managerial control over the organization of work. And statutory regulation of the labor market limited recourse to fixed term employment and made dismissal difficult. A combination of labor's collective and political power served to restrict employer discretion.

By the end of the 1980s the Swedish industrial relations regime was in crisis: inflation; historically high unemployment; higher strike levels; and an empty seat at the employer end of the bargaining table. But it did not collapse. It was out of that crisis, and the Stabilization Drive between 1990 and 1993 that served as the immediate response to it, that the seeds of a new industrial relations regime emerged (Elvander and Holmlund 1997). The early 1990s played a key role in altering the calculus and strategies of industrial actors, making the reconstruction of industrial relations institutions possible.

A new industrial relations regime was put in place between 1997 and 2000. Its building block was an “Industrial Agreement” reached between eight unions and twelve employers’ organizations in 1997 to provide for coordinated bargaining in the private manufacturing sector. It was followed by two similar agreements in the public sector, one applicable to central government and the other for local government. The latter agreement was somewhat thinner than either the Industrial Agreement or its central government counterpart, but both state sector agreements accepted that their wage norm would follow the lead of that in the competitive, export-oriented sector. In 2009, a similar agreement covering four unions and one employer organization in the service sector was reached, taking total coverage to 2.6 million workers or 71% of the labor force (Kullander and Häggebrink 2009). The final piece of the new system was a 2000 law that created a new National Mediation Office which essentially applied some of the core elements of the industrial agreement to those parts of the economy that did not have their own industrial agreement equivalent. Thus a large portion of the Swedish economy is now once again entwined in coordinated bargaining.

An evaluation of this Industrial Agreement regime which focused upon formal institutions would identify elements of both institutional continuity and innovation. Continuity is expressed in the return to coordinated bargaining (albeit of a more patchwork quality), the wage-setting role of the export sector, and the continued reliance upon self-regulation. Innovation comes in the use of technocratic criteria for establishing a wage norm, and new collective bargaining rules that give a larger role to mediation. It would not be difficult to interpret these developments through the lens of fundamental institutional continuity with incremental change around the periphery of the industrial relations regime. The period since the late 1990s has, after all, seen a resuscitation of coordinated bargaining, the center-piece of the postwar Swedish class compromise.

However, this would be to confuse continuity in form with continuity in function. It would miss the truly important innovations in Swedish industrial relations of the last decade or so, and the qualitative shift in the nature and functioning of collective bargaining with the result that “Sweden has experienced major changes in its wage-setting system” (Granqvist and Regnér 2008: 501). This has involved a decentralization, flexibilization and individualization of wage bargaining. The agreements that are the focus of coordinated bargaining are now minimalist framework agreements, establishing procedures for bargaining, sometimes setting some limited wage targets, but permitting wide discretion at the firm level. There has been a "controlled decentralization of wage setting" (Ibsen et al. 2011: 326).

Central agreements under the new industrial relations regime tend to have many fewer minimum wage categories, or none at all, some guarantee of a wage increase, usually as a fallback provision in the event that local agreement cannot be reached, and a local wage pool to be distributed subject to firm-level bargaining, accompanied by a set of general principles for its distribution, such as that increases be directed towards low paid workers or women (Ibsen et al. 2011: 327). Public sector and professional workers have the most extreme form of these agreements, with few or no minimum wages or guarantees, and the entire wage pool determined and distributed through local bargaining. But while this degree of individualization has progressed furthest among white collar workers and the public sector, it is increasingly important for blue collar workers in manufacturing. The 2012 central agreement covering metalworkers, for example, left almost half of the local pool for individualized wage setting (Kjellberg 2012: 1).

The forms of automatic indexation and catch-up clauses were stripped from wage agreements in the early 1990s, and the primary locus of wage bargaining is now overwhelmingly at the firm level, where it was once at the national or sectoral level; sectoral agreements now serve as minimalist framework agreements, limiting recourse to industrial action and serving to moderate wages, but permitting a high degree of wage flexibility inside the firm. One result has been that, despite the vastly expanded role for local bargaining, wage drift has been negligible since the late 1990s because the sectoral agreements no longer determine actual wages (Anxo and Niklasson 2006: 365, figure 7). For salaried and professional workers, wages determination is also highly individualized, allowing local managers to set wages based on individual performance criteria. This is not unilateral managerial discretion; local unions oversee and monitor wage setting. But the twin processes of decentralization to the firm and individualization do represent a vast expansion in the flexibility available to employer in the area of wage setting.

The impact of newly decentralized collective bargaining depends both upon the institutional matrix within which it is introduced, and the strength of the industrial actors. Several longstanding features of Swedish industrial relations take on a new relevance in the present period. On the one hand, collective bargaining in Sweden takes place under a peace obligation meaning that strikes and lockouts are illegal while an agreement is in force. Central agreements (of the Industrial Agreement type) extend that peace obligation to the firm-by-firm bargaining that follows signature of the central agreement. Thus local unions are unable to strike, or plausibly threaten to strike, in the course of bargaining with the management of a firm. Further, as part of the widespread commitment to self-regulation, Swedish labor law is “semi-mandatory” permitting collective agreements, including firm-level agreements, to contain provisions less favorable than those found in legislation and in recent years, the scope of permitted derogation from law has expanded. Thus Swedish labor law is compatible with a high degree of flexibility so long as it is bargained, raising the stakes of firm level bargaining and expanding the opportunities for greater variability in wages and working conditions across firms.

On the other hand, the relative balance of class forces is likely to determine the extent to which decentralization expands employer discretion. The outcome of such bargaining will depend in large part on the capacity of organized labor to exercise leverage inside the firm. Swedish unions remain, by any comparative standard, strong. It is no surprise that the more minimalist central agreements have been signed in sectors where unions are particularly strong. That said, there are some disturbing signs and the trajectory of labor movement strength is unquestionably towards decline. There has been a long-term decline in overall union density, from a peak of 85% in 1993 falling to just below 70% in 2014 (Kjellberg 2015: Appendix 3, Table A). There have been declines in union density for all categories, but most troubling for the future has been the scale of decline among young workers (aged 16-24) where union density dropped 34 points between 1993 and 2014 for a union density of 35%, half the overall rate (Ibid: Appendix 3, Table D). While density in the public sector remains high, at 82%, it has declined to 64% in the private sector (Ibid: Appendix 3, Table B) with density substantially lower in sectors such as retail and wholesale trade and the hotel and restaurant industry.

Sweden is the unusual case among Western European countries, of substantial institutional liberalization of industrial relations – the collapse of corporatism, decentralization and individualization of bargaining, deregulation of the labor market – combined with a weakened but still numerically powerful labor movement. Unions in the export sector were willing to accept new wage norms and thus wage moderation in order to remain competitive, and unions in the service sector, and particularly the public sector, saw a conjunctural advantage in permitting a shift in bargaining to the firm level where they remained organizationally strong. This has permitted, as we discuss later in the paper, a quite balanced growth model resting upon both export-led growth and domestic wage-led consumption. But in the absence of institutions for spreading wage gains from strong groups of workers and sectors to weaker ones, and in the context of a union movement suffering from both a secular decline in members and the weakening of workplace union organization (Kjellberg 2011: 77), this is a recipe both for rising wage inequality among workers (OECD 2008, Oliver 2008) and unstable growth as wage gains rest upon the conjunctural strength of unions rather than embedded institutions.

2.2 The German Case

Germany has long been a crucial case in debates about the resilience of non-liberal capitalism. As the prototypical coordinated market economy within the Varieties of Capitalism literature (Hall and Soskice 2001), it has been exhibit A in the claim that Anglo-American capitalism is not the only viable model of capitalism and that a more equitable, but no less economically efficient alternative exists and continues to be viable even in a globalized world, resistant to neoliberal drift. The expectation of this research tradition is that Germany’s political economic institutions will be subject to at best incremental change along a broadly coordinated market economy path. This expectation is based on the strong degree of complementarity among financial institutions which provide patient capital, industrial relations institutions which provide employee voice and flexibility at work while taking wage costs out of competition, and a training regime which ensures high levels of industry-specific skills. Those institutions in turn provide German employers with a comparative institutional advantage in what Streeck (1991) once termed “diversified quality production” (DQP). The result is an employer preference for existing institutions (Soskice 1999, Thelen 2000) and the expectation that employers will be the staunchest defenders of the model's institutions rather than seek to dismantle them.

In fact, the German model is unraveling. Certainly in the sphere of industrial relations, and possibly in other functional spheres as well (Höpner 2001), German institutions have been subject to quite dramatic levels of change. This has taken place not so much through a frontal assault upon core industrial relations institutions, although there was some of it too, but through a combination of the plasticity of institutions, primarily a change in the practice and functioning of works councils, and the erosion and retreat of collective bargaining coverage, trade unions, and employer associations. Geographic escape routes have permitted employers to opt out of once dominant industrial relations practices without being forced to dismantle them.

It should be noted at the outset that the focus of this section is on the manufacturing sector, which is the remaining bone of contention in the literature on the German model. While the most recent VoC-inspired literature on German industrial relations acknowledges liberalization, it continues to argue that the manufacturing sector remains strategically coordinated, while it is in the service sector that a logic of market coordination prevails (Hassel 2014, Thelen 2014). In other words, liberalization is essentially a compositional effect according to this argument: as deindustrialization shrinks the size of the manufacturing sector and increases the size of the service sector, the importance of market coordination increases in the economy as a whole (see Thelen 2014). In contrast to this, we argue that the liberalization process deeply affects the manufacturing sector as well.

The German model of textbook fame was a fairly rigid system. Employer discretion in hiring and firing was limited by high levels of employment protection. The ability of firms to adapt wage rates to local labor and product market conditions was constrained by industry-level collective bargaining. While functional flexibility at the workplace level was high in comparative perspective, as a result of cooperative relationships between management and elective worker representation structures (works councils), every major change in work organization had to be negotiated (Thelen 1991, Turner 1991).

According to Streeck's seminal argument (1997), Germany's institutional rigidities were a source of dynamic efficiency which helped German manufacturing move away from cost competition in mass production industries and make the shift to Diversified Quality Production (DQP). The DQP arrangements were supported by strong works councils with codetermination rights and encompassing sectoral bargaining institutions. An additional element in the institutional landscape was the high level of employment protection, which incentivized employers and workers to invest in skill-specific training (Estevez-Abe, Iversen and Soskice 2001).

Works councils were actively involved in the organization of vocational training and in the implementation of non-Tayloristic forms of work organization; furthermore, they fostered cooperation between labor and management. Although formally autonomous, works councils were organizationally dominated by trade union members, and this prevented them from adopting company-oriented logics at odds with the union goal of setting homogenous industry standards (Streeck 1984). Collective bargaining institutions contributed to high wage levels and low wage dispersion not only for manufacturing workers but across the economy. Even though the productivity rates and the strength of industrial relations actors were lower in the service than in the manufacturing sector, wages grew at a comparable pace across different sectors because IG Metall oriented its bargaining policy towards the productivity rates of the economy as a whole instead of the (higher) sectoral rates of manufacturing, setting a floor for the negotiations of other sectoral unions (Schulten 2001: 5). Furthermore, the overall coverage of collective bargaining in the economy as a whole was over 80 percent in 1980 (Streeck 1997: 244). The high rate was also due to the frequent declarations of collective agreements as generally binding.

The last thirty years have seen a substantial liberalization of German industrial relations. The process of collective bargaining decentralization began in the 1980s as an unintended consequence of the trade unions' offensive for working-time reduction. It continued in the 1990s in response to the unification shock and the employers' attempts to reduce costs and aim for more flexible contractual provisions. The threat of offshoring and outsourcing led worker representatives to agree to deviations from sectoral level standards and opening clauses as the employer associations's support for sectoral bargaining institutions dwindled. In particular, small and middle-sized companies complained vociferously about the high wage levels set by sectoral collective agreements not just in Eastern but also in Western Germany (Hassel and Rehder 2001: 5). Some firms withdrew from the employer association altogether. The organizational density of the metal industry employer association fell from 77.4 percent in 1984 to 71.6 percent in 1991 in West Germany, while density stood at 65.7% in East Germany in 1991 (Silvia and Schroeder 2007: 1440). In order to stem the organizational hemorrhage, Gesamtmetall introduced the option of membership without applying the sectoral agreement (*Ohne Tarifbindung (OT)-Mitgliedschaften*). Furthermore, the organization's bargaining policies became less willing to accommodate the union's wage demands.

A crucial step was the emergence and diffusion in the mid-1990s of the so called Pacts for Employment and Competitiveness (PECs), which allowed companies to bargain with works councils over working time reduction in exchange for employment security. The companies with a more internationalized product strategy made greater use of company-level pacts, making works councils co-responsible for the economic viability of production sites (Rehder 2003: 113-6). The PECs mainly included measures regarding working time, work reorganization, early retirements, and wage cuts or freezes (Seifert and Massa-Wirth 2005). Differently from the company-level pacts signed up in the 1980s, the PECS were not subordinated to the sectoral agreements but could amend and derogate their provisions (Hassel and Rehder 2001). The PECs were presented as responses to an exceptional economic situation and were initially intended to cover a maximum period of three years. From the late 1990s on, however, the company agreements contained more long-term provisions and became more institutionalized, bringing the decentralization of collective bargaining a further step forward (Rehder 2003: 118).

Attempts were made during the 1990s to govern the process of concession-making through social pacts, labelled an Alliance for Jobs, but these attempts were unsuccessful. In the early 2000s the continuing employment crisis (unemployment reached 11 percent in 2005) and the shift to the right in both the Social-Democratic and the Green Party camps led to the emergence of a more decisive governmental approach to reform. Essentially, the negotiated approach was cast aside and the government intervened unilaterally. The drivers of these reforms were German employers, who were actively engaged in the public debate to promote neoliberal reforms (Menz 2005:199 f.). The most famous employer initiative was launched by the 'New Social Market Initiative' think tank, funded by Gesamtmetall. The goal of the initiative was not just institutional reform but also, and more fundamentally, changing the social norms and values surrounding the concept of a “social market economy.” For instance, the campaign promoted the idea that free markets offer chances to everyone and that “badly paid jobs are better than none at all” (Kinderman 2005: 440 f.). What followed were the Hartz reforms which deregulated the use of atypical work, restructured unemployment offices and overhauled the system of unemployment insurance, shortening its duration and generosity. These reforms, implemented at a time of high unemployment, forced workers to accept available jobs independently of qualification and increased the willingness of works councils to make concessions to strengthen job security. The employers’ associations welcomed the Hartz reforms, while the unions harshly criticized them, especially with regard to the shortening of unemployment benefits and to the pressure on the unemployed to accept jobs. However, the unions were too weak and divided to resist the liberalizing offensive of employers and government.

So what is the current state of German industrial relations? Although the organizational erosion of German class actors has been documented by previous research (Bosch et al. 2007, Hassel 1999), the extent to which industry-level collective bargaining has been affected by the liberalizing trends illustrated above, including in manufacturing, is often underestimated. Industry-level collective bargaining coverage has shown a steep and uniform decline across sectors: in 1995 collective bargaining covered 72 percent of workers in the economy as whole, 80 percent in manufacturing, 92 percent in manufacturing establishments with more than 250 employees, and 72 percent in services. In 2013 the coverage rates were 49, 50, 67, and 45 percent, respectively (data from Baccaro and Benassi 2017). The decline in industry-level bargaining has not been compensated by an increase in company-level bargaining, whose coverage has remained limited, especially in services. The only exception concerns manufacturing establishments with more than 250 employees, for which the coverage of company bargaining has increased from 6 to 17 percent between 1995 and 2013. The most notable trend has been the increase in the proportion of workers not covered by any contract. In 2013 this proportion was 42 percent for the economy as a whole, 37 for manufacturing, 15 for manufacturing establishments with more than 250 employees, and 50 percent for services; up from 17, 12, 2, and 19 percent in 1995, respectively. Even more impressive is the proportion of establishments not covered by any collective bargaining agreement: in 2013 this was 70 percent in manufacturing and 66 percent in services. Even in establishments with more than 250 employees, 26 percent of establishments (and 14 percent of workers) were not covered by any type of agreement in 2013.

There has been a loss of worker coverage of 20 to 30 percentage points in 18 years, with no dramatic differences between manufacturing and services. Furthermore, between 2005 and 2007 (the two years for which data are available) over 20 percent of the manufacturing establishments covered by sectoral agreements made use of opening clauses, which, as argued above, can amend the provisions set by collective agreements. Overall, industry-level bargaining is still the main type of bargaining in Germany, but is full of holes, and only about 30 percent of German manufacturing establishments are now covered by a collective agreement of any type.

These data suggest that the main institutional changes affecting industry-level collective bargaining have been erosion of coverage and derogation. At the same time, works councils have not declined but their role has changed considerably. Work councils have gone through a process of conversion. In the golden age, they implemented the unions' policy of uniform work standards; in the last 20 years they have focused on the defense of employment for core employees. To achieve this goal they have increasingly been willing to make concessions and have contributed to weaken industry-level bargaining.

The liberalization process has brought about a substantial increase in employer discretion. Rules for the determination of wage increases were adapted to the economic conditions of particular firms through contractual mechanisms like opening clauses or simply by abandoning collective bargaining coverage altogether. In the years 2000s the German economy experienced wage repression, with wage increases trailing productivity increases and a declining wage share, especially but not exclusively in the service sector. Employer discretion in the determination of working time has also increased. Indeed, the ability to adapt working time regimes to specific firm conditions through company-level bargaining has been used first to counter the effectiveness of the working-time reduction offensive of the 1980s and then to weather company crises while minimizing employment losses. While employment protection for regular workers has not decreased, it has become considerably easier for employers to hire workers on a temporary basis.

3. The Key Role of Industrial Relations Institutions in Wage-Led Fordist Growth

The previous section has argued that substantial liberalization has taken place not just in "liberal" English-speaking countries, where the liberalization trend in uncontested, but also in "coordinated" Sweden and Germany. In the latter countries, liberalization has happened not primarily through explicit deregulation; rather, through institutional plasticity and derogation. The main difference between the two cases is that Germany has experienced institutional liberalization and a sharp decline in trade union power, while Sweden has seen liberalization but, for the most part, continued labor strength. In this section we analyze the significance of industrial relations liberalization for capitalist growth and (in)stability, drawing upon insights from the French Regulation school (Boyer 2015) and the neo-Kaleckian analysis of growth models (Lavoie and Stockhammer 2013).

The Regulation School argues that capitalism is simultaneously enabled and regulated by historically-specific institutions, particularly those shaping the process of wage and price formation, the supply of money and the interest rate, the role of the state in the economy, and the modalities of insertion in the international economy. Following Marx (Marx 1970[1859]), institutions regulate the possible tension between the development of the forces of production – roughly the expansion of production possibilities thanks to technological and organizational innovations – and the social relations of production, i.e. not so much the allocation of property rights (which are assumed to be in private hands) but rather the distribution of social power determining the distribution of productivity gains.

Different regulatory regimes have different institutional cornerstones. The institutions regulating industrial relations (the *wage nexus*, in regulationist parlance) play a crucial role in the configuration known as "Fordism." Fordism emerged in the period after World War II as the evolution and replacement of the mode of regulation prevailing in the interwar period, when the productive potential of the economy was constrained by insufficient aggregate demand (although it was technically possible for capitalist firms to generate sizeable productivity increases through mass production). In this period, wages were formed in competitive labor markets and were generally low and highly sensitive to economic fluctuations and unemployment. As a result, consumption out of wages remained limited and consumption out of profits was insufficient to generate economies of scale, causing accumulation to remain below its potential. To the extent that there were productivity gains they were mostly appropriated by profits, which have a lower propensity to consume than wages and a greater propensity to save, i.e. to spend income to acquire financial assets (including cash) as opposed to goods and services. The end result was lower demand relative to potential and financial speculation. To use Marxian language, there was a "contradiction" between the technical potential of the economy and the balance of social forces determining the distribution between wages and profits. As will be discussed later in the paper, there are some similarities between the mode of regulation of the interwar period and of the current period.

The key innovation that ushered in the Fordist era was the institutionalization of collective bargaining and the increase in trade union power that went with it. Collective bargaining transformed the process of wage formation: wages were no longer flexible and responsive to labor market conditions, but downwardly rigid and indexed to labor productivity. In this period advanced capitalist countries saw the emergence of a "historical compromise" between unions and employers, whereby unions recognized the capitalist order, setting aside any attempt to transform property relations, and employers accepted to share the fruit of technical progress with workers (Korpi 1983). Such historical compromise was struck at different times in different countries and was more solid in some countries than others. While the Swedish Saltsjöbaden agreement of 1938 and the German post-war institutionalization of industry bargaining and works councils are generally seen as early signs of institutionalization, this type of compromise was reached only in the mid-1970s in Italy, and was always more internally contested than elsewhere (Baccaro and Howell 2017: chapter 6). Nonetheless, the institutionalization of industrial relations was of fundamental importance for capitalist stability and growth in the post-war period. By indexing real wages to labor productivity growth, Fordist industrial relations relaxed the demand side constraint that had hindered growth in the interwar phase.

As a result, growth took off in the "glorious" thirty years after WWII (Armstrong, Glyn and Harrison 1991). It should be highlighted that it was not the presence of collective bargaining *per se* that ensured the viability of Fordism; rather it was the balance of social power surrounding the institution of collective bargaining in this historical period, which allowed trade unions to turn collective bargaining into an institutional conduit to transfer productivity increases into real wages. In addition to collective bargaining, other institutional innovations contributed to producing an adequate level of effective demand in this period, particularly the introduction of shock absorbers such as unemployment insurance and counter-cyclical (Keynesian) budget policies.

The Fordist model was for all purposes a well-functioning "wage-led" growth model (Lavoie and Stockhammer 2013). Real wage increases stimulated household consumption. The perspective of an expanding demand stimulated productive investment by firms (a mechanism known as the "accelerator" of investments), thus directly contributing to GDP growth. In turn, the introduction of capital goods incorporating the latest stages of technical progress further contributed to spur productivity growth. The expanding demand permitted the realization of economies of scale and contributed to productivity increases through this channel. Furthermore, higher wages and institutional rigidities promoted the substitution of relatively expensive labor with relatively cheap capital and hence greater capital intensity per unit of labor, further contributing to productivity growth (Storm and Naastepad 2012). These mechanisms are well-known to industrial relations and political economy scholars. They go under the label of "beneficial constraints" (Storm and Naastepad 2012). According to the beneficial constraint argument, high labor costs and institutional rigidities limiting employer discretion nudge firms into introducing organizational and technical innovations they would otherwise not contemplate, and are thus dynamically efficient.

In brief, the wage-led Fordist model rested on a virtuous circle in which real wage increases both expanded demand and simultaneously promoted the realization of productivity increases that would ultimately validate the real wage increases. Over time, however, several problems emerged. Some of these problems derived from the internationalization of the economy; others were intrinsic. One of its main vulnerabilities was the difficulty of ensuring an acceptable rate of profit. Although real wages stimulated demand, wages that were too high and profits that were too low per unit of output reduced the capitalists' incentives to invest. The Swedish social democrats sought to address the problem of "capital strike" in the 1970s with the ultimately unsuccessful wage-earner fund experiment, which sought to compensate for faltering private investment by institutionalizing collective investment by workers (Pontusson 1992). Limited capital mobility and "financial repression" (i.e. real interest rates below the rates that would have prevailed in a global market) attenuated the pressure, but the progressive dismantling of capital account controls provided capital with an exit option and a credible threat, and made it increasingly difficult for national policy-making authorities to undercut the global rate of return on capital, indexed to the global real interest rate.

The second vulnerability had to do with nominal wages and inflation. Although the heterodox macroeconomic literature assumes that increases in demand are accommodated by expanding quantities as opposed to rising prices (Lavoie 2009), i.e. that there is spare capacity in the economy, in reality inflation was an endemic problem. When trade unions pushed for wage increases above productivity gains and the economy was at or close to full employment, even in some sectors only, the push resulted in higher inflation. Firms in oligopolistic markets reacted to the attempt to squeeze their profit margins by raising prices. Attempts at reining inflation in generally involved the institutionalization of incomes policies (Bruno and Sachs 1985, Flanagan, Soskice and Ulman 1983). These experiments worked better in relatively centralized or coordinated bargaining system such as Germany and Sweden than in relatively decentralized systems such as France, Italy, and the UK (Cameron 1984, Soskice 1990). In the UK inflation was eventually defeated through a shift to monetarism and an attack onto the statutory prerogatives of trade unions, including the dismantling of tripartite policy-making fora (Tarantelli 1986). The inability of the Fordist industrial relations system to address the problem of inflation contributes to explaining its demise (Glyn 2006).

If some of the factors leading to the erosion and demise of the Fordist model could be considered exogenous, other processes were clearly endogenous. For example, Fordist firms reaped productivity increases through the expansion of markets. Once national markets became saturated, it was natural for the most efficient firms to try and tap into foreign demand. In this respect, trade liberalization furthered the logic of Fordist productivity growth for some time, but ended up destabilizing it in the long-run. In fact, trade liberalization reinserted wage competition into the regulatory picture. Wage moderation has negative growth consequences for a closed wage-led Fordist economy, because it reduces the demand stimulus of higher real wages, but may have expansionary implications if an economy relies heavily on exports and if net exports respond strongly to movements in the real exchange rate, i.e. to the difference between domestic and international prices controlling for the nominal exchange rate (see the further discussion below).

Another source of endogenous erosion for the Fordist model was deindustrialization. As explained by Baumol (1967), deindustrialization was a consequence of unequal productivity growth across sectors. To the extent that productivity grows more slowly in the service sector than in the manufacturing sector – which is plausible because the mechanisms for Fordist productivity gains, economies of scale and capital deepening, are unlikely to play a big role in the service sector – there is a tendency for employment to decline in relative terms in the high productivity sector and to increase, again in relative terms, in the low productivity sector (assuming plausibly that the law of one price ensures comparable wage levels across sectors). Thus, the very success of manufacturing – the core of the Fordist model – planted the seeds of its own decline.

To summarize, a highly institutionalized industrial relations system was a key ingredient of the wage-led Fordist growth model in in the "glorious thirty years" after WWII, an era characterized by limited trade openness and capital controls. However, the long-run viability of this growth model was limited both by endogenous developments (e.g. deindustrialization) and by shifts in the international economy, particularly the liberalization of capital movements and trade. The growing dysfunctionality of the model, and specifically its inability to contain inflation, spurred a shift in the class balance of power, leading to more aggressive policies by employers and the state to limit union power and liberalize industrial relations institutions. These shifts changed some of the key macroeconomic relations of the wage-led Fordist model. Far from being the rigid variable to which all other variables (prices, money, profits, government expenditures) had to adjust, wages became the variable that needed to adjust, generally downwards, in response to shocks to other variables in the system.

4. Industrial Relations Liberalization and the Crisis of Wage-Led Growth

Before proceeding further, two remarks have to be made. First, econometric evidence suggests that most advanced countries are wage-led, including Sweden and Germany (the latter at least until the mid-1990s). According to these analyses, profit-led growth is a feature of a few small open economies such as Belgium, Austria, Ireland, and Denmark, countries in which domestic demand is less important for growth than foreign demand (see Onaran and Obst 2015 and the literature cited therein , Onaran and Galanis 2014). Second, real wages indexed to labor productivity imply the invariance of the wage share of GDP. But there is ample evidence suggesting that the wage share, after peaking between the 1970s and 1980s, has declined in most if not all advanced countries as well as in many developing countries for which data are available (ILO 2008, OECD 2008). The wage share trend is declining in Germany and Sweden, too. Interestingly, the decline was steeper in Germany than in Sweden (Baccaro and Pontusson 2016). For a wage-led economy, a declining wage share is a sign growth will be slowing down.

The mainstream explanation for wage-share decline is that it is technologically-determined, and particularly that it is linked to the decline of the relative price of capital goods as a result of the ICT revolution (Karabarbounis and Neiman 2014). In contrast with this version of technological determinism, post-Kaleckian economists (Stockhammer 2013) and economic sociologists (Kristal 2010) have argued that the main cause of the generalized decline is in the changing balance of power between labor and capital to the detriment of labor. These econometric analyses support the argument of this paper: the weakening of trade unions and multi-employer collective bargaining has caused a generalized decline in the wage share; in so doing, these liberalizing forces have contributed to undermining the viability of wage-led growth, and have generated a tendency towards stagnation.

Capitalism seems to have entered a new phase which in many respects resembles interwar capitalism. As in the interwar period, the production possibilities of the economy are thwarted by the absence of well-established and, importantly, stable institutional mechanisms ensuring the transmission of productivity increases into adequate aggregate demand – which is the role that productivity-indexed wage bargaining used to play in the Fordist model.

The similarity between the analysis developed so far and current thinking about “secular stagnation” should be evident. Larry Summers has recently attracted a lot of attention by arguing that advanced economies find it increasingly difficult to achieve adequate growth rates without relying on some form of artificial stimulation of demand such as asset bubbles, and that in doing so they put financial stability at risk. He has argued that the main cause is a substantial decline in the “equilibrium” or “natural” real rate of interest, which he regards as currently negative. He lists several reasons why the natural interest rate is negative, having to do with either insufficient demand for investment or excessive supply of savings. New high-tech ventures (e.g. Facebook or Whatsapp) or require much less capital than old manufacturing ventures. Growing life-expectancy without a corresponding increase in working age implies that savings have to rise to finance retirement. The decline in the relative price of capital goods and consumer durables means that for equal amounts of physical investment less capital is required. Finally, changes in the income distribution have increased the average propensity to save since richer individuals have a higher propensity to save than poorer individuals (Summers 2014, see also von Weizsaecker 2013). This last point is one that heterodox macroeconomists have been making for some time.

With nominal interest rates close to the zero lower bound, monetary policy becomes unable to pull the economy out of the doldrums. Summers' preferred solution is to stimulate the economy through expansionary fiscal policy, in particular investment in infrastructure. For Summers, at the root of the problem of secular stagnation there is an excess of savings which generates a permanent shortfall of demand and encourages financial speculation. "We are seeing very powerfully a kind of inverse Say's Law. Say's Law was the proposition that supply creates its own demand. Here, we are observing that lack of demand creates its own lack of supply" (Summers 2014: 71).

We agree with Summers' analysis of secular stagnation, but we would emphasize the weakening of trade unions and collective bargaining as a result of liberalization causing redistribution from incomes categories with high saving propensity to income categories with low saving propensity, and contributing to lower aggregate demand. In the absence of an institutional link between real wages and productivity, the key problem for post-Fordist capitalist economies is to find new mechanisms to ensure adequate levels of demand.

Two ideal typical growth models have emerged from the crisis of wage-led growth: "export-led" growth and "debt-led" growth (Stockhammer 2015). Both seek to solve the problem of missing demand without relying primarily on real wage growth. The category of debt-led growth fits the trajectory of the US economy in the decade preceding the crisis of 2007-2008 but the underlying logic is applicable to the UK and other economies as well. The debt-led growth model growth is pulled by investments in housing and household consumption, both made possible by easier access to debt by households. The story has been told multiple times (here we rely on Stiglitz 2009). Households pledge their appreciating home assets as collateral for accessing loans with which they finance consumption even in the absence of real wage growth (Mian and Sufi 2011). With the diffusion of the "originate-and-sell" model of mortgage finance the actor that generates the mortgage is no longer the one that assumes the risk inherent in it. The mortgages are sold to financial intermediators – generally investment banks – which repackage them and sell them to retail customers. These practices lower credit standards and facilitate the access to debt by households with risky profiles. Financial innovation generates products such as "asset-backed securities" and the derivatives built on them, which give the impression that risk has been reduced through diversification but which in reality compound and spread risk. The end-result is an economy that "rides an asset bubble," grows at higher speed than its potential for some time, but generates at the same time high levels of debt exposure and financial speculation. When the bubble eventually explodes, banks stop lending to each other and to the real economy; a "balance-sheet" recession ensues as households hurriedly deleverage, i.e. drastically increase their savings to lower their debt exposure (Koo 2011). To the extent that housing prices have a limited impact on nominal wages and consumer prices, an inflation-targeting central bank sees no reasons to intervene to deflate the bubble (Carlin and Soskice 2015).

A debt-led economy needs to attract international financial capital to cover its endemic current account deficit as a result of "excessive" consumption. Without international savers willing to lend to countries with current account deficits, the governments of these countries would be forced to shrink the economy to bring imports and exports back in line. Thus debt-led economies tend to be characterized by large and very liquid international financial hubs such as Wall Street and the City of London, which issue securities that international investors want to hold in their portfolios. Debt-led growth would not be possible if there were not countries with structural current account surpluses, i.e. export-led economies, willing to finance the current account deficits of the other countries (Iversen and Soskice 2012).

Export-led growth is in the first instance an evolution of the Fordist model. In the early phases of trade liberalization export-oriented firms sought to compensate for rapidly saturating internal markets by expanding into foreign markets. This allowed them to prolong the Fordist logic of scaleinduced productivity growth for some time. The big difference, however, is that with the transition to export-led growth the role played by wages in equilibrating the system is progressively reversed. Real wage increases are no longer the main driver of growth as in the wage-led model; rather (nominal) wage moderation becomes crucial to increase external competitiveness and net exports. The competitiveness-enhancing potential of wage moderation depends on the extent to which nominal wage dynamics affect relative prices and the real exchange rate. All other things being equal, higher nominal wages make imports cheaper and exports more expensive. The more net exports are sensitive to prices, the more an export-led model turns the old Fordist logic on its head and represses domestic wage growth in order to spur export growth (Baccaro and Pontusson 2016).

However, export-led growth is not a generalizable growth strategy. In fact, it is affected by a fallacy of composition. If all countries adopt the same strategy of wage moderation in order to boost net exports, the beneficial effect of wage moderation evaporates. Generalized wage moderation reduces domestic and foreign demand for each country and each country is poorer as a result. This observation is particularly relevant for the Euro area. Because the Euro area is not very open when considered as a whole, excessive focus on export-led growth may lead to a generalized depression of demand and employment (Onaran and Obst 2015).

We now return to our two cases. In Germany, exports were always an important driver of growth, but until the 1990s the German growth model was balanced: real wages grew in line with productivity. Importantly, the system of pattern bargaining ensured the indexation of real wages with labor productivity both in the manufacturing sector and in the expanding service sector (Baccaro and Benassi 2017). In other words, coordinated wage bargaining ensured the viability of wage-led growth in Germany without undermining exports and actually contributing to the non-price competeveness of exports according to Streeck's argument about diversified quality production (Streeck 1991). The liberalization of industrial relations was the coordinated response of government and employers to the perceived cost problem of German manufacturing (Baccaro and Benassi 2017). As argued above, the response included both firms escaping the strictures of industry-level bargaining and putting pressure on unions and working councils to agree on concessions, and government liberalizing atypical employment contracts and retrenching unemployment insurance, thus creating the conditions for the emergence of a low-wage labor market.

Between 1995 and 2007, there was wage moderation in Germany vis-à-vis other European countries, predominantly in the service sector but also in manufacturing (Baccaro and Tober 2017). Wage moderation, combined with the Euro (which has meant a lower nominal exchange rate than the Deutsche Mark would have had), lowered the German real exchange rate and boosted German net exports. The German economy suffered for some time as wage moderation depressed domestic demand, but when the export sector expanded sufficiently, it returned to growth, accompanied however by greater inequality in the lower half of the wage and income distribution and deteriorated social standards.

The Swedish case is similar to the German case in some respects, but also very different in others. The qualitative evidence presented above suggests that Swedish export-oriented firms are under intense pressure to reduce costs just like their German counterparts. At the same time, a German strategy of repressing internal demand in order to stimulate external demand is not feasible in Sweden due to the presence of a highly organized service sector, where unions still push hard for wage solidarity with the manufacturing sector. The model has retained some features of the old Fordist wage-led model, but simultaneously has also acquired some of the features of the debt-led growth model. Thus Swedish growth appears a mix of different growth drivers: exports, wages, and debt all play a role. Household debt has increased dramatically in the fifteen years preceding the crisis in Sweden and is currently as high as in the UK. The large public sector has pushed up the wages of service workers in comparable occupations, thus contributing to household consumption. Baccaro and Pontusson (2016) have argued that high levels of organization in the Swedish service sector have acted as a new form of "beneficial constraint" making it impossible for Swedish firms to rely on a strategy of wage containment and forcing capital to shift from manufacturing to industries characterized by a lower price sensitivity of exports, such as ITC and high-value added services.

It seems that by stimulating consumption, household debt also improves the job prospects of low skill workers (likely to be employed in the service sector) and thus indirectly boosts their wages. It is not clear, however, how stable or durable the Swedish growth model is. As argued above, the individualization of employment relations has been extensive, not just in manufacturing but also, and possibly to a greater extent, in the public sector. Thus the ability of service and public sector unions to push for wage increases in line with manufacturing and national productivity now depends almost exclusively on their remaining mobilization capacities, while the supporting institutions have been to a large extent dismantled, or at least profoundly modified. It can not be excluded that with time, the Swedish growth model will tip either towards German-style export-led growth, or towards debt-led growth.

5. Concluding Remarks

In this paper we have sought to place the liberalization of industrial relations in the broader context of a tectonic shift in the organization of capitalism. We have argued that the liberalization of industrial relations has contributed to undermining the Fordist model of wage-led growth everywhere and to produce a trend of “secular stagnation” (Summers 2014). Fordist industrial relations institutions, specifically multi-employer bargaining and strong trade unions, used to act as a link between the sphere of production and the sphere of distribution by transmitting productivity increases into real wages and aggregate demand. In turn, they also created incentives for firms to increase productivity by increasing capital intensity, augmenting the skill level (and productivity) of workers, and/or upgrading to markets with higher value added (Streeck 1997). The crisis of wage-led growth spurred the search for alternative growth drivers, such as easier access to debt (debt-led growth) and the accumulation of external surpluses (export-led growth) (Stockhammer 2015). However, all post-Fordist growth models have turned out to be internally unstable. Furthermore, they do not easily assure the levels of aggregate demand that are needed for full employment.

At the level of actors, the dismantling of Fordist industrial relations took the form of a generalized employer <u>and</u> state offensive against institutional rigidities. In this paper, we have documented the liberalization trend by discussing two “difficult” cases, Sweden and Germany, in which the argument for liberalization may seem at first blush unlikely. We have shown that liberalization does not necessarily imply institutional dismantling, but more often a reengineering of existing institutions to have produce new outcomes, specifically increased employer discretion in all aspects of the employment relationship.

State intervention was crucial for industrial relation liberalization and without it, employer strategy would probably not have sufficed. We do not see much difference between right-wing and left-wing governments in this respect. We interpret state action as the consequence of strong constraints on policy choice at the national level. Politicians of all political colors have incentives to pursue policies that rekindle growth. In all post-Fordist growth models wages are a residual variable, the variable that adjusts to other variables, and industrial relations institutions are only worth preserving if they bring about wage moderation while guaranteeing a modicum of commitment by core workers, otherwise they are an inefficient rigidity to be disposed of. Hence it is not surprising that governments played a crucial role in the liberalization of industrial relations systems.

It may be asked whether and how this situation will change. It will not be changed, we would argue, by a change in trade union strategy alone. Although it is important for unions to renew their organic links with workers, for example by investing in organizing, the crisis of trade unions and multi-employer bargaining is shaped by structural parameters and is unlikely to be resolved by voluntarism only. Rather, we think that the impetus for change may come from the international economic situation and by a possible resurgence of the role of the state. The Great Recession and the sovereign debt crisis have provided ample proof of the instability of the current growth models. The future of capitalism depends crucially on its ability to recreate institutions that reconnect aggregate demand and aggregate supply, enabling demand to expand in parallel with the productive capacities of the economy. In theory, there are two ways to re-embed capitalism: through a new form of Keynesian internationalism that coordinates demand expansion across countries (Lavoie and Stockhammer 2013), or by strengthening the ability of national governments to intervene in economic affairs. The latter would probably imply a fundamental rethinking of the current globalization regime (Streeck 2014).

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