



Organization matters: Trade union behavior during peace and war



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ABSTRACT

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This paper employs a comparative institutional analysis to explain the origins of different trade union organizational structures in Germany and Great Britain as of 1913 and their macroeconomic implications. It shows that complementarities between the structures of employer and union organizations account for these differences. Therefore, I model coordinated industry-wide unions and centralized employer organizations in Germany and fragmented unions and decentralized employer organizations in Britain as two equilibria of a union–employer game. I use World War I as a natural experiment to study the impact of union structure on union strategies and bargaining outcomes during the war in a union–government game and discuss long-run ramifications of the bargaining outcomes. *Journal of Comparative Economics* **43** (4) (2015) 919–937. Mailstop 145, 20th and C Streets NW, Washington, DC 20551, USA.

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We were the worst organised nation in this world for this war . . . It is a war of munitions. We are fighting against the best organised community in the world, the best organised either for war or peace . . .

- David Lloyd George, Minister of Munitions, to trade unionists in Manchester, March 6, 1915

In reality, the problem in our country is not that we have too powerful unions, but that they are too fragmented and too small.

- Nicolas Sarkozy, *The Economist*, April 27, 2006, p. 26.

German and British employer organizations and unions developed differently after 1890. German employers and workers organized in industrywide unions with a centralized superstructure, whereas British employers and unions remained fragmented, with little coordination at the top. These sharp differences and their implications for industrial relations in both countries have been the subject of extensive research. The emergence of these different structures is less well understood. I argue that complementarities between institutions explain this bifurcation and deepen the understanding of institutional change. Analysis of the resulting multiple equilibria has to take these complementarities into account. I also argue that analyzing the effect of the structure of a single institution is not possible because of complementarities. For this reason, I exploit World War I as an exogenous shock that temporarily breaks the ties between complementary institutions. The wartime behavior of trade unions

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casts new light on Mancur Olson's well-known argument that large centralized unions tend to internalize the effects they have on the overall economy and are therefore more prudent in their demands.¹

The underlying definition in the analysis is that institutions are complementary if changing only one of the complementary institutions results in an inferior outcome. In other words, the joint existence of institutions is seen as one of multiple equilibrium outcomes of a coordination game. In such an environment, institutional change cannot be understood by studying a single institution in isolation. Examining the joint evolution of complementary institutions is crucial to fully comprehending both institutional change and the persistence of institutions.

Employing a comparative institutional analysis, I contrast the centralized trade unions that emerged in Germany with the fragmented unions that emerged in Great Britain. Conventional explanations for these differences in trade union structure often ignore the structure of the main complementary institution: the unions' bargaining partner.² I show that the structure of employer organizations plays a crucial role in the choice of union structure, leading to multiple equilibrium institutional structures. Further, I argue that, in addition to external pressure, as in Swenson (2002), expectations about the future structure of a complementary institution can serve as an equilibrium selection device. Such expectations then become self-fulfilling. In particular, I show that the expectations of German employers about the future structure of German trade unions after the expiration of a trade union ban triggered an "arms race" in which both sides centralized their respective organizations. Constant pressure by the German government on employers solidified the centralization of employers and therefore also of unions. In the British case, I argue that unions and employers were unable to centralize their organizations because the costs of unilateral centralization were perceived as too high. On the unions' side, a strong central governing body would have reduced craft unions' ability to protect the jobs of their members. On the employers' side, regional and sectoral cleavages together with inter-firm rivalries forestalled a permanent delegation of power to a centralized employer organization (Zeitlin, 1991).

When strong complementarities are present, one can observe and compare only specific pairs of complementary institutional structures, as in, for example, Hall and Soskice (2001). Yet many scholars, including Mancur Olson, have put forth hypotheses about the impact of structure of one institution only. Testing these hypotheses requires isolating the effect of the structure of a single institution. However, in an environment with complementary institutions, outcomes are the result of a set of institutions. Only an exogenous, transitory shock that temporarily breaks the ties between complementary institutions but leaves the structure of the institution of interest unchanged allows one to assess the impact of the structure of a single, now isolated institution. World War I provides a natural experiment for testing these hypotheses for two reasons. First, trade union structure did not change in response to the outbreak of the war. Second, centralized governments replaced employers as the trade unions' bargaining partner for the duration of the war. Therefore, I analyze trade unions' bargaining with centralized governments in Germany and Great Britain to identify the impact of trade union structure and to assess Olson's claim that large centralized unions internalize their impact on the economy in their demands. While centralized German unions were able to support the war economy, fragmented British unions continued to strike for wage increases and to safeguard the jobs of their skilled members against dilution. The timing of centralization in Germany, 20 years before the outbreak of World War I, was crucial for the ability of the German union leaders to support the war economy. That support earned the German unions a reputation as moderates and acceptance by employers as bargaining partners. The first outcome of this new partnership, the Stinnes-Legien Agreement, has shaped industrial relations in Germany until the present day.

This study of trade unions' organization in Germany and Great Britain complements the study of Swedish and U.S. industrial relations by Swenson (2002). In both case studies, external pressure played a significant role. Yet relationships developed differently. While Swenson (2002) and Iversen and Soskice (2010) argue that it was in Swedish export-oriented employers' interest to pressure unions to centralize, German employers were initially staunchly opposed to unions, which were seen as revolutionary. German unions centralized to fend off the challenge centralized employers posed. Consequently, German unions and employers had a mostly hostile relationship before World War I. But this relationship changed after the unions had proven themselves as moderates and the interests of employers and unions became more aligned towards the end of World War I. The study presented here provides additional insights into the co-evolution of institutions and thereby adds to the foundation of the literature on comparative political economy of the welfare state (for a survey, see Mares, 2009) and to the more recent extensions of the analysis of complementary institutions to electoral systems (Cusack et al., 2007; 2010; Iversen and Soskice, 2010; Martin and Swank, 2008).

The paper proceeds as follows. The first section briefly summarizes the development of German and British unions up to World War I. The following section motivates the multiple equilibria of the union–employer coordination game by discussing union–employer bargaining. I introduce wartime bargaining between unions and governments in the third section. Fourth, I present evidence for the testable implications of the peacetime bargaining model. The fifth section analyzes the trade unions' responses to the outbreak of the war. The outcome of wartime bargaining and its long-run impact are described in the sixth section. The last section summarizes the paper's main findings.

¹ Olson (1982).

² A notable exception is the analysis of Swedish unions in Swenson (2002).

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