The Exchange between Governments and Trade Unions over Labour Market Reform:

Indicators for a comparative analysis

Jelle Visser

Amsterdam School for Social Science Research (ASSR)
Amsterdam Institute for Advanced Labour Studies (AIAS)

July 2007

Jelle Visser
AIAS/ASSR
University of Amsterdam
Plantage Muidergracht 4
NL 1018 TV Amsterdam
Email: jelle.visser@uva.nl

The Exchange between Governments and Trade Unions over Labour Market Reform:

Indicators for a comparative analysis

Introduction

In the final decades of the 20th and the early years of the 21st century, European welfare states have been struggling to recast their social and labour market policies and institutions. In most countries reforms must be achieved under conditions of "permanent austerity", to use Paul Pierson's apt phrase (Pierson, 1998). Permanent austerity is dictated by lower economic growth; extensive commitments of existing social protection programs to the risks and clientele of a disappearing industrial economy; the squeeze on tax revenues due to increased exit threats of capital and the wealthy; and increased constraints on competitiveness in the global economy. Some of these constraints, especially the last two, also apply to newly developing welfare states, like Ireland, or political economies in transition, as in East Central Europe.

In the 1990s a dominant policy discourse emerged in which Europe's underperformance in growth, employment and productivity was linked to the inability of Europe's welfare states to handle the structural transformation of industrial in service economies (EC, 1993; OECD, 1994). With no or only marginal reforms, some analysts feared the emergence of a two-speed labour market, stratified between on the one hand older, mostly male workers and heads of family with regular and well- protected jobs and social entitlements, but increasingly made redundant, and on the other hand newly entering cohorts, among them many more women than in the past, working in services and jobs without the career prospects, employment security and social protection that in the past had been associated with jobs in industry and in the public service. The consequence of the misallocation of rights and benefits was high social expenditure and high non-wage labour costs, creating a vicious circle of "welfare without work" especially for people with little education and productive skills (Esping-Andersen, 1999). Against this danger, it was argued, Europe's various welfare states needed recalibration from protecting old rights to covering new risks, investing in skills and education, lowering employment protection and non-wage labour costs or even subsidising those at the bottom of the labour market, decreasing the risks of dependency and encouraging labour market participation (Esping-Andersen et al., 2002; Ferrera et al., 2000; Zeitlin, 2003).

It is a well-established fact that welfare reform is difficult. In spite of the obvious 'irresistible forces' urging for reform, the welfare state tends to be an 'unmovable object'– using another of Pierson's expressions. The main reason, according to many scholars, is that the "old politics" of *creating* the welfare state, based on class mobilization and institution creation through societal bargaining, has been displaced by the "new politics" of narrow interest groups, professionals and clients *created* by and dependent upon the welfare state. In mature welfare states, social policy arrangements have been captured by organized groups, who, given their institutional self-interests and the demands of their clienteles, are increasingly in a position to resist reform.

Among the prime suspects of blocking welfare reforms are the trade unions. They have gained members (in the public sector) and rights for themselves and their members through the development of the welfare state and its many protections. Union membership is heavily biased towards the older workers, public sector employee unions have taken over the leadership from those representing manufacturing workers, and there are now sizeable constituencies of retired workers in the European union movements (see Table 1). In short, if their membership composition can be taken as a guide to the interests they stand for, trade unions must be counted as a *conservative force* in the debate on welfare and labour market reform.

Political economists have pointed to the time inconsistency of reforms (Saint-Paul, 2000). Making sacrifices now in order to safeguard the future social model is unconvincing if the future is depicted as worse than the present; hanging on to existing rights and privileges may to many seem the best strategy. Add to this that, according to opinion and attitude research, the welfare state enjoys widespread popularity, whereas people are wary of reform (van Oorschot, 2003). Consequently, many scholars continue to observe how a tug of war between popular expectations and harsh economic realities favours "a politics of blame avoidance in which cutbacks can take place only through incremental and surreptitious mechanisms of retrenchment or during moments of extraordinary fiscal stress and political consensus" (Clayton and Pontusson, 1998: 68).

Table 1: Composition of European trade unions, around 2000

	share of retired in total membership	ratio density <30 years to >50 years	share of female members	ratio female to male density	share of public members	ratio public to private density	share of members in manufacturing
Sweden	14,7	0.7	46,0	1.1	47,9	1.2	26,3
Finland	11,5	0.7	54,0	1.1	. .	1.3	. .
Norway	24,0	. .	44,0	1.1	54,7	1.8	27,6
Denmark	14,2	0.7	50,0	1,0	. .	1.2	. .
Germany	19,8	0.5	32,0	0.5	39,3	2.5	48,0
Austria	18,2	0.6	32,0	0.7	39,7	2.3	33,7
Switzerland	13,0	. .	. .	. .	39,0	2.1	28,4
Netherlands	19,8	0.3	28,0	0.7	50,0	2.4	23,6
Belgium	18,2	. .	35,0	0.9	32,0	1.0	44,0
France	20,0	0.2	. .	0.8	69,5	6.3	21,3
Spain	4,5	0.3	. .	0.6	. .	2.1	. .
Portugal	. .	0.5	. .	0.9	. .	1.2	. .
Italy	48,0	0.5	. .	0.7	44,0	1.5	31,4
UK	10,0	0.3	43,0	1.1	. .	3.2	26,0
Ireland	8,0	0.5	46,0	1.0	. .	1.6	. .

Source: calculated from Ebbinghaus and Visser (2002) and European Social Survey, 2002/2003 wave. See: R. Jowell & Central Coordinating Team (2003): European Social Survey 2002/2003. Technical Report. London: Centre for Comparative Social Surveys, City University, and http://www.europeansocialsurvey.org.

Given this state of affairs, one is surprised to find that reforms happen and that in many of these reforms, as we will see, the trade unions play a key role. Surely, most reforms are rather incremental and involve marginal adjustment to the setting of policy instruments (such as benefit levels and the duration or access to benefits) rather than a radical break with the past, but cumulatively many small changes may sometimes lead to a major redirection of institutions and policies (Streeck and Thelen, 2005). My contention is that the empirical foundations of welfare inertia are fairly shaky. A comparison of long-term substantive social and employment policy developments suggests that since the final decade of the 20th century and into the early 21st century, mature European welfare states have been recasting the basic social and economic policy repertoires upon which they were built after 1945 (Hemerijck and

Visser, 2006). Moreover, there a great deal of involvement of opposing parties and interest groups in the reform activities of European welfare states (Baccaro and Simoni, 2005; Compston, 2002).

In this paper I will analyse the "exchange" between governments and trade unions over labour market and social policy reform. The focus will be on the development of a set of indicators that allow us to analyse this exchange comparatively across time and space. The next section defines a classification scheme for my first variable of interest: labour market and social policy reforms. I will apply this scheme to the reform history of the Netherlands since 1982 and derive a small number of tentative conclusions regarding the "structural" political and organizations facilitating a reform coalition between "weak" governments and "weakened" trade union movements. Subsequently, I will explore the issue in a wider European context and analyse the "willingness" of governments and the "capacity" of trade unions to enter into and sustain reform alliances. In particular, I will analyse the 64 or so "Social Pacts" negotiated between governments and trade unions (and sometimes employers) between 1980 and today.

Labour market and social policy reforms

I count as reforms decisions that are *formalised* through changes in the law and through official reallocations of rights or resources in the following domains: I. macro-economic policy and wage setting; II. social protection (unemployment insurance; sickness and disability insurance; old age pensions and early retirement); and III. labour market policy (employment protection; active labour market policies; work-family policies). Although a broader definition of the welfare state would include health and education, my focus has been on these eight fields also because they are more directly related to industrial relations and I want to study the involvement of trade unions in reform.

There are various ways to classify reforms. Boeri (2001; 2005) proposes a double distinction between reforms that increase or decrease "generosity and social protection", and those that are "marginal" or "radical". The reform is classified as radical if it satisfies one of the following criteria: reduction or increase of replacement rates of the average claimant by at 10 percent; change in the broad design of the policy; targets existing beneficiaries rather than phasing in for future beneficiaries.

A second classification can be based on Pierson (2001). In the final chapter of "The New Politics of the Welfare State", he concludes that modern welfare state reform takes place under conditions of "permanent austerity". Yet, he admits that these reforms cannot be reduced to retrenchment only. He therefore proposes to analyse social policy reforms along three dimensions (Pierson 2001: 421): (a) *re-commodification* or the restriction of access to social benefits or state support without participating in the labour market (Esping-Andersen, 1990).[1]; (b) *cost-containment* or lowering the expenditure associated with different programs and schemes of social insurance and protection; (c) *recalibration* or reforms that redirect rights and/or resources from "old" to "new" risks, in this case from male to female employees and from older workers to the young and to families with children (see also Ferrera, Hemerijck and Rhodes, 2000). I have added a fourth dimension relating to (d) the *governance* of social policies or what we might call "Ordnungspolitik" (Visser and Hemerijck, 1997: 151) – the division of incentives, resources and responsibilities between various institutional actors and organisations. Although actual reforms may fit in two or more of these dimensions, I have tried to fit each reform in just one, based on information on the dominant aspect of the reform.

A third classification takes into account how the reform has come about. With regard to the decision making process I propose a fourfold classification: (a) the government takes decisions unilaterally (imposition); (b) the government takes decisions after consultation with social partners, but not necessarily in agreement with social partners (consultation); (c) the government takes decisions after concertation with social partners (social pacts) and largely in agreement with social partners (concertation); and (d) decisions are based on agreements between social partners and transposed into law by government (autonomy).

Based on a study of exactly hundred labour market and welfare reforms in the Netherlands since 1982, my results can be classified as in Table 2

[1] Citing Ann Orloff and referring to the case of women who move from household work into paid employment outsid the house, Pierson (2001) notes that there are cases where 're-commodification' or greater exposure to the pressure of the labour market may add to autonomy of workers.

Table 2: Dutch reforms, 1982-2006, by domain, method and character

		macroeconomic policy & wage setting	social security	labour market	*of which: work-family policies*	total
all		22	48	30	*11*	100
decreasing generosity	marginal	6	25	2	*0*	33
	radical	5	9	4	*0*	18
increasing generosity	marginal	3	10	9	*9*	22
	radical	0	0	4	*0*	4
other	marginal	3	2	7	*2*	12
	radical	5	2	4	*0*	11
recommodification	yes	0	7	4	*0*	11
	no	0	1	0	*0*	1
cost containment	yes	11	25	3	*0*	39
	no	3	4	5	*4*	12
recalibration	favouring new risks	3	3	10	*7*	16
	favouring old risks	0	1	0	*0*	1
governance	more state involvement	4	2	5	*0*	11
	less state involvement	1	5	3	*0*	9
state	imposition	4	14	5	*0*	23
	consultation	9	30	18	*6*	57
social partners	concertation	4	3	3	*1*	10
	autonomy	5	1	4	*4*	10

Source: own data

This comparison shows that roughly half (51 percent) of these reforms were decreasing the level of protection and generosity of existing policies, while 30 percent went in the opposite direction and 19 percent could not be classified either way. More generous protection is mainly related to new risks, work-family issues and in some lesser way young people or migrants with low skills and weak labour market attachments – not the prime clientele of Dutch trade unions. Easing of part-time work was also an important driver (Visser, 2002). A second finding is that roughly two-thirds of the reforms are marginal, while the remainder relates to new policy instruments or institutions, has direct effects also on current beneficiaries or implies a large change in policy approach. Many of these radical reforms involve a change of the governance institutions of the labour market and social policy (for instance concerning disability insurance or the public employment service), and they were usually contested most bitterly by the unions (and by employers). Overall, my findings are quite similar to those presented for a much larger sample of countries by Boeri (2001; 2005).

Using Pierson's classification, we observe that in the Netherlands "cost containment" was the most important driver of reform. Further analysis shows that this was especially the case in the three "crisis" or "economic downturn" periods, each separated exactly by a decade: 1982-83; 1992-93 and 2002-03. Recalibration was also an important driver, especially from the second half of the 1990s on, followed in importance by "governance" and "re-commodification". With regard to "governance" I observe change in both directions – towards more autonomy for unions and employers, or other non-governmental actors (especially in wage setting and, in a more limited way, in employment protection and deciding on work-family issues) and toward more direct supervision and administration by the state and public agencies controlled by the central or local government (in social insurance and active labour market policy). Of the reforms that were cost increasing many were related to improving the position of women and addressing work-family issues.

Finally, and for my purpose most importantly, the Dutch unions initially opposed most if not all of these reforms, with the exception of those relating to wage setting, work-family issues and part-time work (Visser and Hemerijck, 1997). In some domains (dismissal protection of regular workers) they still oppose reform and with the exception of some very marginal reforms regarding the notification period for dismissals, a speeding up and shortening of procedures for individual and collective dismissals and the recent attenuation of seniority rules in the case of collective dismissals, reform in this field is blocked. Instead, the Netherlands has chosen the path of liberalising the market for temporary and agency work, helped by a major agreement between the unions and the employers (1996) and the quite liberal application of the law, which allows far-reaching derogation from the law by means of collective agreement (Houwing et al., 2007).

Occasionally the Dutch unions organised massive protests to put pressure on the government, as they did in 1991 against the disability reforms and, more recently in 2004 against the proposed reforms on early retirement, disability and unemployment insurance (Van der Meer and Visser, 2005). Yet, over the whole period of twenty-five years only a quarter of all reforms were imposed without consultations or negotiations with the unions. In over three-quarters of all reforms, the government went into extensive consultations or negotiations with the unions, in most cases leading to a change in the timing or extent of reform. Even if we limit ourselves to the area of social security, the policy domain over which the government has by virtue of law most power and should be least encumbered by the veto power of trade unions, only 29 percent of decisions were taken without serious consultations or negotiations with the trade unions.

Comparing the Dutch case in Europe

It might be quite inappropriate to generalize these finding to other European economies facing similar reform pressures. The Netherlands has a track record for consensus and negotiated social policies, and it has rather cooperative and centralised unions, with leaders capable of leading their members to accept moderation and compromise (Visser and Hemerijck, 1997). The five general conditions that in my view propel trade unions towards such a position are (a) a stable but modest membership base, that is, neither a very high nor a very low density rate; (b) institutional and organisational security for the union as an organisation, and the absence of a threat to survival; (c) a relatively high degree of intra-organisational centralisation, achieved by administrative means or by referendums and leaving union leaders relatively free to select policies; (d) an fairly concentrated union movement with room for (non-political) inter-union competition in collective bargaining creating downward pressure on union demands if it occurs under conditions of joint bargaining; (e) the absence of political competition within and/or between union confederations. These conditions make that trade unions can chose and stay a modest course.

Table 3: Five Structural Conditions for Union Capability to Negotiate Reform, (2000-2003)

	(a) member base	(b) institutional stability	(c) union centralisation		(d) bargaining units		(e) political unity and conflict in the union movement		
	union density rate	bargaining coverage rate	Iversen index (revised)	ballots, referenda	effective number of unions	inter-union bargaining	effective number of confed.-s	intra-confed. conflict	inter-confed. conflict
SE	78	92	.49	yes	15	joint	2,4	low	low
FI	73	95	.46	no	27	mixed	2,8	low	medium
NO	53	75	.47	yes	22	mixed	3,1	low	high
DK	73	82	.44	yes	14	joint	2,0	low	low
GE	24	64	.36	no	8	monopoly	1,4	low	irrelevant
AU	35	98	.66	no	8	monopoly	1,0	medium	irrelevant
SZ	18	45	.21	no	28	mixed	4,8	low	medium
NE	*24*	*84*	*.54*	*yes*	*7*	*joint*	*2,0*	*low*	*low*
BE	49	95	.53	no	22	mixed	2,3	medium	medium
FR	8	95	.28	no	51	mixed	6,1	low	high
EE	16	80	.41	no	21	joint	2,7	medium	medium
PT	19	70	.30	no	(40)+?	local	2,0	low	high
IT	34	80	.39	yes	34	mixed	3,5	medium	medium
UK	29	35	.14	yes	(15)+?	local	1,4	high	irrelevant
IE	36	. .	.53	yes	(4)+?	local	1,1	high	irrelevant

Source: own data

In the Netherlands, these conditions seem satisfied, although in recent times condition (e) is under pressure from the rising influence of a radical socialist anti-reform party within the major unions, and union density (condition a) is on the low side, although stable since the late 1980s. In general, their modest bargaining position in the labour market in most sectors and companies, combined with the increasing social policy content in wage bargaining agendas (Rojer, 1994; Trampusch, 2005), has driven the unions towards the political arena. Through exchange with the government unions can gain the little extra they need in wage bargaining, especially when labour markets are slack. *Vice versa*, it is a well-known “secret” among Dutch union leaders that the main (and today, with the unemployment rate falling under 5 percent, perhaps only) reason for offering “wage restraint” is that it guarantees some influence over government reform policies and some access to public funds in active labour market policies, although this must now increasingly be shared with municipalities. This “restraint” is offered through the officially announced technique that official strike action and payments for days not worked will be limited to wage demands that remain below the official "maximum norm" set by the confederation on the basis of the data on past inflation and future productivity trends provided the Netherlands' Institute for Economic Policy Analysis (in Dutch: Central Planning Bureau) and a various the consultation rounds with (lay) officials and staff of affiliated unions.

Similarly, the fact that all Dutch political parties are minority parties and all Dutch governments coalition governments, tends to produce a particular kind of weakness on the side of governments and propels governments to seek support among potential opposition groups outside the electoral arena. In the Netherlands, like in many European countries, reform policies have to be prepared and carried through in *two arenas*: electoral (and party) politics and interest group politics. The electoral and party arena is rather fragmented with religious and class cleavages and elections based on proportional representation. All political parties in the Netherlands are minority parties and all Dutch governments based on coalitions. With many veto points or "instances in the policy making process at which a suitable coalition of actors can prevent the adoption of a given piece of legislation" (Bonoli, 2001: 238), such a fragmented system is likely to create a bias towards the *status quo*.

However, following Kitschelt (2001: 272), there are four political conditions that facilitate reform: (a) the absence of strong contenders on the right or left of mainstream parties; (b) the shift from mass parties, constrained by interest groups, to framework parties with a more 'freestanding' leadership; (c) the presence of other-than-economic interest as a theme in elections; and (d) the presence of a rather strong political party (VVD) advocating liberal market policies. These conditions seem satisfied in the Netherlands for most years between 1982 and 2006 and made Dutch politics reform-friendly in spite of the high degree of party fragmentation and the consensus nature of Dutch politics (see Table 5 below).

There were no strong anti-reform contenders on the right or on the left (until 2006, when this radically changed with the emergence of an anti-European and anti-reform Socialist party with an almost equal share in the votes, and possibly stronger membership support in the unions, than the mainstream Social Democrats. All large "popular" parties, especially the Social Democrats during the 1990s, reformed to become framework parties. Non-economic issues (foreign policy in 1982; life-style issues in 1994 and 1998; migration and ethnic conflict in 2002) deflected from the harder economic policy choices; and the Liberals were powerfully present and in government from 1982-89 with the Christian Democrats (CDA), from 1994-2002 with Social Democrats (PvdA) and from 2002-6 again with Christian Democrats (see Table 4).

Table 4: Labour market and welfare reforms in the Netherlands 1982-2006, by Cabinet

Cabinet (PM)	coalition parties	political tendency	years	reforms per year	negotiated reforms	decreasing generosity	radical reforms
					%	%	%
Lubbers 1	CDA-VVD	centre-right	1982-86	2.5	43	71	57
Lubbers 2	CDA-VVD	centre-right	1986-89	2.7	67	67	33
Lubbers 3	CDA-PvdA	centre-left	1989-94	3.8	67	43	29
Kok 1	PvdA-VVD-D66	rainbow	1994-98	5.8	83	43	22
Kok 2	PvdA-VVD-D66	rainbow	1998-02	2.8	82	36	62
Balkenende	CDA-VVD-plus	centre-right	2002-06	5.6	76	57	32
total			1982-02	4.0	76	51	33

Source: own data

However, reform policies during the past quarter century in the Netherlands confirm Pierson's thesis that reformers seek rather broad coalitions and consensus on reform outside the political arena rather than just a 'minimum winning coalition' within the political arena (Pierson, 2001: 418). Deviations from this strategy tend to be punished by blockage. The implication is that reform processes are slow and incrementalist, but they tend to lower the risk of reversal and in the long run they may add up to quite major changes in the direction and implementation of social policies. However, there is also the risk that the focus on the easiest reforms regarding marginal groups and workers without entitlement or entrenched rights increases the distance from those with entrenched rights and that the lack of speed in reform worsens the possibilities to create modernising coalitions in which the protection of 'old' and 'new' risks is recalibrated (add literature).

In conclusion, just as much as an era of 'permanent austerity' (Pierson, 2001), the past quarter century has been an era of 'permanent reform' – the pace of reform has hardly slackened. These reforms occupy the space of all four aforementioned dimensions: de-commodification; cost-containment, recalibration, and changing structures of governance and administration.

Cost-containment was the dominant one, especially in the first phase (1980s) but also in recent times, perhaps prompted by the EMU deficit requirements. Seen in the light of the 'Growth to Limits' thesis of Flora (1986), which holds that retrenchment pressure are largest in welfare states that had expanded most, the concentration on cost containment in the first reform phase was to be expected. In 1980 public expenditure on social policies as a share of GDP had risen to 24,1 percent and in only a decade the Netherlands had moved into third place after Sweden and Denmark, but before all other "conservative-corporatist" welfare states. A decade of curtailments followed, with reforms concentrating on a lowering of the *price* of social policies while the *volume* of its beneficiaries was still growing.

Running hard to stand still: in 1990 the Netherlands spent just as much (24.4 percent) on social policies relative to GDP as it did in 1980. It is fair to add, however, that few countries managed to achieve stabilisation and in 1990 social expenditure in many welfare states surpassed spending levels in the Netherlands (see Chart 1).

[Chart 1 about here]

Ten years later, owing to strong job growth and policies lowering the volume of claims on social policies and benefits, public expenditure had decreased to 19.3 percent. There are only two other countries managing something similar: Ireland and Finland. However, after 2000 public expenditure on social policy was again on the rise. The numbers of disabled, sick and unemployed workers, and those on social assistance, are still adding up to 1,5 million out of a labour force of 7,5 million – a rather stubborn fact.

The willingness of governments to negotiate reform

I do not yet have the data on labour market and social policy reforms in other European countries that would allow me to compare my findings and test some key hypothesis that may be derived from the Dutch case. (Testing with the data of the Rodolfo de Benedetti foundations would seem a good further step.) However, thanks to Baccaro at the International Institute of Labour Studies if the ILO, we have some information on the exchange between governments and unions over labour market and social policy reforms for a set of European countries. Based on systematic coding of textual information contained in the "European Industrial Relations Review" – a monthly publication providing regular updates on industrial relations developments in European countries – he and his collaborators constructed an indicator of "government willingness" to engage in policy concertation pertaining to welfare policy. This indicator covers 15 European countries between 1974 and 2003. For each country, year, and policy area, the willingness index takes a value of 1 when there is evidence that the government publicly invites the social partners to negotiate a reform of social protection policies and institutions and/or if there is evidence that unions and employers are invited or allowed to design and implement such reforms autonomously. In both cases, the government is effectively sharing or delegating its policy-making prerogatives with private organizations in the political economy.[2] If, instead, there is textual evidence that a government designs or implements reforms without the formal involvement of trade unions the score is 0. Note that these scores are based on *formal involvement* rather than *informal influence*, thus a government relying on informal or secret negotiations with one or more unions, and thus showing some willingness to negotiate its policies, still receive a 0 score.

[Chart 2 about here]

Simply by plotting this indicator over time for a sample of 15 European countries (the EU15 plus Norway but minus Luxembourg), Chart 2 shows a clear upward trends towards concertation. There is some cyclical variation and there seems to have been a peak in 2000 when all governments, except in Austria and the United Kingdom, were willing to adopt a participatory approach. After 2000 the share of governments offering concerted policies declined from 86 to only 60 percent in 2003: the governments of Austria, Britain, Greece, Italy, Denmark, and Portugal, joined by the Netherlands and Spain a year later, took or tried to take a unilateral approach to welfare policy. However, this may be a temporary phase only, influenced by political developments, i.e. the turn to the right and to 'populist' policies in a number of

[2] The variables keep the same scope as in the previous year if no change occurs. So, for example, if a government reforms the pension system through the involvement of the unions, its score will be 1 until it seeks to pass a new policy on social security issues unilaterally. It si obvious that some of the upward drift in Chart 2 reflects inertia.

countries, combined with a difficult and disappointing economic situation in many parts of Europe. Three years later, however, in 2006, the governments of Austria, the Netherlands, Portugal, Spain and Italy have returned to concerted policy-making consulting unions over welfare reform.

Chart 2 also reveals that negotiations over policy reform do not always lead to agreement. The dotted line, indicating agreement, runs consistently below the line indicating governmental attempts to negotiate reform. Often enough unions reject government proposals. Before turning to the issue of Social Pacts and the issue of negotiations, I want to correct for the “inertia” assumption inherent in Chart 2 (see footnote 2) and picture the willingness of governments to negotiate social policy in another way. Using the same data as in Chart 2. I have recoded the government’s approach to labour market reforms following the four-points classification proposed earlier: imposition (=1; consultation (=2); concertation (=3); and autonomy (=4). Using this approach, we observe that there has been little change over time – a slight decrease in the negotiated approach during the 1980s was followed by an slight increase in the 1990s and early years of the new millennium. We also observe that there is not really a change over time in the variation across countries. Before turning to the question what makes European governments persistently different in their approach to reform (further analysis reveals that patterns are highly path dependent), I employ to further indicators – state intervention in wage setting and the negotiation of Social Pacts - to make my point.

[Chart 3 about here]

State intervention in wage setting.

At first sight, it is somewhat odd that many European governments have continued to intervene, directly or indirectly, in wages and wage setting. The incomes policies of the 1970s were deemed a failure by most and in later years there was increased scepticism, both in politics and economics, about the wisdom and effects of such interventions. In 1983, at an expert conference of the OECD, there was consensus that “genuinely free collective bargaining” was something limited to ‘fair weather’ periods” (OECD, 1983: 11). But the experts predicted that governments would retreat from this domain – which they usually did not see as a proper field for public policy - and restore “free” collective bargaining after the turn to a more restrictive monetary and fiscal policy would have produced lower inflationary expectations and created more slack in the labour market, thus ensuring that “union demands will be more subdued and lessen the potential conflict between bargaining and economic policy” (OECD, 1983: 17-18). My data show that this prediction came only partly true: the more restrictive macroeconomic environment and higher unemployment did lead to an erosion of union bargaining power and more subdued union demands; wage growth was lower and there was a significantly decrease in labour’s share in the national income. However, “free” collective bargaining has remained the exception rather than the rule, at least in Europe.

Governments use different instruments to influence the expectations and behaviour of wage bargainers or correct outcomes of their negotiations. In her book on “Wage Setting, Social Pacts and the Euro” Anke Hassel (2006) has developed a useful scale, which I will adopt, albeit with some modifications. There are five possibilities running from: the government imposes its will on private sector wage settlements, places a ceiling on bargaining outcomes or suspends bargaining (=5); the government participates directly in wage bargaining (tripartite bargaining, as in pacts) (=4); the government determines wage bargaining outcomes indirectly through price-ceilings, indexation, tax measures, minimum wages, and/or public sector wages (=3); the government influences wage bargaining by providing an institutional framework of consultation and information exchange (=2); or the government does none of this (=1).

[Chart 4 about here]

Based on this scale we get the following picture (Chart 4). For continental Europe it shows trendless fluctuation. The big changes have occurred in the Anglo-American Liberal Market Economies – all shifting at one point or another to a “non-interventionist” stance. The condition for such a position, it seems to me, is the utter defeat, fragmentation and isolation of the union movement and its inability to coordinate wage developments beyond the local or company level. This is what the Conservative governments after 1979 achieved through various legal measures and Labour did not change. A similar constellation obtains in the USA, New Zealand, Australia, and to a lesser degree Canada. Perhaps Switzerland is the closest example in continental Europe, though unlike the Anglo-Saxon countries there was always considerable coordination among employers (Soskice, 1990; Kriesi, 2006). Some conservative governments have flirted with this approach – Berlusconi in Italy, Aznar in Spain, Barroso in Portugal – but these flirtations were always short-lived. Even in the new capitalist democracies of East Central Europe, notwithstanding the political attire of neo-liberalism, the weakness of unions and the mostly local nature of wage bargaining, governments have retained a role in wage setting, mostly through the public sector and the minimum wage.

In Southern Europe (France, Italy, Spain, Portugal and Greece) we observe a slight decline in state intervention – coming from very high levels in the 1970s – together with an increase in the coordinating abilities of unions and employers. But the state – through various means and by sometimes threatening direct intervention - has remained an important element in bringing about the necessary cooperation and coordination in the labour market – as is the case in the Benelux and in Scandinavia.

My hypothesis is that trade unions, although usually wary of state intervention in wage setting, welcome a moderate level of state involvement, allowing them to exert influence over national policies in return. To express this in an other way: trade unions welcome some modest (and predictable) degree of state involvement in wage bargaining as a *substitute* for painful reforms, especially of employment protection of regular workers, which would reduce the wage claims of the regular union-protected workforce by other means. If this hypothesis were correct, we would see a return to more aggressive wage claims if governments do pressurise to reform employment protection, at least in a transitional phase. This leads to the issue of social pacts

The revival of tripartism and Social Pacts

One of the surprising developments of the 1990s was the revival of tripartism and social pacts negotiated between governments and the central organizations of unions and employers. Surprising because a similar development in the 1970s – in response to the economic shocks of that time – had ended in dismay and discredited corporatism in the guise of tripartite negotiations. Examples from Italy, Britain, Ireland, Belgium, the Netherlands and Denmark show that in the 1970s and early 1980s these tripartite policies were never very stable and in some cases very costly. But tripartism has made its come-back as we can see from Chart 5 – which simply depicts the proportion of European countries, out of 17, that tried to negotiate (upper line) and actually did negotiate (lower line) a social pact. Following the early example of the Netherlands and Ireland, we had tripartite pacts between governments and the social partners in Italy, Portugal, Spain, Greece, Finland, and Norway, and attempts in Belgium, France and Germany (Fajertag and Pochet, 2000).

[Chart 5 about here]

I define social pacts as specific forms of macro-cooperation, or policy concertation, between representatives of government and organized interests who negotiate and coordinate policies across a number of formally independent, but interconnected policy areas (incomes, labour market, fiscal, and social policies) at different levels (national, sectoral, regional, local) (see Hancké and Rhodes, 2006). As is well known, many of these social pacts were negotiated in the 'peripheral' EU member states, outside the D-mark zone, in order to ensure membership of EMU 1999 (Pochet, 1999; Streeck, 1998). Sponsored by the European commission, tripartism was also exported to the East, as it had once been to Spain, Portugal and Greece when they joined the European Union. Social pacts have been negotiated with some success in Slovenia, Latvia and Hungary, not counting some early and rather unstable examples from Poland and Lithuania.

It should immediately be made clear that these new "second generation" pacts were quite different from the "first generation" pacts of the Keynesian era. These different features can be understood in terms of, first, the *context* in which they happen (i.e. a shift towards more liberal market policies and decentralization in industrial relations) and the exogenous shock, such as the hard currency regime and EMU, which they respond to; second, the *content* of these pacts, which is, unlike the traditional incomes policies of the 1970s, more regulatory than redistribute and does not promise more equality in earnings, progressive taxation, or additional public spending (in fact the new pacts go along with less equality, taxation or spending); thirdly, their *aims*, which most notably are the achievement of greater national competitiveness in the global economy; and, *fourthly*, a stronger but also changed role for the government in these new pacts, at the expense of employers. This increased role of the governments is also witnessed by the displacement of bipartite agreements, between unions and employers, by tripartite agreements involving the government. Due to this distinctiveness, the new social pacts of recent times have been characterized as 'competitive corporatism' (Rhodes 2001), 'supply-side corporatism' (Visser and Hemerijck 1997; Traxler, 2001), or even 'post-corporatism' (O'Donnell 2001).

The recent literature has not only pointed to the distinctive nature of the content, aims, and composition of the new social pacts, but also to the fact that they have often appeared in rather unlikely places, i.e. in countries without the organizational and institutional preconditions favoured by the neo-corporatist literature (see Schmitter, 1974; Streeck, 1984; Lange, 1984), such as: centralisation and concentration of unions and/or employers' associations; authoritative joint councils or similar bodies that bring representatives of capital and labour together and conciliate conflicting interests and views; pro-Labour governments or governments based on broad coalitions that promote the involvement of private interest groups in public policy. Little of this applies to Italy, Ireland, Portugal or Greece (see Table 3), and yet there were social pacts, some like the Irish or Portuguese examples even on an enduring base. In order to understand the new social pacts we have to shift our attention from pre-existing institutions and traditionally understood pre-requisites to actors' strategies and the interactive games they play as the key to understanding these new forms of macro-concertation (Avdagic, Rhodes and Visser, 2005, also Regini 2000).

Moments of economic or national crisis and the urgent pressure of international adjustment are widely acknowledged as impulses that have led governments and economic actors across many European countries to consider the option of social pacts as a viable institutional solution to their respective problems. While their immediate aims might have been different – ranging from the need to address a national crisis of public finance, unemployment and market loss, as in Finland, to the uphill race to prepare for EMU membership, as in Italy, or to more general and continuing concerns of improving international competitiveness and productivity – it is the similar exogenous shocks faced by the respective national economies that are considered to be the catalyst of this institutional change. Nothing concentrates the mind like a crisis and in such emergencies “hidden” resources of cooperation, like national pride, may suddenly become available.

Recent accounts of attempts to conclude social pacts remind us of the utmost importance that actors form a shared understanding of the situation that will facilitate cooperation and the reaching of an agreement (e.g. Visser and Hemerijck, 1997; O’Donnell 2001; Siegel 2004). Without such an understanding, their concentrated short-term interests cannot be overridden by the potential longer-term benefits of an agreement. In their overview of social pacts in the 1990s, Fajertag and Pochet (2000) conclude that without a shared analysis and common understanding of such experiences of national crisis, these pacts could not have happened.

This does raise the question why in countries, like Belgium or Germany, which did go through a period of deep crisis, no such common understanding was reached and no effective social pact negotiated. These examples remind us that there is nothing automatic about the response to crises and that similar and shared experiences may give rise to wildly different interpretations. Moreover, even where a shared understanding has developed and guides actors towards a focal point for their cooperation, it is unlikely that such cognitive and normative commitments will be sufficient for entering into a compromise, “unless the structure of pay-offs and surrounding conditions (...) are consistent with self-interest” (Lange 1984: 106).

Second, while non-cooperation might indeed make everybody worse off, it may not hurt everybody equally. Since the amount of “damage” depends on the distribution of power in a given context, it is reasonable to expect that this distribution of power, together with the weight actors give to the present as compared to the future, influences the choices of actors and their willingness to compromises. For instance, it has been argued that the unwillingness of German unions to make compromises during the negotiations of the “Alliance for Jobs” was related to their strong secondary power resources embodied in sectoral corporatist institutions (Traxler, Blaschke, Kittel 2001; Siegel 2004), as well as to social insurance institutions that long concealed the costs of high unemployment (Hassel 2003). Since the unions could rely on such resources, they had little incentive to promote macro-concertation by offering compromises.

Let me now return to my earlier question: what makes governments to want to negotiate reform? What accounts for the difference between, say, the UK government and the German or Italian government? At this point we can usefully employ data on the party fragmentation, the nature of government coalitions and the overall “need-for-consensus” indicator of Lijphart (1999, 2001).

(to be finished).