

MIT OpenCourseWare
<http://ocw.mit.edu>

15.676 Work, Employment, and Industrial Relations Theory
Spring 2008

For information about citing these materials or our Terms of Use, visit: <http://ocw.mit.edu/terms>.

3/8/08

To: IWER/IR Theory Class

More on the role and study of Institutions

One of the interesting questions that came up in several of our classes (including Friday's with Paul), is how we know when existing institutions in employment relations are changing or breaking down, and then how we know or how to best study whether new institutions are emerging. This set of questions is especially important today, given that some of us have argued (1) 1980s was a period of "fundamental" change/transformation in IR institutions, (2) we are in a period when new institutional forms that better fit today's environment and employment relationships might be potentially emerging out of "experiments" or "innovations" occurring in small scale settings, and (3) another window of opportunity for "institutionalizing" needed changes might emerge after the presidential election (depending on the outcome and maybe on the state of the economy). Here are some random musings and a suggested mental exercise. I invite your thoughts/comments.

First, let's review how we define "institutions"

In Friday's discussion, the concept of "patterns of behavior" evolved as one definition, indicating that institutions can take the form of organizations (e.g., unions, temporary help organizations), structures (e.g., formal or informal bargaining structures), laws (e.g., New Deal labor policies) processes, (e.g., collective bargaining) or norms (e.g., seniority should be privileged in making employment decisions). This (not surprising since Paul was our discussion leader) is similar to the definition we gave to institutions in Osterman, et al (2001) where we referred to institutions as the full range of laws, structures, organizations, and norms that shape employment relations.

Note this institutional view is consistent with the argument that all economic activity is embedded in an institutional framework. This assumption is shared with the emerging sub-field of economic sociology—economic activity is embedded in a social or institutional structure. And it can be traced back to the early work of institutional labor economists (Ely, Commons, Veblen, etc.), the post war institutional economists (Kerr, Dunlop, Lester, Reynolds, Myers, Shultz...), and theorists such as Karl Polanyi.

It further argues, different than the neo-classical economics view of institutions, that while institutions might promote efficiency and can serve other worthwhile goals (i.e., can be functional in the Parsonian sense) (like promoting equity and/or voice), they do not arise out of some invisible hand just because they are efficient. Nor does the institutional perspective in our field accept isomorphism (mimicking early adopters) as an adequate explanation for how institutions spread. Ours (or at least my) view is that institutions emerge out of needs, interests, power, and sometimes ideas and whether or not they spread or are sustained are driven by these same factors. Once in place, they change slowly (imprinting reasons, costs of adjustment, power and interest in defending

them even when they no longer may be serving their initial goals). Thus, it often takes big changes in the environment and significant organizational changes and shifts in power and sometimes considerable conflict among parties of different interests to achieve a fundamental change in institutions.

Likewise, new institutions in our field tend to emerge in periods of fundamental disruption and/or crisis such as the Great Depression & WWII. But they don't just emerge out of nowhere. The New Deal labor policies grew largely out of experiments at the state level (unemployment compensation, minimum wage, etc.) or select organizational-private sector practices (collective bargaining in coal, apparel, and other industries). It took a dramatic shift in the economy, political power, and the presence in positions of decision making power individuals (students of Commons, Sidney Hillman, etc.) who brought forward the policy ideas from research and experience with the prior "experiments."

So, given this analytical perspective, have we seen evidence of breakdowns in longstanding institutional patterns in our field? Our basic argument that the "social contract" broke down in the 1980s is essentially a hypothesis that the institutions governing employment practices have broken down or changed in fundamental ways. That was the argument advanced in our 1986 *Transformation* book. But I don't think we ever laid out clearly what would constitute evidence of a "fundamental change." Erickson and Kuruvilla noted this in their 1998 ILRR paper.

I'd like to make this more concrete. Here's a mental exercise for you to consider.

A recent paper by our MIT colleagues Frank Levy and Peter Temin argues that a change in institutions is the underlying cause of the gap between wages and productivity that has emerged and persisted since the late 1970s. This is an important paper because if their argument is right, then closing the productivity-wage gap will require significant institutional (policy??) change in the labor market, i.e., market forces should not be expected to close the gap on their own. But Levy and Temin remain a little puzzled (as we all are) about just what happened circa late 1970s early 1980s to cause the changes in wage outcomes they observe.

I think we have an explanation embedded in our *Transformation* book but one that we have not to date specified in a tight manner. So my suggested mental exercise would involve the following steps:

1. Read the Levy & Temin paper to see the trends they identify.
2. Read Chapter 5 of our *Transformation* book on the "Process and Outcomes of Negotiations."
3. Read an (don't laugh at the type or the vintage of the manuscript) unpublished draft paper of mine from 1988 on determinants of wages under collective bargaining from the 1950s to 1984 that presents the quantitative results referred to in the *Transformation* chapter. (also don't ask why I never finished or published the paper—maybe I'll tell that story another day).

Based on this, see if you think we provide an “institutional” explanation of what changed in the 1980s, whether these changes represent a “fundamental” change in industrial relations institutions, and whether or not we provide a compelling explanation of why the wage-productivity relationship emerged around that time and has endured since then. Outline what you see as our basic argument, indicate the extent to which you think we have supported it and where it is either misguided or not clearly supported by the quantitative and qualitative evidence presented.

I doubt you will be satisfied that we have provided a sufficiently compelling explanation that the book can be closed on this question. In fact, I’d be disappointed in you if you do! So the last part of the mental exercise is to help Frank and Peter take their current work to the next step:

What hypotheses do you derive for the explanation of the emergence/persistence of the wage-productivity gap?

How would you propose to test these hypotheses?

And, if you want to be adventuresome and put on your “ideas for some future policy maker” hat, as Lenin said: “What is to be done?”

We will put the Levy and Temin paper and my unpublished draft on the course website. You can find chapter 5 in our book.

I look forward to seeing what anyone thinks who is interested in these issues enough to entertain this exercise.