

# Decentralised Bargaining in Denmark and Australia: Voluntarism versus Legal Regulation

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## Abstract:

This paper compares the decentralisation of Danish and Australian systems of industrial relations in recent decades. Despite significant differences in historical starting points and trajectories, that reflect different political economies, both Denmark and Australia have made the transition from a largely centralised to a more decentralised system. However, there are important differences in the means by which these developments occurred and the extent to which the basic character of industrial relations has changed in each country. The Australian system has placed greater emphasis than the Danish on a legalistic approach to labour market regulation and the enforceability of employment contracts. The Danish system has retained much of its voluntaristic social partnership approach, subject to a complicated interplay between collective agreements and legislation as well as EU regulations. The paper examines the degree to which the changes in each country are examples of 'path dependency', in so far as they are the products of historical legacies. It also examines disruptions which have occurred in each system which may explain the different trajectories of decentralised bargaining in Denmark and Australia.

## 1. Introduction

Both Denmark and Australia have made a transition from a largely centralised system of industrial relations to a more decentralised one in recent decades. However, there are important differences in means by which these developments occurred and the extent to which the basic character of industrial relations has changed in each country. Furthermore, the nature of the earlier centralised industrial relations systems in Denmark and Australia were configured differently and there remain strong influences from the past on recent developments.

It should be noted that Denmark and Australia are not isolated examples of decentralisation among advanced market economies. Trends towards more decentralised forms of industrial relations has occurred among a number of countries, which were formerly more centralised, have been evident for some time. During the early 1990s, Katz (1993) reported a shift towards decentralised bargaining in six countries which he argued was initiated mainly by employers against the opposition of central union organisations. Katz and Darbishire (2000) later noted that there was increasing convergence *across* countries while at the same time there was increasing diversity *within* countries, which they described as 'converging divergences'. They also commented that, despite evidence of divergence, 'the persistence of sizable country differences in the relative mix of employment patterns, and the role that

national level institutions play in shaping that mix, suggests a continuing influential role for national employment-related institutions' (Katz and Darbishire 2000:281)

European systems of industrial relations have tried a variety of different approaches to decentralisation of collective bargaining in recent decades. Since the global recession in the late 2000s, the European Union has advocated the decentralisation of bargaining over wage setting and working conditions on the premise that greater workplace flexibility will promote job creation (Keune, 2015). In some countries which have been experiencing economic hardship, such as Greece and Spain, governments have intervened to exercise greater controls over both the process and outcomes of wage determination (Eurofound, 2015). By contrast, the Nordic countries have maintained a more voluntaristic, agreement based approach to collective bargaining, although they have also introduced more company level bargaining within a centralised framework (Campos Lima and Jorgensen, 2016). Traxler (1995) highlighted the variety of forms which decentralised bargaining can take by distinguishing between 'organised' and 'disorganised' decentralisation. Organised decentralisation refers to the close engagement of unions in sector-level framework agreements. Disorganised decentralisation involves single employer bargaining in which unions are less influential due to their declining density. However, Traxler (1995) also noted that company level bargaining can take place within the context of a broader industry or national framework – as in the case of Denmark which has a well established voluntary social partnership between unions and employers.

The Danish 'negotiated economy' model, with its limited industrial relations legislation, emphasised social dialogue and coordination between employers and unions, supported by the state, in order to reform the collective bargaining framework (Due et al. 1994, Madsen et al. 2016). By contrast, the approach to industrial relations in Australia has been based on a legal system that structures the relationships between the parties and frames the level, extent and outcomes of their interactions according to well-defined legislative boundaries. The 'centralised' systems in each country gave way to divergent 'decentralised' systems that, while both promoting greater flexibility, did so in different ways.

In Denmark, the path to decentralisation was through continuing negotiated outcomes between the employers' associations and trade unions. In keeping with the history of state intervention in Australia, decentralisation was pursued not via 'deregulation', as in many other liberal market economies, but through 'reregulation', which involved the reconfiguration of the legal framework to emphasise individual rather than collective employment rights. This reflects what Howell and Kolins Givan (2011:232) identified as 'a process of deep-seated and wide-ranging institutional change [that is] underway in the political economies of advanced capitalism'. However, as they acknowledged with regard to the British, French and Swedish comparisons, while decentralisation represented a convergent outcome, 'institutional convergence' did not necessarily follow. Indeed the

‘different starting points and inherited institutional sets have meant that each country [has] moved along somewhat different patterns...’ (Howell and Kolins Givan 2011:250).

## **2. Path dependency and the various forms of institutional change**

The aim of the paper is to analyse and discuss why Australia and Denmark have followed quite different pathways in introducing decentralised collective bargaining. The puzzle here being that at a first glance we see a parallel move towards decentralized bargaining. However, scrutinizing the change in the two bargaining systems reveals significant differences in the way this decentralization has been implemented, indicating that existing institutional structures matters. Encouraged by Teague (2009) we take up the concept of path dependency in order to compare the development of decentralized bargaining in Australia and Denmark.

Paul Teague argues that we find both a strong and a milder version of path dependency. The strong one seeing institutions as deeply embedded with inbuilt self-reinforcing mechanisms and accordingly difficult to change. Potential impetus to change will typically be exogenous. In the milder version the importance of the past is emphasized, however, it allows for recalibration meaning first and foremost that the role of agency, the various actors, is highlighted (Crouch and Farrall 2004). Via *mindful action* the actors can pave the way for a new path thereby emphasizing that change can be endogenous. Thus stressing that there is a room for policy choice, where actors can shape and reshape the institutional landscape, still, new or re-formulated paths tend to build upon features of the old path. Teague concludes that the milder or softer version of path dependency is the more satisfactory framework to assess industrial relations activity over time. The strong version simply becomes too rigid (Teague 2009).

Teague points to different trends in the literature illustrating this softer form of path dependency. A few should be mentioned here: *Hybridization* where institutions are reformed to perform different tasks or to carry out particular tasks in different ways while the overall characteristics of the institutions remain intact (Boyer et al. 1998). However, step-by-step changes might also lead to *fragmentation* meaning that established institutional arrangements either loose functionality or become disorganized meaning that basic elements of the institution wither away. This suggest that even though gradual changes seem to evolve within existing characteristics of the institution, it might lead to a *tipping point* setting of a transformation of the institution (Gladwell 2002). The robustness of a given institution can be analyzed with regard to the strength of various forms of institutional lock-ins. First, *the functional lock-in* referring to the effectiveness of institutions in carrying out tasks they were put in place to do. Second, *the cognitive lock-in* which cover rules, conventions and norms embodying actions of individuals, and thereby expressing what is acceptable versus unacceptable actions. Third, *the political lock-in* telling how committed the state or other social forces are to preserve traditional institutional structures (Grabher 1993).

In collaboration with different colleagues, Kathleen Thelen has emphasized the need to study incremental institutional changes, arguing that even minor changes over time might eventually lead to transformative change. Key-concepts developed regarding incremental change are *displacement*, *layering*, *drift*, *conversion* and *exhaustion* (Streeck and Thelen 2004, Thelen 2009, Mahoney and Thelen 2010). These concepts are only rarely linked to path dependency, however, they are focused on institutional change as a subtle and not straight forward or rational process. Hereby emphasizing that existing institutional paths influence and matters in processes of change, or conversely; in social science we only rarely see a radical break away from the existing pathway.

Based on these analytical inputs we seek to explain the divergent trajectories of decentralisation in Denmark and Australia. The paper begins by comparing some key characteristics of industrial relations in Denmark and Australia and how these have changed during the recent decades. The origins of the industrial relations systems in both countries are described and the divergent pathways which each has taken towards reform since the 1980s. The next section contrasts the voluntarist approach to reform taken by Denmark with the greater reliance on legal regulation in Australia. This is followed by two sections about decentralized bargaining in the two countries; first focussing on the introduction of decentralized bargaining in the 1990s, second exploring examples of decentralized bargaining in manufacturing. Recent challenges to decentralized bargaining are analysed in the subsequent two sections. The paper concludes by comparing theoretical insights on decentralization of bargaining in the two countries and with observations about the degree to which the characteristics of industrial relations in each country reflect their historical origins and can be regarded as examples of path dependency, albeit with disruptions emerging from institutional evolution.

### **3. Points of contrast: political economy and industrial relations in Denmark and Australia**

While Denmark and Australia have both experienced a transition from largely centralized to a more decentralized systems of industrial relations in recent decades, there are differences in their respective political economies which have influenced the manner in which these changes have been introduced and their subsequent impact. Australia's dependence on agriculture and mining means that it is more exposed to the volatility of resource markets and currency fluctuations. Denmark is integrated with the European Union and subject to EU regulations, which have implications for collective agreements and labour law. Denmark's social security system is more extensive than Australia's and is based on higher levels of taxation with greater levels of income equality. However, based on the so-called 'flexicurity' policies Danish employers have rather far reaching discretion over their ability to dismiss employees while also having greater obligation to provide retraining for displaced employees.

Some of the key characteristics of industrial relations in Denmark and Australia, and how these have changed in recent decades, are shown in Table 1. Based on data gathered by Visser (in Thelen, 2014: 34-35) union density in Australia in 1970 is shown as being relatively high, with 44 per cent of the workforce being members of unions, compared with 60 per cent in Denmark. By 2010, union density had – via an all-time peak in the mid 1990s – risen to 68 per cent in Denmark compared with a dramatic decline in Australia to 18 per cent. Collective bargaining coverage also increased during this period in Denmark from 60 to 80 per cent, compared with a decline in Australia from a very high level of 90 per cent in 1970 to only 45 per cent in 2010. According to Visser, the trend towards decentralization of bargaining during this period was greater in Australia, where it shifted from being predominantly at the national level to that of the local or company level, while in Denmark it moved from the national to the sectoral or industry level. Finally, the degree of wage coordination in Denmark changed from economy-wide bargaining to a mixture of industry and economy wide bargaining with pattern setting. In Australia, wage coordination became more fragmented as company level bargaining became dominant replacing negotiations that previously had been located more at the industry level. Hence, while industrial relations in both countries became more decentralized between 1970 and 2010, the changes were more extreme in the case of Australia compared with Denmark.

(insert Table 1 here)

The classification of bargaining levels by Visser is somewhat oversimplified and underplays the ebb and flow between centralized and decentralized bargaining in Australia over many decades. While the enterprise bargaining principle was adopted by the parties in 1991, after an historic decision by the federal industrial relations tribunal, there were periods during the previous decades when some unions and employers broke away from the centralized system. This was particularly the case in the manufacturing industry, led by militant metal workers union, as well as in the airline industry, when the airline pilots opted for collective bargaining outside the centralized system. However, the parties later returned to the centralized system when economic and political circumstances changed. The 1980s was also a period when the system oscillated between centralized and decentralized bargaining. Both the two-tier wage system (1987-88) and award restructuring (1988-90) allowed enterprise bargaining to yield pace-setters, but the award system enabled wage gains to be spread to areas of the economy in which the bargaining power of unions was weak. During the past decade, however, as the system has become more decentralized, bargaining has been focused more at the enterprise or company level and the ability of the national trade union confederation to coordinate wage bargaining across industries has declined. Nevertheless the national industrial relations tribunal still plays an important role albeit less than previously.

#### **4. The Danish and Australian systems of industrial relations: 1890s to the 1980s**

In order to establish whether there has been a degree of path dependency evident in recent industrial relations developments in Australia and Denmark, it is necessary to examine the origins and developments of each system, albeit briefly. The Danish and Australian systems of industrial relations both trace their origins to significant industrial disputes in the late nineteenth century. However, each country pursued different strategies to resolving industrial conflict and creating institutions to regulate relationships between employers and unions. The roles of the state and governments in industrial relations also differed markedly. In Denmark, there is a tradition of voluntarism with government leaving the unions and employers to bargain with little interference by the state. In Australia, by contrast, the government and state institutions have been deeply involved in regulating the relationship between employers and unions. The way in which the industrial relations systems have subsequently developed in each country provides evidence of the way in which their historical legacy persists through time.

In Denmark, the institution of collective bargaining began with the 'September compromise' between the employers and trade unions in 1899 when employers and unions sought to resolve industrial conflict directly, without the involvement of the state or government. The first national agreement between the unions and employers at this time followed the resolution of a major lockout of workers by employers (Due et al., 1994). A 'de facto' centralisation began when legal reforms required the parties to submit conciliation proposals to the Official Conciliator's office and to conduct a ballot of parties involved in a dispute. The high point of centralisation occurred from the 1950s to late 1970s when the renewal of collective agreements was negotiated by the central organisations of unions and employers, the LO and the DA, conjunction with the State Conciliation Board on Labour Disputes.

Due and Madsen (2008) have described Danish industrial relations as 'a collective bargaining system characterised by voluntarism, in which the opposing parties themselves determine pay and working conditions. Further, the system is characterised by close interaction between the social partners and the political system, not only in terms of labour market policy, but also more broadly in the development of the 'welfare society'. (Due and Madsen, 2008). Various commentators have argued that the Danish model is a hybrid between a 'corporatist' and a 'pluralist/liberal' industrial relations regime (see Campbell and Pedersen 2007). The regulation of pay and working conditions through collective agreements is broadly in line with 'liberal market' principles while the link to the political system has a more corporatist character.

The Australian system of industrial relations emerged when former colonial governments agreed to establish the Commonwealth of Australia in 1901, but the new constitution gave the federal government limited jurisdiction over the resolution of conflict between unions and employers, empowering them to make industrial laws only with respect to 'conciliation and arbitration for the prevention and settlement of disputes extending beyond the limits of

any one State' (section 51, paragraph 35). Accordingly, The *Conciliation and Arbitration Act 1904 (Cth)* placed unions, as well as collective employer representatives alongside the state in the early regulatory architecture of industrial relations in Australia. For much of their post-federation history, unions enjoyed a privileged position as the establishment of the arbitration system explicitly sought to 'facilitate and encourage the organization of representative bodies of employers and of employees and the submission of industrial disputes to the Court by [such] organizations' (*Conciliation and Arbitration Act 1904 (Cth)*, Part 2.iv). The scope of federal powers over industrial relations and other matters gradually expanded, particularly after the Second World War. The strong emphasis on legalism and government intervention in industrial relations remained during the ensuing century, although many aspects of how regulation of relations between employers, employees and unions changed over time.

Both the Danish and the Australian systems of industrial relations came under pressure in the 1980s. Enhanced international competition due to the opening of markets was a common challenge for both national systems. During the 1970s, the Danish economy was impacted by the oil crisis and severe economic imbalances, including high inflation and public debt. In this environment, employers and trade unions failed to reach agreement during several bargaining rounds. Consequently, the state intervened in the bargaining process. This created pressure on employers and trade unions to reform the bargaining system, in order to demonstrate that the industrial relation system, based on self-regulation, was able to adapt and create solutions. At the same time, the dominant employers in manufacturing wanted to eliminate bargaining at the confederation level which, in their view, simply added to their costs. Instead, the employers wanted a clear-cut focus on sectoral and workplace level negotiations (Due et al. 1994).

During the late 1980s and early 90s, both the unions and employers in Denmark reaffirmed their support for the collective bargaining system. In 1987, a joint declaration was made by the union and employer confederations, in concert with the centre-right government, whereby the trade unions agreed to wage restraint in order to safeguard jobs and improve the competitiveness of Danish industry. For their part, the government agreed to support the introduction of an occupational pension scheme. This created the opportunity to 're-start' the collective bargaining system. The main driver behind this development was the merger of various employers' associations within manufacturing, leading to the formation of the Confederation of Danish Industries (DI) in 1992. DI is often referred to as the most powerful lobbying organization in Denmark. But DI became the key player on the employers' side in collective bargaining and chose to maintain and reform the multi-employer bargaining system, despite the desire by some significant employers to implement a more radical decentralization. Danish trade unions continued to play a major role in the economy organising a clear majority of the workforce. Dismantling the national bargaining system would be no easy task. Hence, there continued to be strong support by both the Danish

employers' associations and trade unions in retaining but reforming the system of multi-employer bargaining (Madsen et al. 2016).

The Australian industrial relations system came under pressure to reform during the 1980s when the economy became subject to greater external competition as tariff protection was reduced. The period of Labor government (1983-1996) marked both a high point of union influence over policy as well as a decline in union density. Although the government forged an 'Accord' with the unions on wages and prices, in order to deal with inflationary pressures, it also presided over a gradual decentralisation of the industrial relations system. In the late 1980s, enterprise level bargaining was introduced as the key instrument for regulating wages and conditions, with awards acting as safety net for those workers not covered by enterprise agreements (Wright & Lansbury, 2014).

A different pattern of employer consolidation emerged in Australia, although somewhat earlier than in Denmark. In 1983, the influential Business Council of Australia (BCA) was formed with foundation membership of the CEOs from the largest 100 Australian businesses (Gailey 2008). Since then, both the BCA and the Australian Mining and Minerals Association (AMMA), have played a pivotal role not only directly lobbying for legislative changes but also in shaping the political agenda for regulatory change (Ellem 2015). During the 1980s and early 90s, the BCA successfully prosecuted the case for a dramatic move away from the centralised arbitration system towards enterprise level bargaining (Wright and Lansbury 2014). The enterprise bargaining system, which was enacted and entrenched through legislation in subsequent years, did not seek to create a multi-level bargaining system. Rather, it limited collective bargaining activity to the workplace level. The capacity of unions to coordinate across an industry or sector was further constrained by laws limiting pattern bargaining (Thorntwaite and Sheldon 2012).

The support from business and employer groups for enterprise bargaining is illustrative of a broader pattern in the evolution of Australian industrial relations in recent decades, namely the successful advocacy of reforms that enhanced managerial prerogative. The leadership of the Australian Council of Trade Unions (ACTU) continued to promote enterprise bargaining, despite disaffection by some unions with the low growth in real wages delivered by the centralised system and the restrictions of the Accord (Wright and Lansbury 2014). This created a political environment in which the BCA and other employer associations gained confidence to set the agenda for industrial relations reform (Thorntwaite and Sheldon 2012).

However, one example of unions taking the initiative on reform, was the campaign for the expansion of the superannuation system in Australia, which is the labour market pension scheme. The union movement actively drove this development against the vigorous opposition of employers. In 1992, through the Accord with the Labor government, Australian workers became entitled to employer-funded superannuation, guaranteed through federal legislation (Neilson 2010). However, subsequent conservative coalition



governments have opposed expansion of compulsory employer contributions to superannuation.

By contrast with the legislated approach taken in Australia, Danish occupational pension funds were established through collective bargaining. Under the 1987 declaration, the government agreed to support these schemes and, if necessary, pass legislation to bring them into being. However, as the DI changed its policy approach and embraced the idea of including the pension schemes in the collective agreements, these schemes remain based solely on collective agreements. As these developments happened during the early 1990s, they can be seen as part of the employers' acceptance of the multi-employer bargaining system. These events also confirmed the ability and willingness of both unions and employers to develop the system of self-regulation, thereby also protecting the bargaining system against political intervention (Madsen et al. 2016).

### **5. Decentralised bargaining in Denmark and Australia since the 1990s**

The amalgamation of manufacturing employers in Danish Industries (DI) marked a shift in the centre of gravity in collective bargaining from the national to sector level. The second part of the reform was to delegate bargaining rights to the parties at the enterprise level. However, national officers of both the unions and employer bodies forged general framework agreements within which sector and enterprise level negotiations occurred, thereby preserving overall coordination by the national unions and employer associations. This process of decentralisation has been described by Due and Madsen as 'centralised decentralisation' meaning that interest representation was centralised, such as manufacturing employers in DI, while bargaining competencies were decentralised although in a coordinated way (Due et al. 1994). Further, Due and Madsen have argued that the coordinated or controlled delegation of bargaining rights from sector level to enterprise level can be regarded as a system where the norms and values of the central system are retained through the decentralization process. Other observers called this form of decentralised bargaining 'organised decentralisation' (Traxler, 1995; Schulten, 2016).

It is important to note that this process was not driven by legislation. It was all based on agreements between employers' associations and the unions. The DI was the main driver of change. However, private sector trade unions in the LO revitalised an existing umbrella body, the Central Organisation of Industrial Employees in Denmark (CO-industri) in order to match the centralisation of employers' interests within DI.

The Danish system of centralised decentralisation can be illustrated with reference to negotiations on pay and the organisation of working hours. Collective bargaining over pay changed from being standardised agreements, with wages centrally determined, to various kinds of flexible pay systems negotiated at the enterprise level, as well as more individual pay negotiations. Since the mid 1990s, approximately 80 per cent of collective agreements include flexible pay systems (DA, 2014:192). Similarly, the organisation of working time may

be negotiated between management and shop stewards, thereby giving enterprises enhanced opportunities to introduce flexible working hours. To a large degree, this new flexibility was based on trade-offs in sector agreements, enabling trade unions to gain increased contributions for pensions, funding for further education and training, wage supplements during sickness and maternal/parental leave. Hence, 'welfare issues' increasingly have become part of the collective agreements (Madsen et al. 2016).

The employers' motivation for entering into these agreements was at least two-fold. First, it was the price they needed to pay in order to decentralise negotiations on pay and working time. Second, the Danish welfare state was evolving and the employers knew that one way or the other they would be involved in financing the further development of the welfare state. They preferred to do this via the bargaining process where they could exercise a direct influence on the scope and costs of new rights and benefits. It should be noted that employers in Denmark are not obliged to pay social contributions of the individual employment relationship. This contrasts with Germany and Sweden where employers are charged a social contribution per employee. This reflects the principle of self-regulation in the Danish system and the limited degree of state intervention.

In Australia, the deregulation agenda of the Hawke-Keating Labor governments followed by the election in 1996 of the staunchly neoliberal conservative coalition government, saw the 'managed decentralism' of the early 1980s give way to a more fragmented and decentralised system. The Workplace Relations Act 1996 marked a seismic shift in the regulation of industrial relations. For the first time since the nation's federation, individual employment contracts were enshrined through a statutory instrument: Australian Workplace Agreements (AWAs).

A key feature of this period of conservative government was the active role of the state and the legislative intervention to make the bargaining system and the labour market more flexible. Employers had lobbied hard for greater managerial control during the preceding decade of Labor government and supported the Coalition government's aim to eliminate perceived monopoly control of collective bargaining by unions. However, it was neo-liberal ideology that drove the government towards 're-regulation' in order to reorient the bargaining system away from its centralised, collectivised foundations (Cooper and Ellem 2008).

The radical set of changes introduced by the conservative coalition government, from the late 1990s to the mid 2000s, included a change in the constitutional foundation of federal industrial relations legislation by bringing it under the corporations power of the Constitution. This allowed the federal government to directly set minimum terms and conditions of employment and reduced the role of the federal industrial relations tribunal. The government's legislative reforms created a single national system of labour market regulation, introduced individual employment contracts, known as Australian Workplace Agreements (AWAs), which could replace collective agreements. The government also

increased restrictions on union activities. However, reducing the protection from unfair dismissal of workers in businesses with fewer than 100 employees proved to be very unpopular and contributed to the ultimate defeat of the Coalition government in 2007.

The incoming Labor government introduced industrial relations reforms. However, these did not represent a return to a centralised system, but simply curbed the more radical aspects of the changes imposed by the previous conservative coalition government. Specifically, the Labor government reinforced the authority of the federal industrial relations tribunal with regard to access for unfairly dismissed workers and collective bargaining was emphasised in the objects of the new *Fair Work Act 2009*. However, the 'good faith bargaining provisions' that were instituted, did not include any sanctions or compulsory arbitration triggers when bargaining between the parties reach an impasse. Active state involvement, through the federal workplace tribunal the Fair Work Commission (FWC) in workplace disputes is only available with the consent of both parties. Despite the *Fair Work Act 2009* abolishing individual contracts, the *Act* conforms to the trend of favouring 'individual employment rights and rule making processes' over 'collective rights and processes. Indeed, paradoxically, the *Fair Work Act's* emphasis on collective agreement-making seems to support the individualisation of rule-making' (Bray and Stewart 2013:41) as it grants individuals the right to appoint 'bargaining agents' during the collective bargaining process. Arguably, even under the Labor government, the decentralisation trend persisted as union density continued to fall.

In 2013, a conservative Liberal National Party coalition government was elected promising 'minimal changes' to industrial relations legislation but established a number of inquiries aimed at further reducing union influence. Without a resurgence of union membership, it is unlikely that collective bargaining will expand and the trend towards greater individualisation of the employment relationship is likely to continue, regardless of which major political party is in government.

## **6. Decentralised Bargaining in Manufacturing: Examples from Denmark and Australia**

A comparison of the shift towards decentralised bargaining in manufacturing provides a useful illustration of how the voluntaristic framework in Denmark involved a different set of processes and outcomes from the more legalistic model approach in Australia. As noted previously, the trend towards greater decentralisation of collective bargaining occurred in both countries during the latter part of the 1980s but proceeded in different ways. While manufacturing currently plays a much greater role in Denmark than Australia, the sector has provided a traditional benchmark for wage setting with active bargaining by unions and employers in both countries.

In Denmark, manufacturing accounts for 16 per cent of GDP and employs about 16 per cent of the workforce, the majority of whom are highly unionised. The two central employer and

union bodies, Danish Industries and CO-industry respectively, negotiate a national industrial agreement which sets minimum wages for the manufacturing sector. However, there has been a long tradition of local wage bargaining at the company-level which occurs on an annual basis and comprises about half of the actual wages received by workers. Yet, in recent decades, the scope of company-level bargaining has expanded to a broader agenda, including working hours. More than 80 per cent of manufacturing companies covered by the industry-wide agreement also negotiate company-level agreements on both wages and working hours (Ilsoe, 2012). Negotiations of collective agreements at the company-level are usually led by local shop stewards but the workers have a de-facto right of veto over anything in the agreement which they do not accept. There is no provision for legal industrial action during company-level bargaining and while wild cat strikes can occur, they nevertheless have decreased during the past two decades (Ilsoe, 2012).

In Australia, the contribution of manufacturing to GDP has declined over the past 25 years from 14 per cent to around 6 per cent. Its share of employment is now only about 7 per cent and the proportion of unionised workers across the whole economy has fallen to less than 15 per cent. Nevertheless, historically, the Metal Industry Award set the benchmark for wages and conditions across the economy. The Australian Manufacturers Workers Union (AMWU), negotiated this award with the manufacturing employers association (now the Australian Industry Group), and this was one of the most important industrial relations agreements affecting the national economy. There also existed 'over award' agreements, negotiated at the company level, with larger and more profitable companies paying more than the smaller and less profitable ones. However, with the introduction of enterprise bargaining from the early 1990s, as well as the decline in the manufacturing industry, the Metal Industry Award declined in significance. An important difference from Denmark was that changes in the Australian system towards more decentralised bargaining were incorporated in new industrial relations laws rather than voluntarily agreed between the unions and employers.

The automotive manufacturing industry provides a useful example of the rather complex manner in which decentralised bargaining system was introduced in Australia with a high degree of involvement by government using the legal system. The industry played a major role in the Australian economy until recently when the last three major vehicle assemblers (GM Holden, Ford and Toyota) decided to close their manufacturing operations. The workforce employed by the auto manufacturers were highly unionised and there was an industry wide approach to negotiating wages and conditions. More than a decade after the introduction of an enterprise-based bargaining approach in the early 1990s, there were minimal differences between the enterprise agreements of each of the major companies and the unions (Lansbury et.al. 2006). However, the Liberal National Coalition government threatened to end various forms of economic support to the industry unless the employers and unions adopted a more differentiated approach to their enterprise agreements. The government also made it illegal for the parties to engage in 'pattern bargaining' with the

unions. Ultimately all of the major vehicle manufacturers closed their operations in Australia for a range of economic and market related reasons, including the ending of tariff protection by the federal government and the complexities of the industrial relations system (Wright and Lansbury, 2016).

Case studies undertaken of decentralised bargaining in two similar manufacturing companies in Denmark and Australia by Ilsoe et.al. (2017) revealed different outcomes based on the negotiation process adopted by management and the unions. In the Danish case, the voluntaristic, agreement-based approach resulted in a stronger collaborative partnership between management and their employees than the more regulated, legalistic process used in the Australian case. The authors of the study emphasized the importance of Danish social partners having greater autonomy over the bargaining process and its outcomes compared with the Australian case where a third party (the industrial relations tribunal) determined not only the process of negotiations but also whether the outcomes meet legislated requirements. Visser (2016) has described the Danish approach as an example of “articulated decentralisation” in which bargaining occurs at both industry and local level with controlled flexibility between these two levels. The more legislatively-bound Australian system requires the parties to ensure that both the process and outcomes of their enterprise based bargaining adhere to external formal requirements. The outcomes of the Danish approach appeared to produce a stable bargaining relationship while the Australian approach resulted in a more fragile bargaining outcome with a weaker relationship between management and their workforce.

## **7. Challenges to further decentralisation of the Danish industrial relations system**

The Danish tradition of negotiated change coupled with the strong position of multi-employer collective bargaining has conflicted with legislation of the European Union in different ways. First, since the European social dialogue gained traction during the 1990s, and led to a range of directives on working time, atypical work, information and consultation, etc. there has been a basic mismatch between the traditional Danish system of labour market regulation by collective agreements and EU labour law based on directives. Lengthy discussions between the European Commission and Danish authorities resulted in the establishment of a tripartite implementation committee. A two phase model was developed by the committee. It was agreed that the EU Directives would be implemented via collective agreements and then supplementary legislation would be introduced to ensure that wage earners not covered by collective agreements would be embraced by the requirements of the Directives. While developments in recent years have shown that the EU Directives did not undermine the Danish collective bargaining system, only a few new EU Directives have been adopted since the early 2000s (Madsen et.al. 2016).

Further, the enlargement of the EU between 2004 and 2007 to include new states from Central and Eastern Europe, led Danish companies, especially in construction, to hire foreign subcontractors with lower labour costs who compete against Danish workers. Cases brought

before the European Court of Justice once again revealed the tensions between the Nordic bargaining systems and the EU legislation. The Laval case in Sweden eventually restricted trade union action against foreign companies and highlighted these tensions (Dølvik and Visser, 2009). The court ruled that the Latvian building company did not have to pay local level supplementary wages despite this being stipulated in collective agreements. Neither Denmark nor Sweden have a statutory system of minimum wages or legislation rendering collective agreements generally applicable. Therefore, it is left up to the trade unions to enforce rules and regulation of the collective agreements. This led to some discussion whether Denmark should introduce legislation which would ensure that collective agreements can be made generally applicable to foreign companies. Some elements within the trade union movement expressed support for such an initiative, as did some smaller employers' associations in construction and road transport. These employers experienced what they considered as unfair competition from abroad, and argued for the need to break away from the tradition of negotiation and introduce legislation. However, the dominant trade unions and employers' association maintained their support for continuation of the existing system of voluntary regulation.

A different form of pressure on bargaining autonomy originated from the negotiated and coordinated decentralisation of the bargaining system itself. The transfer of bargaining competences on key-issues, such as pay and the organisation of working time, to the company level, paved the way for welfare issues to be placed on the national sectoral bargaining agenda. There were at least two reasons for this. First, as mentioned earlier, the price the employers had to pay in order to gain this new flexibility involved, to a large degree, the inclusion of these welfare issues on the bargaining agenda. Furthermore, the outcomes of the national bargaining rounds have to be approved by trade union members in a general ballot. This means that if pay increases are not part of these negotiations, welfare issues tended to be included in order to ensure the support of union members to the agreements. However, as soon as pension, further education and training and parental leave, became part of the bargaining agenda, this also became part of the political debate.

Second politicians in Denmark felt impelled to influence the bargaining agenda as such issues are of general interest. However, social partner representatives argued that the bargaining autonomy was being questioned. Moreover, it has often been argued that access to such benefits and schemes should be a general right for all, not exclusively to those who are covered by a collective agreement. Eventually this led to the emergence of a kind of dual-regulation system where collective agreements are complemented by legislation, making sure that all employees are covered by the regulation (Due & Madsen 2008). To some degree, this system mirrors the implementation of EU Directives. More importantly, this development underlined the necessity of a well-functioning interplay between collective agreements and legislation or between the social partners and the government in office. In 2012 an ambitious attempt at tripartite negotiations failed completely. Yet, in early 2016, the Conservative government invited the social partners to negotiate about initiatives

that could improve the integration of refugees into the labour market. This led to a successful agreement in the spring of 2016. Further tripartite negotiations are scheduled indicating that we might see recurring tripartite talks and negotiations in the years to come, potentially also handling tensions between the political system and the bargaining parties.

All in all, despite these challenges, the continuing preference for voluntarism by the main actors in the Danish system provides a stark contrast to the legalism apparent in the Australian case and is suggestive of the path dependency operating in both industrial relations systems. As previously noted, industrial relations in Australia historically have been circumscribed by the peculiarities of the federal constitution, the resultant arbitration system and tribunals around which it centred. The *Conciliation and Arbitration Act 1904 (Cth)* placed unions, as well as collective employer representatives alongside the state in the early regulatory architecture of industrial relations in Australia. Some have argued that the arbitration system itself shaped and to some extent, limited the capacity of unions to represent their members (Howard 1977).

#### **8. Challenges to further decentralisation of the Australia industrial relations system**

The changes initiated by the Liberal National Party coalition government between 1996 and 2005, and embodied in the Workplace Relations Act 1996 (WRA) and subsequent amendments, were the focus of a concerted political campaign by the union movement which has been credited with influencing the election of the Rudd Labor government in 2007 (Ellem 2013). Although Labor's Fair Work Act 2009 (FW Act) abolished AWAs, it did not re-establish the authority of a federal arbitral tribunal. While one of the objectives of the FW Act was 'achieving productivity and fairness through an emphasis on enterprise-level collective bargaining' (Division 2, Section 3), other aspects of the legislation retained aspects of the WRA.

Nevertheless, the Fair Work Act introduced a number of important changes, including:

- an increased role for the federal government regulating employment conditions in the private sector
- establishment of a statutory safety net of conditions
- enabled the federal tribunal to focus on individual rather than collective issues, including unfair termination and grievances (Stewart 2009).

These characteristics, common to the WRA and the FW Act, reflect what Bray and Macneil (2011) identify as a trend in the legal regulation of employment, namely the embodiment of individual employment rights in statute in place of collective rights conferred on representative organisations. The granting of legal rights to individuals necessarily requires that they undertake legal action to enforce those rights. Hence, while it could be argued that the emphasis on the legal regulation of employment in Australia has been maintained, there have also been important changes in the nature of that legalism.

The shift to a more decentralized employment relations system in Australia has implications for collective representatives that were an integral part of the previous system. Employer associations have moved away from industrial advocacy to fee for service arrangements and, in some cases, towards a greater engagement with broader political and economic issues (Wright and Lansbury, 2016). During the 2007 election, in which the regulation of industrial relations was a key issue, two large employer bodies, the Australian Chamber of Commerce and Industry (ACCI) and the BCA contributed funds to an advertising campaign against Labor and its industrial relations policy (Wright and Lansbury, 2016).

Unions also have been forced to change. They no longer have a guaranteed role in negotiating the terms and conditions of employment and have had to reconsider their regulatory and political roles (Kaine and Brigden 2015). Despite their contribution to the 2007 electoral success of the Labor party, the result did not herald a return to the type of relationship between union and the labor government that was seen during the Accord years, but rather a relationship marked by 'influence not partnership' (Wright and Lansbury 2014). The nature of this relationship was evident in the form of the FW Act. While unions were successful in gaining the abolition of individual contracts there were other aspects of the Act that constrained their activities, including penalties for illegal industrial action and limits on the scope and content of enterprise bargaining (Wright and Lansbury 2014).

As in Denmark, there are differences between Australian unions and the positions they adopt on various legislative and policy changes. Some unions have successfully lobbied for the protection of their members outside of the FW Act and also largely outside of the ACTU. For example, the Vehicle division of the Australian Manufacturing Workers Union (AMWU) proactively pursued government intervention in the failing Australian automotive industry and engaged with concession bargaining with automotive employers during the fallout of the global financial crisis to limit job losses (Wright and Lansbury 2014). The Australian Services Union successfully prosecuted an equal remuneration case in the social and community services sector and a decade long campaign by the Transport Workers Union resulted in the *Road Safety Remuneration Act 2012*. The last of these was particularly significant, albeit short-lived, as it marked one of the few union successes in legally regulating all participants in a supply chain not just the direct employers (Rawling and Kaine 2012). This is reflective of various attempts by unions to grapple with the proliferation of non-standard employment relationships in Australia. What is also illustrated by these examples is the legacy of statist tradition of Australian industrial relations. Specifically, in attempting to represent and improve conditions for those workers who are not captured by traditional labour law, unions have still looked to the state to intervene. Unions have sought to leverage the economic and regulatory power of the state, and not simply amend labour laws (Kaine and Wright 2013, Ravenswood and Kaine 2015).

However, the extent to which the industrial relations system in Australia has become deregulated, with a diminished role for collective representation, should not be



exaggerated. Almost three quarters of the workforce in Australia have their wages and conditions set by collective enterprise agreements or awards. The Fair Work Commission remains an important labour market institution with considerable powers and authority over the labour market. Collective enterprise agreements and awards still cover the majority of the workforce and collective regulation remains a significant influence on the Australian economy. There is strong public support for the role played by the Fair Work Commission in setting a national minimum wage. The Productivity Commission's Report on the industrial relations system endorsed the importance of the Fair Work Commission in regulating the labour market and proposed no fundamental changes to the current system. The recent decision by the Fair Work Commission on changes to penalty rates demonstrated its continuing role in wage setting at the national level.

### **9. The differing pathways to decentralisation: Australia and Denmark compared**

As shown the Danish industrial relations system is, to a large degree, based on self-regulation by the social partners. Accordingly, the decentralisation of collective bargaining was implemented via dialogue and negotiations between employers and unions, even though it should be emphasised that the employers campaigned for this development. It can be argued that the Danish bargaining system was taken through a process of *conversion* as the system was redirected towards new functions and purposes, i.e. increased room for company level bargaining while also providing coordination between local and national level bargaining. Still importantly, the main characteristics of the bargaining system, including the wider industrial relations system, remained intact. Like in Denmark, the Australian employers initially were the main protagonists for the decentralisation of bargaining and the industrial relation system in general. However, the changes were implemented via legislative initiatives. Hence, while Denmark followed a negotiated approach between employers and unions, Australia adopted a more legalistic approach to changes. Further, the process of institutional change appears as quite different from what happened in Denmark.

Company level bargaining was introduced from the early 1990s in a rather complex manner and with a high degree of involvement by government. A relatively large number of legislative initiatives have since then in various ways set the framework for collective bargaining, often deepening the process of decentralization, however, this has not happened in a unambiguously way. All in all this suggests a process of *layering* as new legislation opened possibilities for new forms of bargaining while existing structures still were in place although gradually becoming still more insignificant. On the other hand it is evident that some of the legislative initiatives were different. As emphasized above The Workplace Relations Act 1996 marked a seismic shift in the regulation of industrial relations as for the first time since the nation's federation, individual employment contracts were enshrined through a statutory instrument: the Australian Workplace Agreements (AWAs). Later on the Liberal National Coalition government made it illegal to engage in 'pattern bargaining' with the unions in order to force employers and unions to adopt a more

differentiated approach to their enterprise agreements (Wright and Lansbury, 2016). These legal measures rather illustrate a process of *displacement* meaning a more abrupt break away from existing organizational forms and practices while new ones are introduced. Taken together these varying forms of change point to a *fragmentation* indicating that existing institutional arrangements had become disorganized and tended to wither away, while new and more diverse bargaining structures gradually were established.

Furthermore, the Australian trajectory reveals the relative weakness of the different institutional lock-ins. Clearly, especially the *political lock-in*, meaning the willingness of the state – the governments in office – and other social forces to preserve existing institutional structures were fragile or even withering away. Rather liberal government were determined to break up the traditional bargaining system while the labor governments refrained from re-instating multi-employer bargaining. Contrary in the Danish case the *political lock-in* appears as robust as both center-left and center-right government over the years accepted the autonomy of bargaining system. An important precondition has been the ability of the bargaining parties to develop and reform the system ensuring a high level of coverage of the collective agreements. This emphasizes that the probably most important institutional lock-in has been the *functional lock-in* in the sense that the employers' belief in the efficiency of a reformed bargaining system were maintained over the years. From the employers' point of view efficiency in this context first and foremost is about increasing productivity and competitiveness. At the same time, the strength of Danish trade unions has to be taken into consideration. The high rate of unionization, close to 70 per cent, tells that it would be difficult, if not impossible, for the employers to aim for a dismantling of the multi-employer bargaining system. Consequently, the employers' chose via *mind full actions* to negotiate a reformed multi-employer bargaining system making the strategic choice to aim for a partnership with the dominant unions in manufacturing. Further, this confirmed their preferred strategy of maintaining the autonomous bargaining system vis-à-vis the political system. Thus, the employers intended to avoid political intervention in the regulation of wages and conditions.

Decline of unionization – going down to around 15 per cent of the workforce (ABS 2017) – is probably a key-explanation for the quite different Australian trajectory. With the federal arbitral tribunal (variously named throughout the last century) having been responsible for settling industrial disputes, determining levels of wages in each industry and for different classes of work, particularly through periodic national wage cases, some Australian unions were ill-prepared for enterprise bargaining when it was first introduced in 1991 (Peetz 2012). How much this contributed to the rapid decline in union membership witnessed in the 1990s is a point of contention, but the continued change in the legal framework away from its centralist foundations has continued to pose a challenge for a union movement including the low level of union density.

## **Conclusions**

This paper has examined the transition from centralised to a more decentralised bargaining in Denmark and Australia over recent decades. It has observed that while there are some similarities in the factors which caused these changes, there are important differences in the means by which decentralised bargaining was introduced with consequences for the industrial relations system in each country. The Danish system has retained much of its voluntaristic social partnership approach while the Australian system has tended to rely on a more legalistic approach to labour market regulation.

The experience of each country reveals a degree of 'path dependency' insofar as the means by which the changes were introduced reflect the influence of historical legacies (see Teague, 2009). The Australian system of industrial relations has always been strongly rooted in a legalistic approach. This dates back to the establishment of the federal arbitration tribunal in 1904 to settle industrial disputes and make awards to regulate wages and conditions of workers. Although the powers of the tribunal have diminished, recent reforms have introduced new laws to regulate wages and conditions, even though the focus is more on individual rather than collective regulation. Furthermore, while the bargaining level has shifted from the national or sectoral level to the enterprise level, in keeping with a more decentralised system, the federal tribunal still plays an important role in setting minimum wages and awards. There has also been an ebb and flow between centralised and decentralised approaches to wage bargaining in Australia and this is likely to continue.

The introduction of a more decentralised bargaining approach in Denmark has also reflected traditional voluntaristic approach whereby the social partners seek to retain their independence from government interference. The Danish unions and employers have moved from a centralised approach to bargaining to a mixture of industry and company level bargaining. The social partners have also retained a relatively high degree of wage coordination. However, the autonomy of the Danish social partners in relation to bargaining has been challenged by EU regulation (including directive and rulings by the European Court of Justice).

Hence, while the recent developments in Denmark and Australia reveal the strong influence of the past, there is no evidence of historical determinism. In both countries, there is complex interaction between factors which foster a more decentralised approach to bargaining and remnants of the former centralised system which emphasize the role of the federal arbitral tribunal, in the case of Australia, and the influence of the relatively strong employer associations and trade unions, in the case of Denmark. There is also greater divergence between each country in terms of the way in which decentralised bargaining occurs. The examples drawn from the manufacturing industries in Denmark and Australia demonstrate how the voluntaristic, agreement based approach in Denmark produced a stronger collaborative partnership between management and their employees than the more regulated.

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**Table 1. Key Indicators of Stability and Change in Industrial Relations: Australia and**

		Years		Differences
		1970	2010	1970-2010
<b>Union Density<sup>1</sup></b>	<i>Australia</i>	44.2	18.0	-59%
	<i>Denmark</i>	60.3	68.5	+14%
<b>Collective Bargaining Coverage<sup>2</sup></b>	<i>Australia</i>	90	45	-50%
	<i>Denmark</i>	80	85	+6%
<b>Bargaining Level<sup>3</sup></b>	<i>Australia</i>	4	1	-2
	<i>Denmark</i>	5	3	-2
<b>Degree of Wage Coordination<sup>4</sup></b>	<i>Australia</i>	3	2	-1
	<i>Denmark</i>	5	4	-1

Denmark Compared

**Source:** Jelle Visser (<http://www.uva-aias.net/208>). Quoted in: Thelen, K. (2014) *Varieties of Liberalization and the New Politics of Social Solidarity*, Cambridge University Press, p.34-35.

**Notes:**

1. *Union Density is the net union membership as a proportion of wage and salary earners in employment.*
2. *Bargaining (or union) coverage measures the proportion of employees covered by wage bargaining agreements as a proportion of all wage and salary earners with the right to bargain.*
3. *Bargaining levels are summarised as follows:*
  - *5 = national or central level*
  - *4 = national or central level, with additional sectoral/local or company level*
  - *3 = sectoral or company level*
  - *2 = sectoral or industry level, with additional local or company level*
  - *1 = local or company level*
4. *Degree of wage coordination is defined as follows:*
  - *5 = economy-wide bargaining*
  - *4 = mixed industry and economy-wide bargaining with pattern setting*



- *3 = industry bargaining with no pattern of irregular pattern setting*
- *2 = mixed industry and firm-level bargaining with weak enforceability of industry agreements*
- *1 = none of the above, fragmented, mostly company level bargaining*