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Wage Inequality and the Liberalization of Industrial Relations in the United States

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The growth of income inequality in the United States is one of the most salient social issues among policy-makers, the media, and general public. In the opening speech of the 2015 Federal Reserve Community Development Conference, current Chairman Janet Yellen echoed the concerns of former Chairman Bernanke about the need for a better understanding of rising income inequality in the United States.[1] This sentiment reflects the growing concern among American citizens. In 2014 Pew Survey, 46 percent of respondents stated the gap between the rich and poor is a very big problem in contemporary society.[2] Despite this overt concern with income inequality, the proximate factors driving inequality are still not fully understood which hinders the development of effective policy for economic equity.[3]

Current policy discussion suggests reforming the tax system is the main path toward reducing income for inequality.[4] As a result, much of the discourse on income inequality in the United States has centered on the contribution of wealth inequality, which only partially explains the rise of economic inequality. Absent in current policy discussions is how the neoliberal reform of industrial relations exacerbated wage inequality in the United States.[5]

[1] Yellen, Janet L. 2015. "Open Remarks." *Economic Mobility: Research and Ideas on Strengthening Families, Communities, and the Economy.* Annual Research Conference from the Federal Research, Washington, D.C. Available at: http://www.federalreserve.gov/newsevents/speech/yellen20150402a.htm

[2] Pew Research Center. 2014. *Emerging and Developing Economies Much More Optimistic than Rich Countries about the Future.* Report available at: http://www.pewglobal.org/2014/10/09/emerging-and-developing-economies-much-more-optimistic-than-rich-countries-about-the-future/

[3] Alderson, Art and Francois Nielsen 2002. .“Globalization and the Great U Turn: Income Inequality Trends in 16 OECD Countries.” *American Journal of Sociology* 107(5): 1244-99. Clark, Rob. 2011. "World Income Inequality in the Global Era: New Estimates, 1990-2008." *Social Problems* 58(4): 565-592.

[4] Congressional Budget Office. 2014. *The Distribution of Household Income and Federal Taxes*. Report available at: https://www.cbo.gov/publication/49440. Piketty, Thomas 2014. *Capital in the Twenty-First Century*. Cambridge, MA: Harvard University Press. Burman, Leonard E. 2013. "Taxes and Inequality." *Tax Law Review* 66: 563-592. Hubbard, Glenn. January 10, 2014. "Tax Reform is Best Way to Tackle Income Inequality. *Washington Post.* Available at: https://www.washingtonpost.com/opinions/tax-reform-is-the-best-way-to-tackle-income-inequality/2014/01/10/112710ea-68ca-11e3-a0b9-249bbb34602c_story.html

[5] Wallerstein, Michael. 1999. "Wage-Setting Institutions and Pay Inequality in Advanced Industrial Societies." *American Journal of Political Science* 43(3): 649-80. Western, Bruce and Jake Rosenfeld. 2011. "Unions, Norms, and the Rise in U.S. Wage Inequality." *American Sociological Review* 76(4): 513-537.

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In this brief, I review the impact of wage inequality on total income inequality and how the liberalizing reform of industrial relations is an important driver of economic inequality in the United States. The purpose of the brief is to renew the discussion on how the nature of work explains the rise of income inequality in the United States. At the center of this discussion is the role of occupational polarization in exacerbating income inequality amongst workers. Despite a growing interest in the proliferation of "good" and "bad" jobs,[6] decision-makers are less concerned with developing labor policies aimed at mitigating wage differences within and between sectors. Accordingly, I suggest contemporary labor movements and progressive policy-makers need to advocate for alternative reform measures in reshaping the industrial relations system in the United States. The goal of these alternative reform measures is to mitigate wage inequality through building strategic partnerships between organized labor, employers, and state agencies in key economic sectors and establishing general national frameworks for negotiating collective agreements.

Income and Wage Inequality in the United States

Figure 1. The Growth of Income Inequality in the U.S., 1960-2013

Source: Solt (2014).

The Gini coefficient is a standard measure of income inequality which summarizes the income distribution in the United States with a single value. A Gini coefficient of 0 indicates total income is equally distributed across the U.S. population while a coefficient of 100 indicates a single person possesses all income. Figure 1 shows the annual trend in the Gini coefficient of pre-tax and transfer income in the United States between 1960 and 2013. According to Figure 1, the Gini coefficient decreased by about 5 points between 1960 and 1975. However, over the next four decades, the coefficient rapidly increased by 10 points.

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[6] Kalleberg, Arne L. 2011. *Good Jobs, Bad Jobs*. New York: Russell Sage Foundation.

In 1988, economists Bennett Harrison and Barry Bluestone recognized this trend in income inequality and called the phenomenon the 'Great U-Turn' of inequality in the United States.[7] According to Harrison and Bluestone, public and private policy was fundamentally reconfigured during the 1970s to ease the economic impact of international competition and domestic inflation on American profit rates. In particular, they contend corporate restructuring oriented mangers toward expanding companies through merges and acquisition rather than investing in production and labor. As a consequence, wages started to steadily decline in 1970s while compensation for managers and more professional workers increased. Moreover, this shift toward short-term profit making eroded the social accord between organized labor and employers established during the height of manufacturing in the U.S. in the 1950s and 60s.[8] Despite this important insight from Harrison and Bluestone, contemporary policy discussions on income inequality have been moved away from occupational polarization and the decline of unions.

Recent discussion on the growth of inequality has concentrated on the impact of an expanding financial sector on wealth inequality in the U.S.[9] This structural shift toward finance in the U.S. economy coincides with the corporate restructuring discussed by Harrison and Bluestone, where managers increasingly adopt investment strategies designed to improve the short-term value of companies for shareholders at the expense of production and workers.[10] More recently, researchers have started to connect the rise of 'shareholder value' management to wage inequality and the decline in the labor share of income.[11] However, while current research shows the rise of finance has dramatically altered the relationship between employers and organized labor, most studies have concentrated on the role of wealth inequality and the rise of the most affluent households. As a result, current policy discussions have centered on reforming the tax system to mitigate the growing wealth of the most affluent households in the United States.

Surprisingly, contemporary research has largely ignored the contribution of wage inequality to the expansion of income inequality in the United States. This is surprisingly considering the important roles these dynamics play in determining the distribution of income. In response to this limitation in contemporary research, I estimated the contribution of wage inequality and the labor share of income to the overall level of market income inequality.[12] According to this analysis, the ratio between workers in the 50th to 10th percentile of the wage distribution in the U.S. induces a high degree of inequality in market income. An increase of .07 to the ratio is associated with a .37 growth in the Gini coefficient of

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[7] Harrison, Bennett, and Barry Bluestone. 1988. *The Great U-Turn*. New York: Basic Books.

[8] Fligstein, Neil and Taekjin Shin. 2007. "Shareholder Value and the Transformation of the U.S. Economy, 1984-2000." *Sociological Forum* 22(4): 399-424.

[9] Piketty 201. Davis, Gerald. 2009. *Managed by the Markets, How Finance Re-shaped America*. Oxford: Oxford University Press. Lin, Ken-Hou and Donald Tomaskovic-Devey. 2013. "Financialization and U.S. Income Inequality, 1970-2008." *American Journal of Sociology* 118(5): 1284-1329. Tomaskovic-Devey, Donald and Ken-Hou Lin, 2011. "Income Dynamics, Economic Rents, and the Financialization of the U.S. Economy." *American Sociological Review* 76: 538-559.

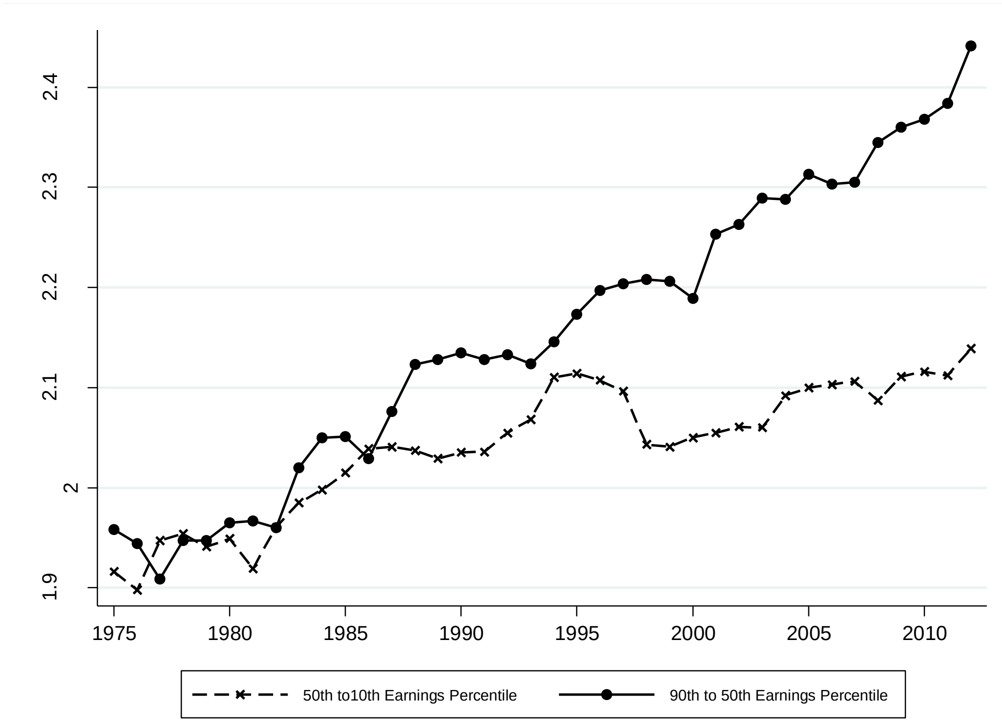
[10] Fligstein, Neil. 1990. *The Transformation of Corporate Control*, Cambridge, MA: Harvard University Press.

[11] Fligstein and Shin 2007. Lin and Tomaskovic-Devey 2011. Roberts, Anthony and Roy Kwon. 2016. "Finance, Inequality, and Varieties of Capitalism in Postindustrial Democracies." *Socio-Economic Review*.

[12] Reported estimates are standardized coefficients of a linear regression model with an autocorrelation correction for time-series data. The period of observation was 1973-2012. All coefficients were statistically different from zero (p<.05, one-tail). Full results are available upon request.

pre-tax and transfer income. Moreover, the ratio between workers in the 90th to 50th percentile of the U.S. wage distribution shows the greatest impact on the level of income inequality.[13] An increase of .15 in the ratio is associated with a .53 growth in the Gini coefficient of pre-tax and transfer income. Finally, the share of total output to wages and salaries is associated with lower income inequality. An increase in the share of total output to wages and salaries of about 1 percent is associated with a .24 reduction in the Gini coefficient of pre-tax and transfer income. Overall, these estimates show the contribution of wage inequality and the labor share of income to total income inequality in the United States.

Figure 2. The 90-50 and 50-10 Wage Ratios in the United States, 1975-2013



Source: OECD (2015)

Figure 2 shows the annual trend in the 50th-10th and 90th-50th wage ratios in the United States between 1975 and 2013. During the latter part of the 1970s, both wage ratios were hovering around 1.9 - the median worker earned about 90 percent more than workers in the 10th percentile of earnings, but earned about 90 percent less than workers in the 90th percentile of earnings. However, by 2010, the median worker earned 114 percent more than workers in the 10th percentile of earnings, but earned 144 percent less than workers in the 90th percentile of earnings. The higher growth rate in the 90-50 wage ratio may indicate that the wages and salaries of the highest earning workers have increased while the wages of the lowest earnings workers have decreased. Based on the estimates described above, the

[13] The Gini coefficient is the most commonly used metric for income inequality. However, the Gini is highly sensitive to changes to the middle part of the income distribution and less sensitive to changes in the top and bottom of the distribution. Accordingly, changes in the earnings of the median worker may better account for the observed relationship between the wage ratios and the Gini coefficient of pre-tax and transfer income. Additionally analyses using alternative inequality metrics (e.g. Theil index) may be required to more fully specify the relationship between the earnings and income distributions in the United States.

growth in the wage ratios corresponds to an increase of 3.18 in the Gini coefficient of total market income which is roughly 30 percent of the total increase in income inequality between 1975 and 2013.

Despite the growth in earnings for workers in the 90th percentile of wages, the labor share of income has declined over the last forty years. Figure 3 shows the annual trend in wages and salaries as a proportion of total output. In 1975, workers received wages and salaries equal to about 70 percent of total output while workers in 2013 only received wages and salaries equal to about 64 percent of total output. Based on the estimates described above, a reduction in the labor share of total income of 6 percent corresponds to an increase of 1.44 in the Gini coefficient of market income. This gradual decline in the labor share of income is indicative of the central argument made by Harrison and Bluestone - corporate restructuring during the latter part of the 1970s was based on reducing labor costs. More importantly, the spread of 'shareholder value' orientations of management and the restructuring of corporations may have dramatically reshaped the occupational composition of the U.S. economy.

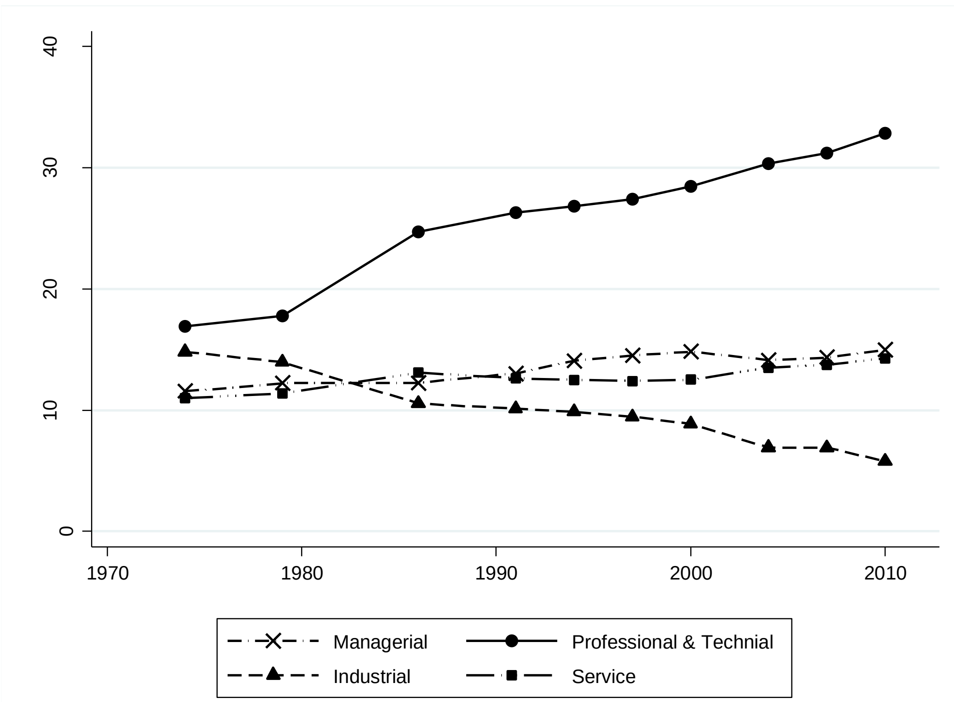
Figure 3. The Labor Share of Total Output, 1975-2011

Source: OECD (2015)

Figure 4 shows the changing composition of the labor force in the United States between 1975 and 2010. During this period, the proportion of the total labor force in professional and technical occupations expanded from 17 percent in 1974 to 33 percent in 2010. More concerning is the decline of plant, machinery, and assembly-based occupations. In 1974, industrial occupations accounted for 15 percent of the total labor force, but in 2010 only 5 percent of the total labor force performed these occupations. In contrast, managerial occupations accounted for 11 percent of the total labor force in 1974, but accounted for 15 percent of the total labor force in 2010. Moreover, service and sales occupations grew during this period from 11 percent to 14 percent.

In general, the decline of industrial occupations is not surprising considering employment in industrial sector declined from 28 percent of the national labor force in 1965 to 12 percent in 2005.[14] However, rather than replace middle-class occupations in the industrial sector, the growth of the professional and technical labor force supports the claim about job polarization within the service sector.[15] The expansion of the service sector (and concomitant decline of the industrial sector) has fundamentally changed the occupational composition of the United States by replacing blue-collar jobs with high- and low-wage white collar jobs. Accordingly, this change in the nature of work may explain the observed growth in wage inequality and the decline of wages in the U.S.

Figure 4. Changes in Occupational Composition, 1975-2010



Source: Luxembourg Income Study Micro-Database (2015)
Note: Managerial = ISCO 1; Professional & Technical = ISCO 2 & 3; Industrial = ISCO 8; Service = ISCO 5.

The polarization of occupations in the United States is symptomatic of the developmental pattern in advanced economies. For example, in 1984, 25 percent of the German labor force was employed in professional and technical occupations only to increase to 44 percent by 2010.[16] At the same time, the portion of the labor force in plant, machinery, and assembly-based occupations decreased from 13 percent to 6 percent while the portion of the labor force in other service occupations increased from 9 to 12 percent. Similarly, the portion of the Finnish labor force in professional and technical occupations

[14] Kollmeyer, Christopher. 2009. “Explaining Deindustrialization: How Affluence, Productivity Growth, and Globalization Diminish Manufacturing Employment.” *American Journal of Sociology* 114(6):1644-74.
[15] Kalleberg 2011. Kalleberg, Arne L. 2009. "Precarious Work, Insecure Workers: Employment Relations in Transition." *American Sociological Review* 74(1): 1-22.
[16] Estimates from the Luxembourg Income Study micro-database. The database is available at: http://www.lisdatacenter.org/our-data/lis-database/

increased from 19 percent in 1987 to 34 percent in 2010 while the portion of the labor force in plant, machinery, and assembly-based occupations decreased from 9 to 6 percent during the same period.

Despite showing similar changes in occupational composition, the 50-10 wage ratio *decreased* in Finland from 1.57 in 1977 to 1.47 in 2012. In Germany, the 50-10 wage ratio decreased from 1.96 in 1992 to 1.77 in 2012. Moreover, the 90-50 wage ratio only slightly increased in Finland from 1.69 in 1986 to 1.73 in 2012. Similarly, in Germany, the 90-50 wage ratio increased from 1.74 in 1992 to 1.84 in 2012. Compared to Finland and Germany, the United States shows higher levels of wage inequality amongst low, median, and high-paid workers and the differences are only increasing with time. This comparison illustrates the contrasting outcomes of similar structural change of occupation. The major question is what accounts for divergent trajectories and levels of wage inequality?

The Deregulation of Industrial Relations in the United States

A fundamental difference among these countries is the nature of industrial relations and the socio-political alignments behind the reform of industrial relations. Traditionally, countries with strong union membership and expansive collective bargaining coverage show lower levels of wage inequality.[17] In the United States, industrial relations are typically defined by decentralized and uncoordinated wage bargaining built on hostile relations between organized labor and employers. In contrast, German and Finnish industrial relations are built on a social partnership between organized capital, centralized employer associations, and the state which produces centralized and coordinated waging bargaining systems.[18] As a result of this difference, the United States tends to have higher levels of income inequality compared to mainland and Nordic European countries. However, over the last fort years, the realignment of socio-political coalitions has induced a neoliberal reform industrial relations in all three countries, yet cross-national differences in the level and growth of wage inequality remains.

Kathleen Thelen, Ford Professor of Political Science at M.I.T., argues these countries followed divergent paths in reforming industrial relations because of differences in the agenda of new socio-political coalitions.[19] In the United States, industrial relations followed a path of complete deregulation characterized by declining bargaining coverage and the dismantling of any coordinating activities amongst labor and employers.[20] Thelen contends the intensification of international competition in the 1970s pressured American employers to "seize opportunities embedded in U.S. labor law" to hinder union expansion and organizing.[21] This reaction stems from a long adversarial history between

[17] Wallerstein 1999. Mahler, Vincent A. 2004. "Economic Globalization, Domestic Politics, and Income Inequality in Developed Countries: A Cross-National Study." *Comparative Political Studies* 37(9): 1025-153. Freeman, Richard. 1980. "Unionism and the Dispersion of Wages." *Industrial Labor Relations Review* 34(1): 3-23. Rueda, David and Jonas Pontusson. 2000. "Wage Inequality and Varieties of Capitalism." *World Politics* 52(3): 350-83.

[18] Hall, Peter and David Soskice, (eds.) 2001. *Varieties of Capitalism, the Institutional Foundations of Comparative Advantage.* Oxford: Oxford University Press. Hall, Peter and Daniel Gingerich. 2009. "Varieties of Capitalism and Institutional Complementarities in the Political Economy, an Empirical Analysis." *British Journal of Political Science* 39(3), 449-82.

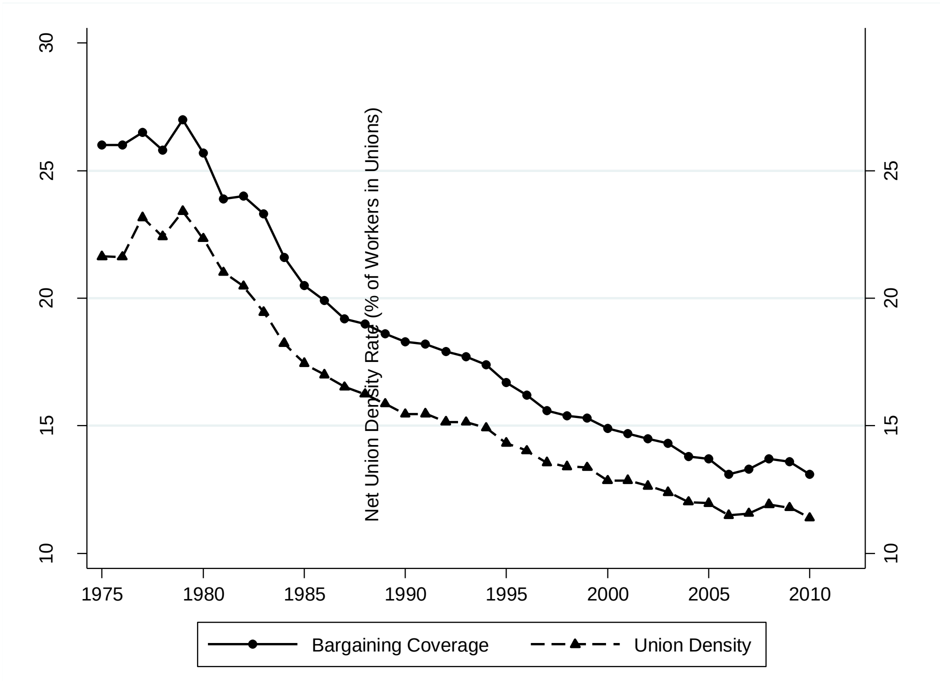
[19] Thelen, Kathleen. 2012. "Varieties of Capitalism: Trajectories of Liberalization and the New Politics of Social Solidarity." *Annual Review of Political Science* 15(1): 137-59. Thelen, Kathleen. 2014. *Varieties of Liberalization and the New Politics of Social Solidarity*. Cambridge: Cambridge University Press.

[20] Hacker, Jacob. 2006. *The Great Risk Shift*. New York: Oxford University Press. Hacker, Jacob and Paul Pierson. 2010. *Winner-Take-All Politics: How Washington Made the Rich Richer - and Turned its Back on the Middle Class*. New York: Simon and Schuster.

[21] Thelen 2014: 37.

employers and organized labor in the U.S. especially amongst unions representing medium- and high-skilled industrial workers. The New Deal legislation (e.g. the Wagner Act of 1935) only extended the individual right to unions and provided no platform to realign socio-political coalitions around a social partnership between organized labor and employers. The onset of competitive pressures to liberalize industrial relations only exacerbated these conflicts which lead to the decline of both unions and collective bargaining in the U.S. As a result, issues of employment, pay, working conditions, benefits, and other facets of work have been decided by changes in the market and the needs of employers.

Figure 5. The Decline of Unions and Bargaining Coverage, 1975-2010



Source: Visser (2011)

Figure 5 shows the union density rate and the coverage of collective bargaining agreements in the United States over the last four decades. In 1975, about a quarter of the national labor force was covered by collective bargaining agreements, but, in 2010, only 13 percent of the labor force was covered Similarly, 22 percent of the labor force were members of unions in 1975, but this rate declined to 11 percent in 2010. Overall, Figure 5 illustrates the persistent decline in unionization and collective bargaining coverage over the last few decades which are increasingly indicative of the deregulatory reform of industrial relations in the U.S.

This deregulation of industrial relations in the United States was primarily driven by heightened employer-employee antagonism and the structural shift towards a service-based economy. The decline of industrial work in the United States was primarily driven by the global shift in the production of light and medium-technology manufacturing goods such as textiles, electronics, and automotives.[22] Unionized firms in these industries responded to the intensification of international competition by

[22] Feenstra, Robert C. 1998. "Integration of Trade and Disintegration of Production in the Global Economy." *Journal of Economic Perspectives* 12 (4): 31–50. Mahutga, Matthew C. 2012. "When do Value Chains go Global? A Theory of the Spatialization of Value-Chain Linkages." *Global Networks* 12(1): 1-21.

initiating a series of attacks on employment controls and work rules. The primary purpose of this campaign was elimination of collective bargaining rights and unions. This effort was facilitated by weak labor laws (e.g. Taft-Hartley amendment in the NLRA) and an emerging union avoidance industry.[23]

In the 1950s, the union avoidance industry was relatively small with only a few consulting firms contracted to conduct anti-union campaigns on behalf of firms. By the 1970s and 1980s, the union avoidance industry developed into a multi-million dollar industry where consulting firms no longer responded to employer demand for services, but actively created demand through a systematic campaign against unions.[24] The increasing sophistication of the union avoidance industry ensured firms were successful in suppressing unions and collective bargaining. Several studies shows employers who employ union avoidance consultants, strike managers, and other actors in the industry are more likely to defeat organizing campaigns.[25] The success of employers in suppressing collective action in unionized sectors dramatically reshaped industrial relations by accelerating the collapse of unions.

Organized labor attempted to curtail the prevalence of union avoidance among employers by pushing for labor law reforms in the 1970s. A key strategy of antiunion campaigns in the U.S. was delaying representation ballots during certification elections. In the late 1970s and 80s, the number of illegal firings during union election campaigns dramatically increased. Between the 1960s and early 1970s, illegal firings were documented in 8 percent of election campaigns, but this rate increased to 31 percent in the early 1980s.[26] President Jimmy Carter responded to this issue in 1977 by initiating a campaign to reform the National Labor Relations Board (NLRB) to expedite certification procedures, especially in proceedings of union elections; strengthen sanctions for violations; and withhold federal contracts from firms found in violation of orders from the NLRB and other courts.[27] Employers collectively responded by systematically lobbying congress to vote against the reform. Moreover, the Business Roundtable, an organization founded in 1972 to expand non-union sectors, was effective in unifying top managers and owners against unions and any legislative reform aimed at promoting collective bargaining and union representation. This defeat signified the turning point of American industrial relations by ensuring the defeat of organized labor and the spread of decentralized of wage bargaining.

The Liberalization of German and Finnish Industrial Relations

In linking the reform of industrial relations to wage inequality, an important difference between the United States and Germany/Finland is the nature of wage bargaining. In both Germany and Finland, wage bargaining systems are more centralized and patterned across industries. Research shows these types of systems are effective in reducing wage inequalities by imposing more egalitarian wage

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[23] Thelen 2014: 40-41.

[24] Logan, John. 2006. "The Union Avoidance Industry in the United States." *British Journal of Industrial Relations* 44(4): 651-675.

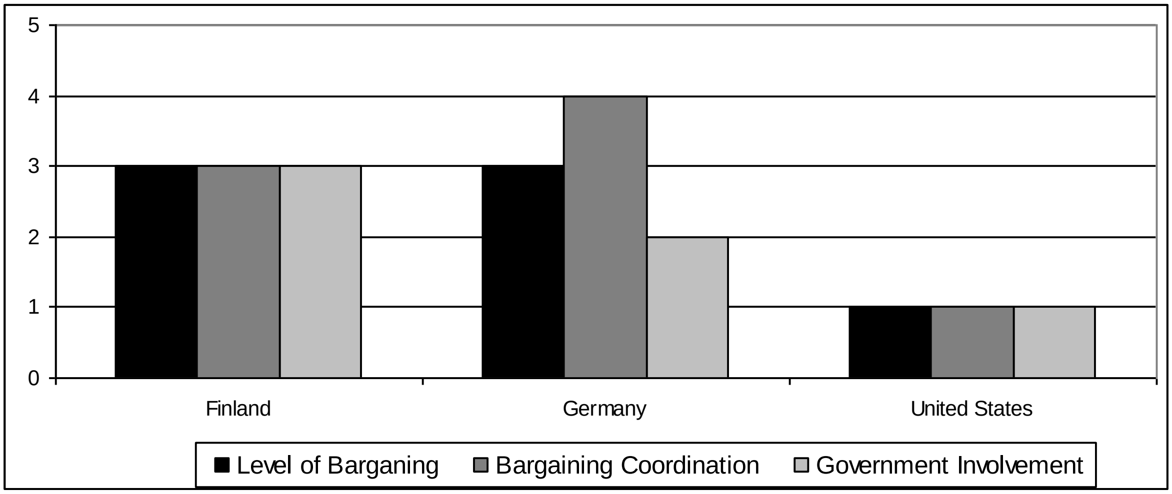
[25] Kleiner, Morris M. 2001. "Intensity of Management Resistance: Understanding the Decline of Unionization in the Private Sector." *Journal of Labor Research* 22: 519-540. Lawler, John J. 1984. "The Influence of Management Consultants on the Outcome of Union Certification Elections." 38(1): 38-51. Lawler, John J.1990. *Unionization and Deunionization.* Columbia, SC: University of South Carolina Press. Peterson, Richard B., Thomas W. Lee, and Barbara Finnegan. 1992. "Strategies and Tactics in Union Organizing." *Industrial Relations* 31(2): 370-381.

[26] Schmitt, John and Ben Zipperer. 2009. *Dropping the Ax: Illegal Firings during Union Election Campaigns, 1951-2007*. Washington, D.C.: Center for Economic and Policy Research.

[27] Carter, Jimmy. 1977. " Labor Law Reform Message to the Congress Transmitting Proposed Legislation." Transcript available at: http://www.presidency.ucsb.edu/ws/?pid=7821

schedules while empowering organized labor.[28] Accordingly, the persistence of decentralized and fragmented wage bargaining with low bargaining coverage and union representation in the United States may explain the growth of wage inequality and the decline of wages and salaries.

Figure 6. Characteristics of Wage Bargaining in Finland, Germany, and United States



Source: Visser (2011)
Note: Bargaining level (1=local or company level; 2=sectoral or industry with local or company; 3=sectoral or industry; 4=national or central with additional sectoral/industry; 5=national or central level). Bargaining coordination (1=fragmented bargaining; 2=mixed industry and firm-level; 3=industry bargaining with no pattern; 4=mixed industry and economy-wide bargaining with pattern; 5=economy-wide bargaining). Government involvement (1= no involvement; 2=government is involved through consultation and information exchange; 3=indirect government involvement through policy; 4=direct government in wage bargaining; 5=government imposes private sector wage settlements).

Figure 6 shows three major characteristics of wage bargaining systems in the United States, Finland, and Germany: (1) the level of wage bargaining; (2) the patterning of wage bargaining across sectors; and (3) the role of government agencies in wage-setting. In the United States, wage bargaining is localized to individual establishments and fragmented across industries while the state has little to no involvement in establishing collective bargaining agreements. As a result, wage contracts tend to vary substantially across firms, industries, and sectors. In contrast, collective bargaining in Finland primarily occurs at the industry or sectoral-level where national union confederations and employer associations actively negotiate the terms while the state plays a key role by dictating the baseline terms of industry agreements. The design of the Finnish wage bargaining system attempts to establish an inclusive yet flexible wage-setting systems which tends to mitigate wage variation between sectors.[29] The German wage bargaining system is similar to the Finnish since agreements are primarily established at the industry or sectoral-level between unions and employer associations, but these agreements tend to dictate the terms (e.g. wages growth) of agreements in other industries.[30] Compared to the Finland, the German state plays a relatively minor role in wage-setting and only sets minimum rates in specific

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[28] Wallerstein 1999. Alderson and Nielsen 2002.
[29] Fulton 2013. Available at: http://www.worker-participation.eu/National-Industrial Relations/Countries/Finland/Collective-Bargaining
[30] Fulton 2013. Available at: http://www.worker-participation.eu/National-Industrial-Relations/Countries/Germany/Collective-Bargaining

industries. The patterning of collective agreements tend to be localized to key industrial clusters which mitigates wage variation within certain industries while potentially expanding wage differences between industries.

The structure of wage bargaining in Germany and Finland is also important for determining the labor share of income. Compared to the United States, workers in both countries possess a higher share of total output. German workers received wages and salaries equal to 73 percent of total output in 1970 and 68 percent in 2012.[31] Finnish workers received 72 percent of total output in 1970 and about 69 percent in 2012. Despite labor controlling a greater share of total output in both countries, the decline in the labor share of income was more gradual in both countries. In Germany, the labor share of income decreased by 5 percent while the labor share decreased by 3 percent in Finland. In the United States, the labor share of income decreased by 6 percent.

The reform of German industrial relations is characterized as the preservation of social partnerships in the industrial core and the erosion of union representation and collective bargaining in peripheral sectors. Thelen identifies this pattern of reform as a process of dualization - the bifurcation of industrial relations between manufacturing and service sectors. In Germany, collective bargaining coverage decreased from 85 percent to 61 percent of the labor force between 1975 and 2010. At the same time, the union density rate decreased from 35 to 18 percent of the labor force. However, the decline in union density and collective bargaining coverage is primarily concentrated in peripheral service sectors.

Unlike American firms, German manufacturing firms are invested in maintaining cooperative relations with organized labor, especially in export-oriented sectors. At the firm-level, employers and union representatives in work council operate as co-managers and share the same interest in maintaining the firm competitiveness in international markets.[32] As a result, owners and manager provide employees with stronger job security while workers support flexibility in working hours and wages in agreements. Moreover, this cooperation between employers and organized labors ensures both parties establish employment conditions with industry-level collective bargaining agreements which are patterned across the manufacturing sector.

Outside of the manufacturing core, unionization rates and collective bargaining coverage are relatively low in Germany. Employer associations in German service industries tend to adopt a more hostile attitude toward collective bargaining because of the imposition of wage scales and working hour restrictions. In particular, powerful employer associations in service industries have initiated a systematic campaign against the use of extension clauses in collective agreements.[33] The decline of traditional arrangements in service industries is indicative of the reform in German industrial relations. In contrast to United States, the German system promotes centralized and more egalitarian wage bargaining in sectors with strong strategic cooperation between organized labor and employers while promoting the opposite in expanding service sectors. This fundamental difference is accounted for by the socio-political coalitions dictating the reform of industrial relations. In Germany, cross-class coalitions in manufacturing sectors preserved cooperative relations while externalizing antagonistic relations to service sectors.

[31] Organisation of Economic Cooperation and Development. 2012. Productivity Archive - Unit Labour Costs. Available at: http://stats.oecd.org/Index.aspx?DataSetCode=ULC_ANN
[32] Thelen 2014: 49
[33] Thelen 2014: 53

The reform of Finnish industrial relations is characterized by a high degree of union representation and collective bargaining coverage, but the transition toward more flexible wage bargaining systems. In Finland, collective bargaining coverage increased from 77 percent to nearly 90 percent of the labor force between 1975 and 2010. Over the same period, union density also increased from 65 percent to 70 percent of the labor force. The expansion of union representation and collective bargaining coverage is primarily occurring in non-traditional sectors, but at the expense of traditional wage bargaining systems. While organized labor seeks to maintain representation, employer association have increasingly called for a decentralization of collective bargaining and concessions in working hours. For example, in 2007, the Finnish employer association EK refused to engage in negotiations over a national agreement and instead advocate for negotiations at the industry-level.[34] In 2011, a compromise was made between union confederations, the state, and the EK and all parties engaged in the development of a 'national framework' that set a parameter for the terms in industry-level agreements.

The preservation of centralized collective bargaining in Finland also required a compromise in the terms of collective agreements. Increasingly, employer associations advocated for flexible working hours and wage scales in collective agreements. In particular, a key feature of newer collective agreements is the localization of pay increases and greater firm discretion in wage growth. Workers in financial service and technology industries have been the primary beneficiary of the fragmenting of wage raises.[35] Despite this transition toward flexible arrangements, the Finnish industrial relations system is supported by cross-class coalitions amongst workers and employers. In these coalitions, the state plays a central role in promoting the shared interests of low- and high-skill workers as well as employers. However, this compromise between different class interests required reforming the content of centralized wage bargaining to include more flexible arrangements.

Overall, the observable differences in the nature and reform of industrial relations between the United States, Germany, and Finland may account for the differences in wage inequality within each country. The deregulation of industrial relations in the United States has contributed to the expansion of wage inequality by allowing for wages to grow for the primary beneficiaries of occupational polarization (e.g. professional service workers) while ensuring wages decline for low-skill service workers. The dualization of industrial relations in Germany certainly contributed to the wage difference between median-earning workers in the manufacturing core and low-earning workers in the expanding service sector while mitigating the wage growth of top-earning workers in the service sector. The embedded flexibility of industrial relations in Finland suppressed wage inequality between low-, median, and top-earning workers with the reproduction of centralized bargaining and the inclusion of most workers in agreements. Both Germany and Finland offers policy alternatives for the United States that may aid in producing more equality in pay amongst workers during a period of occupational polarization.

Alternatives to the Deregulation of Industrial Relations

In the renewed debate over the growth of income inequality, a new discussion on wage inequality and industrial relations is necessary for developing more effective social policies. The structural shift towards the service sector and decline of industrial work in the United States fundamentally changed the occupational composition and exacerbated wage inequality. Unfortunately, the deregulation of

[34] Fulton, L. 2013. *Worker Representation in Europe*. Labour Research Department and ETUI. Available at: http://www.worker-participation.eu/National-Industrial-Relations.
[35] Profile of Finnish Industrial Relations. Available at: http://www.ilo.org/dyn/travail/docs/2431/EIRO%20Finland.pdf

industrial relations in the United States amplified wage variation across and within sectors. Decentralized and uncoordinated wage bargaining ensures a high degree of diversity among individualized wage contracts. Moreover, the antagonistic relationship between workers and employers facilitated the systematic attack on unions which rendered any possible countermovement for expanding collective bargaining and job security difficult. As the issue of income inequality becomes more salient in public discourse, attention needs to return to alternative, even if liberalizing, reforms of industrial relations as a solution for greater economic equity.

Progressive policy-makers and social advocates should advance an agenda built on promoting unionization and collective bargaining in service sectors while establishing cooperative relations with industry and professional associations. This new approach for creating greater economic equity will require the development of cross-class coalitions between workers, managers, investors, and owners. The decentralized structure of industrial relations in the United States necessitates engagement between multiple interest groups to develop informal processes for negotiating collective agreements and ensuring adequate representation of divergent interests in these discussions. Moreover, a cross-class coalition is necessary to mobilize political interest reforming federal labor laws.

The Finnish system may serve as an example of how to execute this plan for cross-class coalition building. Finnish law promotes national-level collective bargaining to establish norms for employment contracts. As a result, national employer associations, with the cooperation of union confederations, have pushed for more decentralized bargaining. The flexible reform of Finnish industrial relations shows how institutions can be reconfigured to allow for greater coverage while removing wage and working time rigidities. In the United States, union leaders need to engage industry and professional association to garner support amongst skilled workers as well as employers for a general framework for negotiating firm- or individual-level employment contracts. Similar to the Finnish system, this framework should provide a baseline for wages, job security, and grievances, but allow for these terms to vary across industries and sectors. Since the United States lacks the legal push for this process, union leaders need to engage in a campaign showing hostile employers and associations the merits of expanding collective bargaining coverage and union representation for developing a general framework.

One possible plank in this platform is the potential efficiency gains from more centralized wage bargaining. Research shows centralized wage bargaining may contribute to changing the structure of local labor markets to better approximate more competitive market.[36] In a scenario with flexible and decentralized wage-setting, sectors with a higher union density would raise wages above the competitive rate while wages in sectors with low union density would be lower than the competitive rate. As a result, employment is inefficiently low in unionized sectors while the price of output is artificially lower in non-union sectors. This misallocation of labor and misalignment of prices may serve as an important economic rationale for recruiting employers into a coalition for establishing more centralized wage bargaining with expansive national framework for individual and collective contracts.

In addition to pushing for expanded coverage with industry- or national-level frameworks, unions need to strategically engage employers and skilled workers in core sectors. German industrial relations shows the advantage of preserving more traditional wage bargaining and union representation in core economic sectors. Compared to the United States, the German system externalizes deregulatory reforms to peripheral service sectors while promoting a partnership between organized labor and employer associations in core manufacturing sectors. This dualist approach to reform in the United

[36] Wallerstein 1999: 673.

States would require expanding union membership and worker representation in manufacturing *and* service sectors given the developmental pattern of the U.S. economy.

This general strategy is designed to generate interest in the strategic coordination amongst workers and employers in key economic sectors. One of the most immediate areas for active union campaigning is high-value service industries. Even though workers in these professions are less supportive of unions, advocates and policy-maker need to engage firms about the benefits of collective wage agreements. For example, despite a low unionization rate, firms in the German banking industries actively engage each other and unions in establishing collective agreements to ensure the government does not intervene in the wage-setting process.[37] In the United States, a major contributor to the growing wage inequality is the expansion of wages to workers in finance, insurance, and real estate industries.[38] One avenue towards reducing income inequality in the United States is to pressure the state to intervene in the wage-setting of finance industries through offering incentives to establish collective agreements. This effort would require engaging professional associations and major firms in developing a coalition to lobby for institutions that induce active negotiations among employers, owners, and worker representatives over economic policy.

In more traditional sectors, union leaders need to lobby state and federal lawmakers to enact laws restricting the use of union avoidance consultants. A greater effort needs to push for the reforms advanced by former President Carter. Strengthening the enforcement capacity of the NLRB and expediting election reviews is critical for revitalizing unions in traditional sectors. Campaign leaders need to orient the contemporary labor movement towards pressuring the state into protecting unions from continued attack on membership. Part of this new approach will require union leaders to become more active in state- and federal-level elections. Unions need to identify and fund key representatives from the Democratic Party who are willing to advanced union protections. Moreover, this renewed political push will also require engaging centralized professional and industry associations to build coalitions amongst unionized workers and employers. The relative success of German manufacturing sectors should be shown as an example of the economic benefits of strategic partnership between organized labor and employers.

The reform of industrial relations in the United States is a monumental task considering the long history of antagonistic relationships between organized labor and employers. However, as policy-makers and general public become more concerned with growing income inequality, it is increasingly important to consider an alternative to the deregulation of industrial relations. Both the Finnish and German industrial relations systems show ways to create more wage equity despite increasing occupational polarization. Accordingly, union leaders, progressive policy-makers, and other social advocates need to re-orient their campaigns toward a broader vision of reform industrial relations by expanding collective bargaining coverage and union representation while creating strategic partnerships between organized labor and employers.

[37] Thelen 2014: 52
[38] Tomaskovic-Devey and Lin, 2011