

## **THE NEW STRUCTURE OF LABOR RELATIONS**

### **Tripartism and Decentralization**

Harry C. Katz (Editor); Wonduck Lee (Editor); Joohee Lee (Editor)

Tripartism, the national-level interaction among representatives of labor, management, and government, occurs infrequently in the United States. Based on the U.S. experience, then, such interactions might seem irrelevant to economic performance and policymaking. The essays in this volume reveal the falsity of that assumption. Contributors from eight industrialized countries examine the changing nature of labor-management relations, with a particular focus on the role of tripartism and the decentralization of collective bargaining. The vibrancy of the coordinating mechanisms that help shape employment conditions and labor policy contradicts the traditional belief that an overpowering unilateral decentralizing shift is underway in labor-management interactions. The contributors show that these mechanisms are in fact increasing in the face of intensified pressures, promoting greater flexibility in work organization and working time.

# The New Structure of Labor Relations

Tripartism and Decentralization

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# Introduction

## *The Changing Nature of Labor, Management, and Government Interactions*

Harry C. Katz

Although it is not clear what explains the enormous economic success of the United States in the 1990s, no one would claim that national-level dialogue, partnership, and forums through which representatives of labor, management, and the government discuss economic policies played any role in U.S. success because such activities are infrequent and inconsequential in the United States. Based on U.S. experience, one might go on to conclude that national-level social dialogue and partnership are irrelevant to economic performance and policy-making everywhere. This book shows that this conclusion is wrong.

In Ireland, the Netherlands, Germany, and Italy, national-level social dialogue and partnership and other national-level interactions between representatives of labor, management, and the government, what is referred to as tripartism, have played a positive role addressing critical economic and social problems. This book shows that there is a spectrum of recent experience with tripartism. In some countries, tripartism is insignificant (the United States), it is on the decline (Japan and Australia), and its use expanded in the early and mid-1990s and then appeared to decline (Italy). In a few countries, tripartism is flourishing (Ireland, the Netherlands, and Germany), and in others it has been used sporadically and with limited success (Korea).

This book shows that the topics addressed and the participants included in tripartite arrangements vary between countries. Tripartite activities are

not an invention of the 1990s. In a number of social democratic countries in the 1960s and 1970s, corporatism involving dialogue between representatives of labor, management, and government focused on efforts to control inflation (incomes policy) and often involved political exchanges whereby tax and other government policies were traded for wage (and price) moderation. Yet, while tripartism has some similarities with earlier forms of national-level social dialogue, a number of factors distinguish recent tripartite activities. This book describes how tripartism has come to focus more on working-time flexibility and the promotion of part-time work rather than on inflation. Tripartite dialogue also has expanded beyond traditional corporatist partners to include women's groups, representatives of senior citizens, and other representatives of "civic society."

The nature and role of labor, management, and government interactions are changing in critical ways beyond the replacement of corporatism with more varied forms of tripartite dialogue and policy-making in countries where corporatism flourishes. Chapters in this book, tracing developments in Japan, Korea, Australia, and the United States, find that although tripartism has not been central to economic policy-making in recent years in those countries a variety of other "coordinating" mechanisms provide interactions that help shape employment conditions and labor policy. The fact that there has been so much vibrancy in these coordinating mechanisms goes against the notion, popular in some quarters, that there is an overpowering unilateral decentralizing shift underway in labor-management interactions. These coordinating functions are, in fact, increasing in the face of intensified pressures promoting greater flexibility in work organization and working time.

At the same time, individualization and other, often related forms of decentralization in the structure of labor and management interactions are on the rise nearly everywhere and affect both the processes through which employment conditions are being determined and employment outcomes, including pay, working time, and work organization. So, even within countries, there are complex and somewhat contradictory shifts underway in the structure of labor, management, and government interactions.

### **CONNECTIONS WITH PREVIOUS RESEARCH**

The research outlined in this book has connections to a number of previous research streams in the field of comparative industrial relations and comparative political economy. One link is provided by the question of

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whether countries with particular structures for collective bargaining perform better than other countries. Calmfors and Driffill (1988), who claimed that countries with either highly centralized or highly decentralized collective bargaining structures were more successful in terms of economic performance (low inflation and strong economic growth), investigated the macroeconomic effects of the structure of collective bargaining. Their research triggered much debate. Soskice (1990), for example, criticizes as overly simplistic the ordering of collective bargaining systems used in the Calmfors and Driffill analysis, pointing out that informal forms of coordinated bargaining, such as *Shunto* bargaining in Japan, are often important and are not captured well in the measure of bargaining centralization used by Calmfors and Driffill. I have argued that recognition of the various components of bargaining structure limits the value of categorizing national bargaining systems along a single centralization-decentralization spectrum (Katz 1993).

Soskice (1990) went on to argue that the extent of coordination within corporate-bank relations and other institutional arrangements produces a critical differentiation between “coordinated” and “uncoordinated” market economies. In a related analysis, Traxler (1995a) claims that a distinction between “organized versus disorganized decentralization” is necessary to account for the widespread nature of the pressures for decentralization and better captures the various paths of national development. Sisson and Marginson’s (2002) account of the various forms of bargaining coordination within Europe provides recognition of the increased role that coordinated bargaining plays within and across countries. Other related analyses appear in what has come to be called the “varieties of capitalism” research literature (Hall and Soskice 2001). This literature builds on Soskice’s distinction between coordinated and market economies to examine the depth and implications of the various forms of corporate and industrial relations structure that appear within advanced industrial economies.

This book extends the varieties of capitalism debate by providing in-depth analysis of the changing nature of labor, management, and government interactions in a number of key countries. With a common focus, the chapters that follow examine how the structure of collective bargaining has evolved since the early 1980s. The evidence shows that in all countries there was pressure for decentralization and in nearly all countries in the 1990s there were efforts to create some form of national-level tripartism. Exactly how tripartism connected to the more decentralized bargaining that was simultaneously spreading in those countries is one of the key issues examined in the country chapters.

## THE PLAN OF THE BOOK

This book includes country chapters written by leading researchers about developments in Australia, Germany, Ireland, Italy, Japan, Korea, the Netherlands, and the United States. The country chapters examine the changing nature of labor, management, and government interactions with a special focus on tripartite dialogue and labor policy-related forums. Early drafts of these chapters were presented at a conference cosponsored by the Korean Labor Institute and the ILR School of Cornell University in Ithaca, New York, on October 5 and 6, 2001. The policy and research questions that motivated the conference are highlighted below.

### **The Nature of Tripartite Dialogue and Labor Policy Making**

With the limited success that incomes policies had in restraining inflation in a number of countries in the 1960s and 1970s, one might have expected that tripartism would have lost its appeal. In this light, the negotiation of prominent tripartite accords in the 1990s in Ireland, Italy, and the Netherlands, and the national employment pact in Germany is quite surprising. What are these tripartite accords and pacts about and what has led to their formation? And, how do these recent pacts compare and contrast with earlier forms of corporatism?

On the one hand, it appears that recent tripartite pacts have much in common with the previous corporatist interactions that occurred in incomes policies. Both give central importance to wage moderation, even though the specific pressure for such moderation, the need for monetary discipline in order to conform to European Union and related monetary union pressures, adds a new twist to recent tripartite activities. On the other hand, with an emphasis on workplace and employment flexibility, promotion of participatory processes, and inclusion of social security reforms, recent tripartite pacts seem to be broader in scope as compared to earlier corporatist agreements. But is this breadth in recent tripartite pacts real and, if so, is the breadth really new?

It also is important to examine how the process of tripartism has changed. For example, are new parties representing the interests of civil society and are new modes of interaction between the various involved parties critical to the operation of recent tripartism? And perhaps most importantly, is there evidence that recent tripartism is working, in the sense that it is meeting the parties' or society's objectives? The analyses that follow shed light on these issues and help identify whether there is one best way to structure or operate tripartism.

There was much theorizing in previous research about the factors that

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influenced the success of corporatism, including the degree of encompassing interest representation, union democracy, and social democratic political strength (Schmitter 1981, Regini 1997 and 2000, Streeck 1982, Crouch 1985, Baccaro 2000). Schmitter (1979) argues that mechanisms that shielded union leaders from popular pressures assisted corporatism in the 1970s and 1980s. Baccaro (2002), in contrast, claims that it was the spread of internal democracy in unions that was a key to the success of tripartism in Italy in the 1990s. Was union democracy also central to the success of tripartite activities in other countries in recent years? More generally, one of the most important contributions of this book is analysis of how the preconditions affecting the success of recent national tripartite pacts compare and contrast to those that influenced earlier corporatism.

### The Decentralization Push of the 1980s and 1990s

Previous research shows that in nearly all countries in the 1980s and 1990s, the locus of collective bargaining shifted downward, often from a national or multicompany level to the firm or plant level. This shift included the breakdown of a national confederation-level agreement in Sweden, the erosion of national tribunal pay setting and the spread of enterprise bargaining in Australia, and the decline of multicompany bargaining in the United Kingdom and the United States. In these and other countries pay was increasingly being set, partially if not fully, at the plant or enterprise level. And where multiemployer bargaining persisted, as in Germany and Italy, its influence declined as sectoral or national agreements in those countries increasingly provided only minimum employment terms rather than contractual standards as in the past.

In nearly all countries, as shown by previous research, the intensity of local bargaining, involving local unions, works councils, or work groups increased dramatically in recent years. Much of this bargaining involved qualitative issues concerning work organization and work restructuring. In some cases local bargaining included increased use of contingent pay methods, as pay in one way or another became linked to plant, firm, individual, or some other measure of economic performance. Informal interactions between labor and management took on greater importance as part of work restructuring, which in some cases amounted to "concession bargaining" (i.e., highly pressurized efforts to stave off a plant closing or layoffs). In the process, work rules, working time, and work organization, often under the rubric of a search for greater workplace flexibility, took on greater importance.

The push for the individualization of pay or work practices provided further impetus to the decentralization of collective bargaining. As pay-for-knowledge, skill premiums, bonuses, and gain-sharing systems spread, any higher-level pay agreements increasingly served as frameworklike pay minima.

In the United Kingdom and Australia, the replacement of collective contracts with individual contracts provided an even more extreme form of bargaining structure decentralization. Even more widespread was the decline in union coverage and strength. In nearly all countries, the percent of the work force covered by collective contracts declined and nonunion employment became the ultimate decentralized way to set employment terms.

There were, of course, some exceptions to these trends. For example, with a longstanding tradition of heavy reliance on enterprise-level bargaining in the private sector, Japan experienced less downward movement in the locus of bargaining, at least as suggested by evidence up until the mid-1990s. Evidence of stability in the locus of wage setting in Japan is seen in the lack of an upward trend in inter-enterprise variation in Shunto wage increases as of the mid-1990s (Katz and Darbishire 2000, 232). At the same time, by the mid-1990s, some signs of increased pay variation did appear within Japanese firms through greater use of ability-based pay and variation in annual bonuses (Katz and Darbishire 2000, 236). Yet, previous research has not clarified whether, in the face of pressures resulting from sluggish economic growth from the mid-1990s on, Japan has begun to experience more extreme changes in the structure of labor, management, and government interactions. Japan is just an illustration of the questions that exist concerning the scope, nature, and implications of recent changes in the structure of interactions in other countries.

### **The Interaction between Decentralized Collective Bargaining and Tripartism**

How has decentralized collective bargaining interacted with tripartite activities and what is likely to evolve in the future? By the mid-1990s in Italy, Ireland, Germany, and the Netherlands, the emergence (or in some cases, reemergence) of tripartite agreements led some to claim that the structure of collective bargaining was being recentralized (Baccaro 2000). Yet it is possible that plant and local collective bargaining will continue to spread while national pacts, focusing on wage moderation and workplace flexibility (and other matters), are forged in these countries. Or tripartism might spur various aspects of decentralized collective bargaining

by promoting the development of local labor-management partnerships or through pay or productivity mandates or targets.

Australia provides an interesting case that might shed light on future possibilities in other countries. In Australia, the push for greater enterprise-level bargaining in the 1980s and early 1990s occurred under the rubric of an incomes policy provided through a national union-government agreement, the "accord," which included a number of rounds. To some extent the accord facilitated union acceptance of the simultaneous decentralization underway in the structure of collective bargaining as the Australian labor movement "favored a decentralization of bargaining toward the enterprise level provided this occurred within a strong centralized framework (at national and industry levels)" (Bray 1991). The accord, however, was ended in 1996 by the newly elected conservative government of John Howard. The extent to which the accord provides a precursor or future road map for national tripartite agreements in European countries and elsewhere warrants clarification. More generally, one of the tasks of the research in the country chapters that follow is examination of the interaction between decentralization in the structure of collective bargaining and national-level tripartism.

Another debate that surfaced as collective bargaining decentralization has proceeded concerns the extent to which this shift is transitory. Decentralization is likely to be transitory if it is essentially a mechanism through which employers gain bargaining power advantage. The idea here is that it is the *process* of decentralization that is most important. Employers in this view benefit most from the ability to play plants (and local unions) off against one another, that is, to whipsaw local unions. Yet this might only be a transitory need as, after gaining lower wage outcomes or wider skill differentials through whipsawing, employers then might prefer a return to centralized bargaining because of the advantages it provides (stability, predictability, and economies of scale).

A way to understand the potential temporary advantages to decentralized collective bargaining is to recognize the possibility that employers need decentralized bargaining to gain concessions because central unions are unwilling to grant the concessions employers desire, while local unions are more willing to do so given that they feel more direct pressure from workers threatened by employment losses. The question of whether or not these transitory advantages are critical arises because previous research has not clarified the reasons why employers' favor bargaining decentralization. Examination of recent developments can also clarify whether the structure of collective bargaining truly has been recentralized in recent years and the breadth of any such recentralization.

### Shifts in Bargaining Power

In the 1980s and early 1990s, the impetus for the decentralization of collective bargaining clearly came from management. It was management that was either directly pushing for decentralization in its bargaining and public demands, as in Australia, or indirectly promoting decentralization as the device to provide pay and work rule concessions, as occurred commonly in the United States and even in Germany.

As the labor market improved in the late 1990s, however, in many countries labors' relative bargaining power improved and this shift reduced employers' whipsaw leverage. The United States was an extreme example as the labor market strengthened to the point that a debate ensued regarding the extent and permanence of "hyper-mobility" and the associated possibility that highly skilled labor could "call the shots" in the labor market. The bursting of the dot.com bubble in spring 2000 in the United States and the subsequent economic downturn, however, then markedly altered the state of the labor market. As a result, it is a propitious time to examine the effects that economic conditions exert on bargaining structure. For, if the intensity of the pressure for the decentralization of bargaining structure is found to be linked to the state of the economy, then this would lend credence to the notion that a key determinant of bargaining structure is bargaining power.

Furthermore, if relatively stronger labor movements are unable to reverse bargaining decentralization, this may reflect either a shift in labors' preferences (and if so, it would be interesting to know why labor has come to prefer decentralized bargaining) or the fact that it is total and not relative power that drives bargaining structure. Total power concerns the total profits (i.e., economic rents) that are available for distribution. There is some previous economic research suggesting that centralized collective bargaining spreads when total power is high, as in this circumstance labor and management have reason to join together in centralized forums to divide up the large available economic rents and symmetrically, when economic rents shrink, the parties are pushed to decentralize collective bargaining (Hendricks and Kahn 1982). This can explain why the push for decentralization strengthened in the 1980s and early 1990s in the face of globalization and economic deregulation.

Yet it is not clear whether recognition of the role of total power really helps explain recent events and whether the effects of shifts in the parties' total power can be disentangled from the effects of shifts in relative bargaining power. One of the tasks of comparative research is to make use, as best as possible, of variations in labor and management's power over

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time and across countries to clarify the influence and effects of relative and total power.

Bargaining power is only one among a number of possible causes of shifts in the nature and locus of labor, management, and government interactions. I, and others, claim that work reorganization and corporate or worker interest diversification have been a key pressure for the decentralizations occurring in the structure of collective bargaining and corporations (Katz 1993, Purcell and Ahlstrand 1994). While bargaining power and diversification matter, a strong role also is being played by work reorganization as unions and workers have become "co-managers of the internal labor market" (Streeck 1984). Decentralization has been linked to the elevation in the importance of local bargaining because the process of identifying efficient (or acceptable) team work systems and the successful implementation of new work practices apparently requires the active participation of local actors and local experimentation with new packages of employment practices. Analysis of recent trends thus can help clarify the role played by these and other forces and thereby help identify the causes and consequences of decentralization in the structure of collective bargaining and its extreme variants, individualization and deunionization.

The chapters that follow go a long way in providing answers to the many critical questions identified above. Where currently available evidence remains limited, the chapters at least help clarify the key issues that remain for future research.

# 1 The Irish Experiment in Social Partnership

Paul Teague and James Donaghey

McDonalds, the fast food chain restaurant, has an outlet just off O'Connell Street, the main thoroughfare in Dublin. In 1987, it advertised part-time vacancies and within a day a huge queue had formed composed of different strata of people all sharing the common desire of getting employment. Fast-forward a decade and the scene is radically different. Traffic in Dublin's city center is in gridlock, and the new prosperity of the country can be seen by the huge amount of construction activity and hustle and bustle of people in the streets. Even if we set aside unhelpful metaphors such as the Celtic Tiger, it is difficult not to reach the conclusion that the economic (and social) transformation experienced by the Republic of Ireland in the nineties was nothing less than spectacular.<sup>1</sup> The country has switched from being a basket case to one that enjoys virtual full employment. A national framework for social partnership has been in place during the economic upturn period. It would be excessive to argue that social partnership was the main driver behind the economic revival. A multitude of factors, positively interacting with each other, fueled the high growth rates. At the same time, social partnership has made an important contribution to economic transformation.

This paper assesses the Irish experience of social partnership. We pay particular attention to what type of coordination was promoted by the various national social agreements. A number of overlapping arguments are advanced. One is that social partnership in Ireland is contained within a multidimensional framework, some parts of which echo traditional "corporatist" practices and procedures while others are more innovative in character. We suggest that the social partnership framework is not exactly

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a model of coordinated decentralization and is better described as an open method of labor market coordination. A second argument is that while the Irish experience of social partnership holds important lessons for other countries, claims that it represents a new model of labor market governance should be treated with caution. Irish social partnership is a combination of old and new employment relations practices customized to suit domestic economic and political conditions. Third, whether social partnership has fully secured its declared purpose of promoting a form of economic development that combines competitiveness and fairness remains an open question.

The paper is organized as follows. The first section develops our meaning of coordinated decentralization and situates its relevance to Irish social partnership. Then a number of contextual points are developed to set the scene for our discussion of social partnership. Next the wage bargaining element of Irish social partnership is set out and evaluated. After this assessment, the discussion turns to the theme of enterprise partnership and shows how this concept has grown in importance in recent years. The conclusion brings together the various arguments of the paper and makes some observations about the future of the social partnership framework.

### **COORDINATED DECENTRALIZATION AND THE IRISH EMPLOYMENT RELATIONS SYSTEM**

A popular argument is that national employment relations systems in Europe are gravitating in one way or another toward a coordinated decentralization model of employment relations. Coordinated decentralization is usually interpreted in two different ways in the literature. One fairly narrow perspective is that it involves the "loosening" of centralized or sector-level collective bargaining systems. On this view, tightly integrated extrafirm bargains are no longer sustainable in the face of a variety of economic and social transformations that are encouraging greater economic decentralization. The new competitive environment is no place for tight institutional constraints. Organizations must be permitted to make emergency deviations from established industry or national pay rates. Alternatively the centralized bargaining machinery must only produce framework agreements that set indicative guidelines (as opposed to binding rules) for pay increases and improvements in working conditions (Ferner and Hyman 1998; Traxler 1995a). The second view of coordinated decentralization is more expansive in outlook. It is a story of how the *complementarity* and *fit* between decentralized institutions can

produce highly coordinated labor markets. On this account, coordinated decentralization gives rise to systems of national institutional comparative advantage, leading to high grade, yet distinctive forms, of economic performance (Soskice 1999).

The evolving system of Irish social partnership approximates neither perspective on coordinated decentralization. On the one hand, it amounts to more than defensive adaptations to employment relations institutions to counter the dissolving effects of globalization, technological innovation, and social change. On the other hand, Ireland does not possess tightly integrated, complementary labor market institutions, which have given rise to a specialized institutional pattern of comparative economic advantage. In the Irish context, achieving close institutional fit between different parts of the employment relations system is neither seen as possible nor particularly desirable. Addressing market (and institutional) failures, the main motivation for seeking coordination in the first place, is still considered important, but it is done by what we call the open method of coordination.

The open method of coordination as developed in Ireland has five properties. First, the governance of wage determination remains the core function of the social partnership arrangement. This is the social glue that holds together the entire system. On carrying out this function, Irish social partnership embodies the same tensions and dilemmas associated with more established "corporatist" methods of wage setting. A second and more distinctive attribute of Irish social partnership has been the emphasis placed on producing a *procedural consensus*, as opposed to building complementarities, between employment relations actors to guide the search for solutions to identified problems. Complementarities between labor market institutions smack too much of seeking a "static equilibrium" within a social partnership arrangement, causing them to be too fixed and rigid in what they do. A procedural consensus, on the other hand, assumes a greater capacity on the part of institutions to change over time so that they are more able to keep pace with fast-changing business and labor market conditions.

The third feature of open coordination is that decision-making inside the social partnership framework does not solely involve tough bargaining to reach an accommodation between competing employment relations interests, but also "deliberative" type interactions that rely more on evidence-based and reasonable discussions to advance policy ideas. In old-fashioned employment relations language, social partnership should be as much about integrative bargaining as distributional bargaining (Walton and McKersie 1965). The motive behind this development is to challenge

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