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**Institutional Change in Industrial Relations:  
Coordination and Common Knowledge  
in Ireland, Italy and Australia**

by

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**Abstract**

When should we ever expect to see durable moves toward greater wage bargaining coordination? Moving to sustained coordinated wage bargaining presupposes that unions and employers can both be convinced that wage bargaining is in fact a game in which both actors prefer coordination. This can only happen when these social actors come to accept as true an idea of the economy in which their coordination through wage bargaining institutions will give them better outcomes than would bargaining through decentralized institutions. This paper argues that the process of developing common knowledge changes institutional preferences among employers. It was the development of common knowledge that changed employer preferences about the attractiveness of institutions for wage coordination in Ireland in Italy. In both cases, the development of common expectations required the emergence and joint ratification of a common set of references, in what I call common knowledge events. These events led organized employers to change their previous position about acceptable institutions of wage bargaining. This change made possible the institutionalization of coordinated wage bargaining in both countries. As demonstrated through counterfactual analysis of the Australian case, the emergence and ratification of such a common view is the necessary condition for the emergence and survival of coordinated wage bargaining institutions.

## Introduction

In a period of internationally liberalizing markets, the last thing political scientists expect to observe is a move to *more* coordinated wage bargaining. Changes in production technology and shifting distributional coalitions have led to moves to *less* coordinated bargaining in many of the Scandinavian countries (Pontusson and Swenson 2000, Iversen 1996) and have put significant pressure on coordinated bargaining institutions in Germany and elsewhere (Thelen 2001). We can see why changing material situations lead to changes in institutional preferences that allow new interest coalitions to break out of coordinated systems. Given an opportunity to move closer to an institutional solution that promises improved returns, actors with sufficient political power resources can, unilaterally, stop participating in coordinated institutions. Yet under what conditions should we ever expect to see durable moves toward greater wage bargaining coordination, as happened in Ireland in 1987 and Italy in 1993?

Moving countries to sustained and coordinated wage bargaining presupposes that unions and employers can both be convinced that wage bargaining—a classic zero-sum game, where my loss is your gain and vice versa—is in fact a game in which both actors will prefer coordination.<sup>1</sup> This can only happen when these social actors come to accept as true an idea of the economy in which their coordination through wage bargaining institutions will give them better outcomes over time than would bargaining through decentralized institutions. Rationalists refer to shared mental models as common knowledge, but I will argue in this paper that the process of developing common knowledge changes institutional preferences among employers. It was the development of common knowledge that changed employer preferences about the attractiveness of institutions for wage coordination in Ireland in Italy. In both cases, I will show that the development of common expectations required the emergence and joint ratification of a common set of references, which—by virtue of their joint ratification as the way the world works—become unavoidable for the social actors involved. Once these ideas become established as common knowledge, institutional solutions not based on them become far less likely to succeed, even when some of these actors had previously enunciated a different set of institutional preference orderings. Where such a common view fails to emerge, or unravels—as in the case of Australia in the early 1990s—it becomes impossible to sustain coordinated wage bargaining institutions.

The first section of the paper examines the interaction of coordinating ideas, common knowledge, and institutional change. The next three sections examine two cases of successful moves toward more coordinated wage bargaining institutions—Ireland and Italy—as well as the breakdown of coordination in Australia. The final section concludes.

## The Process of Institutional Change

Institutions only break down after a period during which “the taken-for-grantedness of the old institution [is] called into question” (Aoki 2001: 241). The process

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<sup>1</sup> This formulation owes much to a comment by Peter Hall.

of institutional change in such cases is tentative, marked by uncertainty over the distributive outcomes of any new institutional choice. In such a period of uncertainty, collective actors look for cues from other actors for what they believe about the world. It is conventional in much social scientific analysis to ascribe to the interaction of the actors some set of interests and payoffs. While this analytical technique is highly productive for characterizing interactions during periods of institutional stasis, it obscures a highly significant dynamic of processes of institutional change: what sort of game do the actors perceive themselves as playing? In particular, do they see gains from coordination, and does each see that the other sees this (i.e., do they share common knowledge of the game)?

In the interactions between unions and employers examined here, the crucial question of common knowledge can be framed thus: How do employers think that unions will act under coordinated bargaining institutions? Will industry-coordinated agreements serve to ensure wage moderation by limiting plant-level wage push, or will they instead serve as a floor against which plant-level organizations will push for significant increases? This was the question faced by employers in Ireland, Italy, and Australia as they considered changes to their existing institutional structures. In each case, past experiments with coordinated bargaining had generated the latter response from unions, and had thus led to inflationary outcomes. As existing institutions lost the characteristic of “taken-for-grantedness” described by Aoki, the way employers in these countries thought about alternative arrangements hinged on how they thought unions would respond under coordinated institutions. In turn, that depended on how they thought unions viewed the functioning of the economy.

This was not a problem of credible commitments, but of common knowledge. The functioning of coordinated institutions depends on a high degree of common knowledge among organized actors (Hall and Soskice 2001: 63). They must have shared expectations: congruent (though not identical) models of how the economy works and how wage increases relate to unemployment. They can then bargain over the increase that is consistent with their desired employment effects. Yet in all three countries under examination, unions and employers had in the past professed different models of the economy. In order to move to stably coordinated institutions of wage bargaining, unions and employers had to agree on a framework of analysis. In the period when an existing institution enters into crisis, we do not expect there to be widespread agreement among competing actors about the shape of new institutions. That agreement is crafted over time by the results of conversations and shared experiences between those competing actors. Institutional change in the direction of increased coordination requires employers and unions to come to a shared diagnosis of a problem and agreement about some of the features of the solution to that problem.

Employers and unions may experience similar “objective” conditions, but they may draw different conclusions from them. The process of constructing joint understandings is contingent—in a structurally similar situation, it may fail in one place and succeed in another. During a period of uncertainty and declining confidence in existing institutions—brought about, e.g., by declining performance of those institutions—social actors will put forward institutional proposals they regard as most beneficial to themselves. Yet they will be in some real sense uncertain what the most beneficial future ar-

rangements are, both because they are uncertain about the state of the world and because they are uncertain about how their negotiating partner will behave under a new institutional arrangement.<sup>2</sup> Thus, during this period of institutional transition, they are not only bargaining; they are trying to convince each other about the viability of a certain view of the world. As anyone knows who has lost an argument with young children, the outcome of such discussions is not always the preferred result of the most powerful actor. In the process of argument, the obviousness that some ideas acquire over time makes it increasingly difficult to accept solutions not based on these ideas.<sup>3</sup>

The force of these coordinating ideas, though, is their jointness—that is, the fact that competing actors share them. How do such ideas become shared? The marker of success, I will argue, is an event that crystallizes common understandings in a public and recognizable way (cf. Sewell 1999). In the industrial relations cases considered here, these events are usually agreements signed by unions and employers (which precede the establishment of new institutions).<sup>4</sup> Once these common understandings are publicly agreed and ratified by competing actors, they set the future terms of debate among social actors by limning the features of the gains from trade. Once they have agreed on a common view of the world in which they can potentially gain from coordination, neither a strong social actor nor public policy is likely to be able to enact new institutional solutions by legislative or judicial fiat. The social actors have agreed on the game they are playing, and the possibility for gains from coordination, and public policy cannot easily push them to a different solution. Policymakers can influence the process of institutional change only insofar as they clarify or make credible the newly emerging shared beliefs of how the world works (Aoki 2002: 236). Empirically, we therefore expect the role of the state to be in exhorting the actors to talk to each other and to clarify joint understandings, not to legislate new institutional solutions.

Once such an event has taken place, though, previously firm institutional preferences become flexible. These events, by ratifying common knowledge, change prior employer expectations of how unions will act. The events become constraining, in this sense: institutions that flow from such joint understandings become more likely to be adopted, because they “make sense,” given how the relevant actors see the world. In this process, state policy cannot effect moves to higher coordination on its own, since these moves are dependent on the shared knowledge of social actors, for whom state policy is merely one input (Aoki 2002, Culpepper 2003). The claims made above depend on showing that the emergence of common knowledge was contingent: it was not preordained

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<sup>2</sup> Cf. Blyth 2001.

<sup>3</sup> Rationalist theorists have used similar language to describe the concept of focal points—points that by their very obviousness become unavoidable points around which to coordinate (Schelling 1960, Garrett and Weingast 1993). The concept of focal points assumes a prior agreement about the value of coordination, however: we want to do something together, and the focal point tells us the most likely place to do that. In an earlier draft of this paper I used the language of focal points to discuss points of constructed prominence. Yet the ideas discussed herein do not merely designate obvious points of agreement—the process of coming to those points of agreement helps make coordination preferable to non-coordination.

<sup>4</sup> Such “events” do not have to be signed agreements; in the highly contentious realm of contemporary industrial relations, though, they will almost always be such agreements.

by objective interests of the concerned actors. Thus, actors in similar situations could, or could not, have reached a similar understanding. Reaching this common knowledge through a public event, however, is the prerequisite of moving to more highly coordinated institutions. If it does not happen, social actors will not be able to move to higher levels of coordination.

### *Industrial Relations and Case Selection*

Comparing cases of institutional change and stability cross-nationally requires a set of comparable measures of institutional functioning. The literature on industrial relations institutions in political economy has produced a set of time-varying, well-defined and calibrated assessments of institutional functioning that allows for such a comparison (cf. Kenworthy 2001a for a discussion). Within this literature, the conceptual innovation associated with the work of David Soskice (1990), differentiating between centralization and coordination of wage bargaining, has been seminal. Coordination distinguishes between the existence of formally centralized bargaining arrangements, such as those in Austria, and agreements that are not formally centralized but are *de facto* highly coordinated across sectors, such as those in Germany or Japan. Such coordination may produce similar effects on wage restraint as centralization, but without the presence of formally centralized wage bargaining arrangements. To examine the dynamics of common knowledge creation in processes of institutional change, we want to explore cases with similar institutional histories and employer preferences over institutions, including cases that moved toward or sustained coordination and those that did not move to or sustain coordination.

Using Lane Kenworthy's (2001b) database of wage bargaining coordination, Ireland and Italy are the only countries that since 1985 have moved from low to high coordination. During this same period, Australia is one of two countries (with Sweden) that moved from high coordination to low coordination.<sup>5</sup> Unlike Sweden, which had stable bargaining arrangements for almost three decades prior to the changes of the early 1980s, Australia, Ireland, and Italy all experimented with a variety of wage bargaining arrangements in the 1970s and 1980s, none of which had delivered sustained wage moderation (Hardiman 1988; other cites). None of these countries was considered highly corporatist, as unions and employer bargaining was characteristically conflictual and decentralized. Prior to their moments of institutional change—Ireland in 1987, Italy in 1993, and Australia in 1991—it would not have been possible to predict their ultimate institutional solutions, based on the preferences of organized employers. Employers in Italy and in Australia were internally divided (Sheldon and Thornthwaite 1999); employers in Ireland were united, up to mid-1987, in the position that they did *not* want a return to centralized bargaining. Yet Ireland and Italy wound up moving to more coordinated bargaining systems, and Australian bargaining decentralized. In the next three sections, we try to help answer the question: why?

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<sup>5</sup> I restrict this discussion to the years since 1985 so as to exclude the rash of imitative centralized incomes policies adopted by many OECD countries during the 1970s and early 1980s. These deals were often state-imposed, rather than emerging from interest-group agreement on new institutions, and many proved highly unstable over time.

## Ireland

The dramatic changes in Irish industrial relations institutions, and Irish social partnership more generally, have been studied by numerous political scientists (Sabel 1996; Hardiman 2002; Ornston 2004). The moment of institutional change in industrial relations was the signing of the Program for National Recovery (PNR) in October 1987 by employers, unions, farming interests, and the state. One of the central planks of the agreement was the move from decentralized to centralized bargaining, including targets for wage growth from 1987 to 1990. Yet the agreement also included government commitments on macroeconomic and social policy, and a joint commitment to membership of the narrow bands of the exchange rate mechanism (O'Donnell 1998: 11). As has been emphasized by both observers (Hardiman 2002) and participants (O'Donnell 1998), the framework for agreement on the various policy reforms was hammered out in negotiations in the National Economic and Social Council, whose final report, "A Strategy for Development, 1986-90," was released in November 1986. As summarized by Hardiman (2002: 8): "In this forum, employer and union leaders developed a shared analysis of the nature of the country's economic problems and the priorities that needed to be addressed. [The Strategy for Development] accepted that moderation in pay increases would be essential to improve competitiveness and, thus, generate the necessary economic improvement, though it did not explicitly advocate an incomes policy." This foundational document, cited by all who write about it as the basis of shared understandings among union and employer representatives, did not advocate centralized wage bargaining institutions. Yet this was the major institutional innovation agreed to in the PNR in 1987. Why did Ireland make the institutional change from decentralized to highly centralized wage bargaining?

### *Common Knowledge Formation and the NESC Paper*

To be more exact, the puzzle here is why Irish *employers* agreed to adopt centralized bargaining. The Irish trade union confederation had come out in favor of centralized bargaining in July 1986—more than a year before employers acceded to the signing of the PNR that created centralized bargaining in Ireland (*Irish Times* 1986a). Ireland had previously experimented with centralized bargaining institutions in the late 1970s, which later collapsed when private sector employers withdrew from them in 1981 (Hardiman 2002). Since that time, employers had remained steadfastly opposed to centralized bargaining (Roche 1994). The prevailing interpretation of the *volte face* of Irish employers over centralized bargaining is succinctly put by Baccaro (2002b: 8): "The employers had to be dragged into the deal, particularly by the staunch determination of the government to have an agreement" (cf. Hardiman 2002: 9-10). This explanation is, at best, incomplete. The government possessed no resources to force the employers to sign the agreement, other than the fact it had adopted policies (spending cuts) long favored by employers' organizations (*Business and Finance* 1987a). Unions were, by all accounts, much weakened by continuing high unemployment (Hardiman 1988, MacSharry and White 2000). Reviewing employers' own explanations of why their position changed, we see instead a set of arguments for why the collective bargaining arrangements would lead to a different set of outcomes than had the old, failed incomes policies. In other

words, employers over the course of negotiations reevaluated their estimates of how well centralized bargaining would deliver wage restraint, given the newly expressed information about trade union preferences. The employers signed the agreement because they thought it was in their interest—even though they would not have thought the same thing three months earlier. Institutions of centralized bargaining became their preferred institutional solution for achieving wage restraint, and that was what compelled employers to adopt an institution they had previously opposed.

Irish employers had pulled out of centralized bargaining institutions in 1981 because of a divergence of views with union leaders about the causes of high unemployment: employers attributed unemployment to excessive wage agreements, unions to deficient demand stimulus (Roche 1994: 170). Given this divergence, Irish employers had judged decentralized bargaining a better way to achieve wage restraint. Yet decentralized bargaining had been only partially successful in this goal between 1981 and 1986. While the rates of both wage growth and strikes were reduced during this time, wage gains in Ireland continued to outpace inflation (Roche 1994: 178). Over the first half of the 1980s, Ireland moved from being a high inflation (20 percent in 1981) to a low inflation (4 percent in 1986) economy. Organized employers in this disinflationary environment were highly interested in re-setting the wage expectations of workers across the economy, going so far as to take out several large advertisements in the *Irish Times* during July 1986, that Ireland's fitness for international competition depended on wage moderation, each declaring that "[M]oderate pay settlements will make jobs more secure."<sup>6</sup>

It is at this juncture that the common diagnosis of the celebrated NESC report on Ireland's economy became important. That report took as the heart of its analysis the fact that Ireland was a small, open economy whose employment prospects depended on the competitiveness of its tradeable sectors.

What is crucial for the attainment of sustained economic growth in an economy such as Ireland's is the capacity of the internationally trading sectors to produce goods and services and to sell them competitively on export markets.... In the short term this can be achieved by securing the maximum degree of cost-competitiveness and in the medium-term by defending competitive advantage while at the same time expanding the productive capacity of the economy (NESC, *A Strategy for Development, 1986-1990*, p. 148).

Drawing the incomes policy prescriptions of this analytical position, the report concluded that the result of the wage bargaining process "should be that the average rate of cost increase in Ireland not exceed the average of cost increases in our main trading partners" (NESC 1986: 185). The NESC report made no commitment to a particular set of wage bargaining institutions, but it publicly committed unions and employers to a common analysis of the problems the Irish economy was facing, linking unemployment to international competitiveness and wage moderation. Moreover, the report committed

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<sup>6</sup> *Irish Times*, July 4, 11, 18, 1986. The peak federation of Irish Trade Unions explicitly rejected the suggested trade-off of the FUE campaign (*Irish Times* 1986b).

unions and employers to a diagnosis that disavowed alternative views—formerly espoused by unions—of the sources of economic growth: “those sectors of the economy which exclusively or predominantly serve the domestic market, [which includes most of the public sector,] cannot be regarded as independent sources of sustained economic growth..... Secondly, domestic demand cannot be regarded as an independent source of sustainable growth” (NESC 1986: 147).

The NESC report publicly committed *both* sides to an economic interpretation that linked the sources of GNP growth to wage restraint in general, and to public sector wage restraint in particular. It represented a public disavowal by unions of their previously stated position that deficient demand was the cause of low growth and unemployment (Roche 1994: 170). The document was nothing more than a statement of common views, and it was a statement without the power to bind anyone. This statement, though, would ultimately contribute to having employers change their preferences over wage bargaining institutions.

*Employer Preferences and Institutional Change: the PNR*

After the signing of the NESC agreement in 1986, Irish trade union leaders made repeated public statements to employers and the government that they were willing to make a multiyear commitment to wage moderation as part of a national tripartite agreement covering social and economic policy reforms proposed in the NESC plan. In a speech at the end of 1986, covered widely in the Irish press (including by the employers’ federation’s own newsletter), the trade union leader Billy Attley specifically praised the consensual models of Austria, Sweden, and Norway in discussions of a future potential Irish pact (Hardiman 1988: 234). The employers repeatedly rejected these calls for a move to higher coordination. As late as June, 1987—eight months after the release of the NESC report—Irish organized employers reiterated their opposition to centralized bargaining (ibid: 236-7).

Employers opposed a return to centralized bargaining because of the way that the institution had previously functioned. As summarized by two politicians involved in the negotiations, Ray MacSharry and Padraic White (2000: 126-7): “From the outset, the greatest obstacle was the skepticism of the employers, given their disillusion with aspects of centralized bargaining. In particular they were concerned that the pay terms would become a floor—from which unions would bargain for higher demands—rather than a ceiling that would limit pay demands to the strict terms of the agreement. In other words, they feared a return to past patterns of behavior where, too often, national wage accords had been loosely interpreted and wage inflation had eroded competitiveness.” Thus, organized employers insisted repeatedly on the formulation, which was included in the text of the final Programme for National Recovery, that “no further cost-increasing claims will be made on employers” (*Irish Times* 9 October 1987, p. 13). Moreover, they contested the flat minimum pay increases for the lowest paid workers, and this measure was not made binding on private sector firms. In the text of the agreement, these points underlined employers’ reinterpretations of what national bargaining in this context meant.



Employers took as credible the statements of unions because the unions had, from the moment of signing the NESC document, publicly adopted what we might call a “Small States in World Markets” view of the economy (Katzenstein 1985). First, the union claim to pay restraint was credible, because union leaders were repeatedly distancing themselves from their old ways of bargaining with employers and the government, and aligning themselves with the small states with low unemployment:

We took the view that the most acceptable models on which to base a Programme for National Recovery should be successful European countries such as Austria, Denmark, Finland, Norway, and Sweden. These countries have rejected the confrontationist approach of the New Right and have lower levels of unemployment than the United States or the United Kingdom. (IT 10/17/87, p.16).

Such statements pledged unions to an approach to industrial relations, not merely to the terms of a given pay deal.

The fundamental claim being made here is that, in the absence of the agreed set of interpretations reached in the NESC report, employers would not have agreed to move toward coordinated bargaining institutions. This view is consistent with that expressed by leading scholars of the Irish political economy (Roche 1994, O’Donnell 199x, Hardiman 1988). “It would be misleading to suggest that a return to centralized negotiation linking pay with other policy objectives was in any sense inevitable.... [T]he possibility of negotiating a new centralized pay agreement had emerged from discussions publicly conducted in the mid-1980s over how best to plan for medium-term economic recovery” (Hardiman 1988: 217). In the absence of some event such as the drafting of the NESC report, there is no reason to believe employers would have changed their views about the ability of unions to deliver wage restraint in a centralized forum. It is very likely that the Fianna Fail government would have negotiated a public sector pay deal with the unions, but that private sector employers would have opted for their own decentralized firm-level negotiations. The question of the impact of such an outcome on the subsequent performance of the Irish economy is not easy to estimate. The limited point made here is that, without a shared understanding of the potential gains from coordination, organized employers would never have made this choice, and Ireland could not have moved to the centralized pay bargaining system that it retains up to the date of this writing.

## Italy

The keystone institution of Italian wage setting during the 1980s was the *scala mobile*—the wage escalator—which automatically tied wage increases to increases in inflation. Employers disliked the *scala mobile* because it imposed wage increases they claimed rendered them uncompetitive; unions claimed that any other arrangement would gravely weaken the purchasing power of workers (Mania and Orioli 1993: 13-35; Locke 1995). With the Italian entry into the narrow bands of the European Monetary System, companies lost the capacity to use devaluation to compensate for high wage increases, thus increasing the relative costs of the system for them. In June 1989, the peak association of Italian employers (Confindustria) publicly signaled to unions and govern-

ment official its intent to abandon the *scala mobile*.<sup>7</sup> This was the credible signal of change that began serious discussions among the three concerned collective actors in Italy: employers, unions, and the government. The decisive agreement on the permanent end of the *scala mobile* was signed in July 1992; that agreement included a one-year freeze in salaries and a moratorium on firm-level bargaining. One year later, an agreement signed on July 3 by employers and unions officially established a new system of wage setting institutions, in which national wage bargaining was strengthened and new forms of workplace representation and bargaining at the firm level were adopted. The move to institutions of coordinated wage bargaining was built on the common understandings forged between employers and unions in 1991 and 1992 and ratified in the July 1992 social pact.

### *Common Knowledge Formation and the Abolition of the Scala Mobile*

Italian unions and employers both were capable of vetoing any institutional solution to replace the *scala mobile*, and each sought different guarantees from a new institution: employers wanted to restrain inflation, while union leaders wanted to preserve the real incomes of their members. Given the new constraints imposed by the loss of exchange rate flexibility, each partner recognized that inflation was detrimental to competitiveness, but each wanted to be sure that its own restraint was not exploited by the others. This led to respective initial institutional preferences quite different from those initially observed in Ireland. While Italian employers in the internationally traded sectors had pushed for the decentralization of wage bargaining during the 1980s, they discovered that the internationally sheltered sectors dictated the rate of inflation (Perez 2000: 451). As a result, the peak organization of Italian employers (Confindustria) sought to replace the *scala mobile* with national sectoral bargaining and to eliminate firm-level bargaining. Unions also accepted the ability of institutions of coordinated wage bargaining to deliver wage restraint, so they wanted to ensure some that some measure would allow them to hedge against the loss of real wages if the rate of inflation exceeded pay agreements (Locke and Baccaro 1996). From the perspective of employers, moving to coordinated institutions required a new norm of bargaining that would break the automatic link between past inflation and future pay demands from unions. For unions – above all the CGIL, the largest, most important Italian union – the problem was to ensure that local bargaining units retained some bargaining autonomy.<sup>8</sup>

How were they to create a set of negotiating arrangements that responded to the concerns of both employers and unions? This required them to devise a jointly agreed norm for bargaining. The large cognitive movement between 1989 and the agreement of 1992 was the emergence of the government's inflation forecast – never previously considered credible – as the new basis of bargaining. In other words, this coordinating idea

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<sup>7</sup> The *scala mobile* was formally renewed by periodic agreement between employers associations and unions; thus, one actor could (in theory) fail to renew it at any time.

<sup>8</sup> It may seem ironic that employers, not unions, were the ones who opposed decentralized bargaining. Yet small firms in Italy (as in Australia) worried that the adoption of plant-level agreements as the primary level of bargaining would be an impetus to unionization of their workforces, while unions wanted to use plant-level bargaining to achieve gains over the national agreement (Cipolletta 2002; Locke and Baccaro 1996; Mania and Orioli 1993).

became so conspicuous that no other point of agreement was a credible replacement. To track the evolution of the expressed views of union leaders, I relied on a search using the leading Italian newspapers between 1989 and 1993.<sup>9</sup> Between the disavowal of the *scala mobile* in June, 1989, and March 1992, the expressed views of the CGIL leadership on the issue of the wage bargaining system appeared remarkably stable: while the role of automatic indexation could be reduced, it could not be eliminated and replaced by a bargaining system that lacked automatic adjustment. Sergio Cofferati re-stated the union's official position in February 1992: "the defense of wages through a contractual system deprived of automatic adjustment [for inflation] is not credible" because "the difficulties of forecasting [inflation] are so great as not to be manageable" (ANSA 1992a).

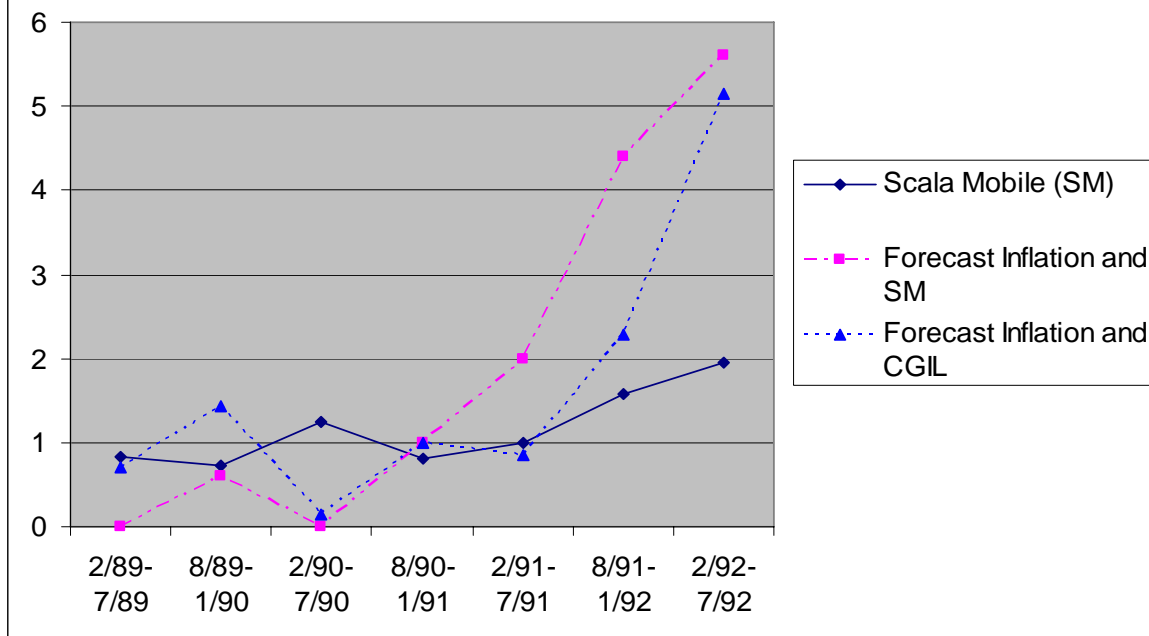
Between April and June 1992 the three union confederations attempted to forge a united front for negotiations with Confindustria. The CGIL changed its position on automatism, foregoing claims to post-hoc reimbursement of the difference between forecast and real inflation, but insisting that that new wages automatically adjust to the real inflation figure (ANSA 1992b). Entering into tripartite negotiations, though, the CGIL leadership tried to cast fundamental doubts about the credibility of the using the government's forecast rate of inflation as a basis of negotiation: "Forecast by whom? The employers propose a block on any sort of collective bargaining until 1996, with a centralized system referring uniquely to the 'desired' level of inflation, and it is not clear if it is desired by the government or by Confindustria. And without a word on the methods or sanctions that would effectively ensure the attainment of these objectives, without a word on the behavior of the firms" (*Repubblica* 1992). The next day, the CGIL leadership asserted in the *Corriere* that actual inflation in 1992 appeared to be considerably higher than that forecast by the government.

Trentin's protestations notwithstanding, it is already clear that by June 1992 the government's inflation forecast was becoming a prominent point around which negotiations could coalesce. The obviousness of this point as a way to solve the problems of the *scala mobile*, though, only appears in retrospect. In 1990, hardly anyone was talking about the government's inflation forecast in the context of the wage bargaining discussion. The two figures below demonstrate the rise of the government's inflation forecast as a coordinating idea. They document six month intervals from 1989 to the conclusion of the agreement on July 30, 1992 abolishing the *scala mobile*. Figure 1 uses data on articles from *La Repubblica*, while figure 2 uses data on articles from ANSA, the official Italian press agency. Both show the explosive growth of citations to the government's inflation forecast, whether in conjunction with mentions of the CGIL (dotted line) or with the *scala mobile* (dashed line). The solid line on the bottom shows all references to the *scala mobile*.

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<sup>9</sup> Sources used in this search were ANSA (the Italian press agency) and the newspapers *La Repubblica*, *Il Corriere della Sera*, *l'Unità*, *La Stampa*, *Il Manifesto* (the paper closest to the CGIL union leadership) and *Il Sole 24 Ore* (the paper owned by Confindustria). ANSA, *Repubblica*, and *Corriere*, which were easily electronically searchable, were the sources used most heavily to track changes in opinion over time (using standard search terms). I am grateful to Vikram Siddarth for his assistance in this research.

**Figure 1: The Growth of Forecast Inflation References (Repubblica)**

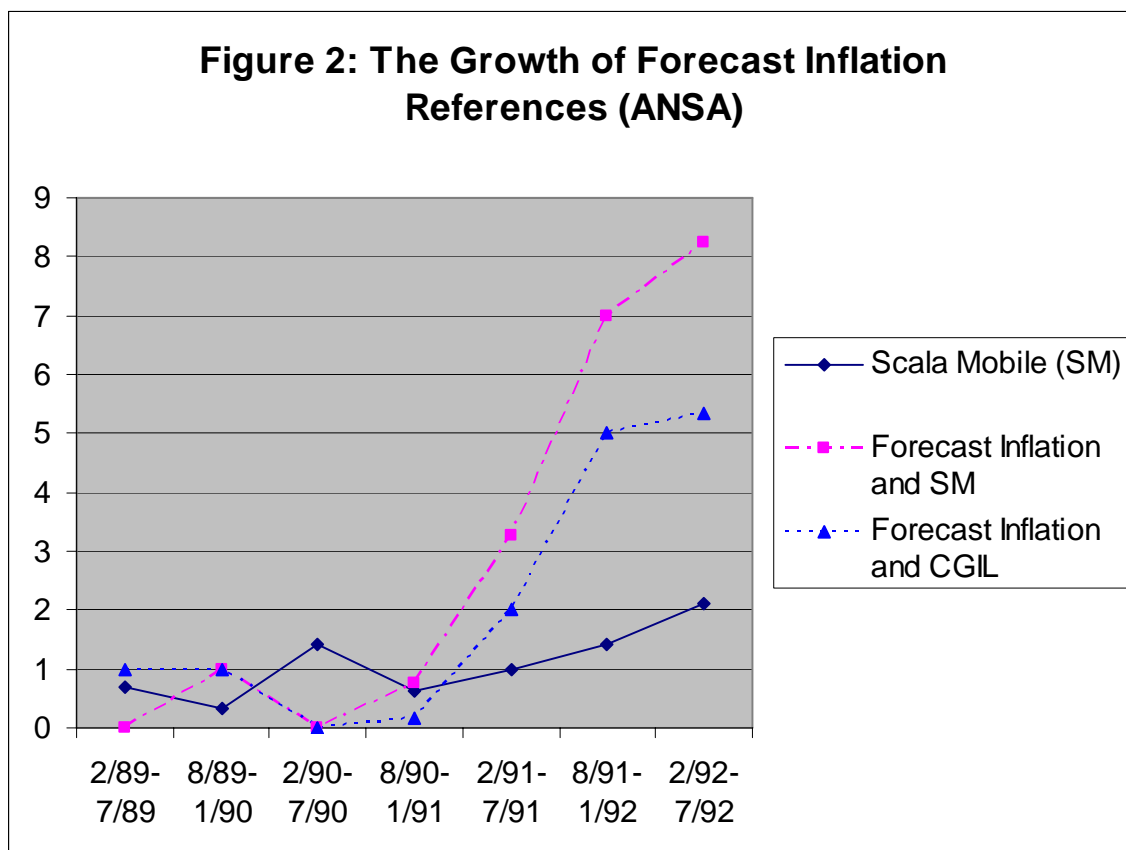


Note: This figure and the one on the following page show six-month periods from the beginning of 1989 to the signing of the agreement in July 1992, that disbanded the *scala mobile*. Italian labor relations tend to have concentrated bursts of negotiation at two times during the year: June and July, and December. The six-month periodization in these two figures therefore groups June and July together.

The figures measure growth in press citations of the following terms: “scala mobile”; “scala mobile” and “inflazione programmata” (forecast inflation); and “CGIL” and “inflazione programmata.” The vertical axis shows the proportion of citations of a search term in the given time period compared with the median number of citations of that search term over the entire time period. In *Repubblica*, 808 articles over this time mentioned at least one of the search terms; in ANSA, 1,638 articles mentioned one of the search terms. The correlation between the frequency of citations in the two independent sources was, respectively, .97, .99, and .85.

Prior to the summer of 1991, the government’s inflation forecast was simply not credible, as suggested by one journalist’s question to Labor Minister Franco Marini in 1991 in an interview about the *scala mobile* debate: “How can one believe that the forecast inflation rates will be respected rigorously, when the government was the first to break through the upper limit when it renewed the last contract with public employees?” (*Repubblica* 1991a). What happened between 1991 and 1992, and what ultimately made the agreement of July 1992 possible, was the emergence of the government’s inflation forecast as a credible indicator for bargaining, shared by Confindustria and the three leading union confederations. Marini—himself a former union leader at the CISL—made the government’s inflation forecast the center of his proposals for institutional reform, although his program was ultimately not successful (*Repubblica* 1991b). In September, 1991, the leader of the CGIL still flatly rejected the inflation forecasts of the government as non-credible (*Repubblica* 1991c). By the end of November 1991, though, the three union leaders held a joint press conference making the “updating” (raising) of the government’s inflation forecast a central plank of their public appeal (ANSA 1991). By this

time, clearly, union leaders were anticipating that this government figure would likely play a central role in whatever institutional solution was adopted; why else would they appeal to raise an inflation forecast in a joint press conference?



The CGIL resisted the emergence of this coordinating idea because forecast inflation often fails to under-predict real inflation; as such, it was a point that employers would be more likely to favor as the starting point for negotiations. Yet by the summer of 1992, the course of discussions between employers and unions had left no real alternative to the government's inflation forecast. If its credibility could be established, then it would be difficult for the CGIL leadership not to sign an agreement. This process played out in a very public way in the Italian press in June and July, and it provides a rare glimpse of a "factually resolvable" argument that was key to a political accord.<sup>10</sup> In the absence of a new wage agreement, 1992 wages had been determined without the *scala mobile*. Thus, if the 1992 wages were to be equal to or higher than forecast inflation—the new coordinating idea for the wage bargainers—this would have provided strong evidence to the claim that sectoral bargaining, without any sort of automatic adjustment, was sufficient to maintain the purchasing power of workers. This was a claim that the president of Confindustria, Luigi Abete, began pursuing publicly in early June: "the gross median salary in the manufacturing sector in 1992 has risen by more than 5 percent without the *scala mobile*. Forecast inflation is 4.5 percent. It is not therefore true

<sup>10</sup> A fact is only a fact if actors jointly agree that it is a point of disagreement subject to empirical resolution and not a point of divergent perceptions.

that the manufacturing worker loses out with respect to forecast inflation if he does not have the *scala mobile*." (*Corriere* 1992a) This factual disagreement became a turning point in the final negotiations, when Abete repeated his claims about the growth of wages without the *scala mobile*, while union leaders argued that they had different figures, saying "it depends how you calculate it. Let's ask for a third body to decide on the figures: the Bank of Italy" (*Corriere* 1992b).

What is crucial here is that unions were unwilling to sign the accord before a technical group (bank economists), accepted by both sides, came up with a diagnosis that was jointly accepted. In their analysis, the bank's economists confirmed Confindustria's claims that gross compensation would exceed the forecast rate of inflation in 1992, even without the *scala mobile* (*Corriere* 1992c). This joint analysis of the problem—and the acceptance of the view that the *scala mobile* was incompatible with stability of the lira in the EMS and its abandonment would not hurt purchasing power significantly—was the turning point of the negotiations and the basis for the prime minister's final proposal (Cipolletta 2002). Prime Minister Amato's draft enshrined the objective of protecting the purchasing power of real salaries in the accord that entombed the *scala mobile*, and it was signed by all parties on July 31 (Mania and Orioli 1993: 166). The clear emergence of the government's inflation estimate as a coordinating idea, followed by the agreement of all parties to submit the technical question to an honest broker, determined the outcome of the negotiations. It became implausible for union leaders to negotiate in good faith to a different outcome.

Clearly, the leadership of the CGIL preferred some sort of coordinated bargaining outcome to no agreement at all (*Unità* 1992). Their potential gain from coordination lay not only in the fear that no agreement would topple the government,<sup>11</sup> but also because union confederations stood to gain by increasing their leverage (over more radical shop-floor competitors) by involvement in a limited number of bargaining arrangements (Perez 2000: 452). Yet, over the course of negotiations with employers, they had proven unable to articulate a credible alternative system of coordination based around a norm of bargaining other than that of forecast inflation. While union leaders clearly were not happy with the accord of 1992, their self-criticisms after the fact are illuminating. The criticism concerned the strategy of general framing of problems, as noted by a member of national directorate of the CGIL several days after the 1992 accord: "A union that falls into a trap should ask itself why we fell in. And the error was not committed in the last three days [before signing] but in the last ten years lost in defending at all costs the *scala mobile* without being capable of proposing alternatives" (*Manifesto* 1992). This observation is acutely accurate. The CGIL leadership failed to generate alternative proposals, and so left space for the experimental role of bargaining based on forecast inflation to become the only credible idea. Unions signed the deal because the process of change had unfolded in a way that made it the only plausible alternative. They had come to agree with employers that their were gains from coordination, but their lateness in coming to

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<sup>11</sup> The nonpartisan government that brokered the accord—often labeled a paragon of state involvement in new "competitive corporatist" pacts (Rhodes 1998)—was indeed deeply involved. But its strength was as an honest broker rather than of coercion, since it was a non-elected technocratic government.

this view prevented them from articulating an alternative norm around which coordinated bargaining could coalesce.

*Employer Preferences and Institutional Change: the 1993 Accord*

The 1992 agreement was by almost any measure a victory for Confindustria, which finally succeeded in burying the *scala mobile*. The agreement shifted the terms of wage bargaining discourse from a norm of automatic adjustment (through the wage escalator) to one of bargaining between employers and unions on the basis of the forecast inflation rate. It thus established the expectations of employers about the framework within which unions would pose their future wage bargaining demands. The 1992 agreement only abolished the old institution; it did not establish new wage bargaining institutions. What remained in the way of shifting to new institutions was the issue of firm-level bargaining. Unions, which had been challenged throughout the 1980s by more radical plant-level union rivals, wanted an agreement that reinforced their plant-level organization while leaving maximal scope for firm-level bargaining as a means to protect the real incomes of workers (Locke and Baccaro 1996). Much of the negative response by union leaders to the 1992 accord that had abolished the *scala mobile* was the one-year freeze on firm-level bargaining that it entailed, and this was a subject of acrimonious negotiations in the fall of 1992 and the spring of 1993.

Employers initially opposed firm-level bargaining for two reasons. First, they viewed a single national (sectoral) agreement as the best way to control labor costs (Perez 2000). Establishing two different levels of negotiation would leave open the possibility that firm-level agreements could undermine the restraint agreed at the national level. Employers refused to budge from their opposition to firm-level bargaining in the 1992 agreement for exactly this reason. Second, small firms were ill-equipped for firm-level bargaining, and they wanted to ensure that any agreement that applied to large firms did not force them into bargaining with unions (and thus spur unionization of their workforces). Any agreement on firm-level bargaining required that organized employers accept the proposition that a contractual role for firm-level bargaining would not undo the cost-containment of national agreements nor impose firm bargaining on small companies.

Yet the 1992 agreement had ratified common expectations among the national unions and employers about the norms of wage-setting. This common expectation created the possibility for a compromise on firm-level bargaining. Confindustria leaders were willing to believe that the major national unions would not use the existence of firm-level bargaining to undermine national agreements, because they had signed the 1992 accord.<sup>12</sup> However, while organized employers had changed their expectations of bargainers from the national union confederations, these expectations did not apply to unaffiliated labor militants. During the 1980s, the national union federations had been challenged at the firm level by independent “grassroots committees” (COBAS) and au-

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<sup>12</sup> In the words of Innocenzo Cipolletta, the director general of Confindustria from 1990, “To have a national level agreement, it was important to unite unions, and to make the negotiated agreement stick to workers across the country” (interview with the author, 18 July 2003).

onomous union groups. These groups were uninvolved in the national agreement and unlikely to have accepted its bargaining rationale. In the 1993 agreement, Confindustria acceded to the establishment of new institutions of workplace representation—the RSU (*Rappresentanze Sindacali Unitarie*)—which unions had demanded. Yet the employers’ confederation insisted that these local bargaining units have strong appointed representation from those unions that had signed the national agreement, thus linking firm-level bargaining to groups that had signaled their agreement with the new pay norm (Locke and Baccaro 1996: 299; Cipolletta 2002).

With this institutional feature, organized employers led by large firms were willing to recognize the official status of two levels of negotiation: national (sectoral) and local.<sup>13</sup> Small firms, though, desperately sought to avoid being forced into firm-level bargaining. The representatives of small firms particularly feared firm-level bargaining both for its ability to generate discord and because they lacked the resources to deal with unions that large firms possessed. This was a difficult problem to resolve through contractual language: employers were willing to accede to some bargaining, but not every employer was to be forced to bargain. The final language of the accord on this issue is ambiguous, specifying that firm-level bargaining would only occur “in the spirit of current bargaining practices, particularly with regard to small firms” (Mania and Orioli 1993: 53). What does “the spirit of current practices” mean, though? The key clarification on this point was made not by the unions, but by Labor Minister Gino Giugni, in a newspaper editorial released the day before the agreement was signed: “Nobody wants to make firm-level bargaining obligatory. Everything must remain as before: [social partners] negotiate where they want to negotiate, where there are the resources and also the know-how for a negotiation.”<sup>14</sup> Note that this was not an undertaking from the unions to the employers, but instead an explicitly interpretative text by a third party laying out a joint understanding of an ambiguous text that all actors recognized as unclear and experimental (*Sole 24 Ore* 1993). Game theorists call such unenforceable language cheap talk. What this amounts to is the Labor Minister’s saying, “we only make this agreement if unions and employers believe that the other believes that existing local negotiating patterns will continue, and firm-level bargaining will be respected in large firms but not forced on small firms.” Each party had conceded something, but the signing only happened when a non-binding newspaper editorial created a shared frame for understanding future joint expectations.

The July 1993 agreement that recast the institutions of Italian wage bargaining was consummated not so much by explicit concessions as by the establishment of shared set of beliefs about how a sometimes vague text would be interpreted. Prior to the agree-

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<sup>13</sup> The local agreements could be either firm- or plant-level (typically in large industrial groups) or territorial (in the building industry or commerce).

<sup>14</sup> Quoted in Mania and Orioli (1993: 33-34). Carlo Callieri, the vice president of Confindustria in charge of union relations at the time of the accord, noted of the newspaper editorial, “The problem of firm-level negotiation in the small companies has always existed, and from the beginning we underlined it forcefully. The unions, if anything, underestimated this, and they were forced at the end to recognize that this was an insurmountable problem; the Labor Minister did well to eliminate any equivocation when he confirmed the optional nature of the second contractual level” (ibid: 149).



ment of 1992, such an outcome would have been inconceivable. Confindustria leaders were only willing to concede firm-level bargaining with national unions because of the recognition of the new pay norms in 1992. Without the agreement on firm-level bargaining, the national unions would never have agreed to the terms of the compromise of 1993. This arrangement would have retained a functionally decentralized system, in which firm level bargains varied widely. As summarized by the director general of Confindustria, the move to coordinated institutions in 1993 was built on a compromise: “the union renounced its claims to the formula of guaranteeing purchasing power, while obtaining the agreement that contract renewals would take into account previous losses of purchasing power; and we accepted the two levels of bargaining, while obtaining many clarifications on their not overlapping” (Cipolletta 2002: 10). Such a trade only became possible when employers believed that unions saw a gain in moving to nationally coordinated institutions.

### **Australia**

The Australian case vividly demonstrates that governments have difficulty legislating a move to a stably coordinated equilibrium without the active cooperation of social partners. The Australian government imposed a centralized wage-setting system in 1983, following a wage explosion under decentralized institutions during the previous two years (Briggs 2000: 7). This extreme centralization, never favored by employers’ associations, quickly gave way to coordinated industry bargaining, in which national agreements were formally supplemented by firm-level agreements based on productivity increases, a formula similar to those adopted in Italy and Ireland (Wooden and Sloan 1998: 176-8). This compromise agreement, reached in 1987, was led by employers and unions in the metal-working sector, and resulted from their “shared commitment to raising the metal industry’s productivity, performance and prospects, and a mutual understanding of the compromises involved for each” (Sheldon and Thornthwaite 1999: 78-9). This understanding unraveled between 1992 and 1993, as the metal-workers’ union rejected the commitment to productivity as the agreed basis of wage bargaining increases (Boland 1993: 8-9). The change by the unions triggered a reconsideration by metal employers of their position on wage bargaining and led them to join other employers in pushing to more decentralized (enterprise-level) bargaining from 1993 onwards. This moment proved to be decisive for future development, as since then “Australian industrial relations have traveled further and further down the path mapped out by ‘free-market deregulationists’” (Briggs 2001: 27). The divergence of the metal-workers and employers was not inevitable, but once it happened it was part of a movement of Australian institutions to firm-level bargaining that became irreversible.

#### *The Cognitive Divergence of Metal Employers and Workers*

As in many advanced industrial countries, the organizations of the metal and engineering sector have played a leading role in industrial relations institutions in Australia. This was particularly true during the late 1980s, when the sectoral employers’ association (MTIA) and union (AMWU) “provided much of the intellectual drive and strategic initiative for reforms” to the industrial relations system, as the system incorporated some elements of firm-level bargaining within a nationally agreed bargaining frame-

work (Sheldon and Thornthwaite 1999: 70).<sup>15</sup> Up until 1993, the MTIA vigorously opposed a move to decentralized bargaining, fearing both inflationary effects and increased industrial unrest at member companies (Boland 1992). The AMWU, faced with high job losses in the sector in the early 1980s, came to an accord with the employers of the MTIA, linking reforms to bargaining and to vocational training in the sector, which both groups perceived as a weakness. “[I]t was the growing perception among unionists and employers of a shared interest in the industry’s future that inspired their collaboration in the quest to improve the industry’s prospects, a collaboration that proved both strong and effective until the early 1990s, when the parties split over the desired shape of enterprise bargaining” (Sheldon and Thornthwaite 1999: 75-6). This divergence over institutional preferences was in no sense inevitable. It resulted from the perception on the part of employers that the AMWU changed its view of the role of productivity in bargaining. Once this change in perception happened, the internal conflict within MTIA on this issue ceased, and it reversed course and advocated firm-level bargaining.

The adoption of centralized bargaining in Australia in 1983 had been led by the newly elected Labor government and the trade union federations, not by employers. Among employer groups, the MTIA was the most favorable to centralized institutions, though it preferred national, sectoral negotiations (as in Italy) to cross-sectoral negotiations (as in Ireland). The MTIA leadership, worried about international competitiveness, increasingly linked its concerns with adding some wage flexibility (at the firm level) to the bargaining system to reforms of the baroque system of workplace training.<sup>16</sup> In this its agenda converged with that of the AMWU, which was increasingly interested in using its industrial relations muscle to influence government economic policies in a range of fields and was willing to commit to national bargaining in order to achieve that objective (Briggs 2002: 24). As part of their drive to improve the policy supports of the metal industry, in 1987 the metal employers and union jointly submitted a reform proposal to the Australian Council for Employment and Training, which led the federal government to introduce a three-year project investigating reforms in the industry (Sheldon and Thornthwaite 1999: 79). This joint effort on the reforms of the training system was certainly part of the reason the MTIA continued to support centralized bargaining, in the belief that centralized bargaining could provide the most transparent links between wage and skill levels. The MTIA’s official publication asserted as late as 1990 that the “[The question of training] transcends the question of what sort of an industrial system Australia should have. Centralized, decentralized, or partly decentralized, none of these

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<sup>15</sup> The AMWU (Amalgamated Metalworkers Union) has gone through a series of mergers with other unions in related industries. It was called the AMWU from 1985-1991, and that name is used to refer to it throughout this paper. After a series of amalgamations and name changes in the early 1990s, the AMWU kept its historic acronym, which now designated Australian Manufacturing Workers Union.

<sup>16</sup> “At the beginning of this period, training and skills formation in the industry consisted of eight autonomous and different state and territory systems; over 36 craft and 300 non-craft skill categories; narrow occupational categories related to technology and product rather than competency; technical rather than generic skills acquisition; and an inability to tailor training programmes to suit the needs of particular firms and sectors” (Sheldon and Thornthwaite 1999: 78-9).

can deliver the high productivity our economy needs if our system of training is stuck in the 1940s and 1950s" (ibid: 80-1).

The position of the MTIA in favor of retaining centralized wage-setting was a product not only of its priority for vocational training reform, but also of the voice of small and medium-sized member companies, which (as in Italy) deeply feared firm-level bargaining. These companies particularly feared wholesale industrial action if bargaining reverted to the firm level, and that they would be least well-placed to negotiate with unions in such conditions (Boland 1993). Large firms, better equipped to deal with direct bargaining with their unions, were more likely to share the message of radical decentralization pushed by the Business Council of Australia (BCA), an employer group whose influence had risen sharply since the mid-1980s (Matthews 1994). The key to holding together the coalition of large and small firms in the MTIA behind coordinated wage bargaining lay ultimately in the ability to deliver wage restraint. As late as 1991, the association publicly argued that centralized negotiation was more productive than decentralized industrial conflict: "the deregulationists are fooling themselves if they believe that you can achieve rapid change by throwing the entire responsibility back to individual enterprises and in the process deliberately provoke a confrontation with the unions" (MTIA 1991, cited in Sheldon and Thornthwaite 1999: 83).

Yet the support of the MTIA depended also, and fundamentally, on the willingness of unions not to push wage drift at the plant level. So long as the AMWU was willing to trade away its firm-level wage bargaining power for influence over policy goals, this was a coalition that could hang together. Starting in 1989, however, wage pressures began to intensify within the skilled workers within the AMWU. As summarized by the national leader of the metal-workers' federation: "What I could see happening for us ... was tradespeople, the metalworkers base membership, breaking with the union ... we had to let steam out of the kettle or else it would have blown up. That's why we moved back to enterprise bargaining" (cited in Briggs 2001: 34). The dynamic of skilled workers pushing against centralized bargaining is familiar from Iversen's work (1996) on Denmark and Sweden. Yet this was no cross-class coalition of employer and unions in the skilled sectors, of the sort observed by Pontusson and Swenson (2000). The organized metal employers were trying to hold the system together, as noted above. The intensification of the wage demands of the AMWU were followed by two successive wage campaigns (1990-91 and 1991-92) in which the union renounced its previous strategy and refused to link its steep wage demands to productivity trade-offs.

The formal breakdown of centralized wage bargaining in Australia took place on the initiative of the trade union federation (ACTU), led by the metal workers, against the wishes of both the MTIA and the Australian Industrial Relations Commission (AIRC), the labor court. Other employer federations had joined the ACTU in lobbying for enterprise bargaining, but in April 1991 the AIRC handed down a binding decision rejecting appeals for firm-bargaining and siding with the MTIA's argument about the dangers of a decentralization-led wage explosion (Briggs 2001: 36). The ACTU rejected the ruling, though; its leader, Bill Kelty, decried the ruling as 'vomit' (Matthews 199x: 159). The ACTU began its own wage campaign based on decentralization, with the support of employer groups that did favor firm-level bargaining. Faced with this rejection by the social

partners, the AIRC was forced to reverse its ruling in October 1991, thus formally moving Australia toward a system of firm-level bargaining.

The change of formal rules through the AIRC ruling divided employers' associations, with the MTIA standing alone in favor of using its own agreement with the metal union as the basis for other agreements, rather than moving to fully decentralized bargaining. According to the head of industrial relations at the MTIA during this time, "In implementing the [AIRC's] enterprise bargaining principle, MTIA took the view that an agreed agenda with the unions at the industry level for enterprise bargaining was more likely to achieve genuine workplace reform *because of union commitment to the agenda* than one where there were no guidelines" (Boland 1992: 14; emphasis added). This industry negotiated framework in the metal sector—sectorally coordinated bargaining by any other name—served as the basis for a majority of the firm-level agreements registered with the industrial relations commission between October 1991 and December 1992. In the first year of formally regulated enterprise bargaining, the MTIA thus successfully used its sectoral agreement to provide a set of parameters for firm-level bargaining, thus limiting the extent to which Australian wage bargaining was in fact decentralized in 1992.

However, the AMWU wage campaigns eroded the prevailing belief among the member firms of the MTIA that wage centralization could continue to provide real wage restraint. Once the MTIA member firms realized that the AMWU no longer shared the common view of reforming the industry that they had shared during the 1980s—based around the notion of improving productivity to be competitive internationally—the attraction of coordinated bargaining institutions faded away as well. The chief negotiator for the MTIA, Roger Boland, summarized the view of his organization in an article published by the Australian Institute of Management in 1993. It is worth quoting from that article at length to view the position of the metal employers:

MTIA saw the industry framework as a transitional mechanism in making the shift to a more deregulated labour market. The framework was designed to maintain stable industrial relations; avoid the prospect of excessive wage outcomes; achieve genuine workplace reform across a broad front—not just an enterprise here and there; and to assist in changing outdated industrial relations values [...]. Accordingly, MTIA was looking for a new industry framework to operate from 1 January 1993 in order to maintain the momentum of workplace change in a stable industrial relations environment [...]. MTIA put to the unions late last year a proposal that the parties should agree to a set of guidelines that would assist and encourage further workplace change [...]. The metal unions rejected MTIA's proposals, insisting that the only basis upon which an industry framework could be agreed was an "economic adjustment" of six percent over the next two years to apply to all employees in the industry. In addition, further wage increases would be payable on the basis of "achieved productivity." [...] Securing economic recovery for Australia and at the same time building higher competitiveness for our industries must be our top priority. Wage outcomes must reinforce this priority, not present more risks. An across the board wage increase which has no

connection with the national imperative of increasing our productivity is simply out of the question. [...]

It is obviously a matter of some regret to MTIA that an agreed industry framework has not been achievable. [...] MTIA would have preferred to continue with a managed approach to workplace change, but there are too many forces operating against us. [...] There is no alternative in Australia but to continue the process of workplace change regardless of the trade unions' unwillingness to cooperate. (Boland 1993: 6-11)

This was the decisive turning point after which the MTIA – the last employer group to oppose broader decentralization of wage bargaining institutions – fell into line with other employers' organizations. Its move was dictated not by a long-standing institutional preference for decentralization, but on a changed view of the beliefs guiding the metal sector unions.<sup>17</sup>

This development was in no sense inevitable. The skilled worker push for catching up on the lost real wages of the late 1980s probably was inevitable. Yet that wage catch-up did not have to take the institutional form it did, of a straightforward endorsement of company-level bargaining. This strategy was indeed at variance with some of the union federation's own declared interests, as Chris Briggs notes (2001: 39): "The early 1990s represent a missed opportunity for the union movement... [A]t a moment when wage-fixing institutions were being restructured, the political influence of the ACTU via the Accord and capacity to organize industrial mobilizations delivered the union movement an opportunity to achieve institutional changes to facilitate adaptation to a more decentralized environment.... Instead, the ACTU chose the 'company-by-company' model rejected by the ACTU 'blueprint' just months earlier." In pursuing such a strategy, the unions not only undermined their direct influence, but changed the perceptions of the employers' organization that had most supported centralized bargaining. Once metal unions were seen by metal employers to have abandoned the notion of productivity-based bargaining, their institutional preferences changed.

## Discussion

What ultimately distinguished metal employers in Australia from their Italian and Irish counterparts was their beliefs about trade union leaders and how they saw the world. In the latter cases, these beliefs changed over time as a result of their ongoing interaction with (and the actions of) trade union leaders. In both Ireland and Italy, employers and unions came to agree on a coordinating idea that could underpin their beliefs in the value of coordination. These ideas were not instrumentally deployed by employers as a means to convince unions to change their minds. In both cases, they emerged out of a process of interaction and joint experience. At a key juncture, these ideas were "ratified" by both sides in what I call common-knowledge events. These events led organized employers, subsequently, to make important changes in their previous position about acceptable institutions of wage bargaining. This change made pos-

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<sup>17</sup> The tone of this document could not be more different from that adopted by Boland eighteen months earlier, when he gave a talk on behalf of the MTIA entitled "The Need to Maintain a Centralised Wage-Fixing System" (Boland 1991).

sible the move to institutionalize coordinated wage bargaining in both countries. As I have argued through counterfactual analysis in this paper, without such a move these countries would not have moved to the forms of coordinated bargaining they eventually adopted and still maintain today.

**Table 1: Employer Preferences, Common Knowledge Events, and Institutional Change**

	<b>Coordinating Idea (potential)</b>	<b>Event</b>	<b>Employer Change</b>	<b>Institutional Change</b>
<b>Ireland</b>	Small, open economy	NESC report Nov. 1986	Accept Centralized Bargaining	October 1987
<b>Italy</b>	Forecast Inflation	Tripartite Pact July 1992	Allow Firm-Level Role in Sectoral Bargaining	July 1993
<b>Australia</b>	Productivity (small, open economy)	None	[MTIA: move to decentralized bargaining]	October 1991 [Jan 1993 – MTIA]

In Australia, where metal employers and unions never did ratify the coordinating idea of improving productivity as a small open economy, metal employers in 1993 moved away from their embrace of coordinated bargaining, never to return. To be sure, there were other forces in Australia – notably some large non-metal firms but also some skilled workers – who pushed aggressively for the move to firm-level bargaining in Australia. As a leading player in the industrial relations arena, however, I have argued that the MTIA was in a position to brake or indeed reverse the move to decentralization, had its leadership shared a common view with the leaders of the metal unions as to the desirability of some form of coordinated wage bargaining. That shared idea was never jointly agreed by metal unions, and in its absence the MTIA leadership joined the leaders of other employer groups in Australia in moving toward decentralization.

During potential moves to more coordinated institutions, competing actors have some idea of what institutional solutions they prefer. The process of negotiating over the nature of shared problems can, however, generate points of agreement that elevate previously unconsidered or discarded institutional solutions to the status of the “obvious” alternative. In the Irish case, for example, Irish employers bargained from a position of great strength, as high unemployment and emigration that had seriously weakened Irish unions during the first half of the 1980s. Yet these strong employers suddenly accepted in 1987 the centralized bargaining institutions that the unions had advocated for more than a year. The employers accepted this change not because they were weak, but because their shared analysis of Ireland as a small open economy led them increasingly to the view that controlling private sector wages meant controlling public sector wages, and that both could ends could best be secured through a centralized negotiating format. They also, and fundamentally, had changed their view of how union leaders would respond to centrally bargained wages. Irish employers, in retrospect, clearly got a good deal from the centralized bargaining arrangements of 1987, and from those that followed (Baccaro and Simoni 2004). This was not at all clear at the time of agreement, though, and publications close to the employers made scathing criticisms of the agreement at the

time (*Business and Finance* 1987b). Organized employers signed the pay deal not because they knew it was a good deal, but because the course of discussions and diagnoses of the problems of the Irish economy had left them with no plausible alternative institutional arrangement.

This paper has focused on changes at the leadership level, which is where agreements in industrial relations are generally struck. The questions of how the views of the leadership are debated and become common knowledge across membership organizations is one that has been examined closely in the case of unions by Baccaro (2002a and b). How such shifts in belief are debated and legitimated in employers' associations is something we know little about (cf. C. Martin 2000 for a study of American employers). Given the centrality of employers to the cases of institutional change studied here, and the general trend in comparative political economy toward closer analytical attention to the interests of employers, this could be a productive frontier for future research.

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