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WHY A BALANCE IS BEST: THE PLURALIST INDUSTRIAL RELATIONS PARADIGM OF BALANCING COMPETING INTERESTS

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The pluralist industrial relations paradigm analyzes work and the employment relationship from a theoretical perspective rooted in an inherent conflict of interest between employers and employees interacting in imperfect labor markets. The employment relationship is viewed as a bargaining problem between stakeholders with competing interests; employment outcomes depend on the varied elements of the environment that determine each stakeholder's bargaining power.[1] Modeling the employment relationship as a bargaining problem raises central questions about the distribution of resources and the rules governing interactions between employers and employees. As a result, corporations, labor unions, public policies, and dispute resolution procedures are important institutions (broadly-defined) and research subjects in pluralist industrial relations. Moreover, individual employees, managers, owners, and union leaders are viewed as human agents rather than purely economic, rational agents. Behavioral elements of individual decision-making are therefore important—cognitive limitations, emotions, social or cultural norms and values, habits, intrinsic as well as extrinsic motivators, and concern for others, fairness, and justice.

The pluralist industrial relations school of thought traces back to Sidney and Beatrice Webb in England, John R. Commons (the father of U.S. industrial relations), and members of the Wisconsin school of institutional labor economists in the early twentieth century. Its views were enshrined in the New Deal U.S. labor policies of the 1930s Great Depression era and cemented in practice by a generation of postwar scholar-arbitrators. This school of thought continues today as the mainstream industrial relations paradigm in North America.[2] With the postwar rise to dominance of the neoclassical paradigm in economics, however, industrial relations has been frequently criticized for allegedly being limited to atheoretical fact-gathering, and therefore not a legitimate academic paradigm. Coase (1984, 230) attacked the early institutional economics of Commons and others by claiming that "Without a theory they had nothing to pass on except a mass of descriptive material waiting for a theory, or a fire." Traditional industrial relations has also frequently been criticized for emphasizing facts over theory (Dunlop 1993). In reality, with the theoretical foundations of imperfect labor markets and human agents, employment outcomes do not have to be viewed as completely (and mechanically) determined by rational individuals and market forces; careful analysis of real-world institutions and practices is therefore a hallmark of industrial relations scholarship. But this scholarship stems from a specific theoretical perspective, not from the lack of theory.[3]

The pluralist industrial relations school of thought also often embraces a balancing paradigm. Commons (1919, 43) focuses on the need for "the equilibrium of capital and labor" rather than the domination of one or the other. Kochan (1980, 21, emphasis in original) emphasizes that "industrial relations theories, research, and policy prescriptions must be conscious of the relationships among the goals of workers, employers, and the larger society and seek ways of achieving a workable and equitable *balance* among these interests." Imbalances of income, from a pluralist perspective, can reduce economic growth by depressing consumer purchasing power and preventing investments in human and physical capital. Excessive corporate power that creates substandard wages and working conditions can burden society with welfare-reducing social costs. Behavioral elements of decision-making imply that individual perceptions of balance or fairness can affect employee turnover, productivity, and other industrial relations outcomes. A central analytical tenet of the pluralist school , therefore, is that employment relations outcomes emerge and persist, not because they are necessarily the most efficient—as would be the case under a neo-classical paradigm—but because they strike a balance between the competing interests of different individuals, stakeholders, and institutions.

Moreover, since individuals are viewed analytically as human rather than economic agents, industrial relations scholarship dating back to the early twentieth century questions not only how employees behave but also what standards of treatment they deserve as human beings in a democratic society. With imperfect labor markets, the presence of powerful corporations or desperate competition among workers can result in substandard employment conditions. As such, the analytical foundations of pluralist industrial relations also create a strong normative agenda—creating a balance between the competing interests in the employment relationship. Individual, organizational, and social outcomes beyond efficiency or productivity are therefore important dimensions of industrial relations scholarship. While launched by the inequality of the early twentieth century employment relationship, these analytical tenets and normative issues continue to be very relevant for the employment relationship a century later.

The Central Interests of the Employment Relationship

The starting point for scholarship on the employment relationship is the objectives of this relationship (Budd 2004). In neoclassical economics, these objectives reduce to allocative efficiency. The invisible hand of competitive markets will guide self-interested individuals towards efficient outcomes in which aggregate welfare is maximized and scarce resources are used to their most productive ends. The key objective is therefore efficiency: companies want efficient production processes to maximize profits, consumers want efficient companies to maximize value, and employees want efficient employment opportunities to maximize their earnings and leisure. With rational individuals and competitive markets, there is no divergence between public and private interests—no groups have a power advantage over others, market prices (including wages) fully reflect social value. Workers participate in the determination of their working conditions through entry into desirable jobs and out of undesirable ones (Troy 1999); outcomes are viewed as equitable or fair because each commodity—labor included—is rewarded with its value (McClelland 1990).

In contrast, a hallmark of the industrial relations perspective is that workers are not simply commodities (Kaufman 1993; Webb and Webb 1897). Workers are human beings with aspirations, feelings, emotions, needs, and rights; work provides more than extrinsic, monetary rewards by fulfilling important psychological and social needs. Moreover, if markets are not competitive, then prices do not accurately reflect social value (Slichter 1924). As such, a realistic analysis of welfare requires explicit consideration of the nature of work and workers' lives. The industrial relations paradigm therefore explicitly considers interests of the employment relationship that are not limited to (but include) efficiency.

The nature of work and workers' lives were graphically apparent to Commons and other early institutionalists through the labor problem of the early twentieth century—excessive working hours, low wages, dangerous working conditions, and widespread worker insecurity from business cycles, seasonal labor demand, accidents or disease, old age, and discriminatory or arbitrary firings (Kaufman 1993, 1997). According to government surveys around 1910, 85 percent of wage-earners had a standard workweek of more than 54 hours, and among iron and steel industry workers, over 40 percent worked more than 72 hours per week and about 20 percent worked more than 84 hours per week (Lauck and Sydenstricker 1917). The long hours were often for low pay in dangerous and unhealthy conditions. A March 1911 fire at the Triangle Shirtwaist Company in New York City killed 146 workers because of inadequate and locked fire exits. According to one estimate, industrial accidents resulted in 25,000 deaths, 25,000 permanent disability cases, and 2,000,000 temporary disability cases per year which implies that during World War I, U.S. causalities were greater in the workplace than on the battlefield (Downey 1924).

The long hours at low pay in dangerous and unhealthy conditions were also marked by great insecurity. Many lived with a constant fear of unemployment. A government investigation of nearly 30,000 male workers in 1909 found that only 37 percent did not have any time lost from work over the course of a full year; half of the workers lost four or more months (Lauck and Sydenstricker 1917). Labor was frequently viewed as just another input in the production process no different from machines or raw materials. In the drive system of the foreman's empire, workers were arbitrarily dismissed for any reason, no matter how abusive (Jacoby 1985; Lichtenstein 1989). With mass manufacturing methods emphasizing repetitive, narrowly-defined tasks by individual workers to achieve high output, workers had no contact with the final product and had minimal control over the content of their job. Even Adam Smith (1776, 734) recognized that while this division of labor has efficiency advantages, there were other concerns since specialization renders workers "stupid and ignorant." Because of these conditions, the early institutionalists identified not only efficiency, but also equity and self-actualization as the key objectives of the employment relationship: "greater efficiency in production; greater equity in the distribution of economic rewards, the utilization of labor, and the administration of employment policies in the workplace; and greater individual happiness and opportunities for personal growth and development" (Kaufman 1993, 13).

These basic objectives continue to be important in the contemporary industrial relations paradigm. Jack Barbash (1987, 1989) and Noah Meltz (1989) both rooted the field of industrial relations in the study of efficiency and equity. According to Barbash (1987, 172), equity consists of "(1) having a say in the work, (2), due process in the handling of complaints, (3) fair treatment at work, (4) meaningful work, (5) fair compensation and secure employment." Both Barbash and Meltz further emphasize the multifaceted relationship between efficiency and equity—the need for equity stems from the need to protect human labor from the abuses of a pure efficiency regime as well as from the need to treat human labor fairly in order to achieve superior efficiency. In other words, sometimes efficiency and equity clash; at other times they are complements. As such, the central feature of the industrial relations paradigm is balancing the distinct, yet mutually-dependent, interests of employers and employees: efficiency and equity (Meltz 1989).

Budd (2004) extends this thinking by distinguishing between equity and voice. Equity is fair employment standards for both material outcomes (such as wages and safety) and personal treatment (especially nondiscrimination). Voice is the ability to have meaningful input into decisions, including both industrial democracy and autonomy or control. The basis for the equity-voice distinction is the view that equity is instrumental and can be provided unilaterally by employers or government regulations while voice is intrinsic and can only be achieved by worker participation. As such, while equity and voice might often be mutually supporting, they can also be competing objectives of the employment relationship—industrywide collective bargaining, for example, might be very effective at establishing equitable minimum wage standards, but at the expense of rank and file participation in decision-making. In Budd's (2004) analysis, therefore, the central interests of the employment relationship are efficiency, equity, and voice.[4]

The Theory of Competing Interests

The fundamental theoretical assumptions of pluralist industrial relations are that 1) there is a conflict of interest in the employment relationship, 2) labor markets are not perfectly competitive, and 3) employees are human beings, not simply commodities or factors of production. These assumptions yield a theoretical perspective of the employment relationship significantly distinct from the other views of the employment relationship—neoclassical economics, human resource management, and critical industrial relations. Neoclassical economics is built around rational agents in competitive markets.[5] Conflict is not an important construct—buyers and sellers of labor or other commodities simply search for transactions that maximize their utility. Work is undertaken only to earn money to afford leisure and consumption. Competitive markets simultaneously maximize aggregate welfare and place checks on abuse (Friedman and Friedman 1980; Troy 1999).

In contrast, pluralist industrial relations, critical industrial relations, and human resource management reject the deterministic importance of competitive markets and rational economic agents, but differ from each other on their view of employment relationship conflict (Budd 2004; Hills 1995; Kaufman 1993; Kochan 1998). Human resource management embraces a unitarist view of conflict in which employment policies and practices can align the interests of employees and employers (Fox 1974; Lewin 2001). At the other end of the spectrum, employment relations conflict in the critical or Marxist industrial relations paradigm is rooted in unequal power relations between classes throughout society (Giles and Murray 1997; Hyman 1975). In between these two views is the pluralist industrial relations school's perspective that the employment relationship is characterized by a variety of competing interests—higher wages versus lower labor costs, employment security versus flexibility, safe work pace versus high output—as well as shared interests—productive workers, profitable employers, a healthy economy; in other words, employment relationship conflict is pluralist (Clegg 1975; Fox 1974) or mixed-motive (Kochan 1998; Walton and McKersie 1965), and is certainly not pathological (Barbash 1984).

These contrasting views of employment relationship conflict are essential for understanding the theoretical paradigm of the pluralist industrial relations school. Compared to the human resource management school, institutions such as unions and laws plus processes for bargaining and dispute resolution are important objects of analysis in industrial relations because they provide alternative means for mediating conflicts of interest (Adams 1995; Budd 2004; Walton and McKersie 1965; Weiler 1990). Compared to critical industrial relations, research in pluralist industrial relations tends to view workplaces as influenced by the external environment (Dunlop 1993; Kochan, Katz, and McKersie 1986) rather than as embedded in a larger political economy of class-based conflict. Unlike critical or Marxist industrial relations, class is not a crucial analytical concept in pluralist industrial relations.[6] And because pluralist industrial relations embraces mixed-motive conflict which includes shared labor-management goals, individual and organizational performance is also an important research topic (Appelbaum and Batt 1994; Kleiner et al. 1987; Levine 1995).

The pluralist view of conflict is intimately related to a belief that labor markets are not perfectly competitive. Sidney and Beatrice Webb, John R. Commons, and other early institutionalists attributed the labor problem of the early twentieth century to the superior power of large corporations over individual employees (Kaufman 1993, 1997). This superior power stemmed from market imperfections: isolated company towns, mobility costs and lack of family savings or other resources, segmented markets and excess labor supply. From this theoretical perspective, laws and unions are viewed as mechanisms for leveling the playing field between employers and employees thereby promoting the optimal operation of markets rather than interfering with it (as predicted by theories rooted in competitive markets). Common research questions in pluralist industrial relations therefore include how labor markets work (Kaufman 1988) and the effects of unions and laws on workers, firms, and the economy (Belman and Belzer 1997; Freeman and Medoff 1984; Slichter, Healy, and Livernash 1960).

In fact, the pluralist view that imperfect labor market structures should be the benchmark upon which to judge policy interventions continues to have currency (Manning 2003). Card and Krueger's (1995) findings that the effects of minimum wage laws are not consistent with models of perfect competition reinforce the importance of modeling the labor market as a zone where a combination of costly job search, mobility restrictions, and informational asymmetries give employers monopsony power. That is, labor markets can be imperfect even in situations where there is apparent labor market competition amongst employers to attract workers. And even in human capital theory—one of the bedrock theories of neoclassical labor economics—the employment relationship becomes a bargaining problem if there are informational asymmetries such as employers not being able to observe workers' investments in human capital and outsiders not knowing a workers' current productivity (Chang and Wang 1996). Moreover, in these situations, private actions produce suboptimal training investments so, consistent with the pluralist tradition, there is a need for institutional intervention.

The final theoretical element of the pluralist industrial relations paradigm is modeling individuals as human or behavioral agents rather than purely economic agents (Budd 2004; Kaufman 1988, 1999). In contrast to neoclassical economics, work is not viewed solely as a source of income. The interests of workers can therefore be complex: avoiding drudgery and other affronts to personal dignity (Barbash 1984; Hodson 2001), participating in decision-making

(Freeman and Rogers 1999), or fulfillment of self-actualization (Kaufman 1993; Webb and Webb 1897). Decisions by workers and managers are not always made on a purely rational basis. Aggression and frustration might lead to strikes (Wheeler 1985), coercive comparisons might affect wage outcomes (Ross 1948), and complexity might create internal labor markets at odds with competitive forces (Doeringer and Piore 1971; Lester 1988). The recent growth in quasi-rational and experimental economics offers mainstream economic theory a way of modeling human actions that brings economic thought closer to the longstanding pluralist paradigm, but such modeling continues to be a hallmark of pluralist rather than neoclassical research on the employment research.[7]

In sum, the building blocks of the pluralist industrial relations paradigm yield a theory of competing interests: the employment relationship is modeled as a bargaining problem between stakeholders with competing and shared interests, such as cost discipline and PEEP (Barbash 1984), efficiency and equity (Meltz 1989) or efficiency, equity, and voice (Budd 2004). The competing interests are not reconciled solely by market forces—which are often imperfect and often favor employers—but also by complex individual and collective interactions shaped by institutions, behavioral decision-making factors, customs, and values.[8] At the same time, the shared interests bind the stakeholders together and the focal point of the pluralist industrial relations paradigm is resolving conflicts of interest to produce mutual gain (Barbash 1984; Budd 2004; Commons 1934; Kochan 1998; Meltz 1989).[9] This theoretical perspective of the employment relationship provides testable hypotheses regarding the determinants of employment outcomes.

The pluralist industrial relations conception of the employment relationship as a mixed-motive interaction between human agents in imperfect labor markets is a legitimate theory of the employment relationship. One can challenge the accuracy of the assumptions that underlie this theory, but the industrial relations paradigm cannot be dismissed as either atheoretical or entirely normative. Even among leading industrial relations scholars, however, these assumptions are typically labeled the normative foundations of industrial relations (e.g., Kochan 1998). The singular emphasis on a normative label should be amended—these assumptions reflect beliefs about how the employment relationship works as much as how it should work; they are no more normative than the neoclassical economics assumptions of rational economic agents and competitive markets. The pluralist industrial relations model is as much of a theory of the employment relationship as is the neoclassical economics model; it is not as easily reduced to mathematical modeling through tractable maximization problems, but it generates testable hypotheses about behavior, outcomes, and relationships between various quantities.

The Importance of Balancing Competing Interests

A central feature of this pluralist industrial relations paradigm is balancing competing interests in the employment relationship:

> If the democratic state is to attain its fullest and finest development, it is essential that the actual needs and desires of the human agents concerned should be the main considerations in determining the conditions of employment….We see, therefore, that industrial administration is, in the democratic state, a more complicated matter than is naively imagined by the old-fashioned capitalist, demanding the "right to manage his own business in his own way."…In the interests of the community as a whole, no one of the interminable series of decisions can be allowed to run counter to the consensus of expert opinion representing the consumers on the one hand, the producers on the other, and the nation that is paramount over both (Webb and Webb 1897, 821-23).

The emphasis on balance is rooted in the theoretical assumptions of pluralist industrial relations, but there are also important normative implications associated with these theoretical assumptions. We first consider these normative implications and then describe the importance of the balancing paradigm for positive research on the employment relationship. By viewing workers as human rather than economic agents—and as people rather than commodities—normative questions are unavoidable: how should people be treated (Webb and Webb 1897)? What rights do they have in a democratic society (Derber 1970)? Who does the economic system serve (Slichter 1948)? As argued by Richard Ely (1900, 72-73, emphases in original), "Among the most serious mistakes is to consider man simply as a producer of goods, one 'by whom' are all things of interest to [economics], while the infinitely greater truth is that man is the one 'for whom' they are all produced" and that "in making of man the best possible manufacturing machine they make him a very poor sort of a man."

As a result, it is common for industrial relations to assert that human beings are entitled to decent working and living conditions as well as democratic rights of participation in decision-making (Budd 2004)—the view that "the labor market is to be tempered by more humane considerations" than "a purely Darwinian view of unrestrained labor market competition" (Meltz 1989, 111).[10] A true industrial democracy requires the protection of all interests in the employment relationship—owners, workers, consumers, and the public (Webb and Webb 1897). As people, workers are entitled to standards of work that respect inherent human dignity, such as a living wage (Bowie 1999; Ryan 1912) and autonomy or control (Bowie 1999; Hodson 2001). As people and as citizens in a democratic society, workers are entitled to have a voice in decisions that affect their work lives (Adams 1995; Budd 2004; Gross 1999; Lauck 1926). At the same time, the pluralist industrial relations paradigm fully respects capitalism and the business owners' need to make a profit.[11] As such, striking a balance between the competing objectives of employers and employees is warranted.

The need for balancing competing interests can also be grounded in a human rights perspective (Budd 2004). Conflicts between efficiency, equity, and voice are conflicts between property rights and labor rights. Property rights have traditionally been viewed as the foundation of individual freedom and liberty, but in the employment relationship, property rights serve economic efficiency as much as liberty. Property rights in this context are therefore not inviolable, and the evolution of human rights thought has elevated second generation economic and social rights to have equal status with first generation civil and political rights. As such, the conflict between property rights and labor rights represents a conflict between competing human rights. As these human rights are equal, they must be balanced. The pluralist industrial relations paradigm focuses on balancing property rights with labor rights in order to balance efficiency, equity, and voice (Budd 2004).

The arguments for balance discussed above are normative arguments for how the employment relationship should work. But the industrial relations emphasis on balance should not be dismissed as a solely normative desire. The theoretical foundations of industrial relations also yield the key testable prediction that the employment relationship works best when competing interests are balanced. Note carefully that this is not a normative statement about how the employment relationship ought to work, but is an analytical claim about how the employment relationship actually works. In other words, pluralist theory implies that a lack of balance in the employment system not only creates suboptimal outcomes, but that unbalanced outcomes are ultimately unstable and short-lived.

These analytical claims are illustrated in Figure 1. Panel A summarizes the traditional neoclassical economics framework: perfect competition and individual freedoms create a balance between employers and employees (and all other market participants) which yield optimal economic outcomes that maximize efficiency and utility. As such, a critical building block of neoclassical theory is competitive markets. In contrast, Panel B sketches the pluralist industrial relations framework: equality between employers and employees promotes healthy rather than destructive competition and supports both freedom and optimal economic and social outcomes. A critical building block is not competitive markets, but a balance between competing interests. As revealed by the differences in the direction of causality in Figure 1, the neoclassical economics and industrial relations schools of thought favor different policy interventions: neoclassical economics—with causality running from competition to optimality—favors policies (typically the lack thereof) that promote competitive markets and unregulated economic exchange; industrial relations—with causality running from balance to optimality—favors policies to promote equity and balance in the system.

Given these different world views, it is not surprising that the old institutionalists sought to not only reduce market imperfections (such as unemployment and its negative effects though public works and unemployment insurance programs), but to equalize bargaining power between employers and employees through unionization (Kaufman 1997). At the workplace, shop committees and other systems of checks and balances were advocated to develop industrial goodwill and productivity (Commons 1919). Modern scholarship on high performance work practices further emphasizes the importance of equitable treatment for maintaining efficiency in the workplace.[12] Barbash (1989, 116-17) asserts that "Human as distinguished from inanimate commodities require fairness, voice, security and work of consequence to make their maximum contributions to real efficiency" and Meltz (1989, 110) argues that "An employer dedicated to the purest form of short-run profit maximization without any reference to the human element in the factors of production is likely to create a negative reaction that in the long run will impede the achievement of the desired efficiency."

In other words, apart from being good in a moral sense, equity and voice are also instrumentally important because their absence are primary sources of industrial tension. In pluralist industrial relations, the presence of imperfect markets and human (not purely economic) agents means that equity and voice are needed to generate perceptions of fairness amongst workers, which is required if workers are to voluntarily accept the conditions of the modern employment relationship. This occurs at every level of the employment relationship and also extends to the economy as a whole.[13] Individuals born without initial endowments of wealth and lacking access to the decision-making process involved in generating these outcomes, are more likely to perceive the system as unfair. If there is no serious effort on the part of government, management, or labor to address these imbalances, then why should the disenfranchised respect the system in the first place? These questions are not new; indeed the role of voice and fairness expectations in justifying wealth distribution has some interesting historical and biblical antecedents.[14] Pluralist industrial relations applies these analytical propositions to the micro and macro dimensions of the employment relationship (see below) and hypothesizes that the employment system is most effective when competing interests are balanced.

Finally, consider the philosophical underpinning of the balancing paradigm, which literally extends back to the very foundations of Western thought. Here we see how both normative and positive implications of the balancing paradigm are intertwined. The "Golden Mean"—originally a mathematical relation—was argued by Aristotle to extend to the proper governance and conduct of societal and individual action. According to Aristotle, moderation between two extremes is the key to acting virtuously, and to fulfilling the needs of a community. Aristotelian justice therefore includes a central industrial relations belief: might does not make right (Solomon 1992). Note carefully that these views include both the normative and positive implications of balance discussed above. Normatively, it is argued that individuals should act virtuously and should not favor might over right. Positively, it is argued that communities operate most effectively when individuals are virtuous and when might does not make right. As in the balancing of competing interests between human agents interacting in imperfect markets, the true virtue is a "golden mean" between extremes—normatively and analytically.

Balancing Competing Interests: The Micro Level

Many of the early institutionalists disputed not the analytical value of the neoclassical economics paradigm, but rather its incomplete treatment of the employment relationship and the economy, and its narrowness when applied to public policy (Yonay 1998). We share a similar perspective on other schools of thought on the employment relationship—Marxist analyses reveal the importance of embedded power relations and the human resource management school contributes to our understanding of the determinants of organizational performance. By including aspects of markets, conflict, and human agents from the other schools, the pluralist industrial relations paradigm provides a unique theoretical framework for understanding the employment relationship through the linkages between efficiency, equity, and voice which are absent in competing paradigms. This section describes two important examples at the micro level where the balancing paradigm adds analytical value—collective bargaining and high performance work practices.[15]

Collective Bargaining: Market Impediment or Mediating Institution?

In the standard neoclassical economics model, competition among firms, workers, consumers, investors, and suppliers under ideal conditions yields optimal prices, output, wages, and consumption. The interests of the employment relationship are fulfilled by competition—allocative efficiency is achieved, equity is fulfilled because all factors of production are rewarded with their economic value (what McClelland (1990) calls “marginal productivity justice”), and employee voice is provided through entry and exit into desirable jobs and out of undesirable ones (Troy 1999). To those who believe that employers and employees are equals interacting in competitive markets and the legal arena, labor unions are monopolies that reduce economic welfare by impeding the operation of competitive markets and violating the liberties of individuals to freely enter into economic relationships (Epstein 1983; Friedman and Friedman 1980; Troy 1999). In the human resource management paradigm, unions are also viewed negatively as adversarial, outside organizations that add detrimental conflict and bureaucracy to the employment relationship (Mahoney and Watson 1993).

The industrial relations paradigm yields very different predictions. Dating back to the Webbs (1897, 174) in the late nineteenth century, labor unions and collective bargaining have been central methods in industrial relations for balancing competing employment relationship objectives: “By the Method of Collective Bargaining, the foreman is prevented from taking advantage of the competition [between workers] to beat down the earnings of the other workmen.” Since the pluralist paradigm assumes that labor markets are imperfect and the bargaining power of employers typically dominates that of individual workers, a natural solution to this imbalance is for workers to unionize and better match the power of employers. Dominant areas of industrial relations scholarship, therefore, include analyzing the effects of unions on wide-ranging outcomes and exploring what type of unionism is best suited to different environments.

Against the backdrop of a business unionism philosophy that dominated much of the U.S. labor movement and a scientific management approach that dominated much of U.S. business, unions pursued employee rights by winning seniority systems, grievance procedures, and predictable wage increases in the postwar period. The resulting system of job control unionism consists of very detailed and legalistic union contracts, enforced by a quasi-judicial grievance procedure, that tie employee rights to very narrowly-defined jobs while removing labor from decision-making (Katz 1985; Kochan, Katz, and McKersie 1986). In the neoclassical economics paradigm, such work rules are viewed as distortionary restraints on the employment relationship that stem from the monopoly power of unions and harm productivity and profits. In the industrial relations paradigm, work rules, seniority rights, and grievance arbitration are seen as balancing competing interests by bringing justice into the workplace while also largely maintaining management's right to manage and serving the mass manufacturing need to stability and predictability. Unions might therefore improve economic as well as social outcomes.

Or consider the frequently-researched union wage premium. It is well-documented that wages for unionized workers in the United States are approximately 15 percent higher than similar nonunion workers (Lewis 1986). In neoclassical economics, this union wage premium is arguably the classic demonstration of the distortionary power of labor unions. In contrast, the National Labor Relations Act was enacted in 1935 explicitly to help unions raise wages because of the pluralist industrial relations model in which market imperfections create imbalances and suboptimal economic and social outcomes (Kaufman 1996). This contrast starkly reveals the differing analytical views of these two schools of thought on the employment relationship.

Similarly, while debates in economics and human resource management over the role of unions in the 21st century workplace focus narrowly on efficiency concerns, pluralist industrial relations scholars cast a wider net in analyzing the effects of new forms of unionism not only on organizational performance, but also on workers and society (Budd 2004; Heckscher 1988; Turner, Katz, and Hurd 2000). As such, the industrial relations paradigm produces a very different set of analytical predictions about labor unions and collective bargaining than other paradigms. Similar differences are apparent in the research on high-performance work practices.

High-Performance Work Practices: Win-Win or Work-Work?

By many accounts, the employment relationship, especially in North America, has been transformed since the 1970s (Appelbaum and Batt 1994; Cappelli 1999; Heckscher 1988; Kochan, Katz, and McKersie 1986; Osterman et al. 2001; Piore and Sabel 1984). Competitive pressures have caused a breakdown in traditional forms of collective bargaining, a decline in union power, and the adoption of new practices and polices to manage labor. Some of these policies focus on slashing labor costs through concessions, decertifying unions, and adding more contingent workers; other practices attempt to enhance organizational performance through high-performance work practices such as flexible work arrangements, performance-based pay, employee participation, work teams, and job security. Arguably the most important research stream that has resulted from this sharp increase in the interest in high-performance work practices is analyzing the effects of these practices. By implication, this line of inquiry also addresses the more fundamental question of why these practices exist. The uniqueness and significance of the industrial relations paradigm is illustrated by the increased understanding of these questions that can result from an integration of the analytical tenets of the balancing paradigm.[16]

In the neoclassical economics and human resource management paradigms, questions of the effects of high-performance work practices largely reduce to efficiency: Are firms that adopt such practices more profitable than those that do not? Do work teams produce higher quality output than individuals in narrowly-defined jobs? Are workers who are involved in production decisions more loyal and productive than those who are not? The literature often concludes that companies do well by doing good (Baker 1999): high performance polices (if implemented jointly and not piecemeal) increase organizational performance (Batt 1999; Huselid 1995; Ichniowski, Shaw, and Prennushi 1997).[17] The effects on workers beyond efficiency-related issues are frequently ignored because in neoclassical economics, dissatisfied workers are free to quit and in the human resource management paradigm, a unitarist employment relationship means that what's good for employers is good for employees.

The pluralist industrial relations paradigm reveals the narrowness of this research. By modeling the employment relationship as a set of competing interests, the effects of human resource policies on workers is of equal importance to the effects on organizational performance. It is employees who are directly affected by any modification in human resource practices, and so productivity and profitability cannot be the only benchmarks upon which to judge the success of these practices. High-performance work practices that appear to be a win-win situation for workers and employers in a unitarist framework can be seen as "management by stress" in a pluralist framework: new tools for increasing the pace and effort of work while increasing the uncertainty of rewards and security (Parker and Slaughter 1995). Moreover, the competing interests framework posits that there is not always a unity of interests between employees and employers, and this yields a critical prediction for the research on high-performance work practices: high-performance work practices that balance employer and employee interests will be more successful, while those that do not will be more likely to fail (Delaney and Godard 2001).

The pluralist industrial relations paradigm can also make a valuable contribution towards a more general understanding of <u>how</u> individual and organizational performance can be improved by such practices, since this paradigm incorporates what is of value to labor as well as management. If high-performance work practices enhance productivity and profits, it is ultimately because they are attuned to what is of value to labor as well as management (Osterman 2000). In fact, pluralist industrial relations scholars frequently distinguish between two types of efficiency: allocative (or formal) and real (Barbash 1989; Meltz 1989). Allocative efficiency encompasses the technical procedures needed to maximize output given certain constraints. This view of efficiency treats labor simply as a commodity no different from other factors of production. The analytical treatment of labor in industrial relations, however, includes human elements of labor with interests distinct from their employers and therefore the rationalization of the workforce along formally efficient criteria can create problems of alienation, shirking, and low morale. Moreover, allocative efficiency can create a distributive tension between wages and profits (Barbash 1989).

Therefore, in order to enhance real efficiency, the industrial relations paradigm predicts that allocative efficiency needs to be tempered by workers' interests such as equity and voice. In other words, workers are distinct from other organizational inputs because of their human requirements for fairness, voice, and job security as preconditions for making maximal contributions to real efficiency. In fact, while economists recognize that cooperative behavior among economic agents is needed when markets are incomplete or imperfectly competitive (Olson 1982, 2000), it is less well-recognized that non-market institutions such as unions and works councils can foster long-term relationships between employers and employees. Once in place, these relationships place limits on the extent of pecuniary gains that one party can extract from the other. Ongoing relationships also produce repeated interactions among actors, which are conducive to the sharing of information and the development of trust. Trust in the employment relationship is not determined exogenously; it is formed and reinforced by being responsive to the other side's interests.

Industrial relations theory therefore predicts that the sole pursuit of allocative efficiency within organizations can create counterproductive forces that impair organizational performance. Anecdotally, this prediction is supported by countless examples, including well publicized bankruptcies at Eastern Airlines and elsewhere that resulted from management's overzealous drive for wage and work rule concessions.[18] Wage structures that are felt to be inequitable create a lack of motivation and an unwillingness to adapt and cooperate with management (Akerloff and Yellen 1986). The moderate adoption of high-performance work practices increases employee satisfaction, esteem, and commitment, but extensive adoption reduces employee well-being because of higher levels of stress (Godard 2001).

Conversely, industrial relations theory predicts that human resources practices will improve organizational performance when workers' distinct interests are considered. In cross-country comparisons, Adams (1995) found that successful team-based and lean production systems require employees who are highly committed to improving the production process and that this commitment stems from job security and employee beliefs that the financial benefits of productivity improvements will be equitably shared. Gordon (1996) also concludes that token gestures are not sufficient to improve commitment and hence performance. Rather, three conditions are identified for successful cooperation: a real and perceived equitable sharing of productivity gains with workers; significant employment security (so that workers do not worry that production innovations will result in layoffs); and substantial institutional changes to build up employee voice and group involvement. In other words, organizational performance depends on equity and voice. As such, the analytical framework of pluralist industrial relations differs from the economic approach in that non-pecuniary or intrinsic outcomes are an essential input in determining the efficiency of the employment relationship and differs from the human resource management paradigm in recognizing the interests of workers distinct from those of employers.

Balancing Competing Interests: The Macro Level

The pluralist industrial relations paradigm also predicts that balance matters at a macro level: gross inequalities in society or the economy will negatively affect outcomes. This prediction runs counter to the general tendency in economics to assume that there are macro-level trade-offs between efficiency and equity, but echoes the micro-level industrial relations claims that efficiency and equity are complementary goals, at least within some range (Barbash 1989; Meltz 1989).[19] The macro-level examples discussed here are the role of balance in shaping the New Deal policy responses to the Great Depression and recent macroeconomic research on positive long-run associations between balanced (equitable) distributions of income and economic performance.

The Benefits of Balance in the Policy Realm: The Example of the New Deal

In the United States, the intellectual beliefs of the pluralist industrial relations paradigm are clearly reflected in the New Deal public policies of the Roosevelt administration. The labor problems of the first decades of the 20th century—low wages, long hours, dangerous working conditions, and widespread unemployment and worker insecurity—were thought to stem from excess labor supply, minimal worker savings or social safety nets, and various labor market imperfections that gave companies a significant advantage in bargaining power over individual employees (Kaufman 1997). Note carefully that this was not just a normative problem (although the early institutionalists were certainly concerned with the quality of workers' lives). Greater corporate power was believed to impose significant negative externalities on the economic and social system—impoverished individuals could not advance their education and become better workers and citizens, desperate families turned to crime, and labor disputes disrupted production. It was additionally believed that this inequality between labor and management depressed consumer purchasing power and prevented macroeconomic stabilization (Kaufman 1996). In short, these are analytical propositions that the economy would work better if there was greater balance between employers and employees.

The macro-level New Deal policies of the 1930s sought to create a balance through public works programs to provide jobs, the encouragement of unionization, minimum wage and maximum hours legislation to prevent cutthroat competition, and social safety nets to cushion the economic and social harms of adverse events (Bernstein 1985; Kaufman 1996). The National Labor Relations Act (1935), therefore, protects workers' efforts at forming unions and engaging in collective bargaining to increase workers' purchasing power. The Fair Labor Standards Act (1938) created a federal, national minimum wage, a mandatory overtime premium for covered workers for hours worked in excess of a weekly standard (now 40 hours), and restrictions on child labor. A social safety net was established by the Social Security Act (1935) through insurance for the unemployed, disabled, and elderly. These public policies reflect the intellectual (not just normative) tenets of pluralist industrial relations (Budd 2004): labor is more than a commodity; labor and management are not economic or legal equals (in other words, there is an imbalance of bargaining power); there is at least some conflict of interest that cannot be resolved by unitarist management policies, but this is pluralist employment relationship conflict, not class-based or societal conflict; and employee voice is important. As summarized by panel B of Figure 1, these intellectual tenets imply that if these policies can create a greater balance between employers and employees, then healthy rather than destructive competition will result and outcomes will improve.

Balanced Distributions of Income and the Promotion of Stability and Growth

The New Deal policies of the 1930s were set against a backdrop of economic and social instability—strikes, bread lines, Hoovervilles of homeless squatters, hunger marches, mass migration out of the Dust Bowl, and the like. As such, the New Deal policies were not only intended to improve the workings of the labor market, but also to promote social and political stability. This logic mirrors the International Labour Organization's (ILO) philosophy of global stability as enshrined in its preamble from 1919: "Universal and lasting peace can be established only if it is based upon social justice" and "conditions of labor exist involving such injustice hardship and privation to large numbers of people as to produce unrest so great that the peace and harmony of the world are imperilled."

This logic continues to be important in the 21st century, especially in light of the well-publicized globalization backlash. The widespread protests in Seattle against the World Trade Organization (WTO) in the fall of 1999 stemmed from perceived imbalances between corporations and other interests in the WTO's system of free trade. Creating a greater balance in the global trading system appears critical to the future of this system (*Business Week*, September 8, 2003, p. 56) and underlies the United Nation's Global Compact initiative. In fact, the evidence is not just anecdotal in this regard; across a broad spectrum of countries, there appears to be a positive long-run association between balanced (equitable) distributions of income and economic performance (Alesina and Rodrik 1994; Persson and Tabellini 1994).[20]

Two major political-economic models have been advanced to explain the observed positive relation between income equality and economic growth: fiscal policy models based on public choice theory and models of political instability (see Figure 2).[21] The argument of the fiscal policy theories is that income inequality induces large segments of the population to support redistributive policies (such as high taxes) that dampen growth-promoting activities, such as incentives for investments in physical and human capital (Alesina and Rodrik 1994; Persson and Tabellini 1994). The higher the inequality of wealth and income, the higher the rate of taxation and consequently the lower the growth rate. Countries that have low initial disparities in income inequality are hypothesized to face fewer political pressures to redistribute, while in more unequal societies it is publicly induced distortionary taxation and redistribution that ultimately lowers growth.

The second class of models are based on social and political discontent. In terms that are strikingly similar to longstanding pluralist industrial relations beliefs and to the ILO's preamble, inequality in these models is hypothesized to fuel socio-political instability—which can take on varied forms such as crime, riots and coups, strikes and other forms of industrial conflict –which in turn reduces investment and therefore economic growth (Alesina and Perotti 1996).

But does a balancing paradigm have empirical support? Empirical evidence in favor of the second class of models would support the balancing paradigm because inequality likely reflects a lack of balance and hence instability in the employment relations system, which reduces macroeconomic performance. The evidence, as it happens, is more strongly in favor of the instability model than the high-tax fiscal policy model (Perotti 1994). Countries with more egalitarian pre-tax distributions of income tend to support higher levels of transfers—not lower as predicted by the fiscal policy model—and higher growth rates (Benabou 2000). To wit, Figure 3 presents a comparison of Gini ratios to tax revenue as a percentage of GDP among the 29 member states of the Organization for Economic Cooperation and Development (OECD). The slope of the regression line and associated correlation coefficient is negative (-0.68) indicating that countries with more pre-tax inequality also have lower tax to GDP ratios (less redistribution).[22]

There is, by way of contrast, stronger support for the social instability model. Cross-country regressions reveal a positive linkage between inequality and instability, as well as a negative relationship between instability and investment (Alesina and Perotti 1996). Increased inequality is therefore likely associated with reduced economic growth.[23] Note that these results are entirely consistent with the pluralist industrial relations paradigm and its hypothesis that balance is important, not just for how the economy should work (a normative contention), but for how the economy does work (a positive contention). The continued currency of this paradigm is further reinforced in the literature on transition economies in which the persistence of inefficient state-owned enterprises (as in China) during privatization can be explained by their contributions not to corporate efficiency, but to social stability and improved macro-economic performance (Bai et al. 2000).

Conclusions

The pluralist industrial relations paradigm that models the employment relationship as an imperfectly competitive bargaining problem between stakeholders with competing interests is a theory of the employment relationship. This framework has concrete theoretical implications for the operation of the employment relationship: wages are not always equal to marginal productivity, unions can enhance organizational performance as well as social welfare, and fairness and emotions matter, to name just a few. In fact, this paradigm is very similar to the theory of institutional economics which, while not in the mainstream of the economics profession, is certainly a well-defined, viable school of thought.

Real-world empirical analysis is a central part of this pluralist industrial relations paradigm, but contrary to popular assertions, it is not just institutional description. Careful analysis of real-world institutions and practices is needed because employment relationship outcomes are not completely determined by pure rational economic agents operating in perfectly competitive markets (Manning 2003). Contemporary industrial relations scholarship requires real world analysis because it is still largely driven by the continued belief that “knowledgeable tinkering can improve the functions of a generally satisfactory system” (Mangum and Philips 1988, 18). The early institutionalists not only thought that they had an accurate explanation (i.e., theory) for the labor problem, they also wanted to design policies to solve it (Kaufman 1993).

Historical and contemporary pluralist calls for reform emphasize balancing competing employment relationship interests. This is partly a normative prescription based on respect for human dignity and democratic principles, but the emphasis on balance is also a theoretical proposition positing that balance matters for how the “optimal” employment relationship works. To wit, poor labor-management relations are arguably responsible for at least part of the decline of the U.S. auto and steel industries, and defective Firestone tires (responsible for over 250 deaths) were significantly more likely to have been produced during two critical periods of labor-management conflict than during periods of relative labour calm (Krueger and Mas 2000). The analytical premise that balance matters is therefore rooted in the central theoretical assumptions of the pluralist industrial relations school. Contrary to popular beliefs, the emphasis on balance does not mean that the pluralist industrial relations paradigm is only a normative science. In fact, when the neoclassical economics paradigm is used to argue that labor markets should be unregulated, this is as much of a normative statement as any of the pluralist industrial relations arguments regarding a balance.

Analytical research on, and normative support for, labor unions is another dominant part of industrial relations scholarship, but the viability of the pluralist industrial relations paradigm is not entirely dependent on the fortunes of organized labor. The fundamental precept of balancing competing interests in imperfect markets is embraced, for example, in other academic disciplines (such as business ethics), theories (such as stakeholder theory), and popular institutions (such as the Catholic Church and the United Nations). In the wake of the corporate and foreign exchange scandals of the early twenty-first century, a number of commentators advocate adding checks and balances to markets, corporations, and global economic institutions—this is a pluralist principle.[24] The push for fair trade and other initiatives to make sure that the benefits of economic markets are widely shared are intellectually consistent with the predictions of the pluralist industrial relations paradigm.[25]

Most importantly, perhaps, the pluralist industrial relations paradigm recognizes that the employment relationship is complex. In contrast to the models of the other major schools of thought—neoclassical economics, human resource management, or critical (Marxist) industrial relations—this relationship cannot be reduced to a single overriding principle. In short, the balancing paradigm tells us to be humbler than we normally prefer to be—the pursuit of a singular objective (only efficiency, or equity, or voice) and the reliance on sole mechanisms (only markets or internal management) can be socially harmful. Workers, after all, are complex human agents with extrinsic and intrinsic expectations and rights.

To understand the workings of the employment relationship and to create policies and practices that will promote broadly-shared prosperity and long-lasting democratic freedoms, the pluralist paradigm argues that the employment relationship should be modeled as a complex bargaining problem between human agents operating in imperfect markets—one where competing interests need to be balanced in order to ensure not only efficiency, but also fulfillment of workers' rights. While rooted in the scholarship of Commons and the Webbs of 100 years ago, for which we are grateful, this pluralist industrial relations paradigm continues to be theoretically and normatively rich in the 21st century.

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Figure 1.
The Role of Balance in the Neoclassical Economics and Industrial Relations Paradigms

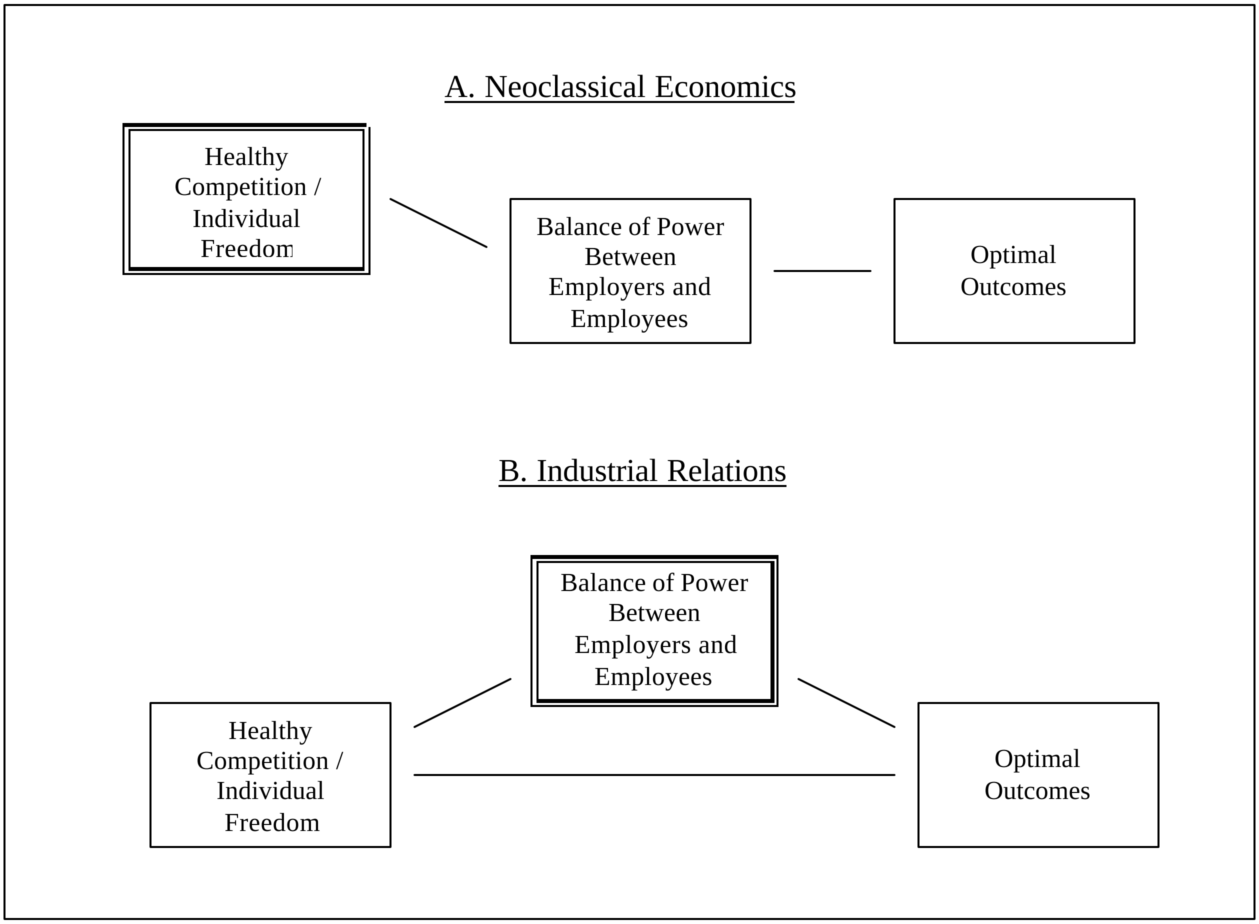


Figure 2
Political-Economic Channels Linking Inequality to Lower Growth

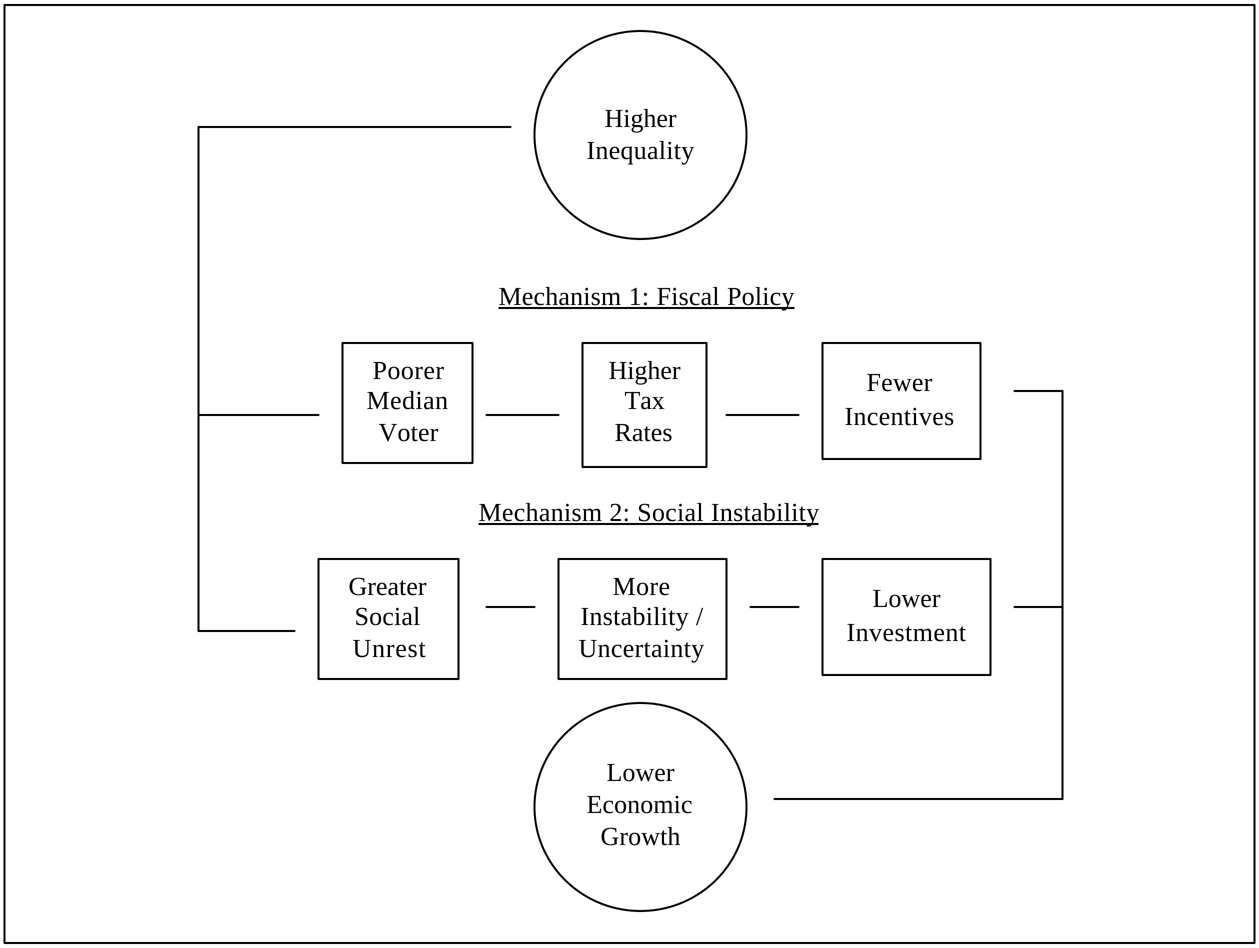
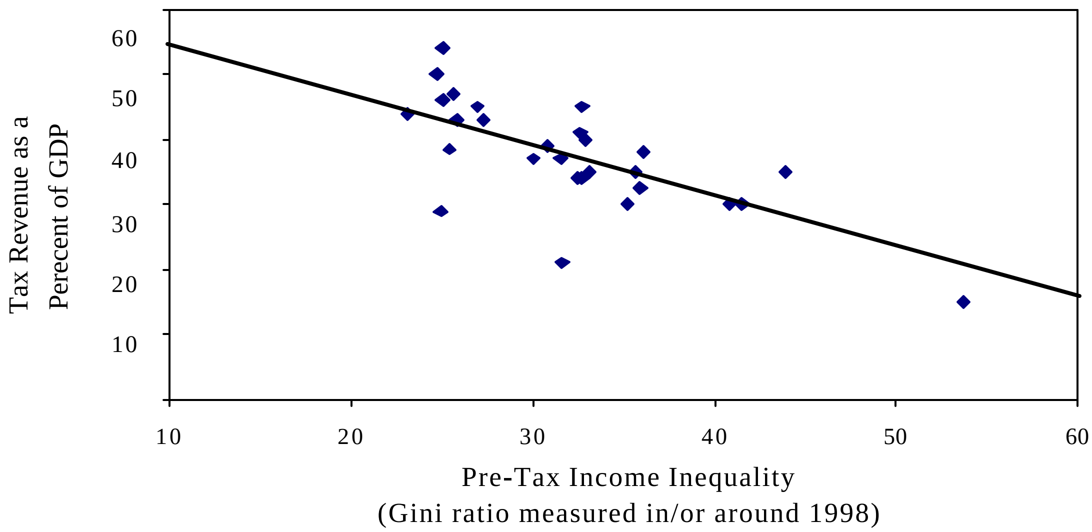


Figure 3.
Pre-Tax Inequality and Tax Revenue, 1998 (29 OECD Countries)



Sources: Authors' calculations from Deininger and Squire (1998) and OECD (n.d.).

Notes

[1] Modeling the employment relationship as a bargaining problem does not mean that pluralist industrial relations is concerned solely with explicit bargaining situations. Rather, this paradigm is concerned with the full range of employment-related issues, from macro-level policy and labor movement issues to micro-level interactions between employees and supervisors. Modeling the employment relationship as a bargaining problem means that all of these issues are set against a backdrop of stakeholders with competing interests interacting in imperfect rather than competitive markets. This is consistent with Manning's (2003) emphasis on the indeterminacy of monopsonistic labor markets rather than the determinacy of competitive markets.

[2] In contrast, mainstream industrial relations in Great Britain has more of a critical or Marxist theoretical foundation.

[3] Or returning to the early institutionalists, when neoclassical economists "accuse institutionalists of having no theory, what they mean is that institutionalists had no theory <u>of the neoclassical type</u>; this is the only type of theory they recognize" (Yonay 1998, 68, emphasis in original). Manning (2003) emphasizes the need for empirical research because the unequivocal theoretical effects of public policies in the competitive model are uncertain when labor markets are imperfect.

[4] The use of equity and voice is consistent with Barbash's (1984, 40) PEEP (price, equity, effort, and power) which includes "having a voice in the terms of employment" as well as a certain amount of autonomy and freedom. Osterman et al. (2001, 11-12) also identify efficiency and a number of worker goals as the central interests of the employment relationship: 1) work as a source of dignity; 2) a living wage; 3) diversity and equality of opportunity; 4) solidarity or social cohesion; and 5) voice and participation. These can be summarized as efficiency, equity, and voice.

[5] Mainstream economics now includes a significant amount of research rooted in constrained maximization by rational individuals that does not rely on the assumption of competitive markets, but we follow Kaufman (2004b) and others in declining to label this mainstream research as neoclassical because such a broad definition of neoclassical renders it vacuous. Moreover, the neoclassical economic model taught in textbooks and used when most economists make policy recommendations includes competitive markets as a core principle (Manning 2003). For an example of a more expansive definition of neoclassical, see Boyer and Smith (2001).

[6] In other words, the pluralist view of employment relationship conflict is that it is limited to the workplace, and therefore competing interests can be balanced with appropriate workplace interventions such as labor unions. Marxist industrial relations sees employment relationship conflict as part of a larger class conflict such that workers' interests cannot be fulfilled without changing the power structure of classes, for example by replacing capitalism with socialism. A business unionism focus on workplace-level collective bargaining is therefore viewed as incomplete at best.

[7] See Thaler (2000) for examples of economists that are now more interested modeling economic behavior as if individuals acted more like Homo-sapiens than as Homo-economicus. The 2002 Nobel prize in economics was shared by Daniel Khaneman, a founding figure of the movement challenging widely-held beliefs about economic rationality.

[8] Institutional economics similarly rejects the neoclassical economics view of the primacy of the market; rather, the importance of institutions and their rules, cultures, histories, values, and norms for guiding economic and non-economic activity are emphasized (Tool 1993). While

pluralist industrial relations and modern institutional economics share John R. Commons as a critical founding figure, there is unfortunately a lack of interaction between the two schools. This is not to be confused with the "new institutional economics" in which market imperfections such as transactions costs and asymmetric information give rise to the importance of institutions (webs of rules) while maintaining the neoclassical economics emphasis on individual utility-maximization and efficiency, and therefore a general skepticism of the benefits of government regulation (Dow 1997).

[9] Compare this to Kelly's (1998, 132) critical perspective in which the focal point of industrial relations is viewed as "injustice and the ways in which workers define and respond to it."

[10] In this respect, the pluralist view of competing interests shares much more in common with the forefathers of economic thought in the classical economics school, than in their neoclassical progeny. Adam Smith—all too often viewed as the father of free-market conservatism—was quite skeptical of the alleged benefits accruing from the pure application of efficiency (higher profits) at the expense of greater equity (higher wages). Indeed, in The Wealth of Nations not only did Smith view merchants and manufacturers with deep suspicion, he also qualified his praise of the self-equilibrating economy with a darker vision of the dehumanizing potential of a profit-orientated society. Until recently, Smith's views would have run counter to the approach taken by many mainstream economists, but for over a century his views have run parallel to the approach of the pluralist school of thought and the theory that a balance of competing interests is the optimal outcome for a society over the long run.

[11] The difference between the pluralist industrial relations conception of earning profits and the neoclassical economics emphasis on maximizing profits is therefore much more than semantics. Earning rather than maximizing profits is also consistent with business ethics in the Aristotelian and Kantian traditions (Bowie 1999; Solomon 1992). In fact, the pluralist industrial relations balancing paradigm in general is consistent with these ethical perspectives (Budd 2004).

[12] Note that these new forms of workplace design were prefigured by more than half a century by the pluralist tradition (Kaufman 2001).

[13] In human resource management, see the large literature on distributive and procedural justice (Folger and Cropanzano 1998). For discussions of fairness in labor market outcomes, see Rees (1993) and Solow (1990).

[14] In an agricultural society land is the primary source of wealth. The Bible mandates that, after the land of Israel was divided among the 12 tribes, in every Jubilee (fiftieth) year land was be restored to the families within their tribes (Leviticus, 25, 8-55). Even if a person was forced by economic circumstances to sell his land and become a servant, the sale was only until the next Jubilee. Hertz (1978, 533) observes that "In this way the original equal division of the land was restored. The permanent accumulation of land in the hands of a few was prevented, and those whom fault or misfortune had thrown into poverty were given a 'second chance.'"

[15] Kaufman (2004a) argues that the early institutionalists sought a balance on three levels: in internal firm governance, external labor markets, and national policy-making. In this section we consider institutional arrangements within these first two levels. In the following section we consider national policy-making and social stability issues. Note carefully that our examples are intended to be illustrative of the continued relevance of the balancing paradigm, not comprehensive.

[16] Another important research stream tries to explain the uneven diffusion of these practices across firms given the alleged benefits trumpeted by supporters. By focusing on market

imperfections, unequal distributions of resources, and the importance of non-market institutions and behavior, the pluralist industrial relations paradigm can also help explain why not all firms adopt high-performance work practices

[17] Findings on the productivity effects of these practices are not universal and also do not necessarily translate into improved corporate profitability (Cappelli and Neumark 2001).

[18] Roach (1996) argues that U.S. business leaders during the early and mid-1990s made profitability improvements through the unsustainable low-road approach of cost cutting.

[19] Okun (1975, 1) is perhaps the classic discussion of the perceived fundamental trade-off between efficiency and equity, including the remark that "tradeoffs are the central study of the economist. 'You can't have your cake and eat it too' is a good candidate for the central theorem of economic analysis." Similar sentiments are echoed in economics textbooks: "policies designed to divide the proverbial economic pie more equally, inadvertently cause the size of the pie to shrink" (Baumol et al. 1991, 124).

[20] For a discussion of micro-level problems of too much income inequality, see Krueger (2002).

[21] A third class of models to explain a negative relationship between income inequality and economic growth relies on imperfect credit markets (low-income individuals face borrowing constraints and are therefore limited in the investments in human and physical capital that they can make) (Benabou 1994, 2000). In principle, this focus on imperfect markets is consistent with the pluralist industrial relations paradigm, though an industrial relations theory would focus on labor market imperfections.

[22] The failure of the fiscal policy model to account for the persistence of high inequality and low taxation regimes can be explained by the industrial relations paradigm: the absence of voice institutions that translate public demands into policy.

[23] Mobilization theory, in turn, provides a framework for analyzing when perceived imbalance or injustice translates into collective action to redress this imbalance (Kelly 1998).

[24] See Kelly (2001), Korten (1999), Phillips (2002), Soros (2000), and Stiglitz (2002).

[25] There is a large literature on international trade with imperfect product markets (Grossman 1992), but industrial relations scholars should inject this research with analyses of globalization characterized by imperfect labor markets that favor employers.