Contents

Foreword ........................................................................................................................................................................ 7

A New Era for Social Pacts in Europe ......................................................................................................................... 9
Philipp Pochet and Giuseppe Fajertag

The European Union and National Social Pacts: Employment
and Social Protection Put to the Test of Joint Regulation .......... 41
Janine Goetschy

From Means to Ends: Linking Wage Moderation and
Social Policy Reform ............................................................................................................................................. 61
Anke Hassel and Bernhard Ebbinghaus

Social Pacts in Italy and Europe: Similar Strategies and
Structures; Different Models and National Stories ................ 85
Serafino Negrelli

Toward a New Social Pact in Belgium? ................................................. 113
Etienne Arcq and Philippe Pochet

Recent Issues on the Social Pact in Denmark ............................ 135
Jens Lind

Social Pacts in Finland ................................................................................................................................. 161
Timo Kauppinen

Alliance for Jobs – is Germany following the path of “competitive
corporatism”? ................................................................................................................................. 187
Reinhard Bispinck and Thorsten Schulten

Social Pacts in Hellenic Industrial Relations:
Odysseys or Sisyphus? ......................................................................................................................... 219
Christos A. Ioannou
Foreword

Three years after we edited the book on Social Pacts in Europe, we thought it necessary and useful to return to the same period so as to analyse its most crucial national and transnational aspects. The contributors to the previous book were invited to feed into this analysis (except for the Finnish and Dutch cases). To broaden our overview, the national chapters have benefited from the addition of two new case studies: Spain and Greece. Furthermore, two new comparative chapters have been included in order to supplement the horizontal analyses.

As with the previous volume, we again had no desire to engage in a theoretical debate about the term itself: social pact. The pragmatic approach which was developed and discussed among the authors on two occasions (seminars: Brussels, 27-28 September 1999 and 3 February 2000) consisted in moving to and for between comparative and national analyses, allowing each individual to draw his or her own conclusions from these discussions. The aim was to provide a variety of complementary texts, rather than to achieve a hypothetical consensus among their authors. Nevertheless, the lively debates during the seminars helped to increase the coherence and improved national and comparative chapters. Many thank to the participants.

The editing work and the respect of the timetable have been greatly facilitated and improved thanks to the consistent follow-up of Fanny Kabatusuila (Observatoire social européen). Valérie Cotulelli (Observatoire social européen) was responsible for the texts’ layout and the pagination.

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A New Era for Social Pacts in Europe

Philippe Pochet and Giuseppe Fajertag

Whereas many people regarded tripartite forms of bargaining as outmoded and believed that economic and monetary union would bring about an “Americanisation” of industrial relations in Europe, social concertation has undergone an astonishingly lively and broad-based revival. Of the fifteen Member States of the European Union, Germany, Belgium, Spain, Ireland, Italy, Greece, Finland and Portugal witnessed the emergence or re-emergence of such initiatives during the period 1992-1998. Since then, several attempts have been made to account for this phenomenon (Negrelli, 1997; Rhodes, 1997; Schmitter and Grote, 1997).

The main hypothesis underpinning the introduction to our 1997 collective volume was concerned with the constraints and changes associated with the single currency. We asserted that the prospect of monetary union had acted as a catalyst for the signing of social pacts, in particular for countries likely to have difficulty in sustaining a monetary regime aiming for low inflation and a stable currency while keeping their public deficits under control (Fajertag and Pochet, 1997; Pochet, 1998 and 1999).

That analysis attached priority above all to one main variable – pay bargaining – while pointing out that this is normally embedded in a wider set of measures affecting the labour market and/or social security.

In noting a degree of convergence, we indicated at that time that a number of these agreements appeared to be unstable and linked with cyclical economic factors, rather than being a sign that bi- or tripartite relations were becoming structured or institutionalised into a sort of functional equivalent of neo-corporatist institutions.

We also stressed that the transition to the third phase of EMU in 1999 would reopen a debate on suitable forms of concertation as well as on the content of agreements, no longer in the context of the Maastricht criteria establishing the single currency but in that of a unified monetary zone, the euro zone. We asked whether or not competitive pacts would be sustainable within the future monetary union, since “once it becomes operational, national collective bargaining systems will need to solve new problems whose precise nature it is difficult to gauge” (Pochet, 1998).
This introduction is one of a group of four contributions, each illustrating an aspect of the discussion surrounding the social pacts of the nineties and their future. Janine Goetschy puts the pacts of the nineties and those of the sixties and seventies into a historical perspective in terms of their degree of stability, the nature and quality of their transactions, and the role and stance of the actors. She also deliberates on the interactions between the European and national levels. Anke Hassel and Bernhard Ebbinghaus continue along these lines, also investigating content implications and in particular the relationship between pay bargaining and reform of social security. Among the complex processes of change, they argue that social policy reforms are both means and ends: means, because the concessions form part of a political exchange; ends, in that they constitute one way of reducing overall labour costs. The trajectories of three countries – Germany, Italy and the Netherlands – are contrasted. Serafino Negrelli takes up the debate on whether today’s social pacts are a continuation of or a break with neo-corporatism, considering that the traditional theories of convergence and corporatism do not offer an adequate framework for understanding the new social pacts of the nineties. The case of Italy is used as an illustration. He ends by attempting to draw up a taxonomy of models of social pacts.

The second part of this book presents the cases of individual countries, putting recent developments into perspective. With the exception of France, the United Kingdom, Austria and Luxembourg, all the European Union countries are covered, as is Norway. By the very nature of the exercise, the horizontal analyses cannot take account of the variety and diversity of national situations. The authors describe the most significant developments since the publication of the previous book.

The volume closes with two comparative chapters in a more economic vein. Both, from different perspectives, study the consequences of centralised agreements in terms of job creation and growth. Andrew Martin argues that, owing to the stringency of the monetary regime adopted at European level, social pacts are competitive and could have adverse effects across the eurozone as a whole. Franz Traxler undertakes a detailed comparative analysis of the period 1970-1998, noting how methods of collective bargaining have changed over time. He arrives at the conclusion that the notions of effective implementation and interplay between bargaining levels are essential when assessing economic performance in conjunction with methods of collective bargaining.
We for our part shall confine ourselves in this introduction to re-examining the external (or contextual) determinants which impact on the signing of social pacts, their content and the position of the actors. Our first section is devoted to an assessment of the nineties. Section two focuses on what we call the post-Maastricht conditions and the different developments occurring in the countries analysed. However, our main area of interest is the changes in the issues under negotiation. The central theme of the nineties was the progression of nominal earnings in the context of monetary union, which did not of course prevent other issues from being tackled consecutively or successively. At present, the consensus over pay restraint is evaporating, on the one hand, and, on the other, other issues such as overall labour costs and pensions reform are rising to the top of the national and European agendas. Renewed budgetary room for manoeuvre is shifting the relative positions of the actors. We take up the subject of “social dumping” and competitive social pacts, which pervaded the literature of the nineties, maintaining that there is greater scope for truly competitive pacts nowadays than was the case a few years ago. Nevertheless, the fact that the conditions appear to be more propitious for competitive pacts does not mean that we expect this route to be followed. In our final section we revisit the case of southern Europe, primarily Italy. In fact, Italy was considered as a typical example of the new social pacts. However, in the light of recent events, we reassessed this postulate.

Section 1: social pacts in the nineties

The emergence of a new generation of agreements occurred in a generally fluid context, affected by a series of profound changes whose influence is in many cases explicitly referred to in the agreements themselves. Thus the Irish agreement, Partnership 2000 as various other national agreements, openly asks the following question: “how to promote competitiveness in the face of the challenges ahead for Ireland, including global competition, the information society, technology advances, world trade negotiations, ongoing reform in the Agriculture area, EMU and enlargement of the European Union?”.

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1 Parts of this section have been taken from a report realised by the Observatoire social européen (Pochet and Paternotre, 1999) that was partly published in the Report Industrial relations in Europe (SEC (2000) 763 of 5 May 2000).
Among the background elements which shaped this period, it is worth mentioning market globalisation, monetary union and a fresh awareness of the likely effects of population ageing. Each of these factors is matched by direct or indirect consequences on the labour market, pay bargaining or social security reform.

The internationalisation of the economy, the liberalisation of capital markets, the development of new forms of production and the information technology revolution were transforming the labour market, placing the emphasis on competitiveness and labour force skills, as well as introducing renewed tension into the flexibility/security pairing. The funding of social protection was likewise at the heart of the debate, from the point of view of overall labour costs (on this issue see Scharpf and Schmidt, forthcoming). Population ageing raises questions about the financing of social protection systems, especially in relation to pensions and healthcare: it necessitates a certain number of fundamental adjustments with a view to ensuring the continuity of intergenerational solidarity mechanisms. Furthermore, the growing budgetary impact of State pension schemes poses the question of how to allocate the margins obtained by virtue of the budgetary discipline resulting from the stability pact, and that of the trade-off to be conducted between different social priorities.

By creating a new monetary context and a shared discipline, economic and monetary union has altered some of the fundamentals of economic competitiveness in the Member States. The search for ways of achieving non-inflationary growth has led to a shift in wage determination policies and to confidence that the system of pay bargaining will generate wage rises in keeping with the competitiveness conditions existing within a unified monetary zone (Pochet, 1998). A social memorandum issued by the Dutch Ministry of Social Affairs (1999) illustrates this imperative: “Owing to the loss of the exchange rate and interest rate mechanisms as adjustment tools at international level, and owing to the reduced budgetary room for manoeuvre resulting from the stability pact, the possibilities of absorbing (temporary) economic shocks through national monetary policy have been diminished. This makes it all the more necessary for all members of the union to boost their adjustment capabilities, primarily by increasing flexibility on the labour market and in wage formation, a requirement which is linked to the important duty of safeguarding the balance between flexibility and security”.

12 SOCIAL PACTS IN EUROPE – NEW DYNAMICS
The impact of EMU on industrial relations systems has been analysed in detail in several recent publications, so we do not intend to dwell on it any further here (Pochet, 1999; Dølvik, 2000; Martin and Ross, forthcoming). We would merely note that new actors are sweeping into the national collective bargaining arena, namely the European Central Bank and the Council of Finance Ministers (Ecofin). On the one hand they recommend a decentralisation (or regionalisation) of collective bargaining; on the other, they stress the need for structural reform of the labour market. Although monetary unification has had an undeniable impact on pay bargaining, it appears difficult at present to identify any direct causal links between monetary union and reform of social protection (Pochet and Vanhercke, 1999).

Table 1 below summarises the main differences between the pacts of the nineties and those of the sixties and seventies.

**Table 1 : Main differences between the agreements signed in the sixties, seventies and nineties**

<table>
<thead>
<tr>
<th>Context</th>
<th>Social agreements 60’ and 70’</th>
<th>Social agreements 90’</th>
</tr>
</thead>
<tbody>
<tr>
<td>National regulated economy</td>
<td>Globalisation</td>
<td></td>
</tr>
<tr>
<td>Baby boom</td>
<td>Population ageing</td>
<td></td>
</tr>
<tr>
<td>Accommodating monetary regime</td>
<td>Economic and Monetary Union</td>
<td></td>
</tr>
<tr>
<td>Fordism</td>
<td>Information society</td>
<td></td>
</tr>
<tr>
<td>Labour market</td>
<td>Full employment</td>
<td>Unemployment</td>
</tr>
<tr>
<td>Labour market regulation</td>
<td>Security et flexibility</td>
<td></td>
</tr>
<tr>
<td>Wage policy</td>
<td>Productivity redistribution</td>
<td>Wage restraint, competitiveness</td>
</tr>
<tr>
<td>Social protection</td>
<td>Welfare state expansion</td>
<td>Welfare state retrenchment</td>
</tr>
<tr>
<td>Institutional and bargaining framework</td>
<td>Centralisation</td>
<td>Co-ordinated decentralisation</td>
</tr>
<tr>
<td></td>
<td>Social partners oriented</td>
<td>State oriented</td>
</tr>
</tbody>
</table>


The following contribution, by Janine Goetschy, describes in more detail these comparative features and the lessons which can be drawn from them. We shall confine ourselves to some general thoughts concerning the situation in the nineties. Unlike the pacts concluded during the sixties and seventies, in a stable economic environment of sustained growth and full employment, recent pacts have sought to accommodate the uncertainties associated with a difficult and somewhat unpredictable economic climate.
Indeed, for all the reassuring words, the short, medium and long-term effects of monetary union are unknown. Agreements such as those in Portugal and Finland, for example, attempted to consolidate the economic changes already underway so as to make them irreversible (Pochet and Paternotte, 1999). The aim was to cease being dependent, in the former case, on the textiles, clothing and footwear industry; in the latter, on the timber sector. By opting for the single currency and the monetary regime associated with it, the government and the social partners are obliged to ensure and undertake this rapid transition at the risk of being confronted by an asymmetric shock.

The Irish case is a particularly significant example of the desire to anchor a new model of production within a stabilised monetary framework. The series of five successive pacts concluded between 1986 and 2000 specifically seeks to spearhead and facilitate the opening up, modernisation and development of the national economy (see contribution by O’Donnell and O’Reardon in this volume). In the case of Ireland, the social pact incorporates a vast number of themes, ranging from support for macroeconomic policies to regional development, via social flanking measures and assistance for marginalised or disadvantaged groups.

According to the Irish National Economic and Social Council (1996), the success of this partnership was attributable to the coming-together of a series of factors (see also Visser, 1998):

- the combination of consultations, negotiations and transactions;
- a shared understanding of the key mechanisms and relationships in each of the spheres examined;
- the dynamic role of the public authorities which oversaw the bargaining process;
- the interdependence of the parties, as reflected by an approach based on settling by consensus problems identified jointly;
- a discussion process not restricted to negotiations between interest groups but also taking place within interest groups;
- the involvement of a variety of actors, consulted in different ways.

Nevertheless, it is the inability to respond to the challenges of relative poverty and inequality which has until today constituted the Achilles’ heel of these successive agreements and has prevented this otherwise successful experience from becoming a “model” for other countries (on the challenges faced by the different social models, see Iversen and Wren, 1998; for a different view see Ferrera et al., 2000).
It is worth stressing in this respect that “technical” bodies have often played a crucial role in setting the agenda for talks and in guiding the discussions. For example, in Belgium, the National Labour Council and above all the Central Economic Council played an essential role in deliberations concerning a new pay equilibrium in view of the monetary constraints. But it was also the case in the Netherlands, Italy or Finland. Nevertheless, the mere existence of such bodies is not sufficient in itself. In Sweden, the equivalent bodies (the National Mediation Committee or “Rehnberg Committee”) did not manage to initiate and mastermind the elaboration of a social pact. By contrast, the absence of any such institution in Germany led to the emergence of a complex array of talks (see contribution by Bispinck and Schulten in this volume). The task was all the more awkward in that – because of “Tarifautonomie” (collective bargaining autonomy) – wages were not officially a subject for negotiation.

Most pacts, be they agreements actually signed and sealed (Ireland, Netherlands, etc.) or abortive attempts (Germany, Belgium, etc.), were initiated in a context of severe unemployment and with a clear determination to rectify it. A high percentage of job-seekers constituted an important lever for the setting up of a concerted strategy with the social partners. An environment of acute tension, be it economic (Ireland, Netherlands in the early eighties and Finland in the early nineties) or political (Italy), led countries to opt for a contractual approach. What is more, with the exception of Italy, the pacts actually concluded were signed in countries with small population sizes.

**Content**

The content of agreements obviously aims to respond to changes in the economic and social environment. Generally speaking, three major themes have dominated recent social pacts.

The pay discipline introduced within the Member States in fact forms part of the new monetary context, in that it is a form of non-inflationary growth. In most Member States, wages and productivity have been uncoupled, replaced by the new coupling of wages and competitiveness. This is what led us to opt for an analysis in terms of monetary regime (see also contribution by Martin in this volume) rather than focusing solely on the Maastricht criteria. There is disturbing evidence of a coincidence between the moment of adoption of an inflation-centred monetary regime and a significant drop in earnings as a proportion of a country’s GDP, as shown by table 3 in section two. Moreover, the sharing of productivity gains is a goal, to varying degrees,
all the agreements concluded (or approved) during the nineties on the setting of guidelines for pay bargaining (Belgium, Denmark, Finland, Ireland, Italy, Portugal and Sweden). Thereafter, several processes were devised for comparing wage rises. The most obvious case was that of Belgium, where the Competitiveness Act of 1996 provides for mandatory and structured comparisons. As far as the trade unions are concerned, the Doorn process brings together at cross-industry and sectoral level the Belgian, German, Dutch and Luxembourg unions for annual meetings to exchange information concerning wage rises in each country. What is more surprising is that this practice of comparing developments has been extended to Sweden and Denmark, which are outside of the euro zone, and even to Norway, where Jon Erik Dølvik and Andrew Martin (in this volume) ask “how the rationale of national concertation and competitiveness can be made compatible with the quest for European influence and wage coordination, which recently has been embraced by major Norwegian unions” (to have a more general approach about that matter, see Hassel and Hoffmann, 2000).

The full extent of the trend towards greater labour market flexibility must be assessed with caution (Regini, 1999). There is evidence of a moderate relaxation rather than an overhaul of the continental European model (OECD, 1999). What is more, this relaxation – relatively uneven from one country to another – appears not to be intrinsically linked to the conclusion of negotiated pacts. The efforts to achieve flexibility must be viewed in parallel with the introduction, in all Member States, of active policies for employment and vocational training – an approach sanctioned at European level by the Employment Guidelines – as well as policies to re-regulate atypical work, in a certain number of cases such as the Netherlands, France and Portugal. The case of Spain is a noteworthy example of agreements (1997) linking the relaxation of certain conditions for dismissal in return for a reduction in temporary work. These agreements were followed by another one between the government and the trade unions in 1999 on part-time work. Thus the relaxation of labour market regulations has more to do with the diptych flexibility/security, highlighted at Community level, for instance in the framework agreement on part-time work concluded by the European social partners. The prevailing trend is however towards a transformation and adaptation of the labour market, under pressure from the emergence of new forms of employment and the development of information technology.

Concerning social security, its more common dimension is the search for negotiated solutions to the State’s need for budget cutbacks in order to
comply with the public deficit criteria. In Italy’s case, for example, within the context of budgetary stabilisation it was necessary to define ways of reforming one of Europe’s most costly pension systems. However, an OECD study (1996) has revealed that social security was not the item most affected by drastic reductions in public finance deficits. Moreover, Pakaslahti (1998) has demonstrated the considerable differences in the national debates on social security cutbacks.

In this context, the case of Finland illustrates that tripartite concertation can also generate inventive solutions to the occurrence of specific problems. Indeed, the “buffer funds” created following the 1997 agreement led, in exchange for pay restraint, to the establishment of a stabilisation fund which can be drawn on to compensate for reductions in wage costs by means of a lowering of employers’ contributions in the case of an asymmetric shock (Boldt, 1999). This was an original response to the problems of budgetary instability and social crisis which could arise due to the structural sensitivity of the national economy to the economic cycle of timber and its derivatives.

The importance of these three subjects does not prevent the inclusion of other related themes. For instance, the implementation of specific measures in regions lagging behind is an extremely important dimension of the Italian compromise. It also features in the Netherlands and Ireland, given the decentralised nature of negotiations there. It is worth stressing that, in the case of Ireland, the fact that the coverage of the agreement extends to matters such as the fight against social exclusion has meant opening up the social dialogue to non-traditional partners from the voluntary sector.

There is evidence that agreements are tending to become more comprehensive, covering quantitative aspects as well as introducing more qualitative measures, even though the strategies used differ from one Member State to another: a wide-ranging horizontal agreement (Ireland, Portugal) or a series of successive single-issue agreements (Italy). However, the latest developments (Portugal, Greece) are heading in the direction of a series of limited agreements, as has already happened in Spain.

These differences in approach can be explained partly by national traditions of concertation and by the circumstances surrounding their development. Most of the actors engaged in the more longstanding processes, such as in the case of the Netherlands, insist that the negotiation of a social pact has two dimensions: the search for a solution on the substance of the matter and a mutual learning process (see contribution by Hemerijck, Van der Meer and
Visser in this volume). In some cases, the reaching of an agreement hinging on wages policy has fostered a climate favourable to an all-round dialogue and has engendered a positive outcome in other difficult areas (Italy’s case being a typical one here). This is not however the case in all instances. In Spain, a climate favourable to social dialogue came about despite the absence of any agreement on wages policy, and despite results in terms of average wage rises having been below the European average in recent years (see contribution by Pérez in this volume).

**Actors**

The balance between the negotiating partners has shifted substantially as compared with the situation prevailing when the pacts of the sixties and seventies were signed. One fundamental element which typifies the process of drawing up pacts, and on which their success depends to a large extent, is the emergence of a consensual analysis among the parties of the implications of a changing system of production and the formulation of joint preferences for low inflation and a stabilised exchange rate system. This form of shared culture, regularly referred to by the actors themselves, in a sense marks a break with the traditions of “classic” bargaining, where macroeconomic considerations had less of a bearing and where the medium-term economic prospects seemed more stable. And yet the existence of a shared analysis of the problems and their implications clearly does not imply a prior consensus as to the solutions and methods to be adopted. The bargaining field is not narrowed by a common reading of events, but it is expressed differently.

Tripartite negotiations were consolidated in the nineties and, consequently, so was the relative role of the State within a concertation process whose main axis had previously been the relations between the social partners. This tripartism and one of its dominant features, the heightening of the State’s role, must be evaluated in practical terms and not literally. Thus, governments appear to have been implicitly responsible for steering the bargaining process. A direct functional logic explains the reasons why governments have acquired increasing powers in the social arena: to gain control over wage determination in order to maintain pay rises deemed compatible with competitiveness and monetary stability, and to guarantee a minimum of support for planned reforms in the fields of social security and the labour market.

On the subject of the role and impact of governments, we must include the influence of decisions taken at European level, be it the process of establishing EMU or the Employment Guidelines. The case of Belgium
exemplifies the linkage between the different levels of decision-making: EMU provided the backdrop for the implementation of the 1996 Competitiveness Act laying down wages comparisons with three neighbouring countries. As for the Employment Guidelines, their adoption caused the cross-industry agreement of 1998 to be expanded with the insertion of an important chapter on vocational training (see contribution by Arcq and Pochet in this volume and Pochet, forthcoming).

Whereas it is easy to appreciate why such developments suited governments, this is less evident in the case of the trade unions. The results achieved are by no means comparable with those of earlier pacts. Because of budgetary restrictions, governments are not in a position to oil the wheel of the negotiations. The employers’ representatives occupy a position of strength as concerns some of their demands, in particular flexibilisation of the labour market. It is not surprising that in some countries tensions within the trade unions or divisions between them came to the fore during the negotiation and conclusion of centralised agreements.

The tendency of agreements to involve pay restraint, increased labour market flexibility and social security adjustments – in contrast with traditional demands – necessitates a re-reading of the situation by the trade union organisations (Dornelas, 1997). The need to participate in the bargaining process and to retain some influence over decision-making is clearly an important argument which helped bring them to the negotiating table. “Trade unions have subscribed to these agreements because they confirm the bargaining method, as well as minimum conditions of equity and unions’ survival as collective actors. But unions would have been loath to accept, indeed would have fiercely opposed, similar measures if they had been introduced by the state” (Bordogna and Cella, 1999).

The signature of central social pacts by the employers likewise requires some analysis, given that rapid decentralisation, along the UK lines, might appear more profitable. A more thorough appraisal should undoubtedly be made. Nonetheless, on the basis of partial data available for Italy, Spain and Ireland, it seems that decentralised negotiations were viewed as difficult to control and hence risky. In the uncertain times of the transition to the single currency, predictable agreements were regarded as a safer option than a break with centralised bargaining.

The employers’ attitude can also be explained in most cases by a reappraisal of the concept of centralised talks. In fact, central agreements are more and
more often leaving a great deal of scope for the text to be interpreted at sectoral or even regional level. It is now a matter not so much of centralisation but of co-ordinated decentralisation, whereby centralised agreements set out a framework for decentralised implementation.

The debate has gradually moved on in various countries from the question of nominal wage rises to that of global wage costs (see section two). Here, the main actors are the State – through its control over taxation – and the social partners, often jointly responsible for social security. This makes a centralised dialogue all the more useful.

Collective bargaining is therefore evolving in between two extremes and, depending on the circumstances, comes closer to one or other of these typical patterns.

Firstly, a win-win situation where, faced with the radical changes inherent in EMU and with the external economic constraints, governments and the social partners enter into social pacts or macro-agreements so as to meet the requirements of the single currency and modernise the nation’s economy.

Secondly, a tense dialogue on modernisation between the government and some of the main players, a configuration encountered in Spain with the tension between government and trade unions which led to the failure of the 1993-1994 social pact; in Portugal, where one of the two unions rejected the three-year agreement; and in Greece, where concertation is only gradually becoming an established practice. These three examples likewise testify to the lack of a clear distinction between what derives from the political order (and from Parliament) and what is a matter for bargaining. The case of Portugal, described in this volume by Maria da Paz Campos Lima and Reinhard Naumann, is one of the clearest illustrations of the tensions between the legislative and contractual routes to implementing the undertakings enshrined in a broad-based pact, in a context marked by a lack of trust between the various actors.

There does not appear to be any firm correlation between the signature of an agreement and economic and social performance. A low rate of unemployment was enjoyed by Portugal as well as Austria; by the Netherlands as well as Denmark. We would however point out that, with the exception of Italy for the unemployment rate, all the countries where clear-cut pacts were signed achieved positive results in this field. Furthermore, the best performances were achieved in the “small” countries (Auer, 2000).
From this perspective, the “governability” hypothesis put forward by Franz Traxler in this volume comes into its own.

On this subject, Freyssinet (2000) develops an interesting hypothesis concerning the difference between internalisation of pay restraint by the trade unions and its imposition in a climate of crisis or recession. “Our hypothesis is that pay restraint acts principally through its effect on expectations. This implies that it results from compromises deemed to be long-lasting and reliable, which means that the trade union organisations obtain sufficient concessions to justify such a strategy to their membership, including in phases of economic recovery”. Jens Lind in his conclusion on the Danish case in this volume illustrates this dual question: the continuity of moderate wage rises once the economy picks up, and the nature of the exchange with the unions.

Section 2: the post-EMU situation

The selection in May 1998 of the eleven countries joining the third phase of EMU occurred at the same time as a turn-around in the economy. The post-EMU macroeconomic context is radically different from that which prevailed in the first half of the nineties. These differences are particularly striking when one compares the period 1993-1996, when several pacts were signed, with the period 1998-2000 from the point of view of unemployment and the budget balance.

Taking the Maastricht criteria as a yardstick, we note that inflation has remained under control throughout most of the euro zone (Ireland, Finland, and Spain are exceptions, but by the same token these countries have growth rates in excess of the euro zone average). Between 1996 and 2000, overall government debt declined in all Member States (apart from France and Luxembourg, but both are below the 60% threshold set at Maastricht). At least five Member States are likely to have budget surpluses in 2000.

Turning now to unemployment and growth, at least five Member States (Austria, Denmark, Luxembourg, the Netherlands and Portugal) are now experiencing rising rates of growth and low unemployment figures combined with stable public finances.

This new context is allowing many governments to enjoy greater budgetary margins which, while meeting the commitments contained in their stability or convergence plans, are generally earmarked for bringing down overall labour costs either through taxation or employers’ social contributions.
Reform of social security, and in particular of its funding, is apparently becoming a more and more central issue.

The coincidence of EMU with a revival of growth redistributes the cards among the main players. In various countries, tough negotiations are taking place around the allocation of budgetary surpluses. In other words, the symbolic statement made by the Spanish President of Government F. Gonzalez, who – when the social pact was under negotiation in 1994 – declared that the problem was “we have nothing to offer”, has become a thing of the past. Nevertheless, the new situation has paradoxically heightened tension between trade unions in various countries (this point will be explored in section 3). Whereas twenty years of austerity had united the unions in an attitude of resistance and participation, the decline in unemployment seems to have left them without a coherent strategy. Finally, the European agenda has changed and the debate on the Maastricht criteria has given way to other social issues, including social security and particularly the question of how to fund pensions.

Table 2 below draws attention to some of the differences between the situation of the nineties and that of today.

**Table 2: The post UEM**

<table>
<thead>
<tr>
<th></th>
<th><strong>Before EMU</strong></th>
<th><strong>After EMU</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External Constraints</strong></td>
<td>Unemployment, budgetary deficit, EMU</td>
<td>Interest rate decrease, budgetary consolidation, decreasing unemployment</td>
</tr>
<tr>
<td><strong>Themes at national level</strong></td>
<td>Wage increases</td>
<td>Global wage cost including tax, social security, pensions</td>
</tr>
<tr>
<td></td>
<td>Consensus-building, shared diagnosis, common trade union strategy</td>
<td>End of consensus on wage moderation, trade union division</td>
</tr>
<tr>
<td><strong>Themes at European level</strong></td>
<td>Compliance with Maastricht criteria</td>
<td>Employment, social exclusion, pensions, open method of co-ordination</td>
</tr>
</tbody>
</table>

3 This tendency is illustrated by the data supplied by governments for the year 1998, most notably concerning the implementation of Luxembourg guideline no. 14 on making taxation and social security systems more “employment-friendly” (Moro and Pochet, 2000).
We shall not explore in detail all the aspects covered by this table, but should just like to elaborate on two. The first concerns the end of the consensus on pay restraint and the transition to a debate on overall wage costs which arouses fears of ending up with a process of “social dumping”. The second is the emergence of new issues and their interaction with the new European agenda.

As far as pay is concerned, this debate has been shaped by various elements. First of all, what is the precise link between pay restraint and job creation? And if such a link exists, how can it be kept under control? This is a similar debate to the one on the reduction of labour costs and its consequences for employment.

One difficulty to be taken into account is the lapse of time required to judge the effectiveness or otherwise of a measure. Thus, after a relatively short period of pay restraint, the German trade unions deemed the results to be unconvincing and demanded substantial pay rises.

Another aspect concerns equity. The outcome of prolonged pay restraint in various countries has been a distribution which is to the disadvantage of earned incomes, as shown by the following table. It is worth noting that this deterioration has not affected the United States, the United Kingdom or Sweden (see infra, table 3).

This dual assessment - pay restraint which does not necessarily create jobs, and a possible weakness of overall demand - has led to a reappraisal of what had seemed to constitute a consensus: the sharing of productivity gains. All the more so since, as noted by the Commission (2000), real investment “hardly rose at all during the nineties, leading to another fall in the investment/GDP ratio while real investment in the United States almost doubled”.

<table>
<thead>
<tr>
<th>Actors’ motivation</th>
<th>Government: control the changes in a low growth context</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Government: new room for manoeuvre allowing labour cost reductions</td>
</tr>
<tr>
<td>Trade unions: maintain themselves as central actors</td>
<td>Trade unions: new balance of power in some sectors or regions</td>
</tr>
<tr>
<td>Employers: manage uncertainty</td>
<td>Employers: between decentralisation and co-ordination</td>
</tr>
</tbody>
</table>

Source: Pochet, forthcoming.
### Table 3: Wage part in the GDP in Europe

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Austria</td>
<td>72.9</td>
<td>-4.1</td>
<td>68.8</td>
<td>-4.7</td>
<td>64.1</td>
<td>-8.8</td>
</tr>
<tr>
<td>Belgium</td>
<td>77.8</td>
<td>-8.3</td>
<td>69.5</td>
<td>0.1</td>
<td>69.6</td>
<td>-8.2</td>
</tr>
<tr>
<td>Denmark</td>
<td>79.1</td>
<td>-8.2</td>
<td>70.9</td>
<td>-1.2</td>
<td>69.7</td>
<td>-9.4</td>
</tr>
<tr>
<td>Finland</td>
<td>72.4</td>
<td>0.9</td>
<td>73.3</td>
<td>-9.6</td>
<td>63.7</td>
<td>-8.7</td>
</tr>
<tr>
<td>France</td>
<td>76.4</td>
<td>-8.0</td>
<td>68.4</td>
<td>-1.6</td>
<td>66.8</td>
<td>-9.6</td>
</tr>
<tr>
<td>Germany</td>
<td>74.5</td>
<td>-6.8</td>
<td>67.7</td>
<td>-2.7</td>
<td>65.0</td>
<td>-9.5</td>
</tr>
<tr>
<td>Greece</td>
<td>68.1</td>
<td>9.4</td>
<td>77.5</td>
<td>-6.2</td>
<td>71.3</td>
<td>+3.2</td>
</tr>
<tr>
<td>Ireland</td>
<td>81.1</td>
<td>-11.2</td>
<td>69.9</td>
<td>-10.9</td>
<td>59.0</td>
<td>-22.1</td>
</tr>
<tr>
<td>Italy</td>
<td>72.6</td>
<td>-0.4</td>
<td>72.2</td>
<td>-5.4</td>
<td>66.8</td>
<td>-5.8</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>76.8</td>
<td>-5.4</td>
<td>71.4</td>
<td>-1.4</td>
<td>70.0</td>
<td>-6.8</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>74.1</td>
<td>-9.3</td>
<td>64.8</td>
<td>-0.4</td>
<td>64.4</td>
<td>-9.7</td>
</tr>
<tr>
<td>Portugal</td>
<td>76.7</td>
<td>-6.9</td>
<td>69.8</td>
<td>1.0</td>
<td>70.8</td>
<td>-6.7</td>
</tr>
<tr>
<td>Spain</td>
<td>78.5</td>
<td>-7.9</td>
<td>70.6</td>
<td>-3.7</td>
<td>66.9</td>
<td>-11.6</td>
</tr>
<tr>
<td>Sweden</td>
<td>78.3</td>
<td>-1.4</td>
<td>76.9</td>
<td>-2.7</td>
<td>74.2</td>
<td>-4.1</td>
</tr>
<tr>
<td>United-Kingdom</td>
<td>72.2</td>
<td>0.7</td>
<td>72.9</td>
<td>-1.8</td>
<td>71.1</td>
<td>-1.1</td>
</tr>
<tr>
<td>European Union</td>
<td>76.0</td>
<td>-5.1</td>
<td>70.9</td>
<td>-2.7</td>
<td>68.2</td>
<td>-7.8</td>
</tr>
<tr>
<td>United States</td>
<td>70.5</td>
<td>-1.5</td>
<td>69.0</td>
<td>-0.2</td>
<td>68.8</td>
<td>-1.7</td>
</tr>
<tr>
<td>Japan</td>
<td>78.6</td>
<td>-6.6</td>
<td>72.0</td>
<td>1.4</td>
<td>73.4</td>
<td>-5.2</td>
</tr>
</tbody>
</table>

**Source:** Eurostat, cited by Husson (1999).

The following figure shows an investment rate which is failing to pick up despite pay restraint; by contrast, there has been a rise in the profit margin and in profits not reinvested.
This development has destroyed the shared diagnosis and led in several cases to tension between trade unions as to what is the appropriate pay norm in a context of economic globalisation and of unemployment which is undoubtedly falling but still remains high, especially in the light of atypical forms of employment, exclusion from the labour market (sickness schemes and social welfare) and regional disparities. This is the case in Italy, as we shall see in section three, with renewed tension between CGIL and CISL, in Spain between CC.OO and UGT, and in Finland within the different sectors of SAK (the main blue-collar union) over suitable pay formulas.

Under these circumstances, there are two ways of making up for lost ground on pay. The first was attempted in Germany: namely to put an end to modest wage claims and to strive no longer to share productivity gains but to obtain them in their entirety. The second is to share out profits \textit{ex post} between labour and capital. Here too the case of Italy is a good illustration.
It emerges from the country by country analyses presented in this book that a complex interconnection exists over time between pay bargaining, labour market and social security reforms, and changes in tax rates. These exchanges vary in nature. For example, discussion of wages policy and the ensuing agreements facilitates the creation of a climate of confidence between the social partners (and the government) which in turn paves the way for talks on a more awkward subject: reform of the social protection system (on the Dutch case, see Visser and Hemerijck, 1997).

By contrast, in Spain the government increased social spending in the early nineties in the hope of achieving pay restraint from the trade unions in return (Pérez and Pochet, 1999). Ireland pioneered an exchange of low nominal wage rises for tax cuts, which led to more sizeable real wage rises (see contribution by O’Donnell and O’Reardon in this volume). In Germany, there has recently been discussion of the possibility of retirement at 60 in return for moderation in wage claims (it came to nothing) (see contribution by Bispinck and Schulten in this volume).

These different practices were nevertheless constrained by the need for all countries to comply with the Maastricht convergence criteria. For this reason, governments had very little room for manoeuvre on the tax front. Furthermore, gaining a competitive advantage through pay restraint in a context of low inflation takes several years to achieve any significant result. The scenario confronting us now has altered radically in most countries (apart from Germany and Italy, whose budgetary margins are still slim in 2000). Finland, with its “buffer funds”, has opened up the debate about “internal devaluation”. Instead of devaluing the currency during a recession, wages costs are reduced. Whereas for the time being this approach is meant as a response to a crisis (Calmfors, 1999), there is nothing to prevent it from being used in a more aggressive manner during a period of growth.

The case of Belgium illustrates a different scenario. The government has decided to lower social contributions to align them with the average of those of its three neighbours (Germany, France and the Netherlands). Yet these countries are currently reducing them too. So in a few years’ time the same situation as now could recur, and a fresh round of reductions in social charges will have to be undertaken. Apparently this is not problematical, in that these measures will be compensated for through other sources of finance. But is this really the case? There is a shortage of data to confirm or invalidate this assertion.
Social dumping is a particularly complex issue which needs to be handled with caution. Alber and Standing (2000) quite rightly point out that a distinction must be drawn between:

- **levels of development**, with the most highly developed countries running the risk of an erosion of standards and with development fizzling out in countries trying to catch up;

- **actors**, with certain practices being market-led without government intervention and others being State-led;

- **fields**, with the impact of taxation, social security and social legislation including wages.

It is beyond the scope of this volume to reach conclusions in this field where, moreover, the authors’ opinions vary. We would stress that, by all appearances, the various reductions underway in the different countries are taking place in an uncoordinated fashion. Paradoxically, the debate around the consequences of monetary union is shifting from the effects of a recession or of social regression (a well-known topic) to the risk of social dumping and of having truly competitive social pacts, most notably due to a reduction in direct taxation and social contributions (Fitoussi, 2000).

Concerning the new issues at the national and European agenda, one of the most sensitive issues is pensions, and in particular the sustainability of their financing over time. As pointed out by Pierson and Myles (2000), the changes are progressive and path dependant. It is in this sensitive field that the European level could be more extensively drawn on to justify reform (Andersson, 2000).

At European level the nineties were the years when EMU and the Maastricht criteria came into being. From 1997 onwards, to complement this approach, an employment strategy was devised. In late 1999 a concerted strategy was adopted on social security, relating more specifically to pensions and social inclusion (De la Porte and Pochet, 2000). In addition, a social agenda comprising legislative measures is to be laid down by the Commission and the EU Presidency towards the end of 2000. The emergence of new social themes at European level has been accompanied by a crucial change in the method used to ensure convergence among the Member States on social policy.

This entire process requires above all else close co-operation between Member States. Such co-operation is all the more likely to succeed in that
Europe-wide debates are deemed by governments to have a positive impact on discussions at home. To give a more tangible example, the debate on pensions at European level could help to influence Italy in its important internal debate in this field. The Commission President R. Prodi has commented repeatedly on this matter. After Lisbon he stated: “No-one should underestimate the mandate given to the Commission concerning the sustainability of pensions systems” (Agence Europe, No.7684).

Although arguably the approach being followed in the field of social security is largely inspired by the European Employment Guidelines, it likewise owes a good deal to the collective learning curve experienced in respect of monetary convergence, in particular the use of Europe as a pretext to promote reforms decided at national level (on the case of Italy see Dyson and Featherstone, 1996; on Belgium, Pochet, 1999). To this day there is still no empirical evidence as to the consequences of applying this method to employment and, a fortiori, social security. Nevertheless, we underline that tackling these issues at the European level is already a novelty per se, which merits a careful assessment and further research.

Section 3: social pacts in Southern Europe

Social concertation has been a widely used catchword in Southern European countries during the nineties. Developments at the national level however, and more recent ones in particular, have been quite different.

The starting points for Spain, Portugal and Italy date back to the eighties. At that moment, the national governments in the three countries, all confronted with the economic priority to keep inflation rates under control, made more or less successful attempts to introduce incomes policy agreements. Those early experiences are all well described in the national papers in this book.

Spanish social concertation in the nineties has been characterised by a strong role of government and by a relatively weak position of the social partners, the employers’ and the two trade union confederations (membership, lack of a strong national sectoral bargaining activity). On the unions side however, the gradual approach of positions and unity of action between UGT and CC.OO. established over the last 10 years proved successful. The change of government was accompanied by a considerable improvement in the social dialogue, which abandoned the idea of a “general grand pact” in favour of a pragmatic approach to solving problems individually and no longer through
complex negotiations discussing different themes at parallel sessions (see contribution by Pérez in this volume).

A similar pattern, even if started at a later stage (the so-called Pact of Confidence was only signed in 1997), also applies to Greece. However, as pointed out in Ioannou’s contribution in this volume, the Greek experience of the nineties indicates that there is no firm leadership towards developing social concertation. The three social actors appear hesitant and indecisive vis-à-vis concertation, while on many important issues their views and priorities are diverging.

Developments of social concertation in Portugal have some points of resemblance to the Spanish situation. Concertation is mainly government-led and the social partners are relatively weak. Its level of institutionalisation is quite high, with the establishment of a Standing Committee for Social Concertation (CPCS) since 1984. Moreover, the positions and strategies of the two trade union confederations, UGT-P and CGTP still remain differentiated, with UGT having signed all the pacts and favourable to a centralised incomes policy and the CGTP supporting only issue-based negotiations and signing only those agreements not detrimental to the immediate trade union interests (see contribution by Da Paz Campos Lima and Naumann in this volume).

What are the prospects for concertation in both Spain and Portugal? It is still not clear whether current trends will persist in the future, whether they will consolidate the traditional dominant role of the state in industrial relations, or permit the social actors to take the initiative and assert their autonomy.

The Italian case, that appeared to be as the major exception to the widely accepted principle according to which social concertation and neo-corporatist models only apply to the smaller European economies (Katzenstein, 1985), has recently undergone some unexpected developments in social partners’ attitudes. The previous scenario has radically changed and requires to be analysed in more detail to be correctly interpreted.

Italian trade unions’ conversion to the “method of concertation” and wage discipline occurred not only when the economy and budget appeared to be dramatically out of control, but also when the European external constraint (the Maastricht convergence criteria) could represent the only possible life-buoy to support economic recovery and reduction of inflation. On top of this, the political system was in deep trouble and crisis with the simultaneous
implosion and disappearance of the two parties most involved in the Tangentopoli (Bribes city) corruption scandals. These two parties had always been in government since 1945 (Christian-democrats) and almost continuously since 1963 in the case of the Socialists.

Concertation, therefore, consolidated in Italy, after the controversial and substantially failed attempts of the eighties, by means of joint or shared leadership between a strong employers’ association (Confindustria) and equally strong national trade union confederations (CGIL, CISL and UIL) in a period in which the political system and the government power were at their weakest point of the post-war period (see contribution by Negrelli in this volume). Social partners’ support was in this situation a pre-requisite for legitimisation for technical (or “technocratic”) governments charged to manage a political and economic emergency situation. In the aftermath of the fall of the previous political system – the so-called passage from the First to the Second Republic – the new governments were in fact generally led by economists or political scientists such as Mr. Amato, Mr. Ciampi, Mr. Dini or Mr. Prodi, whose prestige and authority was mainly unrelated to their political background.

Once Italy had attained the economic stability targets laid down by the Maastricht criteria, from 1998 onwards concertation entered a second phase focused on economic, social and employment growth.

The new 1998 agreement, the so-called Christmas Pact, aims to adopt a broader-based approach, on the one hand by linking tripartite consultations with the new European scenario, proposing a joint, quantified and co-ordinated commitment on employment; and, on the other, striving to step up local consultations by involving the regions, provinces and municipalities more directly in national tripartite talks and harmonising the principles and content of local consultations.

The collective bargaining mechanisms laid down in the July 1993 Agreement have not been changed. The need to safeguard the two tiers of bargaining – national and company-level – in the face of a challenge from Confindustria left no scope for calm discussion of the possibility (advocated in particular by the CISL) of reassessing the linkage between the two tiers of
bargaining and consolidating the second in conjunction with forms of
decentralised inter-sectoral bargaining at local level. The new Christmas Pact has an extremely complex structure articulated in
239 objectives to be implemented by the national and local governments in
7 major policy areas ranging from the labour market and employment
services, to the restructuring, rationalisation and modernisation of the civil
service, reduction of labour costs and taxation, vocational training and
education, infrastructural investment and economic development policies.
Moreover, the enlargement of the organisations who have signed the social
pact adds to the complexity of the “concertation method”.

But why, one can ask, despite the apparent success that has lead to the
signature of the Christmas Pact, concertation policies in Italy appear now to
be if not in deep trouble at least in serious difficulty, as stated in the
authoritative annual report of CENSIS on the social situation in Italy for
1999? According to the analysis of CENSIS the concertation method is
showing clear signs of fatigue and rigidity just when it was beginning to find
growing legitimacy and appreciation in a wide sphere of the public opinion.
In the first place, the format of concertation is based on a quite open
dimension that has, however, to take into account the logic of the great
numbers. A second element of difficulty relates to the contents of
concertation where social bargaining is increasingly replaced by institutional
reporting, twice per year, on government activities (CENSIS, 1999).

If these elements are certainly true, they do not however offer sufficient
explanatory arguments. In reality, only a stable political system could
successfully manage the complex and articulated mechanisms of
concertation put in place by the Christmas Pact. It should not be forgotten
that, on the contrary, as stressed by the general secretary of CGIL, the social
partners in the seven years since the signature of the first incomes policy
agreement of April 1993 have been confronted with eight different
governments. In other terms, if concertation has undoubtedly contributed to
economic stabilisation, the incapability of the Italian political system to

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4 At the end of 1998, during the negotiations leading to the signature of the Christmas Pact, on
the issue of creating a third, area or regional based, level of bargaining there was
consensus among CISL, Confindustria and the government. However, the firm opposition
of CGIL to this hypothesis contributed to remove it from the agenda.

5 Interview to Cofferati in la Repubblica, 3 May 2000.
reform itself is at the basis of the difficulties of concertation policies at the end of the decade and in the new century.

This political instability makes the “third actor” in industrial relations, government, an evanescent interlocutor, lacking continuity and credibility and incapable to offer the required institutional framework to concertation. Under these circumstances, even the proliferation of “fourth actors” signatories to the 1998 Social Pact (see contribution by Negrelli in this volume) risks to introduce further elements of confusion and uncertainty.

Political instability can also largely explain the substantial changes, from 1998 onwards, in the employers’ confederation, Confindustria, attitude vis-à-vis concertation and, even more, the growing conflict and differentiation of strategies between CGIL and CISL.

In early autumn 1997, discussion of the Budget and the associated review of the pensions system sent shock-waves through the parties supporting Prime Minister Prodi’s government. The small Reconstituted Communist Party sharply criticised the economic policy set out in the finance bill, and in particular the pensions reform, forcing the government to tender its resignation. Only following a very bitter confrontation was agreement reached, enabling the government to withdraw its resignation and resume its activities. That agreement contained a government undertaking to draft legislation, modelled on that of the French government, for the introduction of a statutory working week of 35 hours.

During the governmental crisis, all the social partners deemed it crucial to avoid early general election, which would almost undoubtedly have prevented the finance bill from being adopted on time. Hence, Italy’s likelihood of meeting the conditions for EMU entry would have been jeopardised, with all the attendant risks of economic, financial and political crisis. Most political and social groups in Italy therefore welcomed the solution found (D’Aloia and Zabatta, 1998).

However, as time went by, Confindustria came to regard both the substance and the method of the solution as untenable. According to the employers, shorter working hours would not only fail to solve the problem of unemployment but would exacerbate it by making companies less competitive; furthermore, legislative intervention in an area such as working time, for which the social partners have sole responsibility, would – they claimed – constitute an unacceptable departure from the method of tripartite
concertation adopted under the July 1993 Agreement. These concerns were also shared to a certain extent by the trade unions, which insisted that government action on working time should act as an incentive, partly through financial support, but should not be prescriptive.

Confindustria, even threatened to terminate the Agreement of July 1993. Fortunately that threat was withdrawn, but some of the employers, particularly *Federmecanica* – the traditional hard-liners among Italy’s employers – appeared to be more harshly critical of the outcome of the July Agreement. In other terms, the “35-hour crisis” gave to Confindustria the impression to have lost the privileged links with the political power of the past and gave strength to those internal factions that had been opposed (even if not too ostentatiously) to the entrance of Italy in the euro and, consequently, to concertation and the 1993 social pact.

The signature of the Christmas Pact by Confindustria moreover took place in a moment when it became evident that, after the immediate enthusiasm for the Italian entrance in the euro-zone, EMU represented an element of discontinuity for the production system. Confronted with economic crisis and reduced international competitiveness, Italian employers became more and more convinced of the need to modify the industrial relations system defined in the 1993 Pact.

As a consequence, the concertation method put in place with the Christmas Pact, has probably never been applied and has entered into crisis since the day after its signature.

The election of the new President of Confindustria in March 2000 represented a further element of change in the traditional internal balance of power of the employers’ confederation. The new president, Mr. D’Amato, was elected in a ballot against the “official” candidate supported by FIAT and the other representatives of the great, mainly Northwest (Milan and Turin area), manufacturing companies. Mr. D’Amato, a southern entrepreneur himself, was supported by a wide coalition of small and medium size employers from the north-east, central and southern regions on a programme openly critical *vis-à-vis* the concertation method considered as too rigid, institutionalised and too often submitted to trade union vetoes.
Philippe Pochet and Giuseppe Fajertag

The “new Confindustria” favours therefore an Alliance for modernisation, asking to the other social partners which side of the barricade they want to stand. The newly appointed president is therefore clearly intentioned to take advantage of the widening division and conflicts in the Italian labour movement that we will try to explain briefly in the following lines.

As already mentioned, the breach of Italian trade unions’ unity of action by the end of 1999 can also be largely attributed to political instability. Even if Italian trade unions since the seventies never had a direct link with political parties or “friendly governments”, each of the three confederations kept connections with one or more political parties: communists and socialists for the CGIL, Christian-democrats and socialists for the CISL, socialists and other smaller centre-left parties for the UIL. The political crisis at the beginning of the nineties and in particular the sudden disappearance of the Christian-democratic and socialist parties has had a major impact in particular on the CISL.

The political and economic emergency phase of 1992-1998 still kept the three confederations strongly united, but the new phase opened by the Italian entrance in the euro-zone provoked a growing polarisation and differentiation of positions between the CGIL (whose political referents are the still quite strong post-Communist DS party and some of the smaller centre-left coalition parties) and the CISL (whose major political referent, the christian-democratic party has imploded giving birth to a whole galaxy of micro-parties located in both the centre-right and the centre-left coalitions).

It is in this context that the general secretary of CISL, the ex-Christian democrat Mr. D’Antoni, gradually develops a political project: to reconstruct a political representation of centre sufficiently strong to be able to autonomously determine which kind of political alliances to enter into, with the CISL, even if not officially involved in the project, playing a more or less direct role and function in the operation. D’Antoni announced in particular the creation of a Foundation linked to the CISL and charged to discuss and elaborate a “pre-political project” for the next political phase, the Third Republic.

In November 1999 the CISL organised a major manifestation in Rome in dissension with the CGIL and UIL, to protest against the State Budget for the year 2000 presented by the government but also to officially announce

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6 Speech by Mr. D’Amato at the General Assembly of Confindustria, Il Sole 24 Ore, 26 May 2000.
the end of the unity of action started in the seventies and launch a new phase of “competitive unity” (unità nella competizione, the stress currently being more on competition than on unity) with CGIL and UIL7.

For the CISL there are, besides a plethora of less relevant points, two major elements of disagreement with the positions expressed by the other confederations and by the CGIL in particular:

– The growing economic divide between the rich North and the poor South of Italy can only be reduced by adopting a new, more flexible collective bargaining structure. A structure in which the wage determination role of the national sectoral agreements should be reduced while greater importance should be given to productivity related wage increases to be negotiated at both the regional and company levels. Wage flexibility should also be used to favour the “emergence” of the black labour market and to offer opportunities to enter the labour market to immigrant workers (an agreement in this direction was achieved between the local authorities of Milan, the employers and CISL and UIL, but it was not signed by the CGIL). It is clear that the bargaining method suggested by the CISL finds strong elements of convergence of interests with the positions expressed by Confindustria and parts of the governmental political majority(-ies).

– The need to develop a widespread system of industrial democracy via employees’ share ownership plans (ESOPs). This participatory model is opposed by the CGIL that argues that it is important to preserve a distinction of roles between the workers and their unions on one side and their employers on the other (EIROnline, 1999).

It is difficult to forecast at this stage how and in which direction concertation policies will develop over the coming months and years in Italy. It clearly appears however that the period started by the 1993 Social Pact and concluded by the ill-fated Christmas Pact of 1998 is concluded. According to the general secretary of CISL the moment has arrived to go beyond the Christmas Pact with a new concertation agreement fixing new rules for

7 For his part, the general secretary of CGIL, Cofferati stated: “We have now to work to counteract the incredulity of a consistent part [of the CGIL] vis-à-vis the break that has been operated. Too many in the CGIL have difficulties to realise not only that this break has happened but also that it is the result of a clear political project”, Rassegna Sindacale, 11 January 2000.
greater tax, wages and labour market flexibility. Nobody currently appears to be willing to declare concertation policies as officially dead. It remains to be seen what kind of revised concertation will it be possible to put in place with a divided trade union movement, a weak political power and a revamped, apparently more pugnacious employers’ confederation.

**Conclusion**

In the new economic context which we have termed “post-EMU”, a new balance needs to be struck. The different national analyses demonstrate to what extent situations vary and show that the paths followed are contingent both on the strong logic underpinning national coherence and on its development. Our approach has consisted mainly in examining the impact of an external variable, monetary union as laid down at Maastricht (and more broadly the change in monetary regime), on the signature of social pacts in the nineties. This external pressure was (temporarily) attenuated thanks to the reduction in public deficits, as well as to low interest rates throughout the euro zone and all-time low rates in the “peripheral” countries (Portugal, Italy, Spain, Ireland and Greece), where growth has picked up. Consequently, the pressure to “join Europe”, in other words to fulfil the Maastricht criteria, and that deriving from high unemployment has eased considerably, opening up new prospects and fields of investigation concerning the nature and durability of social pacts in the nineties.

In this new environment, one might question the ability of the trade unions to progress from an attitude which after all served them fairly well for two decades – one of resisting attempts to cut back social security, decentralise collective bargaining and, more generally, downgrade their legitimacy – to a position of putting forward claims in an economic context which has improved but is seemingly in no way comparable with that of the “thirty glorious years”. The question is, then, in what fields will there be scope for a new deal? EMU is a constraint on wage progression, but at the same time wages as a proportion of GDP have fallen to low levels, and equity (under circumstances of economic growth) demands that a new balance be struck (Mermet, 2000). The pathway is especially narrow in that the Central Bank censures anything it regards as potential for wage drift.

Moreover, exchanges in terms of social security are taking place within a stabilised financial framework. This does not mean that a new and more equitable balance cannot be struck (see for example the Italian case,
including the validation of changes by means of employee referendums, etc., Baccaro, 2000). There appears to be more room for manoeuvre in the so-called continental systems (Levy, 1999). Nevertheless, here too the path is narrow, even though recent reforms in respect of pensions have revealed the need to obtain a broad-based consensus both within political circles and among the social partners, above all the trade unions (Spain, Italy).

The Dutch example of new themes arising from Agenda 2002 (see contribution by Hemerijck, Van der Meer and Visser in this volume) and the latest Irish agreement entitled “Programme for Prosperity and Fairness” signal the possibility of adopting a more qualitative agenda. This notion of quality of life and quality at work is for example illustrated by the emergence in various countries of debates relating to stress, which is likewise a dominant feature of the Commission’s new social programme. Thus the room for manoeuvre appears to be greatest in addressing relatively new agendas (non-discrimination/ethnic minorities, stress, exclusion, training, etc.).

The success of a certain number of pacts has furthermore highlighted other issues, such as mobility and housing costs. These play a part in the overall assessment by workers of improvements in their living and working conditions. If working hours are reduced but travel-to-work time increases, and if wage growth is absorbed by rising property prices, the net result is actually less favourable than the figures would imply. In these fields the legitimacy of the trade unions cannot be taken for granted, and other pressure groups or citizens’ alliances take centre stage.

These issues affect governments too. The fruits of growth cannot be distributed without friction between the different factions comprising government majorities. Whereas governments needed trade unions when pushing through austerity measures, is the same true when it is a matter of sharing out surpluses?

In conclusion, what is now emerging is a new bargaining agenda whose outline is not easy to determine: on the one hand, because monetary union precludes any wage drift; on the other, because the terms of a new deal are difficult to establish, particularly in respect of social security where the cost of population ageing (health and pensions) is coming under the spotlight. The lack of co-ordination concerning both wages and reductions in overall wage costs opens the debate around competitive pacts and the risks of “social dumping”.

SOCIAL PACTS IN EUROPE – NEW DYNAMICS

37
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The European Union and National Social Pacts: Employment and Social Protection Put to the Test of Joint Regulation

Janine Goetschy

This text addresses two sets of questions. First of all, to what degree were developments at European level interconnected with national social pacts in the nineties? To what extent was Europe the motivation for these pacts? In what ways have European procedures for policy co-ordination contributed to national pacts? What analogies can be drawn between the national rationale for these pacts and the European rationale for co-ordination; are they congruent or contradictory?

Secondly, we explore the issues involved in social pacts in the nineties from a comparative historical perspective: their degree of stability, the nature and quality of their transactions, and the new-found role of the actors who have brought them about and sustained them. Having written over fifteen years ago about the neo-corporatist theories and practices of pacts in the seventies, we now seek to put matters into perspective, engaging where appropriate in a few theoretical detours.

1. What part has Europe played in motivating the national social pacts of the nineties?

Let us begin by recalling that Economic and Monetary Union (EMU) can itself be regarded as an economic pact with social implications, a pact negotiated and found desirable by the EU Member States; its institutional foundations were laid by the Maastricht Treaty. All too often the literature on social pacts in Europe views EMU (and especially monetary union) as an external constraint, a fait accompli, whose adverse effects the Member States must live with, taking the rough with the smooth. It should however be stressed that EMU is above all a pact willingly entered into by the Member States (with the probably temporary exception of the United Kingdom, Denmark and Sweden, which did not join the monetary union) and is expected to lead to greater medium-term economic and social stability in the face of globalisation – macroeconomic stability, boosting confidence and investment – and healthier public finances: a combination of factors
ultimately likely to have beneficial effects in social and employment terms. Thus, EMU can be regarded as an essentially macroeconomic pact, but one which has a direct bearing on the reform of social protection systems in that it seeks to terminate the practice of deferring public deficits, particularly social ones. EMU was additionally designed to play a major role in facilitating progress in the European Union in a more specifically political vein. EMU forms part of a subtle political/economic exchange between Member States, most notably between France and Germany (Cohen-Tanugi, 1995). At the same time, it is a pact between States which has received the backing of the European social partners, and in particular the European Trade Union Confederation (ETUC) (cf. ETUC congresses).

The reasons for embarking on EMU, and the short and long-term implications of doing so, were in the main explained badly or scarcely at all by the Member States to their citizens and to national political and social actors on the ground. Because of domestic policy concerns, and often in order to gain political capital, those in power frequently passed off their freely-made decision to enter EMU as an “external constraint” so as to justify back home certain rapid and far-reaching reforms in difficult fields (Cohen, 1996). This external constraint was nonetheless taken seriously by national political and social elites, and even at a very early stage, since they wished to meet the Maastricht macroeconomic criteria for joining the monetary union on time. As is well known, this strategy was successful and led to the signing of a number of social pacts (Pochet, 1998). The desire to join EMU is undoubtedly what motivated several national social pacts in the nineties and the necessary adjustments to industrial relations systems.

We would however stress here the dual character of these national social pacts: on the one hand they represent the implementation of a higher-order pact – EMU – and thereby legitimise decisions taken earlier by the Member States; on the other they constitute an effort to adapt industrial relations and social protection to this new state of affairs, a process whereby each Member State maximises to its own ends the advantages of its institutional system (previous instances of tripartism and of political exchanges, experience of wage restraint, greater capacity of small countries to react to economic or social crises, arrangements for collective bargaining, high-profile and well-disciplined trade unions and employers’ associations etc.).
In essence, the national social pacts of certain countries reflect the national social actors’ support – after a slight time-lag – for EMU, a pact signed by the Member States and backed by the European social actors. In our opinion, adjusting the national social order while erecting defences against undesirable “external” effects demonstrates a real desire to Europeanise industrial relations (i.e. to make them obey the new European rules of the game), and does not derive solely from a mere wish to renationalise social policies, as some authors have implied. It is a bid to derive maximum national gain by drawing on national institutional advantages, but also to take on board and assimilate the new supranational rules of the game (e.g. the Maastricht criteria) from which medium-term benefits are anticipated for all concerned (namely all the Member States which signed up for EMU, but also the social actors).

The fact that a clear figure was put on the external constraint (cf. Maastricht criteria) was bound to affect the nature of these pacts. If such pacts were to have any meaning, it was necessary – far more so than in the past – to negotiate social pacts with an implicit obligation to succeed (in terms of wage restraint, lower inflation and the shrinkage of budget deficits). The reward or sanction implicit in social pacts (joining or not joining monetary union on time) was sizeable, and the possible consequences for the countries concerned were enormous. Furthermore, the fact that a timetable was attached to the external constraint represented an additional factor for a rapid mobilisation of national synergies. By forcing the Member States to take stock of their situation, the external constraint made it possible to guarantee social pacts that responded well to the commitments made by trade unions (on wages) and by governments (on social protection and on employment policy measures). As for the employers’ commitments on jobs, although these were less binding in that the obligation to produce results was less strong, these undertakings proved to be fulfilled more faithfully in some countries (Ireland, Finland, the Netherlands, Portugal) than others (Spain, Italy). The intense demands placed on social pacts by this external constraint, in terms of the implicit obligation to succeed, also explains in part why certain unsuccessful pacts failed to get off the ground (Germany, Belgium).

For all its importance, the run-up to monetary union in itself constituted only one of the reasons for social pacts and affected some countries more than others. The advent of monetary union, as one motive for pacts, clearly came at a particular point in time and coincided with specific circumstances in the
history of pacts. More broadly, and looking beyond this important motivation, it is evident that throughout the nineties – and even in the late eighties – all social pacts were motivated by three other major elements, one European and the other two national in essence.

Firstly, the establishment of the single market (1992) within the EU, coupled with globalisation, exposed companies to enhanced competition; in the eyes of employers and governments, this justified reductions in wage costs (direct or indirect) and greater labour market flexibility. In a defensive sense, companies had to face up to new competitors, while at the same time – in a more offensive manner – gaining the opportunity to move into new markets. These difficult circumstances explain why employers and governments may have been keen to engage in social pacts with trade unions. In addition, some countries found themselves in particularly deep economic and social crisis (for example Finland, Ireland and Italy).

Secondly, irrespective of developments linked to European integration, it became a matter of urgency for most European countries to reform their social protection systems. The viability and survival of pensions systems and of health and unemployment benefit systems were being called into question by a whole host of factors which were plunging social protection funding arrangements into deficit, due to spiralling expenditure (population ageing, expenditure related to social exclusion, unemployment and family breakdown) and dwindling revenue (reduced contributions due to unemployment, the shorter duration of working life etc.). These systems had been set up 40 to 50 years ago in an age when the risks being insured were quite different (Esping-Andersen, 1990).

This internal need for change was compounded by the common macroeconomic requirements to which the Member States had signed up. Indeed, once the EU adopted a policy of budgetary stringency for its own macroeconomic policy purposes, this simultaneously meant that for social policies there was no longer any question of deferring successive deficits to finance the allocation of rising social benefits. This constraint was manifestly going to alter the terms of the political exchange contained in pacts, for example by partially invalidating the possibility of granting new or more advantageous social benefits in return for wage restraint. Thus, the elements of reform of social protection which feature in several social pacts originate both from causes inherent in the Member States’ social systems and from the concern for budget stringency under EMU.
Thirdly, employment – the low rate of activity and the high level of unemployment in the EU, with the acute problems of long-term unemployment and youth unemployment – constituted a major social challenge during the eighties and nineties both nationally and at European level. Although a number of countries (the Netherlands, UK, Denmark, Ireland, Finland and Portugal) managed a marked improvement in their respective performances in this area, others were much less successful (France, Germany, Italy and Belgium). Overall expenditure on employment (spending on active and passive policies) rose sharply in all the EU countries over the last two decades (in France, for instance, it quadrupled between 1973 and 1998 and currently stands at 4% of GDP). The respective proportions of passive expenditure on employment (unemployment benefit, early retirement) and active expenditure on employment (public subsidies for market sector employment, public subsidies for non-market employment, training for unemployed and young people) varied considerably from one EU country to another during the eighties, but the differences tended to evaporate in the nineties.

As far as employment policies are concerned, the nineties were characterised by two main developments. Firstly, both right and left-wing governments as well as the social actors were increasingly casting aside their partisan preferences to admit that, if a given country’s widely disparate employment policies were to be effective, they must be conducted concomitantly. Thus, widespread use is nowadays made at one and the same time of a broad range of employment policy measures dictated by very diverse ideological considerations:

- reductions in direct or indirect labour costs by means of lower social charges;
- more flexible management of the workforce (above all numerical flexibility, achieved by facilitating redundancies and encouraging the use of casual labour, i.e. fixed-term contracts and temporary work);
- more flexibility of work organisation due to legislation deregulating working time);
- work-sharing, through the promotion of part-time work, reductions in the length of the working week and early retirement;
- the introduction of a plethora of training arrangements.
Secondly, awareness of the impact of these different employment policies, of their respective effectiveness in terms of job creation, of the duration of these jobs and of the respective costs of each policy, improved considerably during the nineties. What is more, there was growing awareness of the interconnections between employment policies and other policies – on wages, taxation and social protection – in that the conflicting effects of these policies became plain for all to see. The most telling example is that of the policy of reducing indirect labour costs, adopted to further recruitment or preserve jobs: it led to a loss of revenue for social protection and the need to discuss ways of finding new fiscal revenue other than from taxation of the wages bill (France tackled this problem by introducing an eco-tax and a new profit-related tax). One political conclusion to be drawn from such a step is that, from now on, alternative funding should be envisaged for social protection whenever indirect labour costs – for instance – are brought down. Early retirement is another example: whilst its effect on employment has been beneficial, it has often proved costly for the State and for social protection. Over and above the links between employment policy and social protection, those between wages policy and social protection are also better understood now (see contribution by Hassel and Ebbinghaus in this volume). This improved awareness of the interconnections between policies and the fairly broad acceptance of this new knowledge by the political and social actors has redefined the content of social pacts, inasmuch as more attention is now paid to pursuing these diverse policies in converging directions by trying to serve the interests of both employment and social protection, for example. It is also worth adding that, while the nineties were marked by overlaps of issues and policies, social concertation at national level must furthermore be recognised in itself as an approach conducive to encompassing all political fields at once, together with their consequences. Such thinking formed part of the renowned Swedish model during its golden age. Why did social pacts in the EU countries not pursue a similar line in the seventies? The challenges to be met were different (inflation, militancy and industrial disputes, power in the workplace, mounting unemployment) and the contradictions between policy areas were less well understood. What is new today in comparison with the pacts of the seventies is not so much the inclusion of employment (whereas this theme has now taken on crucial importance, it was not altogether absent from pacts in the seventies) as the attempt to offset in advance the tendency of policies on wages, social protection and employment to conflict with one another.
The possible contradictions between macroeconomic policies and employment policies have been apparent for longer: when all is said and done, this area is still a major source of conflict, even though the macroeconomic dialogue embarked on through the Cologne process could augur well for the inception of talks aiming to settle the ideological scores in this domain (Fitoussi, 1995).

One purpose of examining these political interconnections is to highlight their effects on employment and social protection; another is to prevent policies conducted in one field from having a perverse or adverse effect on other policies by internalising the costs.

The two developments described above – the implementation of multiple employment policies on the one hand and, on the other, the furtherance of an all-round view of policy-making (on wages, employment, social protection, fiscal and macroeconomic policies) – have both been encouraged over the past ten years at European level and above all by the European Commission (cf. the content of numerous Commission communications on these issues; cf. the European employment strategy (EES), the Cologne process of macroeconomic dialogue, and the Cardiff process on reforming the markets in goods, services and capital). The Member States’ joint experience in these areas has been harnessed and exchanged at European level, mainly in Councils of Ministers but also in bodies such as the Standing Committee on Employment, and more recently in the various bodies linked to the EES. This pooling of European experience has undoubtedly contributed towards a broader perspective on national views and deeds.

2. Social pacts in the nineties: main issues, degree of stability, nature of transactions

The issues involved in social pacts over the past decade were more far-reaching than during the seventies: they often related at one and the same time to policies concerning employment, wages, flexibility of labour, social protection and taxation. But the main difference is that they implied some more fundamental societal choices and changes, particularly in respect of social protection (meaning a rethink and reinvention of solidarity between generations and among citizens in the form of new contributory and pay-out conditions) and even certain aspects of employment policy, such as work-sharing, thanks to a redefinition of working time (part-time work, shorter working week, sabbatical leave, parental leave, partial early retirement etc.).
These innovations allow male/female roles to be shared out afresh in working life, domestic life, child-rearing and care of the elderly, and mean that the relationship between training and employment can be reassessed for the career profiles of tomorrow.

2.1. Comparison of pacts in the history of capitalism

Three major phases linking the history of capitalism and social pacts can be identified over the course of the 20th century. The first phase extended from 1930 to 1945, when trade unions recognised from the outset the employer’s right to exercise unilaterally his entrepreneurial prerogative to “manage and distribute work” in return for the right of the unions subsequently to take industrial action over distribution (capital vs. labour). The foundations, implications and national institutional variants of this pact, summarised by the French regulationist school in a formula which became extremely well-known – the “post-war Fordist compromise” – have been elucidated in some depth (Boyer, 1988).

The second phase concerns the pacts of the seventies, when this Fordist compromise was called into question for a whole host of reasons: full employment tipped the balance of power in favour of the trade unions and resulted in a high level of union membership and militancy, widespread industrial conflict (numerous strikes), vigorous wage claims, and a wish to raise claims concerning power in the workplace and the production arena (previously acknowledged as the employer’s exclusive prerogative). The State’s task was to contain industrial conflict and square up to the mounting fragmentation of organised labour which was fuelling inflation, but at the same time to encourage employers to respond to the trade unions’ new demand for greater power in the production arena (Crouch and Pizzorno, 1978). It was a matter of promoting wage restraint so as not to thwart the State’s own economic policy objectives (primarily Keynesian full employment) (Traxler, 1997), but at the same time to find new settlements regarding power in the workplace (Crouch, 1993). In many European countries, moreover, one of the reasons why claims were lodged concerning the distribution of power in the workplace was that there were incipient difficulties in bargaining over wage distribution: the unions were no longer convinced that wage moderation ex ante was being adequately compensated ex post by investment in job-creating production (Goetschy, 1983).
The third phase relates to the pacts of the nineties, by which time the internal and international order was quite different: companies were exposed to tougher competition because of globalisation and the enlargement of the European market in 1992; the EU countries had lost their room for manoeuvre in respect of monetary and budgetary policy as a result of EMU (it had become impossible to devalue or carry out a trade-off in the form of social transfers which were not too detrimental to the public finances); and the balance of power had turned against the trade unions. All actors (employers, unions and governments) were subject to greater constraints. Thus, the impact of wage restraint was not so much to engender virtuous effects from a national macroeconomic policy perspective as to allow companies to remain competitive by curbing costs. By the same token, as far as employment is concerned, whereas in the seventies governments engaged in Keynesian policies to kick-start demand, in the nineties it was a matter of promoting employment by means of labour market reforms (flexibility of employment contracts, work organisation and working time) and more appropriate policies on training and skills acquisition. These pacts aim to offer direct, up-front advantages to companies (lower costs due to wage restraint and labour market flexibility) and to individuals (training, skills, minimum/universal social rights) at the supply stage, rather than retroactively in terms of redistribution or at the demand stage. It is pleasing to note that, in general, labour market flexibility has not led to a serious reappraisal of the institutional mechanisms for the representation of employees and trade unions in the workplace (representative bodies): flexibility has impinged more on the nature of employment contracts and working time.

To sum up: full employment, economic efficiency and social protection have been the main goals of the post-war period. Social-democratic systems have, in addition, viewed equality as a very real objective. The qualitative nature of these invariants underwent a profound change in the social pacts of the nineties. Employment remained a top priority but changed radically in nature (growth in female employment, casualisation of labour, tertiarisation etc.). As for social protection, whereas it still remains a possible element of the deal, albeit to a lesser extent, its very foundations are now being overhauled. In short, compared with those of the past, the social pacts of the nineties have played a dual role. On the one hand, they have served to legitimise some fairly fundamental societal changes (labour market flexibility and social protection) and have triggered a variety of debates on these topics which are as yet far...
from over; on the other hand, they have sought to confer *up-front* advantages on companies (cost reductions etc.) and individuals (training, labour market access etc.) in a changed international and European environment.

While European integration (the enlarged market and EMU) is what caused these issues to be raised in the first place, it has also begun to establish procedures to assist the Member States in tackling the outstanding problems (cf. EES, macroeconomic dialogue, local employment pacts, Structural Funds, and wage zones on the union side). In other words, the constraints initially arising at European level are subsequently loosened by new co-ordination procedures at that same level between the Member States and the social partners. These mechanisms for European co-ordination or tacit understandings between political and social actors are mainly of a procedural nature and are much more akin to orientation accords or agreements of intent than to transactional agreements with a relatively precise content; the reason being the diversity of social systems and industrial relations in the Member States and the EU’s inability to provide any substantial trade-offs (relative lack of financial resources apart from the Structural Funds, in particular the European Social Fund).

### 2.2. What of the stability and quality of social pacts?

The stability and quality of social pacts are considered superior in countries where pacts are concluded on a regular basis, since their recurrence fosters the development of mutual trust and enables the relative gains to be assessed in a broader time-frame, whereas in countries where these pacts are one-off or sporadic events, they tend to resemble classic collective agreements based on a lesser degree of trust, where the costs and trade-offs are measured in the immediate term (Marin, 1990). Lehmbruch and Schmitter (1982) also put forward the hypothesis that a corporatist system is more stable when transactions straddle the dividing-line between industrial relations and social policies.

It is likewise beneficial for a pact to encompass a wide range of issues, given that the number of possible transactions rises accordingly; thus, these may derive from the domain of both primary and secondary distribution, or alternatively may confer advantages on the actors in advance of the redistribution process (see above). The capacity of a small number of actors to enter into a political exchange and transact a large number of deals on a wide range of subjects means that we can refer to a generalised political
The European Union and National Social Pacts

SOCIAL PACTS IN EUROPE – NEW DYNAMICS

exchange (Marin, 1990) but it does make for highly complex negotiations; such an eventuality is greater in small countries than in larger ones.

Stable, recurrent social pacts involving a generalised political exchange are more likely to emerge if a maximum number of preconditions for a neo-corporatist settlement are present. The institutional bulwarks required for such a configuration are well known: concentrated, centralised union and employer movements; a small number of trade unions and employers’ associations; easy access for them to governmental and administrative circles; a social-democratic party with a fair amount of influence over the trade union movement; the Left in power etc.

Examining these transactions means analysing the durability of the trade-offs and assessing which actor has to pay the price. Some trade-offs contained in deals are more long-lasting than others. In the seventies certain trade-offs were obtained in the field of social protection or of institutions strengthening the power of trade unions in the workplace and became difficult to challenge after the event. An analysis of this type – seeking to evaluate the durability of pacts, the quality of the transactions and trade-offs, and which actors pay the price – has yet to be conducted in respect of social pacts in the nineties.

At European level, the annual recurrence of the EES process in fact constitutes one of its strengths (Goetschy, 1999). The National Action Plans for Employment (NAPs) are frequently criticised for having less relevance nationally than national social pacts, but the former have a long-term advantage over the latter: the NAPs form part of a yearly evaluation procedure with an inexorable institutional logic, designed to be long-lasting and generating an inevitable learning curve, whereas national social pacts can be more ephemeral, more sporadic, more unpredictable and more dependent on political coalitions and electoral concerns.

3. The protagonists of social pacts in the nineties: increased numbers and a renewed role

3.1. The State

The main characteristics of social pacts are, firstly, that they bring conflicts of interest over redistribution into the political arena and, secondly, that they allow any gains resulting from efforts made in the short-term to be deferred or postponed until later. The State plays a vital role in this process, inasmuch as it is the only actor capable of overseeing the economic, political, social
and fiscal spheres; what is more, it can incite the social partners to adopt policies connected with both primary distribution (wages) and secondary distribution (social protection). It is the State which expands the framework for negotiations and hence for possible transactions and trade-offs.

During the seventies, the nation-state was in a better position to control the national macroeconomic order than it was in the nineties, due to European economic integration. But the State’s role in social pacts remains important, since the fields covered – such as employment and social protection, and their fiscal implications – fall largely within its competence. Its role in these fields grew unrelentingly during the nineties, as reflected by the rise in compulsory deductions and mounting expenditure on employment due to burgeoning unemployment. In most countries, the State likewise plays a key role in devising, implementing and funding employment policies. Certain employment policy measures are in some cases drawn up and administered jointly by the State and the social partners, or else by the latter alone (vocational training, early retirement, introduction of flexible working practices such as shorter working hours, part-time work, unemployment benefit and activation policies). Government policies to subsidise market or non-market employment, however, remain the preserve of the State. Whereas the trend is for the social partners to become increasingly involved in all of these employment policies, the strategic direction for the latter is dictated by the State, which has responsibility in particular for new legislation on flexible working, activation policies, policies to find jobs above all for young people and the long-term unemployed, and measures to assist older workers. As the guarantor of social cohesion and equity, the State remains in overall charge of policies to help people find jobs and to subsidise those jobs where appropriate. As for its performance in bringing down unemployment, its political representatives are on the front line when it comes to facing the direct consequences at election time.

Similarly, with regard to social protection – be the system a Bismarkian, Beveridgian or universalist one – the State has a duty to take into account wider interests than those of wage-earners or working people in protecting against three risks: health, old age and job insecurity. In terms of social protection, the relationship between the social partners and the State is in fact undergoing a shift: the social benefits granted by Bismarkian systems (based on insurance and managed by the social partners) are now increasingly being funded out of general taxation (thus enhancing national solidarity), whereas universalist systems (relying on the State) are allocating an unprecedented role
to the social partners and the market. Furthermore, over and above the national diversity and specificity of social protection systems, two parallel trends are becoming apparent: in most countries, while the State is encouraging a partial privatisation of risk (a process of "recommodification", i.e. market involvement, is underway) (Castel, 1995), it is at the same time setting itself up as the provider of a minimum safety net for all.

Contrary to a widely held belief, we consider that the European level has helped to strengthen the hand of the Member States in laying down economic and social policies: in the face of globalisation, the process of European integration has enabled the Member States to hold greater collective sway over the EU’s monetary and financial policy-making (after all, they themselves decided to entrust monetary power to a largely independent body, the ECB). By the same token, the European employment strategy adopted by the Member States under the Amsterdam Treaty led them to draw up European employment guidelines with a view to making their national employment policies more effective, i.e. faster-acting and more certain to push down unemployment. For each country individually, of course, this restricts its national room for manoeuvre (especially in the monetary and budgetary field) and necessitates a review of the ins and outs of its employment policy. This reinforced power of national governments is exercised through the workings of the European institutions.

3.2. The trade unions

The social pacts of the seventies were mainly designed to keep inflation under control, to stem the rising tide of industrial disputes due to the upsurge in trade union militancy after 1968 and to tackle the fragmentation of workers’ interests. The role of the trade unions was above all to bring order and discipline to the plethora of diverse claims, particularly wage claims: they had to marshal all the interests concerned and act as a filter for them. Governments were better able to make the unions impose such wage discipline in countries where trade unions were few in number, centralised, inclusive and well disciplined (Lehmbruch and Schmitter, 1982).

The trade unions had to assume a somewhat different role in the social pacts of the nineties. Of course, they are always at pains to avoid wage rounds of a leap-frogging type when the economy is buoyant. But that is not the main point. Pacts in the nineties demanded more of the unions, namely that they should act to justify major societal changes to their grass-roots: new regulations and a new balance between flexibility and job security were
topical issues; social protection – i.e. health and pensions systems – had to be reformed so as to be viable and so as not to penalise present and future generations. Let us look by way of illustration at the ideas contained in the report by Supiot (1999) to envisage the implications of this new relationship between flexibility and security. Supiot starts from the hypothesis that in future an individual’s working life will consist of a succession of situations including full-time employment, training, part-time employment, parental leave, voluntary work, voluntary retirement etc. Uncertainty will be permanent. In order to enable individuals to confront these risks, safety nets in the form of social security (social protection) and social rights must be put in place; in this way employees will be assured of a continuous career path, and people’s occupational circumstances and capacity for work will be maintained (through education and training), whatever the vicissitudes of their working lives. More pragmatically and more immediately, the relationship between flexibility and security means for example promoting the development of part-time work or fixed-term contracts in exchange for better social guarantees for such arrangements (cf. the two European agreements on these themes which became European directives). Another example is the need to accept work-sharing (a reduction in all forms of working time) so as to curb unemployment and ease young people into working life.

Under these pacts, moreover, it is up to the trade unions to imbue their grass-roots with a real culture of patience and to educate them about the links between different sets of claims, in order that the membership will accept, on the one hand, the close links between wage restraint, labour market flexibility and job creation (these links are the subject of scientific and ideological disagreement) and, on the other hand, the fact that the long-term viability of social security and pensions systems calls for greater efforts to be made here and now (bigger contributions, smaller refunds etc. in the case of health care; a rise in the number of contributory years, an increase in the retirement age etc. in the case of pensions). This work has only just begun, and given the immensity of the task in hand we can expect further social pacts in the future.

As for the employers, they had several trump cards during the nineties – weak trade unions, globalisation, European economic integration (as both a reality and a pretext) and unemployment – to assist them in negotiating social pacts favourable to their own interests. The shift in the balance of power between the social partners nationally has been elucidated elsewhere.
(Ferner and Hyman, 1998). Three remarks are worth making here. First of all, in view of the unceasing increase in State subsidies to help employers step up recruitment (reductions in direct or indirect labour costs, employment subsidies) or introduce work-sharing (subsidies to promote part-time work, shorter working hours, early retirement etc.), these should progressively be made conditional by linking them to an obligation to recruit, to hire workers for a certain period and to offer jobs of reasonable quality. A principle along such lines could for example be made more explicit in the European guidelines.

Secondly, employment has become a “public good”, which increasingly serves to justify transformations in respect of flexibility in work organisation and working time, casual jobs, wage restraint etc.: it is for the sake of jobs that employers undertake or justify a whole range of changes in the above-mentioned areas. It is important under such circumstances to ensure that employment does not simply become a pretext for bringing in changes desired by employers in other areas, without such innovations always being accompanied by proper measures to boost employment (Morin et al., 1998).

Thirdly, just as globalisation and enhanced competition within the enlarged market are two pretexts used by employers to win over the trade unions, the defence and safeguarding of the “European social model” represents a line of reasoning offered to governments and unions by the building of the EU, on which they can draw in negotiations to discredit any “beggar-my-neighbour” strategies.

At national level, the respective roles of the social partners, parliaments and governments in determining employment policies, labour market flexibility and social protection vary from one country to another. As a general rule, however, parliaments enact legislation to establish the framework for these policies and to approve their funding. The European level can contribute to strengthening the hand of the social actors at national level where they are somewhat weak (as is the case of the union side in France).

The European level and in particular the European employment strategy (EES) have in fact opened up fresh opportunities for the social actors to come together around new tasks and new functions at both European, national, regional and company level. For instance, the social actors are involved in drafting and implementing the National Action Plans (NAPs) required by the EES (for an initial appraisal see Foden, 1999). The views of the national social actors on the NAPs should in turn enliven the debate on
these same topics (labour market flexibility, wages, elements of social protection) within each of the European social actors, i.e. the ETUC on one side, UNICE and the CEEP on the other.

Similar developments can be anticipated within the nation-states: the EES encourages co-operation among different national administrations – on the economy, finance, SMEs, employment, social protection and education – with the aim of devising, producing and implementing the National Action Plans.

The macroeconomic dialogue initiated in Cologne (1999), for its part, sets out to formalise the relations between the main European players (ETUC, UNICE, Commission, Ministers of Finance and Employment, ECB, governors of national central banks) in order to facilitate dialogue on the respective interconnections between wage, monetary, budgetary and fiscal policies. Added to this there is the still embryonic Cardiff process aiming for dialogue among Europe’s political and social actors to improve the functioning of, and to update, the markets in goods, services and capital.

The trade unions are pursuing another course of action by co-ordinating their collective bargaining strategies: co-ordinated intra-European wage zones have been set up and are gaining ground (cf. Doorn agreement); bargaining strategies are being co-ordinated within given sectors (e.g. metalworking) (Hoffmann and Hassel, 2000).

Finally, unprecedented interaction among actors concerning employment matters at local level has resulted in local employment pacts. This initiative is spearheaded and supported financially at European level (Spineux et al., 1999).

What difficulties can be foreseen in connection with this new orchestration of interests at European level, which implies a proliferation of discussion forums and participants? Both the EES and the macroeconomic dialogue confer a major role on the social partners, the Commission and the Member States (as well as the ECB in the second case), whereas the European Parliament – guarantor of the broadest democratic representation of interests – is scarcely involved at all. One might fear the resurgence of an old criticism formerly levelled at neo-corporatist structures operating independently of parliamentary representation; the latter is often deemed more legitimate and more democratic, but less efficient and less well-placed to deal with issues such as these. A second difficulty with this system of
multi-governance (European, national and regional) and this interweaving of interests lies in its procedural complexity and the large amount of time demanded by all these processes for consultation and negotiation. It is no doubt the price to be paid, on the one hand, for accepting the fundamental changes in question (labour market flexibility, employment and social protection) and, on the other, for ensuring that the pooling of national resources can bear fruit (Wessels, 1997).

4. Conclusions

The issues involved in the social pacts of the nineties (wages, employment and work-sharing, labour market flexibility, social protection) cannot be fully understood unless they are closely linked with the accelerating pace of European integration and with globalisation in order to grasp the nature of the problems posed. Naturally, the social protection aspect relates much more specifically to individual countries’ own domestic problems, the viability of pension and health systems being a common subject of concern among governments but one which predated EMU. It is however as a result of EMU, the new regulatory framework erected by the Member States, that the questions to be addressed in these two broad spheres (industrial relations and social protection) have arisen in parallel and with fresh urgency.

Whereas in the seventies social pacts proved to be essentially distributive in nature, aiming for wage restraint with trade-offs in the fields of social protection, taxation and power in the workplace, those of the nineties tackle more fundamental societal problems and have a more distinctive time-frame. On the one hand, in the field of employment a new compromise needs to be found between job security and flexibility or perhaps between solidarity and flexibility. On the other, in the field of social protection there is cause to review the principles underpinning solidarity between generations (for pensions) and solidarity among citizens (for the health system and social welfare policies).

Like those of the seventies, pacts in the nineties are part of the political exchange, in the sense that they incorporate the spheres of primary distribution (industrial relations) and secondary distribution (social protection), thus allowing for a whole host of transactions and trade-offs. But the pacts of the nineties encompass an even greater number of fields and policies than those of the seventies and take more account of the interconnections between these policies (wages, social protection, taxation,
In terms of procedural arrangements, the pacts of the nineties invented new linkages between the centralised and decentralised levels of collective bargaining (on wages and employment). This implies, firstly, a proliferation of forums for transactions between the social partners and, secondly, a proliferation of political exchanges (at European level, local pacts etc.) between the social partners, the State and civil society (associations etc.). This proliferation of forums illustrates that ongoing societal change necessitates multiple adjustments. Furthermore, if they are to be accepted, these changes require not only that decentralisation and centralisation go hand in hand, but that these two modes of regulation be tightly interconnected.

The proliferation of transaction forums is such that we can speak of a system of multi-governance; we cannot really discern as yet which layers will have a more formative or determining impact than others. Referring merely to social legislation and jurisprudence developments is not sufficient to convey the complexity of trends, but does at least constitute an initial effort. It is essential, moreover, in order to understand the negotiated outcomes, to look more carefully at the interactions between all these diverse levels of action (European, national, sectoral, company, local) and at what can be learned collectively from the various comings and goings.

The linkage between centralisation and decentralisation is of course a longstanding problem, but it is dealt with in a more sophisticated manner by pacts in the nineties than by those of the seventies, which served above all else to compensate for the centralised pact by granting wider powers to bodies representing trade unions in the workplace.

The proliferation of exchange and bargaining forums, often initiated by social pacts, is matched by a proliferation of the actors involved. European integration and its inherent processes of social regulation have themselves brought to the fore new actors, for instance in the context of the European employment strategy. It is a feature of EU procedures that a whole cast of characters has come to establish contacts at numerous levels.

In this text we have described the transformation in the role of the actors (State, unions and employers) in launching and negotiating social pacts in the nineties. As far as social protection is concerned – be it of the
Bismarkian, universalist or Beveridgian variety – a fresh balance is currently being struck between the roles of the social partners and the State. With respect to industrial relations, although the trade unions have to a certain extent preserved their seventies role of bringing about wage discipline, the social pacts of the nineties oblige them first and foremost to undertake the task of convincing their grass-roots of the societal changes outlined above.

In one sense, we would contend, the pacts of the nineties have a more dramatic dimension which is expected to last: in crucial societal areas work has only just begun.

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From Means to Ends: Linking Wage Moderation and Social Policy Reform

Anke Hassel and Bernhard Ebbinghaus

Introduction

In the debate over the re-emergence of tripartite concertation in the nineties (Schmitter and Grote, 1997), many observers maintain that the main role of these social pacts is to improve a country’s competitive position by lowering labour costs (Pochet and Fajertag, 1997; Rhodes, 1997). During the nineties, governments needed to “find partners in achieving broad macro-economic objectives at a time of difficult adjustment to the demands of European integration – especially the Maastricht convergence criteria for membership of EMU” (Rhodes, 1997: 17). Indeed, wage restraint is the main driving force behind all those agreements (Hassel, 1999). Lowering real unit labour costs through wage moderation has not only a direct impact on export-oriented industries, but also an equally important moderating effect on the government’s public sector wage bill and indirectly on overall social expenditure.

However, not all measures stipulated by tripartite agreements fit easily into macro-economic interpretation of lowering labour costs and public debt. Important elements of tripartite agreements entail both a greater degree of labour market flexibility and substantial social policy reforms. Contrary to the aim of cost saving, these agreements often contain an extension of publicly funded employment creation programmes. In addition, they regularly include a commitment by the government to improve education and training, to lower taxation, and to reduced social insurance contributions. Moreover, a more detailed look at successful and failed efforts towards tripartite concertation reveals that social pacts have a broader agenda than merely wage moderation and need to be understood in the context of the readjustment of welfare states (Ebbinghaus and Hassel, 1999; Ebbinghaus and Hassel, 2000). For some observers, social pacts represent a major instrument for striking a new balance between the needs of adjusting to a new world economy and the preservation of the European social model (Ebbinghaus, 1999). For example, as Negrelli points out in this volume: “social pacts may be defined as, first and foremost, common strategies...”
adopted by the major social actors in an attempt to achieve a minimal social threshold, just “right” combination of flexibility and solidarity, and of equity and efficiency” (see contribution by Negrelli in this volume).

These divergent accounts of the virtues of social pacts reflect the national contingencies and issue complexities of social pacts. In our view, social pacts involve complicated concertation processes in which governments seek to tackle substantial and multiple policy changes in order to co-ordinate adaptation among interdependent policies and buy off the acceptance of the collective bargaining partners through package deals. In our perspective, social policy reforms play a double role of being both means and ends: they are means since social policy concessions are part of a political exchange (buffered social benefit reforms in return for wage moderation) and they are one of the ends since they are a necessary and complementary element in reducing overall labour costs. Whether social policy changes are being used as means or ends depends on the capacity of trade unions to veto policy reforms and on how social benefits are linked to wages and labour costs.

In the following, we will first describe how social benefits have traditionally been used as compensation for corporatist income policies. The limits to the growth of welfare states has reduced the leeway for such political exchanges. However, governments may be interested in negotiating social policy reform when the social partners have veto points in the political decision-making and/or in the implementation process, while unions would be able to buffer welfare retrenchment, forestalling more severe state imposed welfare cuts. Secondly, since we assume that the linkage between wages and social benefits are at the heart of governments’ aim of lowering labour costs, we will look at the nature of the link and recent attempts to contain wage developments and social benefits. Using the example of the Italian, Dutch and German concertation efforts, we then discuss how tripartite agreements are contingent on the linkage between wage policy and social insurance reform.
2. Social compensation before and after the new politics of welfare retrenchment

Trade unions have played a major role in expanding welfare states by mobilising for the extension of social security coverage, the improvement of social benefits and the growth of public services. Comparative studies of welfare state development emphasise the importance of the power of organised labour: the union movements’ strength in union membership, its centralisation, and its close ties to left parties, especially when participating in government (Korpi, 1983; Esping-Andersen, 1990). But also societies with social-Christian orientation and worker wings of Christian-Democratic parties provided a favourable political context for the expansion of social transfers (Kersbergen, 1995). The post-war expansion of the welfare state occurred as part of an implicit social pact: social protection was expanded in exchange for the acceptance of the uncertainties of market economies. In export-oriented economies, social protection became an important buffer against the cyclical proclivity of the international market, thereby helping to maintain the social consensus typical in corporatist, small European states (Katzenstein, 1985).

As part of the neo-corporatist income policies of the seventies, governments promised extension of social benefits (and also organisational securities) if unions were willing to agree to wage moderation. In quantitative analyses, post-war social expenditures indeed correlate positively across countries and over time with measures of corporatist interest intermediation, including union density and centralisation of wage bargaining (Stephens et al., 1999). This seems to indicate that unions have received social rights as side-payments as part of an implicit or even explicit political exchange (Pizzorno, 1978) to entice them into accepting wage moderation. Governments bought off conflict over wage bargaining and sweetened the workers’ foregone potential wage raise. For this social compensation deal to be effective, much depended on governments’ and employers’ need for negotiated wage moderation and the credibility of the unions’ threat to mobilise and push through higher wages. Moreover, such a deal could only be possible when wage bargaining was centralised or at least co-ordinated by employers or unions, and when both, organised capital and labour could assure the compliance of their members.

But social compensation was also a precarious deal. On the one hand, the government’s more or less formal commitment had to be transformed into legislation, thus parliamentary politics might intervene and undermine the
initial compromise. On the other hand, once social rights were granted, it was difficult for governments to undo them when organised labour no longer honoured its part of the deal. As the history of welfare retrenchment shows, social rights found support with public opinion and created its own vested interests; they quickly became acquired rights that were deeply entrenched (Pierson, 1996). Finally, social rights are usually public goods and thus difficult to withhold from individuals or organisations that have not contributed to wage moderation. Therefore, social compensation may be more a long-term support for continuing co-operation than tit-for-tat side-payments (Lange, 1984: 109). One should also note that social compensation was not necessarily benefiting workers directly. Many social benefits were paid to non-working beneficiaries or were only potentially benefiting the workers that underwrote wage moderation. Social compensation, when part of the social pact, was a rather indirect, long-term and collective good in return for restrain on short-term wage gains.

In some cases, employers and trade unions collude in asking the government to expand or sustain social benefits. For instance, deferring wage increases to pension accrual is often taxed less, later or not at all. In systems with largely tax-financed benefits, as in the high tax Scandinavian countries, deferred wages would not only save personal taxes, it would also shift the costs on to general taxation. Moreover, employers and trade unions often agreed to use public pensions, unemployment and/or disability insurance to finance early retirement which helped companies to restructure and alleviate the unemployment problem (Ebbinghaus, 2000). Companies and trade unions were thereby able to externalise the costs of early retirement onto the public system. For a long time, governments turned a blind eye to this practice, though with increased cost pressures they sought to reverse such externalisation strategies.

Western European welfare states reached their “growth to limits” (Flora, 1986) in the early eighties (the Southern European and Finnish welfare state somewhat later). Given international competition and financial market imperatives, general and payroll taxes could not be raised much more in order to finance social security costs. On the other hand, social expenditure was further pushed by rising unemployment and demographic changes. Henceforth, the extension of social rights as a compensation for wage moderation was no longer available for political exchanges.
With the electoral turn towards the right in the eighties, especially new Conservative governments in Britain, Germany and several other European countries, trade union influence was more limited. The “new politics of the welfare state” had the declared aim to reduce rather than expand the welfare state (Pierson, 1996). Moreover, trade union power was directly weakened by membership decline, increased interest heterogeneity, and eroding political ties, but also indirectly by pressures towards the decentralisation of collective bargaining, employment flexibility, and high unemployment. Therefore, welfare retrenchment would have seemed more feasible, especially where unions are particularly weakened. But why would governments strike any deals with unions on social policy?

As Paul Pierson observes, the “politics of retrenchment is typically treacherous, because it imposes tangible losses on concentrated groups of voters in return for diffuse and uncertain gains” (Pierson, 1996: 144). Thus, the potential political costs for unpopular retrenchment are high, as it may mobilise protest by the welfare clientele and could lead to important electoral losses. For reasons of blame avoidance, government parties may wish a broad consensus with non-governing parties over reforms, thereby limiting the opposition’s political gains from a retrenchment backlash at the next election. And secondly, as research on the reform of early retirement schemes has shown, strategic interaction between employers’ and trade unions can pose political constraints on governments even if both sides do not pursue the same goal (Mares, 1999).

Governments may therefore have reasons to seek social concertation in order to firstly gain legitimacy for unpopular welfare restructuring and secondly overcome institutional veto positions by the social partners. For example, during the corruption crisis of the Italian political party system in the early nineties, the technocratic or weak coalition governments sought trade union support for welfare reform in order to gain legitimacy and secure political support, given the links of unions to pivotal left parties (Regini and Regalia, 1997). In this case, the political exchange entailed that union leaders accepted the governments plans as long as they could have more influence on the process and outcome of welfare restructuring. The government, however, was only interested in such a deal, if unions were able to enhance legitimacy in society and to influence the voting behaviour of their members.

That governments may well be compelled to seek concertation if they want to circumvent blockage, can be seen from the examples of union protests in
Italy in 1994 and in France in 1995. The Berlusconi government met widespread protest organised by Italian unions (a large share of their members are pensioners), and the government finally fell over the waning parliamentary support (Regini, 1997). Similarly, the retrenchment plan of the French Prime Minister Juppé caused widespread social protest and a major public sector strike in December 1995, which forced the Conservative government to make concessions to union demands (Bouget, 1998). In some cases, public retrenchment policy can also find its limits by spilling over into industrial relations. In Germany, for instance, the centre-right Kohl government cut the statutory sick pay rate from 100% back to 80%. The threat to apply the new law by some larger German companies led to massive protests and wildcat strikes by workers in defence of collective agreements that guaranteed full sick pay (Bispinck, 1997).

Governments might meet further veto points when the social partners play a role in the self-administration of social insurance. While the government and parliament may set the contribution and benefit levels by decree or legislation, as in Italy and Germany, the social partners are involved in the implementation process. In addition, the social partners are in some cases running their own collective schemes, such as the union-administered, state-subsidised unemployment funds in Belgium, Denmark, Finland and Sweden (Rothstein, 1992). The unemployment scheme is run by the collective bargaining partners in France; the same is true for the collective early retirement schemes in Belgium, France, Denmark, and the Netherlands. In addition, occupational pensions insurance by employers and sometimes by the collective bargaining partners gain importance as governments reduce replacement rates of public pensions benefits (Shalev, 1996). There are thus advantages for governments in co-ordinating with unions and employers in order not only to get support for social policy changes but also in fostering their implementation.

Therefore, the political exchanges of the nineties differ from the earlier corporatist incomes policies as they rarely include any new social benefits in exchange for wage moderation. If there are social benefits, these are often tax exemptions or work schemes, which are regularly channelled towards the most disadvantaged groups in the labour market, those that do not belong to the core membership groups of trade unions and would be needed for supporting wage moderation (Van Wijnbergen, 1999). Today’s political exchanges entail more diffuse and long-term welfare gains to labour, especially possible job-creation as a result of moderate wages. But unions
can still find something in social pacts in return for their concessions: they might be able to strike a deal with the government to soften welfare retrenchment and avoid imposition of stricter cuts. Much depends, however, on the likelihood of the government being willing and able to impose unilateral cuts on social security, and on the industrial and electoral power of labour to block these efforts.

3. **Reducing labour costs: wages and social benefits**

In contrast to the income policies of the seventies, social pacts of the nineties have a different macro-economic rationale. Instead of pursuing wage restraint in order to control inflation and support Keynesian full employment and deficit spending, wage moderation is part of a supply-side policy of employment and economic growth by restoring competitiveness and sound public finances (Traxler, 1997). During the nineties, the emphasis of employment policies of most Western European governments has continuously shifted towards a policy in favour of reducing labour costs. From the government’s perspective reduced labour costs serve – ideally – multiple purposes, which would help them to master the difficult task of adjusting to a new economic environment. Firstly, reduced labour costs improve competitiveness vis-à-vis other European economies. Secondly, since wage developments in the public and private sector are in most European countries tightly coupled, moderate wage increases help to reduce the public sector wage bill. And thirdly, in the context of high unemployment rates in the EU and given the American job miracle, lower labour costs are believed to boost employment in the low productivity sectors of the economy.

Since wages have the most direct impact on labour costs, co-ordinated wage bargaining became more prominent in public policy for restoring competitiveness (table 1). Formal wage guidelines which explicitly fix wage increases below the level of productivity growth were agreed in Italy, Ireland, Belgium, Sweden, Denmark (in a limited fashion until 1991), Portugal and Finland in the nineties.

In Italy tripartite agreements to end the automatic inflation-indexation of wages (scala mobile) and the subsequent reform of wage structures through the Ciampi Protocol in 1993 were used to cap off wage increases in order to meet EMU’s convergence criteria. Similarly, the Portuguese government has been trying to convince the unions since 1998 of the need for a wages policy
that is compatible with EMU. In 1996, a pay formula was agreed in Portugal according to which wage increases would be restricted to no more than half the increase in productivity. The same reasons are also being used to justify attempts to centralise wages policy in Spain. In Finland wages were frozen and wage buffer funds set up in order to protect workers against possible external shocks during the transition to European monetary union.

One can also observe that European countries are increasingly beginning to model their national wages policy on those of their most important neighbours. In Belgium, wage increases were tied by law to the average forecast of pay rises in Germany, the Netherlands and France. In the October 1998 cross-sector collective agreement, a wage increase of 5.9% over the next four years was agreed, based on the expected average increases in the neighbouring countries (Kuntze, 1998). Since 1998, Italy’s wage guidelines have been based on EU inflation forecasts. In both Denmark (1987-1991) and Sweden (1995), the social partners voluntarily agreed to restrict wage increases by ensuring that labour costs will not grow faster than in other European countries.
Table 1: Wage guidelines and social pacts in Europe

<table>
<thead>
<tr>
<th>Country</th>
<th>Contract</th>
<th>Year</th>
<th>Wage guideline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>Law on competitiveness</td>
<td>1989</td>
<td>Wages must not grow faster than the average increase in seven countries (GDR, F, NL, I, UK, US, J), <em>ex-post</em> approach.</td>
</tr>
<tr>
<td></td>
<td>New law on competitiveness</td>
<td>1996</td>
<td>Wages must not grow faster than the expected increases in French, Dutch and German wages, <em>ex-ante</em> approach.</td>
</tr>
<tr>
<td></td>
<td>Collective agreement in the framework of the 1996 law</td>
<td>1998</td>
<td>Maximum of wage increases of 5.9% for two years, with possible exceptions if jobs are created in a specific sector.</td>
</tr>
<tr>
<td>Italy</td>
<td>Tripartite agreement on abolition of scala mobile</td>
<td>1993</td>
<td>Wage increases must be below expected rate of inflation. Plant level extra can be based on productivity growth.</td>
</tr>
<tr>
<td></td>
<td>Social Pact on Growth and Employment</td>
<td>1998</td>
<td>Wage increases must be below expected inflation rate; plant level supplement based on productivity growth.</td>
</tr>
<tr>
<td></td>
<td>Rehnberg-Agreement (Renewal)</td>
<td>1993</td>
<td>Renews the wage guideline of 1992; wage drift of previous year is included in nominal wage increases</td>
</tr>
<tr>
<td></td>
<td>Edin-Commission</td>
<td>1995</td>
<td>Edin Norm: 3.5% wage increase – reflecting the expected average of EU wage growth</td>
</tr>
<tr>
<td>Denmark</td>
<td>Agreement on Social Partnership</td>
<td>1987</td>
<td>Wage increases must not be above the wage developments of other European countries (valid for four years).</td>
</tr>
</tbody>
</table>
### Country Contract Year Wage guideline

#### Countries with fixed wage guidelines

<table>
<thead>
<tr>
<th>Country</th>
<th>Contract</th>
<th>Year</th>
<th>Wage guideline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portugal</td>
<td>Tripartite agreement</td>
<td>1996</td>
<td>Wage increases up to half of productivity growth</td>
</tr>
<tr>
<td>Finland</td>
<td>Stability Pact</td>
<td>1991</td>
<td>Wage freeze until 1993</td>
</tr>
<tr>
<td>Portugal</td>
<td>Strategic Social Pact</td>
<td>1997</td>
<td>No wage guidelines</td>
</tr>
<tr>
<td>Finland</td>
<td>Social Pact</td>
<td>1995-1997</td>
<td>Wage increases of 2% in 1995 and 1.7% in 1996; limited indexation to prices</td>
</tr>
<tr>
<td>Portugal</td>
<td>Social Pact</td>
<td>1998-2000</td>
<td>Renews the wage guidelines</td>
</tr>
<tr>
<td>Ireland</td>
<td>Programme for National Recovery (PNR)</td>
<td>1987-1990</td>
<td>Wage guideline of 2.5% per year</td>
</tr>
<tr>
<td>Ireland</td>
<td>Programme for Competitiveness &amp; Work (PCW)</td>
<td>1994-1996</td>
<td>Wage increase of 8% over 3 years; public sector has slower wage increases</td>
</tr>
<tr>
<td>Ireland</td>
<td>Partnership 2000</td>
<td>1997</td>
<td>Wage increase of 9.25% for 39 months</td>
</tr>
</tbody>
</table>

#### Informal wage guideline

<table>
<thead>
<tr>
<th>Country</th>
<th>Contract</th>
<th>Year</th>
<th>Wage guideline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>Wassenaar Accord</td>
<td>1982</td>
<td>Moderate wage agreements below productivity growth</td>
</tr>
<tr>
<td></td>
<td>New Course</td>
<td>1993</td>
<td>New commitment for a responsible wage development</td>
</tr>
</tbody>
</table>

**Sources:** Ferner and Hyman (1998): passim; European Industrial Relations Review, various issues, EIROnline, various issues.

Yet wages are not the only component of total labour costs. The other part is non-wage labour costs, especially mandatory social insurance contributions, paid by employers and employees. Particularly in continental European welfare states which rely on social insurance contributions, mandatory non-wage labour costs account for around 45% to 50% of labour costs in manufacturing, compared to less than 30% in the UK in the mid-nineties (see table 2). But also in Sweden, contributions have become substantial (above 40%), and even in Denmark, where universal benefits are largely financed by general taxation, gross wages still have to account for high general taxes. Non wage labour costs increased in all major welfare states since the eighties, in particular in continental Europe. In Germany, pension insurance contributions increased from 17.5% in 1993 to 20.3% of gross wages in 1997, while unemployment insurance increased in the early nineties to 6.5%.
Both rises were largely due to the governments decision to finance social transfers to the East via social insurance contributions after unification.

Moreover, continental European economies have persistent high unemployment rates and relatively low employment rates. Given demographic pressures and averse labour market conditions, there were more and more non-actives being dependent on social benefits paid by fewer and fewer employed people. In fact, the continental European economies face a continental dilemma (Scharpf, 1998): They have to increase their contributions to finance rising social costs, partly for passive labour market policies (unemployment and early retirement benefits), thereby driving even more workers out of their jobs, which in turn demands higher contributions.

Therefore, wage restraint alone cannot guarantee lower labour costs, if non-wage labour costs continue to rise. Yet while unions and employers are largely responsible for bargaining wages, they have hardly any control over welfare expenditures and limited influence on setting contribution rates. Therefore, social pacts entail not only a commitment to wage moderation by the social partners, but also a call upon the government to lower social labour costs (Hassel, 1999).

A second linkage between wage formation and social benefits derives from their coupling: Minimum social benefits are often linked to minimum wages and social contributions have lower or upper levels that are defined relative to wages. In addition, social benefits, in particular pensions, are in some cases indexed to wage development. Indexing pensions or other social benefits to wage development instead of merely to consumer price inflation has long-term consequences for the level of benefits, and thus also for public finances. Many welfare states changed from price to wage indexation during the golden age of economic growth and welfare expansion. Through these rather technical reforms pensioners were able to share the general rise of living standards enjoyed by working people. As a consequence, wage bargaining by the social partners de facto determined public policy, at least as long as governments applied the principle of indexing social benefits to wages.

With increased social costs and public deficits ad hoc or even systemic changes to the annual benefit, adjustments became part of welfare retrenchment policies since the eighties. Currently, pensions are still, at least in principle, adjusted in line with wages in Austria, Germany, Denmark, Finland (occupational pensions) and the Netherlands. In countries with high inflation traditions (Latin European and Anglo-Irish countries), but also in
Sweden, public pensions have been traditionally adjusted by consumer price inflation and not by the higher wage increases during the seventies and eighties. Where pensions were linked to net wages as in Austria and Germany, tax reforms which sought to lower the tax burden of wage earners and thus increased net wages in order to provide more room for wage moderation, would also spill over into higher pensions irrespective of the actual inflation rate. This side-effect led the German red-green government in 1999 to announce that it would set pension increases for 2000 and 2001 only at the inflation rate (of the previous year: 0.7% and probably 1.6% respectively).

An interesting reform of social benefit indexation is the Dutch Conditional Linking Act of 1992. Adjustment can only occur when contractual wages do not exceed inflation plus productivity growth. It also allows freezing of benefits when the rate of inactives (welfare beneficiaries) to actives (insurance contributors) falls under the fixed rate of 82.8%; this occurred between 1993 and 1995 (Visser and Hemerijck, 1997: 141). This conditional indexation therefore internalises the employment impact of social contributions and ultimately blames the wage policy of the social partners, if benefits have to be frozen.

The third linkage between wage policy and social benefits derives from the reservation wage problem. According to economic theory, unemployment and social assistance benefits determine the reservation wage: the wage level at which an individual would prefer to take up social benefits instead of working. The closer the unemployment benefit approaches the actual wage, the higher the disincentive to work unless there are other restrictions. Yet most contribution-financed unemployment insurance provides benefits only for a limited period (sometime with declining benefits over time), and often requiring active employment search. For skilled workers, a high replacement rate might be economically beneficial as it guarantees social security for investment into skills and allows time for search of an appropriate employment. Replacement rates of unemployment benefits were lowered in most countries as part of retrenchment policies starting already in the eighties. The rates are still relative high for the voluntary schemes in Denmark, Finland and Sweden (above 80% of gross wages, but only around 60%-70% in net wages), medium (60-75% of net wages) in continental Europe (France, Netherlands, Germany, Spain, Portugal, Belgium, Austria) and very low in the UK, Ireland and Italy (30%, but 80% for laid-off workers) (see table 2).
## Table 2: Welfare state indicators (1980–1996)

<table>
<thead>
<tr>
<th>Country</th>
<th>Employment rate (%)</th>
<th>Social expenditures (% GDP)</th>
<th>Non wage labour costs (%)</th>
<th>Pension adjustment</th>
<th>Unemployment replacement rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Universalist</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td>79.4</td>
<td>69.8</td>
<td>29.8</td>
<td>33.4</td>
<td>39.0</td>
</tr>
<tr>
<td>Denmark</td>
<td>75.4</td>
<td>74.2</td>
<td>27.5</td>
<td>32.6</td>
<td>.</td>
</tr>
<tr>
<td><strong>Continental</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>66.3</td>
<td>64.0</td>
<td>25.7</td>
<td>29.6</td>
<td>42.9</td>
</tr>
<tr>
<td>France</td>
<td>63.8</td>
<td>58.8</td>
<td>23.5</td>
<td>30.1</td>
<td>44.4</td>
</tr>
<tr>
<td>Netherlands</td>
<td>54.2</td>
<td>56.4</td>
<td>28.5</td>
<td>28.0</td>
<td>43.2</td>
</tr>
<tr>
<td>Italy</td>
<td>56.2</td>
<td>51.3</td>
<td>18.4</td>
<td>23.7</td>
<td>46.0</td>
</tr>
<tr>
<td>Spain</td>
<td>50.8</td>
<td>45.9</td>
<td>16.3</td>
<td>21.5</td>
<td>.</td>
</tr>
<tr>
<td><strong>Liberal</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>70.2</td>
<td>58.7</td>
<td>18.3</td>
<td>22.8</td>
<td>28.1</td>
</tr>
</tbody>
</table>

a) as share of total labour cost in manufacturing; b) West Germany only; c) countries with minimum wage; d) with dependent children; e) redundancy plan.

**Sources:** OECD Labour Force Statistics (for employment rates), OECD Social Expenditure Statistics (for social expenditures), Institut der Deutschen Wirtschaft (for non wage labour costs) and MISSOC database 1999 (for replacement rates of the unemployment benefit). Calculations by authors.

The reservation wage problem may be more severe in the case of the low skilled and young unemployed. In this case, the reservation wage can have an impact on the minimum wage level and thus the employment prospects of these workers. In fact, social assistance paid to long-term or non-insured unemployed, is commonly lower than unemployment insurance benefits (e.g. 53-57% unemployment assistance instead of 60-67% net replacement rate for unemployment insurance benefits in Germany), and sometimes only set as a percentage of the minimum wage (e.g. 75% of minimum wage in Spain and Portugal). Given the severe reservation wage problem for young people, France has developed reinsertion minimum wages; the Danish government lowered its minimum social assistance benefits by nearly one-fifth for young
job-seekers. Welfare retrenchment policies that lower reservation wages, though unpopular among union members and the unemployed, also allow the lowering of social spending, thus reducing social wage costs.

The fourth linkage between wage policy and social benefits comes from privatisation of welfare and collective occupational schemes. Historically, voluntary occupational pensions coexisted or even predated public pensions. Privatisation in recent years has again led to more private-public mix in social protection, especially in old age pensions (Shalev, 1996). In several countries, contractual occupational pensions emerged and provided the social partners a role in negotiating additional social protection. In France it is a compulsory second tier, in Sweden a third tier negotiated scheme (in addition to the flat-rate public pension and earnings-related supplementary insurance). In Germany, a negotiated supplementary occupational fund exists for public sector employees, in the Netherlands occupational early retirement schemes are negotiated at branch level and in Italy new negotiated occupational pensions have been fostered by the state. To the extent that the collective bargaining partners are free to negotiate the contributions, this part of the social wage becomes part of the wage bill negotiations. Thus, following the cuts in public benefits in the Netherlands, "trade unions have tried with some success to repair the curtailments by demanding supplementary benefits to be included in the collective agreements... As a result, the costs of sickness and disability have effectively become elements in collective bargaining, further reinforcing incentives to reduce sickness and disability absenteeism at the level of companies and industrial sectors" (Visser and Hemerijck, 1997: 143).

4. Concerted social policy reform efforts

Concertation on social policy reform can function as both means and ends of the implicit or explicit new social pact. It can function as means of political exchange, entailing buffered social policy reforms in return for wage concessions, but it also can assume to be an end in itself, that is, improving the social policy context of wage moderation policy. While we have provided so far only analytical arguments for the potential dual function of concerted social policy reform, we will now turn to some illustrative empirical cases that shed light on the often complicated, indirect and hidden linkages (for details see Ebbinghaus and Hassel, 2000). The most apparent example of such concerted reform and the linkage between wage moderation deals and social policy concertation are the Italian government union pacts
on pension reform which occurred in the context of nearly parallel wage concertation. A more complicated case, in which wage moderation proceeded long before social policy reform was undertaken, is the Dutch history of wage moderation since 1982 and the rather rocky road of welfare reforms during the late eighties and early nineties. In the Dutch case, it took a long process not only of reforming social policies, but also its tripartite governance structure in order to restore responsible co-operation by the social partners. Finally, we will look at the Alliance for Jobs in Germany under the centre-right Kohl government in 1996 as well as the current left-green Schröder government. The last case will reveal the difficulties in finding a political exchange between wage formation and social policy given entrenched interests and segmented responsibilities.

Italy’s Striking Parallel Deals. Despite alarming reports about increasing costs and mounting financial pressures for the Italian pension system, only minor changes (such as inflation-combating changes in pension indexation) were enacted in the eighties (Ascoli, 1988). “The insufficiency of these measures as well as the lack of an overall strategy led to the radical policy changes of the early nineties” (Niero, 1996: 118). Then dramatic internal and external forces undermined the status quo. The political clientelist system which had led to a state of favourable but under-financed pensions crumbled under political scandals. Moreover, the international financial market and EMU’s Maastricht criteria put massive pressure on cutting Italy’s huge public deficit. The first major pension reform plan was laid out in a decree by the Amato government in 1992 (Ferrera, 1997). In the same year, the tripartite agreement abolishing the scala mobile (the indexation of wages) marked a major breakthrough in industrial relations. A year later, the technocratic Ciampi government, led by the former central bank chairman, negotiated a tripartite protocol on collective bargaining reform that also acknowledged the aim of cutting labour costs (Ferrera, 1997). At the same time, the government enforced temporary cost savings in state pensions and initiated legislation on supplementary pension funds that could be collectively negotiated.

Yet, the major decisions on how to consolidate the public pension scheme were still to be taken by the new government. The welfare retrenchment plan by the Berlusconi right-wing coalition government „tried to change the unwritten rules of the game (Regini and Regalia, 1997: 216)“, by abolishing seniority pensions without concertation with the unions. After widespread protests and a general strike in late 1994, the government gave in and the coalition soon fell apart. The next (caretaker) government, led by Dini, also
a technocrat from the Central Bank, negotiated a pension reform with the unions (the employers abstained from the agreement). Thereafter, “the centre-left Prodi government, which governed from 1996 to 1998, explicitly embraced this kind of concertation, vice-into-virtue approach in its 1997 pension reform” (Levy, 1999: 254).

Several major changes were striking about the 1995 Dini agreement: a shift towards defined contribution pensions, the elimination of privileges of special schemes, and extension of the minimum contribution period. The unions, protecting their senior members (older workers and pensioners), demanded in return a major concession from the government, namely that the reform was to be implemented incrementally and older workers were to be exempted from most of the phased-in changes. They also demanded that the self-employed should contribute more, alleviating one of the major injustices of the Italian clientelist welfare state. Concertation with the unions not only proved to be crucial in assuring parliamentary support for the centre-left coalition (and thus calming international financial interests), it also provided societal legitimacy for major reform efforts and circumvented union mobilisation to uphold the status quo (in fact, a ballot by union members approved the 1995 pension reform). In contrast to the unilateral retrenchment of the Berlusconi government, concerted pension reform avoided a negative spill-over into the tripartite consensus. This consensus was needed for the reform of the wage bargaining system and which produced the wage moderation.

The Netherlands’ Regained Corporatism. The Netherlands has become known as a success story of turning a “welfare state without work” (Esping-Andersen, 1996) into an employment-creating service society that has been popularly labelled a Dutch miracle (Visser and Hemerijck, 1997). The bipartite Wassenaar Accord of 1982, foreclosing impending state intervention by the new centre-right government into wage formation, committed employers’ confederations and trade unions to long-term wage moderation and called for lowering labour costs. In the social policy area, the Lübbers government adopted an austerity policy in face of the fast rising welfare expenditures:

“One of the first measures of the government was the severance of the automatic linking mechanism between private sector wages, public sector wages and transfer payments, to be followed by a 3% cut in 1984. The revised Linking Act of 1980, on linking minimum wage and indirectly, social benefits to average changes in contractual wages, was never applied
between 1982 and 1990; each year Parliament allowed its dispensation, usually with some compensatory measures for the lowest incomes or so-called ‘real minima’” (Visser and Hemerijck, 1997: 134).

The major welfare reform in 1987 reduced benefits and conditioned eligibility of unemployment and disability pensions, yet the changes were only partially successful. In fact, the social partners, interested in using disability insurance as a labour shedding strategy, further extended their industry-wide collective schemes to finance early retirement. The disability programme grew exceptionally, leading to Lubbers’ comment that the Netherlands is a “sick country” (Aarts and Jong, 1996). The 1987 reform and the minor changes before and afterwards had not succeeded in controlling welfare state expenses and lowering the large inactivity rate. As long as the social partners were in control of the self-administration of social insurance and voluntary schemes, and counteracted the public-regarding intention of welfare reform policies by rent-seeking externalisation strategies, no solution to the crisis could be expected (Visser and Hemerijck, 1997: 119). Moreover, when the new centre-left government announced its retrenchment plan to cut disability and sickness compensation, trade unions mobilised nearly one million protesters in September 1991. Following the implementation of these reforms, both governing parties, the Christian Democrats and Social Democrats, suffered from a major electoral backlash in 1994.

Concertation was first resumed in the industrial relations arena. Facing threats of state intervention into wage bargaining, the social partners negotiated an important bipartite agreement (A New Course, 1993) on wage moderation and aimed at facilitating part-time and atypical work. As part of the welfare reforms, payroll tax exemptions for part-time work were abolished in order to improve the contribution base, and pro-rata social protection was introduced, thereby eliminating incentives to free ride. A New Course meant not only changing bargaining practice throughout the economy but also adopting social policy legislation. Finally, the new left-liberal government which emerged from the dramatic election of 1994, redesigned the governance structure of social self-administration, thereby enhancing their public-regarding responsibility:

“In the nineties, with the important political support of the party which could claim the closest ideological ties with the welfare state and with the unions, the crisis of social security was redefined into a crisis of governability, hence legitimising a new Ordnungspolitik, a major
reform of the institutional make-up and incentive structure of social security” (Visser and Hemerijck, 1997: 151).

Not only the effects of wage moderation on labour costs but also the increased participation of women, facilitated by part-time employment, and the shift from passive to active employment policies helped to improve the inactivity/activity ratio and thus reduce social expenditure and non-wage labour costs. The new employment-promoting policies have turned the old vices of welfare without work into new virtues:

These reforms [...] "either enhanced the position of the disadvantaged (the upgrading of wages and benefits paid to part-time and temporary workers), produced positive if arguably insufficient results (the multiplication of part-time female employment), improved public finances and employment without hurting the truly needy (the crackdown on abuses within the social security system), or when real sacrifices have been required (wage moderation), permitted strategies of compensation (targeted tax breaks for low-income groups)” (Levy, 1999: 264).

Germany’s Impeded Concertation Efforts. During the eighties, wage increases remained largely under control in Germany, due to the export-industry led wage setting and anti-inflation policy of the central bank (Streeck, 1997). The centre-right Kohl government was also able to keep social costs and contributions under control by measured welfare cuts throughout the eighties. Welfare retrenchment remained largely limited to cuts in unemployment benefits and social assistance, while nominal pension adjustment followed by and large wage developments (Alber, 1988: 111-113). The industrial relations system and the consensus-based social security system came under severe stress with reunification, as the Western collective bargaining and social security system was extended to the East. While the exchange rate parity had been favourably set for the less productive East by the government, unions and employers settled for a rapid convergence of wages in order to prevent massive relocation and maintain the high-wage economy of the West. The government also decided to grant full pension rights to East Germans based on past work history, and to finance these through the pay-as-you-go social insurance system. The massive social transfers to the East, the rising unemployment following downsizing, and the long-term demographic trends led to substantial increases in social contributions (unemployment, pension and the new long-term care insurance) (Manow, 1997).
Following the proposal for an *Alliance for Jobs* by metal sector trade union IG Metall and the negative example of the French welfare protests in late 1995, the centre-right government invited unions and employers’ confederations to summit talks to create jobs and improve the German *Standort* (location for production) in an internationally competitive environment. The first meeting in January 1996 announced the aim to halve unemployment within four years and identified a wide range of reform areas. The trade unions and employers’ confederations were however unwilling to agree on wages in a tripartite setting, insisting on the post-war constitutional principle of collective bargaining free of state intervention (*Tarifautonomie*). When the government came forward with its plans to reduce sick pay coverage in April 1996, the unions protested and ended their participation in the concertation process (Bispinck, 1997). Within the short window of opportunity only one issue was settled by the government, unions and employers: The reform of the part-time early retirement scheme which had so far been unattractive as a substitute to the former early retirement schemes. The unions opposed the planned welfare cuts, with parliamentary support by the left and moral support by the Churches. Within a year, the unions were able to force employers in collective bargaining to continue the old sick pay scheme (100% rather than 80% pay). The long-term changes of the adjustment of pensions (introducing a demographic factor) were repealed when the left-green coalition won the 1998 elections.

The new Schröder government re-launched tripartite concertation soon after it took office in 1998. Welfare reform is a major part of the agenda. There are three tripartite working groups on social policy (pension and unemployment insurance reform, working time and early retirement, health and long-term care insurance reform). While the new government has repealed some legislation of its predecessor, it has not yet developed concrete long-term alternative plans. As part of the red-green coalition treaty, the government introduced a new environmental tax which allows the lowering of payroll taxes bringing lower labour costs. The general tax reform will provide a net wage increase as well as a rise in pensions, given indexation. Therefore the government has decided to adjust pensions only by inflation, causing some protests by unions. The most contentious issue which has emerged in the Alliance for Jobs is the trade union proposal of reducing the retirement age to 60 (*Rente mit 60*). This new early retirement scheme is to be financed by a wage fund (1% of gross wages) as compensation for wage moderation. In particular, IG Metall is pushing the government to act,
while the employers reject any individual right to early retirement and the government fears the additional costs on the public scheme financing. A political exchange of wage moderation in return for an early retirement fund between all three sides is relatively unlikely for two reasons. First, explicit political exchanges are difficult to achieve in the context of *Tarifautonomie*, given the divided responsibilities in the two policy fields. Second, the underlying objectives are contradictory with employment creation through labour cost reduction on the one hand and a costly passive labour shedding strategy through early retirement on the other.

5. Conclusion

The role of social policy in tripartite concertation has undergone a major transformation from being a social compensation for neo-corporatist incomes policies to becoming a crucial component of the renegotiating of continental political economies. The political exchange of an extension in social rights in return for wage moderation and co-operative industrial relations ended with the limits to growth of welfare states under international competition, public deficits, and demographic pressures. However, there is still something governments can offer to trade unions: a say in buffering the restructuring of the welfare state, thus abstaining from unilaterally decided and state imposed welfare retrenchment à l’anglaise. The French strike movement showed that even weak union movements can muster their strength to block welfare retrenchment and force concessions from the government, while the Italian government-union agreement show that concerted social policy reform may serve as a political strategy to overcome reform blockages and increase legitimacy. Striking a deal with unions on welfare reform may also be a means to prevent a negative spill-over from social policy into wage bargaining. In those cases, where governments and employers need the co-operation of unions in order to maintain wage moderation, it is difficult to force reforms against their wills in the realm of social policy. The strong German industrial unions, especially IG Metall, can still threaten to force through high wage claims and insist on continuing expensive passive employment policies.

But concerted social policy reform is more than a means to facilitate wage moderation; it is also an end in itself. When trying to reduce labour costs, rising social contributions driven by mounting social expenses can easily annul the effect of wage restraints by trade unions. Therefore, bringing the
restructuring of benefit systems into tripartite concertation is crucial for the success of wage moderation policies, and indeed played a major role in the social pacts of the nineties. Given the constraints on public finances due to international financial markets and EMU’s Maastricht criteria, governments have been hard pressed to solve the short-term and long-term financial crisis of their social security systems.

Co-operation of the social partners is crucial not only in order to overcome political blockages, but also for implementing reforms of self-administered social insurance schemes. The Dutch example shows how difficult it is for governments to carry out welfare reforms as long as social partners are able to counteract welfare cuts by using their role in self-administration and by filling replacement gaps through voluntary collective schemes. Only when the crisis of governability was resolved by privatising social costs, the collusion of unions and employers to externalise social costs on to the public could be restrained. But well crafted welfare reform, led by the government and in concertation with responsible social partners, is also needed in order to co-ordinate highly interdependent policies. More than welfare curtailments which cut public spending and lower non-wage labour costs, welfare reform today is part of a larger employment creating strategy, requiring the adjustment of wage formation, social security, taxation, employment regulation and educational systems. Given the complex and open nature of the adjustment process, the success of the tripartite concertation process lies in finding, deciding on and implementing collective solutions to restructure the welfare state.

References


Social Pacts in Italy and Europe: Similar Strategies and Structures; Different Models and National Stories

Serafino Negrelli

1. Introduction

Two questions of economic sociology and political theory, overlooked by social researchers for much of the post-war period, have resurfaced thanks to the debate concerning “social pacts”: the convergence or divergence of social and institutional systems (beginning with the work by Kerr et al. in 1960); and the evolution of neo-corporatist state structures.

But how justified are we in returning to these issues, and above all in drawing a link between them, at a time when industrial relations are being played out in such a radically changed external context? One need only point to a phenomenon blamed for so many ills: the globalisation of the marketplace.

The hypothesis of convergence towards pluralist industrialism, advanced by Kerr et al. (1960), bore the hallmark of confirmed optimism; their seminal work comparing national social systems led them in fact to conclude that the differences between countries were lessened by technological progress as a natural outcome of the industrialisation process. A third of a century later, however, the theory of economic and social convergence is apparently being revisited in a spirit of equally confirmed pessimism. The assertion of Crouch and Streeck (1997: 13) for instance is symptomatic:

“The demise of national state capacity under globalisation is likely…, to the extent that national politics was an important source of capitalist diversity, to promote convergence of capitalist economies on an institutional monoculture of deregulated markets and hierarchies, thereby reducing the overall diversity of available governance arrangements and potentially causing a net loss in overall performance capacity” (our italics).

It would certainly seem that the most influential proponents of a new convergence theory are those who identify a shared negative trend towards the deregulation, decentralisation and disorganisation of capitalist societies.
As is quite rightly pointed out by Traxler (1995), although these hypotheses about downsized social systems and inflated economic systems might appear convincing at first sight, they often suffer from the same theoretical limitations of forty years ago: they argue in a traditional functionalist manner that changes in the external economic context impose further deregulation and social disorganisation which, in turn, determine inevitable and near-automatic changes in social systems and industrial relations. Yet the intervention of institutional variables is not taken into account; nor are the reactions, adjustments and influences – if not even re-regulation – with which social and institutional systems can themselves respond to changes in the external economic context, within the scope of a more complex and realistic process of interaction.

All that is needed to demonstrate the intervention of these institutional variables is a less generic definition of globalisation or internationalisation, highlighting for example the concept of “triadisation” (Hyman and Ferner, 1998), which stresses the divergence existing between the capitalism of the English-speaking world – with its tradition of decentralised, deregulated and market industrial relations – and that of the continental European countries, whose social systems have always been much more centralised and well-organised.

It is manifest that the phenomenon of globalisation has sparked a widespread and seemingly irreversible decentralisation of bargaining, as is borne out by many studies and surveys plus a growing number of theoretical works (Katz, 1993; Dahrendorf, 1995; Berger and Dore, 1996). Nevertheless, this process of decentralisation varies in intensity from one country to another, in contrast with the belief of certain scholars more inclined to favour convergence theory, albeit in an updated form (Locke et al., 1995; Katz, 1993). The process has been more marked in the United States and Great Britain, with the elimination of limited types of intermediate co-ordination that used to exist, such as pattern bargaining or multi-employer bargaining. It has been less marked in continental Europe, where forms of controlled decentralisation have prevailed, or rather a type of decentralisation which tends to coexist with a tradition of greater centralisation and to make such systems more dynamic. Hence the differences and changes in the structure of social pacts when compared with previous experiences of centralised and tripartite social agreements (see below).
In the light of these opening remarks, therefore, it would appear somewhat inappropriate to rely on the traditional theories of convergence and corporatism when examining the new social pacts which have arisen and matured during the nineties—especially if one wishes to understand what they are, and how and why they have spread.

2. Social pacts and neo-corporatism: continuity or break with the past?

During the nineties, in many countries of the European Union, a great deal of experience and practice with broad-based “social pacts” was gained. Social pacts are predicated upon extensive concertation and upon both centralised and tripartite agreements among governments, trade unions and employers’ associations, aimed at achieving social and macro-economic policy goals at the national level and micro incomes policy, also at the decentralised levels.

It has been emphasised by many scholars that these pacts are “exceptional”, not to say “unique” practices, as compared to the usual procedures of collective bargaining. Nonetheless, it has not been easy to provide a clear-cut definition of the differences between these new practices of social pacts and traditional practices of industrial relations (International Labour Review, 1995; Fajertag and Pochet, 1997). Other scholars have however stressed that these new social pacts and the traditional corporatist institutions, which have become standard practice over the years in central and northern Europe form a continuum, indeed are quite similar in nature (Crouch, 1998). There are, however, some difficulties in explaining the current rise of these practices in countries where the conditions deemed to be necessary to the development of these “non market and non state” institutions did not previously exist. A crucial paper has been written on this topic which sums up and updates the “path” neo-corporatism has taken. The title of the paper is symbolic: “Corporatist Sisyphus” (Schmitter and Grote, 1997). Visser (1997), in another important article covering these issues, “Two Cheers for Neo-corporatism, One Cheer for the Market”, celebrates even the “Dutch miracle”.

Have we really seen the waning of the age of Thatcherism? Is neoliberalism, the cornerstone of the alternative approach to corporatism in terms of solving the issue of how to co-ordinate functionally differentiated modern societies, really over (Crouch, 1995)? Or do these new social pacts contain in the seeds of their origins an awareness, or rather an institutional
intelligence, of both the decline of the old Keynesian compromise which is no longer sustainable due to the governments’ fiscal crises, and of the limits of “disorganised capital” (Lash and Urry, 1987)? That being the case, how are we to interpret those aspects of a “break with” or of “continuity with” the past which do indeed quite clearly emerge in national contexts?

Generally speaking, I do not believe that these new social pacts can be assimilated tout court with the old neo-corporatist agreements and I shall try to prove my thesis. I also, however, feel that they too are somehow part of that great family of institutional theories predicated upon the hypothesis that “behaviour – whether economic, social or political – cannot be understood solely in terms of the choices and preferences of private individuals or in terms of the habits and impositions of public agencies. Over the course of the spectrum between market and state, there are a whole series of “self-organised” and “semi-public” bodies on which both individuals and companies count on a more or less regular basis in order to structure their expectations with regard to mutual behaviour and in order to supply ready-made solutions to their ongoing conflicts” (Schmitter and Grote, 1997: 183-184).

There is, therefore, no doubt whatsoever that social pacts are major planning and political economy agreements between these intermediate “non state and non market” bodies. The problem, however, lies in the fact that, within the context of this new concertation between the state, trade unions and employers, these concepts of “social pact”, “political exchange” (Pizzorno, 1977) and “neo-corporatism” (Schmitter, 1974) are often blurred, whereas they are profoundly different. For example, Traxler (1997) pinpointed a substantial difference when he observed that any analysis or discussion pertaining to the first two must of necessity focus on the interests and strategies of the major collective actors, whereas the corporatist school tends – in fact more as portrayed by Schmitter (1974) than by Lembruch (1977) – to concentrate on studying the pre-existing structural conditions for concertation, most particularly with regard to the structure of the organisations involved and with regard to the institutionalisation of participation.

The aim of this paper is, first of all, to define precisely what these new social pacts are and to what extent they differ from normal industrial relations practices and from prior neo-corporatist agreements. To my mind, Italian concertation in the nineties – as evidenced by the Tripartite Agreements
signed on 31 July 1992 and 23 July 1993, by the 1995 pension reform (signed in fact by the government and trade unions, but not by the employers), by the Pact for Employment Creation of 1996, and by the Social Pact for Development and Employment of December 1998 – would seem to be an excellent starting point for an analysis of this type. It is, of course, understood that any attempt at a definition of social pacts cannot be limited to one case alone, however paradigmatic that case may be. The second aim of this paper, in conjunction with the first, is therefore to try to determine as well what models of social pacts have come to the fore in the countries of the European Union. Lastly, any reflections regarding the nature and the models of how social pacts actually evolved must of necessity lead to an analysis of why this practice arose (again) in the nineties in Europe.

3. How do the social pacts of the nineties differ from traditional tripartite and neo-corporatist agreements?

Neo-corporatist systems which arose in post-war Europe did so against an economic and social context of great stability. Market trends were relentlessly upwards, Fordist systems of technology and organisation went hand in hand with public policies predicated upon Keynesian compromise; increased social expenditure and a strong worker representation were all indispensable factors in achieving a broad-based social consensus (Boyer, 1996).

Thus, Western societies for about forty years were centrally co-ordinated. Even Anglo-Saxon capitalism which, by tradition, was decentralised, was in truth driven towards a type of centripetal co-ordination in industrial relations. It suffices to mention multi-employer bargaining and the instances of social contracts during the seventies in Great Britain, or the trends toward pattern bargaining which prevailed in the United States. One could say that sectoral nation-wide collective bargaining was the de facto model of industrial relations throughout the West.

In a number of European countries which, by tradition, tended towards centralised bargaining and towards major tripartite social agreements, these trends not only became stronger, but the strong tendency towards the centralisation of organisation of social actors in the representation of interests and the pro-labour party in power became in essence the two institutional elements necessary for the growth of neo-corporatist state structures (Bordogna and Provasi, 1984).
From the eighties onward, and most dramatically and radically in the nineties after the fall of the Soviet system and the crash of the Eastern European economies, changes in the external context, the globalisation of markets and the technological innovations which have achieved a post-Fordist economy, not to mention the enormous political and social changes, have all led to a crisis in many corporatist scenarios as commonly understood. This is a full-fledged challenge and neo-corporatism has been restructured and forced into the unnatural straitjacket of the reform of welfare states, economic flexibility, decentralisation and social deregulation.

Pessimistic views of convergence with primarily negative social effects contrast, however, with other, completely different, theories which are all predicated upon the idea that there is an intermediate threshold of equilibrium between equity and efficiency in the continuum from corporatist systems to the deregulated market. In other words, there could be a point of balance between a certain degree of social cohesion and a certain level of economic growth, with a distribution of income which is fair (or at least not too unequal), and all within the context of full political freedom (Dahrendorf, 1995; Dore, 1997).

Nowadays, the real challenge has indeed become the search for that minimal social threshold, which has engaged the traditional neo-corporatist societies in defining and shaping a new balance between economic flexibility and social solidarity (Negrelli, 1990), or at least in shifting from traditional “demand-side” approaches to “supply-side” ones (Traxler, 1995). Generally speaking, governments will no longer have the option they had in the past of having virtually automatic recourse to social expenditure in order to ensure consent.

Thus, social pacts may be defined as, first and foremost, common strategies adopted by the major social actors in an attempt to achieve a minimal social threshold, just the “right” combination of flexibility and solidarity, and of equity and efficiency. These strategies may, to a limited degree (the German experience is proof of this) or to a greater degree (the Dutch case) be influenced by the previous corporatist experience. However, it is also even possible for them to thrive where corporatism had never prevailed before (as is the case for both Italy and Ireland). It is only natural that, although these strategies are directed towards similar goals, they should lead to different models and structures of social pacts in the various countries. After all, the level of that “social threshold” will inevitably vary according to the balance of power between the social and institutional actors representing the major national interests (see below).
In the economies of the Anglo-Saxon world, which were not marked by a "market social economy", economic flexibility and social deregulation were not even negotiated. Quite simply, the changes in the economic scenario were considered an opportunity to change previous tendencies towards co-ordination in the same systems of industrial relations and of collective bargaining (Kochan et al., 1986; Katz, 1997).

In most European countries, the pressures exerted by the economic context of industrial relations – which here, too, are forcing a move towards bargaining decentralisation – have not yet brought to an end industry-wide or category agreements. Indeed, sector and category contracts are still, at the moment, the dominant level in almost all countries across the continent. If anything, these pressures are forcing, or have forced, all national industrial relations systems towards a new equilibrium in their bargaining structures, paving the way for company-wide bargaining or regional bargaining. All of this, however, is within the context of a very specific and centrally or top-down co-ordinated process.

If, as has been proven, these new balances between flexibility and solidarity have led to a distinction being drawn between the strategic goals of social pacts and the goals of the old corporatist agreements, then these trends towards decentralisation lead to a second, even more fundamental, observation with regard to the structure of new social pacts. Unlike prior corporatist systems which were quite strictly organised and centralised, these are more dynamic systems, more willing to move towards decentralised concertation, organised decentralisation or at least a greater degree of balance between centralisation and decentralisation.

Understanding the experience a number of European countries, most particularly Italy, have had during the nineties with social concertation is a great help towards defining new strategies and new structures for social pacts.

4. Concertation in Italy: the day after the crisis of the economic and political setting

The Italian social pact can be said to date back to the centralised Tripartite Agreement of 31 July 1992 between the trade unions, employers and government, whereby wage indexation (the scala mobile) was ended and company-level bargaining on wages was frozen until December 1993. This Agreement bridged the gap between the demise of tripartite negotiations in 1985, with the referendum called by the Communist Party and the CGIL to
protest against the overhaul of the wage indexation mechanism, and the new phase of concertation from 1993 onwards. The Agreement is also the key to understanding the nature of Italy’s social pact.

An analysis of this Agreement could usefully begin at the point where the previous phase of concertation left off, and by examining the obstacles in the path of its resumption.

The failure of the triangular agreements of the early eighties has been blamed not only on their content but also on external political and institutional factors (Lange, 1987). As concerns the former, it has been said in particular that such agreements were no longer advantageous to the trade unions in cost-benefit terms since the review of index-linking was no longer being sought in return for other government concessions, in keeping with the classic, traditional form of “political exchange” (Pizzorno, 1977), but as the price to be paid for helping to achieve the common goal of curbing inflation, from which the unions themselves would of course stand to gain (Regini, 1983). Others have maintained, however, that the failure of concertation in the early eighties derived both from the low degree of institutionalisation of industrial relations in Italy and from the fact that some of the trade unions (in particular the CGIL) were still not sufficiently independent of the political system (Cella, 1987). There appears to be no contradiction between internal and external factors in explaining what happened in 1984-1985.

What is more difficult to grasp is why at that juncture the trade unions were split down the middle and could not accept this exchange, whereas eight years later – albeit amidst renewed tension and strife – they did accept it. For there can be no doubt that the nature of the trade-off remained unchanged; if anything, strictly speaking, its terms became perhaps even less union-friendly. Indeed, the July 1992 Agreement demands considerable wage restraint on the part of the unions, both nationally and locally, apparently without any of the usual forms of recompense from the government, as in the past, or even from the employers, such as the reduction in working hours contained in the Dutch social pact (see below).

The main difficulty in reviving concertation was that, although the unions were increasingly aware of being “compelled” to share – in the unenviable role of protagonist – in the short-term costs of attaining long-term benefits for all, they were nevertheless paralysed by the fear of relinquishing a tool as “sacrosanct” as the wage indexation mechanism. They faced the prospect of charting an uncertain course in defence of wage levels at the very time when
membership rolls were falling faster than ever and new autonomous union organisations, like Cobas (Comitati di base: rank-and-file committees), were mounting a growing challenge to the representativeness of the CGIL, CISL and UIL.

The problems besetting the trade unions provoked no reaction from the employers. Initially, in the second half of the eighties, after the collapse of concertation, they came out firmly in favour of decentralised company-level bargaining, which was in any event aided by the economic upturn. Thereafter they pushed just as resolutely for a renunciation of the 1975 Agreement on wage indexation.

Industrial relations in Italy appeared to be well and truly deadlocked. Centralised bargaining was virtually non-existent for a long while or resulted only in low-profile agreements. The Agreement of 29 June 1989 between the CGIL, CISL, UIL and the employers’ association Confindustria, whereby the latter undertook to prolong the existing wage indexation mechanism until the end of 1990, raised a glimmer of hope. After some equivocation a triangular accord was reached on 6 July 1990, scheduling the launch in June 1991 of official negotiations on a reform of wage structures, bargaining and index-linking. But the three main social actors were unable to reach a final consensus by that deadline, and merely played for time in the hope that something would happen to break the deadlock. On the one hand, caution seemed advisable in that the renewal of the major sectoral collective agreements was still under discussion; on the other, the idea of postponing talks once again until after the general election of spring 1992 gained ground. Such a decision was endorsed by all concerned and led to the protocol of 10 December 1991, resulting in a return to the drawing-board. This new tripartite accord stipulated in fact that the wage indexation mechanism would not be overhauled pending the resumption of negotiations on 1 June of the following year.

What was it that finally brought about the Agreement of 31 July 1992 and triggered the new and most significant phase of concertation in Italy? What, above all else, made the Italian trade unions agree to relinquish the sliding-scale mechanism in return for less recompense than had been customary in the past? The three years running from the Agreement of June 1989 to that of July 1992 had been ones of deadlock. What was the crucial factor that roused the social partners from their prolonged state of inertia?

The explanation lies not in the content of tripartite agreements in the eighties and in the nineties, the nature of which did not change, but in those external factors already referred to above in connection with the literature describing
why bargaining came to nought in 1984-1985. First of all, the trade unions gradually distanced themselves from the political system following the crisis and transformation undergone by Italy’s traditional political parties in the wake of international changes, namely the collapse of the communist system, and after the much-publicised “Mani Pulite” (“Clean Hands”) corruption investigations at home. But however relevant the political context may have been, it could not have fully accounted in isolation for the turn taken by concertation in Italy if it had not – secondly – gone hand in hand with equally or perhaps even more significant changes on the economic front: the pressure of European economic integration (Negrelli and Treu, 1994).

One major cause of unsuccessful concertation in the eighties, therefore, could reliably be said to be the negative cost-benefit assessment made by at least some of the trade unions in respect of the content of agreements. In contrast, one of the most important reasons for the success of concertation in the nineties was that external factors contributed to sidelining some of the aims which constituted a large part of the trade-off contained in neo-corporatist agreements.

There is nothing inevitable about such a transition, since similar pressures in other countries did not result in similar social concertation (during the same period, attempts to form social pacts were unsuccessful in Germany and Belgium; widespread popular protests were raging against the “Europe effect” in France and Denmark). The pressure of European economic integration proved crucial for the launch of social pacts in countries where the national economic situation had deteriorated so far as to necessitate remedial action from everyone – from the major social actors to the individual citizen – and towards which a new system of industrial relations could make a significant contribution. This is what happened in Italy, Ireland and the Netherlands. In Italy, as we have seen, the new political environment not only favoured a greater distance between trade unions and political parties, but also enhanced the prestige of the former which, unlike the latter, had not been tainted by the “Clean Hands” affair. Robust unions and weakened political parties, forced to resort to “technocratic” governments or lacking the support of a parliamentary majority, therefore managed what they had failed to achieve eight years earlier: a trade-off between wage restraint and big rewards for contributing to the common goal of economic recovery, a vital prerequisite for beginning to integrate Italy’s economy into that of Europe. The Italian trade unions ran only minor strategic risks in switching their sights from the traditional to the new
subjects of exchange in industrial relations, since the weakness of the political and economic setting contributed – paradoxically – to a more institutionalised involvement of the unions in determining incomes policy as well as public and employment policies (Negrelli and Treu, 1998).

Neo-corporatist school had not envisaged such conditions, since it presupposed a strong political context (centralisation and a pro-labour party in government) and an equally stable economic context with ample resources available to shore up the welfare state and central tripartite bargaining. However, under Italy’s social pact (but also under the Irish one and, to a certain extent, the Dutch one) the trade-off occurs not just in the absence of such corporatist preconditions, but in an extremely weak economic and political setting.

5. The evolution of Italy’s social pact in the nineties

The Tripartite Agreement dated 23 July 1993 was the cornerstone of Italy’s plan to bring the Italian system of industrial relations up to European standard in terms of economic compatibility, which was achieved on 2 May 1998 when the country joined the first group of countries planning to adopt the Euro, the new single currency. The plan, however, also lays the foundation for a major social pact predicated upon, on the one hand, formalising the exchange between incomes policy and employment policy and, on the other hand, impacting across the board on the public and private sectors of the country by means of a new bargaining structure; new rules governing

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1 These conditions are clearly set out in the preamble to the Agreement of 31 July 1992: “In an economic and financial situation which is liable to deteriorate further, exacerbating already considerable weakness and instability, the Government deems it essential to act immediately to check inflation and substantially reduce the national deficit. The aim is not only convergence towards the Maastricht Treaty criteria. It is – as is now manifest – also to safeguard our growth potential, so as not to decline into an uncontrollable spiral which, for years to come, would jeopardise what has been built up by the Italian workforce in recent decades as well as the economic prospects of a large section of the national community” (our italics). On these grounds, the minority government “addresses a very firm and responsible appeal to the social partners”. The Agreement acknowledged, from that precise moment onwards, the role of the three main signatories (the social partners) in the verification and monitoring procedures, and formally initiated concertation in Italy: “The parties agree to establish, for regular monitoring of the actions and policies outlined, two annual meetings, one before the Economic and Financial Planning Document (DPEF) is drawn up and the other before the Forecasting and Planning Report and the Budget Law are drawn up”. This undertaking was to be repeated in the same terms in the Agreement of 23 July 1993 (see below).
trade union representation; the “privatisation” of labour relations in the civil service (law 29/93 and amendments), the downsizing of the welfare state (the pension scheme reform of 1995 and the health reform); the Social Pact for Jobs (September 1996; became law in 1997); and application of the ground-rules of concertation including the strategy of “preliminary discussions” (“confronto preventivo”), even at local level (Social Pact of December 1998).

Let us examine the overall outcome of these accords underlining their basic elements and characteristic features emerging as part of a new social pact overwhelming a traditional type of industrial relations as practised in Italy during the post-war period (for the economic effects of the 1993 Agreement see Negrelli, 1997).

First of all, as far as pay-related matters are concerned, the new model of concertation or co-ordination of wage bargaining introduced with incomes policy has a two-fold basis: one is “technical” and one is “political”. The technical basis is comprised of the fact that the old system of wage indexation has been replaced by a new system which is founded on the projected rate of inflation (with appropriate corrections made if the real rate of inflation is different). This is the new basic element of centralisation of the whole Italian system of industrial relations towards what Calmfors and Driffill (1988) called a more centralised and efficient system, as opposed to the previous intermediate category model naturally exposed to inflation. The second basis, the political one, is instead taken from an institutionalisation of the involvement of the major employers and trade union organisations who take part in the great decision-making processes of economic policy. Two annual sessions of debate concerning incomes policy have been programmed: one in May-June, before the presentation of the Economic and Financial Planning Document (DPEF), which is meant to establish the budget policy for the following three years, taking into account issues connected with public expenditure, common objectives in terms of projected inflation rates, GDP growth and employment growth. The other meeting is in September, in the period in which budget policy is firming up and is being readied to be included in the Budget Law (Legge Finanziaria), as a means of defining implementing measures and as a means of establishing how consistent each party is in its behaviour.

But, above all, the reform of 1993 established a “new” system of industrial relations or, more exactly, a new “social construction”; it extended and integrated the contents related to the definition of an agreed level of the so-
called social threshold. This is the first aspect which must be borne in mind
in order to differentiate these new social pacts from traditional industrial
relations practices and even from the old tripartite and corporatist
agreements. The basic architecture of the system was predicated upon
incomes policy and upon employment policy. It was extended, however,
immediately afterwards to the reform of labour relations in the civil service,
to the social security system and therefore to the implementation of
employment policies and policies favouring production. It is true that the
January 1983 Agreement did indeed cover many of these points; however,
this new social pact did so not only on a more broad basis, but also in a more
co-ordinated fashion, following a plan which had gradually become more
thorough by including new topics subject to concertation. These include in
particular “supply-side” topics such as policies on flexible working
practices, but also human resource training, tax reductions (albeit small
ones) and fiscal policy, cuts in social and welfare spending etc.

The second goal concerns the new bargaining structure. There are only two
levels, instead of having a whole series of fragmented levels as has existed
until recently. There is one level which is the national sector contract: the
normative part is valid for four years and the wages part is valid for two
years. The second level is that of company-wide bargaining (or, as an
alternative, territorial bargaining): this contract lasts four years and concerns
topics and institutions which are “different and non repetitive” as opposed to
the industry-wide agreements, and bargaining on wages must be linked to
productivity, quality and profit goals in the company.

A number of economists have noted that the first level of sector bargaining is
now circumscribed by the terms of reference as established by general
parameters such as planned inflation, according to what is in practice a
centralised model of bargaining (Somai, 1998). Thus, it is at the macro
level (interconfederale) that the entire system of industrial relations is being
carried out. This is an historic change as opposed to the previous bargaining
system in Italy that was focused upon the meso- or intermediate sector level.
The latter is maintaining as an important factor in terms of wage-setting
bargaining power of sectors as a function of general labour productivity
increases and as a function of the fact that the productive system of Italy is a
plethora of small companies. The bargaining power of sector organisations
must be, however, quite clearly diminished in favour of decentralised
collective bargaining – whether at the company or regional level – but only
where decentralised collective bargaining exists.
So, as far as the *bargaining structure* itself is concerned, as we have already seen, one of the main characteristics of the Italian social pact is that there is not only a macro level but also a micro level, in keeping with the philosophy of a “decentralised concertation” which makes this pact different from previous neo-corporatist agreements. This model was also extended with the reform of labour relations in the civil service. It is a model which was also followed in the Netherlands by means of the 1993 Agreement and which is now under discussion in Germany (see below).

Indeed, we have a third element of innovation, even the *procedures* involved in industrial relations are impacted by the new social pact in Italy. In fact, the Agreement covers not only new issues of economic compatibility and a rearrangement of the bargaining structure, but also comprises *new rules of representation and institutionalisation of participation*. It should be noted that never before in Italian history have the rules governing trade union representation been the object of bargaining between employers and trade unions. This exchange of organisational and representational privileges is currently being used in order to compensate the parties involved, most particularly the trade unions, for the material concessions granted (Traxler, 1997). Indeed, rules of procedure become more significant the more concertation concerns the redistribution of costs rather than of profits. Thus, even in Italy, the procedures governing the mutual distribution of organisational and representational privileges have become a *sine qua non* of political exchange (Pizzorno, 1977; Traxler, 1997) and constitute a contribution towards strengthening the social actors involved in the stipulation of social pacts.

Finally, even *the role and the number of the social actors* change in this new stage of concertation in Italy in the nineties. In particular, the enlargement of the number and kinds of organisations who sign the social pacts (for example, 33 in the last 1998 Christmas Agreement; 44 in a Regional Territorial Pact like that of Marche) is an important element to be considered, certainly as compared to the more restricted social participation in the eighties.

Mention has already been made of changes in trade union strategies and at least of partial changes to the strategies of the employers. However, what has undergone the most change is the role played by the government, which must manage to balance the interests of employers, who want decentralisation and deregulation, as occurred throughout the second half of the eighties, against the interests of trade unions, which are to achieve collective regulation. This
role must not necessarily be played by a pro-labour government, as is claimed by the corporatist school.

In these new social pacts, the government is still the “third actor” in industrial relations, but together with many “fourth actors”, as we have seen. Furthermore, its role is utterly different from the traditional role in terms of achieving macro-economic goals and with reference to the more rigid incomes policies deployed during the seventies and the eighties. It can easily be seen on the basis of the Italian 1993 Agreement (and indeed in the context of a number of other European ones) that though macro-economic goals – such as achieving convergence as per the terms of the Maastricht Treaty – are central to the Agreement itself, achieving these goals is not necessarily considered to be so much or solely the responsibility of direct state intervention in the procedure of collective bargaining on wage levels. Instead, it is to be reached by means of flexibility and openness, both in terms of providing “technical guidance for recovery” and in terms of trying to attain a broad-based social consensus which comprises welfare, labour issues, trade union participation and representation, and issues of disclosure and economic participation of the workers in the life of the company.

This behaviour can be explained first and foremost by virtue of the fact that, unlike in previous triangular agreements stipulated during the early eighties, what clearly emerges here is the degree of austerity of a state which can no longer put resources on the table in exchange for the consensus of the actors involved, but rather can only endeavour to help steer through the perilous shoals of price and wage controls. Thus, the “political exchange” has increasingly become shaped by the external constraints of the “current stage of integration in the European Union”.

Once Italy had attained the economic “stability” targets laid down by the Maastricht criteria (control over inflation, reduction of the public sector deficit and debt) – thereby taking its place among the first group of countries to adopt the European single currency – from 1998 onwards, the social pact entered a second phase with the watchword “growth”: economic, social and job-related. Again, this is a new attempt for an agreed adjustment of the level of the social threshold. Judging by the meagre results so far, this phase is no less problematical than the last.

The re-launching of the concertation in 1998 was a logical follow-on from monitoring work on the Agreement of 23 July 1993, scheduled in the Agreement itself to occur after the passing of four years and formally initiated by the government in September 1997 with the appointment of the
Giugni Commission. Although this body did suggest some fine-tuning, its verdict was positive overall and recommended adhering to the main elements of the accord (Negrelli, 2000).

In late August 1998, the then Treasury Minister (Ciampi) proposed a new phase of tripartite concertation modelled on the interconfederal Agreement of 23 July 1993 (see interview with Il Sole-24 Ore, 21 August 1998). Mr Ciampi’s proposal was important in that it was based on two premises: firstly, recognition of the major role played by concertation in achieving the goal of economic stability; secondly, two further possible goals - increased investment and more flexible working practices. The Italian government was seeking to boost employment policy through an exchange between a new policy on investments by employers, who would undertake to relinquish part of their profits for the purpose, and a guarantee by the unions of more labour flexibility (a proposal once again advanced by the government at the end of 1999).

The moves towards reviving concertation, broadly backed by all the social actors, were underpinned by the next document, bearing the imprimatur of the then Employment Minister (Treu) and forwarded to management and labour in early September 1998. This text subsequently evolved into the new Social Pact for Development and Employment, signed on 22 December 1998 by the Italian government and over thirty employers’ associations and trade unions.

The text opens with a recapitulation of the main achievements of the Agreement of 23 July 1993, acknowledging that the format of the Agreement and its procedures had been conducive to stability and to continuity of relations between the government, trade unions and employers’ associations; thus it had conferred greater responsibility to the social actors, an essential precondition for economic and social modernisation of the country. Therefore, the document proposed “a new phase of concertation aiming to attain the goals of economic development and employment growth”, to be achieved by retaining the incomes policy, while focusing more on employment growth and a broader basis for production; by strengthening concertation, with stricter rules to guarantee the autonomy and responsibilities of the social partners; and by consolidating the link between macroeconomic policies, labour market policies and employment policies, with better co-ordination of incomes policy at central and local level.

The Pact devotes greater attention to the rules governing concertation, which mirror those adopted in the social policy chapter of the Amsterdam Treaty, making provision for “preliminary discussions among the parties” and even
setting out the time-frame for a review and for any proposed amendments. Above all, as far as local and company-based labour relations are concerned, rules are laid down for the development of bilateral contacts in keeping with the objectives of concertation.

The so-called Christmas Pact of 1998 therefore revisits and revives these topics of social concertation from a social and employment policy perspective in a manner consistent with their coverage in European Union planning documents and with practices in other countries which have made major inroads into unemployment, but without lowering the level of social protection for working people.

It is therefore possible to maintain that social pacts both in Italy and in Europe might, on the one hand, require revisions and changes to all of the issues involved in industrial relations; on the other hand, however, it would appear that enormous strides forward are being taken in terms of a “social partnership” whose main feature is the fact that the social actors’ patterns of behaviour have become more flexible and less pre-ordained. In this fashion, it would appear easier to achieve the goals of an improved performance of national social and economic systems on the basis of broad-based general social pacts that engender above all “collective relationships”, concertation and “preliminary discussions”, and which are capable of offering something more than (or different from) traditional output of social standards and regulation in the form of collective bargaining (or neo-corporatist agreements).

6. Models and stories of social pacts in Europe

Except for Great Britain and France, where centralised agreements were unknown during the nineties, in most European countries, the nineties saw the onset of a number of macro and micro social pacts. This holds true, as we have seen, also for countries without the consolidated tradition of corporatism in central and northern Europe. These practices have been more successful in some countries (such as Italy, the Netherlands, Ireland and Finland) than in other countries, where perhaps prevailing conditions differed or which are perhaps undergoing profound transformation (such as Belgium, Germany, Spain and Portugal).

As we have seen, the main characteristics of social concertation and social pacts, and hence also their success, depend mainly and more than in the past on the strategies of the social actors, on the shifts in their relative strengths
and on the respective national “stories” which have led to specific “social constructions” and to the configuration of differing institutional models.

The experiences of Italy, the Netherlands and Germany have resulted in significant “ideal types” of social pacts, distinguished by differences in the balance of power according to which actor(s) predominate(s) in representing the major national interests. Only by reconstructing the individual countries’ stories and the specific strategies of the actors can we pinpoint these substantial variations in experiences of social pacts, which superficially often appear similar.

By reconstructing the Italian case, for example, we note the emergence in the nineties of a model of social pact involving a reasonably good balance of power between the government, trade unions and employers. This was the product of a complex story, marked by the above-mentioned conflicts within the trade union movement itself as well as by economic and political crisis. The rigid stances of the eighties on the part of the unions (defence of wage indexation) and the employers (decentralisation of bargaining), causing both to repudiate concertation, did nevertheless give way in the nineties to joint strategies based on incomes policy, on moderate reforms of welfare, the civil service and the labour market, on two levels of collective bargaining, and on policies to boost economic development and employment.

Germany’s experience in recent years has differed from Italy’s in at least two respects: the balance of power in its industrial relations system is still more in favour of the trade union side, as is proved not least by the highest wage rates in the world and by the role of IG Metall, with its 2.7 million members and representing over 3.4 million workers. Furthermore, Germany had a more stable economic and political climate (at least in the nineties), which had not “imposed” the radical adjustments demanded of Italy – and, of course, the Netherlands, Ireland and Finland – in order to meet the Maastricht criteria.

Germany’s two unsuccessful attempts to introduce an “Alliance for Jobs” in 1995-1996 and 1998-1999 have not however bogged down the ongoing debate among the main social actors in their bid for a new accord, as shown by the recent signing of an accord in January 2000 that aims to revitalise employment and productivity by means of flexibility and wage restraint. The key points and stages in the turbulent “story” of Germany’s social pact are well known, as are the views held by the social actors (Bispinck and Schulten, 1999; and see contribution by Bispinck and Schulten in this volume).
The first attempt failed as a consequence of the conservative government’s determination to force through cutbacks in social expenditure and a reduction in sick pay. The trade unions (in particular the president of IG Metall, Klaus Zwickel) responded by retracting their willingness to accept pay rises in line with 1997 inflation and lower entry wages for the recruitment of the long-term unemployed.

In May 1997, in response to the challenge of globalisation, the president of the employers’ association BDI put forward a specific request for a reform of the co-determination system, asserting that “We must think in terms of possible options available to German companies in the global marketplace: whether to set up business only where Mitbestimmung applies or whether to set up business where Mitbestimmung doesn’t exist... Nobody wants our model any more” (interview in Die Zeit).

And it was again in May 1997, when the head of the German trade union confederation DGB quite openly declared his willingness to revise the German system of collective bargaining on a industry-wide basis in favour of a certain degree of flexibility, allowing for greater freedom for company bargaining, particularly in terms of wage levels. These trade union openings have spread to other matters as well, such as, for example, the case in which a proposal was made by the Westphalian IG Metall to stipulate an “Unemployment Agreement”, whereby reduced hourly wages would be included in the contract in exchange for new hirings (which is quite similar to the solidarity contracts which Volkswagen had proposed in order to avoid redundancies).

The second attempt at an “Alliance for Jobs” in 1998-1999, looked on favourably by the SPD-Green coalition government, did institutionalise tripartite bodies both centrally and regionally, but served more to highlight the discord rather than the harmony between the main social actors. The unions would back the social pact only if it ruled out all forms of co-ordination or restraint in wage bargaining; they called for a strategy of job creation based on reduced working hours, overtime limits and early retirement. The employers for their part refused to support a social pact which contained no guidelines on wages policy nor any tax reductions, welfare cutbacks or new rules on collective bargaining.

Germany’s unions have until now seemed quite robust and determined not to go down the wage restraint road; this strategy could perhaps now be stepped up following the abandonment, in the recent January 2000 Agreement, of the goal of lowering the retirement age to 60 and its referral to sectoral negotiations.
In the Netherlands, as in Italy and Germany, the main features of the social pacts stipulated in the eighties and early nineties are that they provide a new combination of industrial relations practices at both the micro and macro level, they strike a new balance between centralising and decentralising collective bargaining, in other words, there is a “controlled decentralisation”. However, the major economic and social results achieved are perhaps due mainly to the nature of the deal promoted by these trends (Visser, 1997).

In this case too, reconstructing the strategies specifically adopted by the actors helps to differentiate the Dutch model not only from the German one, but also from the Italian experience, with which over-hasty and incorrect comparisons are all too often drawn. These two countries’ experiences differ not only in terms of scale or chronology (the Wassenaar Agreement preceded the Italian one of 23 July 1993 by ten years), but above all in terms of the power wielded by the social actors and the related strategies: these factors led to a social pact which was notable, at least at the outset, for the weakness of the unions, greater strength on the employers’ side and the influence of “moral suasion” exerted by the government at the negotiating table. Nor should it be forgotten that a union density of around 30% in the manufacturing sector, compounded by internal splits of an ideological and professional nature within the unions, is matched by almost 100% membership of employers’ associations among companies with more than 100 employees, including multinationals and many foreign firms.

It is in this context that the trade unions are radically altering their conduct and strategies. Visser (1997) graphically describes the changes in some crucial passages, which form the best summary of the beginnings of the Netherlands social pact:

“… an acute perception of the crisis and of their ensuing vulnerability led the trade unions to opt for wage restraint as the dominant strategy; this, coupled with welfare reform and pro-active labour policies, contributed to the recovery from the disease of welfare without work” (Visser, 1997: 582).

“The policy of voluntary wage restraint was embarked on in 1982, when the Dutch trade unions, appalled by the spiralling of unemployment and the rapid decline in membership, became convinced that improving the profitability of the country’s industry was the sine qua non of any recovery strategy” (Visser, 1997: 594).
From the early eighties onwards, therefore, a climate of participation led the trade unions to choose the path of wage restraint, including the abolishment of indexation (Wassenaar Agreement of 1982), and the employers in return to accept a reduction of work time. For its part, the government contributed to the deal by reducing taxes and social charges, thus keeping the purchasing power of wages and domestic demand levels stable, even against a backdrop of a drop in real mean salaries. Unlike what happened with many other social pacts, furthermore, the three main players involved in Dutch industrial relations managed to combine an incomes policy – in the terms described above – with a reform of the social security system (particularly disability insurance and early retirement, though the trade unions did protest) and with pro-active labour policies.

The 1993 Agreement, called – aptly enough – “New Direction”, not only is a move towards a confirmation of these trends which had partially begun already in the 1982 Agreement, but also signalled a return to “voluntary” bilateral collective bargaining on wages. Furthermore, it strengthened the trend towards a decentralisation of bargaining and a greater degree of involvement of the negotiating players at the local level. This rather more decentralised model of industrial relations was particularly welcomed by employers who in return yielded on the issue of further reductions in work time.

Nonetheless, the Dutch social pact still suffers from the increased weakness of the trade unions. This to a large extent explains why there is an apparent contrast between the Dutch social consensus and the widespread social opposition by the French, German and Belgian trade unions to reductions in social expenditure and to the fallout from European integration. As Visser maintains (1997: 602), “the trade unions wanted it but they were incapable of blocking the reform of social security, perhaps because they did not present a sufficiently united front or were insufficiently motivated”.

Belgium and Germany have made tepid and so far unsuccessful attempts at achieving social pacts. The powerful trade unions in those countries were against what they considered unbearable social costs; and only union-led social pacts could be possible in the next future. The Dutch social pact, however, seems to have been influenced by a greater degree of employers’ leadership, as can be observed by the fact that the trade unions made major concessions.

It would be an oversimplification, however, to assert that the social pacts were successful solely because employer or union interests were allowed to prevail. The Italian situation, as we have seen, does not fit either of the above-described models. Concertation was brought about by means of joint or shared
leadership between a strong employers’ association (Confindustria) and equally strong national trade union confederations (CGIL, CISL and UIL), during the span of time in which the political system and the government power were at their weakest point of the post-war period.

It is obvious that these three basic European models of social pacts must be taken as ideal forms of “associative models of social order” (Streeck and Schmitter, 1985), which rarely correspond to the specific realities which must be described and interpreted; rather, they are useful tools for an initial classification. As we have seen, they result primarily from a certain balance of power and from a history of “good reasons”, or “beliefs based on reasons” deemed by the social actors to be good ones (Boudon, 1995), which led these same actors to choose their strategies for collective action. We thought it important to start from this premise in our attempt to reconstruct models of social pacts lending themselves to an interpretation of certain uniform trends, albeit within the framework of divergent series of events which cannot be attributed solely to the story and contingent variables of each individual country.

It is very likely that these models shall be increasingly influenced by the pressures of the global markets and by sweeping economic changes (Crouch and Streeck, 1997; Berger and Dore, 1996; Dahrendorf, 1995); and besides, by the enlarged social participation. But these pressures will not lead to convergence, they shall force these models to strike an internal balance of their own between the macro and the micro level, within the context of institutional approaches to social concertation, which indeed appear to be destined to diversity even in the near future, since their history is different and the basic institutions which are the basis for their response to the changes underway are different.

7. Why are social pacts spreading?

A comparative analysis leading to a definition of several models of social pacts in Europe clearly shows that the various institutions of economic and social policy and the behavioural patterns of the social actors representing interest and industrial relations in particular have had an enormous impact in determining the levels of economic and social performance of individual countries. The changes the Netherlands has made have been, for the above-described reasons, made by the prevailing role of employers; conditions there were distinctly different from the conditions in Germany, where the trade unions up until now have been more than strong enough to resist the
more disadvantageous of the economic and social reforms; Italy, too, had different conditions, in that social pacts have been implemented in a more concerted fashion, jointly between trade unions and employers’ associations, again for the above-mentioned reasons.

Here, the analyses of several institutional sociologists such as Dore (1987), Albert (1991), Dahrendorf (1995) and Habermas (1999), have been proven correct; they have stressed the existence of a number of economic and social “constellations”, i.e. a series of models of capitalism.

Though a number of aspects relative to the definition of social pacts and the models of social pacts, however tentative and crude they may be, might appear to be self-evident, it is still most difficult to ascertain the underlying reasons behind the origins of social pacts in the nineties, as has already been stated.

First and foremost, the right questions must be asked. Previously, a sketchy answer could be achieved by carrying out a comparative analysis of the roles played by the various institutions and the various social actors; this analysis would be helpful in trying to answer the question of why it is that some countries – given equally pressing problems and an equally restrictive economic environment – might react by instituting social pacts predicated upon different economic or social performances. This is one of those trick questions which students of political economy, sociologists expert in industrial relations, political scientists, historians and economists have studied in depth from the seventies onward in an ultimately successful attempt to challenge the traditional theory of the convergence of pluralistic industrialism and economic growth (Trigilia, 1994).

Less well-established tools of analysis are available in order to gain an understanding of what is happening in the nineties; in order to understand why it is that in so many European countries there has been such an upsurge in concertation and social pacts. Why is it that collective action has again become so important; why is it that the role of the major social actors has so overwhelmed individual actions, decentralised and fragmented actions as diffused, for example, as in Italy during the second half of the eighties (Baldissera, 1988)? Why is it that these actions which some sociologists had deemed so irreversible during the course of the eighties are now being progressively supplanted by, or rather integrated by, collective actions?

Should our response be limited to a mere reference to theories of economic cycles and of the “corporatist Sisyphus”, or is it possible to explain the situation using more sophisticated sociological arguments such as references
to the theory of mobilisation or to that of “long waves” in industrial relations (Kelly, 1998)?

Though Schmitter and Grote (1997) were fascinated by a “cyclical theory of corporatism”, they were nonetheless uncertain as to whether it should incorporated into the theory of economic cycles, of Williamson’s transaction costs or into Hirschman’s theory (1982) of “shifting involvements”.

With regard to the first thesis, what transpires is not always symmetrical in terms of the stages of economic growth/recession and the stages of micro and macro concertation. One explanation for the lack of symmetry in timing is that, as is the case in all institutions, corporatist institutions as well are stable (viscous) and there is a greater time-lag in their response to a given situation; this explanation, however, is not satisfactory and vitiates the thesis. The reason is that it implies that sizeable adjustments must be made, such as, indeed, institutional stability or the “trust” which grows over time among the social actors who represent the conflicting interests (Schmitter and Grote, 1997: 204). Indeed, the Oxford school of industrial relations had already stressed some time ago what the essential component for the smooth functioning of any system of industrial relations would be (Fox, 1974). One cannot say, therefore, that at any rate the corporatist stage is different from the laissez-faire stage in that the “tit-for-tat” strategy is missing. Indeed, the latter could never survive in any model of industrial relations, whether that model be the pluralistic, voluntary model of the English-speaking world, or the organised pluralistic model which exists in a number of central and northern European countries. This topic of trust is very important, as well as the degree to which it is institutionalised into national economic systems and systems of industrial relations. Many neo-institutionalist sociologists and economists have made extensive use of the thesis of the reductions of transaction costs in order to explain the advantages of collective action and neo-corporatism (Williamson, 1986). As indeed Douglass North has made clear (1990: 40):

“In a world with zero transaction costs, the bargaining strength does not influence the efficiency of the results, but in a world with positive transaction costs, it does; and given the fact that institutions are strongly indivisible, this has a long term effect on economic change”.

Of course, there are differences along the way, depending upon the historic traditions of each model. Nonetheless, institutionalisation is indeed correlated to the need to reduce the uncertainty in social relations and the
complexity of the environment; these are needs which require a suitable “software” in order to be able to solve problems (North, 1990: 51). Since transaction costs must be kept low, this could actually effect a shift towards non-market trade, for example towards reciprocity and redistribution (Cella, 1997). Or it could cause a shift towards association-like relations (Streeck and Schmitter, 1985), or towards concertation, corporatism and social pacts.

It was, however, Schmitter and Grote themselves (1997: 184) who recognised that while neo-corporatist practices do allow for reduced costs for research and information, they are also “rigid in terms of demand and sub-optimal in terms of performance”… “second best solutions for the people involved”. For that reason “the participants seem prepared to put up with the collective burden of rigidity and inefficiency – at least until a clearly better solution presents itself”. This solution did indeed present itself during the course of the eighties, with the neo-liberal response, the deregulation of Reaganomics, the privatisation of Thatcherism and the globalisation of markets. The social pacts of the nineties cannot, therefore, be interpreted as a simple return to corporatism in order to spare the costs of transaction; rather they seem to be an entirely new and different adjustment made between the economy and society, also aimed at overcoming the inefficiencies and the rigidity of the past.

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Toward a New Social Pact in Belgium?

Etienne Arcq and Philippe Pochet

Introduction

During the eighties and nineties, Belgium – a small, open economy – followed a different path in terms of wages and job creation than other countries (the Netherlands, Austria and Denmark) to which it is often likened. This comparative approach – investigating why Belgium trod this particular path – guided us in our considerations.

We begin by presenting the main features leading to the most recent collective agreement. The first section explicates the main aspects of the social pact of 1944, which is the comparative standard that is used to measure ongoing transformations. A re-analysis of this supposed golden age of social concertation will be carried out. We will highlight the importance of the social partners as autonomous players during the last three decades.

Our second section focuses on the attempts to reconstitute this pact. From 1990 onwards, monetary union played a central role in the attempts to sign a new Belgian social pact (1993, 1996). These attempts ended in failure. In 1996, a new Competitiveness Act was adopted. It strictly controlled wage increases and, in the name of EMU, imposed controls on collective bargaining, which had traditionally been used as a means of redistributing productivity gains.

The third section consists of describing the multi-industry agreement concluded between the social partners at the end of 1998 that many observers regard as a “new social pact” in the Belgian tradition. Ultimately, a common consensus between the social partners was reached on the questions of wage increases, vocational training, employment and social security (reduction of contributions). The sectoral level gained anew some autonomy to bargain. Nevertheless, it was still in the shadow of the Competitiveness Act and under strict scrutiny by the government.

In a fourth section, we describe various factors which could explain why this last agreement was finally signed. Although we agree on the thesis of the emergence of a new social pact, we will stress that the new agreement is
different from the founding pact that was concluded after the second world war. Its difference lies in the scope of questions on the bargaining table, in the way they are examined and in the balance of power between the trade unions, the employers and the State.

1. The most important features of the post-war Belgian social pact

At the time of every major round of social bargaining in Belgium, ever since the mid seventies, the recurring question has been whether the process underway constitutes a “break with the social pact”, a “new social pact”, a reorientation of this pact, the “end of the Belgian model of social concertation”, and so on. Reference is always made to the so-called pact of 1944, on the basis of which concertation in Belgium experienced an apparent golden age, generally deemed to have been during the period approximately from 1960 to the end of 1975, just after a phase of institutionalisation lasting from 1944 until 1960. From this perspective, the period from early 1975 until today is regarded by some observers as one of dismantling, adaptation and reorientation.

Let us remember that what is known as the “1944 social pact” refers to a text entitled “Draft Social Solidarity Agreement”, which was drawn up in secret during the war by trade union and employers’ leaders under the aegis of senior civil servants, but which was never rubber-stamped by the organisations represented unofficially at these talks.

Ultimately the inclination to elaborate this draft agreement had practical consequences in the years thereafter, as demonstrated by the signing – official this time, and with great ceremony - of the Joint Declaration on Productivity in 1954, renewed in 1956.

The consensus which prevailed throughout this period is generally thought of as a “pact”; in fact it is nothing other than the Belgian form of the compromise between the forces of labour and capital, under the aegis of the government. Whatever one calls it - social-democratic compromise, Fordist compromise - this arrangement is dated and corresponds to a well-defined phase in the development of the economy.
Overall, this compromise can be summarised in a few main points:

- recognition by the trade union organisations of the validity of the market economy and of the legitimate authority of employers over all economic decision-making in the company;
- recognition by the employers of the trade union organisations as the sole partners in dialogue for all matters concerning the representation of workers within and outside of the company;
- sharing of the fruits of growth between capital and labour through free, autonomous collective bargaining;
- establishment of a general system of social security based on contributions from employees and employers;
- confirmation of the social partners’ consultative role through a government undertaking to seek their opinions before taking any decisions concerning economic or social policy.

One might add here that the industrial sector, with its highly representative actors, was the trailblazer for economic and social progress. Social progress (meaning increased purchasing power and enhanced social protection, i.e. a rise in direct and indirect earnings) was directly linked to economic progress. Working people would be better off due to a fairer distribution of the fruits of economic growth. The interests of workers overlap with those of consumers, since an upturn in productivity goes hand in hand with lower prices.

The institutional forums for meetings between employer and trade union representatives – in particular the Joint Committees, the Central Economic Council and the National Labour Council – were forums where their autonomy as recognised by the government prevailed, or else forums where they could jointly address themselves to politicians. It is said that economic and social democracy came to supplement parliamentary democracy.

The “social pact” of 1944 was imbued with the notion of autonomy. Whenever the government has encroached on this autonomy by becoming involved in wage formation, the trade unions have contemplated terminating the pact. But so have the employers. They were the first, in 1976, to call for a review of the terms of the “social pact” after the government imposed wage restraint for the first time in a bid to curb inflation. According to the employers at that time, one of the first measures to be taken was to abolish the index-linking of wages. But they by no means had in mind the imposition by the government of a wages norm.
And yet this autonomy was only relative during the period from 1945 to 1960, as pointed out by L. Denayer and E. Michel (2000). This period was certainly characterised by a flurry of tripartite consultations. Likewise, the Draft Social Solidarity Agreement certainly acknowledged that wages policy must be situated within the broader context of price and monetary policy. But what happened in practice? The main purpose of wage bargaining, in the view of trade union representatives, was to increase the employees’ share in the general distribution of wealth produced. There was obvious resistance to the drawing up of a centralised incomes policy during the sixties, for instance when recommendations on wage moderation were adopted by the EEC Council of Ministers. The attempts made by the Common Market and the OECD at that time to sanction the idea that “incomes policy can be an instrument of economic policy enabling certain economic objectives to be attained” (CRISP, 1964: 12) met with strong trade union resistance.

In Belgium the first programme for economic expansion, in the early sixties, contained a chapter devoted to incomes policy. It stated clearly that “an over-rapid rise in nominal incomes, and hence costs, would cause the programme to founder”. This programme offered a straightforward choice between consumption and investment, whereby an increase in one would be to the detriment of the other. The rule was: “consumption must be at a high enough level to allow a greater share of resources to be earmarked for investment”. But the Economic Programming Bureau (forerunner of the Planning Bureau) was sceptical about the possibility of centralising wages policy in a system where the different sectors – and even companies – were at liberty to discuss wages. It was the government’s room for manoeuvre which seemed narrow at the time: without intervening directly on wages, the government was confined to recommending that the mechanisms for increasing all categories of earnings should remain compatible with the maintenance of price stability. However, this recommendation did not meet with approval from either the trade unions or the employers’ organisations.

The separation of deliberations on social and economic affairs between two distinct institutions, the National Labour Council and the Central Economic Council, engendered a split between social policy and economic policy.

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1 Such as for example a Council resolution of 15 April 1964, which sought explicitly to curb the rise in earnings and particularly in earned incomes. Cf. CRISP, 1964. (N.B. at that time the Netherlands were the front-runners in terms of incomes policy).
Talks held at the time with a view to merging the two institutions were shelved under pressure from the FGTB (the socialist trade union).

In response to an approach from the Ministry of Economic Affairs, the two advisory councils issued in 1967 a joint opinion – which took over two years to produce – expressing clear-cut opposition on the part of the employers and the FGTB to any incomes policy. “As for the representatives of the CSC and the farm-workers, they confirm that they do not object to an incomes policy provided that a number of preconditions are met” (CRISP, 1968: 8).

In 1968 the National Labour Council acquired the capacity to conclude multi-industry collective agreements on social matters, whereas the Central Economic Council remained a purely advisory body.

The sixties are often described as the golden age of social concertation because the social progress made then was considerable and was obtained by means of an institutionalised system with closely interconnected levels. An analysis of attempts to establish a centralised incomes policy reveals that, even at that time, there was a discrepancy between the terms of the 1944 “social pact”, revised in 1954, and the need to take account of economic constraints (inflation, prices, investment etc.). The resistance to change on the part of trade union organisations and employers’ associations alike was already being condemned during that period (CRISP, 1964: 12).

This was the state of mind among the players in the industrial relations system when they were confronted with the economic crisis of the early seventies. The government’s first moves to impose wage restraint in 1976 were deemed an intolerable interference in the social partners’ sphere of autonomy.

No multi-industry agreement was concluded between 1977 and 1986. The social partners failed to find any common ground, and the government intervened in various ways, most notably by compelling them, in 1982, to conclude an agreement limited solely to wages issues.

The devaluation of 1982 was a turning-point. The conservative Social-Christian-Liberal coalition tackled the public deficit and the funding of social security; it intervened in an authoritarian manner in wage formation. We shall dwell no further on this period, preferring to focus on the attempts to “reconstruct” the system of concertation against the background of monetary union.
2. The attempt to reformulate the social pact: between job creation and competitiveness

From 1987 onwards, a stable coalition between the Christian Social party and the Socialists governed the country (until June 1999). After further institutional reform in 1989, political attention was progressively shifted towards the entry of Belgium into EMU in the first wave. The global debt of more than 130% of GDP weakened successive governments. Political leaders therefore considered that scrupulous compliance with the other criteria, particularly the one relating to the public deficit, was imperative. The price for the socialists to enter into this coalition was to accept an Act on Competitiveness which controlled wage increases in comparison with the most important trading partners. Every year from 1989 until 1993, on the basis of a report from the Central Economic Council, the social partners evaluated whether or not the Belgian economy had suffered any loss of competitiveness. The mechanism was corrective (if there was a loss of competitiveness, as defined by the Act, measures had to be taken). The rationale behind it was that the players would anticipate the negative consequences and adjust their wage behaviour.

1993 was a turning point for Belgium. Not only did the public deficit fail to decrease by comparison with 1987 (-7%), but for the first time the social partners adopted a unanimous opinion noting a loss of competitiveness, according to the terms of the Act of 1989. The economic environment was almost identical to that of the early eighties: monetary disruption, a large public deficit, wage slippage, a social security deficit.

The attempt to update the 1944 Social Pact by means of a new social pact which would encompass the issue of competitiveness as well as those of employment and social security (the FGTB even wished to include taxation) failed and the government adopted the Global Plan, which included a wages freeze (apart from indexation) for 1995 and 1996, a modification of the prices index (removal of petrol and tobacco), as well as a number of less significant measures reducing the cost of labour under certain conditions (for the full picture see Arcq, 1997).

Considerable tension arose between the FGTB/ABVV and CSC/ACV, and even within their own ranks between the central union organisations and workers’ representatives, as well as between regional and sub-regional players. Dissension also arose between the trade unions and the political parties. Several strikes and major demonstrations took place in November
and December 1993 – including the first general strike since 1930. However, the government did not change course. The government coalition was not sanctioned by the electorate at the 1995 elections. These results highlighted the limits of trade union protest and accelerated the reform of the Competitiveness Act.

In 1994, the Central Economic Council’s report again showed a 6% loss of competitiveness in the Belgian economy. These figures were disputed by the trade unions. However, they increased awareness that compensation could not be made in the future for any further loss of competitiveness by means of devaluation. Furthermore, because of automatic wage indexation and widespread wage restraint policies in Europe, it would take several years to correct wage slippage on such a scale. This contributed to the discussion of the need to take preventive action and not to respond after the event, as envisaged in the 1989 Act.

When the Germans held discussions on a Social Pact (Bündnis für Arbeit) (see contribution by Bispinck and Schulten in this volume), the government tried again to rekindle the dialogue. As with the 1993 discussion Social Pact, the negotiations very quickly failed. The agreement reached was rejected by the FGTB (whose president did not really defend it) and was backed by only 52% of the votes at the General Council of the CSC. Therefore the government adopted alone a “contract for the future of employment”.

In parallel, the question of unemployment and job creation was progressively taking on a pivotal role in labour relations. Under pressure from the government, multi-industry agreements began to be signed once more in 1986, and new ones followed every two years until the collapse of the negotiations opened with a view to concluding an agreement for 1997-1998. But there had been a change of mood. These agreements formed an integral part of the government’s economic and social policy which sought at one and the same time to keep companies competitive, promote employment, ensure a flexible labour market and circumscribe wage formation. The succession of multi-industry agreements amplified such measures to a certain extent. Free wage bargaining now became hidebound by recommendations of moderation and concurrently by the undertaking to devote a part of the available margin to job creation.

Although the freezing of the wage negotiations under the Global Plan made negotiations for a new intersectoral agreement difficult, an agreement, centred on employment, was nevertheless reached in 1995-1996. Even
though it would have been virtually cost-free for the employer representatives, they refused to commit themselves to it formally. On the other hand, this agreement was also signed to reiterate the autonomy of the social partners (Blaise and Beaupain, 1995).

Whereas employment increasingly became a trade union priority, to be handled in accordance with a “global approach” much broader than a classic multi-industry agreement, the employers for their part came to establish a far closer link between the issue of jobs and that of company competitiveness, itself linked in turn with the question of labour market flexibility and social security, because of the need to reduce the revenue from employers’ contributions.

3. The new Competitiveness Act: a fresh start toward a new social pact?

In 1996, the Competitiveness Act was revised. It now focuses on wage costs and only takes into consideration Belgium’s three main commercial partners (Germany, France, the Netherlands). It adopts a precautionary approach. Thus the Act stipulates that multi-industry bargaining must take place every two years. The Central Economic Council is obliged to submit a joint report twice a year as well as an annual technical report on the maximum margins available for rises in wage costs, on the basis of developments over the last two years, as well as the expected rises in wage costs in the neighbouring countries.

This margin was to be integrated into the two-year multi-industry agreement which was also to include job creation measures. The wage margin negotiated by the social partners or, if not, set by the government, is a maximum figure including increases at all levels (multi-industry, sectoral and company). Should an agreement not be reached, the government itself takes a decision before the end of the year. On the basis of the maximum wage increase margin, sectors and companies were to negotiate collective agreements on wage trends and jobs.

During the first bargaining round the unions and employers disagreed on where to set the norm, and finally the government ruled in favour of a 6.1% rise. When inflation and seniority-based increases were deducted over a two-year period, slightly more than 1% could be subject to negotiation at company and sectoral level, part of it theoretically devoted to boosting employment.
The new law still did not take domestic productivity into consideration. There is a clear disjunction here, and the policy relates explicitly to the weighted performance of neighbouring countries. According to the government, the reasoning is as follows: “In order to safeguard jobs, it is necessary to avoid ensuring competitiveness by increasing productivity to the detriment of jobs” (quoted by Lamas, 1997).

By imposing a maximum rate of increase, including on healthy sectors, this law set an extremely tight legislative framework. Furthermore, an overall reduction in working time (without loss of wages) was made almost impossible due to the fact that the reference criterion adopted was wage costs per working hour.

The next round of wage bargaining, for 1999-2000, has revealed various developments. First of all, comparison with the three neighbouring countries showed that social security contributions were highest in Belgium. The government intends to reduce social security contributions by 2.5 billion euro over five years, bringing them into line with Belgium’s three main commercial partners (Germany, France and the Netherlands). The effect of these deductions will be analysed in detail by the social partners after one year. This decision will affect the future balance of the general social security system. Until now, no other way to compensate for the reduction in employers’ contributions has been decided upon, leading to a potential deficit in the general social security system (0.45% of GDP) in 2002.

Secondly, “wage norms” do not have the same impact in Flanders as in Wallonia, which has a productivity differential with Flanders that some find disquieting. Some sub-regions of Flanders have almost full employment, and there is a labour shortage in certain sectors or for specific skills. Flemish employers in some sectors are consequently prepared to allow wage increases higher than the norm, in order to keep skilled staff in their companies. Other employers, in Wallonia, believe that wage moderation going beyond the norm could be used as a means of restoring the competitiveness of industry (or attracting fresh investment).

What is more, the Flemish employers’ organisation (VEV) made known that, should no federal agreement be reached, it would embark on regional negotiations. As for the trade unions, although they refused to discuss regional wage differences, they did welcome the idea of greater scope from one sector to another word a return toward sectoral bargaining autonomy.
These views, at variance on the substance of the matter but at one on a more flexible interpretation of the norm, contained the seed of a compromise.

As so often in Belgium, the compromise found was relatively complex. It links reductions in future social security contributions to compliance with the wage norm and, failing that, to increased spending on vocational training. In other words, companies and sectors granting increases higher than the norm whilst creating jobs would not be penalised, unlike those where jobs have been lost. In order to be effective, such a procedure calls for the compilation of detailed sectoral data, a task to be fulfilled by the Central Economic Council and the National Labour Council.

This “multi-industry agreement therefore implies both a centralisation/co-ordination of collective bargaining (setting of the wage norm, \textit{a posteriori} checks on trends in wages, employment and training) and greater bargaining freedom for sectors, which may exceed the wage norm under certain conditions” (Delcroix \textit{et al.}, 1999). This makes it all the more vital to ensure that the entire process is co-ordinated by the two sides of industry.

Vocational training too (like wages and social security contributions) is subject to a systematic comparison with Belgium’s three main commercial partners. Spending on vocational training must rise from 1.2 to 1.4% of GDP over six years. Yet, in this sphere, the statistical and methodological data needed to monitor trends in training expenditure do not exist.

This agreement was approved by huge majorities within both trade unions and the FEB (employers’ federation), and is considered by many as a Belgian equivalent of the Dutch Wassenaar Agreement of 1982. It deals with a number of key issues – wage rises and overall labour costs – by means of reducing the social security burden and reforming the minimum wage. We would stress that the focus has shifted imperceptibly from nominal wage increases to overall labour costs (including taxation and social security contributions).

It also tackles the areas of employment (job creation linked to wage moderation) and vocational training, which was a direct consequence of the European Employment Guidelines drawn up at Luxembourg (1997).

A first evaluation conducted by the Central Economic Council shows that there was no wage drift compared to the norm during the agreement’s first year of application, which could suggest an internalisation of the norm by
the sectoral negotiators and a better co-ordination process within the trade
unions concerning wage bargaining.

This agreement should be viewed in conjunction with the recent formation of
a Liberal/Socialist/Green government. For the first time, the two traditional
mainstream political parties (Christian and Socialist) put together are in a
minority in all three regions (Flanders, Wallonia and Brussels). Furthermore,
it is government policy to restore the effectiveness of the State and the
public administration (i.e. to professionalise and depoliticise them), to
preserve the social security system (and, more broadly, the Belgian model of
collective bargaining) and to play an active role on the international and
European scene.

If the wage bargaining structure and outputs seem eventually to have found a
new stable framework, it is not entirely true for the future of the social
security system, which also has a deep “linguistic” background. Two points
are prioritised in the political agenda: the reduction of global wage costs and
an active welfare state.

4. From productivity to competitiveness: the search for a new
compromise

Having presented the main features of the last two decades, we still need to
explain why it took so long to sign what will (perhaps) be called the new
social pact.

Our hypothesis is based on diverse factors. The first is economic and
highlights two characteristics of Belgium’s economy. First, the fact that in
Belgium sectoral productivity gains are distributed very differently from in
neighbouring countries, and that this has influenced collective preferences
concerning the trade-off between wages and jobs. Secondly, due to the
growing internationalisation of the Belgian economy and the loss of the main
Belgian centres of decision-making (this was clearly illustrated by the
French take-over of the Société Générale de Belgique, which controlled
around a third of the Belgian economy), making it difficult to guarantee job
creation in exchange for wage moderation. This objective situation was
reinforced by some institutional factors: the trade unions’ structures, which
give more power to declining traditional sectors, and the complex process of
competition/co-operation between the two main union organisations.
Finally, the manifest preference of both unions to maintain automatic wage indexation (which is also a way of guaranteeing the redistributive role of social security) narrowed the available options.

But the most striking fact which emerges is that a limited group of people has tried to preserve and redesign the Belgian social model under the new rules of price stability and EMU. The Central Economic Council was the key institution where the new consensus was built and at the same time where the tools for managing it (scoreboard, indicators, forecasts etc.) were progressively created.

Let us develop these arguments in more detail, by illustrating first of all the factors which hampered the reconstitution of the social pact, before turning our attention to the factors which contributed to achieving a new state of equilibrium.

4.1 Restrictive factors

As we saw in section one, when confronted by the shock of the economic crisis, the social partners refused all centralisation of wage bargaining on the grounds of sectoral autonomy. This attitude is one of the keys to understanding the period under consideration.

Since the beginning of the eighties, Belgium has been trying to redesign its “social compromise” around the concept of competitiveness (De Ville, 1994). Discussions on how to end the crisis through a top-down approach have run up against the lack of national capital (which became more marked in the eighties) and budget restrictions which have often affected long-term growth factors above all (education, research and development, infrastructure investment etc.). This has been accentuated by the fact that these elements have progressively been devolved to the regions or communities, due to the particularities of Belgium’s federal system, leaving no capacity for co-ordination at federal level.

The failure of the trade unions to take wage norms on board led to increasing government involvement as the constraints associated with the fixed exchange rate, and later EMU, became clearer. Two major difficulties ensued. Firstly, the competitiveness yardstick was often applied to wages alone, thus determining a correction model (reduction of wage costs) without defining a positive strategy (especially in respect of employment and industrial strategy or attractiveness of the location). Secondly, automatic
wage indexation meant that there was a need both for a preventive approach and for strict control over the existing room for manoeuvre.

The difficulty of reaching a compromise based on competitiveness is caused by the lack a trade-off between wage moderation and employment. Besides the peculiarities of productivity gains (see below), two other factors are also important. First of all, Belgium’s level of indebtedness has reduced the room for manoeuvre with which to oil the wheels of bargaining. Secondly, the bargaining agenda has simultaneously included reduction of the public deficit, wage moderation and reform of the social security system.

According to a recent study by the Federal Planning Bureau (1998): “Since the first oil crisis, the growth of real added value and productivity has been substantially higher than in other countries in industrial sectors, and considerably lower than in other countries in market sectors. Labour costs have tended to grow more rapidly in Belgium than elsewhere in all sectors of activity. This has been over-compensated for, in industry, by productivity gains higher than in other countries, whereas the reverse has been noted in market sectors”.
The table below summarises the productivity gains in various sectors.

**Table 1: Increases in productivity gains (%)**

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<tbody>
<tr>
<td>Agriculture</td>
<td>5.2</td>
<td>3.7</td>
<td>4.3</td>
<td>4.5</td>
</tr>
<tr>
<td>Industry</td>
<td>5.2</td>
<td>3.8</td>
<td>3.2</td>
<td>4.2</td>
</tr>
<tr>
<td>Energy</td>
<td>9.0</td>
<td>4.2</td>
<td>7.9</td>
<td>7.2</td>
</tr>
<tr>
<td>Manufacturing Industry</td>
<td>5.6</td>
<td>4.6</td>
<td>3.6</td>
<td>4.7</td>
</tr>
<tr>
<td>Construction</td>
<td>2.3</td>
<td>0.6</td>
<td>1.7</td>
<td>1.6</td>
</tr>
<tr>
<td>Services</td>
<td>1.0</td>
<td>0.4</td>
<td>1.6</td>
<td>1.0</td>
</tr>
<tr>
<td>Market Services</td>
<td>1.0</td>
<td>0.3</td>
<td>1.3</td>
<td>0.9</td>
</tr>
<tr>
<td>Non-Market Services</td>
<td>1.4</td>
<td>0.4</td>
<td>1.8</td>
<td>1.2</td>
</tr>
<tr>
<td>All Sectors</td>
<td>2.8</td>
<td>1.5</td>
<td>2.1</td>
<td>2.2</td>
</tr>
</tbody>
</table>


Although total productivity gains for all sectors are around 2%, there is a huge difference between industry and the service sector, particularly market services. Although this trend decreased for the period 1987-1994, there is still a ratio of 1:2 between the productivity gains of industry in general and those of the service sector. This difference is even greater if we exclude the construction industry and focus on the energy sector and manufacturing industry.

In terms of productivity gains, the situation in Belgium was also very different from that of its neighbours. “In other European countries the gap between the manufacturing sector and the entire enterprise sector in both labour and total productivity growth was usually no more than 0.5-1.0%. In Belgium the difference was 2.0-2.5%” (Englander and Mittelstädt, cited by Cassiers et al., 1994). The aggregate figures show a similar trend (around 2%) but productivity gains in the energy sector are more than double those in neighbouring countries, and those in manufacturing industry are between 1.3 and 2.7 percentage points higher.

The last three decades pattern of job losses/gains is quite clear. During the seventies, the industrial sector lost the most jobs; there was a net gain in the service sector and particularly in non-market services (administration). During the second period, 1980-1987, job cuts were still affecting the industrial sector, but this time most jobs were being created in the market services sector. Finally, from 1987 onwards, not only were far fewer jobs being lost in the industrial sector, but these were also being compensated for
by new jobs in market services. The government and the various levels of the civil service reduced their staff numbers. On the whole, job creation in the service sector was less extensive than in neighbouring countries.

As shown by E. Michel and L. Denayer (1997: 67): “Faced with these two specifically Belgian components – a wage structure still dominated by productivity gains in the industrial sector, and low employment growth – the social partners and the government are trying to modify the social compromise and particularly the methods of wage formation”. This attempt to renew the compromise uses the constraints of EMU as a lever to forge a consensus, by drawing conclusions from statistics (a systematic comparison with neighbouring countries and an exchange of arguments backed by technical reports). This top-down approach to the social compromise conflicted with that of the union rank-and-file who were seeking another type of compromise. The use of the word “competitiveness” as an engine for a new Pact has increased the distance between the “elite” and the rest of the population. Hence the central problem of how to increase the legitimacy of the competitiveness policy, to make it appear as an instrument for promoting employment (Michel, 1994: 77). The growing weakness of national capitalism was not unrelated to the lack of a strategic view of Belgium’s insertion into the world economy. Adjustment to the new rules of competition was a passive process, focusing on wages.

For a long time, the government’s attitude was also ambiguous. On the one hand, it said that in future jobs would be created in the service sector. On the other hand, the measures to reduce social security contributions on low wages related to the export sector. Only very recently, similar measures have been introduced in non-market service sectors (health, culture, social services).

In this context, organisational and geographical asymmetries between the social partners played an important role. The CSC/ACV is relatively centralised and is predominantly Flemish (2/3 of its members). The FGTB has a better regional balance, but the central union organisations, and particularly the head office, have less clout.

There is no hierarchical link between the FEB (employers’ organisation at federal level) and the regional organisations. The Flemish employers’ organisation (VEV) is becoming more and more dominant, reflecting the economic development of that region. This compounds the difficulty of reaching a compromise. Finally, some sectors such as metalworking include
very different industries, which does not make it any easier to achieve a common position.

The industrial trade unions, which have great influence for historical reasons, have remained faithful to the former productivity-related compromise. Their reasoning is that there is little likelihood of creating jobs in the export sector; at best, losses might be prevented. Furthermore, large firms are mainly foreign and there is much doubt about their ability to make commitments to job creation (cf. case of Renault).

The white-collar workers represented in Belgium by the (French-speaking) CNE and (Dutch-speaking) LBC on the Christian side, and by the SETCA/BBTK on the Socialist side, have tried to reconstruct the social compromise around the reduction of working time (generally without loss of pay). They did not have the support of blue-collar representatives here. In fact, the latter have different negotiating margins. In high-growth sectors, large wage increases can be achieved (for example, in the chemicals industry or energy sector). Furthermore, there has been no real political support. And by taking into consideration hourly wage costs, the new Competitiveness Act has prevented the reduction of working time without loss of pay.

On the employers’ side, three federations (Fabrimetal, representing the metalworking employers, plus those in chemicals and banking) dominated the debate within the FEB. None of these sectors can embark on job creation (and none wishes to do so), and they are all opposed for various reasons to reducing working time.

While in our opinion these factors were the cause of a persistent freeze, we shall now attempt to explain the apparent thaw.

4.2 Factors contributing to a new compromise

Even at moments of extreme tension, talks between the social partners were never completely broken off. The array of institutions – particularly the National Labour Council and the Central Economic Council – helped to keep the dialogue alive.

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2 This split also became evident during the negotiation of the 1998 multi-industry agreement. The white-collar unions LBC and CNE (Christian) and SETCA/BBTK (Socialist) adopted a common front with regard to the aim of a 32-hour and 4-day week, without the support of the blue-collar workers’ unions.
The social players’ gradual realisation of the issue of companies’ competitiveness dawned within the Central Economic Council, where they drew up a “scoreboard” for the country’s economy and tried to agree on criteria to be used to assess the competitiveness. Although agreement was never reached on the criteria to be applied, the mood changed between 1982 and 1996, and the Central Economic Council can be deemed to have played an opinion-forming role in this area.

The Council has a vital role of informing its members about the economic situation in Belgium and internationally, as well as about the economic and social policies being pursued in the countries with which Belgian companies have their main trading links. This function of information forum has gradually developed, as proved by the number of symposiums and hearings of experts held by the Council on topical themes. Since 1994 a succession of experts have been invited along to present papers at hearings on subjects such as the European Union’s economic prospects, the state of play of the GATT – subsequently WTO – negotiations etc.

This input and this dissemination of information, inasmuch as it is assimilated and put to use by the organisations represented, helps them to formulate their opinions. Thus the Council acts as something akin to an ongoing seminar, enabling senior officials and experts from the employer and trade union organisations to carry forward discussions about certain points even within their own organisations. However, each organisation responds to this input after its own fashion, and the task of the leadership is not necessarily facilitated within their organisation: whereas the views of the leaders (or experts) within specialised committees of the Council may be similar, the distance may widen between them and the decision-making bodies of their respective organisations, whose members do not take part in the Council’s work (see above).

Following a lengthy transformation, the Central Economic Council today has a new function of framing wages policy. This is the fruit of over fifteen years of familiarisation with the issue competitiveness, which quite naturally followed on from its regular analysis of the economic situation. By preserving an institutional forum where the social partners can exercise their autonomy over wages policy, the two sides of industry are not entirely turning their backs on the spirit of the 1944 Pact, even though significant adjustments have been made to it.
EMU has played a crucial role in trade union thinking. The decision of the Christian Social-Socialist coalition to impose a wages freeze by applying the Competitiveness Act of 1989 and – despite widespread popular protests – the renewal of the same majority at the 1995 elections dashed once and for all any hopes of a political let-out (via the Socialist party) from the straightjacket of the Competitiveness Act.

On the employers’ side this adherence to relatively centralised bargaining is rather different and derives from an analysis of the players best placed to influence overall wage costs. In this case it is on the one hand the government, through taxation, and on the other hand the trade unions, for social security. Moreover, the legitimacy and representativeness of the trade union organisations at company level is such that a widespread decentralisation of wage bargaining is not an attractive idea.

Within the constraints of EMU, co-ordination between the various bargaining levels is one of the key questions. This also necessitates an internal reorganisation of the relations and the balance of power between the various constituent parts of each social partner. Traditionally, in fact, there was no *ex ante* co-ordination of wage claims among the different sectors. The Belgian trade unions’ experiment of wage co-ordination (known as the Doorn process) in 1998 with their German, Dutch and Luxembourg counterparts (Pochet, 1999) facilitated exchanges of information among the various trade union sectors. Indeed, it has been possible to place the question of wage claims by the different union organisations under the “neutral” heading of necessary co-ordination with neighbouring countries.

Once Belgium had qualified for the euro, the government was able to use the available room for manoeuvre for a scheduled reduction in social contributions. This gave the social partners a fresh topic for bargaining, which was no longer confined as in the past to wage restraint. The Luxembourg process (1997), on the theme of training and employability, did not exactly expand on this issue (training has long been a subject of negotiation) but did at least raise it in a new way; especially since the Luxembourg process endorsed the social partnership approach, lending greater legitimacy to the negotiators.

The regularity of meetings between the social partners in different forums, and the complex range of formal and informal meetings between them and the government since the post-war period, is harnessed as an argument by those who believe that the 1944 social compromise has gradually been
renewed according to the requirements of the moment. From this perspective, there has not been a new “social pact” but merely a constant reinterpretation of the compromise between the forces of labour and capital, under the aegis of the government. We do not share this opinion. Even though the point in time when this redefinition actually took hold (the new multi-industry agreement for 1999-2000, the 1996 Competitiveness Act etc.) is a matter for discussion, the newly emerging compromise is far removed from the premises of the 1944 Pact.

5. Concluding remarks: content and actors

Since it is difficult to elaborate conclusions on a process still under way, we shall confine ourselves to putting forward a few thoughts about the content and the actors involved.

The lack of an internal consensus on the reform of the social contract led to the use of an external standard of comparison (benchmarking). The performances of three neighbouring countries (Germany, France and the Netherlands) were used for this purpose, not only in terms of wages and wage increases but also with regard to social security costs. Politicians therefore ceased to use the intrinsic performance of the Belgian economy as a point of reference. They also made the debate more “technocratic”, and a series of reports on competitiveness and employment accompanied all major decisions. Europe was and is an excellent pretext to force through co-ordination (or at least discussion) of the various levels of power: federal, regional, community. As in the case of Italy, “EC level developments and commitments were used by Italian (Belgian) elites to restructure the domestic policy process, thereby revising the balance of power between key actors and opening up new opportunities for policy reform at home” (Dyson and Featherstone, 1996). This reconstitution led (at least temporarily) to a strengthening of the federal level. The absolute priority given in the political debate to the objective of being part of the first phase put the traditional community problems on the back burner. Unlike in other countries, the employers have never wished for a decentralised collective bargaining system.

The balance of power established by the post-war Pact (independence of the social partners, systematic consultations and a virtual monopoly over social security) has been gradually revised. The most important changes have taken place in the system of collective bargaining. From almost total independence
of the social partners, and wage increases linked to productivity, there has been a shift to bargaining controlled by the government and focusing on competitiveness. Wage rises have been gradually dissociated from domestic productivity and compared with those in three neighbouring countries. The sectoral level, which traditionally played a central role in respect of employment and working conditions, has been assigned the tasks of job creation and training (Jadot, 1999; Van Gyes et al., 1999). There has been a progressive move away from a largely autonomous dialogue between trade unions and employers to a tripartite system in which the State plays a central mediating role.

One change worth stressing relates to the government’s position. As shown by Reman (1999), in the sixties the government tended to facilitate agreements negotiated independently by the social partners. This role enabled it to oil the wheels of bargaining. In the eighties and nineties, under pressure to reduce the public debt, it has provided a “framework” for bargaining by laying down in advance the often narrow margins for negotiations, in an attempt to safeguard the balance between wages, competitiveness and social security.

The most recent agreement has also shifted the players’ positions somewhat. The social partners are attempting to regain a degree of autonomy (albeit under strict surveillance) and the government is using what little room for manoeuvre was created by an unexpectedly rapid reduction in the public debt to promote the conclusion of an agreement. One might, nevertheless, wonder whether this rediscovered room for manoeuvre will facilitate the conclusion of truly competitive pacts (lower social security contributions and taxes).
References


Recent Issues on the Social Pact in Denmark

Jens Lind

1. Introduction

Labour market regulation in Denmark, and the other Nordic countries, has traditionally been described in terms of co-operative patterns of relationships between representatives for the state, capital and labour in tripartite and bipartite institutions. These co-operative patterns have (had) a longer history than in most other European countries, and are frequently considered as the core element of the “Nordic Model” (e.g. Schiller 1993; Gudmundsson, 1993; Due et al., 1994). In a sense they constitute a permanent “social pact” between the representatives for the three main powers in society, state, capital and labour.

A social pact is most frequently understood as a written declaration of intentions, and some times guarantees, between representatives of state, labour and capital concerning the attainment or the securing of the achievement of some macroeconomic balances, most frequently focussing on employment and wages. For some reasons such tripartite declarations or pacts have been revitalised in Europe during the nineties (Fajertag and Pochet, 1997) but they are, as written statements of intentions and promises, not of major significance in Denmark.

The need for actually putting a social pact into writing may be derived from the social environment, the traditions and forms of co-operation between state, labour and capital. In countries where the relationships between state, capital and labour are less co-operative, the need for a written declaration for a concerted action for the achievement of certain goals may be greater than in countries where co-operation is already institutionalised. Given the fact that the relationship between the state, capital and labour in Denmark is co-operative, it can be argued that a social pact is present in the shape of a continuous, tacit and implicit pattern of co-operation embedded in well defined institutions in society.

According to this line of reasoning, a social pact is even a fact when the relationship between the parties is built upon the mutual understanding that either one of them is committed to take into consideration the interests of
other parties with the intention of achieving acceptance. This sounds perhaps a bit complicated, but the point is that trade unions, for instance, if they want to be taken seriously as legitimate counterparts and parties in a *de facto* social pact with the employers or the state have to prove or present some sort of evidence or argumentation for the social sensibility and responsibility of their wage claims. They have to communicate within an accepted frame of reference or a common paradigm.

From this perspective, it is necessary to include all sorts of relationships between state, capital and labour in the analysis of social pacts because, in the first place, the borderline between bipartite and tripartite regulations is variable. In a specific society, the mode of regulation – the configuration of market, collective bargaining and state regulation – varies over time. When comparing different societies, it is evident that what is regulated via collective agreements in one society may be regulated by the state in another. Secondly, because the matters dealt within bipartite and tripartite forums are interdependent and involve the same social actors. Wages and working conditions regulated by collective agreements are influenced by labour market policies on training, unemployment etc. and *vice versa*. So, the representatives for state, capital and labour are engaged in the same macroeconomic and social discourse on working life and welfare state policies where some issues happen to be regulated by either bipartite, tripartite or unilateral state intervention (see also the argumentation in Ebbinghaus and Hassel, 1999).

2. The overall regimes for social pacts

The cornerstone of the present pattern of co-operation between actors representing the interests of state, labour and capital dates back to 1899 when a main agreement (*Hovedaftalen*) between the trade union confederation (*the LO – Landsorganisationen i Danmark*) and the confederation of Danish employers (*the DA – Dansk Arbejdsgiverforening*) was signed. According to this main agreement the trade unions recognised the employers’ prerogative, their right to manage, and the employers recognised the trade unions as legitimate representatives for the workers (their members) and accepted them as bargaining partners.

Gradually, and actively supported by the state, a comprehensive system of collective bargaining norms and conflict resolution institutions (labour courts and conciliation system) was established. After World war II co-
operation was further expanded on both a bipartite and tripartite basis concurrently with the establishment of an interventionist welfare state based upon Keynesian macroeconomics forwarded first and foremost by the Social Democratic Party.

The success of this post war configuration of bipartite and tripartite regulation peaked during the sixties – the “Golden Age” of social democracy – with full employment and the establishment of the basic structures for an “active labour market policy” inspired by the Swedish Rehn-Meidner model.

During the seventies the economic crisis with rapidly growing unemployment formed the background for severe problems in the bipartite and tripartite regulation systems. The centralised collective bargaining structure proved to be unable to avoid major conflicts as the LO and the DA could not conclude collective agreements in 1975, 1977 and 1979, and the state intervened with legislation dictating the new collective agreements. This was a massive violation of the principles of “free collective bargaining”. The decentralisation of collective bargaining, which started in 1981 by industry level bargaining instead of bargaining between the LO and DA, was an answer to this crisis (Lind, 1995b).

Simultaneously it became more and more evident that the presence of increasing unemployment and high inflation was threatening the Keynesian model of economic growth and the ability of the state to control the economic cycles by means of financial policies. Huge budgetary state deficits could not reduce unemployment and accelerating inflation hollowed the real value of wage increases. The social pact based upon a fair share of the benefits of increases in productivity for capital and labour monitored and controlled by the state regulating employment and inflation crumbled.

So, the lesson from the Keynesian social pact during the seventies was that the trade unions and the employers’ organisations could not reach a compromise and the state could not guarantee employment in exchange of moderate (real) wage increases.

The shift to an alternative regime of economic growth actually started during the late seventies when Social Democratic governments reduced the inflationary indexation of wage increases. This indexation was completely removed in 1985 by the conservative-liberal government which took office in 1982, and during the eighties the foundations for a neo-liberal economic
growth regime were established when inflation was reduced to around 2% per year, compared to 10% a decade earlier, and other macroeconomic “imbalances” (foreign balance and public budget) were put under control.

This was achieved at the expense of employment. In the late eighties and until 1994 unemployment increased rapidly, but since then the growth in GDP, employment growth, low inflation and a balanced public budget have convinced economists and politicians that the change from a Keynesian inflationary macroeconomic policy to a Monetarist anti-inflationary regime has taken place successfully in Denmark.

**Table 1: Macroeconomic indicators 1988-1998**

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<tr>
<td>GDP (real growth %)</td>
<td>0.8</td>
<td>1.2</td>
<td>1.3</td>
<td>0.8</td>
<td>5.8</td>
<td>3.0</td>
<td>3.3</td>
<td>3.1</td>
<td>2.4</td>
</tr>
<tr>
<td>Consumer prices (growth %)</td>
<td>4.5</td>
<td>2.6</td>
<td>2.1</td>
<td>1.3</td>
<td>2</td>
<td>2.1</td>
<td>2.1</td>
<td>2.2</td>
<td>1.8</td>
</tr>
<tr>
<td>External balance (% of GDP)</td>
<td>-1.2</td>
<td>1.0</td>
<td>2.7</td>
<td>3.4</td>
<td>1.8</td>
<td>1.1</td>
<td>1.7</td>
<td>0.5</td>
<td>-1.2</td>
</tr>
<tr>
<td>Balance on public sector (% of GDP)</td>
<td>1.5</td>
<td>-1.0</td>
<td>-2.2</td>
<td>-2.8</td>
<td>-2.6</td>
<td>-2.3</td>
<td>-1.0</td>
<td>0.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Labour force (1,000 persons)</td>
<td>2888</td>
<td>2877</td>
<td>2886</td>
<td>2880</td>
<td>2864</td>
<td>2843</td>
<td>2833</td>
<td>2863</td>
<td>2864</td>
</tr>
<tr>
<td>Employment (1,000 persons)</td>
<td>2645</td>
<td>2606</td>
<td>2568</td>
<td>2531</td>
<td>2521</td>
<td>2555</td>
<td>2588</td>
<td>2643</td>
<td>2702</td>
</tr>
<tr>
<td>Unemployed (1,000 persons)</td>
<td>244</td>
<td>272</td>
<td>318</td>
<td>349</td>
<td>343</td>
<td>288</td>
<td>246</td>
<td>220</td>
<td>182</td>
</tr>
<tr>
<td>Unemployment (% of labour force)</td>
<td>8.4</td>
<td>9.4</td>
<td>11.0</td>
<td>12.1</td>
<td>12.0</td>
<td>10.1</td>
<td>8.7</td>
<td>7.7</td>
<td>6.3</td>
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Especially the employment growth is noteworthy. Like other European countries, new jobs have mainly been created in private services, but unlike most other countries employment growth in Denmark has not taken place as part-time or temporary jobs. The rate of non-standard employment has not been increasing during the second half of the nineties.
In the transition period from the Keynesian to the Monetarist regime during the eighties and the early nineties tripartism survived in the sense that the structures and corporatist institutions were maintained. In 1987 even some sort of a tripartite social pact was signed stipulating that it is decisive for the Danish economy that “the level of costs in this country does not exceed that of the foreign countries” (Fælleserklæring fra Regeringen, DA, LO, FTF og SALA, 8 December 1987). How much value and importance this document actually has had, apart from a manifestation of good intentions, is difficult to assess (the trade unions mainly saw it as some sort of guarantee for a new pension scheme). It may be argued that during this period the interests of organised labour were increasingly subordinated to the interests of capital. The trade unions simply had to adapt to the new regime, meaning that no promises on employment were made by the state.

The basic element of the tacit and non-written social pact on employment and competitiveness in the Monetarist growth regime is competition between workers. If wages are kept low compared to other workers, there is a possibility for reducing unemployment because this may create employment in sectors and areas where wages are low. It is all up to the market and the superiority of competitiveness. In fact this is the lesson among most trade unions in Europe.

“The increasing subjection of collective bargaining policy to the primacy of competition has meant that almost everywhere in Western Europe there has been a transition from a productivity-oriented policy to one oriented towards competitiveness, paving the way for a race to reduce wages” (Schulten, 1998: 211).

The bipartite system of labour market regulation, the collective bargaining, has tendentiously been adjusted to this new growth regime of competition as the collective bargaining structure has been decentralised during the eighties and nineties. This decentralisation opens up for more competition among individual workers and groups of workers, but compared to other countries it is moderate as collective agreements are still bargained at national level, where some general standards are set. The decentralised elements, especially concerning wages and working time, have been made more flexible compared to the seventies.

The transition period from Keynesianism to monetarism in Denmark is also closely connected to and influenced by the “globalisation of liberalist ideas” and the creation of a global market. This is most directly related to the
revitalisation of the EU internal market during the eighties and the nineties. Like in other countries (Pochet and Vanhercke, 1998; Kauppinen, 1998), the EMU-project has put firm guidelines for macroeconomic policy in Denmark and effectively forwarded the application of the ideals of Monetarism. The EU membership, however, to some extent protects the Danish workers from global competition, but they now have to compete directly, without the protection of a nation state and the national currency, with workers in the entire EU.

As was the case for the Keynesian regime, there is a wide scope for variations in the Monetarist regime. Iversen (1999), for instance, distinguishes between an egalitarian and a non-egalitarian Monetarist strategy, but variations in policies and institutional settings are numerous among different countries. This is obvious even when we compare European countries like Germany, France and the UK. They differ from each other not only in terms of policies, but also regarding socio-economic institutions and traditions which shape the regimes. Accordingly, the analysis of issues and developments in the social pact in Denmark, which is the subject of this article, has also to deal with the *differentia specifica* of the Danish Monetarist regime and the way it distinguishes itself from liberal market capitalism by applying bipartite, tripartite and unilateral state regulation.

3. Recent issues on the social pact

The core issue on the agenda in the nineties is about how the parties, the state, the trade unions and the employers, could reach a mutual agreement to increase competitiveness. If competitiveness is improved the result may be an increase in employment. Whether this increase in employment will take place is up to the employers. They will employ more people if they can make money out of it. There are no promises or guarantees to the trade unions from the employers nor from the state because it does not interfere with the employers’ prerogative, their right to decide how much labour they want to employ. The employers’ organisations cannot promise anything because the decision on the employment of more labour is entirely up to the individual employer and his calculations on profitability.

In this sense, the social pact in the neo-liberal economic growth regime is centred on the relationship between labour and capital. The state is the overall supervisor and the creator of optimal conditions, which provides auxiliary services for the improvement of competitiveness. The costs of such...
services are, although considered as faux frais from a production point of view, as important for competitiveness as are wages and indirect labour costs. In terms of labour market regulation the key topics are wages, working time, productivity, work organisation, training and education and unemployment policy. At least these have been the key topics in the discourse on the social pact on employment in Denmark since the mid-nineties.

3.1 Bipartite regulation

Already during the seventies the trade unions experienced that their demands in the collective bargaining rounds had to be adjusted to the macroeconomic situation, but the notion that employees had a right to their share of their contribution to economic growth still prevailed. During the eighties the recurrent argument from the Government was that the cost of labour had to be kept lower or at level with foreign competitors, and gradually the trade unions adapted to this strategy. After significant wage increases in 1987, followed by massive cuts in private and public consumption with a subsequent drastic increase in unemployment, the trade unions realised that

“Instead of high nominal wage increases they would go for wage and price stability, the establishment of pension funds, and, possibly, increased employment. It was explicitly accepted that Danish wage increases should not exceed those of the main competitors, notably Germany” (Knudsen, 1998: 46).

When unemployment started to decrease in 1994 and the economic growth rate again improved, the trade unions continually accepted that pay increases should be kept at level with other countries. Some years of increasing employment and increasing real wages convinced them that the anti-inflationary regime was paying off. Both in 1995, 1997 and 1998 pay increases bargained at the national level were moderate, but especially the decentralisation of wage bargaining and the employment growth have resulted in wage increases at 3-4% per year (private sector) (Økonomiministeriet, 1998 and 1999). The low level of inflation means that the result has been an average growth in real wages between 1-2% per year (see table 1).
Table 2: Annual wage increases (%)

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<tbody>
<tr>
<td>Workers</td>
<td>2.9</td>
<td>2.4</td>
<td>4.2</td>
<td>3.7</td>
<td>3.9</td>
<td>3.7</td>
<td>2.8</td>
</tr>
<tr>
<td>Private sector white collar workers</td>
<td>3.0</td>
<td>2.2</td>
<td>3.2</td>
<td>3.7</td>
<td>2.8</td>
<td>4.0</td>
<td>3.4</td>
</tr>
<tr>
<td>Public sector</td>
<td>2.7</td>
<td>1.7</td>
<td>2.1</td>
<td>1.7</td>
<td>2.9</td>
<td>2.6</td>
<td>3.3</td>
</tr>
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The fact that “free collective bargaining” is a cornerstone in the regulation of the labour market in Denmark does, however, not prevent the state from having major influence on the outcome. The settlement of the level of labour costs during a collective bargaining round is not only influenced by the trade unions and the employers’ organisations, but also by the state. When a bargaining round is to begin, the Government announces its recommendations for the accepted level, and this is followed by economists’, other experts’, and employers’ and trade unions’ argumentation and estimations on a “responsible” level of costs for the Danish economy to maintain competitiveness and economic growth. The trade unions’ estimations on an acceptable level are always higher than those of the state and the employers. The latter is the lowest, and the outcome is almost always near the level set by the Government. This procedure is a cornerstone in the tacit social pact in Denmark. The parties avoid being too extreme in their demands and thus take the risk to be condemned as “irresponsible”. Especially the trade unions are constantly risking this condemnation because they have to maintain support from their members by representing their interests, and if the workers are convinced that they should have their fair part of the economic prosperity, the unions may end up on collision course with the overall consideration to maintain competitiveness. The experience from the collective bargaining round in 1998 is a clear demonstration of this issue.

As a prelude to the collective bargaining round in 1998 the Government at a tripartite meeting in December 1997 recommended moderate pay increases, and the process turned out to be very complicated (EIRR, 1998). Eventually it ended up in a compromise at the end of March, which was recommended by the employers and the trade union leadership. The compromise contained more flexible working time, higher contributions to pension schemes, higher maternity pay, higher minimum pay and one more holiday, which all in all
were calculated to increase labour costs by 3-4% per year. Despite the fact that the trade unions got almost what they went for, the result was, at the embarrassment to many trade union leaders, rejected by the majority of the trade union members and a major conflict broke out. The members were especially dissatisfied with the only minor reduction in working time, the additional one holiday per year, and they demanded an additional week. After two weeks the Government intervened and brought the conflict to an end by passing a legislation which apart from a few and minor changes was similar to the bargained compromise.

The LO and the DA protested against this intervention, merely for the principal reason that it was a major violation of the principles of “free collective bargaining”. The Government admitted that, but it emphasised that the parties themselves were acting irresponsibly when they could not come to an agreement. A prolonged conflict, which could last a month or longer before the parties had used up their industrial power, would have had a devastating impact on the nation’s economy. So, in fact all parties, the state, the unions and the employers, regretted this intervention, and afterwards much time was spent on proclaiming that this was not the end of the “Danish model”. All parties declared their continuous support and devotion to the bipartite mode of regulation.

Nevertheless, the outcome of the bargaining round showed that the trade unions had to comply with the macroeconomic considerations and limitations. In a period where the economy is prospering and the employers are making a lot of money, the trade unions are in theory in a position where they can claim their part of the economic growth from the employers. But if considerations to inflation and the competitiveness are to be taken, the trade unions are not allowed to claim or get their part of the economic surplus. The employers are on the other hand more successful in presenting their interests as synonymous with the interests of the society, and they are supported by economists and most politicians. Although the employers as individual companies could afford to pay, the economy as a whole cannot! To a very high extent Danish trade unions accept these structural restrictions in their interest representation. This may however lead to the result that the trade union leadership loses credibility among their members because it does not seem fair to them that, in this case, a few more holidays seem to be in conflict with the interest of the society.
3.2 Tripartite regulation

The Danish “active labour market policy” was shaped in the fifties and sixties based on ideas mainly from Sweden (the Rehn-Meidner model) but was never as ambitious in Denmark as it was in Sweden. It was, and still is, designed to support general economic policies to strengthen economic growth, combat unemployment and inflation and secure an acceptable level of social justice (redistributive policies). The main functions on allocation and qualification of labour are implemented in a centralised and regional employment exchange system and a comprehensive educational and training system, which are both monitored by national and regional tripartite councils. Since the seventies the contested terrain has been the question to what extent the state shall provide services via the employment exchange, how much money should be spent on training and education, how the special measures for the unemployed should be shaped and what level of unemployment benefits would be the most appropriate.

The unemployment insurance system was established in 1907 as a so-called Gent-system, which is based upon voluntary membership to an unemployment fund. These unemployment funds are regulated by the state but have traditionally been controlled by the trade unions. Apart from unemployment funds for some groups of white collar workers this close relationship to the trade unions still exists and is the main reason why the trade union membership rate in Denmark (and countries with similar unemployment insurance systems like Sweden, Finland and Iceland) is very high, around 80%, compared to other countries. The trade unions benefit, in terms of membership rate, from this close relationship to the welfare state (Lind, 1996).

So, the implementation of labour market and unemployment policy is an arena where tripartism is widespread. The employers’ organisations and the trade unions do normally influence the formation of the policies. However, this influence depends on the governments’ situation in the Parliament and not least on the level of agreement between the organisations. If the main organisations on the employer and the trade union side could agree on an issue, the agreement would be more likely to be accepted by the political system and become legislation. This possibility for political influence is an important reason why the two labour market parties emphasise co-operation and compromises.
The limits of most labour market policies are set at the entrance to the work place. The state has never applied legal measures to enforce a social responsibility on employers in the private sector. The management’s prerogative is a sacred cow in the Danish labour market regulation. The governments, the employers’ organisations and the majority of the trade unions share the opinion that a social responsibility to employ more people, including vulnerable groups in the labour market, must remain voluntary and be in accordance with the economic capacity and needs of the individual work place.

The main headlines of labour market and unemployment policy for the nineties were redefined when the social democrats returned into office in 1993 as the main party in a coalition government. The political programme was firmly based upon Monetarism but the reduction of unemployment was its first priority, and a labour market reform programme was implemented in 1994. The overall idea was to improve the effectiveness of the allocation of labour by institutional means first and foremost by qualification and training of the work force in order to increase functional and numerical flexibility. Secondly, the reform emphasised the “activation” of the unemployed by either subsidised employment offers or by education and training, and thirdly the withdrawal from the labour market was initiated by the extension of a number of schemes (Lind, 1995a). Apart from the measures on withdrawal from the labour market, these trends in the labour market policy have been strengthened ever since and been combined with restrictions in the access for unemployed to unemployment benefits and stricter obligations for the unemployed to take a vacant job.

The governments have avoided the pressures from hard core liberals to reduce structural unemployment by means of lowering the level of unemployment benefits and other measures which would drastically increase the competition in the labour market and lower the wages for the low paid segments. Instead the governments have adopted a strategy on increasing the productivity of the unemployed to match the level of pay. At several occasions Government ministers have announced that they will not accept a policy creating “working poor” and “hamburger jobs”. The Government stresses that its unemployment policy is a help for the unemployed to get a job by making them more attractive to the employers. This is undoubtedly correct, but the other side of the coin, however, is that the workfare policies are built on less attractive subsidised jobs (low pay and bad working conditions). This increases competition in the labour market and thus the activation or workfare strategy can be seen as a disciplining measure for the unemployed.
This ambiguity is an inherent capacity of this sort of policy and illuminates the paradoxes in a society based on work but which cannot provide work for all. On one hand the state, in co-operation with the employers’ organisations and the trade unions, is providing social security in terms of training and education, work experience and unemployment benefits for people who cannot find a job and thus improving their chances for employment if the jobs are available, but on the other hand the state is disciplining the unemployed to accept vacant jobs of an increasingly lower quality. In a sense the state has overtaken the disciplinary role of the market, and it could be argued that this dimension of unemployment policy does not distinguish itself very much from the neo-liberal strategy. The end goal and the ultimate means are the same: in the end the unemployed is left without money and has to downgrade his demands for a good wage and working conditions and just find some sort of employment.

The trade unions’ involvement in this regulation regime may also bring them on collision course with some of their members. A case from autumn 1998 shows how this can happen.

The Government’s intervention in the collective bargaining round in spring 1998 had created a somehow tense relationship between the Government and the LO. The LO declared in May that it opted out of the “common declaration” from 1987 according to which the state, the employers’ organisations and the trade unions should act concerted for economic stability. Since the Government was planning new adjustments in labour market policies, it announced its intention to revive tripartite regulation. In addition, the labour market parties were invited to a “Tripartite Forum” in late August to discuss new initiatives. According to the minister of labour this new Tripartite Forum “shall contribute to maintain and develop the form of co-operation which is characteristic for the co-operation in the Danish labour market” about the creation of “a common understanding for the necessity of long-term structural adjustments, especially the need for adaptation to comply with the demands emerging from the internationalisation of the economic development”, and the “Government emphasises that the continuous dialogue shall be developed into a common understanding about the development of the competitiveness in Denmark, which can contribute to a better employment and a positive development of the real wages of the employees” (Arbejdsmisteriet, 1998).
After the first meeting all parties declared their satisfaction with the initiative and they reached a common understanding on the necessity to increase the supply of labour in order to secure social welfare and to avoid wage increases, which threaten competitiveness and economic growth. The more detailed negotiations continued during September and it became clear that the LO was under severe pressure. The result of these first meetings were intended to form the backbone for the labour market legislation in Parliament during the autumn and the idea was that the Prime Minister should present the result in his opening speech 6 October. The minority Government had already announced that it intended to look for support to the right in Parliament to find a majority for the new legislation, and even within the Government the aim was that stricter obligations should be imposed on the unemployed and the “activation policy” should be strengthened.

Inside the “Tripartite Forum” the employers had similar ideas, and the LO had already explained that it would accept that the period of unemployeds’ right to benefits was reduced from five years to four provided that the quality of the activation measures for the unemployed was improved. The LO also realised that a compromise with the employers was the only way to have some sort of influence on the policy, and if they made this compromise, the result would be accepted among the political parties, which again would help the Government to find support for other parts of its legislation during the autumn. If the trade union movement should maintain itself as a responsible partner in the tripartite system, it had to make concessions.

The main elements of the result of this first round of negotiations in the “Tripartite Forum” was that the efforts to activate the unemployed were strengthened, the period for receiving unemployment benefits was shortened from five to four years and the obligations for the unemployed were tightened. At the employers’ side this result found unanimous support, but at the trade union side other main organisations than the LO criticised that it was too restrictive for many unemployed people. Among the political parties the left wing was opposed, but all parties to the right supported it and expressed their satisfaction with the DA-LO compromise. As the Government had to find support from either the left or right in Parliament, it had the majority it was looking for.

Among the LO member unions opposition to the compromise was growing rapidly and especially in the General Workers’ Union, the SiD (the second biggest union in the LO), dissatisfaction was widespread. The trade union
leadership of SiD originally supported the result from the Tripartite Forum, but when the Prime Minister in his opening speech announced that the Government had added some further points to the LO-DA compromise, which would reduce the level of benefits for some unemployed, the SiD took the opportunity and backed out withdrawing its support. A few more unions followed the example of SiD despite the fact that the Government ensured that nothing would be changed without consultation with the LO and the DA. In the defence for itself, the LO emphasised that the background for the compromise was, despite the emerging global crisis and the ominous prospects for the Danish economy in the immediate future, that employment was still increasing and that something had to be done to avoid too high increases in pay. The LO argues that if employment is still improving then no unemployed will suffer from these changes in unemployment policy. If, on the other hand, the employment situation worsened, the compromise would have to be re-bargained. The employers, however, did not support this interpretation. They maintained that these adjustments were necessary reforms and that – no matter what the macroeconomic prospects were – they would not require revision.

3.3 Unilateral state regulation

Ever since the introduction of the early withdrawal scheme in 1979 it has become increasingly popular, and even during the years of employment growth since 1994 more people have joined the scheme (136,000 persons on the scheme in 1997) with the result that the effective pension age in Denmark was about 62 years instead of 67, which is the formal pension age. This annoyed liberal politicians, employers and experts who claim that this pattern of early withdrawal from the labour market is causing a deficit of available labour, and they recommended the abolishment of the scheme or a reduction of access to it. A supplementary scheme, allowing unemployed persons between 50-59 to retire, was abolished in 1997, but the early retirement scheme was until 1998 only marginally changed. The trade unions have refused to support a major reduction of the scheme and governments have until 1998 followed this path.

The tensions within and between the unions and the Government were hardly settled when the Minister of Finance announced a political compromise among the Government and the opposition on the 1999 budget November 25 containing the reform of the early retirement scheme.
The main content of the “retirement reform”, as the changes were called, was a reduction of normal pension age from 67 to 65, reduction of the benefits for persons taking early retirement from 60 to 62, increase of benefits for persons taking early retirement from 62 to 65, a longer qualification period from 20 to 25 years, a right to work while on early retirement (with a reduction in benefits) and an extra early retirement membership fee, which more than doubles the fees. The expected and intended consequences are that some people delay their exit from the labour market until they are 62 because of the less favourable conditions for this group (60 to 62 years old).

As the Social Democrats during their election campaign in spring 1998 had issued an “early retirement guarantee” to the electorate, they stressed that this was attained by the reform because of the involvement of a significant majority of the parties in Parliament backing the reform, including all the parties which have recommended more profound changes of the scheme. The employers’ organisations, the DA and the DI, expressed their satisfaction with the reform, and the first LO reaction was also positive because this would end the ongoing debate on the early retirement scheme and at least save it for some years ahead. When some trade unions, most noteworthy the SdD, expressed their strong discontent with the changes and many unions started a campaign to end trade union economic support to the Social Democratic Party, the LO succeeded in getting some confessions from the Government during the next few days.

A major obstacle for widespread consent from the trade unions to the changes was the fear that the scheme could be further reduced or abolished with the consequence that the contributions of the members would be lost for them. Mainly because of pressure from the LO, a lot of possible solutions to create a guarantee were examined by the Government, but the parties behind the political compromise on the changes were not keen on any other guarantee than a political one. They promised not to change the scheme over the next five to ten years.

In March 1999 the Government found a way out as a majority in the Folketing was found to individualise the guarantee: every single person who pays to the scheme has the right to be refunded if opting out of the scheme. This was actually a proposal from the LO at a previous stage in November-December, and with these changes a solution to this long and conflict-prone story was found.
The trade unions gradually levelled down their criticism, also because they realised that their strong opposition to the changes was contributing to a severe crisis in the Social Democratic Party. According to the opinion polls the party lost votes from over 30 to 20% within one week and many trade union members opted out of their support to the party. This loss of support from the electorate did not ease until summer 1999.

Obviously, the Social Democrats had not expected such a strong reaction, but they had no other option. They were under heavy pressure from their partner in government, a small social liberal party (Det radikale Venstre), to change the early retirement scheme drastically, and as a minority government they were furthermore forced to find a compromise on the 1999 state budget with parties outside the Government. A compromise with parties to the left could secure a majority, but the social liberal partner demanded that the Government should look to the right.

When this is said, it is a bit surprising that the social democrats in the Government dared to change the early retirement scheme so drastically without previous consent from the trade unions. The scheme is very popular among members and it is one of the precious stones in labour market policies for a lot of social democrats and trade unions, especially the SiD which played a major part in its creation in 1978 (Lind, 1985). Besides, the changes may have some influence on the trade union membership rate because the scheme was an integrated part of the unemployment insurance system. When the attractiveness of the early retirement scheme is reduced, it may mean less members of unemployment funds and less members of the trade unions.

4. Towards a social pact for the future welfare state?

In a broader context the social pact is a precondition for maintaining the welfare state, and the issues on the 1998 agenda were in 1999 put into this more general perspective. Especially the issue of the future supply of labour, which formed the background for the outcome of the collective bargaining round and the reform of the pension system, was related to the conditions of the future welfare state.

In January 1999, the Government issued a report stating that the population would have to work more if the welfare state were to survive (Regeringen, 1999a). The message was that there is no room for early retirement, a shorter working week or more holidays because the economy is facing more social
expenses due to demographic imbalance – relatively more elderly people – and to the lack of labour in some occupations.

Although the report concludes that, compared to other countries, the totally performed amount of work is very high in Denmark, the Danes would have to work more in the future. Since 1960 the amount of work (hours worked) has decreased by 7%. The main reason is the shortening of the working week from 45 hours in 1960 to 37 in 1990. The increasing labour market participation rate and especially the demographic structure have reduced the effects of the reduction in working time on the aggregate number of hours worked, but especially the latter has come to a turning point.

Table 3: Changes in age groups of the population

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<tr>
<td>15-24 years</td>
<td>-147953</td>
<td>11.6</td>
<td>124529</td>
<td>11.7</td>
</tr>
<tr>
<td>25-59 years</td>
<td>373328</td>
<td>50.1</td>
<td>-182315</td>
<td>47.2</td>
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<td>60-64 years</td>
<td>1284</td>
<td>4.8</td>
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<tr>
<td>15-64 years</td>
<td>226659</td>
<td>66.5</td>
<td>10948</td>
<td>64.8</td>
</tr>
<tr>
<td>65+ years</td>
<td>51281</td>
<td>14.8</td>
<td>190466</td>
<td>17.9</td>
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Source: Danmarks Statistik: 50 årsoversigten.

The Government faced the problem that it is arguing against the will or wishes of a lot of people who actually prefer to work less. The report also shows that 25% of men and 31% of women would like shorter working hours while only 5% of men and 2% of women would like longer hours (Regeringen, 1999a). This may be the reason why the Government’s announcement of its strategy on working time was not very well received by the public. It is a puzzle for many people that 175,000 unemployed and perhaps 500,000 more on social pensions and other schemes do not indicate that the problem is not a lack of labour supply but a lack of labour demand.

Another problem is that many trade unions have committed themselves to fight for “the sixth week of holidays” at the bargaining round in 2000 as an outcome of the few more holidays attained in the bargaining rounds in 1998 and 1999. This also puts the LO into a difficult position as on the one hand it
must be a reliable and responsible partner for the Government and on the other hand it must forefight trade union demands.

What is in the Government’s basket can be seen from three important publications from August 1999, which focus on how the future welfare state should be shaped. In all three publications the Government celebrates the flourishing Danish economy and the good results that have been achieved during the second half of the nineties with low inflation, decreasing unemployment rates, positive figures on the public finances and control over the external balance. In its budget for 2000 (Finansministeriet, 1999a) the Government emphasises that it “will get more hands at work in more hours by means of labour market, social, educational and senior policies” because the wealth of the society and the possibilities for maintaining the level of public services would be threatened if people reduce their contribution to working life.

The same theme is a main message in the medium term programme for the Danish economy, “Denmark as frontrunner – Denmark 2000 – a good start on the new century” (Regeringen, 1999b). The main points are here that the surplus on public finances must be maintained, wage increases must be brought down to the level of other countries, the quality of the labour market policies (activation schemes, training and labour exchange system) must be improved, better opportunities for persons with a reduced working ability to stay or be included in the labour market, reduced early retirement, strengthened industrial policy, improvement of the quality of public services and a reduced tax level.

In the third publication, Challenges for the welfare society (Finansministeriet, 1999b), the Government identifies three challenges, namely the demographic challenge, which means that the number of persons outside the productive age group will increase by some 300,000 persons over 67 and 110,000 under 17 from 1999 to 2030; globalisation, which enhances competition; and the pressure from expectations on the quantity and quality of public services. The Government states that “the public sector cannot meet all expectations on more and better public service” and this is the reason why a list of priorities must be made.

Apart from being an open invitation for social debate, some observers saw this as another warning against further reduction of the working time (the sixth holiday week) and an attempt for paving the road for future privatisation and outsourcing of existing public services. The main part of
the political parties in the Danish Folketing, including the leadership of the Social Democratic Party, see this path as the most preferable, but opinion polls reveal that the percentage who prefer higher taxes and services actually has been increasing during the past ten years and that around 55% of the population prefer the same level of taxes and public services as now and 20% would prefer lower and 20% higher tax and service. They also reveal that there is a quasi-unanimous support to maintain all the present public services as public with no or only little supplementary payment by the users.

The issues in future welfare state reform were discussed at a meeting in the LO executive committee in June 1999. The LO discussion paper contained ideas for a welfare reform to face future demands for social service when relatively fewer young and more elderly people together with increasing expectations for better welfare are threatening future welfare policies and economic growth. LO suggested another division between the public sector and the parties in the labour market, where the latter are to take over “non-core areas” from the public sector such as further training, family policies, health and safety at work and integration; a new principle for public services according to which the public sector produces basic standard services, for instance in child and elderly care, and persons who can afford it can pay for supplementary services; further privatisation by contracting to private sector companies of, in principle, all public services including hospitals but not the police, military and other areas of authority.

These suggestions are part of the LO initiative on welfare reform, which was developed during the past few years, to be discussed at the LO congress October 1999, and they indicate that the LO increasingly see itself as a strategic body for general and broad political issues in society. The intention of the LO was to be able to sign a sort of social pact with the Government and the employers on future strategies for wages, employment, education and welfare, and as the Government is dedicated to a pragmatic stand on the issue of privatisation, the LO has to be able to accept such a position to be a social partner.

At the LO congress in October 1998, the suggestions met fierce opposition from major trade unions (SiD, HK, FOA, PMF) which presented 61 amendments to the paper. Most of them were included in the final version that was passed by the congress against the votes from some public sector trade unions (FOA and PMF representing 230,000 members out of 1.5 million).
The fact that the paper on welfare reform actually was passed at the LO congress has provided the LO with the legitimacy of negotiating welfare issues with the employers and the government, and in this sense the LO got what it intended. If it does not get a new social pact instead of the 1987 “common declaration” it could use the welfare paper as a mandate in the ongoing discussions in the Tripartite Forum, which could be seen as a substitute for the “common declaration” (Larsen, 1999a). The chairman of the LO emphasises that “the LO has got a tripartite mandate, which we never have had before”, but on the other hand the chairman of the SiD union claimed that “the LO has not got a blanco-mandate. We must have negotiations on all single issues and in strict conformity with the trade union leaders in the LO executive committee” (Larsen, 1999b: 5).

5. The prospects of a social pact

The state of affairs in the development of the social pact in Denmark is that the whole range of social and economic issues and institutions now are being put on the agenda explicitly. Whether this will end up in a common declaration from the representatives of the interests of state, capital and labour will perhaps be revealed during the not so distant future. So far, the Government has rejected to follow the LO suggestions for this sort of a “universal” social pact in Denmark. As the Minister of Finance puts it: We shall develop a partnership with many agents – not only the trade union movement and the labour market partners, but of course also with the trade union movement. We must in each project consider what we can deal with in common” (Aktuelt, 23 October 1999).

The employers share this reluctant attitude to the social pact suggested by the LO. They have not participated in the public debate because they do not want to commit themselves to this sort of universal obligations on the shaping of the future welfare state. Their general position is to deal with each issue separately, and their prime concern during 1999 has been to maintain and improve institutional patterns that can contribute to avoid a general and major conflict in the bargaining rounds. According to the DA, the malaise of the 1998 bargaining round was predominantly due to a lack of harmonising the demands among the trade union and the employer side. In order to achieve this harmonisation, the DA convinced the LO to accept and sign a so-called “climate agreement”, designed in the Tripartite Forum, which sets the general level of wage (cost) increases for the 2000 bargaining round.
When the chairman of the LO at the background of this “climate agreement” in October 1999 proclaimed that the unions had to be very moderate in their pay claims in the next bargaining round, he was heavily criticised by major trade unions. They protested that the LO interfered with their business of collective bargaining and restricted their possibilities for exercising proper interest representation. This controversy highlights the ambiguity for the trade union movement in the process of making ends meet: the LO is the trade union guardian of the social pact between labour, capital and the state, and the member trade unions are oriented towards the interest representation of their members. These two considerations do not always go hand in hand.

The duality of guarding the social pact on one hand, and interest representation on the other would not have inherited the same antagonisms under the Keynesian regime as it has under the Monetarist, and as can be seen from the above mentioned cases, it is difficult for the entire trade union movement to avoid internal problems. In a longer term perspective the role and significance of the LO may be further eroded if it does not attain some functions that do not send it on collision course with the interest representation of its member unions.

A main precondition for maintaining the social pact in Denmark is the trade union acceptance of the conditions under a Monetarist growth regime. The key for this acceptance is the trade unions’ acknowledgement that wages are a cost instead of a means for stimulating the effective demand in society, as is the wisdom in the Keynesian regime. Most trade unions and especially their main organisations, the LO, the FTF and the AC, have realised that moderation of pay claims (and increased labour market flexibility etc.) will result in more jobs because the economy will be more competitive.

The major conflict and the state intervention in the collective bargaining round in spring 1998, the tuning of the labour market policies and the pension schemes to be in accordance with a competitive environment have been costly because the traditional co-operative relationship between the state and the social partners, especially the trade unions, has been if not weakened then challenged. One lesson may be that the state has been too keen on securing the competitiveness of the Danish economy at the expense of workers’ and trade union interests. Another lesson is that internal conflicts in the trade union movement along with the division between interest representation and a social partner in tripartite arrangements are likely to arise. Striking a balance between competitiveness and social justice has
proved to be difficult. Perhaps the reason is that the changes in a sense have been pro-active: in a period of economic growth, high profits and increasing employment, it is difficult for many people to accept cuts in welfare provisions and understand the necessity of increasing the supply of labour when a lot of people still are unemployed.

These conflicts are not the end of tripartite and bipartite co-operation in Denmark. The ability to achieve compromises without open conflicts is as lively as ever, which can be seen from the successful bargaining round in spring 2000 (which included the sixth holiday week). But the examples show that being included in tripartite institutions and within a social pact may have some costs for the trade unions. All trade union leaders know that bargaining and compromising have a price. This has certainly been the lesson in Denmark during the collective bargaining round, the tripartite negotiations later on, the pension reform during the winter 1998-1999 and the attempts to shape a unified trade union strategy on welfare state reforms. Things have not been made easier for the unions during the present anti-inflationary growth regime. It is not always a straightforward business for the unions to be responsible partners with the employers and the state on the one hand and simultaneously, on the other hand, be the representatives for a heterogeneous membership and attain an acceptable rate of real wage increases and maintain, or even improve, the level of welfare state provisions.

The effectiveness of the social pact to ensure moderate pay increases was also obvious during autumn 1999 when it was revealed that persons covered by collective agreements actually had had lower wage increases than persons not covered by collective agreements. This relatively low level of pay for employees covered by a collective agreement cannot be explained by being limited to a special group of employees with a strong position in the labour market. It is a fact for all categories of employees, namely general workers, skilled workers and the low paid and high paid white collar workers (Aktuelt, 18 September 1999; EIRR, 1999). This is obviously embarrassing to the trade unions as it questions the effectiveness of collective bargaining and a main trade union rationale. The regulation of wages by means of collective agreements seems to be an effective tool in reducing wage increases at times with a low level of unemployment, and it strengthens the argument that a social pact, or co-operative corporatism, with “responsible” unions exercising pay moderation furthers national competitiveness.
By involving the unions in the restructuring of the social economy, the state benefits by avoiding major social conflicts. But what do the unions get? When expansion of welfare state provisions is on the agenda, like in the sixties and the seventies, policies were much more congruent to union interests than was the case in the eighties and the nineties where they participate as a responsible partner in tripartite setups implementing cuts in welfare state services and provisions. By doing so they can be a buffer against the most radical restructuring initiatives, but the cost may be a loss of legitimacy among the members and internal conflicts.

It is probable that the interests of the trade unions (and their members) were much more in accordance with the Keynesian inflationary regime than with the present anti-inflationary regime. In one respect, however, the differences between the trade unions’ opportunities for interest representation then and now may be minor. It could be argued that during the Keynesian regime, the trade unions and their members were constantly cheated. It was, so to speak, an inherent feature of the “money illusion” of Keynesian macroeconomic management: the increasing wages were constantly hollowed by increasing prices, and who took the last sting? In the anti-inflationary regime things are much more transparent: wage increases are not hollowed by inflation.

In addition, it seems difficult to imagine a return to a Keynesian regime, and the co-operative structures of the present Monetarist regime, whatever configuration of policies and structures is applied, are in any case more attractive to social democracy, including the unions, than a system of liberal market capitalism. Also, the “good old days” of Keynesianism have hardly ever existed. What did exist was the prosperity of the sixties, which in Denmark still is remembered as the only decade that guaranteed “full employment”. In this sense, the present regime has not provided anything similar to that. At least not yet. And will it ever?

Trade union interest representation is in principle always on collision course with the rationality of the present regime of competition. Crisis and conflicts were also an inherent feature of the Keynesian regime. Whatever economic growth regime is dominating, trade unions represent interests that are somehow contrary to what is needed to stimulate economic growth. Employers’ interests, however, always seem to be more easy to comply with macroeconomic considerations.
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1. Introduction

This paper deals with social pacts in Finland, which are conceptually synonymous to incomes policy agreements. In the Finnish language one refers more often to income policy agreements (tulopolitiittinen ratkaisu) rather than social pacts. The concept of incomes policy was integrated into the Finnish language in the beginning of seventies, when the OECD was analysing labour market policy and especially the role of state in negotiations. Those years were “the golden years” of Keynesian economics when the governments in many countries were involved in labour market policies. Finland was one of the success stories. The state mediator Keijo Liinamaa, an architect of the stabilisation policy of 1968-1969, made his well-adopted presentation in the OECD in 1971. That was the start of a continuing period of incomes policy solutions in Finland. The good results of state intervention were common in Finland as well as in the other Nordic countries.

In this article social pacts/incomes policy agreements refer to collective agreements, which are negotiated between the employers’ and trade unions’ central organisation voluntarily and to which the Government brings in some “public goods” such as, new labour law, new social law, tax relief, or other issues. The role of the Finnish Government in this process is somewhat problematic as it does not have the power to give binding promises to the social partners, since the Parliament must accept the decisions of the Government. This means that the Government is not the real partner in the agreement and that it does not have the power to sign an income policy agreement/social pact. However, in practice this is not a problem because the social partners can rely on the decisions of the majority Government as there is a spirit of consensus in the negotiations. The lack of consensus implies an automatic collapse of incomes policy negotiations.

When the social partners and the Government reach a joint understanding of the content of the agreement, the social partners sign it and promises of the State are be annexed to the agreement. If the State has no role in the centralised agreement then it cannot be called an income policy or social pact.
pact agreement, but rather a bipartite collective agreement. However this is very rare and since the beginning of the incomes policy era, it only occurred once, in 1972 (Kauppinen, 1994).

Incomes policy/social pact agreements are merely recommendations for their member unions, who have the right to accept or reject a negotiation result. After having accepted or rejected a result, negotiations move to sectoral union level. The sectoral unions negotiate their own collective agreement, which is legally binding. Differences of interpretations are solved in the Labour Court. Also, any breach of the agreement can be taken into the Labour Court. The social partner that does not respect the terms of the agreement will be obliged to pay fines to the other social partner. When a sectoral collective agreement has been signed, negotiations move to company level, where the manager of the company and the local trade union association negotiate the implementation of the agreement.

Following this introductory part of the article, an analysis will be made of the historical roots of the social pacts in Finland. The analysis covers social pacts and their meaning for companies, workers and the welfare society. The last part of this chapter will highlight the discussion on the failure of social pact of 2000 and give a forecast of the future trends in collective bargaining.

2. Historical roots of social pacts in Finland

Social pacts have a long history in the Finnish labour market, beginning from the Winter War in 1939-1940, when the employees’ and employers’ central organisations agreed to solve their disputes through negotiation, through the so-called “January Engagement” in early 1940. In 1944 and 1946 rules were drafted and agreed for the negotiations (Mansner, 1984). These agreements created the constitution for the Finnish labour relations. Through these agreements employers acknowledged employees’ right to unionise and employees acknowledged employers’ right to direct work (Haataja, 1995).

After the Second World War, the Finnish social partners started to negotiate social pacts on the level of the main organisations. These negotiations were shadowed by the State’s regulation because of the exceptional post war times. The Government adopted a special law according to which it decided upon price increases and dictated wage increases. This period of the State’s corporatism continued up to the general strike in March 1956 (Kauppinen, 1992).
This general strike was a turning point in the history of labour relations in Finland. Central organisations were excluded from the negotiations, because they mainly took place on a sectoral union level, up to 1967. Trade unions were weak but the strikes were numerous. Workers central organisations were split into two politically competing organisations. However, the State played a discreet but central mediating role in negotiations by co-ordinating them. This period can be described as the union corporatist period in the Finnish labour market. The period came to its end in the late sixties when Finland was in an economic and political crisis.

2.1 Social pacts in the seventies

The first centralised income policy solution, social pact, was made in 1968, in the context of a deep economic recession. The Finnish mark had been devalued by 23% the year before. In order to encourage growth, to reduce unemployment and control inflation, the negotiations reached an extensive and all encompassing solution for an income policy to stabilise the economy. The index-bound escalator pay raises were abolished, and a temporary price regulation on agricultural product prices as well as a general raise of 3% in all salaries and wages were agreed upon. This agreement was named after its architect Liinamaa I, followed by Liinamaa II for 1970. Negotiations for the social pact for 1971 were so difficult that the president Urho Kaleva Kekkonen made an exceptional compromise proposal, called UKK-social pact for 1971. That was followed by the Hämäläinen-Hetemäki (respectively director of trade union organisation SAK and director of employers’ organisation STTK) bilateral collective agreement for 1972, which occurred without a clear involvement of the Government.

Following the social pacts decision with stabilising objectives, the economic growth in the country was the fastest among OECD member countries. The economy overheated and led to a 20% inflation and a shortage of labour. In 1973 there were only sectoral agreements, but in 1974-1975, as well as in 1976, a social pact was negotiated. After that year, the Finnish economy went into steep decline. The number of unemployed rose to nearly 200,000, i.e. 7.5% of the labour force.

As the entire economy was in recession, recovery measures were required. The mark was devalued in 1977 and in 1978 by a total of 17%. This was done because no new collective agreement would have been sufficient to balance the economy. Due to the devaluations and the social pact of 1979,
the economy was going well again and at the shift to the eighties, growth was among the OECD’s fastest.

2.2 Social pacts in the eighties

The second oil crisis at the beginning of the eighties resulted in another recession. The collective agreements were carried out at sectoral level in 1980 until a two-year comprehensive social pact resolution was adopted for 1981-1982. In spite of the successful resolution, the mark was devalued in 1982 by a total of 10%.

The questions discussed focused on improving the quality of working life, improving employees’ protection against termination and increasing winter vacation days. That made it impossible to form a comprehensive social pact resolution in 1983, the necessary collective agreements were reached at sectoral level. (Kauppinen, 1994).

The social pact agreement for 1984-1985 included, in addition to pay raises, an index link and a system for reducing working hours. Fines for unlawful strikes were raised nine-fold. In the spring of 1986, two comprehensive social pact resolutions were adopted: the first was for salaried employees (TVK, STTK and AKAVA) and second for workers (SAK). The latter was reached after a two-and-a-half-day strike. Working hours were shortened by 100 hours by 1990.

In 1988 sectoral level collective agreements were made as the first settlement, but after six months, as part of the State’s budgetary plan, a comprehensive social pact resolution was adopted for eighteen months in 1988-1989. However, it was agreed that the pay raises for the second year of the agreement would be revised later.

The comprehensive social pact was negotiated for 1990-1991 with reforms in fiscal policy, education, and social policy, as well as wage raises. (Kauppinen, 1997: 36-38).

3. Economic recession: from social pacts to decentralised agreements

After the parliamentary election in spring 1991, the social democratic party SDP stepped voluntarily into opposition after having lost election. For the first time since mid sixties, the Cabinet was formed exclusively by right-wing ministers. When this Cabinet was being appointed, Finland’s export
price competitiveness worsened, there was a record deficit in the balance of current accounts, and the inflation rate was soaring. The economic downturn was accentuated in connection with several bankruptcies of companies that had given stakes into the “Casino Economy”. When the bubble burst there were depreciations of real estate, a banking crisis and unemployment rose to a record level. The Finnish policy of inflexible currency rates as opposed to flexibility of the mark rate was completely unsuitable for the situation. (Hulkko and Pöysä, 1998).

3.1 Social pacts in 1991-1992

Employers as well as trade unions were divided concerning the devaluation of the markka, adopted their strategic positions. The wood-processing industry wanted to continue devaluations that had traditionally been used to lower the export prices. The Cabinet and the Bank of Finland decided to continue the policy of a strong mark or inflexible rate, and the national currency was made Ecu dependent in June 1991. This was based on the idea to improve productivity through internal structural changes instead of altering the external rating of the national currency, the “markka”. (Kauppinen 1997: 36-37).

The strategic opinion of the leading sectors of industry was formed in August 1991: if the external mark rate was not to be changed, other measures were to be taken to cut costs and lower prices. The other measures were referred to as “internal devaluation”, which equated restoration of export price competitiveness through cutting costs: by lay-offs, terminations and modernisation. This strategy was backed by the employer group’s “14-point program”, demanding wage cuts, social security payment cuts and alterations in labour legislation and collective bargaining agreements to make them more flexible for the employers. There were only two essential issues which were missing from the list, namely a dispute on the general bindingness of the collective agreements and a gathering of union fees. In fact employers did not demand the abolition of the deduction system of union dues of salaries and wages. Had these demands been included, all of the essential building-blocks of the labour-market system would have been on the list.

The trade unions did not accept the demands for flexibility and cuts. The traditional incomes policy machinery was used in order to retaliate. A wage cut of 3% was proposed in a comprehensive draft of the social pact. If this resolution, presented by the Bank of Finland director Kalevi Sorsa, had been
adopted, it would have been the first time that the collective bargaining agreements had been used to agree on a cut in wages and salaries. The social pact was submitted for acceptance by the sectoral unions, which had an extra month to take their decision. Very soon it became obvious that the trade unions were not fully supportive of the social pact. This was a sign that there was no other choice than to devaluate the Finnish mark. This happened on 15 November 1991. The flotation band of the Mark-to-Ecu rate was widened by 14%. This was an effective devaluation of 12.3%. In September 1992 the Finnish mark was let to float and in 1998, the mark was tied to the EURO and floats according to the fluctuation of the EURO (Hulkko and Pöysä 1998).

After the devaluation, a comprehensive social pact for 1992-1993 was adopted. No raises in earnings were agreed upon during the first two years. In the autumn of 1992, when follow-up talks were scheduled, the standstill remained. The trade unions had granted full negotiation powers to the confederations for the follow-up, but no changes were made in the agreements.

The continued recession of Finland’s economy severely affected the trade-union movement. In the autumn of 1992, TVK, the Confederation of Salaried Employees in Finland went bankrupt, because a real estate company, owned by TVK, had to be liquidated due to depreciation of the real estates and stocks portfolios (in fact, the portfolios lost half their value). The affiliate unions did not want to pay the difference for the loss made by TVK. Later, two of the affiliate unions joined SAK and thirteen of them set up a new organisation, the Finnish Employees’ Confederation STTK together with old STTK, Confederation of Technical Employees’ Organisation in Finland.

In the follow-up talks concerning the change of the social pact in the autumn of 1992, the Cabinet and the trade-union movement had contradicting opinions. This was not over the fact that there had been no wage raises, but because the Cabinet wished to cut the unemployment benefits. The Cabinet’s proposal was to lengthen the deductible period of unemployment relief, and to collect a higher membership fee for unemployment benefit societies, and to raise the sickness insurance premium. The employees’ organisations threatened to hold a general strike if the restrictive proposals were not pulled back. The dispute was settled as the Cabinet withdrew the proposal, and the comprehensive agreement continued to be in force until the autumn of 1993.
In spring 1993, the Cabinet and the labour market organisations disagreed again over the Cabinet’s proposals to lower the threshold to employ young people. To maintain peace, the Cabinet pulled out on 19 May 1993, and agreed to withdraw the proposals concerning young people’s employment conditions and wages. Concerning other labour market reform issues, the Cabinet promised that in whichever reforms were unanimously agreed upon, the central organisations should come first, and should be given priority for their implementation. An agreement was made between the central organisations on 24 May 1993, concerning the principal approaches to improve young people’s employability, local bargaining development and future preparation of labour legislation. (Kauppinen 1997: 39-40).

3.2 The sectoral union agreements for 1994 and 1995

In autumn 1993, in spite of the demands made by the trade unions, the employers did not agree to start talks for a comprehensive agreement. The employers wished to concentrate only on remuneration issues and generally encourage local bargaining by supporting union-specific agreements. It was expected that, at the opening of the round of talks, certain lay-off-prone private sector unions would make agreements in which there would be no wage raises and public sector unions by accepting small wage cuts. To the surprise of many, the paper industry opened the round with 3% wage raises agreed in November 1993. That opened up the negotiations and almost all other industries had their own specific agreements finalised by Christmas. (Kauppinen 1997: 39-42).

The talks were sector-specific: industrial sector, private services and public sector were each treading their own paths. While industry could walk away with a 3% raise, private services got no wage increase and the public sector agreed on cuts in remuneration of two to 3%. In addition, the public sector’s shorter working hours for the summer months were abolished, which meant an addition of one hour to the six-hour-fifteen-minute summertime day.

Another new feature, parallel to the union-specific agreements, and sometimes replacing them, were the cartel-wise agreements. The cooperation between the unions, belonging to the same central organisation, became more common. Especially in industry where cartels were being formed across the borders of different central organisations. However, talks were not held with this type of group.
The union-specific agreements made local bargaining more important than ever before. This served the purpose of finding new flexible worktime and remuneration solutions. The union agreements allowed for working hours to be determined and agreed upon locally in a number of industries. In the metal industry, the length of the working day could be as long as 24 hours, but the yearly working hours set out in the working hour law could not be exceeded. Other issues that could be covered locally include some of the pay raise distribution details, as well as payment practices of vacation allowances and certain premiums.

There were great differences in the duration terms of the union agreements. Industry’s agreements were mostly made for one year, whereas the duration in private services and the public sector was for two years. This was to complicate the opening of talks for the consecutive comprehensive agreements.

3.3 Union-specific agreements for 1995

For 1995, no comprehensive social pact resolution was adopted, but for the second time, the talks had to be run at union level. The most significant difference that most agreements were not made as easily as during the last rounds; in fact, the State Mediator was more often summoned to assist to the negotiations. The paper industry and the metal industry, which previously always considered it better to reach their specific agreements without the State Conciliator had to resort to this. The average raise level was five to 6% in export industries and private services, and two to 3% in the municipal and state sectors. (Kauppinen 1997: 41).

The most noticeable strike over that period was the one held by medical workers, that lasted four weeks. The strike was comprehensive but was not as successful as the 1983 medical workers’ strike. However, the specific agreement that this industry had aimed at was not reached, and the end result obtained after that was a set of moderate alterations in wages and salaries.

4. The come-back to comprehensive social pacts

The year 1995 was a turning point in the Finnish international, economic, political and industrial relations history. Finland made a political move away from Russia and joined to the EU. The right-wing Government lost is power in the March election. Social democrats came back to power together with the Conservatives. The Government made a wide economic policy recovery
programme in order to halve high employment and increase competitiveness of the economy. In order to implement the economy policy recovery programme the Government needed and got support from the social partners. They legitimised the programme, which included drastic cuts in social security, by concluding very moderate two-year incomes policy agreement, comprehensive social pact.

4.1 Comprehensive social pact for 1996-1997

The comprehensive social pact agreement for 1996 and 1997 was the result of talks between the central organisations, in which the State played an important role in the background. The social pact was finalised on 9 September 1995. The duration was for two years, and follow-up was scheduled for the midpoint of the term. Two raises in wages and salaries were planned, one on 1 August 1996 by 1.8%, and the other in 1997 by 1.3%.

Even if the reasons for making the comprehensive agreement were mainly political, the economic interests were also carefully taken into consideration. One of the main goals of the Cabinet’s program was to halve the excessive number of unemployed (18% unemployment rate), down to 9% of the labour force, before the end of the Cabinet’s term in January 1999. According to the Government Programme, a fast and sustainable economic growth was the main way to achieve this goal. Furthermore, the program encompassed a number of forceful revitalisation measures for the economy in order to reduce the national debt, to safeguard competitiveness and to rebalance trade. The program also includes a twenty billion mark cut in social security expenditure, which was again enlarged by another five billion in August 1995 in connection with the drawing up of the State budget. This was not a small cut when considering that the total state budget was 190 billion. According to the program, the third stage was to achieve a comprehensive social pact in autumn 1995, which would serve to back up the Cabinet’s policies in the areas of National economy and labour.

This programme was at the outset compulsory, because in the early nineties Finland suffered from an exceptionally intense recession; in less than four years, output fell over 10% and about a fifth of the country’s jobs were lost. At the same time, the unemployment rate, which had only been around 3.1% as recently as 1989, soared, peaking at an average of 16.6% in 1994. No equally sharp decline in employment had been experienced since the beginning of the century.
In this catastrophic economic situation, the new rainbow government\textsuperscript{1} of the Prime Minister Paavo Lipponen got a flying start on his labour market policy. Before his final appointment as the Prime Minister, the employers’ and employees’ central organisations gave Lipponen the confirmation that social partners were willing to co-operate with the new government. With the confirmation, social partners wanted to show that they were willing to make moderate wage increases in order to allow the Finnish economy to be in tune with the Economic and Monetary Union (EMU) requirements. Traumatic experiences from the former right wing government of Esko Aho with three general strike warnings (1991-1995) served as the background of this April 1995 declaration. (Kauppinen, 1997: 44-45).

In May 1995 SAK targeted to reach a comprehensive social pact, which was to support employment. Employers shared this idea. This revealed to be a good opportunity for the Prime Minister to invite the social partners to start negotiations over a social pact agreement. The Government appointed an expert, to follow the progress of negotiations.

The Cabinet policy was implemented in good co-operation with the social partners. The centralised social pact was adopted in 29 September 1995 thanks to powerful interventions by the Cabinet, the particular feature about this pact was that it covered all the issues and did not leave any group out of it. This was enabling the Cabinet to proceed with the social insurance cuts. The social pact was longer, wider in coverage and very moderate, it allowed for 1-2\% wage increases, after ensuring that all the leading industries’ trade unions would support the centralised agreement, which was not the case before.

4.2 Preparation to the EMU and social pact negotiations

Finland had joined EU in the beginning of 1995 and the preparation for the Economic and Monetary Union (EMU) created a special bounding between the Government and the social partners in the sense that they all co-operated to achieve the joint target. The chairman Pehr-Erik Lundh of the Metalworkers’ Union opened the discussion regarding membership by maintaining that trade unions would support Finland’s intention to join the EMU, if an agreement on “buffer funds” was reached. The purpose of the buffer funds would be to level effects of the business cycles for employees in

\textsuperscript{1} The Social Democratic Party (SDP), the National Coalition Party (KOK), the Left Wing Alliance (VAS), the Swedish People’s Party (SFP/RKP) and the Green League (VIHR).
the cases of asymmetric shocks (Bold, 1998: 62-71). Lobbying for the EMU started in March 1997 with a wide campaign among the members of the SAK. This idea of joining the EMU was adopted and accepted by the SAK in the summer 1996. (Kauppinen, 1998).

Employers’ organisations supported SAK’s campaign on EMU. STTK also organised the EMU campaign in the autumn of 1997. In the summer 1997, the Metalworkers Union organised a ballot on joining the EMU, which ended up to be in favour of participation. At that stage other trade unions adopted a wait-and-see-policy, but in May 1997 all the central organisations made a joint declaration in favour of joining the EMU.

4.3 Social pact for 1998-1999

The discussion on the EMU was very important for trade unions and to the process of collective agreement negotiations. The EMU helped to reach another incomes policy agreement 1998-1999. Negotiations progressed very well in the beginning of the summer, but trade union leaders became very hesitant, because companies were making very good results and managers obtained very much option money. Employees were at the same time asked to jointly support an agreement with moderate wage increases. Negotiations were prolonged, also because of some sector specific disputes. The Paper Workers Union demanded that old disputes concerning outside workers concerning subcontractors be solved before the union could accept a social pact. But once again, the dispute was hidden under the carpet. It was only in mid-November 1997 that the new centralised incomes policy agreement was signed. Immediately after, the SAK took a positive stance towards EMU.

It can be argued that without the EMU another incomes policy agreement of 1998-1999 would not have been reached. The agreement was close to failing because of many small disputes between the branch unions and employers’ organisations. The problem of difficult disputes was solved by setting up a record number of special working groups (twenty two) (Example: arrangement over working hours outsourcing people, renewal of legislation of employment contracts, …).

4.4 Failure of the social pact for 2000

Already in the autumn of 1998 a discussion began on the third social pact agreement. The chairperson Lauri Ihalainen of the SAK proposed to shorten working hours to check whether working hours could be an issue of interest
for all of the member unions and other employees’ central organisations. There was also a general feeling that social partners should adopt, “once again”, a social pact. But in late 1998 it became clear that four export sector unions were not interested in negotiating incomes policy agreement. The Paper Workers’ Union, the Chemical Workers’ Union, the Electricity Workers’ Union and the Technicians’ Union did not want to be involved in the centralised incomes policy agreement. Organisations demanded to get authority to negotiate their own agreements. They saw that the sectoral unions had not been able to use a good economic situation for their own benefit because everybody had been tied to a centralised social pact. In fact, it is difficult to solve sectoral disputes because it is impossible to get involved in the package of a social pact negotiated at the central national level.

These sectoral problems were the key reason that the negotiation of the third incomes policy agreement collapsed and negotiations were transferred to the sectoral level. This happened on 27 September 1999 in the Administrative Board meeting of SAK, where the Paper Workers’ Union, the Chemical Workers’ Union and the Electricity Workers’ Union decided not to accept centralised social pact agreement. These unions were followed by seven other SAK’s member unions representing minor sectors. These unions felt no urge to start the negotiations. They have been given the nickname “rushes pikes” because these unions wanted to wait and strike when the time was appropriate for them. Actually negotiations between the employees and employers organisation failed even before they had started.

The failure was a big shock to other central organisations, STTK and AKAVA, which had already made their organisational decisions to support negotiations on social pact for 2000-2001. In early September 1999 the STTK demanded higher wage increases than the ones agreed upon in the former negotiation round 1998-1989. They said that comparison had to be made with the European average, which were about 4% (pay increase and other cost effects). There was also a long list of demands concerning training, principles of bonus wages, protection of dismissals, equal opportunities, shop stewards’ rights etc. The list was so long that everybody was sure that only part of the demands were meant to be taken seriously. AKAVA, the central organisation for academic people, also took positive official stance on the third incomes policy agreement, because the Government promised in August 1999 to make cuts in income tax scales for 2000, which had always been the most important demand of higher salaried academic people.
The positive attitude of trade unions towards the new social pact was based on good results of the previous agreements. Purchasing power had increased rapidly, because of low inflation, tax cuts and local wage bonuses. The tripartite Incomes policy investigation committee calculated that wages had increased by 15.1% in 1995-1999. This happened in spite of a very small recession in 1998. At the same time prices had increased by 4.5%, which meant that real increase of workers income was equal to 10.6%.

The failure of negotiations was also a shock to employers who were very willing to conclude a new social pact, but this time they could not start negotiations because the idea of a new social pact collapsed before any official negotiation had started. Employers were satisfied with moderate wage increases (3%) and labour peace. Profits had increased and company balance sheets were strong and healthy. Enterprises’ own capital consists of about 40-50% of (loan capital), which should guarantee a good buffer during a recession. The competitiveness of the companies is also good because of low inflation between 1995 to 1999 (1.1%). In the same period, productivity has increased in industry by almost 10% but it would be misleading to only look at the averages, because productivity increase in industry without the electronic industry was only 2.1%. This shows a very high increase of productivity in electronic industry, and weak development in other sectors. These figures have also had an impact on the employers’ strategies. There is more need for company and sector specific arrangements in order to increase flexibility in wages, working hours and work arrangements. Employers’ central organisations had a joint opinion that sectoral problems have to be solved before any new social pact can be signed.

The Government was also shocked about the collapse of centralised negotiations because it was very satisfied with the results of the former agreements. Employment had been halved, the economy was enjoying a strong growth (4%) and inflation was low. The Government promised to support moderate incomes policy agreement in August 2000 by tax cuts of about 10-11 billion during four years, which means approximately 4% decrease in tax burden. The 1995 income tax cuts of about 7-8%, have had a very big impact on real income development. According to the Ministry of Finance, wage policy in the time of EMU has to be based on the mix of moderate general increases, local bonuses and tax cuts. Even managers’ options are not bad at all because after selling the options, managers will pay about 55% income tax on option revenues. Trade unions do not share this view, which would mean that the higher the wage increases, the higher tax
revenues would go to the State. The question was whether the Government should cut taxes in the case of sectoral negotiations.

It took two months for sectoral unions to recover from the failure of the negotiations. In December negotiations started again. The Metal Workers’ Union wanted to gather about half of the working population in settling agreement with the other trade unions, more than one million persons, in a “mini social pact”, but it proved to be too optimistic and finally only 300,000-400,000 workers ended up negotiating for a new agreement. The Metalworkers’ Union targeted a 4.4% increase and the Construction Workers’ Unions a 3.8% increase in wages in the proposal made to the employers on 10 December 1999. This demand included a free Ascension day (0.4%).

Employers offered the unions a 1.8% increase and no decrease in working hours. This offer was made according to the previous social pact wage increases. The Employers resisted against granting a free Ascension day because in their mind that would have meant that in the next negotiations workers would demand a free Friday after Ascension day. The employers offer was immediately rejected by the trade unions and they were ready to leave strike warning. The employers were hoping for some compensation from the State in the form of tax cuts. On 13 January 2000 the government took the decision on tax cuts, consisting of a 1-2% decrease in tax scales. Without tax scale cuts the total tax burden would have risen to 48%. After tax cuts both employers and unions knew how to calculate the final wage increases.

The Metalworkers’ Union played the leading role in the sectoral negotiations. It got good support from the Construction Workers’ Union, which was also advancing well in its own negotiations. The sectoral collective agreement was concluded with the Metal Workers on 16 January 2000. The decided decision for wage increases was equal to 3.1%. This was followed by other sectoral unions. Some sectoral unions add this increase directly on wages and some unions use a part of the increase in wage scales.

At the beginning of February about one million employees were covered by the sectoral collective agreements and by mid February, 90% of the 2.1 million working population were covered. The only group of unions that stayed out of the agreement are the so-called “rushes pikes”. These unions are negotiating. In March there were two weeks’ strikes in transport and chemical industry sectors. On 11 April started a strike in the paper industry. The Paper Workers’ Union is demanding two years agreement, where wage increases would be 4.6% in the first year and 4.1% in the second year. This
is 1.5% point higher than what other sectors have for the year 2000. In addition to wage increases union is demanding a ban on lay-offs and outsourcing of paper workers, shortening of working hours and rules for company wage-earner funds. Both social partners said that the strike may last long.

5. Social pacts, economic growth and employment

Since 1968, there have been many opportunities to examine the connection between the social pacts, economic growth and employment. If we look at the economic growth, we can say that the economy has grown 3-4% per year. However, there have been two deep recessions, one in the late seventies and another in the early nineties. The latest was really serious, GDP fell by 10% in three years. Social pacts could not prevent the economy from entering a recession. This means that social pacts can help general economic policy, but cannot replace economic policy. The recovery of the economy has been occurred through devaluation like the ones in 1967, 1977, 1978, 1981, 1991.

Figure 1: Labour force, employed, unemployed and economic growth (1970 – 1999)

Source: drawn by Mikko Kauppinen based on the statistics of the Ministry of Labour.
The same is true when it comes to employment. The employment situation was very good in the early seventies, but due to the recession in the late seventies, unemployment rose to 7.5%. In the early nineties, unemployment rose to almost 20%. Social pacts were not strong or flexible enough to solve the serious unemployment problem. It seems that social pacts are good after a recession since they preserve companies’ competitiveness, but create great management problems in a booming economy.

5.1 Wage increases and model of collective agreement

Since the start of social pacts’ era, the model of negotiations has stayed the same and agreements have been signed only in some exceptional years on the sectoral level. For instance, during 32 years of incomes policy agreements there have only been six sectoral agreements (in 1973, 1980, 1983, 1989, 1994 and 1995). These centralised and sectoral agreements are completed by local or company agreements, where the social partners negotiate the agreement’s application in the workplace. Centralised agreements are recommendations for the sectoral unions. In practice these recommendations bind all the member unions of the central organisations. This is guaranteed by a written consent of each member union. When sectoral unions have reached a collective agreement, it is legally binding. Disputes concerning the interpretation and breaching of the agreement are to be solved in the labour court. The labour court decides on fines to be paid by the breaching partner of the agreement to the other partner. These are like virtual agreements (Marginson and Sisson, 1998), but which are realised in sectoral agreements.

In Finland there has been plenty of discussion on the effectiveness of different models of collective agreements. Employees have been demanding centralised social pact solutions but employers, especially in the nineties, have been more inclined to decentralise negotiations in the workplace. (Fajertag and Pochet, 1997). Based on the Finnish experience, we can argue that the form of negotiations has not had an essential impact on wage increases. In some years, centralised negotiations produced the highest increases in wages and in other years the increases were the lowest. There are also the years like 1973, 1980, 1983, 1989, 1994 when sectoral negotiations produced high increase. In addition, local company negotiations do not depend on the form taken by a collective agreement. When evaluating the effectiveness of the agreement we can thus conclude that the form that collective agreements take does not play a particularly important role.
However, there is a slight indication that sectoral negotiations have produced a bit higher wage increase than centralised, but taking into account inflation real wage increase is not much higher. It seems clear that a general political atmosphere and economic situation are the most relevant issues when it comes to determining the range of wage increases. Trends in labour costs were moderate in the nineties, mostly because of the recession in the early years of the decade, the low inflation and these collective income settlements (see figure 1). The economic upswing in the latter half of the nineties was speeded up by the moderate social pacts. They restrained any rise in labour costs, even though economic growth has been exceptionally fast for several years now. The social pacts have given businesses a chance to recover from the problems of the recession years, to build up their solvency and to sharpen their competitiveness within the EU’s internal market. The moderation of the settlements is illustrated by the fact that wages and employers’ contributions, as a percentage of added value, fell about 10% in the nineties. This moderate rise in labour costs has created excellent potential for a real improvement in employment. Against a background of Economic and Monetary Union, labour cost trends are adjusted to productivity growth and should gain even greater importance as guarantors of employment (Sorsa, 1999).

We can observe that wage increases have varied during the period of social pacts. In the seventies average total wage increases were about 10-15% per year, in the eighties about 6-10% but in the nineties only about 2-4%. These variations occurred despite the fact that the negotiation model, that is centralised social pacts, has been unchanged over the years.

We can also observe that about half of the total wage increase comes from centralised wage increases and another half from local wage increases, or local wage drift. This has almost been unchanged for 30 years, except for the the years in the late nineties, when no wage drift was allowed.
The picture tells that sectoral wage increases have been very modest, about 1-3% of the yearly wage increase, except, for the years when there were only sectoral increases in wages. The conclusion is that central organisations have succeeded in controlling member unions’ wage bargaining.

We also notice that in the late nineties, there were no sectoral wage increases. The special reason for this was that in the negotiation rounds the member unions of the central organisations had to give a written consent to the central organisation, stating that they accepted centrally negotiated incomes policy agreements.

We can also see that social pacts were not in force when the economy was booming while social pacts were in force when the economy rushed into recession. The clear conclusion is that social pacts as such are not strong enough to manage economy.

The general observation is that wage increases have been at a very low level in the nineties compared to former decades, especially the seventies. It is very difficult to define the real reasons for decreasing wage increases. One could argue that the economic crisis in the nineties was the main reason.
This is true, but despite the oil crisis in the late seventies, real wage increases remained around 5-10%. Another reason could be lower inflation, but it is closely related to wages and it is difficult to say why inflation would be lower in the nineties than in the previous decades. Reasons may perhaps be related to the trend towards globalisation and new technology, which has lowered prices and made the economy more competitive. The need to fulfil the EMU convergence criteria can explain the fact that in the late nineties, wage increases remained low.

Local agreement has increased wages almost as much as centralised agreements and sometimes more, illustrating that the company agreements are quite common in Finland. Almost all of the companies have agreed upon some of the issues in the workplace. There is a common view in most companies that local agreement has increased productivity. This opinion is shared by 80% of the companies. According to research results (Kairinen, 1998), company agreement has not had any direct impact on employment, but there is clear indication that company agreement has given companies greater possibilities to adapt to the business cycles. Company agreements increase productivity when pay systems include pay and additional payment by results. Company agreements have been the key target of the employers’ organisations and were reached during the nineties. The most common issue in the company negotiations concerns working hours.

5.2 Social pacts and real earnings

Since 1968, the period of social pacts, real earnings have developed quite positively but there are four years (1976, 1977, 1992 and 1993), which are related to deep recession, during which earnings decreased.

If we look at the beginning of the period, it appears that real earnings were developing very rapidly in the late sixties, up to the middle of seventies. After that, during the recession years, real earnings dropped in two years. In the eighties, real earnings were developing very positively, but in the beginning of nineties, there was again a drop in earnings for two years. One observation is that social pacts have not been able to guarantee continuous growth of real earnings.

We can also observe that social pacts have not been able to prevent high inflation. In the beginning of seventies there were social pacts and higher inflation, which came down with the recession. There has been a continuous long-term decrease in inflation and wage increases, which is a general
phenomenon and trend throughout Europe (calculation made by the Swedish LO 1998). The reasons for this are not very clear, but they are related to the transformation from the industrial to the information society and higher productivity with the new technology. But the changes are also caused by the transformation from “distributive bargaining to competitive bargaining” (Schulten, 1998), which means that managers and workers share the concern about the sustainable success of the company, not only distribution of profits of the company. One additional explanation is EMU, which has increased competition and forced economies to adjust to principles of sound public economic policies and global competition.

It is of interest to note that there are very few years that wage increases agreed upon in social pacts have guaranteed real increase in wages. This has happened only at the beginning and the end of the period of social pacts since 1968. This shows that local wage negotiations are an essential part of the wage development. The same concerns sectoral contracts. Even then, social pact wage increases could not guarantee real wage increases. From the figure 2, we can see that employees have to take care of their real wage increases locally.

6. Strategic choices and transformation of industrial relations

If we try to understand why the system of industrial relations changed in the beginning of nineties, and why the old system of social pacts became the sectoral system, we have to look at structural changes and corporatistic choices made by the social partner. We can notice that the environment of industrial relations has changed very much over the last 20 years, after the first economic policy agreement in 1968. Finland’s economic structure was no longer only dominated by the forest industry; it was moving towards a more service and information oriented society. The political climate had changed. Social democrats were in opposition for 4 years and the country was managed by the pure right-wing government. Also, the international environment was totally different: the Soviet Union had collapsed, which had a great impact on the Finnish economic and political life. We can simply say that Finland was in an economic, political and international crisis. In order to get away from that, social actors wanted to preserve their own interest. Strategic choice of the market forces demanded a devaluation of the Finnish Mark in order to retain competitiveness. The strategic choice of the Government was to continue the policy of a strong Mark in order to
speed up structural change in the economy. The strategic choice of the trade unions was to make a new social pact. The employers’ strategic choice was a fourteen point programme for change in the favour of more flexible labour laws and collective agreements. Finally, the economic crisis was solved by a devaluation in October 1991. Nobody thought that social pacts alone could return economic competitiveness and create new jobs. The social pact was signed to support devaluation in November 1991, guaranteeing no wage increases. Negotiations were decentralised in 1994 and 1995.

In the middle of nineties everything changed in Finland, as it joined the European Economic Area (EEA) on 1 January 1994 and the European Union on 1 January 1995. Integration into the internal market meant free movement of goods, services, capital and labour, and the elimination of technical barriers to trade. Agriculture was not covered by the EEA. Membership of the EEA, and later the EU, meant greater openness in the economy, broader markets, tougher competition and the need for greater efficiency. Finland started to look
to Brussels rather than to Moscow. The political climate changed when social Democrats returned to the government in spring 1995. This was welcomed by employees and employers organisations. The Government made a strategic choice to take Finland into the EMU. Economic growth and halving unemployment were key elements in government policy. The strategic choice of the trade unions and employers was to support government policy by making a two-year social pact for 1996-1997. The pact was very successful, and the economic grew about 4-5% per year. Unemployment started to diminish slowly. This gave social partners and the Government a good reason to make a new strategic choice and propose a new two year social pact for 1998-1999. The signing of this social pact was dominated by discussions over the EMU convergence criteria. The social partners reached an agreement on “buffer funds”, which were designed to help businesses cope with the effects of asymmetric shocks. The policy was so successful that Finland filled all the convergence criteria of the EMU, and was the third best country in 1998. Only Ireland and Luxembourg topped the Finnish economic performances.

In the late nineties, social pacts were very successful economically. Economic growth was exceptionally fast in Finland in the second half of the nineties. The target of 5% yearly growth over six years set by the President’s special working group has in fact nearly been achieved. In 1994-1999, the average yearly increase was over 4.5%, and is expected to be 4% in 2000 (Sorsa, 1999).

The social pacts preserved competitiveness of the Finnish economy and helped to halve unemployment, but the problem was that they increased income distribution in favour of capital and managers, while employees were tied to moderate – equivalent to less than 2% – wage increases. There were also many sectoral disputes, which had been hidden under the carpet during the social pacts. This was especially the case in the industrial sectors. However, the strategic choice of the Government was to support the third social pact by promising tax cuts in August 1999. The condition for tax cuts was that the social partners had to negotiate a new centralised and moderate collective agreement. The STTK made the strategic choice to support the third social pact. The same happened in the Akava in early September 1999.

From the previous text concerning the failure of the social pact, we can say that the third social pact was strongly supported and designed by the group of the Industrial Employees, chaired by the chairman of the Metal Workers Union. However, this strategic choice was not shared by ten of the SAK...
member unions. In December 1999 the Metal Workers’ Union chose to negotiate a mini social pact together with some industry unions. The proposal got plenty of sympathy but not direct involvement, which meant that metal workers decided to negotiate their own sectoral agreement. The Government supported the negotiations by cutting tax scales. An agreement was signed on Sunday 16 January 2000, a day after the termination of the old agreement. A 3.1% wage increase became the norm for the other unions for their one year agreement for the year 2000. If any union were to get a higher wage increase, it would have to be after a strike or an agreement that were longer than one year.

7. From “distributivity bargaining to competitivity bargaining”

Although the talks regarding structures of the comprehensive social pacts have been almost the same for longer than a quarter of a century, in the nineties there has been a noticeable change in the content of the agreements. Previously social pacts and sectoral collective agreements were very detailed and there was very little room for companies to deviate from these strict rules. Most of the rules were made to protect workers. Now, in the nineties, the system has changed. There has been a move to decide upon more issues at workplace level, between the employees and company. Although it is a slight exaggeration, we can say the system has changed from workers’ protection to the protection of companies, especially SMEs.

We can also express this by saying that there has been a change from the “distributivity” bargaining to competitivity bargaining. This type of development has also been quite common in other EU countries during the nineties (Traxler 1997, Schulten 1998, Sisson 1999: 13-14). In the seventies and eighties, income distribution was the main focus of bargaining, but in the nineties, employers and employees co-operated in the light of their joint interest to have a competitive company in order to preserve jobs and insure better working conditions.

The transformation of the system of industrial relations was a prominent feature in the nineties. Decentralisation was the major trend. Many issues were transferred and were to be decided at company level. Social pacts created a positive framework for the economic and political climate. However, transformation is not only connected with the low or high cycle of the national economy, but rather a trend for a considerably longer time.
period, making it possible for the decisions and responsibilities to be transferred to the local level. At the same time, certain centralised structures of the welfare state are undergoing changes, and Finland is moving towards local initiative, characterised by citizens’ rule and responsibility assumed by the individual.

References


Social Pacts in Finland


Alliance for Jobs – is Germany following the path of “competitive corporatism”?

Reinhard Bispinck and Thorsten Schulten

1. German Capitalism in the nineties: From “German model” to “German disease”?

Until the early nineties German capitalism was widely regarded as a successful “model” combining strong economic performance with a relatively high level of welfare and a comparably low level of social inequality. Since then, however, the international image of German capitalism has changed dramatically to the worst. At the end of the nineties there seemed to be a broad consensus within both the political and the academic community that the German model is faced with a fundamental crisis which for some observers has already entered the stage of a “German disease” (Scharpf, 1998).

The notion of a crisis becomes most evident considering Germany’s persistently high mass unemployment. During the nineties the number of officially registered unemployed doubled from less than two million in 1990 to more than four million in 1999 (see table 1). Obviously, this tremendous increase in unemployment was partly caused by the way German unification was organised. Following the German Monetary Union in June 1990, the previously quite well protected east German economy had to perform under free world market conditions from one day to another. As a result within little more than one year the number of unemployed east Germans rose from almost zero to more than one million. Since then the level of unemployment has further increased so that at the end of the nineties nearly every fifth employee in east Germany was officially registered as unemployed.
Table 1: Unemployment in Germany in the nineties (annual average)

<table>
<thead>
<tr>
<th>Year</th>
<th>Germany</th>
<th>West Germany</th>
<th>East Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of unemployed (million)</td>
<td>Number of unemployed (million)</td>
<td>Number of unemployed (million)</td>
</tr>
<tr>
<td>1990</td>
<td>-</td>
<td>1.883</td>
<td>-</td>
</tr>
<tr>
<td>1991</td>
<td>2.602</td>
<td>1.689</td>
<td>0.912</td>
</tr>
<tr>
<td>1992</td>
<td>2.979</td>
<td>1.808</td>
<td>1.170</td>
</tr>
<tr>
<td>1993</td>
<td>3.419</td>
<td>2.270</td>
<td>1.149</td>
</tr>
<tr>
<td>1994</td>
<td>3.698</td>
<td>2.556</td>
<td>1.142</td>
</tr>
<tr>
<td>1995</td>
<td>3.612</td>
<td>2.565</td>
<td>1.047</td>
</tr>
<tr>
<td>1996</td>
<td>3.965</td>
<td>2.796</td>
<td>1.169</td>
</tr>
<tr>
<td>1997</td>
<td>4.384</td>
<td>3.021</td>
<td>1.364</td>
</tr>
<tr>
<td>1998</td>
<td>4.279</td>
<td>2.904</td>
<td>1.375</td>
</tr>
<tr>
<td>1999</td>
<td>4.099</td>
<td>2.756</td>
<td>1.344</td>
</tr>
</tbody>
</table>

* Rate of unemployment as defined by the German Federal Employment Service (= % of all employees)


Comparing Germany’s overall macroeconomic performance with those of other EU countries there are some strong indicators which explain its negative employment record. First of all, Germany’s high unemployment is obviously caused by its very weak overall economic growth. In the second half of the nineties, comparing to the other member states Germany had the second slowest increase in GDP (behind Italy), and the slowest increase in total investment. The problem was particularly important in East Germany. After a short catching-up period with growth rates around 9% in the first half of the nineties, East German GDP growth rates declined continuously. The dominant economic discourse in Germany during the nineties was the so-called “Standortdebatte” which questioned Germany’s competitiveness as an attractive location for economic activities. Following the debates on the crisis of the “German model” almost all the founding institutions of German
capitalism were under attack because they no longer fitted into the new "constraints" of a globally integrated economy (for an overview see Flecker and Schulten, 1999). In particular, the German labour market institutions were accused of forcing up labour costs and providing rigid working conditions.

However, considering the macroeconomic data, there is no evidence that the weak growth performance was caused by the lack of Germany’s competitiveness. On the contrary, from the mid-nineties Germany experienced one of the fastest drop in real unit labour costs in Europe. Moreover, in the second half of the nineties Germany had an above average increase in exports. The temporary decline in exports growth rates that followed was a result of the German unification. While the export industries continued to be the backbone of the German economy, its major weakness was the strong lack of internal demand. Since the mid-nineties both private and government consumption has shown the lowest growth rates in the European Union.

The macroeconomic performance gives a relatively clear picture on the causes of Germany’s high unemployment. There are many different proposals on how to overcome the unemployment calamity. These proposals do not only mirror different theoretical and political viewpoints but also reflects the different interests of the social actors involved. The latter appears more clearly when analysing the different attempts to establish an Alliance for Jobs (Bündnis für Arbeit) as a new form of macro-corporatism in Germany in the nineties.

2. First attempt at an Alliance for Jobs - The failure of the “Zwickel-initiative”

The first attempt at an Alliance for Jobs goes back to an initiative of the president of the German metalworkers’ union IG Metall, Klaus Zwickel (Bispinck, 1997). Against the back-drop of the deepest recession post war Germany had ever experienced Zwickel launched his proposal for an Alliance for Jobs at the IG Metall’s Trade Union Conference in November 1995. In detail the proposal offered a new agreement on payments, which merely aim at keeping pay increases in pace with inflation and enabling companies to recruit long-term unemployed over a fixed initial period at lower rates. In return the federal government was to make a binding commitment not to reduce unemployment benefit and welfare payments for
Furthermore, the employers in metalworking industry were to guarantee that over the next three years they would not announce redundancies for economic reasons and would create a precisely defined number of new jobs and training places.

Although the “Zwickel-initiative” was originally intended for the metal industry, it quickly became a national issue. The idea of having a national employment pact bringing together government, employers’ and business’ federations and the trade unions, and aiming at joint initiatives for the reduction of unemployment, which generally received a very favourable opinion from the German public. The former conservative-liberal federal government took up the proposal and put it on the agenda of the so-called “Chancellor’s Talks” (Kanzlergespräche), which for several years had already served as a forum for informal – and non-binding – exchanges of political opinion between the government, the trade unions and the employers’ federations. In January 1996, the Kanzlergespräche, under participation of leading business and trade union representatives, led to a document entitled “Alliance for Jobs and the Preservation of Production Sites” (Bündnis für Arbeit und Standortsicherung) that included a broad list of areas where action should be taken in order to reduce unemployment and to improve the framework conditions for job-creating investment.

However, the practical application of the Alliance’s proposals made little progress in collective bargaining and in the political arena. In April 1996 the conservative-liberal federal government finally concluded a so-called “package of cuts” (Sparpaket) containing numerous changes for the worse in the areas of social policy and labour law. The trade unions saw these measures as an open attack and refused to take any further part in the “Chancellor’s Talks” of which the first attempt at a national Alliance for Jobs definitively failed. As a result of this failure, the overall political climate in Germany became much more conflict-oriented.

3. Under a new social-democratic government: The second attempt at an Alliance for Jobs

The new federal government formed by a coalition of the SPD (Social Democratic Party) and the Alliance 90/The Greens gave the foundation of a new Alliance for Jobs a top priority. Only a few weeks after the new “red-green” coalition came into power, in December 1998, it invited leading business and trade union representatives to talk on the establishment of a
new tripartite social pact at national level. The results of that meeting were set out in a joint declaration, which has become the source document of a new “Alliance for Jobs, Vocational Training and Competitiveness” (Bündnis für Arbeit, Ausbildung und Wettbewerbsfähigkeit).

According to that document all parties involved agreed that the overcoming of high unemployment requires “sustained cooperation between the state, trade unions and the business community” (Bündnis für Arbeit, 1998). Therefore, the Alliance for Jobs should be built up “on a long-term basis and as a process of communication, which is intended to develop mutual trust and to address differing interests and different points of view”. From the beginning the Alliance have been seen as a dynamic process, which should principally be open for all political issues related to employment.

Regarding the institutional structure of the new Alliance, the parties involved decided to establish a comprehensive arrangement of various tripartite working and discussion groups (see figure 1). The most important political institution of the Alliance are the so-called “top-level talks”, which are held between leading representatives of all three parties. Usually, these talks takes place under the chair of the German Chancellor who is accompanied by five other ministers. The business delegation is composed of the president of the German peak employers’ associations (Bundesvereinigung der deutschen Arbeitgeberverbände – BDA), as well as the presidents of the peak business associations representing German Industries (Bundesvereinigung der deutschen Industrie – BDI), German Craft (Zentralverband des deutschen Handwerks – ZHD) and the Chambers of Commerce (Deutscher Industrie- und Handelstag – DIHT). Finally, trade unions are represented by the presidents of the two confederations Deutsche Gewerkschafts bund (DGB) and Deutsche Angestellten Gewerkschaft (DAG) and the presidents of the three largest sectoral trade unions (IG Metall, IG Bergbau, Chemie, Energie IG BCE and Gewerkschaft Öffentliche Dienste, Transport und Verkehr ÖTV).
Figure 1: Institutional Structure of the Alliance for Jobs, Training and Competitiveness

Alliance for Jobs – is Germany following the path of “competitive corporatism”?

So far, “top-level talks” have always been held when a joint statement or initiative of the Alliance seemed to be possible. In between a tripartite “steering group” coordinates the overall activities within the Alliances and prepares the documents for the top-level talks. Moreover, two types of tripartite institutions were established under the roof of the Alliance. First, there are so-called “working groups” which were established under the chair of the relevant minister or a leading state secretary for those political areas that are seen as most relevant for employment and where major structural reforms are planned, such as tax policy, training, social security systems, labour market policy etc. In addition, so-called “topic-related dialogues” were set up for those areas that are reputed as having large potentials for the creation of new employment, such as information and communication or biotechnologies. At the beginning of 2000 the Alliance enclosed eight “working groups” and six “topic-related dialogues”. Finally, the Alliance includes a so-called “benchmarking group”, which is under the control of the chair of the Minister for the Chancellor, that brings together representatives from the federal government and from social sciences, including the employers’ and trade unions’ research institutes.

4. Role and substance of the Alliance for Jobs - Conceptions within the new red-green government

When the new red-green government came to power, it combined two conceptions for a new socio-economic policy that mainly reflects the existence of different political approaches within the SPD. Roughly speaking one could distinguish two ideal-types, the “New Centre” (Neue Mitte) and the “New Keynesian” Social Democrats (see table 2). The “New Centre”

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1 The core of the “benchmarking group” is the so-called “group of professors” which includes Wolfgang Streeck from the Max-Planck Institute for Social Sciences and Rolf Heinze from the University of Bochum as “independent” professors as well as Heide Pfarr, head of the trade union-related Wirtschafts- und Sozialwissenschaftliches Institut (WSI) within the Hans Böckler Foundation, and Gerhard Fels, head of the employer-related Institut der Deutschen Wirtschaft. Moreover, parts of the academic staff which supports the “Benchmarking Group” are financed by the Bertelsmann Foundation.

2 Within the new government the two most prominent representatives of these two approaches were the former Minister of the Chancellor, Bodo Hombach, and the former Minister of Finance, Oskar Lafontaine. Both presented political “best-sellers” with popular versions of their conceptions (Hombach 1998; Lafontaine 1999). Apart from that the two approaches were also represented by some influential intellectuals and scientific institutes. Among others, the “New Centre” Social Democrats were very much influenced by the so-
Social Democrats might be seen as the German version of those parts within the European Social Democracy who are searching for a new “Third Way” between neoliberalism and the traditional social democracy. Regarding their socio-economic conceptions, the “New Centre” Social Democrats have a primarily microeconomic orientation, which call for new “left supply-side economics” aiming at the overall improvement of competitiveness. Since the “New Centre” Social Democrats have fully accept the existing monetaristic macroeconomic regime in Europe, they see budget consolidation as the primary task of the state, which let only little room for an active employment-promoting fiscal policy. The creation of new employment could, therefore, only be reached by some structural reforms of the labour market, the social security system and the tax system aiming at an overall reduction of labour costs and corporate taxes and a higher differentiation of income levels. Regarding the European-level “New Centre” Social Democrats have taken a rather sceptical view on the possibilities of a “Europeanisation” of economic policy. Instead, they follow the concept of an increasing national “regime competition” in Europe, which should be moderate at European level through modern benchmarking methods and the diffusion of “best practices”.

called “Manager-circle” of the SPD-oriented Friedrich-Ebert-Stiftung as well as by the two presidents of the Max-Planck-Institute for Social Science, Wolfgang Streeck and Fritz Scharpf. The “New Keynesian” Social Democrats have got lot of their intellectual support in particular from the Deutsche Institut für Wirtschaftsforschung in Berlin and namely from the former senior researcher at the DIW and former state secretary in the Ministry of Finance, Heiner Flassbeck.
Table 2: Two different conceptions of socio-economic policy within the new social-democratic led-government

<table>
<thead>
<tr>
<th>Overall orientation of economic policy</th>
<th>“New Centre” Social Democrats</th>
<th>“New Keynesian” Social Democrats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primarily microeconomic orientation</td>
<td>Primarily macroeconomic orientation</td>
<td></td>
</tr>
<tr>
<td>“Left” supply-side economics for improvement of competitiveness</td>
<td>Policy mix of supply-side and demand-side economics</td>
<td></td>
</tr>
</tbody>
</table>

| Primary tasks to create employment | Structural reforms of the labour market, the social security system and the tax system aiming an overall reduction of labour costs, social security contributions and corporate taxes | Creation of a new growth regime by a better coordination of macroeconomic policies and the promotion of real investments and the improvement of internal demand |

| Primary task of fiscal policy | Budget consolidation | “Anti-cyclical” fiscal policy |

<table>
<thead>
<tr>
<th>Role of the European level</th>
<th>Moderation of national regime competition</th>
<th>Coordination of monetary, fiscal, tax and wage policy at European level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sceptical about Europeanisation of economic policy</td>
<td>Promotion of a European Employment Pact</td>
</tr>
<tr>
<td></td>
<td>Strict interpretation of the “stability pact” and full acceptance of the monetaristic EMU regime</td>
<td>Reform of the EMU regime into the direction of the US. Federal Reserve</td>
</tr>
<tr>
<td></td>
<td>Benchmarking and best practices</td>
<td>Re-regulation of international financial markets</td>
</tr>
</tbody>
</table>

| Role of the Alliance for Jobs | “Competitive corporatism”: Social acceptance for cost-cutting strategies and structural reforms shaped by the aim of higher competitiveness | “Euro-Corporatism”: Organising co-operative macroeconomic policy at national and European level |

Source: Own synopsis.
To sum up, the “New Centre” Social Democrats have taken over some ideas and elements of traditional neoliberalism. However, one of the main difference with a “pure” neoliberal strategy is that the “New Centre” Social Democrats see the needs for a social consensus between the organised labour market parties in order to enforce structural reforms of the German model. In contrast to the neoliberal, the “New Centre” Social Democrats do not want to destroy the corporatist institutions but, on the contrary, try to expend them. Within this new political constellation of an “embedded neoliberalism” (Van Apeldoorn, 1999), the Alliance for Jobs gets a crucial role in organising social acceptance. Thereby, a new form of macro-corporatism has emerged which has been described best as “competitive corporatism” (Rhodes, 1998).

The “New Keynesian” Social Democrats have argued for a more fundamental criticism of neoliberal conceptions. The reasons for the high unemployment in Germany are, therefore, not primarily seen in the structures and institutions of the German model but mainly in “false” macroeconomic politics that caused in neoliberalism as the hegemonic ideology. The “New Keynesian” Social Democrats, however, have not simply argued in favour of going back to the traditional social democratic policy of “deficit-spending” but demanded a modern “policy mix” of supply-side and demand side economics. The core of the “New Keynesians” concept is the macroeconomic coordination of monetary, fiscal and wage policy in order to promote economic growth and employment. Since monetary policy has a crucial role in that, the “New Keynesian” Social Democrats intend to overcome the pure monetaristic orientation of the European Central Bank and to follow more the example of the US. Federal Reserve.

Regarding the new macroeconomic framework conditions within the European Monetary Union the development of a real European economic policy plays a crucial role for the conceptions of the “New Keynesian” Social Democrats. Consequently the latter were the driving force behind the initiative for a “European Employment Pact”, which was concluded under the German EU-Presidency in June 1999. The core of this new European Employment Pact was the establishment of a new “Macroeconomic Dialogue” as a joint forum of representatives of the national government, the European Commission, the European Parliament, the European trade unions’ and employers’ organisations and of the European Central Bank. Within the conception of the “New Keynesian” Social Democrats an Alliance for Jobs
Alliance for Jobs – is Germany following the path of "competitive corporatism"?

has to deal with macroeconomic policies in the first place. Since the monetary policy has to be included in such an Alliance, it would be essential to combine national social pacts with a new form of “Euro-Corporatism”.

Both the “New Centre” and the “New Keynesian” approach have been analysed as ideal-typical approaches. In practice the politics of the new red-green government were, of course, much more inconsistent and were often based on a mixture between the two approaches. The political support for the “New Keynesian” approach was, however, from the beginning much weaker than for the “New Centre” conception. Moreover, the strong criticism on the new government, as it has been brought foreword in particular by the German business community, has concentrated mainly on the “New Keynesian” representatives. Finally, the resignation of Oskar Lafontaine as Minister of Finance in spring 1999 marks a remarkable change in the socio-economic policy of the red-green government whereby the “New Keynesian” approach has to a great extent lost its influence. This had a significant influence of the different policy fields within the Alliance for Jobs.

5. Alliance for Jobs - main policy fields

The Alliance for Jobs has already covered a broad spectrum of policy fields, many of which have been dealt with within tripartite bodies for a long time. In Germany, labour market policy in particular, social policy and vocational training policy have traditionally been regulated and controlled by corporatist institutions. Some of the tripartite activities in these policy fields have now been taken over under the roof of the Alliance while others continue without any explicit link to Germany’s social pact. The Alliance has shown some new impact, in particular, in the area of collective bargaining policy, which has been the most striking topic so far. Besides that, the Alliance has had some influence on vocational training and, with less importance, on tax policy.

5.1 Debates on an “employment-oriented” collective bargaining policy

From the beginning the most controversial question within the Alliance for Jobs was whether or not it should deal with collective bargaining policy (Bispinck and Schulten, 1999). On the one hand all parties involved agreed that the Alliance has to respect the principle of collective bargaining autonomy and, therefore, can not conclude binding decisions for the
collective bargaining parties. On the other hand both employers and trade unions put topics on the Alliance’s agenda that were directly related to collective bargaining. However, the core of the ongoing conflict has been the issue of wage policy. For the employers, it was always the primary objective to reach a framework agreement within the Alliances that recommends a long-term oriented policy of wage restraint. In contrast to that, the unions originally refused even to discuss wage developments and threatened to leave the Alliance if employers insisted on talking about wages. Since the unions came forward with their own proposals on working time policy and early retirement, however, they could no longer avoid wage policy becoming, at least indirectly, a prominent issue within the Alliance’s debates on an “employment-oriented” collective bargaining policy.

The first joint declaration of the Alliance from December 1998 mentioned collective bargaining policy only in a very general and vague way. Among many other objectives the declaration simply called for a “collective bargaining policy conductive to promoting employment” (Bündnis für Arbeit, 1998). Furthermore, during the second round of top-level talks in February 1999 the Alliance agreed to discuss a set of macroeconomic data including growth, inflation and productivity developments as well as profits and investments, which de facto frame collective bargaining. The employers went even one step further and proposed to set up a new body within the framework of the Alliance similar to the Dutch “Stichting van de Arbeid”, which should elaborate annual recommendations for the collective bargaining parties and should function as a new mediation institution (Hundt, 1999). The unions, however, rejected that proposal and declared that they would neither accept the Alliance getting any mediation function in negotiations, nor setting up “wage guidelines” for collective bargaining. Moreover, in the third round of top-level talks in July 1999 DGB and BDA presented a joint declaration as a contribution to the Alliance, which contains common viewpoints on various principles for future collective bargaining policy, such as a more differentiated and flexible working time policy and a different distribution of work (for example by an employment creating reduction of overtime or the use of working time accounts), the improvement of company related pension schemes, the priority use of “increases in productivity for employment promotion and a further flexibilisation and differentiation of collective agreements” (BDA and DGB, 1999).
Within the Alliance for Jobs, the employers’ associations pushed strongly for the position that only long-term oriented agreements and a policy of sustainable wage restraint could have a positive impact on employment. Thereby, the employers were supported by large parts of Germany’s mainstream neoclassical economists as, for example, the German Council of Economic Experts (Sachverständigenrat) who for many years have recommended wage increases below the so-called “cost-neutral margin of distribution” (kostenneutraler Verteilungsspielraum), which is the sum of increases in prices and productivity (Sachverständigenrat, 1999).

When considering Germany’s collective bargaining results in the nineties, however, the relation between wages and employment seemed to be almost the opposite of what neoclassical economists presumed. After strong increases in payments at the beginning of the nineties as a result of the German unification boom and the catching-up of East German payments, since 1993, Germany has almost continuously followed a policy of wage restraint with pay increases often (far) below the sum of increases in prices and productivity (Bispinck and Schulten, 1999). Although pay increases had usually not exceeded the “cost-neutral margin of distribution”, from 1992 Germany saw a continuing decline in the volume of employees’ working hours with only a slight increase at the end of the nineties. Wage restraint, therefore, did not only fail to promote employment, it probably even exacerbated the unemployment problem through a significant weakening of consumer demand.

In contrast to the employers’ focus on wage policy for the trade unions an “employment-oriented collective bargaining policy” has primarily been associated with a better distribution of work through working time reductions. Thus, for them the Alliance has been defined as a “test of whether or not a redistribution of work is possible with consensus” (Lang, 2000). In the meantime, the unions put various working time issues on the Alliance’s agenda, among which the issues of early retirement became the most controversially debated one.

In autumn 1998 the German metalworkers’ union IG Metall presented a new concept for “early retirement at 60” in order to improve the job opportunities for younger workers.

The existing partial and early retirement schemes have been relatively unattractive, since employees often have to accept significant losses in their pension rights. IG Metall, therefore, proposed the establishment of a special
“collective bargaining fund” (Tariffond) financed jointly by the employers and the employees, of which losses in pension rights for workers on early retirement should be compensated.

Although many employers were in favour of an improved early retirement scheme as an opportunity to reduce their workforce, the employers’ association sharply rejected the concept of IG Metall as being too expensive and too bureaucratic. Instead, the employers pleaded for the conclusion of new “flexible” early retirement schemes at company level. Overall, they reject the approach of early retirement as an useful instrument to promote employment. Critics of the IG Metall concept came also from within the unions. The mining, chemicals and energy workers’ union IG BCE, for example, made clear that it would prefer an improvement of the existing legislation on partial retirement (Altersteilzeit), which should be added by a sector-specific partial compensation payments for losses in pension rights. Other union representatives questioned more fundamentally the political focus on early retirement in collective bargaining. They criticised that the proposed early retirement concepts favour a certain generation of mainly male workers with a long-term work contract while, in particular, younger and female workers with more precarious employment conditions could not gain from those concepts. Moreover, the focus on early retirement has been criticised for blockading other trade union working time initiatives, for example, a demand for further reduction of weekly working time. All in all, the unions had no joint strategy for an early retirement initiative in collective bargaining.

Alliance’s final statement on an “employment-oriented” collective bargaining policy

After both employers and trade union representatives had threatened to leave the Alliance in case their collective bargaining concepts were not recognised, a compromise document on collective bargaining policy was finally concluded during the fifth round of top-level talks in January 2000 (Bündnis für Arbeit, 2000). According to that document, the Alliance recommends “a longer-term and employment-oriented collective bargaining policy at the forthcoming 2000 bargaining round”, whereby the “available distributive margin should be based on productivity growth and should be primarily used for job-creating agreements”. In addition, the joint statement called to find “new ways for job-creating early retirement on acceptable terms for the persons concerned and without additional costs for the statutory pension scheme”. Thereby, the collective bargaining parties aim to
“find sector- and company-specific settlements” while the government agrees to improve the legal framework conditions for early and partial retirement.

It was the first time that in the run-up to a collective bargaining round employers’ associations and trade unions had agreed on a concrete distributive margin at national level. The following disputes with the beginning of the 2000 bargaining round, however, made clear that the Alliance’s document was not able to overcome all controversial standpoints. Trade unions and employers’ association continue to have rather different views on an employment-oriented bargaining policy. Immediately after the conclusion of the Alliance’s statement on collective bargaining policy, IG Metall presented its claims for the current bargaining round of up to 5.5% increases, which should finance both pay increases and the introduction of early retirement at 60. The metalworkers’ union justified its demands on the grounds of an assumed increase in prices of 1.5%, a predicted increase in national productivity of 3.5% and the high profits within the metalworking industry. In the following weeks, many other sectoral trade unions also set out their bargaining claims, mostly for increases of between 4% and 5.5%. The employers’ associations, however, sharply criticised the unions’ demands as being “in flagrant contradiction” with the Alliance’s recent statement. Since the Alliance had limited the distributive margin to the increase in productivity, for the employers the negotiable margin in current collective bargaining has been at best 2.6%, which was the figure for productivity growth predicted by the Council of Economic Experts in autumn 1999 (Sachverständigenrat, 1999).

While the original positions of the collective bargaining parties have seemed to indicate conflictual negotiations, the 2000 bargaining round has proved to be a rather peaceful one, which led to new collective agreements in an unusually short period of time. To the surprise of most observers, the first major agreements for the chemical and metal industry were reached already after only a few negotiation rounds at the end of March 2000 (Schulten, 2000). Moreover, the agreements provide relatively moderate pay increases and improvements to partial retirement schemes while convening a relatively long duration of up to 24 months.

A particular role within the 2000 bargaining round was played by the chemical workers’ trade union IG BCE that was the only major union to refer explicitly in its bargaining claims to the Alliance’s recommendations.
After the IG BCE had already started the negotiations three months before the expiry date of its current one, it concluded the first major agreement and, therewith, took over de facto the “wage leader” function that has usually been filled by the metalworkers’ trade union IG Metall. In the preamble to the new chemical agreement, it has explicitly stated that “both bargaining parties will further strengthen the competitiveness and investments in the German chemical industry” and therefore, will “jointly follow a long-term collective bargaining policy in the spirit of the German Alliance” (IG BCE and BACV, 2000). This agreement, which received very positive reactions from the German public, this indirectly had a strong influence on the negotiations in metalworking. Finally, one week after the chemical deal, IG Metall also concluded an agreement in which they accepted moderate wage increases and gave up their original model of early retirement at 60 in favour of an improved partial retirement scheme.

However, the provisions of the new metalworking agreement caused some loud criticism from parts of the IG Metall membership, especially from those working in the highly profitable companies in the south-west of Germany. The focus of their criticism was not the failure of IG Metall’s model on early retirement but the moderate level of wage increases seen as inappropriate in relation to the overall excellent business situation. Considering an estimated “cost-neutral margin of distribution” of at least 4% in 2000, both the chemical and the metalworking agreement will definitively fail that margin. Calculated on an annual basis pay increases in 2000 will be between 2.2% in chemicals and 2.5% in metalworking, while the corresponding figures for 2001 will be 2.1% and 1.7% (Schulten, 2000).

**The impact of the Alliance on collective bargaining policy**

After more than one year of discussions, collective bargaining policy has become the most prominent issue within the Alliance. In contrast to the overall public expectations, the agreements of the 2000 bargaining round in chemicals and metalworking have proved that the Alliance can have a real political influence on the bargaining outcome. This might be positive news, in particular, for the employers’ associations, since the Alliance has a clearly pacifying effect on the trade unions’ capabilities to run their own pay claims. Moreover, some commentators have already seen the emergence of a “new era in German collective bargaining policy” (Financial Times Deutschland, 29 March 1999).
Although such an assessment might be an exaggeration, the future impact of the Alliance on collective bargaining policy will depend to a large extent on whether or not the collective bargaining parties will orient their strategies according to centrally defined distributive margins. In contrast to many other European countries, however, Germany has never been able to practise a functioning income policy for a longer period of time. On the one hand, there are structural limitations coming from the principle of collective bargaining autonomy, which could not be abolished without a major social conflict. Besides the current chemical and metalworking agreements, it seems to be rather doubtful whether there is a real political substance for a long-term national agreement on collective bargaining policy. The content of the current political exchange, which is pay restraint in return for certain partial retirement, might not be sufficient in the long run.

5.2 Promotion of employment through the extension of a low wage sector?

Besides the Scandinavian countries and the Netherlands, Germany has one of the lowest levels of wage dispersion among the European countries, caused by its specific collective bargaining system. In recent years, there have been many discussions on whether or not Germany needs to have a higher degree of wage differentiation in order to create new jobs, especially for low qualified employees, in the low wage sector. The proposals made in these discussions have varied between a direct reduction of collectively agreed payments and the introduction of a state-subsidised low wage sector. While a direct reduction of payments and the establishment of an extended low wage sector seems to be politically unacceptable for the moment, the debates currently concentrates more on the different models for public wage subsidies. Within the Alliance for Jobs, there has been a controversial debate on a proposal made by the “benchmarking group” that proposed a system of public subsidies in order to reduce the contributions to social security for all jobs with a monthly payment between 1,500 to 2,500 DEM (Arbeitsgruppe Benchmarking, 1999).

The economic justification behind the concepts for a state subsidised low wage sector is based mainly on two arguments (Bäcker, 1999). Firstly, it follows the basic neo-classical assumption that companies will only hire an employee if marginal productivity is higher than marginal labour costs. Respectively, reduced wages would give incentives to hire employees with lower qualifications and productivity. Secondly, a state subsidised wage
sector is assumed to create incentives for unemployed to take on a low paid job instead of being on public welfare.

In contrast to that, however, there were also a lot of critical positions that challenged the arguments for an extended low wage sector being favourable for employment. First of all, it was questioned whether a relatively low wage differentiation and relatively high pay levels have been responsible for the above average unemployment of low qualified employees. International comparisons have shown that the labour market performance correlates neither positively nor negatively with the level of wage differentiation. Thus, under the conditions of high unemployment high skilled employees usually lever out low qualified employees on the labour market. In that event, a reduction of labour costs would lead to a further replacement of employees but not to an increase of the overall labour demand. Moreover, since public subsidies for a low wage sector would produce many undesirable deadweights that companies would be encouraged to change normal jobs into public subsidised ones, and the net effect for the creation of additional employment would be rather limited. Finally, a state-subsidised low wage sector produced enormous public financial burdens. Different calculations have arrived at a sum of between 15 and 24 billion DEM, depending on the type and extension of the subsidy model, which would only create between 60,000 – 140,000 additional jobs (Buslei and Steiner, 2000).

From the trade union point of view, one major aspect of concern has been the fact that a state-subsidised low wage sector would directly or indirectly produce enormous pressure on the existing collectively agreed pay structure (Bispinck, 1999). Since the unions would probably lose the legitimacy to claim for wage increases in a subsidised area, these wage groups could hardly be an issue of regular collective bargaining. Furthermore, in particular, the unions in the service sector pointed out that in many services low paid jobs are already widespread without any positive effects on employment (Wiethold, 1999).

Although the parties involved in the Alliance have rather different positions on the concept of a state-subsidised low wage sector, in December 1999, they agreed to test two different subsidy models in four selected regions in West and East Germany for a limited period of three years. These regional pilot trials are to be monitored by state, employers and trade union representatives and are to be scientifically evaluated (Bündnis für Arbeit, 1999b).
5.3 Vocational and further training

In comparison to most of the other European countries Germany’s younger employees have been faced for a long time with a relatively favourable training and labour market situation. The unemployment rate of younger employees has always been clearly below the European average and the German vocational training system has had internationally an excellent reputation. In recent years, however, the situation has changed to the worst, as an increasing number of young persons were not able to find a vocational training place. It was, therefore, one of the first political initiatives of the new red-green government to relaunch an “Action-Programme to reduce youth-unemployment” that aimed at training, qualification- and job-opportunities for 100,000 young employees.

As already the official title of the “Alliance for Jobs, Training and Competitiveness” indicates, from the beginning the issue of training was given a high relevance. Thus, the source document of the Alliance from December 1998 formulated the aim that “a training place should be available for every willing and able young person in Germany” (Bündnis für Arbeit, 1998). It was further agreed that all parties involved would support the implementation of the government’s action programme as well as the development of further initiatives for the improvement of training possibilities. Regarding the latter, the Alliance established a special working group on “vocational and further training”.

The prominent role of training within the Alliance has to do with the fact that the German training system has always been regulated by corporatist institutions, so that trade unions and employers’ association have already long experiences in dealing with that issues. Both parties are jointly responsible for regulating content and implementation of the so-called “dual system” of vocational training, which combines on-the-job training with education in vocational schools. To a certain extent they can stipulate the content and certification of the training programmes and participate in the process of skill formation. Furthermore, trade unions and employers’ associations are members of the governing bodies of the Federal Employment Service through which they have a direct influence on further training schemes as part of an active labour market policy.
The issue of training is probably the only important policy field in which the Alliance has reached some real results so far:

- In February 1999 the business associations agreed that against the background of the demographic development additional in-service career training opportunities were needed and agreed to create at least 10,000 additional career training places in 1999.

- In July 1999 the Alliance agreed on a so-called “consensus on career training” (Ausbildungskonsens), which stipulates “that applicants registered at labour offices as not having been placed for career training as of 30 September will be offered a training opportunity in the field of their choice at a location close to home as possible under regional circumstances” (Bündnis für Arbeit, 1999a). In addition to that, regional conferences on vocational training should be held twice a year in order to evaluate the regional training situation and to mobilise additional apprenticeships.

- Furthermore, all parties involved have agreed on a considerable need for the training of additional skilled personnel in information and communications technologies and, therefore, have demanded to increase the volume of career training in new information technology professions from 15,000 to 40,000 over a period of three years.

- In October 1999 the Alliance’s working group on training agreed on guidelines for a structural modernisation of vocational training system, which aim at the modernisation of skill formation based on the principle of employability.

- Finally, in February 2000 the Alliance’s working group on training adopted a joint declaration on the future development of further training and lifelong learning. All parties involved have aimed at a higher rate of participation in further training, in particular of those groups of employees who have no professional qualification.

Despite these joint agreements, more controversial issues are still debated. The trade unions have criticised the employers for not fully keeping their commitment on the creation of new training places. If the employers continue to miss the targets of the Alliance the unions will come back to their earlier demand for an alternative system of inter-company funding of vocational training whereby every company has to pay a certain sum to a vocational training fund.
5.4 Tax and fiscal policy

A more fundamental reform of tax and fiscal policy was from the beginning one of the major tasks of the new “red-green” government. Regarding tax policy, a reform of the income tax should reduce the tax burdens of employees and their families in order to strengthen purchasing power and to produce more social justice in the system of taxation. In addition to that, a corporate tax reform should produce a sustainable tax relief for small and medium sized enterprises. Finally, the introduction of a new “Eco-tax” should increase the taxes on energy consumption, while the additional revenues of that tax should be decreased for a reduction of non wage labour costs. Regarding fiscal policy the new “red-green” government aimed at a policy of budget consolidation, which at the same time “corresponds with the cyclical situation and safeguards a higher as possible level of future-oriented public investments” (SPD and Alliance 90/The Greens, 1998).

The displacement of more Keynesian-oriented positions within the German government in 1999, however, has led to some significant changes in the focus and content of fiscal and tax policy (Hickel, 1999). While budget consolidation became the most outstanding issue of fiscal policy, the corporate tax reform has been widened with new tax relief measures that particularly favour, larger corporations and shareholders (Hickel, 2000). The most important measures regarding tax and fiscal policy were as follows:

- Eco-tax: taxes on electricity, mineral oil and fuel have been raised in exchange for a reduction of social security contributions to the statutory pension system. Further increase in the Eco-taxes and reductions of social security contributions are planned in the forthcoming years.
- Income tax: between 1998 and 2005 there should be a step-by-step reduction of income tax leading to a decrease of the basic tax rate from 25.9% to 15% and of the top tax rate form 53 to 45%. The basic tax-free allowance will be increased step-by step from DEM 12,300 to DEM 14,000.
- Corporate tax: the taxation will be reduced from 40% to 25% for retained profits and from 30% to 25% for distributed profits. The tax cuts should partially be compensated by a broader corporate tax basis and a reduction of depreciation possibilities.
- Relief for corporations and shareholders: The taxation on profits out of speculation will be cut in half while the existing taxation on profits made by sales of company-shares will be abolished.
Budget consolidation: The government aims to bring down annual public deficits to zero by 2006. The state ratio (Staatsquote) should be reduced from 48.5% in 1999 to 45% in 2003. The latter implies a cut in the federal budget of DEM 30 billion whereby the largest parts should be financed by cuts in social expenses as, for example, through a cut in the increase of pensions and unemployment allowances.

The role of the Alliances for Jobs regarding tax and fiscal policy was mainly to organise support for the governmental programmes. In its first joint declaration the Alliance expressed its support for the “implementation of the reform of the corporate tax system ... in particular to ease tax burdens in small and medium-sized business”, as well as for a “sustained reduction in statutory non wage labour costs” (Bündnis für Arbeit, 1998). Thus, a special working group on “tax policy” was established within the Alliance in order to discuss the details of a tax reform. In a further statement the Alliance has explicitly welcomed “the direction shown by the German government’s plan for corporate tax reform” and has supported the plan of cutting corporate taxes as “appropriate to promote investment activity in general and in particular to increase Germany’s attractiveness as a place for international direct investments” (Bündnis für Arbeit, 1999a).

6. Germany’s social pact: competitive corporatism and beyond?

Following the foundation of the Alliance for Jobs in December 1998 Germany saw the establishment of new macro-corporatist institutions that were primarily expected to make a major contribution to the reduction of unemployment. Moreover, the new social-democratic led German government has declared the establishment of a national social pact as one of its core political projects in order to create a new institutional basis for some fundamental reforms of the German model. Indeed, after more than one year, the Alliance has already shown a high number of activities in different policy fields. Right from the beginning, however, the Alliance was accompanied by controversial debates on whether a national social pact is a suitable way to enforce employment-creating measures.

A fundamental criticism focuses on possible structural blockades for a successful corporatism within the German institutional model. One of the main arguments coming from an institutional perspective is that in Germany the labour market organisations are structurally “too strong” and the state is
structurally “too weak”, that makes it almost impossible to promote structural reforms within a national corporatist Alliance (Berthold and Hank, 1999). On the contrary these critics see a clear danger that the labour market parties would use the Alliance mainly for a blockade of political changes. This kind of criticism usually focuses in particular on the German trade unions. The latter have very much the image of following old-fashioned political concepts and have been sharply criticised “for running the risk of missing the only possible subject for a national employment pact in the nineties” that is a “fundamental revision of the existing labour market institutions” (Streeck 1999b: 2-3).

There is, of course, some evidence in the institutional analysis of the German social pact, since both employers and trade unions are using the threat of a withdrawal from the Alliance to pressure the government for their own political purposes. The outcome of a national social pact, however, depends not only on the institutional framework conditions but is also a result of social conflicts and political hegemony. When it comes to the question of an adequate agenda for the Alliance most institutional analysis has a rather deterministic and one-sided view. Following the “given constraints” of a globalised economy, there seem to be no doubts that “the reduction of labour costs, the flexibilisation of labour markets and the improvement of incentives to accept a job” have to be the “main topics” of every national employment pact (Streeck, 1999b: 3). Moreover, the fact, that most social pacts in Europe focus on the issue of labour market and welfare state reforms in order to reduce overall labour costs, seems to indicate that Germany has to follow the same pattern (see contribution by Anke Hassel and Bernhard Ebbinghaus in this volume).

6.1 Supply-side corporatism and the absence of the macroeconomic dimension

Considering the formal agenda of the German Alliance, it is actually not so much different from that in other European countries. The main topics, which have been defined from the beginning as common aims, were the reform of the tax system in order to reduce taxes, the reform of social security system in order to reduce non-wage labour costs, the improvement of vocational and further training as well as the differentiation and flexibilisation of labour markets. Even collective bargaining and wage policy, which originally caused strong controversial debates, have become a central issue within the Alliance. All initiatives, however, have focused almost exclusively on the supply-side of the economy and were driven by the
overall aim of improving competitiveness. Accepting the assumption that the improvement of competitiveness is the crucial element for promoting employment, the German social pact becomes an example for a new form of “supply-side” or “competitive corporatism” (Rhodes, 1998).

Under the political dominance of the “New Centre” Social Democrats the German government has focus primarily on a “left supply-side approach.” After a majority of Social Democrats have said goodbye to Keynesianism, they principally have lost an economic theory that is based on the idea of a macroeconomic intervention into market relations (Heise, 1999). Critics argue that this makes them “wide open to simple business definitions of the public interest because ... [they have] no other reference point” (Hutton, 1999: 99). The same is true for the currently existing form of social pacts in Europe. In contrast to the classical “social corporatism” of the sixties and seventies, the new “competitive corporatism” of the nineties reflects a change in power relations between both sides of industry that has led to a new content of the “political exchange” within corporatist arrangements: “While in the past the trade unions were more or less able to select what they wanted to get in return for their support, today the unions have little more to win than the fact that they continue to be part of the game” (Streeck, 1999b: 5).

The concept of “competitive corporatism”, however, has been criticised in terms of its ideological content, because it simply follows the “pensée unique” within mainstream economic thinking that politics has lost its capacities for market-modifying or market-correcting interventions. Moreover, since the new German social pact has mainly dealt with supply-side economics so far, it runs the risk of missing the major reason of Germany’s high unemployment, which is not at all the lack of competitiveness but essentially the lack of internal and public demand caused by a monetaristic macroeconomic regime. An alternative view offered by a “New Keynesian” oriented approach would be a national social pact which is complemented by a national “macroeconomic dialogue” aiming at an employment-oriented cooperation of fiscal, monetary and wage policy (Hein and Heise, 1999).

6.2 Social pacts: enforcing national competition or strengthening European coordination?

One of the most problematic aspects of “competitive corporatism” is the fact that it simply transfers the microeconomic logic of competition between companies to a macro-level that leads to the idea of a “competition between
Alliance for Jobs – is Germany following the path of “competitive corporatism”?

states” or “regime competition”. Thus, the level of employment and overall social wealth depends on the level of national competitiveness, which has to be permanently improved. The agenda of the social pacts follows exactly these targets, since it focuses mainly on cost-cutting strategies aiming at institutional reforms that allow a substantial reduction of taxes, wages and social security contributions. While such a strategy might function well as a niche strategy of, in particular, smaller countries, it cannot work at all if all European states enter into the race of “best bad practices”. Under the conditions of the European Monetary Union permanent reductions of taxes and labour costs are equivalent to real depreciations that might set in motion a deflationary spiral and could destabilise the whole macroeconomic system (Flassbeck, 1999).

From a European perspective the concept of “competitive corporatism” is based on a beggar-thy neighbour policy, which aims at national benefits at the expense of other countries. Hence, it is highly questionable whether existing social pacts in Europe have really contributed to an increase in employment or have simply led to a redistribution of unemployment among European states (see the contribution of Andrew Martin in this volume). A policy of strong wage restraint, for example, which has always been the prime aim within social pacts, could only have positive effects on employment if the improved price competitiveness leads to a significant promotion of exports that is able to overcompensate the losses of internal demand. The effects of such wage moderation strategies are, however, always limited since sooner or later it will provoke similar counteractions in other countries. Given the real wage developments in Europe one can observe that in most countries real wage increases have been more or less constantly below the increases in productivity since the eighties. The shift from a former “productivity-oriented” towards a “competition-driven” wage policy has already started a European downward competition that has led to a permanent fall in the wage share of national income with a massive redistribution from labour to profit income (Schulten, 1998).

The alternative to a negative scenario of downward competition would be an intensified coordination of macroeconomic policy at European level. Such an alternative approach of a new “Euro-Keynesianism” would need at least three political and institutional requirements. The first is the macroeconomic coordination at national level that overcomes the one-sided orientation of “competitive corporatism” with a greater emphasis on the development of internal private and public demand. The second is a European coordination
within the different policy fields. The existing Europeanisation of monetary policy by the European Central Bank has to be complemented through a European coordination of wages policy by the collective bargaining parties and a European coordination of fiscal and tax policy by the national governments. Thirdly, the Europeanisation of economic policy has to be completed by a macroeconomic dialogue at European level, which is more than the currently existing “secret society” of back room talks between representatives of European peak organisations but becomes an open forum for politicising debates on European economic policy and its responsibility for employment and social cohesion.

The realisation of a new “Euro-Keynesianism” would finally require a more fundamental reorientation of socio-economic policy both at national and European level. In that context some of the existing national social pacts in Europe might be proved to become a major blockade for a renewal of economic policy in Europe. In the area of wage policy, for example, the national commitment of trade unions towards a competition-oriented policy of wage restraint systematically undermines the recent efforts of European trade unions to coordinate national collective bargaining and to develop a new concept for solidaristic wage policy in Europe (Schulten and Bispinck, 1999).

6.3 Beyond competitive corporatism

Since the intention of the Alliance for Jobs is a more fundamental modernisation of German capitalism, it aims at a revision of socio-economic institutions that have traditionally represented a certain balance of power relations and have marked in their material substance a particular “distributional compromise” (Verteilungskompromiss) based on political redistribution of market results (Hengsbach and Möhring-Hesse, 1999). Hence, the necessity for a change of the German model is not in the first place caused by new anonymous market constraints but by a significant change in power relations whereby large parts of German business and politics are questioning the existing mode of redistribution. The logic behind the concept of “competitive corporatism”, thereby, is based on a fundamental revision of social solidarity: “In trying to adopt to the new economic circumstances, national communities seek to defend their solidarity, less through protection and redistribution than through joint competitive and productive success - through politics, not against markets, but within and with them, gradually replacing protective and redistribute with competitive and productive solidarity” (Streeck, 1999a: 5).
It is in many respects doubtful, if the conception of “competitive solidarity” could become a stable base for a new social model. First of all, it makes the society’s ability of acting in a solidaristic way totally dependent on its competitive success. There is, however, no evidence for the neoclassical idea that a globalised free market system would lead to an overall positive-sum game. On the contrary, it is more likely that increasing international competition is even leading to a polarisation of winners and losers, whereby often the first have gained at the expenses of the latter. On reflection, therefore, “competitive solidarity” seems to be based to a large extent on an externalisation of costs to other countries. Secondly, the conception of “competitive solidarity” simply accepts a further polarisation of income levels and wealth, since income becomes directly related to individual economic performance while “social cohesion is sought, not through equal outcomes, but through equal opportunity” (Streeck, 1999a: 9). Thirdly, “competitive solidarity” does not deny the idea of redistribution at all. The core of this conception is actually a political taboo for a redistribution of capital income through higher corporate taxes, wages etc. On the other hand, as most social pacts in Europe indicate, there is a strong tendency for a redistribution from labour to capital income, for example, through wage restraint or reduction of corporate taxes. Therefore, “competitive corporatism”, which follows the logic of “competitive solidarity”, might be better interpreted as an institutionalisation of redistribution in favour of capital.

Considering the given social power relations and political hegemony in Europe it is of course difficult to imagine what might be an alternative conception for social pact that goes beyond “competitive corporatism”. Rather than denying the idea of a “redistribute solidarity”, it would require a modernisation of the old social democratic principles such as redistribution, universalistic welfare and macroeconomic regulation. In order to re-conceptualise social democracy the “first condition for any successful social democratic regime” would be “an international economic architecture that allows countries to forge and sustain their own unique social contracts” (Hutton, 1999: 101). Thus, social pacts in Europe would have to overcome their national bias and would have to develop an integrated strategy for a cooperative macroeconomic policy at national and European level. Finally, the issue of a fair redistribution of income and wealth, as well as of employment and overall individual opportunities would have to play a major role in the agenda of a renewed form of “social corporatism” (Hengsbach and Möhring-Hesse, 1999).
The developments after the election of a new social democratic-led government in Germany have shown that attempts at an alternative socio-economic approach have provoked strong resistance, in particular, from German business. Moreover, the short history of the Alliance for Jobs made obvious that in many policy fields the parties involved have rather different conceptions which makes it difficult to find sustainable compromises. Therefore, social pacts seem to work on the basis of “antagonistic cooperation”, which accepts different economic and social interests but tries to deal with political and social conflicts in a cooperative way.

Against that background it remains an open question whether or not the Alliance for Jobs could become the central project for a more fundamental employment-oriented reform of Germany’s social and economic policy. The answer is highly depending on the development of power relations between the parties involved. In order to gain political support for an agendas beyond competitive corporatism it has always been clear – at least for the German trade unions - that the necessary cooperation within the Alliance has to be accompanied by a social movement.

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Social Pacts in Hellenic Industrial Relations: Odysseys or Sisyphus?

Christos A. Ioannou

1. Introduction

In a paper on the impact of Economic and Monetary Union (EMU) on Hellenic industrial relations (Ioannou, 1998) I suggested that the “Pact of Confidence”, signed in Greece in November 1997 (Pact of Confidence, 1998), should be evaluated next to other European Social Pacts (Fajertag and Pochet, 1997). This paper provides an analysis on whether and to what extent the Hellenic national system of industrial relations has followed the trend observed in other European countries, towards the development and implementation of Social Pacts. It also discusses the prospects and the determinants of concertation in the Hellenic industrial relations.

From this point of view, this paper re-examines a set of earlier conclusions (Ioannou, 1998), by taking into account recent developments and by putting all developments in an historical perspective. First, this paper examines the conclusion that the impact of the 1997 “Pact of Confidence” was rather weak but helped outline the requirements of an effective social dialogue in Greece. Second, the paper examines the conclusion on the failure to develop a social dialogue model of industrial relations during the ante-EMU period, and the explanation that this failure has been associated with diverging views and attitudes on EMU, as well as historical weaknesses of organised interests of employers and workers.

With regard to the prospects of concertation in national industrial relations this paper re-examines the hypothesis that the determination of the Greek government to get the country into EMU by 2001, and the social partners’ agreement that exclusion from EMU may have the dimension of a national crisis, could have provided some preconditions for moving again towards another Southern-European Social Pact. To put it in a schematic way the Government was considered to have two alternatives. Either “to appeal directly to the public and bypass vested interest”. Or to insist on the concertation and the social dialogue way in order to attain convergence of policy objectives based on a Social Pact with trade unions and employers associations.
Two years after the 1997 “Pact of Confidence”, we have more definite answers on whether in the Hellenic national system of industrial relations the trend towards concertation and Social Pacts is observed. The fact is that the Government, by not following firmly a concertation direction, have provided a rather negative answer to the question as to whether the social dialogue model can flourish in the Hellenic system of industrial relations. The discussion is developed in the context of the alternative theories that summarise different aspects of concertation between trade unions, employers associations and the governments. Social Pacts are broadly defined as types of concertation and centralised tripartite agreements (Pochet and Fajertag, 1997) aimed at achieving social and macroeconomic policy goals at the national level (see contribution by Hassel and Ebbinghaus and contribution by Negrelli in this volume). Traxler (1997) reminded us of the relevant past terminology on “political exchange” and “corporatism” (or “neocorporatism”) and drew attention to the different approaches used: the former focusing on interests and strategies, and the latter on structures. He also clarified the link between structures, interests and strategies by noting that, from a genetic or historical angle, the successful implementation of a key pact leads to the emergence of corporatist institutions.

The first chapter examines the recent developments in Greece with regard to social pacts and social dialogue against the tradition and the history of the national system of industrial relations. The second chapter examines the changing roles and levels in the bargaining structure, as a result of diverging orientations of employers, trade unions and the government. The third chapter presents and discusses the conclusions of the analysis.

2. From Etatisme to “stop-go” social dialogue

In Greece during the decades of the 20th Century, the national system of industrial relations was dominated by a tradition of strong state interventionism in the regulation of industrial relations. State regulation applied to wage determination as well as to trade-unions’ activities. Although the degrees of direct or indirect interventionism and regulation varied, the etatiste pattern remained dominant until the early nineties. In the late thirties the national system of industrial relations was organised across state corporatist lines under a dictatorship (Metaxas dictatorship 1936-1940) that imitated nazi and fascist regimes of that period. Most of these state corporatist elements in the
national system of industrial relations remained untouched in the early fifties when, after a civil war, industrial relations were reorganised.

However, the national system of industrial relations has been evolving since the mid seventies. It was the return to parliamentary democracy in 1974 that led to the development of mobilisation and the emergence of conflict that challenged the traditional pattern of state corporatism in industrial relations regulation. Trade unions’ rights became formally established in 1982, but it was in 1990 that the traditional state intervention in wage determination (through state controlled compulsory arbitration) ceased. The nineties have seen major signs of change. Direct state intervention in wage determination stopped and, from this point of view, we could talk about the emergence of collective bargaining. Direct state intervention in the regulation of internal affairs of trade unions also became minimal. Indeed, new bipartite and tripartite institutions resulted from collective bargaining between trade unions and employers associations and social dialogue with the government (Ioannou, 1996).

The rhetoric about the need for social dialogue emerged gradually, in the late eighties and early nineties, as part of the tactics and strategies of trade unions, employers associations and governments in office. For years there has been an expanding political rhetoric debate, of a normative character, on the virtues of social dialogue. The founding of new bipartite and tripartite institutions can be perceived as the outcome of this emerging social dialogue rhetoric and/or approach – that was heavily influenced by the Delors presidency of the EU Commission. In this category belong the tripartite Organisation for Mediation and Arbitration (OMED – Οργανισμός Μεσολογγίας και Διαρροής) founded in 1991, the bipartite Hellenic Institute for Occupational Health and Safety (ELINYAE – Ελληνικό Ινστιτούτο Υγείας και Ασφαλείας της Εργασίας) founded in 1993, the tripartite Economic and Social Council (OKE – Οικονομικό και Κοινωνικό Επίμελη) founded in 1995 and the tripartite National Labour Institute (EIE – Εθνικό Ινστιτούτο Εργασίας) founded in 1996. Of these new institutions, the Economic and Social Council (OKE) is supposed to play a pivotal role in economic and social policy. OKE’s institutional role is to express reasoned opinions before the enactment of legislation on labour relations, social security, taxation, regional development, consumer protection etc.
OKE is not the first consultative tripartite body in the history of Hellenic industrial relations. Attempts to introduce and operationalise consultative tripartite bodies date back to the thirties. Since then, a new tripartite body has emerged in every decade, that in the history of national industrial relations has gone rather unnoticed. In 1930, the Labour Council (SE – Συμβολισμός Εργασίας), which had a consultative role, was created. In the fifties it was the Council of Social and Productive Classes (SKPT – Συμβολισμός των Κοινωνικών και Πολιτικών Τάξεων). In the sixties it was the Economic and Social Council (OKS – Οικονομικό και Κοινωνικό Συμβολισμό). In the seventies, the Consultative Council for Labour and Social Policy (GSEKP – Συμβολιστική Επαναστατική Εργασιακής και Κοινωνικής Πολιτικής) was created and later, after the return to parliamentary democracy, the Council for Social and Economic Policy (SKOP – Συμβολισμός Κοινωνικής και Οικονομικής Πολιτικής) was founded. In the eighties it was the National Council for Development and Planning (ESAP – Εθνικό Συμβολισμό Δημιουργικής και Προγραμματικής). From these consultative bodies all but one (the Labour Council that operates as Higher Labour Council – Άνωτα Συμβολισμό Εργασίας in the Ministry of Labour) have disappeared. Despite the good intentions of those that designed, founded and operated these consultative tripartite bodies, their influence, over the short periods of their operation, in shaping economic and social policy remained marginal, if any at all. This is mainly due to the fact that their members were not representative of the parties involved, mainly because the labour unions were directly regulated by the state and that official trade-union leaders were appointed by the Ministry of Labour. In addition, the pattern of policy making was etatiste, policy outcomes were not influenced by any consultative process and policy implementation normally bypassed the consultative bodies. In other words there was no room – and probably, due to the weakness of labour and employers interest groups there was no need – for any kind of concertation in policy making and implementation. Until the late eighties those advocating and supporting tripartite concertation performed a Sisyphean role. From time to time governments accepted proposals for institutional reforms by setting up tripartite consultative bodies, but these soon lost momentum and their initial objectives were not met. Their short life-cycle ended after they ceased operations either formally (with a new law) or informally (with nobody asking them to convene and play their role). To this, contributed the lack of political stability until 1974, as well as the lack of continuity in the leadership and structures of the General Confederation of Greek Labour (GSEE – Γενική Συνεργασία Εργατών Ελλάδος) in the period 1974-1989 (Ioannou, 1996 and 1999a).
However, the Sisyphian role started seeming like an Odyssey in the early nineties. It was in a short period of a Parliament without any political party holding the absolute majority to form a one-party government, with a coalition ecumenical government, that the long overdue reform of the etatiste system of wage regulation and collective bargaining was introduced, abolishing the state controlled compulsory arbitration. In that reform the national representatives of the labour unions and the employers confederations have had an active role and the new law on collective bargaining was in fact the outcome of mutual agreement of the social partners and of consultation with all the political parties. Since the early nineties, have the prerequisites for a more central role of the tripartite institutions and concerted action of trade unions, employers associations and governments been developed? Are the changes in the nineties part of an Odyssey towards tripartism in economic and social policy making, or is the Sisyphian cycle continuing?

The social dialogue rhetoric with regard to economic and social policy making originated mainly from the side of the PASOK (Πανελλήνιο Σοσιαλιστικό Κίνημα) socialist party. The PASOK party, which had been in office in 1981-1989, came to power again in October 1993, after four years in the opposition. PASOK also won an early election in 1996. While in the opposition, the PASOK had drafted an alternative Convergence Plan in order to lead the country into EMU by 1999. Social dialogue and the social contract were considered as the means for dealing with macroeconomic imbalances of double-digit inflation and fiscal deficits that had been dominant since the mid seventies (PASOK, 1993). Despite the rhetoric of the opposition period, the revised Convergence Plan of the PASOK party in government paid little attention to Social Contract settlements. The PASOK government opted not to follow a Social Contract corporatist strategy based on incomes policy or other policy issues. With hindsight, we argued (Ioannou, 1998) that incomes policy may have provided the basis for a Social Contract or Pact. It is noteworthy that in the period 1991-1993 real wage growth was negative and, therefore, while another austerity period was not feasible, a proposal for nominal wage restraint without real wage cuts could have been a basis for social dialogue. The Government put forward a similar proposal, with a three year delay, in spring 1997 when the Government launched the “National Social Dialogue” for the “Pact of Confidence between the Government and the Social Partners on the way to 2000” (Pact of Confidence, 1998). The opportunity to develop a social
dialogue concerning EMU from the very beginning of the convergence period in 1993 was not grasped and since then PASOK governments have attempted to introduce, without success, elements of social dialogue on an ad hoc basis.

In April 1997, following months of preparation, announcements and in-party debates, the Prime Minister launched the “National Social Dialogue” by inviting the main national labour market interest groups and a long list of sectoral level organisations, local government institutions, economic chambers etc. (a total of 18 organisations) to participate in a social dialogue on 19 thematic topics in the area of Competitiveness, Development and Employment. No analysis or proposals followed the list of thematic topics. Indeed, the procedure of social dialogue was not clarified from the beginning. The initiative met with scepticism and criticism. The GSEE considered the topics inadequate because taxation and social security were excluded from the proposal of the Government. The Government promised further rounds of social dialogue on the social security reform. The initiative went stray for months, but the Government was successful in bringing the initiative to an end, in November 1997. Together with the GSEE and two out of the three employers’ associations (SEB – Σίδεσμος Ελλήνων Βιομηχανών, ESEE – Εθνική Συνομοσπονδία Ελλήνων Εμπορίου). They (SEB and ESEE) signed a “Pact of Confidence” (Pact of Confidence, 1998), a lengthy document covering most areas of economic policy without any direct reference to EMU. The GSEE chairman was able to sign the Pact, amidst inter- and intra-union turmoil by counting his single vote as double (according to the GSEE board regulation for cases of lack of majority). Overall, rather than having immediate implications, the Pact has been considered as a guideline for future policies. It is noteworthy that the Economic and Social Council (OKE) which had been founded in 1995 with the role to express reasoned opinions (it is mandatory) before the enactment of legislation on labour relations, social security, taxation, regional development, consumer protection etc., was excluded from the process of the National Social Dialogue initiative. The 1997 initiative for “National Social Dialogue” came rather late, its content was partial and generalist, and proved to be ineffective, as it failed to lead to an encompassing agreement.

After the difficult completion of the social dialogue initiative and the signing of the 1997 “Pact of Confidence”, not surprisingly the Government reversed to the tradition of unilateral policy making. This is not associated only with
short-term political calculations to reach convergence objectives with emergency measures, and the governmental lack of willingness to put macroeconomic policy on the bargaining table. It is also associated with the fact that trade unions were not prepared to enter an encompassing Social Pact with trade-offs. The reversal to more traditional and unilateral policy making followed again in 1998-1999, after the failure of further governmental initiatives for social dialogue. During the launch of the National Social Dialogue in April 1997 the GSEE had criticised the initiative because of the exclusion of social security reform and of taxation policy from the agenda. In March 1998 the Government announced its plans for social dialogue on the reform of the widely fragmented social security system, which has been producing huge deficits. The Ministry of Labour and Social Security was supposed to design both the content (policy proposals) and the machinery (participants, working groups, timetables) for launching the national social dialogue on social security reform. The objective was for the dialogue process to be completed by June 2000, so that, after appropriate legislative work, the new system would be effective from 2001. However, in a rather unexpected move in February 1999, the Prime Minister decided to postpone the initiative. The reason given was that the governmental proposals should be further elaborated. In fact, on social security reform the views of trade unions, employers and governmental institutions are diverging. Trade unions strongly oppose any reform in line with the recommendations of international organisations, governmental reports and employers proposals. The initial reform of 1992, under a right-wing neoliberal government, had caused major disputes and record levels of strike activity. The PASOK governments since 1993 opted many times to put social security reform lower on the policy agenda. This is happening again, as the social security reform is to be on the agenda after the April 2000 national elections.

The reversal from social dialogue to unilateral policy making became obvious, and rather rampant, after the postponement of the social dialogue on the social security reform. This is not unexpected, as another earlier initiative for social dialogue had also failed. In an earlier governmental initiative for social dialogue the Ministry of National Economy and Finance had announced in January 1999 a social dialogue scheme concerning taxation reform. It is noteworthy that taxation reform has been an issue put forward by the GSEE in every case of social dialogue initiative, as well as in every annual debate on the national Budget in the Parliament. A 24 hour
strike of the GSEE and the ADEDY (Ανώτατη Διοικητική Επόμενη Δημοσιονομική Υπηρεσία) (civil servants confederation) with a major demand on taxation reform has become a tradition during the period of Budget debate in the Parliament. However, the governmental initiative failed to bring the GSEE (and ADEDY) representatives around the table for social dialogue. GSEE decided not to participate in the governmental initiative and send its written proposals to the political parties and to the Government. Thus the initiative for social dialogue on taxation reform was abandoned. Shortly after this, the Prime Minister decided to postpone the initiative for social dialogue on social security reform.

However, in the 1999 updated convergence plan, the Government acknowledged the need to reform the social security system and announced a second phase of social security reform, which is on the agenda for the next parliament, aimed at the long-term viability of the social security system. In the first phase the number of social security funds was reduced from 215 to 150 with the merger of various complementary social security funds and measures have been taken to contain administrative, pharmaceutical and diagnostic costs, to rationalise pension fund management, to combat social security contributions’ evasion and to limit the ability of those receiving a pension to be employed. In other words, it is not that the policy is not implemented, it is that the process of policy implementation relies less on concertation.

Overall, the analysis suggests that the period 1993-1999 is characterised by "stop-go" policies with regard to social dialogue initiatives towards the conclusion of Social Pacts and tripartite agreements. “Stop-go” with regard to social dialogue initiatives has, to a certain extent, discredited this tool for economic and social policy making. If to be a signatory party in a social dialogue agreement is a small privilege that the party exchanges for the concessions agreed, these "stop-go" policies abolish the privilege. Indeed, the initiatives seem to be fragmented with regard to the topics that are to be on the social dialogue table. For instance, in the initiative for taxation reform the Government was prepared to make concessions in the form of higher tax exemptions for salary and wage earners – and it made them, after all, unilaterally. In the initiative for social security reform, the Government had to ask for concessions from the trade unions. The exchange – although unequal- could have been feasible. But “stop-go” policies on the one hand and partial and ad-hoc bargaining on the other minimised the possibility of qui pro quo between the Government and the trade unions.
“Stop-go” policies on social dialogue may to a certain extent be attributed to the lack of firm will of the Government to go through the processes leading to Social pacts. It is noteworthy that within the PASOK socialist party and within its government diverging views persist: some believe that social dialogue is “nonsense”, while others insist that it is the essence of PASOK policy making. After all, it appears that employment policy (mainly the specific structural measures to deal with unemployment), as incorporated in National Action Plans, remains the only policy area in which social dialogue has been active and continuous. This is largely attributed to the EU drive for involvement of the social partners in the design and implementation of National Action Plans for EU employment policy. Otherwise governmental social dialogue initiatives face difficulties as they lack continuity, and social dialogue institutions remain weak, due to the weakness of the social partners and the lack of a major boost from the governmental side. Indeed, Government acts reluctantly when having to legislate for the implementation of the social partners bipartite agreements on non-pay issues. Because of the legalistic character of the regulation of industrial relations in Greece, it is in most cases necessary for the Government to legislate so that the agreements become operational. This has been the case with regard to the creation of a bipartite fund for employment promotion and vocational training (LAEK – Λογιστικά Νομικά και Αποτρικώματα και Εκπαιδευτικοί Καταρτισμοί) which was agreed by the partners in 1991 and was legislated by the Government late in 1994. The same is observed now with regard to the recent agreement, early 2000, of the social partners to finance social security and social protection measures for long-term unemployed workers above the age of 55 in order to assist them to fulfil pension rights. It is not the first time that GSEE and SEB representatives have called upon the government to legislate without delays for the implementation of the social partners agreements that bear no cost for the Government and its budget.

3. Bargaining behaviour and old structures with new roles

Wage restraint has been a major objective of convergence plans for EMU and of Social Pacts. Hellenic convergence plans (Ministry of National Economy, 1993, 1994, 1998a, 1998b, 1999) have considered wage restraint as a major prerequisite for curving two-digit inflation and meeting the Maastricht criteria. All convergence plans have stated explicitly the norms (and the targets) for changes in unit labour costs as well as for nominal wage growth (table 1).
In Greece wage formation in the private sector and in public sector utilities is based on collective bargaining. According to the collective bargaining system, in force since 1990, the bargaining structure comprises agreements that fall into four categories:

- The National General Collective Agreement (EGSSE – Εθνική Γενική Συμφωνία Εργασίας), that sets minimum wages and salaries pertaining to workers all over the country and signed by the GSEE on the one hand and the three employers’ confederations (SEB for Industry, ESEE for Commerce and GSEBEE for Small Enterprises) (Γενική Συμφωνία Επιχειρηματικών Επιμέρους Εμπορίου Ελλάδος) on the other.
- The Sectoral or Industry Collective Agreements covering employees of many companies of the similar or related industries or sectors and signed by industry Federations of employers and workers.
- The Company Collective Agreements covering the employees of a single firm or operation and signed by company or plant level trade unions and the management.
- The National Occupational and the Local/Regional Occupational Collective Agreements, covering employees engaged in a specific occupation or profession, at the national or local level and signed by employers federations and occupational trade unions.

As elsewhere in Europe, in the Hellenic system of industrial relations the bargaining structure is dominated by sectoral or occupational agreements. The practice has been that rates of wage increases settled in the EGSSE are improved upon by Industry, Occupational (National or Local) and Company collective agreements, but with regard to wage restraint the EGSSE is the primary target of wage policy. The second target of a policy wage restraint is the control of wage-drift at the sectoral or occupational level. Developments with regard to EGSSE wage growth and wage drift at the sectoral level are presented in table 2.
Table 1: Convergence programmes 1994-2002
Macroeconomy and labour market – Outcomes and targets

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</tbody>
</table>

* Provisional Data.
** According to National General Collective Agreements.
*** Manufacturing with more than 10 employees.

**Source:** The Convergence Programmes of the Ministry of National Economy and Bank of Greece. CP(2) is the first revised programme drafted in January 1994 by the new PASOK government elected in the October 1993 election. CP(3) is the updated 1994-99 programme that was updated in January 1998. CP 1998-2001 is the programme revised in June 1998. CP 1999-2002 is the December 1999 update of the convergence programme.
Table 2: Minimum wage growth and wage drift by sector (1990-1998)

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<td>3.5</td>
<td>6.3</td>
<td>10.7</td>
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</tbody>
</table>

* not available data

Notes: Wage Drift is calculated as the difference between the wage growth rate of the National General Collective Agreement (EGSSE) and the actual wage growth rate. The wage drift from the industry collective agreements is the difference between the EGSSE wage growth rate and the sectoral or occupational collective agreements average wage growth rate.

Source: Elaboration of data of Bank of Greece.

The governmental failure to reach objectives concerning moderate wage growth and inflation in 1994-1997 (Ioannou, 1998 and table 2) led to setting up the Commission on Long-Term Economic Policy (1997). The commission was appointed by the Prime Minister, suggesting that, in order to meet EMU criteria for inflation, industrial collective agreements should not contain (at least for the convergence period) provisions on wages and salaries and should deal only with non-pay institutional issues. The role of EGSSE has been also contested, in the beginning of the 1998 bargaining round, by the leading employers’ Confederation (SEB for industry), which claimed that the rates of minimum wage growth agreed by the EGSSE should, in most cases, be reinforced at lower levels by sectoral or occupational agreements. In fact, both the governmental commission and the employers’ Confederation asked for a new role of the EGSSE and concertation with regard to wage formation within
the existing levels of the bargaining structure. On the trade union side, GSEE and national Federations opposed both proposals by insisting on free collective bargaining and on the traditional role of sectoral, occupational and company collective agreements.

Pressure for change in the operation of the bargaining structure, however, was crystallised in different ways. Firstly, in the nineties the tradition of annual National General collective agreements (EGSSE) was abandoned. During the seventies and the eighties EGSSEs were of annual duration, but in the nineties they have principally been of two-year duration (1991-1992, 1994-1995, 1996-1997, 1998-1999). This change developed in parallel with the abolition of automatic indexation that was used during the eighties. In the nineties, the projected inflation has been used as a basis for bargaining rates of wage growth. Two-year EGSSEs have always incorporated falling rates of projected inflation during their second year, and have thus contributed to descaling rates of wage growth.

Secondly, since the mid seventies a comparability and wage leadership factor emerged, becoming fully operational in the late eighties and the nineties. It was mainly led by the strongholds of trade unionism in Greece, i.e. the company Federations of the telecommunications organisation (OTE – Οργανισμός Τηλεπικοινωνιών Ελλάδος), the public power corporation (DEH – Δημόσια Εφορεία Ηλεκτρικών) and the Federation of Banking Employees (OTOE – Οργανισμός Τραπεζικών Οργανώσεων Ελλάδος). A generalised trend is that after the agreement for the EGSSE, the strong Federations would reach agreements with even higher rates of wage growth. Other private sector Federations bargaining for sectoral agreements used the rate of wage growth provided by the EGSSE as the floor and the best rate achieved by public utilities Federations as the target. This has been the mechanism of wage drift, which is presented in table 2. In the late nineties, pressure for change in wage formation led to desynchronisation of the major utilities collective agreements from bargaining for the EGSSE. These strong Federations, which in the past were resisting to sign two-year collective agreements, joined the new system, although it was with a one year lag. For instance, while the EGSSE covered the 1998-1999 period, the banking Federation signed a two-year agreement for 1999-2000. This may help to disconnect the bargaining processes that have been very much linked in the past. This development has been helped by the fact that these public sector utilities (Telecommunications, Electricity, state-controlled banking sector) have been the focus of restructuring programmes that strongly affect corporate industrial relations (Ioannou, 1998). Thus, many
elements of comparability and wage leadership were removed from the bargaining of EGSSE and the industrial agreements for the private sector, and the implementation of wage restraint became easier.

Thirdly, since the autumn of 1998, a new type of collective agreement has been included in the bargaining structure for regions in decline with high or rising unemployment through the legal provisions on Territorial Employment Pacts. These Pacts, as special types of collective agreements among many parties (employers, employers’ associations, trade unions and local Labour Centres, chambers and local authorities) may set wages lower than the sectoral minima provided by national sectoral (industry) agreements, but not lower than the national minimum wages defined by the EGSSEs. The government clearly presented this as “strengthening of the wage bargaining process at the local and company level at the expense of sectoral level in areas of high unemployment. This implies that sectoral agreements, usually the cause of large wage drift, are not binding in areas of high unemployment” (Stournaras, 1999). In order to be valid and lawful these pacts ought to be registered and accepted by the Ministry of National Economy and the Ministry of Labour and Social Security, which has not been done accordingly. However, unemployment has already worked as a major factor for wage moderation in manufacturing. The inter-industry wage structure over the period 1977-1996 has been heavily influenced by the unemployment level (Ioannou, 1999b).

The Commission on Long-Term Economic Policy (1997) has also suggested that the nominal wage norm should compatible with EMU entry. The strict implementation of that norm (2.5% in the public sector in 1998 and 2.0% in 1999) operated as the yardstick for the conclusion of the two-year (1998-1999) EGSSE in the private sector and for sectoral agreements in 1999. The government’s wage policy for the year 2000 is also based on a wage norm of 2.0% for the public sector, which is the same as in 1999 (Stournaras, 1999 and Ministry of National Economy, 1999). However, the social partners maintained their collective autonomy and in signing the two-year agreement – despite the credibility of the governmental projection for inflation – preserved their own credibility incorporated in the agreement benchmarks and the catch-up clauses regarding the inflation target. In order to achieve the inflation targets and avoid further wage drift, the Government had to recourse to supplementary ad hoc policy measures. The Government had to reduce the consumption taxes (on petrol and heating oil, on cars and the VAT on electricity), in order to contain CPI inflation at the end of 1998 – following the drachma devaluation in March 1998 – and bring it close to the benchmark
value included in the two-year EGSSE between the social partners (the benchmark value being equal to 3.5%) and hence minimise the “carry over” to 1999 due to the catch-up clause tied to the agreement.

Overall, the governmental aim for wage restraint in the process of convergence to EMU and the governmental restructuring programme concerning the public sector and especially the public sector utilities, have created heavy pressures on the bargaining structures and processes. Because of this, it appears that the national system of industrial relations has entered a period of search for a new equilibrium in the bargaining structure and the role of bargaining levels. The parties’ views remain diverging and the issues have not been brought to a social dialogue table. While trade unions appear intrinsically to resist to Social Pacts providing for wage restraint and insist on free collective bargaining, employers and the Government appear to opt for more flexibility in wage formation towards wage restraint and deconnection of the three levels for collective bargaining. It is noteworthy that on the employers’ side, prominent members of the industry Confederation, such as the former chairman of the Confederation (SEB – Συνέπες Ελληνικής Βιομηχανίας), have challenged the need for the National General Collective Agreement (EGSSE) and for minimum wage rates. This should not go unnoticed as the EGSSE is a unique case compared to other national systems of collective bargaining in Europe and constitutes the cornerstone of the bargaining structure in the Hellenic system of industrial relations. If these issues are not regulated on a social dialogue table, then they may be (de)regulated in conditions of further de-unionisation and domination of individual industrial relations. The prospects for collective industrial relations are not promising. Strike activity is since the mid nineties non-existent in the private sector and trade-union density is falling (Ioannou, 1999a). In other words, social dialogue and social pacts providing wage restraint and bargained labour market flexibility may be considered as an alternative to even worse developments that could lead to social dumping within EU or within national peripheries.

4. Conclusions

The 1997 “Pact of Confidence” and the successive stop-go initiatives for social dialogue on taxation reform, on social security reform and on employment policy indicate that Greece has followed the trend towards the conclusion of Social Pacts of various types. The source of the initiatives can be traced in the PASOK socialist party, and to the influence of the Delors EU presidency. Trade unions and employers associations have also been receptive of social
dialogue ideas and an indication of this is the development – on their own initiative – of bipartite and tripartite institutions addressing various aspects of industrial relations policy. However, the overall picture on concertation between the Government and the social partners is not one suggesting its establishment in the national system of industrial relations.

The experience of the nineties indicates that there has been no firm leadership for the development of social concertation. In fact all three parties appear hesitant and indecisive with regard to social pacts and tripartite concertation, while on many essential issues their views and priorities diverge.

On the one hand, the Government has a stop-go policy on social dialogue and a fragmented agenda for these initiatives. Of course the fragmented agenda may be considered as the easiest way of reaching agreements. However, the lack of continuity in the initiatives may turn the fragmented approach into a weakness rather than a strength of governmental policy. Another factor is that it has been clear that the Government has been reluctant to put macroeconomic policy on the bargaining table. In fact, Convergence and Stability Pacts minimise the room for manoeuvre in macroeconomic policy. Indeed, the dimensions of the necessary adjustment to make Greece eligible for EMU may have curtailed the available alternatives with regard to time, means and objectives.

On the other hand, the social partners do not seem in the appropriate position to lead a concertation initiative. The structures of trade unions, that are loosing bargaining power because of falling membership and labour market developments, are weakening. Internal divisions across political lines of the party-linked fractions of GSEE are essential for the lack of widespread acceptance of concertation in principle and in practice. Employers’ associations also remain fragmented and while not opposing social dialogue initiatives, give priority to results rather than processes. Not surprisingly, they have again started considering joining forces to create a national representative body that would maximise their influence in policy making.

The analysis from all angles of the Hellenic experiences with social dialogue and social pacts leads to the following conclusions. In terms of structures both trade unions and employers associations appear weakened and fragmented. The emergence of bipartite and tripartite institutions since the early nineties may contravene declining tendencies, as the social partners acquire more resources to manage and provide services to their members. However, these new institutions are not fully integrated with each other in the national system of industrial relations. And conflict between the state and the social partners,
over their control may arise during the slow change of the etatiste tradition. In other words, in the Hellenic case it is not the state that should strengthen its influence (as, for instance, in the Dutch case concerning disability insurance), but rather, it is the social partners that should strengthen their influence over policy making and the tripartite institutions.

In terms of strategies, the PASOK government has a strategy that is aimed at convergence to EMU and Stability Pact objectives, with ad hoc recourse to social dialogue. The trade unions are more confused because of diverging strategies of the various political factions. Employers’ associations broadly accept the governmental strategy, but the fragmentation of interests (industry, trade sector and small entrepreneurs) has led to variable degrees of support of the governmental strategies. This all leads to what many governmental officials, leading the EMU convergence policies, describe as a climate of social consensus.

In general, concertation is an alternative to neo-liberal deregulation and market-based regulation. Social pacts are an alternative to international and intra-national social dumping. Socialist (or social-democratic) parties, or political parties within which trade unions have a strong stake, are in the awkward situation to opt out or to have to promote neo-liberal policies (market liberalisation, rolling back of the State etc). In this context, the PASOK party has since 1993 managed convergence to EMU and structural adjustment. If concertation relates policy content and policy methods, tripartite concertation in Greece will depend on whether the three actors will continue in the trajectory of Sisyphus or instead choose the trajectory of Odysseys. Of the three actors, it is the Government that holds the main responsibility as it missed the opportunity to insist upon and lead the process of convergence to EMU through increasing concertation with the trade unions and the employers’ federations. A tradition of concertation on the convergence process could have been very helpful for policy design and implementation in the third phase of EMU period (euro), which for the latecomer Greek economy starts in June 2000.

References


1. Introduction: from 1987 to partnership 2000

Since 1987, Ireland has conducted economic and social policy by means of social partnership between the state and major economic and social interests. This has involved periodic agreement on the main lines of economic policy and active dialogue and negotiation on implementation and short-term management. The Irish experience requires careful consideration in the wider European context. It constitutes an important experiment on how a small, and extremely open, economy can be managed in the European Union (EU).

1.1 Four social partnership agreements, 1987 to 2000

The content and process of Irish social partnership has evolved significantly since 1987. All four programmes included agreement between employers, unions and government on the rate of wage increase in both the private and public sectors for a three-year period. The first partnership programme enlisted trade union support for a radical correction of the public finances. In return, the government accepted that the value of social welfare payments would be maintained, and income tax would be reformed to reduce the burden on workers. Given the high average tax rate on earned income, which resulted from earlier attempts to reduce the fiscal deficit by tax increases, the exchange of moderate wage increases for tax reductions has remained an important feature of Irish social partnership. Beyond pay and tax, the partnership programmes have contained agreement on an ever-increasing range of economic and social policies. A consistent theme has been the macroeconomic parameters of fiscal correction, Exchange Rate Mechanism (ERM) membership, the Maastricht criteria and Economic and Monetary Union (EMU). While partnership began by addressing a critical central issue, looming insolvency and economic collapse, it has since focused more and more on a range of complex supply-side matters. This is
reflected in a dense web of working groups, committees and task forces, which involve the social partners in the design, implementation and monitoring of public policy.

Another consistent theme has been employment creation and the problem of long-term unemployment. The 1990 agreement led to the creation of local partnership companies – involving the social partners, the community and voluntary sector and state agencies – to design and implement a more co-ordinated, multi-dimensional, approach to social exclusion. An OECD evaluation considered that the partnership approach to local development constituted an experiment in economic regeneration and participative democracy which is of international significance (Sabel, 1996).

An important feature of Irish social partnership has been a concern to widen the partnership process beyond the traditional social partners. A new forum was established and membership of existing deliberative bodies was gradually widened to include representatives of the community and voluntary sector. Reflecting this, the 1996 programme, Partnership 2000, was negotiated in a new way, involving representatives of the unemployed, women’s groups and others addressing social exclusion. That agreement also included measures to promote partnership at enterprise level and agreement on action to modernise the public service. New institutional arrangements were created to monitor the implementation of the partnership programmes.

1.2 Four issues

In an earlier paper, we reviewed performance under the first three agreements, outlined the analytical foundations of Ireland’s partnership model and surveyed the Irish debate on the nature and merits of partnership (O’Donnell and O’Reardon, 1997). In this paper, we discuss four issues which have figured prominently in Ireland and which remain central to any assessment of the achievements and potential of the social partnership approach. The first concerns the economic impact of partnership since its inception in 1987 and its ability to meet the very different economic challenges which Ireland faces in the early years of the new century. We discuss this in section 2. A second recurring issue concerns the inclusiveness of the partnership process, and its impact on social exclusion and inequality, which we consider in section 3. A third issue is whether the trade unions’ major contribution to national economic recovery and stability through national-level partnership is matched by partnership at the enterprise level. In section 4, we discuss the measures taken in Partnership 2000 to promote
enterprise-level partnership in both the private and public sector. The fourth issue is a wider one, of relevance not only to Ireland but also across the European Union. It concerns the very nature of social partnership, and its implications for politics and democracy. We summarise Irish perspectives on this in section 5. In section 6, we outline the content of the recently-negotiated *Programme for Prosperity and Fairness* and discuss the challenges which will confront social partnership in the years ahead.

### 2. Economic performance under social partnership

The period of social partnership has been one of unprecedented economic success in Ireland. The country not only escaped from the deep economic, social and political crisis of the eighties, but significantly addressed its long-term developmental problems of emigration, unemployment, trade deficits and weak indigenous business development.

The success of the economy since the start of the partnership experiment in 1987 is illustrated in table 1. It shows the principal macroeconomic variables since 1987 and allows comparison with the five years from 1982 to 1986. Under partnership, growth resumed, inflation continued to decline, the budget deficit fell sharply, employment began to recover, but unemployment initially stayed stubbornly high. The European recession of the early nineties and the ERM crisis of 1992-1993 interrupted Ireland’s recovery somewhat. Strong growth after 1993 produced a dramatic increase in employment, huge budget surpluses and, eventually, a big reduction in unemployment. The combination of economic growth, tax reductions, reduced interest rates and wage increases yielded a substantial increase in real take home pay. Between 1987 and 1999, the cumulative increase in real take home pay for a person on average manufacturing earnings was over 35%.
Table 1: Selected macroeconomic variables for Ireland (1987-1999)

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<th>Year</th>
<th>GDP Growth (%)</th>
<th>Inflation (GDP deflator) %</th>
<th>Employment Growth, (%)</th>
<th>Unemployment % of labour force</th>
<th>General government balance, % of GDP</th>
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<td>12.3</td>
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<tr>
<td>1996</td>
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<td>1998</td>
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<td>1999*</td>
<td>8.6</td>
<td>3.5</td>
<td>4.5</td>
<td>5.7**</td>
<td>3.4</td>
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</tbody>
</table>

* Data for 1999 are OECD projections.
** Authors’ estimate.
Source: OECD, 1999.

The performance of the Irish economy during the fourth agreement, Partnership 2000, has been exceptionally strong. Table 2 compares the Irish economy with that of the Eurozone and the OECD. It highlights Ireland’s astonishing success, particularly in employment creation. Indeed, between 1994 and 1999, Ireland achieved a 28% increase in employment, while the EU as a whole produced a 3% increase.
It would clearly be inaccurate to attribute all the success of the Irish economy to social partnership. Partnership enhanced competitiveness, assisted fiscal correction, produced consensus and stability in economic policy, and increased flexibility in both public policy and enterprises. This created the context within which Ireland’s long-term developmental strategy finally achieved its potential. That strategy involved heavy investment in education, particularly in information technology, attraction of inward investment and full participation in European integration (O’Donnell, 2000). The “Celtic Tiger” of the nineties resulted from the interaction of partnership with a set of supply-side characteristics that enhanced international competitiveness and encouraged fast economic growth. These included a young, well-educated, English-speaking workforce, improved infrastructure (funded by both the EU and the Irish state), an inflow of leading US enterprises (attracted by both Irish conditions and the deepening European market), a new population of Irish enterprises (free of the debilitating weaknesses of the past and open to new organisational patterns), and de-regulation of the service sectors (driven by the “1992” process).

During the period of Partnership 2000, the Irish economy has been in a virtuous circle. Wage restraint has enhanced competitiveness, which has been converted into employment growth. This in turn has generated additional tax revenues which have been used to reduce direct taxes and hence underpin wage moderation. Moreover, most forecasters expect strong growth to continue at least in the medium term. Indeed, the success of the nineties has been so great that the constraints on Irish growth now consist of infrastructural bottlenecks and labour shortages, something we discuss in section 6.

Table 2: Ireland’s comparative economic performance (1997-1999*)

<table>
<thead>
<tr>
<th></th>
<th>Ireland</th>
<th>Euro Zone</th>
<th>OECD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth (annual real GDP growth)</td>
<td>9.4</td>
<td>2.4</td>
<td>2.9</td>
</tr>
<tr>
<td>Inflation (annual change in prices)</td>
<td>4.2</td>
<td>1.5</td>
<td>3.1</td>
</tr>
<tr>
<td>Employment (annual % change)</td>
<td>6.5</td>
<td>1.2</td>
<td>1.2</td>
</tr>
</tbody>
</table>

* Data for 1999 are OECD projections.
Source: OECD, 1999.
3. Inclusion and inequality

A persistent theme has been the inclusiveness of social partnership and its ability to address problems of poverty and inequality. It is not possible here to provide a comprehensive assessment of the impact of social partnership on inequality, poverty and social exclusion. However, we can report broad trends during the period of partnership. In order to assess the impact of partnership, we briefly consider four determinants of inclusiveness and inequality: the changing partnership process, the content of the partnership programmes, the action of government and market dynamics.

Significant steps were taken to widen the partnership process. In 1993, the government established a new partnership body, the National Economic and Social Forum (NESF), with a specific focus on long-term unemployment and inequality. Its membership included the traditional social partners and representatives of the community and voluntary sector (including the organisation of the unemployed, youth, women, the disabled and various organisations working to combat social exclusion). The Forum’s 1994 report, Ending Long-term Unemployment, played an important role in the development of active labour market policy, particularly the Local Employment Service, which aims to actively assist the transition from welfare to work. Between 1994 and 1998, the membership of the main deliberative body, the National Economic and Social Council (NESC), was gradually widened to include the community and voluntary sector. The Council plays an important role in social partnership, since the negotiation of each partnership agreement is preceded by a NESC Strategy report, which is an important input to the negotiations (NESC, 1986; 1990; 1993; 1996 and 1999).

While the community and voluntary sector was consulted during negotiation of the 1993 agreement, they campaigned successfully against this “participation without power”. They achieved full social partner status in the negotiation of Partnership 2000 in 1996 (O’Donnell and Thomas, 1998). The government, employers and unions had major responsibility for the negotiation of the pay and tax elements of the agreement. The “social pillar” remained critical of the fact that this precludes any substantive three-way negotiation of the distribution of resources between pay, tax and social exclusion measures (Reynolds and Healy, 1999).

The content of the partnership programmes has had a complex impact on poverty and inequality. The use of percentage (rather than flat-rate) pay increases has allowed wage dispersion to widen. The real value of welfare
payments has been preserved or increased, but not in line with other incomes. After initial cuts, there has been strong growth in total spending on health and education throughout the nineties. The overall partnership model has led to rapid employment growth and, in recent years, a dramatic fall in unemployment. This has undoubtedly made a significant contribution to the reduction of labour market exclusion and related deprivation. The partnership programmes have led to reform of many public policies addressing social exclusion, and to experiment with new approaches. 

Partnership 2000 included an action programme for greater social inclusion. In addition to the general pay and tax provisions of the programme, this consisted of a National Anti-Poverty Strategy, reforms of tax and welfare (to improve the incentives for and reward from work), an expansion of targeted employment measures, further measures to address educational disadvantage and consolidation of the local partnership approach to both economic and social development. The community and voluntary sector were actively engaged in the wide range of task forces and working groups put in place to design and implement the anti-poverty strategy. The tax reductions which have accompanied the agreements, however, have led to a fall in the share of total taxation in GDP, which raises questions about the level of funding which will be available to tackle issues of social exclusion as economic growth starts to slow.

Turning to the actions of government, we also have a mixed picture. There is a strong and enduring consensus among the social partners, economists and social policy analysts that tax reductions should be focused on low and middle incomes. However, it has proven difficult to have this reflected in budgetary policy, since Irish politicians (like those elsewhere) have been attracted by the visibility of reductions in tax rates, an approach which inevitably favours the rich over the poor. On several occasions this has threatened the partnership process and it still has the potential to damage it. Finally, during the period of partnership, market dynamics in Ireland (as elsewhere) have implied a widening of the gap between the reward of skilled and unskilled work, and a shift in income distribution from labour to capital, which the wage bargaining component of partnership agreements have not arrested.

While it is difficult to identify the net effect of these four forces, we can report the overall level and trend in income inequality. At the outset of the partnership process, the distribution of incomes in Ireland was among the most unequal in the EU and the advanced economies generally. As shown in
table 4, in 1987 Ireland was the third most unequal country among those shown, only the UK and the US having greater income inequality. This reflected the dramatic increase in unemployment which occurred between 1980 and 1987. The associated “decile ratio” indicates that the income of an Irish household at the 90th percentile of the income distribution was 4.18 times that of a household at the 10th percentile. A subsequent study – based on a comparable set of household surveys across the EU – estimates that Ireland’s Gini coefficient was the same in 1994 as in 1987 and suggests that in the nineties Ireland remained one of the most unequal countries (Nolan and Maitre, 1999).

Table 3: Income distribution in selected OECD countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Gini (Year)*</th>
<th>Decile ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>0.223 (91)</td>
<td>2.75</td>
</tr>
<tr>
<td>Sweden</td>
<td>0.229 (92)</td>
<td>2.78</td>
</tr>
<tr>
<td>Belgium</td>
<td>0.230 (92)</td>
<td>2.79</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>0.235 (94)</td>
<td>2.93</td>
</tr>
<tr>
<td>Denmark</td>
<td>0.239 (92)</td>
<td>2.86</td>
</tr>
<tr>
<td>Norway</td>
<td>0.242 (95)</td>
<td>2.85</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>0.249 (91)</td>
<td>3.05</td>
</tr>
<tr>
<td>Italy</td>
<td>0.255 (91)</td>
<td>3.14</td>
</tr>
<tr>
<td>Canada</td>
<td>0.287 (94)</td>
<td>3.93</td>
</tr>
<tr>
<td>Germany</td>
<td>0.300 (94)</td>
<td>3.84</td>
</tr>
<tr>
<td>Spain</td>
<td>0.306 (89)</td>
<td>4.04</td>
</tr>
<tr>
<td>Australia</td>
<td>0.308 (89)</td>
<td>4.30</td>
</tr>
<tr>
<td>Japan</td>
<td>0.315 (92)</td>
<td>4.17</td>
</tr>
<tr>
<td>France</td>
<td>0.324 (89)</td>
<td>4.11</td>
</tr>
<tr>
<td>Ireland</td>
<td>0.328 (87)</td>
<td>4.18</td>
</tr>
<tr>
<td>UK</td>
<td>0.346 (95)</td>
<td>4.56</td>
</tr>
<tr>
<td>US</td>
<td>0.368 (94)</td>
<td>6.44</td>
</tr>
</tbody>
</table>

Source: Gottschalk and Smeeding, 1998.
This high level of income inequality shows up in measures of relative poverty. These show the proportion of the population whose income is below various “poverty lines”. Table 4 shows the proportion of households in EU countries falling below 40%, 50% and 60% of average equivalent household income in 1994. What is striking in the Irish data is the large proportion of the population whose incomes fall between the 40% and 60% lines. Indeed, Ireland has the highest proportion of the population living in relative poverty when defined in terms of the 60% line. While significant improvements have been noted in some measures of poverty, such as a reduction in the proportion experiencing “basic deprivation” of material necessities between 1987 and 1997, and a fall in the percentage below the 40% line between 1987 and 1994, between 1994 and 1997 there have been an increase in the proportion falling below all three of the poverty lines shown.

Table 4: Relative poverty in EU member states (1994)

<table>
<thead>
<tr>
<th></th>
<th>40% Line</th>
<th>50% Line</th>
<th>60% Line</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>The Netherlands</td>
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<td>Belgium</td>
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<td>Luxembourg</td>
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<tr>
<td>France</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ireland</td>
<td>7.7</td>
<td>21.6</td>
<td>32.9</td>
</tr>
<tr>
<td>Italy</td>
<td>11.2</td>
<td>17.7</td>
<td>26.2</td>
</tr>
<tr>
<td>Greece</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>11.0</td>
<td>19.8</td>
<td>29.1</td>
</tr>
<tr>
<td>Portugal</td>
<td>17.1</td>
<td>25.2</td>
<td>32.9</td>
</tr>
</tbody>
</table>


These changes reflect policy and market dynamics under social partnership. Despite the fiscal stabilisation of the late eighties, social welfare payments increased in line with the rate of inflation, while some groups, such as the
long-term unemployed, received increased real incomes. While payment levels did not always increase in line with wages, wage increases were modest, and hence the relative position of many of the poor improved. However, in the period of rapid growth since 1994 rising wages and salaries mean that those relying on state payments have fallen behind, so that measures of relative poverty show an increase.

In summary, it is clear that social partnership has had a mixed record in the area of poverty and inequality. Its first major achievement was to ensure that fiscal stabilisation of the late eighties was not achieved by placing the burden of adjustment on the welfare state. Its second achievement was to deliver rapid employment growth and a fall in unemployment. However, income inequality and relative poverty have remained at high levels despite social partnership, and the growth of the nineties has seen a wider dispersion of incomes.

4. Enterprise-level partnership

Since Irish social partnership had a critical role in rescuing the economy in the late eighties, and underpinned an increasingly successful economy in the nineties, unions became more anxious to ensure that their contribution at national level was matched by partnership at enterprise level. This became a key issue in the preparation of NESC’s 1996 Strategy report and the negotiation of Partnership 2000. The issue was a difficult one for a number of reasons. Irish industrial relations have evolved in the British voluntarist mode. While this is adversarial, it also involved a non-statutory approach to industrial relations. Nevertheless, when they argued for greater enterprise-level partnership, Irish unions seemed to have a system like the German one in mind. Inward investment by transnational corporations was a major driver of Ireland’s economic progress and employment growth. While these firms were often unionised in the sixties, the wave of high-tech firms arriving in the late eighties and through the nineties were mostly non-union. Many have new systems of human resource (HR) management, which involve direct employee involvement. Indeed, the Irish firms which survived the shake-out of the eighties were increasingly interested in the new forms of work organisation and associated HR systems. In this context, incorporating enterprise-level partnership in a national agreement was difficult. While workers were understandably anxious to be partners in the enterprise, legally mandated union participation was seen as a threat to inward investment, and direct employee involvement was redefining the nature of “partnership”.

Rory O’Donnell and Colm O’Reardon

246 SOCIAL PACTS IN EUROPE – NEW DYNAMICS
In the 1987 agreement, *Partnership 2000*, government and the social partners agreed a national framework to develop enterprise partnership and to provide encouragement, training, information and support to employers, employees and their representatives. This did not attempt to impose a single structure or model of partnership, since “internationally, there is no evidence that any one structural or institutional model or approach systematically, out-performs others, nor that any effort to import a model from one country to another is an effective approach” (*Partnership 2000*, 9.13). The parties adopted a flexible and open-ended definition of partnership, as an “active relationship based on recognition of a common interest to secure the competitiveness, viability and prosperity of the enterprise”. It involves “a continuing commitment by employees to improvements in quality and efficiency; and the acceptance by employers of employees as stakeholders with rights and interests to be considered in the context of major decisions affecting their employment”. The agreement established the publicly-funded National Centre for Partnership, located in the Prime Minister’s department, to promote involvement and partnership, monitor developments, provide technical assistance, disseminate best practice and ensure that suitable training is provided.

*Partnership 2000* also set out agreement on organisational change and partnership in the public sector. It expressed agreement that “the capacity to change and respond to new social demands is crucial to improving efficiency in the delivery of public services”. The social partners endorsed the programmes of change which had started before the agreement, particularly the Strategic Management Initiative (SMI). The agreement set out key principles which must inform the change process, including quality, performance management, flexibility, and “an open, participative approach by all concerned”. The partnership process in the public sector was identified as a key aspect of this concerted drive to improve performance. To underpin this, *Partnership 2000* made one component of pay increase conditional on “verifiable progress” on modernisation and partnership.

In the period of *Partnership 2000*, 1997 to 2000, progress on partnership in the private sector has occurred in three ways. In enterprises, there has been widespread introduction of new technology, new forms of work and greater
levels of employee involvement\(^1\). Among the social partners, there have been innovative pilot projects in which employers associations and unions have deepened knowledge of partnership and designed new approaches (SIPTU, 1999). At national and EU level, there have been programmes to disseminate the partnership approaches designed in the innovative pilot projects. Among these has been the PACT project, funded by the EU under ADAPT, in which IBEC (the employers federation) and ICTU have worked together to develop a set of diagnostics and training modules for the development of partnership. Although employers and unions differ on how partnership should ideally be defined, there has emerged a procedural consensus on how to assess current conditions in a firm and how to make progress. Through this collaboration they have transformed a long-standing debate on the ideal form of involvement into a discussion, based on experience, of diagnostics and training (see O’Donnell and Teague, 2000).

*Partnership 2000* has seen significant progress on partnership in the public service. Every government department and office has established a partnership committee, and most have formulated Action Programmes to implement the department’s strategy in a partnership mode. In the health and local government sectors, unions and management have negotiated national partnership agreements and created national advisory groups. The commercial state companies have continued to develop their partnership structures and procedures in an environment of increasing competition. Individual government departments have created sub-groups and empowered them to address a range of external and internal issues. Individual local authorities have used partnership structures and procedures to radically improve their work environment and service delivery. A recent evaluation highlights the degree to which successful partnership initiatives are based on projects in which sub-groups are empowered to address a range of internal and external issues (O’Donnell and Teague, 2000).

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\(^1\) There is considerable disagreement about the extent and depth of workplace innovation in Ireland. See Jacobson (1996); McCartney and Teague (1997); Roche and Geary (1998); Geary (1999); IBEC (1999) and O’Donnell and Teague (2000).
5. The nature of partnership: corporatism or post-corporatism?

The development of social partnership in Ireland since 1987 has involved a wide range of economic and political actors in a complex process of negotiation and interaction. Detailed, shared, analysis of economic and social problems and policies has been a key aspect of this process. Indeed, that analysis has, for a variety of reasons, focused on the partnership system itself. To assess the applicability of the partnership approach in the new economic context of EMU, it was necessary to thoroughly assess the effects of the centralised system of wage bargaining and the consensual approach to management of the public finances (NESC, 1996). In order to successfully widen partnership beyond the traditional partners it was necessary for the partners to thoroughly analyse the nature, purpose and goals of partnership. That examination revealed some severe difficulties in making an inclusive system of partnership work, but also a new view of social partnership. Our focus here is on four central arguments that emerged in the Irish discussion and that may have a bearing on the way in which the re-emergence of concertation or social partnership in other EU member states should be interpreted.

5.1 Beyond bargaining: deliberation and problem solving

A distinction can be made between two conceptions, or dimensions, of partnership:

- Functional interdependence, bargaining and deal making.
- Solidarity, inclusiveness and participation.

Effective partnership involves both of these, but cannot be based entirely on either. To fall entirely into the first could be to validate the claim that the process simply reflects the power of the traditional social partners, especially if claims for the unemployed and marginalised are not included in the functional inter-dependence, and are seen as purely moral. To adopt a naive inclusivist view would risk reducing the process to a purely consultative one, in which all interests and groups merely voiced their views and demands. While these two dimensions are both present, even together they are not adequate.

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2 This view of social partnership, upon which the argument of this essay is based, is set out in a report of the National Economic and Social Forum, NESF (1997).
There is a third dimension of partnership, which transcends these two. Although the concepts of “negotiation” and “bargaining” distinguish social partnership from more liberal and pluralist approaches, in which consultation is more prominent, they are not entirely adequate to capture the partnership process. Bargaining describes a process in which each party comes with definite preferences and seeks to maximise its gains. While this is a definite part of Irish social partnership, the overall process (including various policy forums) would seem to involve something more. Partnership involves the players in a process of deliberation that has the potential to shape and reshape their understanding, identity and preferences. This idea, that identity can be shaped in interaction, is important. It is implicit in NESC’s description of the process as “dependent on a shared understanding”, and “characterised by a problem-solving approach designed to produce consensus”. This third dimension has to be added to the hard-headed notion of bargaining (and to the idea of solidarity) to adequately capture the process.

An important element of this argument is that there are limited pre-conditions for effective social partnership of that sort. The key to the process would seem to be the adoption of “a problem-solving approach”. As one experienced social partner put it, “The society expects us to be problem-solving”. A notable feature of effective partnership experiments is that the partners do not debate their ultimate social visions. This problem-solving approach is a central aspect of the partnership process, and is critical to its effectiveness. This suggests that rather than being the pre-condition for partnership, consensus and shared understanding are more like an outcome. It is a remarkable, if not easily understood, fact that deliberation which is problem-solving and practical produces consensus, even where there are underlying conflicts of interest, and even where there was no shared understanding at the outset. It is also a fact that using that approach to produce a consensus in one area, facilitates use of the same approach in other areas. The key may lie in understanding what kind of consensus is produced when problem-solving deliberation is used. It is generally a provisional consensus to proceed with practical action, as if a certain analytical perspective was correct, while holding open the possibility of a review of goals, means and underlying analysis. This type of agreement certainly involves compromise. But the word compromise is inadequate to describe it. “Compromise” so often fudges the issues that need to be addressed.
A similar account of the elements and process of concertation has independently emerged in recent work on the “Dutch miracle” (Visser and Hemerijck, 1997; Visser, 1998). Visser and Hemerijck draw attention to new combinations of centralisation and decentralisation, and emphasise the combination of interest-group dialogue and expert input which create a common definition of problems. This yielded a “problem-solving style of joint decision-making”, in which participants are “obliged to explain, give reasons and take responsibility for their decisions and strategies to each other, to their rank and file, and to the general public” (Visser, 1998: 12). The institutions of concertation work where they facilitate shift from a “bargaining style” to a “problem-solving style”. Visser considers that “the most interesting property of social concertation lies in the possibility that interest groups redefine the content of their self-interested strategies in a “public-regarding” way” (Visser, 1998: 13).

5.2 A new view of social partners and public policy

In the Irish analysis, this view, that there are limited pre-conditions to social partnership, is then combined with observation of three trends which demand a further revision of conventional ideas of neo-corporatism.

The nature and role of social partners is changing, in ways that require a new view of what a social partner is now. In international studies of neo-corporatist systems, there is a clear idea of what a social partner is (Cawson, 1986). The traditional characteristics of partners in neo-corporatist systems include “social closure” (monopoly representation of a given social group), a functional role in the economy (preferably in production) and centralised structures for representing and disciplining members. These characteristics seem to be losing their relevance. Organisations cannot take for granted their role as representatives of a given group, with defined and stable roles. They must continually mobilise, co-ordinate and provide services. While success traditionally depended on power resources, information is the key resource that a modern social partner brings to the table. In the place of the old form of bargaining, there are new forms of public advocacy: analysis, dialogue and shared understanding. The role of representation has weakened. Mobilising, organising and solving problems (with others) are the features of effective social partners.

We are also witnessing an historical shift in the role of the centre and national government in a number of areas. The complexity, volatility and diversity of economic and social problems, and of social groups, is
undermining the ability of central government to allocate resources, direct the operation of departments and agencies, and administer complex systems of delivery and scrutiny. These traditional centre roles are being replaced by new ones: policy entrepreneurship, obliging and assisting monitoring, facilitating communication and joint action between social interests, protection of the non-statutory organisations that now have responsibility in many policy spheres, and supporting interest group formation. Traditional conceptions of neo-corporatism seem premised on an outdated view of the power, autonomy and effectiveness of central government.

The relationship between policy making, implementation and monitoring is changing, in ways which place monitoring, of a new sort, at the centre of policy development. For a variety of reasons, national-level partnership, which focuses on national-level policy-making, is unlikely to solve the complex and diverse problems which citizens confront. What is required is examination of practical successes and failures, which is used to revise both the methods and goals of policy. This demands a new fusion of policy-making, implementation and monitoring. If the institutional arrangements to achieve this can be found, it seems unlikely that the social partners will play their conventional neo-corporatist role as representatives to the same extent.

This discussion of the nature and preconditions of social partnership, when combined with the three trends outlined above, provide a new view of social partnership as it is developing in Ireland. In particular, the categories and ideas found in earlier studies of classical North European neo-corporatism seem inappropriate in understanding the Irish experiment. Indeed, it is possible that the Irish case might assist the formulation of a new concept of post-corporatist concertation, as it is emerging in several European countries.

6. The programme for prosperity and fairness

When the social partners came to negotiate a successor to Partnership 2000, they confronted a new set of economic and social problems and had to redefine the goals of social partnership. Rapid growth has led to infrastructural bottlenecks, in housing, transport, telecommunications and electricity generation. Particularly in Dublin, housing costs have soared and traffic problems erode both economic efficiency and quality of life. The labour market has tightened, resulting in significant wage increases in some sectors and, for the first time in several centuries, immigration, both legal and illegal. A remarkable increase in female employment has revealed an acute shortage of
childcare facilities. In an economy which has expanded by more than 50% in five years, expectations among wage-earners have been significantly increased.

While the primary goal of partnership had been fiscal correction and employment creation, it must now aim to increase living standards, enhance the quality of life, achieve infrastructural investment and lay the economic and social foundations for long-term prosperity. It is less easy to find agreement—between employers, unions and various sectoral and social interests—on how these goals should be achieved and how they should be paid for.

In February 2000, a new agreement entitled *Programme for Prosperity and Fairness* (PPF), was published. The programme consists of five Operational Frameworks:

- Framework 1: living standards and workplace environment;
- Framework 2: prosperity and economic inclusion;
- Framework 3: social inclusion and equality;
- Framework 4: successful adaptation to continuing change; and
- Framework 5: renewing partnership.

The objective of the frameworks is to set out policy initiatives that have been agreed and provide a focus for consensus-based development of further policies. Framework 1 provides for larger increases in take home pay than previous agreements, for further modernisation of the public sector, for enhanced action on enterprise-level partnership and new initiatives on family-friendly policies in the enterprise. Framework 2, for prosperity and economic inclusion, addresses the macroeconomic context, public transport, infrastructural delivery, regional development, housing, industrial policy agriculture and environmental policy. The Framework for Social Inclusion and Equality deals with income adequacy, urban disadvantage, rural poverty, local governance, targeted investment in disadvantaged areas, social housing, voluntary effort and issues of equality, both gender and racial. Framework 4, for successful adaptation to continuing change, is concerned with lifelong learning, active labour market policies, childcare, the information society, partnership with Northern Ireland and Ireland’s commitment to the wider world. The final framework is concerned with the partnership process itself, and provides for monitoring and evaluation of partnership at national, local, framework and enterprise level. The *Programme for Prosperity and Fairness* was ratified by the trade union movement in March 2000.
Although the agreement allows for larger pay increases than the earlier programmes, tax and pay issues may prove more difficult in the years ahead. In its budget for 2000, the government deliberately ignored the consensus – which favours tax relief and pay increases for those on lower incomes and facing high childcare costs – and delivered a tax package which gave greatest tax reduction to those on higher incomes. This has inflamed a situation in which conspicuous consumption and rising house prices make many on low and middle incomes feel that they are not sharing equally in the benefits of the “Celtic Tiger”. These pressures are most acute, or at least most visible, in the public sector. Several public sector unions are seeking pay increases beyond those agreed in the Programme for Prosperity and Fairness. The Programme says that public sector pay should be examined by a new Benchmarking Body, which will compare jobs and rewards with those in the private sector. It will be a considerable achievement to channel current public sector pay claims into this process. Even if that were to be achieved, the task will be to seek agreement on the findings of the Benchmarking Body and to find resources to meet any increases in public sector salaries which might be suggested. The latest partnership programme contains a distributional settlement which will be tested by growing expectations and a rapidly changing and more differentiated economy and society.

The issue of public sector salaries is tied up with another critical challenge facing Ireland, the need to improve the quantity and quality of public infrastructure and services. While the Programme builds on a recently-published National Plan for public investment, it is agreed that implementation of the plan will be difficult, given the managerial and other resources in the public sector and the labour shortages in the private sector. While fourteen years of social partnership have transformed the private sector in Ireland, an equivalent degree of modernisation and productivity has not been achieved in the public sector. This makes it easier for those, such as the current Minister for Finance, to argue that the fiscal surplus should be used for tax reduction rather than public services. Yet short-term sustainability, and long term prosperity and social cohesion, require a radically improved level and range of public services. The deliberation and shared understanding which underpinned partnership since 1987 needs to be extended into new areas such as housing, transport, urban planning, life-long learning and family-friendly policies.

In the context of increasing prosperity, labour shortages and social difficulties in central Europe and elsewhere, Ireland is now attracting asylum seekers and legal and illegal immigrants from many parts of the world. A
A racially homogeneous society is, for the first time, confronting issues of immigration and racial equality. Public policy and social attitudes have yet to adjust to this new situation.

The programme represents a further stage in the process of extending social partnership from high-level strategic agreement on macroeconomic strategy, to an on-going process of policy formation and delivery in numerous supply-side areas. While the programme refers to a very wide range of policy issues, it sets out frameworks within which they can be addressed, rather than agreed policy approaches. This is the correct approach, since good policy on these issues cannot be identified in high-level negotiation. But it does mean that a lot depends on the quality of the analysis, deliberation, decision making and implementation that follows. On the complicated supply-side issues, such as child care or transport, it is not clear who has the authority and legitimacy to speak for different social interests. Ireland’s inclusive partnership process, and clientelist political system, will be tested in new ways in addressing these new problems. Increasing complexity and variety may demand a more decentralised approach to both policy making and implementation. This demands a rethink of what partnership means, and fresh thinking about how citizens participate in public policy. This has to be achieved while maintaining a significant degree of strategic coherence in overall policy.

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Innovation through Co-ordination – Two Decades of Social Pacts in the Netherlands

Anton Hemerijck, Marc Van der Meer and Jelle Visser

1. The negotiating economy of the Netherlands

Although the resurgence of social pacts has only attracted international attention in the nineties, the revival of social partnership in the Netherlands can be traced back to policy changes in the early eighties. For a full explanation of the Dutch experience of responsive concertation, therefore, we must look back twenty years ago, and study the combination of economic problems, politics and institutions that led to the foundational Accord of Wassenaar in November 1982, which, in turn, set the stage for restoring the competitiveness and job growth of the Dutch economy (Visser and Hemerijck, 1997; Van der Meer, forthcoming).

With fifteen million inhabitants, the Netherlands is the largest of the smaller members of the European Union. Peter Katzenstein has argued that in small countries like the Netherlands a sense of vulnerability, engraved in the minds of policy makers, encourages them to play down their divisions and work together in corporatist institutions to manage economic progress and social conflict (Katzenstein, 1985).

The Dutch political economy usually ranks high as a corporatist political economy. It is furnished with firmly established apparatuses of bi- and tri-partite boards for nation-wide social and economic policy-making. For the purpose of wage policies, the most important is the Foundation of Labour (STAR – Stichting van de Arbeid). STAR is a private foundation, founded in 1945, owned by the central union and employers organisations, and intended as their meeting place. Twice every year, in the Spring when the budget for the following year is prepared, and in the Fall, when a new round of wage negotiations is about to begin, the Foundation meets with a delegation from the Cabinet. The Social-Economic Council (SER – Sociaal-Economische Raad), founded in 1950, is a tri-partite organisation. Since its recent reorganisation in 1995, employers and unions each have eleven seats, the other eleven are occupied by independent crown members appointed by the government, usually professors of economics, the President of the Central
Bank, the Director of the Central Planning Bureau and, recently, some ex-politicians. In the first twenty years of its existence, its role in setting the targets for wage policy and advising the government on the expansion and organisation of the welfare state was very important. As the foremost economic forecasting agency, the Central Planning Bureau (CPB – Centraal Planbureau), carries much weight as the key supplier of “commonly understood facts” of the state of Dutch economy, on the basis of which the social partners define their collaborative strategies of collective action.

How well the government and the social partners work together depends as much on institutions as on the preferences, strategic goals, power resources of the participant policy actors. In corporatist “negotiating” economies like the Netherlands, none of the policy actors are autonomous and free to choose their most-favoured response to new environmental conditions or external pressures. This is particularly true for the government, whose steering capacity is constrained externally and internally. By incorporating multiple parties in coalition governments, as a result of proportional representation, and by rendering the social partners a semi-public status in public policy-making, the state can mobilise more resources and rally support for policy change. But divided coalitions and disagreement between the social partners can also inhibit change, precisely because of the need for extensive compromises in both the political and industrial arenas. As a result, Dutch social and economic policy-making is, like all other negotiating policy systems, vulnerable to what Fritz Scharpf has called the “joint-decision trap” (Scharpf, 1988). Especially where the state is weak, disagreement among the social partners may lead to prolonged immobilisation.

The negotiating economy of the Netherlands has its roots in the early post-war period. The Dutch economic and social policy profile developed around a cluster of four interrelated features. These were: 1) restrictive macro-economic policy priorities; 2) highly co-ordinated patterns of collective bargaining at central and sectoral levels; 3) conditional employment-related arrangements of social security, and, last but not least; 4) a policy legacy of rather passive labour market policy priorities. Macro-economic policy makers in the Netherlands endorse the policy priorities of stable prices and hard currencies. The Dutch central bank (DNB – De Nederlandsche Bank) is independent from the government and constitutionally committed to price stability. Ever since the collapse of the system of Bretton Woods, as a standard rule of procedure, Dutch monetary authorities have followed
German monetary policy choices, in order to ensure that inflation and interest rates do not diverge too far from German levels.

In the industrial relations literature, the Netherlands is usually grouped under the label of “intermediate bargaining systems”. The level of union organisation in the Netherlands is fairly moderate by international standards. About 30% of Dutch workers are member of a trade union. By contrast, Dutch employers are well organised, especially among medium and larger sized firms. Collective bargaining predominantly takes place at the sectoral level. The coverage of collective bargaining is high, while co-ordination between trade unions and employers associations at the peak level is considerable. Invariably, collective agreements have a legally binding status. The level of industrial conflict is low and if strikes occur, they are highly organised. State intervention has traditionally been very strong in Dutch industrial relations.

Following the canons of comparative social policy studies, the Netherlands are usually grouped, together with Austria, Belgium, Germany, France and Italy, under the label of the regime-type of the continental, “Bismarckian”, conservative or Christian democratic welfare state (Esping-Andersen, 1996). Continental social policy is predominantly based on the principle of industrial insurance against occupational risks, financed by earmarked payroll contributions from employers and workers. Employment-related social security programs revolve around income replacement and are targeted at the (male) breadwinner in order to safeguard traditional family patterns. As important financiers to the system (through premiums and contributions), the social partners are strongly involved in the management, administration, and implementation of social security provisions.

In the next three sections, we will trace the progressive reconfiguration of the Dutch negotiating economy and its policy profile along three successive attempts at striking a social pact. First, we will show how the failure of policy makers to manage the “Dutch disease”, triggered a learning process which led to the famous bi-partite “Accord of Wassenaar” on November 24, 1982. We follow with an account of the contingencies that resulted in the failed tri-partite “Common Policy Framework” agreement of 1989. Next, we discuss the context and content of the more influential bi-partite “New Course” accord of 1993, which has since then been renewed on several occasions, most recently by the “Agenda 2002” deal, struck by the social partners in 1997. In section 5 and 6 we offer a critical evaluation of the
strength and weaknesses of the Dutch trajectory of negotiated change. Finally, the conclusion offers more general lessons on the resurgence of social pacts in the Netherlands.

2. The Accord of Wassenaar

When the Bretton Woods system collapsed, the Netherlands joined the “snake”, reflecting a tradition of defending a strong currency, this meant that if Dutch unions would prove unable to hold wages back, competitiveness would decline in case of an appreciating currency. This is exactly what happened. As labour costs in manufacturing were rising faster than in competing countries, all relevant policy actors agreed on the desirability of some form of income policy, but no agreement was reached.

In 1974, in response to the first oil crisis, the Centre-Left government had opted for a Keynesian strategy of fiscal stimulation, setting the stage for a corporatist policy package of exchanging fiscal reflation for wage restraint. But the radicalised Dutch unions wanted more reforms in economic policy and corporate governance than the government, with reluctant support of its Christian coalition parties, could offer. In 1974 and 1976 the government imposed a wage and income stop, but its effects were futile. After 1977 a Centre-Right government tried to govern without an incomes policies, but also felt obliged to resort to wage intervention in 1979, 1980, and 1981. The short-lived participation of the Social Democrats in the government in 1981-1982 was again marred with disputes with the unions, this time over attempts to brake rising absenteeism due to illness.

Thanks to its gas exports, the Netherlands did not suffer from a balance of payments constraint, but it paid the price of a structurally overvalued guilder. An expansionary course, based on public borrowing, was therefore feasible, but only on the condition that unions would hold back wages. Without restraint and with profits under pressure, Dutch products would price themselves out of the market, with disastrous consequences for employment in a small and open economy. This is essence of what was known as the “Dutch disease”. Trade union leaders began to appreciate these facts by 1978 or 1979, but it was not until 1982 that the situation was ripe for a policy change.

With unemployment running at double digits (reaching a maximum of 12% in 1984), the trade union movement was in no position to wage conflict. All economic indicators went on alarm: interest rates and inflation rose, public
debt had increased, and jobs were lost. Beginning with the main trade union in industry, which suffered the closing down of an entire industry (shipbuilding), Dutch union leaders recognised that for a higher level of investment, essential for the creation of more jobs and the struggle against unemployment, a higher level of profits and hence, a lower wage share, was required. This view became the basis for a sustained policy of wage moderation, beginning with the Wassenaar agreement of November 1982.

There had been attempts at wage moderation before. While during the period 1979-1982, social partners kept each other in a stranglehold, the government was divided over the need of wage intervention. In 1979 a central agreement was in the last minute been wrecked by the opposition of unions representing low-paid workers. This made the corporatist system “immobile” and unable to respond to the new challenges of economic internationalisation (Hemerijck, 1995). The difference, in 1982, was that the hard currency stance of the Dutch Central Bank, and behind it the Bundesbank, no longer left any room for doubt. Earlier in that same year the patched-up coalition of Social and Christian Democrats had foundered and the new Centre-Right coalition in 1982 announced a “no nonsense” policy of fiscal consolidation. The government had already decided that it would suspend the cost-of-living indexation in wage agreements and social benefits, and freeze minimum wages, social benefits and public sector wages. The Lubbers administration also threatened to intervene in wage setting. Compelled by this “shadow of hierarchy” of state intervention, the social partners joined forces in striking a bi-partite deal.

In 1982, in the now famous “Central recommendation concerning elements of an employment policy”, the central representatives of employers and employees in the Foundation of Labour stated that “for a structural improvement of employment are essential: recovery of economic growth; a stable price level; improvement of competitiveness of enterprises and in accordance with that an improvement of benefit levels” (24 November 1982, p.1). The Wassenaar agreement, named after the place where it was signed, marks a turning point in Dutch industrial relations (Visser and Hemerijck, 1997). The basic trade-off at Wassenaar was between wage moderation and working time reduction. Trade unions accepted a moderate wage increase and gave up the automatic cost of living adjustments in several collective wage agreements, due in 1983 and 1984. Unlike past agreements, the Wassenaar and following agreements did not contain a concrete figure concerning desired or expected wage developments. The
The proposal was just to keep wage increases lower than productivity increases while the unions abstained from demanding price compensation. This offer would then become the basis for a so-called “cost neutral” reduction of working hours and job-sharing.

The response to the Wassenaar agreement was swift. In less than a year, two-thirds of all collective agreements were renewed, mostly for two years, during which the payment of price compensation was suspended and a 5% reduction of working hours took place. By 1985, cost-of-living clauses had virtually disappeared; average real wages fell by 9% in real terms. This resulted in restoration of profit levels and investment growth over the course of the eighties. The unadjusted share of income imputed to labour that had risen to 91% in 1980, declined to 81% in 1985. At the same time, a 5% reduction in the working week emerged, from 40 to 38 hours in the period 1983-1986. The perceived impact of the Wassenaar agreement on employment however seemed moderate, largely because its effect could only be measured over a longer period (years). A study of the CPB conjectures that during the eighties, 265,000 job places had been created by wage moderation, another 250,000 due to part time work and only 30,000-40,000 due to labour time reduction (Central Planning Bureau, 1991). The reduction of working hours had an additional work-sharing effect, but the turn-around in employment growth came later and benefited mainly newcomers. The largest contribution came from the rapid expansion of part-time jobs, mainly of women and youngsters (Visser, 1999).

Assured of restraint, the government had its hands free to regain control over public sector finance. In 1983 salaries, minimum wages and related benefits were frozen and for 1984 the government cut public sector wages by 3%. This brought the public sector unions in arms, but after a strike of three weeks they found themselves isolated. Special measures were taken for the poor and families relying on only one minimum income. In March 1983, Dutch monetary authorities announced that henceforth the guilder was pegged to the D-mark.

Helped by the international economic upswing, profits, investments and jobs, Lubbers’ austerity policy paid off politically. In 1986 the centre-right coalition was re-elected with gains for his Christen Democratisch Appel party. Two governments of the same persuasion meant a clear break with the immobilisation of the seventies. The second Lubbers-administration promised a further reduction of the public deficit, no increase in taxes and
social premiums, and lower unemployment. The new policy challenge was to curtail the costs of social security and reduce the number of welfare recipients, which had continued to rise throughout the eighties. The strict exchange rate policy exerted disciplinary influence on wage developments, while, in turn, wage moderation enabled DNB to credibly stick to its non-inflationary policy. Low inflation (at almost 0%) allowed unions to forget about indexation. The new mix of macro-economic policy and wage setting also altered the relations between unions, employers, and the state. The new pattern became: a central dialogue over a wide range of policy issues combined with sectoral wage bargaining, based on the primacy of industrial self-regulation. The role of the central organisations was confined to redirecting sectoral contracting towards tacit, economy-wide wage restraint. (Van den Toren, 1996). In the wake of the Wassenaar Accord, signed at the Foundation of Labour, also the tri-partite Social and Economic Council gained a new lease of life by issuing a range of policy recommendations regarding youth unemployment (1984, 1986), training (1986, 1987), long term unemployment (1986, 1987), minimum wage costs (1988), and part-time work (1989). Some of the recommendations of the SER were subsequently put on the collective bargaining agenda, especially those dealing with vulnerable groups in the labour market (source: Sociaal-Economische Raad, 1998).

3. Common policy framework

In 1989, the Christian Democrats exchanged their Liberal coalition partners for the Social Democrats after a break in the old coalition (over environmental policy) and new elections in 1989. Lubbers knew that he needed the Partij van de Arbeid, led by ex-union leader and Wassenaar negotiator Kok, in government to share the responsibility of the unfinished business of welfare reform. Lubbers III began in an optimistic mood. Index-linking between contractual wages, minimum wages and benefits was restored, albeit this was made contingent upon the ratio of active to inactive people. The tax reform of 1990, prepared by the previous government, had partially integrated social security charges and income taxes, broadened the tax base, lowered the tax rate and added a 4% extra to consumer spending, with beneficial effects on growth and employment. Soon after the formation of the Cabinet, a tri-partite Common Policy Framework (Gemeenschappelijk Beleidskader), with promises of growth, employment, tax relief and wage moderation, was agreed upon between the government and the social partners.
In 1991, when the Bundesbank, fighting its war with the German Finance Ministry, raised interest rates and put a brake on the European economy, economic growth forecasts were adjusted downwards and fiscal austerity was again placed on top of the policy agenda. The government, in particular the Social Democrats, expected help from the unions, through the continuation of wage moderation. But with profits riding high, the unions refused to change gear. Employers, on the other hand, reproached the government that it did not do enough to halt the rise in social security spending. They felt that the Common Policy Framework gave the government room to duck its responsibility. In April 1991 the employers backed down from the agreement and announced that, for the first time in post-war history, they would stay away from the customary “Spring” meeting between the Foundation of Labour and the Cabinet.

As if this was not enough, the crisis of Dutch corporatism deepened in the summer of 1991, when the Social Economic Council proved unable to draft a unanimous position on a change of the disability insurance scheme. Employers had been in favour of a lowering of benefits, but a compromise with the unions on this issue proved impossible. This meant that the government had to act on its own. In 1991, it decided on a major cut in the existing programme, which led to an all-time low in the relationship between the Federatie Nederlandse Vakvereniging and the Social Democrats in government.

In this period of troubled waters, the credibility and legitimacy of Dutch social partnership came under attack from all sides. Both the parliamentary leaders of the liberals (opposition) and the social democrats (government) advocated the return to the “primacy of politics”, arguing that a consensual and negotiated adjustment is always too slow, that the division of responsibilities among the social partners and state officials is not transparent and that there is insufficient commitment of decentralised bargainers to the agreements at the central level. In this climate, Parliament, in 1992, embarked on an official inquiry on the role of the social partners in the administration of social security, in particular with respect to disability insurance. The 1993 report of the inquiry, based on public hearings, was devastating for the social partners, as it revealed a clear picture of bi-partite mismanagement and abuse. This led to a series of administrative and political reforms, designed to curtail the powers of the social partners in the area of social security policy (a move away from corporatism, that is).
In the area of wage policy, the director of the Central Planning Bureau, later shared by the OECD and the Ministry of Economic Affairs, launched an attack on the policy instrument (of the Ministry of Social Affairs) of extending sectoral collective agreements to non-organised employers through public law. Based on pre-war legislation, collective bargaining extension had become customary since the breakdown of statutory wage policy in 1962. In the mid-nineties, it affected about half a million employees (mainly in sectors like retailing and construction), out of a total of four million under collective agreements. But its impact, since extension prevents employers from exiting their employers’ organisation (as they fall under the extended agreement anyway or would have to go for the costly, and perhaps risky, business of negotiating a firm agreement). The critics argued that extension hinders competition, through threshold effects on new firms, and keeps workers with little experience and low skills inactive by enforcing wage levels above the statutory minimum wage. In a (later) study of Freeman, Hartog and Teulings, published in 1994, these effects were shown to be rather small, and compensated by positive effects, but in 1992 and 1993, the Minister of Social Affairs was sufficiently impressed by his critics, and extended the list of policy items (alongside preventive dismissal control) to be discontinued.

Impressed by mounting political pressures, the central organisations of employers and trade unions moved closer together. In 1992, the Foundation of Labour issued a joint defence of the practice of extending sectoral agreements through public law. Dissenting voices in the employers camp were silenced. Some concession, through the introduction of lower entry wage scales for inexperienced workers and dispensation rules for start-ups were offered in return. The most significant attempt to show the virtues of social partnership was launched by the Social Economic Council. After the breakdown of the Joint Policy Framework, the government long hesitated to seek advice from the Social Economic Council on how to overcome the impasse. In June 1992, the government approached the Council to deliver a report on the role of negotiated economy in the context of the European Monetary Union. The SER rose to the opportunity and published, in the short period of half a year, the unanimous report “Convergence and Consultation Economy” (1992). The report was positive about Dutch competitiveness under EMU. The added value of consultation and social partnership was emphasised, but the Council advised to create a more transparent division of labour between government and social partners. It
concluded that Collective bargaining should be the autonomous responsibility of the social partners as internationalisation, individualisation and decentralisation require effective policies at the level of individual sectors, branches and firms. This implies a continuation of the practice of co-ordinated decentralisation in wage setting, without government interference. The role of the institutions at the central level should be directed towards supporting negotiations at lower levels. Fiscal and monetary policies are the prerogative of the government. Labour market policy should be a shared or mixed public-private policy area.

4. A new course

The crisis of the Dutch negotiating economy between 1991 and 1993 was compounded by the international recession. The government and employers complained that wages did not respond quickly enough to the new economic situation. Union negotiators base their demands on the forecasts of the CPB. And as the CPB underestimated the downturn, the unions saw no reason for extra wage restraint (interview). In 1993, however, the unions could no longer stick to this position. As in 1982, the Minister of Social Affairs, invoking his powers under the 1987 Wage Act, threatened to intervene. In the beginning of 1993 this situation allowed for a two months “breathing space” during which expiring contracts were prolonged and negotiations were suspended.

Employers started a campaign of “zero (wage growth) is enough, zero is necessary”. While most unions lowered their wage demands by half, they stepped up pressure for a further reduction of working-time to 36 hours. Negotiations proved to be difficult. One hundred-thousand industrial jobs were lost. Large firms like Philips, Daf and Fokker were experiencing difficulties. Under these conditions of predicament, industrial employers vetoed another round of a collective working time reduction. The Minister sent his wage freeze bill to Parliament in order to step up pressure on negotiators. While the employer camp broke on the working-time issue, the unions conceded on wages. Under the promise of further decentralisation, a new agreement was reached. In December 1993, the central organisations signed a multi-annual agreement “for 1994 and the following years”, coined “A New Course” in which they argue: “The economic situation is extremely worrying. The expectations for the mid-term indicate that without structural adaptations, no or only insufficient recovery of economic growth, benefits...
and competitiveness levels can result. In that event, our country will be confronted with an increasing and persistent problem of unemployment, in a context of an already low level of labour market participation” (16 December 1993, p.3).

In terms of policy content, the New Course agreement revolved around the exchange of wage moderation for working time reduction. There are a number of similarities between this agreement and the foundational Wassenaar Accord. Both agreements set the stage for a revival of bilateral social partnership in industrial relations proper, under the threat of political intervention. But in many ways “A New Course” was more innovative. More than Wassenaar, the new approach, endorsed a philosophy of participation and decentralisation, including elements individual responsibility at the level of firms (Van der Meer et al., 1999). Both parties agreed to work together in improving the unfavourable employment/population ratio and recommended more flexible working arrangements and the expansion of part-time work, in line with an agreement on part-time work reached earlier in 1993. Employers pressed for the further decentralisation of wage setting in order to allow for tailor-made employment conditions within the firm as well as more flexibility in employment relations. Trade unions received a promise that local union representatives or works councils would be included in negotiations concerning local implementation. In the New Course, the social partners followed the government in its embrace of higher levels of labour force participation.

In the “New Course” agreement, the unions accepted, for the first time, a differentiation in labour hours and labour time patterns within sectors and enterprises. This is a distinct break with the practice of across-the-board labour time reduction, advanced in the early eighties. The New Course Agreement argued that the aim was to reach a “new equilibrium”, which takes into account both the demands of business and the security needs of workers. This means that for the first time, the trade unions relaxed their objections against a further flexibilisation of labour whereas the employers accepted the application of labour time reduction and the application of part-time work. In line with the New Course agreement, the social partners embarked on a discussion in the Foundation of Labour over the modernisation of contract and dismissal law, which eventually led to the “Flexibility and Security” agreement in 1996. The objective of the agreement was to strike an adequate balance between flexibility and security by lowering dismissal protection of existing (“core”) workers alongside
enhanced employment and social security for atypical workers. In 1995 unions and employers already signed the first collective agreement for temporary workers, introducing a right to continued employment and pension insurance after four consecutive contracts or 24 months of service. The 1996 “flexicurity” agreement was a compromise, not just between employers and employees, but also within the unions between workers with and without stable jobs. Subsequently, the Flexicurity agreement was literally taken over by the government and became law on January 1, 1999 (Wilthagen, 1998). The new legislation, together with the incremental individualisation of the tax system since 1984, improved possibilities to switch from full-time to part-time jobs, and the removal of all remaining elements of discrimination of the basis of working hours contributed to a “normalisation” of part-time employment (Visser, 1999).

In 1995, the “New Course” agreement was renewed by another biennial agreement, called “Calendar for collective bargaining for 1996, and beyond” and in 1997, by a four year pact, coined “Agenda 2002”. As the names of these agreements, “calendar” or “agenda”, suggest, these are rather broad and vague “agreements”, specifying a wide range of issues on which the social partners – and local bargainers – intend to work on in a co-operative spirit under a rather loose time table. The Agenda 2002 agreement contains elements of vertical and horizontal, inter- and intra-organisational policy coordination. All the agreements stress the need for a “responsible wage setting”, but apart form the New Course which suggests that zero-growth could be helpful, no specific figures for wage growth are mentioned in the later agreements. The agreements of the nineties are commonly prefaced by a general picture of the state of affairs in economy and society, ranging from the internationalisation of the economy, to the individualisation of society and the decentralisation of decision-making.
Table 1: Themes and intentions in the Agenda 2002 (Foundation of Labour)

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<thead>
<tr>
<th>Themes</th>
<th>Intentions</th>
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<tr>
<td>Wages and working conditions</td>
<td>Responsible wage setting</td>
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<td>Decentralisation and differentiation towards sector/firm level</td>
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<td>Flexible/motivating pay policies</td>
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<td>Employability</td>
<td>Shared responsibility</td>
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<td>Permanent education for all employees</td>
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<td>Development of employability policies</td>
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<td>Labour time/ work and care</td>
<td>Differentiation</td>
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<td></td>
<td>Flexibilisation</td>
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<td></td>
<td>Stimulating part-time work</td>
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<td></td>
<td>Introducing (care) leave arrangements</td>
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<td></td>
<td>Realising child care facilities</td>
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<tr>
<td>Older workers</td>
<td>To keep older workers in the labour process</td>
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<td></td>
<td>To advance employability of older workers</td>
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<tr>
<td></td>
<td>From early retirement to pre-pension arrangements</td>
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<tr>
<td>Integrating the unemployed</td>
<td>Smaller margin between lowest scale/statutory minimum wage</td>
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<td></td>
<td>Introduction of low-wage scales</td>
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<td></td>
<td>Particular attention to disadvantage groups (e.g. ethnic minorities)</td>
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<td></td>
<td>Equal opportunities</td>
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<tr>
<td>Working conditions</td>
<td>More attention to anti-stress policies</td>
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Source: adapted from Agenda 2002, Foundation of Labour, 1997

In the early nineties, Dutch social partnership was also held responsible for the governability crisis in the Dutch system of social security. Subsequent reforms in the areas of social security and labour market policy, in administrative terms, moved away from the principles of co-management by the social partners. The episode of the disability pension crisis has had far-reaching political consequences. The 1994 elections were the election of popular discontent over the issue of welfare reform. The Lubbers-Kok coalition was effectively voted out of power, losing 32 of its 103 seats in parliament, which is four short of a majority. The new “purple” coalition of the historical enemies, PvdA and Volkspartij voor Vrijheid en Democratie, cemented by Democrats ’66, the first government since 1917 without a confessional party, did not slow down in the reform effort. Nonetheless, the
Social Democrats had a bottom-line condition for its co-operation: the level and duration of social benefits would not be tampered with. From this defensive position, the party was committed to the “job, jobs and more jobs” approach. This largely explains its support for reforms aiming at efficiency improvements, by means of the introduction of financial incentives through a partial re-privatisation of social risks and a managed liberalisation of social policy administration. The latest government plans are likely to once again bring all insurance arrangements under one public roof, whereas the reintegration of the employed and disabled workers is likely to become the responsibility of private organisations.

The new policy priority of “jobs, jobs and more jobs” made its imprint on all kinds of labour market policy initiatives. There was a new focus on active labour market policies, an underdeveloped area in post-war policy-making. A critical evaluation of new tri-partite employment services gave cause to another overhaul in 1996 and provided a policy window for a tightly coupled linkage between labour market and welfare policy. As a result of the strengthening of “activating” measures in unemployment insurance and social assistance, municipalities and social insurance organisations have a budget to buy placement and training activities from the employment service. From 2000, the employment service is expected to compete with private providers, like the temporary work agencies. Alongside additional job programs, absorbing 1.5% of total employment, the government has introduced several kinds of employment subsidy schemes based on a reduction of social security contributions paid by employers. Employment subsidies can add up to 25% of the annual wage. Subsidy schemes cover as many as one million workers at the lower edge of the labour market.

In 1995, the prerogative of the Social Economic Council to be heard on all the issues concerning social and economic legislation was revoked in Parliament. Ironically, the government had by then come round in support of social partners and the responsive role played by the unions and by employers in the management of the European Monetary System crisis and international recession of the early nineties. The blessings of the Dutch negotiated economy-called “polder model”– were about to be discovered in the international media, much to the surprise of Dutch journalists and academics. But the 1996 Flexibility and Security agreement finished all criticism in the Social Affairs Ministry and in January 1997, the Minister, Mr Melkert, a leading Social Democrat, presented in his role as president of the Council of Ministers, the (Dutch) social policy model as an economic
Two Decades of Social Pacts in the Netherlands

Beyond the ongoing debate on social security policy, the Purple government has come round in support of the bi-partite STAR and tri-partite SER.

5. The qualitative turn in Dutch social pacts

Beyond the continued importance of a “responsible wage policy”, the framework accords of the nineties increasingly came to define qualitative issues for sectoral and firm-level bargaining and implementation. This is perhaps best illustrated by Agenda 2002 (see table 1). In this section, we wish to highlight a number of qualitative issues that entered the bargaining agenda of the Foundation of Labour in the late nineties. Below, we deal with wage setting, early retirement, employability, ethnic minorities, and social security.

5.1 The impact of social pacts on lower-level bargains

Since Wassenaar, collective bargaining is the responsibility of employers’ and employees’ organisations. There is a clear impact from national agreements to sectoral and firm level agreements. In a recent government report on collective bargaining, it is mentioned that of the largest 117 collective agreements covering almost 4.5 million employees, many contain issues that have been discussed at the central level, and that were traded off against a “responsible” wage development. The agreements reached include clauses with opportunities for training for 92.3% of all employees covered; clauses on leave for training for 88% of employees; part-time work for 60%; personal training plans for 29%; performance related pay for 74%; annual assessments for 33%; work experience for 20%; employment plans for 69%; additional jobs for 35%; and labour pools for 3% of employees. Moreover, collective agreements regularly include specific employment plans for target groups, including the long term unemployed, women, disabled workers, ethnic minorities, and youngsters (Labour Inspectorate, 1999).

5.2 Individualisation of agreements

The new negotiating economy of the Netherlands seems to be quite capable of anticipating the new regulative questions of the modern service economy with the expansion of part-time jobs and tight labour markets in certain segments. In line with the agreement on “flexibility and security”, the
Foundation of Labour in 1999 reached another innovative agreement. The agreement, titled “Towards tailored employment conditions. Increase of the possibilities of choice with regard to employment conditions”, advises bargaining partners to introduce, within the framework of the collective wage agreement, individual options over some conditions of employment. The idea is that in the standard collective wage agreement, a number of provisions will be specified, serving as bartering devices, so as to allow employees to partially determine their own employment conditions. These trade-offs often involve the exchange of “time for money” or “money for time”. This novelty is referred to as the multiple-choice model of employment, and it includes the participation of employees in flexible pension plans, (educational or care) leaves, end-of-the-year bonuses and extra days off. All employees are asked to re-specify their preferred choices each year.

5.3 Early retirement
In May 1997, the Foundation of Labour published a memorandum entitled the “recommendation to renovation of pension schemes”. The Foundation encouraged various sectors to evaluate and assess the sectoral pension system and to replace early retirement funds, based on a pay-as you go system (Vervroegde Uittreding), by more flexible individually fully funded tailor-made schemes. Such individual schemes would in theory improve labour market flexibility since employees can transfer their pension rights when changing jobs. In 1999, twelve out of 27 newly signed collective agreements had already shifted to a funded early retirement scheme (Labour Inspectorate, 1999).

5.4 Employability
Employability has become a key concern in Dutch industrial relations. The social partners are in agreement over the priority of improved “employability” in an era in which firms are no longer able to guarantee “life-time employment”. “Employability” is seen as the best instrument to increase skill-levels for firms and raise labour market chances for workers to get or to keep a job. Employability is a prominent example of a theme that has emerged from below, from the level of individual firms, to the agenda of the negotiating economy. Subsequently, the issue of employability became part of national discussions in the bi-partite Foundation of Labour after 1996.
5.5 Ethnic minorities

In the Foundation of Labour, several policy documents and evaluation studies have raised the issues of the poor labour-market chances of ethnic minorities. In the late eighties, the debate concentrated on the problems of long-term unemployment of ethnic minorities. Today, the need to integrate ethnic minorities into the labour market is viewed as a key requirement for reversing a vicious spiral of ethnic segmentation, but also as a resource for filling vacancies. A decade ago, agreements regarding ethnic minorities defined specific targets in number of jobs. Today’s agreements define strategies without concrete figures. The social partners have come to realise that they can only recommend employers to hire people from vulnerable groups, but that they lack the instruments to place these people, which is a firm-level responsibility.

5.6 The troubled path of social security reform

Welfare reform in the Netherlands is, like in most member state of the European Union, unfinished business. In June 1998, social partners reached an agreement in the SER on the full privatisation of the social security execution system, including both intake of individual claimants and implementation of social security provisions. However, the newly formed Purple II Coalition maintained that the intake of claimants could not be left to market forces, but would be better to keep under political control. The recent conflict over social security between the social partners and the government led a number of commentators to conjecture the downfall of the “Polder-model”. It took until January 2000 to reach an informal compromise. The Minister of Social Affairs promised the social partners that they would continue to play a role in the new social security structure. The current solution is that a newly formed public agency would be responsible for the execution of social security arrangements, whereas the tasks of prevention and reintegration of the unemployed and disabled workers would be executed by private agencies.

6. External and domestic critiques

However, the Dutch model of negotiated adjustment has become the wonder of foreign observers, the consultation model is contested, subject to both domestic and international critique.
6.1 Criticism from within: the span of control of the system

We have argued that a new distribution of responsibilities has emerged between (organisations of) employers and employees over wage setting. Within the representative organisations, several voices have been raised on efficiency and effectiveness of the Dutch negotiating economy. Some trade unionists argue that too many issues are placed on the bargaining agenda, leading to severe problems of monitoring. The “span of control” of the unions is far too limited to see to the implementation of the plethora of tailor-made individual agreements between employers and employees. This had led to the resurfacing of a debate over the return to the “core” business of unionism, i.e. dealing on wages and offering personal individual services to their members, while leaving special policies for vulnerable groups and employment regulation to the government (Inja, 1998).

On the employers’ side, larger, medium and smaller sized enterprises, which are under competition in product markets, take part in the consultation economy. In consultative talks, larger enterprises increasingly voice the opinion that their personnel policies should not be compelled by the outcomes of national bargaining. Small and medium sized firms, on the other hand, cherish central consultation. They fear that the ungovernable individualisation of risks and differentiation in social security contributions would be to their disadvantage. So far, the social partners have successfully defended the general extension of collective agreements and minimum wage levels, when these were under political attack.

6.2 Criticism from without: beggar-thy-neighbour?

The favourable development of Dutch unit labour costs, it has been argued, has given the Netherlands a comparative advantage over other countries. As such, a fair number of observers has jumped to the conclusion that job growth in the Netherlands came at the expense of labour market performance elsewhere. This is the beggar-thy-neighbour argument. This critique has already had its antecedents in the Netherlands, where a small minority of economists have argued that wage moderation in the long run is harmful to the economy, because it puts downward pressure on effective demand, slows down labour market allocation, and, finally, undermines productivity increases through innovation.
Over the last decade, productivity levels in the Netherlands have indeed come down slightly. This may however be explained by both a relative loss of production output and by differences in recruitment strategies. In the Netherlands, labour market participation has risen tremendously over the last two decades. With the increase in the number of jobs for low skilled groups, average productivity levels decline. According to estimates of the Central Planning Bureau, 20-40% of the decline in increase in productivity can be explained by the job growth among the low skilled (Central Planning Bureau, 1998). The beggar-thy-neighbour argument, which suggests that wage moderation – given a fixed exchange rate – lowers unemployment at the expense of trading partner countries, is misguided. The Dutch experience suggests that the employment effects of wage moderation are stronger in domestic services that were heretofore priced out of the regular labour market. Thus, there is reason to believe that wage restraint would also be beneficial in a more closed economy. Moreover, if wage restraint leads to higher employment and a concomitant growth in domestic demand, the overall effects of the current account are unclear. In the Netherlands, new jobs have been created mainly in the service sector via part-time jobs. For this reason, an unused potential of new jobs has been opened, totally irrespective of industrial developments elsewhere.

7. Conclusions: the self-transformation of a negotiated economy

In the negotiated political economy of the Netherlands, constrained by the rules of coalition governments and social partnership involvement in social and economic policy making, adjustment is critically dependent upon the agreement of ruling parties and social partnership support. As such, the Dutch political economy suffers from what Fritz Scharpf calls the “negotiator’s dilemma”. Negotiators must simultaneously search for effective policy responses, in terms of policy content, while resolving distributive conflict, i.e. find a “fair” distribution of the social costs of adjustment between and among the many players in the policy game (Scharpf, 1997).

In the early eighties, Dutch unions, facing an acute unemployment crisis, alongside pent-up frustrations over recurrent government intervention, resigned to the new realities of the world economy and returned to a strategy of wage moderation. From 1982 onwards, Dutch unions consistently placed jobs before income. This learning process on the part of the trade unions led
to a revitalisation of the social partnership in the eighties and nineties. Employment growth, subsequently, created the economic and political precondition for the path-breaking transformation of social security and labour market policies, despite initial disagreement (Visser and Hemerijck, 1997).

Over the process of recovery and success, the character of the social dialogue in the Netherlands was transformed. Today, bi- and tri-partite institutions perform new functions. The resurgence of social pacts was in part pushed by subsequent threat of government intervention. This is particularly true for the Wassenaar (1982) and New Course (1993) agreements. The character of social pacts has changed from hard bargaining over wages and hours towards more qualitative agreements, containing multiple choices for the needs and preferences of individual workers at the level of firms. Bi-partite recommendations have become more qualitative, general, and procedural in nature. With respect to labour time reduction, policy preferences shifted from cross-the-board reductions in the working week towards the enhancement of part-time work and annualisation of working time. Currently, standardised unemployment is below 4%. Two-thirds of the jobs created since 1982 have been part-time jobs. The surge in part-time employment coincided with the rapid increase in labour force participation of women, from 29 to 60% between 1971 and 1996, the strongest rise in any OECD country.

After the social partners found each other in the bi-partite Wassenaar Accord in the Foundation of Labour, it took another decade before the tri-partite Social and Economic Council took a new lease on life, when it produced its “Convergence and Consultation Economy”-advice in 1992. For contemporary social pacts, strong, centralised, hierarchically ordered interest associations are no longer required. Instead, relations of trust within and among interest organisations create a positive bargaining climate at lower levels. Government intervention in wage setting has become unthinkable nowadays. The government defends a policy mix that combines five programmes: fiscal consolidation, a stable monetary climate, wage cost moderation supported by general and generic tax reduction, an activating and if necessary alternative work creating system of social security, and a structural policy focusing on flexibilisation and improved market allocation. This new policy mix contrasts sharply with the post-war profile. Macroeconomic stability and wage moderation have survived the recent social and economic turmoil, but social security and labour market policies have undergone fundamental changes.
The Dutch experience shows that a rescue of the European social model is possible, even under the conditions of a more restrictive macro-economic policy environment, and increased pressure on firms to adapt to external market pressures. Broad national framework agreements allow sector and enterprise bargainers to strike deals on productivity, training and job opportunities for less productive workers within the framework of a more long-term commitment to macro-economic stability, which is still essential for containing inflationary pressures. At firm level, new bargains have become possible in the light of the individual preferences of employers and employees. As such, co-ordination enables innovation.

References


A Spanner in the Works and Oil on Troubled Waters: The Divergent Fates of Social Pacts in Sweden and Norway

Jon Erik Dølvik and Andrew Martin

1. Introduction

Historically, Norway and Sweden shared the Nordic tradition of labour market regulation through national level negotiations between highly organised employers and unions, aimed initially at managing conflict so as to maintain social peace and more recently at moderating wage growth so as to maintain macroeconomic stability. Moreover, there has also been an implicit understanding that co-operation in the labour market would be coupled with expansion of a universalistic welfare state and the maintenance of full employment. In both countries, then, there was thus something like sustained, institutionalised social pacts. During the eighties, however, Sweden broke from this tradition. At about the same time, Norway seemed to be doing so too, but there was soon a return to national concertation between employers and unions in Norway. There the practice has continued despite various stresses and vicissitudes, while in Sweden there has been no return to anything like social pacts, despite the efforts of some to bring it about. The divergent fates of social pacts in the two countries should therefore shed some light on the conditions under which social pacts can occur.

We first focus on each of the countries separately and then compare the developments to see how they resulted in different outcomes. Among the many factors entering into the divergent paths, the different role played by the state in the two countries stands out. However, the difference in the states’ roles were clearly related to differences in the structures of labour movements and industry, especially the role of large internationally oriented corporations, as well as in the dynamics of party politics in the two countries. We hope to show how these factors combined to bring about the contrasting results. In each case, we briefly review the historical background which was summarised more fully in the predecessor volume, concentrating on more recent developments (Fajertag and Pochet, 1997).
2. Norway: the survival of national concertation

In international comparisons, Norway has always been ranked as one of the most corporatist and centrally co-ordinated economies in the world. After a period of economic liberalisation, fragmentation of wage policies, and soaring inflation in the mid-eighties, the post-war settlement underlying co-ordination seemed to collapse. However, in response to major economic crisis, falling oil-prices and industrial conflict, the main social partners agreed in informal talks with the Labour government (in 1987-1988) to break the inflationary wage-price spiral and restore competitiveness by a combination of centralised incomes-policies and austere economic policies. This path-breaking settlement, which in many respects can be compared with the famous Dutch Wassenaar Agreement, was subsequently complemented by a shift to a hard currency regime based on a stable exchange rate vis-à-vis the Ecu.

In 1992 this informal social pact was codified in the so-called Solidarity Alternative spelled out by a government appointed Employment Commission in which representatives of all political parties and the main social partners, the Norwegian Confederation of Trade Unions (LO – Landsorganisasjonen i Norge) and Confederation of Norwegian Business and Industry (NHO – Næringslivets Hovedorganisasjon), took part (NOU 1992: 26). In order to halve unemployment in five years, a program for continued wage moderation, tax reform, review of the composition of public expenditure, and structural policy measures, were recommended. Combined with expansion of active labour market policies and training, a macro-economic formula was designed under which monetary policy would aim to achieve a stable exchange-rate, while fiscal policy should stabilise the growth of demand, and incomes policy should control inflation and competitiveness (Dølvik and Stokke, 1998).

The Solidarity Alternative resembled in many respects the Dutch model of “competitive corporatism.” The main partners largely kept to their commitments, and employment objectives were over-fulfilled, facilitated by growth rates far beyond the Commission’s assumptions, despite difficulties in pursuing the macro-economic formula. Actually, growth did not pick up before interest rates came down after Norway gave up the fixed exchange rate to Ecu in 1992 and applied a more flexible interpretation of the stable exchange rate regime. The minority Labour government also had persistent difficulties ensuring parliamentary support behind its cautious fiscal approach, eventually leading to increasingly pro-cyclical policies and a change of government in 1997.
Compared to developments in many other European and Nordic countries the achievements of the Norwegian approach were remarkable, showing employment records comparable to that of the US by the mid-late nineties, while wage inequalities were reduced. The labour cost share of factor income in market-oriented branches of the mainland economy declined somewhat from 1988 to 1993 but has since recovered to a higher level than before (NOU, 1999a: 11-12). The solidaristic wage policies have brought a more compressed overall wage structure (Freeman, 1997), but groups at the higher income levels not covered by collective bargaining and benefiting from surging interests on stocks have profited more than others, causing tension in recent pay rounds.

Soaring oil revenues and investments undoubtedly eased the transition, but also had a potential inflationary impact, which made the contribution of centralised wage determination to containing inflation all the more striking. While Norway experienced higher growth rates than Sweden in the first half of the nineties, the increase of nominal wages was substantially lower. A central feature of the state-led, concerted turnaround in Norway was the relative weakness of Norwegian employers and the trade unions’ ability to secure a pattern of distribution and a policy mix that enhanced legitimacy and popular consent to initially quite burdensome measures. As in countries such as the Netherlands, Ireland, Italy and Finland, where centralised concertation has also been restored in recent years, this was facilitated by a climate of economic emergency and national political crisis.

Still, the relative success of the Norwegian Solidarity Alternative rests on fragile foundations. When the economy recovered in the mid-nineties the legacy of moderation vanished and the Norwegian economy seemed headed for a new crash-landing – possibly repeating the failures of the mid-seventies and eighties. Although the Asian financial crisis and the declining oil-prices in 1998 prompted a temporary return to moderation and new efforts at institutional reform, uncertainty remains regarding the viability of the macro-corporatist Norwegian policy formula, especially with respect to the trade unions’ ability to maintain centralised moderation in a context of rising affluence, tight labour markets and compressed relative wages. Competition for labour and struggles over adjustment of relative wages have intensified and the structure of trade unions has come into flux, altogether causing uncertainty as to whether the social actors are able and willing to meet the government’s quest for a comprehensive re-negotiation of the national social compromise.
2.1 The traditional structures and legacy of Norwegian industrial relations

Besides the state, the key actors in the Norwegian model of social partnership have been the LO and the NHO. NHO is the only employer confederation in the private sector and exerts strong central authority over its affiliated branch organisations on bargaining policies. The other major employer organisation in the private sector is the HSH (the Federation of Norwegian Commercial and Service Enterprises), while NAVO organises a growing number of former public enterprises. In the nineties, organised enterprises covered about 55% of private sector employment and approximately 70% in manufacturing (Stokke, 1998c). On the trade union side LO was in the seventies joined by the Federation of Norwegian Professional Associations (AF) and the Federation of Vocational Unions (YS), and in 1998 several breakaway unions from AF formed ‘Akademikerne’. Union density has remained stable at around 55-56% since the fifties, but the number of organised employees outside LO has steadily increased, amounting today to 45% of all employed union members (Stokke, 1998b). In contrast to the segmentation of union membership along the white/blue-collar divide in Sweden, LO Norway has aimed at retaining its all-encompassing character, whereas AF and YS have been weaker and less coherent than their Swedish counterparts. Recently sweeping changes in the pattern of unionism may indicate that this distinction is becoming less pronounced.

The Norwegian trade unions have never challenged employer prerogatives as Swedish unions did in the seventies (see section 3.2.3). LO has instead relied heavily on political co-operation with the Labour party, which has been a source of opposition from the AF and YS. As neither the Labour Party nor the LO have been as strong as their Swedish counterparts, they have throughout their history had to rely even more on cross-class alliances than the Swedes (Dølvik, 1994). The impact of this political legacy has been reinforced by the nature of Norway’s economy. The import ratio is around 40% of GDP and the economy has been dominated by small companies. In the few larger corporations, collaboration between foreign capital and the state has often played a decisive role, indicating that the national capitalist class in Norway has been less autonomous and politically unified than its Swedish counterpart. Exports have predominantly been based on natural resources such as fisheries, forestry, the utilisation of cheap hydro-power to produce semi-finished metals and chemicals, and lately on North Sea oil –
currently accounting for more than 30% of total exports. The government’s role in the petroleum sector has strengthened the state-capitalist features of the Norwegian political economy and has underpinned the strategic function of centralised incomes policy in governance of the oil economy (Mjøset et al., 1994).

Pay rounds in Norway have traditionally followed the pattern of the so-called ‘Aukrust model’ – according to which a ‘responsible’ wage growth is determined by the growth of world market prices and competitiveness in the exposed sectors (Aukrust, 1977) – and became during the sixties increasingly embedded in institutions of state-led incomes-policy and dispute management. Much more than in Sweden, the system of dispute resolution relies heavily on mediation, and has, together with frequent use of compulsory arbitration, been important in ensuring discipline and compliance with the model by containing militant unions both inside and outside LO (Dølvik and Stokke, 1998, Stokke, 1998a).

In short, the Norwegian system of industrial relations has historically been marked by a stronger tradition of state intervention and centralised co-operation between social actors, which, compared to their Swedish counterparts, have been less strong and less coherently organised. This has allowed the internationally exposed sector associations affiliated to NHO and LO to retain their hegemonic role and has, in contrast to Sweden, provided strong incentives to maintain the legacy of social partnership. The emergence of new contenders has in recent years contributed to a more complex actor constellation, however, making the dominance of NHO and LO more contested and the co-ordination of interests more complicated at both the employee and employer side.

2.2. From crisis management to governance of prosperity

2.2.1 The shadow of the past

While the Norwegian model of social partnership evolved in the context of industrialisation and economic scarcity, a striking feature in the seventies and eighties was the inability of the collective actors to cope with a booming economy, especially in the domestic service sectors. This prompted wage inflation and crisis, followed by austerity and interventionist wage-regulation. The question today is thus whether history is about to repeat itself, or whether the social actors have learned from past experience and are
able to hammer out a renewed social compromise robust enough to cope with a prospering economy and surging expectations.

The issue came to the fore in the 1996 pay round which, accompanied by a number of industrial conflicts resulting in real wage increase of more than 2% and extended early retirement schemes, clearly deviated from past policies of moderation. In the run-up to the 1998 pay round the United Federation of Trade Unions (Fellesforbundet), dominated by the metal-workers, forced LO to refrain from centralised negotiations and sought greater emphasis on substantial real wage growth than on LO’s top priority: a significant reform of life-long training. This implied that the third main bargaining round in a row was conducted at industry/branch-level, though under strict co-ordination by the LO, which was also assigned to negotiate with NHO on education and training (Nergaard and Stokke, 1999).

Despite the LO commitment to continued moderate wage settlements, the 1998 pay round led to a number of large-scale strikes and record high wage increases. Wages on average rose by around 6.5% and more than 3.5% in real terms (NOU, 1999a: 12) – surely above the productivity-oriented line recommended among European unions – and several low-paid groups in private and public services achieved considerably more. In the service sector, retail and others went ahead and struck deals before the usual pattern-setters in hotels and restaurants. In the state sector, the tension between different unions came to the fore when several AF-unions (e.g. teachers, nurses and other health personnel) went on strike against a deal which had been embraced by the bargaining cartels of LO-unions, YS-unions and an independent teachers union as one of the best ever. The 1998 pay round also showed a significant new development, namely that unions from LO and YS co-ordinated their bargaining and eventually joined forces in the first common strike in the transport sector. At the confederal level, LO achieved an agreement in principle with employers and the state on the need for a reform of life-long training.

With such a sharp rise in labour costs in a context of falling oil-prices, signs of economic overheating, and labour shortages in many sectors, the situation increasingly resembled that of the mid-eighties. To many observers this indicated the end of the Solidarity Alternative, confirming that trade unions are incapable of sustaining concerted wage restraint under a lasting boom, especially because of LO’s and the manufacturing unions’ shrinking share of organised employees and the growing opposition against LO’s priority on
The breakdown of wage restraint in 1998 – unions demanding their share of recent profits and growth – was surely influenced by the change of government the previous autumn, when Labour abdicated and let in a Christian-led minority coalition of centrist parties. The new government’s expansionary fiscal policy and large-handed gifts to non-working mothers and pensioners, while hinting at inroads in labour benefits, had provoked much resentment among the unions. When the government in the autumn 1998 then proposed abolition of one holiday and suggested cuts in sick pay and other benefits as part of a crisis package in the 1999-State Budget, it was received as a “declaration of war against Norwegian employees.” This triggered an unforeseen rapprochement between the different union confederations. For the first time all union confederations joined forces in a 2-hour political strike on 15 October 1998. Although mainly a symbolic gesture, it brought a new sense of common interest among the union leaderships and it definitely was efficient in getting the shaky government to understand that the volatile Norwegian economy is hardly governable in conflict with the trade unions. Hence, the dramatic events in 1998 served as a moment of truth, which in a similar way as the 1986-crisis, created a sense of emergency that triggered a series of reform initiatives (Dølvik et al., 1997).

2.2.2 New initiatives of negotiated reform

After a failed attempt by the Labour Party leader to exploit the crisis to topple the government, the minority coalition managed to take back the initiative and win union support for a new round of concerted crisis management. Besides a crisis budget-deal with the Right, the government undertook measures to restore, broaden and renew the Solidarity Alternative (as initially proposed by LO).

This started off with a high-level conference with the social partners 16 December 1998, which according to some of the participants was of historical importance. As LO had always refused to let the other
confederations in on incomes policy deals, AF and YS had previously questioned the legitimacy of the Solidarity Alternative. Now, suddenly all organisations on both employer and union sides were invited to the table in a number of high-ranking tripartite committees. The most important in the short run, the so-called Arntsen-committee set up to prepare the 1999 pay round, managed to get consent among almost all organisation leaders for a wage policy formula, which basically reinstated the old Aukrust-model. The Arntsen report (NOU, 1999b: 14), argued strongly that the sectors exposed to international competition (i.e. metal and other manufacturing branches) should lead off negotiations and set credible frames for wage growth in the domestic sectors. It also defined a (binding) framework for 4% wage increases in 1999 and laid down guidelines for the following years based on reducing wage growth to that of the trading partners (about 3%). Although the AF unions in particular, but also some LO unions, were critical of the straitjacket agreed among the top-leaders, the 1999 pay round broadly stuck to the formula, with some exceptions in public services. LO also managed to win consent from NHO and the government on some main lines of the reform of continuous and further training.

The work commenced by the Arntsen-committee is followed up by three other committees mandated to assess and propose longer-term reforms in the system of labour market governance in Norway. The probably most influential committee, where the leaders of the organisations are present, is assigned to examine the conditions for macro-economic stabilisation policies and the role of incomes-policy and collective bargaining in that regard (the so-called Holden committee). Whereas one committee was mandated to propose reforms in the regulation of employment protection, many thorny issues will presumably be passed on to the so-called Stabell committee, designated to go through the whole legal and institutional set up for collective bargaining (including rights of signing agreements, dispute issues, etc). The backdrop to all this is, as mentioned, that the pursuit of wage moderation in recent years often has required use of force to discipline independent unions, and LO and NHO have frequently called for stricter rules on who is allowed to take industrial action (Stokke, 1999). In 1996, a highly controversial report of the Labour Law Commission had proposed a series of legal reforms to reduce the need for compulsory arbitration and bolster the role of the main confederations but this was eventually buried by the centrist government (NOU, 1996: 14). NHO and LO then agreed in renegotiations of their Basic Agreement in 1998 on criteria which raised the
threshold for the right of a union to claim a collective agreement (10% membership). The most pressing issue of conflicting interests among the main confederations, especially in the public sector where union rivalry has flourished, remains unresolved, however.

As earlier indicated, the whole structure of unionism has in recent years come into flux. In 1997 the AF was split by the Doctors’ association’s break-out and a great part of the AF member unions organising long-term educated employees followed. Organising today some 75,000 employees of which 55% work in public sector, the new association, Akademikerne, resembles the Swedish SACO and calls for a radical decentralisation, differentiation and market-adjustment of wage-setting in the public sectors, allegedly in order to stimulate efficiency and recruitment of qualified staff (EIRO, 1999a). Threatened by destruction, the remainder of AF, now mainly organising semi-professional employees in public health and education, has entered merger-talks with YS. If this succeeds, the new confederation would probably resemble the Swedish TCO. Internal scepticism, not least among the teacher association in AF, which has entered merger-talks with the independent teacher’s union, makes the outcome hard to predict. The picture is further complicated by the fact that the largest YS union (for auxiliary nurses) has entered merger talks with the LO union for municipal employees (the largest LO union), while closer co-operation, as mentioned, is evolving between the transport unions in LO and YS. There is thus primarily a reshuffling of organisations in the public sector along educational and occupational lines, but there are also signs that stronger ties being built among public sector unions across confederal lines. If the YS/AF merger succeeds it cannot be precluded that some of the semi-professional unions in LO would follow, but LO clearly also sees opportunities for gaining new member unions. The fluid situation has thus prompted LO to step up efforts to make itself more attractive for professional and well educated unions, signalling a more open approach to improve wages and conditions for some of the educated groups in public sector that have lagged behind and suffer from lack of personnel. Moreover, as an indication of the transformations underway, the deputy LO-leader, Gerd Liv Valla – aspiring to become the first female, academic LO-leader – recently declared that LO, YS and AF should unite in one common confederation within ten years time. Apart from the tactical overtones, this clearly reflects the rapprochement between the leaderships of the main confederations that has evolved during the last years’ turbulence. The YS and AF leaders responded by reiterating their standard
objection that LO has too close political ties with the Labour Party, but
seemed nonetheless flattered by their new-won recognition.

The outcome of all this and the impact on the ongoing reform processes are
impossible to predict. On the one hand there is the possible emergence of a
Swedish-like situation with a segmented organisational structure divided
along sectoral and professional lines. This might spur rivalry, wage-
competition and stalemate rather than co-ordinated bargaining and reform –
especially if the possibility for state-intervention through compulsory
arbitration is restrained. On the other hand, the struggle for existence and
search for new allies and sources of legitimacy among the various
confederations has created a critical juncture that has altered power-relations
and opened opportunities that might pave the way for promising coalition-
building and innovation. The co-operation of YS and AF has seemingly also
spurred a desire among their leaderships, especially in YS, to show that they
are capable of acting in an economically responsible way and acquire the
authority needed to engage in binding incomes-political exchange. It remains
to be seen, however, whether their membership and member unions are
willing to grant them this, especially in AF which has adopted a reserved
attitude to the guidelines of the Arntsen-committee and has to respond to the
challenge from Akademikerne. The latter has declared it will revert to tough
measures to achieve a radical break-up of the current system of bargaining in
the public sectors (EIRO, 1999a).

The complexity is compounded by the fact that the constellation of actors
and power is also changing at the employer side. The 1998 pay round
revealed severe disorganisation on the employer side, with the service
employers (HSH) and the newly founded association of formerly public
enterprises (NAVO) taking more prominent and autonomous roles,
infuriating NHO which traditionally has run the show with LO. Since then,
there have been discussions and a new awareness on the employer side about
the need for co-ordination, but in a context of fierce competition for labour
the problem of conflicting interests between internationally competing and
domestic sectors looms large. As argued by representatives of the
commercial employer’s association (HSH), the NHO struggles for
competitiveness in international product markets by keeping labour costs
down, while the commerce sectors are bound to struggle for competitiveness
in domestic labour markets by improving wages and working conditions
(Markedsrevy, 1998). Similar tension can also be found inside LO, where
the bargaining hegemony of export-oriented manufacturing unions is
questioned by several public and private service-sector unions, which in numerical terms represent a larger share of the membership (EIRO, 1999b, Dagens Næringstid, “Gir blaffen i lønnsrammene,” 20 December 1999).

The tension between internationally competing and domestic sectors also affects the debate over the macro-economic formula of the Solidarity Alternative, discussed in the Holden committee. The internationally competing sectors are strong advocates of the stable exchange rate regime of the Solidarity Alternative, according to which internal stabilisation shall be ensured by counter-cyclical fiscal policies, while low inflation and competitiveness shall be ensured by moderate wage setting. As the Norwegian currency tends to appreciate with rising oil-prices and monetary policy accordingly tends to function pro-cyclically, this poses an extra constraint on fiscal policies and collective bargainers, especially in public sector. The main union confederations have expressed their loyalty to this formula, but the fact that it bolsters the dominant role of the declining manufacturing unions as pattern-setters in wage bargaining and restrains public sector expansion have in recent years sometimes caused resentment among unionists in the service-sectors. LO and NHO on their part suggested during the 1998-crisis that Norway should investigate the possibility of linking the Krona to the Euro – indicating that they judged the benefits of monetary sovereignty as limited compared to the difficulties and sometimes high costs of pursuing it. The proposal gained very limited support and proved unrealistic, however. On the other hand, there are as yet no signs that any of the main organisations would support a complete shift to a floating currency regime – as many neo-liberally oriented economists have recommended – which would aggravate the problem of maintaining a manufacturing base in the oil-dependent Norwegian economy and pose additional pressures on wage setting in the internationally competing industrial sectors (Dølvik, 1999: 81-2).

The widespread criticism of the macro-formula of the Solidarity Alternative amid the 1998 crisis has subsided after the Central Bank adopted a more flexible interpretation of what will suit external stability vis-à-vis the Euro over time. Simultaneously using the interest rate for internal stabilisation purposes, it has in a fairly shrewd way kept the financial markets confused and made it harder to make one-way bets. Much thanks to surging oil-prices and the international recovery from the Asian crisis, the economic situation rapidly normalised and the Krona has appreciated strongly against the Euro. This has caused some concern among the exporting sectors, but the macro-
economic cornerstones of the Solidarity Alternative seem to enjoy solid support and will probably prevail, insofar as the social partners prove able to play their part of the game.

More controversial, however, is the call for more flexible statutory regulation of working time and employee protection pronounced by the centrist government and the employers’ associations in the report from the so-called Colbjørnsen Committee (NOU 1999c: 34). Focusing especially on the rules regulating overtime, the standard work day and the conditions for temporary work, the Committee proposed a relaxation of existing provisions, meeting with strong dissent from the union representatives (EIRO, 1999c).

The division of views on employment flexibility between the employers and the trade unions, reflects a general dilemma on the part of the former, notably that much of the substantial regulation of working time flexibility in particular is anchored in collective agreements (Grimsrud and Stokke, 1997). NHO has repeatedly called for greater flexibility and decentralisation, but has in recent years always sacrificed this objective in favour of the more pressing issue of safeguarding LO consent to continued wage moderation. This highlights how tougher international cost competition, in contrast to many predictions, has enabled strong centralised unions to use their ability to ensure precious wage restraint to achieve other objectives, thus bolstering their bargaining capital in incomes-political exchange.

Under the centrist government the employers apparently saw improved opportunities to use the political channel to promote objectives they have so far failed to reach through collective bargaining, but with Labour again taking office in March 2000 any radical moves in this realm appear unlikely. While the efforts to reshape and broaden the social base for concertation clearly were facilitated by the presence of a non-Labour government – encouraging participation from actors outside the LO/NHO power-structures – the incoming Labour government will probably continue along the same path. In contrast to in Sweden, it seems that the Norwegian employers have few compelling reasons to withdraw from their basically collaborative stance, and the legitimacy and support for concerted policies has evidently been broadened. The perhaps most important aspect of the current exercises is that they involve a wider set of actors and organisations in a joint process of learning, problem-solving and trust-building, which is so crucial for social partnership to persist (Visser, 1998).
The ongoing year 2000 bargaining round, conducted at the confederal level, is in many respects a crucial test of the parties’ ability to bring the reform process forward. It will be the last major bargaining round headed by the popular and powerful LO leader, Yngve Haagensen, who has been a major architect of the revival of social partnership and the modernisation of LO in the nineties, as well as the first for the new director of NHO, Finn Bergesen. Haagensen’s vision has been that the trade unions, besides lifting those at the lower rungs of the ladder, should exchange productivity growth for social reform. Pivoting on the issue of working time reduction, flexibility, life-long learning and wage moderation, the 2000 bargaining round will in many respects determine his legacy and represent a decisive test for the future viability of the Norwegian Solidarity Alternative.

2.3 Summing up the Norwegian case

If there is one decisive factor distinguishing Norway from Sweden, it is the oil-sector. As the largest export industry, providing vast public revenues, private investment and growth, the oil-economy has a significant but ambiguous impact on industrial relations. On the one hand it has bolstered the role of the state in the economy, contributed to solid public finances, and enabled persistent employment growth. On the other hand the peculiar oil-dependent cycle and the increasingly dualistic structure of the Norwegian economy – marked by strong growth in domestic service sectors and stagnant industrial sectors – create considerable problems related to economic governance and co-ordination. The inherent danger of inflationary pressures and what was once known as ‘Dutch disease’ stemming from the risk that buoyant domestic sectors crowd out the traded goods sector, represent a particular challenge for the social actors and the government and create strong incentives for continued policy concertation. With a prospering economy, increasingly conspicuous consumption among the nouveau rich, vast public surpluses and virtually full employment, it is indeed hard to

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1 At the time of proof-reading, the year 2000 pay round has actually been finished; as a moderate three years agreement recommended by the LO leadership was rejected in a membership ballot, a large-scale strike broke out, forcing the employers to grant significant concessions within a two-year agreement. With labour costs generally rising some 5% in year 2000, due to solid wage increases and gradual introduction of the 5th week of vacation, the trade union forces which led the campaign against the originally proposed LO-NHO agreement have hailed this as a major blow to the ‘moderation line’ of the LO headquarters. In the public sector major steps were also taken to decentralise pay-setting by granting ample funds for workplace negotiations, as demanded by the professional unions.
convince modestly paid rank-and-file in the domestic sectors about the virtue of restraint. The discontent is especially pronounced among educated groups in the public sectors, who find the gap between private affluence and public modesty increasingly unacceptable. On the other hand, the vulnerability of the Norwegian economy and the volatility stemming from fluctuating oil-prices, spilling over to monetary policies and the labour market via the international finance markets, have twice over the last decades served as a forceful reminder that the price to be paid for short-term gains can be high, especially for the weaker groups threatened by unemployment and cuts in income when recession hits. Over the last decades these particular challenges have contributed to a stop-go pattern of state-intervention and social partnership – illustrated by the bonanzas in the mid seventies and mid eighties which both ended with crash-landings. After the recovery in the mid-nineties was interrupted by the Asian crisis and the blip in oil-prices in 1998, it may however seem that the main actors have come to the conclusion that a more lasting and solid social compromise has to be constructed, although the last pay rounds suggest that this is harder to agree on in practice than in principle.

The current efforts to renew the mode of social partnership in Norway display several interesting features, fitting poorly with the classic assumptions about the conditions for corporatism to flourish. In many respects the Norwegian mode of social partnership corresponds to the kind of ‘competitive corporatism’ emerging in many other European countries (Rhodes, 1997), marked by a mix of supply-side deregulation and efforts to maintain the egalitarian welfare-state and industrial relations policies. Recentralised framework co-ordination has been combined with significant decentralisation of bargaining and individualisation of pay systems, reflecting a protracted and conflictual search for a new balance between collective reason and individual freedom. As in countries like Italy, Ireland and the Netherlands (Regini, 1997), these efforts have been conditioned by a conjunction of economic and political crisis and have recently been instigated by a weak coalition government in search of legitimacy and support in managing an economy that has become increasingly exposed to international market pressures.

With stronger external constraints delimiting the scope for macro-economic stabilisation policies, the functioning of the system of collective bargaining and incomes-policy has actually become more crucial than in the past. In contrast to former precedents of corporatist crisis-management, however, the
relative weakening and fragmentation of the main organisations have seemingly been instrumental in spurring new patterns of coalition-building with potentials for developing a broader basis of legitimacy and social support around concerted policies. The main employers’ association (NHO) has supported the revival of centralised incomes-policy presumably because this is the most effective way it can gain influence on wage setting in the domestic sectors. It remains to be seen, however, whether the reconfiguration of the organisational pattern and power-relations among the trade unions and the employers’ associations will reinforce fragmentation and organisational rivalry along sectoral and professional lines – as in Sweden (see section 3) – or provide a basis for a more coherent and comprehensive mode of co-ordination than in recent years.

A major issue will evidently be to reconcile the need for sustained moderation with the need to find mutually acceptable ways of adjusting relative wages and accommodating the interests of groups in the public sector that have lost out in recent years. A particular problem here is that sizeable groups at the lower and higher ends of the private labour markets are not included, or bound, by the co-ordination efforts of the social partners. Another contested issue, which can be expected to gain increased salience in the coming years, is how the rationale of national concertation and competitiveness can be made compatible with the quest for European influence and wage-co-ordination, which recently has been embraced by major Norwegian unions (EIRO, 1999g). Hence, the challenge is no less than to reconstruct a notion of equality and social justice that fits with the post-industrial structure of Norwegian working life while at the same time taking into account the need for national competitiveness and transnational co-ordination in an increasingly interdependent economy. Such an undertaking requires skill, courage, trust and patience, but in view of the alternative it would seem well worth trying.

3. Sweden: the blockage of national concetration

The wage agreement between the Swedish Engineering Employers Federation (VF) and the Swedish Metalworkers Union (Metall) in 1983 was the first since 1956 which did not implement the terms of a central agreement previously reached by the Swedish Employers Confederation

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2 Now known as VI.
(SAF) and the Swedish Trade Union Confederation (LO). The 1983 engineering agreement thus broke with a major feature of the “Swedish model” as it had operated through much of the post-war period. Bargaining throughout the private sector, including VF, again took place within the framework of an LO-SAF central agreement in 1986, but that was only a temporary restoration. There was one more central agreement between LO and SAF in 1989, though without VF, but there have been no more since then, and SAF has vowed that there never shall be. From then until now, various actors have struggled to reshape the Swedish wage bargaining structure in conflicting ways.

Many employers, notably in the important and powerful engineering sector dominated by large multinational corporations, have tried to push decentralisation beyond the industry level down to the company level, preferably protected by new restrictions on strikes. LO, on the other hand, has tried to restore co-ordination, if not centralisation, in some form in which it would again have an important role. The unions, organised on an industry or occupational basis, have successfully kept decentralisation from going so far as to deprive them of any wage-setting role, even though the scope for company level negotiations has increased. At the same time, the blue collar unions have not supported any resurrection of LO’s role as a wage negotiator. This could not occur anyway unless they could force SAF back to the bargaining table. The confederations of white collar unions, the Central Organisation of Salaried Employees (TCO) and Swedish Confederation of Professional Associations (SACO) had never been given the mandate to negotiate on their member unions’ behalf (except TCO in 1956). More recently they have tended to side with SAF in favour of decentralisation while opposing its demands for restrictions on strikes.

Governments have also pursued contrasting approaches. In office between 1991 and 1994, a coalition of non-socialist, or “bourgeois”, parties supported employer decentralisation efforts. Governments controlled by the Social Democratic Party (SAP), alone or in coalition, the rest of the time have searched for ways to give the state a stronger role in making wage bargaining consistent with macroeconomic stability. These ranged from the quickly withdrawn 1990 attempt at compulsion to legislation just enacted aimed at encouraging new sectoral level procedural agreements between multiple unions and employer organisations. A tendency toward such intermediate arrangements, rather than in the direction of either decentralisation or recentralisation, has emerged as the dominant one. This
was pioneered by the Co-operation Agreement on Industrial Development and Wage Formation (hereafter Industry Agreement), reached in March 1997 between eight unions, white as well as blue collar, and their twelve employer counterparts in industry, establishing a procedure for wage negotiations aimed at achieving stable wage growth while minimising industrial conflict. The new legislation provides for compulsory mediation and brief postponement of work stoppages but only where there is no such sectoral procedure in effect. But neither the Industry Agreement nor similar ones under consideration point toward a national social pact in which the peak organisations of social partners and government jointly commit themselves to a broad range of objectives, including wages but extending beyond them to other issues. On the contrary, they reflect the failure of an attempt to negotiate something like a social pact a few years earlier. Details about these prevailing tendencies toward sectoral wage bargaining structures underpinned by a modest increase in state intervention will be provided after briefly reviewing the breakdown of the classical Swedish model and the struggles over what should replace it.

3.1 The Swedish model: an institutionalised social pact

The system of central wage agreements between LO and SAF was one of several basic elements of the “Swedish model”⁴. It should be broadly conceived as not only a structure of union-management relations but also a pattern of economic and social policies which conditioned the development and operation of that structure. In combination, they embodied a consensus, or “historical compromise”, over the management of Sweden’s mixed economy. In it, production for the market was dominated by concentrated and internationally-oriented private capital, organised in a highly centralised employers association (SAF), while the state was dominated by a Social Democratic Party (SAP) supported by unions covering most of the blue collar labour force, also organised in a highly centralised confederation (LO). The construction and erosion, or at least significant reconfiguration, of the Swedish model occurred while the SAP has controlled the government, alone or in coalition, continuously since 1932, except for 1976-82 and 1991-94. Lacking either the power or commitment to challenge Swedish capital’s

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⁴ The following account draws on Kjellberg (1998), Martin (1995) and Mahon (1999).
dominance in the economy, the SAP relied instead on control of the state’s fiscal and monetary policy instruments to maintain full employment and develop a comprehensive welfare state, including a large public service sector.

The state has been largely excluded from regulation of the labour market as well as the domain of market production. Union-management relations were largely governed by agreements between LO and SAF, the two dominant peak labour market organisations, through which they jointly regulated two main areas. One was collective bargaining over wages and related terms of employment, for which rules and procedures for settling disputes and conducting strikes and lockouts were embodied in the Saltsjöbaden Basic Agreement of 1938. The other was the overall rate and pattern of wage increases, which LO and SAF set in agreements, ranging from one to three years, which they negotiated without interruption between 1956 and 1983. A high degree of centralisation within each organisation – such as control over the use of strikes and lockouts, backed by disposal over financial assistance to members engaged in industrial conflict – enabled each to deliver on its commitments to the other. Thus, LO and SAF operated what has been aptly called a system of “centralised self-regulation” (Kjellberg, 1998).

However, the central agreements were only “recommendations” rather than legally binding contracts, which were negotiated only at the industry level negotiations, and in turn implemented by local agreements at company level, so that there was a three-tier rather than fully centralised wage determination system. Moreover, LO never had a permanent right to negotiate wages; it was authorised to do so each time by its member unions, which jointly agreed on the demands LO should make. SAF’s executive body had more formal authority, but as a practical matter it too had to have the support of its key members. In addition, the scope of joint regulation was limited: it left out workplace issues such as hiring and firing or work organisation, all of which remained exclusive managerial prerogatives until a wave of legislation in the first half of the seventies. Until then, law had a narrower but still important role. A 1928 law barred strikes or lockouts during the life of collective agreements (which made them legally binding) and established a tri-partite Labour Court to adjudicate disputes over their interpretation. Unions’ rights to organise and bargain collectively in the private sector were guaranteed by a 1936 law (to overcome employer resistance to white collar

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5 Sweden has come to have a large public service sector, making it a large employer.
unionisation), and extended to the public sector in 1965. Minimal regulation of child labour, health and safety, hours, vacations, and safety stewards was also introduced at different times. Otherwise, unions and employer organisations could govern their relations with each other as well as with their members as they saw fit, while managerial authority within the workplace was left beyond the reach of collective bargaining.

This division of labour among the SAP which controlled the state, the LO which encompassed most of the trade union movement, and private capital which dominated production for the market, along with joint union-employer regulation of industrial relations within the limits of law and managerial prerogatives, defined the main contours of the implicit social pact on which the "classical" form of the Swedish model rested. In fact, it only operated in this form from the late fifties to the early seventies. Developments since then which undermined the capacity or willingness of the key labour market actors to play the roles assigned to them in the classical Swedish model culminated in the termination of LO-SAF central negotiations in the eighties.

3.2 The conditions for wage concertation and their erosion

The initiative for both the introduction and termination of central wage negotiations came from private sector employers. SAF forced the LO unions into such negotiations in 1956 in order to stop inter-union rivalry from pushing wages up. This was consistent with LO’s own strategy for reconciling full employment with price stability, known as the Rehn-Meidner (RM) model. LO adopted it in 1951 but could not implement it until SAF forced its affiliates to give it a negotiating mandate. But from LO’s viewpoint, this part of the strategy could only work in combination with the other parts: 1) the unions had to agree on and successfully enforce a standard rate or “solidaristic” wage policy (equal pay for equal work, regardless of firms’ profitability); 2) macroeconomic policy had to be restrictive enough to keep labour markets from being so tight that wage policy was counteracted by wage drift; and 3) the state had to carry out a large-scale labour market policy (training, placement, income support). In addition to curbing inter-union wage rivalry, the strategy was expected to achieve non-inflationary full employment by cost-reducing structural change: inefficient firms would be squeezed out between standard rates and restrictive policy while more efficient firms retained profits and expanded, while labour market policy facilitated the transfer of workers from contracting to expanding firms. For some years, the RM model was more or less
approximated in practice, but it became increasingly difficult to do so. From the employers’ point of view, the benefits of central negotiations were declining, while the price being paid for them was increasing, leading SAF to abandon them in the eighties.

3.2.1 The evolution of union structures and wage policies

A major reason why the effectiveness of LO-SAF negotiations in curbing inter-union wage rivalry declined is that they covered a decreasing portion of unionised workers. Initially, when almost all unions belonged to LO, the LO-SAF agreements directly covered roughly a third of the labour force, while the rest of their affiliates accounted for much of the remainder of the unionised labour force. However, separate unions organising white collar workers belonging to two confederations, TCO (for lower level white collar workers) and SACO-SR (for employees with professional qualifications) grew rapidly in the post-war period. Although union density increased from 50 to 85% between 1960 and the late eighties, the coverage of LO-SAF agreements fell to just 16% of the labour force. The share of SAF affiliates’ total wage bill over which the white collar unions negotiated rose to 50% by 1985, and the proportion of the labour force covered by bargaining in the public sector exceeded the proportion covered by all unions bargaining with SAF (Calmfors and Forslund, 1990). The declining LO-SAF share was accompanied by increasing fragmentation and complexity, as white collar unions, negotiated on their own or in shifting coalitions, separately in the private and public sectors.

The impact of these developments was amplified by the evolution of solidaristic wage policy, in terms of which LO’s demands were defined. Although equal pay for equal work was consistent with unequal pay for unequal work, the demands were increasingly designed to compress wage differentials generally, relying initially on absolute rather than percentage increases and then on additional increases for workers receiving less than a “low wage” threshold. However, wage drift tended to offset their intended distributive effects. While drift served as a safety valve, enabling its

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6 Of the little more than half of the labor force belonging to unions in 1960, three-quarters were in LO unions, of which more than four-fifths were in the private sector. Of the remaining quarter of union members in white collar unions, just under half was in the public sector. But the white collar unions affiliated with TCO or SACO-SR (the small confederation of professional employee unions) grew much faster than the LO unions, whose share of total membership fell below three-fifths by the late eighties.
beneficiaries to support the policy without foregoing larger increases, the support contingent on the agreed compression was jeopardised insofar as it was counteracted by drift. To avert that, LO secured “earnings guarantees”, entitling workers whose earnings rose less than average drift to ex-post increases making up a large portion of the difference.

According to SAF, the combination of organisational fragmentation and wage compression made wage increases too high and too inflexible, especially in the highly export-dependent engineering sector. Following the Norwegian Aukrust model of wage determination in small open economies, SAF, LO and TCO had agreed that the tradables sector (almost entirely in the private sector) should set the pace for wage increases throughout the economy so as to preserve the sector’s competitiveness, given productivity growth and prices in that sector set internationally under fixed exchange rates. But the unions and employers in the public sector, comprising much of the non-tradables sector, sometimes acted as the wage leader instead, getting increases which private sector unions had to match regardless of their consistency with the tradables sector’s competitiveness. Another source of wage pressure on the tradables sector was the way solidaristic wage policy was implemented. LO sought and typically got aggregate contractual increases, including earnings guarantees, high enough to give all LO union members in the private sector some increases while enforcing some compression despite expected drift. But other (white collar and public sector) unions won similar earnings guarantees aimed at preserving their members’ positions relative to those benefiting from drift, primarily in LO private sector unions. Labour costs in the tradables sector were further increased as employers tried to maintain differentials relative to the public sector in order to attract scarce labour, further ratcheting up drift and, in turn, triggering earnings guarantees for tradables sector workers who received little or no drift. Inflationary wage pressures were thereby spread across the economy. In addition, SAF complained that solidaristic wage policy in its egalitarian form was an obstacle to the internal differentiation and flexibility needed to adapt wages to new technology and forms of work organisation. In SAF’s view, then, the macroeconomic benefits of centralised negotiations were diminishing while its microeconomic costs were increasing.

The validity of this view is uncertain. Although wage dispersion has increased again since the end of centralised negotiations, it is not clear that this could not have occurred under centralised negotiations, and it is clear that changes in payment systems accompanied changes in work even under
centralised negotiations. Moreover, Sweden’s three-tier wage bargaining structure may have been no more inflationary than entirely decentralised systems and less so than systems with strong but uncoordinated unions. There have been episodes of excessive wage growth, as measured by sharp increases in relative unit labour costs, but their main cause may have lain in excessively expansionary macroeconomic policies rather than the autonomous effects of centralised negotiations. Their demise may thus have been more consequence than cause of policy failure, particularly in the eighties.

3.2.2 Economic policy and instability

If the R-M model is right, central negotiations cannot inhibit inter-union wage rivalry insofar as the negotiated rate and pattern of wage change is frustrated by wage drift (beyond some safety valve level). Drift is highly responsive to changing demand pressures as they affect labour market tightness and profits. The effectiveness of central negotiations accordingly depends on the extent to which macroeconomic policy keeps demand pressures from reaching levels where they generate excessive drift. Swedish macroeconomic policy met this condition most fully in the late fifties and early sixties, especially in timing shifts in direction between expansion and contraction. Such shifts were subsequently mistimed with increasing frequency, however (Martin, 1985 and 2000).

Thus, in the context of the international inflationary boom culminating in the first OPEC price shock and the deep international recession that followed, mistimed macroeconomic policy shifts contributed heavily first to a profits explosion 1973-1974 and then a wage explosion in 1975-1976 – the most conspicuous failure of centralised negotiations to gear wage change to changing economic conditions. The resulting sharp increase in Swedish industry’s relative labour costs faced the bourgeois coalition government that won power in 1976 with the choice of abandoning full employment or stability in Sweden’s exchange rates. It opted for the latter with the first of a succession of devaluation’s, of which the largest was implemented by the Social Democrats immediately upon returning to office in 1982.

Adding exchange rate adjustment to the macroeconomic policy mix relieved central negotiations of the nearly impossible task of keeping wage growth down to the levels in trading partners with much higher unemployment.

7 This happened in the temporarily restored central negotiations in 1986.
However, it gave them the almost equally difficult task of keeping the gains in competitiveness from devaluation from being eaten up by wage increases aimed at compensating for devaluation’s inflationary and redistributive effects. The bourgeois government made it all the more difficult for central negotiations to moderate wage growth by an exceptionally large pre-election demand stimulus in 1979. Strikes and a lockout in 1980, the largest work stoppage since 1909, accompanied by OPEC II and the monetarist shock that followed precipitated a new economic crisis, to which the government responded by a turn to austerity, including minor social benefit reductions. The SAP won the next election by attacking this policy, and by claiming it had a better strategy for taking Sweden’s economy out of crisis.

Inaugurated with the largest of the devaluation’s strategy also relied on central negotiations to protect the gains from devaluation, but its macroeconomic policy again created conditions under which central negotiations could not perform that function (Martin, 2000; Elvander, 1988). Described as the “Third Road”, in contrast with both Thatcherite austerity and Mitterand’s unsustainable expansion of domestic demand, the SAP’s strategy aimed at restoring full employment on a sustainable basis by increasing the relative share of exports in demand growth. One of the conditions for success amounted to a partial social pact: organised income recipients – workers and pensioners – agreed not to seek compensation for the devaluation’s “one-time” cut in real income. Until around the middle of the decade, the strategy seemed an outstanding, internationally acclaimed success, despite the VF’s initially successful effort to dismantle central negotiations in 1983. They were in fact partially reinstated in 1985 when the government extracted a commitment to limit wage growth to 5%. They were more fully reinstated in 1986 when LO and SAF reached a two-year agreement including the engineering sector, in significant degree because of the insistence of Metall, the very union that had pulled out in 1983. The public sector unions went on strike to retain automatic compensation for wage drift which had been given up in the private sector, but they were defeated. A broad pattern of settlements throughout the labour market was thus established, through a high degree of co-ordination among private sector unions and both private and public sector employers. Apparently, central negotiations could be restored while eliminating some of its inflationary features and accommodating some of the employers’ interests in increased flexibility.
However, the restoration, along with the Third Road strategy which depended on it, was undermined by a rapidly overheating economy. In combination with the massive unanticipated stimulus Reagan’s fiscal policy gave US growth, the devaluation’s stimulus proved excessive. The government failed to correct the error by a revaluation. Instead, it compounded the error by an ill-timed deregulation of the domestic credit market. This triggered a credit explosion that fuelled a domestic consumption boom and asset price inflation that got out of control (as happened in Norway a year earlier). Unemployment fell to record lows, producing extreme skilled-labour shortages in the internationally exposed sector despite wage drift that exceeded negotiated wages more than ever before. At the same time, the domestic boom obstructed the shift of resources from the non-tradables to the tradables sector needed to increase the latter’s relative size and reduce the balance of payments constraint on expansion. Given the extremely tight labour market to which these policy errors contributed, the restoration of centralised negotiations could not survive the persistent interunion wage rivalry and VF’s renewed determination to end centralised negotiations forever. Their success reflected a wider disenchantment of the employers with centralised negotiations. But the diminishing macroeconomic benefits and increasing microeconomic costs ascribed to centralised negotiations were not the only factors entering into the employers’ turn against them. They were also perceived to have political costs that were increasing.

3.2.3 The employers’ strategic reorientation

To the extent that the wage bargaining role centralised negotiations gave LO enabled it to curb wage rivalry among its affiliates, it contributed to LO’s political influence in two ways. First, it was important for the success of economic policy, making governments dependent on LO’s effectiveness in the wage bargaining arena. Second, it reinforced its affiliates’ political cohesion and identification with the Social Democratic labour movement, and hence their effectiveness in mobilising electoral support for the SAP. The influence this gave LO came to be perceived as more costly when it was translated into government policies that the employers opposed. The most

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8 Most of GDP growth from 1982 to 1985 was in exports while the rest was in investment, just as prescribed by the Third Road. Moreover, the decline in industrial employment was reversed, and both budget and current account deficits virtually eliminated. Yet, in the rest of the decade, the growth pattern was sharply reversed, with domestic demand accounting for most of GDP growth (Martin, 2000).
important of these was the seventies wave of labour legislation and the enactment of compulsory profit-sharing in the form of “wage-earner funds” in 1983 (Martin, 2000).

From the employers’ point of view, the seventies labour legislation was a double departure from the terms of the historic compromise: it took away their power to organise work as they saw fit and it was done by state intervention. In the classical Swedish model, workplace issues such as hiring and firing or work organisation were managerial prerogatives that were excluded from the joint regulation of industrial relations by unions and employers. But wildcat strikes in 1969-1970 convinced both LO and TCO that they were in serious danger of losing member support unless got the right to bargain over such issues. Since SAF continued to resist, refusing to even negotiate with them about it, the unions turned to the legislative alternative. The SAP government was quite willing to enact legislation in the name of “industrial democracy” that could attract TCO as well as LO support. The “wage-earner funds” as originally proposed by the “Meidner plan” adopted by the LO in 1976 would have been a much more radical departure. It would have required companies to transfer a portion of their profits in the form of new share issues to funds administered by unions, giving them a cumulatively increasing ownership stake in companies and increasing power over the disposition of profits. Not surprisingly, it was fiercely attacked by the business community and bourgeois parties. Although the SAP had no part in designing the Meidner plan, it was used to attack the party in the 1976 election, contributing marginally to its first loss of office since 1932. The SAP got LO to agree to a much scaled-down version, providing for a limited form of compulsory profit-sharing in very large companies and giving unions a largely symbolic role in administering the proceeds, which were ultimately channelled into the national pension system. It was enacted in 1983 after the SAP got back into power. Opposition nevertheless continued unabated, and the SAP government allowed the

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9 The new laws protected local union officials’ rights, imposed health and safety requirements, guaranteed employment security, and imposed on employers the obligation to negotiate over workplace issues. Thus, the new legislation meant that employers could no longer refuse outright to negotiate over such issues. Moreover, on certain issues, it entirely deprived them of rights previously exercised, such as termination at will, while on others certain options were open only upon agreement with unions, such as deviation from reverse seniority in layoffs. (Kjellberg, 1998, Martin, 1995).
scheme to die when the legislative authorisation for it expired, but by then the employers had long been trying to curb LO’s political influence.

By the mid-seventies, some in SAF urged abandonment of centralised negotiations in order to “diminish the trade union movement’s power”. However, when the bourgeois parties formed a government in 1976, a new, more militant SAF leadership sought to remedy the economic flaws of centralised negotiations by using them more aggressively, including industrial action to back its demands for both lower wage growth and its more decentralised distribution. Put to the test in 1980, this strategy failed. The experience renewed VF’s determination to end central negotiations, leading directly to its breakaway in 1983. The 1986 restoration of central negotiations only reinforced VF’s resolve, as did another LO-SAF agreement in 1989, which Metall forced VF to match even though it had stayed out of the negotiations. Having concluded that SAF had to be prevented from ever negotiating again, VF orchestrated changes in SAF’s leadership, policy, and organisation. As a result, SAF formally declared that wage negotiations should henceforth take place only at industry and company levels, replaced its negotiating department with a support function for its affiliates, and established several bargaining cartels of employer associations, of mostly small and medium firms, who felt unable to go it alone. SAF also brought down the “corporatist” structure of tripartite boards responsible for administering a wide range of government agencies, including the labour market policy agency, AMS, by unilaterally withdrawing its representatives. Finally, it elaborated a program for extending this “system shift” across the whole spectrum of institutions comprising the Social Democratic welfare state, including labour law, social policy, and taxation. Thus, in reaction to a much greater encroachment on managerial prerogatives than was ever attempted by Norwegian unions, the strategic reorientation of Sweden’s organised employers away from national level concertation, firmly anchored in their organisation’s power structure and ideology, was much more far-reaching than the temporary departure by the Norwegian employers. This much more conflictual orientation is now a major factor blocking anything like a social pact in Sweden.

3.3 The wage bargaining system in transition

With centralised negotiations definitively terminated by the employers, the various actors in the Swedish political economy have been trying to reconfigure the wage bargaining structure in different ways, and are still far
from any agreement on it. Social Democratic governments, in office except for the second period of bourgeois coalition government from 1991-1994, have tried to find some new form of co-ordination capable of gearing wage growth to the requirements of macroeconomic stability, relying on varying degrees of increased state intervention. The bourgeois coalition relied instead on market forces, supporting the drive for further decentralisation down to the company level pressed for by most employers, most notably by VF. LO sought co-ordination in some form in which it would have a renewed role, while the white collar unions resisted centralisation as they always had. While resisting the pressures for further decentralisation with some success, the national unions in the private sector, both blue collar and white collar, have been moving toward broad sectoral agreements employers on wage bargaining procedure. This has so far been accomplished only between employers and unions in private industry, but it seems to have defined the dominant trend, which the current SAP government decided to support with legislation.

By 1990, competing wage settlements were adding to inflationary pressures already driven by tight labour markets and asset price inflation, which together were producing renewed current account deficits. This confronted the SAP government with the choice of a new devaluation or long-delayed restrictive policy (blocked in parliament since the 1988 election). Rejecting devaluation this time, the government proposed drastic action to regain control of the economy. It introduced a crisis package including a general pay freeze and ceilings on prices and dividends, along with a temporary ban on strikes coupled with an increase in fines for wildcat strikes. Although LO leaders supported this proposal, intense rank-and-file protest forced its abandonment. The government resigned and was succeeded by a new SAP government which declared inflation reduction its top priority, to be achieved in two ways. One was to make its commitment credible by unilaterally pegging the Krona to the Ecu. The other was to try an alternative approach to securing the wage restraint.

The government established a “national mediation commission,” referred to as the Rehnberg Commission, after the experienced mediator and former head of the labour market board that chaired it. In addition it consisted of four “experts,” nominated by but not representing the employer and union organisations. This episode is important because, even though it was not

prolonged or repeated, it embodied elements relied on in subsequent efforts. It was given the task of getting all parties to industry-level negotiations, the national unions and sectoral employer organisations to reach settlements which kept wage growth down to a rate consistent with economic requirements, as defined by the Commission and agreed by the parties. Although its initial attempt to influence ongoing negotiations failed, the Commission subsequently succeeded in getting virtually all unions and employer associations to commit themselves to negotiating industry level agreements within the limits which were set. The general levels of wage increases were to be set in industry level agreements to last two years. In the first of the two years, there were to be no local negotiations to apply the agreements as would normally happen.

The Rehnberg Commission marked a much less drastic departure from the Swedish industrial relations tradition of the negotiating parties’ autonomy than the abandoned crisis package would have been, but it did amount to a new form of state intervention. The function of the existing mediation system was confined to brokering settlements that preserved or restored industrial peace, without taking into account the economic effects of the settlement. It was precisely because the Rehnberg Commission was assigned to bring those effects to bear on negotiations that it marked an expansion of state intervention, even though it was contingent on acceptance by the negotiating parties rather than compulsory. The Commission episode also marked a change in that it bypassed the peak organisations; in effect, the Commission supplanted them, performing the function they were no longer willing or able to perform. In doing so, the Commission provided a single encompassing structure which the multiple peak organisations, especially on the union side, made impossible, at least since the two white collar confederations came to cover a significant portion of the labour force.

The industry agreements largely did comply with the limits set by the Commission, though rapidly increasing unemployment probably was a major contributing factor\(^ {11} \). Having decided to bring down inflation by tying the currency to the Ecu, the SAP government deprived itself of any possibility of

\(^ {11} \) Average hourly wage growth across the economy fell from just over 10% in 1990 to 3.5% in 1992. But open unemployment was already rising at an unprecedented rate when the agreements were being negotiated, and reached the highest level since the Great Depression by the time the agreements ran out, 7%, with about half as much again out of work but in labor market programs. Unemployment continued to rise in the subsequent years.
adjusting the currency that had become overvalued, so that a downturn that had already begun was reinforced. The ensuing acceleration of unemployment, apparently confirming that the SAP had put top priority on price stability in place of its long-standing commitment to full employment, and the general disarray into which its Third Road policy had fallen, contributed to the party’s worst defeat since the twenties in the 1991 election.

The bourgeois coalition that replaced it tried to preserve the Ecu peg, driving unemployment further to levels higher than any since the Great Depression, until it was forced to let the currency float at the end of 1992. The high unemployment did mean that tight labour markets were no longer a source of inflationary wage pressures by the time the Rehnberg agreements expired in 1993, and the government did not renew the Commission’s mandate. With its strongly neo-liberal orientation, it was opposed to any state intervention in wage bargaining, and was sympathetic to those employers who saw the Rehnberg episode as a detour in their drive for its further decentralisation, and who saw the change of government as opening the way for the system shift that SAF had called for. The employers entered the 1993 wage round with the declared goal of confining industry agreements to minimum wage rates and general conditions such as sickness insurance or vacations, leaving pay systems and rules entirely to local negotiations and actual earnings to discussions between managers and individual employees.

To the national unions, this threatened their role in wage setting not only at the industry but also company level, raising the spectre of enterprise unionism. In response, they established an unprecedented degree of strategic co-operation across blue and white collar lines in two major sectors, engineering and retail trade. The conflictual climate that resulted, together with the depth of the economic crisis, prompted the government to secure agreement to mediation. The two mediators who were appointed had been on the Rehnberg Commission and played a somewhat comparable role although they formally operated under the existing conflict management procedure. They secured similar two-year “stabilisation agreements” across most of the labour market, in effect prolonging the Rehnberg agreements. LO also played a part by co-ordinating its unions’ negotiations. Finally, cross-confederal co-ordination by unions in the engineering sector, (the LO union Metall, TCO union SIF, and SACO union CF) avoided interunion rivalry in that sector and also set a pattern for wage settlements extended to other sectors. The result was a rather high degree of co-ordination across the
private sector. It also enabled the national unions to resist employer efforts to sharply limit the role of national sectoral bargaining in setting wages, even though the agreements did widen the scope for company level variation.

The complete elimination of industry level agreements is in fact undesirable from the employers’ perspective as long as labour law is unchanged. Since strikes during the life of an agreement are illegal under current law, companies are protected from strikes during company level negotiations once new industry agreements are reached. Hence, the employers who most want the elimination of national sectoral bargaining also want significant new restrictions on the right to strike in the absence of industry agreements. Any hopes for such restrictions from the bourgeois government were dashed when the massive growth of unemployment doomed the government to defeat in the 1994 election.

By the time of the 1995-1996 wage round, then, the Social Democrats were back in office. They made no attempt to resurrect the Rehnberg Commission or introduce more active state intervention in some other way. At the same time, the informal co-ordination that worked in the 1993 round did not survive new tensions that developed. The need for some way to keep the tensions from exploding into renewed competitive wage increases was widely recognised but there was no more agreement about how to do it than before. An effort to provide an explicit guideline for meeting that need was made by a group of union and employer economists convened by P.O. Edin, LO’s chief economist. In February 1995 the Edin group came up with the “Europe norm:” Swedish wage growth should not exceed the average growth in the EU. But no new arrangements for implementing such a norm were made by the bargaining parties. In fact, the wage round was highly conflictual, with much higher days lost by strikes than in any year in the nineties except 1990. Conflicts were precipitated by the industrial employers’ renewed efforts to confine wage bargaining to the company level, and by tensions among the internationally exposed sector which benefited from depreciation (after the Ecu peg was abandoned), the sheltered private sector which suffered from sluggish domestic demand, and the public sector squeezed by budget austerity. Unions also sought compensation for preceding restraint and welfare cuts. As the round proceeded, each successive agreement served as a floor for the next, and the overall effect was to exceed the Europe norm, as the Edin group concluded in a subsequent review (Elvander and Holmlund, n.d.).
This outcome gave new urgency to the question of how to reconfigure wage negotiations so as to avoid a repetition, but the old issues remained intractable: whether there should be more centralisation or less, whether new arrangements should be bipartite or tripartite, whether they should be negotiated or legislated. A number of efforts were made to secure some sort of new basic agreement among the social partners like the famous 1938 Saltsjöbaden agreement which largely defined industrial relations for several decades, except that it would deal with macroeconomic norms as well as conflict management to which the old basic agreement was confined. The government took the initiative in 1996 by calling upon employers and unions to consider the question and report back by spring 1997. The response revealed basic disagreement along persistent lines: LO calling for recentralisation and the others, TCO and SACO as well as SAF calling for further decentralisation.

The first, and only, concrete outcome was neither. In March 1997, eight unions, white as well as blue collar, in industry reached agreement with their twelve employer counterparts to set up a new procedure for wage negotiations aimed at achieving stable wage growth while minimising industrial conflict. The basis had been laid by the successful co-ordination of bargaining by Metall, SIF, and CF, which set a precedent for cross-confederal co-ordination by the unions, proving it possible to circumvent the obstacle posed by the historic structure of the peak organisations. It also demonstrated to employers the impossibility of eliminating sectoral bargaining at the national level, at least for the time being, and induced them to try to get what they could by negotiating a new procedural agreement with the national unions. As a result, the parties agreed to do two things: 1) work out a common view of the state of the economy and the industry on which to base wage negotiations; 2) follow a new procedure for wage negotiations. They set up an Industry Committee consisting of the signatory organisations’ leaders to meet twice yearly to consider issues of concern to employers and unions and the economic conditions under which they were operating and to supervise the negotiations (EIRO, 1997). The economic conditions are to be analysed with the aid of an Economic Council of four independent economists appointed by the Committee. The resulting common view is to be taken by the individual unions and their employer counterparts as a basis for formulating their positions in their negotiations. The agreed procedure for the latter requires each side to state its claims three months before existing agreements expire – i.e., while the peace obligation still applies. If
no new agreement is reached by one month before the expiration date, an
impartial chair appointed by the Industry Committee tries to get a settlement
by the expiration date. To that end, the chair can ask the Economic Council
to evaluate the conflicting claims and propose terms of a settlement. If there
is no settlement by the expiration date, the chair can postpone any intended
industrial action for two weeks. Beyond that, any action that is contemplated
can be postponed by the Industry Committee. In effect, the private parties
within industry have set up their own mediator with functions wider than
those of the established state mediation service – i.e., concerned with the
economic consequences of a wage agreement and not only the preservation
of industrial peace – as was the Rehnberg Commission.

The government saw the Industry Agreement as a model for the economy as
a whole, an objective reinforced by the apparent success in implementing the
Industry Agreement for the first time in the 1998 round and its effects in the
rest of the economy. Its goal of new settlements before old ones ran out was
achieved, so its provisions for postponing conflicts did not have to be
invoked. Moreover, the industry agreements effectively set the pattern for
the rest of the economy. Most other 1998 agreements were also reached
before contracts expired, and the number of days lost by work stoppages was
by far the lowest in the decade. The outcome was a general pattern of
settlements for the same moderate increases over the same long period of
three years. But to no small degree this was the result of co-ordination on the
employer side by SAF, which prevailed on the commerce sector employers
to hold off on any settlement until settlements were reached in the export
sector, covered by the Industry Agreement. SAF evidently has no objection
to co-ordination as long as it is unilateral and not subject to negotiation with
the unions nor to any intervention by the state. Yet, even state intervention,
though through the existing non-compulsory mediation system, also played a
part, for the impartial chair under the Industry Agreement was also one of
the mediators in many of the other private sector negotiations. In addition,
the kind of cross-confederal co-operation in the engineering sector that was a
predecessor to the Industry Agreement was occurring in other sectors, both
public and private, and this helped to avert inter-union wage rivalry (EIRO,
1998a and b).

However, although the overall level of increases resulting from the wage
round was regarded as macroeconomically acceptable, it still exceeded the
Europe norm. So from that perspective, the partial reconfiguration of the
wage bargaining structure through the informal and voluntary process of
pattern bargaining and co-ordination among a set of sectoral arrangements, bipartite or separate, did not meet the wage-regulation needs of macroeconomic policy. Moreover, some doubt was expressed that the experience of the 1998 round could be repeated the next time, when tensions muted in 1998, particularly among teachers and nurses, would re-emerge, and when recovery could be expected to bring much tighter labour markets – unemployment has now started to fall rapidly in Sweden and is already below the EU average, and the macroeconomic context of the next wage round could well be an overheated economy with rising inflationary pressures rather than high unemployment and very low inflation. Hence, the question of how to reconfigure the wage bargaining structure remained on the agenda.

The LO union and employers in the commerce sector called on all the other unions and employer organisations to join them in a three-year “stabilisation pact,” setting moderate increases while simply extending all other provisions. In the absence of any response to this proposal, and perhaps because it was for only a temporary arrangement rather than an institutional change, the government set up an official committee of inquiry into the wage determination process in April 1997. In its November 1998 final report, the committee did propose the replacement of the existing mediation system by a new Mediation Authority with expanded functions along the lines of the Rehnberg Commission and Industry Committee, accompanied by increased restrictions on the use of strikes. Most significantly, however, these new rules would not apply to bargaining that is regulated by agreements like the Industry Agreement. Thus, the legal rules applicable where such agreements are not reached were evidently aimed at giving employers and unions in the other sectors strong incentives to reach such agreements (Regeringens proposition 1999/200:32. Lönebildning för full sysselsättning – Wage formation for full employment: 100-101).

In an apparent effort to head off this form of state intervention, SAF and the three union confederations had secretly engaged in exploratory talks on the possibility of agreeing among themselves on a broad-ranging “pact for growth”. They publicly announced the talks in October 1998, along with a plea to the government to postpone its committee’s report so as to avoid disturbing the talks. Issuing the report anyway, perhaps to hold the threat of state intervention over the social partners’ heads, the government urged them to come to an agreement. However, the talks soon broke down in the face of the continuing differences over wage bargaining structure. Refusing to give
up, the government early in 1999 offered two mediators, the former Prime Minister and the chair of the committee on wage determination, to facilitate a reopening of the talks. The offer was taken up but by March the talks broke down definitively. The failed efforts to achieve what would in effect be a social pact for Sweden demonstrated the persistence of deep differences among the peak organisations (EIRO, 1998b and 1999a).

TCO and SACO jointly rejected the whole idea of a stronger mediation institution with responsibility for the macroeconomic content of settlements as well as industrial peace, backed up with increased authority to postpone industrial action – i.e., they rejected any increase in state intervention in wage bargaining. In contrast, LO accepted such an extension of the mediators’ responsibility to macroeconomic matters but it also rejected any accompanying increase in their authority to interfere with industrial action. SAF took the virtually opposite position, rejecting any role for the government in setting the level of wage growth while welcoming restrictions on industrial action. The employer organisation’s dichotomous attitude to state intervention was underlined in its subsequent proposals, amounting to a wholesale revision of Swedish labour law. It urged that existing employment security rules be scrapped and employment contracts be assimilated to ordinary civil law, giving employers complete discretion with respect to length of contracts while eliminating restrictions on dismissals, and it called for the elimination of many of the trade unions’ rights to negotiate on workplace issues established in the seventies, as well as the abolition of the Labour Court. LO condemned the proposals as going “back to the early 1900s” and the responsible cabinet minister, hardly unsympathetic to business, called them “bad, idiotic and dangerous” (EIRO, 1999b).

In response to these irreconcilable differences, the government finally introduced legislation in December 1999 embodying most but not all of the proposals made in the committee report referred to above (Regeringens proposition 1999/200:32. Lönebildning för full sysselsättning – Wage formation for full employment). The legislation, enacted on 15 March, establishes a Mediation Authority assigned to promote wage formation that “tolerates the pressures exerted by durably increased demand for labour and thereby make it possible to combine higher real wages with low unemployment and stable prices.” Without “any limitation in the labour market parties’ possibilities and responsibility for the content of agreements,” the Authority is empowered to: require the parties to inform it of timetables and claims in advance of negotiations and while they are going on; compile statistics on
wages and analyse trends in the light of a report on the economic requirements for wage growth to be issued by the National Institute of Economic Research; and to take certain actions to facilitate wage agreements before existing agreements expire, especially where disputes threaten this objective. These actions, which do not go as far as the earlier committee’s recommendation, include the appointment of mediators, either with the consent of the parties or without it if there is a risk of industrial action, and also the right to require the parties to postpone industrial action for up to 14 days, subject to heavy fines if violated (the required advance notice for industrial action was lengthened to 7 working days). The Authority is to promote the negotiating parties’ understanding of the macroeconomic requirements for wage growth, maintain consensus that the internationally exposed sectors must set the pace for wage growth, and encourage agreements of appropriate duration. It goes into operation in June 2000, well before the next wage round gets under way. However, in accordance with the strategy embodied in the earlier committee report, the Authority is to intervene in negotiations only where the parties have not established procedures of their own as in the Industry Agreement.

The government has thus opted for the alternative of legislated state intervention, but only to a limited extent and as a fall-back position in the event that the social partners do not develop new procedures of their own. In other words, the Industry Agreement continues to be held up as a model to be emulated in other sectors. What the government has given up on, then, is centralised self-regulation by the peak organisations of employers and unions, placing its hope instead on self-regulation in a number of separate sectors which together would cover the whole economy, bolstered by a mediation service designed to provide the public goods enabling the separate sector structures to avoid the free-rider danger and proceed on the basis of a common view of the wage growth consistent with macroeconomic stability.

On the whole, the unions reacted positively to the legislation. LO agreed to the enlarged role it gives to mediation, except for the right to postpone industrial action for two weeks – the only real tightening of restrictions on the right to strike. TCO and SACO found it acceptable, especially insofar as it marks the limits to any increase in co-ordination and state intervention. SAF, on the contrary, was sharply critical, complaining that the government had completely caved in to LO, especially by not banning sympathy strikes or action against one-person or family firms and for not introducing the proportionality principle (outlawing strike strategies by which high costs are inflicted on employers at little cost to unions), as recommended by the
earlier committee. Thus, in SAF’s view, the government had failed to remedy the imbalance of power between unions and employers, while at the same time shifting the balance of responsibility for economically appropriate wage agreements from the labour market parties to the state. In other words, there has been little change in the deep, long-standing differences that blocked anything like a social pact in the past. Whether the alternative approach on which the government now relies succeeds in solving the generic problem of reconciling a restoration of near-full employment with continued price stability remains to be seen; the 2001 wage round will soon provide a test.

4. Conclusion

There seems to be much path dependence in our two cases, so that the divergent fates of social pacts continue to be pretty much the same as they were. In Sweden there has not been the kind of national concertation that approximates a social pact and there is not much prospect of it in the foreseeable future. The government, when controlled by the Social Democrats or a left coalition led by them, as it has been except between 1976 and 1982 and between 1991 and 1994, has made continuing efforts to secure changes in the wage bargaining system that would build into it the calibration of wage growth to the requirements of macroeconomic stability. It has relied on the threat of legislation to induce the peak organisations of employers and unions, which remain opposed to state intervention in wage bargaining, to induce them to agree among themselves to make such changes. But so far persistent differences among them have prevented agreement.

The employers’ position, as represented by SAF, is to reject state intervention in wage bargaining, which they seek to decentralise further to the company level, while seeking state intervention in the form of changes in labour law which would change the balance of power in company level bargaining in favour of the employers. All three union confederations oppose those changes in labour law but they are divided over the changes needed in the wage bargaining system, with the white collar confederations agreeing with the employers on further decentralisation while the blue collar confederation calls for a measure of re-centralisation, combining co-ordination of union bargaining with a strengthened role for the state mediation service. The latter has been one of the two fairly consistent trends
in wage bargaining structure. The other has been a tendency for groups of national unions on both sides of the white collar/blue collar organisational division to form bargaining alliances or cartels, which in the case of private industry has led to a formal agreement on bargaining procedure with their employer counterparts. Since there is very little likelihood of any agreement on an economy wide reconfiguration of the wage bargaining structure on the confederal level, the government has counted on the spread of partial sectoral agreements like that in industry across the economy, with co-ordination among them provided by a strengthened mediation system, reflecting the judgement that macroeconomic considerations cannot be effectively incorporated into wage bargaining without a greater state role than has been accepted by Swedish employers and unions in the past.

In Norway, a very substantial state role, underpinned by the dominant oil-sector, has clearly been a crucial factor in maintaining the national concertation that was restored after a brief hiatus in the eighties, at the same time as centralised negotiations were coming unravelled in Sweden. It also seems that Norwegian monetary policies have been more effective than the Swedish in disciplining wage bargainers. The fact that Norwegian employers (NHO) reversed themselves and decided not to follow the path of their Swedish counterparts is another crucial factor in the preservation of Norwegian corporatism, which partly reflects the smaller scale, lesser internationalisation, and associated greater weakness of Norwegian business. A related, third factor, is that the main union confederation (LO) has maintained a virtual bargaining monopoly in the private export sectors, preventing the kind of rivalry between white-and blue-collar unions that was present in Sweden. In addition, LO has maintained a predominant position in public sectors and private services, partly because the challengers (AF and YS) have been weaker and more fragmented than TCO and SACO in Sweden. In order to retain influence on wage-setting in the domestic sectors, NHO has conversely seen a strong interest in maintaining the conflict-partnership with LO as a representative of the exposed sectors, which can only be ensured through centralised co-ordination. The volatility of the oil-economy and the risk that oil-fuelled growth in the domestic service sectors would crowd out manufacturing, has thus facilitated a tripartite coalition between the state, LO and NHO.

These Norwegian actors have been able to maintain corporatist practices despite shifting governments, the growth of contending organisations, and the relative decline of LO’s and NHO’s positions. Perhaps it is precisely
because of rather than despite the more fragmented organisational constellation than in Sweden, that national concertation has survived in Norway. In a situation with weak minority governments and with the main social actors threatened by loss of strength, the key actors have been forced to search for partnerships and alliances from which to borrow legitimacy and clout. In the face of the risks posed by the highly unstable external environment, the incentives to find terms on which it is possible to form coalitions that can claim to cope with those risks are strong. At the same time, the legacy of national concertation practices that have served to cope with those risks reasonably well in the past provides a model for the kind of terms on which such coalitions can be formed. Hence, it may be the relative weakness of the actors that has made it possible for Norwegian social pacts to be struck regardless of whether Centrist or Labour governments have been in office. In Sweden, by contrast, the main labour market and political actors remain the same even if their internal cohesion has diminished somewhat and the power relationships have also changed somewhat. They remain sufficiently strongly entrenched to block change as long as they remain committed to the conflicting positions which they have held for some time, most notably the employers which have determinedly opposed any form of bipartite or tripartite national concertation. Thus, the contrast persists between Norway, where national level concertation is underpinned by strong state intervention through mediation and occasional compulsion, and Sweden, where national level concertation seems to have been eroded beyond repair, offset by a minimal increase in state intervention through a limited expansion of the mediation function.

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Social Pacts in Portugal: From Comprehensive Policy Programmes to the Negotiation of Concrete Industrial Relations Reforms?

Maria da Paz Campos Lima and Reinhard Naumann

1. Introduction

Consensus on trends in industrial relations systems is far from being achieved, as the controversy that pits convergence against differentiation theses continues. This controversy is taking on new meaning with the globalisation of the markets, global competition, and the boom in information technology, the emergence of trading blocs and supranational political institutions such as the European Union. Various comparative studies conducted at the end of the eighties and nineties confirm it.

In connection with the convergence thesis, for example, a comparative study of eleven OECD countries (Locke et al., 1995) stresses that there are common trends in the development of industrial and employment relations in advanced industrialised countries. However they are tempered by the fact that variations in employment practices reveal no single answer to increased competition. Convergence is illustrated by common trends such as: decentralisation, with the company gaining importance as the place where decisions are made about employment and industrial relations; greater flexibility (internal and/or external); the growing importance of qualifications; and the decline of trade unionism.

On the other hand, other writers (Hyman and Ferner, 1994) underline the different views of decentralisation (“centrally co-ordinated” and “disorganised”) and the continued importance of the sectoral level and macro-consultations, and question the convergence thesis for industrial relations systems in that it refers to priority negotiating levels.

1 For a clearer understanding of the discussion on convergence, see Campos Lima et al. (2000); Locke et al. (1995) and Hyman and Ferner (1994).
Against this background, greater attention is being paid to comparisons between social pacts concluded in some European countries and to whether the “new social pacts” of the nineties reflect the continuity of, or break with, the “old social pacts” of the Keynesian compromise.

In a comparative perspective, the Portuguese experience of Social Pacts may also be of some interest, particularly regarding three more specific problematic aspects that have appeared in other cases (see contribution by O’Donnell and O’Reardon in this volume).

The question of Social Pacts’ (in-)efficiency in reducing growing inequality and persisting poverty.

The question to which extent Social Pacts help to enlarge workers’ participation rights at company level.

The problematic relation between tripartite negotiations and political system, specially regarding the relation between tripartite agreements and the legislative autonomy of Parliament.

Portugal is a particular case in terms not only of the timing by comparison with central countries, but also of the scope of the differences in a semi-peripheral country, marked by the revolutionary crisis of April 1974 and the central role played by the state. As a matter of fact, certain characteristics of Fordist relations, such as, mass consumption, job stability and security, emerged in Portugal in mid seventies, through the collective mobilisation of workers, when Fordist relations began to be questioned in central countries 2

Neo-corporatism appeared in Portugal as of 1984 with the establishment of the Standing Committee for Social Concertation (CPCS – Concelho Permanente de Concertação Social), when the crisis of macro-corporatist experiments was looming in central countries. Instead of seeking a Keynesian Fordist compromise, it put flexibility guidelines on its agenda. This was clearly accepted by the State and employers’ confederations in a context where forms of defensive flexibility (highly regressive in social terms) were appearing, e.g. payment of wages in arrears, the development of the informal economy, child labour etc. (Campos Lima, 1994).

2 For a more detailed approach to these aspects of Portuguese society, see Boaventura de Sousa Santos (1985 and 1990); Boaventura de Sousa Santos et al. (1986).
Whereas trust relations may have been established in other countries between organisations representing capital, labour and the State in line with the post-war Fordist compromise (through more or less formalised social pacts), facilitated by economic growth and low unemployment, no such culture emerged in Portugal.

There was obviously no parallel culture during the corporatist regime of Salazar and Caetano, which lasted until 1974. Certainly not in the subsequent revolutionary period, but also not in the next phase of “democratic normalisation”, in spite of the fact that a concourse of institutional mechanisms propitious to the social dialogue and bargaining at different levels was created in the latter two periods.

As a matter of fact, employers’ organisations went on the offensive, availing themselves of or ignoring the existing mechanisms or using them for deregulation or enforced flexibility, resisting effectively to make concessions to workers’ rights, or accepting them in principle, but refusing to implement them in practice. Blocking the implementation of the 1991 Vocational Training Agreement, regarding the right to information on vocational training, at the company level, as well as resisting, in certain sectors, to reduce working time to forty hours, in line with the Social and Economic Agreement of 1990 (Campos Lima and Naumann, 1997).

On the trade union side, the different conceptions and strategies of the CGTP (Confederação Geral dos Trabalhadores Portugueses) and the UGT (União Geral de Trabalhadores) must be considered in the light of their influence at the workplace. The UGT, with a lesser capacity to mobilise than the CGTP signed all the pacts/agreements negotiated and declared that it was strongly committed to the pattern of comprehensive negotiations in thematic and time terms, and was in favour of negotiating the different issues simultaneously and en bloc. CGTP strategy displayed increasing commitment to social dialogue but opposed employer demands, accepting only issue-based negotiations and signing only those agreements, which were of clear interest to the trade unions. It championed a flexible negotiating procedure, opposed the inclusion of issues normally restricted to Parliament in the social dialogue and denounced the excesses of neocorporatism in the process.

Such as the agreements on vocational training and health and safety at work in 1991.
For its part, up to 1990 when a round of comprehensive agreements was opened, the State was concerned with cutting inflation, prioritising prices and incomes policies, in parallel with negotiations on sectoral policies. The new round, that opened in 1990, made intensive use of the powers of the Social Concertation Commission, for the major modernisation pacts. This round defines a strategy that in some ways provoked an institutional conflict by undermining the powers of Parliament, as we shall see in relation to the implementation of the Strategic Concertation Agreement of 1996.

2. Stages in the rise and crisis of concertation in Portugal: 1984-1996

In general, previous analyses of Social Concertation in Portugal made the mistake of not questioning its relationship to the industrial relations context. They mainly restricted themselves to an extensive positivist description of the content of the agreements and the subsequent legislation. Prisoner to their selective perception, they were not able to confront the legal and political discourse with the reality of industrial relations. In other words, they were unable to make explicit something that is essential in analytical work (and more intellectually stimulating), and that is to reveal the contradictions in the process and think through its potential and limitations.

2.1 The model of analysis

We propose to analyse concertation from a critical perspective, in the light of the following model. It mainly focuses on macro-concertation in the context of the industrial relations system as a whole and its connection to the other levels in this system (Naumann, 1999).4

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4 For an analysis of the Portuguese industrial relations system, see Barreto and Naumann (1998).
In the model represented here, there are two connecting lines between the different levels of the industrial relations system. They represent the links between the macro, meso and micro levels (notably, within the organisations themselves, their internal cohesion). These links permit the mobilisation of micro and meso level power at macro level negotiations (bargaining power) and – inversely – the capacity to compel the implementation of macro-agreements “from top to bottom” (implementation control). In this model, the (self) exclusion of a partner with the capacity to mobilise at the micro and meso levels will have negative repercussions at the macro-concertation level, not only in the implementation phase of the agreements but also during the negotiations.
2.2 From 1984 to 1990: the focus on prices and incomes policies

Concertation emerged at a moment of profound economic, financial and social crisis and great political agitation. One of the protagonists of this “agitation” was the largest trade union confederation, the CGTP. Concertation, initially promoted by the UGT and the government, had two aims: to stabilise the post-revolutionary political system and control inflation. The employer confederations participated in this political stabilisation initiative with the specific objective of supporting the launch of a major programme involving the liberalisation and privatisation of the economy and the flexibility and deregulation of labour relations.

The creation of the CPCS and the depoliticisation of labour relations and collective agreements (a process closely bound up with the spread of parallel negotiations by UGT unions) managed to stabilise the political system at a time when governments were taking measures that were extremely painful for the population in order to get over the dramatic financial crisis that the State and the economy was going through. The Incomes Policy Agreements (APRs – Acordos de Política de Rendimentos) signed by the UGT, but not by the CGTP, served to reduce inflation by holding wages down. Concertation accomplished its task of helping political and monetary stabilisation without, at this stage, attempting to alter the existing pattern of industrial relations.

It is in this first phase that the UGT (created in 1978-1979) gained a higher political and social profile. At the end of the eighties, the UGT did a lot of work on the formulation and dissemination of an socio-economic modernisation programme. In this phase, the master plan of this confederation’s concertation strategy involved the achievement of major

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5 “Essentially, the 1986 Incomes Policy Agreement was, above all, an instrument to secure the adherence (rather tenuous, in fact) of the trade unions to a policy of holding wages down.” (Monteiro Fernandes, 1993). Another author takes the same line when she writes that the first concertation agreements aimed to make a success of “the fight against inflation, the stabilisation of prices, the containment of wage demands and the redistribution of income…” (Leitão, 1999). There are those who defend the thesis that the APRs did not manage to hold wages down, but that, on the contrary, they resulted in real increases greater than those achieved in years where there was no concertation. In a recent debate on social concertation, the industrialists’ confederation’s (CIP) President, Pedro Ferraz da Costa, responded to this affirmation by saying that employers permitted higher wage rises in those years for exclusively political reasons (stabilisation of the government and its liberalisation and privatisation programme).
comprehensive agreements. Confronted with a certain demobilisation of its members and the right’s landslide victory in the 1987 elections, the CGTP decided to enter the social concertation “arena”. Although CGTP’s leadership described this as a mere tactical manoeuvre (CGTP, Report to the VI Congress), this was a strategically important decision. It allowed CGTP to exercise a certain amount of influence on political decisions affecting its members, at a time when the right had an absolute majority in Parliament.

In this phase, by transferring wage negotiations to the macro level, concertation undermined meso-level collective bargaining even further. This was problematic given that collective bargaining was for some years largely reduced to pay issues. The APRs made wage negotiations more “fluid” but did not encourage collective bargaining on other issues.

The balance of trade union power stabilised at the end of the eighties, with the CGTP remaining the most representative organisation by virtue of the number of its members (approximately 70% of union members). The UGT continued to count on a different and important source of power - its organic relationship with the two largest parties in Parliament, the Socialist Party (PS – Partido Socialista) and the Social Democratic Party (PSD – Partido Social Democrata). PS and PSD governed the country, either alternately or in coalition. The relationship between the UGT and the government assumes even greater importance when the CGTP’s close links with the Communist Party, largely isolated in the political system at that time, are taken into account⁶.

2.3 The Economic and Social Agreement (AES): a success in terms of legitimising economic liberalisation, a failure in the field of industrial relations

The 1990 AES and the two 1991 agreements on Health and Safety at Work (HST – Higiene e Segurança no Trabalho) and Vocational Training (FP–Formação Profissional) open a new chapter in concertation. The AES was primarily a political compromise between the signatory organisations. Its “mandatory provisions… constitute a government action programme that

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⁶ It should be emphasised that the CGTP has the majority of trade union members in the public services (approx. 75%) and the private services (a little over 50%) as well as in manufacturing industry (higher than 80%) (Stoleroff and Naumann, 1994). On the intrinsic relation between the UGT and the PS/PSD, see Optenhögel, 1987.
seeks to achieve a balance... between macro-economic objectives aimed at controlling inflation, the employers’ interest in flexibility and demands for improvements in social protection and the progressive “Europeisation” of working conditions” (Monteiro Fernandes, 1993). And which “in fact, spells out a multiplicity of government commitments but practically none by the so-called “social partners”.” (Monteiro Fernandes, 1993)

What makes the AES interesting from our perspective of looking at the connection between concertation and industrial relations in general, is its “recommendations” on non-wage collective bargaining issues, in particular to the “Reduction and Adaptation of Working Time”. Despite the major controversy about the quality of several of its provisions, the AES aimed to introduce various issues on to the collective bargaining agenda, to try to contribute towards freeing that agenda up and making it more dynamic, within the parameters defined by Macro-Concertation. Or, in other words, “this part of the AES has the characteristics of an agreement to agree…” (Monteiro Fernandes, 1993).

The AES anticipated that: “Collective bargaining will, meanwhile, generalise the 40 hour working week by 1995 (with the average recorded working time calculated over a three month reference period, though the length of this reference period can be changed during collective bargaining)”.

The Parliament quickly made a start by reducing the standard working week from 45 to 44 hours (January 1991) and allowing the flexibility of working time (June 1991). (Campos Lima and Naumann, 1997).

But both sides of industry erected obstacles to the implementation of this measure. On the trade union side, the unions affiliated to the CGTP – which did not sign the agreement – refused to link the reduction of working time to its flexibility and tried to obtain agreements that allowed reduction of hours without any corresponding flexibility. At the same time, they frontally opposed all efforts by UGT unions to conclude and implement agreements that combined the reduction and flexibility of working time. Employer

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7 For an analysis of the content of the AES from another, non-legal perspective, see Campos Lima and Naumann, 1997.

8 Economic and Social Agreement, the Reduction and adaptation of working time (CES, 1993).
associations, for their part, were reticent about accepting the demands of unions affiliated to either the CGTP or the UGT9.

According to a study by the Ministry of Labour, those working forty or less hours per week in 1993-1994 represented only 31.4% of workers in the private sector10, a situation that did not change significantly until 1995. In other words, the hoped-for knock on effect did not take place; the agreement did not result in agreements.

The new Socialist Party government (elected in 1995 on a platform which included a commitment to the forty hour working week) was faced with the impossibility of achieving a “reduction and adaptation in working time” through the collective bargaining route and began the negotiations with the social partners with a view to achieving it through legislation. In January 1996, the so-called “Short Term Agreement” (ACSCP) was reached between AES signatories on implementing “the reduction and adaptation of working time”. From the start, this initiative was firmly opposed by the CGTP, which demanded the forty-hour working week without either flexibility or polyvalence11. There ensued a major conflict about the legislation that resulted from the ACSCP between the CGTP and employers at the workplace and between the CGTP and the government in the political arena. The Socialist Party’s Parliamentary group adopted a position that deviated from the ACSCP commitments made by the government and the employers were confronted with a level of trade union mobilisation (by CGTP) not

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9 “We did not achieve the 40 hour working week in 1995 because of a lack of will on the part of many employers. They used the excuse that the CGTP unions were refusing to negotiate the reduction and adaptation of hours and that it would be practically impossible to manage two separate plant working time schemes within the same company.” (UGT report, published on the Web page www.ugt.pt). Many employers commented on the fact that the CGTP had never signed any of the comprehensive agreements and that its penetration on the “shop-floor” prevented the implementation of the agreements. See Ferraz da Costa, P. (CIP) at the seminar already mentioned above on The Reform of Social Pacts and the interview with another CIP leader in September 1999, in Porto.

10 We should emphasise that the industries with 100% of the workforce on 40 or less hours (electricity, communications, banks and insurance) had already reached this objective before the AES was signed. See table published in Semanário, 20-1-1996, referred to in Naumann, 1996.

11 Polyvalence means the flexibility of job tasks. It is an issue of special importance to employers bound by collective agreements that are generally outdated with regard to this issue (Campos Lima et al., 2000).
witnessed for a long time (in terms of its breadth, intensity and persistence). It could be said that the CGTP, temporarily marginalised from the process, managed to turn the tables on its opponents and impose, in part, its demands to the point that the main supporters of the ACSCP (the CIP and the UGT) distanced themselves from the legislation.\(^\text{12}\)

Opinions converge with regard to the basic reason for this (and other) failure(s) to link concertation with other levels of industrial relations, one of which is given below:

“Another one of the characteristics of the Portuguese concertation experience was the non-adherence to a large part of the agreements by one of the two most representative trade union confederations, the CGTP. This situation is at the root of some of the problems verified in the implementation, by collective bargaining, of certain measures set out in the 1990 Agreement\(^\text{13}\), and has made the achievement of other aims unfeasible, such as the establishment of compulsory arbitration\(^\text{14}\). In addition, the situation we refer to has constituted an obstacle and caused a certain amount of conflict [sic!]. Not only with regard to the signing of collective agreements by unions affiliated to the non-signatory confederation, but also to the adoption and application of certain laws, the content of which was negotiated with it” (Leitão, 1999)\(^\text{15}\).

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\(^\text{12}\) The UGT went as far as issuing a press release: “The Bill is badly drafted. We assume no responsibility for its preparation. Workers are going to be the victims of the Bill’s lack of clarity and of interpretations that deliberately aim to provoke conflict.” For a description of the ACSCP process, see Campos Lima and Naumann, 1997; Naumann, 1996 and 1997. According to the interview with the CIP leader referred to above, the CIP made a big effort with the ACSCP, but was “cheated” by the way in which Parliament later made concertation unfeasible.

\(^\text{13}\) In a footnote, the author clarified that she was referring to “the reduction and adaptation of working time and the inclusion in collective agreements of conciliation, mediation and arbitration mechanisms for the resolution of disputes over individual work contracts” (Leitão, 1999).

\(^\text{14}\) Footnote by the author: “The implementation of which requires that worker and employer representatives on the CES should agree a list of arbitrators”.

\(^\text{15}\) The author adds a footnote: “Examples include Law n." 21/96 of 21 July, on the reduction and organisation of working time and polyvalence, Decree Law n." 96/99 of 23 March, on night work, and the draft Bill on the concept of remuneration - the content of all these was set out in the ACE” (Leitão, 1999).
Already, three years before the end of the AES process, the question of the “effectiveness” of the agreement in relation to the cohesion of the industrial relations system was addressed. “With regard to the “recommendations made to those involved in collective bargaining”, we believe that their greater or lesser degree of effectiveness in the subsequent round of collective bargaining was related to…” the “…circulation of influence within the associations, which depends on very diversified factors…” (Monteiro Fernandes, 1993).

So the 1996 ACSCP brought the “troublesome” period to a “dramatic” close, ushered in by the 1990 AES in which attempts were made to connect macro-concertation with meso-level collective bargaining. In the same period, yet another AES project failed. Negotiations on the establishment of company level Health and Safety at Work Commissions as described in the Health and Safety at Work (HST) Agreement, signed by all the social partners including the CGTP, failed for very particular reasons that we cannot go into in this study. We can only emphasise here that, once more, an opportunity was lost to use the AES to stimulate not only collective bargaining but also the development of company level labour relations.

The way the AES process came to an end made it evident that implementation control (see our model) did not function. From a systemic perspective, it is clear that if the measures had been successful in revitalising collective bargaining, this would have had (mainly positive) effects on the bargaining power of the social partners, especially the trade unions. The failure of linking the AES to collective bargaining indicates that the CGTP, which was not a signatory to the AES, had considerable power over the implementation (or, to be more exact, prevention of the implementation), in detriment to the organisations that were signatories to the Agreement. Remember that the CGTP organised a large majority of unionised workers, a fact, that from mid nineties, became more accentuated16.

As the process initiated by the AES drew to a close, and with another comprehensive agreement imminent (see next section), the industrial relations system, immune for a long time from attempts to re-regulate it through macro-concertation, continued to turn in a vicious circle. This is

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16 One of the indicators of this change is that, in recent years, the CGTP has recorded a real growth in its income from union dues, at a time when union membership as a whole is either stagnating or in decline (CGTP, 1999).
described by one author in the following way: “The lack of a link between social concertation and collective bargaining constituted, in our understanding, one of the reasons for the excessive regulation of labour relations by the law. And it had negative consequences on the content of collective agreements and on the effectiveness of labour law” (Leitão, 1999).

Summarising: In contrast to the far-reaching aims defined by the Economic and Social Agreement (AES 1990), the pattern of industrial relations in Portugal continued to be excessively politicised, non-participatory, fragmented and based on “no-trust relations” between the players. This was the state of play in the mid-nineties and the context in which “strategic concertation” developed as the conflict-ridden period of ACSCP implementation played itself out. It also provides the criterion by which to evaluate the new phase of concertation and decide whether “the process of social concertation only resolved what had, essentially, already been resolved” (Sá, 1995), or whether it had an effect on social reality.

3. The 1996 ACE: from the failure of “government by consensus” to a redefinition of the concertation process?

The Short Term Social Concertation Agreement, signed in January 1996, was presented as the starting point for negotiations on a strategic agreement. In May 1996, the minority Socialist government presented a documented entitled “Strategic concertation to modernise Portugal”, which set out major objectives and a negotiating procedure, and identified a broad agenda in terms of issues and an extended timetable. The negotiation of what became known as the Strategic Concertation Agreement (1996-1999) and its later implementation were to a great extent disturbed by the climate of social tension generated by implementation of the ACSCP, as we shall see.

To analyse the 1996 Strategic Concertation Agreement, it is useful to compare it with the 1990 AES, on three different points:

– Type and range of issues that formed part of the agreement;
– Connection to collective bargaining and the opening up of new negotiating spaces;
– Procedure used to negotiate the agreements.
3.1 The range and nature of the subject matter

Although they were developed in different political contexts, AES 90 during a PSD absolute majority government and ACE 96 during a minority socialist government, both illustrated how the State tried to use Social Concertation to introduce a vast modernisation programme. The following observation could be applied to both of them (Moreira, 1998):

The strong neo-corporatist tendency that manifested itself by the fact that the agreements addressed general policy areas as well as specific “industrial relations” matters and social policy, “…. Taking on the political party role of major policy formulation”, constituting for the governments “…a special instrument for the transfer and dilution of responsibilities”.

However, it should be noted that the Strategic Concertation Agreement (1996-1999) goes further than AES 90, with regard to the range of issues covered. It is almost a “government programme”, including comprehensive guidelines and policy measures relating to almost every field of policy.

SUBJECT MATTER OF THE STRATEGIC CONCERTATION AGREEMENT (1996-1999)

In addition to more general measures, the chapter on the economy and companies covers reform of the country’s energy supply structure, housing, forestry, tourism, transport, the modernisation and integration of commerce, agriculture, rural development and fisheries, and guidelines on environment and regional development policy.

In addition, it includes guidelines and measures relating to productivity, working conditions and participation, active education policies, training and the information society, social protection reform, solidarity, social security and health, restructuring of the fiscal system, and, finally, the modernisation and reform of public administration.

The agreement establishes the following objectives for the period 1996-1999: an average annual GDP growth rate above 3% (above the European average); and an average annual rate in employment growth of 0.875%, generating a total of 100,000 new jobs. These objectives are to be met thanks to a government commitment to keep the annual average growth in public sector investment at least at 10%, as well as employer commitment to guarantee a real growth in private investment of at least 7.5%.
3.2 The Agreement’s connection to collective bargaining and the opening up of new negotiating spaces

The first aspect that should be highlighted is a procedural issue of the concertation process that had particular implications for the other levels of collective bargaining. This is that decisions were taken on a majority basis (and not by consensus, as you would expect in the case of true social pacts). Majority decisions were imposed on all parties even where there was no consensus, “precluding or limiting the space for negotiation and collective bargaining by trade unions and employer organisations who have not signed the agreement” (Moreira, 1998).

But, above and beyond these procedural aspects, we want to highlight other issues related to the content and implementation of AES 90 and ACE 96-99 and the differences between them.

AES 90 is based on two different lines of reasoning. On some issues, like the reduction and adaptation of working time, it sets the collective bargaining agenda but then passes responsibility for the negotiations to the two sides of industry. In others, such as the Health and Safety at Work, AES opened the way to specific tripartite negotiations aiming at a detailed proposal Parliament for legislation.

On the other hand, with regard to content, the specific and complementary 1991 agreements, such as the Vocational Training Agreement and the Health and Safety at Work Agreement mark the opening up of new areas of intervention in the industrial relations system. We refer namely the right to information on vocational training at company level and the establishment and role of health and safety commissions, also at a company level.

ACE 1996 was thought out at a time when ACSCP 1996 had already taken measures that had major implications for collective bargaining. For instance, by drafting legislation on the reduction and flexibility of working time and introducing the concept of polyvalence into law, even though the details of its implementation remained within the sphere of collective bargaining17.

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17 Revision of the law on individual employment contracts introduced the term ‘polyvalence’ in Art. 22 on the performance by the worker of activities included or not in the contract. It said that: “The employer organisation can give the worker tasks for which the worker is qualified and able and that are related to or have a functional link with his normal duties, even though they may not be included in the relevant job description”. The
ACE 96 is a product of the idea that macro-concertation should set the collective bargaining agenda and commit employer and trade union confederations to adopt a more dynamic attitude to negotiations (even though it defends the need to maintain the autonomy of trade union and employer associations). It regards on new issues, or in relation to the review and updating of others, or with regard to doing the groundwork for the reformulation of collective bargaining legislation itself. Hence:

“(…) The trade union and employer confederations commit themselves to using their influence to include the following issues on the collective bargaining agendas from 1997, or at a later date:

- Update career structures, job classifications and descriptions, in accordance with changes in occupations and the organisation of work;
- Promote vocational training; establish the responsibilities of both workers and employers in acquiring the knowledge and improving qualifications so as to meet the present and future needs of companies while developing more satisfying jobs, subject to the limitations imposed by the availability of human and financial resources;
- Make recruitment, probationary period and apprenticeship rules coherent with employer needs for temporary workers, while providing adequate protection to the workers involved;
- Organise working time, seeking coherence in the reduction and adaptation of hours of work while strengthening competitiveness and safeguarding the personal and family life of the worker;
- Respect the rights of workers and their organisations to information and consultation, and other rights that seek to increase workers’ participation in the life of companies;
- Organise health and safety activities at the workplace and define the responsibilities of the employer and workers;
- Promote equal opportunities and prevent discrimination by highlighting and putting existing laws into practice;

law says that such adjustments to work duties should be included in sectorial or company level collective agreements. It is accepted that the new system, as a whole, is complementary to the terms of subsequent collective agreements that regulate such issues in a way that is more favourable to workers and companies (Campos Lima et al., 2000).
– Develop internal mechanisms (at company and sector level) for the resolution of individual conflicts, namely the introduction of voluntary conciliation and arbitration procedures for these disputes;
– Promote the gradual development of complementary professional social protection schemes for workers, while maintaining coherence with reforms in Social Security, and subject to the availability of resources in the companies;
– Adopt rules about the validity and production of outcomes, to safeguard the permanent adaptation of the law and maintain a dynamic attitude towards its review18; 

In addition to these guidelines and with a view to making them more feasible, the agreement sets out other objectives, of which we highlight the following (Campos Lima et al., 2000)
– Review those laws that contain unjustified limitations to the scope of collective agreements, and further the harmonisation of working conditions at company level, without prejudice to trade union freedoms and collective autonomy;
– Implement mechanisms promoting social dialogue in the areas of socio-economic information and training in negotiating skills;
– Prepare quarterly reports on collective bargaining developments;
– Use voluntary mediation, conciliation and arbitration mechanisms, whether within the company, sectoral or inter-sectoral collective bargaining framework;
– Analyse obstacles to mandatory arbitration mechanisms and limitations on the use of mediation and conciliation in the public services.

It is important to stress that during the implementation of ACE in 1997, UGT and CIP representatives made their priorities clear19. They felt it was necessary to unify labour legislation at a company level, given the problems

19 Opinions expressed during the CES Seminar, Flexibilidade e Relações de Trabalho, 26 March 1997, Lisbon.
caused by the existence of parallel agreements\textsuperscript{20}, without, however, raising the issue of representativity, of central importance when considering collective agreements;

They wanted, in this way, to side step the obstacles erected by the CGTP to measures negotiated by the UGT and the CIP, such as those on working time. Their strategy was simultaneously aimed at reducing the CGTP’s influence at the workplace (given that the requirement of representativity was not made explicit).

3.3 Procedure

In addition to the above-mentioned possibility of taking decisions by majority rather than by consensus, there is another issue that deserves highlighting. It is one that counterpose two negotiating models: a model that deals \textit{en bloc} with a broad range of issues and a flexible model in which agreement on particular measures can occur independently of progress on reaching a comprehensive agreement.

The 1990 AES was a combination of these two models. On the one hand, the idea was to reach agreement on a broad range of issues, but this limited the possibility of it being approved by all the parties involved in the negotiation. On the other hand, it offered the possibility of separate negotiations on specific issues, such as the Health and Safety Agreement and the Vocational Training Agreement, which were approved by all organisations including the CGTP.

With regard to the negotiation procedure, the Strategic Concertation Agreement (1996-1999) deviated significantly from the path proposed by the Government in its document “Strategic action to modernise Portugal”. This document explicitly declares: “\textit{Strategic Action must, therefore, be a permanent and flexible process working on and transforming Portuguese society, in various areas of activity}”.

But the government abandoned the flexible approach after pressure from the UGT in favour of the comprehensive negotiation of a range of issues. The strategy of conducting separate negotiations on the different issues (defended by the CGTP) was rejected. Given the wide range of issues and

\textsuperscript{20} For a discussion of the problems resulting from conventional pluralism, see Campos Lima et al, 2000.
the controversial nature of some of them, the result was, once more, a “social pact” that was not approved by the CGTP, even though it had been intensely involved in the negotiations.

Moreover, the terms of the ACE itself aggravated the process by excluding the CGTP from the Standing Committee (Comissão de Acompanhamento) that de facto replaced the Social Concertation Commission during the implementation of the Agreement up till the end of 1997. At this point there were changes in the organisation and composition of the government with the departure of the Minister of Employment and Training and the amalgamation of this ministry with the Ministry for Social Security and Solidarity to create the present Ministry of Labour and Solidarity.

The government’s policy towards the Strategic Concertation Agreement can be divided into two distinct phases. The second represents, at least in relation to procedure, an about turn from the predominant procedure (although with nuances) in the period after 1990.

The first phase saw the Ministry of Employment and Training play the leading governmental role in strategic concertation, adopting an unprecedented forceful position to achieve a major agreement on modernisation, competitiveness and employment. The idea was to have the commitment of all the social partners, including even the CGTP, given the latter’s intense participation in the negotiations and its readiness to reach agreement on some of the issues.

The Standing Committee was the scene of intense activity as it tried to transform the guidelines and measures proposed in the Agreement into practical policies and translate them into laws. This created the expectation among participants that Parliament would endorse the detailed and exhaustive proposals produced by this committee.

Prominent experts on the Constitution believe that this phase represented an institutional conflict between Parliament and the bodies negotiating social concertation, and that this conflict did not allow the latter to reach its initial objective of promoting a legislated agreement.

This period is characterised by problems emerging in Parliament regarding the legislation on flexibility and reduction of working time and by CGTP’s mobilisation of its members, which provoked employers’ organisations, namely the Confederation of Portuguese Industry (CIP) into expressing their discontent.
The CIP believes that Parliament made concertation unfeasible and that “the legislative autonomy of the Assembly of the Republic does not permit true concertation, because the Government depends on Parliament and Parliament is not involved in the concertation process.”\textsuperscript{21} This statement reveals the expectations and conceptions of this employer’s organisation, which, in 1998, publicly broke with the ACE. The Confederation of Portuguese Commerce (CCP) suspended its participation in strategic concertation on the grounds of its position on fiscal policy.

ACE, which dealt with such a broad range of issues that it was close to having the characteristics of a Government programme, came into being in the middle of a major conflict about the reduction of the working week to 40 hours and it soon provoked other conflicts. We refer to opposition between the CGTP and the ACE and to the tension between the Parliament and the concertation process because of the controversy about decision making powers.

The employer’s association’s approach of not tolerating and harshly criticising any change in the projects delineated in the ACE-process did not take into account the constitutional problem of Parliament’s autonomy in the legislative process. The employers, amongst whom the industrialist’s confederation CIP took the lead in the critique of the government’s behaviour, certainly were not unaware of this constitutional problem. So, it seems that their irreconcilable position was a calculated manoeuvre to annihilate the political legitimacy they had given to the government’s modernisation project as a whole by signing the Strategic Agreement. Having achieved their central aim of remaining involved in the debate on specific legislation (in the first place on fiscal issues), they abandoned the process causing political “costs” to the government that largely outweighed the benefits gained from the signature of the ACE in 1996. The government, on the other hand, had to reshape its strategy in a way that would reduce expectations in tripartite concentration to realistic dimensions and allow social partners to be “tranquillised”.

The changes in the composition of the government, with the amalgamation of ministries, opened a new phase on social concertation. In the context of the government’s redefinition of its strategy, the responsibility for strategic concertation passed to the Ministry of the Economy, and the concertation in

\textsuperscript{21} Interview with a CIP leader, Porto, September 1999.
a more restricted sense (only on social and labour affairs) became the responsibility of the Minister of Labour and Solidarity. While the first phase, led by Minister Maria João Rodrigues (1995-1997) configured a strategy that could be called “government by consensus”, the approach evident in the second phase could be called “government through consultation and social dialogue”.

The ACE measures started to be analysed on an “issue by issue” basis and the social partners began to meet again under the auspices of the CPCS. Some issues on the ACE agenda such as flexibility, holidays (making holiday rights subject to the fulfillment of attendance requirements) and salary issues (CIP demands) move on to the Parliamentary agenda. Moreover, ACE makes no further reference to wages after 1998.

4. Outlook

Since the end of 1999, the government has prioritised Parliament as the forum for social concertation and adopted a more flexible approach again as seen in the parallel negotiation of various social concertation agreements, each of limited scope.

The new socialist government already made its policy clear in January 2000. While leaving the first meeting of the CPCS, the Prime Minister António Guterres declared: “The idea is not to make a comprehensive agreement covering every issue, like in the last Parliament (….) We think a more flexible, less rigid procedure is preferable, and we have to learn from experience. The big advantage of the procedure we have agreed is that it opens up the options. (…) We can make faster progress on easier issues and reach agreement when possible, without having to wait for agreement on everything else as in the past” (O Público, 5 January 2000).

In the talks at the CPCS, the government advanced with five concrete proposals for specific medium range agreements, admitting at the same time other proposals from the social partners and/or autonomous bilateral negotiations between them. The five government proposals dealt with:

− Occupational training and regulation of the labour market;
− Modernisation of the system for the resolution of individual and collective labour conflicts;
− Equality of rights and opportunities in the labour market;
– Working time arrangements;
– Hygiene and security at the work place.

In the further discussion, government and social partners reformulated the agenda for specific negotiations. In its most recent document, the government proposes four working groups on the following topics:
– Working conditions, hygiene and security at the work place and combat against work accidents;
– Employment policies, labour market and occupational training;
– Organisation of Working time, productivity and wages;
– Welfare benefits / pension scheme.

Neither the agenda nor the methodology of the future concertation has been definitely decided yet. Both will be subject to further negotiations.

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The history of social pacts in Spain can be divided into two broad periods. The first encompasses a series of incomes policy agreements that served to underpin the political transition from authoritarianism to democracy in the late seventies. This negotiated incomes policy process broke down in 1986 and was followed by a period of prolonged confrontation over wages and labour market reform between the Socialist government of the time and the national labour confederations: the Socialist UGT (Unión General de Trabajadores) and Communist CC.OO. (Comisiones Obreras). The second period of social pacts began timidly in 1994, with an agreement between unions and employers on how to address the devolution of regulatory competencies to the collective bargaining process. It took full force following a change in government to the conservative Popular Party (PP) in 1996, which was followed by a series of new social pacts. However, unlike the earlier social pacts, which consisted of global wage agreements tied to limited social spending concessions, the new phase of social negotiations has been more complex. It has not seen a return to a formal incomes policy framework. Nor has it included the kinds of explicit linkages between welfare reform, tax policy, and wages that have been typical of new social pacts elsewhere in Europe. Instead, the most recent period has been one in which the social pact process has been split into two tracks. On one hand, a series of agreements on welfare (in particular pension) reform have been reached between the government, opposition parties, and the unions, but without the support of employers. On the other hand, a series of bipartite agreements have been reached on industrial relations between the employers association (CEOE – Confederación Española de Organizaciones Empresariales) and the unions, reflecting a relative convergence of positions between the social partners. This has been accompanied by an informal incomes policy process (instrumented by the national labour confederations) and by changes in the collective bargaining process, which are slowly turning that process into an instrument for achieving positive trade-offs in the labour market.
The following discussion is divided into three sections. In the first, I review the first period of social pacts in Spain and the reasons for its breakdown. In the second section, I turn to a description of the new social pacts. In the third, I discuss several factors that may help explain the resurgence of national social bargains in Spain and the particular pattern that this has taken.

1. The first period of social pacts in Spain: negotiated incomes policy and its breakdown

The history of Spanish social pacts has its beginning in the Pactos de la Moncloa of October 1977, which were negotiated as part of the political transition to democracy. The Pactos were signed by all of the major political parties following the first democratic elections, and they were informally ratified by the two labour confederations, whose leaders held seats in the Spanish parliament (Roca Jusmet, 1991). The Pactos included a commitment to reform the institutional bases of Spain’s political economy (including reforms of the social security system, education, housing, taxation, the financial sector, and public enterprises). Their centrepiece, however, was an incomes policy deal that linked wage growth to a target of monetary growth (rather than past inflation). This forward-looking wage deal was intended to stop the wage-price spiral that had taken hold in the last years of the authoritarian regime. And it marked the beginning of a series of social pacts among labour representatives, employers, and the government which served to sustain a negotiated incomes policy process for almost a decade.

The first pact to follow the Pactos was the Acuerdo de Base Interconfederal (ABI), which was signed by the UGT and the CEOE (though not by the CC.OO.) in 1979. This second pact set the bases for a new system of industrial relations that was enshrined in the Workers Statute (Estatuto de Trabajadores) of 1980. It was followed by the “Acuerdo Marco Interconfederal” (AMI), reached again between the CEOE and UGT, which set wage ranges for the collective bargaining rounds of 1980 and 1981. The latter also included an agreement to reduce the work week to 40 hours and a promise by employers to offer wage bonuses in line with productivity growth at the firm level. The first agreement to be signed by both of the major labour confederations (UGT and CC.OO.), the employers, and the government was the “Acuerdo Nacional sobre el Empleo” (ANE), which followed the attempted coup d’Etat of 1981, and in which the unions agreed
to an upper limit on wage growth that fell below expected inflation in return for a promise of 350,000 new jobs (for an extensive description of these pacts, see Royo, 2000: ch. 3).

The overwhelming victory of the Spanish Socialist Party (PSOE) in the general elections of 1982 had paradoxical consequences for this early process of social concertation. The PSOE’s rise to power led the unions to hope for a radical change in policies, fed by the Socialists’ electoral promises of 800,000 new jobs. But the new government’s actual economic policies would lead to progressive disenchantment by the unions, and in particular the UGT. Both confederations signed the first wage pact to be reached under the PSOE’s tenure, the “Acuerdo Interconfederal” (AI) of early 1983, as a way of supporting the Left’s economic agenda. Yet the following year the CC.OO. refused to sign another wage pact, the “Acuerdo Economico y Social” (AES) of 1984. The communist confederation attributed its withdrawal from the process to the severity of the PSOE’s austerity measures and to the fact that the new agreement between the CEOE and the UGT included a provision to legalise fixed-term contracts with very low levels of social protection.

The PSOE’s economic policies would ultimately spell the end of the negotiated incomes policy process in Spain. Persuaded that the problems of Spain’s labour market lay primarily on the supply-side (and more specifically, in an excessive rise of labour costs during the transition) the PSOE’s economic team rejected any attempt to combat unemployment through demand-side policies. Instead it imposed an unprecedented package of monetary and fiscal austerity measures that prevented it from offering any real compensation to the UGT for the strict wage restraint to which the confederation agreed. By the mid eighties, several key members of the government’s economic team moreover became convinced that the process of centrally negotiated agreements carried more disadvantages than advantages for their economic program (see Maravall 1993: 118; Astudillo Ruiz, 1998: 185, 251-5); a conviction that would lead them to adopt increasingly uncompromising positions in their negotiations with the unions. For the UGT, on the other hand, the balance of the Socialist Party’s first term in office (virtual stagnation in real wages and a loss of 700,000 more jobs) proved extremely disappointing (Pérez and Pochet, 1999). This combination of factors would set the government and the confederation on a collision course as the economy moved out of recession and into a period of economic boom in 1986.
In the national parliamentary elections of 1986, the PSOE retained an absolute majority of seats in parliament (even though it lost one million votes) and with this new electoral mandate embarked on negotiations with the UGT to arrive at a new global wage pact. The negotiations dragged on for over a year but eventually ended in stalemate in the fall of 1987. A year later, following a further series of confrontations over pension adjustments, public sector salaries, and a government youth employment plan, the Socialist confederation finally joined the CC.OO. in a general strike against the government, marking the end of the negotiated incomes policy experiment. In the period thereafter, the two confederations set out on a course of unity-in-action aimed at achieving greater real wage growth for their members through the collective bargaining process.

As a number of authors have pointed out (see Paramio, 1992; Astudillo Ruiz, 1998; Royo, 2000), the breakdown in negotiations between the government and the unions was affected by the UGT’s growing political vulnerability. As the sole signatory of the AMI and the AES, the Socialist confederation was particularly vulnerable to the charge that its willingness to agree to intense wage restraint had hurt the position of all workers in the economy. This was reflected in the results of the works council elections of 1986 in which the UGT suffered some significant losses to the CC.OO. in large firms. The growing pressure on the Socialist confederation to shift to a more aggressive bargaining stance, however, was vastly complicated by the uncompromising stance taken by the Minister of Finance, Carlos Solchaga, who ultimately determined the government’s positions.

The 1987 and 1988 negotiations were marred by the government’s refusal to use any part of a windfall surplus in its current receipts to increase the unemployment coverage rate, even though that rate continued to fall short of a promise made in the AES to cover at least 48% of the unemployed by 1986 (Gillespie, 1990). Instead, the government allocated the surplus to reducing the budget deficit to 2.8% in 1989, a level well below the EC average at the time. At the same time, it insisted on limiting wage growth for 1988 to a 3% inflation assumption despite the fact that an earlier 5% assumption for 1987 was already being overshot. When the UGT insisted on wage increases above these assumptions to capture some portion of productivity growth, the government preferred to walk away without an agreement to cover wages for the 1987-1988 period. Shortly after, Solchaga vetoed an agreement between the UGT and the Labour and Public Administrations ministers to increase pensions and public servants wages by 5.5% in 1988 (Astudillo Ruiz, 1998;
346-48). The government also refused the UGT’s requests to compensate these income categories for the larger than expected rise in inflation in that year and to extend collective bargaining rights to public servants. This sequence of events finally led the confederation’s leader, Nicolas Redondo, to conclude that the party leadership was unwilling to offer compensation for the sacrifices that the union had made during the economic crisis and that a global wage agreement could no longer be reached (see Zaragoza 1988; Maravall, 1993: 119).

The PSOE government’s non-compromising stance in the 1986-1988 negotiations may be partly explained by its second electoral victory, which seemed to vindicate the wisdom of its austerity program. Yet it was also affected by economic developments over the course of the negotiations. Up until 1987, the PSOE’s austerity program had been highly effective in reducing inflation, bringing the CPI steadily down from 12.2% in 1983 to 5.3%. This process of disinflation continued through the first quarter of 1988, when the annualised CPI fell to a low of 4%. Yet, in the second half of 1988 consumer prices suddenly jumped by more than two points. This reversal appeared to lend support to the view among government officials that the UGT’s demand for a real wage increase, however modest, was at the heart of the Spain’s inflation problem and that disinflation might be better achieved in the absence of centralised negotiations. However, such a diagnosis tended to overlook another critical feature of the resurgence in inflation in the period after 1987, namely, its fundamentally sectoral character. While the inflation rate of Spanish manufactures (the sector in which the unions exercised the most influence over wages) converged virtually completely with the EMS average during the second half of the eighties, that of services not only failed to do so but in fact increased slightly over the same period (OECD, 1992 : 62 and 65). This acute difference in the inflation record between the sheltered service sector and exposed sectors set the Spanish economy apart from other EU economies, where the differential was much lower. Yet, ironically, this sectoral dynamic was aggravated, rather than mitigated, by the government’s own disinflation strategy, which centred on a policy of aggressive interest rate hikes and the maintenance of a strong currency as a means to control wages.

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1 This view appears to have been influenced in part by the experience of 1984, the only year of the PSOE’s first term that had not been covered by a global wage agreement, and during which wages grew below inflation (Roca Jusmet, 1993).
From 1987 through 1991, the peseta appreciated by approximately 30% in real terms despite a continuously deteriorating current account deficit. This overvaluation (which ended only after the ERM crisis of 1992-1993) severely punished the competitiveness of Spanish businesses in exposed sectors and created a strong incentive for capital to flow into sheltered sectors. Attempt to break inflation through interest rate hikes in this context only placed more upward pressure on the peseta, further encouraging the sectoral shift that was making the economy inflation-prone in the first pace. Yet, as the 1987-1988 negotiations went on, the government increasingly came to view the currency appreciation as a mechanism to place pressure on wage bargainers; and this tendency only became more accentuated after the incomes policy process had broken down (see OECD, 1988; Bank of Spain, 1988; 102-103). By vastly increasing the return on financial assets and allowing the peseta to become highly overvalued the government was thus willing to incur a heavy loss of competitiveness in order to extract greater wage concessions in the collective bargaining process (Pérez, 1999).

The attempt by Spanish authorities to impose discipline in a fragmented bargaining system through a tight monetary policy and an overvalued currency (a strategy also pursued by Italian authorities in the period 1988-1992) ultimately proved a failure (see Pérez, 2000). Indeed, real wage growth accelerated significantly after the collapse of concertation in Spain in 1988. In the years following the elections of 1989, in which the PSOE won another parliamentary term, the government thus sought to reinitiate the dialog with the unions. As part of this effort, it increased social expenditures from 20.0% of GDP in 1989 to 22.5 in 1992, in the hope of reaching a new incomes policy accord that would help Spain to meet the EMU criteria. However, although the PSOE government was able to reach a number of limited agreements with the unions on social spending (including the establishment of minimum non-contributory pensions), public employee compensation, and vocational training after the 1989 election, its attempts to restore the negotiated incomes policy process were to fail.

The government first serious attempt at a new global wage pact was the so-called Social Pact for Progress proposed in the summer of 1991, which would have tied wage increases for three years to productivity increases. After the unions rejected the proposal, the government imposed its own Maastricht convergence plan in 1992, which included significant cuts in unemployment benefits. This again seemed to suggest that it was willing to proceed on a course of economic adjustment without the unions’ support.
Two subsequent events, however, led to a re-initiation of tripartite negotiations in mid 1993. The first was an extremely rapid deterioration of the employment situation following the ERM currency crisis in 1992, which led to the imposition of drastic austerity measures to maintain the peseta in the system\(^2\). The second was the PSOE’s slipping support in the elections of 1993, in which it lost its governing majority and was forced to form a parliamentary alliance with the centre-right Catalan nationalist party (Convergència i Unió – CiU). Fearing an outright defeat, the PSOE had proposed a new Social Pact linking wages to pension and labour market reform as a key element in its electoral campaign. And it was even more eager to arrived at such a compact following the elections, when, after several forced devaluation’s, the peseta’s ERM’s fluctuation bands were expanded to 15%, threatening Spain’s ability to meet the Maastricht convergence criteria.

However, as had occurred in the previous attempt to reach a new wage deal, the 1993 talks between the government and the unions soon became polarised. The government insisted that any agreement would have to include an incomes policy deal that would deliver wage growth below inflation (\textit{i.e.} a real wage reduction) as well as measures that would allow for greater labour market flexibility. These included a reduction in dismissal costs and the repeal of all remaining labour ordinances (a system of labour regulation inherited from the Franco regime), the subjects of which (such as wage scales and the distribution of working hours) would be left up for negotiations in the collective bargaining process. The unions were willing to consider the wage deal. Yet, they balked at the government’s program of labour market deregulation, having witnessed the consequences of the introduction of fixed term contracts in 1984 (which had risen to represent 35% of total employment by the mid nineties). The distance between the positions of the unions and those of employers also made an agreement difficult. While the former wanted to limit the number of fixed term contracts (which carried low levels of social protection), the CEOE focused on the issue of reducing dismissal costs and declared that “businesses could not give anything in return for the social pact” (\textit{El País}, 13 September 1993). The negotiations were complicated, moreover, by the PSOE’s need to

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\(^2\) The number of unemployed people increased by more than 750,000 people in just one year following the crisis, bringing the unemployment rate to 23%, and was to peak at almost 25% a year later.
secure the support of the Catalan and Basque nationalist parties, who sought tax concessions for their regions as well as further business incentives and cuts in social spending. Although CiU was open in principle to a social pact (Fraile, 1999), its position in the area of labour market reform would have impeded agreement with the trade unions. A real social pact with the latter would thus have required a change in the parliamentary alliance and the building of a new majority with Izquierda Unida (a left coalition dominated by the Communist Party). This political solution, however, was not acceptable to the PSOE leadership.

In the end, the attempt to reach a new wage deal in 1993 broke down over the government’s determination to introduce new apprenticeship contracts (paid below the minimum wage) and to expand the legal causes for dismissal. After the unions rejected these conditions, the government implemented its labour reform unilaterally. The package of measures repealed all remaining labour ordinances, devolving the thus deregulated aspects of labour market regulation to the collective bargaining process, but not requiring employers to reach new agreements. It also made it possible for lower level bargains to override agreements reached at higher levels of negotiation and thus appeared to favour a further decentralisation in an already highly fragmented bargaining structure. This unilateral reform, fiercely opposed by the unions who feared a deregulatory spiral, brought relations between the latter and the government to an all time low and set off another general strike in early 1994. It also undermined the ability of the last PSOE government to work out a deal with the unions to address the financial imbalance of the Spanish pension system, even after a consensus had been reached on this issue among all the major political parties in 1995.

The Socialist period of government, which opened with an affirmation of the process of social concertation in the AI of 1983, thus ended with a complete break-down of the government’s attempt to reach a new encompassing pact that would have linked wages, with labour market, and pension reform. The intense falling out between the government and the unions, however, overshadowed a latent convergence in the underlying predisposition of the social partners to reach new agreements outside the “global pact” framework. The first indication of this latent rapprochement was a base agreement signed between the CEOE and the two labour confederations shortly after the repeal of the labour ordinances. Though limited in its content, the agreement set up a framework to address those aspects of labour market regulation previously covered by the ordinances through the
collective bargaining process. It also set in motion a process of bipartite talks in which the unions were able to set the parameters of their negotiations with employers separately from the government. This, as we shall see, was to become the standard for a new period of national social pacts in Spain.

2. New Government, new agreements

While the socialist period of government was marked by the protracted failure to reach a new global wage pact, the electoral victory of the conservative Popular Party (PP) in 1996 marked the beginning of a period of relative rapprochement in the Spanish process of social dialogue. The new government’s first term saw increased activity by several institutionalised negotiating committees on labour market regulation and welfare state reform, and the conclusion of several new social pacts. These included, among others, a major agreement on pension reform, and a three-part agreement on labour market reform. One distinguishing characteristic of the social dialogue in Spain during this period, nevertheless, has been the bifurcation between developments in the area of industrial relations and negotiations over the system of social welfare. While changes in the former have been advanced by the national social partners with the government playing only a secondary role, the principal agreements in the area of welfare reform (two agreements on pensions and one on social benefits for atypical workers) have been reached between the government and the unions without the support of employers. The following offers a brief description of the major agreements reached during the PP’s first legislative term (1996-2000).

2.1 Pension and welfare state reform

The first major agreement reached after the PP’s victory was the Agreement on the Consolidation and Rationalisation of the Social Security System signed by the government, the CC.OO., and the UGT in October of 1996. This agreement was based on the so-called Toledo Pact reached among all the major political parties and approved by the Spanish parliament in 1995. Yet it achieved what had ultimately eluded the last Socialist government: the support of the unions for a significant reduction in contributory pensions over time.

The pension agreement of 1996 (passed into law in 1997) addressed many of the measures agreed to in the Toledo Pact to maintain the financial balance of the “public, contributory, and universal” pension system (as guaranteed by article 41 of the Spanish Constitution) without increasing the share of
GDP expended on it. The single most important measure agreed to by the unions in this regard was a gradual change in the formula upon which the “basis” of pensions were calculated (from the average salary of the last 8 years to the average of the last 15 years prior to retirement). This reduced the future pensions of all those prospective retirees whose salaries increase significantly in their last active years. The second major piece of the agreement was the segregation in the financing sources of the social security system, so that contributions would henceforth be used solely to finance contributory pensions, while non-contributory pensions (minimum pensions for those not qualifying for contributory pensions, but also complements to contributory pensions to reach minimum pension levels) would be financed entirely from general taxation. This was accompanied by a commitment on the government’s part to allocate any surplus of contributory pensions to a reserve fund that would be used to avoid future increases in payroll taxes, and by measures to achieve a greater quantitative correspondence between contributions and the amounts received as pensions.

Together, these measures served to differentiate the contributory pension system from the general system of social protection and taxation and to rationalise its financial basis. To counterbalance this “rationalisation”, the agreement also contained other measures aimed at maintaining the “solidaristic” character of the social security system. These included the government’s agreement to maintain the purchasing power of all pensions through automatic inflation adjustments, and a modest expansion of other components of the Spanish system of social protection (including widowhood and orphanhood pensions) to be financed from the general budget (CC.OO., 1996; El País, 7 October 1996).

The 1996 agreement between the unions and the government was acclaimed for the high degree of consensus among the parties that signed it. It was, in this sense, often contrasted with the far more conflictual course of pension reform in France. The bedrock of the Spanish consensus lay in the commitment by the government to maintain coverage levels (except for the negotiated adjustments described above) and to channel any surpluses into the reserve fund. This commitment to allocate all surpluses to the purpose of maintaining future coverage levels ultimately led to the CEOE’s withdrawal

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3 Along with this reduction in the basis, downward adjustments were made in the proportions that would be received by those who had contributed less than the 35 years required to receive the full 100% of this basis.
from the pact. Unhappy with the fact that employers in Spain were made to carry a higher proportion of social security contributions in relation to workers than in other European countries, the CEOE sought a commitment to use running surpluses to reduce payroll taxes. The employers’ association also felt that the thrust of the agreement being worked out between the government and the unions violated the guidelines laid down in the Toledo Pact, which also had included a recommendation to cut employer contributions in order to foster jobs. The government, however, in the end chose to compromise with the unions, who insisted on the formula of committing all surpluses as of the year 2001 to the reserve fund.

However, although the 1996 agreement seemed to represent a model of compromise between the unions and the new conservative government, it did not end conflict over the future of the Spanish welfare state. While the government sided with the unions at the expense of employers on pension reform (and, indeed, would later increase employer social security contributions for temporary work contracts), it also proceeded with a series of annual tax reforms that significantly cut corporate and income taxes. The unions, who while compromising on contributory pensions continued to seek increases in the still very low levels of non-contributory pensions and unemployment coverage, vehemently opposed these fiscal measures. They regarded the tax cuts as a backhanded way to limit the fiscal basis of the welfare state during an economic boom, thus compromising the ability of future governments to improve the incomes of the most disadvantaged groups (recipients of non-contributory minimum pensions and the unemployed) (El País, 29 July and 25 September 1999). In making these arguments, the unions could point to the comparatively low levels of overall fiscal pressure (including pay-roll taxes) and spending on social protection in Spain, both of which (at 34 and 25% of GDP respectively) remained well below EU averages, as well as to the still dismally low level of minimum pensions, which at 38,000 pesetas per month in 1998 remained far below the Spanish minimum wage of 69,000 pesetas (EIROnline, September 1999).

Controversy over the non-contributory part of social spending took a new turn in 1998, when the Socialist-led regional government of Andalucia announced that it would increase non-contributory pension benefits by 3.6% and welfare pension benefits by 5.5% for 1999, whilst the central government intended to limit these increases to a 1.8% adjustment for inflation (Financial Times, 10 August 1999). Coinciding with the ongoing process of negotiations between the central government and its regional
political partners (the Catalan nationalist party) over the decentralisation of tax revenues, this development set in motion a complicated political game. While both local employers and the unions backed the Andalucian government’s decision, the central government opposed the decision arguing that it contravened the Toledo Pact and threatened future pensions. Yet, after other regional governments (including that of Catalonia) also announced increases and the constitutional court rejected its legal challenge to the Andalucian government’s decision, the central government was forced to reach a new agreement with the union confederations to generalise the 5% rise minimum pensions in late 1999 (El Pais, 17 September 1999).

Lastly, in spite of ongoing negotiations, little progress was made during the PP’s first term on the highly contentious issue of unemployment coverage. The issue had been a thorn in the unions’ side since the Socialist government set in motion reforms in the early nineties that had gradually diminished the rate of unemployment coverage to less than 50% of those registered with the National Employment Institute (INEM) by the end of the decade. It became even more important to them after a number of associations of the unemployed formed a national commission in early 1998 threatening to dilute the labour confederations’ role in negotiations with the government (El Pais, 20 February 1998). In 1998 and 1999, the unions thus demanded that the surplus of the contributory unemployment insurance system be used to increase non-contributory unemployment payments. The government, however, repeatedly chose to tilt its allocation of the funds in favour of active labour market policies (including subsidies to companies for new permanent job contracts) rather than social protection for the unemployed. Thus, no agreement was possible on this aspect of welfare reform.

2.2 Collective bargaining and labour market reform

The pension agreement of 1996 between the government and the unions was followed in short order by another major social pact in Spain, this time in the area of industrial relations. The landmark Accord for the Stability of Employment and Collective Bargaining (or April Agreements) reached by the employers associations (CEO and its small and medium size enterprise affiliate, CEPYME) and the two labour confederations in 1997 put to rest a great deal of the controversy generated by the unilaterally imposed labour market reform of 1994. The Accord, composed of three separate agreements (one on regulatory vacuums, one on employment promotion, and one on collective bargaining), built on the earlier agreement of 1994 between
employers and unions on the devolution of labour market regulation to the collective bargaining process. However, it also included some major new concessions by the unions. The most important of these was a significant reduction in the dismissal costs attached to new permanent work contracts. In addition to this, the accord also sought to lay to rest the fear that employers would use the abolishment of labour ordinances to engage in a deregulatory spiral. To this end, one of the pieces of the agreement established a framework of national negotiations to cover regulatory “vacuums” in those sectors and localities in which no organised social bargaining parties (meaning, in practice, no local employer association) existed.

The agreements on dismissal costs and on regulatory vacuums represented important breakthroughs in the long deadlocked struggle over labour market reform. Taken together, the two agreements appeared to mark a new turn toward consensus and normalisation in Spanish industrial relations. Some of the most interesting aspects of the changing preferences of employers and unions, however, were captured rather in the third piece of the 1997 pact: the Interconfederal Agreement on Collective Bargaining.

The 1997 agreement on collective bargaining set out a common objective: that of “rationalising the structure of collective bargaining, so as to mitigate its existing degree of atomisation” (CEOE, 1997). It committed the parties to seek an adequate level of “articulation” in the collective bargaining process by expanding the role of national sectoral bargains and reserving certain subjects (such as wage increases, occupational classification systems, and overall work time reductions) to this level of bargaining, while leaving others (such as work scales, and various aspects of internal flexibility) to be developed by lower bargaining units. In so doing, the national labour union and employer confederations were seeking for the first time to put order in the hap-hazard structure of (collective) bargaining that had emerged during the political regime transition and under which most workers had come to be covered by agreements at the provincial-sectoral level. The potential lack of co-ordination of this existing structure had been magnified by the 1994 labour reform, which allowed lower level bargains to override virtually any aspect of higher level bargains. This provision, attached to the 1994 legislation by the regionalist parties upon whose support the Socialist government had depended, was backed by neither the unions nor the CEOE. It threatened, moreover, to make it almost impossible for the national organisations to influence the content of collective bargains throughout the economy (interviews with UGT and CEOE officials, Madrid, October 1998 and May 1999).
The 1997 agreement on collective bargaining bore a striking resemblance to the 1993 agreement on collective bargaining reform reached between the government, employers, and unions in 1993 in Italy (Pérez, 2000). As in the Italian case, the Spanish agreement for the first time attributed distinct roles to different levels of bargaining, with the purpose of achieving a higher degree of co-ordination throughout the economy. The particular division of labour stipulated in the two cases is also very similar. In both cases, the principal thrust of the agreement is to give a primary role to national sectoral bargains in setting framework conditions for lower level bargaining units (including across the board wage increases), while leaving open the possibility that particular items (such as pay scales and productivity bonuses) be determined by lower bargaining units (see Regini and Regalia, 1997; CEOE, 1997; ABC, 4 September 1997). However, unlike the Italian agreement, the Spanish agreement of 1997 did not mandate such changes. This was made virtually impossible by the organisational nature of the CEOE (whose base organisations have a very high degree of autonomy from the central organisation) as well as by the political tension between national sectoral and regional, cross-sectoral organisations within both the employer and labour union confederations.

This difference in the legal nature of the Spanish agreement on collective bargaining has meant that actual change in the structure of bargaining has been much slower in coming than in Italy. Since it was signed, sectoral agreements implementing the changes sought by the national social partners in 1997 have been reached in only a few sectors. The single most important of these was the 1998 agreement to rationalise the structure of collective bargaining in the metal-working sector. This agreement affected close to a million blue-collar workers (or 11% of the workers covered by collective bargaining) in a sector with no tradition of national-sectoral bargaining (see EIRR, May 1998). Another major agreement in the chemical sector (one of the few with a long history of national sectoral bargaining and covering approximately 200,000 workers) reinforced the changes in bargaining structure sought by the 1997 Interconfederal agreement by increasing the power of the national labour confederations at the expense of minority unions (It does so by providing for company disclosure of information on employment contracts and forecasts to the “most representative” unions) (EIROnline, May 1999).
However, while a rapid implementation of the bargaining structure set out in the 1997 agreement has not been possible in Spain, the most recent data suggests that there has been a serious effort to re-centralise the bargaining process over the last decade. This effort dates back to a landmark national sectoral agreement in the construction sector in 1991, and intensified following the 1994 labour market reform (interview with Manuel Garnacho, UGT, November, 1999). Although, as pointed out above, that reform seemed to encourage a decentralisation of bargaining by allowing lower level bargains to override higher level ones, the actual trend in collective bargaining since the implementation of the law has been in an opposite direction. While the number of agreements reached at the firm level increased from 2642 in 1993 to 3339 in 1998, the proportion of workers covered by these agreements decreased from 13.5 to 11.6%. There has also been an increase in the number of agreements reached at the regional (autonomous community) level. However, the proportion of workers covered by these agreements rose by just over 3% between 1994 and 1998, to only 5% of the total. The single most significant shift in the structure of collective bargaining has been rather from the provincial-sectoral level (at which most workers still are covered) in favour of new national sectoral agreements. The coverage of the latter steadily rose from 22% of workers in 1993 to 31% in 1998 (CES, 1998 and 1999; Ministerio de Trabajo, 1999). This upward shift in the territorial structure of bargaining has been accompanied by a gradual process of consolidation in the extremely large number of sectoral divisions around which collective bargaining is organised in Spain. Thus, national sectoral agreements in the metal and chemical sectors, for example, now cover a number of formerly separate sectors.

Although the Spanish agreement on collective bargaining of 1997 did not re-establish a global incomes policy framework, as has occurred in Italy and other European countries, there are also indications that the national labour confederations have been exercising a significant measure of cross-sectoral co-ordination in wage bargaining as part of their new relationship with employers. In the wage round that followed the 1997 labour market agreement, the unions significantly moderated their demands, asking for wage increases that were minimally above expected inflation for 1998 (EIRR, December 1997 and February 1998; El Pais, August 4, 1998). A similarly co-ordinated reduction in wage demands could be observed three years earlier, following the 1994 agreement between the CEOE, UGT, and CC.OO. (see El Pais, 29 March, 7 and 10 April, 10 and 11 June 1994). And, following the shift to a single
currency, wage settlements in Spain brought in the lowest average real wage increases (0.1%) in the Euro zone for 1999 (see EIROnline, February 2000). Thus, while the national unions have eschewed a return to formal incomes policy agreements, they have been taking responsibility for instrumenting an informal incomes policy of sorts since 1994.

Lastly, while the 1997 agreement represented a major breakthrough in the debate over labour market reform, agreement between the CEOE and the unions has not been possible on several other aspects of labour market regulation that have been the subject of institutionalised negotiating commissions. These include the regulation of part-time work, regulation of temporary employment agencies, and working time reduction. Both the government and the employers have taken the position that part-time work represents a solution to work-sharing that is preferable to legislated work time reductions. Yet, after lengthy negotiations, the CEOE refused to sign a 1998 agreement between the government and the unions that extended equal social benefits and protection to part-time workers (El País, 30 October 1998). The CEOE also opposed the government’s decision to legislate equal pay for temporary agency workers in 1999, a move supported by the unions. Finally, no global agreement has been possible on the issue of work time reduction. While the unions have demanded a French-style legislated solution, the government has insisted that it would legislate only if an agreement between the social partners was reached. The CEOE meanwhile has rejected any global reduction in work-time and has insisted that this item be addressed through the collective bargaining process. The 35 hour work week thus has been enjoyed only by a very small proportion of Spanish workers (mostly public servants of the regional governments), with negotiated reductions in working hours for most other workers (based on collective bargains) over the last few years averaging only between one and 24 hours per year (CES, 1999).

3. Some explanatory factors: union strategy and employer preferences and Government policy

The new phase of social pacts in Spain in the nineties has had several distinguishing characteristics. One of these is the absence of a global pact linking welfare reform explicitly to labour market reform and wages (as had been sought by the last Socialist government). Nor, for that matter, has there been any formal overarching incomes policy agreement (or national wage
Social Pacts in Spain

Social Pacts in Europe – New Dynamics 359

pact) of the sort reached in the eighties. Despite of this, wage growth has remained remarkably restrained in Spain in the context of a booming economy. A second distinguishing characteristic is the differing pattern of support for agreements in the areas of industrial relations and welfare state reform. The first has been characterised by a growing degree of institutionalisation and by a certain degree of convergence in the objectives of the national employer and labour confederations (as reflected in the April Agreements of 1997 and in the expanding content of collective bargaining over the last few years). The latter, on the other hand, has seen a pattern of agreements between the government and the unions that have not received the support of the employers. Lastly, there also remain issues (extension of unemployment coverage, working hour reduction, and minimum pensions) on which little progress has been made.

Three factors may help explain this particular pattern of outcomes in the Spanish case. The first, and perhaps most important, is a change in the strategies pursued by the labour confederations in the course of the last decade. Following some important changes in the leadership of both confederations, the CC.OO. and UGT maintained their unity in action (forged with the general strike of 1988) but redirected it toward a different ordering of priorities. The most important change in this regard was the confederations’ decision to abandon the aggressive wage demands pursued during the 1989-1992 period in favour of a strategy that consists of exchanging real wage restraint (along with aspects of internal labour market flexibility) for specific employment commitments from employers in the bargaining round. This change became most evident in the aftermath of the 1993 currency crisis, when unemployment rose to almost 25%. But it was maintained in the context of a rapid growth at the end of the decade. The unions in essence decided to forgo their focus on increasing the purchasing power of their members in favour of a strategy that focused on increasing employment and on defending and improving the welfare state (see UGT, 1998). At the same time, they have refused to agree to any explicit national wage pact covering all sectors, or to link wages to welfare state negotiations. The reasons for this are to be found in the highly negative view that the confederations still hold of the experience of the eighties. They have preferred to retain their ability to use wages as a bargaining tool in the collective bargaining process. This explains both the failure to return to an explicit incomes policy framework in Spain and the relatively consensual evolution of collective bargaining in recent years.
Two additional contributing factor in this regard have been the impact of the 1994 labour market reform and the changing preferences of employers in the area of collective bargaining. The unilaterally imposed reform of 1994 appeared to mark the highpoint of confrontation between the Socialist government and the unions. Yet, it ultimately had a very positive impact on the evolution of industrial relations by forcing the social partners to address a far wider range of issues through the collective bargaining process. This has created the conditions for positive trade-offs between employers and unions, such as that between internal labour market flexibility, wage restraint, and employment-oriented clauses that can be observed in the content of collective bargains since the reform (CES, 1998).

Changing preferences on the part of the national employer’s association have also been important in at least two ways. First, the CEOE in 1994 was itself eager to attenuate the climate of confrontation that the government’s decision to abolish all labour ordinances generated. It thus chose to assuage the unions by signing the 1994 bipartite agreement on the devolution of regulatory competencies to the collective bargaining process. Secondly, the CEOE had to come to terms with the incapacity of its members to prevent the unions from manipulating the collective bargaining process so as to extract higher wage concessions during the 1989-1993 period. And finally, it was eager to pre-empt the potential out-fall of the 1994 law allowing lower level bargains to override higher level ones (which threatened to undermine what little co-ordinating capacity the national confederation had). These two factors led the employer confederation to abandon its earlier support for a decentralisation of bargaining and to favour the shift toward national-sectoral bargaining stipulated in the 1997 agreement with the unions. However, the very loose organisational character of the CEOE (which contrast with the much higher degree of authority exercised by national employer federations elsewhere in the EU) continues to represent the single largest obstacle to a more rapid implementation of the bargaining structure sought by the national social partners in that agreement.

In addition to the changing preferences of unions and employers, the other major factor contributing to the pattern of social bargaining that emerged in Spain during the nineties is to be found in the area of government policy. Although the PP inherited an economy that was still emerging from a deep recession, it was able to build on many of the changes carried out by the PSOE. Two of these were the labour market reform of 1994 and the reforms of public finances (including cuts in the unemployment coverage rate)
carried out by the Socialists in preparation for EMU. This meant that some of the most contentious issues in Spain’s process of labour market reform and fiscal consolidation had already been taken off the table (Fraile, 1999). It also allowed the PP to embark on a fiscal policy course aimed at boosting demand (mostly by way of tax cuts) that contrasts with the unwavering supply-side focus of the PSOE’s macro-economic policies. This fiscal boost to demand was accompanied by a substantial easing of monetary conditions as Spain cut its interest rates to join the Euro zone in the late nineties. This change in macro-economic policies resulted in rapid employment growth at the end of the decade, and this, in turn, made it easier for the PP to meet some of the demands of the unions (in the form of employment subsidies and somewhat higher non-contributory pensions) while addressing the demands of its traditional political constituencies through tax cuts.

Lastly, while the conservative government’s economic policies indirectly eased social tensions even when they did not receive the support of the unions (as in the case of tax cuts), its political approach also contributed to the social pacts of the nineties. Eager to prove its centrist character (and thereby lay to rest the association of the political right with the authoritarian past in the minds of voters), the new government in 1996 seized on the “social dialogue” as part of its political strategy. Unlike the last PSOE government, which had insisted on tying labour market and pension reform to a national wage pact, the PP government thus acceded to the unions’ demand to negotiate these issues separately. This contributed to its ability to reach the accord on pensions of 1996 and to the positive outcome of the bipartite negotiations between employers and unions on labour market reform in the 1997 April Agreements. The new government also relied heavily on institutionalised negotiating commissions to address various other issues (unemployment coverage and part-time employment are two examples). Thus, ironically, a right-wing political party’s electoral calculations and a unilaterally imposed labour market-reform by a Socialist government that was fiercely opposed by the unions both seem to have contributed to the institutionalisation of the social dialogue processes in Spain.
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Social Pacts, Unemployment and EMU
Macroeconomic Policy

Andrew Martin

1. Introduction

The purpose of this chapter is to raise some broad issues concerning the role social pacts can play in solving the most serious problem in the European economy: the problem of unemployment. As many cases suggest, social pacts may be able to help cope with the problem in the individual countries in which they have occurred. But caution must be exercised in extrapolating from those cases to the European economy as a whole. The countries with social pacts which are members of the European Monetary Union (EMU) are regions within a single market, with a single macroeconomic policy, run by the European Central Bank (ECB), and all trade mostly with each other. Thus, the EMU has to be understood as a single economic entity and the member countries as units within it. The contribution that the pacts can make to solving the problem in that economic entity therefore cannot be assessed by considering each of them in isolation from each other, individually or comparatively. It can be done only by considering their joint effects. These are likely to vary depending on the macroeconomic policies determining demand in Euroland as whole, particularly the monetary policies implemented by the ECB.

The macroeconomic policy regime built into EMU, particularly as it seems to be interpreted by the ECB (uncertain as that still is) is a highly restrictive one that could keep the growth of demand in Euroland as a whole too low to allow a significant reduction of unemployment to occur. Under those circumstances, the contributions social pacts can make to reducing unemployment are limited. Depending on whether there are social pacts in all or just some of the member states, and which ones they are, the pacts

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1 Research for this chapter was supported by the German Marshall Fund of the United States. For comments on previous versions of this chapter, I am grateful to Anton Hemerijck and other participants at a conference organised by the Observatoire social européen on 2 February 2000, and to Paul de Grauwe, Ton Notermans, David Soskice and Wolfgang Streeck. If the issues they raised would have been addressed more adequately this version would have been improved much more than it has been.
could at best bring about a marginal reduction in unemployment. Alternatively, they might simply redistribute unemployment among states with varying success in reaching social pacts. In the worst case, they might enter into a deflationary vicious circle of beggar-thy-neighbour internal devaluation’s whose joint effects would be an increase in unemployment. Which effects social pacts will have along this wide range of possibilities will depend very heavily on the rate of growth of demand the ECB is willing to allow. So far, there is reason to doubt that the ECB will create a macroeconomic environment in which social pacts can contribute significantly to lowering unemployment in Euroland.

This view is elaborated in the following discussion, which is divided into two main parts.

In the first, I simply set forth the argument that the contributions which social pacts can make to reducing unemployment are limited by the highly restrictive macroeconomic policy regime built into EMU, and that unemployment is likely to fluctuate around high levels as long as that regime persists. In the second, I offer some support for the argument. In particular, I suggest that the allocation of responsibility for price stability and employment institutionalised in the EMU policy regime embodies a mistaken view of the relationship between macroeconomic policy and unemployment, and that this view rests heavily on an explanation of why unemployment has been lower in the United States (US), than in Europe since the early eighties which is seriously flawed because it fails to take into account the fact that macroeconomic policies have been more expansionary in the US than in Europe over much of that whole period. I conclude that European unemployment cannot be brought down toward US levels unless the current EMU macroeconomic policy regime is replaced by a similarly more expansionary one, in which Euroland macroeconomic policy, particularly the ECB’s monetary policy, is made responsible for employment as well as price stability, and that only then can social pacts make a significant contribution to reducing unemployment and keeping it low on a sustainable basis.

2. The EMU macroeconomic policy regime and unemployment

The basic issue in the debates over European unemployment and policies for reducing it concerns the relative roles of demand and supply side policies, first, in causing the high unemployment and, second, curing it. On one side
is the current orthodoxy which insists that the unemployment is almost entirely a result of structural flaws in markets, particularly labour markets, and that the cure lies almost entirely in supply side policies that remedy the flaws. On the other side is the dissenting position that the high unemployment is almost entirely due to deficient demand resulting from excessively restrictive macroeconomic policies, and that the cure lies almost entirely in expanding demand.

This difference is reflected in the ECB’s frequent declarations that expansionary macroeconomic policy should not be used to compensate for the lack of structural policies, and in its critics’ response that structural reforms, however desirable, should not be used to compensate for excessively restrictive macroeconomic policy.

Many protagonists in these debates actually concede that both demand and supply side factors are involved, even as they differ over their relative importance. Indeed, a growing literature argues that both demand and supply side measures are needed to reduce European unemployment – that a “two-handed” strategy is needed – and that one without the other can accomplish much less than the two together can. Even the OECD and the European Commission now give some recognition to the validity of this position, though the ECB still does not seem to do so. In any case, the questions of what the relative importance of the two kinds of factors is and how they interact remain unsettled. It does seem clear that those questions have to be answered differently for the causes and cures of Europe’s unemployment.

There seems little room for doubt that European unemployment was driven up by several successive episodes of highly restrictive macroeconomic policy which sharply curtailed the growth of demand. On the other hand, a good case can be made that unemployment which is caused and prolonged by insufficient demand tends to be transformed into structural unemployment that is increasingly unresponsive to accelerated demand growth, so that it

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2 According to ECB President, Wim Duisenberg, “Monetary policy could not compensate for structural rigidities” (International Herald Tribune, 4 April 1999). According to ECB Governing Board member, Tomasso Padoa-Schioppa, the ECB should avoid the “error [of] compensating for the lack of structural policies by implementing unnecessary monetary stimulation” (Le Monde, 16 April 1999).

3 “Structural reforms [may be] badly needed [but] we have to make sure that they are not mainly needed to compensate for bad macroeconomic policies” (Fitoussi, 1997).

4 The term “two-handed” strategy was coined in Blanchard et al. (1985).
cannot be cured only by the expansion of demand but also requires supply side measures. At the same time, supply side measures alone cannot cure unemployment in the absence of a sufficient expansion of demand. In this view, then, a combination of demand expansion and structural reforms, reinforcing each other incrementally over an extended period, is needed to bring unemployment down.

In contrast, the rationale for the macroeconomic policy regime built into EMU by the Maastricht and Amsterdam treaties, at least as the ECB evidently interprets it, confines the management of demand to the maintenance of price stability. Essentially, it denies that macroeconomic policy has any direct responsibility for growth and employment, assigning virtually all responsibility for the latter to supply-side or structural policies. The term “policy regime” refers to the pattern of policy which decision-makers pursue over the long run – the goals which they prioritise, their conception of how the economy works so as to affect those goals, and the measures they rely on to influence the economy so as to achieve those goals. Other economic actors make their decisions in the light of their expectations of what the decision-makers will do, based on the observed pattern of policy as much or more than the decisionmakers’ declarations. Thus, as long as government commitments to a full employment policy regime were rendered credible by the measures they took, other actors based their decisions – about investment, wage demands etc. – on the expectation that governments would continue to take such measures. To the extent that governments have instead credibly committed themselves to a price stability regime, particularly by giving central banks the independence to pursue that goal, other actors’ expectations and hence their decisions have been reshaped accordingly.

The shift European governments have made to a price stability regime is clearly reflected in the EMU’s institutional structure. As is well known, the only macroeconomic policy instrument established for Euroland as a whole

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5 The theoretical underpinning of this rationale is the old idea of the long-run neutrality of money. For critiques of this idea, see Collignon (1998), Notermans (2000) and Ostrup (2000).

6 This follows the conception of a policy regime in Temin (1989: 91). “The regime is an abstraction from any single policy decision: it represents the systematic and predictable part of all decisions. It is the thread that runs through the individual choices that governments and central banks make. It is visible even though there inevitably will be some loose ends, that is, some decisions that do not fit the general pattern. These isolated actions have little impact because they represent exceptions to the policy rule, not new policy regimes”. See also Notermans (2000).
is the monetary policy instrument placed in the hands of the ECB. More independent than any other central bank in the world, it is required to dedicate monetary policy to maintaining price stability, as it chooses to define it. There is no Euroland fiscal policy instrument; only a fiscal policy rule that severely limits the member states’ discretion in using the only macroeconomic instrument still available to them. The only formal mechanism concerned with member states’ fiscal policies is the surveillance procedure by which compliance with the fiscal policy rule is monitored by the Commission and the Council of Economic and Finance Ministers (ECOFIN). There is no mechanism for authoritatively co-ordinating the member states’ fiscal policies so as to construct a fiscal policy for Euroland as a whole, much less for co-ordinating fiscal policy with the ECB’s monetary policy so as to determine a Euroland macroeconomic policy mix. The ECB president may attend ECOFIN meetings (which include EU member states not belonging to EMU) and the ECOFIN president and a Commission member may attend ECB Board meetings, but none have voting rights in each other’s decision bodies. There is also some potentially more important scope for informal co-ordination within the framework of the Euro-11 group – in which the EMU member state finance ministers meet together with the European Commissioner responsible for economic policy and the president of the ECB prior to the formal meetings of ECOFIN – but it has no decision-making authority, and, from the ECB’s standpoint, there can be no question of negotiations over macroeconomic policy. Thus, even if the member states overcome their conflicting interests enough to co-operate their fiscal policies, the ECB rejects any negotiation with the member states through which to agree on a Euroland fiscal-monetary policy mix. Thus, there is no institutional mechanism by which aggregate demand in Euroland as a whole can be managed so as to pursue the goal of employment as well as price stability.

A weak form of accountability is imposed on the ECB. It is required to report annually to the Council, the Commission, and the European Parliament. The ECB president has to present the report to the Parliament in person, and the president or other Board member now regularly engages in “monetary dialogue” with the Parliament’s Committee on Economic and Monetary Affairs four times a year. However, the Parliament cannot instruct

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7 The British government sets the inflation goal which the newly independent Bank of England is mandated to pursue.
the ECB or even negotiate agreements with it any more than any of the other bodies can, and does not have the implicit leverage over the ECB that the US Congress has over the Federal Reserve Bank (Fed) by virtue of the fact that the Fed’s very existence and duties rest on legislation enacted by Congress, which it can change, and has changed. In contrast, nothing short of a unanimous decision of the member states to revise the Treaty can change the ECB’s legal status and mandate.

This allocation of responsibility for the different elements of economic policy, and particularly the insulation of the only form of demand management there is for Euroland as a whole from political deliberation, is also reflected in the EU’s so-called Employment Strategy. Launched at the special 1997 Luxembourg Summit after employment was declared an EU goal in the Amsterdam Treaty, the strategy is almost entirely about supply side changes while demand management, which is exclusively in the ECB’s monetary policy domain, is kept off limits.

This policy regime and the political structure that perpetuates it consigns social pacts largely to the supply side and structural measures to which the employment strategy is effectively confined. This is so except insofar as the pacts include wage restraint, as many pacts do, given that the overall rate of growth of wages is an essential component of the macroeconomic policy mix. Aside from that, social pacts are inherently about the supply side because in EMU they have no leverage on the only macroeconomic policy there is for Euroland, i.e., the ECB’s monetary policy. So far, the pacts are national deals, and national governments, whether they are parties to the deals as they typically are or base their positions on deals struck only between the social partners, are constitutionally denied any voice in the ECB’s policy decisions. Even if there could be a Euro-zone social pact

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8 The Treaty, in Article 105, says that “Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community as laid down in Article 2.” The objectives laid down in Article 2 include “a high level of employment and social protection.” However, there is no institutional mechanism by which the member states, through Community institutions or otherwise, can determine how the goal of price stability is defined or require the ECB to pursue it in way that supports the general economic policies on which they may decide. The Community economic policies are defined by the Broad Economic Policy Guidelines adopted by ECOFIN but they are not binding on the ECB beyond the loose obligation imposed by Article 105. The ECB’s reporting obligations are spelled out in Article 109b.
among governments, unions, and employers, it would still have no leverage over ECB decision-making, just as the member state governments acting in the Euro-11 council or more formally in the EU Councils, cannot compel the ECB to reconcile its monetary policy with their employment goals. The macroeconomic dialogue introduced by the 1999 Cologne summit does not change this in any fundamental way.\(^9\)

It is precisely this relegation of social pacts to the supply side that severely limits what they can be expected to accomplish toward reducing unemployment. This is not to deny that social pacts can accomplish something toward that end. If one looks at individual countries, a good case can be made that social pacts have contributed to the reduction of unemployment, by restraining wage growth, flexibilising employment regulations etc. There are clear differences in levels of unemployment among European countries, whether within EMU or not, and it is plausible that social pacts help explain lower levels in some countries.\(^10\) Social pacts have been reached in most of those countries and have contributed to structural reforms in labour and product markets, which in turn probably contributed to the lower levels of unemployment (International Labour Organisation, 1999; Barrell and Genre, 1999). This would be consistent with the general proposition that variations in the institutions that structure markets result in different levels of unemployment at a given level of demand.

Yet, if one shifts one’s perspective from individual countries to Euroland as a whole, then it is not clear that social pacts have contributed much, if anything, to reducing the aggregate levels of unemployment in the Euroland

\(^9\) Under the German Presidency, the June 1999 Cologne European Council adopted a resolution providing for a Macroeconomic Dialogue, consisting of two meetings a year at which representatives of the three European level peak organizations of unions and employers (ETUC, UNICE, CEEP), the ECOFIN and Labor and Social Affairs Councils (member state cabinet ministers), the Commission, and the ECB are to exchange views on economic policy in the EU. The meetings occur in association with ECOFIN meetings dealing with the Broad Economic Policy Guidelines prescribed by the Treaty, and each of these “political level” meetings is to be prepared by a “technical level” meeting of representatives of the participating bodies. The first meetings took place in October and November 1999.

\(^10\) At the low end of the range in 1997, unemployment was 4.4% in Austria, 5.2% in the Netherlands, and 5.5% in Denmark, while at the high end it was 12.4% in Italy, 12.1% in France and 10% in Germany. It was 13.3% in Finland but it represents a special case, in which unemployment has been rapidly declining. *OECD Economic Outlook*, 64 (December 1998), Annex Table 22. See also Blanchard and Wolfers (1999).
economy. They may indeed have succeeded only in redistributing employment, enabling some countries to capture an increased share of the demand to which macroeconomic policy has limited the Eurozone economy. This can be done by securing a real devaluation through pacts that lower unit labour costs relative to those in the other member countries in ways other than the reduction of nominal exchange rates that are rendered impossible within EMU, or by increasing productivity faster than in other member countries. This is what the Dutch are alleged to have done through wage restraint aimed at keeping Dutch wage growth at some 20% below German wage growth.11 Of course, in EU countries outside EMU that retain the possibility of floating exchange rates, social pacts can also serve in similar ways to preserve any real exchange rate advantages that might be gained by nominal depreciation against the Euro or other currencies. In other words, social pacts can serve and evidently have served as instruments of national competition. Thus, social pacts have been quite aptly characterised as “competitive corporatism” (Rhodes, 1998 and 2000).

But what is rational for each individual country that successfully engages in competitive corporatism is not necessarily collectively rational for the set of interacting countries as a whole. It is not possible for every EMU country to improve its competitive position by a real devaluation any more than it is for every country in the international economy to achieve an export surplus. In such a competitive game, there will necessarily be relative gainers and losers, with different net effects on employment in the multi-country economy as a whole, depending on the growth of demand in the economy as a whole. There is a wide range of possible net effects. If there is insufficient demand growth, the inter-country distribution of employment growth could be affected without any net reduction of unemployment – the gains in employment achieved by some countries could be at the expense of foregone employment growth in others. In the worst case scenario, there could be a net diminution of employment if each country seeks to retaliate against the internal devaluation’s by others with internal devaluation’s of their own – whether by social pacts or some less attractive methods – possibly setting in train a deflationary vicious circle that could diminish demand in the multi-country economy unless there is an offsetting expansion of demand by some

11 Soskice (2000: 63). This view is contested, however. See contribution by Anton Hemerijck, Marc Van der Meer and Jelle Visser in this volume.
institutions with the capacity for it, such as Euroland’s ECB\textsuperscript{12}. Employment will grow in all only if there is sufficient demand growth to support it, even if it grows faster in some than in others as a result of differential success in reducing unit labour costs. In Euroland as a whole, in other words, the net employment effects of social pacts in some or all of the member states depends on the rate at which the ECB decides that demand should be allowed to grow.

Summing up, social pacts fit well into Europe’s Employment Strategy with its focus on the supply side and exclusion of the demand side. But that is precisely why the pacts cannot contribute much to reducing unemployment in Europe, insofar as that strategy relies on supply side measures alone to do the trick. It thus leaves unchallenged the ECB’s apparent position on the matter. If there is a change in that position and the ECB acknowledges that it has some responsibility for employment as well as price stability, and that monetary policy has to sustain expectations of continued growth in demand if unemployment is to be brought down, social pacts could play a more positive role. They could significantly contribute to a “two-handed” strategy for doing so by helping to keep wage growth from accelerating and to make social policy and labour market institutions more “employment friendly.” If there is no such change in the ECB’s position, however, Europe will be condemned to struggling against unemployment with one hand tied behind its back, unless there is the political will to challenge the fundamental rationale and change the institutional structure of the current EMU macroeconomic policy regime.

So far I have simply asserted the argument that the potential contribution of social pacts to solving Europe’s problem of unemployment is severely limited as long as there is no shift from the current restrictive macroeconomic policy regime to a more expansionary one. But is it valid? Some support for the argument, however partial and tentative, is presented in the remainder of this chapter.

\textsuperscript{12}The possibility that social pacts could degenerate into a vicious circle of beggar-thy-neighbor competitive wage cuts is stressed by Bispinck and Schulten (1999).
3. Unemployment in Europe and America: divergent trends and conflicting explanations

The rationale for the EMU policy regime, which assigns price stability to demand management, principally by monetary policy, while assigning employment to supply-side policies, principally those which increase the flexibility of labour markets, rests heavily on an explanation of why unemployment rates have been higher in Europe than in the US since the early eighties, with the gap in favour of the US increasing further in the nineties (figure 1). According to that explanation, the difference in employment performance is almost entirely accounted for by differences in the structures of labour and product markets. The greater emphasis seems to be placed on the differences in the interacting sets of social policy and industrial relations institutions that structure and condition the operation of labour markets, or what we can call the labour regimes, in Europe and the US. The differences are familiar. Briefly summarised, collective bargaining, labour law, and taxes and transfers play a much larger role in determining the terms of employment, disposable income, and alternatives to employment incomes in Europe than in the US, with its weak unions, limited labour market regulation, and residual welfare state. The European labour regime thus provides people with more protection against the risks inherent in labour market participation while contributing to relatively lower inequality than the US labour regime does. But for this very reason, according to the EMU orthodoxy, it also results in higher unemployment in Europe because it makes the European labour market more rigid than the American, thereby retard ing the adjustment of labour to changes in the level and composition of demand for labour. It is thus the purportedly greater flexibility of the American labour market that is credited with the much greater success of the American “jobs machine” in providing employment since the early eighties. Most of Europe’s high unemployment can accordingly be remedied by “structural reforms” that make European labour regimes more like the American one.

13 The contrast is between the U.S. and continental Europe insofar as the British labor regime has become increasingly like the American.

14 According to a member of the ECB governing board who required anonymity, Europe could solve its unemployment problem by importing the American labor market. The attribution of unemployment to “rigidities” in the European labor market is certainly not new. An earlier statement of it is Giersch’s essay on “Eurosclerosis” (1985). The OECD Jobs Study (1994), along with its successor documents, is the canonical elaboration of this view. A recent brief summary is Siebert (1997).
When the trends since the early eighties and also over a longer span are examined more closely, however, this explanation is called into question\(^\text{15}\). In the discussion that follows, I consider the consistency of these trends first with the labour regime explanation, then with an alternative in which they are explained by differences in macroeconomic policy, and finally with an explanation based on the interaction of labour regimes and macroeconomic policy.

### 3.1 Unemployment fluctuations and the labour regime explanation

What is most striking over the longer period is that the relationship between unemployment trends in Europe and the US since 1983 is a reversal of the relationship that prevailed throughout most of the preceding decades following post-war recovery. Moreover, during the four years preceding 1983 in which the largest part of the rise in European unemployment occurred, from around an average of about 5 to nearly 10\%, US unemployment was not only slightly higher but also rose in parallel with European unemployment, except in the last year of this subperiod when the gap in favour of Europe was closed by a slight decline in the US. Then the gap switches dramatically in favour of the US when unemployment drops sharply in 1984 while continuing to rise in Europe, widening further in the following two years, though at a slower pace. But then the gap narrows slightly as unemployment declines in Europe a little faster than its continued decline in the US and slight rise in 1990, and it narrows slightly more as unemployment rises more steeply in both economies during the next two years. It is after 1992 that the gap in favour of the US reopens and grows more sharply than ever as unemployment there abruptly begins its long sustained decline while unemployment in Europe continues its steep rise to a plateau of nearly 12\% where it stays for the next few years until it begins a gradual fall in the two most recent years.

\(^{15}\) For an earlier comprehensive analysis which concludes that “comme l’inflation, le chômage reste du domaine des politiques macroéconomiques,” see Muet (1994: 38).
Figure 1: Unemployment rates 1970-2000
Commonly used definitions

Note: Figures for 1999-2000 are estimates.
Source: OECD, Economic Outlook, various issues.
These observations raise a number of questions about the labour regime explanation. To begin with, have there been changes in European and American labour regimes that are fairly consistently correlated, perhaps with some lags, with the changing relationships between unemployment trends in the two regions? If there have been, that would strongly suggest a causal link between the labour regimes and unemployment trends, even if it would remain to be demonstrated. Thus, if there were changes in one or the other or both labour regimes prior to or around the main reversal in the relationship in 1983 that would have made the European regime relatively more unfavourable to employment – presumably more “rigid” – than it had been in the earlier post-war period, that might well be why the reversal occurred. But if there were labour regime changes with such direct causal effects, the later eighties present a puzzle. That is when the trend in European employment performance was as good or better than in America – though the gap that had opened up was only slightly narrowed. Were the effects of the labour regime changes suspended during those years? If so, why were they suspended? Were they then resumed in the nineties? If so, why? And was their resumption enough to account for the renewed and even greater deterioration in Europe’s relative employment performance? If not, what further changes in the European and American labour regimes occurred to account for it? As implied by these questions, for any labour regime changes themselves to have had such on and off effects seems implausible, so if there were changes that made those in Europe relatively more unfavourable to employment than the American one, they could account for the variations in the employment performance gap between the two regions only insofar as they interacted with other factors, including macroeconomic policy, making them have different effects under different conditions.

However, a preliminary search finds little evidence of labour regime changes consistent with those variations, even if the late eighties are set aside. Most of the build-up welfare states and strengthening of unions in Europe occurs in the earlier post-war decades when unemployment was lower there than in the US. There are some further increases in the generosity of the welfare

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16 The preliminary character of the search must be stressed. I make no claim to an exhaustive search of the relevant literature bearing on the issues involved here; only that there is enough evidence to be at least skeptical of the labor regime argument. Note that the issue here is whether labor regime factors provide all or most of the explanation, not whether they provide part of the explanation. That they do so by the way they interact with macroeconomic policy is argued section 3.3.
state and rigor of labour standards in some European countries over the last couple of decades, but the general trend seems to be in the other direction (OECD, 1998; Nickell, 1997; Clayton and Pontusson, 1998; Pierson, 2000). Although there is no major retrenchment in social policy or attack on labour rights in any European countries except Britain under Thatcher, there are various changes such as reductions in replacement ratios, tightened eligibility rules, some weakening of unions and decentralisation of collective bargaining. These are unevenly scattered around continental Europe but their overall effect should have been to make labour markets less rather than more rigid over the period as a whole, though perhaps not much less so and certainly not as much as the OECD and others have been urging (Blanchard, 1999; Gregg and Manning, 1997). And insofar as there have been changes in either direction, there does not seem to be any systematic relationship between their timing and the fluctuations in the employment performance gap in the sub-periods since the early eighties.

There is more evidence of changes in the American labour regime that increase the difference between it and the continental European regimes in ways consistent with the labour regime explanation. Thatcher’s policies in Britain were in some respects paralleled by the Reagan Administration’s attack on unions (encouraging intensified attacks by management) and erosion of various social benefits, while the elimination of “welfare as we knew it” during the Clinton Administration took the US another step away from a welfare state toward a “workfare state” (Towers, 1997; Weaver, 1998). These changes could have contributed to a lower equilibrium unemployment rate in the US, permitting unemployment to reach the lowest levels in decades before any signs of renewed inflation appeared. Some argue that this is particularly due to the prolonged decline of American unions, which has left the Federal Reserve Bank (Fed) free to relax monetary policy more quickly than European central banks faced with strong unions, though others cite evidence to the contrary (Katz and Krueger, 1999). But if Fed policy has been more expansionary as a result of this particular, ostensibly growing, divergence between American and European labour regimes, it is not that divergence alone but its interaction with differences in monetary policy that offers an explanation of the variations in the employment performance gap.

However, even in the absence of changes in the labour regimes preceding or coinciding with these variations, the labour regime explanation could nevertheless be right. Various mechanisms have been suggested by which constant differences in labour regimes could produce the successively wider
gaps between unemployment in Europe and the US. One is that greater “rigidities” in European labour markets, even if unchanged, make any increases in unemployment from whatever cause more durable than in the US. Thus, an increase in unemployment resulting from a shock, such as a demand deficiency induced by domestic policy or by external developments (e.g., oil price increases, recessions abroad), will tend to persist longer in Europe and be less responsive to a reversal of the conditions that produced it to begin with. To the extent that the unemployment produced by one shock is not eliminated by the time the next shock occurs, unemployment from the new shock starts from a higher level than at the time of the preceding shock, adding to the unemployment remaining from the previous one. Unemployment is thus ratcheted up by successive shocks, resulting in an upward secular trend.

Various features of European labour markets are said to give them the rigidities that make unemployment last longer. The list includes high minimum wages, unemployment benefits, and taxes on labour. They are described as having the net effect of making it “difficult (and/or unattractive)” for workers to find jobs at wages corresponding to the decline in productivity that increases with the duration of their unemployment (De Grauwe, 1998: 5). These and other features of European labour markets are discussed more fully below. Here it suffices to note that this mechanism depends on how much of a given volume of unemployment is responsive to a reversal of the conditions that caused it and, if so, at what rate. Insofar as unemployment is responsive to increases in demand for labour, and if the demand for labour is at all affected by domestic policy, then the extent to which the labour market institutions produce an upward secular trend may depend on whether policy increases the demand for labour quickly enough to limit the unemployment resulting from a given shock and keeps it rising long enough to eliminate all the unemployment resulting from that shock, whether policy-induced or not. Thus, if macroeconomic policy stays restrictive too long, or becomes restrictive again too quickly, relative to the (institutionally determined) reaction time of unemployment to demand for labour, any upward secular trend would be accounted for at least partly by macroeconomic policy. If European macroeconomic policy displays these characteristics more than American policy in the periods when European unemployment is increasingly higher than in the US, that policy difference would have to be part of the explanation for the growing employment performance gap.
Other mechanisms by which differences in labour market institutions could account for the “variations” in the employment performance gap have been suggested even if there were no changes in the institutions, including those that structure wage determination as well those like the ones cited earlier which affect incentives to offer or accept jobs. But again, as I suggest in more detailed discussion below, it is not the labour regime differences alone but their interaction with other factors that provide the explanation. Before proceeding with that discussion, however, it is necessary to consider the differences in macroeconomic policy.

3.2 The macroeconomic policy explanation

The evidence for the argument that differences in macroeconomic policy largely account for the differences between European and American employment performance seems clearer, with respect to timing as well as the policy-mix, than the evidence for the labour regime explanation. Over a period of nearly two decades following the breakdown of the Bretton Woods system, virtually all OECD countries eventually reacted to the difficulty of maintaining full employment without inflation by shifting toward more restrictive macroeconomic policy regimes, giving top priority to price stability and relying on monetary policy to achieve it (Notermans, 2000).

Germany’s Bundesbank was a leader in this regime shift, announcing it in 1974 and acting as a driving force since then. In the US, the Carter Administration gave up on its efforts to curb inflation in the face of OPEC II and turned the task over to the Fed, whose drastic tightening of monetary policy necessarily had the greatest international contractionary repercussions. In France, the Mitterand government’s attempt at domestic expansion in the face of that “monetarist shock” – while France was particularly ill-equipped with the institutions with which to avert the expansion’s inflationary effects – ended with the 1982-1983 U-turn that marked its shift to the price stability regime. Even Sweden, ostensibly among the best equipped with the requisite institutions, made the shift in 1990 after an initially successful but ultimately failed attempt to find a “Third Road” between Thatcherite contraction and Mitterand’s unsustainable domestic expansion17. Finally, this shift was incorporated into the construction of EMU, supported by the conviction that price stability must be the main aim

17 The Swedish Social Democrats’ “Third Road” is not to be confused with Tony Blair’s “Third Way.” For an analysis of the Swedish attempt and its failure, see Martin (2000).
that now prevails among economic policy-decision makers in most OECD governments – the finance ministers and central bankers who, along with many economists, form a kind of epistemic community that enforces this "pensée unique" intellectually as well as politically (McNamara, 1998).

However, there emerged a significant difference in the priority given to price stability over growth and employment and the way in which price stability was pursued in Europe, principally by the Bundesbank – which effectively set monetary policy for the rest of Europe – and in the US, by the Fed. This difference in macroeconomic policies, according to the alternative explanation, is the main factor underlying the reversal of the relationship between unemployment trends in Europe and the US since 1983. The contrasting policies and their relationship to the employment performance variations are described in the following discussion but only one indicator of the differences between Fed and Bundesbank monetary policies is provided in the form of a comparison of yield spreads in figure 2. The yield spread – the difference between real short term interest rates, set by central banks, and real long-term interest rates, set by bond markets – serves as a measure of the restrictiveness of monetary policy. Monetary policy can be said to be more expansionary the larger the positive spread – *i.e.* the lower that short-term rates set by central banks are relative to the long-term rates set by bond markets on the basis of inflationary expectations. As the spread declines to zero and turns negative – *i.e.*, short-term rates become higher than long-term rates – monetary policy becomes increasingly restrictive.¹⁸

In the years after OPEC II when unemployment was rising steeply in both America and Europe, the extreme tightening of monetary policy by the Fed seemed to signal a shift to a price stability regime every bit as restrictive as that toward which European policy-makers were moving; indeed, the Fed took over the lead, closely followed by the British government, and adopted an even more restrictive stance than the Bundesbank did. But by 1983 the Fed had reversed itself and moved as strongly in an expansionary direction as it had in a restrictive direction. The Bundesbank reversed course as well but already began tightening monetary policy again while the Fed continued on an expansionary course for another two years.

¹⁸ It would obviously be better to relate a measure of differences in monetary policy directly to the differences in unemployment in a single chart. This will be done future work but it would be better still to provide a formal analysis of the relationship, preferably within a macroeconomic model. If there is such an analysis in the literature, it has not been found yet.
By the time Fed policy also turned restrictive again, highly expansionary fiscal policy had the US economy booming. The Reagan Administration’s huge tax cuts and increases in military spending combined with Congressional Democrats’ resistance to large cuts in civilian spending to produce the largest peacetime fiscal stimulus in the country’s history until then, implying at least a partial reversal of the earlier shift to a price stability regime. This marked divergence in macroeconomic policy stances in Europe and the US coincided very closely with the first sharp deterioration in Europe’s relative employment performance from 1983 to 1986.

Source: International Monetary Fund, Own computations.
The ensuing exchange rate gyrations and policy conflicts between American and European governments, which triggered the relaunch of monetary integration, complicates the comparison of policies and performance in the later eighties (Henning, 1998). Except for 1987, when the Bundesbank’s sharp tightening was blamed for the stock market crash, its policy in those years was less restrictive than the Fed’s, and fiscal policies were more expansionary in Europe than America, notwithstanding the large Federal budget deficit that remained. The European economy received a powerful additional fiscal boost from the large budget deficits by which the German government financed unification. This offset the recessionary tendencies that had set in, as did a substantial easing of monetary policy by the Fed. This policy scenario is consistent with the slight narrowing of the unemployment gap between Europe and America, as unemployment fell until 1990 and then rose again in the next two years in both economies. Indeed, this is the period in which employment growth in Europe matched that in the American “jobs machine”, despite the absence of any significant convergence of the respective labour regimes.

The end of that period was the point at which both policies and performance again diverged sharply, producing by far the largest gap yet between European and American unemployment. While the Fed continued reducing interest rates, kept them low between 1991 and 1993, and varied them slightly around a slightly higher level since then, the Bundesbank increased interest rates continuously beginning in 1988 until monetary policy became extremely tight in 1992, and then only slowly relaxed it in the following years. This combined with the tightening of fiscal policy due to the unyielding implementation of the EMU transition rules to make macroeconomic policy so contractionary as to plunge Germany and with it the rest of Europe into the deepest recession of the whole post-war period. The unfortunate responses of many actors to the issues posed by unification and the distribution of its economic burdens – which vastly exceeded optimistic expectations – all contributed to this disaster in a sequence of events too complex to describe here (Carlin and Soskice, 1997; Lindlar and Scheremet, 1998). What seems clear enough, however, is that the resulting macroeconomic policy mix drove unemployment in Europe up to record levels, while in the US growth sustained by the relaxation of monetary policy made it possible to gradually reduce the Federal deficit without offsetting the
expansionary effect of lower interest rates, bringing unemployment down to the lowest levels in decades\(^{19}\).

The apparently strong consistencies between contrasting macroeconomic policies and unemployment trends and weak or absent consistencies between labour regime variations and those same trends, preliminary and elementary as their analysis has been, suggests pretty strongly that the differences in macroeconomic policy are at least a large part of the explanation for the difference in unemployment trends in Europe and America. How large a part? And could they be the whole of the explanation? This is quite doubtful in view of the initial discussion of the labour regime explanation. While that discussion also made it quite doubtful that labour regime differences could be the whole explanation, it suggested that they may nevertheless be part of the explanation.

3.3 The interaction explanation

If labour regime differences are part of the explanation, then the causes of unemployment and also the cures for it must lie in the ways in which macroeconomic policies and labour regimes interact. The view that the explanation lies in both and how they interact receives strong though partial and tentative support from a recent econometric analysis designed to explain both the levels of European unemployment and its variation among European countries. It may be the most ambitious attempt yet made to overcome the limitations of explanations based solely on either shocks or institutions. In the work done so far, “specifications that allow for shocks, institutions, and interactions can account both for much of the rise and much of the heterogeneity in the evolution of unemployment in Europe” (Blanchard and Wolfers, 1999). If that analysis were extended to include the US, it could be expected to support the view that the interaction of macroeconomic policy (whatever other sources of shocks there have been) and labour regimes largely explains the US-Europe difference in unemployment trends. Other comparisons among the European economies as well as between them and the US point strongly in this direction. There is great variation among them in labour market outcomes, as noted earlier, with

\(^{19}\) The principal sources of the preceding account are the OECD country surveys and semi-annual *Economic Outlook*. For other comparisons of the policy-mix in the U.S. and Europe, particularly the sequencing of monetary stimulus and fiscal consolidation, see Baker and Schmitt (1999), De Grauwe (1998), Horn and Scheremet (1999), and Muet (1998).
unemployment higher than in the US in some but lower in others over recent years. There is much work, including that on social pacts, suggesting that differences in the institutions that structure those labour markets at least partly explain the variation.

At the same time, careful analysis of the institutions calls attention to the need to differentiate among specific labour regime institutions rather than lumping them together in terms of generalised rigidity or flexibility, since different institutions have quite diverse effects on employment (Nickell, 1997; Nickell and Layard, 1999; OECD, 1999). Thus, some which make labour markets more “rigid” – e.g., protections against arbitrary dismissal – do not necessarily affect employment adversely, or affect employment differently depending on whether unemployment is increasing or decreasing. Moreover, the effects of some seem to depend on the presence or absence of other aspects of labour regimes – e.g., relatively high unemployment benefits are thought to contribute less to unemployment when they are coupled with strong requirements and support for re-employment than when they are not (Nickell, 1997). While the short-run unemployment effects of a given macroeconomic policy shift (or other shock) may vary as a result of such institutional differences, the latter may also have longer-run effects. For example, differences in institutions that result in variations in the distribution of unemployment of varying duration may affect the responsiveness of total unemployment to increases in demand, whether or not the latter are policy induced. More generally, institutions that make for greater persistence of unemployment than others may have cumulative effects, resulting in an upward secular trend in unemployment as successive cyclical downturns start at higher unemployment levels. As indicated earlier, it is argued that such path dependence or “hysteresis” at least partly accounts for the divergence between US and European unemployment trends. Differences in institutions that structure wage determination may also have consequences for unemployment through long-run effects on investment behaviour. To illustrate these possibilities, some of the main mechanisms can be sketched more fully.

Discussions of the relationship between labour market institutions and unemployment typically focus on the institutions’ effects on wage determination, through their impact on workers’ bargaining power and the incentive structure influencing how bargaining power is used. The basic idea is that through either channel, the institutions affect the equilibrium level of unemployment or steady state unemployment. This is commonly conceived as the non-accelerating inflation rate of unemployment (NAIRU) or non-
accelerating wage rate of unemployment (NAWRU), and used as the basis for estimating the portion of actual unemployment that is “structural” – due to the structure of markets – as opposed to “cyclical” – due to the level of aggregate demand. The concept and the efforts to estimate its actual level are problématical, particularly because the estimated levels seem to be so variable, rising and falling with levels of actual unemployment. Hence, the estimates and the validity of the concept itself are central issues in controversy over the causes and cures of unemployment. For present purposes, however, the concept can be assumed valid at least in the minimal sense that variations in unemployment have effects on the intensity of pressures for wage increases, depending on how institutions affect wage bargaining. The effects of the resulting wage growth on unemployment in turn depends on the reactions of other actors – employers on the one hand, and macroeconomic policy decision-makers on the other.

If worker bargaining power depends generally on the tightness of labour markets, the way that bargaining power is used may depend most on variations in the labour regime institutions that structure wage bargaining, principally trade unions and employer organisations. The familiar argument is that there is a hump-shaped relationship between variations in wage bargaining structure and the tendency for wage growth (and hence inflation) to accelerate as unemployment declines. Thus, the tendency is lowest toward either end of the range of variation where unions are weak and wage bargaining highly decentralised, as in the US, or unions are strong and bargaining is highly co-ordinated, as in Germany or Austria, while it is at its highest in the middle of the range where unions are strong but bargaining is not co-ordinated, as perhaps in Sweden since centralised bargaining was replaced by sectoral bargaining. As initially formulated, the argument focused on variations in union scope and structure and their consequences for union power and incentives to externalise or internalise the inflation or employment costs of wage increases. In this view, what makes the intermediate case the most costly is that the unions there have both the incentive – because their membership is a small enough portion of the labour force – and sufficient market power to externalise the price or employment

20 Much policy discussion concerning the share of unemployment attributable to “rigidities” in labor market structures relies on estimates of the NAWRU by the OECD. But the methodology of those estimates has been criticized as seriously flawed. See Holden and Nymoen (1998), Staiger et al. (1997) and McAdam (1999). The problems with the concept as applied in practice are not described here but skepticism is clearly warranted.
effects of their wage increases (Calmfors and Drifﬁll, 1988; Calmfors, 1993; OECD, 1997).

More recent versions have modiﬁed the argument in two respects. First, it is pointed out that co-ordination can be achieved by employer organisation as well as or instead of by unions, and second, that wage bargaining structures do not determine actual unemployment levels alone but in combination with macroeconomic policy, particularly monetary policy. Central banks are thus said to tighten monetary policy less and ease it more readily where they face wage bargaining structures that contribute to lower equilibrium rates, achieving a given price stability target at a lower cost in unemployment, than where they face structures that raise the equilibrium rate. The conclusion drawn is that neither central bank independence nor either of the less inﬂationary bargaining structures by itself but rather their interaction when both are present achieves price stability at least cost in unemployment (Soskice, 1990; Hall and Franzese, 1998; Iversen, 1998).

If this argument is valid, it lends some support to the view, mentioned above, that Fed monetary policy has been more expansionary over the cycle than the Bundesbank’s because it does not interact with strong unions as the Bundesbank did. In this way it offers support for the view that differences between the American and European labour regimes at least partly explain why unemployment has been lower in the US than Europe, but only in conjunction with macroeconomic policy. On the other hand, the wage bargaining structure that faced the Bundesbank was one characterised not only by strong unions but also a high degree of co-ordination, which should supposedly have led as effectively to a low equilibrium rate as the decentralised bargaining structure in the US. Accordingly, the difference between American and German wage bargaining structures does not seem to adequately explain why the Fed has had a more symmetrical reaction function than the Bundesbank.

Variations in wage bargaining structures may have much longer-term effects on unemployment. Thus, the reversal in the relationship between unemployment trends in Europe and the US since 1983 may have had its source in wage developments prior to the reversal which had long-run effects on investment. It seems generally agreed that total productivity growth declined throughout the OECD area in the early seventies (Blanchard 1999: 2, Armstrong et al., 1991: 241). This, along with the ﬁrst oil shock, meant
that profits could not be maintained unless wage growth slowed down.\footnote{If workers and firms are slow to adapt to this new reality, wages increase too fast, employment falls and so does the profit rate. Investment falls, leading to lower capital accumulation, and a further decrease in employment. The result is higher unemployment for some time. But for how long? Theory and empirical evidence strongly suggest that the answer is not forever” (Blanchard, 1999:2-3).} It evidently did not slow down as rapidly in Europe as in the US, as indicated by the fact that the labour share of value-added rose in Europe to a peak in the mid-seventies after which it fell fairly continuously, while in the US the labour share varied cyclically without displaying any long-term trend.\footnote{This observation and the discussion which follows is drawn from Berthold et al. (2000).}

An explanation for this difference in the behaviour of relative shares given in a recent study is that it reflected an “institutional environment” which gave greater bargaining power to workers in Europe than in the US (presumably amplified by the lower unemployment in Europe than in the US at the time), while higher unemployment subsequently reduced European workers’ bargaining power, offsetting the “institutional bias” in their favour. The question then posed is why unemployment did not eventually fall after the capital share was restored to its earlier level, which should have revived investment, growth and employment. The answer offered is that European firms responded to the initial decline in the capital share by choosing technology that increased the capital intensity of production, in contrast with American firms which, not faced by the same decline in capital share, did not increase the capital intensity of production. The relative increase in European capital intensity necessarily took time since it could occur only gradually as successive vintages of capital were replaced, but the cumulative effect has been to raise the long-run elasticity of substitution between labour and capital, while it remained roughly constant in the US. Investment did revive in Europe but each increment resulted in a smaller increase in employment than the same increment of investment in the US, so that, as often heard in European discussion, the employment content of growth is too low to bring about as much of a reduction in unemployment as similar growth rates would have in the past. The argument is that this rather than demand deficiency attributable to restrictive macroeconomic policy explains the growing difference between European and American unemployment trends.

This argument is not convincing. Even if there has been a relative increase in capital intensity in Europe, it is not clear why this should not be compatible
with a narrowing of the difference in unemployment rates if there is sufficient growth in demand, providing that whatever other "structural" conditions might be necessary are met. Thus, the differences in macroeconomic policy that markedly affected demand growth could still have had a large part in producing the divergence in unemployment. What the capital intensity argument seems to tell us is that there has been a secular shift in how investment decision-makers respond to what they expect the rate of growth of demand will be. They have to be concerned about expected demand growth to decide how much increase in production capacity is likely to be profitable, whatever the capital intensity of the production. Their expectations are bound to be significantly shaped by the rate of growth they believe macroeconomic policy authorities, particularly central banks, are likely to consistently permit over the time frame relevant to the profitability of investments. The growth in capacity, and associated growth in employment at the given capital intensity, will presumably be adapted to the trend in demand growth that can be expected to result from the observable macroeconomic policy regime. Moreover, even if the average level of capital intensity has increased, employment growth in response to a given level of demand may be expected to vary with the differences in capital intensity across the economy. Through such shifts in the distribution of employment and other mechanisms, the economy as a whole should adapt to the change in technology over the long run, with the employment effects at any given stage contingent on the growth of demand as well as the effectiveness of the adaptation process. Such adaptation has historically confounded dire predictions that technological change will produce unemployment23.

In short, the postulated long-run effects of wage behaviour on unemployment through the mechanism of increased capital intensity may help us understand how labour market institutions and macroeconomic policy interact, rather than providing us with reason to doubt that macroeconomic policy divergence has played a large part in the divergence between unemployment in Europe and the United States.

The effects of unemployment on wage pressures, and feedback onto actual unemployment are also related to differences in other labour regime institutions, such as employment protection and unemployment benefits. The

23 “There is surely no long-run relation between the level of technology and the level of unemployment. And, if there is a long-run relation between the rate of technology progress and the unemployment rate, it appears to be a weak one at best” (Blanchard 1999: 3).
effects of differences in such institutions on equilibrium unemployment are thought to operate by varying the proportion of actual unemployment that exerts downward pressure on wages (Blanchard, 1999: 14-18).

For example, it is argued that such pressure on wages diminishes as the proportion of long-term unemployed (usually understood as more than 6 or 12 months) increases. This is because the longer workers are unemployed, the more difficult it is for them to get re-employed for a variety of reasons, including the objective obsolescence and even deterioration of skills and the subjective tendency of prospective employers to believe that nobody else has hired workers unemployed over a long period because there is something that makes them undesirable employees. Insofar as employers accordingly regard the long-term unemployed as unemployable or risky to employ, and insofar as the long-term unemployed, partially as a consequence, are no longer actively searching, workers who do have jobs do not regard them as competitors for their jobs or for alternative jobs they could quickly get if, because their bargained wages exceed what employers can or want to pay, they lose their current jobs. In other words, it is primarily short-term unemployment rather than total unemployment that is thought to inhibit wage pressures. But the distribution between short- and long-term unemployment is itself related in part to the level and duration of unemployment benefits. Insofar as benefits set a “reservation wage” not far below wages when employed they reduce the disincentive for wage increases that risk costing jobs while increasing the incentive for unemployed workers to hold out for jobs that pay close to previous wages, at the same time as employers are reluctant to hire at those wages – effects which are prolonged to the extent that the duration of the benefits is prolonged. The net result would be to increase the duration of unemployment, and with it the proportion of long-term unemployed, thereby reducing the pressure of total unemployment on wages.

These arguments point to mechanisms by which some labour market institutions can turn some of the unemployment that is induced by reductions in demand growth into structural unemployment that will be less responsive to subsequent increases in demand growth, an effect which increases with the duration of unemployment (Layard et al., 1991; De Graauwe, 1998). If institutions that transform demand-induced unemployment into structural unemployment by such mechanisms characterise labour regimes in Europe more than in the US, that could certainly be part of the explanation for the successively greater divergence in unemployment trends between them. But this does not mean that differences in macroeconomic policy are not also
part of the explanation. If macroeconomic policy not only induces an initial increase in unemployment through measures restricting demand growth but also keeps unemployment high through the continuation of its restrictive stance, it is likely to contribute to the growth of long-term unemployment. Thus, if measures that increase unemployment by reducing demand growth are not rapidly reversed, macroeconomic policy itself may contribute to an increase in structural unemployment. As our comparison of American and European policy indicated, restrictive measures, especially in monetary policy, were indeed more rapidly reversed in the US than in Europe. Insofar as this difference in the central banks’ reaction function made unemployment more persistent in Europe and thereby increased the share of long-term unemployment, it may have had a lot to do with the successively higher levels of unemployment in Europe.

To the extent that the prolongation of restrictive policy increases long-term unemployment, it has potentially perverse feedback effects that increase the unemployment costs of a price-stability regime. The longer a central bank depresses demand growth to keep unemployment from falling below what it regards as the level consistent with its price stability objective — i.e. its judgement as to the equilibrium rate of unemployment — the larger the proportion of unemployment likely to turn into structural unemployment. Accordingly, as noted earlier, there is a decline in the proportion of any given level of unemployment that functions to inhibit wage inflation (whether by workers successfully pressing wage demands or by employers successfully bidding scarce workers away from each other) — i.e. a decreasing proportion of unemployed workers consists of those credibly competing for jobs with employed workers or likely to be hired quickly when employers seek more labour. From the central bank’s point of view the effective unemployment rate is thereby pushed toward or below the equilibrium rate. At best, this gives it reason not to increase demand growth to lower unemployment or, at worst, reason to decrease demand further in order to bring the effective unemployment rate back up to what it believes is the equilibrium rate! The ECB’s contention that Europe’s unemployment cannot be remedied by expansion of demand without risking increased inflations because most of the unemployment is structural could in this way be a self-fulfilling — or exceeding — prophecy (for a related argument, see Collignon, 1998).

The more general proposition to which the preceding discussion points is that while labour regime differences, of some kinds more than others, may indeed help explain the difference in employment performance between
continental Europe and the US, they cannot be the whole explanation, as postulated in the EMU policy regime’s rationale, any more than differences in macroeconomic policy can be. Thus, even if there are still many unsettled issues and much additional evidence remains to be considered, the argument in support of the current EMU orthodoxy that ascribes the difference in European and American unemployment trends almost entirely to the difference in labour regimes breaks down once the difference in macroeconomic policy is taken into account.

4. Curing Europe’s unemployment

If more restrictive macroeconomic policy than in the US is the main or at least an important factor in causing Europe’s higher unemployment, this does not mean that “structural reforms” in labour markets are not necessary in curing it, even if they alone cannot do so. Whatever the relative importance of macroeconomic policy and labour regimes in causing unemployment, accepting that both are involved, their relative importance in curing it may be different. In part, this is because of the tendency, cited earlier, of unemployment that is largely caused and prolonged by insufficient demand to turn into structural unemployment that is decreasingly responsive to a renewal of demand. This implies that to avert a tightening of labour markets and accelerating wages at earlier stages of recovery than would have been the case if demand had been expanded sooner, there is an increased need for measures such those that can facilitate re-employment. These include “active” labour market policies designed to bring the long-term unemployed back into the labour market and re-equip them for employment. Such measures for improving the “employability” of the long-term unemployed are of course a central feature of the EU’s Employment Strategy. Their macroeconomic effect is presumably to increase the portion of unemployment that acts as a restraint on wage pressures, thereby lowering the equilibrium unemployment rate and encouraging the authorities to pursue more expansionary policies than they would in the absence of such supply-side measures.  

24 The measures include not only such benign policies on employability as well as against discrimination but also retrenchment of benefits, job security, and collective bargaining so as to intensify the pressure of market forces on workers. For a brief wish list, see Calmfors (1998: 141-42).
But this does not support the ECB position, and the Employment Strategy that acquiesces in it, that the reduction in unemployment has to come almost entirely from such supply-side measures, along with other structural reforms in the labour market. For one thing, employability itself seems to vary with levels of unemployment to some extent independently of its duration and the presence or absence of active labour market policies. For example, in the currently tight US labour market, with virtually nothing in the way of labour market policies, employers are seeking out workers previously thought to be unemployable. Thus, employers are going into the black ghettos of some central cities to find workers, providing the training needed for the jobs they seek to fill, thereby contributing to the recent diminution in the difference in unemployment rates of blacks and whites (Freeman and Rodgers, 1999). More generally, US evidence shows that unemployment among those who are relatively disadvantaged in labour markets – less educated, nonwhites, and less-skilled women – fluctuates more than that of the relatively advantaged – more educated white males (Hoynes, 1999). In other words, workers are in effect lined up in queues in order of what employers regard as desirable characteristics (race and gender as well as skills). As unemployment goes up, employers go higher on the queues when they hire or lay off workers, and go lower on the queues as unemployment declines. At least some part of the concentration of unemployment on the less skilled is therefore simply a function of high unemployment rather than a function of the skill requirements of a given state of technology and work organisation. Thus, if macroeconomic policy expands demand so that labour markets tighten, that by itself increases the job chances of those who had the hardest time finding jobs when unemployment was higher. Moreover, the supply of labour also tends to increase as labour markets tighten simply because discouraged workers who dropped out of the labour market are drawn back into it by the brighter prospects of finding jobs.

For another thing, even though active labour market and other policies can nevertheless facilitate re-employment in various ways, they can do so only to the extent that there is demand for the labour which the policies may make more qualified and readily available. For example, when unemployment is high, even the most ambitious re-training programs such as those in Sweden may simply cycle the unemployed through repeated spells of training, which may do little more than maintain their attachment to the labour market so that it is easier for them to be re-employed when demand for labour is renewed.
It is probably still true that unemployment caused by deficient demand is not entirely or quickly reversible without renewing inflationary pressures by a restoration of demand, but the extent to which this is so is unsettled. However, considerations such as those just cited suggest that an expansion of demand can reduce unemployment without increasing inflation to a greater extent than assumed in the EMU orthodoxy. There is the separate issue of how much of an increase in inflation should set the limit on demand growth. The 2% upper limit which the ECB apparently places on inflation may well be too low, so that an expansion of demand that is aborted by tightening monetary policy as soon as that limit is approached means that there can never be sufficient sustained expansion to significantly reduce unemployment (De Grauwe, 1998). That this is probably so is a fundamental reason why the price stability macroeconomic policy regime built into EMU, as the ECB apparently interprets it, could doom Europe to continued high unemployment. Given the years it will take to reduce Europe’s very high and long-lasting unemployment, the amount of investment that would have to be sustained over those years in order to create the number of jobs needed may simply not be forthcoming without a modification in the EMU macroeconomic policy regime that assures investment decision makers that an expansion of demand will be sustained long enough to assure the profitability of the needed investment even if the inflation rate rises above the 2% which now appears to be the upper limit of the target range.

The point here is not that the stance of macroeconomic policy is too restrictive at the time of writing in early 2000, so that policies need to be changed to stimulate demand at this juncture. There are widespread indications of recovery and accelerating growth in Euroland, especially in the larger economies in which unemployment has been highest, so no further stimulus may be needed now. The question is how the ECB will conduct monetary policy in response to this expansion: will it do so in ways that lead investment decision-makers to believe that it will “give growth a chance,” or that it will choke off the expansion before it induces a rise in investment sufficient to significantly reduce unemployment? In other words, the question is whether the ECB is committed to a price stability regime as restrictive as its declared interpretation of its mandate suggests that it is. It is

25 For arguments that some inflation facilitates resource allocation and that very low or zero inflation exacts permanent real costs that exceed its benefits, see Tobin (1972) and Akerlof et al. (1996).
still not clear that it is, even though the ECB has already responded by tightening monetary policy in several increments, albeit small ones, offsetting the slight loosening in response to the Asian financial crisis. On the other hand, those interest rate increases certainly offer little basis for confidence that the ECB is committed to a more expansionary policy regime.

5. Conclusion

It would not necessarily take a revision of the Treaty to bring about such a change in investor expectations. The Treaty requires the ECB to support the economic policies of the EU providing that it is done consistently with price stability but it leaves it up to the ECB to define price stability. The ECB could accordingly announce that it now interprets the price stability goal with which the pursuit of EU goals of growth and employment must be consistent as a steady underlying central inflation rate (i.e. excluding external price fluctuations such as those for oil) of around 2% or even somewhat more, averaged over some specified period. That would imply that the inflation rate would be allowed to exceed the central rate, under specified conditions, so that there need not be fear that the monetary brakes would be put on as soon as inflation moves up toward the 2% upper limit of the permissible range. It would of course then be necessary for the ECB to use its monetary policy instruments consistently with that new definition of price stability, and to reach agreement with member states on co-ordinated fiscal policies so as to secure a sustainable policy mix for Euroland as a whole.\textsuperscript{26}

What it would take for the present governing board of the ECB to actually move toward a macroeconomic policy regime that assumes some responsibility for growth and employment as well as price stability, as does the US. Fed, is yet another question. It would probably take a great deal more political pressure than the governments of the EMU member states now seem prepared to exert, perhaps sufficient to induce some resignations

\textsuperscript{26} This would include the tighter fiscal policies in member states with greater inflationary pressures than others. On the need for fiscal policy coordination, see Muet and Pisani-Ferry (1999) and Soskice (1999).
in protest, and perhaps even a revision of the Treaty that explicitly makes the
bank responsible for growth and employment as well as price stability

Whatever it would take, if such a long-term commitment of EMU
macroeconomic policy to reducing unemployment could be established, it
would open up the possibility of combining a gradual, carefully calibrated
expansion of demand with a wide range of structural measures facilitating re-
employment and inhibiting inflationary pressures, enabling the interaction of
such a combination of macroeconomic and structural policies to be sustained
for the long time needed for them to have its cumulative effect on
unemployment.

In the context of such a “two-handed” strategy, social pacts could provide a
valuable, even indispensable, method for bringing about and maintaining
political support for the institutional changes needed and the attenuation of
conflict over the distribution of the burdens and benefits of the long process
of reducing unemployment. But if Europe is condemned to struggle against
unemployment without the support of a more expansionary macroeconomic
policy regime – with one hand tied behind its back – social pacts can do little
to reduce unemployment in Euroland as a whole and could degenerate into a
set of competing national beggar-thy-neighbour strategies which, in the
worst case, would interact with restrictive ECB monetary and national fiscal
policies to drive a deflationary vicious circle.

27 The Fed is obligated by law (the Humphrey-Hawkins Act) to direct monetary policies to the
goals of growth and employment as well as price stability.

28 For a discussion of what such a strategy might look like, see Bean (1997) and the comment
on it by Fischer. See also Blanchard and Fitoussi (1998).
References


Andrew Martin


1. Introduction

The notion of social pacts has been used for addressing a broad scope of industrial-relations agreements. In terms of content, this notion refers to all issues affecting the employment relationship, ranging from wages to working time, social welfare and even economic policy issues. Moreover, the concept has been applied to virtually all bargaining levels at which the parties to industrial relations may conclude agreements. While macro-level national pacts have been discussed for some time (Fajertag and Pochet, 1997), the meso-level (i.e. the sector) as well as the micro-level (i.e. company-specific agreements) pacts have more recently attracted growing attention (Freyssinet et al., 1998). Social pacts share this multi-faceted meaning with another, related concept: corporatism (Schmitter and Lehmbruch, 1979; Lehmbruch and Schmitter, 1982). Analytically, the distinction between the two concepts is far from being clear. In practice, they seem often to be used as synonyms.

Since the primary aim of this article is not theoretical, we refrain from entering a lengthy discussion about how the two concepts can be differentiated. Instead, we will concentrate on relating a few key dimensions of industrial relations to the debate on social pacts, without any claim to capture the full range of aspects of the debate. This focus on a limited number of selected dimensions is necessary to adopt a strictly comparative point of view. As regards the level of action, only macro-level, national arrangements will be considered here. In terms of content and issues, this analysis will centre on wage regulation. This focus reflects the fact that in most cases incomes policy is the key issue of social pacts (Hassel, 1999). The reason for this is that the industrial relations parties prevail in wage formation, the outcome of which in turn strongly affects macro-economic governance. If there is a need to integrate organised business and labour into public policy, then this emanates from their principal role in pay-setting. The externalities of wage-setting to economy and society are just one special expression of the growing interdependence of policy fields. Hence, social pacts when aimed at incomes policy, nevertheless include other policy issues in most cases.
This specification of the concept of social pacts in terms of content and level helps to identify the relevant actors. If we direct our attention to national pacts dealing with incomes policy, it is appropriate to conceive social pacts as arrangements in which the state participates. If social pacts result from the growing interdependence of policy fields that requires policy concertation (Traxler, 1997), then the state is a constituent actor in this process, since most socio-economic policy issues formally fall within the purview of state responsibilities. Furthermore, national pacts would simply mean central-level bargaining between the two sides of industry if state involvement were not seen as a constituent element of such arrangements. Although classic corporatist thinking tends to equate macro-level arrangements in general and incomes policy in particular with centralised negotiations, this equation is misleading from an empirical point of view. There is a growing tendency to combine broader, central-level agreements with organised decentralisation of collective bargaining (Traxler, 1995). Under these circumstances, national pacts set a general, often non-binding framework for bargaining at lower levels, implying that the principal location of wage settlements is not the central level.

Regarding state involvement as a constituent property of national pacts requires further clarification, since the role of the state in pay-fixing considerably varies across countries (Traxler, 1999). In this respect, the most basic distinction is between state-imposed and voluntary incomes policy. In the case of state-imposed incomes policy the state acts as a sovereign power that authoritatively enforces a certain kind of wage policy through statutory controls, compulsory arbitration etc. State-imposed incomes policy certainly contrasts with social pacts, the raison d’être always being voluntary co-operation among the actors involved. Voluntary co-operation means that the state does not claim a superior role but joins the bargaining process as an additional party.

It is important to note that this differentiation between central-level bargaining, voluntary pacts on incomes policy and state-imposed incomes policy is less clear-cut in some cases than the conceptualisation suggests. As regards the distinction between centralised bargaining and national pacts, the problem is that the state’s involvement in pacts may be highly implicit and informal. A case in point was Belgium’s “compensation democracy” (Vilrockx and Van Leemput, 1998). For a long time, central wage accords were concluded by the peak organisations of business and labour without any formal state intervention. At the same time, however, these agreements
were embedded in the informal, tripartite understanding, according to which the state had to “pay” for the accords. Alternatively, the state may mobilise negative incentives, instead of positive ones, to induce co-operation between the two sides of industry. The essence of this is threatening to authoritatively intervene into the bargaining process. Such government threats have become an essential element of the Dutch “consultation democracy” since 1983 (Van Den Toren, 1998). The upshot is that social pacts may be a purely bipartite undertaking of business and labour from a formal point of view, while they take place in the shadow of the state de facto.

In addition, there is a problem in distinguishing voluntary pacts from state-imposed incomes policy when voluntary wage co-ordination combines with unilateral wage control by the state. For instance in Norway compulsory arbitration has been used for subjecting non-complying sectors to central-level accords (Dolvik and Stokke, 1998).

These borderline cases reveal how difficult it is to arrive at a precise definition of social pacts that is suitable to all the various national constellations. At the same time, however, they help to better understand the role of the state in such arrangements. The state is not necessarily involved in either negotiating substantive issues or in formally concluding the pact. Alternatively, the authorities may confine themselves to providing the preconditions for co-operation between the two sides of industry. As we have seen, this sometimes means recourse even to negative incentives for co-operation. At any rate, the decisive criterion for differentiating social pacts from centralised bargaining and state-imposed incomes policy is state sponsorship of the pacts. National agreements struck by the two sides of industry are not simply bipartite when being concluded in the shadow of the state. In practice, such arrangements are sponsored by the state even when the style of free collective bargaining is formally maintained. The combination of voluntary arrangements and state-imposed wage policy can also be subsumed under state-sponsored pacts, as long as authoritative state interference is auxiliary and supplementary to voluntary accords.

We can conclude these conceptual considerations by stating that we understand national pacts as voluntary macro-arrangements that include incomes policy in substantive respects and rely on state sponsorship in procedural terms. Otherwise put, it is state-sponsored macro-co-ordination of wages that is at stake here.
The following analysis will be comparative in two respects. On the one hand, it will compare national pacts (operationalised as state-sponsored wage co-ordination) with other modes of wage regulation. On the other hand, this will be done by means of a cross-national comparison of the mode of wage regulation in 15 Western European countries from 1970 to 1998 (see table 1). This comparison will address three questions. First, how did wage regulation develop over the last three decades and how important was state-sponsored wage regulation in comparison to alternative modes? Second, what were the goals and functions of the distinct modes of wage regulation and how did they change over time? Third and finally, the economic performance of these alternative regulation modes will be discussed.

Table 1: The modes of wage regulation in Western Europe*

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>State-imposed co-ordination</td>
<td>7.7%</td>
<td>28.6%</td>
<td>26.7%</td>
<td>33.3%</td>
<td>13.3%</td>
<td>6.7%</td>
<td>6.7%</td>
<td>13.3%</td>
<td>16.7%</td>
</tr>
<tr>
<td>State-sponsored co-ordination</td>
<td>38.5%</td>
<td>57.1%</td>
<td>40.0%</td>
<td>40.0%</td>
<td>46.7%</td>
<td>60.0%</td>
<td>33.3%</td>
<td>46.7%</td>
<td>36.7%</td>
</tr>
<tr>
<td>Inter-associational co-ordination</td>
<td>15.4%</td>
<td>4.3%</td>
<td>0.0%</td>
<td>13.3%</td>
<td>6.7%</td>
<td>13.3%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Intra-associational co-ordination</td>
<td>30.8%</td>
<td>14.3%</td>
<td>26.7%</td>
<td>20.0%</td>
<td>20.0%</td>
<td>20.0%</td>
<td>13.3%</td>
<td>20.0%</td>
<td>20.0%</td>
</tr>
<tr>
<td>Pattern bargaining</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>6.7%</td>
<td>13.3%</td>
<td>13.3%</td>
<td>13.3%</td>
<td>13.3%</td>
<td>16.7%</td>
</tr>
<tr>
<td>No co-ordination</td>
<td>7.7%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>6.7%</td>
<td>6.7%</td>
<td>20.0%</td>
<td>20.0%</td>
<td>10.0%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Modal values of annual scores per period

* Austria, Belgium, Switzerland, Germany, Denmark, Spain (since 1977), France, Finland, United Kingdom, Italy, Ireland, Norway, Netherlands, Portugal (since 1975), Sweden.

In dealing with these questions, this paper draws from the data and findings of a larger project on the long-term development and performance of industrial relations in 20 OECD countries (Traxler et al., 2000).
2. Continuity and change in wage regulation

The comparative analysis reveals notable variations in wage regulation across countries. When grouping the countries according to whether and how they co-ordinate pay determination, one can identify six basic modes of wage regulation. What was designated above as state-sponsored co-ordination is just one specific co-ordination mode. Alternatively, co-ordinated wage policy can rely on inter-associational co-ordination, purely intra-associational activities, state-imposed wage controls or pattern bargaining.

Inter-associational co-ordination is implemented by the peak organisations of business and labour, without any form of state sponsorship. This is identical with centralised collective bargaining. Intra-associational co-ordination takes place, when the peaks internally and unilaterally synchronise the bargaining policies of their affiliates, without concluding bipartite or tripartite, central-level accords. Pattern bargaining is another form of voluntary wage co-ordination. In this case, there is a leading sector which sets the pace for bargaining in the other sectors. Characteristically, the peaks do not have the principal role in this mode of co-ordination. As noted above, wage co-ordination can be authoritatively imposed by the state. Finally, wage bargaining may be uncoordinated.

This analysis concentrates on the patterns of development, while disregarding short-term fluctuations in the mode of wage regulation. For this purpose, we differentiate the three decades into nine subperiods and consider the regulatory mode prevalent in each country in the subperiod concerned (table 1). The most important observation is that co-ordinated wage policy clearly prevailed in Europe throughout the three decades, although the co-ordination mode varies across countries. There is only one country showing a long record of non-co-ordination: that is the UK, where bargaining had been uncoordinated for a period already in the seventies and since the Thatcher government, was persistently embarked on this mode. In the nineties, bargaining in Finland and Sweden had been uncoordinated for a limited period of time, but subsequently returned to co-ordinated policies. Among the different roads of wage co-ordination, our conceptualisation of national pacts (i.e. state-sponsored co-ordination) has been most widespread.

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1 For brevity, we do not discuss each single country. See Traxler et al. (2000) for details.
There is only one single period (i.e. 1980-1982) when another co-ordination mode was more frequent.

Closer consideration of the development from period to period shows that the alterations of wage regulation echo major changes in the international economy. The first oil shock of 1973 made incomes policy even more necessary and difficult than ever before. This strongly provoked increasing state involvement in pay-fixing, as is manifested in the growth of both state-imposed and state-sponsored co-ordination. With more than half of the countries operating under state-sponsored co-ordination, this mode reached its first peak from 1973 to 1976. The second oil shock of 1979 unleashed another round of transformations. While state-imposed incomes policy continued to expand, state-sponsored co-ordination almost completely disappeared. After the early eighties, wage regulation again underwent larger modifications, albeit under reverse premises expressed in the sudden re-emergence of state-sponsored co-ordination and a similarly strong decline in state-imposed policies. Intensified European integration mainly accounts for this development. There is plenty of evidence from national case studies (Ferner and Hyman, 1992 and 1998; Fajertag and Pochet, 1997) that the renaissance of state-sponsored wage co-ordination was prompted by national efforts to prepare for the single market and European Monetary Union.

Overall, the long-term development of wage regulation runs counter to any form of convergence thinking. On the one hand, state-sponsored co-ordination was already in decline, when debates on a trend towards corporatism became a growth industry in the early eighties. On the other hand, this co-ordination mode peaked at unprecedented levels of incidence in the early nineties, when it was fashionable to declare the demise of corporatism. When countries indeed moved in the same direction, this happened only for a very limited time. Characteristically, the first and last subperiod under consideration hardly differed in their high variation in wage regulation.

Nevertheless, the relatively high incidence of state-sponsored co-ordination throughout all decades makes this mode especially important to pay-fixing in Europe. Moreover, the European states often tended to resort primarily to state-sponsored co-ordination in times of external economic pressures. This implies differentiating between two groups of countries. In a core group, state-sponsored co-ordination is generalised in procedural and temporal respects (e.g. the Netherlands and most of the Nordic countries). In a
peripheral group, recourse to this mode is limited to and contingent upon outstanding challenges (e.g. Portugal, Spain). If one understands national pacts as single, arm’s-length deals, then the peripheral group fits the concept better than the core group of state-sponsored wage co-ordination.

3. The functions of wage regulation: incomes policy and its alternatives

Mainstream reasoning on industrial relations has emphasised that wage regulation is strongly associated with both the economy policy regime and the production system: the prevailing policy regime and production system should be reflected in the predominance of a certain mode of wage regulation. This argument is most evident in accounts that – in more or less explicit reference to regulation theory – differentiate between Fordism and post-Fordism.

Accordingly, it is argued that Keynesian demand management stimulates macro-co-ordination of wages and incomes policy. This is because fiscal policy, when devised to assure full employment, needs being flanked by wage moderation in order to reconcile demand management with price stability. The shift from demand-side to supply-side policies should trigger the demise of incomes policy since tough monetary policy is regarded as a functional equivalent to wage moderation.

Standardised mass production and a highly homogeneous work force that characterised Fordist production are argued to have fostered centralised and co-ordinated wage policies as well. Conversely, the post-Fordist need for micro-level flexibility accompanied by growing heterogeneity of both sides of industry are claimed to have made incomes policy increasingly obsolete.

Our findings suggest that the relationship between wage policy, economic policy and the production system is far more complex than this argument assumes. In contrast to the predicted decline in wage co-ordination, almost all European states have consistently pursued co-ordinated policies. This rejects the argument that sees the production system as the key determinant of wage regulation. Since the transition from Fordist to post-Fordist production marks a fundamental transformation of the production structures, one should have expected a clear, irreversible trend towards uncoordinated bargaining. There are two possible explanations for the absence of such change in wage regulation. First, the transformation of production was less thoroughgoing than is widely assumed. Second, the argument underestimates
the complexity and adaptability of the industrial relations systems. The first explanation can be discussed only on the basis of case study evidence which is beyond the scope of this analysis. Furthermore, the scale of disruptions that a change in the production system can cause is always contingent upon the adaptive capacity of the industrial relations system as such. This brings us to the second explanation. Industrial relations in Europe have indeed proved a high capacity for adjustments to the challenge of flexibility. The vast majority of countries has embarked on organised decentralisation, thus conciliating two conflicting goals: control over aggregate wage increases through macro-co-ordination and more wage flexibility within the co-ordinating framework.

While the assumption of a destructive impact of post-Fordist production on incomes policy thus fails the test, there is more evidence of a profound impact of economic policy. As outlined in the previous section, the observed changes in the mode of wage regulation reflect larger alterations in economic conditions.

However, the way in which wage regulation responded to the change in the predominant economic policy regime is again not in line with mainstream thinking. In 1979, the OECD countries agreed upon re-directing their economic policies towards the supply-side and labour market flexibility (OECD, 1994). As a consequence, co-ordinated wage policies should have withered away since the early eighties. Leaving aside the UK, this has not happened (table 1). After a short period of intensified authoritative state intervention, state-sponsored co-ordination re-appeared and then arrived at levels of incidence comparable to and even higher than those of the seventies. The fact that this renaissance was stimulated by two supply-side projects of the EC underscores that incomes policy can find its place even in the context of such a policy regime.

Regardless of this, the question remains why the European governments have not preferred to adopt a consistent neo-liberal approach that includes doing away with incomes policy, after the more than mixed experiences during the seventies. Recalling the countries where wage bargaining became uncoordinated helps to find an explanation. In the UK uncoordinated bargaining could be consolidated because this change was accompanied by a corresponding move to single-employer bargaining. In Sweden and Finland uncoordinated bargaining turned out to be unsustainable because the unions were strong enough to maintain effective multi-employer bargaining, even
under these circumstances. It is important to note that multi-employer bargaining also prevails in the other countries under examination. The argument is that the divide between single- and multi-employer bargaining has a significant impact on how supply-side policies relate to wage regulation. Multi-employer bargaining matters so much in macro-economic terms that governments cannot ignore its outcomes even under the condition of a non-accommodating monetary policy. If tough monetary policy can discipline pay policy, then this creates considerable real economic costs in terms of unemployment and/or reduced economic growth (Hall and Franzese, 1998; Traxler et al., 2000). Moreover, multi-employer bargaining is a feasible target for state policies aimed at setting up wage co-ordination. The opposite applies to single-employer bargaining. Each single wage agreement is far from having a noticeable macro-economic effect. There is no bargaining unit that is strong enough to take on co-ordination activities.

Despite this continuity under the aegis of multi-employer bargaining, changes have been more thoroughgoing than table 1 suggests. Above all, the re-appearance of state-sponsored wage co-ordination does not simply mean the return to the old pattern of the sixties and seventies. The difference behind continued wage co-ordination can be captured as a shift from the demand-side to the supply-side (table 2).

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2 This also explains why neo-liberal experiments in the Netherlands, Denmark and Norway could not seriously challenge coordinated wage policies.

3 In the OECD area, the exception to this rule is Japan, where single-employer bargaining combines with macro-co-ordination of wages. For a detailed statistical analysis of the determinants of wage co-ordination, see Traxler et al. (2000).
Table 2: Demand-side and supply-side wage co-ordination

<table>
<thead>
<tr>
<th>Wage co-ordination</th>
<th>Demand-side</th>
<th>Supply-side</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dominant economic policy regime</td>
<td>Keynesianism</td>
<td>Monetarism</td>
</tr>
<tr>
<td>Economic context</td>
<td>Full employment, accommodating monetary regime</td>
<td>High unemployment, non-accommodating monetary regime</td>
</tr>
<tr>
<td>Main functions of wage moderation</td>
<td>Counter-inflationary pay policy; ex-post incomes policy securing purchasing power by indexation</td>
<td>Lowering comparative labour costs; enhancing wage flexibility; anticipatory incomes policy by setting inflation targets</td>
</tr>
<tr>
<td>The initiating party and its interest</td>
<td>Employers: containing inter-firm competition through solidaristic wage policy</td>
<td>Unions: compensation for loss of market power</td>
</tr>
<tr>
<td>The predominant party and its interest</td>
<td>Unions: solidaristic (egalitarian) wage policy</td>
<td>Employers: competitive and flexible wages</td>
</tr>
</tbody>
</table>


In structural terms, this is documented by the move to less centralised bargaining. Counter-inflationary wage policies as required by Keynesian demand management could hardly be implemented other than by central-level bargaining. Given relatively high unemployment and a monetary regime that does not accommodate to inflationary pressures, rather decentralised forms of wage co-ordination may suffice to meet stability targets. Aside from this change in structures, wage co-ordination, when built in supply-side policies, also differs from its demand-side counterpart in terms of goals and functions. In a demand-side context, incomes policy is devised to secure both price stability and purchasing power. In practice, this often meant relying on wage indexation systems. This constitutes an *ex-post* approach to counter-inflationary measures. Since the mid-eighties wage moderation has become anchored in efforts to lower comparative labour costs. This concern about competitiveness has led to an *ex-ante* incomes policy that tries to set inflation targets and anticipate labour cost increases, with explicit reference to the development of a country’s main trading partners.
This change in the economic policy regime and the goals of wage co-ordination in turn translates in changes in interest and power configurations. Under the condition of demand management and full employment, employers much more than the unions need macro-co-ordination of wages because this is the only means of containing inter-firm competition for scarce labour. Conversely, supply-side policies and slack labour markets create a strong union interest in co-ordinated policies in that this offers compensation for their loss of market power (Regalia and Regini, 1998).

Power configurations generally reflect the range of feasible options available to the parties involved. Under full employment, labour had an alternative to incomes policy: uncoordinated, local bargaining aimed at pushing pay above the level fixed by multi-employer settlements. With growing unemployment, the exit option has shifted from the unions to the employers. Uncoordinated and even deregulated bargaining now conforms to their interest all the more since they generally enjoy superior power in individual contracting with labour. In line with these power differentials, the unions could dominate the agenda of collective bargaining in the context of demand management, whereas the employers can do so in the supply-side context. This resulted in strongly solidaristic orientations of incomes policy in the seventies, while primary emphasis has been placed on competitiveness and flexibility since the eighties. As table 2 shows, the party primarily interested in incomes policy contrasts with the dominating party under each economic policy regime. This is because the party less interested in an agreement is more powerful, such that it can dominate the agreement’s content.

Since demand-side and supply-side policies so radically differ in the quid pro quo of co-ordinated wage policy, it is easy to understand that the parties involved did not smoothly move from one regime to the other. On the contrary, this change took place as a conflict-provoking learning process in most cases. These conflicts over the new rules of the game obviously culminated in the early eighties, as is indicated by the sharp fall in the incidence of voluntary wage co-ordination during that time.

In a more or less accentuated way, all countries under consideration have seen growing unemployment and the shift from demand-side to supply-side policies. Hence, the rules of the game of wage regulation have changed accordingly. This means that the changes in goals and functions, as summarised in table 2, apply to any form of co-ordinated wage policy. Insofar, national pacts do not differ from alternative forms of co-ordination.
4. Wage regulation and economic performance

The viability of national pacts is certainly influenced by their performance. It is the capacity for wage moderation that determines the performance of all pacts that are aimed at incomes policy. There is a vast body of literature dealing with the impact of alternative forms of wage regulation on economic performance. Empirical studies of this subject usually relate the institutional properties of wage regulation to such macro-economic performance indicators as inflation and employment, while ignoring labour cost effects (e.g. Calmfors and Driffill, 1988; Dell’Aringa and Samek Lodovici, 1992). This is inconsistent with the underlying assumption according to which wage moderation is indispensable in dampening inflation and stimulating employment. Hence, labour costs are the causal link between the institutions of wage regulation on the one hand, and employment and inflation on the other. As a consequence, one has first to examine whether distinct modes of wage regulation matter in terms of labour costs. Any further investigation into the impact of wage regulation on inflation and employment makes sense only when there are significant labour cost effects.

Drawing from data on 18 OECD countries from 1970 to 1990, we have replicated such seminal studies as those from Calmfors and Driffill (1988). These replications did not yield any significant impact on labour costs (Traxler and Kittel, 2000). This means that the significant effects on employment and inflation, as documented by these studies, are inconclusive in terms of their theoretical premises. The reason for this failure is invalid operationalisation of the concept of wage regulation. One important shortcoming is that most studies equate wage co-ordination with centralisation of bargaining. As table 1 demonstrates, this is wrong. There are several forms of wage co-ordination that do not rely on centralised bargaining. Another weakness of conventional studies is that they neglect the role of the state in pay formation. Whether and how the state intervenes in the bargaining process is likely to have an impact on the effectiveness of wage moderation.

The conceptualisation of wage regulation, as documented in table 1, takes up both the manifold forms of state regulation and decentralised forms of wage co-ordination. Employing these categories as predictors of labour cost increases indeed yields significant results for data on 18 OECD countries from 1970 to 1990 (Traxler and Kittel, 2000). Without going into statistical details, one can summarise the findings as is done in figure 1. Three points
are worth emphasising. First, uncoordinated, decentralised pay-fixing based on single-employer bargaining is not superior, in stark contrast to neo-liberal conjectures. The reason for this is that pay-fixing is influenced by both labour markets and product markets, which are often in contest with each other (Brown et al., 1995). Enhancing the effectiveness of wage moderation by deregulation would thus require disorganising not only labour markets but also product markets, something which is clearly beyond the capacity of neo-liberal programs.

Second, there are functionally equivalent solutions to effective wage moderation. Several forms of co-ordinated wage bargaining are characterised by high performance in this respect. This means that national pacts implemented by state-sponsored wage co-ordination offer just one special road to effective incomes policy.

Third, the effectiveness of national pacts is highly contingent on a supporting legal framework that assures what is called bargaining governability here. Provisions for bargaining governability (namely legal enforceability of collective agreements and the peace obligation during the validity of a collective agreement) make local bargaining comply with higher-level agreements. Provisions for governability become increasingly important as the level at which the co-ordination of bargaining takes place is more remote from the rank-and-file. Hence, wage co-ordination is most dependent upon bargaining governability, if the peak organisations play the principal role in the co-ordinating activities. As an implication, all forms of voluntary peak-level co-ordination (i.e. inter-associational, intra-associational and state-sponsored co-ordination) are particularly sensitive to whether governability is high or low: voluntary peak-level co-ordination brings about contrasting labour cost effects, depending on the established legal framework. When equipped with high governability, these forms of wage co-ordination are among the best-performing systems. If governability is lacking, they are definitely the worst-performing systems. Thus, national pacts are a Janus-faced undertaking. They have the structural capacity for effective wage moderation only when legal provisions guarantee articulated bargaining. Notably, non-accommodating monetary policy may compensate for a lack of such structural capacity of wage regulation. However, relatively high doses of monetary restrictiveness are needed to sustain control over wage increases under these circumstances.
Now that we have found a significant impact of wage regulation on labour costs, it is reasonable to discuss effects on inflation and employment. Here again we refer to our analysis of 18 OECD countries from 1970 to 1990 (Traxler and Kittel, 2000). The results on inflation echo those on labour costs as depicted in figure 1. This confirms conventional reasoning that regards wages as a key determinant of inflation. As regards employment, the effects of wage regulation also resemble those found for labour costs. However, the magnitude and statistical significance of the employment effect is less pronounced than in the case of the two other performance indicators. Put differently, wage moderation has a strongly dampening effect on inflation, whereas its beneficial employment effects are much weaker. One can infer from this that wage moderation hardly suffices to overcome the present unemployment problems.

**Figure 1: Wage regulation and performance**

<table>
<thead>
<tr>
<th>Performance</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>pattern setting voluntary, centralised (i.e. peak-level) co-ordination* with high bargaining governability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>uncoordinated bargaining state-imposed co-ordination</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>voluntary, centralised (i.e. peak-level) co-ordination* with low bargaining governability</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Degree of vertical co-ordination
* measured as wage moderation in terms of the increase of unit labour costs
* inter-associational co-ordination, intra-associational co-ordination, state-sponsored co-ordination

**Source:** Traxler and Kittel, 2000.
As far as the performance of national pacts are concerned, two main conclusions can be deduced from this analysis. First, wage moderation should be integrated into and concerted with a broader range of economic and social policy measures, when national pacts are aimed at creating jobs. Most strikingly, the “Dutch miracle” demonstrates the virtues of such a coherent macro-economic approach (Visser and Hemerijck, 1997). This policy concertation can be achieved more easily by national pacts than by rather decentralised forms of wage co-ordination. For example in Germany, the sector-level system of pattern bargaining enjoys a high structural capacity for wage moderation. Nevertheless, recent efforts to set up a national pact on employment have encountered severe difficulties. In terms of their potential for policy concertation, national pacts may be superior to alternative modes of wage co-ordination. However, one must add that national pacts can utilise this potential only when their attempts at wage moderation are backed by high bargaining governability. This once again underscores the importance of state support. In addition to sponsoring national pacts as a third party, the state is needed for establishing a binding framework that assures reliability, predictability and articulation of bargaining (Traxler, 1999).

Most of the national pacts struck across Europe seek to concert economic and social policy beyond simply emphasis on wage moderation, whereas they significantly differ in terms of bargaining governability. Hence, their performance will continue to strongly differ as well.

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