The Political Economy of Social Pacts: ‘Competitive Corporatism’ and European Welfare Reform

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Introduction

One of the most important, but until now neglected, aspects of the new politics of welfare in western Europe concerns new nationally-negotiated social pacts, referred to in a previous article as ‘competitive corporatism’ (Rhodes 1998) to distinguish them from traditional forms of social corporatism and to signal their competitiveness rationale. These pacts, which have proliferated since the late 1980s, have major implications for welfare states by bridging, and innovating in linkages, between the informal and formal welfare states, that is between social security systems and labour market rules and regulations. All of them consist of new market conforming policy mixes. But they are also far from being the vehicles for neo-liberal hegemony in social and employment policymaking. The essential argument of this paper is that the emergence of social pacts is linked to common domestic and external pressures for reform across Europe. But contrary to the expectations of many commentators, these pressures have bolstered efforts at co-ordination via bargaining rather than fragmenting political-economic structures. Underpinning these pacts are various degrees of associational cohesion and, perhaps most importantly, the development of two types of coalition - distributional coalitions and productivity coalitions - with complex links and overlaps between them. ‘Competitive corporatism’ is successfully achieved if underpinned by a close but flexible linking of the two.

As Manow (this project) points out, domestic welfare trajectories bring about differing degrees of institutionalised involvement of the social partners in welfare reform. Because of the social security underpinnings of continental European welfare systems, the linkage between labour market reform and welfare reform is more or less explicit since these subsystems are much more closely related than, for example, in liberal welfare state. In the continental welfare states (in which category, for our purposes here, we can include the southern variant) the key economic agents are integrated into the welfare state - even if the political system has only imperfectly allowed for corporatist concertation: in these cases, as Manow argues, the cost/benefit mix of given social programmes for unions and employers, not the median voter, is decisive. Manow also argues that the export/sheltered sector conflict of interest may play out more openly in such systems. However, in considering the new social pacts, we have to be much more specific about the nature of external pressures dm is usually the case in arguments about globalization. For even a sophisticated analysis such as
that of Schwartz (this project) assumes the main external influence is that of exposure to increased trade competition, whereas in the European case there is a much more complex mix of pressures. These include the twin constraints of EMU (restricting fiscal policy manoeuvre and removing the capacity for exchange rate depreciation as a competitiveness tool), the pressures of competition (generating changes in production systems, labour deployment and industrial relations) and the diffusion of policy paradigms, via international organisations such as the OECD and the European Union. Amongst the potential sources of tensions are not just divisions between traded and non-traded capital and labour, but between white collar and blue collar, employed and unemployed and ‘insider and ‘outside employees. In certain cases (the Irish) representatives of the socially excluded (the anti-poverty lobby) have also become part of the bargaining equation.

Social pacts in the 1990s are highly vulnerable to such tensions: the art of sustaining a successful social pact lies in accommodating these tensions via trade offs, selective incentives and appeals to solidarity. This paper argues that if we take the objectives of these pacts, and consider their final goals, we can construe them analytically in terms of the constitution of two types of coalition where they did not previously exist - distributional coalitions and productivity coalitions - and the attempt to forge effective and enduring political and functional linkages between them. The fascinating point about these pacts derives precisely from their attempt to link negotiations over both the formal and informal welfare states (i.e. formal welfare programmes on the one hand and the labour market component of the social wage on the other) with more general policies to bolster competitiveness via changes in the industrial relations system. Some countries are managing to achieve one better than the other, as well as creating more sustained links between the two. Others have been relatively successful in creating a new distributional coalitions but have been less successful on the productivity side. We can hypothesise that the most enduring examples of competitive corporatism will be those that create the complete coalitions of both types and forge the most functional links between them - functional, that is, for a politically acceptable and legitimate trade off between equity and efficiency.

The success of some of these pacts in doing just this suggests that, if, state steering capacity is being constrained by developments beyond national borders, this does not necessarily mean a loss of state control or ‘neo-liberal’ convergence, in either institutional change or policy objectives. Indeed, as during much of the post-war era, reforming labour market regulation and recasting welfare states will require that most European countries follow a ‘third path’ between the state and the market, involving an accommodation of market pressures with the preservation of social protection and consensus. Rather than being lost or voluntarily abandoned, state steering capacity will be enhanced by maintaining and encouraging national bargains on social and economic priorities.

Part one of this paper considers some of the threats which are generally assumed to render corporatist exchange impossible and welfare states
vulnerable; part two argues that such arguments are unfounded. Part three considers the politics of new social pacts in detail, and examines their supporting coalitions and implications for welfare reforms.

1. Are Corporatism and Welfare State in Crisis?

To date the globalization argument has tended to ignore an important fact, easily observable in the political economy of Western Europe since the late 1980s. That if external pressures on western welfare states really are determining change (and this is highly contested), they see to be creating new forms of solidarity, rather than simply unravelling the old ones. If they are under siege, then west European states are frequently responding via concertation. Far from abandoning the European welfare tradition for a brave new - neo-liberal - world, recent reforms are rather recasting the original bargain, ensuring in certain cases - for example in Southern Europe (Rhodes 1997) - that the future may be more equitable, not less, than in the past. This view contradicts two mainstream arguments in much recent analysis: that globalization has deprived nation-states of steering capacity, white also eroding the domestic social bargains that for so long underpinned it. The story goes something like this. The ‘old’ social contract - and its diverse institutionalization in Europe welfare states - was very much part of the ‘golden age, during which national sovereignty (preserved with the help of exchange and trade - controls), uninterrupted growth, and the Keynesian welfare state all coincided (Ruggie 1982). But more recently, the ability of governments to fulfil their side of the compact has worn thin: as the flow of goods and capital has been liberalized, government control over employment and other broad economic policy objectives has been lost. In the European Union, market integration and EMU have added two further twists to the screw: white the single market is inducing regime competition and, potentially, a deregulatory race to the bottom, the approach of EMU has locked the member states into competitive austerity.

At the same time, competitive pressures have allegedly created a decentralizing dynamic, as the most appropriate site for organizing production and innovation becomes the region and the most productive level for post-Fordist labour relations the company or plant. In turn, interest associations (unions and employers’ organizations) have fragmented, making the pursuit of national corporatist bargains increasingly difficult. On the government side, an integrated European economy with constrained macro-economic policies narrows the scope for side payments (Streeck and Schmitter 1991). Meanwhile, according to the business cycle theory of corporatism, there should be little incentive for employers and unions to engage in incomes policies in the contemporary period: unemployment is high and wage and price pressures are low.

But there is something wrong with this story, or at least major parts of it. Firstly, the jury is still out on the relationship between globalization and welfare states. As far as Europe is concerned, evidence for regime competition (or ‘social dumping’) between the member states is still scaree
(although many commentators expect it to increase under European monetary union). Attributing responsibility for Europe’s social ills to trade would also appear to be misplaced. Trade (imports plus exports) accounts for only 9 per cent of the EU’s GDP. And if social costs were really a drag on EU competitiveness, we should not have seen an increase in western Europe’s world export share from 30 per cent in the 1950s to a stable 40 per cent plus from the 1960s to the present. In any case, most in depth research on the trade and financial market liberalisation is at best agnostic as to its effects, on welfare. For not only do large welfare states and public sectors appear to be compatible with competitiveness in the open economies, but also openness may itself be a determinant of government consumption (Rodrik 1996). Nor does economic openness necessarily coincide with either a decline in trade union strength (although it may do so where the labour movement is already weak) or with deteriorating employment ratios (Lange and Scruggs 1997). Moreover, while it is clear that unemployment has increased, among the unskilled and lower skilled in western Europe, it is unclear where the responsibility ultimately lies: with technology, trade, or a combination of the two. Whichever, welfare states may make matters worse for these groups, if the ways they are funded (e.g. via pay roll taxes) make it too expensive to employ them. Equally, globalization may be compounding the problems of certain welfare states: the exit threat of capital, for example, has become important in high labour cost countries like Germany and France. But in both instances, the most likely result is an adjustment of these costs, rather than an unmanageable welfare state crisis.

Secondly, there is little sign of a major onslaught on European welfare states. Even where the ideological attack has been at its most ferocious - as in Britain under the Thatcher and Major Conservative governments - there has been no significant reduction in the scale of social transfers (although in the British case a meagre welfare state clearly became meaner as new needs remained unmet). The most important changes occurring across Europe, against a background of largely sustained social spending, have been increased managerialism (in line with a new and spreading orthodoxy of public sector management); attempts to make certain benefits (especially unemployment support) more ‘incentive compatible’; a marginal degree of privatization (mainly in health, and mainly in Britain), some decentralization; and attempts (largely successful) to control budgetary expansion (see Therborn 1997 for a survey). This hardly amounts to ‘neo-liberal’ convergence. Certainly as far as the scale of welfare expenditure (public spending as a proportion of GDP) is concerned, the pattern across continental Europe rather conforms with Esping-Andersen’s (1996) image of a ‘frozen landscape’ in European welfare. There has been some thawing at the edges as governments try to introduce changes within (rather than of) their systems to deal with perceived cost pressures by experimenting with finance, the organization of provision and access to benefits. But this has not penetrated to the core of the major programmes of social protection systems.
As pointed out below, none of this means that welfare states are safe or immune from problems. But it does suggest that the pessimism of many commentators - certainly when linked to a ‘globalization paranoia’ - is misplaced. Above all, such a view ignores the role of politics in contemporary welfare state developments. As Therborn (1997) argues, contemporary social policy making in Europe is framed by two major parameters. First there is a pervasive perception of cost pressure (linked to cost-push and monetary and fiscal constraint) combined with a large degree of institutional inertia. Second, while domestic elites have shifted in favour of a welfare agenda which is more liberal and less generous than in the past. This means that there is clearly a political struggle going on over priorities and purpose in welfare spending. This is manifest, for example, in attempts to shift away from passive benefits to active ‘workfare’ type measures and in mechanisms to eliminate ‘moral hazard’ (crudely, the tendency of benefits to produce beneficiaries). But this is quite different from arguing that European welfare states are unviable or in crisis.

The same applies to other doom-laden scenarios. Although an analysis of the 1980s by Crepaz (1992) maintained that corporatist policies had not in fact lost their capacity to achieve their desired macroeconomic goals during that decade, too believe much of the analysis that became popular in the 1980s and 1990s, organizational fragmentation and decentralization, spurred on by the spread of flexible specialization as a new production paradigm, and compounded by the ‘disorganising effects of globalization, should have consigned corporatism to historical oblivion. Indeed, Grahl and Teague (1997: 418) argue that that is precisely what has happened. ‘... there is no reason to doubt’ they confidently claim ‘that, as a strategic programme for the resolution of employment issues, neo-corporatism is moribund - defeated on the ground by the actual evolution of employment relations before reluctant abandonment by its academic proponents’. But are they correct? There are certainly plenty of arguments to back such a thesis. Lash and Urry (1987), among others, put forward a persuasive thesis concerning the decomposition of traditional institutions in the transition to post-Fordism, and their recomposition on a more flexible, decentralised basis. Streeck and Schmitter (1991) have argued that a combination of the business cycle effect and European integration would remove the logic that had underpinned successful corporatism in its heyday. Thus, in an era of high unemployment, there id less need for the centralized bargaining institutions that had wage increases and maintained price stability when labour markets were tight. At the same time, an integrated European economy with less room for discretionary macro-economic policies at the national level would reduce the incentives for unions to organise collectively to deliver wage restraint in return for package deals or side payments. In-depth analyses of the experiences of particular countries apparently confirmed the uni-directional nature of such developments and the role and responsibility of globalization behind them. To take one example, Paulette Kurzer concluded her 1993 study of Belgium, Austria, Sweden and the Netherlands by stating that ‘at the national level, social concertation is no longer feasible’. This she attributed primarily to the fact that “high capital
mobility and deepening financial, integration prompt governments to remove or alter institutions and practices objectionable to business and finance” (Kurzer 1993: 244-245).

But the fact of the matter is that, in the late 1990s, all of these countries retain either critical elements of policy concertation between capital, labour and the state and various degrees of centralised or co-ordinated wage bargaining. We can explain this tendency to exaggerate and extrapolate a supposed crisis and collapse of corporatism in terms of the ‘Swedish syndrome. Just as Sweden was long seen as the example par excellence of the corporatist welfare state, so more recently it has been considered a test case, if not a harbinger of things to come. For the collapse of Swedish centralised wage bargaining in the 1980s suggested the imminent demise of a ‘model’ combining a strong, decommodifying welfare state with low levels of income dispersion. If Sweden could not survive globalization and the increased services orientation of the economy - both commonly assumed to lie behind the shift away from centralized bargaining, an erosion of social consensus and the introduction of policies to curtail welfare generosity - then which country could? Indeed, the view that Scandinavian corporatism and co-ordinated wage bargaining has been fundamentally undermined has become a widely and uncritically accepted orthodoxy. In an otherwise perceptive recent analysis, Paul Teague and John Grahl (1998) argue that the ‘Scandinavian paradigm of centralized wage settlements is a thing of the past’ without actually offering any evidence that centralized bargaining was such a paradigm or that it has now disappeared. In fact, as explained by Wallerstein and Golden (1997: 704), exclusively centralized bargaining has hardly ever occurred - not even in Scandinavia where, as in most other cases, the term ‘co-ordinated bargaining is more apposite. Moreover, corporatism has not gone away, either as a mechanism for co-ordinating wage bargaining or for negotiating wider policy options. Indeed, recent years have witnessed the preservation of corporatism in countries where it has always been strong, as well as its emergence in those where the traditional prerequisites (e.g. strong, centralised, hierarchically ordered interest associations) have been weak.

As argued by Wallerstein and Golden (1997), Sweden turned out to be the exception. For, arguably, although the collapse of its centralised bargaining system may have had something to do with globalization, domestic politics played a particularly important part (specifically the conflict between employers, and unions over new labour laws and wage carrier funds in the late 1970s and early 1980s). By contrast, bargaining remains ‘centralized’ in Finland, Denmark and Norway, even if, as in most cases of corporatist-type economies, these are not examples of exclusively centralized bargaining. In Denmark, where since 1987 wage negotiations have been conducted without confederal participation, the 1990s have seen the emergence of five large bargaining cartels, with even greater controls on plant-level bargaining than in the past. In Norway, centralized negotiations were re-established in the late 1980s after a period of industry-level bargaining. In 1992, following the attribution of legal status to wage bargains struck between the social
partners at the national level, the so-called ‘solidarity alternative’ (solidaritetsalternativet) was introduced in the form of an informal understanding between the government and the trade union confederation, LO. Its aim - which has been achieved - encourages moderate pay increases in order to strengthen the competitiveness of Norwegian countries and reduce unemployment. Its success in bringing down inflation and unemployment levels has led the Swedish government to seek ways of emulating it. In Finland, a reunification of blue-collar unions in the late 1960s, linked with government participation in tripartism, has increased centralization (Wallerstein and Golden 1997). Meanwhile Austria -whose economy has achieved higher levels of openness and tertiarization than even Sweden’s - has also remained highly corporatist, although with considerable flexibility in its wage bargaining structures (Traxler 1997; Wallerstein, Golden and Lange 1997). In the Netherlands, after an interlude of industrial relations strife, the mid-1980s saw a revival of corporatist policy making - again with flexible bargaining structures within a co-ordinated structure. This has produced something of a model for advocates of a ‘third way’ between highly regulated continental Europe, and the more deregulated economies of Britain and the United States. Thus, Dutch social concertation, as in other recent ‘social pacts’ (see below), has linked labour market and social security reform in an effort to boost employment creation without engendering Anglo-Saxon style inequalities. Meanwhile, another development has gone all but unnoticed by social scientists - the proliferation of social partnerships or social pacts in the European periphery. Incomes policies and wider corporatist bargains are by now well-established in Portugal, Italy and Ireland, while recent accords on labour market and pensions reform suggest that Spain may soon join them.

2. **Globalization is Compatible with Corporatist Welfare States**

At this point I should emphasize what I am and what I am not arguing. I am not arguing that globalization is irrelevant (although I would suggest that much of the literature has exaggerated its effects) and I am not arguing that nothing is changing, either in welfare states or labour markets or in the rationale behind corporatist bargains. I am arguing, however, that while governments may have lost their power to expand social spending at will, due largely to their inability to sustain growing public deficits, they remain the principal architects of welfare states and employment systems. Moreover, for many countries, a successful adjustment of economies to the new demands of the global era will be those which make their labour and product markets more efficient while also preserving social cohesion and trust. Meeting these objectives will demand a careful reregulation of labour markets and a preservation of many aspects of the traditional European welfare state, underpinned by a flexible form of corporatism and social partnership in many countries, rather than clear and deliberate moves in a neo-liberal direction.

The contrary thesis is that labour market rules and welfare state organization have become dysfunctional for growth. Moreover, it has been
argued, the institutions that underpin them are in the grip of such deep uncertainty that even the importation of the UK’s neo-liberal deregulation policies to the rest of Europe should not be discounted (see, e.g. Grahl and Teague 1997 and Teague and Grahl 1998). But this ignores three essential limits on radical change in both policies and institutions in continental Europe path dependence, the prevailing distribution of organizational power and the ‘efficiency’ deriving from the established links between competitiveness, systems of regulation and the microstructures of industries and firms (see Gourevitch (1996). Path dependence and resistance to change derive from the fact that forms of labour market regulation are deeply embedded in national systems of law and collective bargaining. The fact that the existing distribution of power in continental systems (with the exception of France) is located in the sustained strength of both employers’ and trade union organizations, which are often organisationally linked to political parties in coalition governments, clearly limits and conditions the scope and content of reform. As for economic performance, continental systems retain enormous economic strength and their large and successful export sectors and trade surpluses (in distinct contrast to the UK) demonstrate that their regulatory systems - including their labour market rules - are far from dysfunctional. Moreover, there is considerable empirical evidence for a strong and positive correlation between ‘co-operative economies’ and high rates of productivity and investment growth, whereas ‘conflictual economies (conventionally including Canada, the United States and Great Britain) have traditionally lagged behind in both respects (for a survey and analysis see Gordon 1996; for a more normative discussion, Zoll 1998) It is certainly the case, though, that the continental European countries have performed poorly in terms of employment creation in recent year. There is also an acute insider/outside dualism in the labour markets of many of them, created by over-protective regulations for those in full-time, standard employment (see Siebert 1997). However, the best way of tackling this problem - as shown by recent changes in Spain discussed in greater detail below - is via negotiation, not the unilateral imposition of looser regulation à la Thatcher, coupled with awareness that not all protective employment regulations deter employment creation. For as Nickell (1997) has recently demonstrated, a number of protective measures that are generally assumed to impede employment creation may in reality have little effect. These include employment protection measures and general labour market standards, generous unemployment benefits (as long as they are accompanies by strict benefit durations and measures to help the jobless back into work) and high levels of unionization and union coverage (as long as they are offset by high levels of co-ordination in wage bargaining). Moreover, although there is much argument on this point, many economists now agree that there is a strong Keynesian element in continental European unemployment rates. The main contrast between Europe and the US may be less the structural features of the their economies than continental efforts to sustain a fixed exchange rate regime and create European monetary union, placing a significant downward pressure on domestic demand (see Hall 1998)
It may also be the case, however, that fluctuation in the European economic cycle has left larger numbers unemployed whenever there has been an upturn in the cycle (also known as ‘hysteresis’). This suggests that employment creation lags behind growth and that the fruits of new growth are not evenly shared between insiders and outsiders (see Ormerod 1998), a situation much more acute in some countries than others, for example, as revealed in contrasts between Spain and Portugal, discussed below. But combinations of incremental reform in labour market rules and social security systems, plus certain policies encouraging a redistribution of work (some forms of work sharing, for example) can help mobilise those sections of the unemployed work force left behind by a return to higher levels of growth. In addition, there may have to be some selective deregulation of the labour market to enhance flexible (i.e., part-time or temporary) service-sector employment, and this will form an important part of many continental countries’ labour market strategies. But as Hall (1998) argues, there is no reason to expect that this will push Europe’s organized, co-operative economies down the slippery slope to Anglo-Saxon style deregulation and inequality. As discussed in greater detail below, selective deregulation, leading to an expansion of part-time employment, has been achieved in the Netherlands, for example, within the context of a broad social pact sustaining co-ordinated wage bargaining, while also, minimising the impact on real income disparities (van den Ploeg 1997).

Path dependence, power and efficiency arguments also help explain the persistence of corporatist arrangements and numerous variations on social partnership across continental Europe. Part of the evidence that this is so has already been presented: corporatism is alive and well and living in some rather unsuspected places. But why should this be the case, given that - at least until recently - even the ‘high priest’ of corporatism, Philippe Schmitter (1989) was thoroughly convinced of its imminent demise? For one main reason: far from being a ‘fair weather’ creature, as many had argued, corporatism has really come into its own during the recent years of recession and high levels of unemployment. This suggests that the ‘business cycle’ theory of corporatism (reiterated in Schmitter and Grote 1997) is flawed. The truth is that many of the factors that were supposed to topple the corporatist edifice have in fact supported it. A fragmentation of interest associations has occurred in some cases as socio-economic change and restructuring has undermined traditional memberships. There have also been attempts to decentralize systems of wage bargaining, or differentiate from national pay norms at lower levels. But generally, unions and employers in continental Europe have acted to prevent these developments from endangering either national bargains or the institutional structures that underpin them (the single major exception is France where both are too weakly organized and fragmented to strike durable bargains with one another or the state). Both employers’ organizations and trade unions are aware of the costs involved in the outright loss of public goods such as pay co-ordination and the dangers of free riding. For decentralised systems are notoriously prone to wage drift and inflation - which can only be countered by a rising level of unemployment - and international competition makes
unit wage cost containment an imperative

Nor, contrary to expectations, has flexible specialization seriously threatened corporatist arrangements or collaborative industrial relations: first because its extent has been exaggerated and second because where it has been implemented it has actually increased the need for co-operative labour relations and the collective provision of vocational skills. It is also wrong to assume that employers have uniformly attempted to use restructuring to weaken trade unions: although this has certainly been the case in Britain, industrial relations remain distinctively consensual in countries with a tradition of social partnership—As Smith (1999: 60) argues, ‘the majority of German employers continue to value unions as agents of an orderly process of industrial restructuring and recognize that achieving the flexibility they need to compete requires union participation’. Mitbestimmung therefore retains its functional value, and regardless of numerous attacks on it by certain sections of the German employers movement, it is providing an effective framework for flexible and negotiated solutions to employment and innovations difficulties in large companies in competitive markets (Rhodes and van Apeldoorn 1998). As in the case of pay bargaining, it is not so much that employers are constrained by unions to participate in these arrangements, but that they are generally aware of the great sense in doing so in terms of their own interests. For as Thelen (1998) argues, most German employers are acutely aware of the costs to themselves of a decentralization strategy that seeks a radical shift in the balance of power with labour. It is this rather than any other factor (such as union countervailing powers) that explains ‘why German employers can bring themselves to dismantle the German model’. For similar reasons, other countries which seek to follow a ‘high road’ (i.e., high wage/high productivity path) of economic adjustment may consciously seek to develop the same or similar co-ordinating capacities in their own economies. This is currently the case, for example, of attempts in Ireland to push the partnership achieved between capital and labour at the national level downwards to the local and regional development level (which has been successful) and to the level of firm and company partnerships (which encounters greater difficulties).

All of these factors underpinning various forms of corporatism remain relevant throughout the business cycle, rather than only at its peak. Indeed, periods of high unemployment and painful restructuring in the trough of the cycle seem to have bolstered the search for consensual solutions. Of particular importance is the way in which optimal forms of labour market regulation require collaborative industrial relations as well as corporatist bargains to cement them. There are actually contradictory—although quite logical—tendencies at work. On the one hand, decentralization in formerly centralized industrial relations systems has been induced by a combination of factors. The new international division of labour within large transnational firms and the introduction by multinationals of ‘alien’ elements into national bargaining arenas has been a disturbing factor. Cross-class ‘flexibility’ alliances between employers and workers have
eroded social corporatist systems to some extent, inducing a shift to a more sectorally based form of bargaining (e.g. some Scandinavian countries). Meanwhile, employers in all systems are searching for greater company and plant level flexibility in three areas: internal (or functional) flexibility in the work place; external (or numerical) flexibility vis-à-vis the wider labour market; and greater pay flexibility at local levels. At the same time, the creation of the single market and movement towards EMU are placing new pressures on wage-cost competition, given constraints on competitive devaluation. An advocate of the ‘fair weather friend thesis’ of corporatism, such as Gobeyn (1993: 20) would add that ‘contemporary economic realities - slow growth, deindustrialization, the continuing installations on shop floors of labour-saving technologies - make corporatism largely unnecessary. Market forces alone can presently achieve labour discipline and wage demand moderation’.

However, there are also pressures in favour of centralization - as well as high levels of national (and European) employment protection; and some of these derive from the very same pressures that are ostensibly ‘disorganizing’ the advanced capitalist economies. For also, in response to competitive pressures, the diffusion of new forms of ‘best practice’ management and work organization implies the creation or maintenance of co-operative labour relations and a high-trust firm environment. Employers and workers become increasingly interdependent in such systems, contrary to the general assumption that new types of organizational flexibility inevitably strengthen the former at the expense of the latter. Well-designed systems of labour market rules also remain essential in this context. For the optimal world of internal flexibility is built not by unilateral management action but on teamwork and low levels of hierarchy within firms. It also depends not just on high levels of skills but also on skills acquisition within national education and training systems. Too high a level of external flexibility – i.e., the absence of regulatory constraints on firms - destroys trust and undermines internal flexibility. This trade off - producing a productive form of ‘regulated co-operation’ - is a critical one for sustaining both competitiveness and consensus in European labour markets. Furthermore, both cost competitiveness and stability require a means of preventing wage drift and inflationary pressures. This has focused the attention of governments on revitalizing incomes policies. Thus, rather than disrupting these -forms of concertation, and fragmenting governance in the European labour market, the completion of the single market and movement to full EMU is likely to lock the bargaining partners even more closely together. This is precisely why social pacts, which have at their core an incomes policy strategy anticipating EMU, have been consolidated during the 1990s in countries outside the DM zone but seeking eventual membership of monetary union (Pochet 1998). Even before the launch of a single currency, the joint search for consensual, yet flexible, solutions to problems of pay, employment and competitiveness has become a paramount objective, changing the behaviour of national employers and trade union organisation and leading to innovations (generally a centralisation) in wage bargaining (Rhodes 1998a). These developments suggest two prominent and pessimistic
scenarios. The first is that there is a growing ‘governance gap’ in European labour markets as the traditional rules and regulations that brought order to labour markets in the past fragment and give way to an opportunistic and directionless mesh of weakened regulation and proliferating flexibility. The second is that current and prospective developments in wage bargaining portend an Americanization of the European labour market.

As for the first argument on dysfunctionality and the governance gap, although advanced by analysts unsympathetic with the neo-liberal critique of European labour market organization (Teague and Grahl 1998), it bears many similarities to it. The argument assumes that centralized pay structures have crumbled, to be replaced by loose and uncoordinated multi-level pay settings, while the dysfunctionality of labour market rules means that it is no longer possible to reconcile fairness in the labour market with economic performance or equity with efficiency. By contrast, my argument is that bargaining systems have moved or are moving towards a new equilibrium, delivering income and inflation stability. This has already been manifest in rapid convergence on EMU inflation criteria and an absence of significant upward price pressures, except in the UK, which lacks any institutional capacity for wage co-ordination). One of the key features of all of the new social pacts discussed below is their anticipation of the implications of EMU via a centralization of negotiations, and the acceptance of macro-economic variables as the critical reference points of the wage bargaining Process.

Meanwhile, many labour market rules (or, rather, certain combinations of them) are either functional for economic growth or pose no threat to it. Moreover, as suggested below, many countries which face particularly difficult: problems of labour market regulation - including clear insider-outsider dualism between organized, permanent, full-time employees and a large periphery of unorganized, precariously employed workers - are edging towards a much greater degree of governability via social pacts.

The second argument suggests that, under EMU, the burden of adjustment will shift entirely to labour costs and that this will generate a cost competition among member states, penalizing in particular those unions (and their firms) in higher labour cost jurisdictions. ‘Unions in all regions could thereby be drawn into a deflationary vicious circle of labour cost dumping, or competitive internal depreciations’ (i.e, wage and benefit cuts in an effort to bolster price competitiveness in lieu of currency depreciation) (see Martin 1998). At the very least, although co-ordinated internally, EMU might turn national bargaining arenas into one single uncoordinated bargaining structure across the EMU area as a whole. At worst, EMU may turn our to be part and parcel of the neo-liberal project of eliminating the obstacles to labour market flexibility posed by union and social policy institutions, with the Americanization of the labour as ‘one of its principal intended consequences’ (Martin 1998: 20). One alternative might be the emergence of cross-border co-ordination of wage bargaining within particular sectors, such as engineering, given that the German IG Metall
has already played a role in co-ordinating wage bargaining in this sector the D-Mark zone. But while this is a much more distinct possibility than co-ordinated bargaining across the ENIU countries as whole, it is much less likely than what Martin (1998: 21) refers to as ‘re-nationalization’ of wage bargaining. Although he does not define this precisely, this notion fits with the resurgence of national wage co-ordination via limited trade-offs between jobs and wages and benefits or broader ‘social pacts’ of the type discussed in greater detail below. As this paper argues, this is not just a more likely future scenario: it is a contemporary reality. Given that coping with EMU convergence and other pressures for centralization have helped put in place or consolidate corporatist arrangements, varying from the fragile to the strong, depending on the country and national traditions, there is no reason to suspect that full monetary union will alter this institutional landscape enormously. If anything, the imperative for incomes policy and collaborative employment and welfare policy making becomes greater.

But what is the relevance of all this to the welfare state? First, labour market reform and responding to high levels of unemployment requires simultaneous changes to social security, tax and pensions systems: and where it is logical to negotiate these reforms through corporatist bargains, this is being done (see below). Second, the last decade has seen a growing awareness of ‘solidarity’ dilemmas in most European countries, due to flaws in the underlying design of welfare systems, socio-economic change or a dysfunctional logic in the way welfare programmes have matured. The need to tackle public-sector deficits and debts - in part because of external pressures (e.g., EMU convergence) but also, due to increasingly intolerable tax burdens - has helped expose these problems, as, arguably, has the greater focus on non-wage labour costs due to international competition. Each welfare state ‘type, confronts its own particular ‘solidarity dilemma’, independent of secular developments such as demographic change, the changing structure of the family, the maturing of social programmes and the expansion of the service economy with its new patterns of employment. Thus, the liberal welfare states (the UK and Ireland) tend ‘naturally’ to produce poverty traps while doing little to prevent inequality. In the Nordic welfare states, those in work pay the costs of generous social transfers, generating hostility to tax burdens. In continental Europe, social charges paid by employers and employees have escalated non-wage labour costs, while younger, female and older workers have borne the brunt of economic adjustment. And in southern Europe, welfare provision is highly uneven, and frequently distorted in favour of key client groups and privileged members of the core (and especially public-sector) work force. Both the central European and the southern European variants; of Esping Anderson’s ‘Conservative welfare state’ type are examples - to one degree or another of ‘welfare without work’. These domestic problems are much more important for understanding current distributional conflicts than the purported impact of globalization, even if competition and the approach of European monetary union have hastened the need to confront them.

1. ‘Competitive Corporatism’ and Welfare Reform
Rather than a neo-liberal future, recent reforms and institutional developments suggest that ‘competitive’ or ‘strategic’ corporatism, in the form of entrenched social partnership or more transient, pragmatic social pacts, will proliferate across Western Europe. Governments and their social partners will seek a consensual and, ’in so far as is possible, an equitable adjustment of European welfare systems and labour markets. The EU is seeking to play a role in this process by encouraging a European employment pact and promoting further advances in the European social dialogue. Although such pacts can be criticized as ‘nationalist productivity coalitions’, in which the power of capital is inevitably strengthened, they are certainly more desirable - not to mention politically feasible - than unilateral neo-liberalism. For not only can they avoid a damaging break down in consensus on socio-economic priorities; they may even build a consensus and a corresponding institutional framework where the prerequisites for corporatism have been weak or non-existent. Above all, they are a method of bolstering state steering capacity in the area of welfare reform at a time when it is being diminished by domestic resistance, the declining legitimacy of redistributive polities and global constraints. Although more weakly embedded in social and institutional structures than in the traditional corporatist countries of northern Europe, the new ‘competitive’ corporatisms cannot simply be dismissed as short-term tactical manoeuvres to improve EMU entry prospects. It is certainly true, as discussed above, that EMS membership and the movement towards monetary union have played a critical role in inducing and consolidating new consensual labour relations (cf. Teague and Grahl 1998: 5-6). However, while the social pacts may not succeed in creating fully-fledged, corporatist-style, organized labour markets, they are frequently much more than short-term pay bargains, and combine traditional incomes policies with wider and more innovative forms of social security and labour market reform. This makes them critical for linking macro-economic objectives with micro-economic adjustment.

The extent to which social pacts can achieve the latter depends critically on how they develop and combine their respective distributional and productivity coalitions. All of the social pacts that have emerged since the mid-1980s seek to combine wage moderation, the quest for lower social charges and greater flexibility of work conditions. The latter two objectives in particular imply (a) reform to social security systems (often with greater equity as a goal) and (2) a response to employers’ demands for new productivity trade-offs, involving, for example, an exchange of shorter working hours or the maintenance of employment levels for greater freedom of labour use, in terms of hours and deployment of workers. To this extent all the pacts contain both distributive and productivity-linked innovations. But this does not necessarily mean that they will be based on stable or enduring distributional or productivity coalitions. For while creating or consolidating the first requires that the traditional social partners (especially trade unions) break with their defence of conventional insider privileges and entitlements, and accommodate the needs of outsiders and other social groups, building a productivity coalitions demands a new deal
between capital and labour based on a negotiated strategy of industrial adjustment.

Building a distributional coalition requires policies that are inclusive of former labour market ‘outsiders’, via, for example:

- a national incomes policy that has a degree of flexibility at lower levels so that less productive workers are not priced out of the labour market;
- the relaxation of high levels of security for full-time core workers, in return for greater protection for peripheral (although increasingly central) temporary and part-time workers, as in the Dutch 1996 central agreement on ‘Flexibility and Security’ (see below for details);
- a redesign of social security systems to prevent implicit or explicit disentitlement, in relation to two groups in particular: women workers (who are often discriminated against by male breadwinner-oriented social security systems); and those not in permanent, full-time employment who may also be discriminated against in terms of entitlements;
- a parallel redesign of social security systems to allow a guarantee of access to skill acquisition and social services at any point during the life cycle, especially through education and training;

Constructing a parallel productivity coalition requires, at least in principle:

- a shift away from legislated or rule governed labour market regulation to negotiated labour market regulation, e.g. in minimum wages, as has occurred, for example, in the Irish and Portuguese social pacts;
- the development of decentralised component within the national wage bargaining system that provides employers with the possibility of striking productivity-linked deals;
- the agreement on consultation through firm or company concertation that allows for a negotiated adjustment to new demands from markets or technologies;
- a shift away from adversarial industrial relations towards a more consensual model.
- the joint implementation of training mechanisms and priorities.

It is important to note that key elements of both types of policy objective can be found in all of the social pacts considered below. But in only certain cases are both types of coalition strongly present behind such deals.

The chart below summarizes roughly the strength or weakness of these coalitions in the countries examined here.

<table>
<thead>
<tr>
<th>Country</th>
<th>Distributional coalition</th>
<th>Productivity coalition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ireland</td>
<td>moderate</td>
<td>weak</td>
</tr>
<tr>
<td>Spain</td>
<td>moderate-strong</td>
<td>weak-moderate</td>
</tr>
<tr>
<td>Portugal</td>
<td>strong</td>
<td>moderate</td>
</tr>
<tr>
<td>Italy</td>
<td>moderate</td>
<td>moderate</td>
</tr>
<tr>
<td>Netherlands</td>
<td>strong</td>
<td>strong</td>
</tr>
</tbody>
</table>
Ireland: Coalition Building and Incomes Policy in the Celtic Tiger

Like several of the other case studies here (Spain, the Netherlands, Italy), Ireland has witnessed a remarkable transformation of its industrial relations system over the last ten years or so, from one bearing a strong resemblance to the British adversarial system, to one with strong corporatist elements, and delivering low inflation, a high rate of economic growth and widespread innovation in social security, taxation and labour market policy. However, despite the gradual expansion of bargaining to include a wide range of social groups (and not just the traditional social partners), creating, at least in principle, one of the most inclusive formal distributional coalitions among the countries in this study, problems of unemployment and social exclusion have still to be effectively tackled. Also, despite a growing convergence of opinion on the need for a ‘high road’ competitive strategy, and attempts to extend the neo-corporatist consensus beyond distributive issues to wider questions of bolstering competitive advantage, little has been achieved so far in fostering industrial relations reform or in building a national productivity coalition. A fragmented industrial structure, with a large number of small firms alongside multinationals which dominate in particular sectors, has made reaching a consensus on a national strategy of industrial partnership (rather than firm-level, human-relations based strategies) difficult: to achieve (Gurmigle 1997; Roche 1998).

Nevertheless, there do seem to be solid corporate foundations to Ireland’s economic progress in recent years, based on an active diffusion of human resource management innovations across the country (McCartney and Teague 1997). For some commentators, this process has been facilitated enormously by the stability brought to the economy by the national incomes policy agreements. By introducing in the early 1990s a local bargaining clause (allowing management to tie negotiations to local labour market conditions) while maintaining wage moderation at the national level, this has encouraged employers to innovate in flexible work practices, employee status and social organization. In this view, then, the distributive bargain has had important implications for productivity gains, even in the absence of an explicit productivity coalition (see Taylor 1996, cf. Durkan 1992). The most recent national bargain (Partnership 2000) explicitly addresses this issue by confronting issues of product development, training and the introduction of new work and organisational patterns. A National Centre for Partnership has subsequently been established to develop partnership at the enterprise level by benchmarking and disseminating best practice (O’Donell 1998).

The national corporatist bargain has been impressive in the extent to which it has responded to fears in the mid-1980s that Ireland was consigned to a vicious circle of weak economic performance, increasing public sector
deficits and debt and rising unemployment. The social partners hammered out a tripartite response to the crisis in 1986, leading to the first neo-corporatist deal in 1987 in the form of the Programme for National Recovery (1987-1990). Subsequent comprehensive social pacts negotiated in 1990, 1993 and most recently in 1996 (Partnership 2000), have built on the trend established in the mid-1980s towards more centralized wage bargaining and a growing willingness on the part of the social partners to address tax, education, health and social welfare issues at the central level as well (O’Connell 1998). The emphasis of all four agreements has been on macro-economic stability, greater equity in the tax system, and enhanced social justice - in the form of inflation-proof benefits, job creation (in manufacturing and international services sectors) and the reform of labour legislation in the areas of part-time work, employment equality and unfair dismissal, although the labour market remains characterized by a high degree of rigidity, with unemployment and poverty still exacerbating the problem of long-term unemployment (Rhodes 1995). Pay rises have been subject to floor and ceiling levels. In return, the trade unions have delivered industrial relations harmony.

A rather sceptical evaluation of these pacts has concluded that they have not delivered much when compared to the ‘social corporatism’ of the Scandinavian model: main objectives such as employment creation have not been achieved, tax reforms have been only incompletely implemented and there has been little serious consideration of how training is linked to the wage-formation system or to how it should be developed as a collective good (Teague 1995). Nevertheless, government commitments across a range of issues have been respected, including increasing resources in education, public housing and health care, while also extending social protection to part-time workers and introducing legislation on unfair dismissal, employment agencies and conditions of employment. Mm?? social pacts have also played a major role in securing macro-economic stability, delivering a high level of economic growth in recent years, compared with its European neighbours, and making Ireland one of the most likely members of EMU, since it now more or less fulfils all of the convergence conditions. Also importantly, industrial peace has been preserved, as has the organizational cohesion of the social partners in a time of upheaval - not to mention the tendency of multinationals to try and avoid the recognition of unions (see below). There is, of course, a down side.

Still to be addressed is the problem that these agreements have largely been tailored to the demands of the insider unionized sector (rather than those of small and medium-sized firms facing international competition) and that the emphasis to date has been on protecting the post-tax income of the employed ‘insiders’, while showing less concern for the ‘outsider’ unemployed (Kavanagh et. al. 1997). This is true despite the fact that the partnership has been widened since 1993 when the government established a new partnership body (the National Economic and Social Forum) to ?? policy approaches to social exclusion and inequality. ‘Partnership 2000’ was negotiated with a larger number of partners, including the Irish National
Organisation of the Unemployed and other groups addressing the problems of social exclusion, and includes a National Anti-Poverty Strategy.

**Italy: Steps towards a New National Bargain**

In the Italian case, negotiations in the early 1990s that initially focused on reforming Italy’s automatic wage-indexation system - the *scala mobile* - were extended to include the rationalization of bargaining structures and the reform of union representation in the work place. In the significant agreement of July 1993, the *scala mobile* was abolished and a far-reaching reform of incomes policy and collective bargaining was achieved. Henceforth, biannual tripartite incomes policy and collective agreements were to set macroeconomic guidelines and establish a framework for incomes policy; sectoral agreements were to be signed at the national level on wages (valid for two years) and conditions of employment (valid for four); and enterprise level agreements were to be concluded for four years and negotiated by workers’ representatives. The latter innovation created a new form and level of representation within the firm - *Rappresentenza sindacale unitaria* - in which two-thirds of representatives were to be elected by the entire work force (and not just union members as before) and one-third appointed by representative unions, providing an important link between the work place and high levels of union organization (Regini and Regalia 1997). At the present time (late 1998), legislation is being developed on the basis of trade union proposals to consolidate the bargaining system and strengthen the role of the major unions in it - innovations that both they and employers are keen to see adopted. The main aim of the proposals is to prevent the further fragmentation of wage bargaining and to marginalise break away and small unrepresentative organisations. By reregulating the relationship between representation, representativity and the enforcement of collective agreements, unions hope to guarantee union democracy for workers but also consolidate their own positions: a major aim is a rule to ensure that only unions which represent an average of 51 per cent of workers (calculated through a combination of election results and union membership) - should be able to sign national sectoral agreements that will be enforced by law across the whole sector to which they apply (EIRR 1998). Centralisation - and cross-sectoral co-ordination of bargaining, will henceforth be easier to achieve.

Apart from contributing to Italy’s fulfilment of EMU entry conditions - which it has achieved by effectively taking inflation out of the labour market - the social pact signed in 1993 also covered a number of other areas, including new measures to compensate those laid off in restructuring, improvements to the training system (boosting internal flexibility), the legalization of temporary work agencies (improving external flexibility), assistance for the unemployed to enter the labour market, and improving the general performance of Italian industry. The establishment of these principles of intent in 1993 led to the so-called ‘Treu package’ of reforms on labour market flexibility in 1997. Although not as extensive as employers wanted, these reforms simultaneously legalised temporary work agencies as well as
the use of fixed-term and part-time work contracts, while also seeking to protect or improve the rights and entitlements of such workers. Important innovations were also made in the national training system to improve the quality of training, improve access to training and promote the role of companies in shaping training courses.

To this extent, by contrast to the dreadful industrial relations crisis in the 1970s - when Italy was an even ‘sicker man’ of Europe than strife-ridden Britain, Italy has been edging towards a new productivity coalition in which an uneasy truce between employers and unions has led to important innovations in a previously highly rigid labour market. But it has also become the forum for bargaining the future of broader aspects of social regulation. To this extent, the distributive elements in the new Italian bargain are important as well. The most significant step in this regard was the agreement signed between the unions and the government on pension reform in May 1995 (the employers abstained) which was put to referendum in the workplaces by the unions where it obtained a hard-won but significant majority backing. This consensus was achieved at the expense of a more radical reform (it retained the previous pension system for elderly workers and introduced, whether partially or in full, a more rigorous system for less senior workers). But it also, avoided protracted industrial dislocation, as occurred in the case of the Juppé reforms in France (Regini and Regalia 1997), as well as any adverse knock-on effect on other aspects of the social pact, despite the fact the implementation of the incomes policy has favoured an increase in company profits at a time of reductions in purchasing power.

It remains to be seen whether the system can survive the current challenges, including the introduction in 1996 and 1997 of ‘one last push for Maastricht austerity budgets, and discontent with constrained pay agreements in various powerful sections of the labour movement (notable the metal workers). But the fact that the October 1997 governmental crisis over the 35 hour week and pension changes provoked by the left-wing Rifondazione comunista only shook, rather than shattered, the ongoing negotiations between the government, trade unions and employers, provided grounds for optimism, as did the distance taken by the trade unions from Rifondazione when they recently brought down the Prodi government. Major reforms have been achieved which achieve both efficiency and equity gains in the social security system. In pensions, regardless of the complicating and delaying concessions made to Rifondazione comunista, special privileges were eliminated for a whole range of public sector workers, the possibility of retiring with a full pension after 35 years of contributions, regardless of age, was terminated (although this innovation is being gradually phased in), the pensions of high income groups was curbed and self-employed workers henceforth have to shoulder a larger share of the costs of their pensions. With Rifondazione now outside the new governing coalition, further reform is likely in eliminating the many remaining inequities in the system.
In sum, there have been major innovations in Italy, in terms both of institutional change and policy reform, and EMU entry has been guaranteed, as in the Irish and Portuguese cases, by the commitment of steadily more cohesive trade union organizations to an incomes policy pact. But like Ireland - and unlike Portugal - the success on the employment front has not been as great, and building a distributional coalition that can bring in the large number of unemployed younger people remains a currently insuperable challenge. High unemployment - albeit among different categories of workers - in both countries remains the Achilles heel of their respective social pacts.

Portugal and Spain: Converging Southern Models?

Some observers suggest that, in the absence of adequate levels of human capital and physical infrastructure, these countries face a stark choice, neither of which is without high costs, between two 'models': a so-called 'European model', entailing convergence in terms of entitlements, employment protection and the expansion of an efficient, capital (or R&D) intensive high-wage sector (which would be likely to, hasten the demise of low productivity firms and may lead to high, long-term unemployment rates - as already seems to be the case in Spain where growth based on productivity has meant that the economy has been unable to absorb all the unskilled workers coming from agriculture (Marimon 1997); or an 'American' or Anglo-Saxon model which would lead to a worsening of income distribution and a dual labour market with very low wage sectors in otherwise affluent economies (Barry et al. 1997). In order to embrace the 'high-wage' alternative, while reducing its costs, a co-ordinated system of wage determination would seem essential, for 'one way of minimizing the adverse effects is to try to ensure that the general process of wage determination is not unduly influenced by high productivity growth emanating from a relatively small section of the economy (in terms of employment share). This is one more reason for pursuing the 'corporatist path' in these countries if the 'European model' is chosen. Portugal, like Ireland, has consciously sought to follow the 'high road', even though its industrial structure makes that difficult, since the early 1990s. It has at least built a strong distributive coalition behind a national bargain for adjustment, even if its productivity coalition is weak and that side of the national bargain underdeveloped. Spain embarked. on the same path earlier but until recently has been unable to build either type of coalition, although there are strong signs that it is now succeeding in doing so.

In the Portuguese case, the period until the mid-1980s was characterised by attempts at incomes policy and concertation but which were too fragile to endure due to an inadequate institutional framework. Particularly problematic - as in the Italian case - was the absence of strong authority on the part of the trade unions and the need for a strengthened role for the state, making it more reliable and consistent bargaining partner (Rocha Pimentel 1983). In that period, the PSD-CDS (Social Democrat-Christian Democrat) coalition government was unable to control growing
macroeconomic imbalances and the country experienced a severe balance of payments crisis. High inflation coincided with a commitment to full employment. In the mid-1980s, however, inflation was reduced even if public sector imbalances could not be tackled. Also as in Italy, it was the commitment to eventual EMU membership after 1990 (under an enlarged-majority PSD government) that led to an emphasis on an anti-inflation, lower public debt strategy. At the same time there developed a broad consensus on the need for a new distributional coalition linked to the country’s aspiration for full EMU membership and the macroeconomic stability it was imagined this would bring. Although two small parties - the PCP (Communist Party) and the CDS-PP (Partido Popolar) oppose further EU integration - there is a broad consensus linking the major parties and trade union and business groups - on increased economic and social cohesion, including an active employment and social policy to help avoid the dependency of particular groups/geographic areas on social transfers (Torres 1994). Reflecting this consensus - and regardless of the continuing fragility of trade union structures (Stoleroff 1997) - there have been five tripartite pacts since 1987 - the latest was signed in 1996 - focusing on incomes and social and labour market measures. They have been presented from the outset as critical for improving the competitiveness of the Portuguese economy and for integration into EMU. The agreements have been very wide-ranging, covering pay rise ceilings, levels of minimum wages, easing regulations on the organization of work (rest, overtime and shift work) - i.e., internal flexibility - and on the termination of employment (external flexibility) and the regulation of working hours.

The critical difference with Spain was that while Portugal’s reforms were slow and labour protective (building the basis for a distributional coalition - with productivity elements - that could be linked to broader economic goals) while Spain’s were faster and labour-compensating (Bermeo, 1994: 198). Ibis was partly for constitutional reasons: whereas the Spanish Socialists began liberalizing labour markets in 1984, the Portuguese Socialists were blocked by Portugal’s Constitutional Tribunal when they tried to do the same in 1987. This meant that Portugal started restructuring its economy after having joined the EC (and when intra-European transfers were beginning to flow), while Spain began earlier in a different economic climate. This prevented the creation of either a distributional or a productivity coalition: indeed, during the late 1980s and 1990s, employment and social issue became the object of intense conflict at a time when a consensus was being built around them in Portugal. Unemployment rose in Spain - accompanied by a massive increase in temporary contracts once these were liberalised in the 1980s - while insiders kept their protective privileges and wage levels (e.g. Rhodes 1997; Toharia 1997). In Portugal, by contrast, insider barriers were reduced under a wages versus jobs trade off, helping reduce the importance of persistence mechanisms sustaining unemployment in the face of various demand, productivity and labour supply shocks, while also providing foreign investors with lower labour costs and strike rates (Bermeo, 1994, 198-206; Bover, Gareia-Perea and Portugal 1997; Castillo, Dolado and Jimeno 1998)
In Portugal, the social pacts have played an important role in ensuring this fortuitous result. Following the pacts of the late 1980s, the 1990s have seen a strengthening of both their distributive and productivity elements. The 1992 agreement, for example, was broadened to cover social security issues, including improvements in health insurance reimbursements and tax relief on housing. The latest 1996 agreement also implements an incomes policy, linking wage rises to inflation and productivity forecasts (with scope for variation within margins at lower levels), and union agreement has been ensured by a commitment to training and employment placement services, to the enforcement of various rights for part-timers, and a broad programme of working time reduction, with the introduction of a 40 hour week in two stages. The new agreement also covers numerous social security issues, including the reduction of social security contributions for those employers belonging to employers’ associations (a measure also conceived to strengthen organizational cohesion) and the introduction of a minimum income on an experimental basis for those on very low incomes. In addition, income tax for those on low incomes will be reduced, a more favourable tax treatment will be made of a variety of health and education benefits, and old age pensions will also receive more favourable tax treatment. The government’s commitment to improve the equity of the social security system has been honoured, with the latest (mid-1998) innovation taking the form of legislation to raise the level of state retirement and contributory pensions, requiring significant changes in the way the system is financed.

Recent developments in Spain reflect a general shift that has been underway now, for some time, away from the pacts based on the protection of insider rights that emerged from the Franco period, towards a more broadly base pact mirroring those struck in Portugal and Ireland. This reflects a commitment on the part of the state to reform in the labour market, demands from employers for greater flexibility and the need of unions to strengthen their own basis in the labour market, given low membership and a correspondingly low level of financial resources, and their need for the legitimacy that bargaining with the state can confer on them. The most important step so far has been the 1994 ‘Toledo Pact’ signed by the government and the trade unions (which included a focus on the rationalisation and consolidation of the public social security systems), and subsequent deals in labour market flexibility and pensions, as well as - more recently - the first sectoral agreements on reduced working hours (in savings banks) and talks on incentives to encourage part-time working (which, by contrast with fixed-term contracts, remains under-developed). The pensions reform deal, struck between the government and the social partners in October 1996, made major innovations, including the reduction in the number of special regimes (an equity increasing measure), an increase in the proportionality between contributions and benefits, the financing of health care and social services through taxes, so that contributions can only be used to finance contributory benefits, and the reduction of employers’ contributions in order to foster job creation (Guillén
The labour market reform of April 1997 was also extensive, and saw the first concession by Spanish unions to labour market outsiders when they agreed to a decrease in high redundancy payments (a stricture on employers inherited from the Franco years) in exchange for a reduction of insecurity for those working on temporary contracts.

The Netherlands: The ‘Dutch Miracle’

Perhaps the most interesting developments have been in the Netherlands where, as a result of monetary stability, budgetary discipline and social security, something of a ‘model’ attracting policy emulation in other countries has begun to emerge (for the most extensive analysis, see Visser and Hemerijk 1997). In the Netherlands, the early and mid-1980s witnessed, one of the most severe employment crises in western Europe, with unemployment reaching 15.4 per cent in 1984. This was attributable in part to the immobilism in industrial relations between the early 1970s and early 1980s (which followed twenty years of centrally-guided, corporatist governance before 1968), a period during which both trade unions and employers rejected a state-led system, of incomes policy. In the 1970s, when the twin oil-price shocks fuelled inflation and rising unemployment across western Europe, the negative consequences for the Netherlands were compounded by a break down in relations between the social partners that helped produce a vicious cycle - referred to as ‘the Dutch disease’ - in which real labour costs accelerated ahead of productivity gains, profits deteriorated, firms substituted capital for labour or relocated to low labour cost areas, and unemployment rose spectacularly (Hemerijk and van den Toren 1996).

Since 1982, however, the picture has been quite different. In the early 1980s, the Dutch social partners responded to the crisis the economy was then experiencing in similar ways to their Irish counterparts just over a decade later. Since the signature of a national social pact (the Wassenaar accord) between employers and trade unions in November 1982, there has been a return to corporatism, but a more flexible and responsive bi-partite rather than tripartite version, one involving a considerable degree of decentralization in wage-bargaining that is compatible with intensified international constraints. This has provided the basis for industrial relations peace, wage moderation and an ongoing process of labour market deregulation that has helped keep wage costs down, prevent increasing inequality and boost employment (above all part-time and temporary contracts) to the point where the present 4.5 per cent unemployed is one of the lowest in the OECD area, and where between 1983 and 1993, job growth (at 1.8 per cent per annum) exceeded both the OECD and EU averages (Hemerijk and van den Toren 1996). The 1982 agreement was consolidated in 1993 at a time when a new rise in unemployment began to place the consensus under pressure. In the 1993 accord, there is provision for greater decentralization of bargaining to company level within the overall co-ordinated structure - described by Visser (1996) as ‘centralized decentralization’.
In addition to wage moderation, over this period, concertation has also produced agreements on social security contributions, work sharing and industrial policy, training, job enrichment, low wage levels for low skilled workers, the development of ‘entry-level’ wages and, most recently, the 1995 ‘flexicurity’ accord in which rights for temporary workers have been strengthened in return for a loosening of dismissal protection for core workers. This consolidates the general trend in Dutch reforms to build a distributional coalition by breaking down the traditional barriers between labour market insiders and outsiders. In the 1980s, a relinking of the minimum wage and benefits to wage inflation was coupled with a decision to boost labour market participation by closing down easy exits from employment (early retirement, sickness and disability schemes) and generally minimizing the incidence of moral hazard. Low-income workers have been compensated for low wages by targeted tax breaks. Trade unions rescinded their opposition to the creation of part-time and temporary jobs and became the champions of such workers, bridging the gap that usually divides the ‘insider’ from the ‘outsider’ workforce. Hourly wages for such workers have subsequently been bargained to the levels enjoyed by full-time workers: thus, employers can recruit such workers to bolster flexibility, but not as a means of following a low-price production strategy based on wage exploitation. The 1995-1995 ‘flexicurity’ accords mentioned above have guaranteed pension and social security benefits to all part-time and temporary employees.

There has also been a recent revival of tripartite corporatism, with the reorganization of Dutch employment services along tripartite lines in 1991 and calls by the tripartite Social and Economic Council (which has been marginalised by the shift to bipartism in recent years) for a renewal of national consensus creation, involving government, employers and trade unions in the face of European integration and international competition. However, the productivity elements in the Dutch bargain would seem to derive mainly from the positive consequences for economic growth and labour market flexibility stemming from the distributional bargain. Most importantly, government intervention has been essential in helping break the blockage in negotiations on social security reform, an area where it has proven much more difficult to find agreement on changes to the amount and duration of benefits.

‘Me Dutch cm, then, as Visser describes it, is one of corporatism, but not one that is ‘against the market: rather, it is a system of ‘corporatism and the market’ (Visser 1996) in which monetary stability, budgetary discipline and competitiveness have been achieved, while also reforming social security and boosting employment, and escaping both the increase in social inequality that has occurred in Britain, and the break down in consensus and large scale social unrest suffered by France. En bref, it is perhaps the most advanced example of ‘competitive corporatism’ in western Europe.

Although criticized by Streeck (1996: 311) as ‘alliances between nationalism
and neo-liberalism’, this is to caricature the motives and achievements of these pacts. For while there may be elements of nationalism in the way European countries (and regions) still compete for inward investment, this is not the driving force behind these pacts and their policy innovations, nor is a more general process of regulatory arbitrage between competing welfare and labour market regimes. These pacts are responding to the more general competitive pressures that all states have to respond to and the need in the current period to deal with multiple, overlapping policy objectives. As already argued, in most European countries, reforming the labour market, in response to high levels of unemployment and the changing structure of the workforce, requires simultaneous changes to social security and pensions systems. With the possible exception of the UK, none of these can proceed effectively without an extensive process of concertation (and hence the problems facing reformers in France). Moreover, while competitiveness, may be a key concern, those pacts contain important trade-offs between equity and efficiency of the kind that have always characterized welfare states. Indeed, the new trade-offs are often responses to the solidarity dilemmas and contradictions generated by those earlier bargains. They may actually improve on them if older equity gaps are filled, new forms of disentitlement prevented and welfare states made more ‘employment friendly’, as seems to be the case, for example, of labour market and social security reforms in certain countries such as the Netherlands, Portugal and Italy.

But will these pacts endure and become more consolidated systems of social partnership? There are numerous reasons for expecting instability and eventual breakdown in those social pacts. They are not deeply rooted in social structures and historical tradition (all of the above with the exception of the Netherlands). Nor do they conform with the conventional corporatist prescription for strongly organized peak associations of capital and labour (most European countries, with the exception of Austria, Germany and the Scandinavian countries). However, recent commentators on the Dutch, Italian and other peripheral European cases (Ireland and Portugal) have all noted that the new context of corporatism is different from the old in a number of ways, including the organizational prerequisites (Regini and Regalia 1997, van den Ploeg 1997, Rhodes 1998a). As recently argued in the Italian case, unions which do not have high power resources but are well rooted in the work place and embedded in networks of more or less institutionalized co-operation, can be successfully involved in concertation. This is because they provide both a constraint and a resource for their partners - employers and the state. They provide a constraint because they can still effectively veto many policies to, which they are opposed (even if this influence is heavily reduced in a period of tight labour markets and deflationary policies). They provide a resource not only because they can deliver the support of their members behind agreements, but because in their absence as effective intermediaries, a more militant, fragmented and undisciplined labour movement would be even more difficult to deal with (Regini and Regalia 1997).
This suggests that tripartism can be based on mutual gains and consolidated by the absence of effective alternatives, even in systems without strong centralized organizations and consensus traditions. This is especially so if external constraints (EMU, economic competition) are compelling. This argument also, backs up the conclusions drawn by Van den Ploeg (1998) from the Dutch example. In the well-know argument of Calmfors and Drififf (1988) there is an inverse U-shaped relationship between the degree of centralization in labour markets and the ‘misery index (a composite of measure of employment plus inflation). But the Netherlands - a country with a degree of centralization somewhere in the middle - has not fared worse than either highly centralized countries (e.g. traditional Sweden) or highly decentralized ones (the United States and more recently Britain). Indeed, Dutch ‘co-ordinated decentralization’ in which, for example, local trade unions have accepted shorter working hours over wage increases, suggests such systems will certainly achieve much more efficient and equitable outcomes than their deregulated, decentralized counterparts.

Thus, the conventional analyses of the essential prerequisites for corporatism which emphasised structural measures of labour market institutions (classifications of encompassingness, centralization-decentralization etc) may (1) be unable to accommodate the full complexity of bargaining systems (which may all be hybrids to one extent or another) and (2) be less useful than analyses which situate forms and levels of concertation within wider socio-political processes and contexts (for a discussion, see Walsh 1994 and Henley and Tsakalotos 1992). The latter clearly include the types of coalitions underpinning or legitimating bargaining under certain situations in particular countries. These recent experiences also suggest that we have to revise our understanding of ‘social partners’ in ways that break out of the definitions set down in traditional analyses of corporatist exchange: as all of the examples of new the new social pacts reveal, effective partners to social exchange can be less cohesive and less encompassing than assumed in such analyses, and as revealed by the discussion of new distributional and productivity coalitions, their strength in the contemporary period derives less from fixed functional roles (as in the classic Schmitter definition of neo-corporatist prerequisites) than from their capacity for mobilization and co-ordination. To cite O'Donnell (1998: 103), whose reflections on the Irish case can be extended, with qualifications, to other national cases, ‘... while the success of a traditional social partner in bargaining depended on their 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 final characteristic is that a new social partner is an actor, not just a voice: Mobilising, organising, delivering and solving problems (with others) seems to be a future of effective social partners’.

Conclusions

The evidence above suggests strongly that the outcomes of social pacts can
be positive. Thus, in answer to the question of whether we are witnessing the demise of the so-called ‘European social model’, or rather an effective defence of its core principles, the answer must be a firm yes to the latter. While competitiveness may be a key concern, it is not the overriding concern. These pacts contain important trade-offs between equity and efficiency of the kind that have always characterized welfare states, even during their ‘golden age’, despite claims (e.g. Teague and Grahl 1998), that such trade-offs are no longer possible. In fact, the new trade-offs are often responses to the solidarity dilemmas and contradictions generated by those earlier bargains and may actually improve on them if older equity gaps are filled and new forms of disentitlement prevented.

In sum, we are witnessing a period of transition in which the market is clearly more important dm in the past and in which international constraints and influences have increased. While domestically generated problems and solidarity dilemmas remain the key to understanding the contemporary politics of the welfare state, their interaction with globalization is far from straightforward and so far inadequately researched. But despite much uncertainty about where current trends are leading, we can be clear, at least, about the following. If globalization is important, there is little evidence that states have lost their capacity for designing and redesigning social welfare systems. Nor does globalization appear to be irretrievably unravelling established national social compromises; indeed, in many countries it seems to be one factor among many in sustaining them, while in others it has encouraged new social pacts to emerge. Welfare states are not in deep crisis; nor are they losing support from distributional coalitions. No doubt, those coalitions are shifting, and their degree of support for traditional welfare arrangements is changing: and as a result, a process of adjustment and experimentation is occurring in the form, financing and orientation of welfare provision. In addition, the nature of such coalitions is becoming more complex, partly because of the links forged with parallel and overlapping productivity coalitions. Neither deadlock, nor neo-liberal convergence is the result of these developments. What we are witnessing instead is a concerted process of adaptation in which the core principles of the European social model are being sustained.

References


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