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Advancing Industrial Relations Theory: An Analytical Synthesis of British-American and Pluralist-Radical Ideas

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Abstract
This paper advances industrial relations (IR) theory through an analytical development and synthesis of four central features of the employment relationship which cut across pluralist and radical/Marxist frames of reference. These features are: generation of an economic surplus, cooperation-conflict dialectic, indeterminate nature of the employment contract, and asymmetric authority and power in the firm. The paper is noteworthy because it translates these pluralist-radical ideas into a marginalist-based economics framework and gives them formal/analytical definition and representation in one diagram. American IR has been more receptive to economic modeling and British IR (and French IR) have been more receptive to radical-Marxist ideas. Hence, this paper also helps integrate these diverse national traditions by combining both features into one IR theory model.

Keywords: industrial relations theory, British-American industrial relations, pluralist-radical, employment relationship, cooperation and conflict, exploitation.

Introduction

Two recent addresses by well-known industrial relations scholars reach very similar conclusions about the state of the field. Michael Piore (2011), in a published address presented as the 2010 Annual Lecture sponsored by the *British Journal of Industrial Relations*, declares that "Industrial relations is in trouble" (p. 792). Similarly, Harry Arthurs (2014), in a keynote address to the 50th annual conference of the Canadian Industrial Relations Association recently published in this journal (*Relations Industrielles/Industrial Relations*), concludes that "IR as a discipline and profession […] has arrived at a *cul-de-sac*" (p. 431).

Both Piore and Arthurs argue that the IR field's downward slide arises from a conjunction of adverse developments. The traditional IR policy model centred on collective bargaining and employment regulation, they conclude, no longer has good fit with globalized post-industrial societies. Likewise, the IR model has been perhaps fatally undermined by market-favouring economic and political trends, particularly in Anglo-American liberal market nations. Practice and policy malaise in industrial relations has then been compounded by intellectual malaise and, in particular, the field's failure to develop a theory base which gives compelling intellectual support and credence to its policy program. According to Piore, "the intellectual framework of industrial relations has failed" (p. 793) while Arthur poses the challenge as "the re-invention of IR" (p. 432). Given this diagnosis, Piore and Arthurs suggest three lines of reconstruction and advance: 1- broaden IR's intellectual and policy foundation from collective bargaining and labour law to the dynamics and tensions of the employment relationship; 2- rebuild IR's theory base so it can successfully confront orthodox economic theory and neo-liberal political philosophy; and 3- rejuvenate the IR coalition of progressive-critical/radical writers and paradigms.

Because the employment relationship (ER) is a large and diverse subject, we focus on four key characteristics: creation of an economic surplus, conflict vs. cooperation, indeterminacy of the employment contract, and asymmetry of power between capital and labour. These characteristics are generic to the employment relationship, including derivatives such as agency and contract labour, but can be examined through different frames of reference (Fox, 1974; Budd and Bhave, 2008). An innovative feature of this paper is an attempt to integrate elements of the pluralist and radical-Marxist (RM) frames, not done to the best of our knowledge in any other theory article (Edwards, Bélanger and Wright, 2007, being perhaps the closest exception) published in the four major British and American IR journals (*BJIR*, *IRJ*, *ILRR*, *IR*) or Canadian journal (*RI/IR*).

Another innovative feature is to develop and formalize these pluralist-radical ideas using analytical tools from orthodox economics, thus engaging the opposition on its own ground. This strategy of using marginalist-based microeconomics to derive contra-orthodox conclusions was used by Sidney and Beatrice Webb in their early writings on the economic case for socialism (reprinted in *Problems of Modern Industry*, 1902) and John Commons in *The Distribution of Wealth* (1893) who used marginal utility diagrams to make the case that a paying job should be a legally recognized human right. This same method was later adopted by neo-Marxists, such as John Roemer (1982), Jon Elster (1985), and Samuel Bowles and Herbert Gintis (1990) who sought to demonstrate and derive traditional Marxian concepts and hypotheses using conventional tools of microeconomics in a strategy called Analytical Marxism.

In addition to integrating across pluralist and radical schools, the paper also integrates across British and American IR traditions. The British IR tradition has traditionally had a strong critical-radical-Marxist wing with well-known names, such as Cole, Hyman and Kelly (Hyman, 1975; Kelly, 1998; Gall, 2003; Frege, Kelly, and McGovern, 2011). Conversely, the American tradition from its founding days has taken an uninterested-to-hostile stance toward the radical-Marxist perspective and has resisted theoretical dialogue (Perlman, 1928; Kochan, 1982; Kaufman, 2004a). Our paper is in part an effort to get American IR scholars to see that the critical -Marxist literature has fruitful ideas for IR theory-building which deserve consideration (also see Hillard and McIntyre, 2009). Conversely, the British IR tradition has since the ascendancy of the Oxford School in the 1950s under Clegg and Flanders contained relatively few conventional (microeconomic-based) labour economists, expressed a cool and sometimes unreceptive attitude to formal models and analytical economics (Grimshaw and Rubery, 2003: 44), and has conceptualized both pluralist and RM frames largely from a sociology, politics, and history perspective (Fleetwood, 2006; Ackers and Wilkinson, 2008). Much the opposite is true in American IR where economics has been the dominant discipline, labour economists such as Freeman from the USA and Gunderson from Canada, have occupied top positions, and economics-style models are widely used in journal articles. Over the last one-to-two decades a discernible convergence in American and British IR research traditions has occurred, particularly in the use of multivariate statistical techniques, but American and British IR journals still reflect persistent differences in theoretical, methodological, and ideological orientations.

Thus, our paper not only bridges across pluralist and radical/Marxist frames but also across American and British approaches by applying American-type economic modeling to British-type critical IR. In this respect, the paper represents in microcosm the synthesis of traditions which exemplify Canadian industrial relations, most clearly with respect to alternative American and British influences but also the French tradition (Murray, Morin, and Da Costa, 1996; Da Costa, 2005) as expressed in greater openness to critiques of liberal capitalism, complementary receptivity to radical/Marxist ideas, and the concept of IR as a system of social regulation per the French *Régulation* school (Boyer and Saillard, 2002; also Bélanger, Edwards, and Haiven, 1994).

While the idea of theoretical integration appeals in principle to everyone, in practice it is a perilous endeavour because the inevitable compromises and mixing and matching end up attracting critical arrows from unhappy people on all sides. Some readers, for example, may believe it is impossible to do justice to radical-Marxist ideas if developed with marginalist economic tools, others may regard economics-type models as empty formalism, and yet others may agree with Hyman (2004) that an integrative theory of industrial relations is neither possible nor desirable. Readers on the other side of the divide may argue, on the other hand, that radical-Marxist ideas are logically defective, mostly non-economic, or politically driven (e.g., labour theory of value, class struggle). Then, people on both sides may feel issues of process and problem-solving get short-changed. Our response is that theory development is antecedent to problem-solving (Commons, 1934: 722, calls theory "a spade for digging up facts") and, while pluralist, radical-Marxist, and orthodox microeconomic paradigms are substantially incommensurate writ large, individual ideas, components, and authors can be integrated into a value-added hybrid theory of the employment relationship much in the spirit of IR's multi-discipline, multi-method, and pragmatic 'judge the results' heritage.

Key Features of the Employment Relationship

Arguably the authoritative reference source on modern industrial relations is the *Sage Handbook of Industrial Relations* by Blyton, Bacon, Fiorito and Heery (2008). In the Preface, the editors explain that the central areas of IR interest had in decades past been "trade unions, collective bargaining and strikes", but that "It is now widely recognized that the different aspects of the employment relationship are what define the field" (p. xviii). This proposition is also depicted in the 'family tree' diagram of British industrial relations featured in Kaufman (2014) where the pluralist, radical, and unitarist streams of thought meld into study of the employment relationship. We perceive, therefore, that Piore and Arthurs' first change item—shift from a narrow focus on collective bargaining and labour law to a broad focus on the employment relationship—is already well under way so we focus this paper on their second and third items.

A number of writers discuss the employment relationship and its key features viz. the study of industrial relations (e.g., Marsden, 1999; Edwards, 2003; Budd, 2004; Deakin and Wilkinson, 2005; Kaufman, 2010; Godard, 2011). A particularly well-articulated account spanning pluralist and radical/Marxist frames is by Blyton and Turnbull (2004). They identify four ER dimensions as fundamental to industrial relations (p. 41):

1- creation of an economic surplus,
2- co-existence of conflict and co-operation,
3- indeterminate nature of the exchange relationship,
4- asymmetry of power.

We briefly describe each in this section and then analytically represent them in the next section.

Dimensions #2-#4 are shared in the pluralist and RM literatures, although somewhat differently theorized and with a more polarized and ineradicable representation in the latter. Dimension

#1, on the other hand, is mostly an RM idea. A contribution of this paper is to call the attention of pluralists to the economic surplus concept, partly for the IR insights it provides but also because it undermines the orthodox economics argument that markets distribute income in an equitable and de-politicized manner. (Marginalist tools need not yield competitive theory conclusions.)

Blyton and Turnbull do not specifically define the surplus concept but say it is analogous to a nation's discretionary income (p. 24). Among RM writers, the definition of economic surplus differs (Davis, 1992), particularly between people who use the Marxian labour theory of value (e.g., Resnick and Wolff, 2006; Fine and Saad-Filho, 2010) and those who do not (e.g., Robinson, 1966; Mayer, 1994; Bowles, 2004). But, broadly conceived, the economic surplus is the amount of GDP remaining after paying socially necessary costs of production. The concept was prominent in classical economics, including Smith's *Wealth of Nations* (1776/1937), and became a linchpin in Marx's political economy. In this tradition, because the surplus is a nation's discretionary income, it therefore is a social choice variable ultimately distributed to claimants by politically determined endowments and rules of the game. This idea is also prominent in the Fabian tradition of the Webbs (Webb and Webb, 1897, 1902; Kaufman, 2013) and the Commons' institutional tradition (Commons, 1983, 1934; Kaufman and Barry, 2014).

This observation leads to feature #2 of the employment relationship. Industrial relations (e.g., Walton and McKersie, 1965; Kochan, 1998; Edwards, 2003) posits that the employment relation contains a mixed incentive for capital and labour to cooperate in order to make the surplus as large as possible (win-win) but also to have conflict because the two groups/classes struggle over the production process and distribution of the surplus (win-lose). The cooperation/conflict dynamic stems, in turn, from a unique feature that distinguishes labour from other factor inputs; that is, labour is embedded in *human beings* (is not a commodity) and work supply is thus volitional (Kaufman, 2010). This feature is also central to labour process theory which likewise spans pluralist and RM traditions (Thompson and Newsome, 2004; Jaros, 2010).

Feature #3, indeterminacy of the labour exchange, further accentuates the possibility of conflict. Because labour supply is volitional and employment contracts are inevitably incomplete, the terms of the labour exchange are open to bargaining, renegotiation, and power play once production commences. Both Marx (1867/1907) and Commons (1919) note that the firm purchases the worker's labour time for a wage but only produces a product and earns a profit to the extent that labour time is converted to productive effort and work. As a result, managers and workers engage in a continual tacit and overt struggle over exercise of control, allocation of jobs, work intensity, and discipline. Likewise, contract incompleteness means the employer may engage in actions that are opportunistic or exploitative, such as terminating workers once the surplus is realized (Marsden, 1999; Thompson, 2003).

These sources of conflict are often resolved in favour of employers by feature #4, the asymmetry of power in employment relationships. That is, the ownership of the means of production, excess supply of job seekers, and employers' private property rights to manage the business as they deem fit, create a tipped playing field in labour markets and firm governance that favours the interests of employers over workers. This premise is shared in pluralist and RM frames (Budd, 2004; Hyman, 1975) but gets starker emphasis in the latter and is typically more directly linked to capital ownership and the Marxian reserve army of the unemployed.

All four of these ideas can be found in Smith's *Wealth of Nations* and have been a staple (particularly #2-#4) of the industrial relations literature for a century. Each idea, in turn, is in an important way antithetical to the neoclassical/neo-liberal free market program which has dominated world economy policy since Thatcher and Reagan. But then one has to ask: if these ideas are such well-known and cogent arguments in the intellectual armory of pluralist and RM industrial relations, how has the field nonetheless lost so much authority and influence in policy debates to the extent that leading scholars describe IR as a failed project? One possibility is that modern IR writers have over several decades lost contact with the original paradigm's core theory principles; another is that they have ceded the analytical battle ground to free market economists. What follows is a small first step to take it back. We acknowledge, before proceeding, that one can dismiss all of neoclassical economics (and, by implication, some of the analytical tools we use) as fatally flawed and walk away. However, seldom is an enemy defeated by refusing to engage.

Analytical Representation

We next analytically represent these four employment relations principles. Figure 1 contains three panels that represent core sectors of the employment relationship: the labour market, firm and labour process, and macro economy. The demand/supply (DS) diagram of the labour market and Keynesian cross model of the macro economy are standard to conventional economics; the depiction of the firm and labour process is adapted from Kaufman (2004b). Our contribution is to use these diagrams to depict the four ER dimensions, derive new insights, show interconnections, and demonstrate linkages to both pluralist and RM traditions. We explain each diagram in order; however, we start first with a fourth feature—the "roof" over all three sectors. It is conspicuously omitted from economics textbooks.

[Insert Figure 1 here]

Political Economy

The roof brings in the political economy dimension that is an essential part of the pluralist-RM tradition, starting with Marx's theory of the state and carrying through to the Webbs (1897) and Commons (1934) and later generations of writers (e.g., Dunlop, 1958; Hyman, 2008; Budd, 2004; Godard, 2004; Streeck, 2011). It symbolizes the building(s) housing the executive, legislative, and judicial branches of the State. These government institutions collectively exercise the power of sovereignty and thereby set the rules of the game for labour markets and employment relationships, including factors such as contract and tort law, property rights, social safety net programs, labour regulatory agencies, court rulings, and policies of the central bank. A more detailed analysis would also include governance institutions at higher and lower levels of the employment relations system, such as international institutions (e.g., European Union) and firms and unions.

The labour DS model in standard economics is unstructured and has no roof because the only active variables are demand, supply, and competition; to the degree a web of rules is present it takes the form of exogenous background factors, such as a given body of contract law and judicially enforced property rights. This theoretical tact on the web of rules elides three realities fundamental to industrial relations (Kaufman, 2010; Kaufman and Barry, 2014). The first is that the web of rules is endogenously determined in a political process at cascading levels of governance and is therefore an object of social choice and social change. The second is that a particular web of rules, by defining rights, endowments and permissible actions, effectively structures the DS curves in the market and the labour process in the firms and thus determines their outcomes. The third is that the political process is seldom a level playing field, even in many well functioning democracies, and instead is tipped by money, influence, social position, and constitutional/legislative rules to yield outcomes favourable to the classes and groups in power—groups that may shift with electoral swings or, alternatively, remain entrenched for long periods of time.

The roof therefore brings in the political economy dimension by showing how the *visible hand* of the State structures and controls the IR institutions which, in turn, structure and shape their operation and outcomes. In orthodox economics, therefore, wage rates are presented as *market determined* by *individual action* and *natural forces* of competition and thus take on an objective and a-political nature. In the pluralist and RM traditions, however, the location of the DS curves and resulting wage outcomes are dependent on the specific regime of market rules and endowments and these, in turn, are *politically determined* through *collective action* by classes and groups of people in control of the *governance structures* of the nation state and subsidiary institutions (firms, families, etc.).

Economic Surplus

The political economy dimension leads to the economic surplus concept. To proceed, we assume the nation state has crafted a particular web of rules and set of endowments for economic agents. We then move to the labour market in panel (a). The labour demand curve D_1 and supply curve S_1 set the wage W_1 and employment level L_1 (point B). [Ignore for now the shaded band aspect of D_1.] Value of GDP is the area under the demand curve, $OABL_1$ (sum of the workers' value marginal products = total product value). Assuming capital is fixed in the short run, omitting land (to stay within a two dimensional diagram), and assuming all productive managerial/supervisory hours are part of L_1, the direct cost of production is the wage bill $0W_1BL_1$. The residual product value in the triangle area (W_1AB) provides an upper bound estimate of the economy's surplus.

If one follows Marx (1867/1906) and assumes that the owners of capital are idle rentiers, like absentee landlords, who provide little-to-no productive contribution in return for their receipts of profit and interest (managers receive a wage/salary), and that capital is entirely the value of stored-up labour (via the labour theory of value), the triangle is unearned income and a surplus above social cost (aka, monopoly rent). It also provides a measure of *labour exploitation*—i.e., income earned by workers but not received (for a review of exploitation theories, see Hahnel, 2007). If one instead follows neoclassical theory and assumes the entire triangle is a return to capital owners for a productive service (risk-bearing, saving, etc.), then surplus and labour exploitation are both zero. In either case, the diagram contains the Marxian division of society into two socio-economic classes—a working class receiving wage income ($0W_1BL_1$) and a property-owning capitalist class receiving profit income (W_1AB).

Importantly, Marx assumes the size of the economic surplus—and concomitant amount of labour exploitation—is much larger once competition has full time to act (Botwinick, 1993). That is, he reasons along conventional lines that competition in the long run lowers the price of all commodities until price just covers minimum average cost (Marx, 1849/ 1935; Fine and Saad-

Filho, 2010). Since labour is traded like a commodity, this means its price (the wage) falls in the long run to the minimum family sustainable or 'subsistence' level (e.g., poverty-line wage, factoring in a nation's social stage of development). The sustainable wage is marked as W_S in panel (a) where D_1 and S_2 intersect (point E). Labour cost falls, therefore, and the size of the surplus (triangle) increases substantially (W_SAE compared to W_1AB). Exploitation also becomes nakedly obvious since employees (e.g., today's fast-food workers) labour all year so they get just enough income (W_S x L_2) to survive to show up for work next year while all the nation's discretionary income (W_SAE) goes to the small minority of capital owners.

Other writers in the RM tradition who work from a marginalist framework come to a roughly similar if more nuanced and contingent conclusion (Roemer, 1982; Elster, 1985). For Marx, exploitation is inherent to capitalism since the payment of profit to capitalists ensures that workers never receive the full value of their labour. Alternative conceptions exist, however. For example, using Ricardian rent theory, the Webbs (1897, 1902) argue similar to Marx that wages for unskilled workers are in the long run competed to the social subsistence level (Kaufman, 2013). He and Beatrice (Webb and Webb, 1902: xxiii) state, for example, "We shall find wages everywhere forced down, for the ordinary, common skilled worker, to their 'natural level'—that is, to the barest subsistence of the human animal from day to day". In terms of Figure 1, they are claiming in the long run that the wage settles at W_S (point E).

However, the Webbs, like a number of institutionalists, neo-Marxists and Post-Keynesians (e.g., Commons, 1893, Robinson, 1966; Mayer, 1994), are not willing to follow Marx and attribute *all* the surplus to labour exploitation nor to embed it in a revolutionary class struggle defined by ownership of the means of production. The Webbs, for example, note that not all economic rent goes to capital since a portion also goes to skilled craft, professional and managerial workers who earn a "rent of ability" and "rent of opportunity." Both the Webbs (1902) and Commons (1893), and later neo-Marxist writers such as Roemer (1982), locate exploitation in *unequal* ownership of property of *all kinds* (e.g., physical, human, financial, social). Contrary to Marx, therefore, many pluralist-radical writers do not regard exploitation as entirely a feature of the class system nor as inherent to the employment relationship; rather, the employment relation becomes exploitative only when income-generating property rights and resources are sufficiently unequal that workers are forced to accept wages, conditions, and treatment socially perceived as unreasonable/unjust.

We illustrate this concept of exploitation (new to IR we believe) in panel (a) of Figure 1. Assume the market wage W_1 represents a relatively balanced outcome, indicated by the location of the DS curves in the middle of the diagram (positive Marxian exploitation, zero institutional/Fabian exploitation, zero neoclassical DS exploitation). Drawn in below it at W_2 is a dashed line representing where, in the consciousness of the workers, wages and conditions transition from fair (on or above the line) to unfair (below the line). That is, a certain degree of inequality is regarded as consistent with social justice but when the structure of laws, rights and endowments—ultimately determined at the State (roof) level—becomes too unequal and resulting wages and conditions forced too low in labour markets then the differential between what exists and the minimum fair level is regarded as exploitive. Commons (1934) frames this wage outcome as beneath *reasonable value*.

Assume, for example, that Parliament, perhaps at the urging of employers or free market economists, eliminates all social safety net programs for workers, and opens national borders to unrestricted immigration. The aggregate labour supply curve shifts rightward and the workforce expands until $D_1 = S_2$ at which point the wage = W_S. As explained earlier, the size of the economic surplus expands but workers' share decreases (assuming, as is realistic, an inelastic labour demand curve). From an institutional/Fabian perspective, exploitation increases from zero at W_1 to W_2HEW_S at W_S; from a neoclassical perspective, exploitation is still zero since workers are paid their value marginal product.

Cooperation vs. Conflict

The surplus concept leads to the incentives for both cooperation and conflict in the employment relationship. It is already evident from the preceding that a conflict situation can easily develop between labour and capital. The decision of the Parliament described above is easily interpretable by workers as socially unjust for it increases GDP and the surplus, benefits consumers with more goods at lower prices, and increases the profit share of capital yet results in lower wages (including compensating differentials), worsened conditions, and a smaller wage share of national income for labour. Employees could easily conclude that they have little reason to cooperate with this arrangement, leading to greater collective worker mobilization and collective action as Kelly (1998) predicts.

Figure 1 provides an alternative way to demonstrate the conflict-cooperation tension in the employment relationship that originates in its very structure and not from a precipitating act of Parliament or some other outside force. Marx claims in early works (e.g., *Wage Labour and Capital*, 1849/1935) that the interests of workers and employers are inherently opposed since higher wages for workers mean lower profits for capitalists. In Figure 1, at the wage W_1 the triangle measures the surplus and share going to capitalists. Viewed from a purely static perspective, it does appear that higher wages for workers mean lower profits for capitalists (i.e., the size of the triangle shrinks), and vice versa, thus setting up a negative-sum game in the employment relationship and basis for a continuing distributional struggle and state of antagonism between capital and labour.

In more mature work, such as Volume I of *Capital*, Marx (1867/1906, Ch. 6) modifies this stark portrait and notes that the employment relationship, when viewed from a dynamic production perspective, creates incentives for *both* cooperation (positive-sum) and conflict (negative-sum). To analytically illustrate the push and pull of conflict vs. cooperation, it is helpful to pose these two questions: 1- what happens if workers decide to cooperate more in production?; and 2- how much (if any) do they gain from doing so? (Critics of economic formalism should work out the answers before proceeding.)

The first question is answered by looking at the firm in panel (b). The firm is the site of production, indicated by the production function contained in the rectangle area at the bottom of the organization. Following Marx and as popularized by Braverman (1974), the rectangle is labeled the *labour process*. Employers in this economy contract for L_1 units of labour time and pay the workers a wage W_1. What produces output from the production function, however, is not labour time but volitional labour power L(e), where e is effort or "effective labour." This uniquely human feature of labour is illustrated diagrammatically by embedding the e term in the person figure. Since workers are paid for their time and providing labour power is typically a source of disutility (from fatigue, boredom, subordination, etc.), their incentive is to hold down L(e) to the minimum consistent with keeping the job. This level of labour power, call it $L(e_1)$, when combined with the given capital (K) and natural resource (N) inputs, produces an output Q_1; in turn, variations in L (for a given e_1) yield the neoclassical marginal revenue product schedule and labour demand curve in panel (a).

Now assume workers decide to cooperate more. From a production (and employer's) point of view, for labour to cooperate more means workers volitionally decide to more actively partner with managers to increase organizational performance. In our model, this translates into a higher value of e, say e_2, and hence labour power and output rise to $L(e_2)$ and Q_2, respectively. Since the DS diagram in panel (a) has labour time L on the horizontal axis, the same L_1 units of labour time now have a higher total product and marginal product and, hence, the entire labour demand curve shifts upward and to the right to D_2. For the same L_1 units of labour, an increase in effective labour increases GDP to $0FJL_1$.

Increased cooperation, therefore, does increase output and the size of the pie; the question, however, is what *share* of the larger pie (the ΔQ from Δe) workers get. If the share is large, workers have a reciprocally large incentive to cooperate, in effect creating the unity of interest type of employment relationship that lies at the heart of modern HRM and theories of the high performance/mutual gain workplace (Kochan and Osterman, 1994; Huselid, 1995; Boxall and Purcell, 2011). If, on the other hand, workers cooperate and provide Δe and gain little-to-nothing then not only do they have little incentive to cooperate but also naturally feel antagonism toward managerial efforts to get them to do so since it amounts to greater (unpaid) exploitation of their labour (Hyman, 1975; Edwards, 1986; Gall and Hebdon, 2008).

Microeconomic theory provides a guide to the share of ΔQ from increased cooperation that goes, respectively, to capital and labour owners. If an excise tax is put on a product, the supply curve shifts leftward and the theory of tax incidence predicts the share of the tax paid by consumers versus firms (Stiglitz, 2000). The fundamental prediction is that the party with the more elastic curve bears more of the tax since the existence of many substitutes for its services (the major determinant of DS curve elasticity) gives it correspondingly smaller power to shift the burden to the other party. The same type of analysis can be done in panel (a) to identify who gains from increased employee cooperation. Greater cooperation shifts the labour demand curve rightward to D_2. Given supply curve S_1, a new equilibrium is reached at higher wage W_3 (point G). The question is: does this new outcome provide incentive for the original L_1 workers to furnish the cooperation that makes it possible?

The answer, as indicated, turns on the respective elasticities of the DS curves. In the diagram, the portion of the newly created surplus going to the original L_1 workers is area W_3-W_1 x L_1. Although not drawn in, the reader can determine by doing so that if the labour supply curve is perfectly inelastic at L_1 (a vertical line, indicating zero substitutes for the L_1 workers), the wage rises commensurately with the demand curve shift and, accordingly, absorbs the extra surplus created by Δe and leaves profit the same. However, if the labour supply curve is perfectly elastic (horizontal, indicating perfect substitutes for the L_1 workers) the opposite happens—the L_1 workers' wage stays the same and all the increase in surplus goes to capital owners (employers). In general, therefore, our analysis supports the pluralist-radical contention that the employment relationship features incentives for both cooperation and conflict. What we add, however, is new analytical insight on the factors that determine the *relative degree* of cooperation and conflict. That is, workers in a particular employment relationship have more incentive to cooperate the larger is the share of the pie they take home as wages. This split occurs at two levels in the employment relations system. The first is at the political economy level (roof) where the nation state determines the rules of the game and thus positions the DS curves. This dimension is insightfully articulated by Edwards, Bélanger and Wright (2006) who work out, based on what they call "the balance of class forces" and "wider power relationships" (p. 127), a four-cell matrix of cooperation-conflict dynamics based on permutations of what they call "developmental" and "control" processes. This matrix, in turn, influences the extent to which capitalists engage in positive-sum surplus sharing with workers. But, we argue, once the political economy constellation of forces and rules of the game are settled, a second set of determinants of labour's share from cooperation comes into play at the level of the labour market. In particular, the amount of the new income created from cooperation that goes to labour depends, *ceteris paribus*, on the elasticity of the market supply curve of labour.

In the RM literature, the labour supply curve is presumed to be more elastic than in a standard neoclassical model (indeed, near W_S it is negatively sloped as workers increase hours to survive) and, hence, more of the extra surplus created by cooperation passes to employers. The most important reason is macroeconomic and rests on the Marxian notion of a reserve army of unemployed (Boddy and Crotty, 1975), although other factors—such as increasing ability of companies to shift production across regional and cross-national supply chains—are also important.

We illustrate the reserve army idea with panel (c), the macro economy. Aggregate demand, C+I+G, and aggregate supply, given by the 45 degree line (showing equivalent levels of Q transposed from the horizontal axis), determine the level of GDP and employment. Neoclassical theory assumes, via Say's Law and flexible prices and wages, that equilibrium GDP is at the full-capacity/full employment level (Kaufman, 2012a). Call it Q_1. RM and Post-Keynesian writers contend, however, that actual GDP, call it Q_2, is typically below the full employment level. The recessionary gap Q_1-Q_2 creates a corresponding excess supply condition in the labour market, such as indicated at W_3 (using D_1, S_1). Here is Marx's reserve army or, alternatively, what the Webbs (1897) describe as "the unemployed….crowding around the factory gates every morning" (p. 660).

The unemployment problem stems from insufficient aggregate demand (Robinson, 1966; Clarke, 1994). Demand gradually falls short of full employment output for a number of reasons outlined by Marx (1867/1906), such as growing monopoly in product markets, rising share of constant (fixed) capital, labour-saving technical change, and widening income inequality. As a result, output does not grow fast enough to absorb the available labour supply and an overhang of unemployment provides the perfect substitutes for the L_1 employed workers and, hence, render them powerless to capture part of the extra surplus created from cooperation or some other source of output gain. As a matter of realism, even with extensive unemployment in the economy some workers have sufficiently valuable skills and knowledge so that their supply curves remain upward sloping and they therefore have the ability to keep part of the fruits of cooperation—as per the Webbs' notion of rent of ability. One can incorporate this nuance into RM theory with a model of dual/segmented labour markets (Doeringer and Piore, 1971; Edwards, Reich and Gordon, 1975). The flip side is that socially excluded and disadvantaged groups, such as women, immigrants and minorities, are doubly exposed to competition in secondary labour markets because of discrimination, segregation, and crowding (Gordon, Edwards and Reich, 1982; Albelda, 1997; McGovern, Hill, Mills and White, 2007).

Indeterminacy of the Labour Exchange

The third fundamental feature of employment relations is the indeterminate nature of the labour exchange. As described earlier, this RM feature arises from the separation of labour time and labour power and the presence of incomplete employment contracts. In standard microeconomic theory, a commodity market yields a single going price for every unit traded (the law of one price). A feature of employment relationships, however, is that different units of labour, even if homogeneous in terms of all observable characteristics, still earn different wages that competition does not eliminate even in the long run (Botwinick, 1993; Fleetwood, 2006). The reason builds on the cooperation-conflict dynamic.

Labour time is traded on a market and if perfectly homogeneous then every worker gets the same wage per hour, such as W_1 in panel (a). This part of the market exchange can be written into a contract and becomes determinate. However, as already established, the value of the workers' marginal product depends on their labour power L(e) and labour power is determined only *after* they have left the labour market in panel (a) and entered the firm in panel (b). Before production begins, therefore, the employer confronts a frequency distribution of potential marginal products, ranging from e = minimum to e = maximum. This distribution creates, in turn, a distribution of potential marginal products which, graphically, yields a *band of values* rather than a determinate point (Lester, 1952). Even if the labour supply curve is a pencil thin line (a determinate one-to-one relationship between wage and units of labour time offered), the band on the labour demand curve creates an *area of indeterminacy* in the labour market (Kaufman, 2012b).

Diagrammatically, in panel (a) the wage for the L_1^{th} worker can vary from a low of W_4 to high of W_3 in this band. In neoclassical theory, such a band presumably arises from some type of friction that is either ruled out by assumption (e.g., perfect information) or is assumed to be eroded to zero over the long run by competition. In a RM account, however, the band and indeterminacy in wages is an inherent and persistent feature of employment relationships, as depicted in labour process theory (Thompson and Newsome, 2004). The employment relation in the firm, therefore, features an ongoing process of tacit bargaining, active control and resistance, and acquiescence and misbehaviour as employers and workers jockey over the terms of the wage/effort bargain (Edwards, 1990; Jaros, 2010).

Asymmetry of Power in the Firm

The fourth fundamental feature of the employment relationship is the asymmetry of power in the firm between employer and individual employee. Standard DS theory treats the labour market as a level playing field for employer and worker. In a competitive labour market, such as pictured in panel (a), both employer and employee are wage-takers and therefore have zero market power, rendering moot the concept of power inequality. Both pluralist and RM frames of industrial relations maintain, on the other hand, that the employer has a bargaining advantage vis-à-vis the individual worker; indeed, this premise goes back to Smith and the *Wealth of Nations* (1776/1937). The explanation is largely similar across the two frames, although the RM frame provides a broader and more class-based political economy perspective. Figure 1 provides a representation.

Inequality of power in the employment relationship comes from interaction of the three diagrams and governance roof. Typically, employers, property owners, the wealthy, and social/political insiders have disproportionate control and influence in the nation's polity (because "dollar votes" outweigh "human votes"); indeed, in classic Marxism the state is the political arm of the capitalist class. They use their political power to structure socio-economic laws, rights, and endowments to advance their collective/class interests in gaining a larger share of the economic surplus (e.g., CEO compensation rules). Politics, therefore, becomes a way to structure the employment relationship so on the *surface* it looks like a level playing field but in *reality* is tipped against labour. For example, assume an employer-dominated government shifts the law from "just cause" to "at-will" termination, ends unemployment insurance, and allows striker replacement. All these actions reduce the workers' bargaining power and reservation wages and, hence, shift the market labour supply curve in panel (a) rightward from, say, S_1 to S_2. From a neoclassical perspective, the new demand/supply equilibrium at W_S is still competitively determined and thus a case of equal bargaining power. From a RM political economy perspective, however, workers suffer a bargaining disadvantage because a tipped legal regime creates a tipped DS outcome such that employers gain most (all) of the surplus.

An insight of Marx, later extended by other heterodox/RM economists, such as Hobson (1909) and Baran and Sweezy (1966), is to note the destabilizing feedback loop that extends from the labour market in panel (a) to the macro economy in panel (c) and back to the labour market in panel (a). We highlight this loop by the dashed line going between Wage (panel a) and Aggregate Expenditure (panel c). That is, inequality of bargaining power reduces the wage rate and labour's share of the surplus in panel (a), the lower wage share reduces household income and consumer spending (from C_1 to C_2) in panel (c) and shifts down the C+I+G aggregate demand line in the macro economy, the smaller amount of spending causes GDP to fall to Q_2, and the resulting decrease in labour demand and rise in unemployment feed back into the labour market in panel (a) to further weaken labour's bargaining power, and so on in a downward spiral. This downward spiral – exacerbated by the fact that a growing capital share of the surplus simultaneously creates financial market bubbles and over-accumulation of fixed capital on the aggregate supply side (not shown in the diagram to keep it simple)—leads to growing economic unbalance, instability, and ultimately crisis. The long-run tendency toward crisis (see Clarke, 1994)—delayed, perhaps, by wars, debt accumulation, and fiscal/monetary stimulus (Baran and Sweezy, 1966)—becomes, in turn, a key component of the RM worker mobilization and strike theory advanced by Kelly (1998).

One last abode of power inequality remains in Figure 1, however. It is inside the firm in panel (b). The law of the employment relationship gives the capitalist owner authority to direct ("boss") employees in the performance of work tasks; likewise, the employer has the authority to create, administer and enforce all rules of the workplace and terminate employees if they violate them (Deakin and Wilkinson, 2005). Neoclassical analysis suggests this power on the part of employers is formal but not substantive since the employee can always quit and find a job somewhere else and firms have a profit incentive to fairly treat workers in order to keep a reputation as a good employer (Wachter, 2003). Likewise, in HRM the employer's legal power advantage—illustrated by the HRM box located in the top part of the firm's command and control system—is moot since the employment relationship is (largely) mutual gain (Huselid, 1995). The RM/pluralist contention, however, is that the employer's power position is superior to the workers and has real bite; it is also an autocratic form of power since the employer controls the executive, legislative and judiciary functions of the firm's governance system

(Edwards, 2003; Budd, 2004). In a minority of workplaces with a high performance/commitment HRM strategy, employer power may be relatively benign and exercised with a velvet glove; in the majority, however, employer power has a more overt and hard-fisted character exercised through tough discipline, supervision, and termination.

This RM account calls attention to additional feedback loops in Figure 1 (various arrows not drawn in Figure 1 for visual simplicity). One such loop goes from labour market and macro economy (panels (a) and (c)) to firm (panel (b)) and back. The labour market and macro economy symbiotically create inequality of bargaining power, low wages, and involuntary unemployment. To keep their jobs and maintain minimum family income, and prodded by greater managerial pressure and threat of termination, workers in the firm increase effort (higher e) and output and aggregate supply expand, worsening the excess supply condition in product and labour markets. The result in the labour market is a yet lower wage which induces a further speed-up in the labour process, and so on. Note that this wage-effort link (W ↓ and e ↑) is opposite the standard neoclassical efficiency wage story (wage ↑ and e ↑).

The scenario just described matches the labour market experience in the Great Depression and provides an important explanation as to why institutional and RM economists of that era (e.g., Cole, 1935; Douglas, 1935) supported greater unionization, labour law, and social insurance as a way to stop the deflation cycle and augment family income and aggregate demand. This idea, for example, is written into the Preamble of the USA's *National Labour Relations Act* (NLRA, 1935) as a justification for encouragement of collective bargaining and, also, was widely cited as a justification for the minimum wage and maximum hour provisions of the *Fair Labour Standards Act* (FLSA, 1938) (Kaufman, 2012a, 2012b). Of course, conventional economists criticize these ideas as wrong-headed and counter-productive (e.g., Neumark and Wascher, 2008; Ohanian, 2009) and employers unite in both factory and legislature to oppose them.

One reading of the American New Deal (e.g., Commons, 1934: Ch. 16) and British post-WWII welfare state is that they saved capitalism from the Marxian apocalypse (paradoxically, a crisis abetted by dysfunctional *laissez-faire* economic policies) through a feedback loop Marx had unduly discounted. This loop is the ability in a democracy of the workers and citizenry to unite and use the power of the State to override academic economic opinion and employer/elite influence and legislate the redistribution of rights, power and income necessary for social justice and renewed prosperity. However, in other countries, or perhaps in America or Britain of the present time, Marx may yet prove prescient to doubt that a (largely) peaceful "ballot box" revolution can rescue and reform the capitalist system before its inherent tendency toward economic inequality and social-political oligarchy becomes too large and entrenched. If so, a new cycle of industrial conflict and worker mobilization and radicalization commences as modeled in Kelly's *Rethinking Industrial Relations* (1998).

Conclusion

Industrial relations remains 'theory short' and, indeed, as was quoted in the Introduction some prominent scholars, such as Piore (2011) and Arthurs (2014), contend that the field has a failed intellectual framework which needs re-invention. The purpose of this paper is to advance IR theory by giving greater analytical representation to the dynamics of the employment relationship as contained in the field's pluralist and radical-Marxist traditions, with the extra twist of using marginalist tools from orthodox economics. Besides helping integrate pluralist and radical-Marxist frames of reference, our project also helps integrate British and American IR literatures, the former more open to RM ideas but closed to economic-type modeling and the latter much the opposite.

To give this project a well-defined and manageable core, we focused on four foundational features of the employment relationship. These features are represented in a four-part political economy diagram. This exercise advances IR theory by giving it greater analytical representation, more precisely defining and representing key concepts, and demonstrates the theoretical contribution of an integrated pluralist-RM perspective. The economic crisis the world is now slowly recovering from, with strikes and labour protests breaking out across a number of countries, makes this analysis not only of intellectual interest but also of contemporary relevance. History does not repeat itself, but it is not a random walk either.

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