

Taking on Goliath: Industrial Relations and the Neo-Liberal Agenda

Abstract

The major premise of this paper is that the current dominance of neoliberal economic theory has some very dysfunctional economic and social implications. Contained within that theory is a one-dimensional view of human nature that regards economic man as naturally selfish and untrustworthy. Such a view is antithetical to the establishment of cooperative, consensus-based strategies. Because of the dominance of neoliberal thinking alternative and often empirically superior theories and associated policy implications are neglected. Examples of such impacts are provided and an argument is made proposing a concerted effort to expose the theoretical limitations and inadequacies of neo-liberal thought while offering more constructive alternatives.

Introduction

As the precis for this colloquium suggests the main items on the economic policy agenda today are ‘flexibilization, deregulation, privatization, decollectivization and decentralization’. That agenda has resulted from enhanced global competition and the demands of business people for freedom from constraint which they allege is necessary for them to be more effective in this environment. The agenda also has an intellectual base. The discipline that has had the largest influence in shaping that agenda is conventional economics or rather the neo-liberal interpretation of conventional economics (CE). Neoliberal economic thought has had an enormous impact in shaping the action of policy makers as well as the politically active populace in general.¹ That dominance has resulted in a great deal of economic and political controversy.² I have chosen as my task here to consider some of the effects of neoliberal thinking on employment relations. My argument is that it’s supremacy has had some very negative

¹ Key neoliberal thinkers are Milton Friedman and Frederick von Hayek. Their anti-interventionist ideas gained supremacy in the 1970s ending the reign of Keynesian ideas that had been ascendent from the 1930s. See, for example, McCormick, 1992. Among the key works of Friedman are Friedman, 1962 and Friedman and Friedman, 1981. The main ideas of Hayek may be found in Hayek, 1948, 1944 and 1976.

² For general critiques of conventional economics see Balogh, 1982 and Arndt, 1984.

impacts both economically and socially and that alternative theoretical approaches promise better outcomes.

To develop my argument, I will first contrast Neo-liberal Labour Economics (NLE), the branch of CE that addresses labour issues, with Industrial Relations (IR) my quasi-discipline that also focuses directly on labour issues. Both NLE and IR look at the similar empirical phenomena but go about it in very different ways, see different things and often arrive at quite different conclusions.

The basic process of inquiry used by neo-liberal economists is to reduce the phenomenon of interest to a core of abstract categories and to explore theoretically the interaction between those categories under varying assumptions. Empirical analysis typically consists of acquiring large data sets plausibly related to the theoretical categories and then testing predictions derived from the theoretical analysis against the data. Prediction better than chance is referred to as significant.' The final step in the process is to make policy recommendations.

The process of inquiry within Industrial Relations is quite different. One of the streams of thought out of which Industrial Relations developed was institutional labour economics and much of what might be called 'macro-industrial relations' – that is consideration of variables at national and international levels in contrast to a micro focus at the firm level – continues to follow the assumptions and procedures of that branch of economic science.³ Instead of beginning by reducing the phenomenon of interest to its core theoretical categories the IRist will begin by extensively assembling information about the phenomenon as it has developed in the real world. From out of that heap of facts the IR researcher will attempt to identify patterns. Working hypotheses will be developed and further data eclectically collected (via, for example, case studies, interviews, analysis of documents and survey research) in order to corroborate, reject or refine the proposition. Generalizations resulting from this process will be the basis for the making of policy recommendations.⁴

NLE is interested almost exclusively with economic efficiency; IR is also interested in economic efficiency but in addition has an equal concern for social and political issues. Thus while the psychological, social and physical effects of layoffs are of central concern to IR they are issues beyond the purview of economics (qua economics) and thus irrelevant to the neoliberal economist.

NLEcons deal in abstractions. As a result, they have little interest in concrete institutions such as specific trade unions and employer organizations whereas IR is centrally concerned with these institutions. Even though the International Labour Organisation, to which most of the nations of the world belong, asserts that 'labour is not a commodity', it is impossible to do neoliberal economic analysis without treating labour as a commodity.⁵

NLE assumes that human beings are economically rational and will engage in whatever behaviour is necessary in order to attain maximum economic advantage. IR researchers, on the other hand, affirm that human beings are interested in far more

³ The evolution of industrial relations as a field of inquiry is related in Adams, 1993.

⁴ An excellent discussion and contrast of the two approaches is Wilber and Harrison, 1978.

⁵ See e.g., Alchian and Allan, 1972.

than economic maximization. They are, for example, concerned with dignity, security, decency and democracy and are often willing to pay a price for such things.

NLE theory views economic activity as consisting fundamentally of transactions between individuals. Collective behaviour and the institutions that such behaviour inevitably create are problematic and do not fit well into the global theoretical model of supply and demand. They are commonly treated as impediments to economic efficiency or, at best, as correctives to 'market failure'. The implication is that if markets work to their potential there should be no economic need for institutions.⁶

I have no problem with neoliberal economics as an academic endeavour. One can learn useful things from making certain assumptions about human behaviour (even if those assumptions are not entirely realistic) and then exploring their implications. Problems occur, however, when this mode of thought becomes pervasive in society. It is one thing for the professional economist to assume economically maximizing behaviour; it is quite another for people to begin to relate to each other primarily as competitors for economic advantage. There is no problem with the professional economist conceptualizing labour as a commodity with attributes of quantity and price. It is very problematic when the managers of human organizations begin to view their co-workers in the enterprise as little more than a cost on the balance sheet.

Problems also occur when the prescriptions of the professional economist are embraced uncritically. The neoliberal analyst typically makes assumptions that do not necessarily apply in the real world. People do not consistently behave in an economically rational way. As a result, prescriptions flowing from such an analysis may be entirely wrong. Capable economists realize this, of course, and thus qualify their prescriptions. When they change hats from economic analyst to policy adviser, however, they often downplay the qualifications. Policy makers and opinion leaders tend to forget about the qualifications altogether.

For these reasons, neoliberal economic thought works against a more humane and balanced view of human relationships. It also often results in or underwrites behaviour contrary to optimal economic performance. Three examples will illustrate these points.

Can Shirkers and Opportunists learn to trust each other?

An enormous amount of evidence has been assembled over the last few decades that indicates very clearly it seems to me that labour-management cooperation at all levels of the economy results in performance superior to labour-management confrontation and conflict.⁷ At the level of the enterprise and workplace evidence continues to accumulate that people engaged in the daily process of production learn a great deal about it and if that learning can be tapped and put to use the enterprise will perform better.⁸ It is also clear that in most organizations around the globe worker knowledge and

⁶ See e.g., Schotter, 1990.

⁷ For evidence in support of this thesis see Adams, 1995.

⁸ See e.g., Kochan and Osterman, 1994.

learning remains largely untapped, dormant. It is quite difficult to successfully initiate and sustain what has been called labour-management productivity coalitions leading to high performance workplaces. One of the largest difficulties is the distrust that workers naturally have for managerial motives and the common belief of managers that useful work needs to be extracted from reluctant workers who would gladly spend their whole day in unconstructive activity unless compelled to do otherwise.⁹

NLE and its pervasive influence on the thinking of policy makers and business executives exacerbates distrust and makes it more difficult for cooperative relationships to become established. The model of man implicit in NLE thought is of a selfish, self-interested being prone to engage in shirking, opportunism and deceit (terms popularly used in economic discourse) to achieve its ends.¹⁰ Economic man is a dishonourable being who puts Scrooge to shame. This is a loathsome and repugnant view of human nature. Certainly it represents one side of mankind but we know from research in psychology, sociology and anthropology that human behaviour is very malleable. We humans are certainly capable of evil but we are also capable of good. We are adept at deceit but also at honour. One side of us may be competitive and self-interested but there is another that is cooperative and caring.¹¹ The pervasiveness of neoliberal thought may be creating self-fulfilling prophecies leading us to behave in a manner more consistent with the darker side of our character thus leaving underdeveloped our humane potential.

Does exposure to the economically self-interested model of man have an impact on actual behaviour? Apparently. Jeffrey Pfeffer reports on research which finds that 'Economists defect more frequently in prisoner's dilemma games, give less to charity...and are more likely to free ride...' In short, 'economists appear to behave less cooperatively than noneconomists along a variety of dimensions'.¹²

If cooperative relationships are to be broadly established and sustained we need to think about ways of widely inculcating values that are totally different from those inherent in neoclassical thought. For several decades industrial psychologists and organisational behaviourists have been proselytizing the beneficial results of a positive view of human behaviour. But they have had much less influence on policy makers and the general public it seems than have the economists to our general detriment. If the evidence is right that organizations based on labour-management cooperation and trust will be the 21st century winners, then nations that foster attitudes and values consistent with that behaviour will also be winners. In short, countering the effects of neoclassical economic imagery and theory may be critical to future economic success.

Can employment stability really be all that bad?

A central tenet of NLE is that supply and demand should balance and that when things change, the faster they get back into equilibrium the better. That would seem

⁹ On the importance of trust in contemporary employment relations see Heisig and Littek, 1995.

¹⁰ See e.g., Eggertsson, 1990 and Williamson, 1985.

¹¹ See Mansbridge, 1990.

¹² Pfeffer, 1994

to be an innocuous proposition. If applied uncritically, however, it can lead to false conclusions. To give a concrete example. In December, 1995 there was an international workshop on employment security and employment protection held at McMaster. It was organized by our economics department and most of the participants were top labour economists from the US and Europe. One paper focused on 'Labour Market Adjustment in Europe, Japan and the US'.¹³ One question that was asked was 'how much and how fast do employment and hours adjust to changes in demand across countries?' A review of the literature led to the conclusion that 'employment adjustment is faster in France, Germany and the United Kingdom than it is in Japan' but 'employment adjustment is significantly slower in these European countries than in Canada and the United States' (P.16). Employment adjustment in Japan was referred to as 'extremely sluggish'. Words have cognitive meaning and in this context it is pretty clear that 'fast employment adjustment' is good and 'sluggish employment adjustment' is bad.

What is actually going on here? In North America the traditional response of firms to downturns in the economy is to 'shed labour' (another NLE concept) by laying off people. Europeans try harder not to do that and the Japanese only do that in the most dire economic straits. Anyone coming away from that lecture would have had the impression that the US and Canadian economies were doing better than those in Europe and that the European economies were doing better than the one in Japan.

That is not the way that most industrial relations researchers would assess the situation. Being less concerned with abstract categories and abstract theories of economic performance based upon assumptions that rarely hold in the real world, I (and most of my colleagues I feel confident) would reverse the hierarchy. The other side of the coin to 'employment adjustment' is 'employment stability' and since we are concerned with real people rather than with some abstract lump of 'employment' we tend to think that stability is good, its opposite being not 'flexibility' but rather human hardship and stress.

Moreover, the inductive, fact gathering, pattern seeking approach to the acquisition of knowledge about economic life leads to a much different analysis of the economic performance of the group of countries under examination. Research by IRists and others who follow the inductive approach has led to the conclusion that employment stability has been critical to Japanese success. Being compelled to maintain in employment everyone that they hired, Japanese managers were led to treat employees as valued resources and to develop cooperative approaches towards productivity and quality improvement with them and their representatives.¹⁴ Job security led to the development of a unique set of human resource techniques very different from those established in the West. It is now well established that those practices had a good deal to do with the enormous Japanese success during the past few decades. One proof is that corporations around the world are experimenting with various subsets and versions of the practices common in Japan. There is a general consensus that

¹³ Houseman, 1995.

¹⁴ See e.g., Aoki, 1988.

companies who continue to apply human resource practices common under Taylorism or Fordism are at a significant disadvantage when competing against firms that are able to emulate best Japanese practice.

To be fair, I should point out that the speaker at the McMaster meeting did note in the final section of the paper that 'companies may realize certain long-run benefits by providing their workforce with strong job security'. But this was a final qualification. The way the central question was phrased and the terminology used to characterize the phenomenon under consideration left little doubt that from the perspective of NLE labour 'hoarding' is bad; labour 'shedding' is good. That is another example of the theoretically preconceived and inhumane consequences of neoliberalism. This case also illustrates how the theoretical biases of NLE act like a blindfold, shutting off from the analyst's attention alternative and potentially superior theoretical constructions of the situation.¹⁵

Would we really be better off under individual contracts?

I returned a few weeks ago from a trip to Australia and New Zealand where individual contracting is all the rage. Legislation passed within the last decade in New Zealand and the Australian states of Victoria and Western Australia encourage the practice.¹⁶ A newly elected federal government in Australia is also sympathetic to the idea and will certainly do what it can to promote it further within political constraints. One of the propositions underlying this movement is that collective institutions (a century old arbitration system in both countries) had accumulated a body of rules and regulations that were putting a major burden on management. These constraints resulted in thwarted flexibility and the incurring of inappropriate costs. To compete management argued that it needed to be free from these constraints. In short, this line of thought holds that collective bargaining and its Australasian counterpart were elements of a regulatory framework that was thwarting management initiative thereby producing inefficient economic outcomes.

Another proposition underlying this movement towards decollectivization is that if freed from the incursions of third parties (i.e. unions) employers and employees would be able to relate to each other on a more personal and cooperative basis. Unions, so the thinking goes, exacerbate conflict and adversarialism.¹⁷

Heros of this movement downunder are extreme NLE thinkers such as Hayek and Friedman, but also Richard Epstein who is an American law professor prominent in

¹⁵ I should note that the author of the article, Susan Houseman, would probably deny the label neoliberal. In fact, I am using the term in this essay to refer loosely to conventional contemporary economics which are dominated by neoliberal thinking. A key point here is that, despite the personal political beliefs and outlook of the individual, the contemporary conventional economic paradigm compels the user to ask a certain range of questions which in turn constrains the results that may be attained in a manner that is often detrimental to the formulation of good economic policy and very often contrary to the interests of labour.

¹⁶ The story of the development of the Employment Contracts Act in New Zealand is told in Harbridge, 1993. The impact of the Act to date is told in Griffin, 1996. The neoliberal inspiration for the legislation is to be found in Brook, 1990.

¹⁷ This position is documented in Brook, 1990, *o.c.*

the Law and Economics circle – a group that generally certifies the NLE view of the world and embraces principles inherent in it.¹⁸

These propositions are entirely unsupported by IR research. In Australia and New Zealand as well as in many other countries, institutional research clearly indicates that the amount of labour regulation has nothing whatsoever to do with economic performance. While some regulations may hinder economic efficiency, others ‘can improve rather than worsen economic outcomes’.¹⁹ Over the past three decades, for example, two of the best performing economies in the world have been Japan and Germany. Both are very highly regulated in the sense that there are a lot of institutional constraints on managerial behaviour. On the other hand, despite a thin regulatory framework and a major decrease in the practice of collective bargaining, the US has been in relative economic decline.²⁰ Comparative IR research suggests that while the degree of regulation means nothing, the form of regulation is critical. The German works council system, for example, incorporates dynamics that are immensely beneficial to the performance of the enterprise and IR researchers have contributed a great deal to the understanding of those dynamics.²¹

The idea that managers, if left entirely unconstrained, will behave in the most economically beneficial manner is an article of faith in NLE analysis. Market forces acting upon economically rational man must have that result. But research into actual managerial behaviour makes a mockery of that presumption. Managers are a product of their society and will behave generally in accordance with the values and conventions imposed by society on them. Institutions are crucial in shaping those values and the behaviour stemming from them. For example, German and Japanese managers fully accept the necessity of dealing with employee representatives in their home countries and even embrace and laud the positive aspects of labour-management cooperation. However, quite often when German and Japanese companies set up in the US they adopt a policy of union avoidance.²² Although not socially permissible in Japan and Germany, that behaviour is perfectly legitimate in the US although it may not be in the overall best interests of the firm. NLE has little or nothing to say about the effects of such institutions on behaviour and that is one more reason to be sceptical about its prescriptions.

The second beneficial effect said to stem from individualization of the employment relationship is that cooperative behaviour is more likely to be established under those

¹⁸ See e.g., Epstein, 1983 and 1984. Brook, in her justification for the position that would eventually lead to the Employment Contracts Act favourably and often quotes Epstein.

¹⁹ Crouch, 1994: 176. On the positive effects of labour standards on socio-economic performance see Sengenberger, 1994. Even the World Bank has come to recognize that appropriate institutions may be a boon for economic performance. See *Workers in an Integrating World, World Development Report 1995*.

²⁰ At the time of the writing of this essay in 1996/97 both the Japanese and German economies are having difficulties and the American economy is doing well. All capitalist economies, however, have their ups and downs. Whatever is happening at the moment does not detract from the observation that over the past 3 decades Japan and Germany have performed better than has the US.

²¹ See e.g., Adams 1995, *o.c.* and Rogers and Streeck, 1994.

²² See e.g., Wever, 1995 and Abo, 1994.

conditions. The basic idea is that the union is an adversarial wedge between the employee and the manager. Thus Brook asserts that the historical legislation in New Zealand that gave strong support to collective determination of employment conditions via union representation 'is premised on the belief that the employment relationship is fundamentally adversarial' and that it is 'an excellent example of how unhelpful law can undermine...the otherwise co-operative nature of economic relationships'. (P.132) There is no doubt that in Australasia and elsewhere that unions have taken an adversarial stance on occasion. On the other hand research is beginning to accumulate that high performance, employee involvement systems are effectively introduced and sustained better where the employees have independent representation which provides them with some assurance that their interests will not be violated if they cooperate with management to achieve higher productivity and better quality.²³ Moreover, because managers are under pressure from many angles, where there is no strong voice to represent employee interests there is a tendency in crisis situations for management to pull the plug on unilaterally introduced systems of participation that are seen as inconvenient in the circumstances. In short, individualization is dysfunctional. Instead of fostering joint labour-management approaches to enterprise betterment it makes it more difficult to achieve.

Individualization also means excluding employees from any influence on the large range of organizational issues that are collective in nature.²⁴ A thousand individuals cannot negotiate separate pension plans, tailor-made health and safety policies, individual employment equity strategies, etc., etc. Under individualization employees are subject to regulation without representation and, to my way of thinking, that should not be permitted in a democratic society. But that, of course, is a political issue of no concern to the professional neoliberal economist, qua economist. Regulation without representation should be of considerable concern to citizens of democratic society. However, a populous that has strongly bought into neoliberal ideology and its priorities is likely to have a numbed sensitivity to political dimensions of the employment relationship.

Conclusion

To sum up, neoliberal labour economics has had and continues to have a large impact on our policy makers and on economic decision makers, and that effect is in many ways detrimental not only to our social but also ironically to our economic well being. Its model of mankind is an obscene distortion. Its treatment of labour as an abstract commodity is dehumanizing and loathsome and, since the assumptions that it makes are rarely fulfilled in the real world, its prescriptions, while superficially appealing, are often wrong. If we are to develop and sustain economies that are both efficient and humane, we need to work hard to uncover its defects, to reveal its flaws to decision makers and to do all that we can to encourage them carefully to heed the advice stemming from other approaches to economic life.

²³ Research supporting this position is summarized in Kochan and Osterman, 1994, *o.c.*

²⁴ See Adams, 1992a: 91-99 and Adams, 1992b: 18-28.

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