The Effects of Institutional Stability: A long-Term Analysis of Changing Collective Bargaining

Bernd Brandl and Christian Lyhne Ibsen

Previous studies on the relationship between economic performance and collective bargaining have focused on the effects of different levels and forms of coordination of bargaining parties. While not conclusive, these studies were often used as legitimation by policy makers for institutional reforms. Regardless of the specific recommendation for reform, this instrumental perspective on the efficacy of social dialogue gave almost no attention to the effects of institutional change by itself, or the effects of institutional stability. In this paper it is argued that institutional stability is of major importance for the efficacy of social dialogue as it provides the necessary foundation for trust among actors which in turn enhances the capacities for collective action. At the outset, it is therefore hypothesized that any institutional change – even supposedly performance-enhancing changes – has negative effects. A change in bargaining coordination typically involves substituting bargaining parties for others, e.g. from confederate to federate level actors, that have not yet built up trust based on mutual expectations about bargaining behaviour. This might lead negotiators to focus of distributive concerns rather than integrative concerns that can undermine e.g. wage-restraint. Across industries, institutional change might disrupt trust that sheltered sectors will moderate wages and if bargaining parties are concerned about relative earnings – which they typically are – this might spur unions in other industries to take out higher wages. Vertically, a change in bargaining institutions might also spur ambiguity about what to expect of bargaining at other levels which in turn spurs a breakdown of the ‘division of labour’ between bargaining levels. This can be expected in processes of decentralization where more bargaining autonomy is delegated to the company
level. So, even institutional change that favours employers might have negative employment effects because companies will delay employing until the price of labour is known to reduce opportunity costs. The hypotheses are tested on the basis of yearly data from 1965 to 2010 for 33 countries. Controlling for other relevant factors and reverse causality, the analysis shows that stability of national collective bargaining coordination institutions is associated with a positive economic performance, i.e. dampening effect on inflation and the unemployment rate. Conversely, instable, i.e. changed institutional settings of collective bargaining coordination have a negative effect. The article concludes by highlighting the relevance of the findings for current attempts to change the institutional framework of national collective bargaining systems in times of economic crisis.