After the euro and enlargement: social pacts in the EU

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This book is dedicated to the memory of Franz Traxler.

Acknowledgements

This book is based on a research project carried out by the European Trade Union Institute (ETUI) and the Observatoire social européen (OSE), asbl.

We wish, first of all, to thank all contributors for their work and for their patience during the long process of finalising the project.

Our sincere gratitude goes to the European Trade Union Institute, which hosted the first workshop held in Brussels on 14 and 15 March 2008, and to Professor Giliberto Capano, Dean of the Faculty of Political Science of Forlì, University of Bologna (Italy), who helped us to organise the second workshop held in Forli on 10 and 11 October 2008.

We are also indebted to the OSE team for their assistance and friendly contribution over many months of reflection. Françoise Verri and Valérie Cotulelli undertook, with great patience, the first part of the process for the book's lay-out and the requisite harmonisation. The ETUI team made an important contribution to the finalisation of the book. Special thanks go to Janet Altman for her translation of a number of articles. To all these colleagues we acknowledge a special debt of gratitude.

The book is dedicated to the memory of Franz Traxler who passed away suddenly in January 2010, shortly before this book went to print. His huge contribution to the field of industrial relations studies has influenced generations of scholars and experts and his work constitutes a legacy for the future of industrial relations analysis and an example for all scholars in the field.

Brussels, 2010

Print: ETUI Printshop, Brussels

D/2010/10.574/05
ISBN: 978-2-87452-169-0

The ETUI is financially supported by the European Community.

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Introduction

The last wave of social pacts in Europe: problems, actors and institutions

David Natali and Philippe Pochet

Introduction

The participation of social partners in the management of socio-economic variables has been a stable feature of European politics in recent decades, and it has been defined as one of the key aspects of the European Social Model (Jepsen and Serrano Pascual, 2005; Baccaro and Simoni, 2008). Yet their role has not been constant throughout the post-war period. It has changed during different cycles. The first period of neo-corporatist agreements – in the wake of Keynesian economic policy – ended at the beginning of the 1980s (Schmitter and Grote, 1997). After a more awkward phase of social dialogue, a (second) new wave of social pacts emerged – in the light of competitive forms of concertation (Rhodes, 2001). And European integration largely contributed to such a revival. The launch of the European Monetary Union (EMU) represented a decisive exogenous stimulus for the (re)emergence of social concertation between governments and peak-level social partners (Fajertag and Pochet, 1997; 2000).

This book aims at shedding light on the third and most recent wave of social pacts in the last decade in European Union (EU) countries. This is an attempt to address some of the 'old' questions that drove previous analytical efforts on social concertation in Europe in a changing context: What are the key determinants of social pacts? How stable are those agreements in Europe? Is there any convergence between EU member states in approaching consensual socio-economic policy reforms? What is the prospect for the future of social pacts? These questions are still of key importance for the study of social pacts. Yet they are largely shaped by new contexts and dynamics. In particular, they are influenced by the participation of many European countries in a single currency area: the Eurozone.

This book was prepared during the emergence of the financial and then economic crisis. Thus the individual chapters do not deal with this aspect. Nevertheless, one of the key findings of the analysis both of the country chapters and of the more theoretically-inspired chapters seems consistent with recent trends in social partnership in the context of a huge economic downturn. Social pacts have seen neither extreme success nor a striking decline in the past decade, and this is confirmed by the most recent period. Governments' and social partners' reactions to the crisis have much more to do with the mobilisation of micro- and meso-level answers: collective bargaining at plant and/or sectoral level (Glassner and Galgóczi, 2009). In other words, policymakers have preferred micro or meso level solutions, rather than macro-level solutions like social pacts, to mitigate the crisis.

As far as social pacts in the 1990s are concerned, scholars have argued that EMU accession did play a key role in catalysing efforts to strike social deals, especially in those countries lacking the structural and institutional preconditions for more traditional neo-corporatist concertation (Ebbinghaus and Hassel, 2000; Fajertag and Pochet, 1997; Hassel 2003). This was argued in particular for countries likely to have difficulty in sustaining a monetary regime aiming for low inflation and a stable currency while keeping their public deficits under control (Pochet, 1998 and 1999). Other authors have stressed the proliferation of opportunities for social pacts through multi-dimensional compromises and the highly contingent nature of social pacts signed in the wake of EMU accession (Rhodes, 2001; Traxler, 2002; Hancké and Rhodes, 2005). And consequently, many outlined the plausibility of a general decline in social concertation practices afterwards. As concerns their further evolution, it was indicated at that time that a number of these agreements appeared to be unstable and linked with cyclical economic factors. What is more, the transition to the third phase of EMU would reopen a debate on suitable forms and content of concertation, no longer in the context of the strict Maastricht criteria establishing the single currency, but in that of a more relaxed unified monetary zone with no hard sanctions for countries not reaching key targets (Fajertag and Pochet, 2000; Natali and Pochet, 2009).

Some years later, the key questions on the opportunity for social pacts and their evolution are still at the core of the literature on industrial relations. The most recent dynamics provide new evidence for testing both old and new hypotheses and improving our understanding of social pacts. And further challenges and trends have emerged. Firstly, the globalisation of financial markets and international trade competition have hugely shaped wage-setting and tax and welfare policy at national level (see Schmidt, 2008; and Traxler, this volume). Secondly, socio-economic changes such as more flexible employment arrangements, the dualisation of labour markets, contrasts between sheltered and exposed sectors and increased migration flows have intensified. Thirdly, and in parallel with the full implementation of the Monetary Union, EU enlargement has represented a new focus for research. Peculiar socio-economic and political conditions, namely the transition from state-planned to market economy and from socialism to democracy, and the typical traits of industrial relations in Central and Eastern Europe represent a new set of challenges for social dialogue - and indeed for its analysis. And all this adds more complexity to the interaction of EU integration, EMU accession in particular, and social partnership (Bohle and Greskovits, 2007; Ost, 2000; 2005; Meardi, 2007).

Finally, the problematic link between social policy reforms and wage bargaining has re-emerged. Some authors have stressed the increased disconnection between the two areas and consequently the more limited scope for compromises. And, meanwhile, social partners and governments have seen changing interactions and evolving power resources. Their preferences have changed as a consequence of renewed challenges, evolving contexts and processes of mutual learning.

The core part of the book is based on country chapters shedding light on the recent evolution of social pacts across the Eurozone. Case selection has been firstly oriented to analyse those countries that participated in the first launch of the monetary union: Finland, Ireland, Italy, the Netherlands, Portugal and Spain. They represent an interesting case study for understanding the stability of social pacts and/or their evolution across the years. While some chapters show the progressive institutionalisation of early agreements (in particular the case of Ireland, Spain and to some extent Finland), some others provide evidence of the more problematic trajectory of national social partnership (as is the case of Italy and Portugal). The Netherlands presents another path from bipartite social dialogue in the 80s and 90s to tripartite social pacts in the new century.

Other chapters are devoted to studying the second group of countries that joined the Eurozone later on, from both the western and eastern parts of Europe, or ones like Poland and Hungary which wanted to do so but have delayed their application. These chapters are focused on individual countries, proving the extreme variety of concrete forms of social partnership. Some of the countries under scrutiny have confronted huge problems to implement social pacts. Political, institutional and more policy-related tensions have thus prevented the emergence of social agreements at national level in some of these countries (Greece, Malta, Cyprus, Hungary). Some others have gone through the uneven evolution of their first experience of social pacts (to some extent Poland) and a highly accidental route to social deals (e.g. Slovakia). Slovenia is by contrast an example of long-standing social agreements. All the chapters, then, provide some insights into the effectiveness of social agreements and the prospects for their future reproduction.

The present introduction and two other chapters provide a more analytical and theoretical understanding of the evolution of social pacts in EMU. This chapter briefly summarises the literature developed so far on the key determinants of pacts. Franz Traxler in the second chapter undertakes a broad and diachronic study of social concertation in Europe. The focus is in particular on the interaction of different production sectors, exposed and sheltered ones, that face different sets of challenges. Their interaction seems to be important in shaping the scope for pacting and the content of social agreements. In the final chapter, Maarten Keune and Philippe Pochet provide a summary of the key findings of the country chapters and give some initial reflexions on the evolution and determinants of social pacts in Eastern and Western Europe.

In this introduction we aim to improve the understanding of the development of social pacts, through a multi-dimensional and diachronic approach. The latter is focused on the changing socio-economic context at both national and international level; the evolution of actors' roles, interests and preferences; and the renewed attention to the institutional dynamics somehow related to the pacts (the structure of collective bargaining, political institutions, tripartite bodies, etc.). This, we argue, will favour cross-fertilisation between different strands of the literature: the neo-corporatist one of the 1970s and 1980s (see Schmitter and Grote, 1997; Molina and Rhodes, 2002 for a summary), the more recent and theoretically eclectic contributions on industrial relations (Ebbinghaus, 2004; Hancké and Rhodes, 2005; Avdagic *et al.*, 2005), and the strand largely inspired by neo-institutionalism (Pierson, 2001; Streeck and Thelen, 2005; Natali and Pochet, 2009; Teague, 2009).

In section one we define social pacts (see also Traxler in the next chapter for a further definition). This is followed by the basic theoretical framework for an evolutionary understanding of new forms of social concertation. In section three we assess the key traits of social pacts in the post-EMU phase and review the conditions and the different developments occurring in the countries analysed. Section four concludes with some insights that will be further developed in the next chapters.

1. Defining social pacts in the Eurozone

One of the main persistent problems in the industrial relations literature is the absence of a common definition of the concept of social pact. Many different - and partially contradictory - conceptualisations have been proposed so far. Elsewhere we have defined a social pact as:

> "a set of formal or informal agreements between representatives of governments and organised interests who negotiate and implement policy change across a number of inter-connected policy areas" (Natali and Pochet, 2009).

In line with the above definition, social pacts are based on a tripartite relationship involving trade unions, employers and governments. Such a relationship may consist of a direct and/or indirect interplay. In the latter case, the government clearly indicates that if social partners agree, the government will act accordingly to reward the consensual approach, generally by using fiscal policies, taxes and/or welfare state policy. What is more, the interplay between the different parties is focused on the definition of an agreement and also on its implementation. It thus covers different phases of the policy cycle. As for the content of social pacts, they cover more than just wage policy. They deal with interconnected topics (see below for the various forms).

This cooperation is innovative compared with the traditional neo-corporatist agreements of the 1960s and 1970s in different respects. The macro-economic context where these social agreements have been signed has been characterised by a process of 'liberalisation' of western European political economies, consistent with more decentralised collective bargaining and more flexible labour markets. The European context, then, has been characterised by the progressive economic integration of single states that led to the introduction of EMU in 1999. The content of these agreements has also changed: instead of pacts based on a redistribution of growing economic and financial resources, new pacts have been signed in a context of 'permanent austerity' consistent with the need for more competitive economies. The role of individual participants has shifted as well: governments almost everywhere have played the role of *pivot*, with huge influence over the agenda and the content of agreements. Trade unions, by contrast, have seen reduced weight in negotiations. All these traits are usually identified as typical features of a new institution (Avdagic *et al.*, 2005: 4; Avdagic, 2010).

Moreover, the structure of these pacts has proved much more complex and flexible than in the neo-corporatist agreements of the 1970s. In that respect, we distinguish between two types of pacts:

— *horizontal pacts* are those that cover different policy fields at the same time, and thus consist of complex package deals simultaneously and explicitly agreed on by the parties involved;

— *longitudinal pacts* are those that consist of separate deals on a limited number of issues, agreed on at different times, one after the other, with no explicit link between them but with similar effects to those of horizontal pacts;

More limited *are ad hoc agreements* between two or more parties are focused, like the one-off deals in longitudinal pacts, on individual or just a few policy issues, but if compared to the latter they are not based on a *shared understanding* of social concertation as the effective instrument to deal with socio-economic challenges. For that reason, they are not social pacts *strictu senso* (Natali and Pochet, 2009).[1]

1. See Hancké and Rhodes (2005) and Avdagic *et al.* (2005) for a more comprehensive categorisation of social agreements. See also Traxler in this book for an alternative definition of social pacts.

2. Social pacts in the EMU era: some open analytical questions to address

As argued elsewhere (Fajertag and Pochet, 2000), we assume that European integration, and especially the EMU process, deeply influenced national actors to promote concertation. Yet they are not the sole variable leading to social agreements. Rather than a single direct link between the 'irresistible force' represented by Europe and the emergence of social pacts, we refer to a multi-dimensional process where a constellation of factors interacts, at different times, and leads to more or less favourable conditions for concerted action. Such an integrated perspective allows us to make reference to three main variables:

— the *problem-load* resulting from socio-economic (and political) challenges;

— the *role of actors* (and their interests, preferences and importance);

— and the *institutional dynamics* related to collective bargaining, political institutions and the stabilisation of early social agreements.

Such a multi-dimensional approach allows us to assess the complex interaction between different explanatory variables. No single dimension can determine by itself the fate of social pacts. By contrast it is the interplay of the three dimensions set out above that can explain the adoption and/or demise of social pacts.

Firstly, European monetary integration is investigated, together with the macro-economic conditions challenging national governments. Much has been written on EU integration and the consequent prospects for social agreements in Member States. While many have stressed the huge influence of the former process on the latter agreements, others have stressed the more nuanced incidence of supranational decision-making through time (Fajertag and Pochet, 2000; Rhodes, 2001; Hancke and Rhodes, 2005). Such influence thus still needs to be properly assessed.

Secondly, we focus on the role of key actors (governments and social partners), their interests, importance and organisation. The balance between the negotiating partners is largely assumed to be a determinant of social pacts (Hassel, 2006; 2009). Turning to the literature on industrial relations (IR), according to Regini (2000) cooperation between social and political interlocutors depends on the interaction between quite complex strategies and calculations, and not on formal prerequisites. Even in countries lacking neo-corporatist traditions and characterised by profound institutional weakness, such as Spain and Italy, cooperation can take place and favour the attainment of important reform packages in economic, employment and welfare policies. This has proved a key conceptual tool for analysis of the long-term evolution of social agreements, being flexible enough to take into account changing endogenous and exogenous dynamics. An open question relates to the changing interaction of governments and social partners and to their relative weight in negotiations, especially in very recent years.

Thirdly, we focus on institutional dynamics. Institutions have played a decisive role in the success and evolution of social agreements and have received growing attention in the industrial relations literature (Natali and Pochet, 2009; Teague, 2009). But a more precise assessment seems necessary. Three different institutions are at the core of our analysis. First of all, collective bargaining structures largely shape the costs and benefits each partner faces in order to participate to concertation. The power resources of unions and employers in the determination of wages depend on institutional preconditions such as the dominance of sectoral bargaining, the legislative tools for setting minimum wages, etc. Secondly, there are the political institutions and the consequent strength of governments as well as of tripartite bodies. Political institutional weakness is usually interpreted as a pre-condition for social pacts (Baccaro and Simoni, 2008), while active corporatist committees may play a role in easing peak-level concertation (Hassel, 2009). This has been the case in countries dealing with the transition from authoritarian to democratic regimes (southern and eastern European countries) and with particular political crises (the case of Italy from the First to the Second Republic). Thirdly, we make reference to social pacts as an institution. We have defined social pacts elsewhere as a set of *shared understandings* that affect the way problems are perceived and solutions sought (Natali and Pochet, 2009). Beyond the instrumental rationality assumption, social agreements are not just an instrument the parties agree on to face common socio-economic challenges. Rather, they are embedded in concrete temporal processes that may lead to unintended consequences. Once institutions emerge, actors define their behaviour in order to reflect and reinforce that legacy in a process of circular institutionalisation.

The problem-load: challenges from European integration and much more

As stressed by Traxler in the next chapter, the economic policy regime and market internationalisation define the range of policy options for social partners and governments. The shift from Keynesianism to neo-liberalism fundamentally changed the way organised interests relate to the state and peak-level concertation. The shift from Keynesian to monetarist austerity budgets, the progressive deregulation of markets and trading and the increased flexibility of labour markets combined with further steps in European integration, and all these factors had an influence on national socio-economic policymaking. In the new neo-liberal context (and paradigm) corporatist income policy has consisted in moderating wages to reduce labour costs, increasing international competitiveness, and investing in the productive structure.

The internationalisation of the economy, the liberalisation of capital markets, the development of new forms of production and the information technology revolution were transforming the labour market, placing the emphasis on competitiveness and labour force skills, as well as introducing renewed tension into the flexibility/security pairing. The funding of social protection was likewise at the heart of the debate, from the point of view of overall labour costs (Schmidt, 2008). Population ageing raised questions about the financing of social protection systems, especially in relation to pensions and healthcare: it necessitated a certain number of fundamental adjustments with a view to ensuring the continuity of intergenerational solidarity mechanisms. Furthermore, the increased budgetary impact of public pension schemes posed the question of how to allocate the margins obtained by virtue of the budgetary discipline resulting from the stability pact, and that of the trade-off to be conducted between different social priorities (Natali and Pochet, 2009).

By creating a new monetary context and a shared discipline, EMU altered some of the fundamentals of economic competitiveness in the Member States. The search for ways of achieving non-inflationary growth led to a shift in wage determination policies and to confidence that the system of pay bargaining will generate wage rises in keeping with the competitiveness conditions existing within a unified monetary zone (Pochet, 1998). The impact of EMU on industrial relations systems has been analysed in detail in several recent publications, so we do not intend to dwell on it any further here (Pochet, 1999; Martin and Ross, 2004). Yet it is necessary to stress that this has largely shaped the interlinkage between policy issues such as wage-setting, welfare reforms, and flexibility in labour market regulation. As suggested by Rhodes (2001), the co-existence of different priorities resulting from different strains on employment and social policies can increase the opportunities for innovation, and even for painful policies, including cutbacks. According to that approach, the rise of social pacts in the 1990s was interpreted as the effect of broad packages of measures affecting incomes, labour market flexibility, and welfare 'security'. Recent developments, in terms of both successes and failures, have been interpreted as resulting from the opportunities/problems of connecting different policy fields. As Hassel puts it: "(...) negotiation between government and trade unions on voluntary wage restraints and welfare reforms often took complex forms, because reform process in the two policy fields followed rather different dynamics" (Hassel, 2003: 716-730). Other authors (see Traxler 2000 and 2002; Johnston and Hancke, 2009) have stressed too that in the post-EMU phase, wages and fiscal policies on the one hand and welfare and labour market on the other have been increasingly disconnected. While the former prove more adaptable to the new macro-economic context, and to different balance of power resources for individual actors, the latter are more stable and thus need *ad hoc* agreements to be revised.

The actors' role, interests and preferences

In line with the definition proposed above, social pacts usually involve social partners and the state. The three parties aim at coordinating their own activity in the key policy fields which affect the main socio-economic variables: wages, employment relations, welfare benefits, productivity, etc.

The balance between the negotiating partners has shifted substantially as compared with the situation prevailing when the pacts of the 1960s and 1970s were signed. Trends towards both the reinforcement and the weakening of the state have contributed to the renewed logic of social pacts. On the one hand, tripartite negotiations were consolidated in the 1990s and, consequently, so was the relative role of the state within a concertation process whose main axis had previously been the relations between the social partners. Governments appear to have been implicitly responsible for steering the bargaining process. A direct functional logic explains the reasons why governments have acquired increasing powers in the social arena: to gain control over wage determination in order to maintain pay rises deemed compatible with competitiveness and monetary stability, and to guarantee a minimum amount of support for planned reforms in the fields of social security and the labour market. The state has provided legitimacy to the bargaining process through the alternative activation of sanctions and compensation for the other parties (Fajertag and Pochet, 2000; Rhodes, 2001).

On the other hand, governments that have invested in social pacts have proved to be electorally and politically weak. As argued by Baccaro and Simoni (2008), different sources of politico-institutional weakness may have increased the government's need for social partnership. In the countries under examination the political weakness of national governments clearly contributed to their interest in negotiations (Ireland, Italy, Portugal and Spain but also Poland). Institutional weakness (in the case of southern and eastern European countries in the transition to democracy) and political tensions (especially in the case of minority governments) proved the need for social cooperation (Baccaro and Lim, 2007; Hamann and Kelly, 2007) and a blame avoidance or blame sharing strategy (Pochet and Fajertag, 2000).

In parallel with the growing role of the state, trade unions have been weakened across Europe. Declining union density, rising unemployment and intensified international competition have all weakened the power position of the unions (Schmitter, 2008). The pay-off structure of corporatism has consequently been reversed: the disagreement utility of the unions has become lower than that of governments and employers' organisations (see Traxler, this volume). In the new economic context, the risk of union de-recognition by employers can be reduced only to the extent that the state encourages social dialogue. And employers have successfully pressed for bargaining decentralisation so as to arrive at more flexible employment terms. These pressures could be deemed compatible with the coordination requirements of corporatism, as they have taken the form of organised decentralisation in the course of which bargaining coordination has been maintained and re-designed to set a framework for local bargaining. An evident tendency towards increasing conflict within the employer and union camps has been assessed. Disparities between exposed and protected sectors and between large companies and small and medium-sized enterprises have characterised conflicts and compromises between the different parts of national economies.

Recent articles (Traxler and Brandl, 2009; Johnston and Hancké, 2009) have analysed the dynamics of social pacts based on the diverging interests of sheltered and open sectors. This aspect is also underlined in various contributions to this volume (see Dornelaes; Ioannou, this volume). We will return to that important point in the concluding chapter (see also below).

The growing role of institutions

All the accounts mentioned above show, we would argue, that industrial relations contributions usually do refer to the interests and power resources of actors to explain both the successes and failures of concertation, but omit to pay attention to institutional regularities. In a broader sense, that literature lacks a deeper theoretical conceptualisation. Edwards (2005: 277) has suggested that it should be developed in increased connection with "mainstream" social science disciplines to tease out its theoretical potential.

As a consequence, the most recent contributions have rediscovered the role of institutions (Natali and Pochet, 2009; Teague, 2009; Teague and Donaghey, 2009). The neo-institutionalist understanding of institutional reproduction and change provides key analytical tools to face the analytical shortcomings mentioned above (see Avdagic *et al.*, 2005). Reference is made to three key aspects of the institutional scope for social partnerships: the one related to collective bargaining structures, the role of political institutions in shaping the role of political and social interests, and the institutional evolution of social pacts.

As to the first of these, many authors have stressed the key role of the bargaining context to define the role of different actors and their specific interest in being involved in social concertation (Johnston and Hancke, 2009). As argued by Traxler (this volume), the structure of collective bargaining conditions the genuine power of organised business and labour more than any other arrangement. The bargaining structure influences the propensity to conclude pacts. The power of the two sides of industry to impose negative externalities on governments is contingent on collective wage bargaining, which may create manifold negative externalities such as growth of inflation, unemployment and public expenditure. Teague (2009) has provided evidence of the path-dependent evolution of conflict resolution systems in different European countries. Reforms introduced in different systems have been consistent with the original imprinting: voluntarism and self-regulation. Different industrial relations systems are based on contrasting institutional settings that contribute to shaping behaviours through lock-in mechanisms.

The second reference is to political institutions. The strength/weakness of national governments may be the consequence of specific institutions and of electoral results. While strong governments prefer more unilateral policymaking, governments with weak parliamentary majorities or in a process of transition - for instance from authoritarian to democratic governing forms - may need social pacts to increase consensus and legitimacy. In the words of Baccaro and Simoni (2008: 1339), social agreements are thus the result of a 'curvilinear' relationship between governments' strength and their willingness to engage in social pacts. Weak governments, but ones still able to impose losses on the social partners, are keen to involve weakened trade unions in broad concertation. Peak-level corporatist institutions such as tripartite consultative bodies may also contribute to the scope for social concertation. This is especially the case of countries dealing with the transition from authoritarian regimes to democracy (Hassel, 2009; Ost, 2009). Central corporatist bodies may enhance consensus on social and economic reforms while improving mutual trust through the setting up and repetition of bargaining techniques (see Stanojevic this volume).

The third dimension we look at concerns social pacts as institutions. As stressed by Natali and Pochet (2009), institutional dynamics help to trace the evolution of social concertation, well beyond any reference to actors' interests and economic constraints. In line with Katzenstein (1996) we can define social pacts as an institution in that they consist of a set of *shared understandings* that affect the way problems are perceived and solutions sought. In other words, norms and rules of the game guide the structuring of organisations, the coordination of socio-economic actors and the definition of cognitive frameworks to react to endogenous and exogenous critical events (Zambarloukou, 2006). And in doing so, institutions shape actors' identities and interests. Thus, and contrary to the more rationalist approach of industrial relations studies, the definition of interests and objectives is created in institutional contexts and is not separable from them (Thelen, 1999: 375). Actors' behaviour is not just instrumental to reach an objective but is influenced by norms and institutions of the past (Knight, 2001). Social agreements are not just an instrument the parties agree on to face common socio-economic challenges. Rather, they are embedded in concrete temporal processes that may lead to unintended consequences. Once institutions emerge, the actors define their behaviour in order to reflect and reinforce that legacy in a process of circular institutionalisation (Streeck and Thelen, 2005). Questions of timing, temporality and sequencing are thus central to understanding the progressive stabilisation - or de-stabilisation - of this institution (see Pierson, 2004; and for the literature on social pacts see Baccaro and Lim, 2007).

Once social agreements emerge, their further development may follow two paths. On the one hand, full institutionalisation occurs when self-reinforcing dynamics contribute to strengthening the cooperative approach between the parties. Favourable political events and socio-economic indicators may help to stabilise the first pacts and reinforce mutual trust between the parties. On the other hand, de-institutionalisation consists of self-undermining dynamics that block the activation of reproductive procedures and contribute to the progressive weakening of cooperation. Critical political and economic events, such as a new ruling coalition or an economic shock, may undermine the stabilisation of the path and weaken mutual trust and shared understandings. This historical analytical framework helps us to explain the divergent trends in the countries under examination. The sequence of events and institutional dynamics is decisive.

This conclusion comes from the most recent neo-institutionalist literature too. Following accounts of post-determinist institutionalism (in the words of Crouch, 2007), institutions of the past shape actors' interests and behaviour but do not prevent alternative courses of action. The interest in path dependency is paralleled by that in the persistent strategic role of actors to favour innovation. In that respect, social pacts can be defined as institutional *bricolage* (Campbell, 2004). The term is used here with a twofold meaning. On the one hand, it is consistent with the innovation of past institutions by policy entrepreneurs through a creative recombination of old instruments. On the other hand, it shows the complex nature of social pacts. *Horizontal pacts* in particular are a set of institutions related to different policy fields. The integration of different decisions can be difficult and needs efforts to increase the complementarity and non-interference between them (Natali and Pochet, 2009: 150).

3. Social pacts in the post-EMU context

The last ten years have seen rapid change in many different determinants of social concertation. In line with the analytical framework proposed above, we firstly refer to changing macro-economic contexts - from the Maastricht Treaty to EMU - and the parallel persistent global constraints such as trade competitiveness, migration, and population ageing. We then shed light on the actors' role, importance and preferences. Finally the focus is on broad institutional trends: the role of social partners in collective bargaining and wage-setting in particular, the evolution of political institutions (transition from authoritarian to democratic regimes, etc.) and the institutionalisation of social concertation.

In all these respects elements of both stability and change can be analysed. As for the macro-economic context, the selection in May 1998 of the eleven countries joining the third phase of EMU (subsequently joined by Greece in 2001 and by new acceding countries in the late 2000s) occurred at the same time as a turn-around in the economy. The post-EMU macro-economic context was largely different from that which prevailed in the first half of the nineties. The first period after the introduction of the Euro, from 1999 to 2001, consisted of a favourable macro-economic context with higher GDP growth, declining inflation, and less severe financial strains in a number of European countries. This combined with less stringent incentives (within the Stability and Growth Pact). As put by Hancké and Rhodes (2005), the hard sanction of non-entry into EMU disappeared and gave way to softer procedures. Quite paradoxically, the institutional reinforcement of the EMU process was parallel with its weakened constraints on individual members. Taking the Maastricht criteria as a yardstick, we note that between 1998 and 2005 inflation remained under control throughout most of the Eurozone. In the same period, overall government debt declined in all Member States apart from France and Luxembourg, but both of these were below the 60% threshold set at Maastricht. At least five Member States had budget surpluses in 2000.

In the meanwhile, some Member States experienced rising rates of growth and low unemployment figures combined with stable public finances. This new context did allow many governments to enjoy greater budgetary margins which, while meeting the commitments contained in their stability or convergence plans, were generally earmarked for bringing down overall labour costs either through taxation or employers' social contributions. Reform of social security, and in particular of its funding, became a more central issue.

The coincidence of EMU with a revival of growth seemed to 'redistribute the cards' among the main players. In various countries, tough negotiations took place around the allocation of budgetary surpluses. Whereas twenty years of austerity had united the labour confederations in an attitude of resistance and participation, the decline in unemployment left them without a coherent strategy. Finally, the European agenda changed and the debate on the Maastricht criteria gave way to other social issues, including social security and particularly the question of how to fund pensions. In line with our second hypothesis, the post-EMU phase should be conducive to lower opportunities for social pacting.

In the same period, the actors' role has changed as well. Trade unions have been weakened across Europe, but their position in the bargaining process has been somewhat stabilised by the persistent need for their cooperation for wage-setting in particular. At the same time less stringent budgetary constraints have altered the interplay between social partners representing sheltered and exposed productive sectors. This partially new distinction has marked much of the trend in social dialogue, while at least in some countries it has reinvigorated the need for broad agreements to put wage policy under control. And social pacts have been stabilised through processes of institutionalisation. In some countries the repetition of social deals has increased mutual trust and the shared understanding of problems, along with solutions and techniques to link the two. In others, more contrasting trends have led to the alternation of periods of social pacts and phases of more limited and conflictual dialogue.

3.1 The changing problem load and content of social pacts

As stressed elsewhere, social pacts of the 1990s were based on a complex interconnection between pay bargaining, labour market and social security reforms, and changes in tax rates. These practices were constrained by the need for all countries to comply with the Maastricht convergence criteria (Fajertag and Pochet, 2000). In the post-EMU era the scope for pacting has largely changed. This was the result of both contradictory processes of evaporation of the shared understanding of the economic context, and of the internalisation of wage-setting and fiscal policy (see Avdagic *et al.*, 2005).

As for the key policy fields at the centre of social dialogue, the first change in the post-EMU era has been the emergence of new issues and their interaction with the new European agenda. In particular for those western countries belonging to the first group acceding to EMU, European constraints on budgetary and inflation policy have lost much of their relevance. In the past few years, therefore, more relaxed EU constraints have combined with mounting problems concerning Europe's economic competitiveness and financial stability. For eastern European countries, accession to the European Union and then to the single currency area have characterised the past years. But, as shown below, the interplay of exogenous constraints with peculiar institutional and social contexts have reduced the scope for striking deals (as shown by Bohle and Greskovits, this volume).

As for EMU, it seems evident in many countries that the Eurozone is based on an asymmetric structure of macro-economic and monetary policymaking. As stressed by Johnson and Hancké (2009), owing to the overall transfer of authority to the European Central Bank EMU provides a centralised monetary policy in parallel with - at best - a decentralised national wage policy. As a consequence, national wage-setters are no longer constrained by national central banks, with a potential increase of tension over labour market costs and inflation across EMU. In fact, some country chapters illustrate the divergence between countries where wage moderation has been fully accomplished (see Finland) and others which have proved much less effective (see the case of Portugal and the Netherlands). Another aspect we will focus on in the next section concerns the difficult coordination between exposed sectors keen to exploit wage-setting to increase the margin for competitiveness in global markets, and sheltered sectors - especially public sector employees - trying to push for more generous wage increases.

The key challenge of international competitiveness has persisted for all EU countries. As far as pay is concerned, this debate has been shaped by various elements. First of all, what is the precise link between pay restraint and job creation? And if such a link exists, how can it be kept under control? This is a similar debate to the one on the reduction of labour costs and its consequences for employment. One difficulty to be taken into account is the lapse of time required to judge the effectiveness or otherwise of a measure (Fajertag and Pochet, 2000). Another aspect concerns equity. The outcome of prolonged pay restraint in various countries has been a distribution which is to the disadvantage of earned incomes. And a huge debate has arisen in many countries on pay differentials between exposed and more protected sectors (see Finland, Greece, and many eastern European countries). This dual challenge - pay restraint which does not necessarily create jobs and weaken overall demand, and the increased tensions between sectors - has led to a reappraisal of what had seemed to constitute a consensus: the sharing of productivity gains and wage moderation (Johnston and Hancke, 2009).

This situation has been consistent with two contradictory developments. On the one hand, it has challenged the shared diagnosis and led in several cases to tension between, and within, trade unions and employers as to what is the appropriate pay norm in a context of economic globalisation and of still high unemployment, especially in the light of atypical forms of employment, exclusion from the labour market, and regional disparities. This is the case in Italy, Spain and Finland. On the other, wage-setting has become a more institutionalised, internalised and rules-based process. With reference to the Eurozone, in various countries wages are set by a small group of experts who define common norms which represent the target for incomes policy.[2] Meanwhile, employers' attempts to decentralise wage bargaining have increased (see again the case of Finland). Hence, incomes policy has been decoupled from labour market issues and especially welfare reforms.

2. In Finland, for example, the Income Policy Commission (composed of social partners' and government experts) the norm for wage increases is equal to the sum of the inflation target and the average increase in productivity (see Kuusisto, this volume).

Consequently, in some countries narrower negotiations between political and social actors have focused on single policies or on more limited packages affecting labour market flexibility, active employment policies, and local development, as in the case of Italy, with the Pact for Italy of 2002 (Ferrera and Gualmini, 2004). In this and other cases, more than the breakdown of social pacts, we see their evolution through processes of partial institutionalisation coupled with the weakening of macro-cooperation. As Hancké and Rhodes (2005: 22) put it, 'due to institutional inertia, (...) the architecture of social pacts persists in certain countries as a forum for punctual ad hoc negotiations on particular issues'.

3.2 The actors' role and preferences

As argued elsewhere (Natali and Pochet, 2009), the coincidence of EMU with a revival of growth seemed to alter the power distribution among the main social players. In various countries, tough negotiations took place around the allocation of budgetary surpluses. Whereas twenty years of austerity had united the labour confederations in an attitude of resistance and participation, the decline in unemployment increased tensions (see the case of Italy). But in some other countries the social partners and political parties pursued negotiations. In Ireland and Spain, consensus on social dialogue spread across the political spectrum and institutions inherited from the past (and originally related to huge socio-economic problems) were re-oriented towards new goals in a context of economic growth: a typical case of institutional *bricolage*. In Ireland, the first undertaking of the *Fianna Fail* (FF) party was subsequently agreed on by other political competitors (Hamann and Kelly, 2007). In Spain, both the Popular Party (PP) and the Socialists agreed at different times to develop the dialogue with trade unions and employers' organisations to deal with socio-economic issues. What is more, in both countries high-level negotiation was perceived to be effective (see O'Donnell *et al.*, this volume). The sequence of negotiations reinforced the first steps along the path.

In the case of Spain, the first Aznar government, a minority government, pursued dialogue with trade unions and employers in a context of political weakness. The second Aznar government pursued the dialogue even though it was backed by a strong parliamentary majority. Socialist governments in the 2000s formally accepted the logic of *longitudinal pacts* and thus modified their historical preference for horizontal agreements. The Spanish government clearly supported social dialogue as a central tool for good governance, (which was much less clear under the Socialist governments of the 1980s, see Perez, 2000).

At the opposite end of the scale, in Italy and other countries the beginning of the 20th century marked a shift in the previously shared understanding of the necessary reforms to macro-economic and social policies. On different issues, employer and employee representatives and governments had different if not opposite points of view. In many EU members (e.g. Finland, Italy), employers – sometimes supported by governments - have demanded a further decentralisation of bargaining structures, against the opposition of labour confederations. In a few cases, divisions have appeared within the labour movement too: for example in Italy, the major union confederation has defended sectoral bargaining, while the other two have been in favour of a more decentralised system. A further element of disagreement has related to income policy. In some countries, the government and social partners have agreed to freeze wages to improve comparative competitive advantages, as is the case of the 2004 national tripartite agreement in the Netherlands. In other countries, however, more intensive demands for pay rises arose (again the case of Italy, and Finland). As a consequence of mounting divergences, the experience of social concertation had come under stress.

This is the case in Portugal, where the tripartite economic and social agreement signed in 1996 had faced growing problems since 1997. Internal divisions within the trade union movement and the withdrawal of some employers' organisations from concerted action both led to the demise of social pacts. In 2000 and 2003, in a context of economic stagnation, the government tried to revive social contracts (on welfare policy, labour market regulation, and incomes policy too) but failed. The employers would derive no clear benefit from new pacts, including in respect of wage policies. Decentralisation of collective bargaining and the wide scope for firms to define their own rates of pay discouraged tripartite concerted action.

In Italy, the first effect of these new dynamics was a leaner process of consultation coupled with narrow agreements on key specific issues.

The *Pact for Italy* of 2002 did not concern two of the main domains of the previous experience of concertation: wages and pension reforms. Rather, it was about local development, activation policies, and more flexible regulation of the labour market. In the Netherlands, the Balkenende government used reinforced potential for sanctions to convince trade unions to accept tripartite agreements mainly based on wage freezes. In 2002, 2003, and 2004 it announced major retrenchments in social protection, disability and other welfare domains as well as in the labour market field. Then it offered to soften these proposals in exchange for lower wage demands by the unions (Siegel, 2005). By contrast, Ireland has confirmed the favourable attitude to broad horizontal social pacts despite the changing macro-economic conditions. In all these cases, with the exception of Ireland, the divergent interests of key actors went hand in hand with unfavourable institutional trends.

The evolution of social pacts has thus been related to a new equilibrium between governments and social partners. Trade unions, in particular, have lost much of their power for negotiation. As mentioned above, wages have been more and more disconnected from labour market and welfare policies. That dynamic has been reinforced by increasing demands from both governments and employers for a decentralisation of collective bargaining. Both tendencies have reduced the need for labour representatives' consent at the national level. The same has happened in the other key domain: that of welfare reforms. As argued elsewhere (Natali and Rhodes, 2004), political decision-makers learned from the first wave of innovations in the 1990s to organise social consensus. In Italy, the Berlusconi government voted through the last pension reform, in 2004, despite a huge mobilisation of trade unions. There, policy-makers learned to reduce the potential threat of social conflicts through a light form of consultation, and compensation, implemented in a long three-year reform phase. But when weaker governments reappeared, most notably the second Prodi government between 2006 and 2008, a new round of social concertation emerged again (see Negrelli and Pulignano, this volume).

Organisational weakness has had a particular impact on the opportunity for striking social deals in eastern Europe. With the exception of Slovenia, social pacting was not a precondition for entering EMU. History, actors and institutional differences are often presented as the main explanation for this diverging trend. Nevertheless, these aspects are not so different when - as in this volume - we compare these countries with Portugal, Greece, Spain and Italy which also had weak institutions and often weak and/or fragmented actors (see Keune and Pochet in the concluding chapter). The cases of Poland, Hungary and Slovakia demonstrate the limited role of the renewed labour organisations, often further weakened by their politicisation. An unequal balance of power between governments, employers and labour unions has been aggravated by the key role of multinational companies, identity issues (e.g. the case of the Roma minority in Hungary), and the increased political success of populist parties (see Bohle and Greskovits, this volume). Growing migration flows have played a similar role in increasing labour market flexibility, wage moderation and economic competitiveness in Cyprus and Malta too, albeit with no social pacts.

At the opposite end of the scale, an interventionist state, coupled with influential (export sector) employers and strong trade unions have largely followed the social pact strategy in Slovenia. The social and political partners have tried to reduce uncertainties and protect their own interests in the context of an extremely intense exogenous political and economic shock, through more stable national concertation. As argued by Stanojevic (this volume), Slovenian pacts have systematically occurred under broad coalition governments and during the second parts of coalition government mandates, suggesting that their set-up was strongly conditioned by the lowering of negotiating power and the legitimisation of governments.

3.3 The role of institutions

Social pacts of the 1990s were based on a complex interconnection between pay bargaining, labour market and social security reforms, and changes in tax rates. These practices were constrained by the need for all countries to comply with the Maastricht convergence criteria. The post-EMU era has seen two different trajectories: the ‘uneven’ institutionalisation of early pacts in some countries, and their ‘full’ institutionalisation in others.

In countries like Italy and Portugal, social pacts have been replaced by more limited agreements, if not by an open challenging of previous pacts by the parties. The scope for pacting has been reduced. This was the result of both contradictory processes of evaporation of the *shared understanding* of the economic context, and the internalisation of wage-setting and fiscal policy. The partial institutionalisation of particular patterns has affected individual policies but not all, and has thus led to a *de facto* reduction of the topics under scrutiny in social concertation. Narrower negotiations between political and social actors have focused on single policies, or on more limited packages (Hancké and Rhodes, 2005: 22).

This is the case in Portugal, where the tripartite economic and social agreement signed in 1996 faced growing problems from 1997. Both internal divisions within the trade union movement and the withdrawal of some employers' organisations from concerted action led to the demise of social pacts. Decentralisation of collective bargaining and the wide scope for firms to define their own rates of pay discouraged tripartite concerted action. Nevertheless, more limited tripartite ad hoc agreements were signed on training, working conditions and social security reforms in 2001. The Barroso government elected in 2002 further contributed to de-institutionalising social pacts through a more adversarial approach to social dialogue and the first unanimous bipartite agreement (2005). The situation has again changed with the election of the Socialist government. Various agreements have been reached, among them a second bipartite agreement (2006), the first unanimous tripartite agreement on wage-setting (2006), four ad hoc tripartite agreements (2007) and a new social pact on industrial relations, employment and social protection (2008). As Dornelas in this volume underlines, one hypothesis capable of explaining the evolution of social pacts in Portugal is that the industrial relations system is the result of the institutional *bricolage* of elements inherited from previous phases of development, which has produced, so far, an incoherent system of rules.

In Italy, the first effect of these new dynamics has been a leaner process of consultation coupled with narrow agreements on key specific issues. The second right-of-centre Berlusconi government (2001-2006) did not share the perception of social concertation as an effective solution for economic problems. The *Pact for Italy* of 2002 did not encompass two of the main domains of the previous negotiations, wages and pension reforms; it was not signed by the major trade union, the post-communist CGIL; and it saw very limited implementation. The *Welfare*

Protocol of 2007, agreed on by the left-of-centre Prodi government and the social partners, proved the re-emergence of concertation but did not include collective bargaining and wage-setting.

In Greece, there have been several attempts but no successes at all. Ioannou (in this volume) underlines that the failed attempts to build and operate social pacts in Greece are related to the difficulties in sharing a common understanding of the need for what was considered by the trade union as ‘social-liberal’ pacts, in the ‘pre-EMU’ period and mainly in the ‘post-EMU’ period. The latter period has coincided with relatively strong economic growth which has reduced the pressure for change. This case also highlights the role of diverging ideas about good policies in the Monetary Union.

By contrast, Ireland, Finland (at least until 2008), the Netherlands and Spain have shown more stability. The first of these countries has confirmed its favourable attitude to *horizontal pacts* despite the changing macro-economic conditions. Wage-setting has always been at the core of central negotiations between social partners and the government (Hancké and Rhodes, 2005). At the same time, new institutions have been set up to reinforce the institutional foundations of the Irish social dialogue, through the establishment of the *National Economic and Social Forum* and the *National Centre for Partnership;* while participation in the *National Economic and Social Council* was widened (O’Donnell *et al.*, this volume). In Spain the institutionalisation of social pacts has been pursued through the successive separate tables of negotiation which have contribute to build *longitudinal pacts*.

In the case of eastern European countries, the transition from state socialism to a market economy and democracy have often weakened the trade unions in two respects, as shown by the cases of Hungary and Slovakia: falling membership, concentrated in the public and semi-public sector; and in terms of function, by accompanying the process of restructuring the economy more than protecting the workers (Ost, 2009). In these countries, formal tripartism through corporatist institutions has played something of a role in the past few years but it has not helped to provide the institutional pre-conditions for a broad experience of social pacts. Yet the case of Poland (see Gardawsky and Meardi, this volume) proves that tripartite commissions are not a completely ‘sterile’ exercise: they have great potential for improving social learning. What is more, the transition to a market economy has often led to the increased role of multinational companies with a more liberal and decentralised form of industrial relations.

Conclusion

This chapter has argued that the evolution of social pacts in the last 15 years in Europe is directly related to three key determinants: problem-load, actors' role and institutional dynamics. None of these factors can totally explain the fate of social pacts in EMU. But their combination has proved much more important in explaining social deals.

Challenges from European integration, and especially from the launch and stabilisation of EMU, have exerted their influence but cannot explain everything. In the first part of the 1990s European constraints were decisive for the emergence of new forms of macro-concertation in EU Member States. Moreover, despite the internal divisions within trade unions, these constraints favoured the development of functional equivalents, for example programmatic convergence and shared agendas.

Yet, in the 'post-EMU' phase, the hypothesis that less stringent constraints on budgetary policy and less acute socio-economic problems should lead to a generalised decline in social pacts has not been confirmed. In countries that have experienced more favourable economic trends, for instance Ireland, Spain and to some extent Finland, social pacts have been institutionalised. And this has happened irrespective of the changing economic context (from economic constraints to growth). In other countries with less impressive growth (Italy, Portugal) there has been a process of 'uneven' institutionalisation. Moreover, with particular reference to the case of new EU members, such as Hungary and Slovakia as well as Cyprus and Malta, EU constraints have not forced national policy-makers to agree with social partners on social and economic policy reforms.

The actors' role has proved a second important variable to assess such a complex picture. The convergence of political and social actors, and in particular of left- and right-wing parties, to promote social pacts has largely contributed to the stabilisation of early agreements. By contrast, where tensions have increased between political parties and/or social partners the stabilisation of social pacts has proved much more difficult. As for the role of social actors, trade unions seem to have lost some of their veto power. Forms of strategic learning (division, compensation, stop-go strategies) have allowed policy-makers to circumvent their potential for opposition. Somehow, the first wave of reforms and cutbacks introduced in the last decade has opened more scope for further intervention to redesign the welfare state and consequently a less urgent need for legitimation through the corporatist arena. While the EU has proved to have a more limited influence, at least for countries in the Eurozone, the persistent challenge of international competitiveness has had an ongoing impact on the scope for social agreements. The mounting disparity between 'exposed' and 'sheltered' sectors seems to predict a persistent need for broad agreements to coordinate their wage-setting strategies.

The multi-dimensional approach we have proposed adds more emphasis on institutional regularities to the traditional industrial relations literature. A more precise assessment of the interests and resources of social and political actors makes traditional accounts of neo-institutionalism more dynamic. Hence, the combination of traditional neo-corporatist insights into the role of actors' interests and resources and a more precise focus on institutions proves the potential for a cross-fertilisation of IR and new-institutionalism for the study of stability and change in social concertation.

The strength/weakness of governments is a key explanatory variable for striking deals. And an institutional interpretation of social agreements has proved important too. We have defined social pacts as an institution, in that they consist of *shared understandings* that affect the way problems are perceived and solutions are sought. Such a common understanding has increased mutual trust between governments and social partners and the legitimacy of tripartite negotiation as an effective tool to face socio-economic challenges.

The reference to institutional dynamics has helped to trace the evolution of social concertation, well beyond references to interests and economic constraints. The institutionalisation of social pacts in Ireland and Spain has happened despite the weakening of socio-economic challenges and the changing political conditions. In these cases, a shared interpretation of problems and solution and increased trust in peak-level negotiations have contributed to stabilising the dialogue. By contrast, in Italy and Portugal the shared understanding of macro-economics has 'evaporated'. Such an 'uneven institutionalisation' has been consistent with the irregular sequence of concertation, unilateral action and more limited agreements. The focus on institutional dynamics has not led us to underestimate the active role of actors and the importance of their strategies. By referring to post-determinist institutionalism we have assessed the role of the players in re-adapting old institutions to new economic and political conditions. This is a typical case of institutional *bricolage*. When past practices are well stabilised, the changing context does not weaken them.

Summing up, social pacts represent a key part of European politics for the management of socio-economic variables. Social agreements of various kinds have contributed employment, wage and welfare reforms over the last two decades. The persistent role of social concertation in many countries, even in a context of both successes and failures, leads us to think of social pacts in terms of changing institutions which policy-makers and social partners may use for dealing with evolving socio-economic and political challenges. Yet their nature is extremely fragile. The complex interplay of constraints, actors' strategies and importance, and of institutions may lead to long period of social collaboration but this complexity still reduces the scope for full stabilisation.

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Corporatism(s) and pacts: changing functions and structures under rising economic liberalism and declining liberal democracy

Franz Traxler

Introduction

The notion of a pact is used in a variety of quite different ways in the literature. The range of conceptualizations embraces tripartite accords, bipartite relationships between the state and one of the two sides of industry, as well as bipartite relationships between the two sides. The concept is applied to the macro, meso, and micro level of action. As a consequence, in almost all countries one can find phenomena that may be subsumed under the concept[1]. Debates on pacts share this incoherence with studies of corporatism. This is no mere coincidence. Pacts establish cooperative relationships between interest groups so as to enable them to achieve public objectives. Such relationships are commonly conceptualized as corporatism. Another commonality has been that the macro level is at the heart of the debates on both pacts and corporatism. What has been discussed as macro-level pacts since the late 1990s (Pochet and Fajertag, 1997 and 2000) finds its counterpart in the notion of concertation in the corporatist literature, in particular as far as this notion refers to 'package deals' of organized interests with government, tying wage policy to other policy fields (Lehmbruch, 1984).

Faced with this proximity, the literature on pacts has been concerned to emphasize what makes them different from corporatism and related ideas. Its main argument has focused on the relationship between policy and structure. Even though advanced theory makes the explicit

1. For instance, Donaghey and Teague (2005) read pacts in a way that equates them generally with coordinated market economies.

distinction between corporatist structures of interest intermediation and policy concertation (Schmitter, 1982), the orthodox version of corporatist thinking assumes a strict congruence between interest intermediation and concertation (e.g. Headey, 1970). Accordingly, the emergence and viability of macro corporatist arrangements depends on the presence of comprehensive, centralized and state-licensed structures for interest intermediation. This congruence thesis has been rightly criticized for failing to explain the spread of social pacts across Europe, which have (re)established corporatist governance in several countries (e.g. Ireland, Italy, Portugal and Spain) where corporatist structures of interest intermediation are absent. In response to this, research on pacts has concentrated on the importance of processes to pacts: exchange relations, information flows, and debate (e.g. Baccaro, 2003; Culpepper, 2002; Hassel, 2003). What has been made less explicit as a difference to corporatist theory is the question of how concertation is related to political legitimacy. When highlighting the process dimension, studies of pacts usually refer to the legitimizing contribution to macro-level governance, something which has not been systematically integrated into corporatist theory.

To this extent the theoretical review of the role of organized interests in public policy, as it has been stimulated by the spread of pacts, has remained incomplete. To improve our understanding of the issue it is essential to rethink the relationship between interest intermediation, policy concertation and their governance function. This is the subject of this paper. Since it is only corporatist orthodoxy which offers a concise theory on this subject, we have to address its weaknesses as the starting point of our analysis. In accordance with this, we subsume pacts under macro concertation, which is understood as the cross-sectoral cooperation of organized interests and the state in matters of public policy. There are three main problems with corporatist orthodoxy.

The first problem refers to the above-mentioned relationship between interest intermediation and policy. There is good reason to believe that the presumed importance of structures to policy is not generally wrong. What is wrong is the way in which it was elaborated by orthodox corporatist theory. Put more specifically, the congruence thesis rests on a false proposition regarding the performance effects of the structures of interest intermediation, namely the structure of collective bargaining. Corporatist orthodoxy assumes that the economic performance of collective bargaining (i.e. its capacity for internalizing such negative wage externalities as inflation, unemployment and loss of competitiveness) monotonically increases with centralization (Cameron, 1984). More recent analytical and empirical research has shown that this assumption does not hold. Depending on the degree of competition in product markets, decentralized bargaining may perform as well as its opposite pole (Calmfors and Driffill, 1988). Furthermore, the performance of centralized bargaining is highly contingent on circumstances, such as the monetary regime (e.g. Franzese, 2002), the power relationship between the public sector and the exposed sector (e.g. Garrett and Way, 1999), and state-based provisions for bargaining governability (Traxler, 2003a). Under unfavourable circumstances, centralized bargaining performs worse than any other bargaining structure. Intermediate levels of bargaining, when they are coordinated across the economy, are able to internalize negative externalities as much as well-performing centralized bargaining can (Soskice, 1990; Traxler *et al.*, 2001). The upshot of this line of research is that there are functional equivalents to centralization. Relatively decentralized bargaining structures may combine with 'lean' forms of corporatist governance, including social pacts (Traxler, 2004).

Another problem of corporatist theory lies in its tendency to derive the emergence of structures from functional requirements. As Lehmbruch (1982: 26) put it, 'Trends towards an "hierarchical ordering" of organizations and "representational monopolies" are not understood simply as the result of processes of social change, but rather as related to specific patterns of public policy in the "mixed economy". Whether they are seen as functional prerequisites of "concertation", or as its observable consequences, the assumption of a strong nexus has always been present'. This prepares the ground for an evolutionary reading of the congruence thesis: processes of centralization are expected to result from its allegedly superior performance. Such functionalism is vulnerable to the objection that the functions of a certain structure cannot explain its presence. Even if centralized bargaining outperformed alternative bargaining structures, or all relevant actors at least believed in its superior performance, this would not guarantee the establishment of centralized bargaining. Structures beset with poor performance may well persist if the costs of change are too high from the actors' point of view (North, 1990). In matters of public policy, the state may continue to cooperate with organized interests simply because the bargaining structure empowers them to produce large-scale externalities which no government can ignore.

Finally, orthodox theory adopts a rather narrow perspective on the function of corporatism. Its contribution to governance is more or less equated with socio-economic performance, without any notable input in terms of legitimacy. For instance, Schmitter (1985: 60f) notes that corporatism 'has been so far a consumer, not a producer, of legitimacy, and that its supplier has largely been the state'. This is a rather cautious way of making the point. More pronounced is the position of Offe (1984), who argues that corporatism is not only unable to provide public policy with legitimacy, but even creates severe legitimation problems for the political system because corporatist policy-making tends to bypass democratic institutions and public discourse. Corporatism is thus presumed to bring about a trade-off between (instrumental) functions of macroeconomic management and (expressive) functions of legitimation that is in favour of the former. The most striking counter-evidence is afforded by EU-level policies (Crouch, 2000). Agreements between the European social partners lack instrumental governance capacities (Falkner, 2003; Keller, 2003), such that they need to be implemented by Directives. Nevertheless, the Commission sponsors the European Social Dialogue in manifold ways. This is certainly for reasons of augmenting the legitimacy of EU policies rather than for the purpose of enhancing the Commission's capacities for macroeconomic management. Extending the range of possible functions from instrumental to expressive inputs also qualifies the strict nexus between corporatist policies and structures. If consent to government regulations is primarily demanded of organized interests, then the management of discourse and information becomes more important than centralized organization. As Hassel (2003: 720) noted: 'Providing legitimacy for government reform is however a different process ... than striking an agreement on voluntary wage restraint'.

The above reflections bring us to the conclusion that there are more degrees of freedom in the relationship between corporatist structures, policy concertation and its function than orthodox theory suggests. However, degrees of freedom do not mean that anything goes, provided the actors are determined enough to push it through. It is one of the basics of social sciences that social action is always embedded in certain structures that frame and guide the actors' choice. This includes research as a certain kind of action. It is worth noting that corporatist orthodoxy is not false as such. In important respects its reasoning is tailored to the specific context in which it originates. A case in point is its emphasis on instrumental function, which echoes the coincidence of Keynesian demand management and workers' militancy during the late 1960s and early 1970s. Whilst the former required income policy, the latter undermined it, unless it could be contained by political exchange between organized interests and the state. Meanwhile, the context has changed substantially. The spread of pacts indicates that these changes have had an impact on how organized interests relate to public policy, with variations in scale and kind of adjustment processes across countries (Negrelli, 2000).

This suggests a combined cross-sectional and longitudinal perspective. The cross-sectional dimension is meant to compare alternative modes of governance instead of focusing only on pacts. Relating social pacts to alternative governance modes helps identify their specific properties. This cross-national review covers the European states (except those for which little systematic research in organized interests is available). The longitudinal perspective embraces the period from the late 1960s to the present, because this includes the shift from Keynesianism to orthodox economics, which put an end to classic corporatism while giving rise to new forms of corporatism such as pacts. This longitudinal perspective also enables analysis to contextualize the analytical differences between older research in corporatism and more recent studies of pacts.

The structure of this analysis is as follows. The next section presents the framework and key propositions for analyzing the role of organized interests in governance over time and across countries, placing special emphasis on demarcating pacts from other forms of concertation. Its key argument is that the governance function of organized interests is still affected by the structure of collective bargaining, although its impact strongly differs, even within the case of corporatism. To elaborate this argument, the analysis proceeds to discuss how governance has developed in response to two general trends: the spread of economic liberalism and the accelerating legitimacy problems of liberal democracy. This enables the following section to categorize alternative governance modes and map the European countries accordingly. The analysis concludes by highlighting its implications for the future of corporatism and pacts.

1. Organised interests and macro governance: analytical dimensions and key propositions

As noted, interaction is always embedded in a certain context. Analytically, it comprises four main components: the actors, their relationship, its function, and its context. It is useful to refer to these components, when elaborating on the properties of concertation (Table 1).

Table 1 **Concertation of organised interests and the state: an analytical framework**

Actors	State, unions and/or business associations
Relationship	Package deals and pacts vs. consultation
Function	Instrumental governance vs. expressive governance
Context	
Economic policy	Demand-side, Keynesian governance vs. supply-side orthodox economics
Markets	Regulated openness vs. deregulated openness
Legitimation of policy making	Democratic party competition vs. corporatist consensus-building
Government partisanship	Relevant vs. irrelevant
Bargaining structure	Coordinated multi-employer bargaining vs. uncoordinated single-employer bargaining

As regards actors, the paradigm case of pacts is tripartism, involving the two sides of industry and the state, namely government. This is because the distinctive and special contribution of pacts to macro governance, as compared to other accords like collective agreements, is their claim to concert the activities of organized interests and the state. This implies demarcating pacts from peak-level (i.e. centralized) collective bargaining which is a purely bipartite undertaking by the two sides of industry. This is not to deny that collective bargaining per se may deliberately contribute to macro governance if it is able to synchronize pay movements with macroeconomic goals without state interference. A third configuration of actors arises from bipartite accords struck by the state and either of the two sides of industry. They do not raise serious conceptual problems because they are less frequent than (tripartite) pacts. Examples are the British 'Social Contract' concluded by the TUC and the labour government in the 1970s (Traxler *et al.*, 2001) and the Spanish pact on welfare state reform signed by the two main union confederations and a conservative government in the 1990s (Perez, 2000). We subsume this bipartism under pacts because their common property is the concertation of organized interests with the state, whereas they both differ considerably from collective agreements.

In terms of relationship, the notion of pacts implies a certain kind of (voluntary) exchange and a corresponding power configuration[2]. In formal terms, pacts presuppose equality of the contracting parties. Concluding a pact requires finding a consensus among all parties. In other words, each of them wields veto power. Most essentially this affects the role of the state, which cannot impose its sovereign power on the two sides of industry in the course of pacts, but must join the process as a third party. This principle of formal parity makes pacts differ from other forms of concertation in the course of which organized interests are subordinated to state power and vested with an advisory role only. We will designate them as consultation. Formal parity does not mean that power relations are actually symmetrical. Pacts in particular, as well as concertation in general, hinge on a situation of mutual deterrence (Schmitter, 1985). Mutual deterrence is given if each of the parties is able to produce negative externalities for the two other parties that are so considerable that the benefits of cooperation outweigh its costs. The ability of the state to reward and punish the two sides of industry is evident from its status as the sole source of legitimate coercion. Such positive and negative incentives may be material or institutional. Material rewards are usually granted as social benefits and tax concessions. Institutional rewards buttress organized industrial relations and their actors. An important example is the statutory provision for extending multi-employer bargaining to unaffiliated employers, because this ensures a high level of both collective bargaining coverage and employer density (Traxler *et al.*, 2001). For instance, Dutch governments have used the threat to rescind the statutory extension provision as stimulus for the conclusion of pacts

2. It is argued that the logic of problem-solving prevails over the logic of exchange in contemporary concertation (e.g. Culpepper, 2002). This proposition ignores the organizational imperatives for interest associations, which are forced to orient their activities towards the interests of their members and towards their own survival interests (i.e. organizational maintenance). Hence their cooperation with representatives of other, often conflicting interests must rest on a “give-and take” basis. As emphasized by Marginson and Sisson (2004: 130), “the capacity to engage in political exchange remains a prerequisite for engaging in problem solving”.

(van den Toren, 1998). The power of the two sides of industry to impose negative externalities on governments is contingent on control over two resources. The first and most important one rests on collective wage bargaining, which may create manifold negative externalities such as growth of inflation, unemployment and public expenditure. The scale of this deterrent power depends on how much the bargaining structure equips the bargaining parties with a sufficient hold on the labour market. In this respect the main divide is between inclusive and exclusive bargaining structures, each of which are characterized by two interrelated properties: multi-employer settlements in combination with high collective bargaining coverage, and single-employer bargaining with low coverage (Traxler, 1996). The second source of deterrent power organized business and labour may have relies on symbolic means of sanctioning government policies. Governments that ignore their demands may be targeted by adverse public campaigning and may risk a decline in voter support as a consequence. Whether governments need symbolic support from organized interests depends on how much they can mobilize genuine legitimation resources. Governments may thus conclude pacts for reasons of enhancing their legitimacy, especially when there is a need to take unpopular decisions. Overall, the kinds of 'goods' that are traded in the course of pacts may differ widely and may even extend the character of a 'political exchange' of obligations of collective actors to make their members comply with the concerted goals of governance (Pizzorno, 1978). If the good provided by the associations consists solely of consenting to a certain policy measure to be implemented by the state, then they provide the state with additional legitimacy rather than with a commitment to accomplishment of (instrumental) goals of governance. This resembles micro-level forms of symbolic exchange of sympathy and reputation. If organized interests deliver only their consent to a pact, the borderline between such a symbolic exchange and mere consultation is not easy to draw, since the policy decision falls within the formal purview of state responsibility in both cases. In line with the above remarks on the formal power relationship of pacts, it is reasonable to speak of a pact of symbolic exchange only when the interest organizations enjoy a power of veto in the process.

Pacts of symbolic exchange perform expressive functions. The range of functional requirements for societies has been outlined by Parsons (1965), who differentiates between instrumental functions (i.e. goal attainment and adaptation) and expressive functions (i.e. pattern maintenance and integration). In principle, pacts may be suited to any of these functions or any combination of them[3]. For the sake of simplicity we differentiate between two main types of pacts with regard to their function and the related input of organized interests. Instrumental pacts contain a collective obligation of organized interests to make a genuine contribution to the accomplishment of public policy goals. As argued above, organized interests can make such a commitment if they exert control over the labour market, in particular over pay-setting. Hence, the constituent issue of instrumental pacts is income policy. Expressive pacts refer primarily to social integration insofar as the input of organized interests is symbolic support for government policies.

The context determines the likelihood of the conclusion of pacts. We differentiate between five contextual factors: the economic policy regime, internationalization of markets, the legitimizing power of liberal democracy, government partisanship and the bargaining structure. The economic policy regime and market internationalization define the feasible range of policy options. For instance, the relevance of income policy and the related need for instrumental pacts is closely associated with the economic regime. It has been one main goal of neoliberal economic policy programs to relieve socio-economic governance from the need to cooperate with organized interests. Likewise, liberal democracy works as a functional equivalent to expressive pacts if it provides governments with sufficient political legitimacy. Government partisanship becomes important to the extent that ideological affiliations influence the willingness of the actors to cooperate. The structure of collective bargaining conditions the genuine power of organized business and labour more than any other arrangement. This ensues from the principle of free collective bargaining that institutionalizes the two sides of industry as autonomous and legitimate agents of labour market regulation. We will not further elaborate on the context, leaving this issue to the next sections. It is, however, worth highlighting the distinct dynamics that underlie these five contexts. Economic policy, market internationalization, and liberal democracy follow long-run trends, i.e.

3. However, pattern maintenance is an unlikely function of pacts since their issue is interests rather than values.

a policy shift from the demand side to the supply side, growing openness of economies, and increasing legitimation problems for the party system. Since these trends affect all countries, they cannot account for differences in governance across countries. In contrast to this, government partisanship usually shows short-term fluctuations, reflecting 'political cycles'. Finally, the bargaining structure shows relatively limited, path-dependent changes. This makes the bargaining structure the key factor when it comes to detecting persistent cross-country differences in the patterns of how organized interests are involved in macro governance. This assumption implies that the bargaining structure works as a mechanism that mediates the impact of long-term trends. This mediating effect essentially varies with the governance function: in matters of instrumental governance, the bargaining structure (still) determines the role of organized interests, including the propensity to conclude pacts, whereas the bargaining structure is irrelevant for an expressive involvement in macro governance. In line with this hypothesis, we will first discuss instrumental macro governance and then shift to the expressive dimension.

2. Organised interests and instrumental governance: from Keynesianism to orthodox economics

It is conventional wisdom that the shift from Keynesianism to orthodox economics fundamentally changed the way in which organized interests relate to the state and macro governance. Since Keynesian demand management, as was characteristic of the 1960s and 1970s, needs to be flanked by incomes policy as a means of keeping active fiscal policy compatible with low inflation, governments were condemned to seek cooperation with organized interests under any circumstances, even when a corporatist structure of interest intermediation was lacking in such countries as the UK.

In this case, organized interests were expected to develop the structures needed for concertation policies (Schmitter and Streeck, 1981; Streeck, 1979). This implied an all-encompassing trend towards corporatism based on centralized structures and concertation by package deals and consultation. Accordingly, generalized political exchange was seen as the prime mover of corporatism (Crouch, 1993; Lehmbruch, 1984). Such generalization of political exchange includes not only policy issues but also the time dimension: advanced corporatist governance thus meant continuous concertation practices across all policy areas.

While Keynesianism cast organized interests generally in the key role of governance, full employment made the labour unions especially powerful, and their participation in concertation most uncertain. It was only the unions that had an alternative to corporatism as a result of favourable economic conditions: tight labour markets and a domestic economy that was relatively shielded from international competition insofar as 'excessive' wage increases could be cushioned by devaluations without a loss of competitiveness and jobs. Backed by a politicized, militant labour force, the unions could push through their demands in a non-cooperative way, threatening to fuel the 'resurgence of class conflict' (Crouch and Pizzorno, 1978). Governments had no alternative to corporatism for the above reasons. Likewise, organized business had to fear that pure state regulation and militant unions would generate far less benign policy outcomes than corporatist compromising (Schmitter and Streeck, 1981). Put in terms of rational choice, the disagreement utility of the unions clearly exceeded that of governments and organized business in matters of corporatist policy-making. Hence governments had to create special incentives for the unions to cooperate. This made government partisanship important. Social-democratic governments, more than others, succeeded in integrating the union movements, as the significantly positive relationship between concertation practices and social-democratic predominance in governments for this period underscores (Traxler *et al.*, 2001).

This specific context withered away from the early 1980s onwards. Most importantly, the shift from Keynesianism to orthodox economics offered governments an alternative to corporatist governance by resorting to the disciplining forces of the market through deregulation and monetary conservatism. However, the cost-benefit ratio of a thoroughgoing move to this neo-liberal alternative, which meant a radical break with corporatism, depends on the deterrent power of organized interests – as it is institutionalized in the bargaining structure – and the strength of the state. One can learn from the UK experience with Thatcherism that even under the rather favourable conditions of a very strong central state, a determined government and weak bargaining structures, an accentuated neo-liberal restructuring takes a relatively long time and incurs high conflict costs before it becomes effective. Hence the risks of full-fledged neo-liberalism looked unpredictable for the rest of Western Europe, where the bargaining structures provide the two sides of industry with far more power to impose and control negative externalities.

The divide between inclusive and exclusive bargaining determined the fate of corporatism under the new economic policy regime. In the early 1980s two alternative paths of development crystallized across the OECD area, one characterized by coordinated inclusive bargaining and comprehensive consultation, and the other by uncoordinated exclusive bargaining in tandem with significantly narrower consultation (Traxler, 2004). Hence the incidence of economy-wide bargaining coordination and the scale of consultation significantly co-vary with the bargaining level (Traxler, 2003b): coordinated bargaining and comprehensive consultation combine with multi-employer (i.e. mainly intermediate) bargaining, whereas uncoordinated bargaining clusters with narrow consultation and single-employer bargaining. Bargaining practices, as given by (non)coordination and the bargaining level, mediated the change in the economic policy regime in a way that lead to a bifurcation of the relationship between organized interests and the state. If uncoordinated single-employer bargaining prevails in a country, governments can gain little from concertation following the demise of Keynesianism, since none of the numerous single-employer agreements has a notable impact on the economy as a whole – all the more since employer associations and unions at supra-plant level are incapable of governing local pay setting[4] and aggregate bargaining coverage is low: comparative analysis shows that single-employer bargaining covers a third of the total employees at best (Traxler *et al.*, 2001). Moreover, as market competition increases, single-employer bargaining sets a strong incentive for the employers to de-recognize the unions so as to dismantle collective bargaining. As a consequence, collective bargaining declines, and covers an ever-shrinking minority of employees (Traxler *et al.*, 2001)[5]. This contrasts with coordinated bargaining, which ensures inclusive coverage almost by definition. In this respect, its

4. When the UK moved to neo-liberalism under the Thatcher government, multi-employer bargaining still existed, but was hollowed out already by single-employer settlements.
5. In Britain collective bargaining coverage fell from 72% on the eve of Thatcherism to 37% in the mid 1990s.

backbone is multi-employer bargaining, which covers more than 70% of employees on average when it prevails in a country's bargaining system. Since this inclusive bargaining structure matters in macroeconomic terms, it empowers the bargaining parties to impose such noticeable externalities on governments that they find corporatist cooperation preferable, even under the premises of orthodox economics. Otherwise wage discipline is likely to require tough monetary policy at considerable real costs, such as a rise in unemployment and a loss of international competitiveness.

Under the protection of coordinated inclusive bargaining, corporatism was able to survive but at the same time underwent a transformation from its classic Keynesian profile into a leaner arrangement (Traxler, 2004). Five differences between the old and new version of corporatism are worth emphasizing. Firstly, policies have shifted from the demand side to the supply side. Under Keynesianism, corporatism aimed to control pay increases so that their inflationary effect and their positive effect on consumer demand were balanced. In combination with orthodox economics, corporatist income policy has been reduced to moderating pay increases for the sake of international competitiveness. Secondly, the pay-off structure of corporatism has reversed insofar as the disagreement utility of the unions has become lower than that of governments and organized business. Rising unemployment, intensified competition in deregulated markets and the decline of unionization all weakened the power position of the unions, while orthodox economics armed governments with an alternative to corporatism. In the new economic context, the risk of union de-recognition by employers can be reduced only to the extent that the state continues to buttress organized industrial relations. Thirdly, this reverse pay-off structure has usually made the unions willing to embark on corporatism even when social-democratic sirens were absent. Conversely, inclusive bargaining as a deterrent creates an incentive for governments to cooperate regardless of their political composition. As a consequence, the positive correlation between corporatism and social-democratic governments has disappeared since the early 1980s (Traxler *et al.*, 2001). Likewise, one finds no statistically significant impact of government partisanship on the incidence of pacts on income policy (Traxler and Brandl, 2008b). Fourthly, employers have successfully pressed for bargaining decentralization so as to arrive at more flexible employment terms. These pressures could be held compatible with the coordination requirements of corporatism, as they have taken the form of organized decentralization in the course of which bargaining coordination has been maintained and re-designed to set a framework for local bargaining. Fifthly, new forms of cooperation have tended to replace generalized political exchange. Economic internationalization and European integration have narrowed the scope of policy fields available for concertation. Monetary policy provides a particular example: in Europe, national monetary policy autonomy withered away in the 1980s with the introduction of ERM under the hegemony of the Bundesbank, followed by EMU which is modelled on the German pattern of central bank independence and monetary conservatism. Hence, in tandem with intensified competition in open markets, transnational monetary signals, as set by the Bundesbank first, followed by the ECB, have replaced package deals as a repeated means of synchronizing wage policy with macroeconomic requirements. As an implication, the combined use of deals and consultation, which is typical of classic corporatism, has disintegrated. What we can observe are two distinct concertation practices: the majority of countries under coordinated inclusive bargaining have maintained routines of relatively comprehensive consultation, while at least occasionally embarking also on tripartite income policy in the form of pacts. A minority of countries under coordinated inclusive bargaining have also maintained comprehensive consultation practices but have never concluded a cross-sectoral pact on income policy.

Differences in the mode of bargaining coordination account for this divide. In all countries recording one or more (instrumental) pacts the peak organizations of business and labour seek to coordinate the bargaining strategies of their lower level affiliates. By contrast, economy-wide coordination by exposed-sector pattern bargaining is common to those countries lacking a record of pacts (Table 3). This divide reflects differences in the robustness of two different ways of coping with the same problem: making strong, intermediately centralized, multi-employer bargaining units internalize their wage externalities. This problem arises because inclusive bargaining rests not only on multi-employer bargaining in general, but also on powerful intermediate (i.e. industry-level) bargaining units in particular.

As Calmfors and Driffill (1988) argue, such intermediate centralization as industry-level bargaining can most effectively externalize its pay increases, since its agreements can be used as a cartel. However, this thesis requires two qualifications. Firstly, intermediate bargaining units do not perform any worse than alternative bargaining modes, provided their pay settlements are effectively coordinated across the economy (Soskice, 1990). Secondly, open markets prevent sectors from externalizing their pay hikes since a national bargaining cartel loses its rent-seeking efficacy in international markets: industries that are exposed to international competition cannot pass the cost of their wage increases on to their customers. They are compelled to moderate their wage policy. The power to cartelize and externalize pay policy thus remains only with the sector (essentially including public services) that is still sheltered from international competition. If the sheltered sector does externalize its pay hikes, then this substantially harms the exposed sector in many different ways (e.g. wage inflation, labour shortages and higher taxes), all of which undermine its international competitiveness. This means that pay moderation by the exposed sector itself does not suffice to ensure its competitiveness in terms of labour costs. In addition, its competitiveness strongly depends on pay moderation in the sheltered sector. At the same time, the costs and benefits of pay moderation are unequally distributed between the two sectors. It is an irony that orthodox economics has exacerbated this asymmetrical interdependence. On the one hand, market deregulation has exposed certain parts of the economy to intensified competition while other parts have remained more or less unaffected. On the other hand, monetary restrictiveness, which is the discretionary means of disciplining the bargaining parties, hits the exposed sector far more than its sheltered counterpart through higher interest rates and real exchange rate appreciations. In contrast to this, Keynesianism could ease the asymmetrical interdependence of the exposed and sheltered sector since an accommodating monetary policy and exchange rate depreciations were able to cushion the negative consequences of excessive sheltered-sector pay rises for the exposed sector.

In open economies with (quasi) fixed exchange rates, intermediate bargaining thus raises a burning problem of economy-wide wage coordination aimed at making the sheltered sector comply with the interest of the exposed sector in pay moderation, so that overall pay trends are compatible with the need for international competitiveness. This problem is endemic in all western European countries (except the UK where single-employer bargaining prevails) plus Slovenia, albeit with differences in how it manifests itself. In most of these countries, multi-employer bargaining is identical with industry-level bargaining (e.g. Austria, Germany, the Netherlands, Italy and Spain). In countries where centralized bargaining is recurrently practised (e.g. Belgium, Norway and Slovenia) it is embedded in a multi-level bargaining system with a strong industry level. A special case is Ireland's multi-level bargaining system. Its main components are peak-level negotiations within the social partnership framework and single-employer bargaining that prevails in the business sector, while bargaining for public services is strongly centralized at intermediate level. Hence intermediate bargaining for the public sector sees no opponent on the side of the exposed sector at intermediate bargaining level, with the result that Ireland runs an especially high risk of the sheltered sector externalizing the bad aspects of its pay increases on to the exposed sector. Given free collective bargaining, the asymmetrical interdependence of the exposed and the sheltered sector leaves two possible agents of economy-wide wage moderation. One agent is the exposed sector itself. Coordination then rests on pattern bargaining by the exposed industries. This implies that they are so powerful that their wage agreements can set the pace for the wage movements of the other industries. If the exposed sector does not wield so much power, then the peak associations of business and labour are the only agents that might be able to control industry-level bargaining by their affiliates by means either of peak-level bargaining or of peak-level coordination activities. Under these circumstances, the peaks have a vital self-interest in initiating economy-wide bargaining coordination. The employer peaks are determined to do so because their membership covers only the business sector, with the exposed sector as its stronghold. The union peaks cover the sheltered and the exposed sector and usually register highly unionized areas in both sectors (i.e. manufacturing and public services). Nevertheless, the union peaks will try to coordinate the bargaining strategies of their affiliates, so as to constrain the centrifugal forces caused by the asymmetrical interdependence of the exposed and sheltered sector, which might undermine their internal cohesion.

If pattern bargaining is actually a bargaining structure (i.e. a well-established, long-term practice), then the preponderance of the exposed sector is structural as well, i.e. based on certain economic and institutional properties that are deeply entrenched in society (Traxler *et al.*, 2008). In addition, pattern bargaining is structurally biased towards supply-side wage moderation, since the survival of the exposed sector is bound to match the imperatives of competitiveness (Traxler and Brandl, 2008a). All this makes wage moderation by exposed-sector pattern bargaining so robust that any direct state interference is superfluous. This explains why pacts on income policy are absent in countries where pattern bargaining is established as a bargaining structure. Peak-level coordination lacks this robustness. Since the peak associations cannot govern their industry-level affiliates by fiat, peak-level coordination can only work on a voluntary and consensus-oriented basis that allots powers of veto even to weaker affiliates. Furthermore, peak-level coordination complicates the bargaining agenda. The need to find an all-encompassing agreement means that peak-level efforts to control aggregate pay increases inevitably raise the distributional issue of (inter-sectoral) pay differentials. This provokes enormous problems of intra- and inter-associational compromises, and the outcomes of this process are therefore uncertain. As outlined above, comparative research in the performance of peak-level coordination concurs in finding that its effectiveness is highly contingent on circumstances. How labile peak-level arrangements are, is evident from its most pronounced form, i.e. centralized bargaining. Even in countries like Norway and Finland, where it is established as a bargaining structure, it sometimes either totally collapses, giving lower-level bargainers a free hand, or faces defection by certain industries that do not join the agreement. These uncertainties systematically induce state interference, including pacts on income policy. In line with this, all EU member states, where coordinated bargaining is orchestrated by the peaks, have seen the conclusion of pacts on pay moderation.

3. Organised interests and expressive governance: the legitimacy crisis of liberal democracy

Compared to other issues of organized interests, a coherent approach to their expressive governance effects is lacking. Theoretical and empirical reasoning on this issue are isolated from each other, offering contradictory conjectures. Case study analyses commonly assign not only an instrumental function, but also a legitimizing function to concertation in general, as well as to pacts in particular. Some recent studies have emphasized the legitimizing function by arguing that weak governments are especially interested in pacts as a result of their need for exogenous support (Avdagic, 2008; Baccaro and Lim, 2007; Hamann and Kelly, 2007). The counter position is that pacts require enforcement by a strong state (Avdagic *et al.*, 2005). Analytically, the issue is most extensively addressed by corporatist theory, which sees only instrumental value in concertation. The involvement of organized interests in public policy is presumed to result from an insufficient ability of the party system to cope with the instrumental imperatives of governance. In such matters, political parties tend to produce irrational decisions because they orient themselves towards electoral competition rather than economic performance (e.g. Lehmbruch, 1979). Conversely, legitimacy is generally interpreted as the Achilles heel of corporatism. This assumption originates in classical democratic theory, which sees its principles as being at loggerheads with the role of organized interests in public policy because this blurs the distinction between private and public realms and undermines popular sovereignty (e.g. Anderson, 1979). Scepticism about the legitimizing potential of corporatism may also be rooted in history: its authoritarian version was a constituent ingredient of dictatorship and fascism. At any rate, this scepticism is based on normative considerations, whereas the actual capacity of concertation to legitimize policies is an empirical matter. Unlike performance effects, the impact of concertation on legitimacy has not systematically been addressed by empirical research. There is nevertheless anecdotal evidence of positive legitimation effects. A striking example is provided by Austria, where surveys show that the population regards the cooperation of organized business and labour as more important than parliament and its activities (Ulram, 1993).

In the case of both instrumental and expressive governance, the input of organized interests must be related to the corresponding capacities of the political system. The need for concertation emerges to the extent to which the capacities of the political system prove insufficient. In liberal democracies the party system is the primary locus for generating political legitimacy. But there are signs of a legitimacy crisis of the system. In Central and Eastern Europe (CEE), the specific circumstances of the transformation from command economies to capitalism in tandem with the emergence of rather volatile party systems have been the main reason for accentuated legitimation problems. Yet these problems are also endemic in the rest of Europe. Aside from the rise of populist parties, which plagues virtually all political systems across

Europe, these problems are expressed in declining voter turnout across all democracies (e.g. Gray and Caul, 2000).

Critical Theory pioneered the analysis of the legitimation problems in liberal democracies (e.g. Habermas, 1973; Offe, 1972 and 1973). Its key argument is that the capitalist state is burdened with a contradiction between the (instrumental) imperatives of private accumulation and the (expressive) implications of democratic mass participation, which produces expectations that are at odds with accumulation imperatives. Since state power depends on progress in accumulation, governments must prioritize its imperatives, thus encountering problems of legitimacy. It was possible for them to be contained and buffered by competitive party democracy for as long as the Keynesian welfare state managed to reconcile the expectations of the population with economic imperatives by means of advances in living and working conditions (Offe, 1987). But with stagflation heralding its demise, the party system entered into crisis. Characteristically, the long-term trend towards declining voter turnout gathered momentum from the mid-1970s onwards and has strongly accelerated since the 1980s (Gray and Caul, 2000). This is because orthodox economics have exacerbated the problem. Market internationalization has further been hollowing out the legitimizing power of liberal democracy, as this power is still confined to the realm of the nation state (Crouch, 2004).

One can infer from this that the legitimacy crisis of liberal democracy is structural, with a tendency to become further aggravated. Does this generate a corresponding structural demand for concertation? At first glance, the answer to this question may be negative for two reasons. First, organized interests are beset with problems of internal legitimacy. Union membership levels have fallen sharply in most countries since the early 1980s (Visser, 2006), as have levels of organized business, albeit at a more moderate pace (Traxler, 2008). Hence one may doubt that they can contribute to political legitimacy. Secondly, there are alternatives to concertation when it comes to coping with the legitimacy problem of liberal democracy. Offe (1987) points to repression. However, there are also milder recipes that are built into the 'post-democratic' party system. The less the parties are able to address vital problems of public governance – such as shrinking revenues from corporate taxes in the wake of growing transnational capital mobility – the more they are compelled to shift their activities to 'politics of legitimation', as guided by marketing strategies and implemented by spin doctors.

One paradoxical effect of these self-referential tendencies of the party system is that they open a niche for concertation. Since the parties increasingly converge on the same 'product' as a result of restricted room for manoeuvre and the need to maximize voter support, they must simultaneously pursue a strategy of symbolic product differentiation so as to give each of them a profile distinct from their competitors. Deprived of real differences in policy content, such differentiation relies on cultivating symbolic controversies in the mass media. This makes it harder for the parties to reach an agreement, even when their political positions do not differ much. At the same time, it frustrates the depoliticized masses and further deepens the legitimacy crisis of party competition. The special expressive appeal of concertation therefore lies in its ability to make social peace and find a compromise beyond inter-party wrangling. The declining membership strength of organized interests may carry little weight in this respect because the genuine contribution of concertation to expressive governance ensues from offering a policy style that contrasts with inter-party competition: cooperation across interests and actors.

On balance, the legitimacy crisis of liberal democracy creates a structural need for concertation in temporal rather than in social respects. While it establishes a lasting product niche for expressive concertation, concrete demand for its product is far more uncertain than is the case of instrumental concertation. The bargaining structure works as an opportunity set that determines the propensity to conclude pacts and stick to (instrumental) concertation more generally. If a supporting bargaining structure is absent, any institutionalized impulse for (expressive) concertation is lacking as well. In these circumstances, concertation is highly contingent on government partisanship, in contrast to instrumental concertation. If the possible gains of cooperation with organized interests emanate from its expressive function, then governments will embark on such cooperation only when this fits with their own ideological profile. The CEE countries, where exclusive bargaining usually prevails, provide a particular instance. The notable fluctuations in the importance of tripartism in these countries are reported to be strongly associated with changes in government (Toth and Neumann, 2004). For expressive reasons, labour parties rather than conservative or liberal parties prefer cooperation with organized interests. Yet a more accentuated divide is that between these parties and the purely populist ones, which are hostile to corporatism for two main reasons. Populist parties most consistently distinguish themselves by means of symbolic conflicts, with preferential appeal to the mass media. This marketing strategy is incompatible with the policy style of clandestine compromises that is characteristic of concertation. As newcomers in the political system, populist parties are anxious to participate in the allocation of power resources and see organized interests as their natural rivals. As the case of Austria demonstrates, populist parties, when they are part of government, are able to severely cut back concertation even in a context of coordinated inclusive bargaining, but they are hardly capable of dismantling it: while the conservative-populist coalition of the early 2000s could not avoid devolving the reform of severance pay to the social partners, concertation practices were generally restored after its demise.

The accelerating legitimacy crisis of liberal democracy has paved the way for a long-term trend towards expressive concertation, albeit qualified by strong short-term fluctuations. The new EU member states from the CEE countries testify this trend most strikingly. In the vast majority of these countries the bargaining structure is exclusive, i.e. single-employer bargaining prevails and collective bargaining coverage is very low (e.g. Marginson and Traxler, 2005; Kohl and Platzer, 2003), and the result is that the peak organizations lack control over the regulation of employment. Furthermore, pay-setting in the sheltered sector does not pose a threat to the competitiveness of the exposed sector in the CEE countries. In stark contrast to Western Europe, union density tends to be lower in the public sector than on aggregate, and the right of collective bargaining is either denied to this sector or is not realised because of union weakness (Bordogna, 2007)[6]. Although the bargaining structure does not create an instrumental need for concertation, all these countries have seen a proliferation of tripartism, which in these circumstances can only perform expressive tasks. Inasmuch as these tripartite bodies deal which wage issues, they usually have an advisory role in enacting minimum wages.

6. Of the CEE countries with exclusive bargaining listed in Table 3 the weakness of the public sector is somewhat less accentuated in Hungary due to higher union density and in Slovakia due to bargaining rights.

Hence their profile fundamentally differs from pacts on income policy that aim to moderate wage movements. Yet in Western Europe too, concertation has increasingly extended its scope of governance to expressive functions. This is evident from the tendency of the state to conclude pacts on matters other than income policy issues, such as reforms of the welfare state[7]. Since these matters formally remain within the purview of state responsibilities, instrumental support from organized interests is not inevitable. What counts more is their support in delivering legitimacy by expressing their consent. This does not rule out the possibility that the expertise of organized interests also makes an instrumental contribution to concertation that is disconnected from income policy issues. This point has been over-emphasized by some commentators, who regard the instrumental and expressive input of such concertation as equally important since governments are believed to lack the combination of technical, relational and local information required for successful reforms (e.g. Culpepper, 2002). Even if concertation delivers superior instrumental solutions, they are not the real incentives for governments to embark on it. Governments can easily buy expertise if it is not at their own disposal, and may content themselves with second best solutions if they are hostile to concertation[8]. However, they are far less able to buy legitimacy, which affects their prospects for re-election much more directly than the solution to problems. This makes legitimacy a scarce resource that prompts governments to seek cooperation in matters other than income policy. Therefore this kind of concertation is primarily expressive.

4. Categorising macro governance and cross-national mapping

After having focused on the dynamics of governance in the two previous sections, we now turn to a double comparative perspective. Firstly, we will differentiate between distinct modes of governance; and in a second step countries will be grouped accordingly. The way the governance mode

7. We do not refer here to concertation across policy fields that include income policy. In Western Europe such concertation is predominantly instrumental, since it rests on the deterrent power of coordinated wage bargaining.
8. In Austria the conservative-populist government charged a law firm with drafting the reform of the public institutions for social insurance because the responsible minister from the populist party distrusted the civil servants of his ministry.

is categorized follows the analytical dimensions summarized in Table 1. Relating these dimensions to the above reflections on the development of organized interests and their involvement in public policy yields the categorization documented in Table 2. Like any categorization, Table 2 highlights the constituent properties of the respective governance modes, and thus represents an abstraction of empirical complexity. That is why only one governance mode, i.e. classical corporatism, is listed for the Keynesian era. During that time the countries differed only in degree from the properties in Table 2, whereas qualitative differences in governance have unfolded in the post-Keynesian period. The main difference is between neo-liberalism and lean corporatism. Organized interests only play a marginal role in neo-liberal governance. Their involvement in public policy is confined to occasional, issue-related consultation. Reflecting the exclusive bargaining structure, business associations lack a profound role in collective bargaining, while the unions conclude collective agreements for a minority of employees only. In contrast to this, organized interests have maintained a substantial role in lean corporatism. In terms of public policy, this is manifested in comprehensive consultation procedures across the areas of economic and social policy. These procedures are based either on statutory tripartite councils of economic and social concertation or on customs and practices. Aside from this common property of comprehensive consultation, lean corporatism shows clear differences in terms of governance function and the relationship of organized interests to the state. On the one hand, the main function of concertation is either instrumental or expressive. On the other hand, there is a difference in whether concertation includes the (occasional) conclusion of pacts, or whether it is limited to mere consultation. If we combine these alternative configurations, then we arrive at four modes of lean corporatism. Inclusive bargaining coordination that requires at least a critical mass of intermediate bargaining vests organized interests with economic resources of deterrent power that structurally enable them to influence the ability of the state to pursue instrumental goals in the labour market and related policy areas. If uncoordinated exclusive employer bargaining prevails, then organized interests lack economic deterrent power and are admitted to concertation for reasons of legitimation. Within the instrumental mode of lean corporatism, the bargaining structure also determines the prospects for pacts. As outlined above, a need for instrumental pacts emerges only if the exposed sector is not strong enough to set the pattern for overall pay movements. We thus differentiate between three categories of bargaining structure, which ideal-typically combine with the mode of governance as follows: uncoordinated exclusive bargaining clusters with neo-liberalism or the expressive forms of lean corporatism. Bargaining coordination by the peak associations correlates with instrumental lean corporatism that includes pacts on income policy. Finally, bargaining coordination, when led by the pattern-setting role of the exposed sector, associates with an instrumental approach to lean corporatism that excludes pacts.

In line with this categorization, the European countries can be mapped along two dimensions of Table 2: the governance mode and the bargaining structure. Table 3 relates the bargaining structure to macro governance as it evolved after the 1970s until the early 2000s. The focus is on the bargaining structure because this is argued to be the key determinant of path-dependent developments that makes governance vary across countries. When countries are classified according to their governance mode, the problem is that the instrumental forms of lean corporatism do not contrast empirically with their expressive counterparts: in the course of concertation practices, the two functions are likely to blend with each other. The pacts of the early 1990s in Italy, for instance, were triggered not only by economic imperatives, but also by the collapse of the party system (Regalia and Regini, 1998). Our rationale of classifications refers to the governance function that prevails structurally. For the above reasons, this depends on the bargaining structure. Hence concertation is regarded as mainly instrumental in countries characterized by coordinated inclusive bargaining. In the case of uncoordinated exclusive bargaining, concertation is mainly expressive. Table 2 also requires distinguishing between countries with and without pacts. We concentrate here on pacts on aggregate pay, because pay is the issue that is most closely associated with the representational tasks of organized business and labour. There are instrumental and expressive versions of such pacts: instrumental pacts deal with income policy in the narrow sense, insofar as they are designed to moderate aggregate pay by setting a ceiling for pay increases. Expressive pacts take place within the framework of minimum wage legislation, which formally grants organized business and labour a power of veto that enables these organized interests to conclude a pact, as compared to a purely consultative role in fixing the statutory minimum wage. They are expressive pacts since the minimum wage is implemented by the authorities themselves.

Table 2 **Modes of macro governance: main properties**

	Classical corporatism	Lean forms of corporatism				Neo-liberalism
Function	**Instrumental**	**Predominantly instrumental**		**Predominantly expressive**		**Instrumental and expressive**
		Pacts and consultation A	Consultation B	Pacts and consultation C	Consultation D	
Relationship	Package deals and consultation based on generalized political exchange	Occasional, issue-related pacts and regular consultation	Regular consultation	As A	As B	Very limited occasional and issue-related consultation
Context						
Economic policy	Keynesianism	Orthodox economics and monetary conservatism (A – E)				
Markets	Quasi-closed economy	Open economy (A – E)				
Political Legitimation	Party competition and the welfare state	Party competition (A – E)				
Government partisanship	Affiliation to social democracy	No affiliation	As A	Affiliation to social democracy	As C	Affiliation to neo-liberal parties
Bargaining structure	Centralized	Inclusive*, coordinated by the peak level	Inclusive*, coordinated by exposed-sector pattern bargaining	Exclusive**	Exclusive**	Exclusive**
Time period covered	From post-war reconstruction until the late 1970s	From the early 1980s onwards (A and B)		From the post-communist transformation onwards (C and D)		As A and B

* High collective bargaining coverage and multi-employer bargaining with a strong intermediate component

** Uncoordinated single-employer bargaining

Some countries have a record of both instrumental and expressive pacts. In this case, the classification refers to the instrumental pacts, because they involve organized business and labour more strongly than expressive pacts: pacts on income policy oblige them to find an agreement on aggregate pay increases as well as to implement them. Countries recording one or more pacts on income policy are classified as cases of instrumental pacts.

The two-dimensional classification of Table 3 does not easily fit one country: while the French system of policy-making includes statutory tripartite consultation covering a rather broad scope of areas, this process is highly compartmentalized and in practice is superseded by informal personal relationships (e.g. Schmidt, 1996). There are similar classification problems with the bargaining structure. While pay movements are coordinated across the economy, neither the peak associations nor the exposed sector operate as coordinating agents. The impulse for coordination is set by the state, in that most industry-level agreements simply ratify the statutory minimum wage.

Aside from this, there are two borderline cases. The peak-level agreements struck from 1998 onwards, which make Belgium a case of instrumental pacts, are bipartite accords of organized interests in formal terms. The agreements are, nevertheless, tripartite in practice, since the governments have promoted their conclusion and have also been involved in implementing some of the provisions (Arcq and Pochet, 2000). Furthermore, one might also include Germany in the category of instrumental pacts because of its ‘Alliance for Jobs’, which once issued a statement on pay-setting according to which the ‘available distributive margin should be based on productivity growth and should be primarily used for job-creating agreements’ (Bispinck and Schulten, 2000: 200). The vagueness of this statement conceals severe controversies over whether the Alliance should deal with collective bargaining at all. In effect, it did no more than replicate well-established bargaining principles, but with special emphasis on their implications for employment. The input of the Alliance into wage formation was therefore negligible – all the more since its organizational design did not refer to this issue: none of the numerous working groups and topic-related dialogues was geared to income policy.

Overall, Table 3 strongly corroborates our thesis on the impact of the bargaining structure on the conclusion of pacts on income policy. All countries operating a peak-level approach to economy-wide bargaining coordination registered one or more pact on income policy over the period under consideration. Conversely, none of the countries where bargaining is coordinated by exposed-sector pattern setting arrived at such a pact. Likewise, pacts on income policy were not concluded in countries with exclusive bargaining, except for Hungary. This country is an exception in that its national tripartite body makes annual recommendations for the minimum, average and maximum level of pay hikes to be set by lower-level bargaining (Toth and Neumann, 2004)[9]. The case of Hungary underscores the fact that the relationship between the bargaining structure and the governance mode is not deterministic: one cannot rule out the possibility of pacts that are voluntarist in the sense that pacts on income policy are not triggered by peak-level coordination of intermediate bargaining. Yet such voluntarism is certain to remain ineffective, as the case of Hungary also demonstrates (Toth and Neumann, 2004).

While the bargaining structure does not determine the governance mode, it does systematically incentivate the actors, so that certain strategies become more probable than others. In this way, the bargaining structure has given rise to distinct paths of development, demarcating instrumental concertation from expressive concertation and neo-liberalism, and differentiating instrumental concertation with pacts from instrumental concertation without pacts. In contrast to this, a systematic link between the bargaining structure and expressive forms of pacts and consultation is lacking. Even more importantly, the bargaining structure does not explain the difference between neo-liberalism and expressive concertation, as both governance modes combine with the same bargaining structure: one may wonder why governments, when they face the inability of organized interests to govern the labour market, have not generally shifted to neo-liberalism. This difference involves the CEE countries (except Slovenia) and the UK. Given only one case of neo-liberalism, it is hard to arrive at a general explanation. One may argue that neo-liberalism and expressive

9. Tripartite guidelines for maximum wage increases are also set each year in Poland. Since they are sector-related, they do not meet the profile of macro concertation as considered here.

concertation hardly differ in practice, as tripartism is a paper tiger in several CEE countries. The problem with this argument is that it centres on instrumental governance. Tripartite bodies may well have expressive merit, although (or even because) they are instrumentally ineffective. Hence, neo-liberalism and expressive concertation are likely to echo differences of the political systems in their need for external legitimacy. By comparative standards, the Westminster model provides the UK with a very strong state and its (single-party) government with a broad majority in parliament. This contrasts with the CEE countries, where problems of political legitimation are especially severe. This has given rise to tripartism, along with corresponding pressures of the EU (Donaghey and Teague, 2005)

Table 3 **Macro governance and the bargaining structure under orthodox economics: mapping the countries**

	Lean forms of corporatist concertation				Neo-liberalism	Other
Bargaining structure	Predominantly instrumental		Predominantly expressive			
	Pacts and consultation	Consultation	Pacts and consultation	Consultation		
Inclusive, coordinated by the peak level	B, DK, E, FIN, GR, I, IRL, N, NL, P, SI, S (until 1992)					
Inclusive, coordinated by exposed-sector pattern bargaining		A, D, S (since 1997)				
Exclusive	H		EE, SK	CZ, LT, LV, PL	UK	
Other						F

5. Corporatism and pacts: what future?

While Keynesianism has given rise to instrumental concertation, the shift to orthodox economics has broken, but not fully reversed, this trend. In contrast to the general demise of corporatism as originally predicted by most observers, the decline of classical corporatism has led to marked differentiations of the configuration of governance and organized interests. These differentiations range from neo-liberal governance that has indeed dismantled macro corporatist arrangements to several forms of lean corporatism: instrumental types that are either limited to consultation or extended to occasional pacts, and expressive types of consultation and pacts. Although expressive functions have generally gained in importance, there is a clear divide in terms of the opportunity to perform instrumental governance functions, which is conditioned by the bargaining structure.

In countries where coordination of intermediate multi-employer bargaining continues to be important, unions and business associations have maintained their grip on the labour market and retained their deterrent power to impose negative externalities on governments, with the result that the latter are still compelled to cooperate with them for the sake of instrumental governance. Whether this need includes a stimulus to conclude pacts depends on the relationship between the distinct bargaining units and the concomitant mode of bargaining coordination. If the bargaining units of the exposed sector are strong enough to enforce their interest in wage moderation across the economy, then there is no reason for governments to conclude pacts on income policy. Yet there remains an instrumental interest of governments in institutionalized consultation with the two sides of industry as a consequence of their deterrent power. This situation sharply contrasts with the incentive structure as set by exclusive bargaining. In this case the unions and business associations are incapable of organizing deterrent power and transforming them into substantial contributions to instrumental governance. This weakness in the labour market especially prompts the unions to seek access to corporatist policy formation. The preference of governments is less clear in these circumstances. Depending on the capacity of the political system for generating legitimacy, it is rational for them to dismantle corporatism taking the neo-liberal route, as happened in the UK, or to employ corporatism for expressive purposes. Expressive corporatism contributes to symbolic governance of issues burdened with considerable problems of political legitimacy. This includes an option for pacts that are not related to the bargaining structure, in stark contrast to their instrumental counterparts.

From a cross-national comparative perspective, one can conclude that corporatism still prevails in Europe. If corporatism ever had a coherent profile, then it has definitely lost it, and has disintegrated into several corporatisms characterized by manifold variations in structure and fundamental differences in function. Geographically, the difference between instrumental and expressive functions of corporatist governance largely, but not fully follows the divide between the old and new EU member states. Aside from this, we find full-fledged neo-liberalism in the UK, and there is the odd case of France.

Several concerns about the viability of corporatism and pacts have been raised. When reviewing them we must be aware that they do not differentiate between instrumental and expressive lines of governance. In most cases, they (implicitly) address instrumental issues.

One concern refers to the prospects for political exchange. The argument is that the focus on tough monetary policy and cuts in public budgets combined with a transfer of competences to the supranational level have narrowed the national leeway for compensating organized interests in exchange for their cooperation. This would be true if corporatist exchanges were necessarily based on material rewards and incurred public expenditure. However, there are alternative tradables, namely organizational privileges such as preferential access to public policy and state-backed extension of collective agreements to non-members, which leave ample scope even for 'hard' deals on income policy. In some cases – like the Finnish pact of 1991 (EIRR, 1992: 20) and the Dutch agreements of 2002 and 2003 (EIRO, 2003a and 2003b) – the government's commitment to moderating its proposed austerity measures suffices to reach an agreement. Such deals come close to purely symbolic rewards because nobody knows whether the government's threat was serious or merely meant as a bargaining chip. Material constraints are absent in a symbolic exchange underlying expressive corporatism in the course of which the partners offer each other recognition and legitimacy. Compared to classic corporatism, the disagreement utility of the state has generally grown, with the consequence that agreements have become less expensive for governments.

Further uncertainties are assigned to changes in context. In the CEE countries, expressive corporatism and concomitant pacts evolved as a means of securing legitimacy for the transformation process. With transformation coming to an end, this corporatism might be expected to wither away as well, but the development of these countries does not support this assumption, as it implies that the political system will become so consolidated that it can sufficiently draw on its own legitimation resources. Given the crisis of liberal democracy across advanced economies, this is not likely to happen. As long as the party systems remain weak and the EU continues to exert centripetal forces in favour of social dialogue, tripartism will hardly disappear in these countries. Another change in context is presumed to undermine instrumental pacts: under EMU there is no reason for the social actors to conclude pacts on income policy (Hancké and Rhodes, 2005). With entry into EMU, the Maastricht criteria as well as monetary policy are argued to have become defunct as a stimulus for national pacts. Again, empirical evidence does not confirm this speculation. As a quantitative analysis of 14 western European countries shows, agreements on economic integration, such as the Maastricht Treaty, did not have a significantly stimulating effect on the spread of pacts (Traxler and Brandl, 2008b). This is plausible in light of the above considerations, which show that the spread of pacts is driven by the need to coordinate bargaining in the context of strong intermediate bargaining units and an asymmetrical interdependence of the exposed and the sheltered sector without clear leadership of the exposed sector in bargaining matters. This context creates the need for pacts in the case of both asymmetrical and symmetrical shocks, and there are no signs of any change that would diminish this need. On the contrary, EMU exacerbates the asymmetrical interdependence of sectors as a result of advanced but incomplete market integration. It is important to note that this tendency to conclude pacts unfolds independently of their effectiveness. As outlined above, the performance of pacts is uncertain and highly dependent on circumstances. Regardless of this, governments will tend to re-launch initiatives for pacts even under unfavourable conditions, because the alternatives (i.e. either dismantling inclusive bargaining or suspending it by statutory pay freeze) are likely to incur higher costs at least in the short run.

'De-unionization' in combination with bargaining decentralization are also predicted to undermine coordinated bargaining and pacts (Calmfors, 2001). This proposition ignores one key feature of collective bargaining in Western Europe: statutory provisions to extend the scope of multi-employer agreements to employers who are not affiliated to the signatory employer association. This special combination of multi-employer bargaining and pervasive extension backs organized industrial relations in two ways (Traxler *et al.*, 2001): apart from the direct effect through extension, an indirect effect results from strengthening the employer associations, since extension provides an incentive for employers to join their employer association. These mechanisms stabilize inclusive bargaining quite independently from union membership strength. In most west European countries where such extension is not practised, statutory incentives for unionization, such as union-led unemployment schemes, exist that keep collective bargaining coverage high through their positive effect on union strength. As long as there are such statutory incentives for multi-employer bargaining and unionization, the capacity for instrumental pacts is given.

Finally, there is the question of how national corporatism interacts with ongoing 'Europeanization' of policy formation. There is a clear difference between expressive and instrumental lines of corporatism in this respect. In expressive matters, national corporatism and Europeanization tend to reinforce each other. On the one hand, transfer of governance tasks to the supranational level increases the legitimation problems of the national democratic institutions, with the consequence that symbolic support from organized interests becomes more important. On the other hand, the democratic deficit of the European institutions has resulted in formation of the European social dialogue, whose governance profile is also expressive. As noted, this European development tends to buttress tripartism in countries where organized interests are rather weak. The interaction is more complex in instrumental matters, since the distribution of competences between the national and supranational level may result in a zero-sum game. This applies to both pay policy and other policy issues. As a national response to economic integration, the pacts on income policy affect nascent 'Europeanization' of industrial relations, in particular union-led initiatives for cross-border bargaining coordination. Pacts on income policy aim to improve the international competitiveness of the national economy by means of wage moderation (Pochet and Fajertag, 2000; Regini, 1997). Cross-border bargaining coordination, as orchestrated by the European Industry Federations, is devised to contain competitive national bargaining policies that threaten to result in a 'race to the bottom'. Although the goals of pacts and cross-border bargaining coordination are not incompatible, there is nevertheless a risk of the latter being crowded out by the former. Hence the instrumental effect of future pacts on macro governance in Europe will depend on whether they are able to internalize wage externalities – not only for the domestic economy but also for Europe as a whole. In policy areas other than collective wage bargaining, one finds that the crowding-out process is inverse to bargaining, in that the supranational level tends to supplant the national level. The more competences move from the national to the supranational level, the narrower the scope for policy concertation. In these circumstances, the potential of instrumental concertation lies in enhancing the remaining regulatory capacities of the state and organized interests by finding a sound mix of state regulation and collective agreements in such overlapping areas as vocational training and the role of labour in economic restructuring.

On balance, Europeanization has a fairly divergent effect on the instrumental and expressive potential of national corporatism. This explains the ambivalence of related studies. Europeanization is commonly reported to have weakened corporatism in countries where concertation and organized interests are traditionally strong; and to have backed corporatism in countries where its base is weak. Deriving from this a convergence towards some kind of 'median' corporatism would mean rushing to conclusions, because it would ignore the distinct matches of instrumental and expressive functions that characterize contemporary corporatism(s). These different matches are likely to persist not only because they are structurally rooted in distinct bargaining systems, but also because Europeanization fits into the broader economic and political context in which they are embedded: rising economic liberalism and declining liberal democracy.

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‘Odysseus or Sisyphus’ revisited: failed attempts to conclude social-liberal pacts in Greece

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Introduction

This study critically reviews the series of (failed) attempts to set up social pacts in Greece. The focus is on the period 1994 to 2008, with particular reference to the phase between 2000 and 2004 (characterised by the PASOK socialist governments), and the phase between 2004 and 2008 with the New Democracy (right-of-centre) governments.

The peculiarities of the Greek experience, especially when compared with the other south European countries, represent the key focus of this chapter. Why has Greece experienced the failure of all attempts to set up social pacts (with the exception of the 1997 Pact of Confidence), while other countries (like Italy, Spain and Portugal) have seen the emergence and evolution of social pacts in the same period?

To address this research question, the present contribution develops a multi-factor approach. As stressed by the most recent comparative research in the field (Hancké and Rhodes, 2005; Avdagic *et al.*, 2005; Natali and Pochet, 2009; Avdagic, 2008: 18; Fajertag and Pochet, 2000), no single condition turned out to be necessary for social pacting. Yet the emergence (and in some cases the resurgence) of social concertation is a phenomenon that is both complex and profoundly influenced by context-specific conditions. In light of this, any search for a single cause or even a common impetus for pacts would appear to be a futile exercise.

Our hypothesis for explaining the failed attempts to build and operate social pacts in Greece is related to the difficulties in sharing a common understanding of the need for social-liberal pacts, in the ‘pre-EMU’ period and mainly in the ‘post-EMU’ period, in particular on the part of social partner representatives who have acted as ‘narrow-interest’ groups. This is not inherently negative. Rather, it refers to the coexistence of social aims propounded by social actors and liberal principles in an economic policy context that has been strongly influenced by EU-driven market-oriented policies.

Section 1 sets out the Greek experience in a comparative European perspective and discusses theoretical and policy aspects regarding the viability of social pacts in the new, post-EMU, context. Section 2 assesses the two major social dialogue initiatives for labour market and social security reforms respectively and the institutional reforms for concertation in the 2000-2004 period. Section 3 traces changes in the wage formation system through the recurring rounds of collective bargaining in the main labour market segments. Section 4 concludes the analysis of the successive failed attempts and assesses the preconditions for a 'Sisyphean' or an 'Odyssean' scenario.

1. A decade of social pact efforts: from 'stop-go' to 'intensive' dialogue

The multidisciplinary research on social concertation in EU Member States in the 1990s (overviews in Avdagic *et al.*, 2005; Natali and Pochet in this volume) suggests that social pacts have been possible in many countries despite their lack of any corporatist, or neo-corporatist, tradition. The cases of Italy, Spain and Portugal (see Regini, 2000; Hancké and Rhodes, 2005 and chapters in this volume) raise, from a Southern European perspective, the question of why Greece, despite successive efforts to achieve social pacts, has not succeeded.

Since our previous account (Ioannou, 2000), there have in fact been continuous but rather unsuccessful attempts at social pacting. An index of social dialogue density and social pact initiatives would suggest that the sub-period 2000-2004 was one of record performance, thus providing a basis for assessing the actors, content and outcomes of social pact initiatives in Greek industrial relations.

In the 'pre-EMU' period (1994 to 1999) the governmental 'stop-go' approach to social dialogue meant that few attempts were made to conclude social pacts: in one case this was 'facilitated' by convergence towards the conditions for EMU. In the 'post-EMU' period, in 2000-

2004 under the socialist PASOK government and in 2004-2008 under the centre-right New Democracy government, social dialogue initiatives intensified, especially in the 2000-2004 PASOK period, but social pacts of any type proved impossible. In Greece's experience, the hypothesis – put forward elsewhere (Natali and Pochet, 2009) – that the 'pre-EMU' phase and the 'pursuit of the Maastricht criteria' represented more favourable conditions for social pacts than those of the 'post-EMU' context, seems *prima facie* to be corroborated, but we need to analyse how and why.

Exploring further Greece's extensive lack of success requires us to clarify facts and interactions of the actors, and to put content developments into context, by emphasising the importance of the 'before / after' comparison with regard to EMU regimes on the one hand and Europeanisation of policy-making on the other.

In this analysis three main variables are examined: a) the influence of EMU and mainly the 'post-EMU' shaping of national socio-economic policy-making, b) the interlinkage between policies (wage, labour market flexibility and welfare security in the past) and the 'problem load' that emerged in the post-EMU context, which may 'increase the opportunities for innovation', and c) the emerging new balance (of power) between actors, their changing influence and role in policy-making. In particular, the new balance (of power) has not only been caused by the weakening of some actors (e.g. trade unions in a period of falling union densities) but also, and more importantly, by the institutionalised transfer of responsibility to the EU level and the existence of less room for manoeuvre either for institutional reasons (EU Treaty provisions) or owing to radical changes in the 'national' macroeconomic context (with the end of 'national' monetary and exchange rate policy). In this new macroeconomic context, institutional inertia has allowed for more rhetoric but less effective dialogue. And it has led to a 'reduction of policy areas subject to agreement' (ibidem: 4). It is this context that determines the content and the feasibility of 'social-liberal' pacts.

Our hypothesis for explaining the failed attempts to build and operate social pacts in Greece is related to the actors' difficulties in understanding the need for social-liberal pacts, in the 'pre-EMU' period and mainly in the 'post-EMU' period. In particular, representatives of the social partners have acted to defend their 'narrow interests' at odds with the EU-oriented 'tradition' of 'social-liberal' pacts that include deregulation and re-regulation of state monopolies and harmonisation of wage formation. This is not inherently negative. Rather, it refers to a combining of social aims with liberal principles in an economic policy context that has been strongly influenced by market-oriented policies and options in a context of deregulation.

This takes us back to Olson's (1982) argument that encompassing organisations – such as unions and employers' confederations negotiating national-level social pacts – do not face the same incentives as small organisations, e.g. enterprise- or even industry-based ones. Rather than being concerned exclusively with distributional issues and their own particular interests, encompassing organisations are large enough to affect the provision of public goods, and therefore have an incentive to act in the best interests of society. As Olson (1982: 48) put it, such organisations 'own so much of the society that they have an important incentive to be actively concerned about how productive it is; they are in the same position as a partner in a firm that has only a few partners'. However, a crucial factor in Greece's experience has been the evidence that in 2002 only 7% of the working-age population was represented by labour unions (European Commission, 2006: 24), which are mainly dominated by protected sectors.

The experience of more than a decade with the PASOK socialist party in government, in 1993-2004, provides scope for analyzing the successive but unsuccessful attempts at a social pact type of policy-making. The challenge is to go beyond tautological statements, such as that 'the lack of consensus over the proposed reforms made it harder for unions to sell to their rank and file', (Zambarloukou, 2006: 226) and inaccurate explanations that 'the Greek government made no systematic attempt to engage in dialogue with unions', which was not the case in 2000-2004 at least. Or, in other words, to go beyond characterising the failure of social pacts as being due to variations of corporatism(s): Lavdas (2005) for instance stresses the 'fact that social dialogue in Greece remains an exercise with a limited scope has been largely due to the fact that there is a difficult match between Greece's 'disjointed corporatism' and the EU's emerging 'competitive corporatism''. This difficult match can be further elaborated and explained.

The Greek story is characterised by a series of abortive attempts at renewed agendas and procedures that ended up with counterproductive outcomes instead of trust-building and improving performance[1]. While for other national cases examined in this book the issue is to explain the creation and evolution of social pacts as new institutions, in Greece's case the issue is to explain the failure to adopt a single effective social pact. At the end of 2008 the Greek trajectory still looks like a Sisyphean one. The PASOK socialist governments of 1993-2004 failed to create any social pacts despite the 'Headline Pact' of 1997 (Ioannou, 2000). Then, in 2004-2008 under the centre-right New Democracy government, after some initial attempts at social dialogue, social pacts stopped being seen as a policy option.

The fate of social dialogue in Greece in 1994-2004 is not defined by any kind of determinism. It may be regarded as the outcome of more than one variable that affected their feasibility. The mainly governmental attempts can be better analysed in the context of the possible trajectories outlined in Avdagic *et al.* (2005: 23-33), following the Hancké and Rhodes (2005) typology of 'Shadow Pacts', 'Headline Pacts', 'Coordinated Wage Setting' and 'Embedded Pacts akin to neocorporatist concertation'. Greece's trajectory can be summarised as a hesitant start that led to the 'Headline Social Pact' in 1997, i.e. the 'Pact of Confidence' (Ioannou, 2000). Then in 2000-2004 came attempts first to move towards 'Shadow Pacts' on labour market and social security reforms, which also failed. Thereafter the possibility of a 'narrow/exclusive highly integrated' pact on pensions reform policy was reconsidered, and failed again. This caused the return in 2002 to another attempt at a 'Shadow Pact', just to complete the pensions reform. Social dialogue revolved around that notion of 'Shadow Pacts' until the attempts at social pacting collapsed.

Successive failures led to an inability to establish effective 'institutions of socio-economic governance', as 'social pacts represent rules that are supposed to guide interaction between socio-economic actors' (Avdagic

1. Hancké and Rhodes (2005) classify Greece, correctly, in the category of having acute macroeconomic problems, alongside another country (Belgium) where there has been no successful formation of a social pact. This applies despite the initial attempts (analysed in Ioannou 2000) and the intensified attempts that developed in 2000-2004.

et al., 2005: 5) and no shared understanding of socio-economic issues has emerged; nor has an ability to discriminate between short-term and longer-term interests and benefits. Why this has been impossible in Greece's experience can only be highlighted by analyzing why the government opted to propose a social dialogue / pact, why the unions reacted in the way they did, what positions the employers have adopted and what has determined the actors' behaviour in specific attempts to achieve Shadow Pacts, namely the labour market and social security reforms of 2000-2004.

2. 'Raining cats and dogs': social dialogue, strikes and failed social pacts in 2000-2004

2.1. The 2000 labour market reform

In March 2000 the government applied to become the 12th member of the euro-zone, and the favourable decision to admit Greece was adopted in June by the European Council. In the meantime (9 April), an early election was called by the PASOK government (elections had been scheduled for September 2000) to capitalise on the historic success of entry into the euro-zone. After a campaign largely focused on the need for reforms in employment, social security, education and health services, and with increased references to social dialogue, PASOK won the elections with a marginal majority of the vote (PASOK 43.79% vs. New Democracy 42.73%)[2].

The re-elected PASOK government, with the objective of reaching an independent assessment that might build up a joint understanding, asked the UK Government Actuary's Department to provide an actuarial study on the prospects of the social security system. The government planned to open dialogue with the social partners in early 2001, after the completion of the study.

2. The social security reform debate topped the agenda in the 2000 early election, because of the priority given to it in the 1999-2002 Convergence Plan, which was agreed with Ecofin in January 2000. The labour confederation GSEE and the Industry Employers Federation SEB demanded reform through social dialogue, but the government was reluctant to outline any reforms or open dialogue on reform prior to the April elections (Ioannou, 2000: 225).

With this dialogue pending, in July 2000 the government simultaneously pushed forward labour market reforms to improve flexibility and fight unemployment, which in 1999 reached the record of 11.9%. The social partners were invited for dialogue on labour market reforms with the stated objective of legislating by the end of October 2000 on a) higher upper limits for collective redundancies, b) further restrictions/ disincentives on overtime work, c) flexible working time arrangements on an annual basis without the unions' agreement (permitted under 1998 legislation) based on managerial prerogative, d) subsidies to employers of up to 25% for social security contributions of new labour market entrants and e) extension of part-time employment in all sectors.

Both content and process met with strong opposition from GSEE, which promised a "hot autumn" and threatened to abstain from the dialogue unless 3 of the 5 agenda items were dropped: collective redundancy limits, managerial prerogative in working time arrangements and part-time employment. Further criticism came from the employers (SEB) and the retail trade confederation ESEE, while the handicraft and small enterprises confederation GSEBEE argued that measures to support SMEs were more important.

However, the Ministry of Labour insisted on the proposals but reshaped the dialogue agenda and announced plans for dialogue to take place from 24 August to 30 September 2000. The new agenda included 9 general topics[3]. The process was based on bilateral meetings held by the Ministry with each of the confederations on each of the 9 topics (i.e. at least 36 meetings) and then further meetings if necessary. GSEE criticised the topics as being generalist and the timetable as very strict, and called for the dialogue process to be given more time, and for written proposals and policy analyses on each of the 9 topics to be provided. The Minister of Labour declined the time extension on the

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3. The topics were: 1) Financial resources of the 3rd Community Support Framework 2000-2006, the employment objectives and investment in human resources, 2) Qualitative improvement of the mechanisms for supporting employment policies, 3) Budgetary, incomes and anti-inflationary policies, linkage with workers' positions and social convergence, 4) Structural policies and competitiveness, 5) Policies to develop entrepreneurship and especially SMEs, 6) Institutional framework of human resources policies, 7) Special initiatives for areas with high unemployment and target groups, 8) Active labour market policies, combating unemployment and seeking alternatives, 9) Safety net for exclusion, inequality and poverty.

grounds that emergency measures were necessary: a delay of 4 months, as called for by GSEE, could cause 20,000 more jobs to be lost, because statistics suggested that 5,000 people were joining the unemployment queues every month.

On the basis of a GSEE initiative, the social partners agreed to hold their own bipartite talks. This was a U-turn in GSEE's tactics. After the announcement of the governmental initiative GSEE had declared its intention not to bargain with the employers on any of the five measures. GSEE held bilateral meetings with SEB and with GSEBEE, and agreed that the 9 topics needed greater clarification. GSEE and SEB announced that they utterly disagreed on the 35 hour week issue. SEB considered it 'catastrophic' for competitiveness and employment promotion, and rejected any discussion of GSEE's demand for a 35 hour week, which had been the union's top priority since the late 1990s. Parallel to that, in early August 2000 the Minister of National Economy publicly declared the government's opposition to any prospect for the 35 hour week, as did the Minister of Public Administration concerning the introduction of a 35 hour week for civil servants.

Not surprisingly after two meetings the strict timetable was abandoned. GSEE opted out of any social dialogue on labour flexibility issues (collective redundancy limits, overtime and annual working time arrangements) and went on a 24 hour strike (10 October 2000). The employers' confederations ESEE and GSEBEE remained sceptical and SEB argued against increasing overtime bonuses. The Ministry wanted to discourage overtime use and introduce incentives for hiring more labour, while SEB cited a marked increase in labour costs. SEB also argued that the Ministry of Labour should leave working time issues to bipartite collective bargaining. The successful 24 hour general strike forced the government to re-examine both plans and proposals. The Minister again invited the social partners to submit their proposals by the end of October 2000, insisted on changing collective redundancy limits and working time arrangements, and added some of GSEE's demands to the agenda, but without success. The July 2000 dialogue initiative came to an end without agreement among any of the three parties. The Ministry, with only a month's delay to its initial schedule, drafted and voted through its bill on labour market flexibility with the initial proposals slightly amended in order to take into account the diverging views of the social partners. GSEE went on a 24 hour strike for the day (7 December 2000) of the parliamentary debate. ADEDY, the civil servants' confederation, joined the GSEE strike with its own demands on wage policy.

As required by law, the Ministry submitted the bill to the Economic and Social Committee (OKE), but at very short notice. Its policy was criticised both in terms of its procedures (as bypassing social dialogue processes and institutions) and its content (OKE, 2000). Out of the five key measures of that reform, only the changes in the statutory limits for collective redundancies and the provisions on part-time work survived. The overtime bonuses and the working time regulation provisions were abandoned in 2005, while the employers' subsidy for social security contributions was applied only marginally for a few months. Unemployment, which peaked in 1999 at 12%, fell to 11.2% in 2000 and kept decreasing until 2003, but this was mainly due to the average growth of over 4% during that period, which soared in 2003 (5.6%) ahead of the Athens Olympics in 2004. The unsuccessful experience of 2000 shaped the preconditions for the 2001 social dialogue on social security reform that in fact proved even more unsuccessful, as the lessons from 2000 had not been learned.

2.2. The 2001-2002 social security reform

The government announced in summer 2000 its plans for social dialogue on the social security reform, postponed since 1999. The government's recourse to a foreign institution, the UK Government Actuary, to assess the actuarial prospects of the social security system, was indicative of the lack of a 'focal point' (in the meaning of Schelling 1960: 57, as referred to by Avdagic *et al.*, 2005: 10) to act in shaping common understandings or alternatives, or as an institutional alternative to conflict[4]. In July 2000, GSEE invited the government not to wait for the study's conclusions/proposals but to open the social dialogue on social security reform. GSEE argued that the study should take a clear political line, which should be the outcome of social dialogue. GSEE formed a scientific committee to launch a public

4. It is noteworthy that in the 2006-2008 attempt to achieve social security reform, under the centre-right New Democracy government, another study was commissioned from the ILO.

dialogue on the reform priorities. Before this, in the national collective bargaining round for 2000-2001, the social partners had incorporated general principles for the social security reform into the EGSSE (National General Collective Agreement) in May 2000. The financial prospects of the social security system were recognised as gloomy by all sides, but with diverging estimates for the actuarial deficits in the coming 30 years (at 128% of GDP by GSEE, 150% by the Bank of Greece and 190% by the OECD) in a macroeconomic environment dominated by public deficits nearing or exceeding the 3% limit and public debt rising above 100%. As in all other national cases (Natali and Pochet, 2009), in this case too, it was the government that kept the pivotal role, shaping the reform agenda and strategy.

In March 2001, in the run-up to the 30th GSEE Congress, political and social debate intensified, and that delayed publication of the British actuaries' study and the launch of the dialogue. In the meantime GSEE prepared its 'defence' by emphasising a set of general principles[5] for the social security reform, incorporated into the May 2000 EGSSE. The hot issues were not subject to any preparatory debate; they related to the retirement age (65 years for everybody, eliminating the many exceptions), the level of pension pay-outs (linked to the final wage at a rate of between 60% to 80%, and whether or not the supplementary pension is included in this amount), further raising employees' and employers' contributions, the share of governmental budget contribution, the introduction of a three-pillar system with a basic public pension, a compulsory private pension and an additional supplementary private pension, and lastly the extent to which the fragmented social security funds could be merged.

The government postponed the dialogue until the end of April 2001 to 'protect' the reform proposals from becoming a source of competition at the GSEE Congress, where the PASOK-affiliated faction (PASKE) did fight to re-elect 22 representatives onto the 45 member board, and from

5. These general principles were a) Both parties recognise the need for reform after social dialogue, b) Merger of similar social security funds after an appraisal and with the agreement of the parties involved, c) Social partners to have a majority on the administrative boards of the social security funds, d) Tripartite financing of social security in the following proportions: workers 2/9, state 3/9 employers 4/9, e) Measures to combat avoidance of social security contributions and promote the inclusion of illegal foreign labour, f) Linkage of lower pensions to the national minimum wage, g) Automatic increase in these pensions at the rate agreed by the social partners in the EGSSE.

becoming a trigger for generalised industrial action. But on social security reform the GSEE Congress decided not to accept higher retirement age limits and increases in employees' social security contributions.

Based on the Government Actuary's report, the government formulated a softer and more gradual reform proposal, aimed at harmonising the schemes for all sectors and different groups to the age limit of 65 years old, without any change in social security contributions, which were relatively high compared to other EU states, and with a pay / pension coverage ratio of 80% of pay, partly by amending the calculation basis (instead of the final wage or salary it was to be based on the best ten of the last fifteen years in work). The plan was for these proposals to be subject to social dialogue over a period of two months, so that the government could legislate in mid-summer 2001. The reformed system was to become effective as from 1 January 2007.

But the proposals provoked tremendous opposition from the unions. Both GSEE and ADEDY went on general strike (26 April 2001) and decided not to participate in the social dialogue unless the proposals (affecting the trade unions' principal concerns, namely age limits and the calculation of pensions, as well upper limits for pensions) were withdrawn. The government backed off and called for an open social dialogue. GSEE insisted on a change of content. The unprecedented success of the general strike, with massive rallies in Athens and other major cities, made the government suffer a political defeat and obliged the Prime Minister to withdraw the proposals and invite the unions to engage in social dialogue without any prerequisites. GSEE and ADEDY insisted that the Prime Minister commit himself publicly to state financing for the social security reform. They called another 24 hour general strike (17 May 2001). Prior to the strike GSEE and ADEDY announced their own actuarial study, concluding that the social security finances would be in serious trouble (i.e. without assets or the ability to pay) in 2004-2005, in order to make the point that only with tripartite funding of the social security system can any reform be viable. With the state budget already paying 2% of GDP for financing the social security system, GSEE and ADEDY demanded another 2% of GDP. GSEE and ADEDY also rejected any reform advocating a three-pillar social security system as they opposed any idea of including private pension schemes in the new system, thus opposing the main EU guidelines for social security reform in the EU.

As the 17 May 2001 general strike was successful, the government's initial plans to legislate in 2001 were abandoned. Until July 2001 all attempts to start the dialogue process proved unsuccessful. At a series of 'talks about talks' on the structure of dialogue, GSEE was only prepared to present its actuarial analysis, the small employers' confederation GSEBEE failed to attend, and the industrial federation SEB agreed to a structural process for dialogue. The Ministry set up a committee of experts to examine all available studies and to prepare the dialogue process, scheduled for September 2001. But the dialogue did not take place in autumn 2001 either. The social security reform crisis had caused a major crisis within the ruling PASOK party. It bedevilled PASOK and became the main cause for the PASOK emergency Congress in mid-October 2001. Prime Minister Simitis, needing to reassert his authority, successfully asked to be re-elected PASOK party chairman, reshuffled his government late in October 2001 and appointed new Ministers based on the social security reform agenda. Then Mr Simitis announced plans to launch a social dialogue on the long-overdue social security reform by the end of 2001 or early in 2002.

Social dialogue on social security reform was resumed in March 2002 after extensive consultation between the government and PASOK members of GSEE and ADEDY. This was sooner than anticipated, as the government was under pressure from the European Commission to devise a set of concrete proposals for reform by the time of the Barcelona European Council, scheduled for mid-March 2002. The Commission was concerned about the high level of public debt in Greece and made suggestions to ensure its compliance with the objectives of the EMU Stability Pact. The 2001 BEPG recommendations on budgetary policy (European Commission, 2001: 131) referred to the need to 'accelerate the implementation of the reform of the social security sector in order to ensure the viability of the system; in particular, initiate in 2001 the reform of the pension system needed to address the challenges resulting from the ageing population'. And in its opinion of 12 February 2001 on the stability programme of Greece, 2000–04[6] the Council invited 'the Greek authorities to pay particular attention to the need for reform of the pension system, and invites them

6. Council Opinion of 12 February 2001 on the stability programme of Greece, 2000-2004, OJ C 77 of 9 March 2001, p.1.

to address the budgetary consequences of ageing in the next update of the stability programme'.

The renewed social dialogue proposal included general principles without reference to the full set of measures. The objective was to lure the labour side into the social dialogue process and avoid waves of criticism and opposition. Proposals were revealed gradually at meetings with the GSEE and ADEDY representatives in a 'piecemeal' approach that drew on the lessons learnt from the 2001 crisis. This time the government proposed harmonising the age limit at 65 but accepted the fulfilment of pension rights after 37 years at work regardless of age, did not change social security contributions, and discussed the need to change the pension/pay coverage ratio from 80% to 70%, proposing that pension pay-outs be calculated based on the best five years out of the last ten years of employment for which contributions have been paid. These proposals were followed by exemptions and transition periods, which in fact applied to the trade unions' major areas of concern. The new provisions were scheduled to become operational with one year, unlike the abandoned proposals of spring 2001.

In March 2002 the government tried to conclude an agreement on the general principles of social security reform, planning to submit a draft law to parliament by the end of June 2002. But the talks foundered because of disagreement with GSEE, which, with its supporters in the political opposition, called a new wave of 24 hour general strikes. The reform plans caused disagreement within the GSEE itself and division within other unions. The government brought the reform bill to parliament despite the failed attempt to conclude an agreement with the social partners' representatives. GSEE and ADEDY called another 24 hour general strike (18 June 2002) that paralyzed the country. The pro-governmental majority on the GSEE board failed to secure a positive vote for the social security reform bill, as one vote from a PASOK-affiliated trade-union officer was enough to move the majority to the side of opposition trade-union officers, who backed ADEDY in the general strike. In ADEDY even officers who supported the socialist government voted against the bill. The debate focused on funding of the social security system. GSEE had insisted on an institutionalised one-third contribution from the government, but its leadership (which failed to secure the support of the Confederation's administrative board) backed off during that round of dialogue and agreed to the Ministry of

Economy's proposal for an annual state contribution to the pension system finances amounting to 1% of GDP. The bill was a renewed, overdue attempt to reform the debt-ridden and badly fragmented social security system. The previous major reform dated back to 1992, in the form of Law 2084 of the then New Democracy centre-right government, and that reform had also caused a record level of strike activity. Overall, despite the government's attempt to reform social security through social dialogue, the government ended up once again with political and societal conflict that divided even the pro-PASOK trade-union officials and attracted scepticism from the employers' confederations. After adopting the bill in June 2002, the PASOK government did not touch the issue of social security reform again before they left office in March 2004. Some of the provisions of the new law on merging sectoral social security funds were left inactivated. In many respects, the social security reform of 2000-2002 shaped the feasibility of social dialogue and pacts in Greece. On the one hand, it revealed the key role of the EU in dictating the reform agenda. On the other, proposals for a social agreement did not receive much consensus, proving that solutions that can be accepted in one country may be rejected in another. As for actors on the labour side, the fragmentation of union structures and demands (Matsaganis, 2007) goes a long way to explaining their unwillingness to enter into an encompassing agreement on social security reform.

2.3. Social dialogue reforms, the 'social package' and waves of discontent in 2003

Despite the unsuccessful initiatives of 2001-2002, in spring 2003 the government took steps to strengthen procedural aspects of dialogue in these areas, under the influence of the European Employment Strategy and the Open Method of Co-ordination on Pensions and Social Inclusion. In April, the Law on "Social dialogue for the promotion of employment and social protection" set up two new social dialogue fora: the National Committee for Employment and the National Committee for Social Protection. These were minor changes to meet the top-down EU 'comitology for NAPs' requirements, and merely added new bodies to the many other tripartite consultative bodies having emerged since the early 1990s (Ioannou, 2000). These institutional improvements proved of minor importance. With regard to social dialogue procedures there was no other demand or proposal from the social partners for anything like a repetition of the 1997 Pact of Confidence, or any type of social pact.

In parallel, the Greek Economic and Social Council (OKE), drafted an 'own-initiative opinion' assessing the prospects for social dialogue in Greece. The Council stressed that 'in Greece a substantial deficiency is created by the lack of tradition in carrying out central dialogue within an organised context on specific subjects, with specific purposes and timetables, planning, documentation, study of alternative scenarios and cost analysis of the proposed measures. In any event, all the sides do not always declare their political will to reach specific results. The dialogue process in such cases is particularly crucial for its success. The tactics adopted, leaks to the press, the strong political, or sometimes even party political character lent to the dialogue, as well as the assignment by the government of fragmentary studies to foreign firms without publishing them, alongside the publication of studies by the social partner institutes which reach different conclusions, all do irreparable damage to the authority of the dialogue' (OKE, 2002).

The OKE conclusions proved that the wide range of social dialogue institutions, including OKE which obtained constitutional status in 2001, failed to act as a 'focal point' (in the meaning of Schelling 1960: 57, referred to by Avdagic *et al.*, 2005: 10) in shaping common understandings or alternatives to conflict. The many tripartite or bipartite institutions proved, in the words of Alexander (2004), to be simply 'regulative institutions', i.e. having little impact on other existing processes, leaving the balance of power between them largely unchanged, and thus remaining susceptible to rather costless breakdown for their participants. None of them became a 'reconstitutive' institution, i.e. one that powerfully impacts upon other such processes and relationships, reorders the interests and power capabilities of the actors, and thereby sets in train a host of self-reinforcing dynamics that elevate the costs of institutional failure (summarised in Avdagic *et al.*, 2005: 7). This applies to older and newer institutions formed either in the 1990s or in the period 2000-2004, such as the National Employment Commission that offered literally nothing, not even an operational forum for exchanges of views, and only served as a 'smoke screen' for consultation duties imposed by EU-level policies, such as the revised EES.

Between the end of 2002 and the first half of 2003, the government abstained from any major reform in that it was focused on the Greek EU presidency. Yet in autumn 2003, as the country was entering a pre-election period with parliamentary elections due in May 2004 at the latest, the Prime Minister once again focused on internal economic and social policy issues. In September 2003, a 'Social Package' of subsidies, tax breaks and wage and pension increases was announced. It was aimed at supporting lower-income earners, farmers, working women and small and medium-sized businesses, and estimated to be worth 2.6 billion Euros. This was coupled with a 'Convergence Charter' of policy objectives for Greece in the period 2004-2008, a blueprint heavily influenced by the target-setting of the Lisbon Strategy objectives and the EU Structural Indicators, with the commitment that Greece would gradually close the gap with its EU partners.

The lack of any reference to social dialogue provided evidence of the abandonment of the concertation / social pact policy option. This could be explained only by party politics (Hamann and Kelly, 2007). A renewed wave of strikes mainly in the public sector followed the announcement of the 'Social Package'. The March 2004 elections ended more than a decade of PASOK governments, which in 1993-1999 started with the 'stop-go' social dialogue policies that helped the country into the euro zone in 2001, and ended in a climate of social consensus. But in 2000-2004 despite the 'intensive' social dialogue policies, the prevailing mood was rising social discontent.

3. Wage formation in the context of EMU: collective bargaining gradually moves away from coordinated wage setting

3.1 The macroeconomic context of high growth

In the meanwhile, social dialogue initiatives contributed further to the tense relationship between social actors. The social dialogue initiatives in 1994-2004, and especially in 2000-2004, were developed in a context of huge economic growth (boosted by domestic demand), an expansionary fiscal policy and falling inflation. But all this did not result from coordinated wage setting. Developments and trends in four distinct aspects of the wage formation system point to subsequent moves, in 2000-2004, in the opposite direction to coordinated wage setting: a) the social partners' behaviour in respect of the National General Collective Agreement (EGSSE), b) the wage policy for civil servants / the public sector, c) the operation of mediation and arbitration, and d) collective bargaining developments in 'wage leadership' sectors such as the banking sector.

3.2 Changing patterns in the National General Collective Agreement

The National General Collective Agreement (EGSSE), which is signed by three national employers' confederations (SEB, GSEBEE, ESEE) and the labour confederation GSEE was renewed twice in the period 2000-2004. The 2000-2001 agreement, reached in mid-May 2000 after the April 2000 early elections, in addition to pay rises, provided for an inflation clause to automatically increase the rate of pay rises in 2001. The agreement for 2002-2003 reached in April 2002, just before the social security reform crisis, also contained a clause for an additional increase of up to 1% in the case of inflation overshooting the forecast upon which the agreement was based.

The industry employers SEB raised the issue of catch-up clauses in the wage formation system, which in the early 1990s had succeeded the automatic indexation mechanism of the 1980s. They proposed that catch-up clauses be abandoned and that productivity increases become the guide for wage setting at the national and sectoral level. They also rejected the inclusion of any catch-up clauses in the new agreement that was to be signed for 2004 onwards. Similar views, challenging this aspect of the wage formation mechanism of the EGSSE, were expressed by the Bank of Greece, and similar proposals had been incorporated in the EU Broad Economic Policy Guidelines for the Greek economy, in order to facilitate a move away from the wage moderation exercised in previous years. The employers' stance stems from the inflation differential with the euro zone that affects the competitiveness of the tradable goods sector and implies a new context for wage formation. Although in an open economy there can be coordinated wage setting based on the 'exposed' sectors, GSEE simply declared its opposition against the employers' suggestion to drop inflation clauses, and reiterated that catching up with effective inflation in 2003 should be part of the new agreement for 2004. But in the EGSSE for 2004-2005, agreed in June 2004, there was no longer a catch-up clause and, indeed, the second part of the pay rises in two instalments that had applied since the 1990s was deferred until September 1st instead of July 1st as had been the pattern.

3.3. Collective bargaining (that never took off) in the civil service

In the civil service segment of the wage formation system, the period 2000-2004 saw deadlock and successive crises in the implementation of the then new Law 2738 of 1999 'concerning collective bargaining in the civil service'. Every annual bargaining round between ADEDY and the Minister of Public Administration and the Minister of Finance, which by law start in early June, resulted in deadlock. In autumn 2000 the ADEDY General Council rejected the government's final offer (of a 3.2% pay rise for 2001) despite the fact that the ADEDY leadership had proposed accepting the pay offer. ADEDY and the Ministry extended the bargaining round in a bid to reach agreement, for the first time ever, under the new collective bargaining law for civil servants. They considered that recourse to mediation or to a unilateral decision by the government not to be a good start for collective bargaining in the civil service, but without success in reaching an agreement. Centrifugal and decentralised bargaining at lower levels of the ADEDY structure, i.e. sectoral bargaining, also developed. The federations of primary (DOE) and secondary (OLME) school teachers, local government employees (POE-OTA) and public hospital employees (POEDHN) led the centrifugal bargaining process. A total of 25 federations of civil servants submitted claims to the Ministry, despite the fact that, under the 1999 system, sectoral-level pay bargaining was not allowed. The government was keen to avoid any wage drift, similar to that observed in the private sector collective bargaining processes.

The failed start in 2000 was indicative of what followed in the coming years. In 2002 the Ministry of Economy and Finance announced the wage policy for civil servants, which formally is part of the annual state budget, voted by Parliament in December 2001. It provided for 2.5% increases for basic wages and salaries as from 1.1.2002, which, coupled with the 'carry-over effect' and the annual progression of civil servants through their pay scales, led to average pay rises of 3,2%. With the inflation forecast ranging from 2.7 to 3.2%, the government then decided to supplement the wage increases with a generalised monthly special additional benefit. In 2003 the government had to announce its policy of 2.5% pay rises for civil servants after completing another unsuccessful bargaining round with ADEDY. Although the bargaining system for civil servants excludes pay issues, the topic again arose informally at the bargaining table under the heading of reform of the public sector pay structure. Following the deadlock in two previous annual bargaining rounds, ADEDY demanded a reform of the pay structure and system for civil servants, which the government then promised. A joint committee was formed, chaired by the Chairman of the Economic and Social Committee (OKE), which examined alternative reform scenarios and drafted proposals for gradual increases amounting to a 17% pay increase on average. Both the proposals and the ADEDY bargaining stance were largely influenced by ADEDY's 'comparability argument' for Greek civil servants' pay relative to other EU / euro zone members. The government rejected any version of these proposals for 2003 and promised to re-examine them for 2004, making direct reference to the restrictions on wage policy set by the Stability and Growth Pact. The current 2.5% wage policy was denounced by ADEDY as the projected inflation for 2003 ranged between 3.3% and 3.5%. ADEDY insisted on the revised pay structure being introduced as from January 1st 2003. A series of strikes was called.

After recurring failures in bargaining with ADEDY, in autumn 2003 the government attempted to stop the wave of strikes over public sector pay by submitting to Parliament the bill on public sector pay policy. In previous years the pattern had been for the pay policy bill to be voted on after the acceptance of the annual state budget late in December. The pay bill used to follow in early January, or later, of the new budget year. In autumn 2003 the government's intention was, by adopting the pay bill earlier, to halt any formal and informal pressure for pay bargaining, along with the strike wave. This contributed to the wave of strikes that erupted during the final months of the PASOK party's time in government, and that brought to an end a period of social dialogue initiatives, as well as the collective bargaining system for civil servants.

3.4. The challenge to the arbitration role in collective bargaining

Since the reform of the Greek collective bargaining system in 1990 by Law 1876, the provision of independent third party mediation and arbitration services by the Organisation for Mediation and Arbitration (OMED) in deadlocked situations (Ioannou, 2000) became a feature of the national system of collective bargaining. Prior to that reform, state-controlled compulsory arbitration had dominated Greek industrial relations for 35 years, settling on average almost half of all pay disputes. In the new context the share of arbitration awards in collective agreements fell from 35.5% in 1990 to an average of 15% per year in 1992–2004, and brought about a highly significant change (Ioannou, 2004). Although since 1992 mediation and arbitration had assisted the development of voluntary collective bargaining, some elements of the arbitration process gave rise to significant differences of opinion.

The Federation of Industry of Northern Greece (SBBE) appealed in spring 2003 to the ILO Committee on freedom of association and collective bargaining, raising the issue of compulsory arbitration in Greece. The SBBE employers' federation based its submission to the ILO on the claim that Articles 14 to 16 of Law 1876/1990, establishing a system of arbitration for the resolution of collective disputes and according to which one party can unilaterally force the other party to accept arbitration, contravene Article 6 of ILO Convention No.154 on collective bargaining, which Greece ratified in 1996. If the employer does not accept the mediator's decision, which takes the form of a proposal, the labour side can force the employer to accept arbitration where the decision is binding. This, claimed the employers' federation, establishes a regime of compulsory arbitration.

The recourse to the ILO was an attempt to put pressure on the government to modify the system. The government in office in 2003, i.e. the socialist party PASOK government, responded by upholding the existing system of mediation and arbitration which had been adopted in 1990 by the all-party, ecumenical, government, and which constituted the result of an agreement reached by all the employers, labour and the political parties. These developments indicated that the agreement reached in 1990 on the system of collective bargaining started encountering centrifugal tendencies. Following the early elections of March 2004, which ended the period of PASOK socialist party government, the centre-right New Democracy government considered challenging the arbitration system not to be a priority issue, and only in 2008 decided to exclude loss-making public sector utilities from the right of recourse to arbitration.

3.5. Dismantling sectoral collective agreements in 'wage leadership' sectors: the example of the banking sector

In terms of wage bargaining performance, the banking sector has been identified (Ioannou, 1998: 107, 2000: 231) as a 'wage leadership' sector, characterised by high union density, with the OTOE banking sector federation as the main player in the regulation of collective industrial relations, successfully introducing innovative clauses.

In the period 2000-2004, the operation of the sectoral collective agreement *per se* faced a challenge. This happened in a broader context of restructuring: while in 1992 the banking sector was under state control, in 2004 it was largely privatised.

In the post-EMU context, the employers' side expressed scepticism about the need for collective bargaining at the sectoral level, and opted for decentralisation at the company level. Collective bargaining at the sectoral level became less effective, with longer bargaining rounds and increasing recourse to strike activity by OTOE. The year 2002 was a pivotal one in that process, as after a series of strikes and an unprecedented deadlock in collective bargaining the EET (Association of Greek Banks) kept abstaining from collective bargaining on the grounds that it was not an employers' association and had no right to bargain. It was after mediation by the Minister of Labour that the sectoral collective agreement for 2002-2003 was reached.

The recourse to mediation by the Minister of Labour kept the employers' representatives at the bargaining table. This then became the pattern in the bargaining round for the 2004-2005 and 2006-2007 sectoral collective agreements, only to lead in 2008 to the banks abstaining from collective bargaining at sectoral level, and the OTOE federation having to resort to the mediation and arbitration services, in the context of successive strikes and disputes developing on legal grounds. The challenge encountered by the banking sector is indicative of attitudes diverging away from possible wage concertation agreements at the national and sectoral levels, although it cannot be attributed directly to the post-EMU context.

Conclusion: an accumulation of Sisyphean outcomes and doubly uneven institutionalisation

After more than a decade of policy-making moving in and out of social dialogue, we now know that what was made possible in the 'pre-EMU' period (the 1997 Pact of Confidence) as part of the convergence towards EMU, namely a 'Headline Pact', became impossible in the 'post-EMU' context despite successive attempts in 2000-2004. Greece's experience suggests that although interest groups, various segments of the labour force, many unions and employers' associations have perceived 'weakened constraints on individual members' (Natali and Pochet, 2009: 159), many policies that were supposed to be part of social concertation came under increasing influence from the EMU governance procedures and institutions. The macroeconomic fundamentals (high public debt of about 100% and public deficit oscillating around 3%) left government initiatives little room for manoeuvre. The analysis of the Greek context in 2000-2004 suggests that the accumulation of Sisyphean outcomes with regard to social dialogue and social pacts cannot be attributed solely to the governmental side. It also relates to the actors on the labour side, mainly the unions dominated by the public sector utilities. The latter have proved to have a list of preferences at odds with the EU-oriented 'tradition' of 'social-liberal' pacts that include deregulation and re-regulation of state monopolies and harmonisation of wage formation, running counter to 'wage leadership' traditions and coordination that may imply wage restraint in a favourable macroeconomic context.

These findings take us back to Olson's (1982) argument that while encompassing organisations large enough to affect the provision of public goods have an incentive to act in the best interests of society, groups with more limited membership tend to pursue more narrow interests. Hence in the Greek experience a crucial factor has been the evidence that only 7% of the working age population was represented in 2002 by 'narrow' labour unions (European Commission, 2006: 24) which are mainly dominated by protected sectors. In this context, the emerging EMU economic policy-making governance reduced the scope for social pacts, while another form of disequilibrium had to do with the labour side's agenda being defined by the priorities and preferences of bodies representing the public sector and ex-public sector utilities. That was a main issue in the social security reform, and indeed has been a constant trend in wage formation processes. In Greece, in the period under examination, although those sectors more open to international competition were the ones with higher productivity growth, wages were growing faster in more sheltered sectors, in particular non-market services.

Further, the non-existent role of third parties or technical bodies in shaping the preconditions for social pacts is an important factor. The succession of failures raises a question of aggregation and efficiency concerning the many 'regulative' tripartite or bipartite bodies that flourished from the 1990s onwards but failed to deliver on policy concertation. For instance, the Economic and Social Council (OKE) maintained a rather marginal role, while OMED which has been part of the wage formation system became subject to challenges aimed at reshaping wage formation processes. In other words, neither OMED nor any other body can operate as the 'experts setting the norm for wages' in the meaning of Natali and Pochet (2009: 162) or in the meaning of Hancké and Rhodes (2005). This is partially the role and the value of the EGSSE, but only in setting the floor for further bargaining.

The causes of the increasing disconnection of wage and fiscal policies from welfare and labour market policies cannot be attributed exclusively to the new EMU context, as it has likewise been facilitated by policy options chosen by the stronger labour unions' constituencies and by the decentralisation tendencies developed by the employers at the sectoral level (with banking being a prominent example). The Greek unions tried to avoid wage restraint, regarding wage formation and developments a non-issue for tripartite concertation, while the other two parties did not opt to bring the productivity issue onto the agenda as a criterion for wage formation under EMU. A segmentation of the industrial relations system occurred as a result, leading to changing patterns and to a rupture with the existing pattern of wage determination (e.g. EGSSE, feasibility of collective bargaining for civil servants, sectoral agreement in banking, etc.). The trend towards fragmentation and decentralisation, in the context of the current financial crisis, and the 2008 oil shock, remind us of the 1974 – 1981 experience in Greece and its impact on industrial relations, which moved in the opposite direction from the social pact type alternative, i.e. along the fragmented / conflict-oriented / inflation-wage spiral pathway. And it is now known from Bruno and Sachs (1985) and Calmfors and Driffill (1988) that intermediate levels of wage formation without coordination do not result in better economic performance.

In a nutshell, the emerging picture consists of both shadow and (future possible) light. The former is related to EU integration. The EMU 'policy makers' on the one hand and national social partner 'policy takers' at the national/regional/local level on the other represent a new pattern in the 'post-EMU' context and in that of the Lisbon strategy. In this context the governance problem is aggravated, and is of concern to both sides in this picture. In the new macroeconomic policy environment under EMU, the initially 'hidden' actors in national economic policy making, i.e. ECB and Ecofin, have become an important element of the tense policy making process. Greek industrial relations are thus characterised by increasing power asymmetry and by a dearth of strategic options in the context of EMU, along with institutional inertia. In a context largely shaped by the Stability and Growth Pact, the unions have not been prepared to become proactive in the new EMU context but have remained reactive. Future light could yet emerge through socio-economic and political conditions similar to other Southern European cases (e.g. the need for cooperation that emerged in Italy out of the crisis in the political system, a recession of the Portuguese type after a decade of high growth, etc.), which could give social pacts another chance in the near future.

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Social pacts in Portugal: still uneven?

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During the last century, Portugal lived for 48 years under the longest dictatorship of Western Europe, became a democracy in 1974, and joined the EEC in 1986. The country institutionalised its industrial relations system between those two dates and has established social concertation since then. This contribution is based on the hypothesis that establishes a correspondence between the main characteristics of the current industrial relations system and the main transformation episodes of the broader political system in the last thirty five years.

According to that hypothesis, the system of interest representation mirrors the conflicts and results of the institutionalisation of democracy and the attempt to create a social and economic counterpart for public powers. The structure and content of collective bargaining reflects the economic transition crises in the 1970s and 1980s, and the consequences of the policies used to control and reduce public debt. The model of social concertation in use reflects the conflicts and commitments related to the preparation for Portugal's accession to the European Union and the subsequent challenges raised by EU membership, namely the need to meet the Maastricht criteria, and the recent budgetary and debt crisis in a context of economic downturn and growing unemployment.

This hypothesis explaining the unevenness of social pacts in Portugal is submitted for debate. According to this hypothesis, the government is the key neocorporatist player; social partners play a relevant role in agenda setting and in public policy design, but not in its implementation. The contribution is structured as follows.

The first section deals with the institutionalisation of the industrial relations system and presents the key drivers of labour law evolution between the fall of the dictatorship and Portugal's membership of the EEC. Section two describes the institutionalisation of social concertation and presents its main outcomes along four different political cycles. An issue-based analysis of ad hoc social pacts and of encompassing social pacts is submitted for debate. The third part of this contribution presents the more recent developments in social pacting in Portugal and discusses its prospects in the near future. The contribution concludes with the presentation of eight assumptions and hypotheses to interpret the described evolution.

1. The institutionalisation of the industrial relations system

1.1. The institutionalisation of democracy and the competitive pluralism of interest organisations

The legislation published in the period after the fall of the dictatorship reflects a set of political compromises, which tended to promote a privileged relationship between public authorities and interest organisations, including the trade unions inherited from the dictatorship. This relationship was designed to enable control over trade union claims and the application of modes of labour market regulation acceptable to the political, economic and social forces who shared the different power levers, and who were faced with the decision of what type of society to build. Legislative measures thus sought to protect the economic and social interests of workers and legally impose a model of trade union organisation that included a system of single unions (*unicidade sindical*).

The decision to opt for political democracy and a market economy, stated in the 1976 Constitution, determined two important innovations on the Portuguese industrial relations scene: the constitutional consecration of trade union freedom – with the consequent possibility of organisational pluralism – and the creation of workers' committees. This way, the legal model of interest representation for employers and workers was defined; it is the model that, with few changes, remains in force.

Portugal has a dual model of worker representation, with the workers' committees tending to specialise in forms of relationship that are less likely to lead to conflict, and the trade unions being pushed towards forms of relationship that are potentially more likely to lead to conflict, i.e. collective bargaining and industrial action.

The Portuguese trade union landscape is characterised by the co-existence of three trade union models that struggle along the axis defined by two politically competing poles, the CGTP *(Confederação Geral dos Trabalhadores Portugueses – Intersindical Nacional)* and the UGT *(União Geral de Trabalhadores)*.

The first model is represented by the CGTP. Its origins are from the terminal phase of the dictatorship and it is classifiable as class trade unionism, as the CGTP is controlled by its internal hegemonic communist current which favours a conflict-based strategy. The second model is represented by the UGT and intends to conciliate a bargaining trade unionism with the typical proposals of managerial trade unionism. UGT leaders are linked to the PS *(Partido Socialista)* and the PSD *(Partido Social-Democrata)*, the two main parties in the Portuguese parliament. The third model is constituted by the professional trade unions, many of which refuse to belong to any of the existing trade union confederations and aim mostly to satisfy their associates' corporatist claims.

Another characteristic of the trade union landscape is the increasing fragmentation of trade union structures, reflected in the establishment of five other trade union confederations after the creation of the UGT. Thirdly, the available studies agree on the fact that there are great differences in trade union presence according to economic sectors and company size. They also agree on the existence of a marked decline in union density[1].

Concerning employers, a first group of business-related associations is constituted by the set of employers' associations coming from the

1. A recent analysis (Dornelas 2009) shows that in 2007, 68.8% of the interviewed wage earners declared that he or she had never been a member of a trade union. If membership varies only marginally with gender, it varies significantly with age and the type of employment. The same survey shows that in two thirds of enterprises there is no form of collective worker organisation. It also indicates that trade union density is 18.7%. Respondents consider the CGTP more 'attractive' and more 'efficient' than the UGT or 'other' trade unions, while 62.1% and 53.3% of respondents have declared that no trade union is 'attractive' or 'efficient' respectively.

'grémios'[2] and from employers' confederations created after 1974. Among them, four employers' confederations – the CIP *(Confederação da Indústria Portuguesa)*, the CAP *(Confederação dos Agricultores de Portugal)*, the CCP *(Confederação do Comércio e Serviços de Portrugal)* and the CTP *(Confederação do Tursimo Português)* – share employer representation in the Standing Council for Social Concertation (CPCS).The other group is represented by the AIP and the AEP, the inheritors of business-related associations that survived authoritarian corporatism.

The main cleavages in the representative associations of the business-related scene are: a) the split that opposes business-related associations ('*associações empresariais*'), which aim to represent the economic interests of businessmen, and employers' associations ('*associações patronais*'), whose objective is the social representation of enterprises, and in particular, collective bargaining and social concertation; and b) the existence of some competition between employers' confederations not only in their sector-based representation but also in their political orientation. To complete the picture, we should also add the existence of a significant number of employers' organisations that are not members of any of the confederations.

According to a recent estimate, employers' density in the manufacturing sector is between 51%-60% (Visser, 2004). Interest representation on the employers' side is very fragmented. That raises questions not only about the structural stability of the industrial relations system but also about the capacity of the social partners to co-ordinate industrial relations.

1.2. The labour law in the successive crises: from the restriction of collective autonomy to the institutionalisation of social concertation

Elsewhere, I have presented and discussed in detail (Dornelas, 2003) the implications of the adverse context in which the institutionalisation of industrial relations occurred, and how the change in collective

2. The employers' organizations under the corporatist dictatorship of Oliveira Salazar and Marcello Caetano.

agreements, inherited from the terminal phase of dictatorship, took place. We summarise the main points below.

While Portugal struggled to institutionalise the democratic system, a network of sector-based collective agreements was established in a climate of deep economic and entrepreneurial crisis. The legal framework was very restrictive on the autonomy of the social partners. The generalised use of the *erga omnes* extension contributed to stabilise the democratic system and to make it compatible with a market economy in deep crisis.

Notwithstanding the negotiation of company agreements, which started in the late 1970s in public owned companies, this is the model that has prevailed up until today and the vast majority of these collective agreements are still in force.

The combined effects of strong interventionism from public authorities, the reticent attitude of employers' associations regarding the development of collective bargaining, and the politically competitive trade union pluralism have influenced the concentration of collective bargaining at a sectoral level. It has reduced its ability to adapt its contents to social and economical changes. Moreover, co-ordination among trade unions and between levels of collective bargaining is very limited. Co-ordination is not considered by the social partners as a key issue of the industrial relations system.

With the privatisation of public owned companies, the structure of collective agreements is now mainly sector based. Pressure from employers wanting greater flexibility has not been translated into decentralisation of formal collective bargaining. Thus, collective bargaining occurs mainly at a sectoral level with the concomitant and frequent use of illegal labour practices by employers to get a *de facto* flexibility at enterprise level.

The contents of collective agreements in force are outdated. For example concerning important issues like working time limits and working time adaptability - the norms of collective agreements are very often the reproduction of the labour law in force when those agreements were negotiated. Although wage bargaining usually takes place on a yearly basis, wage drift between wage scales collectively agreed and total actual wages received by workers was high and relatively stable from 1994 to 2003 (Dornelas *et al.*, 2006).

The analysis of the contents of collective agreements reveals that changes to the non-pay related content are not frequent. They tend to follow (and not anticipate) the content of social concertation agreements and changes in labour law (Dornelas *et al.*, 2006). The innovations concerning vocational training, qualification and classification systems, and re-organisation of working time are, therefore, limited.

At plant level, the aforementioned survey indicates that employer unilateralism and individualisation of labour relations are largely predominant. Four fifths of respondents declare that his or her wages, working time and job classifications are decided without any form of trade union participation or other type of worker representation. The study shows that only one third of respondents is neither ‘worried’ nor ‘very worried’ about the possibility of losing his or her job, meanwhile only one fifth state the same level of concern about the possibility of having to find a new job in the coming 12 months and with the company’s ease to find someone to replace him or her. Only one out of six respondents is not worried about the possibility of finding a new job easily, at least as good as the present job (Dornelas 2009).

To summarise, industrial relations in Portugal can be described as a system where a level of coverage close to the EU average co-exists with sound competition between major trade unions, a very low capacity for bilateral social and economic regulation, and predominant employer unilateralism at plant level. Using typology proposed by Hall and Soskice, Portugal should be classified as a ‘liberal market economy’ and not as a ‘co-ordinated market economy’.

2. The institutionalisation of social concertation in Portugal

In 1984, the Standing Committee for Social Concertation (*Comissão Permanente de Concertação Social* or CPCS) was created. It was the first step in a process aimed at reinforcing the governance of Portuguese society, based on the participation of employers’ associations and trade unions. The goal was that they should reach agreement in domains of public policy considered essential to the accession of Portugal to the EEC.

The government's difficulties in deciding on the possible ways to approach the country's forthcoming membership of the EEC increased the politicisation of conflicts between social partners about the most appropriate models to overcome the crisis.

The employers supported greater liberalisation of the economy and employment relationships. The CGTP demanded a strengthening of state intervention in both the economy and employment relationships and declared itself to be against membership of the EEC as it feared the negative economic effects of European integration. The UGT, which had always been in favour of Portugal joining the EEC, considered the market economy as already established, and asked for policies leading to a convergence in the medium term of Portuguese wages and social protection levels with the European average.

The excessive nature of the demands being made by the various parties proved to be increasingly incompatible with the strategy followed until then, of mainly adapting to the situation and postponing broader strategic choices.

Created as an organ of consultation for the government, the CPCS became a forum for tripartite negotiation, which was a model of interest intermediation in line with the preferences of the government and the UGT.

2.1. Social concertation outcomes and the dynamics of political cycles

In a country whose industrial relations system has the abovementioned characteristics, the institutionalisation of social concertation cannot be considered a minor feature. A more in-depth analysis allows the identification of some of the main features of social concertation and social pacting in Portugal.

The 24 years of social concertation in Portugal can be divided into four periods, each one corresponding to a parliamentary cycle.

Table 1 – **Political cycles and social concertation outcomes**

Political cycle	PSD (Cavaco Silva) 1985-95	PS (António Guterres) 1995-2002	PSD/CDS-PP (Barroso ; Santana Lopes) 2002-05	PS (José Sócrates) 2005-09
Drivers	EU accession	Meeting the Maastricht criteria	Budgetary and debt crisis Economic downturn and unemployment growth	
Tripartite ad-hoc agreements on wage setting	1986; 1990; 1992	1996		2006
Other tripartite ad-hoc agreements	1991	1996; 2001		2006; 2007; 2008
Bipartite agreements			2004	2005
Encompassing social pacts	1990	1996; 1997		2008

The first cycle (1985-1995), under the conservative/liberal governments of Cavaco Silva, represents the phase of initial development of social pacting in Portugal, driven by the issue of EU accession. This cycle began with ad-hoc agreements on wage setting and comprised the biggest general strike ever (1988); the first social pact on labour market regulation (1990); the first two ad hoc unanimous tripartite agreements (1991); and ended with two failed tripartite negotiations on incomes policies and on labour market policy.

The need to meet the Maastricht criteria was the driver of the second cycle (1995-2002), which took place under the socialist governments of António Guterres. The agreements of 1996 and 1997 represented an attempt to reach tripartite consensus on this issue. After the crisis of these broad agreements, there was a period of more limited ad-hoc agreements on education and training, health and safety, and social security reform.

The third and fourth political cycles represented two different political responses to the same problems: the budgetary and debt crisis of public finances; the economic downturn; and the growth of unemployment. The third cycle (2002-2005), under the conservative/liberal Barroso and Santana Lopes governments, was characterised by the peripheral role of social concertation, the absence of any tripartite agreement, and by the first unanimous bipartite agreement (2005). The fourth and present cycle – under the Socialist government of Prime Minister José

Sócrates – includes a second bipartite agreement (2006), the first unanimous tripartite agreement on wage setting (2006), four ad-hoc tripartite agreements (2007) and a new social pact on industrial relations, employment and social protection (2008).

The geometry of agreements has varied along the cycles, with bipartite agreements being less frequent – 2 out of 21 – but more recent than the tripartite agreements.

Another important element is that unanimity – in 7 out of 21 agreements – is the exception, not the rule. The CGTP decisions – 12 refusals out of 19 tripartite agreements – make the absence of unanimity four times more frequent on the trade union side than that of the employers' groups. Since 2007 all agreements have been refused by the CGTP. They were adopted despite its public and active opposition.

The analysis shows that parliamentary cycles help to understand the attitude of various governments towards social concertation, but its outcomes cannot be understood without taking into consideration the political choices of the CGTP, the biggest trade union confederation.

Table 2 **Social partners' position on main issues of social concertation agenda**

Year	Issue	Agreement
1986; 1990; 1992; 1996	Wage moderation	Majority
1996	Creation of guaranteed minimum income	Unanimity
2006	Reform of unemployment benefit and reinforcement of PES role on activation policies	Unanimity
2006	Sustained increase of minimum wage	Unanimity
1991	Legal framework for vocational training	Unanimity
2001; 2007	Individual right to vocational training Recognition of qualifications acquired on the job	Unanimity
1991; 2001	Legal framework on health and safety	Unanimity
2001	Legal framework on social protection	Unanimity
2001; 2006	Increased financial sustainability of public funded pensions	Majority
1990; 1996; 1997; 2008	Encompassing social pacts on labour market adaptability	Majority

Note: majority means without the support of CGTP or other social partner organisation

Table 2 shows that the ideological and political choices of the CGTP are a relevant feature of the Portuguese case as they explain the lack of consensus on key themes of the Portuguese industrial relations agenda.

2.2. Social concertation in Portugal: an issue-based analysis (the case of ad hoc social pacts)

An issue-based analysis seems to confirm this hypothesis. If we consider wage setting, the Portuguese case seems to indicate that once wage moderation becomes a common practice, governments and employers may not need more formal tripartite agreements to keep wages under control. Provided that wage differentials between wage scales fixed by collective agreements and effective wages received by workers is large enough and that trade union influence is reduced, other indirect systems of wage setting may work as functional equivalents to tripartite agreements on this topic. Among these functional equivalents, one can mention the annual increases in the minimum wage, in public sector wages, in pensions and other social security allowances. To change the ongoing equilibrium, a new agreement between social partners is needed.

This was the case with the 2006 agreement on a sustained increase in the minimum wage until 2011. The agreement states that the minimum wage will have a nominal increase of almost 30% in five years, significantly above expected average wage increase. The solution is based on controlling the side-effects for the three main players: the government decoupled social allowances and other public receipts from minimum wage increase; the employers obtained recognition of the principle that the accelerated increase of minimum wage would have no automatic snowball effects on wage scales of low pay sectors; and the trade unions won a highly symbolic victory with effective impacts on low paid workers but whose effects on wage scales are limited. The three parties set up a tripartite committee to evaluate and to monitor the effects of this agreement on other issues.

The shared understanding of the problems is, nevertheless, limited. The text makes no formal reference to wage moderation, a principle accepted by the UGT since 1987 but never formally accepted by the CGTP, which has always refused the logic of wage moderation. The employers get a reduction of pressure on low wages without opening the global debate on wage setting, a domain where their power resources are largely dominant. The government can adopt an instrument of social policy coherent with its programme without spill over effects on overall expenditure on social allowances, an untenable option under the present budgetary circumstances.

To put it simply, social concertation agreements on wage setting are unable to really change the references used to structure collective bargaining and global balances on surplus division between factors of production. On the other hand, if their promoters want them to be adopted unanimously, the agreements must be limited to specific issues, and need to avoid questioning the global positions of the Portuguese social partners.

The *ad hoc* agreements on education and training of 1991 and 2001 can be considered as 'shadow pacts' (Avdagic *et al.*, 2005). The first is a tripartite agreement on the legal framework of education and training. The second is a partial repetition of the first with five relevant developments: a) the coupling of employment, education and training policies based on activation principles, with a focus on youth, basic education and initial vocational training; b) the creation of an annual individual right to training for all employed persons; c) the creation of a network of centres for the recognition, validation and certification of competencies acquired during working life; d) the creation of a specialised tripartite body, the National Advisory Board for Vocational Training; e) to increase the participation of trade unions in the network of publicly funded vocational training centres.

The scope, the effects and the trajectory of the *ad hoc* agreements on health and safety are similar. The 1991 agreement led to the publication of a new legal framework on health and safety, to the legal regulation of the election of worker representatives on health and safety, and to the establishment of a specialised public institute (*Instituto de Saúde, Higiene e Segurança no Trabalho*). The 2001 agreement was based on the recognition that the previous agreement led to almost no progress and adopted short- and medium term tripartite action programmes. The paramount measure was the programme of adaptation for prevention services within enterprises in order to enable them to fulfil the legal requirements decided ten years before. Although the main legislative instruments were published during the last phase of the

Guterres government, the Barroso government did not continue in this direction and almost no progress was achieved between 2002 and 2008. A recent decision of the new government has brought back the strategy adopted in 2001.

The evolution in the social security domain is slightly different. Firstly, because one of the most innovative policy measures of social policy since the mid-90s – the establishment of the Minimum Guaranteed Income – has been adopted with minor participation of the social partners. Secondly, because social protection is the last domain to have been included on the social concertation agenda as an autonomous field of thematic concertation. Thirdly, the vast majority of the measures foreseen by the 2001 and the 2006 agreements are already in full application. It should be noted that the technique of splitting issues among separate agreements to get a partial CGTP agreement has also be used in this domain. It was successful in 2001 but not in 2006. As far as the enforcement of the foreseen policy instruments is concerned, those related to the financial sustainability of public funded pensions are already in force: the penalty for early retirement is now higher than foreseen in 2002; new legislation established the 'sustainability factor', linking the retirement age of future pensioners to life-expectancy. The new formula for calculating pensions; shortening the transition period for the enforcement of pensions according to the new formula; protecting longer careers of contributions; positive discrimination in updating lower pensions; and capping pensions higher than 12 times the recently created index for public social support were all adopted. A specialised advisory board *(Conselho Nacional da Segurança Social)* has been restructured and is again functioning but its role is rather limited since the social partners are also represented in CPCS.

2.3. Social concertation through encompassing social pacts

The last type of social concertation agreements to be considered are the encompassing 'social pacts' that include more or less global sets of measures aiming to rationalise and co-ordinate labour market, employment and social protection policies. If we only take into consideration the negotiations that led to agreements, we need to analyse four agreements: the Socio-Economic Agreement (or *Acordo Económico e Social*, AES, 1990), the Short-Term Social Concertation

Agreement (or *Acordo de Concertação Social de Curto Prazo*, ACSCP, 1996), the Strategic Social Concertation Agreement (or *Acordo de Concertação Estratégica*, ACE, 1997), and finally the Tripartite Agreement for a new system of regulation of labour relations, employment policies and social protection in Portugal (or *Acordo tripartido para um novo sistema de regulação das relações laborais, as políticas de emprego e de protecção social em Portugal,* 2008). In the following paragraphs we present the main content of these encompassing pacts[3]. The 1990 AES determined a very wide set of legislative changes, which have increased the adaptability of labour markets in Portugal, and included a programme of bilateral and tripartite bargaining that, even if only partially achieved, established an important part of the agenda until present times.

The AES, however, constituted a specific moment in social concertation for three reasons.

Firstly, it was negotiated in an unusual context for the three main actors. On one side, the public authorities' decision to increase the flexibility of labour law, even without the trade unions' agreement, encountered notorious difficulties, despite the majority parliamentary support that the government had. On the trade unions' side, political competition between trade unions was minimal, due to the success of the 1988 general strike, organised by the CGTP and the UGT, and the strategy of unity on action in use at that time. On the employers' side, the recognition of the opposition's capability shown by the trade unions strengthened the search for a tripartite compromise, weakening the more radical approaches to labour law flexibility. Secondly, this exceptional context influenced the development of a very deep bargaining process between all participants, including the CGTP, which, although having made the choice not to sign the AES, participated actively in its negotiations. Thirdly, the compromise partially satisfied all sides: the government, who achieved an agreement on the revision of labour law and an instrument of wage increasing control; the employers' confederations, who were able to increase the flexibility of labour law; and the trade union confederations, because they were

3. For more details, see CES, Conselho Económico e Social – Acordos, http://www.ces.pt/cms/104.

recognised as essential interlocutors of the legislative evolution, limiting and influencing the definition of politically viable changes.

With the political and parliamentary change following the legislative elections in 1995, the new socialist government promoted the re-launching of social concertation leading to the negotiation and signing of two agreements: the ACSCP and the ACE.

The ACSCP was an intermediate step towards creating the conditions for the negotiation of the agreement that followed it. It is an agreement whose main step – the stipulation of the maximum duration of 40 working hours per week, the principles of working time flexibility and functional polyvalence – corresponds to the resolution, by law, of decisions taken before in AES but only partially made effective in collective bargaining, due to lack of consensus on these issues between CIP and CGTP affiliates.

The ACE is a very wide commitment that negotiated (with minimalist participation from the CGTP and without its approval) the goal to adapt industrial relations to the new phase of European integration. It is, therefore, a tripartite engagement that does not follow the model of Fordist social pacts, centred in the sharing of productivity growth. On the contrary, it is part of the set of 'adaptative' social pacts aimed at the adaptation of the country's economy and labour relations to the current context, where the globalisation of financial markets, the increasing exposure of companies to international competition, structural unemployment and the need to respect the convergence criteria related to adhesion to the Euro are taken for granted by the governments and their social interlocutors leading to what have been called 'competitive corporatism' (Rhodes, 2001), and 'lean' or 'supply-side corporatism' (Traxler, 2003 and 2004).

The implementation of the ACSCP and the ACE and re-launching social concertation were difficult. Even if these agreements made important legislative changes possible, other important provisions such as social security reform, the renovation of the contents of collective bargaining, and the systematisation and reformulation of labour law were only put in practice from 2001 onwards.

In a context of competitive pluralism between trade union organisations and employers' associations, and the low regulatory capability of collective bargaining, the integrated strategy that led to the ACE gave rise to four types of interconnected problems. The first problem concerns the legitimacy and usefulness of social concertation agreements that do not include all umbrella organisations. The second problem is related to the ability of the entities participating in social concertation to translate the agreements signed into collective contracts, in particular when it comes to non-unanimous tripartite agreements. The third problem is the definition of borders inside which the employers' and the trade union organisations could and should be considered as privileged government interlocutors. The fourth problem is the compatibility of tripartite consensus reached in social concertation with the specific competencies of other organs of the Democratic Rule of Law, in particular when these agreements foresee decisions to be made in legislative domains of the parliament's reserved competency.

So far there is no conclusive or consensual answer to any of these problems. Therefore, we can conclude that the agreements of 1996 and 1997 must be classified as potentially instable social pacts (Pochet 1998), as uneven social pacts (Natali and Pochet, in this volume) if not as unsuccessful social pacts (Hassel in Grote and Schmitter 1999).

Social concertation was unable to become the centre of a new paradigm of industrial relations. It was not capable of articulating the legal and contractual instruments of labour market regulation. Moreover, it has not been successful in promoting the innovation of the collective bargaining agenda, or in generating a new logic of relations between employers and workers, either at sector or at plant levels. If we bear in mind that it had not been possible to conclude any thematic agreement on productivity and wages, even though the theme had been recognised as central by every employers' and trade union organisation, we must conclude that the outcomes of social concertation in Portugal until 2001 were both ambiguous and uneven.

The political cycle of 2002-2005 shows that the government was capable, despite protests from trade unions, of adopting a Labour Code and reducing the trade unions' power to influence the pace and agenda of social concertation. Although it has increased the maximum duration of fixed-term contracts, the Labour Code has not modified Portugal's relative EPL (employment protection legislation) position (OECD, 2004 and 2008). It did, however, introduce a relevant change in the relations between labour law and collective agreements, reinforcing in favour of employers the asymmetric power relations between social partners. It also boosted political competition between the two trade union poles in Portugal with negative consequences for both, although for two different reasons:

— With just a few exceptions, the trade unions found no employers wishing to negotiate innovative solutions for collective agreements at risk of termination.

— Despite several protests and massive demonstrations, mostly organised by the CGTP, trade unions have not been able to invert the power balance at bargaining tables. As a result, trade unions faced a reduction of 60% of employment covered by new collective agreements during the first year of enforcement of the Labour Code.

3. More recent developments and future prospects for social concertation in Portugal

At the beginning of the present parliamentary term (2005), Portugal had to tackle a difficult situation. After growing above the EU15 average between the mid-1980s and 2000, GDP per capita stagnated overall from 2000 to 2005, and the convergence of living standards towards the European average took the opposite turn. The employment rate remained above the EU average but unemployment rose from 3.9% in 2000 to 8% in 2007 and long-term unemployment climbed from 1.7% of the labour force in 2000 to 3.8% in 2006. The hourly productivity rate (63.3% of the EU15 average in 2000) has diverged from the EU average since then. From 1995 to 2005 real unit labour costs continued to grow above the EU25 average; the general government deficit grew from 2.9% of GDP to 4.3% in 2001, to 6.1% in 2005, falling to 3.9% in 2006 and to 2.6% in 2007; general government gross debt was 50.5% in 2000, 52.9% in 2001, 63.6% in 2005, 64.7% in 2006 and 63.6% in 2007.

To tackle these problems, the Sócrates government launched an encompassing programme of reforms to respect the Stability and Growth Pact criteria and overcome the structural problems of the country.

The programme included measures both on the demand and supply sides covering public administration and the private sector. These measures comprised tax reform for securing fiscal consolidation; controlling expenditure; increasing the medium-term budget framework, especially through rationalising the organisational structure of public bodies; simplifying administrative procedures; and converging public sector employment relations with those of the private sector (OECD, 2008). These measures led to a strong and sustained increase of conflict in the public sector with trade unions of the CGTP and the UGT. This phase ended with an agreement signed by the UGT trade unions but not by those of the CGTP,

In the arena of industrial relations, the government's strategy aimed towards three main and interconnected goals: a) reducing the skills shortage; b) increasing the sustainability of social protection and c) reforming the labour market's regulatory system.

In all three areas, social partners have been deeply involved in the design of public policies whose main measures are synthesised in Table 3.

— Reducing the skills shortage is mainly based on a programme designed to tackle poor performance of students, early drop out of the education system and to create new opportunities for both young people and adults. For young people, the main objectives are to diversify the types of courses available, to generalise the system of double certification and to promote the access of half of the students attending secondary education to courses closer to labour market demands. For adults, the objective is to strongly increase the number of adults with double certification of adult education schemes through three instruments: the development of the system to recognise qualifications acquired during working life, launched in the early 2000s; the renewal and reinforcement of access to vocational training opportunities; and the integration in formal education programmes of adults with fewer than the nine years of compulsory schooling. If this programme attains a good level of implementation, one of the Portuguese strategic bottlenecks will be overcome and the consequences on the labour market cannot be but relevant.

— Increasing of the social and financial sustainability of social security comprises two twin programmes: the convergence of the social protection duties and rights of civil servants with private sector patterns, to allow the reduction of public expenditure and to increase the legitimacy of reforms in the private sector; and increasing the financial sustainability of publicly funded social protection and developing its social sustainability through a better balance of risks and public social protection. As, since the early 1980s, Portugal's total expenditure on social protection per capita has been steadily reducing the gap to the EU15 average, the adopted measures will imply that the sound increase in the financial sustainability of social protection (OECD, 2008) will be obtained at the price of a slower pace of convergence of Portuguese pensions with the EU standards.

— Reforming the regulatory framework of labour markets is based on the encompassing social pact negotiated in 2008.

Compared to previous attempts to reach a global consensus on labour market regulation, the 2008 agreement shows some differences.

Compared to the ACE, two features must be stressed: the 2008 agreement is based on a different methodology of public policy design; secondly, as opposed to the ACE, the 2008 agreement is closer to the model of 'neo-corporatist social concertation' while the ACE corresponds to the model of 'headline social pact' (Avdagic *et al.*, 2005).

The main methodological difference consists of the process of analysis and formulation of proposals that preceded the negotiations at the CPCS. After the *ad hoc* agreement of 2005, the government asked an expert group to produce a report intended at collecting, analysing, synthesising and publishing information on the key issues of industrial relations in Portugal to be used as a basis for the subsequent work in this domain. The outcome of this first expert group was the *Livro Verde sobre as Relações Laborais,* or LVRL (Dornelas *et al.*, 2006).

A second committee of experts, established in 2006, was given a detailed and encompassing mandate to submit a new report to the government one year later – *Livro Branco das Relações Laborais*, or LBRL (CLBRL, 2007). Four goals were determined: 1) a new relationship between labour law, collective agreements and individual contracts; 2) the promotion of enterprises' internal flexibility and the improvement of conciliation between professional and private life; 3) the simplification of administrative procedures in the industrial relations arena; 4) the definition of the objectives and content of the legislation needed to achieve the identified goals.

Social partners have been invited to debate both documents in the social concertation meetings and to present written opinions.

Based on the LVRL and additional research, the LBRL included a set of proposals used by the government to design its own initial proposal to social partners on the reform of labour law. This methodological innovation proved to have good results on the renewal of agenda setting as, for the first time in Portugal, the evidence and the rationale of the reform proposals were made public before the formal process of social concertation, thus reducing the room for the traditional veto powers.

Compared to the ACE, the content of the agreement is much more focused on specific problems of labour market regulation and on the vertical integration of the proposed measures. The agreement identified five major problems: limited adaptability of companies and workers; frail and scarcely dynamic collective bargaining; formal rigidity of the legal framework; low effectiveness of law and collective bargaining regulations; and high levels of precarious employment with strong employment segmentation. It responds to these problems with a set of measures designed to: increase company adaptability throughout the internal dimensions of flexicurity; improve the regulatory capability of collective agreements by allowing more room for negotiated solutions; change the law on dismissals to make disciplinary procedures of dismissals faster, reduce the cases of mandatory reinstatement, and introduce a maximum payback of wages following legal disputes over dismissals in court; strengthen labour law effectiveness by means of stricter labour law and establishing heavier penalties for breaching the law; and reduce precarious employment via a set of measures with synergic effects. These measures would include reducing the maximum duration of fixed-term contracts; defining employment relationships more efficiently, allowing the labour inspectorate to fight fraud on the use of fake self-employment; reducing social security contributions for open-ended contracts and increasing them for fixed-term contracts and self-employment; and reducing segmentation in the labour market by improving social protection for self-employment and via re-designing employment policies.

Compared to the Labour Code of 2003, the new Labour Code is based on opposite reasoning. Below we present what we consider to be the three main differences. Instead of aiming to reduce the role of the trade unions in collective bargaining, the latter were meant to promote negotiated forms of flexicurity with a clear preference for internal forms. In opposition to the increased duration of fixed-term contracts stated by the 2003 Labour Code, the agreement of 2008 and the proposals presented by the government to Parliament, reduce the room for atypical forms of employment and intend to reduce labour market segmentation through co-ordinated reforms of labour law and non-wage labour costs. Rather than threaten the trade unions with the termination of collective agreements in case of disagreement on their revision, the present proposals foresee the use of mediation and arbitration in such cases.

Moreover, the 2008 tripartite agreement represents a triple change *vis-à-vis* previous social pacts. Firstly, the methodology of agenda setting and policy design included contributions from independent experts commissioned by the government, meaning that all actors of the neo-corporatist triangle had to refer to grounded proposals of reform. Secondly, the rationale of the reform was no longer 'flexibility at the margin' (Regini, 2003) but focused measures on previously identified problems either of insiders or of outsiders. Thirdly, the measures were designed to combine labour market regulation – i.e. labour law and collective agreements – with the fine tuning of social protection and employment policies.

Overall, the reforms under parliamentary debate for implementation in both the public and private sectors aim to reduce the gap between these two sectors when it comes to employment conditions and also to reduce the segmentation of the labour market in both sectors. Thus, on the one hand, they improve prerequisites for social solidarity among different segments of the workforce but, on the other hand, these changes will affect the trade unions in a different way, according to their constituencies. Most probably, they are also understood differently by trade union elites, according to their different political ideologies and links.

3.1. Towards a new direction?

Will the 2008 agreement be able to promote a renewal of industrial relations in Portugal? The answer, at the moment of writing, cannot but be tentative.

Regardless of the progress achieved since mid-1970, Portugal has been and remains a country of low labour standards, in which the most relevant role is played by the public authorities (Crouch, 1993 and 1996) and where social concertation is not a permanent and stable process. Moreover, agenda setting and contents of agreements have also changed not only because the corporatist Sisyphus has been submitted to a metamorphosis (Traxler, 2004; Siegel, 2005) but also because the political preferences of governments play a major role in the function of social concertation, its sustainability and development.

Nevertheless, within certain limits, social partners can and do draw the frontiers, the scope and the aims of government strategies. Specifically, the social concertation agenda, its outcomes and its enforcement may be limited or, conversely, reinforced by the attitudes, choices and practices of social partners.

So far, the common feature of both ad-hoc bipartite and tripartite agreements or encompassing social pacts in Portugal and the overall outcome of social concertation are threefold: the decisions taken by social pacts are only partially enforced; tripartite agreements are more effective in legitimating changes in labour law and other public policies than in inducing the transformation of industrial relations and collective agreements; unanimous tripartite agreements are only possible if their content does not challenge the power resources of any social partner and if the dominant groups in power on each vertex of the neo-corporatist triangle share a minimum of values that allows them to agree, at least on a partially shared analysis of the situation.

One hypothesis capable of explaining these characteristics of social pacts in Portugal is that the industrial relations system is the result of the institutional *bricolage* (Campbell, 2007; Crouch, 2007; Natali and Pochet, in this volume) of elements inherited from previous phases of development, which has produced, so far, an incoherent system of rules.

Table 3 **Main problems of industrial relations in Portugal**

Element	Problems
System of interest representation	Fragmentation Political competition among trade unions and between both sides of industry
Collective agreements	Very limited co-ordination Obsolescence of contents
Social concertation	Circumscribed to the top Submitted to political cycles

The result of this situation is that it encourages and sometimes rewards free-riders. As the perverse effects tend to be cumulative on each element and between them, a self-reinforcing vicious circle is created; as none of the main actors of the neo-corporatist triangle can break this logic alone, the vicious circle cannot be interrupted without some kind of agreement among the actors to at least reduce the incoherence of features of the present system.

Is such agreement foreseeable? If veto powers act as they have done until now, such agreement is far from being taken for granted.

On the employers' side, three types of variability and uncertainty may occur. Firstly, as atypical employment is not uniformly distributed and changes to internal flexibility will, most probably, affect enterprises in different ways according to sectors and size, the evaluation of pros and cons will also vary. Secondly, as the relationships between employers' organisations and trade unions differ by region and sector, and the contents of collective agreements at sector and enterprise level are far from homogeneous, there is no reason to expect that the effects of the recent tripartite agreement will be analogous. Thirdly, since opinions on the future relevance of the agreement inside employer elites are not at all unanimous and the capabilities of the employers' confederations to induce attitudes of their respective membership also vary, one can only forecast different employers' positions in the medium and long term.

On the trade union side, the CGTP and the UGT have different constituencies and capabilities to act at plant level; also, they have deeply distinct identities, predominant ideologies and political links to the partisan world. Bearing in mind the content of the agreement and the decisions taken by each of the major trade union poles, we can expect opposite attitudes from each pole: from the UGT, a critical support of the agreement's enforcement; from the CGTP, as politically militant and active opposition as its rank and file can achieve.

Finally, as neither employers' associations nor trade union organisations are monolithic and static worlds, the forecasts made in the previous paragraphs include an undetermined margin of uncertainty and error.

Nevertheless, the tripartite agreement of 2008 may represent a bigger challenge either for those that have subscribed to it or for the CGTP. Because it is based on a strategy of protected mobility (Schmid, 2006), and is not merely an agreement on the renewal of labour law and public social policies, the success of the agreement must also be evaluated by the number and type of changes it will introduce to the internal dimensions of flexibility and security, i.e., by the relevance of changes to collective agreements and employers' strategies in sectoral collective bargaining and their practices at plant level.

To summarise, the success or the failure of the last tripartite agreement must be evaluated in the light of two factors. Firstly, the degree of enforcement of the foreseen legal changes. Secondly, the increase in bipartite regulation of industrial relations and employment conditions introduced by the legal reforms and implemented by a new generation of collective agreements. If it succeeds only on the first issue, it must be considered as an innovative agreement in terms of procedure and contents, but not necessarily as a new stepping stone on the way to overcoming the systemic problems of Portuguese industrial relations.

Concluding remarks

The analysis of the emergence of social pacts and their outcomes in Portugal has led to the formulation of eight assumptions and hypotheses to interpret the described evolution:

— Shared understanding of problems and solutions amongst all employers' and trade union confederations present at social concertation is the exception, not the rule.

— Unanimity – or its absence – amongst social partners cannot be explained if the contents of the agreement are the only variable to be considered, and the type and strength of political actors is ignored.

— Unanimity increases the legitimacy of the agreement but is neither a necessary nor a sufficient condition for the full enforcement of the agreement.

— Selective enforcement of the agreements tends to respect the existing balance of power between social partners, who can 'voice' but not 'exit' the system (Hirschman, 1970).

— The government appears to be the overall key player to be taken into consideration, as public policies can change with or without tripartite agreements, although the legitimacy and sustainability of the decisions decrease when they are not based on tripartite compromises.

— The successive changes introduced by tripartite agreements to the industrial relations system have not, so far, produced a coherent system of interest representation, collective bargaining and social-pacting.

— Under the present European circumstances, the external pressures to reform, and the monetary, economic and social situation define both the spectrum of politically possible policies and the choices of governments, and each of their economic and social interlocutors.

— These choices are mediated by the predominant ideologies of governments and social partners and by the type of political links to the partisan world of both governments and each of the main neo-corporatist actors.

Although causal inference in macrosocietal settings is even more problematic when it comes to more complex issues than wage setting, it seems that the hypothesis of a trade-off between fast reforms without the participation of social partners and the likely success of their implementation when the opposite choice is made by governments (Regini, 2003) is confirmed by the Portuguese case.

As expected, the analysis confirmed Portugal as a country where the institutional prerequisites for classical neo-corporatism are only partially present (Rhodes 2001; Hancké and Rhodes, 2005), where organised decentralisation (Traxler, 2003 and 2004) does not occur, and where collective bargaining is less relevant at plant level than employer unilateralism.

These features lead to four main conclusions:

Firstly, the Portuguese case seems coherent with the criticisms of convergence theories made by several authors. Comparative analysis shows that analogous European and international contexts have not produced the same institutional effects in Portugal as in Spain and Italy (Fajertag and Pochet, 1997 and 2000; Romo, 2005; Ebbinghaus and Hassel, 2000; Negrelli and Pulignano, in this volume; Natali and Pochet in this volume). The *de facto* flexibility at plant level and the lack of unanimous consensus amongst social partners on strategic issues like wage moderation or labour market adaptability help to explain the unevenness of social pacts in Portugal. Although social partners play a major role in agenda setting and public policy design, political choices of governments and their preferences towards social issues remain the key factor in explaining the 'up-and-down' and the unevenness of social pacts in Portugal. Despite these limitations, major reforms of labour market regulation undertaken in Portugal (1990, 1997 and 2008) have been deeply influenced by non-unanimous social pacts, signed before formal parliamentary decisions that have respected the contents of these pacts. Although these features remain of paramount relevance, the 2008 tripartite agreement seems to indicate that innovation on agenda setting strategies does influence the role of social partners and decisions towards social pacts and their contents.

Secondly, the Portuguese case also seems consistent with the hypothesis put forward by Crouch that European industrial relations systems with different state traditions (Crouch, 1993), in the presence of analogous external drivers, do not tend to converge but, on the contrary, have a propensity to produce changes that lead to a 'revised diversity' (Crouch, 1996). Like in some other Member States, the European context helps to explain the decision made by Portuguese governments to negotiate encompassing social pacts in specific conjunctures. Nevertheless, the changes introduced by those pacts remain deeply influenced by the specific characteristics of the Portuguese industrial relations landscape.

Thirdly, as relevant actors are not fully and definitively conditioned by past events and trajectories, although institutional learning is possible and is made easier by comparative studies and benchmarking, to understand the emergence and the evolution of social pacts, one must take into consideration the identity and the political options and links of both governments and social partners (Zambarloukou, 2006; Baccaro and Lim, 2007)

Finally, a post-determinist and actor-sensitive institutional analysis (Crouch, 2007; Campbell, 2007; Natali and Pochet, in this volume) seems to be a promising heuristic tool for the analysis of institutional change, its potential and its limits.

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The evolution of social pacts in Italy: crisis or metamorphosis?

Serafino Negrelli and Valeria Pulignano

Introduction: waves of social pacts in Italy amidst economic crisis and political instability

Italy has been one of the fastest growing countries in the OECD area for much of the post-war period, its labour productivity among the highest in the OECD. This has been accompanied by a weak and, for years, very unstable political structure. In 1996 Italy moved to a bipolar political system, dominated by a right-of-centre alliance led by Silvio Berlusconi and a broad left-of-centre coalition. Mr. Berlusconi won a clear victory at the most recent election in April 2008, while the centre-left, led by Walter Veltroni, refused to enter into an alliance with the hard left, who failed to secure any seats.

Since 1992, economic policy in Italy has focused primarily on reducing government budget deficits and reining in the national debt. Successive Italian governments have adopted annual austerity budgets combining cutbacks in spending with revenue-raising measures. The national debt, which stood at roughly 124% of GDP in 1995, declined steadily until 2002 when it began to rise once more due to slow economic growth. The country faced serious economic difficulties between 2002 and 2005, when GDP started to grow again. In particular, since the period of economic recession (2002-2005), the employment rate in Italy has grown at around 2% a year. The growth trend differs, however, between regions – employment is higher in the North and the Centre (where manufacturing still plays an important role) and lower in the South. As an indicator of regional disparities, between the years 2000 and 2002, when the national unemployment rate was officially running at around 8.9%, it was 5% in the North, 6% in the Centre and 21% in the South. Although Italy has a strong industrial occupational base, employment in services, including public administration, is higher than it is in industry. In Italy youth unemployment and the low level of participation of both women (mainly in the private sector) and older people are critical issues. As a result of these structural economic circumstances Italy has become less competitive both within and outside the euro-area. Export volumes have fallen, and market shares in real terms have been eroded in the last decade. Italian producers (including the small and micro enterprises that traditionally characterise the core of the Italian economy) have faced increasing competition from Eastern European and Asian countries on both the export and domestic markets (Pulignano, 2007).

In such a context characterised by difficult economic circumstances, important socio-economic reforms in the area of labour market flexibility (see the 'Treu Law' in 1997 and the 'Biagi Law' in 2003) and liberalisation policies have been implemented since 2000 (see for example the 'Bersani decree' in 2006). Italy's model of 'family capitalism' is shifting toward a new socio-economic model of competitiveness based on business partnerships and networks. For this to succeed, education and life-long learning will be key issues along with measures to address the regional socio-economic disparities of the Italian economy. Additionally, improving the performance of the Italian public sector is also becoming crucial for the future. However, just as in the first decade of joining the EMU area, responding to these challenges implies having strong and coherent social partners able to act in a regulated industrial relations framework. In this respect, the division between the Italian trade unions, their tradition of conflict and the 'still' low – although improved since 1993 – degree of institutionalisation of industrial relations, restrict the possibility of responding effectively to the challenges outlined above. On the other hand, it can also be argued that the lack of a stable framework of rules on workers' representativeness and representation rights as a traditional problem in Italy's industrial relations, which concerns both employers and trade union organisations, pose serious difficulties in this respect too.

In this climate of political instability and economic difficulty, Italian social pacts evolved by alternating historically times of upsurge with moments of decline. Three main issues can be analytically highlighted as the key elements accompanying the evolution outlined above: the internal dynamics and changing relationships between party politics and the social partners; the shift towards 'soft' concertation under the centre-right government during the 2000s; and the failure of the attempt to enhance the level of institutionalisation of industrial relations more generally. More specifically, the trend towards 'soft' concertation in the past decade has clearly contrasted with the aim of enhancing the level of formalisation and institutionalisation of the industrial relations system as it was under the 1993 Social Pact. The move towards 'soft' concertation in Italy needs to be understood as the result of a right-centre government in power for most of the 2000s as well as in the light of the lack of a clear common and shared vision on the part of the social partners, in particular the trade unions, and the government regarding how to progress along the road towards a decentralisation of collective bargaining.

The evolution of Italian social pacts in the 1990s has been in line with the changing nature of neo-corporatist agreements, as in many other countries in Europe (Negrelli, 2000; Fajertag and Pochet, 2000; Traxler, 2000). In the 1990s political and social scientists celebrated the re-emergence of national-level concertation more generally. It has taken place in Europe between social partners and governments at different levels and on various topics (in particular, coordination of wage bargaining, labour market flexibility, quality of work, employment conditions and welfare). The common aim was to reduce national difficulties, such as high inflation, national deficit, public debt and unemployment. In the sociological literature, the re-emergence of social concertation was seen as being accompanied by the setting up of 'social pacts', or as tripartite agreements which were mostly identified as belonging to the same family as the past neo-corporatism, but with some very typical and differentiating new elements (Fajertag and Pochet, 2000). Now, it seems that in the post-EMU period, even these social pacts are transforming in their essential elements.

By drawing on this body of research, we demonstrate in this chapter that the resurgence of social concertation in Italy during the 1990s was consistent with the aim of introducing 'coordinated decentralisation' concerning the system of industrial relations. In this regard it can be claimed that European integration has pushed for a decentralisation of social concertation and collective bargaining. Reacting to these pressures, decentralised social concertation and territorial pacts were launched in Italy under the centre-left government in the second half of the 1990s, and they remained in place under the subsequent centre-right government led by Silvio Berlusconi, even if only until the beginning of the 2000s. They were introduced alongside the specific 'Pacts for Employment and Competitiveness' (PECs), laid down by the European Union. They covered a wide range of accords, from 'territorial pacts' to 'area agreements' to 'programme contracts' to 'pacts for major cities' (for example Milan), and finally to agreements related to a more traditional kind of company and territorial collective bargaining (Negrelli, 2004). At the beginning of the 2000s this attempt largely fails because of the lack of implementation of the agreements as well as the ongoing divisions between (and within) the social partners. This suggests that while in the early 1990s we observe in Italy emergency pacts related to the weak political system, later on party politics become more central and heavily influence the more limited room for social pacts and the shift towards 'soft' concertation. Moreover, the two-decade evolution of social concertation seems consistent with the changing interaction between party politics and the social partners. By considering the shift to 'soft' decentralised social concertation and social pacts since the beginning of the 2000s, the chapter also discusses the crucial theoretical issue of whether the main features of 'neo-corporatism' – which claimed substantial support from industrial relations scholars during the 1970s – are able to explain theoretically the evolution experienced by the process of social concertation and social pacts (from 'constitutional' and extensive to 'soft' concertation) in Italy in the last two decades. How can we interpret this evolution? Does this evolution imply the decline or disappearance of social pacts? How far (and why) will decentralised social concertation and territorial pacts accompany (if at all) the future model of governance for local development in Italy's industrial relations? Does the evolution of social concertation and social pacts proves the lack of institutionalisation or can it be better argued that it reflects the social partners' lack of effectiveness in facing problems of economic competitiveness and social solidarity? In the light of the most recent experience of Italy the chapter will argue two points. Firstly, that social pacts in Italy have historically changed their nature. If we look at the moment of upsurge of concertation in the 1990s (see the 1993 Social Pact and the territorial pacts and decentralised concertation in the second half of the 1990s) we can interpret its success as closely linked to the granting of State aid only on the condition of active cooperation between public and private economic interests, so that the social partners actively take those interests into consideration in their business calculations. Secondly, the paper will argue that the development towards decentralised social concertation needs to be contextualised, which means being examined in the light of the strengths and weaknesses (e.g. internal divisions, lack of rules) which have concurred to shape the behaviour of the Italian social partners for several years. More specifically, what we observe in Italy is that only joint programmes between both trade unions and employers' confederations have produced sensitive political reforms in the light of concertation-led policy-making.

1. Social pacts in Italy: a development consistent with a long, specific history of social concertation and participative industrial relations

The tradition of industrial relations that best describes the Italian system in the post-war period is one of 'voluntarist' workplace-based union representation and collective bargaining (Cella and Treu, 1998; Regalia and Regini, 1998). A low level of institutionalisation, such as the absence of formalised and stable rules governing the relationships between the social partners, were the main factors for defining as 'voluntarist' the industrial relations system in Italy. In order to reduce voluntarism while increasing regulation and coordination in the Italian industrial relations context, mostly in collective bargaining structures, changes were undertaken in Italy as from the early 1990s. These transformations consisted mainly in increasing the level of formality of the bargaining and union representation structures, traditionally very informal, while enhancing the establishment and operation of the country's labour market regulation institutions. More specifically, a more decentralised and coordinated pattern was ensured, whereby bargaining was shifted to the company level, but in such a way that the centre, represented by the national industry unions and employers' associations, still retains control. These changes constituted the core of the July 1993 Social Pact or tripartite agreement which marked the re-launch of concertation in the early 1990s in Italy in the light of the new European climate.

Baccaro (2003) argues that the 1993 Social Pact has worked in the unions' interest and against the employers' endeavour to create a single plant-level locus of collective bargaining, which might have given management unilateral decision-making prerogatives on work re-organisation and employment practices. Furthermore, the agreement was reached in a situation of trade union unity. Thus it generated incentives for Italy's unions to foster their unity of action, which traditionally proved to be weak, while focusing on the consolidation of their role as political actors. The employers' organisation, on the other hand, considered the social pact positively too, because it was likely to reduce inflation and labour costs by getting union consent to a period of prolonged wage moderation while strengthening formality and the interaction between levels of collective bargaining. The re-establishment of the Italian unions' political role during the 1990s has to be qualified in the light of a strategy for cooperation which saw the unions themselves participating jointly in unprecedented moderation in real wage dynamics and unpopular policies, such as welfare state retrenchment and labour market flexibilisation.

After a decade when the trade unions' state of inertia towards the establishment of tripartite agreements had led to difficulties in stimulating concertation during the 1980s, the unity of the Italian unions during the 1990s is something which led to the re-opening of a new concertation-driven phase in the history of Italian industrial relations. More specifically, in the 1980s the divisions amongst the Italian trade unions about the future of the 'scala mobile' ('wage indexation system') led them to eliminate the functional structures necessary for social concertation and neo-corporatist bargaining while also dashing many dreams of social reform through tripartite agreements. What were the crucial conditions that caused the social parties in the 1990s to shift away from their distaste for concerted policy-making? As Negrelli (2000) emphasises, the explanation lies not in the internal nature of the agreements, which did not change very much between the 1980s and the 1990s, but in those external conditions that the literature described around the emergence of social pacts in Europe (Fajertag and Pochet, 2000). First of all, the institutional crisis of the traditional political system that in Italy corresponded to the decline of the First Republic and the collapse of the Christian Democracy coalition, with the corruption scandals much publicised under the name of 'Mani Pulite' (or 'Clean Hands'). So the three main Italian trade union confederations (CGIL, CISL, UIL) gradually distanced themselves from the political system. In brief, the absence of a concrete political project created the political conditions under which CGIL, CISL and UIL overall were involved directly as probably the main actors in the process of concertation with the government and the main employers' organisation (Confindustria). Secondly, the economic and financial crisis and the reduction in the high public debt in order to enter the EMU reinforced the urgent need to negotiate on collective bargaining, income policies and pension reform. This involved what Regini called 'the devolution of authority' to the organised interests (especially to trade unions) in a framework of concertation-led policy-making (Regini, 1997: 268). In other words, in a context of institutional and economic emergency, social concertation was considered the cornerstone for 'regulative' rather than 'redistributive' policies (Regini, 2000) and, therefore, a method which allowed the Italian government to join the Euro while reducing the financial deficit as well as introducing reforms of the income policies and the welfare state through social consensus.

Concertation about economic and social policy-making in the 1990s was fostered by the social parties' ability to protect the purchasing power of wages and salaries while maintaining the welfare state's level of social guarantees. Hence, Dell'Aringa (1994) argues that in the early 1990s social concertation in Italy developed under the influence of the economic emergency, which prompted the introduction of income policy reforms to sort out the crisis. Specifically, fiscal drag, labour and income policies were tackled in new tripartite agreements, which were a distinctive feature of the new government's economic policy programme. On the other hand, the decentralisation promoted by the 1993 Social Pact is based on a balance between centralised and decentralised forces, for example a structure of 'organised decentralisation', which attributes a crucial role to the process of social consultation among the social parties (Negrelli, 2000; Visser and Hemerijk, 1997). However, as we will illustrate later, the balance between centralised and decentralised bargaining in Italy has often been weak because it depended primarily on power relations. Traditionally there was disagreement between Confindustria and (within) the main three Italian union confederations concerning the extent to which collective bargaining should be decentralised. The former was usually in favour of excluding small and medium-sized enterprises from decentralised collective bargaining on the one hand. On the other hand, CGIL wanted to maintain centralised national collective bargaining, in contrast to CISL and UIL which, conversely, approved the decentralised nature of collective negotiation. This climate of permanent disagreement perhaps contributed to slowing down the development of a decentralised bargaining agenda. There has, in fact, been no follow-up on the decentralisation of collective bargaining structures in the subsequent tripartite agreements. Bellardi (1999) explains this by referring to the prevalence of rules concerning pay and other social protection contained in the national collective agreement (*Contratto Collettivo Nazionale di Lavoro* or CCNL) in some sectors.

As outlined above, incomes policies and the reform of the collective bargaining system were the most important aspects of concertation-led policy-making in Italy in the 1990s, but not the only ones. As Regalia and Regini (1997) point out, a further key area of reform is the social security system, public-sector collective bargaining, and economic development to increase the employment level[1]. After the breakdown of social relations with the trade unions as a guarantee of social consensus, the first Berlusconi government in 1994 attempted to cut public spending while unilaterally reforming the pension system as well as directly challenging the pillar of social concertation for the first time. However, the wave of strikes and social unrest by the Italian trade unions, unequivocally marginalised from political negotiations on the reform of the pension system, led to the abandonment of that component of the Budget Law that the government was keen on adopting without social consensus from the other social parties. The pension reform was finally approved in 1995. It was adopted under the auspices of another 'technocratic government' headed by Lamberto Dini (who had held the position of Minister of Finance under Berlusconi) and it was mainly negotiated between the government and the trade unions. Confindustria withdrew from the discussion at an early stage on the grounds that the reform did not go far enough.

Discussion about the genuine 'concertative' nature of the negotiation process took place later. It covered the agreement on employment ('Pact for Employment'), which was reached under the government headed by Romano Prodi in 1996, and consequently converted into the

1. The privatisation process which accompanied the reform of the public sector was undertaken in the light of extensive consultation and negotiation involving the unions and the government. As a result collective bargaining in the public sector was empowered to regulate the employment relations of civil servants. A technical agency (*Agenzia per le relazioni sindacali* or ARAN) took over the task of representing the government in its role as employer in collective negotiations.

so-called Pacchetto Treu for the introduction of more flexible measures for the management of the labour market. The job creation provisions of the 'Pact for Employment' were implemented through a 1997 law, which for the first time formally allowed temporary agency work, addressed fixed-term employment and provided incentives for part-time work and for the redefinition of working time schedules. New rules were also introduced to re-launch the apprenticeship system and to develop work and training contracts and supplementary training. The agreement was accompanied by a process of information and consultation with the social partners rather than of political negotiation and tripartite concertation among the government, the trade unions and the employers' organisation. Although it promoted job creation by involving reforms of education and training systems, introduction of temporary work and, perhaps most importantly, 'territorial pacts' to develop new investment in economically underdeveloped regions, Giugni (2003) pointed out that, in a very critical sense, the agreement contributed little to progress in respect of social consultation. The outcomes indicate a strong use of legislation rather than the formal definition of procedural and substantive rules for the achievement of social consensus under the agreement. The effect was a weak use of concertation as well as of the process for the introduction of a balanced structure between centralisation and decentralisation of collective bargaining, as had conversely been envisaged in the 1993 tripartite agreement.

2. Italian social concertation in crisis

The crisis of social concertation in Italy is seen to coincide with the failure of the 1998 social pact ('Christmas Pact') signed by the Italian government and over thirty employers' associations and trade unions. In reality, we should go back one year and consider the FIOM-CGIL's refusal to sign the four-year renewal of the metalworking sector agreement as the first indication of the crisis (Dell'Aringa and Negrelli, 2005). Their refusal is explained by the employers' refusal to incorporate into wage increases the difference between the expected and the actual inflation rate. The failure of the renewal of the metalworking sector collective agreement shed light on some of the problematic effects of the 1993 Ciampi Protocol. Specifically, these effects were identified and examined by a special committee set up under the Prodi government in 1997, and chaired by Gino Giugni. The findings of the committee illustrated that the outcomes produced by company- or territorial-level collective bargaining in Italy – as implemented following the 1993 social pact – proved less impressive than expected. Additionally, the industry level was not considered appropriate to regulate the balance between the expected and the actual inflation rate.

Although the outcomes indicate that decentralisation of the structure of collective bargaining had yet to be implemented in full, the divisions between unions and a lack of sufficient resources from local institutions devoted to these efforts reduced the scope of decentralisation in practice. More importantly, the employers were in most cases strong supporters of the efforts towards decentralisation but did not cooperate actively in them. They considered that the drop in the inflation rate had deprived industry-level bargaining of its main content. Moreover, distributional demands stemming from increases in productivity are supposed to be dealt with at the local level of bargaining. However, disagreement prevailed amongst the employers regarding the level of decentralisation, whether at the company level for large- and medium-sized firms or at the territorial level for small firms, or at industry level (Regalia and Regini, 2004).

The employers' one-level bargaining demand set the agenda for the new tripartite agreement signed in December 1998. However, as mentioned above, because of the divisions among the employers, the final text of the agreement did not mention the structure of collective bargaining. Moreover, it did not take into consideration the insights of the special committee in 1997. Thus some commentators argue that the 1998 social pact was not as socially and politically influential as expected. Although it aimed at attaining the goals of economic development and employment growth – namely innovation and development of companies, employment and economic infrastructures – by strengthening territorial-level bargaining, it was not able to create a single platform for the introduction and the improvement of the structure of collective bargaining as initiated in the 1993 tripartite agreement.

Regalia and Regini (2004) argue that as the scope of social pacts broadens, in terms of both the issues covered and the level of operations (national, regional and local), their effectiveness decreases.

It seems that the new objectives, such as job creation, training, labour market and welfare reforms, are far more difficult to achieve through concertation-led policy-making than through the incomes policy of the early 1990s. Additionally, a change occurred in Italy's industrial relations in the late 1990s, namely the changed relationship between the national political system and the trade unions (Mariucci, 2004). As indicated above, in the early 1990s social concertation in Italy took place within a context of 'shared objectives' and joint practices at the political level amidst economic and institutional crisis as well as the European emergency. Conversely, in the late 1990s the division amongst the Italian trade unions made it difficult to translate the union experience into a system of stable rules. Two factors account for such weakness: the trade unions' missed opportunity to achieve a common agreement on how to re-regulate the relationship with the political system; and the change in the national priorities and political context of Italy in the late 1990s.

3. Pushing towards decentralised collective action and 'social dialogue': the second Berlusconi government (2001-2006)

Once the economic emergency concerning integration into Europe was over and the new single currency successfully introduced, Italy entered a second phase of concertation in the mid 1990s. This was characterised by more attention to economic growth, the innovation and development of the national economy and the employment level, together with the adoption and implementation of socio-economic infrastructures. The outcome of this phase should have signalled a shift from centralised (macro) to decentralised (micro or territorial) levels of social concertation as the way to stimulate competitiveness and national economic growth (Negrelli, 2004). The Report from the European Foundation for Working and Living Conditions on 'Pacts for Employment and Competitiveness' (PECs) illustrates the initiatives the different European Member States have undertaken since the mid 1990s to develop competitiveness, employment and social partnership by promoting local governance. Specifically in Italy, these initiatives were accompanied by an attempt to develop territorial-level collective agreements (i.e. *patti territoriali* or 'territorial pacts').

In this sense, as outlined above, the 1998 'Christmas Pact' was specifically devoted to the institutionalisation of social concertation, from central to local level, in line with the Amsterdam Treaty. However, the limited success of local governance served to cast a shadow over social consultation. If the 1998 Christmas Pact signalled a crisis of concertation on one hand, the change in Italy's political environment sanctioned the abandonment of social concertation, at least in its strong version, as a method of policy-making. In May 2001, a new government came to power in Italy. It was supported by a centre-right coalition. The new government was headed by Silvio Berlusconi, Prime Minister for the second time. He had a clear working majority in both houses of parliament without having to rely too much on the support of his coalition partners. The official opposition was headed by Francesco Rutelli, the defeated head of the centre-left coalition. The parliamentary majority gained by the new centre-right government enabled it to claim political representation for itself. Unlike what happened in the 1990s, in the new millennium politics seemed to regain the autonomy lost in the previous decade. Accordingly, the new government claimed its closeness to the electorate, which voted in favour of it, as a basis to enhance its legitimacy and enable it to make institutional and social reforms without the traditional consensus or political negotiation with the social partners on the one hand. On the other hand, Mania and Sateriale (2002) argue that the presence of a bi-polarity in the government – that is, the presence of a parliamentary majority led by the centre-right coalition on one side, and the existence of a centre-left opposition on the other – implicitly narrowed the space for social consensus as a way to enhance institutional reforms and, thereby, risks undermining social concertation. Strong leanings in this direction were demonstrated by Confindustria, which in conjunction with the second Berlusconi government was more insistently looking to simplify the dialogue, with a lower level for devolving functions of policy-making to the trade unions. The aim is to re-establish the equilibrium of the power relationships by enhancing the level of flexibility in the labour market and in employment relationships.

Social concertation was formally put under discussion in the 'White Paper' on the labour market presented by the Italian government in October 2001 (Dell'Aringa and Negrelli, 2005). The White Paper was the new government's programme of measures for enhancing the level of labour market flexibility without the explicit wish to legislate on enhancing the level of representation of the bargaining parties. On the other hand, the White Paper contains the vague guarantee by the government of a move from an incomes to a competitiveness policy, without any indication of the structure to sustain territorial-level agreements (Mariucci, 2003). This represents the first challenge to social concertation since it risks jeopardising the consultation process as indicated in the 1993 tripartite agreement. The White Paper is divided into two main parts: the first contains an analysis of the Italian labour market and the second a series of proposals. Specifically, the actions which are mentioned in the area of the labour market by the government were transposed in national Law No.30/2003 (see European Industrial Relations Review, March 2003). It focused on several diverse main directions: the modernisation and liberalisation of public employment services; the enhancement of public intervention in the school-work-training transition; the enhancement of the level of participation of women in the labour market; a series of policies aimed at regulating migration flow; and more importantly further flexibility of employment contracts. The aim is to clear from the labour market the inappropriate use of some measures, providing instead for the creation of new forms of employment contracts. Thus Law 30/2003 introduces a rich variety of flexible employment, such as ‘project work’, staff leasing, on-call jobs or intermittent work, the latter being a type of work which would provide minimum remuneration for workers to be available to be called on by an employer, with increased remuneration during periods when they were actually called on to work. ‘Project work’ is a form of semi-subordinate autonomous employment linked to the realisation of a project.

With the package of employment measures to enhance the level of labour market flexibility, the government intended to modify Article 18 of the Statute of Workers’ Rights (*Statuto dei diritti dei lavoratori* – Law 300/1970). The latter obliges employers in companies with over 15 employees to reinstate workers if their dismissal is judged by the Court to be invalid. A major social protest, followed by a general strike, with around 3 million people demonstrating in Rome was organised by the three main trade union confederations against the government’s proposal in March 2002. That was the last moment of trade union unity before two of the three main Italian trade unions (CISL and UIL), with the support of autonomous unions of CISAL and UGL, signed the ‘Pact for Italy’ in July 2002 with the government and Confindustria, with

CGIL dissenting[2]. The Pact for Italy laid down guidelines for proxy law on the reform of the labour market, tax system and on employment and investment measures in the South. It also extended the reform of Article 18 to firms with under 15 employees for a temporary period.

The content of the Pact for Italy is very similar to the various social pacts for employment signed in Europe over the past decade. However, one novelty in Italy is the new measures the government introduced for the participation of the Italian social partners in the management of some aspects of the labour market. Specifically, although the Pact acknowledges the undoubted role concertation played with the 1993 tripartite agreement, it is clear that the government intends to shift from political negotiation (or strong concertation with the social partners) to smoother forms of 'social dialogue', as the new method for institutional reforms. This new kind of 'soft' concertation implies limited unilateral consultation by the government without any obligation of a real process of social concertation. This is reflected in the content and the method chosen by the government for negotiating the 'Pact for Italy' with Confindustria, and CISL and UIL. In the negotiations for the 'Pact for Italy', in fact, the social partners, especially the trade unions, were envisaged as mainly executing the decisions taken by the government. This is the result of the social partners being included in a programme of social dialogue with the government. The reasons for the use of the word 'social dialogue' rather than social concertation are explicitly indicated in the White Paper. In it, social concertation is accused 'of having developed tasks which are often attributed to the government and, therefore, it has resulted in being far from establishing a good and proper relationship among the social actors'. As such, the document goes on to state 'the current need to experiment with a practice of social partnership for competitiveness and employment' in accordance with which the relationships between the government and the social partners are shaped by the definition of different objectives, 'which can sometimes be the object of social agreement'. In brief, this implies that the social partners are considered responsible for the implementation

2. The main reason why CGIL refused to sign the Pact w as the fact that they believe it could not promote employment and economic development, given its refusal to include protection measures for young people, illegal work, and other important social measures. In addition CGIL considered the Pact a further attempt by the government to escape from direct relationships, under concertation, with the major organisations representative of workers' interests.

of measures and decisions, which in most cases are already determined inside a political sphere, away from their own area of influence or political negotiation, regardless of what used to be the core of social concertation (Arrigo, 2004).

Hence we can argue that public policy on industrial relations under the second Berlusconi government (2001-2006) initially provoked divergences among the Italian unions. They were in fact oriented towards making deep, dramatic changes in: the industrial relations system with more rapid decision-making process on the government's part, direct relationships between social actors, in favour of separate agreements, according to majority rules; the labour market with an extension of flexibility of employment, and a reduction in union rights and protection; the welfare regime, accelerating savings in the pension reform with the so-called 'scalone', or 'big step': from 57 to 60 years of age for seniority pensions since 1 January 2008. These transformations contributed to worsening industrial relations. Moreover, as a result of the inability of the Berlusconi government to face and solve the economic crisis (or what has been called a real 'decline') in 2006, the centre-left coalition won the elections under the Prodi leadership.

4. Recent developments: the 2007 Welfare Protocol and the 22 January 2009 'separate' agreements on collective bargaining

The second Prodi centre-left government (2006-2008) operated in a historical period characterised by difficulties for labour unions. As such it attempted to re-establish some social advantages lost in the previous historical period. More specifically, in industrial relations, they re-established the method of social concertation, with some 'open tables' on the public-sector national agreement. On the labour market, there was a significant commitment to job stability for young people with temporary and insecure jobs, above all in the public sector. Finally, a more comprehensive reform for the welfare regime was introduced. It was characterised by a more rigid policy on health and safety in the workplace, the introduction of 'ammortizzatori sociali' (financial assistance) for the unemployed; the presence of gradual 'smaller steps' towards the seniority pension and a reform of the calculation coefficients. More specifically, in the area of industrial relations, pension, welfare and labour market reforms were still considered the main subjects in Italy. This was particularly illustrated by the 2007 Tripartite Agreement of 23 July (Welfare Protocol). The agreement was approved by more than 80% of workers in a referendum on 8-10 October, involving more than five million employees (even if the refusals were more widespread among metalworkers and in big Northern enterprises). The Tripartite Agreement (signed on the same date, 23 July, as the 1993 Ciampi Protocol) was a real attempt to re-establish the tradition of social pacts and social concertation in Italy. But, at the same time, it was also an agreement expressing a mix of continuity and discontinuity with the strategies of the previous government, in particular on labour market flexibility, and above all concerning the 2003 Biagi Law. In fact, instead of abolishing the latter, as requested by the more leftist side of the new government coalition, the agreement only introduced some corrections to the more controversial Decree No.276/2003, such as:

— more power for public employment services in competition with private ones;

— incentives for employment and apprenticeship;

— limitation on renewals of fixed-term contracts (36 months);

— incentives for part-time contracts;

— abolition of staff leasing and on-call jobs;

— limitation on project or contract work.

This Agreement also improved the unemployment benefits paid to workers who have lost their job: up to 8 months for people less than 50 years old, and up to 12 months for people more than 50 years old; 60% of the last pay in the first 6 months, then 50% until 8 months and 40% after that. So what was provided for on paper by the Biagi Reform of the labour market was added to the so-called ‘ammortizzatori sociali’. In the Agreement there are other important issues regarding the welfare regime, e.g. more money for low pensions; less rigid rules on early retirement, in particular for ‘heavy jobs’; new measures for young people, women (reconciliation of working time and family life), and immigrant workers.

But, above all, the social partners and government devoted an important part of this Agreement to stimulating decentralised collective bargaining. In fact, point 5 on 'competitiveness' includes two chapters on tax cuts on labour cost, partly to improve productivity at the second level of collective bargaining, and tax relief on production bonuses. As for the first goal, they abolished the previous norm on the possibility of reducing social security contributions (as established by the 1993 Ciampi Protocol and up to 3% of annual pay), in favour of tax relief up to 5% of annual pay.

We can describe the 23 July 2007 Agreement as the last tripartite Italian social pact, also translated into Law No.247 of 2007. The divergence among the political parties of the Prodi government led to a crisis in the coalition and to the early elections of April 2008, won by the centre-right alliance of the *Popolo delle libertà* (Freedom's People) and Lega Nord, leading to the third Berlusconi government. At this stage it is still too early to evaluate the consequences of the new centre-right government's policies and their impact on the future of Italian concertation[3]. It may be expected that the new (third) Berlusconi government will try to change once again the content and rules of the industrial relations game, labour market and welfare regime. But what we can currently observe is that the first moves of the centre-right government seem to be different from the past, as a new mix of continuity and discontinuity is emerging in relation to the strategies of the Prodi government. Obviously, they do not use the word social concertation, as in the past, but in some sense they are requiring more social consensus, above all in the current financial crisis. But, again, they are in search of a selective social consensus, or the exclusion of some social partners, considered too 'politically' involved, like CGIL. The problem is that whereas the latter is virtually forced into 'immobilism' in collective bargaining, also defending its strategy in the political arena, all the other unions want to exercise their 'autonomy', or their pragmatic bargaining role and their pragmatic strategies in the industrial relation arena, even with a centre-right government[4]. So, after the metalworkers' national agreements not signed by FIOM-CGIL in the past, some categories and the CGIL Confederation itself now refrained

3. For an analysis of recent events and changes in Italy's social concertation see also Negrelli and Pulignano (2008) and Cella and Treu (2008).
4. About the difference between unions preferring the political arena for more efficient collective action and unions preferring the more pragmatic arena of industrial relations and collective bargaining, see Baglioni (2008).

from signing many agreements, as in the case of public-sector employment (for the first time in Italy!) or, remembering the latest one, the Agreement of 22 January 2009, to reform the collective bargaining structure, despite the broad consensus from employers' organisations and unions overall. This Agreement changes the rules established by the 1993 Ciampi Protocol in many ways:

— a National Sectoral Agreement for 3 years (instead of 4), with a new European indicator for wages (drawn up by a third party);

— decentralised collective bargaining stimulated by cuts in taxes and social security contributions, if linked to the productivity, quality, profitability, efficiency and competitiveness of enterprises;

— 'economic elements of guarantee' for workers in small firms without decentralised collective agreements.

There is a very strong and historical divergence between CISL and UIL and the employers' associations, more oriented towards decentralisation of collective bargaining on the one hand, and on the other CGIL, preferring to maintain the role of the collective national sector agreement. Only an agreement on representativeness, partially signed by all unions in May 2008, similar to the one signed for the public sector (with a threshold of 5%, combining votes and membership), could provide a solution for this interminable question.

Conclusion: the metamorphosis of Italian social pacts

Social pacts in Italy are not disappearing, but they are radically changing in nature, mainly due, as outlined above, to the more autonomous role of the political system. Maybe neo-corporatist theory could still be useful to interpret this evolution of social pacts, under the umbrella of 'concertation', from an extensive and 'constitutional' social process towards a soft and more 'regulatory' one[5]. As underlined in a

5. Rawls, Searle, North and many others contributed to distinguishing between 'constitutional rules', as the way to 'justify a practice', and rules of thumb, or 'justifying a particular action falling under it' (Rawls, 1955).

previous analysis (Negrelli, 2000), in the early nineties social pacts in Italy expressed 'a reasonably good balance of power between the government, trade unions and employers'. But this social equilibrium is no longer in place owing to the declining role of the latter two vested interests. The leading and 'interventionist' role of the state as a more active 'third actor' in industrial relations is also shown by the relevant indicator of increasing legislation on all labour-related issues. This is more and more used by governments competing with stronger processes of social concertation. Giugni (2003) indicated this change already in the case of the 1996 Pact for Employment (with the subsequent 1997 Law). The most recent steps of the Berlusconi government are more indicative of this line. In order to improve the traditional low productivity of the public sector, still with a broad consensus from people and many unions, the Minister of Public Administration, Renato Brunetta, took the initiative of introducing more rigid controls and human resources management policies for public employees. This step was followed by the proposal of the Minister of Labour for more rigid regulation of the right to strike in the transport sector, which again received much social consensus.

It is difficult to think of a thorough reform of the rules on the Italian industrial relations system without the major union. But, in the light of the events discussed above, we can argue that although social pacts are not disappearing in Italy, between the 1990s and the 2000s we can highlight a change in the nature of these pacts in many ways. They are not only swinging between strong and soft versions or more law, but can be less 'tripartite', as many of them do not involve all the social partners: see the relevant case of the 1995 reform of pensions which was not signed by the most important employers' association (Confindustria), or the 'separate' 22 January 2009 agreements, referred to above, not signed by CGIL. Moreover, the changing nature of social pacts, mainly due to this evolution of the political system in Italy in the last two decades, is stressing the traditional division between the pragmatic 'associative unions' and the political 'class unions', instead of reducing competition between them.

If we look at the evolution of social pacts in Italy it appears evident that in the last two decades discontinuity, soft processes and less tripartite social concertation are the main current transformative characteristics, together with a reduction in their autonomy from the political system and law.

As we have attempted to illustrate, we claim in this chapter that despite these transformations, social pacts in Italy have not disappeared. They have changed their nature, which is moving away from the 1993 'constitutional' one. More specifically, if we consider the history of Italian social pacts from the 1993 Ciampi Protocol until the 2007 Prodi Protocol on Welfare, we can see that the role of the political system (from 'technical government' in 1993-1995 to the polarity system since 1996) has influenced the evolution and the processes of social pacting in a crucial sense (see Table 1).

Table 1 **The long history of Italian social pacts**

Year	Issue	Contents	Government	Tripartitism	Concertation process
1993	Ciampi Protocol	- incomes policies - CB structure - union representation - labour market	Technocratic	Yes	Strong
1995	Pension Reform	Contributions-related pensions	Technocratic	Not signed by Confindustria	Strong
1996	Social Pact for Employment	- temporary agency work - labour market flexib.	Centre-left	Yes	Soft
1998	Christmas Pact	- local concertation	Centre-left	Yes	Soft
2002	Pact for Italy	- labour market flexibility	Centre-right	Not signed by CGIL	Soft
2007	Social Pact on Welfare	- welfare regimes - job financial assistance	Centre-left	Yes	Soft
2009	Agreement on CB structure reform	- reform of CB structure - wages	Centre-right	Not signed by CGIL	Soft

While in the initial phase of Italian social pacts, weaker political parties were in search of strong social concertation, in a more solid political system, such as the one under the second Berlusconi government (2001-2006), soft concertation could be considered to be enough. This is true both for centre-right and centre-left coalitions (see the confrontation between the unions and the D'Alema government in 1998 and the soft concertation process of the Christmas Pact). In this sense there is more continuity than discontinuity of Italian governments towards social pacts or towards reducing the traditional strong process of social concertation. Obviously, there is more discontinuity in relation to the content of the social pacts and the rules governing industrial relations, but also in this case with less radical changes than in the past: see for example the decision of the second Prodi government not to abrogate the Biagi law, as requested in the electoral campaign, but only to make some corrections to it.

If the new leading role of party politics is the most relevant factor in the changing nature of social pacts in Italy, there are at least two other important elements to be considered in this metamorphosis towards a soft kind of social concertation. On the one side, there are growing pressures and common views on the decentralisation of collective bargaining (not least to face up to the 'question of low wages'), which until now could not be jointly regulated by the social partners. On the other side, there are stronger divisions among trade unions on the 'majority rules' for signing collective agreements and on the criteria about workers' representativeness. Both these elements, together with the more interventionist role of the law in the industrial relations system, are underlining the weaker 'capabilities for voice' of workers' and employers' representatives. The lack of institutionalisation of social concertation, at least at the macro level in Italy, can mainly be explained by these greater difficulties that social partners are facing in their autonomous action. Only in the near future will it be possible to ascertain whether these difficulties at the macro level will stimulate more or less social concertation at the decentralised level.

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Social pacts in Spain: from post-EMU boom to bust

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Spain's experience over the last decade offers some important insights into the role that social bargaining at the national level can play in the context of European Monetary Union. Starting with the final run-up to EMU, the country experienced a radical improvement in its growth and job market performance. After decades of exceptionally high unemployment rates, the Spanish economy underwent a remarkable recovery. From 1998 (when interest rates were made to converge down to the Eurozone average) to 2007, its GDP growth averaged almost 5% (more than double the Eurozone average). The recovery in the labor market was equally impressive. With employment growth averaging more than 4% annually for 1998-2006, the Spanish economy (representing 15% of the Eurozone's GDP) accounted for almost half the employment growth in the EU. Much of this extraordinary performance can be attributed to the particular way in which ECB interest rate policy (relatively lax for Spain, given the country's higher than average inflation rates) played into the Spanish economic context. However, social pacts, in particular annual wage agreements setting the parameters for collective bargaining, also played a key role. The resumption of negotiated incomes policy pacts in 2002 helped ensure moderation in the context of rapid employment growth.

The two changes in government that occurred during the period (from the PSOE - *Partido Socialista Obrero Español* - to the PP - *Partido Popular* - in 1996, and back to the PSOE in 2004) also, each in their own way, contributed to the strengthening of social pact making. The first change broke the political deadlock between the labor unions and the government into which the social bargaining process had fallen during the last two terms of Socialist government. The arrival of a conservative government eager to prove its democratic credentials and moderate character allowed for the resumption of broad tripartite agreements and a social dialogue process that proved robust at the bipartite level even after the PP's second electoral victory in 2000, when the Aznar government took a far less compromising stance toward the unions. The second change, back to the PSOE in 2004 under the new, more compromising leadership of Jose Luis Rodriguez Zapatero, saw a vast intensification of the social dialogue process which was extended from traditional areas such as national wage agreements, pensions, and labor market reforms to a myriad of other issues ranging from the regularization of immigrants, to the introduction of new employment contracts aimed at reducing the exceptionally high reliance of Spanish businesses on temporary employment contracts. I argue in this chapter that the reasons for this vast expansion of social dialogue and agreements display the use of social pacts as part of a political strategy by the Zapatero government, but that the core of the social pact phenomenon, the agreements on wages and employment legislation, reflect a more fundamental, logic of economic governance seized upon by both employers and unions in response to the macro-economic context that characterized the first decade of EMU.

However, if that first decade of ECB policy (responding to lower growth in the core of the Eurozone economies than in Spain) made possible a remarkable recovery of employment in Spain, the shift in this configuration by 2007 (with higher interest rates in response to a relative recovery in Germany and, later, the sharp tightening of credit due to the world-wide financial crisis) points to the limits of Spain's economic growth model. The ease of employment under the modality of temporary contracts in Spain, coupled with other factors (a relative dearth of housing stock and an unprecedented boom in immigration) meant that growth was strongly focused in the lower skilled construction and services sectors. The same factors (ease of job shedding and a collapse in housing prices) meant that Spain has suffered a particularly harsh landing since 2007, with unemployment rising again to over 14% by late 2008. This vulnerability after a decade of remarkable economic growth calls into question the contribution that a negotiated incomes policy centered on wage moderation alone can make to sustain employment and ensure competitiveness in the context of a monetary union. It also, I suggest, highlights broader problems of a macro-institutional nature that characterize the Euro-zone.

Considering the continuity of the bipartite social dialogue in Spain since the mid 1990s, and the return to major tripartite agreements in 1997, it is difficult to maintain the traditional view that social concertation in Spain remains an inherently precarious and fleeting phenomenon that is bound to fail because of a lack of institutionalization. The resilience of pact making in Spain from the mid 1990s on belies the traditional view that the organization of labor unions in Spain dooms the prospects for any sustained, solidaristic wage policy on their part, at least when the problem is one of avoiding an inflationary wage price spiral. Thus it is important to note that the failure of the latest national wage pact negotiations for 2009 has been almost entirely due to the fact that the problem at hand in Spain is not inflation but deflation, leading employers to fear that any wage agreement, no matter how moderate, will result in real wage growth.

Moving beyond the question of wage bargaining, the development of a large number of standing review committees charged with overseeing the implementation and further development of social pacts in other areas has turned the social dialogue in Spain into a routinized aspect of economic governance over the last decade. If there is such a thing as the 'institutionalization' of pact-making, Spain's record seems to match and outmatch that of most other European countries. In terms of the competing views of how such institutionalization comes about identified by Advadgic *et al.* (2005), the analysis offered here best fits the 'utilitarian' view, in the sense that it is the utility that social pacts afford the leadership of national labor and employer confederations that provided the single most important stimulus for the return to social pacts in the mid 1990s and on. On the other hand, the Spanish experience also fits Traxler's description of the logic of peak-association led coordination in countries in which, for historical reasons, bargaining is organized above the firm level yet has not come to be dominated by a pattern-setting export sector (see Traxler, this volume). Traxler's logic of political legitimation (which can be seen as a utility that governments obtain from social pacts) can also be seen at work in Spain, although overall, I suggest, it has played a secondary role. Lastly, the analysis of Spain here suggests that the utility of social pacts, and in particular of a negotiated incomes policy such as Spain has seen from 2002 until very recently, depends heavily on economic context, and in the case of EU Member States, on the macro-institutional context of monetary union.

In what follows, I first offer some background on the history of social pacts in Spain. In section 2, I review the institutional bases of social bargaining, including the character of the labor and employer organizations as well as the legal framework and structure of collective bargaining. I argue that, contrary to much conventional wisdom, it is the organization of employers that represents the most distinctive feature of Spain's institutional make-up and that, in spite of a dual confederal structure on the side of labor, a number of factors, including aspects of the Spanish legal framework and the experiences of the 1990s, have led the unions to converge on a path of wage moderation for well over a decade. In section 3, I review the course of social pacts in Spain since the onset of monetary union, noting the robustness of social bargaining even under the far less supportive, second Aznar government and the subsequent expansion of the social dialogue process under the Zapatero administration. In the last section, I turn to the question of why, in spite of sustained moderation in wage bargaining and a series of labor market reforms, the Spanish economy suffered a continuous loss of competitiveness in the aftermath of EMU, setting it up for the exceptionally sharp deterioration in the labor market witnessed since 2008.

1. Background: Spanish social pacts prior to EMU

As described in the chapter on Spain in Pochet and Fajertag (Perez, 2000a), social pacts played a crucial role in the Spanish transition to democracy in the 1970s. The transition was underpinned by an incomes policy pact (included in the *Pactos de la Moncloa*) among all the major political forces and was followed by a decade of negotiated incomes policy between the government and at least one of the major labor confederations (the *Unión General de Trabajadores* [UGT], linked to the Spanish Socialist Workers Party [PSOE] and *Comisiones Obreras* (CC.OO), which had strong links to the Spanish Communist Party). However, the experience with socially bargained economic adjustment would come to an end following the second electoral victory of the PSOE under primer minister Felipe González. During the PSOE's first term in office, the CC.OO. had already abandoned the signing of incomes policy pacts in 1984 response to the Socialist government's strict fiscal and monetary adjustment policies. This did not bring concertation to an end as under Spanish law any agreement signed by any labor union deemed 'most representative' applied to all workers covered by the agreement. Thus the 1984 pact, signed only by the UGT, kept the incomes policy in place. In 1986, however, the UGT walked away from the effort to arrive at a new global wage agreement in response to the government's unwillingness to expand social spending in return for continued wage moderation. Having taken responsibility for delivering wage moderation to support the adjustment program imposed by the PSOE during its first parliamentary term only to see unemployment rise, the confederation's leadership perceived an unacceptable lack of reciprocity on the part of the government. Two years later, after yet another round of failed negotiations, the UGT joined the CC.OO. in a general strike and thereafter in a joint, more aggressive stance in collective bargaining. The initial purpose of this unity in action was to recoup some of the real wage losses suffered during the previous years while global wage agreements had been in effect. Yet, the subsequent experience would be a bitter one, as the crisis of 1992 led unemployment to rise to a record 24% in mid 1994 and the PSOE government unilaterally imposed a labor market reform in the same year (for more details, see Perez, 2000b).

The economic situation following the 1992 currency crisis led all parties to seek a return to coordinated wage moderation. Nonetheless, relations between the unions and the PSOE government remained strained and. The UGT, in particular, refused a return to global pacts linking wages to macro-economic policy, even though it continued to participate in discrete pacts on other matters, such as occupational training. It would take a change in government, ironically to the conservative People's Party (PP) of Jose Maria Aznar, for a new set of major agreements to be reached.

The PP's 1996 electoral victory represented the Right's first return to power since the transition to democracy. Illustrating the role of social bargaining in providing political legitimation (see Traxler, this volume) the PP leadership sought to boost the role of tripartite social accords as a way to demonstrate its reformist character, a strategy that promised to be particularly effective given the falling out between the unions and the PSOE in government.[1] The new government signed into law the first major agreement on pension reform guaranteeing the adjustment of pensions to inflation and committing all running pension surpluses to a reserve fund. The agreement was signed between the government and the two major labor confederations in spite of the opposition of the national employer's confederation (*Confederación Española de Organizaciones Empresariales* - CEOE) which wanted some of the pension system's surpluses to be used to reduce employer contributions. Nonetheless, a year later, the CEOE and the major employer confederations and CEPYME (the confederation of small and medium sized enterprises) signed a three-part agreement with the unions. The 1997 pact included a commitment to streamline collective bargaining so as to boost the role of national sectoral agreements in articulating bargaining at lower levels; an initiative promoted by both the national employers' organization and the union confederations as a means to boost peak level coordination. Its second element centered on a reduction in dismissal costs on new, indefinite contracts; a measure meant to address the exceptionally high reliance on temporary contracts in Spain since their legalization in 1984. The third piece was an agreement to cover regulatory vacuums left by the PSOE government's unilateral 1994 labor market reform, which had abolished all remaining 'labor ordinances' leaving the matters covered by these ordinances to be regulated through collective bargaining. The pact established rules for the extension of collective agreements where particular sectors lacked provincial level employer organizations with whom the unions could reach agreements.

1. The compromising stance of the first PP government may be seen as a special instance of how electoral considerations may lead governments to support social pacts, as described by Hamann and Kelly (2007). However, it cannot be attributed simply to the PP's lack of a parliamentary majority following the 1996 election, as the party's main partners in government, the Catalan CiU (*Convergència I Unió*) and Basque PNV (*Partido Nacionalista Vasco*), are both conservative parties with strong business constituencies. Their main difference from the PP, i.e. their regionalist identities and aspirations, would, if anything, have favored regional, rather than national pact making. The PP's compromising stance towards labor during its first term thus seems to have had far more to do with its efforts to consolidate its democratic legitimacy and disentangle itself from the Francoist past in the eyes of the electorate rather than to its need to garner coalition partners. Once the party had won its second electoral victory in 2000, this time with an absolute mayority, this historical imperative had been laid to rest, explaining why it felt freer to embark on a more confrontational course with the unions right after the elections.

The three part pact of 1997 was supported by the government through budgetary measures, marking a return to tripartite bargaining on a broad base. It also carried significant symbolic import, as it conveyed a broad desire on the part of the labor unions and employers to boost the role of collective bargaining and create a coherent institutional basis for the consensual operation of the labor market as Spain headed into EMU (Perez, 2002). By resolving the issue of regulatory vacuums left by the PSOE's reforms, the pact also ensured a more uniform pattern of collective bargaining coverage. And it marked the beginning of a series of pacts that addressed the issue of Spain's dual labor market by allowing for significantly lower dismissal costs on new indefinite work contracts.[2] In all of these ways, the 1997 agreements sought to create a more coherent framework of labor relations as the country prepared to join the monetary union; one in which the role of collective bargaining and the potential role for subsequent social pacts would be boosted.[3]

2. The institutional bases: employers, unions, and the collective bargaining structure

Spain's history of successful social pacts belies the view that corporatist bargains require an institutional structure of encompassing and centralized labor union and employer organizations (see, for instance, Crouch, 1985 and other authors cited in Traxler, this volume). Spain's labor movement came to be divided along ideological lines, first due to the importance of anarchosyndicalism in the early part of the 20th century, and later due to the importance of the Comisiones Obreras (CC.OO.), linked to the Communist Party, which attained a strong work place presence as underground organizations during the last decades of the Franco regime. The post-Franco period thus has been characterized by the coexistence of two major labor confederations (the Socialist UGT and CC.OO.) which compete for representation in works council

2. Since the introduction of temporary work contracts by the first PSOE government in 1984, Spain has seen an exceptionally high reliance by businesses on such contracts, with the proportion of temporary, as opposed to indefinite, work contracts hovering between 30 and 33% since the late 1980s.
3. For more detail on pacts in the Aznar period, see Royo (2006).

elections across the Spanish state[4]. On the employer side, there has been one, highly encompassing peak association (the CEOE, which also exercises considerable weight in Spain's second important organization, the confederation of small and medium sized enterprises, CEPYME). Yet the CEOE is characterized by a relatively low degree of centralization and authority over its local affiliates (see Nonell *et al.*, 2006).

Following the view that effective wage pacts require encompassing organizations, the existence of parallel labor confederations that compete for membership has been offered as an explanation for the breakdown of Spain's first period of corporatist wage bargains (that lasting from the transition through 1988) and the UGT's subsequent decision to join the CC.OO. in a more militant bargaining stance (see, for instance, Astudillo Ruiz, 2001). According to this view, the social pacts of the transition period were only made possible by the sense of uncertainty regarding the survival of the new democratic regime, which would have made the labor unions more willing to eschew militancy and limit their demands. According to this view, once the completion of the first Socialist parliamentary term and the second Socialist electoral victory in 1986 put to rest the fear of a likely military intervention, the natural tendency for competing labor unions to ratchet up their demands, the expected outcome of a convergence towards greater labor militancy attained, confirming the view that a successful solidaristic wage policy based on social pacts was only possible in the extraordinary political context of the transition. The UGT's move to join CC.OO. in the general strike of 1988, and the confederations subsequent unity of action aimed at recovering real wage losses are interpreted in this way. [5]

However, what is remarkable, in retrospect, is that the UGT and CC.OO.'s coordination stance, both in collective bargaining, and in most negotiations with the government, has not only survived for over two decades, but also has not required any greater wage militancy. As early as the mid 1990s, the leadership of both confederations converged on the idea that wage moderation was central to the Spanish economy's

4. In some autonomous communities, the two national confederations also face competition from regional nationalist organizations, most notably the ELA in the Basque country.
5. For an alternative explanation of the breakdown of the negotiated incomes policy process at the end of the 1980s, see Perez (1999).

competitiveness and, hence, to employment, a stance that became ever more explicit following the start of EMU. Indeed, starting with the economic crisis of the early 1990s, the leadership of the two confederations converged towards a strong preoccupation with limiting the inflationary impact of excessive wage claims in the sheltered sector of the economy, fitting Traxler's description of the problematic of 'peak association- led' wage coordination[6]. The course of wage negotiations before and after this period, moreover, suggests that the confederal leadership exercises significant control over the bargaining stances of its lower level bargaining affiliates (Perez, 2000b)[7].

A number of factors may help explain this convergence towards wage moderation in spite of the unions' competing positions in attracting members and winning seats in works council elections. The first is the disastrous experience following the confederations' brief experimentation with wage militancy during the 1990-1993 period. With unemployment rising sharply following the 1992-1993 currency crisis, to 24% in 1994, the unions faced a significant crisis of legitimacy in public opinion as the view took hold that they were defending the interests of labor market insiders at the expense of outsiders (Richards and Polavieja, 1997). The economic crisis also coincided with leadership contests in both confederations, which resulted in the election of leaders with a less political vocation (in particular in the case of CC.OO) and a greater disposition towards compromise than had been the case in the early 1990s. In the period since then, we can observe a clear shift in the unions' objectives, with far greater primacy being placed on questions of employment levels and employment conditions than on real wage growth.

Second, the collapse of the Communist Party (PCE) as a major political force in Spain in the early 1990s led to a transformation of the CC.OO.

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6. One particularly explicit expression of this came during the negotiations in late 2007 of wage guidelines for 2008. To justify their agreement to base future wage increases on the Bank of Spain's inflation projections rather than past inflation as (even though it was becoming clear at that very point that inflation for 2007 would amply exceed the Bank of Spain projections for that year), the leaders argued that, in the CC.OO. leader's words, it would be 'suicidal to feed into an inflationary spiral' (*El Pais*, 19 December 2007).

7. This conclusion also appears to be supported by the fact that wage growth has, on the whole, remained consistent within the guidelines set in the national wage agreements between the national labor confederations and the CEOE.

into an organization without strong links to national political power. The confederations leadership successfully used this reality to differentiate itself from the UGT on the basis of its political 'independence' and its espousal of a pragmatic, non-ideological agenda. This transformation in the CC.OO.'s position produced a paradoxical reversal of roles in which it was often the UGT that took the less compromising stance in negotiations with the government and/or employers. The result has been a shift in the ideological center of gravity in the way the unions compete with each other as social organizations. The contest between the unions has been transformed from one based on differing degrees of militancy to one centering on more pragmatic appeals. This has also made it easier for the UGT to return to a more compromising stance and, indeed, places some pressure on it to prove its own independence from national political considerations.

Last but not least, it is important to note that, quite aside from such contextual factors, the legal framework of industrial relations introduced during the transition to democracy in Spain makes it significantly easier for the unions to converge towards a common stance in bargaining. The legal principle of union representativeness, whereby any union that wins 10% of seats on works councils at the national level (or 15% at the regional level) can negotiate with public authorities or sign collective agreements applicable to all workers (irrespective of membership) and receives public financing has several consequences. First, it makes membership a far less significant factor for inter-union competition than is often assumed in the comparative literature. The unions need to be principally concerned with their representativeness to maintain their negotiating power and their public financing, and for workers membership is less critical because they can count on being represented by a union in negotiations whether or not they are members. Secondly, the principle of representativeness means that, in most of the Spanish territory, the two confederations enjoy a de-facto monopoly over representation. Since CC.OO. and UGT amply meet the representativeness criterion at both the national and regional levels, they are viable negotiating partners for employers and public authorities even where, as in the Basque country, another organization (the Basque nationalist ELA) enjoys better results in work place elections. The power of the national unions is further increased by the system of *extra omnes* extensions of collective agreements signed by a most representative union either sectorally or territorially to companies not directly covered by a collective agreement, and the legal principle of the ultra-activity of collective agreements, which means that bargains remain in effect until they have been replaced by a new agreement[8].

All this means that the national confederations enjoy far greater power than is suggested by membership figures (which are very low). Given that both major confederations amply meet the requirement for 'most representative status', it also means that competition over membership is far less significant for the national organizations than the literature on the relationship between labor fragmentation and the likelihood of solidaristic wage policy suggests. Competition in works council elections is more significant, as it can give one confederation greater influence over developments in a key company or sector. However, given that works councils do not play a key role in wage bargaining for the great majority of Spanish workers, who are covered by collective agreements beyond the firm level, this does not necessarily spill over into broader wage militancy.

A number of factors, some conjunctural, some institutional, have thus conspired to produce a convergence in favor of solidaristic wage moderation among the two major labor confederations in Spain. However, the organization of employers in Spain is at least as significant as that of the unions. By some measures, the Spanish CEOE, together with its affiliate, the CEPYME, represent a highly encompassing form of employer organization. With a membership comprising companies that that represent 75% of total employment in Spain, its density rate is one of the highest of any peak association in Europe (Traxler *et al.*, 2001: 55). However, the CEOE is also characterized by a low level of authority over its affiliates. Affiliation to he CEOE by firms not only takes an indirect character (as it does in many other countries) with firms linked to the national organization through overlapping membership of sectoral and territorial affiliates. The structure of employer organizations below the confederal level is also highly fragmented, with a particularly large number of territorial (provincial-sectoral) affiliates (Nonell *et al.*, 2006) Compared to other

8. See Nonell *et al.* (2006) and Nonell and Molins (2007) for a more detailed description of the legal framework.

countries included in the study by Traxler *et al.* (2001), the CEOE low in terms of most measures of centralization, and very low in terms of its formal powers and obligations vis-à-vis sectoral and territorial affiliates, as well as over the lowest level affiliates (firms). With the exception of the UK, Ireland, Japan, and New Zealand, in most other OECD countries peak associations that rank as low as Spain on one these measures rank higher than Spain on others (see pp.65-68). That is to say, they have either greater power over their sectoral and/or territorial affiliates or directly over firms. The CEOE's lack of authority over its affiliates implies it has a particularly weak organizational structure which is further compounded by the fact that, in some provinces, there are sectors employing substantial numbers of workers that do not have a local sectoral employer organization. This means that the unions do not have an employer organization to bargain with in those instances. The purpose of the 1997 agreement on regulatory vacuums was precisely to establish a consistent method to cover such situations where non-wage aspects of labor regulation had been devolved to the collective bargaining with the 1994 abolition of labor ordinances but no agreement could be reached because of the absence of a local employer organization[9].

The low centralization of power in the CEOE also appears to be the single most important reason for the persistence of Spain's hybrid bargaining structure, in which a majority of workers are covered by collective bargains reached at the provincial sectoral level (see Table 1). In the 1997 national agreement with the unions on collective bargaining, the national leadership of the organization had sought to strengthen the ability to coordinate wage bargaining among its members by making a commitment to increase the role of national sectoral in defining the overall parameters for bargaining at lower levels. In spite of this commitment to achieve a greater articulation of bargaining, progress in moving bargaining to the national sectoral level beyond those sectors in which it had historically evolved in this way remained limited principally due to the opposition of local affiliates in

9. Nonell *et al.* (2006) cite several reasons for the emergence of this weak associational structure. One is the small average size of firms in Spain. Another is that the organization of employer affiliates after the transition to democracy may have been based on networks of employers reflecting the organizational structure of the Franco regimes official vertical syndicate.

sectors dominated by small sized firms[10]. On the other hand, the same SME dominated affiliates were the principal opponents of a later attempt by the second Aznar government in 2001 to impose a radical decentralization of bargaining to override minimum conditions set in bargains reached at higher levels (including provincial-sectoral bargains)[11]. Such a move would have forced local firms to internalize the cost of wage bargaining, something to which they remain highly resistant. The persistence of provincial sectoral bargaining as opposed to either national sectoral or firm level bargaining thus appears to fit closely with the interests of many SMEs, who want to avoid the costs that firm-level bargaining would entail yet also want to maintain the autonomy of their local organizations in the bargaining process (along with the regional disparities in absolute wage levels that this allows). Indeed, there is a direct relationship between the size of firms and the level at which bargaining is organized in different sectors, with the average size of firms covered by both national sectoral bargains and company level bargains standing at 279 thousand and 261 thousand employees respectively in 2001, compared to an average size of 16.68 employees for companies covered at the provincial sectoral level (Nonell and Molins 2007: p. 297).

As Nonell *et al.* (2006) suggest, the mixed structure of bargaining in Spain does not necessarily appear to impair 'governance', as it allows for sustained regional wage differentials that may better fit local conditions for small sized firms. Nonetheless, the persistence of provincial sectoral bargaining, coupled with the CEOE's low authority over its affiliates do create a particular incentive for the organization's leadership to seek national wage pacts with the unions, such as were re-established in 2002. National pacts allow the organization to exercise a kind of leadership that its internal structure is not otherwise conducive too. For the labor union leadership too, national wage pacts are a useful means for achieving peak-level coordination (i.e. to limit wage settlements in sheltered sectors of the economy so as to avoid wage price spirals and an excessive loss of competitiveness by sectors exposed to foreign competition) within this relatively decentralized bargaining structure.

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10. According to one CEOE official familiar with the matter, resistance to the central leadership's efforts to promote national sectoral bargains came primarily from its provincial affiliates in sectors representing primarily small and medium sized firms (interview by author, Madrid, July 1998).

11. Interview with Alvaro Espina Montero of the Spanish Ministry of Finance and the Economy, October 2001.

Table 1 **Structure of collective bargaining - percentage of workers covered by level of collective bargaining**

	Company bargaining	Provincial-sectoral	Region	National Sectoral
1996	13.1	51.9	5.3	27.4
1997	11.9	51.4	5.8	30.3
1998	11.7	51.8	6	29.7
1999	11.8	52.1	5.5	29.7
2000	11.7	54.3	8.1	25.2
2001	10.9	54.3	9.3	24.6
2002	10.6	54.6	9.5	24.2
2003	10.7	54.3	10.4	23.6
2004	10	54.5	10	24.4
2005	10.8	52.8	9.9	25.3
2006	10.9	52.3	9.7	25.6
2007	11	51.8	8	27.5

Source: CES (2009: 425).

The national labor organizations have shown an ability to achieve cross-sectoral solidarity beyond what would be expected of competing labor confederations, and they play the leading role in coordinating wage bargaining in this disparately centralized bargaining structure. Nonetheless, national agreements with employers provide an additional element of moral suasion for the union leadership in controlling bargaining by their local level affiliates in sheltered sectors as it provides an explicit, public definition of what is in the best interest of all workers, in particular in the context of a booming economy.

3. Social pacts in Spain under Monetary Union

Just as the Spain's early social pacts were attributed to the exceptional conditions of the political regime transition by those arguing that a fragmented labor movement could not sustain successful corporatism, the signing of several major pacts in the second half of the 1990s has been interpreted as a temporary phenomenon attributable to the need to meet EMU accession criteria. As in the case of Italy, the expectation was that following the onset of EMU, pacts would not be likely to survive, as the pressure to meet the accession criteria would no longer apply and governments would have less leeway to make social policy concessions. Yet, there are also reasons to believe that EMU would have the opposite effect: that it would lead governments and social actors to regard social pacts as a way to compensate for the loss of monetary policy autonomy and the option of recouping price competitiveness through devaluation (Pérez, 2002). The Spanish experience since 1999 fits this prognosis. The period has seen not just the continuation of wage moderation, but indeed, the formalization of global pacts between the government, employers and unions from 2002 on. Unlike the pacts of the previous decades, which focused on discrete items, these pacts have linked wage guidelines to employment goals, labor market reform, and social spending. Following the arrival of a new Socialist government in 2004, Spain has also seen a significant expansion of the use of the social dialogue to negotiate agreements on a number of policy areas traditionally outside the realm of social pacts, such as the regulation of immigration and the establishment of sectoral observatories to promote skill formation and technological innovation. Indeed, the Zapatero government embraced a highly explicit political strategy of using social agreements to boost the social legitimacy of its policies. Table 2 lists the major social agreements reached since 2001.

It is important to note that, even prior to the arrival of the Zapatero government, the pact making process in Spain showed clear signs of independence from the political context, in particular when it came to matters of industrial relations. The positive relationship between the conservatives in power and the unions during the PP's first legislative term came to an end following the party's second electoral victory in 2000, which gave it an absolute majority in parliament. The second Aznar government took a decidedly less compromising stance. In early 2001, it unilaterally imposed a reduction of dismissal costs on youth employment and, and later in the year, it sought to impose a radical decentralization of collective bargaining, a move in the end averted by the employers' associations which had not promoted it (*El Pais*, 12 December 2001). The first measure led the Socialist party and the UGT in unison to call for a general strike, a measure that was not backed by the CC.OO., which argued that use of the general strike needed to be reserved for more serious threats and that its significance should not be diluted. Shortly thereafter, the CC.OO. signed a new pension pact with the Aznar government without the UGT (one of the few instances in which unity in action between the confederations broke down in the last two decades). The UGT's refusal to sign the new pension pact (which expanded non-contributory pensions, lifted an important restriction on the receipt of contributory pensions by early retirees, and provided incentives for the employment of women and older workers through lower employer contributions) led to a spate of very public, mutual recriminations (see *El Pais*, 15, 16 March and 4, 5, 6, 8, 23 April and 6 June 2001). Unity of action was, however, soon re-established when the Aznar government decreed new limits on unemployment pay in May 2002. The 'decretazo', as it came to be known, prompted a wave of joint strikes and protest by the two confederations that forced the government to reverse much of the measure.

Table 2 **Main social pacts in Spain** (December 2000 - February 2010)

Name		Signatories
ASEC II December 2000	Second Tripartite Accord for the Extra-judicial settlement of Labour Conflicts	Government, UGT, CC.OO. , CEOE, CEPYME
Pension Accord April 2001	Accord for the Development and Improvement of Social Protection	Government, CC.OO. , CEOE, CEPYME
ANC -2002 December 2001	National Accord for Collective Bargaining in 2002	Government, UGT, CC.OO. , CEOE, CEPYME
Accord on Work Safety December 2002		Government, UGT, CC.OO. , CEOE, CEPYME
ANC-2003 January 2003	National Accord for Collective Bargaining in 2003	Government, UGT, CC.OO. , CEOE, CEPYME
Agreement on the Regulation of the Minimum Wage 2004		Government, UGT, CC.OO. , CEOE, CEPYME
Accord Institutionalizing the social dialogue on the Kioto Protocol 2004		Government, UGT, CC.OO. , CEOE, CEPYME
Agreement to restore the ability to establish early retirement clauses through collective bargains. 2004		Gobierno, CCOO, UGT, CEOE y CEPYME, 2004).
Agreement on Labour aspects on the Governments new Immigration Law 2004		Government, UGT, CC.OO. , CEOE, CEPYME

ANC -2004 March 2004	National Accord for Collective Bargaining in 2004	Government, UGT, CC.OO. , CEOE, CEPYME
ANEC III March 2005	Third Tripartite Accord for the Extra-judicial settlement of Labour Conflicts	Government, CCOO, UGT, CEOE y CEPYME
ANC-2005	National Accord for Collective Bargaining in 2005	Government, UGT, CC.OO. , CEOE, CEPYME
Framework Accord to promote the modernization of Industry Through Sectoral Observatories April 2005		Government, UGT, CC.OO. , CEOE, CEPYME
Accord developing the institutional bases of the Social Dialogue March 2005		Government, UGT, CC.OO. , CEOE, CEPYME
Accord on the labour and social policy bases of the government's Aid for Dependent Persons Law January 2006		Government, UGT, CC.OO. , CEOE, CEPYME
Extension of the ANC 2005 to 2006	Accord on Collective Bargaining in 2006	UGT, CC.OO. , CEOE, CEPYME
IV National Accord on Occupational Training February 2006		Government, UGT, CC.OO. , CEOE, CEPYME
Accord on Labour and Social Policy aspects of the Government's Gender Equality Law March 2006		Government, UGT, CC.OO.
AMCE May 2006	Agreement for the Improvement and Growth of Employment	Government, UGT, CC.OO. , CEOE, CEPYME
ANC – 2007 February 2007	Accord on Collective Bargaining in 2007	Government, UGT, CC.OO. , CEOE, CEPYME
Accord on the Social Responsibility of Business January 2008.		Government, UGT, CC.OO. , CEOE, CEPYME
AENC – February 2010	Agreement for Employment and Collective Bargaining to Cover Wage Settlements in 2010-2012 and limit use of temporary employment	Government, UGT, CC.OO. , CEOE, CEPYME

Source: CES, Memoria 2001; Memoria 2002; Memoria 2003; Memoria 2007, El Pais, February 10, 2010

However, illustrating the resilience and growing institutionalization of the social pact making process, the first major pact of the decade (the ANC of 2002), which reinitiated the process of formal annual wage pacts, was signed by both union confederations and the employers in December 2001, right in the midst of this series of events (*El Pais*, 21 December and 30 December 2001). Although there was a temporary repolitization of the process following the new Aznar government's unilateral actions and the government was able to divide the unions, the quick restoration of unity in spite of the acrimony between the unions that had marked the incident, reflects the extent to which that unity has become internalized as the normal way of proceeding. The role of the CEOE in stopping a reform of bargaining that would have undermined its ability to reach coherent agreements with the unions is at least equally indicative of the convergence of interests between employers and unions in maintaining a bargaining structure that allows for coherent agreements. While employers continued to favor dismissal cost cuts, it was clear that they did not endorse an agenda that would undermine national and sectoral agreements by allowing lower bargaining units to undercut minimum standards agreed at higher levels. The CEOE's failure to go along with the more confrontational stance of the second Aznar government, at least as far as bargaining reform was concerned, suggests that it had developed a strong interest in protecting the coherence of a social bargaining process that had rendered significant benefits for employers in the preceding years.

When the new socialist prime minister, Jose Luis Rodriguez Zapatero came to office in 2004, he made a public commitment to base all labor market reform measures on agreements with the social partners and to boost the role of the social dialogue in other ways (*El Pais*, 21 April 2004). During the subsequent parliamentary term, more than 20 agreements were signed by the government and social agents, including further agreements on collective bargaining with associated public policy measures but also agreements on a myriad of other matters from (Table 2). The most significant of these other agreements was the negotiated labor market reform pact of 2006 (Acuerdo para la Mejora del Crecimiento y del Empleo or AMCE). The AMCE tackled one of the government's and the unions' principal objectives in this period: that of reducing the weight of fixed-term employment (which had risen to 34%) in the structure of the Spanish labor market. It provided government subsidies for the conversion of temporary contracts to open-ended contracts, reduced employer contributions and dismissal costs on new indefinite contracts (from 42 days pay per year employed to 33 days with a maximum of two years) and imposed new limits on the revolving use of temporary contracts (CES 2007 and Eironline, 2006). Its objectives were also integrated into the subsequent Interconfederal Agreement for Collective Bargaining for 2007 (which set wage guidelines for that year) and the renewal of that agreement in December 2007 to cover collective bargains in 2008. One development in this period thus was the effort to coordinate not just wage bargaining but also to shape the content of collective bargains so as to address the insecure conditions of employment for a large share of workers in Spain.

Setting aside the collective bargaining pacts, it is noteworthy that many of the other pacts reached under the first Socialist legislature meet Traxler's definition of 'expressive' pacts, as they center on union and employer support for government measures. Indeed, even the national collective bargaining pacts (ANCs) have often included 'expressive' commitments alongside the pieces playing a clearer 'functional' role such as the wage guideline agreements and the commitment in 2002 to generalize the inflation revision clauses. The wide scope of issues addressed through social accords (including such items as immigration policy, aid to dependent persons, or the government's gender equality law) reflect an explicit political strategy chosen by the Zapatero government to differentiate itself from the second Aznar government. The latter had attained a reputation for heavy handedness and intransigence, not just due to its attempted labor market reforms but also through its stances on the Basque conflict and the US war in Iraq. Zapatero's emphasis on compromise and consent in labor market matters thus resonated with his broader political strategy of differentiation from the PP in adopting a more compromising style of leadership. However, it also marked a contrast with the take-it-or-leave it stance of earlier Socialist government towards the unions, which had led to the sharp rift between the PSOE's reformers and the UGT.

There is thus much to suggest that the new Socialist government's elevation of social dialogue formed part of a broader political strategy. This became particularly apparent when, during the 2008 electoral campaign, Zapatero was able to garner a joint statement from the unions and the CEOE in defense of his government's immigration policy, which had come under attack from the PP during the electoral campaign for being too liberal. As the statement made clear, that policy had been agreed in tripartite negotiations that took into account the interests of not just the labor unions but also Spanish business (*El Pais*, 21 February 2008)[12]. And Zapatero would highlight it again when, during the European Parliament campaign in May 2009, he announced that he would negotiated a grand pact on education, vocational training and social protection to place Spain on a different growth path that would create more productivity and less speculation (*El Mundo*, 17 May 2009).

However, even if Zapatero's elevation of the social dialogue fit a political strategy of differentiation (both from the PP and from earlier Socialist governments), the resilience of the social pact-making process in Spain should not therefore be seen purely as a political phenomenon. The fact that the new annual pacts on collective bargaining were launched in 2002, still under the PP government and in a rather contentious political climate, is highly significant in this sense. It suggest that the key social pacts of the last decade have responded far more to a logic of economic governance on the part of the unions and employers than to the government's strategy of legitimation (although both the PP, under its first term, and the PSOE under Zapatero have relied on it for this purpose). Indeed, the incomes policy pacts series launched in 2002 formalized what had been, in effect, a policy of voluntary wage moderation adopted by the major labor confederations since 1997 and lasting through the extended economic boom. The decision to formalize these pacts still under the second Aznar government suggests that, even that government had come to see the benefits of such cooperation in the aftermath of its failed attempt to liberalize the bargaining structure. The formalization of the incomes policy agreements thus represents the culmination of a long learning experience in which first the unions and employers and eventually government officials came to prefer negotiated solutions. Formalization itself had its benefits as, unlike the informal incomes policy instrumentalized by the unions alone, formal pacts

12. Zapatero asked for the declaration when the PSOE came under attack by the PP during the electoral campaign for having regularized six hundred irregular foreign workers. According to *El Pais*, the Prime Minister attempted to have the meeting at which the declaration of support was signed at the headquarters of the Socialist party, but the CEOE leaders declined, insisting instead that the meeting take place at the government seat.

allowed for renewed coordination between wage bargaining and labor market measures involving government budgetary support.

The CEOE leadership's difficulty in exercising authority over its affiliates, and the consequent persistence of an intermediately organized bargaining structure, as discussed above, explain why both union leaders and the national employer association would see a benefit in reaching formal agreements as a means to strengthen their peak-level coordination capacity. This was particularly true in the context of a rapidly growing national economy lacking an independent monetary policy authority. And it supports the view that monetary union can in fact work to reinforce national pact making, in particular on wages, by rendering coordination in wage bargaining more necessary. However, it is important to note that the utility of incomes policy pacts is also strongly linked to characteristics of the economic environment. In the particular scenario lived by Spain during the first decade of EMU (one in which its growth far outpaced that of other EMU economies factored in by the ECB), pacts aimed at controlling wage settlements in the sheltered sectors of an economy can serve an important purpose. By contrast, in the opposite scenario (one in which a country is facing lower growth or higher unemployment than that of other EMU economies) pacts aimed at wage moderation are likely to be far less relevant. In such a scenario, in which domestic demand may be insufficient to restart growth, wage restriction may help to restore competitiveness within the Eurozone. Yet it is just as likely to aggravate the economic crisis by further depressing domestic consumption if productivity increases cannot keep pace with that of other countries in the monetary union. Spain began to enter such a scenario in mid 2007, when the ECB raised its key refinance rate to 4% and its marginal lending facility rate to 5% in response to strong growth figures from Germany. Rates were further raised (to 4.25 and 5.25% respectively) in July 2008, still in response to worries about price inflation in Germany, before the ECB pulled back in response to the world credit crunch, which put an effective brake on growth throughout the Eurozone. By then, however, unemployment in Spain had spiraled (to almost 15% at the end of 2008, almost twice the Eurozone average). By the end of the first quarter of 2009, it stood at 17.4%[13].

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13. Eurostat, Harmonized Unemployment Rate as percentage of Labour Force, monthly data available 12 May 2009.

Whether the social pact-making process will continue in this far less positive economic context remains to be seen. After the second socialist electoral victory in March 2008, Prime Minister Rodriguez Zapatero declared his intention to further boost the role of the social partners in defining the government's economic response to the economic crisis and to involve them in policies covering infrastructure, energy, education, health care, housing and public administration policies (*El Pais*, 30 July 2008). Six month later, however, the government unilaterally abandoned a commitment to raise the minimum salary to 800 euros during the new parliamentary term (*El Pais*, 20 December 2008). Perhaps more significantly, the negotiations for a new wage pact to cover 2009 broke down in March of that year, representing the first breakdown in the formally negotiated incomes policy process initiated in 2002. The extraordinary circumstances surrounding that negotiation (the news of imminent deflation in Spain for the first time since wage pacts were first introduced in 1977) may mean that that this event does not suggest a wider collapse of the concertation process, but rather that this process is not particularly well-suited to the unprecedented economic scenario in Spain. The CEOE refused the unions demand for a 2% wage increase and insisted on its goal of a 1% general increase largely in response to figures showing a likely decline in prices for the year. Nonetheless, negotiations continued on aspects of a national collective bargaining agreement not involving wages (*El Pais*, 31 March 2009). At the sectoral level, the picture remained mixed. At the same time as the unions refused the CEOE's goal for the national wage agreement, the UGT was agreeing to a full wage freeze in the case of SEAT to avoid layoffs in the automobile sector. Negotiations in the metal sector, on the other hand, appeared set to fail at the time of this writing (*El Pais*, 14 May 2009).

What is clear, however, from the sharp deterioration in Spain's labor market performance since late 2007 is that a negotiated incomes policy delivering wage moderation in the context of a dual labor market, even with a significant reduction in dismissal costs on new, indefinite contracts, does not suffice to guarantee the country's economic future in the Eurozone. In the following section I consider the reasons for the Spanish economy's particular vulnerability at the end of this economic period.

4. The limits of social concertation: from Spanish boom to bust under EMU

As the previous discussion makes clear, one of the key elements in the steady pace of pact making in Spain since 1997 was the acceptance by the major labor confederations of the connection between wage moderation and economic performance. This position by the unions grew out of the traumatic deterioration of the labor market in the economic crisis of the early 1990s. However, their disposition to maintain a path of wage moderation has also reflected an internalization of the notion that, in the absence of an independent currency, the evolution of labor costs would be critical in determining the economy's competitiveness. Given this embrace of the notion of competitive corporatism (see Rhodes, 1998 and Hassel and Ebbinghaus, 2000), reflected most distinctly in the annual agreements on collective bargaining covering wages since 2002, it is especially striking to note those features of Spain's economic boom that rendered the country particularly vulnerable to the rise in interest rates instituted by the ECB starting in 2007 and to the financial crisis that followed in 2008.

In the period of 2000 to 2005, the Spanish economy, representing 15% of the EU's GDP, created over 3 million new jobs, accounting for almost half the employment growth in the EU. It also accounted for 32% of Eurozone GDP growth and 39% of Eurozone domestic demand. However, well before the onset of the current economic downturn, attention had focused on aspects of Spain's economic growth that raised questions about its long-term viability (*The Guardian*, 19 June 2006). The first of these was the sharp loss of competitiveness *vis-à-vis* other Euro states, in particular Germany, in the post-EMU period measured in terms of relative prices. This deterioration in Spain's competitiveness occurred in spite of the fact that real wages in Spain declined over the 2000 to 2007 due, in part, to the fact that wages were not fully adjusted for inflation in spite of the mechanism of catch-up clauses. Labor compensation per employee grew below inflation through 2007 (OECD, Unit Labor Cost Statistics), and wage growth itself was not deemed a significant factor in Spain's persistent inflation differential (see OECD, 2007).

A second feature has been the very low rate of productivity growth per worker (averaging just 0.5% for the last few years). Although productivity per worker tends to fall with rises in employment, this is not the only explanation in the Spanish case. Rather, the negative evolution of productivity growth has been mainly attributed to the fact that employment growth has been heavily concentrated in low skill/low wage sectors (particularly construction and services). This sectoral bias in employment growth also explains why, in spite of the large increase in the number of employed in Spain, the labor income share in GDP declined more sharply in Spain than in the rest of the Eurozone: from 67% in 1999 to 62% in 2007, compared to just a 1% drop in the Eurozone (OECD, Unit Labour Costs, Annual Indicators)[14]. It is also the main reason why Spain is the only country in the OECD, where the real average wage has declined over the last decade (by an average 0.4% annually from 2000 through 2006, as compared to positive growth in average wages of 0.7% for the EU15 over the same period (OECD, 2008). By the same token, when serious job shedding, concentrated in those low wage sectors began in 2008, the trend was reversed and real average wage in Spain began to increase (*El Pais*, 19 December 2008).

Indeed, the remarkable labour market recovery that provided the context of social bargaining in Spain over the last decade was based largely on a trade-off between employment growth and the sectoral and skill/productivity profiles of the economy. Several factors converged to produce this pattern of economic growth. First, as the country's output gap (i.e. the difference between economic output and the output it could achieve at full capacity utilization) was smaller than that of the core Eurozone economies at the start of EMU, the ECB's interest rate policy, which was dominated by concern with the situation in Germany and in other countries that had higher output gaps (i.e. that were farther away from full capacity utilization) represented a relatively lax stance for Spain. Secondly, Spain's higher than average inflation rates (explained not by wage growth but by persistent rigidities in Spanish product and services markets) (OECD, 2007a) meant that, given the ECB's policy, Spanish households could get credit at negative real interest rates. This fueled a boom in credit-based household consumption and in housing prices. Since Spain also suffered a relative shortage of housing stock, this credit driven consumption boom was easily channeled into construction and related services. Thirdly, the ease of short-term employment in

14. Extracted from the OECD's Statistics Portal, 6 October 2008.

Spain made construction a highly profitable sector for investors.[15] And the resulting housing price bubble fed the household consumption boom via a strong perceived 'wealth' effect. Fourth, the ease with which Spanish employers could employ workers on a temporary basis also fed into this boom in construction, as employment in this sector often tends to be of a temporary nature. One side effect of this was that, in spite of the Zapatero governments efforts to reduce the weight of temporary employment through incentives for indefinite contracts, temporary employment rose to as high as 34% of the total in 2007.

Lastly, this pattern of economic growth concentrated in low paying sectors was facilitated by a liberal immigration policy, both by the Aznar and the Zapatero governments and an unprecedented inflow of immigrant workers from the mid 1990s on. The rise in immigration was such that it expanded the population by over 10% in the decade from 1996 to 2007, and the employment of immigrants was heavily concentrated in construction, retail and other services. According to one report of the Economic and Social Council, at least 50% of new jobs created in the decade up to 2006 were filled by immigrant labor (CES, *Memoria 2006*). By its dramatic impact on the size of the population, immigration also provided an important additional boost to housing demand and the general consumption boom. And because immigrants may have been more willing than native residents to accept precarious employment conditions, at least upon arrival, the immigration phenomenon may have further reinforced the tendency for employment in Spain to be based on short-term, temporary contracts. Certainly, when the construction sector collapsed and employment shedding took off, immigrants were the first to laid off. While the unemployment rate for immigrants (i.e. foreign citizens) in Spain was only marginally smaller than the general population in Spain (around 2.5% for men and 1.5% for women) in 2005, and while their labor force participation rate is much higher than for the general population (77% as compared to 60%), their unemployment rate had risen to 28.4% compared to the 17.4% of the general population (including immigrants) by the end of

15. The rise in immigration provided a positive demographic respite for a country with one of the EU's lowest birthrates. Yet, it also accentuated the long-standing tendency for employment to take on a highly precarious character, with 34% of employment continuing to be accounted for by short-term, temporary contracts as late of 2007.

the first quarter of 2009 (data from the OECD (2007b), the Encuesta de Poblacion Activa (EPA), April 2009, and the Instituto Nacional de Empleo (Inem), April 2009. Thus, this social group, which provided a critical demographic respite for a country with one of the EU's lowest birthrates and was critical in allowing the economic recovery Spain experienced during the first decade of EMU, has in turn become one of the segments of society that has paid the highest price for the sectoral biases of that economic boom.

The sectoral character of Spain's economic growth up to 2007 is critical in understanding why a commitment to competitive corporatism by the unions could not prevent the labor market catastrophe Spain has seen with the world economic crisis. Given the dynamics of the housing/ construction/consumption boom, the union's efforts to maintain labour cost competitiveness through peak-level coordination and national wage pacts could do little to prevent the vulnerability of employment to the change in the external context that began in 2007. By spring of 2009, the Spanish unemployment rate stood at 17.4%, virtually doubling the rate in the rest of the Eurozone and with even more dire predictions ahead. Indeed, if in the previous decade Spain accounted for almost half the employment growth in the EU and one third of its economic growth, by early 2009, it was responsible for 2 out of every 3 newly unemployed in the Eurozone according to Eurostat (*El Pais*, 1 May 2009). The extent of the crisis in Spain has clearly been largely due to the world financial crisis that took hold in 2008. Nonetheless, it is significant that the reversal in the Spanish labor market began in 2007, after the ECB began to raise interest rates to respond to a labor market recovery in Germany. The fact that the Spanish unemployment rate in early 2009 virtually doubled that of the Eurozone (which would itself be lower if Spain were removed from the figures) also marks a striking contrast to the country's stellar performance over the previous decade.

Indeed, the sharp reversal in Spain represents a particularly radical example of what Olivier Blanchard has described as a pattern of rotating booms and busts in the Eurozone that are a direct consequence of its macro-institutional structure (*The Economist*, 27 January 2007). Given that monetary policy can no longer be fitted to conditions in any one particular country, the ECB's policies feed demand booms in those countries whose domestic prices produce lower real interest rates, producing a loss of competitiveness. When this loss of competitiveness reduces growth, or the ECB's policies raise interest rates in response to overall conditions in the area, monetary policy cannot be adjusted to mitigate a bust in the previously booming economy. These effects are further aggravated by the fact that the Eurozone enjoys no common fiscal policy through which the disparate impact of a single monetary policy on different Eurozone countries can be mitigated. While efforts to limit wage growth through peak-level coordination of bargaining or national wage pacts can attempt to mitigate the boom cycles by limiting wage growth in the sheltered sectors of an economy, they cannot limit price inflation per se in the face of cheap credit driven demand booms. Yet, it is even less clear what role social pacts to secure wage moderation (the centerpiece of the Spanish consensus so far) can play in a context in which domestic demand has collapsed. With most capital investment having gone to sectors that depend on domestic demand in the boom period, the road to a recovery in the Spanish job market via external demand would be a long and hard one.

What is certain is that, in the new scenario, the Spanish labor confederations will face new pressure to accept further reductions in what is still considered a high level of labor market protection for those who have achieved the status of labor-market insiders. Whether such further deregulation serves to reduce dualism by more evenly spreading the pain of a downturn in the labor market, or simply serves to increase the level of economic insecurity for all remains a critical, open question. So is the question of the role that social pacts can play in shifting the Spanish economy to a growth path that renders the country less vulnerable to external shocks, including a monetary policy that does not particularly fit domestic conditions.

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Ireland: the evolution of social pacts in the EMU era

Rory O'Donnell, Noel Cahill and Damian Thomas

Introduction

Of all countries in the EU, Ireland displayed the strongest and most continuous use of national social pacts in recent times. This chapter describes and interprets the evolution of social pacts in Ireland between 1987 and 2008. Section 1 provides an overview of Irish social pacts and identifies the alignment of three key policy areas — pay determination, labour market policy and welfare reform — in the pre-EMU era. Section 2 examines in greater detail the social pacts agreed in the years since Ireland joined EMU. In each case, we consider the three key determinants identified by Natali and Pochet in this volume:

— exogenous constraints related to the EMU process and the broader macro-economic conditions;

— the strategic role of actors in recombining rules in three particular policy areas;

— institutional dynamics that have embedded actors' interests and created opportunities for pacting.

Section 3 discusses the institutionalization of social pacts. Two broad trajectories of institutionalization are identified. The first might be called a 'governance trajectory', in which the policy scope of the pacts was extended, the process was widened to include social NGOs and a 'partnership' approach to a range of public policies was created and institutionalized. The second was an employment relations trajectory, involving the gradual emergence of an approach to wage bargaining and industrial relations that differed significantly from that which prevailed in earlier decades. We show that although several of the pressures and tendencies that can lead to de-institutionalisation were present in

Ireland in the post EMU period, there were, up to late 2008, contained within the social partnership approach. This itself suggests a significant degree of institutionalisation. The last section concludes the chapter, discussing how the challenges identified before the launch of the euro were addressed in the years 2000 to 2008 and the asking whether the segmentation of social pacts in other EU member states, described by Natali and Pochet in this volume, applies to Ireland. We close by briefly considering the possibilities following the failure of pact negotiations during 2009.

1. Irish partnership before EMU (1987-2000)

1.1. Origins of Irish partnership: economic crisis and strategic interaction

The emergence of social partnership in Ireland in the late 1980s has been well documented and analysed[1]. A deep and protracted economic, fiscal and political crisis provided an exogenous constraint that pushed government, unions and employers to reconsider their strategic interactions (O'Donnell and O'Reardon, 1997). The National Economic and Social Council (NESC) provided an institutional context in which the social partners articulated a degree of shared understanding of Ireland's immediate and longer-term economic problems. In particular, the Council's 1986 report, *A Strategy for Development* (NESC, 1986), formed the basis upon which a new government and the social partners negotiated the Programme for National Recovery (see Table 1.)

That programme was followed by seven further agreements (see Table 1) There is a strong association between the dominant, cross-class political party, Fianna Fail, and the Irish social partnership; but other coalitions have been in government at various times in the past two decades, and have negotiated national agreements. Governments with small majorities have consistently sought to mobilise support from

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1. Accounts of emergence and evolution of social partnership, and its instutionalisation, can be found in earlier OSE volumes on social pacts and wage policy in Europe (O'Donnell and O'Reardon, 1997, 2000 and 2002) and in the increasing literature on the subject (eg. Hardiman, 2002; Hastings *et al.*, 2007; O'Donnell, 2001; O'Donnell *et al.*, 2007; Roche, 2007b; Sheehan, 1996).

unions and employers and the Irish case supports the view that weak government is an important factor in emergence and institutionalization of social pacts (Avdagic *et al.*, forthcoming; O'Donnell *et al.*, forthcoming).

Table 1 **Social pacts and governments in office 1987-2009**

Social partnership programme	Party composition of government
Programme for National Recovery (PNR) (1987-1990)	Fianna Fáil minority government (elected 1987) Fianna Fáil/Progressive Democrat coalition (elected 1989)
Programme for Economic and Social Progress (PESP) (1991-1993)	Fianna Fáil/Progressive Democrat coalition Fianna Fáil/Labour coalition (elected 1992)
Programme for Competitiveness and Work (PCW) (1994-1996)	Fianna Fáil/Labour coalition (collapsed 1994) Fine Gael/Labour/Democratic Left coalition (government change without election, 1994)
Partnership 2000 (P2K) (1997-2000)	Fine Gael/Labour/Democratic Left coalition Fianna Fáil/Progressive Democrat coalition (elected 1997)
Programme for Prosperity and Fairness (PPF) (2000-2002)	Fianna Fáil/Progressive Democrat coalition (re-elected 2002)
Sustaining Progress (2003-2005)	Fianna Fáil/Progressive Democrat coalition
Towards 2016 (T16) (2006-2016) Towards 2016: Review and Transitional Agreement 2008-2009 Failed negotiations on a crisis pact, January and April 2009	Fianna Fáil/Progressive Democrat coalition Fianna Fáil/Green Party coalition (elected 2007)

While national partnership began by addressing a critical central issue, looming insolvency and economic collapse, the partnership programmes gradually extended their policy remit to incorporate a wide range of economic and social policies (O'Donnell and O' Reardon, 1997). Building on the pattern set in 1986-87, each subsequent partnership programme was preceded by a NESC 'Strategy' report, setting out a shared analysis of economic and social trends and parameters within which a new pact should be negotiated[2]. Since 1990 NESC reports have articulated the importance of a 'consistent policy approach, encompassing

2. The NESC Strategy reports (1990, 1993, 1996, 2003, 2006 and 2008) are available on the NESC website (www.nesc.ie). The text of the social partnership programmes are available on the Irish Government website (www.taoiseach.govie).

macroeconomic, distributional and structural or supply-side policies' (NESC, 1990). Importantly the prime ministers department has emerged, to a significant degree, as the guardian of both the partnership programmes and process.

An important and unusual feature of Irish partnership has been the affording of social partner status, since 1997, to a group of social NGOs, known as the 'community and voluntary' pillar (CORI, 1999, 2002 and 2005).

1.2. The relationship between pay determination, labour market policy and welfare reform in the pre-EMU era

Our understanding of the changing content and relationship between three key policy dimensions — pay determination, labour market policy and welfare reform — is summarized in Table 2. Because of the timing of the Irish pacts and changing economic conditions, we distinguish four time periods, 1987 to 1993, 1994 to 1998, 1999 to 2003, and 2003 to 2008. This allows us to trace the changing alignment of these three policy areas, to characterise the institutionalization of the pacts and assess the degree to which the creation of the euro was a watershed in the evolution of Ireland's social pacts.

In considering the content of Irish social pacts, it is important to note three contextual factors. First, Ireland traditionally had a voluntarist and adversarial system of industrial relations (Roche, 1997a) and lacks any statutory basis for trade union recognition, the right to collective bargaining or the extension of collective agreements to non-unionised enterprises. Second, Ireland's welfare system traditionally combined a high degree of means testing, in the Anglo-Saxon mode, with relatively heavy reliance on both voluntary religious organisations and the family for provision of social services. Thirdly, the heavy tax burden imposed on employees during the 1980s ensured that income tax reform was sought by trade unions and was not just a neo-liberal agenda; neoliberal and populist considerations among ministers did, however, exert a discernible influence over both the design and continuation of tax reductions in the period 2002 to 2007.

Table 2 **Changing alignment of key policy areas 1987-2008**

	Pay determination	Labour market policy	Welfare and social policy
1987–1993	agreed modest pay growth, in order to aid fiscal correction, employment recovery and embed ERM discipline	Employment creation & ALMPs; Local partnership institutions focused on long-term unemployment	initial retrenchment in social spending welfare & tax changes to support return to work Local partnership and community initiatives
1994–1998	disciplined national pay settlements in context of Maastricht criteria supported by tax reductions	employment creation via economic growth and ALMPs labour and equality laws; after 1997, enterprise–level partnership initiatives	changes in support of ALMPs; educational exapansion; increased social spending
1999-2002	Locking of currencies implied fall in interest rates, real depreciation, rapid growth and inflation above eurozone; Minimum wage, 2000; Wage drift and renegotiation of 2000 pact; Tax rate reductions.	migration began to emerge as an issue educational expansion; enterprise-level partnership; family-friendly practices in the enterprise;	'Operational Frameworks' included a focus on social housing, income adequacy, urban disadvantage, rural poverty, gender and racial equality, life-long learning, ALMPs, childcare and the information society; Increased social spending, especially on health and education
2003–2008	Public sector pay 'benchmarking', 2002 and 2007; inflation and pay growth above Eurozone average disciplined national pact, 2003: pact pay increases, 2008, immediately under pressure because of economic crisis	migration policy for third country nationals and accession states; educational expansion; dominance of private sector IR issues: employment standards & bargaining rights	'special initiatives' on housing, migration, educational disadvantage and child poverty Disability legislation 'developmental welfare state' agenda, but limited policy reform or organizational change pensions issues

Ireland's pacts all included a pay deal between employers, unions and government covering both the private and public sectors, usually for a three year period. Between 1987 and 1993, actors were motivated to secure fiscal stabilisation, engineer a return to economic and employment growth, and embed ERM disciplines.

In the period 1994 to 1998, a central theme was fiscal and price stability, and adherence to the Maastricht criteria for EMU qualification. As growth resumed and the budgetary position improved, exchange of tax reductions for moderate wage increases became an important feature of partnership, though government policy decisions ensured that tax reductions continued up to 2006.

Turning to labour market policy the key concern, especially between 1987 and 1998, was to reduce the high levels of unemployment and address the problem of long term unemployment. The emphasis on active labour market policies that emerged during the 1980s was reinforced by an acceptance of the limitations of activist fiscal and monetary policy within a small open economy, and increased levels of EU Structural funds. The 1990 agreement established local partnership companies to design and implement a more co-ordinated, multi-dimensional, approach to long-term unemployment and social exclusion (Sabel, 1996).

After some initial retrenchment in health spending in 1987-88, the welfare policy element of the early social pacts consisted, in large part, of tax and welfare changes designed to encourage the return to work. Importantly, albeit from a modest baseline, there were extensions and improvements of welfare and social protection and the real levels of welfare payments were increased, although not in proportion with after-tax earnings (NESC, 2002: 24-5). The fact that the Irish system of social security was not managed and controlled by the social partners meant that a government-enforced, or even negotiated, alteration in the power of the partners over welfare was not a feature of social pacts in Ireland, as it was in some other EU states (Ebbinghaus and Hassel, 1999).

1.3. Perception of the challenges of EMU

In the 2000 volume *Social pacts in Europe-new dynamics*, O'Donnell and O'Reardon noted that while the primary early goal of partnership had been fiscal correction and employment correction, at the start of the new century it must aim to increase living standards, enhance the quality of life, achieve infrastructural investment and lay the foundations for long-term prosperity. They suggested that 'It is less easy to find agreement — between employers, unions and various social interests — on how these goals should be achieved and how they should be paid for' (O'Donnell and O'Reardon, 2000: 253). While the 2000 pact, discussed below, allowed for larger pay increases than earlier programmes, it was observed that 'tax and pay issues may prove more difficult in the years ahead'. Explaining this, O'Donnell and O'Reardon noted that in its budget for 2000, the government ignored the consensus within NESC — which favoured tax relief and pay increases for those on lower incomes and facing high childcare costs — and delivered a tax package which gave greatest tax reductions to those on high incomes (NESC, 1999: 196). 'This…inflamed a situation in which conspicuous consumption and rising house prices make many on low and middle incomes feel that they are not sharing equally in the benefits of the "Celtic Tiger"' (O'Donnell and O'Reardon, 2000: 254). They also suggested that it would be a considerable achievement to channel public sector pay claims into the new 'benchmarking' process (see below). Overall, 'the [2000] partnership agreement contains a distributional settlement which will be tested by growing expectations and a rapidly changing and more differentiated economy and society' (ibid).

In 2000 it was also noted that the issue of public sector salaries was tied up with another critical challenge facing Ireland, the need to improve the quantity and quality of public infrastructure and services: Resolving this challenge, it was suggested, required an extension of social partnership from high-level strategic agreement on macroeconomic strategy, to an on-going process of policy formation and delivery in numerous supply-side areas (NESF, 1997; O'Donnell, 2001; O'Donnell and O'Reardon, 2000). This would require a more decentralised and flexible approach to both policy making and implementation that would test not only the partnership process but also Ireland's clientelist political system (O'Donnell and O'Reardon, 2000).

A final issue identified in 2000 was migration, as Ireland, due to increased prosperity and labour shortages, was now attracting increased number of asylum seekers and legal and illegal immigrants from many parts of the world' (O'Donnell and O'Reardon, 2000). It was noted that a racially homogeneous society was, for the first time, confronting issues of immigration and racial equality.

2. The changing determinants and content of Irish social pacts since 2000

Since the launch of the euro there have been four further social pacts (see Table 1) Additionally, negotiations on a new solidarity pact have continued over the course of 2009 without any success to date. Here we describe each of these, tracing the changing relation between pay determination, labour market policy and welfare reform.

2.1. The Programme for Prosperity and Fairness (2000-2002)

The Irish economy was growing strongly when it joined monetary union; the locking of currencies in 1998 give it a further boost, since it reduced interest rates and involved a real depreciation of Ireland's exchange rate. This stimulus, in conjunction with an expansionary fiscal policy, contributed to higher price and wage inflation, soaring house prices and increased pressure on infrastructure. Price and wage inflation above the eurozone average meant that the Irish economy experienced a loss of cost competitiveness during the post-EMU period. Buoyant Government revenues allied to a recognition of the need to resolve many economic and social issues ensured the partners remained interested in 'pacting' and, in that context, the 2000 agreement set an ambitious policy agenda.

The private sector pay agreement covered a period of 33 months, but quickly came under pressure because of higher-than-anticipated inflation, a very tight labour market and wage drift. Within a year, the wage terms were renegotiated upwards. Subsequently, compliance with the terms of national agreements increased (Dobbins, 2005).

A key element of the 2000 agreement was the effort to address the thorny issue of the 'right to bargain' in the absence of statutory trade union recognition. A High Level Group on Trade Union Recognition agreed a process for dealing with pay and conditions in firms that refused to recognise unions. This procedure was incorporated in the industrial relations (Amendment) Act 2001 and a 'Code of Practice on Voluntary Dispute Resolution'. In addition, the pact established the National Implementation Body (NIB). It convenes the highest level actors in the prime minister's department, the unions and the employers to prevent the escalation of high-profile industrial disputes (Teague, 2005).

The 2000 pact introduced reform to the system of public service pay determination was traditionally focused on inter-group relativities, yielding leap-frogging settlements, special pay claims and industrial conflict (Hastings *et al.*, 2007). The agreement established the Public Service Benchmarking Body to compare public service pay and jobs with occupations in the private sector. The secondary school teachers union, the ASTI, left the ICTU in opposition to the pact and embarked on a high-profile campaign of industrial action in pursuit of a 30% pay increase. Despite this, the partnership system managed to protect not only the agreement but also the outcomes recommended by the Benchmarking Body's s 2002 report (Hastings *et al.*, 2007). This was facilitated by the fact that the Body recommended very considerable pay increases across the public system. The willingness and ability of government and the unions to jointly achieve a degree of discipline over a traditionally-powerful public sector union was evidence of a significant institutionalisation of social partnership in Ireland.

The expansion of the policy scope of Ireland's social pacts was evident in the ambitious agenda for tackling a range of economic and social issues through a set of 'operational frameworks'. To manage these, the actors established an extensive network of social partner working groups, task forces and consultative committees. It was hoped that this would deepen and widen participation in partnership, enhance problem solving and improve policy implementation. Most participants were eventually disappointed with this approach. The complexity and multiplicity of working groups was experienced as a burden on many lightly-resourced organisations and a drag on the time of civil servants.

2.2. The 'Sustaining Progress' agreement (2003-2006)

Ireland achieved a rapid resumption of economic growth after the sharp downturn of 2000-2001, which generated resources over which the actors could continue to bargain in social pacts. Yet new pressures and concerns also emerged, that were to figure increasingly in the negotiation and policy content of Ireland's social pacts.

New pressures: housing and immigration

Low interest rates and strong economic growth led to a large increase in the demand for housing. In response, housing output increased by almost 90% between 2000 and 2006 and the construction sector became a key driver of economic and employment growth. House prices rose dramatically, making the cost and availability of housing for those on low-incomes an increasing concern of the social partners. In 2003, the ICTU secured a Government commitment to build 10,000 'affordable homes', while the social pillar also achieved increased investment in social housing.

A second concern derived from rapid changes in the Irish labour due to increased immigration. Along with Sweden and the UK, Ireland did not adopt 'transitional arrangements' limiting the freedom of workers from the 10 accession states to take up employment in Ireland. The share of non-Irish nationals in the labour force increased from less than 4% in 2000 to 16.5% by 2008. Although Irish unions strongly resisted any hostility to migrants, these developments undoubtedly created anxieties for them. Unions identified tangible examples which suggested that a small minority of employers were treating migrant (and posted) workers in ways that violated Irish labour law (*Industrial Relations News*, various issues, 2005). Unions were also concerned about the wider impact of large-scale immigration on earnings growth and employment standards. With a traditionally voluntarist industrial relations system, no statutory right to trade union recognition and no formal extension procedures, unions feared that migration might gradually undermine the scope and effectiveness of collective bargaining in the Irish economy.

The content of the 2003 pact 'Sustaining Progress'

The 2003 agreement underlined the increased salience of private sector industrial relations issues in Irish social pacts in the EMU era. The pact established a series of procedural mechanisms for dealing with employers claims regarding 'inability to pay' the agreed national increases. This involved third party conciliation, the use of independent assessors and the option of referral to the Labour Court for a binding decision. The agreement also provided for the negotiation of an 'Enhanced Code of Practice on Voluntary Dispute Resolution' which was to improve union perceptions of the effectiveness of the right to bargain mechanisms.

For the public sector, the 2003 pact made payment of both the benchmarking awards and the general pay increases dependent on the 'verification' of co-operation with flexibility, ongoing change and the satisfactory implementation of the modernisation agenda agreed in the partnership programme.

On the broader economic and social agenda, the 2003 pact focused on ten 'special initiatives', reflecting disappointment with the more elaborate array of partnership committees and working groups established under the previous pact. Although the community and voluntary pillar was involved in the 2003 negotiations, a number of groups within the Pillar rejected the agreement, claiming there were insufficient government commitments on social and welfare issues (Connolly, 2007)[3]. In response, the government took the surprising decision of excluding those groups from the social partnership process and associated partnership institutions, such as NESC and NESF.

2.3. The 2006 pact 'Towards 2016'

Employment standards

Irish unions were increasingly concerned that the opening of the Irish labour market after EU enlargement, without commensurate regulatory action, was facilitiating both the exploitation of migrant workers and an undermining of existing employment rights and standards. These anxieties came to the fore with the high-profile dispute at Irish Ferries.

3. Connolly (2007) reports that the voluntary and community pillar were critical of the way in which the talks were conducted. They argue that there was very little real negotiation on their agenda, in contrast with their experience in negotiation of the 2000 pact.

This dispute concerned the company's plans to replace its directly-employed Irish unionised workforce with lower-paid agency staff from Eastern Europe (Hastings *et al.*, 2007). Although legal, the ICTU considered this form of 'job displacement' as symptomatic of a 'race to bottom' in employment standards and rights[4]. Consequently the ICTU refused to enter negotiations for a new national pact until the dispute was resolved. Eventually, a combination of high-level government involvement and work by the Labour Relations Commission resolved the dispute in a manner that enabled the unions to enter the national talks. Government action to strengthen enforcement of employment rights and standards became key objective for the unions in the negotiations.

Economic conditions: immigration, divergent earnings growth and pension problems

Although the Irish economy continued to grow strongly, after 2003 there was increased divergence in the patterns of earnings growth (NESC, 2008). Median hourly earnings in the overall economy grew by 17.7% in nominal terms between 2003 and 2006. This yielded an increase of 10% in real terms and exceeded overall productivity growth. Real take-home pay was further boosted by tax reductions. However, workers in the different sectors of the economy experienced divergent earnings growth. These divergent patterns of earnings growth contributed to the difficulties in framing a national wage deal in 2006.

The 2005 NESC report, *Migration Policy*, found that, while migration had probably moderated wage growth in some parts of the economy, its overall economic effects up to 2004 were positive (on economic growth and average living standards) (NESC, 2005a). NESC emphasised the importance of labour standards and employment rights, and argued that it was more feasible, and desirable, to protect standards within the economy that to prevent inward migration (NESC, 2005a).

4. Irish Ferries strategy was legal, under Maritime Employment Law and, indeed, a significant proportion of the workers affected accepted the initial redundancy package offered by the company. However, the ICTU, and in particular the union involved SIPTU, argued that the company's action amounted to job displacement that would lead to an erosion of labour standards throughout the economy.

With more than half the workforce having no pension provision beyond the basic state pension and the quality of company and private pensions declining, pensions increasingly became a core issue for the unions in framing their national bargaining strategy. From the employer's perspective, however, a major concern was the weakening of corporate pension funds and the increasing burden of pension liabilities.

The content of the 'Towards 2016' agreement

When the talks on a new social pact formally began after a long delay they were both difficult and protracted. These difficulties reflected both the increased salience of labour market and the employment standards issues and, to some degree, the start of economic difficulties that were to become acute in 2008. By June 2006 the parties finally reached agreement on a ten year framework pact entitled '*Towards 2016'*.

It was government that pushed for a ten year framework programme, reflecting its view that the complex social and economic problems facing the country required an extended period to be effectively addressed. Within the ten year framework, the initial pay deal was for 27 months. The agreement outlined a new approach to employment rights and labour standards. This included the establishment of a National Employment Rights Authority (NERA) to secure compliance with employment law and to foster a culture of compliance. The unions considered that this package represented a significant development in labour market and social policy (Hastings *et al.*, 1987).

After a decade of suburban sprawl, government and the social partners adopted the goal of developing high-quality, integrated, sustainable communities. A new target for social housing provision was adopted and this led to an increase in social housing completions.

A potentially important element of the 'Towards 2016' pact was a commitment to a new social policy perspective based on NESC's report *The Developmental Welfare State* (NESC, 2005a). That report argued that a more developmental approach required a new combination of income supports, services and innovative measures, in order to provide tailored 'participation packages'. It identified major changes in governance and monitoring necessary to achieve this and proposed adoption of a lifecycle framework. The national pact endorsed the lifecycle approach, set out policy goals for each life cycle group and identified priority actions.

2.4. The 2008 negotiation of the 'Towards 2016 Review and Transitional Agreement'

Since 1990 NESC had emphasised the importance of a consistent combination of macroeconomic, distributional and structural policy. The 2008 NESC study, The Irish Economy in the Early 21st Century, noted that the relation between the macroeconomic, distributional and structural factors shifts over time. While there was a virtuous circle between these three in the 1990s, in 2008 Ireland faced a more complex and difficult combination of pressures than had been experienced for many years (NESC, 2008). Deteriorating macroeconomic conditions made it harder to address structural requirements and distributional pressures. Despite sustained public investment Ireland still faced major infrastructural and other supply-side challenges in areas such as health, childcare, education, training and in general, the provision of quality tailored public services. In addition, economy-wide productivity weakened in the years 2002 to 2007, and there was a loss of competitiveness and employment in the internationally traded sectors.

NESC (2008) argued that given the deteriorating economic context, in framing a new social pact the government and the social partners in framing a new social pact needed need to be able to rely on, and take into account, a set of inter-related developments and understandings. It suggested that these should include clarity on: the need for on-going structural and supply-side investments, the medium-term project of building a developmental welfare state, a shared commitment to high-quality workplaces and opportunities, the importance of competitiveness and the interdependence between the traded and non-traded sectors of the economy, and, an approach to public service modernisation that is premised on developing new, tailor-made systems of monitoring and evaluation in areas of social and human capital investment . This suggested that the continuation of social partnership was dependent on the ability of Irish political actors and democratic institutions to find and articulate an appropriate, viable and progressive long-term strategy for economic and social development.

The difficulties in negotiating the second phase of the wage agreement under Towards 2016 were illustrative of these changing external constraints, shared understandings, policy alignments and strategic capabilities. A combination of Ireland's above-eurozone inflation, economic slowdown and a severe deterioration in public finances — in conjunction with divergent positions on key labour market issues such as trade union recognition and agency workers — created the most difficult climate for negotiations since 1987. Negotiations began in the Spring 2008 and broke down in August before a final agreement was reached in September on a pact entitled 'Towards 2016: Review and Transitional Agreement 2008/09'. The pact included a pay pause for 11 months in the public sector and 3 months in the private sector, to be followed by a 6% increase over 18 months. In the areas of industrial relations and employment standards there were commitments on; the use of agency workers in the case of official strikes or lock outs; an agreed process to develop a national framework on the employment rights of temporary agency workers, to give effect to the EU Temporary Agency Workers Directive; a new binding arbitration process for dealing with disputes over workplace change and a review of the existing legislation on collective bargaining. Additionally, the pact reaffirmed the parties support for public service modernisation and workplace change and innovation.

However, almost immediately the pact agreed was rendered near redundant, as the collapse of Lehman Brothers pitched the global financial system into crisis. As the world economy moved firmly into recession, the Irish economy moved from its relatively fast growth recorded in 2007, to a greater rate of contraction than almost any other EU member state. A number of factors explain the particular depth of Ireland's crisis and, especially, the precipitous drop in tax revenue. First, over the period 2002 to 2007, construction had accounted for a remarkable high share of Irish GDP and employment. As in other countries, the credit crunch and associated bursting of the housing bubble, led to the collapse of the building industry. Second, because of the continued reduction in income taxes and other taxes in the years 2000 to 2007, the state had come to rely heavily on revenues from the buoyant property market and construction sector. With tax revenue falling, soaring unemployment demanded additional spending and, as in other countries, government had to incur actual and contingent liabilities in rescuing banks.

2.5. Failed pact negotiations in 2009

The government clearly indicated its continued commitment to partnership. It delayed further budgetary action and invested considerable effort in seeking an agreed response with the social partners. The partners and officials discussed the crisis intensively in NESC during December 2008 and January 2009, but failed to reach agreement on a proposed text. Despite this failure, the government opened formal talks with the partners in late January 2009. While a framework for discussion was agreed, reflecting much of the earlier discussion at NESC, the talks eventually broke down over union rejection of the Government's proposal to reduce the public service pay bill though a public service pension levy. The government proceeded unilaterally to introduce the pension levy and formally deferred the public service pay increases negotiated in September 2008. Given the depth of the economic crisis, the status of the private sector wage agreement also became unclear.

With partnership effectively suspended, analysis and discussion continued within NESC. In February 2009 the social partners agreed a report *Ireland's Five-Part Crisis: An Integrated National Response* (NESC, 2008b). The report argued that Ireland faced a 'five-part crisis' — banking, fiscal, economic, and social and reputational. It suggested that this resulted from three main forces: declining competitiveness as a consequence of Ireland's prolonged boom, a property bubble which Irish financial institutions and the regulatory system did not prevent, and an international credit crisis and recession caused by structural weaknesses in the globalisation process. NESC argued that the crisis could be seen as a manifestation of certain risks and vulnerabilities that were known and analysed earlier (such as asymmetric shocks within the euro), some that were not seen (such as the banking collapse) and some the vulnerability to which is shaped by Irish policy. 'It seems clear that certain features of Ireland's approach to economic and social development, policy implementation, coordination and bargaining have not sufficiently protected the economy and society against…some of the risks that had been identified' (NESC, 2009: ix) In NESC, the partners, officials and independent members were agreed on the need for an integrated national response that would address all five dimensions of the crisis. However, the Council did not reach firm agreement on the role of wage adjustment and 'real depreciation' in addressing the crisis.

Government saw agreement on a crisis report in NESC as an opportunity to re-engage the social partners and, throughout 2009, sought a partnership response to the crisis. Indeed, on several occasions Government and unions came close to agreement. However, Government and the unions continued to differ on the wage question and, whether fiscal consolidation required reductions in public pay rates. Although these negotiations placed public sector 'transformation' at centre stage, in a way that had not been achieved before, they ultimately foundered on the issue of public service pay reduction, which the Government subsequently introduced in its December 2009 Budget. This development, in conjunction with IBEC's formal withdrawal in the same month, from the terms of the private sector pay agreement, marked the suspension — or perhaps death — of Ireland's twenty-two year social partnership process.

3. Interpreting the institutionalisation of social partnership in Ireland

3.1. The analytical framework

As noted above, the editors suggest that three factors shape the institutionalisation or deinstitutionalisation of social pacts in the EMU era: (i) exogenous constraints related to the EMU process and the broader economic conditions; (ii) the strategic role of actors in recombining rules in three particular policy areas; and (iii) institutional dynamics that have embedded actors' interests and created opportunities for pacting.

In applying this approach to Ireland, we begin by identifying the evidence for a basic form of institutionalisation, highlighting the particular policy content of Irish social pacts. Next we briefly describe the institutionalisation of Irish social pacts in the pre-EMU period. Turning to the EMU era, we emphasise that several of the pressures and tendencies that can lead to de-institutionalisation were indeed present in Ireland in the first decade of the new century. These pressures were, at least up to 2008, contained within the social partnership approach which suggests a significant degree of institutionalization. It also poses difficult questions about how this institutionalization should be understood and characterised.

3.2. Basic institutionalisation and Ireland's distinctive policy content

Irish social partnership clearly met a number of the more basic tests of institutionalisation. Social pacts were repeated and extended, were agreed both in conditions of economic difficulty and economic growth, and garnered support from across the Irish party political spectrum (see Table 1).

In placing Ireland in a comparative analysis, it is worth noting that the nature and timing of economic events was somewhat unusual in Ireland. In particular, Ireland's economic crisis occurred in the late 1970s and throughout the 1980s, rather than in the 1990s. Ireland's crisis reflected a major shake out of industries created behind tariff barriers in earlier decades and was reinforced by poor management of the public finances. By contrast, the economic crisis in some other major states reflected the weakening of the post–war Fordist Golden Age, in a way that undermined the funding of relatively- generous welfare provision. The net effect is that while some continental countries can be characterised as having found themselves in a period of 'permanent austerity' by the 1990s, this cannot be said of Ireland between 1993 and 2007.

3.3. Characterising the institutionalisation of social pacts in Ireland

In characterising the institutionalization of social pacts in Ireland we identify two main trajectories. The first was the institutionalisation of a 'partnership' approach to public policy and governance in a number of policy spheres (O'Donnell et al forthcoming). This trajectory of institutionalisation contained a number of interrelated strands:

— Repetition and expansion of the policy scope of pacts;

— The emergence of institutions, processes and norms for a partnership approach to public policy in a wide range of areas;

— Widening to include the community and voluntary pillar;

— The creation of partnership institutions and processes at local level; and

— The partnership approach to the EU Structural Funds.

A second major trajectory of institutionalisation was in employment relations. This began with the achievement of an effective system of national pay determination, acquired new elements in the mid-to-late 1990s, in particular a commitment to promoting workplace partnership and, developed more strongly after 2000. Below we identify further changes after 2000 and discuss in more detail the profound change in employment relations that has occurred in Ireland during the period of social partnership, taken as a whole.

3.4. Tendencies to de-institutionalisation after 2000

Despite the relative stability and continuation of social pacts in Ireland, several of the pressures and tendencies that can lead to de-institutionalisation, noted by Natali and Pochet in this volume, were present after 2000.

First, the prolongued economic boom, the doubling of employment and falling union density prompted the emergence of a constituency which contended that Ireland had reached a self-sustaining growth trajectory that no longer needed complex institutions like social partnership. Second, the economic and demographic boom increased pressure on infrastructure of all kinds, especially housing. Third, Ireland's dramatic economic and social progress since the early 1990s increased awareness of the inadequacy of its system of social protection and social provision, particularly in key areas such as pensions, childcare and healthcare. This fuelled demands for either greater pay increases or a more adequate social wage and posed the challenge of welfare reform and extension, in a context in which the share of taxes in GDP had fallen significantly. Indeed, these pressures were related to a fourth, cross-cutting, source of pressure on Ireland's system of social partnership, the modernisation of the public sector. Although commitments to this agenda were an integral feature of social pacts, it is arguable that the Irish public sector failed to deliver the degree of change necessary. The apparent failure of public sector reform was a control cause of increased doubts about the continued value of social partnership.

Fifth, large scale immigration after EU enlargement profoundly altered labour market conditions and perceptions and prompted union concerns about both exploitation of migrant workers and an erosion of employments standards and rights. These anxieties and pressures were exacerbated by a ruling of the Irish Supreme Court in 2007 that undermined the fragile compromise on union recognition negotiated by the partners and government. When combined with key ECJ rulings (in the cases of Laval, Viking and Ruffert), and challenges by some Irish employers to the long-standing system of Joint Labour Committees in sectors such as construction and hospitality, this served to deepen anxiety among some unions that the prevailing political and legal regime might be one which, despite union involvement in high-level policy dialogue, would gradually weaken collective organization in the workplace.

These seven factors certainly seemed to weaken the degree of shared understanding among the social partners over the first decade of the new century. Yet Irish governments remained committed to the partnership approach. For this and other reasons, these increasing pressures were, until late 2008, largely contained *within* the partnership process, which suggests a significant degree of institutionalisation.

First, despite the tendencies to weaker shared understanding and de-institutionalisation, some significant new shared understandings were achieved in the years 2003 to 2007. One of these was agreement on NESC's 2005 report, *The developmental welfare state* and elements of this new perspective on Ireland's welfare system were reflected in the 'Towards 2016' partnership agreement. This, however, has not laid the foundation for sufficient policy reform or service quality enhancement capable of sustaining partnership in more difficult circumstances.

Second, the apparent weakening of shared understanding on employment relations was accompanied by considerable practical success in finding agreement on frameworks to address difficult industrial relations issues. The twenty-one year period of peak-level social partnership was a period of great change in Irish employment relations and this can be seen as a second trajectory of the institutionalization of social pacts (see O'Donnell *et al.*, forthcoming). The most visible element was the creation of a system of national wage bargaining that proved more successful than anything in place between the 1940s and 1987. Beyond pay the partners and government had created a range of procedures, institutions and norms that allowed them to address many of the complex and changing employment relations issues thrown up during the social partnership era. This included a large body or new employment legislation, premised primarily on individual employment rights, much of which was driven by EU directives. A feature of this changed landscape was greater involvement of both law and state institutions than had characterised the traditional voluntarist system. One indicator of this success was the remarkable and sustained fall in industrial conflict. In one sense, the emerging 'system' could be viewed as a weakening of the shared understanding on substantive matters, since it encompasses a range of 'models' of employment relations, and a continued decline in union density in the private sector (Roche, 1998 and 2007). In another sense, the capacity of the partners to jointly develop a sequence of practical responses is indicative of a different kind of shared understanding — procedural, strategic and interactive. This could be interpreted in the terms proposed by Pochet and Natali: less shared understanding on the way problems are perceived, but continued shared understanding of the institutional efficacy of ongoing partnership engagement. Nevertheless, we are inclined to believe that sustaining this capacity, and making it more effective at solving problems, will require the framing of a new narrative on the institutional evolution of Irish employment relations.

Third, the tendencies to de-institutionalisation were contained within partnership partly because the process created a different alignment of the three key policy areas in different periods (see Table 2). In the first period, 1987 to 1993, the focus was on fiscal stabilization, restoration of confidence and employment creation. In the second phase, 1994 to 1998, the alignment of the policies was fairly similar; but tax reform and increased social spending were then available to support competitiveness-oriented wage settlements and a strong, policy focus on employment and unemployment. Although welfare policy did not figure much in social pact negotiations, social spending and public investment increased strongly. The third phase, 1999 to 2002, involved the move to the euro. Rapid growth, rising prices and inadequate services put the wage bargaining system under pressure; pressures that were met with reduced taxation and increased spending. It was in the fourth phase, 2003 to 2008, that the gradual move to a new alignment of the three policies becomes really discernable. In particular, private sector industrial relations and labour standards issues became more important, but also more contentious. On the one side, government and employers wished to meet labour shortages through immigration. On the other hand, the unions were becoming increasingly anxious about the possibility of erosion of employment standards and bargaining rights. Pact negotiations were dominated by efforts to mediate these perspectives.

Although welfare state reform began to receive increased attention in the partnership agreements — through the adoption of some of the elements of NESC's Developmental Welfare State ideas — this was driven primarily by officials from the prime minister's office and groups in the community and voluntary pillar. The inclusion of some key aspects of the Developmental Welfare State in the 2006 ten-year framework pact was potentially of great significance. Progressing this agenda, however, was dependent on the willingness of the relevant government ministers and departments to reform the welfare system and on union interest in and support for radical improvement in the quality, responsiveness and accountability of public services (NESC, 2005a; 2005b). But increasingly the high-stakes issues in social pact negotiations became bargaining rights and employment standards. There was, therefore, evidence of some segmentation of agreements on pay, the labour market and welfare, of the kind identified by Pochet and Natali. But in the Irish case this segmentation existed *within* apparently encompassing social partnership agreements, rather than by moving from national pacts to a sequence of sectoral or issue-based agreements. This is discussed further in our concluding section.

Conclusion

At the end of Section 1 we reported several of the challenges expected to confront Irish social partnership as it moved into EMU. One was the difficulty addressing pressures created by EMU fiscal disciplines, above-eurozone inflation, price and competitiveness trends generated by the changing value of sterling against the euro, pressure for greater wage increases, and the need to improve the quality of life, public services and infrastructure. Another, related, challenge was to make greater progress in modernisation of the public sector. A third was increasing in-migration, although in 2000 this was viewed as a challenge of moving from a racially homogeneous to a more diverse society. How were these challenges addressed and how did this shape the institutionalisation and deinstitutionalisation of social pacts in Ireland?

First, it is important to identify the role of EMU. Our account would suggest that EMU was not, in and of itself, a watershed in the emergence, institutionalisation or demise of social partnership in Ireland. Nevertheless, as O'Donnell and O'Reardon said in 2002, 'the introduction of the euro, and its subsequent fall in value…created, or at least sharpened, a genuine policy dilemma in Ireland' (O'Donnell and O'Reardon, 2002: 207). The textbook view was that the expansionary effect of low euro interest rates, and a weak euro, should be balanced by counter-cyclical restrictive fiscal policy. However, an important part of the Irish social partnership model was the exchange of moderate wage increases for reduction in income tax. Was the government to renege on its tax commitments to workers in the PPF agreement (2000), to ignore the need for increased public investment and improvements in the quantity of public services (O'Donnell and O'Reardon, 2002: 207)? Overall, the dilemma was resolved by expansionary fiscal policy, tax reductions and increased spending. This seemed to work for a number of years, partly because private borrowing on the international financial markets, largely for housing, also boosted economic growth and the availability of a flow of migrants made extra growth possible.

Secondly, the challenge of immigration was not related to the *heterogeneity* of the labour market, but rather the massive *increase in supply of labour*, due to the fact that the scale of migration following EU enlargement in 2004 exceeded all expectations. Indeed, in the context described above, migration might come to be seen as a watershed in the institutionalisation, deinstitutionalisation or re-institutionalisation of Ireland's social pacts. It undoubtedly changed labour market conditions profoundly. At least in the years 2004 to 2008, it seemed to have created anxieties among unions and drove them to seek new institutional and legal foundations to underpin both their right to bargain and labour standards. Indeed, in the years 2005 to 2007 Ireland's rapid growth of GDP involved an almost equal increase in total employment, leaving little room for increased income per worker. Despite these pressures, the social partners, working with government, made real progress on the issues of labour standards and bargaining in those years. Below we argue that this element of institutionalisation may well survive a demise of the national social pacts, such as occurred in 2008-2009.

The third challenge identified in 2000 was the need to improve the quality, accountability and responsiveness of public services. While 'benchmarking' did represent a significant reform of public pay determination, organisational change has proven more patchy. The capacity of state bodies to undertake large-scale infrastructure projects was certainly enhanced and a major reorganisation of the public health system was undertaken. But it is hard to see that sufficient change in the flexibility, quality-assurance or accountability of key public services — health, education, social services and training — was achieved to maintain the legitimacy of partnership in the eyes of an electorate now paying increased taxes. The highly centralised public system meant that engagement with stakeholders continued to be conducted at a central level and involved the national officers of social partners' federations, rather than actors closer to the problems being addressed. Thus, Irish government and partnership did not, it seems, make sufficient progress in creating a governance system capable of addressing social and economic problems that are complex, varied and volatile (OECD, 2007; Government of Ireland, 2008). On most public policy issues, Irish policy and partnership did not achieve the transition from high level bargaining to multi-level problem solving discussed in NESC and other partnership bodies (NESF, 1997; NESC, 2002). This failure to deliver substantial change was, in large measure, a reflection of the degree of ambition for reform at political, policy and union level. It was also, as we discuss below, a reflection of segmentation of the kind identified by Natali and Pochet in this volume.

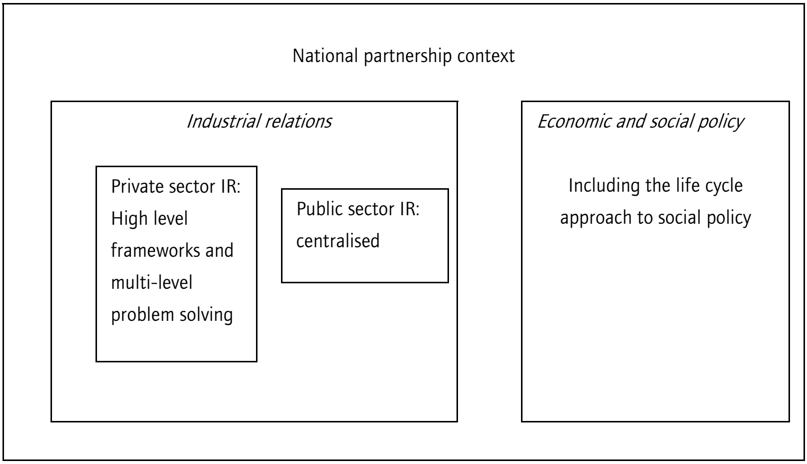
These trends in the EMU-era social pacts — resolution of pay, price, tax and services tension through fiscal stimulus and growth, the surge of immigration after EU enlargement, the increased centrality of private sector industrial relations and labour standards issues in pact negotiations, and reliance on increased spending with limited reform — certainly left Irish policy and partnership extremely vulnerable. That vulnerability was brutally exposed by the profound economic crisis of 2008-2009.

The continuation of national social pacts after the transition to EMU indicates that Ireland, at one level, did not conform to the trend in other EU member states identified by Natali and Pochet: the replacement of encompassing national pacts with sequential, sectoral and issue-specific agreements between the social partners, sometimes involving government. However, our account suggests that, below the surface of encompassing social partnership agreements, there may have been a significant degree of segmentation. It was always accepted that bargaining on wages was segmented, because some social partners (such as the community and voluntary pillar) are not wage bargainers. This seemed natural in many respects, but had an important twist that may be critical, and which is discussed below. Beyond that, the increased centrality of private sector industrial relations and labour standards issues would seem to have, gradually but significantly, yielded a segmentation of the kind identified by Natali and Pochet. For a start, the centrality of these issues in the unions' strategic approach led, on some occasions, to separate negotiations *before* the opening of general partnership talks and, very definitely, to extremely protracted partnership negotiations. These trends somewhat segmented these issues from the wider social and economic issues addressed in the talks and the final texts. Aspects of NESC's Developmental Welfare State did, of course, figure in the 2006 and 2008 pacts, and increasingly in wider partnership and policy discourse. But, ironically, this did little to overcome segmentation, and may actually have deepened it.

The key to seeing this is to recognise the segmentation *within* the wage bargaining/industrial relations strand of Irish partnership: between private sector and public sector negotiations. As noted above, Irish employers, unions and government have created, responded to and overseen a profound evolution of private sector employment relations. Indeed, this is one area where Irish partnership has, to a significant degree, combined high-level negotiation with multi-level problem solving. National partnership negotiations created frameworks, including laws transposing EU directives, within which actors at other levels — firms, sectors, public bodies etc — worked to solve local problems. The contrast with public sector industrial relations could not be greater. Not only were public sector wage increases negotiated in three-yearly national partnership talks, but a wide range of other industrial relations matters, including work practices, were also determined in relations between public sector unions head offices and key government departments (especially the Department of the Finance) and/or national public employers bodies.

This double segmentation, illustrated in Figure1, had the effect of creating a gulf between two parts of an ostensibly integrated national partnership process: the developmental welfare state agenda of enhancing and tailoring a wide range of public services and 'modernisation' of the public service. The first segmentation significantly insulated the overall industrial relations component (private and public) from the economic and social policy element of the agreements[5].

Figure 1 **Segmentation in Ireland's social pacts**



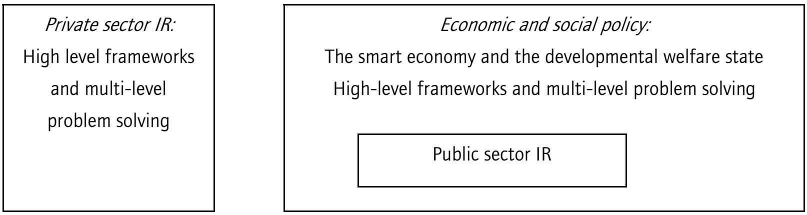
The second segmentation, between private sector and public sector industrial relations, arises from radically different approaches to each: in the private sector, national-level flexible framework creation, local problem solving and on-going revision; in public sector, highly-centralised negotiation of salaries and work practices. The result was that the ambitious policy and service goals of the developmental welfare

5. This is evident in the ten-year framework agreement, 'Towards 2016'. Part One dealt with the macroeconomy, infrastructure, the environment and social policy, sketching the ambition to reinvent and reposition Ireland's social policy', adoting the 'perspective of the person as the centerpiece of social policy development' (p. 40). Part Two contains the outcome of negotiations on pay and the workplace, employment rights and compliance and public service modernisation.

state — which require local-level problem solving, tailoring and performance monitoring (NESC, 2005a) — were not strongly connected to a process capable of making the necessary organisational and work-related changes in the public sector.

We close with two speculations on what might follow the move away encompassing social pacts of the kind Ireland experienced in the twenty one years 1987 to 2008. In the private sector, it seems possible that the employers and unions will continue to do business at national level, but separate from a pact on wider economic and social policy. This could be read as either de-institutionalisation or re-institutionalisation. There is some reason to believe that significant actors on both sides value what has been created in recent decades and certainly prefer it to type of relations they had before the partnership era. Of course, an important part of the evolving 'system' has been government action — legislative, institutional and mediational. An issue-by-issue approach by the employers and unions could be fragile, if the issue in question requires government action for its resolution; and, in the modern economy, especially in a crisis, many issues do. Indeed, the crisis context undoubtedly creates some conflict of interest between employers and employees at firm level, and these might be dealt with in ways that make on-going engagement at national level difficult in the coming years.

Figure 2 **Government and unions may make substantive policy goals the guide to public sector organisation**



As regards the public sector, the crisis has brought the government and unions to an unprecedented pass. On the one hand, the unions seek to reverse the pay cuts imposed by government using traditional forms of industrial action. On the other hand, Ireland's continuing major fiscal imbalance dictates further adjustment and places public sector transformation centre stage. This combination may herald a long period of political and industrial dispute; equally government and unions may see medium-term reasons to seek an ambitious agreement. Government faces multi-annual fiscal consolidation including major service adjustments. Unions may confront the necessity to strengthen Ireland's public services which are under both budgetary and political pressure, by delivering quality services with fewer resources. Such a re-casting of the elements is illustrated in Figure 2.

If that were to happen, both parties would face the need to move beyond earlier partnership approaches by making substantive policy agendas — in economic and social spheres — the guide to organisational and workplace issues. In the year before the crisis, this is precisely what was recommended by the OECD report on the Irish public service and the government's response Transforming Public Services: Citizen Centred – Performance Focused (*Government of Ireland, 2008*).

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Finland – four decades of incomes policy agreements coming to an end?

Aleksi Kuusisto

Introduction

Social pacts have been an integral part of the Finnish industrial relations system since the late 1960s. The majority of bargaining rounds since then have involved the signing of encompassing and comprehensive incomes policy agreements that have effectively framed the economy from top to bottom. New social policy and labour market policy initiatives have also largely been introduced as part of these deals and when this has not been the case, the introduction of important regulation has usually been done through ad hoc social pacts.

While there has thus been a remarkable amount of continuity in Finnish tripartite relations in the last four decades, some important changes have taken place too, particularly in the period since the early 1990s. As in the corporatist countries of Western Europe in general, traditional corporatism has undergone changes towards considerably leaner arrangements. All five aspects of this general trend, as identified by Traxler in this volume, can be recognised in the Finnish context. First, supply side policies have largely replaced the traditional demand side policies. In particular, social pacts have since the early 1990s been an important instrument in moderating pay increases and in increasing productivity, with the stated aim of maintaining international competitiveness. The maintenance of export sector competitiveness has, in fact, been embedded in the structure of Finnish corporatism, in that the pay element of social pacts has awarded relatively modest pay increases in high productivity export sectors. Particularly in the period since the 1990s, union consent to pay moderation has also been secured by government promises of income tax cuts in return for wage restraint. Second, tripartite relations have been affected by the weakening of the unions' negotiating position. Unlike in many other countries with corporatist traditions, union density rates have remained at very high levels in Finland, although a modest decline has taken place. The negotiating position of unions has been greatly weakened, however, by a major increase in international competition. This has had an effect on union power via several mechanisms. For instance, international competition in Finnish export markets is more prominent than before. Moreover, international competition over jobs has also increased markedly within Finnish enterprises. In both the main export industries, paper and metal (including the electrical industry), Finnish firms' employment abroad has risen to above 50% of their total employment, making Finland-based workers increasingly compete for jobs internationally within those companies. Third, the composition of the government appears to have less effect on corporatism now than before. The current right-wing government has advocated tripartite co-operation and the signing of a social pact on income policy in ways reminiscent of, if not on a par with, those of its predecessors which included the social democrats. By contrast, a full-scale attack on trade unions was launched by the previous right-wing government that was in power in the early 1990s. Fourth, the employers have pushed through a major decentralisation of bargaining. In Finland the changes, which have affected both pay and working time determination, among other issues, have been introduced into collective agreements both in bargaining rounds based on social pacts and, particularly, in those rounds in which there has been no centralised deal to guide sectoral negotiations (see next paragraph). Fifth, the scope of policy fields available for concertation has narrowed. In this respect the changes have not been as great as in some other countries belonging to the EMU. The narrowing of policy fields in the Finnish case is closely related to the Europeanisation of policy formulation, such as the externalisation of monetary policy. Meanwhile, within the policy fields that have remained under national competence, tripartite decision making continued to be extensive until recently.

A major break in the Finnish tradition of corporatism took place in spring 2008, when the employers' central organisation, EK, announced, against the will of unions and government, that it would no longer sign any social pacts on income policy, thus effectively switching the locus of bargaining to the sectoral level. While this decision is of crucial importance as an event that ended the era of peak-level wage deals in Finland, the decision must be understood as part of the process of 'leaning' the industrial relations institutions of traditional corporatism.

It appears that this process could not be taken as far as the employers wanted within the traditional bargaining structure. Flexibility had been increased markedly in the determining of pay and other terms of employment since the early 1990s, but the union side, particularly the blue-collar confederation SAK, always insisted at the peak-level negotiations that an important share of pay increases needed to be given across-the-board to all sectors. Meanwhile, the employer side insisted that the general increase should be considerably lower in order to let larger differences in pay levels develop between sectors. This they now hope to achieve in industry-specific bargaining rounds. Behind the employers' decision is also the fact that the process of leaning corporatist institutions, so important for the employer side, had taken some of its greatest strides in those exceptional rounds of talks at which no peak-level deal had been reached and negotiations were held directly at sectoral level. The sectoral agreements for 1994-1995 and 2008-2009 were particularly important in this respect as they considerably increased bargaining decentralisation and other forms of flexibility in collective agreements. Sector-specific bargaining rounds have, nonetheless, tended to be more costly for employers than social pacts. It appears that EK believes a practice of pattern bargaining can be instilled into the Finnish context to control for this. The leading position is thought most likely to be played by an export sector: the metal industry. With the Metalworkers' Union, the relevant sectoral social partner, the employers have thus far agreed not only on internationally competitive wage increases but also on a degree of bargaining decentralisation not found in any other industry. The metal sector setting the pace and perhaps even the wider bargaining agenda would thus be ideal from the point of view of continuing the process of leaning the industrial relations institutions, a process apparently held back by traditions of corporatism that the union leaders are unwilling to reform. By switching the main locus of bargaining from the central to the sectoral level, EK may also achieve its objective of 'decoupling' wage setting from welfare and labour market policy formulation, which has already largely taken place in many other European countries with multi-employer bargaining (Natali and Pochet, this volume). While EK wants income policy to be formulated separately at sectoral level, it does appear prepared to continue making social pacts on welfare and labour market policy.

1. The Finnish tradition of social pacts

The development of Finnish industrial relations from the late 1960s until the 1980s was characterised by its approximation to the Scandinavian model, which was largely achieved by the end of this period (Crouch, 1992). This approximation largely took place via the instrument of incomes policy agreements, the first of which was signed in 1968. The structure of collective bargaining has been rather uniform ever since, with the exception of eight years in which no peak-level deal has been reached and negotiations have been conducted directly at the sectoral level.

Normally, minimum wage increases and qualitative changes, to be applied to all wage earners in all sectors, are first agreed in peak-level negotiations. This agreement is supplemented by the government's 'social packages', including economic, social or labour market policy measures. Up until the late 1980s, the latter measures mainly took the form of improving workers' rights and building the welfare state. Thereafter, the social packages have been much more hollow in this respect; the emphasis has been on increasing the flexibility of the terms and conditions of employment and on decreasing taxes in return for a centralised wage agreement (Kauppinen, 2005: 141-166).

Following the conclusion of peak-level tripartite negotiations, the trade unions and employers' organisations decide whether or not to accept the agreed framework agreement. If the vast majority of the sectoral level social partners decide to do so, the incomes policy agreement is signed by the peak-level organisations. Then, new agreements that are in line with the framework are negotiated at sectoral level, and finally the agreements thus reached are applied at workplace level after local union representatives have negotiated with employers on how specifically to apply them.

Legislation in Finland forbids all industrial action by the signatory parties of collective agreements directed against these agreements during their applicability period. This creates important incentives for employers to take part in multi-employer bargaining (Lilja, 1998: 179). The signing of encompassing agreements, such as incomes policy agreements, maximises these benefits to employers as they can bind unions into peaceful relations for several years in the majority of sectors, by signing one agreement.

Despite the practice of incomes policy setting and the existence of such legislation, the propensity to strike was very high in Finland in the 1970s and 1980s, in contrast to the other Nordic states. In fact Finland is a good illustration that a strongly centralised bargaining system is not necessarily accompanied by labour peace (Therborn, 1992). The strikes were for the most part localised disputes concerning the application of the collective agreement. Since the 1980s there have been far fewer industrial disputes: these have tended to relate to unions deciding not to take part in the centralised deals and instead attempting to reach a better outcome on their own in sectoral negotiations. In economic terms this practice is understandable considering that such 'breakaway' unions have on average accomplished a level of agreed wage increases that is almost one percent higher than those not taking part in the centralised agreements, according to an analysis of the years 1969-2000. A large part of the gain from the higher wage increases appears to have been eroded by lower than average wage drift, however (Snellman, 2005). It is also notable that wage increases, even including wage drift, have tended to be higher in the sectoral bargaining rounds, i.e. when no peak-level deal has been reached (Uusitalo, 2005). Due to these economic incentives for unions not to opt for peak-level deals, the government's social packages have been important in persuading unions to sign centralised agreements.

The government involves the social partners not only in the incomes policy agreements but also in ad hoc social pacts, particularly as regards new labour or social legislation, which is all normally drafted in tripartite committees. Many new legislative projects have, however, originated in an agreement of principle made as part of an incomes policy agreement. In the 1970s and 1980s the social partners could normally, in practice, decide together the exact form of new legislation, the government having had the role of mediator. Since then, the role of both government and the Parliament has strengthened, although social partner agreements continue to be of primary importance in labour market legislation in particular (Kauppinen, 2005: 153).

2. The 1999 bargaining round

In the late 1990s, the social partners and the social democrat-led coalition government had concluded two incomes policy agreements that covered the four years up until January 2000. In these deals the union side had agreed, in line with government objectives, to very modest wage increases. A low level of wage increases was the objective of the government, firstly, because these were to help meet the EMU conditions of low inflation. The unions had been persuaded to back Finland's entry into the monetary union by the employers and the government agreeing to their demand on 'EMU buffer funds', which were designed to ease the effects of business cycles on employees[1] (Kauppinen, 2000: 168-171; Pochet, 2000). Secondly, wage moderation had been important for the government's plan to boost employment. Unemployment had reached record levels following the recession of the early 1990s, which was deeper than any other OECD country had experienced in the post-war period, peaking at 17% in 1994, and the unions accepted the argument of employers and government that to increase employment, Finnish firms' price competitiveness had to be increased by means of wage restraint, despite the fact that a rapid increase in productivity was taking place. Within the government's economic policy, wage restraint was complemented by severe cuts in state spending, and major tax cuts. The end result was very strong economic growth and entry into EMU (Kauppinen, 2000: 168-171).

The late 1990s economic boom took place in the context of structural change in the manufacturing sector. Up until the early 1990s Finnish export sector price competitiveness was habitually strengthened by devaluing the national currency, markka. Bank of Finland officials, among others, argued that this had blocked much needed structural change in the economy and that entry into EMU could force uncompetitive parts of industry to be replaced by more competitive production activities. In the late 1990s, following the entry into EMU,

1. Several billion Euros were eventually deposited in these funds, which were financed by raising employers' unemployment insurance contributions during economic upturns. The accumulated funds were ultimately of great help in the downturn that began in 2008, and worked in accordance with their stated aim as they lessened the pressure to raise workers' unemployment insurance contributions. Some allegations of misuse of funds by pension institutions surfaced in 2009, however.

the traditionally important paper and wood sectors and mechanical engineering industry did indeed give way in relative terms to the electronics sector, and the manufacturing sector overall diversified greatly. The increasing heterogeneity in the industrial structure was partly responsible for the employer demands for greater decentralisation of bargaining to the company level (Pochet, 2000).

The economic policy of the social democrat-led governments of Lipponen in the late 1990s was adapted to the EMU conditions and also greatly advanced the related process of change from Keynesianism to 'orthodox economics' in Finland (Traxler, this volume). The latter process, which was a general phenomenon in Europe at the time, can be argued to have lessened trade union power because in conditions of strong market discipline, the ideal state of affairs in orthodox economics, the unions' ability to cause negative externalities on governments and employers is typically undermined. Thus the change in the economic policy regime also made the latter less reliant on getting unions to sign social pacts (ibid.).

Later research has concluded that the traditional link between productivity growth and real wage growth had been broken in 1993 and the share of value added taken by labour costs continued to decline during the applicability period of the social pacts of the late 1990s, leading to major increases in profitability levels (Lilja *et al.*, 2002). Thus the social pacts on incomes policy were transformed in the course of the 1990s from agreements over income distribution into agreements to strengthen company competitiveness (Kauppinen, 2000: 183) and traditional Finnish corporatism moved into the direction of 'lean' corporatism (Traxler, this volume). The change towards lean corporatism had also, since the early 1990s, entailed major increases in bargaining decentralisation and other ways to increase flexibility (Kauppinen, 2000). The decentralisation took the form of 'centrally co-ordinated decentralisation', or 'organised decentralisation' which was a general process in the 1990s amongst European industrial relations systems based on multi-employer bargaining (Ferner and Hyman, 1998; Traxler, this volume).

The continuation of incomes policy in the late 1990s was thus partly caused by unions agreeing to meet the demands of employers on bargaining decentralisation and other forms of flexibility. It is, nevertheless, also noteworthy that the continuation of centralised incomes policy brought great financial incentives for employers, especially for those in manufacturing industries, represented at the peak level by the Confederation of Finnish Industry and Employers (TT). The pay norm of Finnish incomes policy agreements was, and continues to be, such that the general wage increases, given for all sectors, were determined by the average level of productivity growth in the economy. This strongly favoured sectors with higher than average productivity growth at the expense of those where growth is slower. In the late 1990s productivity growth was exceptionally high in manufacturing, making peak-level deals very attractive for TT's affiliates and their member companies.

As the pact for the years 1998-1999 was nearing its end, TT signalled that it was ready for another incomes policy agreement as long as strong wage restraint continued and as long as union demands for increased purchasing power were addressed by cutting income taxes rather than substantially increasing wages. The coalition government headed by Paavo Lipponen of SDP, the composition of which had been only slightly changed following the parliamentary elections of March 1999, was prepared to continue the policy of tax cuts in return for moderate wage increases and strongly supported the idea of another social pact. The two confederations of salaried employees' trade unions, the Finnish Confederation of Salaried Employees (STTK) and the Confederation of Unions for Professional and Managerial Staff in Finland (Akava) were also ready to negotiate another peak-level agreement. Within the mainly blue-collar SAK, however, a group of ten trade unions announced in the autumn of 1999 that they opposed the concluding of a new deal. Their decision had the consequence that no peak-level negotiations were even started.

One of the main reasons behind the decision of the SAK-affiliated unions not to negotiate another centralised deal was that there was now less preparedness than in previous bargaining rounds for the level of wage restraint that a peak-level agreement would have entailed. The late 1990s had been a period of rapid growth in many industries and companies, Nokia in particular, had grown tremendously into by far the largest company in Finland, thus making the electrical sector one of the most important export sectors alongside the main traditional export earners: paper and the engineering industry. Unions such as the

Finnish Paper Workers' Union (Paperiliitto) felt that it was time for their membership to be compensated for this development, both in financial terms and by addressing their sector-specific demands on issues such as the restricting of outsourcing. Two other factors were important in the union block's decision to opt for sector-specific negotiations instead of an incomes policy agreement. First, unemployment was already down to 10% by 1999, which improved the negotiating position of workers who had taken a hit in the recession of the early 1990s (Statistics Finland, 2008)[2]. This decreased their willingness for wage restraint as a way to increase employment. Second, the EMU convergence criteria had been met and Finland had established the euro-area along with 10 other EU Member States, which meant somewhat greater leeway for wage negotiators compared with the previous years.

While a social pact in the form of an incomes policy agreement was thus not concluded in this bargaining round, the government did affect wage negotiations by announcing tax cuts prior to the concluding of agreements. This had the effect of decreasing union demands for wage increases from over four percentage points down by about one percentage point (Kauppinen, 2005: 62). Due to the clear connection between the government's promise of tax cuts on the one hand, and the lowering of union wage demands on the other, one could describe the agreements concluded as de facto social pacts between the sector-level social partners and the government.

Sectoral negotiations were first concluded, in early 2000, in the metal sector. The social partners agreed to a one year collective agreement in which wages would rise by 3.1 percentage points, the rate of average productivity rises in the national economy. This deal was to act as a model for almost all the other sectors. Only the unions in the paper, chemicals and transport sectors could negotiate slightly more advantageous deals, following strikes or strike threats.

2. Persistently high unemployment rates still existed in some regions in 1999, however. In the northern region of Lappland the rate was the highest at 16% (one year earlier at 20%), followed by the Oulu region and Eastern Finland, both at 14%.

3. A return to incomes policy

Relations between the unions and the coalition government were tested in the course of 2000. SAK in particular opposed several initiatives planned by the government, which continued in the policy path towards 'orthodox economics': the privatisation of state owned enterprises in the manufacturing sector, the extension of Sunday grocery shop opening hours, cuts in the level of unemployment benefits, and reductions in the pension entitlements of those on part-time pensions. Moreover, a key dispute concerned the reform of the rules on extension procedures, i.e. the extension of collective agreements to cover non-signatory parties. This was being introduced as part of the tripartite reform of the Employment Contracts Act, one of the main objectives of which was to increase flexibility in the employment of labour and thus meet the demands that employers had been vocal about since the early 1990s. The employers and the right-wing parties in government argued for new rules that would have jeopardised the extension of several agreements, while the unions and left-wing government parties opposed the measures. Finally a compromise was reached. This included the establishment of a new Board for Confirmation of Erga Omnes Applicability that would decide which agreements were to be made generally applicable.

Once relations between the unions and the government had improved with the agreement on the extension procedures, a new incomes policy agreement started looking more likely. Also conducive to this was the fact that the government had withdrawn its aforementioned initiatives on cutting unemployment benefits and pensions that had caused friction between the two sides. The social democrat-led government was eager to achieve the macroeconomic stability associated with comprehensive and encompassing incomes policy agreements. TT, representing the manufacturing employers, was likewise very willing to negotiate a centralised deal. The Finnish export sector had continued to grow exceptionally strongly. The electrical industry was leading this development and the paper industry too was performing very well. A sectoral bargaining round could have proved very costly for the member organisations of TT in these circumstances. Understandably, the service sector employers' organisation PT was less eager about a peak-level deal, as productivity growth in the service sector lagged far behind that of manufacturing and a centralised deal based on the average level of productivity could be very costly for some of its member companies. Thus PT argued that the pay norm of incomes policy agreements should be changed to take sectoral differences in productivity growth more fully into account. This friction between the open and the closed sectors was exacerbated by the corporatist rules on bargaining, in particular the pay norm favouring sectors with high productivity growth, because these were much more favourable for the open sector. In the past the low productivity service sector could respond to hikes in labour costs by raising the prices paid by Finnish consumers but as the Finnish internal market had become increasingly competitive, this was no longer possible. Therefore the ability to control the increase in labour costs became ever more important.

Following strong growth over many years, the unions felt they would need to be compensated well if a new peak-level deal was to be signed. Higher than expected inflation had also eroded the wage rises of the previous round. A common goal of all three union confederations was to achieve an indexation clause which would compensate workers if this were to happen during the applicability period of the next agreements. This was strongly opposed by the employers. There was also general agreement among the unions that something needed to be done about the fact that income inequality had substantially widened in Finland in the late 1990s. The main reason for this widening had been the surge in capital incomes, whose taxation had been eased, but wage restraint and government cuts in social security benefits had also played their part (Suonniemi, 2002). For one thing, there were demands for an end to the state expenditure cuts that had eroded social security benefits. Moreover, SAK in particular demanded substantial compression of the wages of high and low earners, while Akava demanded that the low earners within the ranks of the highly educated, including librarians, kindergarten teachers etc., should receive higher than average rises. All three confederations had long lists of qualitative issues that they felt should be furthered in the agreement.

In November 2000 the negotiations for a new incomes policy agreement were successfully concluded. The social pact was to cover the two years 2001 and 2002 and would raise labour costs by 3.1% in the first year and 2.3% in the second year. The pay norm was not reformed as had been hoped by PT. For SAK in particular, the pay norm based on general wage increases covering all sectors, which it believes is the basis of a ‘solidaristic pay policy’, was and continues to be an integral part of any incomes policy agreement. To increase flexibility within sectors, however, it was agreed that 0.5% of the 2001 increase and 0.3% of the 2002 increases could be distributed by the sector level social partners as they saw necessary, including the possibility that they would defer such decisions to workplace level negotiations. Both the indexation clause and a pay increment earmarked for female dominated low-pay sectors (0.2% of the 2001 pay increases) were achieved by the unions, although in the latter no special treatment was given to low earning professionals, as had been hoped by Akava. Several qualitative measures were included in the deal as had been demanded by unions. For example, possibilities for training were improved, measures to tackle stress were introduced and the level of compensation for shop stewards was raised.

Contrary to the earlier government proposals, the level of earnings-related unemployment benefits was raised as part of the pact. The government also agreed to major tax cuts aimed at low and middle income earners. Furthermore, a provisional sabbatical leave system partly funded by the state was extended for another two years. All in all, both the employers and the state agreed to make major concessions to the unions in return for the unions committing themselves a two-year industrial peace and to a level of pay rises that was quite modest given the economic circumstances and the unions’ improved bargaining position, but higher than in any of the incomes policy agreements of the 1990s.

While all the other confederations on both sides signed up to the deal, the failure of Akava to achieve higher than average rises for its low income earners in the public sector led it, exceptionally, to remain outside of the agreement. Nonetheless, so many unions and employers’ organisations concluded agreements based on the peak-level deal that its coverage eventually reached 90%. Later on, most Akava affiliated unions ended up signing deals that gave their members about the same level of pay increases as the peak-level agreement. This pattern was broken by the doctors, however. After a 20 week strike in the spring of 2001, the longest in Finnish history, their union concluded a deal that included a 10.5% increase in salaries over the two year validity period, equal to roughly twice the level agreed as part of the social pact.

While the social pact was on the whole was seen to be a success on both sides, the bargaining round demonstrated how increasingly difficult it was for common positions to be reached between the Akava-affiliated unions – representing professional and managerial employees – and the rest of the union movement. An important reason for this unease was economic: the pay norm associated with incomes policy agreements, as discussed above, had had the effect of compressing the wages of the highly educated and the rest of the workforce. This, together with the progressive tax system, had contributed to the net salaries of the highly educated, corrected for purchasing power, remaining at a lower level in Finland in 2000 than in any of the other 12 EU-15 countries included in a study based on the European Community Household Panel (ECHP) (Moisala and Uusitalo, 2004). In conditions of increased economic liberalism, the members of Akava had begun to question why they were not getting their worth in the market, especially since international labour markets in the developed world were attaching more and more value to highly educated labour compared with labour with a basic education.

4. The legislative reforms of 2001-2002

The early years of the new decade saw the social partners agreeing with government on several pieces of new legislation, many of whose reforms derived from the employers' calls for increasing flexibility. The new Employment Contracts Act came into force in June 2001, following the aforementioned dispute over extension procedures and the eventual agreement of all three sides. In addition to changing the rules on extension procedures, the new Act, among other things, brought improvements to the position of atypical workers, whose numbers had soared in the course of the 1990s. For instance, the Act stipulated that the collective agreement applied at a given workplace also covers temporary agency workers working on the premises unless their employer has signed some other collective agreement. While changes such as this one were in many ways advantageous to atypical workers of different types, the new rules can also be seen to have institutionalised the existence of such workers by legitimising the use of temporary agency workers and fixed-term and part-time contracts. Similarly, flexibility of terms and conditions of employment in general was increased in the Act by stating in it clearly which of the Act's provisions are binding and which of them can be decided differently, even to the detriment of employees, by the sector level social partners in their collective agreements. The latter could, in turn, include opening clauses in their collective agreements permitting these issues to be decided at the workplace level. Before the new Act came into force, downward flexibility could already be exerted on employment contracts in relation to labour legislation but it was unclear to what extent this was possible.

In December 2001, a tripartite committee issued its unanimous proposals for a new Occupational Safety and Health Act. The Act brought Finnish legislation into line with EU regulations and also addressed some national issues such as increased violence at workplaces. The following month the new Occupational Healthcare Act came into force, the content of which had earlier been decided upon in tripartite negotiations.

During the years 2001 and 2002, the social partners also negotiated with the government on a major social pact concerning a reform of the earnings-related private sector pension system. The first reform proposals were issued by the relevant tripartite committee in April 2001, although the salaried employees' union confederations Akava and STTK did not back these recommendations. All the parties agreed on the need to offer increased incentives for workers to remain in employment longer, even by decreasing the level of pensions for those who choose not to do so. The disagreement related to the way pensions would accrue. Under the rules of the day, pensions were counted based only on the last 10 years of employment, which favored those salaried workers whose incomes increased substantially towards the end of their career. The committee proposal was, however, for pensions to accrue during a person's entire career. Following as much as one and a half years of further negotiations, that solution was finally reached in September 2002: it was backed by STTK but Akava still did not offer its backing to the deal. Despite Akava's opposition, the government drafted legislation that was in line with the agreement. The new legislation on earnings-related pensions in the private sector, which was closely followed by a subsequent reform of public sector pensions, came into force in January 2005. It is based on the pension accrual taking place over a person's whole career, a flexible retirement age, higher rates of accrual for older workers and the cutting of pensions from 2010 onwards.

Despite Akava's unwillingness to sign the deal, and despite the long and difficult negotiation process involved, the pension reform was a major show of strength of the Finnish corporatist system. It demonstrated that even in its new leaner form, the corporatist system could arrive at a consensus on a very difficult issue. In this instance it can be argued that concertation was most of all important in *producing* consensus. Governments in many other western European countries were struggling around the same time to enact similar changes to their pension systems as in Finland, but in many cases popular opposition or the inability of political parties to arrive at a compromise made this impossible. In the Finnish case even the cutting of future pensions created little opposition amongst the public as there was a strong consensus amongst the main civil society actors – the social partners – that the pension system was too costly given the ageing of the population. Thus the case of the pension reform demonstrates in the Finnish case how concertation has the ability to make social peace and find compromise (Traxler, this volume). On the other hand the reform demonstrates how in a corporatist setting, public debate on a major institutional reform that weakens workers' and other citizens' acquired rights can be very limited if it enjoys the backing of the main social partner organisations.

5. The incomes policy agreement of 2003-2004

The previous social pact on incomes policy for the years 2001 and 2002 was widely heralded as a success. Real wage development had been favourable, while firms' profitability levels had remained high. Moreover, the unions were satisfied with the qualitative improvements to working life that had been agreed upon. As the validity period of the deal was nearing its end it was thus no surprise that both the unions' and the employers' central organisations signalled their readiness for a new incomes policy agreement. The economic downturn that was taking place increased the perceived need on both sides for such an agreement, as a way to cope with the economic challenges. Moreover, the social democratic led government of Paavo Lipponen shared the social partners' enthusiasm for a new agreement and made public its willingness, again, to support an agreement with moderate cuts in income tax and reductions in employers' and workers' unemployment insurance contributions.

One of the main challengers to a new incomes policy agreement was the Bank of Finland, whose representatives argued that such agreements, based on the 'solidaristic' pay norm, represent a major barrier to job creation in sectors with low levels of productivity, and that such deals have been an important cause of the persistently high levels of long-term unemployment amongst the low-skilled. As such, the bank was siding with the Employers' Confederation of Service Sector Industries (PT), which had already been voicing similar concerns for many years, particularly in the previous bargaining round (see above), and continued to do so this time around. The manufacturing employers' organisation TT, along with the union confederations and the government, all agreed, however, that an incomes policy was the best way forward and that there was no need to discuss the issue any further (Kauppinen, 2005: 64-5).

The incomes policy agreement for the years 2003 and 2004 was concluded in November 2002. Wage increases of 2.9% were agreed for the first year, including 0.3% earmarked for low-income female sectors, and 0.8% earmarked for sectoral distribution (to be distributed by the sector level social partners or, should the latter so decide, by workplace negotiators) and increases of 2.2% for the second year, including 0.5% for sectoral distribution. The indexation clause was, again, included in the deal as requested by the unions. Despite the employers' opposition, the unions achieved a substantial package of qualitative measures. There was agreement on a generally applied minimum daily working time of four hours, and shop stewards and workers' safety representatives achieved improved financial and other benefits. Moreover, several measures were agreed upon that required government intervention: foreign labour would be monitored more effectively by establishing a special unit at the Ministry of the Interior, the coverage of 'partial care leave' was extended to the parents of children up to the age of eight or so, possibilities for lifelong learning were increased and the financial benefits for participants were increased. Moreover, 'employment programmes' would be devised for redundant workers in cooperation between public authorities, employers and the workers in question so as to enable them to find new work quickly. One of the unions' main aims, increased redundancy compensation, was not achieved, however. The government also fulfilled its promises of tax cuts and reductions in unemployment insurance contributions, and thus acted once again to limit the amount of state expenditure in line with its neoliberal objectives, although it did also simultaneously agree to a small stimulus package to increase its spending in some labour intensive activities.

In the subsequent sectoral negotiations, the framework agreement was applied to the collective agreements of over 90% of the Finnish labour force. Some strategic sectors such as road transportation and seafaring remained outside the deal, however. Following difficult negotiations and some instances of industrial action, agreements were reached in these sectors too by March 2003. Pay increases were generally in line with the centralised deal. The employers' organisations were strongly of the opinion that the increases contained in the centralised deal were too high as they were, and firmly refused to raise wages any more in the sectoral negotiations that took place outside of the agreement.

One of the most significant aspects of the 2003-2004 deal was the further increases made in the level of the pay increment earmarked for sectoral distribution. Thus the process of decentralising negotiations, that had began in the early 1990s, took another step forward. The sectoral level social partners could thereafter direct a relatively high share of the increases for distribution by workplace level negotiators, with the use of opening clauses to this end in their collective agreements. In this way the flexibility of pay determination, within sectors, could be further increased, as had been demanded by Akava and PT in particular. The flexibility of pay determination between sectors, demanded by the employers' side since the early 1990s, was not affected by this measure, however. To increase the latter, the level of centrally agreed general increases would need to have been lowered, which SAK in particular was not prepared to do.

6. The incomes policy agreement of 2005-2007

The validity period of the centralised deal for 2003-4 was particularly difficult for social partner relations. Industrial employment fell in Finland throughout this period but at the same time Finnish firms' employment abroad was increasing rapidly. Finnish companies in the paper industry were leading this trend with roughly the same number of workers employed abroad as in Finland by the end of this period[3]. This internationalisation brought major rewards for company executives and owners while at the same time collective redundancies continued at home, even at profitable production sites. There was a strong sentiment among many SAK affiliated unions that the employers had broken the terms of their common ‘national project’, following years in which the unions had supported that project by agreeing to wage restraint and other concessions to the employers. The employers responded by asserting that they had no choice but to raise profitability to the international levels that their shareholders expected, even if this meant difficulties for their workforces. The lessening of dependence on Finnish labour greatly improved the employers’ negotiating position and lessened the ‘negative externalities’ that the trade unions could impose on both the employers and the state, an important aspect of the new leaner forms of corporatism (Traxler, this volume).

In 2004, the employers took an increasingly assertive stance in their opposition to the Finnish tradition of collective bargaining, based on centralised incomes policy agreements. The employers argued that the uneven exposure to increasingly heterogeneous international markets, and the uneven development of productivity between and within sectors, had made it unviable to continue with incomes policy agreements in which across-the-board wage increases covering all sectors were agreed. The new tougher approach was adopted as the two employers’ central organisations, TT and PT, were in the process of merging into a single organisation, EK. The process was only finalised at the beginning of 2005, but EK was already operational in the autumn of 2004 as the social partners began to announce their objectives for the next bargaining round. While the dominant TT had always above all looked after the interests of the export sector, the now dominant EK had to reformulate its policies to suit the needs of both the export sector and the private services sector thus far represented by PT. As the corporatist system based on the ‘solidaristic’ pay norm had always been geared towards the interests of high productivity manufacturing industries in the open sector, and had been detrimental to the low

3. A few years later the same level was reached by the metal sector, the other of the two major exporting sectors, and the increase in the share of foreign employment continued in both sectors thereafter.

productivity service sector, it now made sense for EK to support a system of bargaining in which sectoral differences could be accounted for in a much more balanced way. The employers' willingness to conclude a new centralised agreement was also lessened by numerous strikes throughout 2004 in the paper and pulp industries. In these disputes the workers were protesting against lay-offs and redundancies.

The centre-left government, headed by Matti Vanhanen of the Centre Party, which had been in power since March 2003, was as eager as its predecessor to bring the two sides to the bargaining table. In September 2004 it announced that it would introduce further major cuts in income tax if a new incomes policy agreement with very moderate wage increases was concluded. As such the government was continuing on the economic policy path of its predecessors. All three union confederations agreed that a new social pact on incomes policy was the best way forward, but SAK in particular was opposed to incomes being raised mainly through tax cuts. It argued that this would put the financing of the welfare state at risk, and the public sector unions had for many years already seen that their wage increases were at risk owing to the continuing policy of tax cuts[4]. All three union confederations called for increases in redundancy protection, whose low level was seen by them as one factor contributing to jobs being cut in Finland rather than at sites of multinational companies in countries where redundancy protection was more effective. SAK and STTK, which presented a common set of objectives for the negotiating round, also wanted improvements in the position of shop stewards, and to make purchasers of subcontracting services accountable for their service providers' compliance with collective agreements and legislation.

EK seemed unwilling to discuss any issues put forward by the union confederations and it appeared that it would not start negotiations on a new social pact. It was widely thought that with the advent of EK, the era of centralised incomes policy agreements was over. Finally, to the surprise of many, EK changed its stance in November 2004 as it announced that a new centralised deal could reached, as long as wage determination was further decentralised as part of the deal. EK called

4. Similar calls for less tax cuts have been voiced by SAK and its affiliates thereafter from time to time, but the opposition has not been particularly strong nor systematic.

for the general pay rises to be very small, and for the pay increments earmarked for sectoral distribution to be relatively high. Moreover, it demanded that part of the centrally agreed wage increases would be directly earmarked for workplace level distribution, something that had never been agreed upon before. EK also called for strike legislation to be made more stringent. It was widely speculated that to bring the employers to the negotiating table, the government had promised EK that it would abolish wealth and inheritance taxes in return for concluding a deal. This offer was not part of the official negotiations, however. The financial benefits of this measure were to be substantial for the owners of Finnish companies and their families.

A new centralised incomes policy agreement was signed in December 2004. The deal covered a longer period than ever before, lasting from February 2005 until September 2007. Labour costs were to rise by 2.5% in 2005 and 2.25% in 2006. In accordance with union objectives, the general rises were again the same for all workers in all sectors and the 2006 increases included 0.45% earmarked for low-wage female sectors. Yet the agreed pay policy allowed for a considerable widening of income differentials between different groups of workers, as had been demanded by EK and Akava. This was produced, first, by including sectoral increments for both 2005 and 2006 (0.6% and 0.4% respectively) and, second, by making the pay rises entirely percentage based in 2006. All the incomes policy agreements since the mid 1980s had been based on a structure whereby incomes would rise by the percentage agreed or by a particular fixed sum per hour, whichever would produce higher rises in a particular case. In practice, the fixed sum increases were usually applied to low earners and the percentage increases to all other groups. The application of across-the-board percentage increases thus produced a widening of income differentials, and the flexibility of pay determination was again increased overall compared with previous social pacts. EK was not, however, able to achieve its aim of earmarking part of the pay increases for workplace level distribution. Nor were the EK employers able to achieve changes in strike legislation.

The trade union goal of increasing redundancy protection was achieved. Workers' rights to individual 'employability programmes' drawn up by state employment offices was extended and redundant workers would receive enhanced 'training support', financed collectively by the employers. In line with the unions' goals, shop stewards' and safety representatives' rights were extended and a tripartite working group was set up to increase the responsibility of contractors for the terms and conditions of employment applied to the labour of their subcontractors. On the basis of the work done by this working group, legislation to this end was put into effect in 2006.

The government fulfilled its promise of major cuts in income tax. The wealth tax was eventually abolished altogether and the inheritance tax too was scrapped completely for many entrepreneurial families while for the rest its level was only lowered. As part of the pact, the government also committed itself to increasing its investment in transportation projects, education and innovation activity, and to improving the financial situation of local government.

The coverage of the incomes policy agreement was, again, roughly 90%. By the beginning of April 2005, collective bargaining had been successfully concluded in all the major sectors that had remained outside the scope of the centralised agreement. The only exception was the paper industry where the employers, the Finnish Forest Industries Federation, had decided to remain outside the deal and where the social partners could hardly find any common ground. The collective redundancies and strikes of 2004 had contributed to hostility between the two sides. Particularly tense was the issue of subcontracted labour, whose use had not been allowed in collective agreements to date. As the negotiations were in deadlock, both sides resorted to industrial action, including an unprecedented six-week national lock-out of blue-collar paper workers. Only in July 2005 was an agreement finally reached. The agreement permitted the use of subcontracted labour.

7. The end of the era of incomes policy agreements?

During the two and a half year validity period of the incomes policy agreement for 2005-2007, EK continued to voice its objections against the centralised Finnish collective bargaining system and called for further decentralisation of pay determination. These calls had no visible effect on the willingness of EK to agree on social and labour market policy in tripartite negotiations, however. In early 2006, it was agreed by the social partners and the government that restrictions on the free movement of workers from the 'new' EU Member States would be ended in the May of that year. Moreover, around the same time, a tripartite working group agreed to improve the conditions for 'family leave', and in June 2006, the social partners and the government agreed to extend employees' information and consultation rights in small enterprises, following trade union pressure to do so. Several small changes were agreed in the course of 2006 whereby the pension system was further reformed. Legislation in accordance with all these agreements was later introduced.

The change of government that took place in April 2007 has had no visible effect on tripartite activities, at least as at January 2009, despite the fact that the social democrats were dropped from the government. Matti Vanhanen of the Centre Party continued as Prime Minister in the centre-right coalition. His government has continued to endorse peak-level tripartite agreements and the practice of concluding them. In the spring of 2007, as preliminary talks began on the next bargaining round, both EK and the union confederations announced that they saw another tripartite deal as being viable. The aims of the two sides were extremely far apart, however. In accordance with its increasingly hostile stance towards uniform pay rises for all sectors, EK again demanded that bargaining should be strongly decentralised. One of its most powerful affiliates, the Federation of Finnish Technology Industries, went as far as advocating a peak-level deal in which no general pay increases at all would be included, and in which all increases would be earmarked for distribution at sectoral or local level instead. At the same time SAK affiliated unions were calling for very high increases in order to be rewarded for the robust economic growth of the past years. It was clear to all sides that if negotiations on a centralised deal were conducted, SAK would demand that much of the rises would be given as general increases to all sectors, as it had not shown any signs of being prepared to seriously undermine this 'solidaristic' principle of pay policy. The conditions for a centralised deal were thus clearly not present. Eventually, the Federation of Finnish Technology Industries announced that it would not give its mandate to negotiations on an incomes policy agreement, which effectively ended the prospect of a peak-level agreement.

The sector-specific bargaining round that followed took place between spring 2007 and early 2008, the majority of agreements being signed in autumn 2007. Neither side could co-ordinate the negotiations of the different sectors and, the later a deal was reached, the stronger the tendency for the agreed level of pay rises to increase. The first agreements gave workers nominal yearly wage increases of just over 3%, while increases of over 6% were achieved by some unions in early 2008. Overall, the bargaining round was very expensive for the employers, but EK commended the fact that its affiliates had achieved extensive opening clauses allowing for far reaching increases in bargaining at workplace level over both wages and working time. Wage determination overall was, in deed, considerably more decentralised than in the previous bargaining rounds. The pay increases were also mainly percentage based, in line with the objectives of EK and Akava.

Perhaps partly as a result of the breakthrough of the sector-specific bargaining round, EK announced in May 2008 a decision that may permanently change the character of industrial relations in Finland. It and its affiliates decided that the era of peak-level agreements on wage increases was over and that EK's mandate on wage negotiations was to be removed. Therefore, the four-decade-long era of incomes policy agreements that had started in 1968 appeared to have reached its conclusion. The trade unions greatly regretted the decision and the head of SAK, Lauri Ihalainen, who had signed his first incomes policy agreement in 1992, was particularly outspoken throughout 2008 about the virtues of peak-level agreements on wages and their co-ordination with the government, especially towards the end of the year when it became clear that the Finnish economy was entering a recession. He maintained that a strongly co-ordinated wage deal in line with government economic policy objectives would be the best way to deal with the crisis. In late 2008 the heads of EK and the union confederations met with Prime Minister Vanhanen, who had convened the meeting, in order to talk about the possibilities of co-ordinating economic policy and income policy in the future, but no agreement was reached on the subject. Another meeting is scheduled to take place in February 2009. It appears clear that EK will not agree to another incomes policy agreement, but it may be prepared for some form of tripartite co-ordination. As for the collective bargaining negotiations themselves, it appears that EK aims in the coming bargaining rounds to achieve a sectoral bargaining model in which the export sector would act as a pace setter, and in which the peak organisations would have the role of ensuring that their members comply with the pace setting agreement. At the same time EK would want the share of locally agreed wage rises to be further increased. Meanwhile, both the employers' organisations and the unions are stepping up their co-ordination efforts in preparation for the next bargaining round, which will start in spring 2009 in the metal sector. Since the 1990s it is the metal sector that has led the trend towards bargaining decentralisation and more overall flexibility. Thus it would be in the interest of EK if the metal sector became the pace and agenda setting industry in pattern bargaining.

Despite the apparent end of peak-level agreements on wages, EK and the union confederations reminded the public in January 2009 that tripartite agreements on social policy and labour market policy are not over. As a tripartite committee, appointed by the government with the task of introducing wide ranging reforms to the social security system, reached deadlock, the peak organisations announced that they had reached an agreement on the main contentious issues. The chair of the committee had proposed major cuts in earnings-related unemployment benefits but EK agreed with the union confederations that these cuts would not need to be made as long as the union confederations would agree to restrictions in opportunities for early retirement and the complete abolition of employers' social insurance contributions. The two sides also agreed that both employers' and workers' pension contributions would rise and that the provisional sabbatical leave system would be made permanent. The deal is clearly tripartite in character. The possibility of slashing employers' social insurance contributions, which was agreed by the social partners, had been proposed by the government, which also appears to be ready to put the social partners' deal into practice.

Conclusion

In the terms of Traxler (this volume), the particularly deep recession of the early 1990s kick started the development from traditional to lean corporatism in Finland and this was complemented by a change in government economic policy from Keynesianism to economic orthodoxy. In the context of the mass unemployment of the 1990s, employers and governments alike pressed successfully for increased flexibility by reforming labour legislation, and by making sector-level collective agreements more flexible, for instance by introducing and extending the opening clauses permitting workplace level bargaining on selective issues. At the same time, the economic policy goal was to increase the role of markets (which the decentralisation of bargaining also tends to produce) and to roll back the state. All this was for the most part done with the agreement of the unions, as economic hardship considerably lessened trade union opposition to such measures. Social pacts were an important instrument to further the goals set by the employers and the government, and the main manner in which the two were combined was that pay moderation was coupled with government promises of tax cuts. Reducing taxes was both a way of limiting the size of the state and of making the unions agree to the employers' policy goals, most of all wage restraint.

Once the crisis was over, the drive to increase bargaining decentralisation and other forms of flexibility proceeded at its own pace, not least due to the fact that this, alongside pay moderation, has been the employers' central goal in all the bargaining rounds of the 2000s. The employers were also prepared to make important concessions to the unions in return for agreeing to continue with this process, and major qualitative packages thus complemented the moderate pay policy. As to the government's policy in the 2000s, path dependency there too has been important: governments reduced income tax as part of every social pact, and as part of the 2005-7 pact the employers were, moreover, enticed into signing the deal by the promise of completely abolishing the wealth tax and of significant cuts in inheritance tax. Finally in January 2009, the government promised to completely abolish employers' social insurance contributions as part of the social pact on welfare issues. In this way the move towards economic orthodoxy that had begun in the early 1990s continued in the 2000s, and social pacts continued to be an important instrument in this process. For the most part, the government's decisions were enacted by cabinets that included social democrats, which partly explains why the trade unions generally agreed to take part in the process.

Despite the adaptability of Finnish corporatism to the economic policy objectives of governments and to the labour market objectives of employers, the adaptability appears not to have been enough for the system to survive, as the employers' central organisation, EK, announced in 2008 that it would end the practice of concluding social pacts on income policy. The institutional limits to furthering the economic orthodoxy and to increasing flexibility within the corporatist system were, perhaps, finally reached. For one thing, the limit in the unions' willingness to accept more tax cuts may have been reached, at least amongst public sector unions whose wages are at stake. Without government tax cuts, wage moderation would be very difficult to achieve as part of social pacts. There is no practical reason why pay decentralisation could not have been increased further in the context of the peak-level agreements. Yet incomes policy as a Finnish institution has its roots in building the welfare state and in rewarding all workers for the economic growth that has taken place in the national economy. For SAK in particular there can be no such incomes policy agreement in which the real wages of all employees do not rise by at least a modest amount when the economy is performing well. Increasing the flexibility of pay determination within the framework of incomes policy agreements would very soon have entailed breaching that principle. At the same time, the issue of increasing inter-sectoral pay differences, which the centralised deals have kept in check, has become more important than ever for employers with the merger into a single organisation, EK, of the manufacturing employers' central organisation TT and its service sector equivalent, PT. In the past the interests of TT dominated those of PT, but now a more balanced approach is being called for by employers. The pay norm of the social pacts has always been detrimental to low productivity service sectors. This state of affairs can no longer be accepted by the employers' side and more balance is thus sought between the interests of manufacturing industry and services.

In the current situation, pattern bargaining appears to be the best solution for employers. Not only could the sectoral specificities perhaps be better taken into account in income policy but also the crucial target of the export sector, pay moderation throughout the labour market, may thus be attained. In pattern bargaining employers could also achieve a higher degree of independence from government. There has been increasing willingness on the part of employers to negotiate wages separately from labour market and welfare policies[5] and also to strengthen parliamentary decision making in issues such as tax policies. These objectives may be better met in a system based on pattern bargaining, in which employment terms and conditions are at stake, than in a system of social pacts involving package deals on incomes and

5. In these policy fields social pacts will most likely continue to be signed.

other policy fields. Moreover, in a sector-specific system employers may be able to make ‘difficult’ unions a sector specific problem, rather than being dependent on them for a centralised deal.

The employers’ decision to end social pacts on incomes policy carries with it major risks. It is not at all certain whether unions in the sheltered sector will be content with the export sector setting wage levels. In the previous bargaining round, in fact, the very opposite took place as outright competition for the highest level of wage increases took place amongst unions and some of the highest increases were achieved in the municipal sector. Export sector competitiveness will be the biggest loser if such bargaining rounds take place again. Yet the situation of trade union disunity may be utilised by the employers to advance their agenda on decentralising bargaining still further. In the bargaining round of 2007 the employers learned, as they did in that of 1993, that when the central organisations are not party to the negotiations, the union side is unable to co-ordinate negotiations on matters of principle such as the maintenance of a solidaristic pay policy. The big challenge for the unions is to show the employers that they can do just that.

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'Doing together what is possible' Social pacts and negotiated welfare reform in the Netherlands

Marc van der Meer and Jelle Visser

Introduction

The Netherlands is still the country of pacts and agreements where societal actors at national level negotiate and compromise with the government, though the nature of positive coordination differs over time. In our previous chapter we discussed how, in the course of the 1990s, trade unions and employers' associations expanded their joint priorities from wage-setting and labour-time reduction to a broad procedural agenda with a variety of topics concerning bargaining at a decentralised level (Hemerijck *et al.*, 2000). These procedural innovations have remained on the agenda and actors at the central level still aim to influence bargaining and wage-setting in sectors, companies and even company departments. This system of coordinated wage-setting, however, proved unable to stop cost inflation due to wage increases after the Millennium boom in the early 2000s.

Since then, deep neo-corporatist bargaining has emerged between an increasingly weakened government and interest associations seeking legitimacy and clear bargaining results. After 2000 there were four tripartite social pacts and several agreements as well as one breakdown, in the spring of 2004. Apart from the 'evergreen issue' of Dutch corporatism – wage moderation, defending competitiveness in international markets – the new pacts and agreements addressed some of the most hotly-disputed issues in welfare and labour market reform: employment protection legislation and the gulf between insiders and outsiders in the labour market; early retirement in relation to occupational pensions and taxation; activation and the treatment of the unemployed; sickness leave and disability pensions; leave and childcare arrangements in response to the feminisation of the labour force. On all five issues, new compromises and policies have been reached, often after considerable delay and tough negotiations between the government, unions and employers.

In the following report, we first introduce the actors and institutions, as well as providing some economic and political background, before moving on to a discussion of social pacts and agreements, the issues involved, negotiations and outcomes. We conclude with a brief evaluation of the Dutch record on coordination and social pacts.

1. The institutions and actors

Looking back at the last twenty years, we are struck by the stability apparent in the institutions – national consultations in the Social Economic Council (*Sociaal-Economische Raad*, SER), and in the annual spring and autumn meetings in the Labour Foundation (*Stichting van de Arbeid*, STAR) between the social partners and the Cabinet; sectoral negotiations over wage and non-wage issues under a soft rule of consultation from their central organisations; and in most enterprises with 50 or more employees, elected works councils guaranteeing basic information and consultation within the firm. Other agencies – like the CPB (*Centraal Planbureau*) – support these central deliberations and negotiations by providing economic analysis and forecasts. With monetary policy now decided in Frankfurt, the Dutch Central Bank (DNB) has retained its role as the supervisor of financial institutions, including pensions. Its president is still a relevant voice in the Dutch consultation economy, with a seat on the SER and close relations with the Finance Ministry.

Within the government, the latter has emerged as an ever more important actor, boosted by its role in the EU system of government, and vastly overshadowing the Economics (or Trade) Ministry and the traditional interlocutor for corporatism, the Ministry of Social Affairs and Employment. In 1995 the Minister of Social Affairs and Employment tried to keep control by initiating an 'informal' coordination group with top civil servants from the Ministries of Social Affairs and Employment, and Finance, plus the deputy leaders and chief negotiators of the six organisations of employers and employees in the Labour Foundation. The spring and autumn consultations of the Labour Foundation with the Government and the pacts of recent years are prepared in this group, which does not keep minutes. However, in the crucial pact negotiations of 2004, the Finance Minister emerged as the dealmaker and in the current financial crisis, he is the centre of government action. Tellingly, both Zalm as leader of the Liberal party and Bos as leader of the Labour party, like Kok before him, combined their position of party leader with this cabinet post, second only to the prime minister.

Stability is also indicated by the unwavering support for collective bargaining – more or less unchanged at a coverage rate of 80-85% and mostly based on sectoral agreements, which apply *erga omnes*. Apart from some maverick actions in which mock or 'yellow' trade unions are used to undercut the going rate, there are no serious attacks by employers on this state of affairs. Despite the large 'gap' between bargaining coverage and union density, the legitimacy of unions to negotiate agreements on behalf of four fifths of the labour force and to represent employees' interests in the main consultative bodies has not seriously been challenged. Yet the unions have initiated various membership campaigns to improve their position (van der Meer *et al.*, 2009).

Dutch employers go along with this state of affairs and usually praise the Dutch consultation economy (Visser and Wilts, 2006) as they seem to prefer stable deals with unions to the less predicable actions of parliament. They do however oppose the expansive tendencies of corporatist institutions as a vehicle for the unions' political demands, and occasionally warn the government that it should stand firm and press its reform agenda on welfare state issues. On 'labour relations' – and this has come to include a broad agenda of non-wage and labour-supply issues – they claim autonomy based on consultations and negotiations with the unions. On broader issues of welfare state and labour-market reform, they usually take a realistic and conciliatory position, admitting that 'amendments to labour law and social security can only be effective if they have the backing of the trade unions'[1]. Below, we will discuss one case in which they and the government tried to break this rule, and show how it backfired.

1. VNO-NCW president Jacques Schragen in *Het Financieele Dagblad*, 12 January 2002.

Among the union rank-and-file, and among the leaders and cadres of sectoral unions, there are misgivings about the distance between talks and agreements at central level and what is happening in firms, but these critical voices offer few alternatives. The standing and prestige of the leader of the FNV, the main union confederation representing the most critical and radical constituency, is still based on his or her ability to negotiate a central pact or agreement.

The intensity of deliberation and negotiations within SER and STAR varies over time. STAR gained new prominence after the famous Wassenaar agreement of 1982. Attempts to expand representation beyond the 'social partners' and include other 'special' interests like the young, pensioners or environmental groups have failed, though some of these interest groups have been 'co-opted' through special seats in, for instance, the union delegation. In 1995 a broad left-right coalition in Parliament abolished the SER's prerogative that on socio-economic issues its advice must be heard before existing legislation can be amended or new laws introduced. If anything, the workload of the SER has increased, however. When the government started pact negotiations in 2004 without first seeking advice from the SER, it asked for trouble and weakened its bargaining position significantly – adding to its poor public image as stubborn and driven by ideology. In the Netherlands it is important to be pragmatic and resist a 'winner takes all' attitude.

When unanimous, the SER's advice is hard for any government to disregard, and so the appointed members work hard for that to happen. In the 1970s, the SER's advice on macroeconomic policy and social protection was nearly always divided and this led to the marginalisation of the institution. When, years after Wassenaar, the social partners regained their trust in each other, the SER regained the capacity to offer unanimous recommendations. The political attacks on corporatism – especially over the disability issue (Visser and Hemerijck, 1997) or as part of the 'populist' turn in politics around 2002 – appear to have concentrated minds. On issues relating to Europe and globalisation – the Maastricht convergence criteria and EMU (1992), enlargement and development of the EU (1995), globalisation (2001) and the services directive (2005), and sustainable globalisation (2008), the council was unanimous. In recent years the Council also achieved unanimity on disability pensions (1997, 2002, 2004), active ageing (1999), working beyond the age of 65 (2005) and unemployment insurance (2005), but it remained deeply divided over dismissal protection (2006, 2007), corporate governance (2008) and European Works Councils (2008).

We finish this section with a few lines on the actors involved. At first sight, little has changed since the 1980s. Of the social partners – in the Netherlands this term is actually used in everyday language, and by the actors themselves – there are three on each side. The FNV (*Federatie Nederlandse Vakbeweging*) represents roughly two thirds of all union members, the CNV (*Christelijk-Nationaal Vakverbond*) one fifth, and the MHP (*Verbond van Middelbaar en Hoger Personeel*) one tenth. These shares have hardly changed over the course of a quarter century. The FNV is clearly dominant; it is involved either alone or with other unions in 90% of all 700-800 sectoral agreements that are renegotiated each year. Some agreements are signed by minority unions (e.g. in restaurants, textiles, temporary employment agencies) and are valid under Dutch law, even if they undercut an FNV agreement, unless the agreement is declared binding for the industry. Extension affects around 7% of the labour force and is especially important in construction, retailing and in the employment agency business. Without FNV support, no social pact or central agreement is possible. Minority unions, in particular the CNV, often play the role of 'sounding out' new possibilities for compromise, but there is not one example of the CNV 'going it alone'. In the past decade, FNV and CNV have grown closer, whereas relations with the MHP are more volatile. In January 2008, of the 7.2 million wage and salary earners, a little over 1.5 million, or 22%, were members of a union. An additional 400,000 members either receive pensions or are unemployed, on benefits or self-employed (Visser, 2009).

On the employers' side, the dominant organisation, and the direct counterpart of the FNV, is the VNO-NCW (*Vereniging van Nederlandse Ondernemingen – Nederlands Christelijk Werkgeversverbond*), based on a merger between the general and Christian organisations, and representing all big firms, most medium-sized firms and many small firms. There are two organisation for special interest organisations: LTO for agriculture and MKB for SMEs. Together these organisations represent the large majority of Dutch firms, reaching an estimated density rate of between 70 and 80%, expressed in terms of employment in member firms. This tallies with the high level of bargaining coverage. VNO-NCW is organised into sectoral or branch organisations, though there is also direct representation of large (international) firms, many of whom negotiate their own agreements with the unions.

Internally, there may be less stability than a first impression suggests. Big union mergers, especially in the FNV, have created large 'conglomerate unions' that are difficult to manage and combine diverse interests. As predicted (Streeck and Visser, 1997), they are financially unstable and politically destined to rival the peak federation. *Bondgenoten-FNV*, the largest affiliate since the merger of four private-sector unions in industry, agriculture, transport and commercial services, has had a tumultuous history since it came into being in 1998. In recent years, the union has become quite critical of the central partnership and the confederation's pact-making approach. The growing presence of active members of the Socialist Party, winners of the 2006 elections and rivalling the Labour party from the left, is also a factor here. Internationalisation of business, mergers, less willingness to pay for representation, and new approaches to servicing members have affected all business organisations and squeezed their budgets, similar to what happened to unions in the wake of declining membership and rising costs (Visser and Wilts, 2006). The idea of merging VNO-NCW and MKB has been abandoned. Within VNO-NCW there are powerful sectoral organisations with rival interests, holding adversary views.

The greatest instability and the sharpest divisions, however, are found in politics. There have been five different government coalitions since 2000, with three elections producing radical changes in the party landscape (see Table 1). After 2002 there was a broad 'populist' groundswell against the political elite and against Europe, epitomised in the Dutch 'no' vote on the Constitutional Treaty. The voter share of the three 'main' political parties – the Christian Democrats (CDA), Social Democrats (PvdA), and Liberals (VVD) which, between them, had dominated post-war politics – plummeted to 60%. Both on the left and the right, strong challengers emerged. These developments made corporatists pacts more difficult to negotiate *and* more necessary as an anchor against instability and ungovernability. Such paradoxes surfaced most clearly in the difficult negotiations surrounding the pacts of 2003 and 2004.

Table 1 **Government coalitions 1994-today**

Cabinet	Years	Coalition (76=majority)	PM	Finance	Employment
Kok II	1998-2002	PvdA (45) VVD (38) D66 (14)	PvdA	VVD	PvdA
Balkenende I	2002 (May-Oct)	CDA (43) VVD (24) LPF (26)	CDA	VVD	CDA
Balkenende bis		CDA (43) VVD (24)	CDA	VVD	CDA
Balkenende II	2003-2006	CDA (44) VVD (28) D66 (6)	CDA	VVD	CDA
Balkenende III	2006-2007	CDA (44) VVD (28)	CDA	VVD	CDA
Balkenende IV	2007 -	CDA (41) PvdA (33) CU (6)	CDA	PvdA	CDA

Notes:

CDA: Christen Democratic Appel, main Christian democratic party

PvdA: Partij van de Arbeid, main Social Democratic or Labour party

VVD: Vereniging voor Vrijheid en Democratie, main Liberal party

D66: Democraten '66, centrist liberal party

CU: Christen-Unie, Orthodox Christian party

LPF: Lijst Pim Fortuyn, populist anti-immigration party.

2. From procedural agreements to neo-corporatist pacts: how politics re-enters industrial relations

In Table 2, below, we summarize twenty-five years of social pacts and agreements. It shows that after a period of bipartite agreements, the recent period is marked by tripartite pacts. We define pacts as three-way deals in which each of the actors – unions, employers and the government – commits to certain actions. We see the return of tripartism as a reflection of the growing interdependence between wage and non-wage issues – the latter mostly related to matters that influence the functioning of the labour market and labour supply in the realm of the activation of the welfare state (training, retirement, disability, unemployment). Under EMS and later EMU, the Netherlands set course for a prolonged cost containment vis-à-vis the German economy, and these matters have gained importance in an economy that is mostly dependent on exports. Since enlargement to include Central and Eastern European countries inevitably leads to cost pressures and efficiency improvements in a number of sectors, the attempts to coordinate wage-setting and to control wage-cost inflation must also be understood from the viewpoint of internal distributive issues. From 1979 to 2006 income inequalities increased from 10 to 18%. In addition, the gap between public salaries and wages in the private sector widened, especially at the top of the income structure (Salverda *et al.*, 2008). National wage coordination thus enables union representatives in the public sector to strive for equality with the private sector and helps governments to level up the purchasing powers of benefit recipients without raising taxes.

Wassenaar and what follows

With the Wassenaar agreement of 1982, unions and employers 'regained' the primary role in determining wages and working hours through mutual negotiations, a role which they had shared with the state in preceding decades. The importance of the agreement is not that the unions agreed to a standstill in wages (that had already begun earlier, under pressure of rapidly rising unemployment and massive layoffs), but that it '(re)institutionalised' a bipartite and quasi-autonomous model of wage negotiations under the control of the social partners. Quasi-autonomous, because the government retained some influence and instruments to influence outcomes. This development towards a new division of responsibilities was of course not immediately apparent, but with the passing of time it became celebrated by the social partners as the Wassenaar institutional effect (Visser and Hemerijck, 1997). In 1987 the law was changed and the eventuality of government intervention in private-sector wage-setting was further circumscribed.

The 1982 agreement itself was negotiated under a heavy 'shadow of hierarchy', with the governments having announced severe cuts (including a freezing of the price-compensation mechanism, minimum and public sector wages and benefits) and threatening another intervention in private-sector wage-bargaining, possibly with some general rule for working hours reduction, much feared by employers. The limit on their 'regained autonomy' was that the social partners had to accept that more political and social goals became part of their bargaining agenda.

Table 2 **A quarter century of social pacts and agreements**

Year	Name	Type	Application	Issues
1982	Wassenaar	Agreement, hierarchy	1983-1984	Wages, hours
1989	'Joint Policy Framework'	Pact	Employers withdraw	Wages, social security, employment, budget
1992	Standstill	Agreement, hierarchy	First months of 1993	Wage pause
1993	New Course	Agreement, hierarchy	1994-1995	Wages, hours, decentralisation, flexibility
1995	'1996 and next'	Agreement	1996-1997	Implementation New Course
1996	Flexibility and Security	Agreement	Law in 1999	EPL, agency and flexible working
1997	'Agenda 2002'	Agreement	1998-2002	Implementation New Course
1997	Pension covenant	Agreement, hierarchy	Targets for 2001	Pensions, early retirement
1999	'Tailor-made conditions'	Agreement	2000-2001	À la carte agreements
2001	'More is needed'	Agreement	2002-2003	Training, personal development
2002	Mini-pact	Pact	2003	Wages, subsidised jobs
2003	Half-pact	Pact	2004-2005	Wages, social security
2004	'Museum square pact'	Pact	2005	Wages, early retirement, life course, disability
2007	Participation summit	Pact	2007-	Employment
2008	'Doing together what is possible'	Pact	2009	Wages, unemployment measures, mobility, dismissal protection
2009[2]	March Summit	Pact	2009-2010	Part-time unemployment benefit, prevention of youth unemployment, further study of future of statutory pensions, moderate wage increase

Partly this was under pressure from the unions, to the dislike of employers but as compensation for the austerity measures and welfare reforms that lowered guaranteed social-insurance benefits and limited eligibility. Partly it was the result of both partners but in particular the employers having an interest in pre-empting legislation on new issues, including working hours, part-time work, leave arrangements, agency work, working conditions and health and safety issues. Dutch legislation,

2. The final draft of this chapter was delivered immediately after the conclusion of the Foundation Agreement of 25 March 2009. Given the impact of the financial crisis, new budget reductions are to be expected in the course of 2009.

sometimes in response to EU directives, has increasingly left scope for the social partners to amend, change or detail legal rules, deviating both upwards and downwards from the default option in the law (Van der Meer *et al.*, 2005). This is one of the 'secrets' of flexibility, and applies also in the domain of employment protection legislation.

In 1990, the central employers' organisations, for the first time in their history, withdrew temporarily from tripartite consultations in SER and STAR. In 1989, they had terminated the 'tripartite policy framework agreement' which was negotiated in in the same year with the new centre-left government. The employers were demanding continuity of the austerity course initiated in 1982, lower taxation, a limitation on social expenditure, a halt in the rise in disability pensions and a reduction in the number of issues involved in wage bargaining. Around that time there was an upsurge in the critique of corporatism and its presumed tendency to delay or fudge decisions. In 1992, parliament began its investigations into the abuse of the disability system, which resulted in the end of the social partners' administration and influence. The new tripartite organisation for the public employment services, starting in 1991 after a decade of political manoeuvring, began in an unfriendly environment and was soon placed under direct government control and later dismantled. When the government, under pressure from the looming European recession of 1992-93, threatened wage intervention, the unions and employers were reconciled and reached an agreement over matters they considered their core domain: wages and working hours.

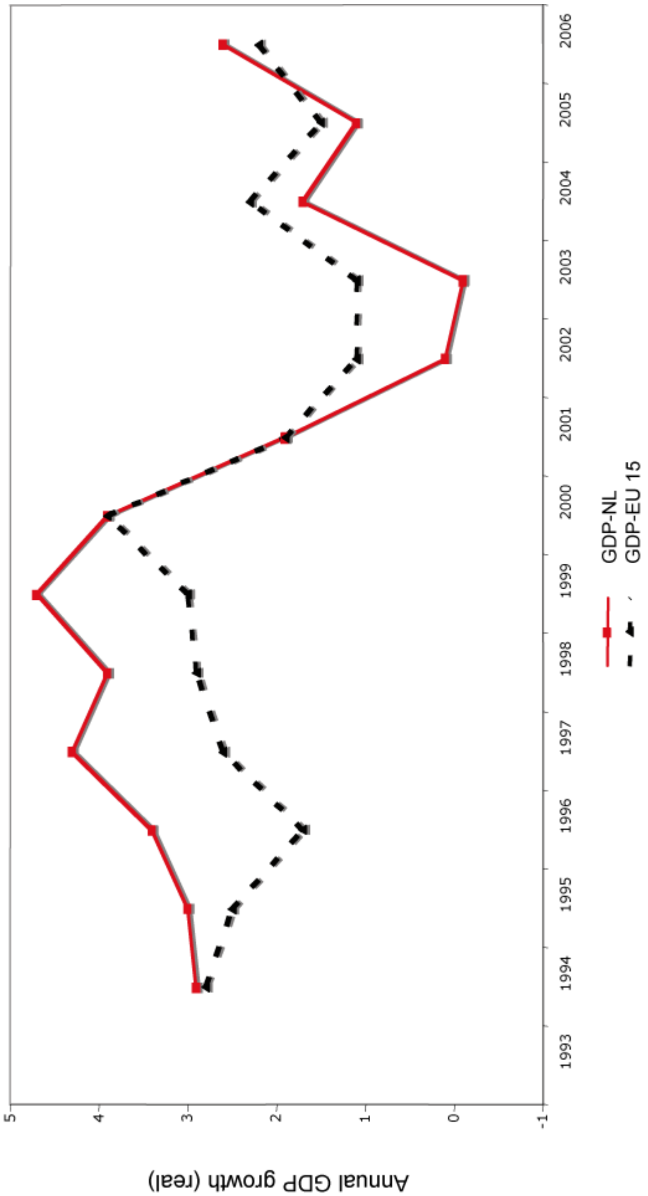
The renewal of 'New Course'

The New Course agreement of 1993 is the true follow-up of the Wassenaar agreement of 1982 and must be understood as resulting from greater trust and common interests in fending off the centralizing and limiting effects of government restrictions on wage bargaining (Visser, 1998). The 1993 agreement, true to its title, opened the way to an approach to collective bargaining which was at once more decentralised and richer in its agenda. The employers dropped their veto against collective working-time reduction and the unions, besides agreeing to a standstill in wages, accepted a further step towards flexible solutions, to be reached in national and sectoral negotiations.

The 'Flexibility and Security' agreement of April 1996 was the child of this 'New Course' agreement. The 1996 agreement itself was almost literally translated into law in 1999 and serves today as the main reference point for easing the dismissal protection rights of existing ('core') workers, while improving the employment and social security rights of temporary and agency workers. Another agreement, much less well-known, was the 'pension covenant' of 1997, signed between the social partners and the government. With this covenant the social partners, who co-manage the company and sectoral occupational pension funds covering some 92% of the employed work force, staved off a government (tax) intervention by promising to change the calculation of pension benefits from a 'final salary' to an 'average salary' basis, and to increase the coverage for marginal workers (Van Riel *et al.*, 2003). Without many people noticing, these changes were implemented through negotiations in the following five years. On other issues – for instance extra jobs for ethnic minorities – the central organisations also agreed targets (1994) or extra policies (1996) – but the actual effects have been limited.

Whereas Wassenaar was a 'single choice' agreement – trading wage restraint (price indexation) for employment through various forms of (uncompensated) working hours reduction – New Course offered the start of a 'multiple choice' for sectoral and company negotiations in addressing the differentiation in working hours and individual working-time patterns, which were to be negotiated at shopfloor level (van der Meer, 2004). There were four follow-up agreements, each loftier in its goals, recommending new issues and solutions. These agreements or recommendations, entitled 'Calendar for collective bargaining in 1996 and beyond' (1995), 'Agenda 2002' (1997), 'Towards tailor-made employment conditions' (1999) and 'More is needed' (2001), can be characterised as 'agreements to agree', re-affirming the will of the central players to cooperate, even if the practical effect is at times doubtful. The 1999 agreement recommended so-called *à la carte* agreements in which employees can 'trade' time for money and save for leave rights or other goals; the 2001 agreement created a funding scheme for PDPs or personal development plans, an HRM-tool that can be used for drafting employability measures for individual employees.

Figure 1 **Real GDP growth EU15 and Netherlands**



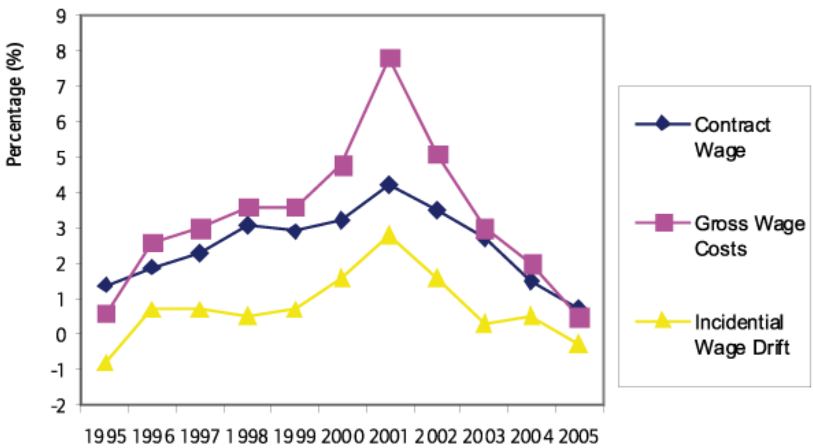
Source: Eurostat.

The pacts of 2003-2004 and how they came about

One of the recurrent problems of the Dutch economy are the huge cyclical swings in economic activity. Whereas the Netherlands had seemed relatively unaffected by the European recession of 1992-1993, following German unification and the EMS crisis, the international slowdown after 2001 had instead a huge impact.

With low unemployment (3% in 2001) and a high vacancy rate for skilled workers, strong (wage) cost pressures re-emerged, undermining the competitiveness of an economy driven by exports. A stronger rise in factory and labour productivity, helped by more investment in education and technological innovation, might have led to a more balanced growth path. Instead, together with pro-cyclical fiscal and budget policies, sanctioned under the EU's Growth and Stability Pact, the Netherlands was set for a boom and bust pattern, as shown in the following chart.

Figure 2 **Contractual and incidental wage growth (annual averages in %)**



Source: MEV (2005).

As in 1982 and 1993, the slowdown in wage growth became the key issue in the negotiations after 2001. Wage costs rose steeply between 1999 and 2001, though only about half of this could be attributed to *contractual* wage increases. As is to be expected under tight labour-market conditions, wage drift did rise (see chart above). In September 2001 the PvdA Minister of Social Affairs and Employment claimed that average labour costs had risen by 11% between 1997 and 2001, and that the Netherlands had lost the competitive advantage over Germany that it had built up in previous years[3]. He invited the unions to lower their already published wage demands of 4% for 2002. As a rule, the union wage norm is meant as a maximum (contractual changes, including non-wage cost issues, are supposed to stay within the norm) and calculated as the sum of product-price inflation in the previous contract period, the projected productivity growth in the next and some plus or minus, depending on the labour-market situation. Calculations are based on 'undisputed' data published by the CPB, but the chief economist of the major union confederation frankly admitted that calculations were sometimes 'improved' to produce better results (Inja, 2002)

Perceived inflation after the conversion to the euro in 2001, a tight labour market and steeply rising salaries and bonuses paid to top managers, brandished as 'exorbitant self-enrichment' by then-prime minister and ex-FNV leader Kok, did nothing to persuade unions to ask their members to moderate their claims. Moreover, unions saw in 2001 that almost half of the actual wage rises were the result of management decisions to 'upscale' workers and were outside their control, a fact that was widely reported in the press and undermines the role of unions.

By 2003, unemployment was rising rapidly and central wage-bargainers started to apply the brakes. As part of the mini-pact of 2002, the unions did lower their demands to a rise of 2.5% and in the 2003 pact they accepted a standstill. The Central Bank and also the OESO stated that these adjustments took too long – in 1982 and 1993 similar criticisms had been levelled (DNB, 2004; OECD, 2005). The counter-argument is that the unions did apply the brakes, and this did slow down wage rises. As Keynes has argued, such downward adjustments only appear acceptable to workers when they apply to everybody, and perhaps here, the real advantage of national consultation shows. In any case, the rise

3. Ministry of Social Affairs and Employment, *Sociale nota 2002*, p. 24. Lower Chamber, 2001-2002, 28 001, No.1-2.

in unemployment soon came to a halt and three or four years later the Netherlands again had one of the lowest unemployment rates in the EU.

Arguably, the huge cyclical swings in the economic situation and the rapid rise and fall in unemployment are a consequence of the dependency on exports and the relatively high flexibility of the Dutch labour market during an economic upturn, with stagnation during a downturn. This is apparent again in the recession of 2008-2009. The fact that economic shocks do not translate into instantaneous adjustments in wages becomes a serious obstacle only if temporary job losses translate into long-term unemployment, dependency on social assistance, or marginalisation. But that is rather a problem of social security and employment protection than wage-setting (Hartog, 1998; Nickel and van Ours, 2000; Nickel, 2003). It is on these issues – social security and employment protection – that the reforms and pacts of recent years have focused.

Not only the economic, also the political situation changed dramatically. After eight years of 'Lab-Lib' coalitions led by PvdA's leader Kok, the government coalition lost the elections of 2002, due to fatigue, complacency and the meteoric rise of the anti-establishment party of Fortuyn, who was murdered a week before the polling date. His issues were migration, Muslims, security (after 9/11), the failure of integration, and the poor state of the public sector (e.g. waiting lists in the health sector and kindergartens) in spite of years of economic growth. Rising from its ashes in the slipstream of the anti-establishment mood, the unknown CDA leader Balkenende was able to put together a coalition with the liberals and the heritage of Mr Fortuyn, which was catapulted to the position of third-largest party in parliament.

In election years the room for political pressure on unions is probably even more limited than usual. 2002 was a lost year, with general elections followed by a government based on the support of a new and untested party, and falling apart after only a few months. There were new elections in January 2003, followed by lengthy negotiations to form a new coalition government. In the pre-election 'mini-pact' of November 2002, the unions lowered their 'wage norm' for 2003 from 3.5 to 2.5% in exchange for some government concessions. The measures to end all publicly financed employment schemes, which had been vastly expanded under the previous governments with social democratic participation, were delayed or softened. The unions did not want to spoil the chance that fresh elections might bring the social democrats back to office.

This did not happen. The PvdA recovered but stayed behind its Christian Democratic rival. Although much reduced in size, there was a right-of-centre majority in parliament. After months of negotiations, CDA and PvdA failed to negotiate a coalition agreement and CDA's leader, Balkenende, returned to what was probably his first choice – a coalition with the liberals (VVD) of Zalm and another more centrist liberal party (D66). This clearly turned the tables for the unions. With the political opposition in disarray – the three 'left-of-centre' parties (social democrats, socialists and green-left) were divided more than ever, with a determined and ideologically-driven government intent on restoring fiscal discipline under the EU's Growth and Stability pact, less state and less regulation; and with employers pushing the government to hold firm, the unions were in a tight corner. It is against this background of dwindling power resources that we can understand why the FNV leadership went for the 'emergency pact' of November 2003. Without any political friends in the government, faced with a deteriorating economy and rising unemployment, as well as a hardened attitude on the part of employers, the trade unions settled for 'zero' wage growth in 2004 and a norm 'approaching zero' for 2005. This was however made 'conditional' on agreement on a number of welfare issues – mainly early retirement, disability and unemployment pensions, to be negotiated by April 2004, after further study. With strong opposition within the leadership and among the rank-and-file, the FNV leadership cunningly organised a general membership referendum for the first time, and gained approval for its negotiation result, albeit with a small margin and with the majority of members of the two largest private-sector unions voting against.

The subsequent negotiations of the welfare pact in April and May 2004 failed. The main sticking point was the government's plans to discourage any retirement before the age of 65 and to partly privatize pension provision away from the collective schemes run by unions and employers. Other issues of disagreement were the reform of disability pensions and unemployment insurance, creating more pressure to introduce reintegration and labour market participation. The Christian Democrats, having spent eight years in opposition, were ideologically wedded to their new project – the replacement of all early retirement schemes by a life course time-saving scheme for young parents carrying out their parental duties. They wanted to prop up this scheme with tax incentives, but this required that all (hidden) tax subsidies for existing early retirement be stopped or even penalised with extra taxes. The proposal to give workers a right to opt out of existing collective pre-pension schemes and allow insurance companies to compete with the existing pension funds was a direct attack on any remaining solidarity-based financing for early retirement – or that was how it was understood by the unions. On this point they were truly united. When the government insisted, they broke off negotiations.

What happened next was escalation. The unions claimed to be humiliated and affronted by an ideologically-driven government led by an incompetent and stubborn Minister. FNV organised another referendum, which turned into a plebiscite against the government and gave the green light for a campaign of political and industrial action. The government, which was in a hurry – it wanted its reform on the statute book long before the next elections – and convinced of its own position, escalated the situation even more. The Minister withdrew whatever 'offer' he had made during the negotiations and sent his original proposals to Parliament. In addition, he proposed to lift the general extension mechanism for collective agreements if they contained wage increases above 'zero' and to end minimum wage legislation (which would have violated the relevant ILO conventions, signed by the Netherlands). Unions stepped up their campaign and after the summer, there were various short-term strikes and demonstrations.

Employers had stood aside with the main leadership prompting the government to hold firm. However, under pressure of industrial action, they proved divided and some sectoral organisations, in particular the powerful metal and electronics federation, showed their annoyance with the government's position, which tended to upset existing negotiations in which early retirement was gradually phased out. Concerns over early retirement were not new and had already led to negotiated reform in the 1990s. The pension covenant of 1997 had encouraged the abolition of PAYG systems in which current workers finance the pre-pensioning of leavers before the legal retirement age of 65[4]. There were further divisions between small and large employers.

Another blow to the government's positions was that the major advisory bodies, including the Social and Cultural Planning bureau, questioned the beneficial effects of the government's proposals. The Council of State, packed with ex-politicians and usually a quiet body, which is required to give advice on the legality of draft legislation, issued a negative advice – a rare event, happening in less than 5% of cases. The fact that the government had not even tried to seek the advice of the SER now turned out to be a miscalculation. Public opinion was swinging against the government, with the press calling for another round of negotiations. The final blow came in early October, when the unions packed 300,000 protesters into the Museum Square in Amsterdam – one of the largest union demonstrations ever.

The government was forced back to the bargaining table and had already sent out two secretaries of state on a reconnaissance mission. The coordination group, with civil servants and leading negotiators, which had met on a weekly basis since January but interrupted its work after May, began meeting again. But the real negotiations took place directly between Finance Minister Zalm and FNV leader De Waal, bypassing the Minister of Social Affairs and the employers. They reached a compromise, which all parties in the conflict hastened to endorse in the troubled days threatening ethnic unrest following the brutal murder of the filmmaker Theo van Gogh. The 'Museum Square' pact was born, and was an established fact when a few weeks later, 91% of FNV members voted 'yes' in another referendum.

In its form, the pact of November 2004 consists of two parts: a joint recommendation of the six central organisations to stay the course of wage moderation, with references to issues such as child care and the need to enhance productivity levels in the economy; and a government declaration stating a broad agenda for welfare-state reform, with very detailed stipulations on the future of unemployment, disability, health,

4. Research by the CPB (Euwals *et al.*, 2005) shows that these reforms had led workers to postpone retirement by 4 to 9 months, moving the average retirement age up from 61 to 62 years in the five years following the covenant of 1997.

pension and life-course policies, mixed in with cost-cutting changes in taxation and labour costs. In terms of its content, it is a compromise between the unions and the government. The employers proved less united than their initial firmness had suggested. They became sidelined in the final conflict and had to watch how the unions managed to wrest a compromise from the government, in which tax-facilitated life-course saving schemes can be used for early retirement for up to three years. Some groups, with 40 working years behind them, can still retire at the age of 60, and receive 70% of their last earned wages, with the possibility of top-ups by collective agreements. Instead of taxing early-retirement benefits as the government had wanted, the pact announces the abolition of tax-deductible contributions for early retirement. Another concession is that it is not required to insert an individual opt-out clause in collective retirement schemes and that provision may still be organised through funds in which trade unions have a 50% share in supervision. Agreements without opt-out clauses can still be extended.

On the issue of disability, the government returned to the compromise reached in the SER in February, advice it had earlier chosen to ignore. In that advice, the social partners and crown members had endorsed the switch from disability to ability, supported measures to improve the employment opportunities of the partially able, and proposed to increase the level and duration of benefits for the smaller group of workers who, after re-assessment, proved to be fully disabled. Retaining the liability of employers to continue paying sick workers for up to two years (at an average rate of 85% of their last earned wages, with the possibility of top-ups to 100%, by collective agreement), they recommended that the penalty system introduced in 1997 be discontinued. In the spring negotiations, the government had elected to ignore this advice or, rather, to 'shop' selectively from it. It wanted for instance to outlaw the possibility of sickness pay being 'topped up' to full contractual wages, to retain the penalty scheme and keep the benefits of fully disabled workers at 70% of their last earned wages, rather than 75% as proposed by the SER. Ignoring a unanimous SER recommendation is not taken lightly, however, and annoyed not only the unions and the employers but also the government's own appointed members.

The proposal to change the law on unemployment insurance and reduce benefits by the amount of severance or termination-of-employment payments was withdrawn and the issue of reforming unemployment insurance was referred to the SER for further study. The opposition to the government's anti-accumulation proposal came especially from large employers. They feared that it would make settlements in court more difficult. In the 1990s they had used such settlements to circumvent the requirement to obtain a public permit for dismissals – workers would in such cases formally protest their dismissal in order to qualify for insurance but not proceed further if paid a termination-of-employment lump sum. The courts had themselves developed a formula in which each year of employment translates into a month's salary, with steep increments for workers aged over 50. In most cases of collective redundancy for economic reasons, unions and management negotiate social plans in which benefits are topped up by severance payments that can be used for retraining and mobility, or simply as an extra source of income.

After 2004: seeking an agreement – a summit, a compromise and a pact

After the consultation crisis and pact of 2004, relationships between the government and social partners returned to a state of calm. Unions did restrain their wage demands for 2005, resulting in wage increases averaging 1.1%. Contractual wages, excluding wage drift, rose by 1.5% in 2004 and 0.8% in 2005, rising to 2.0% in 2006 (CPB, 2006). When the economy recovered and the labour market tightened again, with unemployment falling to the lowest level in the EU in 2008, wage demands went up again, but were still within a 3-3.5% margin.

In 2005-2006, all major participants in the conflict underwent changes, as most unions and employers' association elected or appointed new leaders. The hapless Minister of Social Affairs took a back seat. In 2006, the small centrist liberal party withdrew its support for the government on an issue of foreign policy and early elections took place in November 2006. The party landscape changed yet again. The voters dismissed the Fortuyn group and also rejected the two liberal parties, while advancing the fortunes of the Socialist Party on the left and the radical anti-immigration and anti-Europe party of Wilders on the right. This time CDA and PvdA formed a coalition in the middle and were joined by Christen-Unie, a small religious party with a paternalist social agenda. The new government's appeal to 'Work together, live together' (*Samen* *werken, Samen leven*) was meant to put the emphasis on participation, employment, consultation and consensus, in response to ethnic tensions and the challenge from the right and left.

This was surely also the message coming from the Social Economic Council. In its preparations for the new medium-term outlook, the SER addressed the role of mutual trust in social partnership, and endorsed the objective of an 80% employment participation target (SER, 2006). A year earlier the council had defused the conflict over unemployment insurance. In a unanimous recommendation, the council rejected the anti-accumulation principle proposed by the government. To stress the role of unemployment insurance in a flexible economy, and to discourage long-term unemployment, the duration of benefits could be reduced from a maximum of 5 to 3.2 years and becomes slightly regressive, falling from 75% (previously 70%) of the previous wage during the first two months, to 70% thereafter. The activating effect of the insurance is to be reinforced by having unemployed workers sign an individual reintegration agreement, a system pioneered in 2004. All these proposals became law in 2006. Also ended was the exemption enjoyed by unemployed workers over the age of 57½ from the obligation of actively seeking work when drawing unemployment benefit. Already in 2003 the government had wanted to end this temporary measure, introduced in 1984, but in the pact negotiations of that year the unions, anxious about rising unemployment and poor job opportunities for older workers, had secured a delay. Also in 2006, the Disability Act was changed into the Work and Income according to Labour Capability Act (*Wet Werk en Inkomen naar Arbeidsvermogen, WIA*), in accordance with the SER's advice. There remained only one issue on which both the SER and the new government remained internally divided: the system of dismissal protection itself. With the 'exit' routes from the labour market – early retirement, disablement, long-term unemployment and social assistance – steadily being closed, it was only a matter of time before this would become the new sticking point.

Early retirement itself disappeared from the agenda. As predicted, the trade unions first used collective agreements to safeguard early retirement schemes and develop life-course schemes only if that problem was resolved (van der Meer and Leijnse, 2005). This did cause some dissent within the public sector, where a group of young civil servants protested and founded a union for employees under the age of forty – called an

'Alternative to Unions'. The issue is that young employees still pay premiums for the retirement of older employees who do not have enough time left to build up sufficient credits. The unions argue that the fees have been significantly reduced for young people and that solidarity has a price. The critics argue that it is too high a price to pay for a luxury that befalls only the 'baby boom' generation.

Another prediction was that, with the labour market tightening again after 2005, the unions will relax their resistance to longer working hours and grant further flexibility in exchange for additional savings into sectoral and company life-course funds, possibly on an individual basis. *À-la-carte* clauses are to be found in some 60% of all collective agreements in the Netherlands, following the central recommendation in 1999. Although demanding more sophisticated time management from firms, they tend to add to employment flexibility.

Childcare – another issue that entered the 2004 pact negotiations under the heading of life-course policies – is seen in the Netherlands as a responsibility shared between families, firms, social partners and the government. Characteristically, in the Dutch corporatist approach, childcare expenses have been a matter of subsidies, tax deductions and exhortations to make employers pick up part of the bill. The 2005 Childcare Act was based on this idea, but critics have shown that many employers fail to contribute and the benefits are unequally distributed. In 2007, the new government made contributions obligatory. New subsidy schemes have been introduced, and proved so popular and costly that the government felt forced to scale them down in 2008. Limited availability of childcare provision and the early end to the school day in classes for young children had remained an obstacle for parents and in particular mothers wishing to work full-time (Plantinga *et al.*, 2009).

Modern scholarship has established that it is more difficult to overcome resistance to reform employment protection for regular workers than to introduce new and more flexible standards for those with marginal attachments to the labour force. For the same reasons, it will be much easier to introduce active labour market policies that put more pressure on the unemployed than to change the entitlements of those in regular employment (Boeri, 2005; Brandt *et al.*, 2005; OECD, 2006). The Netherlands is no exception to this rule. In the Work and Social

Assistance Act of 2004, which replaced the National Assistance Act of 1996, there is a general presumption that those receiving social assistance should accept a job involving at least 19 hours per week. This includes older unemployed workers, partially disabled workers and lone parents with young children. The criterion of 'suitable jobs', i.e. a job with similar qualification and pay levels, has been abolished and welfare recipients can now be required to accept a wider array of jobs. The new Act gives municipalities their own budgets, from which they can make savings if they are successfully moving claimants of social assistance onto benefits. In theory, this financial power puts them in a position of control regarding the employment office and private contractors for reintegration services.

Although it has been on the agenda for more than ten years, it has not yet been possible to reform the employment protection system for regular workers, despite a great deal of political pressure coming from inside and outside the country. Under Dutch law, employers need a permit from the director of the regional public employment office when they give notice to terminate a regular ('open') employment contract. In 90% of cases, a permit is given, although special clauses for older workers and cases of sickness may create a considerable delay. Firms with large enough resources have found a way around the problem which may be costly but guarantees the result ('dismissal') they want, by filing a request to terminate an employment contract at Lower District Courts on grounds of 'serious cause' and rewarding the 'consenting' employee with a termination-of-contract payment.

This system has been criticised as costly, cumbersome and inequitable. Small employers cannot afford it and keep complaining about the high administrative burdens and costly delays involved in the official public route. The new VNO-NCW leadership, with a strong background in the SME sector, made this into its 'casus belli'. After several attempts, the SER gave up and admitted in November 2006 that on this issue, no 'agreement' was possible. Some minor changes were implemented, however. If the employee consents to dismissal, the formal ('pro forma') procedure in which the employee files his dissent, which is needed to secure entitlement to insurance, is scrapped. In cases of collective redundancy, involving 20 or more workers, an agreement between the unions and employers makes a formal procedure at the public employment office unnecessary. In cases of collective redundancy, the last-in-first-out principle can be replaced by a proportionality rule based on age groups.

On the main issue, the trade unions did not move an inch. They felt strengthened by the opposition of the Socialist party, which ensured that the social democrats in the government, who were initially open to change, could no longer afford a concession on this issue. The new Christian Democratic Minister of Social Affairs and Employment made it his mission to change the law and almost caused the government to fall over the issue, but was then told by his party to back off. These disagreements overshadowed the Participation Summit between the social partners and the government in June 2007. As part of the ambition to raise the labour force participation rate, the summit was intended to agree on measures to create 200,000 extra jobs and training openings for young people, ethnic minorities and people furthest from the labour market. The summit took place, some agreement was reached, but the escalation conflict over dismissal protection prevented employers from achieving real engagement.

In an attempt to break the stalemate and to resolve the divisions within the government coalition, the matter was referred not to the SER, which had already agreed to disagree, but to an independent committee of experts. This committee was briefed to advise on everything necessary to improve participation, other than changing dismissal protection. Its proposals included support for job seekers, training and search budgets replacing passive income benefits, some minor changes in dismissal protection, and raising the retirement age, now fixed by law at age 65, by one month per year to 67. These proposals were not well received by the social partners.

The surprise of 2008 was the secret deal between the deputy directors behind FNV leader Jongerius and VNO-NCW president Wientjes, the entrepreneur who had campaigned so hard for an overhaul of dismissal protection. In September 2008 they agreed to lift dismissal protection only for people earning over 75,000 euros, granting a maximum compensation payment of 12 months. This deal angered the MHP staff unions, whose members probably had most to lose from this deal behind the scenes. They did not sign the subsequent October pact in which the peace over this issue was sealed. Meanwhile, the society of lower court judges has adapted the formula to comply more or less with the agreement – itself a most remarkable feat of extra-parliamentary action.

The October pact itself was motivated by the need to limit the consequences of the financial crisis– which at the time were still uncertain and, as is now clear, hugely underestimated. In this pact, entitled ‘Doing together what is possible’, the government keeps its promise to eliminate the employee contribution to unemployment insurance, renounces its plan to increase value added tax from 19 to 20% and takes measures to improve the purchasing power of (partially) disabled people. Regional initiatives will be started to help jobseekers and measures for life-long learning and job-to-job mobility introduced. The trade unions promised to stick to a 3.5% wage increase norm for 2009, rather than seeking higher increases as proposed by a number of unions.

Yet, the financial crisis is even more deeply hurting the Dutch economy. The most recent CPB ‘predictions’ of February 2009 show that the Netherlands is entering a deep recession (-3.5% in 2009), with export markets falling away and unemployment doubling to unprecedented numbers (estimated at 8.75% in 2010). The predicted positive public expenditure balance will turn into a deficit of 3 to 5% in 2009-2010. Unions have called for a massive public intervention in the economy, while leaving pensioners’ rights untouched. In some measures they have the support of employers. But employers insist that competitiveness must be supported by a standstill on wages and the freezing of all social benefits. The government seems overwhelmed, and like its German neighbours, not quite reconciled with the idea that deficit spending may have to be accepted – whatever that means for the Growth and Stability Pact for which they fought so hard.

The depth of the economic crisis brought the actors together to negotiate a new Social Pact in March 2009. As on earlier occasions, the government has established a clear hierarchy with negotiated reform proposals to urge the social partners to strengthen their mutual responsibilities and maintain solidarity with unemployed persons. The agreement contains further instruments for part-time unemployment benefits, an improvement in regional cooperation in labour market institutions and enhanced training for younger jobseekers. The unions have effectively blocked a gradual rise in the retirement age from 65 to 67, in exchange for a half year of further study in the Social and Economic Council. Structural and incidental wage increases will be modest and in line with economic needs. The agreement was put to the test in a union referendum in April 2009. Only 17% of the constituencies of the FNV voted, 94% in favour of and 6% against the agreement.

Conclusion and outlook

Three functions are usually assigned to the national institutions for consultation (van der Meer *et al.*, 2005): preparing legislation and creating support for its implementation; jointly addressing any major external and domestic challenges and outlining common responses ('learning ahead of failure'); and enabling macro-flexibility within a stable institutional and monetary environment for wage-setting. On these tasks, critics, both on the left and the right, have questioned the legitimacy of corporatist institutions and the lack of speed, decision-making and innovation. Some of the big issues – the organisation of disability pensions, for instance – took some fifteen years to remedy; other issues – like finding a better balance of rights between insiders and outsiders – remain unresolved. In the early 1990s, this critique came from the Liberal party, and from the liberal technocratic wing in the Labour Party, and around the elections of 2002 from the anti-immigration and populist politician Fortuyn. On the issue of macro-flexibility in wage-setting, some economists, among them the president of the Central Bank, have argued that wage adjustments to changing economic circumstances are too slow and that a more decentralised system would work better (Wellink and Cavelaars, 2002).

Usually, and in an economy dependent on exports, quite rationally, Dutch trade unions do accept wage restraint, but only if they are convinced by unassailable facts and if conditions of fairness in the private and public sector are met. Agreeing on the facts takes time but is usually possible, while the extraordinary payments made to bankers, CEOs and directors of all kinds have no doubt undermined the second condition. Central negotiators did correct wage developments – in 1982-1984, 1993-1995 and 2003-2005, but with a delay of one or two years. The social pacts negotiated at the time of writing in October 2008 and March 2009 were direct responses to the accumulating consequences of the current financial crisis. We acknowledge that so far, unemployment levels have not (yet?) risen to the predicted levels, suggesting that the intricate structure of the Dutch service economy is apparently proving to be more flexible than the industrial structure of the past. In addition, the social partners have successfully strived for instruments to improve labour-market information and allocation. At the same, the part-time unemployment benefit system introduced appears to be administratively complex, whereas many companies face empty investment portfolios and the impact of the financial crisis on the construction sector (and perhaps the housing market) will likely take place later in 2009 and 2010. Inevitably, the government has to decide on severe retrenchments of expenditure. Our prediction is that at that time, the contours of a new social pact will also be negotiated, based on ongoing wage moderation, freezing of benefits, more money for mobility and training centres, some extra spending and tax breaks for employers. It remains to be seen how the unions will then deal with exceptions to the expected increase in retirement ages. Rather than 'doing what is possible' the new pact might be entitled 'doing what is necessary'.

We must add one last observation. In a modern decentralised economy, pacts and central recommendations have an important role to play, but limitations should not be overlooked. The distance between the national and shopfloor agenda on issues like innovation, productivity, training and skills remains large. On non-wage issues, recent research finds central recommendations having limited effects (van Houten, 2008). Whether the information flow from the local to the central level is much better is hard to say. The pact of October 2008 advocates further initiatives to introduce an innovation agenda in the SME sector and calls on the Netherlands Centre for Social Innovation (NCSI), a joint venture between unions, employers and research institutions, to develop programmes. Under the pressure of the recession, such initiatives can easily be seen as luxuries. But the stagnation of productivity, poor training and the unavailability of universal childcare, to mention just three issues, remain serious obstacles. In the field of corporate governance, a process of 'consultation without labour' has dominated recent changes and now is perhaps the time for unions and employees to re-enter the debate (van der Meer and De Boer, 2009). A re-assessment of the health and use of works councils should be part of that discussion too.

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The recent evolution of social dialogue in Cyprus and Malta: any scope for social pacts?

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Introduction

Among the countries that acceded to the European Union (EU) in 2004, Cyprus and Malta represent two small states with common traits: past British domination, a service-based economy, good socio-economic indicators and a high level of unionisation. They also have some differences in their recent economic trends and degree of rigidity/flexibility in their economic and labour market institutions. While both countries have strong trade unions, at least in terms of union density and bargaining coverage, social dialogue has developed in different directions and no social pacts have emerged either in the EU accession period or afterwards. The lack of social pacting is the key puzzle this chapter aims to address. Why have these two countries - despite the presence of some pre-requisites for cooperation between the social partners and the need for a revision of their socio-economic institutions in the wake of the European Monetary Union (EMU) – experienced no social pacts in the last few years?

To address this question, we shed light below on the two countries' political and socio-economic traits, including their party systems, economic and productive structures, monetary and budgetary policies before EMU accession; we also survey their industrial relations (actors, institutions and key issues).

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1. I wish to thank Saviour Rizzo for his help in getting to grips with the Maltese case and improving my understanding of the long-term evolution of social dialogue in Malta.
2. I would like to thank Nikos Nikolaou for helping me to organise the interviews (see list at the end of References) and for his careful reading of a previous version. As always, errors remain my own.

Section one focuses on the key economic and social indicators of Cyprus and Malta and sheds light on their political systems. This represents background information to better understand the complex process of EU accession, as well as the resulting opportunities, challenges and risks. Section two briefly summarises long-term trends in social dialogue: the role of social partners, their attitude towards social partnership and bi- and/or tri-partite institutions set up in recent decades. Section three analyses the recent evolution of industrial relations and the past, present and future prospects for social pacts (especially in the wake of EMU). Section four concludes with a summary of the key factors preventing the emergence of social pacts in the countries under scrutiny. In the case of Cyprus, sustained economic growth, the stability of the country's monetary policy, and a wide political consensus on EMU have largely reduced the need for a social pact. Alternative strategies for facing up to major socio-economic challenges have consisted of labour-market segmentation and economic diversification, with more limited social deals on welfare reforms. In the case of Malta, despite the much more evident socio-economic pressures related to EMU, the traditional polarisation of the political and industrial relations scene , and the huge split over the EU project, have both prevented the conclusion of any formal social pact. At the same time, social dialogue has developed at the company level and through the more institutionalised national consultations on budgetary policy.

1. Cyprus and Malta: two micro-states in the European Union

Before shedding light on industrial relations and the recent trends in social dialogue, it is important to introduce the key traits of the Cypriot and Maltese economies and their political systems. This helps in assessing the socio-economic and political dynamics that have largely shaped the two countries' attitudes toward EU accession in the first instance, and participation in the Eurozone later on. As pointed out below, the two countries show important similarities from an economic point of view and in terms of their historical evolution, as well as clear differences - in particular in the political debate before EU accession. Both Cyprus and Malta have afforded limited scope for national social pacts, despite the potential pressure represented by the EU and EMU.

1.1. Cyprus

In 2008 Cyprus entered EMU. Although independent since 1960, the British colonial epoch influenced the country's industrial relations system. Since the invasion by Turkey in 1974, Cyprus has been divided between the Greek part and the internationally non-recognised Northern part of the island under the domination of Turkey. Cyprus entered the EU as a whole in 2005, but the *acquis* is applied only in the part controlled by the Government of Cyprus. Cyprus is also richer than most of the other new member states. In 2007, GDP per capita in Cyprus reach 92% of the EU average in PPS.

As far as the political system is concerned , the originality of Cyprus is the presence of a strong communist party. The main political parties are: the Progressive Party of Working People or Anorthotikon Komma Ergazomenou Laou--AKEL (communist); the Democratic Party or Dimokratikon Komma--DIKO (centre-right); the Democratic Rally or Dimokratikos Synagermos--DISY (right); the Movement for Social Democracy or Eleftheron Dimokratikon--EDEK (socialist); the European Part or Evropaiko Komma, Ευρωπαϊκό Κόμμα (EUROKO), the Ecological and Environmental Movement or Κίνημα Οικολόγων Περιβαλλοντιστών; *Kinima Oikologon Perivallontiston*, (green); the United Democrats or Enomeni Dimokrates--ED (centre-left). The last parliamentary elections took place in May 2006. AKEL emerged as the leading party, with 31% of the votes; DISY was second with 30%. Each has 18 members of parliament (MPs). The results for the other parties are DIKO (11 seats), EDEK (5), EUROKO (3) and the Greens (1). Akek formed a coalition with DIKO and EDEK.

In February 2008, Demetris Christofias became the first member of the communist AKEL to be president of the Republic of Cyprus.

Since the division of the island, numerous negotiation rounds for its reunification have failed. The last major failure was the 2004 "Annan Plan", which won the support of two-thirds of Turkish Cypriots but only a quarter of Greek Cypriots.

For two years following the Annan Plan defeat, the situation was blocked. A breakthrough occurred with the election of Demetris Christofias in February 2008. He immediately pledged to renew settlement efforts under UN auspices. On 25 July 2008, Christofias and Turkish Cypriot leader Mehmet Ali Talat decided to reopen negotiations. In the following months, they met frequently, tackling the core negotiation issues of governance and power sharing, property, the economy, and EU matters.

At first glance, Cyprus could be a perfect case for asymmetrical economic shocks within the EMU as a result of both economic over-specialisation and the political aim of reunification. This should have led to huge debate on EMU accession and the potential for signing broad social pacts. Yet no social pact was agreed on.

Indeed, the Cypriot economy is not very diversified. It relies for 15% of GDP on tourism. For the moment, most of the tourists come from the UK and most of them are retirees. In 2004, of around 2.3 million tourists, 60% came from the UK, 8% from the Nordic countries and 6% from Germany. Russia and other ex-soviet countries accounted for 5% (IMF, 2005: 48).

Even though the authorities in Cyprus have plans to diversify the flows of tourists, to bring in visitors from different countries and with a higher level of revenue, the competition between Mediterranean countries to attract tourists based on sea and sun is fierce. More worryingly, it is a relatively expensive place to go on holiday compared to other countries bordering on the Mediterranean. According the Ministry of Finance: '(...) tourism revenues have stagnated due to intense competition from neighbouring destinations' (Ministry of Finance, 2009: 19). With the exception of Germany, the major sources of tourists are not within the Eurozone and their decisions on holiday destinations could be sensitive to the exchange rate between the Euro and their national currency. This was the case in 2008 when the British pound plunged compared to the Euro, and as a direct consequence Cyprus became much more expensive for British citizens.

From 1990 to 2001, the tourism trend in Cyprus was higher than the world tourism trend. After 11 September 2001, it decreased sharply and is now stable but below the world trend (Cleanthous, 2008: 17), which indicates the sensitivity of this resource to world events. Very close to the Middle East, Cyprus could be rapidly affected by dramatic events in that region.

On the political side, the continuing division of the island and the difficulties in the process of reunification (see the rejection of the Annan plan in 2004) increase the uncertainties about the future. The German example of reunification of two countries - with a huge difference of GDP, productivity and industrial specialisation – demonstrates the possible costs of the reunification process.

We have here two possible cases for asymmetrical shocks: overspecialisation in tourism and the consequences of reunification. Further sources of tension – if contrasted to the standard economic theory on optimal currency areas – lie in the labour market rigidity (with an automatic wage indexation mechanism, COLA) and the still relatively strong trade unions.

What is surprising is that there has been little interest in evaluating and anticipating such potential risks. So far, no serious discussion has been engaged around the possibility of signing a social pact.

Most authors seem to think that the problems are minor ones. For example, according to a recent article by authors from the Ministry of Finance, 'Cyprus exhibited a strong economic performance towards the road to the Emu, but at the same time there seems to be some weakness in the adjustment mechanisms, such as mobility and flexibility of the labour market' (Panikos *et al.*, 2008: 78). According to Michael Artis, 'Cyprus certainly faces some economic problems, but the most prominent of these are not obviously exacerbated (and probably the contrary) by membership of the Euro Area' (Artis, 2008: 25).

Even in academic circles there has been little debate, with the exception of the special issue of *Cyprus Economic Policy Review*. We know of only one project supported after accession by the national research body on macroeconomic adjustment in Cyprus and the Euro (Inek, 2008).

In a speech about the reluctance of the Cypriots to enter the EMU (according to national surveys), a senior member of the Central Bank was also surprised by the lack of national debate. He argued that it cannot be explained 'in terms of any domestic internal debates relating to the theoretical economic risks of "prematurely" adopting the euro. In essence, there were no such debates in Cyprus, as experienced in other

European countries in the past before the adoption of the Euro (…). By analogy an internal theoretical debate could have started in Cyprus based on the importance of the tourism sector to the economy which contributes 12.3% to GDP, according to the Balance of Payments data, and to the fact that 60.6% of tourists visiting Cyprus emanate from non-euro area countries'.

He explained that the lack of any intensive internal debate on the above or similar issues could be due to 'the fact that the country's political and economic elites were aware that not joining the euro area was not an option. The only political voice of dissent, as stated before, had to do with the timing of entry, a "postponement" of one year' (Stavrinakis, 2007).

Three different facts may in fact help to explain the lack of political debate on EMU and thus the emergence of no social pacts. A first, not really official but nevertheless important, reason to explain the wide consensus of the political elites lies in the division of the island and the conditions for a reunification process. As Stavrinakis (2007: 7) has explained, 'Lastly but not least, the introduction of the Euro may enhance the prospects of reaching an agreement between Cyprus's two ethnic communities on the country's still unresolved political problem, because it is believed that the euro can readily be accepted by the Turkish Cypriot community as the legal tender of a reunified Cyprus, whereas in the past an intensive political debate was carried out, between the two communities, concerning the role of the existing Cyprus pound in a reunified Cyprus'.

As in other Member States, therefore, part of the answer to the broad consensus on Monetary Union lies in a political evaluation of the EMU project which is at least as important as the economic one (Fajertag and Pochet, 2000).

The economic situation is the second variable to explain the puzzle of the broad consensus on EMU entry. Part of the answer lies in the high growth of the last 10 years and the low level of unemployment since the mid-1990s. Since 2002 the average growth rate has been about 4% and Cyprus was among the few EU countries not entering recession in 2008. The buoyant housing market was more resilient than those in Spain or Ireland, and the forecasts for 2009 indicate a still slightly positive figure for growth. For 20 years, the unemployment rate has been around 4%. The employment rate is comparable with Scandinavian countries and amounts to more than 70%. Cyprus is also above the EU benchmarks for the employment rate of older workers and women. Inflation seems to be under control. Table 1 below summarises the recent trends for the main key indicators.

Table 1 **Key macroeconomic indicators**

% annual change	1996-2005	2006	2007	2008 (proj.)
GDP	3.5	4.1	4.4	3.8
HCPI	2.7	2.2	2.2	4.4
Unemployment rate	4.4	4.5	3.9	3.9
Employment growth	2.0	2.7	3.1	2.3
Nominal earnings	5.6	4.9	3.5	6.2
Productivity growth	1.5	1.4	1.3	1.5
Current account balance (as % of GDP)	-4.2	-5.9	-9.7	-10.6

Source: Planning Bureau, 2008:49

The current account deficit reached 10.6% in 2008, from less than 5% five years ago. The country is very sensitive to energy prices, important for almost all its consumption. The lack of domestic industry and the low share of agriculture have led to a widening trade deficit in both goods and services. 'The positive balance of travel services has declined from 36.8% of GDP in 2000 to 5.7 in 2007' (Ministry of Finance, 2009: 19). Even though some services are very competitive, financial services for example, the problem is serious and no improvement seems likely in the short term.

On a much more positive note, the government has pursued strict fiscal consolidation. The results are impressive, from a deficit of 6% in 2003 and still 4% in 2004 to a surplus of 3.5% in 2007 (see Table 2). Overall debt has also been reduced by 20% within 5 years and is now well below the 60% threshold (see Table 2 below).

Table 2 **Selected fiscal and government debt indicators**

In percent of GDP	2004	2005	2006	2007 (act.)	2008 (est.)
Government revenue	38.8	41.2	42.4	46.5	45.4
Government current expenditure	38.7	40.0	40.2	39.3	40.6
Overall budget balance	-4.1	-2.3	-1.5	3.5	1.0
Government debt	70.2	69.1	64.6	59.5	49.0

Source: Planning Bureau, 2008:50

In contrast, productivity is particularly low. One factor which could explain this is the relative shift of labour resources towards low value added sectors, such construction and household services.

Two sectors are of growing importance: construction and financial services. In recent years, the growth in the construction sector has been particularly impressive, leading to a sharp increase in prices.

The IMF has aptly described the emergence and development of the financial sector (IMF, 2001: 1) which is tending to replace tourism as the key industry. 'The development of the offshore financial sector in Cyprus has been facilitated by the island's location, a preferential tax regime, an extensive network of double tax treaties, particularly with Eastern European and former Soviet Union countries, a legal and accounting framework based on U.K. law and practice, the availability of a well qualified labour force, particularly well endowed with accounting and legal skills, a reliable telecommunication system, relatively liberal immigration and visa requirements, and a ready supply of office and residential accommodation of a high standard'. Low taxes and the attraction of Russian entrepreneurs who feel comfortable in an Orthodox environment have led to massive investments: the government has for example agreed to the construction of a Russian Orthodox church near Limassol,.

The monetary policy preference is also key to explaining the paucity of debate on EMU. Since its independence in 1960, Cyprus has pegged it currency first to the British pound and then to the ECU/EURO. EMU is considered as the continuation of this strategic choice (Syrichas, 2008). According to the IMF's analysis (2005), 'For more than a decade, the

Cyprus pound's peg to the ECU/euro at an unchanged central parity has been an important feature underpinning the country's impressive economic performance. The peg has helped in bringing about macroeconomic stability, which has been conducive to rapid growth and low unemployment. Indeed, the need to import labour and high labour force participation rates indicate that the economy has been very competitive. The gradual real appreciation of the Cyprus pound since the peg was established in 1992 has reflected mainly the process of real convergence and has not posed a threat for the economy's competitiveness' (IMF, 2005: 58).

To sum up, there are three main reasons why there was no debate in Cyprus on EMU accession. The political reason consisted in the widely shared idea that the Euro could help in the reunification process. The economic reason was that growth and employment rates have been high in the last decade. And finally the collective preference for a stable currency and low inflation which had already been brought about by the pre-EMU regime.

1.2 Malta

Malta is the smallest EU country in both population (about 400,000 citizens) and surface area. The socio-economic profile of the country is largely shaped by its geographic location and limited natural resources, historical events including the British presence for one and half centuries, and specific institutions inherited from further back in history[3]. The country's economic landscape is a mix of market forces and a state-centralised economy, which is a legacy of the socialist period under the Labour government of the 1970s and 1980s (Baldacchino, 2003). On the one hand, Malta has experienced export-led industrialisation based on foreign investments and tourism. On the other hand, it has seen the emergence and development of state and para-state industries.

3. The UK formally acquired Malta in 1814 and the country remained in the Commonwealth even after its independence in 1964. In 1974 Malta became a republic (Cini, 2001).

In 2008, three years after its accession to the European Union, Malta (as well as Cyprus) entered the EMU.

Why has Malta not experienced a social pact to deal with the challenges related to EU and EMU accession?

The following paragraphs illustrate that despite increased economic tensions (much more evident than in Cyprus), the traditional polarisation of Malta's politics and industrial relations, and the clear political divisions over EU accession, have largely limited the scope for social pacts.

From a political point of view, ever since the 1970s, two major parties - the Nationalists (*Partit Nazzjonalista*, PN) and the Malta Labour Party (*Partit Laburista*, MLP) - have dominated the electoral arena. The former is a right-of-centre party - now affiliated to the European People's Party – which stands for the Catholic traditions of Maltese society and has good relations with the Catholic Church. The latter is a left-wing political movement now affiliated to the European Socialist Party with its roots in Fabian socialism and keen to increase the secularisation of Maltese society (Rizzo, 1998). From the end of the 1980s, the third party has been *Alternattiva Demokratika*, a green party movement with a limited electoral consensus.

While in Cyprus EU accession has not represented a key political issue, Malta has witnessed a huge confrontation between pro- and anti-European parties (Zammit, 2005). The Nationalist party has sought closer relations with the European Union, while the MLP has opposed EU membership.[4] In 2003, a referendum saw the victory of the pro-EU forces. The turn-out for the referendum was 92% of eligible voters. The 'yes' camp, supported by the governing Nationalist Party (NP) gained 53.6% of the votes cast. The validity of the result was, however, questioned by the Malta Labour Party (MLP), which claimed that since less than half of all eligible voters voted for membership, the Maltese

4. In the 1970s, under the PN government, an initial Association agreement was signed by Malta and the European Community. But in the following 16 years of Labour governments, no major advancements proved possible. In 1987, the new PN cabinet applied for EU membership (ibidem, pp. 3-5).

electorate had rejected EU membership. This political split has been paralleled by a huge confrontation between the social partners (see Section 2). In many respects the divisive debate on the EU has both shaped political dynamics and limited the scope for social pacts. And this has happened despite huge economic challenges.

As far as the economy is concerned, Malta is characterised primarily by the limited role of agriculture and fisheries, while the industrial sector accounts for about a third of the domestic product. Manufacturing, ship-building and -repair constitute the major sectors of industry, and electrical engineering is a driving force. About two thirds of GDP derives from the service economy, with tourism the leading sector (CEC, 1999). From a macro-economic point of view, Malta's level of domestic product has increased significantly - by about 20% in real terms during the 1990s - but is still below the EU average (see Table 3).

Yet, in the first part of the current decade, economic activity weakened: the country went into recession in 2001 (-1.6%) and 2003 (-0.3%) due to a stagnation in tourism and manufacturing, in parallel with a contraction of fixed capital formation and strong current account imbalances (CEC, 2003).

In the last decade, the unemployment rate was around 7% while the employment rate was particularly low (about 50%). The State budget experienced increased tensions, with a record deficit of 10% of GDP in 1998. This negative trend contributed to the growing public debt that represented one of the major problem for Malta in acceding to the EU.

No major problems, by contrast, came from its entry into EMU. The monetary policy objective of the Central Bank has long been exchange rate stability. Before EMU entry, in fact, the Maltese Lira was linked to a basket of the three main international currencies (British pound, US dollar and ECU and then Euro).

Table 3 **Selected macroeconomic and fiscal indicators on Malta**

	1998	2000	2002	2004	2006	2008
GDP growth	3.4	6.4	2.6	1.0	3.3	2.5
GDP per capita (EU-27, 100)	80.5	83.6	79.5	77.2	76.7	79.0
Unemployment rate	-	6.7	7.5	7.4	7.1	5.9
Employment rate	-	54.2	54.4	54.0	53.6	55.2
Account balance	-5.7	-12.6	2.4	-6.0	-9.2	-6.3
Budget balance	-9.9	-6.2	-5.5	-4.7	-2.6	-4.7
Government debt	53.4	55.9	60.1	72.1	63.7	64.1

Source: Eurostat (2009).

The economic landscape mainly consists of three complementary areas. Firstly, medium-sized export-oriented firms have seen high rates of unionisation and compromise-oriented industrial relations (Baldacchino, 2003). Secondly, the Maltese economy is characterised by the absence of large enterprises, while small and medium-sized (and micro-) enterprises are the typical economic players. Family ties play a major role in management, and the presence of trade unions in these firms is very limited. Thirdly, between the 1970s and 1980s, Malta experienced a wave of nationalisation and a stimulus to establish locally owned enterprises. Under the Labour government, public and formally private (but politically protected) firms grew: both public utilities (energy, transport, telecommunications, etc.) and private projects such as shipyards and food processing were protected through tariff barriers and state orders. This public and quasi-public sector is largely unionised and has experienced conflicts and disputes between the social partners and the government (Debono, 2006).

As for Malta's welfare policies, they have been largely shaped by the British influence. The contemporary welfare state is usually dated back to the 1956 Social Security and Social Assistance Act: in line with the UK model, social security consisted of modest flat rate contributions and benefit paralleled by means-tested schemes. This was developed together with free state health care financed through general taxation (Pace, 2009). In the 1970s, an earnings-related pension programme was introduced which departed from the British model mentioned above. Health care is well developed and largely privatised: more than

40% of total health expenses are private[5]. The administration of social programmes is centralised and fully handled by the competent ministries and their departments. The role of social partners is quite limited.

EU accession has thus consisted of a set of key challenges to the Maltese economy (see also Bonello, 2002). According to the EU Commission's reports of the last few years, Malta has faced tensions related to reduction of the general government deficit and debt, restructuring of public enterprises and utilities, implementation of structural reforms (to curb public welfare spending and to privatise public enterprises) and the broad liberalisation of markets and prices (see Zammit, 2005 for a summary). Much of the recent trend in industrial relations has been related to these challenges. Yet despite the latter, no social pact has emerged. As pointed out above, the traditional polarisation of both politics and industrial relations and the huge divisions over EU accession have largely limited the opportunity for national social concertation.

2. Mapping the social dialogue actors and institutions

In the two countries under scrutiny, the social dialogue landscape is largely characterised by strong actors (especially trade unions) and the presence of a complex set of institutions for the functioning of industrial relations. And yet, despite these favourable preconditions, neither country has experienced social pacts.

2.1 Cyprus

Actors

Since its independence in 1960, two features have characterised the Cypriot system of industrial relations: voluntarism and tri-partite cooperation. Cyprus has relatively strong trade unions and, in comparative terms, a rather high rate of unionisation: trade union

5. According to Pace (2009: 355), in 2000 the World Health Organization declared Malta's health care system to be the 5th best in the world.

density is about 70%, which is well above the EU average, and collective bargaining coverage stands at 68%, a little higher than the EU average.

The two main trade unions are the Cyprus Workers' Confederation (SEK) and the Pancyprian Federation of Labour (PEO). The first is a member of ETUC, the second is not because it is closely linked to the communist party and is also a member of WFTU. Both have around 70,000 members. The two others are the Democratic Labour Federation of Cyprus (DEOK) with around 7,000 members and a small Christian trade union, the Pancyprian Federation of Independent Trade Unions.

In addition, there are important sectoral unions outside the confederations, in particular PASYDY with 16,400 members, which covers public servants, ETYK, with 9,700 members, which organises bank staff, OELMEK with 4,600, which organises secondary school teachers, and POED with 4,500, another elementary school teachers' union.

For the employers' side, the two main employers' organisations are the Employers' and Industrialists' Federation (OEB), a member of BusinessEurope, and the Cyprus Chamber of Commerce and Industry (CCCI), a member of Eurochambres. Among the other relevant important actors at sectoral level, we should note the Cyprus Federation of the Association of Building Contractors, the Cyprus Association of Bank Employers and the Pancyprian Association of Hoteliers (PASYXE).

Collective bargaining dynamics and institutions

Collective bargaining is centralised in the public and semi-public sectors. For the private sector it mainly takes place at company level. Nevertheless there are also many agreements at sectoral level. In 2003, 13 sectors had a collective agreement: leather goods, clothing, footwear, metal products, construction, construction companies, electrical installations, transport, hotel, catering, oil companies and the financial sector. Bargaining covers around 25% of the workforce. In 2007, 17 sectors had a collective agreement. According to the Dublin Foundation report it is still disputed which level is more important but there are indications that it could be the sectoral one (Soumeli, 2009).

Concerning social dialogue in general, there is no lack of institutions; quite the opposite. The main tripartite social dialogue body is the *Labour Advisory Board*. It advises the Minister of Labour and Social Insurance on matters concerning social insurance, social security, social welfare, working conditions, training and safety and health, among others. Most consultations result in labour policy and/or legislation. This body advises the Minister of Labour and Social Insurance on labour and employment issues through tripartite technical committees. There are over 50 tripartite committees (*ad hoc* or permanent).

The *Economic Consultative Committee* meets on an annual basis and is presided over by the Minister of Finance. This Committee comprises representatives of the trade unions and the employers' organisations as well as other officials and institutions such as the Minister of Commerce and Industry, the Minister of Labour and Social Insurance, the Governor of the Central Bank and independent experts. At its meetings information is provided about all aspects of the Cyprus economy and there are exchanges of opinions and consultations on future planning for an improved economic environment (Nikolaou, 2002).

The cost of living allowance (COLA) is directly linked to the percentage change in consumer prices. It is granted automatically every 6 months (in January and July). The COLA system has been in operation since 1944. It has been considered a non-negotiable issue during collective bargaining, enjoying strong support from trade unions and governments alike. As the labour market is tight and economic growth higher than the EU average, it is difficult for the employers to open a real debate about indexation. According to Eliofoutou (2008), limited surveys have revealed no conclusive results on its possible impact on inflation. The full indexation of wages is for the moment neither a political nor a social debate because of the huge growth record and the low unemployment level. It is a widely accepted notion that wage indexation in Cyprus has contributed towards maintaining industrial peace and social consensus.

Part of the wage moderation in the last year derives from the huge flows of migrant workers who are not represented by the trade unions. As mobile workers in the tourism industry, they often fear being put on a black list if they join a trade union (see next section).

The public sector accounts for around 18% of the labour force. Many believe that this percentage is 'too' high and that the main goal of the government should be to impose more flexibility and downsize the public sector.

According to the recent study by the Dublin Foundation, wage flexibility is still in the early stage of development (Soumeli, 2009).

Concerning developments immediately prior to the financial and economic crisis, both the public sector and then the private sector were asking for high wage increases.

According to the European Commission (2008: 13), 'Public sector wages showed a notable pick up during 2002 and 2003, outpacing wage increases in the private sector. Afterwards, wage setting in the public sector has acted as a guide for private sector wage negotiations. In 2004 and 2005, the government agreed with public sector unions not to increase contractual salaries, as an important element of the fiscal consolidation strategy'.

Before entry into EMU in 2008, the debate about wage increase was very tough in the private sector. Both main trade unions decided to demand wage increases that would outstrip productivity. According to SEK, there are several reasons for demanding wage increases in excess of productivity:

— the robust growth rate of the Cypriot economy,
— low unemployment,
— controlled inflation, despite the recent upsurge in inflationary pressures (Soumeli, 2009).

PEO's demands went along the same lines. It argued that wage increases were justified by the need to converge to the wage levels in the more advanced countries of the former EU15. In response, the Governor of the Central Bank of Cyprus, Athanasios Orphanides, referred indirectly to the need to reform the system of wage indexation, and stressed that indexation is a means of transferring higher inflation onto wages. This position was supported by the Employers' and Industrialists' Federation (OEB).

2.2 Malta

As argued above, both its geographical position and poverty of natural resources, its long-term history and the British influence all contributed to the economic landscape of Malta. This set of factors has also shaped labour relations.

Industrial relations in Malta developed in accordance with British traditions. Local trade unions were originally craft unions and in many respects they represented local branches of British labour movements (Baldacchino, 2003). This has led to the dominant role of radicalism in the social partners' behaviour and the intimate connection between socialist trade unions and the Labour party. An alternative and more recent approach has been developed by the more centrist trade unions. As argued above, the combination of the split between labour and employers' organisations and that between trade unions along ideological lines tends to limit the scope for a more consensual approach to industrial relations and the opportunity to promote social partnership.

Paternalism is the second traditional trait of Maltese politics. The state is always seen as the main actor exerting political functions and taking decisions in socio-economic matters. Dialogue between the government and social partners has long been interpreted as evidence of the former weakness. The same confrontational attitude characterises industrial relations at the enterprise level. Some authors have talked of a Latin or 'macho' culture, where the employer is used to imposing decisions and controlling management strategies with no participation by employees' representatives in terms of either concertation or consultation. In the words of Zammit (2003: 68), 'as a result the established model of industrial relations in Malta is that of voluntary, bi-partite, collective bargaining at the enterprise level (...) in a polarised relationship between employers and trade unions'.

The Maltese social partners

The labour movement in Malta is strong in many respects and may be defined as highly influential in Maltese society. Up to the beginning of the 21st century, membership continued to increase. Yet in recent years union density has started to decline, due to economic restructuring, privatisation and the downsizing trend of firms (see Table 4).

Table 4 **Malta's trade union membership (1993-2008)***

	Membership	Density
1988	63,413	59.0
1993	73,523	60.6
1998	81,703	63.3
2003	86,061	64.5
2008	84,172	59.3

* This is the net trade union density: the number of members as a proportion of the total labour force that could become trade union members.
Source: Debono (2009)

The key actors in the workers' camp are the two union confederations – the General Workers' Union (GWU) and the Confederation of Malta Trade Unions (CMTU). More marginal is the role of another group of eight unions known as Forum Unions Maltin (FORUM) set up in 2004.[6]

The *General Workers Union* (GWU) - was formed in 1943 at the naval dockyards. In 1945, the *Trade union and trade disputes ordinance* laid the basis for legitimate action by the social partners and the legal resolution of trade disputes. What is more, the reorganisation of the *Labour Party* (MLP) was consistent with the renewed alliance between the party and trade unions. After the election of the Labour government in 1971, cooperation between government and workers' representatives developed on wage, welfare and price control policy.[7] The deterioration of inter-union relations, especially between manual and non-manual workers, led to the emergence of the second umbrella organisation: the *Confederation of Malta Trade Unions* (CMTU). And within this confederation, from the late 1970s, the *Union Haddiema Maghqudin* (UHM) emerged as a leading general union. The latter incorporated smaller unions into a unified front against GWU and its alliance with the MLP.

GWU is still the biggest trade union organisation, with more than 50% of the country's union membership. The largest proportion of members

6. A major reason for the creation of FORUM was to obtain seats in the tripartite *Malta Council for Economic and Social Development* (MCESD). This attempt was not successful.
7. In 1978, MLP and GWU signed their statutoty fusion that remained in force until 1992.

is in public and quasi-public sectors (public utilities, etc.) with a high presence in the industrial sector too, especially in large and medium-sized enterprises (Baldacchino, 2009). Relations between GWU and the government largely depend on the colour of the ruling coalition, and thus move from strong cooperation in the case of Labour governments to tense confrontation when the more centrist Nationalist party rules. As far as EU accession is concerned, GWU as well as MLP opposed EU membership - and then EMU - for both political and economic reasons. As to the former, EU membership was assumed to be incompatible with the neutrality of Malta. As to the latter, major negative effects were thought likely to result from EU accession. On the one hand, being part of the EU was expected to lead to significant immigration flows with the risk of having a huge impact on a small and over-populated country. On the other, GWU argued about the risks for small and medium-sized enterprises in the EU single market and about the need to safeguard social standards and welfare institutions in a more liberal economic context. Doubts about EMU accession arose as well. After the presentation of the Government's convergence programme of 2003, GWU criticised the government both in terms of procedures and the decision itself, and warned that the government's convergence programme should not put undue pressure on Maltese workers and pensioners. Moreover, GWU recommended the development of a strategy for job creation. The government's proposal in the convergence plan to create 1,000 new jobs per year was accused of being insufficiently optimistic (Debono, 2004).

The second largest union organisation is the *Confederation of Malta Trade Unions* (CMTU), an umbrella organisation of a number of 'free' independent unions sharing the Catholic ideology. At the end of the 1990s total CMTU affiliates amounted to more than 32,000: about 40% of total trade union membership. Within CMTU, *Union Haddiema Maghqudin* (UHM) is the largest general union organised according to different sections in different economic sectors. At the beginning of the 21st century, it accounted for 25,000 members or about 30% of total union membership. This organisation is particularly strong in the public administration and among white-collar workers. UHM is affiliated to the International Federation of Public Service Employees and the European Federation of Public Service Employees (EuroFedop).

CMTU and UHM have viewed EU membership as an opportunity. In line with the PN stance in favour of EU, the centrist trade unions have justified their pro-EU position from both a political, if not cultural, point of view and an economic point of view. On the one hand, they have stressed the affinity of Malta's history and culture with Europe. On the other, they have stressed the potential for increased financial and monetary stability and thus for boosting the country's economic competitiveness. What is more, they have used a social argument as well, pointing out that EU accession would mean the adoption of the Social Charter, with clear guidelines for the future of Malta's social policy (Zammit, 2005).

As for the employers' side, data from the Registrar of Trade Unions shows that total membership accounted for more than 8,500 enterprises (Zammit, 2003: 97). As a consequence, employer organisation density is about 57%. Many associations have been set up from the 19th century onwards. Such a proliferation has not led to any more coherent representation. There is not one single umbrella organisation of Maltese emploers. Rather, around 30 associations are active; and many employers are not affiliated to any organisation and do not harmonise their activities. The largest institution is the *Chamber of Commerce, Enterprise and Industry* (CoCEI). This organisation was set up in 2009 and resulted from a merger of the Chamber of Commerce (CoC)and the Federation of Industry (FOI). The former was founded in 1848 and represented merchants, bankers and manufacturers. Its function was to promote business interests, to provide legal advice and to give advice to the government. The latter was founded in 1946 with the aim of protecting the interests of manufacturing industry and services while influencing government decisions.

The Malta Employers' Association (MEA) is the other important employers' organisation. It was founded in 1965 and is the employers' representative in labour relations and social policy. It defends its members before industrial tribunals. Ten sectors are represented: more than 90% of members are private enterprises while the rest consist of public and state controlled enterprises. The service sector is the one most extensively covered by MEA membership (Zammit, 2005). Employers' associations have largely supported EU accession and participation in EMU. As in other southern European countries, Malta's employers have stressed that the EU and EMU in particular could constitute an exogenous constraint on national decision-makers to implement those structural reforms the country needs. In particular, stronger discipline in budgetary and fiscal policy and the broad restructuring of the country's economy could be advanced (Debono and Rizzo, 2008).

Industrial relations: long-term trends and institutions

Social dialogue in Malta is regulated through the *Employment and Industrial Relations Act* (EIRA) of 2002. This represents the cornerstone of industrial relations in the country (see Section 3 for more details). EIRA defines basic working conditions and the national minimum wage and recognises the right of workers and employers to form their associations. It establishes the Industrial Tribunal that arbitrates in industrial disputes, such as in cases of unfair dismissal (Baldacchino, 2003).

On the basis of EIRA and other regulations, the state plays a key role in industrial relations. On the one hand, the state is the country's major employer, directly responsible for the working conditions of about 40% of the labour force. On the other hand, the state enacts labour market legislation and the *Department of Industrial and Employment Relations* (DIER) is responsible for mediating in industrial disputes, together with the Industrial Tribunal set up by the minister responsible. The DIER is responsible for providing conciliation services to the contestants. It is responsible for the establishment of the tri-partite Authority for Occupational Health and Safety. The *Employment and Training Corporation* is competent for labour market skills.

Apart form the role of public bodies, wages and other working conditions are mainly determined through collective bargaining at the enterprise level. Collective agreements cover both procedural and substantive issues and their standard duration is three years. In addition to enterprise-level bargaining, national-level dialogue has developed in two different phases. From the 1970s and until 1987, the Labour government strongly emphasised the need for close cooperation between MPA and GWU to realise the shared goals of economic independence and workers' involvement in the country's economic machinery, in line with the principle of workers' participation. This phase consisted of the emergence and initial institutionalisation of national social dialogue. During that period, trade union officials were often included in the government. The main achievements of the period were the introduction of a national minimum wage, the setting up of a national pension scheme and other welfare advancements (see Section 1 above).

The second phase - as from 1987 - has been characterised by the rule of Nationalist party governments, with a brief period of a Labour cabinet between 1996 and 1998.[8] In 1988, the nationalist government set up the National Economic Development Council (then labelled the *Malta Council for Economic Development*, MCED). It was a tripartite body with advisory functions. In particular, the Council had to prepare a development plan, to propose guidelines for wage policy and for productivity increases and indexation. Other topical issues have included EU accession, job creation, industrial relations in general, budgetary policy, etc.

This period witnessed a shift from the state-centred bargaining of the Labour period to the principle of 'social partnership' influenced by the Christian ideology of the NP and consistent with the paradigm of a 'social market economy'.[9] The MCED represented the first attempt to bring together different social partners and overcome the Maltese tradition of polarised confrontation between political and social forces. The 1990 agreement on income policy is one of the key achievements of this body. The deal, initially struck for a 3-year period, consisted of the definition of an annual adjustment (COLA) in the cost of living index.

The Council has developed its activity through *ad hoc* working groups on macro-economics, industrial relations, tertiary activities, industry and budgetary policy. Since 2000, a number of *ad hoc* subcommittees have been set up to develop broad dialogue on the preparation of the government's annual budget. Formal dialogue between the social partners and the government before finalisation of the annual budget is proof of the overall attempt for more open cooperation between the parties - even in the absence of any social agreement.

8. A general election in 2008 saw the victory of the Nationalist Party with a slight majority of parliamentary seats.

9. As Zammit (2003: 114) puts it, the ideological foundation of the MCED was a belief in social partnership as a reaction to the doctrines of class struggle and unrestrained capitalism, both of which were rejected.

From the late 1990s onwards, the social partners and political forces started to discuss the limitations of MCED activity and its reform. Various proposals were made as to how to reform it. Following the advice of ILO officials and the organisation of a EU-ILO conference the government put forward a Bill on the establishment of the *Malta Council for Economic and Social Development* (MCESD) that became law in 2001. The renewed Council is appointed by the Prime Minister and is composed of a chairperson, nine representatives nominated by employers' and workers' organisations, four representatives of the government and the Governor of the Central Bank. Its advisory role and competence were widened to include social policy issues as well as economic matters, with an explicit reference to the provision of administrative, informational and financial resources. Moreover, a *Forum for Civil Society* (FCS) was set up, to be appointed by the tripartite MCESD Council.

3. Social dialogue and recent attempts to establish social pacts in the shadow of EU and EMU participation

Industrial relations in the two countries have recently undergone attempts to reshape both approaches, institutions and content. In Cyprus, two main strategies (both of them alternatives to social pacts) have been pursued to deal with the effects of EMU: more labour market flexibility, especially through immigration, and economic diversification. In Malta, more ambituous attempts to strengthen national social dialogue have been proposed. They led to the failed negotiations for a broad social pact in 2005 and to a functional equivalent, namely the yearly pre-budget consultations between the government and social partners.

3.1. Labour market segmentation and economic diversification in Cyprus

In the absence of a social pact, two different courses of action have been followed. The first is to enhance labour market flexibility by accepting a huge number of EU and non EU migrants. The second is to develop new sectors which could provide a new international specialisation for Cyprus. We will examine them in turn.

The labour market is segmented between national citizens who are fully covered by collective agreements and a rapidly growing migrant worker population which is often at the margins of the labour market. In 2008, Cyprus had more than 85,000 legal migrant workers and around 15.000 illegal ones, i.e. around 26% of the workforce.

Table 5 **Foreign workers in Cyprus (as a percentage of total employed people)**

Year	Total of foreign workers	Total of employed in CY	%
2005	58,783	348,000	16.89
2006	63,146	357,300	17.67
2007	81,828	377,900	21.65
2008	98,798	382,900	25.80

Source: SEK trade union school, 2009

The same thing has happened in another country, Greece, which has no tradition of a migrant labour force. Around 45% of the migrant workers come from other EU countries. Cyprus opened its labour market when entering the EU. As an unexpected consequence, there was an inflow of migrants from Central and Eastern Europe. In 2008, Romania (10,359), Greece (9,427), Bulgaria (8,289), the UK (5,600) and Poland (4,081) were the most significant countries of origin.

Most of the foreign workers are relatively young (20-30 years old), and low-skilled, thus with lower productivity than the domestic labour force. The largest share of the total, 21.5%, is employed as household workers while another 19% is employed in the tourism sector. The construction and trade sectors employ 12.75% and 18.5% respectively (Eliofotou, 2008: 3). They have positively contributed to the rapid GDP growth of the last 10 years. Some estimates suggest a contribution of 70% (Christofides *et al.*, 2007).

More generally, the huge numbers of migrant workers are not well integrated in Cypriot society, one indication being the low level of mixed marriages. According to the INEK study on the employment conditions of migrants, around 12,000 migrants are members of trade unions, well below the unionisation rate (Eurofound, 2007). The relative rigidity and the tight labour market (full employment) is partly compensated for by the flow of migrants. Moreover, inflows of foreign workers, who are mainly employed in sectors where the labour market is particularly tight, put downward pressure on wages.

In the short term, Cyprus has been affected by the financial and economic crisis, albeit less than most of the other EU members. The government has launched a modest stimulus package (0.3% of GDP) targeting the tourism and construction sectors. It included provision for increasing the grant to the Cyprus Tourism Organisation (0.07% of GDP) and speeding up the implementation of infrastructure projects (0.2%) (Ministry of Finance, 2009). The Cypriot strategy is one of diversification. Some are thinking that the island could become a financial hub for the region (interviews, 2008) but this idea is by no means shared by all (interviews, 2008).

Two major problems for the future are the lack of public transportation - therefore everybody relies on their private vehicles - and a growing problem with water, which is unlikely to improve given the challenges of climate change. Water has to be imported from Greece and there is an increasing need to expand and multiply the island's desalination plants. It is also a problem when discussing how to generate revenue from richer groups of tourists, for whom golf courses for example are considered necessary.

In general terms the goal is to sell more services and to continue to develop financial services. Due to a lax fiscal regime for enterprises, Cyprus wants to attract off shore companies.

The economic strategy for the future is based on at least three pillars. As discussed above, the first pillar concerns improvements in the tourism industry. The goal is to attract more value added, by having richer people coming from countries other than the UK, for example Scandinavia. To do so, the infrastructure must be improved. Incentives have been created for withdrawing low class hotel accommodation (Planning Bureau, 2008).

The alternative would be to replicate the previous model based on a quantitative approach to the northern part of the island. If richer people have to be attracted, good infrastructure including health care could be part of the package.

The second pillar is thus investing in the health industry. This is linked to the previous point, in that richer elderly people are attracted by a good health service. Cyprus could attract people for specific medical specialisations, especially given its advantage of having English-speaking doctors.

Another way of diversifying the economy is to invest in tertiary education. The local advantage is that education can be provided in English. The plan is to attract students from south-east Asia who cannot afford to go to the US or Australia. Two years ago, private colleges got permission to become private universities, and out of a large number of colleges only 3 obtained permission to become universities. There is no limit on attracting foreign students. For the moment there are 9,000 foreign students in Cyprus. But the opposite trend - of Cypriot students going to Greece or the UK to study for a university degree - is even more pronounced.

One area where concertation has developed is social protection reforms, in particular concerning pensions.[10] More than labour market reforms, pensions seem to be the main social challenge for the present and the future. In terms of total spending as a percentage of GDP, pension spending is expected to increase from 5% (2007) to 13% (2050) due to the rapid ageing of the population (Ministry of Finance, 2009: 75).

Consequently, and despite the still low level of public pension spending, governments have recently started to introduce cost-containment measures. In 2005, the Ministry of Finance sent trade unions a proposal to raise the retirement age of employees in public and educational services and semi-governmental organisations. To help with the consultations, the Ministry sent the unions an explanatory report. According to that report, the retirement age in the public sector had to be raised in order to combat growing financial strains on the pension system. Costs had been increasing, mainly due to the substantial improvement in retirement benefit schemes for public

10. See Shekeris et al. (2009) for an introduction to the Cypriot welfare state.

employees and the projected increase in the numbers of public sector pensioners. The Minister of Finance proposed to gradually raise the mandatory retirement age, beginning in 2005, from 60 to 63.

The unions demanded that the period of service required for a full pension, currently 33 years and four months, should be reduced for certain categories of employees. After protracted negotiations the reform was finally approved and implemented. The trade unions obtained a lengthening of the transitional period and recognition of the right of people in service on 1 July 2005 to decide whether they will remain at work beyond the age of 60 (Natali, 2008). In the same vein, further negotiations were held in 2007 on the containment of public pensions and an increase in the system's revenues. While the government on the one hand and trade unions on the other disagreed on a further rise in the retirement age, they agreed on measures to make the social insurance budget more sustainable in the future.

3.2. Recent trends in social dialogue in Malta

The most recent evolution of social dialogue in Malta has entailed some key developments related to EU accession and then EMU entry. In many respects, the country's socio-economic institutions have been challenged by its move towards Europe. Government imperatives have consisted of the need to improve budgetary sustainability and to increase economic competitiveness through structural reforms (Centre for Labour Studies, 2007). We will summarise these challenges in the light of two keys issues: labour market legislation and collective bargaining; and the (failed) attempts to develop social pacts and a more institutionalised dialogue at national level.

Labour market legislation and company-level collective bargaining

One of the key events that have shaped industrial relations in Malta was the introduction in 2002 of the *Employment and Industrial Relations Act* (EIRA) after a wide-ranging process of consultation lasting 8 years. This in many respects constitutes the cornerstone of the country's industrial relations. EIRA brought the legislation into line with the '*acquis communautaire*' in particular with reference to the following issues: gender discrimination, workers' protection against dismissal and collective redundancies, occupational health and safety, etc. (Zammit, 2003).

Collective bargaining in Malta is normally carried out between the trade union that represents the majority of employees in a particular enterprise and the employer. However, in May 2004, an innovative rescue plan agreement for the airline *Airmalta* was reached between the government and four trade unions representing all different sections of the national airline's employees – the Airline Pilots' Association (ALPA), the Union of Cabin Crew, the General Workers' Union (GWU), and the Association of Airline Engineers. The agreement was described as Malta's first 'social pact' at company level (Debono, 2006).

According to Rizzo (2007), the most recent trade union strategy in collective bargaining has been to seek more concessions and increased flexibility. Especially in wage setting, their main goal has been to maintain the purchasing power of workers' pay.

National-level social dialogue and the failed social pact of 2005

On the labour side, the issue around the possibility of setting up a Trade Union Council has been raised by the president of the Confederation of Malta Trade Unions (CMTU). Lack of trust seems to be the reason behind the rejection by both the GWU and FORUM. Exogenous constraints have not yet been strong enough to force the trade unions to find common ground to establish this important institution.

On the employers' side, in 2007 the Malta Chamber of Commerce and Enterprise and the FOI announced that, after long discussions, they were about to merge. The merger aimed to pool resources and avoid duplication of work. The members of both organisations were asked to approve the merger in 2008. The new organisation, the Malta Chamber of Commerce, Enterprise and Industry, was set up in 2009 on the base of a detailed agreement on the statute and the elections among the hierarchy of the top posts in both organisations (Debono and Rizzo, 2008).

These trends have been consistent with renewed attempts to sign a broad national social pact. In March 2004, the Union Haddiema Maghqudin (UHM) submitted its proposals for a social pact to the MCESD. The document was based on the following priorities: enhancing competitiveness; increasing labour market efficiency; promoting innovation; reducing bureaucracy and creating a business-friendly regulatory environment; a stable economic framework; and enhancing the 'tourism product'. The General Workers' Union (GWU) rejected the term 'social pact'. However, it agreed with the most important ideas behind the concept, calling for the setting up of a task force to address the issue of unemployment and urging the government to take the following steps to increase employment: concrete measures to fasten bureaucracy; meetings with prospective foreign investors; immediate help for the tourism industry; effective consultations to prepare redundant workers for new job opportunities; an extended moratorium on the repayment of loans to workers and young people if they do not find a job; providing students whose parents are unemployed with help to pay for their exams.

The Malta Employers' Association (MEA) put forward its own proposals for a tripartite social pact. These proposals were based on the basic principle that 'only the growth of the private sector can offer a solution to the country's economic problems, and only by addressing these economic problems can the country generate sufficient wealth and growth to increase the standard of living of its citizens'.

In May 2004, both trade unions and employers' associations had meetings with the Prime Minister regarding their proposals to improve Malta's economic situation through social dialogue. In November 2004, the MCESD presented a draft social pact to be debated by representatives of the social partners. The proposed plan aimed to attract investment to Malta while generating better job opportunities and safeguarding the country's social welfare arrangements. It was to cover a three-year period, from January 2005 to December 2007, with the MCESD playing an active role to monitor the implementation and eventual results of the pact (Debono, 2005a). The draft consisted of 22 measures under four headings: stimulating work and economic activity; wage policy; development of human capital; and taxation. Most of these measures were based on the suggestions made by the social partners.

The government and employers' representatives received the draft pact very favourably. But the trade unions immediately raised strong reservations on several points. Lengthy sessions on the social pact were held within the MCESD. Eventually, GWU pulled out of the discussions since it felt that the debates were not leading to any compromises. It stated that the proposed measures would mean a financial burden of hundreds of pounds on the average Maltese worker. GWU rejected several proposals, including that of reducing the number of public holidays. It expressed disappointment that the government would not undertake to refrain from increasing taxes during the period of the proposed social pact. GWU also said that its proposals, which would have saved employers MTL 21.8 million over three years, were not considered by the government and the employers' representatives.

Despite that first setback, following a proposal by the Malta Union of Teachers (MUT), Malta's major unions held discussions facilitated by Edward Zammit, chair of the Workers' Participation Development Centre (WPDC) at the University of Malta. The unions taking part in the discussions included the largest ones, namely the General Workers' Union (GWU), the Union of United Workers (Union Haddiema Maghqudin, UHM), the MUT, the Malta Union of Bank Employees (MUBE), and the Malta Union of Midwives and Nurses (MUMN). After several hours of discussion, Professor Zammit reportedly declared that 'for the first time ever, unions have agreed on a common strategy' (Debono, 2005b).

The trade union representatives presented their set of proposals to the MCESD on 20 January 2005. However, the proposals were not accepted by the employers' representatives. The Chamber of Commerce and Enterprise (CoC), the Federation of Industry (FOI), the Malta Hotels and Restaurants Association (MHRA), the Chamber of Medium and Small Enterprises (GRTU), and the Malta Employers' Association (MEA) issued a joint statement saying that the proposals submitted by the unions reopened a number of points that were previously being discussed within the context of a social pact, without any commitment on measures concerning holidays. The employers stated that they would continue to participate in such discussions only if the issue of public holidays was solved first, a proposal that was refused by the unions.

The social partners proved unable to achieve a consensus. The social pact was therefore not signed, while in its 2005 budget, the government included the abolition of 'vacation leave in lieu', which used to be given for public holidays falling on weekends.

In the ongoing debate about matters related to industrial relations during the year 2007, the most contentious issue concerned the restructuring of the social dialogue mechanism at national level and how to improve the MCESD council (see Farrugia and Debono, 2007a and 2007b for a summary).

Most recent years have seen ongoing attempts to improve social dialogue at national level. Each winter, the government presents its budget proposal for the following year to social partners' representatives. The pre-budget consultation is largely assumed to represent a useful exercise. Despite the opposition of some trade unions (GWU), the broad feedback on the government's budgetary and fiscal policy has been relatively positive and much of the debate has been on concrete issues rather than on ideological terms (Farrugia, 2007; 2008). In line with this trend, at the beginning of 2009, the two major employers' organisations (CoCEI and MEA) and the largest trade union (GWU) agreed on a common proposal to deal with economic downturn (Debono, 2009). The proposal focused on reducing utility bills (after the government increase decided in 2008), lowering the tax burden on enterprises, increasing subsidies and compensating employees adversely affected by the reduction in the working week, and better use of the EU structural funds. The Nationalist government has implemented some of these measures while the social partners have asked for more efforts to help face the short–term needs of employers and employees.

Conclusion

The two countries under scrutiny represent an interest case to test the hypothesis proposed in other chapters on the feasibility of social pacts in the wake of EMU. In both cases, recent EU accession has not led to social pacts. Despite the challenges to their socio-economic structures, neither Cyprus nor Malta has achieved any broad social agreement to deal with such strains.

As far as Cyprus is concerned, this is a perfect case for studying the risk of asymmetrical shocks, due in this instance to economic over-specialisation and the potential effects of political reunification. And yet little debate was initiated before the country entered EMU. The main reasons were: on the one hand, EMU accession could broaden the possibility of reunification; on the other hand, EMU entry was considered a continuation of the previous monetary regime. Indeed, having adopted a strong currency approach for decades and having as results a low level of inflation and a high level of growth and employment, EMU entry was not considered to be a paradigm shift but business as usual. Continuing growth in the 21st century also explains why the actors were not ready to discuss major changes.

Nevertheless, economic growth based first on tourism and then on the financial sector and real estate should have reached its limit. Russia has taken on increasing importance through trade (second partner after the UK), investment in off-shore companies, and tourism. Two strategies, both of them alternatives to social pacts, have been followed. New sectors to be developed, for instance healthcare and tertiary education, could partially compensate for the stagnation of tourism. It is a way to anticipate possible shocks by diversifying the economy.

What is more, the labour market has been made more flexible through the huge influx of migrant workers from both the EU and beyond. Even though no social pact was signed before entry into the Eurozone, Cyprus has – in contrast to the Eastern and Central countries - the actors and the institutions needed to sign social pacts in the event of economic problems.

In the case of Malta, more acute economic tensions - namely lower GDP growth and more intense budgetary strains - have not led to social pacts. In this case, traditional polarisation between political forces and social partners, the huge political split over EU accession (with the consequent limited trust between the social partners), and the recent institutional development of national social dialogue institutions have contributed to the limited record. Major problems have been dealt with through company-level bargaining and a more institutionalised dialogue on budgetary policy.

While tensions between the social partners are still present and economic problems are still on the agenda, there do seem to be some promising steps towards more institutionalised forms of dialogue: EU accession, the need to largely reshape economic and social institutions (through liberalisation, the privatisation of public enterprises, industrial restructuring and budgetary reforms), and the progressive abandonment of the country's British roots in industrial relations in favour of a more European paradigm.

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Social pacts in Slovenia

Miroslav Stanojevic

Introduction

Slovenia's transformation to the market economy has gone through four distinct periods: the junction period (1988-1992); stabilisation and the beginning of economic recovery (1992-1996); accommodation with the EU and EMU regime (1996-2004-2007); the post-euro period (from 2007).

Social pacts started to emerge after the end of the first – and most dramatic – phase of transformation, the junction period (Table 1).

The first group of three annual pacts emerged in the mid-1990s, during the period of early stabilisation of the new system, when the first signs of economic recovery and growth appeared. These pacts were focused on the introduction of restrictive incomes policies as well as the formulation of their implementation mechanisms in the context of the centralised collective bargaining system. The most important side-effect of these annual pacts was the institutionalisation of the tripartite macro-concertation process and the establishment of the Economic and Social Council (ESC) as a central institution of the systematic interactions between key actors in public-policy formulation.

The period of explicit accommodation with the EU and EMU regime (1996-2007) started with an unsuccessful attempt to conclude a wider social pact, continued with relatively effective narrow agreements on incomes policies and the adoption of a moderate reform of the pension system, and was finally marked by the conclusion of a three-year wide-ranging social pact from 2003, a year before Slovenia became a full member of the EU.

The post-euro period is only just beginning in Slovenia. In 2007, after adoption of the euro, a new social pact for 2007-2009 was concluded.

Table 1 **Social pacts and agreements on incomes policies in Slovenia**

	Juncture period (1988-1992)	Stabilisation period (1992-1996)			Accession to EU (1996-2004) and EMU process				Eurozone 2007
Economic context:	**1992**	**1993**	**1994**	**1996**	**1997**	**1999**	**2000**	**2003**	**2006**
GDP	-5.5	2.8	5.3	3.5	4.6	5.2	4.6	3.6	
Unemployment	8.3	9.1	9.1	7.3	7.4	7.6	7.0	6.8	
Inflation	201.3	32.3	19.8	9.7	9.1	6.1	8.9	5.8	
Political context	Right-centre Gov.	Left-centre Govts.							Right centre
Social pacts and agreements on incomes policies		Agreement (social pact) on incomes policy 1994	Social pact 1995	Social pact 1996	Law on incomes policy 1997-1998 (supported by partners) Agreement on incomes policy 1999-2001 Agreements on incomes policy 2001-2003			Social pact 2003-2005	Social pact 2007-2009

Like the previous pacts, this one also deals with restrictive incomes policies and the issue of inflation. In addition, it also strongly and explicitly emphasises the social partners' consensus concerning limitation of public expenditure, i.e. reduction of indirect labour costs as a way of improving the country's competitiveness in international markets.

In subsequent pages I will try to outline the main features of the pacts from these three periods, before which I will summarise the basic characteristics of the first, junction period, when – in spite of the absence of pacts during that period – some major structural conditions were established, enabling the formation of later pacts and their effectiveness in Slovenia.

In the concluding part of the chapter, I will compare social pacts from the three periods. I will try to identify their main common denominators, as well as their distinguishing features during these different periods.

1. The 1988-1992 junction: formation of the actors

During the 1980s, Yugoslavia was faced with an escalating political and economic crisis. Within this multi-ethnic society, the traditional splits within the political elite between market reformers and their opponents were systematically combined with mutually exclusive conceptions concerning (de)centralisation of the federation. In the rapidly changing international context marked by the disintegration of 'real socialism', these internal splits and differences started to evolve into inter-ethnic conflicts and disintegration of the federation. These tensions culminated at the beginning of the 1990s in the final economic and political confrontation, when civil war broke out.

In these circumstances, a general consensus concerning independence and formation of the national state was reached swiftly within Slovenian society. A kind of basic, major social contract was confirmed by national referenda in 1990, in which 86% of voters supported the formation of an independent national state.

Economic conditions: transformational depression

Slovenia embarked on the process of internal political pluralism, and formation of the national state and national economy, as the most advanced part of the former Yugoslav federation. Its robust economic structure consisted of a strong, technologically relatively advanced export sector, which was traditionally oriented towards Germany and other Western markets, and a massive, more traditional labour-intensive sector, which was primarily focused on the less competitive domestic (Yugoslav) and former eastern ('socialist') markets.

The disintegration of the federation implied the disintegration of the internal Yugoslav market and the rapid escalation of a potentially devastating 'transformational depression'. From the end of the 1980s onwards, when negative annual GDP rates occurred for the first time – in 1991 and 1992 the rates were -8.9 and -5.5% – the depression escalated until 1992, when it reached the lowest point. At the end of the 1980s, the annual inflation rate grew rapidly, reaching the level of a few thousand percent before the introduction of the new Slovenian currency. After that, in 1992, when the depression bottomed out, inflation was radically cut to 200% (Silva-Jauregui, 2004: 119).

The vanishing Yugoslav market caused enormous problems within the majority of labour-intensive, traditional Fordist companies and, as it triggered the disintegration of the supply chain, it also caused serious disruption in the more advanced export-oriented companies. As the survival of the export sector was the basic condition of the new national state's survival, the export sector's performance and re-orientation of the economy to the Western markets became priority of public policies in Slovenia. Accordingly, the export sector's influence on policy formulation grew rapidly at that time in Slovenia.

In sectors and regions where the concentration of traditional, labour-intensive industries was at its highest, social tensions started to escalate dramatically. Rapid downsizings in these sectors led to rapid growth in unemployment. Within a few years, the initially almost insignificant unemployment level expanded to 9%.

In spite of the fact that this unemployment rate was quite moderate when compared to the rates witnessed in some other contemporary 'post-communist' countries, its fast growth to the abovementioned level (which has never since been reached again in Slovenia) also fuelled already strong social discontent. When the depression started to bottom out, the discontent started to approach a critically high level.

In spite of all these quite dramatic problems, at that time, as well as later on during the accession process, the new national state did not have any serious problems concerning its budget deficit and public debt. During the junction period, the general government budget was balanced and since then, the budget deficit has remained within 3% of GDP; public debt stood at approximately 20% of GDP and during the 1990s it never exceeded 30% of GDP.

Transformation of the political system: the balance of power between the 'old' and 'new' political parties

At the beginning of the junction period, in the late 1980s, two main political camps were formed in Slovenia: the camp made up of 'old', more left-leaning and left-centre oriented parties, and the camp of 'new', mainly conservative, right and right-centre oriented parties.

The first general elections in 1990 revealed that the electoral body was relatively equally divided between these two blocs. Under these conditions and within the proportional electoral system, neither camp was able to achieve a stable parliamentary majority. Consequently, over the past 15-20 years, Slovenian politics have been marked by a more or less broad coalition formation which combined parties from both camps. Naturally, the governments derived from these coalitions were highly unstable and fragile.

The first general elections in 1990 were won by the right-centre coalition Demos. This was a coalition of 'new' right-wing and right-centre parties linked together by their anti-communist stance and their national independence programme. After the ten days war in June 1991, and the formation of the main national state and economy mechanisms, Demos disintegrated at the end of 1991, and was replaced by the technical government in 1992.

Formation of the social partners

During the change of system, in the years before and immediately after the first elections, a rapid process of trade union political pluralism and fragmentation unfolded. The 'old' reformed Free trade union (ZSSS) used to be connected with the parties from the 'old' camp, and the 'new' trade union Independence (KNSS) was tightly linked to the 'new' conservative camp. Because of these connections to the competing ideological and political camps, the political and ideological splits within the trade-union scene were extremely strong at the end of the 1980s and at the beginning of the 1990s (Stanojevic, 2005).

At that time the trade union density rate was 60%. Massive trade union membership, combined with growing social discontent and fierce inter-union rivalry, significantly influenced contemporary public opinion, occasionally destabilising even the general political scene and relations among the main political parties. These unstable relations changed decisively in spring 1992, when the ‘old’ reformed trade union came into open conflict with government, which wanted to freeze wages, and demonstrated an impressive mobilising power. From that point onwards, this union (ZSSS) established itself as undoubtedly the strongest trade union confederation in Slovenia. It still covers the majority of the trade-unionised workforce in Slovenia, and is still, just as it used to be in that early period, strongly anchored in the key sectors of Slovenian manufacturing industry (Stanojevic, 2005).

During the same period, the Chamber of Commerce had already existed as an influential employers’ organisation. It was already active as a relatively autonomous organisation within the former ‘market socialism’, inheriting the infrastructure as well as the experience of articulating the industries’ interests from that period onwards. At the beginning of the 1990s, the Chamber was a highly centralised organisation, based on compulsory membership. It incorporated 26 sector associations, including large export companies from the metalworking and chemical/ pharmaceutics sectors which exerted a decisive, prevailing influence. Along with these most influential sectors and companies, the construction, retail and wholesale trade associations also had a significant influence on the Chamber’s policies.

In the context of the transformational depression described above and associated problems with which companies were faced with at that time, the Chamber primarily represented the interests of the export sector. It actively participated in the aforementioned struggle for the export sector’s survival. Accordingly, it strongly supported the formulation of public policies geared to the stabilisation and development of the most advanced and largest export companies that had already developed connections with Western markets. These companies were not only vitally interested in formulating policies that would lower inflation and create export-friendly exchange rates, but were also strongly interested in labour-market stabilisation which would lower the uncertainty arising from lack of job security and the associated discontent on the part of workers. The Chamber therefore actively supported the introduction of the collective bargaining system which, thanks to the Chamber's structure, swiftly adopted a highly centralised model, and was later confirmed as a coordination mechanism allowing the institutionalisation of conflicts and relatively efficient regulation of the labour market. During the same period, the Chamber did not oppose the contemporary large-scale introduction of different sorts of radical social policy measures – solving the problem of redundancies by relatively generous unemployment benefits and by early retirement schemes.

At the end of 1992, the most turbulent period of the Slovenian transition was about to come to an end.

In late 1992, the law on privatisation was passed, which strongly emphasised internal buy-outs. Some five years later, this privatisation led to the formation of a state-managerial capitalism with a significant role for workers as co-owners in numerous labour-intensive companies. On the whole, privatisation confirmed and stabilised the endogenous actors' role within the early – and as yet unstable – industrial relations system. It implied a higher level of job security for workers, thereby stabilising the strength and influence of all Slovenian trade unions (Stanojevic, 2003).

Immediately after the adoption of the Law on privatisation, in late 1992, the second general elections took place. This time, after the disintegration of the Demos coalition and at the end of the year when the depression bottomed out and social discontent reached its highest levels, the 'old', left-centre and left-of-centre camp won. A relative majority (almost one quarter of the votes) was achieved by LDS – the successor of the former 'systemic opposition' (former youth organisation) – which formed a broad coalition consisting of all main parties from both camps. The new government began its term of office with a favourable parliamentary majority.

After the 1992 elections, the left-centre 'old' camp established a relative advantage, which they maintained for more than a decade, until 2004, when the new major political shift occurred. It could be that these political constellations, implying the formation of governments traditionally open to the employers' interests and relatively sensitive to trade union demands, also stimulated the formation of pacts and their relative efficiency/success during the accession process in Slovenia.

2. Stabilisation and the beginning of economic recovery: the early chain of social pacts

The first social pacts emerged in Slovenia in the mid-1990s, when the most turbulent phases of the transformational depression were over. Since then – when GDP levels approached those of the second half of the 1980s – social pacts and narrow agreements on incomes policies have been concluded on a relatively systematic basis in Slovenia. As shown in Table 2, the central topic of all these pacts and agreements has been the incomes policy. Within the wider pacts, this central issue has been combined with other policy fields, mostly with labour market issues and social protection arrangements.

At the beginning of the stabilisation period from the mid-1990s onwards, marked by the first signs of economic recovery, 30% inflation was still a serious problem. The unemployment rate was 9%, a level which has not again been reached since then.

The new left-centre coalition government – like the first right-centre Demos government – was highly unstable. Because of pay increases in the public sector, tensions between the 'economic' and 'social' wings within government had already emerged during the first year of office (1992-1996). Soon after that, at the beginning of 1994, the government faced the first serious crisis when the new right-centre SDS abandoned it; in late 1995 the 'old' left-centre ZSLD (today SD) also abandoned it.

The first social pacts were focused on the key macroeconomic and social problems which marked this period – high inflation and the increasing unemployment rate. The main rationale of the pacts was a consensus concerning measures and their implementation to help resolve these problems, but important intervening variables were also legitimising the needs of the government in general, as well as those of its coalition partners involved in the abovementioned internal tensions and conflicts[1] The conclusion of the pacts implied a wider public support which could not be ignored, especially (a year or so) before elections, and they also significantly eased tensions within the government.

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1. Thus the conclusion of the first pact (from the early chain) significantly overlapped with the eruption of the first of the aforementioned crises within the left-centre government.

Table 2 **The main topics/policies of social pacts**

	1994 Agreement (social pact) on incomes policy	1995 Social pact	1996 Social pact	1997-1998 Law on incomes policy (supported by partners)	1999-2001 Agreement on incomes policy	2001-2003 Agreements on incomes policy	2003-2005 Social pact	2007-2009 Social pact
Incomes policies	X	X	X	(X)	X	X	X	X
Minimum wages		X	X	(X)	X	X	X	X
Prices		X	X				X	X
Employment		X	X				X	X
Vocational and professional training							X	X
Health and safety at work							X	X
Public finance		X	X				X	X
Social security		X	X				X	X
Pensions insurance		X	X	PENSION REFORM			X	X
Health insurance							X	X
Globalisation of the economy (EU integration); technology development; competitiveness			X				X	X
Social dialogue and ESC	X	X	X				X	X

Social pacts 1994-1996

The first pact: the first of the early chain of annual pacts was narrowly focused on incomes policy parameters for 1994. Basically, this pact resulted from the several-year-long negotiations and unsuccessful attempts to conclude a wider social pact (which had already started in 1991, during the early formative stage of the new state). Being unable to reach a consensus on wider policy measures, the partners finally limited themselves to the incomes issue and reached a tripartite agreement on incomes policy in early 1994 (1994 agreement on incomes policy, *Dogovor o politiki plač v gospodarstvu za leto 1994*, Uradni list Republike Slovenije, št. 23, str. 1436-1437). The agreement defined the parameters of the restrictive incomes policy for that year and was immediately supplemented by the detailed bipartite-defined implementation mechanism (appendix to the general collective agreement for the manufacturing sector for 1994, *Tarifna priloga k splošni kolektivni pogodbi za gospodarstvo za leto 1994* (ibid, str. 1437-1439).

Only one point of the pact – or 'agreement' – includes content which does not deal with the measures focused on wage restraint for 1994. This is the article in which the Economic and Social Council (ESC) and its main functions are defined. Because of this single article, the first agreement is not merely a narrow technical instrument, but constitutes the initial social pact which marked the beginning of the institutionalisation of the social dialogue process in Slovenia.

The article concerning ESC formation clearly confirmed the unions' and employers' strength at that time when, obviously, the (fragile) government obviously had to respect these players. Because of its own legitimisation needs, the government had to involve these strong actors in the policy formulation processes.

In signing the agreement – the first social pact – the trade unions accepted wage restraint, i.e. the anti-inflationary use of an incomes policy, in exchange for the establishment of the ESC. They agreed to reduce wage growth demands in exchange for institutions which allowed them a regular, institutional approach to (future) policy formulation. Similarly, strong interest in the ESC formation was shown on the employer side, especially within its new voluntary association which was established at that time.

Immediately after the conclusion of the first pact, the ESC entered a serious crisis. The government's representatives, being satisfied with the unions' concessions, simply did not attend the ESC meetings. Accordingly, the government proceeded with the former practice of preparing draft laws without any previous discussions on the ESC. Parliament immediately reacted by demanding that the social partners be involved in the formulation of laws (Kavčič, 2004: 27). This intervention was followed by a wide-ranging public debate, which supported the development of social partnership in Slovenia. At the end of 1994, the Prime Minister sent a letter to the social partners in which he apologised for the procedural mistakes and supported the ESC's role in the process of policy formulation (Lukšič, 1996: 198).

The social pact for 1995 was, compared to the first pact, a relatively extensive document which reiterated the targets of the contemporary economic and social policies: a 5% annual GDP growth rate, inflation no higher than 10% and a *'uniform mechanism of harmonisation for the salaries of all employees, for pensions, other forms of personal income and interest rates and adjustment of these mechanisms to the envisaged inflation rate' (Social agreement for 1995: 1692).* This pact was also strongly focused on incomes policy and on further stabilisation of its implementation mechanism. It defined collective agreements as a key instrument *'for determining basic* salaries' and announced a narrowing of the gap between *'the lowest and highest basic salary'* (str. 1693).

The pact firstly defined the minimum wage which was fixed at the level of 40% of the average gross salary.

Within the pact for 1995, incomes policy is the central component of a wider policy package. It is combined with different policy fields, for instance requiring the Government and the Bank of Slovenia to take measures concerning interest rates and foreign currency policy which should be complementary to the restrictive incomes policies i.e. '*should facilitate the task of achieving the envisaged inflation rate*'.

In the pact, the partners defined the absolute level of annual budget revenue and expenditure, committing themselves to control the targeted reduction of public expenditure. Under the article dealing with social security/insurance issues, some general viewpoints were listed, for instance that social rights would be guaranteed according to feasibility, that social security was a basis of the market economy and must not hinder its further development, and that pension contributions must not burden wages and salaries above the level already reached (pp. 1964).

A separate chapter of the pact dealt with the 'stabilisation of legal security in Slovenia'. The government undertook to ensure the adoption of measures and regulations to improve the efficiency and up-to-date workings of the jurisdictional system.

The social pact for 1996, the last one within the early chain of annual pacts, was strongly influenced by the forthcoming elections. In late 1995, when the ZSLD (reformed communists) left the coalition, different unions from the public sector started to escalate pressure on the government. The most militant among them was the union of medical doctors, FIDES. This union organised a major, three-week-long strike, which resulted in significant salary increases for doctors but then triggered a series of protests and crisis within the public sector.

It was during the climate of the pre-election period that the government and the employers prepared an analysis of the implementation of the former pact, suggesting that pay growth had exceeded the level agreed in 1995. On the basis of this finding, they demanded that the new pact should, to a greater degree than earlier pacts, be focused on wage-growth control mechanisms (Kavčič, 2004: 31).

Trade unions opposed the new agreement on incomes policy and argued in favour of minimum wage and collective agreements, also accentuating wider topics concerning social policies, which were already included in the former pact. During the negotiations leading up to the new pact (at the beginning of May 1996) the major trade union confederation (ZSSS) announced that it was preparing for a general warning strike.

The pact was signed in mid-1996, six months before the elections, in the context of the pressures already described, and the government's 'retreats' under these pressures. Compared to the former pact, it was significantly more extensive (Official Gazette of the Republic of Slovenia, No.29, pp.2439-2443). Basically it repeated and extended numerous articles from the former pact defining (once again) the incomes policies measures in great detail. The social partners wrote that they agreed with the growth in real wages, which would be 2% lower than the GDP rate growth. They also determined a new gross level for the minimum wage.

In the social chapters of the pact, the trade unions protected the position of the most vulnerable groups and also negotiated an important basis and framework for the forthcoming discussion on reforms of the key systemic laws on pensions and the new labour law.

The most visible change in the content of the new pact, compared to the previous one, was the strong emphasis on accommodation with EU standards. The pact was also supplemented by a relatively extensive document concerning employment policy (*Separat o zaposlovanju*).

The regulatory capacity of the third pact was relatively weak. After its adoption, a few months before the elections, a vigorous conflict between employers and unions broke out, provoked by the employers' notice regarding the general collective agreement in September 1996 and proposing a new but more disadvantageous and unacceptable agreement for the unions. The unions started to organise public protests which culminated, in the second half of October 1996, in a general warning strike in which the government supported the trade unions. While the cancelled agreement was then restored, the partners merely agreed, before terminating it, to trigger a new bargaining round for a new general agreement.

3. Accommodation with the EU and EMU regime

In 1996, when Slovenia signed the European Association Agreement, the processes of explicit accommodation with the EU and EMU regime started. Towards the late 1990s these processes gradually escalated, reaching their peak in the concluding years of the accession process, during the first half of the 2000s.

During this period, GDP continued to grow at an average annual rate of 4%. In 1996 Slovenia exceeded its GDP level of the late 1980s (Silva-Jauregui, 2004: 118); in the same year, inflation fell below 10% and has remained between 6 and 9% since 1997. The unemployment rate started to approach 7% after 1994, then escalated to almost 8% in 1998, then gradually declined towards a relatively low level of about 6%.

At the third parliamentary elections of 1996, the LDS improved its previous result and formed a coalition government with one of the 'new' parties – the SLS (Slovenian peoples' party) – and the small Pensioners' Party. The coalition had a small minority of votes in the parliament.

The political and ideological splits and fierce competition between the main trade union confederations that had marked the junction period almost vanished during this period. The leading role of the largest union ZSSS, which demonstrated exceptional mobilising capacity as well as the highest negotiating competencies among all unions, was definitely confirmed.

After three years of continuous work, the ESC was accepted as the institution where regular negotiations and consultations among partners take place. It established itself as an essential institution within the processes of public policy formulation and implementation. Different chapters of the intended social pacts covering different policy areas were regularly on its agenda. The oldest of these 'chapters', the incomes policy area, was a permanent central topic familiar to all the actors involved. At an early stage – within the second annual pact of 1995 – steps were first taken to connect it to the other chapters. Unions normally linked their acceptance of restrictive incomes policies via changes/accommodations of other policies to their interests as they perceived them, and employers systematically supported these policies, trying simultaneously to limit growth in public expenditure. As a result, social pact negotiations have been a difficult process entailing numerous disagreements, postponements and failures.

Law on incomes policy (1997-1998) and agreement on incomes policy for 1999-2001

The beginning of the accession period was marked by this type of major failure. During the first year of the new government's term of office, a new wide-ranging social pact was close to conclusion when the employers refused to sign it, disagreeing with the proposed chapter on public expenditure, which they perceived as unacceptably high, and therefore a significant threat to the economy's competitiveness. After that failure, the government, referring to the previous discussion on incomes policy, unilaterally enacted the parameters of the restrictive incomes policy for the next two years (1997 and 1998).

This law on incomes policy represented a sort of turning point in the wage-formation system in Slovenia. It sought to significantly 'ease wage indexation', implying a change in the rate of wage growth, which as from this point began to lag behind growth rates in productivity. The partners tacitly agreed with this more restrictive approach, and subsequently supported it explicitly in a series of agreements on incomes policies, which were adopted as autonomous agreements and/or as parts of wider social pacts during the following decade.

In the pre-election year 1999, a new attempt to reach a social pact was triggered, but it was again unsuccessful, this time because of the proposed pension reform. The trade unions made their acceptance of the new social pact conditional upon a 'softening' of the proposed pension reform. In this context, a new narrow agreement on incomes policy was signed by all partners and then enacted for the period 1999-2001 (Uradni list RS, št. 39/99).

Pension reform

During this period the ESC, in spite of the failures concerning formation of wider social pacts, focused its efforts on the main systemic laws, namely, the law on pensions and the new labour law.

The debate on the pension system was extremely fraught. The government's initial proposals caused massive public protests. In March 1998, a large rally with approximately 20,000 participants – the largest union protest action ever at that time in Slovenia – against the proposed pension reform was organised and then repeated a year later. The concluding proposal, which was significantly watered down compared to its first version, was finally consensually accepted at the ESC in mid-1999, and then adopted in parliament.

The law basically modernised the public pension system and prevented any radical privatisation of the pension funds. Stanovnik (2004: 326) writes that this reform '...has succeeded in stabilising public pension expenditure as a percentage of GDP. Following the passing of the 1999 PDIA (Pension and Disability Insurance Act), the actual retirement age started to increase, and the ratio of the average old-age pension to the average wage started to decrease'.

Conclusion of the accession process (2000-2004): agreements on incomes policies and the 2003-2005 social pact

At the fourth parliamentary elections in 2000, the LDS secured more than one third of the votes, and formed a new broad coalition, with one party from the left (ZSLD, now the Social Democrats) and one from the right (SLS) camp. Some small parties were also included. In spite of the strong integration and mobilisation induced by the final phase of the accession process, this broad coalition also faced a major crisis before the 2004 elections, when the SLS was excluded from it. In the end, the government had a small/marginal majority of seats in the parliament.

At the beginning of the new government's term of office, the social partners adopted an appendix to the agreement on incomes policy for 1999-2001, which was due to expire, extending its validity for another year.

In late 2001, the partners finalised negotiations concerning the new labour law which was passed in parliament six months later and came into force at the beginning of 2003. The new labour law was the second systemic law (the first being the pension law) to result from the consensual decision-making of the social partners. Unlike the drafting and adoption of the pension law, when the unions organised mass protests, the new labour law was debated without any major union pressure (Kavčič, 2004: 50).

Negotiations concerning the new social pact were triggered at the beginning of the term of office of this third left-centre coalition government. The first government's proposal emphasised the importance of continuing the progress Slovenia had already made in terms of balanced economic and social development, especially during the final phase of the accession process (thus ensuring a 'soft landing' in the EU). All partners supported the proposal at its principal level, but simultaneously, especially on the employers' side, demanded a more clearly defined limitation of public expenditure. Because of the discrepancies, the partners used the model which was activated when they adopted the first pact. They simplified the issue and focused on incomes policy. In June 2002, they signed an agreement concerning this policy, ensuring the continuation of the previous agreement (which had already been extended for one year).

A year later, in April 2003, they concluded a new social pact, this time for a three-year period. It was the first wider pact covering a longer period. It overlapped with the concluding phase of Slovenia's accession to the EU, and for the first time, covered the next term of office, i.e. the post-electoral period.

The new pact, which included a lot of new 'European' content/issues, is organised in three main parts.

In the economic part, it strongly emphasises the EU context, suggesting that low inflation is a key condition of the integration process, especially in relation to the EMU issue; Slovenian inclusion in the EMU regime is explained as a necessary precondition for the realisation of its basic developmental aim of socially balanced and sustainable development, an element that was unanimously approved by all social partners.

Also in the economic part of the pact, future tax reform was, for the first time, clearly announced.

Like the earlier pacts, the fourth one also defines a general framework for determining wages, stipulating that growth in gross wages must lag behind productivity by 1% per year. The basic content of this (and all previous) social pact(s) was a search for compromise solutions between the two extremes. While the incomes policy could not be too restrictive because this would cause social dissatisfaction (and deflation), some retrictions were at the same time unavoidable in order to bring down inflation and ensure the competitiveness of the Slovenian economy in international markets (interviews Lombar, 2005; Dimovski, 2005 and Hribar Milič, 2005).

In the second part of the pact, aims and measures concerning employment growth, social security, pensions and health insurance are defined in a quite precise/detailed manner. As with the tax issue, the pact defines starting points for reform of the health insurance system.

Along with this basic content, the social partners also included some new issues in the fourth social pact. The pact, for instance, deals with equal opportunities, as well as family and housing policies, issues which were not mentioned in the previous documents.

In the third part, the issue of legal security is emphasised and developed in more detail than in the previous pacts.

4. Post-EU development: third phase of EMU, attempt and failure of a grand neo-liberal shift, and post-euro social pact (2007-2009)

At the end of 2004, approximately six months after Slovenia's formal accession to the EU, the 'new' right-centre parties won the elections. This was the first fundamental ideological and political change within the Slovenian political system since the introduction of parliamentary democracy (Fink-Hafner in Krašovec, 2004: 27).

This time, all of the coalition partners that formed the new government were – with the exception of the small pensioners' party – from the new conservative party cluster. Like the former coalitions, the new government was, after an initial phase of unity, also marked by internal tensions and serious crisis, clearly visible in numerous resignations of ministers, from the early resignation of the Minister for (projected radical) Reforms to the dismissal of the Minister for Work and Family, and the resignations of their colleagues in the Ministries of Health and Transport.

At the beginning of its term of office, the new government announced an ambitious programme of radical neo-liberal reforms. The reform package had been basically drawn up under the former government, but then refined and radicalised by neo-liberal advisers from the Strategic and Economic Council. During the promotion of the package, the proposal for a flat rate of tax became a central issue.

The package provoked massive public resistance. At the end of November 2005, the unions organised protests involving workers, public-sector employees (including the Police Trade Union) as well as university and high-school students. After this protest, the largest ever public protest organised by trade unions in Slovenian history, support for the government fell significantly, causing abandonment of the intended tax reform, a crisis in the Ministry for Reforms and postponement and/or more gradual implementation of the other planned reforms.

In January 2007, after fulfilling all the Maastricht criteria, Slovenia entered the eurozone. During the entire accession period, it was quite successful in terms of EMU criteria, especially concerning its total debt and fiscal deficit, although inflation was a permanent problem (Silva-Jauregui, 2004: 129). This was resolved literally at the 'last moment', thanks to well-planned and well-implemented economic policies, which received decisive support from the consensually accepted restrictive incomes policies.

After Slovenia joined the eurozone, inflation started to grow once again, surpassing EMU criteria and swiftly reaching the *highest* level within the zone during the recent period (2007-2008).

Combined with a relatively long period of restrictive incomes policies, this renewed inflation growth started to affect the lives of workers as well as members of the middle classes. Trade unions responded to the changed situation by new demands for change within the formerly accepted restrictive parameters of collective bargaining. They focused their policies on the formation of less restrictive wage growth.

In November 2007, two years after the large rally which had thwarted the government's grand neo-liberal project, unions from the private sector organised a mass protest which clearly indicated that they had decided to abandon the consensus concerning wage restraint which they had so far supported. Referring to the data which revealed a systematic lowering of the share represented by wages within GDP growth, they have since then escalated pressures on the employers, in an effort to soften the current regime of wage restraint. In spring 2008, they called a general warning strike, soon after which they also hosted, during the ECOFIN Council meeting in Ljubljana, a large European trade union rally at which a wide consensus of the national trade union confederations in terms of a more critical stance towards national competition policies based on systematic wage restraint was clearly confirmed. All these protests had a rather limited effect. Workers from the labour-intensive sectors joined the warning general strike, but in the most important sectors the response was poor. In some significant cases, this poor response by workers was combined with – and hence 'reinforced' by – the rapid conclusion of separate, single employers' agreements strengthening traditionally strong company unionism tendencies within the most advanced export-oriented companies. Recently, closely connected to these events, in April and May 2008, trade unions from the private sector went ahead and negotiated with employers in an attempt to change tariff agreements, a venture in which they have not so far been successful.

Finally, as in the pre-election year 1996, in the pre-election year 2008, trade unions from the public sector again started to step up the pressure on the government in a demand for wage increases. After a debate lasting a few months, combined with strike preparations and inter-union rivalries, the government was relatively successful in neutralising the threatened wave of widespread strikes. To this end, it used the new pay system for the public sector as an effective pacification instrument. In reality, the agreed system produced some tangible 'lump-sum' improvements for some categories of public sector employees in September 2008, literally just a few weeks before the elections.

The 2007-2009 social pact

In mid-2005, before the conflicts outlined above broke out, a discussion concerning the new social pact was triggered, indicating that the macro-economic regulatory and legitimising function of social pacts was quite obviously crucial for the new right-centre government also. The new pact, for the period 2007-2009, was concluded in October of 2007, the year when Slovenia entered the eurozone and a year before the general elections.

Like the former pacts which marked the accession process, the latest one also covers all the usual topics: a restrictive incomes policy, labour market issues and social protection, while reiterating all the other topics from the 2003-2005 pact. A number of new, explicitly emphasised topics are technological development, competitiveness of the economy, employee participation and corporate social responsibility.

The hierarchy of chapters reveals new priorities.

The initial chapters deal with the issues of inflation and price policies, after which the issue of public finance is covered. This is followed by routine supportive statements concerning social dialogue, and by the new topics of technological development and competitiveness. The second group of chapters covers labour market reform and incomes policy issues (primary distribution) and the third part deals with social protection, i.e. with all other issues concerning secondary distribution.

As regards the issue of inflation, which is obviously perceived by all partners as a serious problem, all signatories agreed that the government should use a restrictive approach towards those prices which are still under its control, and that it also has to mitigate the pressures induced by rising oil prices. The employers and trade unions should support the implementation of the agreed incomes policies.

The chapter on public finance states that the partners agreed with the reduction in public expenditure (2% of GDP in the period 2005-2008) and the corresponding easing of the burden on the economy. They are in favour of stronger public financial support for the new priorities like (technological) research and development. They also agreed that some public services should be transferred to private-sector players, under licence.

In addition to these planned gradual restrictions on public expenditure, the partners agreed, in the chapter on the tax system, to further and faster competitive lowering of tax burdens ‘respecting the agreed fiscal policy/framework and possibilities’.

In the chapter on labour market reform and employment, the pact argues for changes which will allow more efficient responsiveness to external factors and ‘...better adaptability of the economy to the growing pressures of world markets’. The partners agreed with the idea of making the labour market more flexible, in a manner that will not jeopardise the balance between flexibility and security. Government should prepare active employment policy measures, should influence/ stimulate the rate of general activity and other as yet less developed forms of flexible work like part-time jobs, home-working and job-sharing (18). In addition, the chapter on social security strongly emphasises the activation principle. Individuals should be supported in their efforts to improve their own situation/position.

Incomes policy is evaluated as a relevant element of social dialogue which '*after joining EMU, is still growing in importance*'. Within the private sector, wage growth, which should refer to productivity rates and inflation growth, should be regulated by collective sector-wide agreements, with possible exceptions in the cases of employers faced with exceptionally difficult circumstances and problems. Within the public sector, where wages are regulated by the public-sector collective agreement and corresponding collective agreements for different parts of that sector, growth in pay is not to surpass wage growth in the private sector. The minimum wage is kept at the level defined by law.

Within the health system, the partners support a stable influence of all partners on the boards of social insurance/security institutions. They agree with the development of the public health system, whereby services should be performed by public as well as by private players, operating under licence.

The partners also ascertained that the pension reform in 2000 lowered the rate of increase in the the number of pensioners, with positive effects on the system's financial sustainability. The main conditions governing the long-term stability of the pension system are economic growth, wage growth, growth in the numbers of employed persons covered by the pension insurance system and tax incentives, family and housing policies.

Conclusion: the changing nature of competitiveness?

In the early 1990s, Slovenia – until then the most developed republic within former Yugoslavia (and the contemporary 'communist' world in general) – became an independent state. Its transformation into a new national economy took place in a context of economic depression and an extremely dramatic political crisis. As a result, this early period of systemic change necessitated a strong interventionist role of the Slovenian state.

Within its relatively developed, export-oriented industry which was traditionally strongly connected to Western markets, the managers of large export companies used to be influential, in a formal capacity within the Chamber of Commerce, and via well organised and represented special interest groups. During the systemic change, a strong trade union movement developed.

These three actors – an interventionist state, influential (export-sector) employers and strong trade unions – seeking to reduce uncertainties i.e. to protect their own interests in the context of an extremely severe external political and economic shock, decisively influenced the formation of the early internal (national) regulatory system in Slovenia. During the brief and intense junction period of the late 1980s and early 1990s, these parties put in place coordinating mechanisms similar to the neo-corporatist regulations established in some European national economies a few decades earlier (see Lehmbruch, 1979; Wilensky, 2002). This development, when compared to the other 'post-communist' systems, most of which gravitated strongly towards more liberal market regulations, was indeed strikingly atypical.

At the end of the junction period, when the 'neo-corporative' system had been given its structure, a new phase of the system's stabilisation and growth began. This was marked by two major (macro) problems: high inflation and a relatively high unemployment rate.

The social pacts of the mid-1990s were focused on these major problems. From the very beginning, the restrictive incomes policy was the central policy among the consensually supported policies designed to tackle these main problems. Moreover, it is the only policy that has enjoyed systematic consensual support and that has remained in use in Slovenia almost without interruption down to the present.

According to the data presented in Table 3. incomes policies were not initially very successful. With the exception of the very first of the early annual pacts, wage growth more or less systematically exceeded the rate of productivity growth.

Table 3 **Social pacts, agreements on incomes policies and wages development in the private and public sectors for 1994-2004**

Year	Social pacts and agreements on incomes policies	Productivity	Wages per person (gross)		
			Private sector	Public sector	Total
1994	Agreement (social pact)	5.7	5.9	-0.3	4.7
1995	Social pact +agreement	3.1	3.7	8.2	5.1
1996	Social pact +agreement	4.6	4.0	6.8	5.1
1997	No	5.3	1.5	3.8	2.4
1998	No	3.6	2.2	-0.2	1.6
1999	Agreement	4.3	3.2	3.7	3.3
2000	Agreement	2.8	1.3	2.1	1.6
2001	Agreement	2.2	2.3	5.1	3.2
2002	Agreement	3.9	2.3	1.1	2.0
2003	Social pact and agreements	2.8	2.1	0.7	1.8
2004		3.6	3.2	-0.8	2.2

Sources: SORS, IMAD, Klinar (2006).

Even so, the results of the government's policies, which were supported by these pacts in that period, were good. During this period, the annual inflation rate fell from more than 30% in 1994 to less than 10% in 1996. During this period, the economy began to grow and unemployment began to decline. As such, it is possible to assert that the policy mix of that period, as formed and implemented by the pacts, was basically effective.

After the first pact, which was a narrow agreement on incomes policy, the two subsequent pacts represented a combination of restrictive incomes policies and other labour market and social policies. In the Slovenian context, the nature and content of these combinations was significantly determined by the strength of the unions and the employer organisations. During that period of stabilisation, the government was seeking combinations that would improve the economy's competitiveness in a manner or within limits that would be acceptable to these strong partners.

These early pacts of the mid-1990s were connected to the two major political trade-offs. The first pact basically defined the terms of the first political trade-off, clearly making the unions' and employers' support conditional upon the restrictive incomes policy via formation of the ESC. The third of these early pacts announced pension reforms – the major political deal which marked the second half of the 1990s in Slovenia.

The period of explicit accommodation with the EU and the EMU regime, which was formally triggered in 1996, started with negotiation of a new social pact, which was suspended at the very end, before signature, because of the employers' final demand concerning public expenditure. The employers viewed the expenditure in question as unacceptable, demanding that it be reduced significantly in order to relieve the economy of the burdens that significantly influenced labour costs. In 1997, this type of employer demand was unacceptable to the trade unions, and was obviously not the priority for the government at that time. Dissent over this issue meant it was impossible to conclude the social pact at the beginning of the accession process.

Under the shadow of this failure, the abovementioned second major political trade-off was concluded. During the second left-centre government's term of office, which overlapped with the beginning of the accession process, the trade unions firstly implicitly and then explicitly (by signing the agreements) supported (the government's) restrictive incomes policies. This constructive stance enabled them to consolidate their negotiating position within the established system. It amounted to a more implicit trade-off between the unions and the government, namely, the unions' acceptance of an ongoing restrictive wages policy in return for government moderation in its pension-reform proposal. In addition, the unions made their support for the new social pact – which government wanted to conclude in the final stage of the accession process – conditional upon demands relating to the new pension system. Via these types of trade-off, the unions strongly influenced the introduction of a pension regime that was relatively moderate and sustainable in the medium term.

After adoption of the pension reform, the road to the new social pact was open. It was concluded in 2003, for a three-year period, enabling internal uncertainties to be reduced and Slovenia's accommodation process with the EU and EMU regime to be safely concluded. Along with the continuity of the restrictive incomes policy, it ensured support for the wide spectrum of economic and social policies which allowed a 'soft landing' in the EU and subsequently in the eurozone.

The last social pact (for the period 2007-2009) was adopted within a much-changed context, marked primarily by the new post-EU and post-euro developments, and the major electoral shift to the right. These recent changes of context significantly influenced both the formation and content of the most recent pact and are quite clearly reflected in the new aforementioned priorities defined by it.

In spite of these numerous distinguishing features, all of the pacts concluded have some common denominators.

Firstly, all are implicitly and explicitly *competitive pacts*. The core issue in all cases is incomes policy, i.e. a consensus on pay restraint. In this regard, the most recent one, the post-EMU pact of 2007, has one new feature. It still emphasises a restrictive incomes policy approach, but also explicitly deals with the issue of reducing overall labour costs, i.e. social security and other welfare state reforms which would lower overall labour costs and improve the country's competitiveness. Ten years earlier, dissent over this issue had prevented the conclusion of a pact. Now it has become acceptable. According to the recent clearly demonstrated abandonment by the unions of their previous support for competitiveness based on wage restraint, this trend in the development of competitive pacts (based on indirect wage-cost reduction) will probably gather momentum and continue in Slovenia.

Secondly, all but the first narrow pact (and agreements on incomes policies) have been marked by a combination of different policies, mainly relating to incomes, the labour market and social security. The number of themes has been widening systematically, reaching the level of highly complex pacts in recent phases.

Thirdly, with the exception of the first pact, all the others were systematically concluded during the second half of the coalition governments' terms of office, suggesting that their formation was strongly affected by the lesser negotiating strength as well as by the growing legitimisation needs of governments before the elections.

Fourthly, with the exception of the last pact, the others were all concluded during the periods of broad coalition governments, which included parties from the old and the new cluster. It seems that the role of the ZLSD (former communists) was important in the pact formation process, as the pacts which were concluded without the ZLSD's participation (the third and the most recent one) revealed weaknesses, i.e. a lower regulatory capacity than the three others.

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Dusan Semolic, president of ZSSS.

Slovakia and Hungary: successful and failed euro entry without social pacts

Dorothee Bohle and Béla Greskovits

Introduction

Faced with the challenge of labor market and public-sector reforms in the 2000s, the majority of post-socialist new member states of the European Union (EU) have not emulated the practices of a number of 'older' member states, in which the need for similar reforms – typically related to the adoption of the euro – led to a surge of social pacts. To better understand the reasons for the absence of national-level social pacts in most Central and Eastern European countries, we compare the dynamics and logic of policy-making in Slovakia and Hungary with a focus on the neglect and atrophy of institutionalized social dialogue in the policy process, and its consequences over the 2000s.

The chapter pursues the following line of thought. During the post-socialist transformation, national-level social dialogue in Slovakia and Hungary has exhibited the pattern typical for the majority of the Central and Eastern European countries. On the one hand, tripartite institutions were put in place and granted far-reaching competences from the early 1990s onwards. In Hungary, social dialogue ought to cover everything which concerns the 'world of labor, including the discussion of national economic policies, labor market development, tax and social security systems' (Pulai, 2002). Similarly, in Slovakia the law 'requires the government to hold tripartite negotiations on all proposals that affect the living standard of the population' (Tóth and Neumann, 2004: 6). On the other hand, these institutions' actual significance has been limited. While governments might have relied on social dialogue in good times, hard times have usually led them to avoid (or after frustrated attempts, discontinue) the reconciliation of interests. Section two demonstrates that this pattern is confirmed by the recent efforts of both countries to implement major social policy reforms. While a center-right government successfully pushed through sweeping reforms in

Slovakia, and thus prepared the ground for the country's European Monetary Union (EMU) entry, social partners and especially unions were largely bypassed in this endeavor. In Hungary, a center-left government equally bypassed unions when it prepared reforms not dissimilar to those of the Slovak government. Due to fierce political resistance, however, it ultimately had to abandon the reforms.

However, the fact that these governments omitted a deal with social partners on comprehensive and socially costly measures does not mean that social pacts would not be highly desirable in the region. True enough, in both countries trade unions have been weak, while, in the absence of cohesive and encompassing employers' associations, businesses usually preferred to exert pressure through lobby groups, or act on their own. Thus, labor and business do not seem to have much to offer to the relatively strongest partner, the reformist state bureaucracy. Nevertheless, in our view, the social partners were not entirely lacking the capacity to contribute to improved policy-making through feedback on the social impact, the possibility for compromises, coordination across various policy fields, and enhancing legitimacy. Conversely, although involvement in EMU-related reforms would have embodied 'an attempt at reaching neo-liberal goals through the means of corporatist consensus', we concur with the view that tripartite pacts on adjustment might be the unions' preferred option to the alternatives: passive acceptance of welfare retrenchment, and/or the tactics of 'wait and see' how the provoked social and political militancy spirals out of control (Crouch, 2002: 302-3).

Importantly, we submit that routinely bypassing and thus hollowing out one of the few established institutions of civil actors' participation in policy-making and implementation has not served has not served the Slovak and Hungarian governments well, and has ultimately undermined their countries' social and political stability. Especially during the 2000s, the Slovak and Hungarian reformers paid a high political price for ignoring the social partners' potential input and failing to compensate them – whether by symbolic political gestures, improved legal status, or some kind of material benefits (however modest in hard times the latter might be).

In order to better understand why neither Slovakia nor Hungary used its tripartite institutions to engage in a broad social pact on the euro adoption, the topic addressed in the next section two offers a brief overview of the development of social partnership over the 1990s and early 2000s. Section three asks whether social pacts are needed at all in CEE, given the region's labor weakness. Section four elaborates on the reasons behind Slovakia's successful and Hungary's failed reforms, and demonstrates the political pitfalls of non-pacted reforms. Section five concludes with a summary of the findings.

1. Preparing for the euro: reforms without social dialogue in Slovakia and Hungary

Our focus on Slovakia and Hungary is justified by their differences as well as similarities. Over the 2000s, albeit in different periods, both countries have faced a number of serious and partly similar economic challenges, which included sluggish GDP growth rates, increasing labor cost, low employment, and high fiscal deficit (Table 1).

Table 1 **Economic performance during the 2000s**

	Slovakia	Hungary
	1999-2003 averages	
GDP growth rates	2.4	4.4
Hourly labor costs	3.3	4.2
Employment rates	57.2	56.3
Public deficit	-7.4	-5.7
	2004-07 averages	
GDP growth rates	7.7	3.5
Hourly labor costs (2004-2006)	4.8	6.0
Employment rates	58.7	57.1
Public deficit	-2.6	-7.1

Source: Eurostat (2008), http://epp.eurostat.ec.europa.eu. GDP growth rates (%); Hourly labour costs (EUR, PPS); Employment rates (number of persons aged 15 to 64 in employment in relation to the total population of the same group); Public deficit (% of GDP).

However, these states have coped with the challenge of similar problems differently, and eventually became CEE's extreme cases of success versus failure in macroeconomic convergence with the EU. After meeting all EMU entry criteria, Slovakia adopted the euro in

2009. In contrast, Hungary failed to comply with any of the Maastricht convergence criteria and lacked a deadline for euro entry. To demonstrate credible commitment to macroeconomic stability, Slovakia radically restructured its welfare state. In contrast, Hungary delayed the reform of its public sector, and its reform efforts in 2007-2008 failed. Both countries also differ somewhat in their industrial relations systems. While in Hungary, union density is very low. The union scene fragmented, and wage bargaining highly decentralized, Slovakia has a unified union movement, and its bargaining system is slightly more coordinated.

On the other hand, these countries also have certain features in common. Despite the fact that both countries have fairly well-developed institutions of tripartite social dialogue at the national level, neither state adopted social pacts to generate the broader acceptance of social reforms necessary for the euro entry. The reasons are not self-evident, whether we consider the above data in relation to Slovakia's and Hungary's economic problems or some expert assessments according to which 'the central European candidate countries ... are most in need of a social pact over the necessary reform measures because of their current macroeconomic imbalances' (EIROnline, 2004: 22). Indeed, in our view, partly as a consequence of the absence of social pacts, both countries suffered a loss of political balance after 2006. More precisely, the Slovak government, trade unions and businesses did, in fact, sign a national agreement in 2008. However, as argued below, the character of the Slovak pact differed from the earlier Western European instances of national-level concertation.

What accounts for these peculiar paths to EMU?

Slovakia: social pact as an afterthought

In autumn 2005, Slovakia's centre-right coalition government under Mikulás Dzurinda committed itself to a euro-entry strategy according to which Slovakia would enter ERM II on 1 January 2006, and introduce the euro in 2009. Prior to this commitment, Slovak society had gone through the most sweeping economic reforms of its short capitalist history. After the 2002 election, Dzurinda could rely on a cohesive centre-right coalition, which completed the break with the Meciar legacy. The generous flows of subsidies to inherited old industries were redirected in favor of transnational capital. In 2002-2003, the pension and health-care systems underwent encompassing reforms, with the latter serving as a model for the Hungarian health-care reform of 2007. In 2004, Slovakia introduced a tax reform that became the role model for conservative politicians all over Europe. Its flat tax regime comprises a single corporate, income, and value-added tax rate of 19%. As a consequence, the VAT levied on medicines was among the highest in the EU, and the 9% increase in VAT paid on basic foodstuffs raised the cost of living for poor families disproportionately. Adding to the stress, the government cut expenditures on family and childcare, and restricted the availability of full unemployment benefits to those actively searching for a new job.

Contrary to expectations, Slovakia's stability-oriented policy course has not been significantly altered since 2006, when voters deprived the incumbent government of its mandate to continue its neoliberal reform course. Apparently, Robert Fico's coalition formed by his left-populist party Smer, radical nationalist anti-Hungarian SNS and Meciar's HZDS enjoyed the fruits of its predecessor's efforts. Rising wages, employment, and living standards due to rapid growth boosted Smer's popularity and mitigated its dependence on populist policies or radical illiberal rhetoric for political support (Malová, 2007). Indeed, Slovakia's compliance with the Maastricht criteria was in line with the plan inherited from the Dzurinda government to introduce the euro in 2009. The decision of the EU to allow Slovakia to enter as the second former Eastern European member state (after Slovenia) signals that admittance to the euro area, unlike to the EU, lacks even informal political conditionality.

Slovak unions played only a marginal role in their country's preparation for EMU. Rather than consulting with labor unions, let alone accommodating their interests through national-level social pacts, in decisive moments the Dzurinda government suspended tripartite consultation. Nor did it shy away from open confrontation, such as liberalizing the Labor Code amidst sweeping welfare and tax reforms. When asked about the political impact of labor market reforms, Slovak Minister of Finance Ivan Miklos recalled: 'The liberalization of labor markets in order to ease hiring and firing was not difficult. There was a bit of noise on the part of the unions but nothing more ... Reforming social care and health-care proved to be much harder' (Die Welt, 2005). By the 'bit of noise' Miklos referred to the fact that in April 2004 the Slovak Confederation of Trade Unions, KOZ, in alliance with the Smer and SNS parties (at that time, still in opposition), initiated a referendum to recall the government and thus put an end to the neoliberal course. Although the referendum took place, the 35% turnout did not reach the threshold of validity (50%), which the government viewed as proof of victory over anti-reform forces (Mathernová and Rencko, 2006: 636).

Subsequently, however, the political climate deteriorated, with massive political disaffection and radicalization of citizens' political preferences. As for organized labor, after the failed referendum, it continued to mobilize against the reforms, although on a moderate level. In early 2006, medical doctors and nurses repeatedly protested, and went on strike against low wages. In the election of the same year KOZ supported Smer, whose program included the union's demands.

Under Fico's coalition government, relations with the trade unions became more cooperative. Fico was able to gain the support of the unions because he promised significant changes in the Labor Code and in social dialogue. In June 2007, the Slovak Parliament did indeed adopt a new Labor Code, aimed at increasing employee protection. In February 2008, employers, employees and the government did eventually sign a stability pact linked to the introduction of the euro. In the pact, the government committed itself to reducing the public deficit. Unions and employers, in turn, have agreed on wage moderation (*Slovak Spectator*, 4 February 2008). In May 2008, the European Commission finally approved Slovakia's entry to the eurozone, and recommended the introduction of the euro from 1 January 2009.

Pacting in Slovakia, thus, even if it eventually occurred, followed the opposite sequence from that observed in the West. In countries like Ireland, Italy, Portugal and Spain, pacts were initiated on the way to the euro, with the aim of making the behavior of labor market participants compatible with entry requirements, and creating a broader consensus for public sector reforms (Natali and Pochet, this volume). In Slovakia, major social and labor market reforms happened without the consent of social partners. Indeed, the Slovak pact came almost as an 'afterthought' once the heavy work was done. The pacts have yet to demonstrate whether they can withstand times of economic hardship.

Hungary: derailed reforms without a social pact

Hungary's failed preparation for euro entry followed a different path. In 2002, a new left-liberal coalition government led by Péter Medgyessy took office. During its first term, serious macroeconomic imbalances – partly inherited from its conservative predecessor – started to accumulate. The Medgyessy government was constantly torn between the increasing pressures to redress these imbalances and implement large-scale public service reforms, and a fierce political battle, which left little room for taking unpopular policy measures. Having won the elections by only a very small margin, the main coalition party, MSZP (Hungarian Socialist Party) shied away from carrying through major reforms. Instead, it sought to increase its legitimacy by popular policy measures, such as a raise of public-sector wages and pensions to an extent that surprised even the trade unions. With this reform, wage moderation, so characteristic of Hungarian development in the 1990s, came to an end.

In an attempt to address the increasing economic pressures, and also to prepare for EMU entry, in 2003 the Minister of Finance proposed the conclusion of a medium-term social pact, aimed at re-introducing wage moderation in exchange for tax cuts and a decrease in social security contributions, and started informal negotiations with unions and employers. The proposal however did not get the necessary support from the social partners, and came to nothing (Neumann and Tóth, 2004: 19). Plans for the euro adoption were repeatedly postponed (Greskovits, 2008).

Uniquely in the country's democratic history, voters in 2006 granted the left-liberal coalition a second term. Hardly were the elections over, however, when Prime Minister Ferenc Gyurcsány announced drastic changes in social and economic policies in order to bring the budget deficit as well as the high public debt under control. The government started to introduce both a draconian austerity package and a new EU convergence program. The former both raised existing taxes and introduced new ones, and made heavy cuts in expenditure to improve the fiscal balance. The convergence program foresaw comprehensive structural reforms in the fields of public administration, education and health-care, in order to regain credibility on issues of macroeconomic convergence. As the details of harsh measures became public, the new government's popularity plummeted. From September 2006 to March 2007, the left-led coalition had to weather massive protests by the opposition, coupled with repeated violent riots by radical right-wing groups. Even though political and social mass protest has lost momentum lately, Gyurcsány's government has struggled hard, within unfavorable political circumstances, to implement the EU-sanctioned new convergence program since then. The ultimate challenge was a 'social referendum' in spring 2008, initiated by the opposition on a number of symbolically important measures, such as the fees already introduced for visiting general practitioners, using hospital beds, or contributions to the costs of higher education. After its devastating defeat in the referendum, the MSZP backtracked on its health-care reforms, and the left-led coalition disintegrated.

Rather than consulting and striking a deal with the social partners, the new Hungarian government of 2006 announced its radical austerity package after a month of secretive negotiations. It was only in June 2006 that it submitted the plan to the Council of Interest Representation (ÉT), the country's tripartite forum for social dialogue. Both unions and business associations expressed strong reservations and criticism. Instead of taking these into account, Premier Gyurcsány made a single move to pre-empt union protest: the president of Hungary's largest trade union federation MSZOSZ was appointed director of the state consumer protection supervisory board. With this, Gyurcsány followed the earlier-established pattern of reform management in Hungary, which consisted of co-opting individual trade union leaders rather than offering substantial involvement in policy-making.

As a result of non-negotiated reforms, labor protest erupted in 2008 with a wave of strikes by public transport workers and teachers. In turn, the Hungarian business community did not waste time organizing protests against the government. Instead, the Hungarian economy had to face accelerating disinvestment. By March 2006, 7,000 small- and medium-sized Hungarian firms had already relocated to Slovakia to escape high Hungarian taxes. Large businesses, driven by their quest for foreign markets, were to follow suit (*NOL*, 3 March 2006). The flagship firms of Hungary's transnational export industries also used threats to leave the country. After their unofficial representative, Audi Hungaria, declared that it could not afford to pay the so-called 'solidarity tax', and would rather locate new investment projects elsewhere, the government conceded. It allowed all large transnational exporters to deduct their research and development expenditures and pay tax on the reduced base (*NOL*, 8 November 2006).

2. The rise and decline of tripartism in Slovakia and Hungary: high formal and limited real competences

At first glance, the absence of social pacts in Slovakia and Hungary is surprising, as both countries have national tripartite institutions in place, with competences which are directly relevant for major reforms that could pave the way for euro-adoption. After the breakdown of socialism, Hungary and Czechoslovakia legalized workers' rights to join unions and organize strikes, and set up the tripartite fora for social dialogue. In 1990, Hungary's government replaced the earlier, communist tripartite body by the new Council for Interest Reconciliation (ÉT). After the 'velvet divorce,' independent Slovakia inherited the Council for Economic and Social Accord (RHSD) established in 1990. From the early 1990s onwards, reformed old and emerging new unions, business associations and representatives of government have regularly met at the plenary and subcommittees of ÉT and RHSD. The tripartite bodies in both countries negotiated minimum wages, and made recommendations for annual wage increases, and public-sector wages. In addition, the social partners discussed a variety of issues ranging from taxation and macroeconomic policies to welfare policies and privatization.

Slovakia: facing the challenges of Meciar's authoritarianism and neoliberal reform messianism

Yet, as early as 1993, KOZ came to the conclusion that 'while the RHSD fulfills the requirement of tripartism from a formal standpoint, in practice its significance is limited, and it fulfills its purpose only to a marginal degree' (quoted in Stein, 2001: 71). While this was a reaction to the fast degradation of tripartite negotiations in Czechoslovakia from binding agreements into mere consultation, with agreements being at best selectively adopted by the government, the situation did not change much in independent Slovakia. On the one hand, tripartism remained firmly institutionalized until 1997, when KOZ finally withdrew from the RHSD. Especially under the first government of Vladimir Meciar, negotiations 'approached the form of a distinct mode of governance, at least in relations to industrial relations and public policies' (Myant *et al.*, 2000). Trade unions and their members were not hostile to Meciar, and members of his government actively sought unions' opinions. They were able to agree on a number of crucial issues concerning labor laws, incorporation of fundamental international conventions, and wage development. In contrast to many examples in the region, the competences of the tripartite body remained encompassing.

Yet neocorporatism's opportunity to emerge in Slovakia was undermined by Meciar's increasingly open authoritarianism. On the one hand, he frequently overrode the RHSD's decisions, as well as labor-friendly legislative proposals coming from his own government. On the other hand, Meciar's perception of corporatism sat uneasily with the idea of independent trade unions, or even businesses for that matter. Employers never presented a great challenge to Meciar, however, given that HZDS was successfully engaged in building up a network of industrial cronies close to the regime (Appel and Gould, 2000). It was KOZ that was to feel the limits of independent trade unionism in Meciar's Slovakia. As a reaction to a conflict over wage controls in 1997, the government, in cooperation with employers, started to build up rival trade unions in one of Slovakia's most important enterprises, the Kosice steel works. It also engaged in building up a new tripartite body, with much more limited competences, from which KOZ would be excluded (Myant *et al.*, 2000: 734; Stein, 2001: 60).

Meciar's unilateral imposition of wage controls, and his attempt to build up rival trade unions finally made KOZ withdraw from tripartite negotiations altogether. At the same time, there was a resurgence of labor militancy. The Slovak unions joined the political forces who finally defeated Meciar. In return for the electoral support received from the unions, the first Dzurinda government adopted a Law on Economic and Social Partnership in 1999. The law established 'tripartite social dialogue' within a formal and enforceable framework of rules rather than leaving its status prone, as it had been since 1990, to shifting interests and political will of successive governments' (Stein, 2001: 59). However, the impact of tripartite negotiations remained ambiguous. Unsurprisingly, the unions continued to support some of the government's reform measures, such as an increase in minimum wages and the initial formulation of a new labor code, elaborated by the left-wing Minister of Labor. Nevertheless, the negotiations within the RSDH were overshadowed by a fast-deteriorating macroeconomic situation, to which the government reacted with a tough austerity package and fundamental structural reforms. In consequence, relations between the unions and Dzurinda's conservative party began to worsen. The second Dzurinda government, solely formed by center-right parties, saw no need to come to agreements with the unions (Juraijda and Mathernová, 2005: 25). Relations between the government and the unions deteriorated to the point that in 2004, the government declared it was no longer interested in social dialogue, at least according to the rules of the 1999 law.

Hungary: from negotiated to unilaterally imposed reforms

Early tripartism in Hungary also entailed the possibility of developing into an institutionalized neocorporatist form of governance, which, as in Slovakia, ultimately failed to materialize. During the first turbulent period of post-socialist transformation, the ÉT repeatedly became a forum for political crisis-management. This happened first in 1990, when the inherited grave macroeconomic instability was a heavy burden on Hungary's new government, but its early attempt at a radical cure, which included a sharp rise in fuel prices, met with fierce resistance: a blockade of Budapest streets by taxi-drivers lasting for several days. The conflict was settled at the ÉT during a televised emergency meeting, which helped to underscore the importance of negotiated dialogue with the trade unions. Subsequently, the ÉT gained further importance as a locus for 'quasi-national collective bargaining' (for the variety of issues discussed at the forum, see Tóth, 2001: 46).

In 1993, against the background of a worsening macroeconomic situation, the ÉT served once more as the institution in which a social pact on the adjustment programme was forged. Trade unions were able to get significant concessions from the government, including the elimination of wage controls, wage development in the public sector, and the minimum wage. Moreover, the government withdrew a highly interventionist draft bill governing union elections and the division of union property. This step proved to be of tremendous significance for the communist successor federation MSZOSZ, which faced competition from its splinter organizations as well as from newly established unions (Greskovits, 1998: 158-166). Another important achievement for the unions was their strong presence acquired in the tripartite governing bodies of the pension, health-care and labor-market funds.

The 1993 pact was successfully forged mainly because politicians and union representatives were willing to join forces to compensate for each other's weakness. For the government, the pact helped to overcome opposition within its own camp to the austerity package. For MSZOSZ the two issues at stake were strengthening its own position within an increasingly fragmented and competitive labor movement, and gaining symbolic recognition in the face of an ever-decreasing union membership. In retrospect, the 1993 pact proved to be the high point in Hungary's tripartite relations.

Although the Socialists campaigned with a call for a new social pact in the 1994 elections, once in government, they failed to deliver. Tripartite negotiations in late 1994 and early 1995 revealed profound differences among the positions of trade unions, government and employers. While some blame the unions for an non-conciliatory stance, others point to rivalries among leading politicians within the ruling Socialist party as the major reason why the pact ultimately failed (Greskovits, 2001: 132). Soon after the fiasco, the government introduced the most severe austerity program thus far in the country's post-communist history. In contrast to earlier austerity packages, the package – dubbed the 'Bokros package' after its architect, Minister of Finance Lajos Bokros – was prepared in secrecy. Neither the administration, nor broader social groups were involved in its preparation.

Tripartite negotiations were not entirely abandoned though, once the package was implemented. Labor mobilization in its aftermath, an incipient economic recovery, and a half-hearted attempt by the Socialist party to incorporate unions into policy-making helped to return to negotiations within the ÉT. Before the end of the left-liberal government's term, a tripartite agreement was signed on the comprehensive reform of the pension system (Nelson, 2001). That said, despite a change in representation on the employees' side leading to a slight decrease in union competition, as some of the most militant but least representative unions were excluded, tripartism did not manage to regain its earlier role in socioeconomic governance. While the government frequently bypassed the ÉT when making policy decisions, it did little to strengthen the role of unions in collective bargaining, which had been tremendously weakened by the Labor Code of 1992 (Ladó, 1997; Tóth, 2001).

In 1998, the newly elected national-conservative Alliance of Young Democrats (Fidesz), together with its minor coalition partners the Smallholders Party and Hungarian Democratic Forum, staged a major assault on the country's tripartite institutions. The ÉT was dissolved, and replaced by two new bodies with far fewer formal rights. The government also challenged the composition of the tripartite institutions governing the health-care and pension funds. By allowing all unions back in, union rivalry was reignited. In addition, it amended the Labor Code to further restrain the role of unions in the workplace and decentralized public-sector wage negotiations (Tóth, 2001).

It took the return to power of the left-liberal coalition in 2002 to reverse some of the damage done to tripartism and industrial relations in Hungary under the Fidesz government. The Medgyessy government reinstated the ÉT with the earlier far-reaching competences. Furthermore, it amended the Labor Code with the aim of strengthening unions in the workplace and withdrawing some of the flexibility measures introduced by its conservative predecessor (Neumann and Tóth, 2002). It also took some measures to strengthen sector-level social dialogue.

Against the background of the ups and downs of tripartism, it is no big surprise that in the two countries, encompassing social pacts were not part of the policy packages leading to EMU. Despite differences in their political history and union movement, both Slovakia and Hungary exhibit similar patterns of limited labor inclusion and/or outright exclusion. While formal institutions of policy concertation had been in place since the end of Socialism, *de facto* inclusion of labor depended on the governments' will. Although inclusion has been to some extent mediated by the political orientation of the governing coalition. Typically, major austerity packages have been prepared and implemented as '*coups*'. Organized interests have been bypassed rather than taken into account.

At the same time, however, the discussion also revealed that tripartite institutions in Slovakia and Hungary have been more than pure façades. In a context of structural labor weakness, with unions only minimally capable of mobilizing in the workplace, tripartism offers them inclusion in the socioeconomic governance of the country, which they would otherwise completely lack. Even if CEE tripartite institutions fall short of the influence of their western counterparts, post-socialist unions have been able to make at least limited use of them. For instance, tripartism in Hungary helped to consolidate the fragmented trade union scene somewhat. Unions were also successful in negotiating favorable conditions in times of limited economic distress. In addition, in the 1990s, the tripartite governance of health-care and pension funds gave labor an important say in reforms, which it certainly used to scale down radical proposals (Nelson, 2001). In Slovakia, unions were able to score a major victory over the issue of the labor code, which would have been unthinkable without their institutional representation.

If tripartism offered unions a means to survive, what was at stake for governments? Most importantly, left wing parties, depended on labor's support for their (re)election, and the revival of tripartism is what they typically offered as compensation. In some respects, then, tripartism in Hungary and Slovakia does resemble a 'a coalition of the weak' (Gardawski and Meardi, this volume), who can 'exchange the same thing', namely their remaining modest legitimacy, whereby 'the exchange can be politically very important for both' (Crouch, 2002: 293). It seems, however, that the coalition of the weak is too weak to survive hard times.

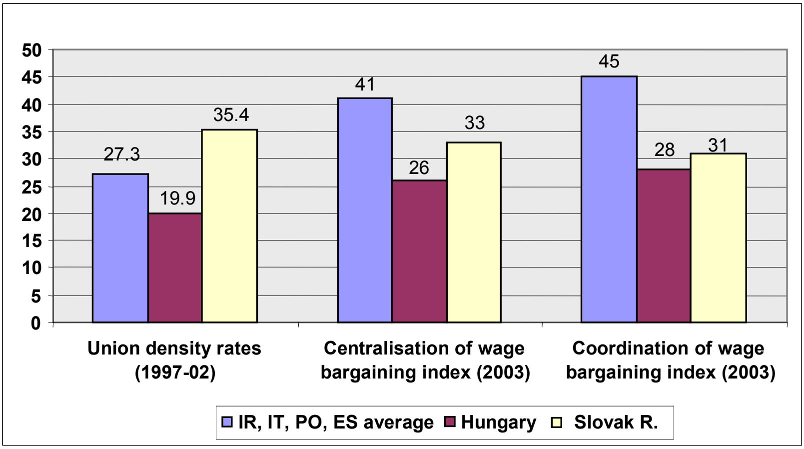
3. Is there a need for social pacts at all in East-Central Europe?

The fact that neither Hungary nor Slovakia agreed upon a social pact to back their efforts to comply with the Maastricht criteria, but Slovakia succeeded in entering the eurozone without a pact, raises the question: Are social pacts needed in the region at all? The literature has made two arguments why pacts might not be needed, or even worse, might actually harm trade unions.

The first argument points to the specific nature of industrial relations and their ability to bring about wage restraint without the need for social pacts. As argued by Calmfors and Driffil, both highly decentralized and highly centralized wage-bargaining institutions should lead to wage restraint. In turn, 'middle-of-the-road' constellations, in which unions compete for members in 'bidding wars' of wage claims, are problematic. In Western Europe, it is typically the middle-of-the-road countries that needed social pacts on wage restraint (Hancké and Rhodes, 2005; Natali and Pochet, this volume). In contrast, in Eastern Europe, highly decentralized wage-bargaining settings prevail and allow wage restraint to be achieved without a social pact. Competitive wage outcomes are further reinforced by the fact that the export sectors are dominated by TNCs, in which management is strong enough to impose wage restraint (Benczes, 2006).

Of our two cases, the Hungarian system of industrial relations seems to fit this description best. In terms of union density, centralization and coordination of wage bargaining, Slovakia seems to be slightly closer to the pacting middle-of-the road countries in the West (Figure 1).

Figure 1 **Unionisation, centralisation and coordination of wage bargaining**



Source: Visser (2004).

Assuming that Hungary's wage-bargaining system is more prone to wage restraint than Slovakia's is, however, dubious. Rather, both countries have shifted sides in their patterns of wage restraint over the last two decades. Between 1990 and 2000, Hungary was the CEE leader in terms of wage restraint, as its wages were 'the most depressed compared to economic performance … [T]he level of productivity is almost 2.5 fold higher than that of wages, if the level of 1992 is taken as a basis. Wages are also roughly 20% behind GDP growth' (Galgóczi, 2002: 13). Over the same period, the modest Slovak real-wage growth followed the trends in productivity and GDP (Galgóczi, 2002: 48). However, over the period 1997-2003, Hungary and Slovakia seem to have changed places. 'Slovakia is the only country in which serious wage moderation took place … while the contrary is true above all for Hungary' (Rhodes and Keune, 2006: 288) (Table 2).

Table 2 **Real wage development**

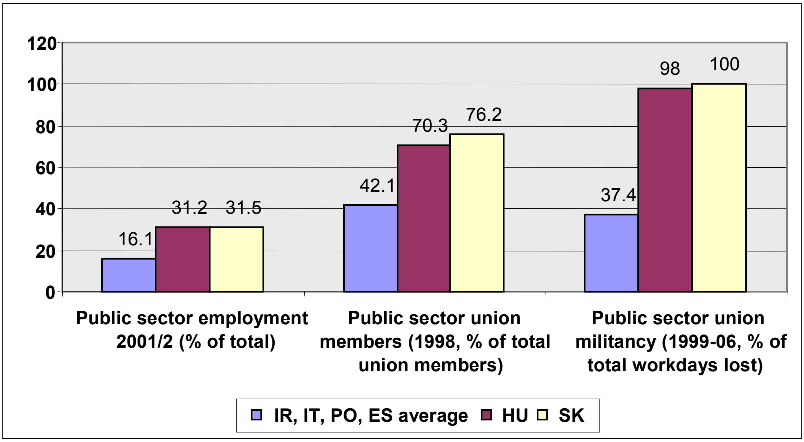
	Real wages (average annual growth)		
	1995-2000	2000-2005	2006
Hungary	0.5	7.0	2.0
Slovakia	5.0	2.9	4.3

Source: OECD (2008)

What the argument about decentralized wage relations misses is the specificity of the Hungarian and Slovak wage-setting process. Most importantly, it overlooks the dual structure of industrial relations. Decentralization of wage bargaining and labor weakness is indeed a feature of the private sector, but much less so of the public sector. Thus businesses and workers in the transnationally-owned manufacturing export sector have, of course, been interested in maintaining wage-competitiveness and employment both in Hungary and Slovakia. Accordingly, wage moderation within firms and their networks has been enforced by the management of transnational corporations, keeping an eye on their competitors' labor market policies, rather than mutually agreed upon by the social partners. Productivity gains achieved in these sectors, however, allowed for simultaneous increases in wages and competitiveness, making wage conflicts a rare occurrence overall. In private, non-export-oriented industries, unionized workers became all but ‘extinct species’. Labor conflicts thus were rare. In 1994-2006, only a tiny fragment of nationally lost workdays originated from industrial conflicts in the manufacturing sector in Hungary and Slovakia, while in Ireland, Portugal, Spain and Italy, a considerable number of strikes (and implied workdays lost) still occurred in manufacturing (LABORSTA).

In contrast to the private sector, however, the public sector is still much better organized (Figure 2).

Figure 2 **Employment, unionisation and militancy in the public sector**



Source: Visser (2005); ILO, Laborsta

This is important, as the public sector’s share in the economy is also much more significant than in comparable western countries. In the early 2000s, the public sector’s share in Hungarian and Slovak employment was still double the Irish, Italian, Portuguese and Spanish average. Union density is especially high in the education, health-care and transport sector, where in Hungary it stood at 34, 40 and 40% respectively, in contrast to an overall union density rate of less than 20% (Pulai, 2002).

Militancy among public-sector employees is also far more widespread than among private sector employees. Especially since the 2000s, public-sector employees of both countries have increasingly taken to the streets to protest reforms and fight for better wages. Between 1999 and 2006, Hungarian public-sector employees were no less militant than their Portuguese counterparts (LABORSTA). Indeed, Tóth claims that, '[s]uccessful strikes contributed to the cohesiveness of these [namely public-sector – D. B.- B.G.] unions, created commitment to unions, and facilitated the emergence of solidarity among workers to support union demands' (2001: 50).

Decentralization of industrial relations and labor weakness notwithstanding the fact that the public-sector unions are still organized and militant runs in the face of the argument that social pacts are not needed in the region. This is even more true because not only wages but public-sector reforms that are at the center of the adjustment process leading to Maastricht. The view of a need for a social pact with public-sector unions is shared by a number of Hungarian labor-market experts who, borrowing from Dutch and Irish experience, have argued that unionized public-sector workers should accept short-term wage restraint in exchange for longer-term gains in employment and wages. They characterized the situation as preferable to its alternative: 'if the financial markets consider the Hungarian economy too risky ... its actors might refuse to invest in this country. Disinvestment might provoke a sharp depreciation of the national currency, leading to rising inflation and an erosion of previously achieved real-wage gains' (Bruszt *et al.*, 2003).

This view rests upon the assumption that it is unions who pose the biggest obstacle to wage restraint and reforms, an assumption perhaps too uncritically taken from the experience in the West. As argued above for the Hungarian case, in the early 2000s, wage moderation did not receive its heaviest blow from trade unions, but from center-right and center-left governments alternating in power and trying to boods their popularity by public-sector wage increases. This peculiar behavior can be viewed as a manifestation of 'state exploitation', which, according to some researchers is a widespread phenomenon in East-Central Europe, where parties are tempted to exploit state resources to secure their own survival, and at the same time, rebuild the state (Grzymala-Busse, 2007). Grzymala-Busse also argues that robust party competition restricts state exploitation, since rival parties assume the role of watchdogs over governments' wrong-doing. While this might have been the case in the early transition period, the cut-throat partisan competition that marked Hungarian political life over the last decade seems to have fueled – rather than mitigated – state exploitation. Thus we see an argument in favor of social pacts in Hungary and Slovakia, whose history of state-building is replete with instances of state exploitation, in the need *to constrain governments* rather than trade unions.

A second argument against the need for social pacts can be inferred from the view that the current form of CEE tripartism, rather than serving labor's cause, actually harms labor. This view has been advocated by David Ost, who contended that the region's tripartism was 'in no position to bring about the politically stabilizing and economically inclusionary class compromise that was West European neocorporatism's great achievement. In Eastern Europe, on the contrary, neocorporatist forms are being used to generate neoliberal outcomes... Instead of leading to concertation and concrete material benefits, East European tripartism has legitimized the marginalization of labor and the decline of wages and benefits. Far from enhancing labor's class power, such pseudo-corporatist arrangements offer symbolic inclusion in return for acceptance of a weakening of labor and a radical decline of the welfare state' (Ost, 2000: 505-7).

It is an open question, however, whether the underlying assumption – that organized labor would have fared better had it protested more and collaborated less– holds true. For a proper answer it is important to recognize that significant drops in real wages and major cuts in welfare provisions occurred at exactly the moment when tripartite negotiations broke down – as after the Bokros package in Hungary and the Dzurinda government's reforms in Slovakia (Table 2). This would be an argument in favor of, rather than against, tripartism. Hence, the big question is whether labor (East or West) has any alternative to accepting neoliberal restructuring in exchange for some compensation and symbolic political inclusion.

In this respect, alas, the literature on East-Central European industrial relations has yet to come up with a convincing argument on any alternative strategies that could have been more successful. Organized labor's socialist and pre-socialist legacies and the timing of its return to global capitalism hardly put it into a position to act independently of the state. In consequence, while labor's weakness is indeed a serious problem, alternatives to symbolic corporatism are not easily found in the region. Symbolic inclusion, moreover, has allowed trade unions to survive as organizations. This is no minor achievement for societies characterized by a devastated landscape of civil organization. In an Eastern European context, trade unions, even if they are weak, are among the very few civil organizations accountable to at least a part of the population. In our two countries, in which democratic accountability has been increasingly at risk, social pacts would have been highly desirable, as they would have forced governments to solicit broader support for their reform strategies.

4. Substitutes for social pacts: identity politics, targeted reforms and picking the 'right' losers

This leads us to elaborate on the last issue addressed in the chapter. As national-level social pacts were omitted in both countries, how to make sense of the success of Slovak restructuring relative to the failed Hungarian reform attempt? Which substitutes for a negotiated compromise could Slovak leaders rely on for legitimizing the radical reform course? Why were such substitutes in shorter supply in Hungary? Our answer is that the divergence can be explained by three factors: the varied importance of identity politics; major differences in policy content; and variation in the social status and political clout of the reforms' beneficiaries and losers.

Analyzing Gallup Europe's (2007) opinion poll data on the typical hopes and fears related to the changeover to euro, one of us identified puzzling country-specific patterns of public opinion, and traced them to varied experiences of state-building and different patterns of democratic competition in Hungary and Slovakia (Greskovits, 2008). The main finding was that less than half as many Hungarians as Slovaks hoped to become more European by having the euro as their official currency. Similarly, only slightly more than half as many Hungarians as Slovaks were afraid that their nation would lose its identity. However, while citizens in both nations equally feared an initial price shock, many more Hungarians than Slovaks expected faster growth and better job opportunities after euro entry. All in all, Hungarians appeared as 'materialistic' in the sense that they expressed both their hopes and their fears concerning the impact of the euro in terms of material welfare rather than identity. In comparison, Slovaks seemed to be 'idealistic' as they cared more about expected gains and losses in identity rather than social welfare (Greskovits, 2008: 286).

These differences in the orientation of the electorate defined distinct, largely welfare-driven versus identity-driven political opportunity structures for Hungary's and Slovakia's euro-entry strategy. Parties' political fortunes and policy choices (while in power) were constrained accordingly. Briefly, though identity politics has certainly not been absent in Hungary, nationalist politicians could not usually reach their constituencies without first addressing their demands for social welfare. Conversely, although welfare has not lacked salience in Slovakia, many

Slovaks tended to view the social question through the lenses of national shame or pride. After Meciar's isolated authoritarianism, the Dzurinda government led Slovakia 'back' to democratic Europe. With this, large parts of the population felt at least partially compensated for the social losses incurred with the radical neoliberal reform course. In comparison, Hungarian reform elites were less able to rely on identity politics to legitimize socially costly measures.

That said, it is striking to note that while the content of the Dzurinda government's actual reform package did reflect a recognition of some of the material needs of Slovaks, Hungarian Premier Gyurcsány tried to sell the 'bitter pill' of social hardship without any partial material and/or ideational compensation that could have formed the basis for a compromise deal with those who were to suffer. The reform package initiated by Slovak Minister of Finance Miklos combined welfare retrenchment and restructuring with radically lower taxation, which eased the burden of contributors to the welfare state. Hence, the reforms divided Slovak society and made for easier implementation. In this regard, Miklos noted: 'Initially the flat-tax reform was viewed as brutal but later as entirely unproblematic. In brief, the tax reform improved the living standards of all income groups of the employed' (*Die Welt*, 2005). In contrast, Gyurcsány's austerity and reform measures brought about higher taxes, and introduced or raised fees for public services, and the firing of a hundred thousand public-sector employees. All this led to chaos in health-care and education, further undermining their already meager quality.

This leads us to consider the third difference between the Slovak and Hungarian reforms, namely their distributional effects, and especially the status and political clout of the hardest-hit social groups. In October 2003, when asked about his prediction for the social consequences of his package, Miklos admitted that 'just like any tax reform, the one to be introduced in Slovakia will produce losers too. In my view, in Slovakia it will be single tax-payers, childless families and the unemployed who will be worse-off in the coming year' (cf. *NOL*, 31 October 2003). However, the Slovak government did not manage to correctly predict all the political consequences of its bold policies. In February 2004, food riots erupted in a number of east Slovakian villages and smaller towns populated mostly by Roma, a sizeable and marginalized minority. Roma were hardest-hit by the social austerity chapter of the reform package, as they saw unemployment benefits (often their only source of survival) halved at the same time as their social housing costs rose. It took several days, in the largest domestic security operation since 1989, for the authorities' control over the region to be restored (*Slovak Spectator*, 1 March 2004, 25 February 2004). Nevertheless, as the better-off and politically more influential groups of Slovak society did not express much solidarity with the rioting Roma, let alone join their protest, this violent expression of despair was of limited political significance.

The case of Hungary was different: here, the much more sizeable, politically influential and resourceful social groups, especially public-service employees, were affected. Adding to the high political tension, it were doctors, nurses, patients, teachers, students and their parents engaged in social protest against the closing of hospitals and high schools, who made the headlines, while manufacturing workers and the poor remained quiet. Middle-class grievances and discontent, however, raise serious doubts about the country's governability, as well as the future of Hungarian democracy.

Conclusion

In this chapter we set out to answer three questions. The first question was: What prevented the social partners in Slovakia and Hungary from firmly institutionalizing social dialogue during the 1990-2000s? Our answer is that, due to labor's structural weakness and the alternatives to collective bargaining amply available to the business community, the fate of tripartism ultimately depended on governments' skill and will to exploit social partnership for the pursuit of their own agendas of economic reform and political survival.

The second question was: Has there been a need for social pacts at all in East-Central Europe? Our answer is affirmative for two reasons. First, we demonstrated that if the social partners' feedback on the social impact of reforms, their capacity for coordination across various policy fields, and their contribution to enhanced legitimacy is ignored, policy-making is likelier to evolve by default and by trial and error, rather than through purposeful action. However, the resulting strategies may have higher social costs, and may, for this reason, be inferior to negotiated solutions, such as social pacts. Second, we argued that social pacts could constrain governments by making them accountable to a broader public for the distributional consequences of reforms, while at the same time limiting partisan attempts at state exploitation.

Our third question was about the substitutes governments can rely on if they lack the skill and will to accommodate the input of social-interest groups into the process of policy making and implementation. As demonstrated by the Slovak case, identity politics, targeted reforms, and picking the 'right losers' from the government's point of view, could dissipate dissatisfaction with radical reforms in the short run. Unconstrained radical reforms, however, ultimately paved the way for potentially illiberal politics.

The Hungarian case is an opposite example of the perils of unconstrained governments. Here, grave macroeconomic imbalances accumulated mainly because successive governments tried to increase their electoral chances by paying off voters. Faced with increasing economic problems, the Gyurcsany government went into reverse and introduced one of the most severe austerity packages ever imposed by a Hungarian government. In the light of both the Slovak and Hungarian cases, our conclusion is that whether governments are skillful enough to find substitutes for negotiated reforms or not, as long as they stay unconstrained, democracy is put at risk.

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Keep trying? Polish failures and half-successes in social pacting

Juliusz Gardawski and Guglielmo Meardi

Introduction

Poland's experience of social dialogue is mostly dismissed as pure failure and façade (Ost, 2000; Avdagic, 2005). Indeed, there is little evidence of those major, encompassing, comprehensive and institutionalised agreements that have been called 'social pacts' in Western Europe. However, a deeper and more detailed examination of the interactions between the actors shows that there have been very serious attempts at social pacts, and there have been some unintended effects of these attempts, as well as some partial results. It also shows that there has been a 'functional need', or demand, for social pacts at certain times, to address similar issues to those tackled by western social pacts in the 1990s, such as wage inflation, pension reforms, labour market reforms, public deficits (Fajertag and Pochet, 1997 and 2000). In terms of 'supply' for social pacts, even if initially most 'prerequisites' were missing, by the early 2000s most factors associated with social pacts were being established: political commitment on the part of weak governments, growing trust among social partners, trade union de-politicisation, EU promotion and employers' organisational capacities. Recently, a generalised perception of a crisis has also emerged. The issue, therefore, cannot be dismissed as 'nonexistent'. In contrast, there are two open questions, which this chapter will try to address: what, if any, are the effects of social dialogue in Poland, even if there are no major social pacts? Second, why exactly did Poland fail to reach social pacts, and will failure persist in the future?

The chapter proceeds in a historical way and is based on in-depth direct observations. In particular, one of the authors has been an invited observer at the meetings of the *plenum* of the Tripartite Commission from 2002 until today, and therefore possesses a unique degree of insider information. This information is put in the structural context of

Polish social developments, in order to suggest deeper explanations of the events. As today's Poland is marked by the 'transition' from communism to capitalism, the discussion cannot start from later than 1989. While the paper focuses on Poland only, it follows a comparative social sciences approach to historical analysis, as the most appropriate to tackle causal analysis (rather than description) and processes (rather than single events) in a small number of countries and in the absence of counterfactuals (Mahoney and Rueschemeyer, 2003). Accordingly, the obstacles, functions and chances social dialogue has had in Poland will be compared (as systematically and contextually as possible, given the limits of a book chapter) to those encountered by western countries that did sign social pacts, in order to distinguish those obstacles that may be insurmountable from those that clearly are not – as they have not been in the West (Meardi, 2006). In this way, we also want to overcome a common weakness of studies of industrial relations in post-communist countries, namely the tendency to use *ad hoc* arguments (e.g. cultural or historical) rather than rigorously testing the same explanatory frameworks as those used in the West: while different analytical frameworks may have been justified when Eastern Europe belonged to a different economic system, they are less so after twenty years of market economy and accession to the WTO, OECD and EU.

The paper will look at the different periods of social dialogue in Poland between 1989 and March 2009, characterised by different government coalitions. It will point at some, hitherto neglected, outcomes of social dialogue, in terms of partial or technical agreements, capacity building, and trust development. In particular, attention will be drawn to the early 2000s, where there has been an important 'window of opportunity' for a social pact, and a sustained government effort to achieve it. Rather than no need for or interest in social dialogue, there are specific, complex and changing barriers to social pacts, which need to be understood. Notably, it will be argued that while cultural and political variables only explain a part of the failure, the main distinctive obstacle lay at the time in the unequal balance of power between labour and employers, which, as E.O. Wright (2000) has explained in particularly elegant theoretical terms, explains the possibility of 'social compromise' in some countries rather than others.

As the barriers to social dialogue appear to be complex and very volatile, they cannot be taken for granted for the future: actually, the new political landscape emerging from the parliamentary elections of 2007, changes in the labour market following mass emigration, and the global economic crisis may give new meanings to social dialogue.

1. The 'transition' mark: the negotiated exit from communism (1980-1989)

As argued by Bruszt and Stark (1998), the country-specific modes of transition from communism have had important influences on the later path of central eastern European countries. In Poland, 'social pacts' are not actually a novelty introduced by democratisation, as there had been two famous precedents in the 1980s: the Gdańsk agreements of 31st August 1980 (allowing free trade unions, but then revoked with the military *coup* of 13th December 1981), and the Round Table agreement of the 4th April 1989, re-legalising free trade unions and allowing the first free elections in a communist country since 1948. While they also covered social and economic issues, both agreements are famous for their historical impact, and were of a primarily political nature, the 1989 agreement being comparable to the Moncloa pact in Spain. In fact, one of the most influential participants in the Round Table negotiations, the dissident Adam Michnik (1985), explicitly invoked a 'Spanish path' for Poland. During the Round Table negotiations, Solidarity (then still called 'the social side') demanded parliamentary democracy, but also the strengthening of company self-management through works councils and egalitarian income policies, even if combined with market reforms, and on these issues part of the government's side had no objections.

The experiences of the 1980s have had major political and cultural consequences, most notably on compromises between old and new elites, but also on the rhetorical importance of union-government negotiations on political levels. Such rhetorical dimensions are ambivalent. On one side, it led trade unions to expect – more than elsewhere in CEE – to be privileged negotiating partners of ruling governments. But it also involved a generalised negative popular perception, as a large part of the population grew dissatisfied with the Round Table agreements, and as parts of the new economic and political elites wanted to mark a clear break from the past: in Poland, social negotiations, were associated with the final moments of the 'old' rather than with the 'new' system.

The 1980s also marked the future social landscape by establishing union pluralism along political lines. While the 'old', Soviet-style trade unions (CRZZ) dissolved after 1980 under the Solidarity wave, in 1982 reformed, more autonomous communist trade unions were created (OPZZ: All-Polish Trade Union Entente) with the aim of preventing the re-emergence of an independent workers' movement. The relationship between the OPZZ and the underground, but still influential, Solidarity was obviously hostile: while one side was rewarded for its loyalty, the other was violently repressed. In 1988, the very beginning of new negotiations between the regime and the opposition was marked by a historic televised debate between the OPZZ leader, Alfred Miodowicz, and Solidarity leader (and hitherto taboo figure in the media), Lech Wałęsa. Contrary to the regime's plans and expectations, the debate was won heads-down by the inexperienced Wałęsa, accelerating the pace of change, but also established the perception that the OPZZ and Solidarity sat on opposite sides (as also happened during the Round Table negotiations a few months later).

2. From shock therapy to the Tripartite Commission

The unplanned and unexpected acceleration of political changes in Poland, and then in the whole of Eastern Europe, during the summer of 1989 led to major changes in the conception of social dialogue. Most notably, at the same time as Solidarity took over political responsibility for ruling the country, the influence of the trade union as such was immediately demoted: as Lech Wałęsa himself famously declared, 'we will not catch up with Europe if we create a strong trade union' (Ost, 2005). The role of the trade union was downgraded to that of a 'protective umbrella', while the government introduced radical market reforms (the 'shock therapy') with very high social costs. In fact, the transition recession in the first two years was worse than the 1929 recession in the US: in 1990-91 GDP fell by 18.3%, industrial production by 36%, real wages by around 35%, and unemployment jumped from virtually zero to 12% (Amsden *et al.*, 1994.) The programmed changes included the abandonment of works councils and egalitarian income policies. Such changes were tolerated not simply by Solidarity, but also by the majority of workers, as confirmed by a series of surveys (Gardawski, 1996).

In the first period of transition, then, no need for social dialogue was perceived for two reasons: firstly, priority was decisively given to the speed of reforms; secondly, dialogue with the most active trade union was already possible *within* Solidarity, as a combined political and social force. Nor was there much need for dialogue with the OPZZ, which was both disliked by Solidarity and, at the time, still adapting to the new reality and in search of its own identity and strategy. Poland was therefore unique in the region, in not adopting the tripartite institutions recommended by the ILO.

The situation changed with the increased social unrest which exploded in 1992-1993, and proved impossible to resolve without a system of institutionalised social negotiations. At the beginning of 1992, the right-wing government led by Jan Olszewski, facing a conflict with the strongly-unionised miners, proposed new regulations for conflict resolution, leading to the signature of a government-Solidarity agreement on dispute resolution in the sectors facing restructuring, which established committees and rules for sector-level social dialogue. The OPZZ did not sign that agreement: opinions diverge on whether this was because of its own unwillingness, or the government's.

The rapid spread of strikes to all sectors of the economy during the summer 1992 forced the government (now led by liberal Hanna Suchocka) to move to multi-sector social dialogue. A large number of these strikes were linked to privatisation, whether opposing or supporting it. The government appealed to the trade unions and the then-emerging employers' associations to negotiate new rules regarding privatisation. The invitation was accepted by Solidarity, the OPZZ and nine other smaller trade unions (although the radical Solidarity 80 and Kontra later withdrew from the negotiations), as well as by the Polish Employers Federation (KPP), dominated by state-owned managers, but not by the more aggressively pro-capitalist Business Centre Club (BCC). Given the enduring divide between Solidarity and the OPZZ, negotiations took place separately with the OPZZ on one side, and with all other unions on the other. The long negotiations started in July 1992 and were concluded in February 1993 with the signature of the 'Pact on the Transformation of State Enterprise'. This was a bilateral pact, as the KPP occupied the same side as the government. The pact was of a distributive rather than regulatory nature, as its main object was the 'price' of privatisation in the form of the distribution of complimentary shares to employees, but also included new regulations on collective agreements, employee protection in the event of unpaid wages, company social funds and health and safety.

The ‘Pact on Enterprise’ was supported by the then Minister of Labour Jacek Kuroń, a popular former dissident and promoter of corporatist policy. However, rather than marking the beginning of a social dialogue era for Poland, it remained its highest, and never-repeated achievement.

An important institutional change occurred the following year, already under a new government led by the post-communist Alliance of the Democratic Left (SLD). Under pressure from a strike in the energy sector, on the 1st of March 1994, the government instituted, by decree, the Tripartite Commission on Socio-Economic Issues, inviting as members the same organisations that had signed the Pact on State Enterprise: nine trade unions and the KPP, and chaired by the Deputy Minister of Labour (since 1996, by the minister.) The Tripartite Commission resembles analogous institutions already created in Central European countries, but rather than through external institutional pressure (notably, exerted by the ILO and EEC), it was created in response to internal strikes, and therefore does not deserve to be labelled an imitation.

The most important competence of the Tripartite Commission was to agree yearly wage increases, which would be binding for the state sector and non-binding for the private one. Subsequent research proved that the private sector actually paid little or no attention to such recommendations (Meardi, 2006). Decisions had to be taken unanimously, and this proved to hamper any important decision-making for the rest of the 1990s: only in 1996 did the Commission manage to reach an agreement on wage increases, while in other years the government was left with the responsibility of taking unilateral decisions. The government therefore retained the dominant position within the Tripartite Commission, arguably hampering the development of autonomous bilateral social dialogue.

3. Social dialogue in the period of EU negotiations (1993-2002)

In December 1993, the Copenhagen summit officially started the EU enlargement process, an issue which was to dominate Poland's foreign and economic policy for the following decade. While social dialogue is not a formal requirement of the 'acquis communautaire' and therefore not a condition for EU accession, the EU did promote social dialogue as a form of 'soft acquis communautaire' (e.g. CEC, 2001), which would have helped the applicant countries to harmonise their policies and economy with Western Europe and to avoid social protest – similar to what European social dialogue had been meant to do under Jacques Delors in preparation for the European Single Market.

A strong commitment to social dialogue on the part of Polish governments could only be detected, however, in 1996, through the actions of Labour Minister Andrzej Bączkowski. Bączkowski was in a unique – and indeed never repeated – position for this task: a young and modern politician, he came from Solidarity but was a minister in a post-communist government. This allowed him to be a respected negotiating partner of the employers, Solidarity and the OPZZ at the same time. This is still remembered as something exceptional, and retrospectively even hard to believe, during an exceptional period: 'The feeling was that he was a man on a mission, that he really wanted a compromise, that he was not cheating [...]. I believed, that he was honest' (JG's interview with a Solidarity representative on the Tripartite Commission, 2004). In 1996, the agenda of the Commission was always full of first-order issues, which raised the Commission's profile and provided an intensive social dialogue exercise. But Bączkowski died suddenly in February 1997, before the Commission could complete any major achievements on labour issues.

As the pace of the Commission's work slowed down, its limits became more apparent. In particular, the political divide between the unions and the weak organisation of employers' associations proved to be decisive obstacles.

The role of union politicisation was very clear. In summer 1997, Solidarity (which had been the 'protective umbrella' of anti-communist governments in 1989-1993) was assuming the leading role among the right-wing opposition, and it raised unrealistic wage demands. When the government rejected these, Solidarity abandoned the Tripartite Commission, thereby preventing it from meeting in plenary sessions. After Solidarity's election victory in September 1997, the roles were promptly reversed. The OPZZ assumed the opposition role and abandoned the Commission in 1998, after the government refused to negotiate its welfare state reforms, and published a 'Black Book of Dialogue' in protest. On the other side, Solidarity – once again after 1989-1990 – supported market-oriented reforms, and once again it paid a high price in terms of popularity: in 1998, for the first time since 1989, opinion polls showed that the OPZZ was more popular than Solidarity, although this would later change again.

Throughout the period up to 2001, Solidarity and the OPZZ were an integral part of the two opposing political sides, to the point that up to one fifth of all MPs were at the same time trade-union officers. Despite the freezing of central-level social dialogue within the Tripartite Commission, trade unions did manage to exert a certain influence on EU accession negotiations, and especially on the immediate introduction of most EU social regulations, although they failed in their demand for immediate freedom of employment across the EU (Meardi, 2002), and social dialogue somehow continued at the lower level of specialised committees within the Commission.

In order to overcome the increasingly apparent limits of the Commission, a law was passed in 2001 to institutionalise it and to reform the criteria of representativeness, overcoming in particular the criterion of unanimity. The introduction of representativeness criteria, in the wake of protracted controversy, (300,000 members or employees in member companies) opened the doors to two new actors: a second employers' association, the Polish Confederation of Private Employers (PKPP), which had been created in the mid-1990s as a reaction against the state-ownership dominance of KPP, and a third trade union, the Trade Union Forum (FZZ), created by seven smaller trade unions, mostly splitting away from the OPZZ and representing the public sector. Later on, the BCC also joined the Commission. The new law also created regional-level social dialogue commissions.

To summarise the experience of the period 1993-2001, the Tripartite Commission cannot be dismissed entirely as an irrelevant façade, as it did have a high political profile and all sides participated at the highest level. The problem was possibly the opposite one: an exaggerated political profile leading to the dominance of party-political agendas over the development of socio-economic social dialogue. This made the parties, and especially the trade unions, prefer competition for the full control of political power over compromise and sharing economic power. For these reasons, proposals coming from one side were often not even taken into consideration, as this would have involved political costs. For instance, when the OPZZ issued a proposal on family policies in 1998, Solidarity responded with an alternative proposal – and none of them was ever discussed: ‘why should we discuss their proposal? We’d just legitimate them, and they would not thank us’ (JG’s interview with an OPZZ representative, 2004).

At the end of 2002, the European Council agreed to the enlargement of the EU, to include Poland and another nine countries in 2004. By then, not only the institutional and international context had changed – the political one was new too.

4. Hausner’s ‘window of opportunity’ for a social pact (2002-2005)

After the introduction of the new law on the Tripartite Commission, aimed at making it more representative and more effective, the overall Polish context changed in a number of ways, which in theory should have laid down the preconditions for stronger social dialogue.

Politically, a new left-wing government was elected in the autumn of 2001, and the political scene was redrawn with a drastic reduction in direct trade-union influence, paving the way for a depoliticisation of the same unions. The OPZZ was no longer an integral component of the post-communist SLD, and Solidarity, after failing to reach the 5% threshold, remained outside parliament and decided to withdraw from direct politics. A new, more pragmatic general secretary, Janusz Śniadek, replaced the strongly political Marian Krzaklewski. The change at the top reflected deep changes at the grassroots: for the first time, opinion polls showed that a majority of Solidarity members had voted for the post-communists in the elections, it suggesting that the political divide inherited from the 1980s could be overcome. In addition, the new labour minister and chair of the Tripartite Commission, Jerzy Hausner, was an economist ideologically sympathetic to corporatism, and he shared his professional background with the leader of the PKPP, Henryka Bochniarz.

Internationally, EU negotiations were coming to an end and the Copenhagen summit of December 2002 would decide on the accession of Poland from 2004. But rather than the end of the EU road, this meant Poland moving to the next step: monetary convergence in order to subsequently join EMU – as no opt-out from the common currency was allowed. Poland found itself in a striking similar situation to that of Western European countries such as Italy, Belgium and Spain in the early 1990s. Inflation, at around 4%, was slightly higher than the Maastricht criteria, and was driven by wage inflation, as wages, having been severely depressed in the 1990s, were now growing faster than prices (although slower than productivity). The public deficit was even more of a concern, at over 4%, with a large share of social transfers accounting for this, and it would become the main economic concern of the SLD-led government, causing much unpopularity. Indeed, all governments of the new Central European member states of the EU, when trying to introduce unilateral measures to meet the Maastricht criteria, faced electoral defeat (Poland, Czech Republic, Slovakia) or street unrest and dramatic falls in their popularity (Hungary). These concerns would have recommended social pacts as a socially-sustainable way to meet the Maastricht criteria, based on the Italian example of the 1990s – and this was the actual recommendation frequently made by EU bodies and western counterparts (Meardi, 2006).

Economically, after years of fast growth, Poland was facing a downturn, and unemployment, approaching 20%, had become a major problem. In Western Europe, especially since the launch of the European Employment Strategy in 1997, employment had been seen as an area in which social dialogue would be particularly promising (Léonard, 2005).

Soon, another important factor would have suggested the suitability of social pacts. After a landslide election victory in 2001, in 2002 the SLD-led government was shaken by a series of alleged corruption scandals and a dramatic fall in public confidence, from which it never recovered. In 2004, Prime Minister Leszek Miller had to resign and was replaced by the technocrat economist Marek Belka, the SLD had a crushing defeat in the European elections, and the government lost the support of the junior coalition party, the peasant party PSL (Polish Popular Party) and thereby its majority in parliament: until the next elections in 2005, it had to rely on *ad hoc* agreements with the opposition parties. In the West, it has already been observed how government's political weakness increases the attractiveness of social pacts as 'a coalition of the weak' (Baccaro and Lim, 2007), an argument also proposed on Central Eastern Europe (Avdagic, 2006). The combination of corruption scandals, political fragmentation, and technocratic government resembled in particular the Italian government led by Azeglio Ciampi in 1993 – the protagonist of the frequently acclaimed *concertazione*.

Altogether, it seemed that Poland had a 'window of opportunity' for social pacts and that Hausner could have been the Polish Ciampi. Most institutional and political obstacles had been overcome, and the agenda, in terms of shared objectives (EMU convergence, employment), was most promising. Hausner, who soon became Minister of the Economy as well as Minister of Labour, invested much of his authority in achieving social pacts (Hausner, 2007), seeing social dialogue as a policy alternative to those of previous governments, but especially of the die-hard monetarist Polish National Bank, chaired by the author of the shock therapy, Leszek Balcerowicz. Hausner also identified in social dialogue the potential for bypassing even more difficult negotiations within the ruling coalition, between the SLD and PSL. In such a situation, it was hoped that the Tripartite Commission could assume the role of a 'quasi-government'.

Hausner's first initiative involved strengthening multi-sector social dialogue, bringing the sectoral committees under control. These had acquired increasing autonomy but, according to traditional corporatist policy and to the views of Vice-Minister Długosz (2005), such meso-corporatism was a threat to macroeconomic governance because of the high risk of externalities (see for instance Calmfors and Driffill, 1988.) However, this initiative already encountered resistance from organised interests and state administration bodies, and the only objective that was met was the harmonisation of sectoral social dialogue committee regulations, not their co-ordination.

Hausner's quest for a social pact started in October 2002, when he prepared a document on the principles of social dialogue, directly inspired by Western European experiences of the 1990s, which was approved by the cabinet. The document hoped to give social dialogue a systematic role.

The next and most important initiative was the proposal, at the beginning of 2003, of a social pact known as the 'Pact for Work and Development'. The pact had to be regulatory, and not distributive. A distributive social pact on wages was seen by Hausner as barely achievable because of the enduring disequilibrium among economic sectors in terms of the organisation of interests: the interests of the organised sectors would always prevail over macroeconomic interests.
The proposed social pact covered a number of issues and especially reform of the public finances, employment, healthcare reform and labour law. The attractiveness for employers had to be the increase in flexibility and control over the public deficit, while the trade unions were offered a less clear procedural influence over the shape of reforms, which would have replaced their diminished political-parliamentary power. At a special meeting in Sobieszów in May, the Tripartite Commission unilaterally signed an agreement on the beginning of negotiations over the social pact. However, the very next day, the National Commission of Solidarity, voted by a majority to oust its president who had signed the agreement, and decided to withdraw from the negotiations. The decision was taken on two grounds. Firstly, in line with their traditional political standpoint, part of Solidarity feared legitimising and even strengthening a post-communist government, which it opposed as a matter of principle. But also, the more unionist wing of the union did not see what material benefits a social pact would entail for employees. Solidarity would later return to the table to discuss what was downgraded from a 'social pact' to a 'social agreement', but after eight months of intensive negotiations, Hausner had to throw in the towel and abandon his proposal. The PKPP proposed to sign the pact even without Solidarity's signature, but this was eventually deemed pointless by the government: a pact without the signature of the most active trade union would not have protected the new policies from social resistance.

Among the causes of Hausner's failure, the enduring lack of trust between Solidarity and the post-communist party is the most visible. Despite formal political change – Solidarity having withdrawn from direct political participation in 2001, and the SLD having enthusiastically embraced NATO and the EU, and co-opted several former key Solidarity figures – such mistrust seems to have a deeper cultural element which is unlikely to change until the generations who fought each other in the 1980s have left the scene. But one can also see Solidarity's opposition in a different light: not simply as a perpetuation of its ideological positions, but as a learning process in terms of its union-political role. The new Solidarity leaders were all too aware of the heavy costs they paid, in terms of social support, for their support for the market reforms of 1997-2001 under the Solidarity-led government. Social acceptance for such concessions having been exhausted, Solidarity had to turn to a more intransigent role in the defence of workers' interests.

An additional explanation lies in the nature of the Pact for Work and Development itself, which would mostly have penalised the most organised sectors – heavy industry and state sector. Given the low level of the encompassing nature of Polish trade unions, in which the new private sector is almost nonexistent, such proposals were bound to run into resistance. Even the OPZZ eventually refused to subscribe to most of the government's labour law proposals, which were then implemented by the government with the support of the employers but against the opposition of all trade unions. The same occurred regarding the controversial issue of collective bargaining, with the introduction of 'hardship clauses' for the suspension of collective agreements.

Social dialogue under Hausner was not entirely fruitless. More specific agreements were signed on a number of issues, from pay rise indicators (non-binding), to social security, entrepreneurship and pensions. All of these agreements, despite being more numerous than at any time since 1989, fell well short of a comprehensive social pact, both in terms of scope and stability. The poor institutionalisation of such deals could be seen in the agreement reached in 2002 – after five years of failed negotiations – on the criteria for determining the minimum wage. Even before the agreement passed into law, the OPZZ protested against it (bringing some SLD MPs across to its positions) and embarked on new bilateral negotiations with the government, which were concluded by a new protocol and concessions to the unions, guaranteeing that the minimum wage would not decline in relation to the average salary. On many issues, it proved impossible to reach an agreement: proposals on tax credits for low-wage employees and on the reform of the national

Social Fund for Guaranteed Benefits (which had been created by the social pact of 1993) were rejected by the trade unions, while those on social security contributions for the self-employed were blocked by the employers. On labour law, Solidarity even refused to negotiate.

The intensive contacts under Hausner did open the way to the development of some bilateral social dialogue between employers and the trade unions, and especially between PKPP and OPZZ, which in December 2003 – with strong public opposition from Solidarity – signed a bilateral understanding on a number of issues, such as temporary employment and conflict resolution. There was also a bilateral dialogue in autumn 2004, when the social partners reacted to Hausner's proposal on the implementation of the Information and Consultation Directive, which would have introduced works councils. Both employers and trade unions felt threatened, whether by a loophole for employee co-determination, or by competition from new institutions, and therefore agreed an alternative proposal, which minimised the role of works councils (the implementation law would not be passed until 2006, by the next right-wing government, without tripartite agreement, though in line with Solidarity's proposals.) Paradoxically, the main social dialogue success of Hausner had been achieved *against* him rather than by him.

Hausner reacted to the frustration of the failed social pact by shifting the debate to a different area. Having established the impracticability of social dialogue (Hausner, 2007), he promoted a more generic 'civic dialogue' involving a number of non-governmental organisations, as well as the traditional corporatist ones. Such a choice, as with the enlargement of concertation to civic society in Italy in 1998, watered down the social dialogue and made it less relevant, rather than relaunching it in different ways. Hausner also promoted regional social dialogue, seeing the local level as less ideological than the national one. Even at this level, however, the results were fairly limited.

5. In the EU: a new political and economic outlook (2005-2008)

Accession to the EU has generally failed to promote social dialogue in the new member states (Meardi, 2007a), with the partial exception of

Slovakia, where the left-nationalist government elected in 2006 promoted dialogue with the trade unions, achieved a social pact at the beginning of 2008 and managed to join EMU in 2009. The EU agenda has however at least promoted the institutional capacities of social partners through their inclusion in EU corporatist policies and institutions. The relevance of the agendas coming from the EU is clearly discernible within the Tripartite Commission, which from 2004 onwards, started debating all EU social policy initiatives.

Joining the EU was accompanied by an economic boom, but also by a political counter-reaction. The presidential and parliamentary elections of 2005 were won by a traditionalist party, Law and Justice (PiS), led by the twin brothers Kaczyński, which formed a coalition with the extreme-right League of Polish Families (LPR) and the anti-EU peasant party Self-defence. This explicitly eurosceptic government had the external support of Solidarity and fulfilled some of the unions' demands through its programme of a 'solidarity-based Poland', particularly as regards working hours and the minimum wage. However, the Kaczyńskis' conception of social dialogue prioritised Solidarity over the OPZZ. The new government's anticommunism included a programme of 'cleansing' the state administration and Polish society, which expanded to encompass post-communist trade unions. The teachers' trade union ZNP (the largest among OPZZ federations, and the most representative union in the education sector) in particular was the victim of ostracism by the new Minister of Education – and leader of the LPR – Roman Giertych. The unions' political divide was therefore reinstated and the OPZZ once again turned to principled opposition, despite agreeing to some of the new government's most pro-labour initiatives. The Tripartite Commission was sidelined, as the government preferred direct autonomous negotiations with Solidarity only. The government proposed a social pact under the title 'Economy – Work – Family – Dialogue', once again inspired by Western European solutions (the government even created a website on social pacts – www.umowaspoleczna.gov.pl – devoting a great deal of space to stories from Western Europe). Solidarity itself, however, realised the risk of such close negotiations with the government and refused to sign the pact outside the Tripartite Commission, and therefore without the OPZZ, showing that its trade-union identity prevailed over the political one. This also proved that social dialogue within the Tripartite Commission had reached a sufficient level of institutionalisation to ensure that it could not be easily sidelined. The negotiations within the Tripartite Commission lasted, without making any real progress, from March 2006 until the summer of 2007 when the OPZZ and the employers withdrew because of the political crisis overtaking the PiS-LPR-Self-defence coalition.

Early parliamentary elections were held in autumn 2007 and resulted in a landslide victory for the liberal opposition Civic Platform (PO), which formed a coalition government with the PSL. Although PO had had an extreme neoliberal programme on socio-economic issues, it moderated this in the electoral campaign, and rediscovered its roots in the Solidarity movement. Subsequently, PO watered the neoliberal programme down, in order to obtain the support of the more socially-oriented PSL. Most visibly, the initial flagship proposal of a flat-rate income tax was abandoned, as well as an early proposed law on industrial relations that would have allowed derecognition of trade unions in the workplace. The new government, led by Donald Tusk, proposed a new 'social agreement', authored by the Deputy Prime Minister and PSL leader Waldemar Pawlak. The project covered a number of core issues: wage policy, pensions, trade unions law and employment. Negotiations started within the Tripartite Commission in April 2008.

For the first time since 1989, the government is not directly backed by any trade union and is not clearly positioned along the communist-anticommunist divide (the PSL is a former satellite of the communist party). Therefore, the OPZZ and Solidarity no longer occupy opposite positions with regard to it. Nonetheless, the negotiations on the new social pact soon came to a halt in the autumn, due to union opposition to one of its core elements: the reform of early retirement schemes. Here, the blame clearly cannot be placed on union political partisanships: Solidarity and the OPZZ acted together and co-operated in collecting 70,000 signatures against the government proposal, and they managed to obtain some government concessions over the initial plans. Union opposition was purely union-based: against unilateral concessions in a pact without any clear trade-offs. The failure of the pact lies in the government feeling stronger than its predecessors and therefore not needing to make any major concessions.

At the same time, a major contextual change occurred in the labour market and in the economic outlook. Following EU accession, economic growth and mass emigration caused unemployment to fall from 20 to 9.5% in five years. As a consequence, labour shortages became apparent and wages, previously depressed by unemployment, started growing in an uncoordinated way, creating a direct threat to employers' planning and competitiveness. Moreover, the re-appreciation of the Polish zloty was starting to harm Poland's foreign competitiveness. While the OPZZ launched a new campaign for increased wages, demanding compensation for the large productivity increases in the last few years (43% in 2000-2005, compared to 7% for real wages), the employers, for the first time, are now started to consider the usefulness of some form of co-ordinated income policy.

Economically, although Poland was hit less hard than its Baltic neighbours by the global financial crisis, growth prospects were suddenly downgraded at the end of 2008, from around 6% to 2-3%, the Polish zloty lost some of its value, and unemployment started increasing again. Government austerity plans to deal with lower tax revenues and currency devaluation faced immediate union protests. While making the social climate tense, the feeling of crisis has led to a widespread consensus on the emergency and the need for concerted action, as it had happened in Italy or the Netherlands in the past. Such a converging trend was visible first in the broadening support for adopting the euro, and at sector level. The same export sectors that had benefited from EU accession were hit, leading to the novelty of the automotive-sector Solidarność and the OPZZ coming together with the employers' Automotive Industry Association (the same employers' association that until recently would not co-ordinate any relations with the trade unions) to seek a government rescue plan in December 2008.

In 2009 – while this chapter was being completed – this new wave of social dialogue fostered by the crisis and by the depoliticisation of the unions reached the Tripartite Commission. Bilateral negotiations between trade unions and employers started in February within the Tripartite Commission on the crisis as well as on the issue of EU subsidies (on which the two sides agreed – an apparent similarity with past experiences in Ireland and Southern Europe), and led, this time, to the signing of an 'anti-crisis package' proposal in 13 points on the 13th of March, the most important being working time flexibility. The government was not a part of the agreement but expressed approval, while taking time to consider it in terms of public finances and policies.

In June, it implemented it selectively and with changes (e.g. on working time), causing union uproar. The negotiation of the most controversial issue, such as the minimum wage, have been postponed, while the limits of encompassingness of the social partners have not been overcome. The agreement marks however a shift in the actors' behaviour, and it demonstrates that the Tripartite Commission has grown over time into an institution which, once both needs and opportunity have risen, can be used for real social negotiations.

Conclusion: assessment, unintended effects and prospects

Post-communist societies, including Poland, despite this country having developed a unique 'underground' society in the 1980s, are characterised by a very low level of social association, which makes social dialogue particularly difficult. On one side, even though trade unions remain the largest associations in Poland, most of their members come from just a few sectors, which are either state-owned or recently privatised. On the other side, employers have been slow at organising, and their associations have very little power over their members.

It is therefore no surprise that the Polish story is mostly a story of failures. Nevertheless, the work of the Tripartite Commission, despite the shortage of actual social agreements, over a period of eighteen years has had some effects, and the lack of social pacts can no longer be taken for granted: the bilateral agreement of March 2009 proves that the Tripartite Commission is not completely sterile. In particular, the large number of committees and meetings (involving top national leaders, but also at expert and regional levels) resulted in the establishment of networks of relations among the social partners and in a process of social learning. This is confirmed by one of Solidarity's representatives: 'The important thing is that we have started to communicate. Previously, we only knew Mrs Bochniarz from TV, which only provoked us to anger and conflict (...), and with all these contacts, it turned out that they are intelligent people and there are areas on which, despite the differences, we can meet' (interview with JG, 2004). As Regini (2003) has argued, sometimes even failed agreements (such as the German Alliance for Jobs in the 1990s) have implications for social governance.
But while social dialogue in Poland in the 1990s faced a number of major political and institutional obstacles, this paper has shown how

most of these obstacles are not necessarily insurmountable in the 2000s. Actually, Poland had a window of opportunity for social pacts around the time of EU accession.

The chapter has argued that social pacts do not follow a simple functionalist logic: in Poland, there was a 'demand' for social pacts as the country was embarking on the monetary convergence path towards EMU, and was facing very similar problems (wage inflation, public deficit, labour market reforms) to those of some Western European countries such as Italy in the early 1990s. But this demand was not met. There are therefore specific obstacles to the conclusion of social pacts, affecting all three actors involved.

The most visible obstacle, trade union politicisation, while still enduring, has been significantly weakened since 2001. It is no longer an automatic step for trade unions to oppose hostile governments' proposals and support friendly ones: Solidarity signed some agreements with the left-wing government of 2001-2005, and opposed some of the right-wing government's proposals in 2005-2007, while the OPZZ opposed some government proposals in 2001-2005; the two unions acted together after the 2007 elections. As Italy shows (Meardi, 2006), union political divides are not insurmountable obstacles for concertation, and as Spain shows, neither is the abandonment of authoritarianism.

The government side, which had shown only occasional interest in social dialogue in the 1990s, committed itself to social pacts with Jerzy Hausner in the period 2002-2004, when the ruling coalition was weakened by internal conflicts and corruption scandals, and therefore needed external support. The amount of time devoted to social negotiations in 2002-2004 by the top figures on all three sides, and the relevance of the issues discussed, do not fit with the image of tripartism as a simple 'façade'. After 2007, the new centrist government appears politically better-positioned to negotiate with all sides, but also too strong in parliamentary terms to share much of its decision-making power.

The employers' disorganisation, which was understandable in the 1990s, when private capital was still emerging as a social force, can no longer be taken for granted. The PKPP, which was admitted into the Tripartite Commission in 2001, plays the role of a modern employers' confederation. The lack of structures for multi-employer collective bargaining in the private sector is no longer a legacy of the past, as there have been nearly two decades in which to build them, and the reform of the Tripartite Commission in 2001 has been an important opportunity, with the effect of turning employers' associations into effective lobbying groups.

It seems therefore that an explanation of the Polish failures cannot be traced to single factors concerning one actor only, but require a more thorough understanding of the *relationships* between the actors involved. As Bohle and Greskovits (2006) have argued, there is a new form of capitalism emerging in Central Europe which has its own dynamics and power relations, distinct from the previous system. This form of capitalism is characterised by, among other things, an unequal balance of power between capital (and the shortage thereof) and labour (and the oversupply thereof): the resulting power relations bring Poland closer to a USA-style deregulation than to a Swedish-style social compromise (Wright, 2000).

The influence of foreign capital – dominant in the PKPP – in particular is a new factor. It then appears that the lack of co-ordinated bargaining structures is now to a large extent the outcome of specific strategies pursued by the employers, characterised by labour market power and by heterogeneity. In one of the most influential sectors, metalworking, the employers had actually created a federation in the late 1990s. They took the decision to dismantle it when faced with a request for a sector-level agreement from the trade unions: so it is not that they *could not* negotiate, but that they *did not want* to. In a situation of very high unemployment and patchy unionisation, single-employer negotiations were the best strategy for exerting employer power. To some extent, government policies have also strengthened this active refusal to engage in co-ordinated pay setting. Despite his intentions of favouring social dialogue, Hausner did not introduce wages as an important topic for negotiations in 2001-2005. Moreover, his proposed weakening of sector-level committees within the Tripartite Commission, which were defended by the trade unions, although justifiable through the aim of avoiding meso-corporatism at sector level, was an additional action against the development of multi-employer bargaining. As a result, the step of combining the issues of incomes and social security, which was the characteristic of social pacts in Western Europe, was prevented in Poland. Once the social dialogue was narrowed down to 'regulatory' issues only, and the distributional issues removed, the possibility of benefits for the trade unions was also narrowed down. Their opposition is therefore largely natural, and not only due to ideological positions.

Table 1 **List of government coalitions and national-level social agreement**

Year	Actors	Issues	Nature
1989-1993: post-Solidarity governments (Solidarity + nationalists and/or liberals)			
1992	Government, Solidarity	Strike resolution	Bipartite, OPZZ excluded
1993	Government, KPP, OPZZ, Solidarity, other unions	'Pact on State Enterprise': privatisation, social security, H&S, collective bargaining	Tripartite, but employers still dependent on the government
1993-1997: post-communist governments (social-democrats + peasants' party)			
1996	Tripartite Commission	Wages for 1997	Tripartite but private employers under-represented; binding only for state sector
1997-2001: centre-right governments (Solidarity + liberals)			
2001-2005: post-communist governments (social-democrats + peasants' party)			
2002	Tripartite Commission	Social security, H&S	Tripartite
2002	Tripartite Commission	Wages for 2003	Public sector only
2002	Tripartite Commission	Minimum wage	Non-conclusive: additional negotiations with OPZZ
2003	Tripartite Commission	Wages for 2004	Private sector, non-binding
2003	PKPP, OPZZ	Labour law, conflict resolution	Declarative only
2003	*Tripartite Commission*	*'Pact for Work and Development'*	*Failed agreement*
2005-2007: right-wing populist governments			
2006	*Tripartite Commission*	*Pact 'Economy – Work – Family – Dialogue'*	*Failed agreement*
2007- : centre government (liberals + peasants' party)			
2008	*Tripartite Commission*	*'Social agreement' on wages, pensions, industrial relations, labour market*	*Failed agreement*
2009	*Employer organisations and trade unions within Tripartite Commission*	*Agreement on a 'Anti-crisis package'*	*Bilateral declarative agreement; only partial government implementation*

Power relations among actors include, in addition to those between government, employers and trade unions, the Polish National Bank also. This strong and independent institution, especially while chaired by Leszek Balcerowicz in 2000-2007, adopted a strong monetarist line. By pursuing this tough policy, made even tougher by high unemployment, trade union power was controlled, and there was no need to negotiate a transition from an accommodating to a restrictive monetarist monetary policy which, according to Hassel (2006) is one of the main reasons for the emergence of social pacts.

This interpretation, focussed on the power relations between all actors involved, is confirmed by a longer historical perspective. Firstly, a major social pact had actually been concluded in Poland, with the 'Pact on State Enterprise' of 1993. But that was at a time of different power relations among the actors. Not only was the government weak (an unstable coalition of seven parties), but there had been a wave of major strikes across the economy. After 1993, strikes in Poland continued to decline until they reached a level of virtually zero in the early 2000s, largely removing the need for social concertation for government and employers.

However, the situation is still dynamic, as there are symptoms of trade union revitalisation (Gardawski, 2001; Ost, 2006; Meardi, 2007b). As labour market conditions are changing dramatically, wages have started rising and strikes are making a comeback, employers may now appreciate the advantages of social dialogue and co-ordination of pay rises. Moreover, for the first time since 1989, the Tusk government elected in 2007 is not clearly positioned on the Solidarity vs. post-communist axis: the trade unions are therefore free to focus on their 'union' job. The effects of the subsequent global financial crisis are broadening the number of issues on the agenda. Social dialogue may be entering its 'adult' phase.

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Conclusions: trade union structures, the virtual absence of social pacts in the new Member States and the relationship between sheltered and exposed sectors

Maarten Keune and Philippe Pochet

Introduction

In this volume we have looked at the emergence, evolution and stabilisation (or discontinuation) of social pacts in Europe since 2000. In the introduction to this volume we highlighted three issues that are key to understanding these processes: the problem load, actors' roles, interests and preferences, and lastly the institutions concerned. We should like, by way of a conclusion, to address ourselves to three issues of a different nature. We shall do so with reference to the previous chapters in this book, but also by thinking ahead to future developments.

The first issue concerns the stabilisation of the social pacting process in non neo-corporatist countries in the EU-15 and the reasons why different countries have pursued different trajectories. This question was already amply explored in the introduction but here we want to add two further points: the effect of the structure of trade unions on the likelihood that pacts will emerge and stabilise, and the extent to which social pacts could be pursued as a way to deal with the effects of the current crisis.

The second point relates to the new Member States and the emergence or absence of social pacts. We will explore the reasons why in most NMS no social pacts have emerged in spite of the enormous problem loads faced, the factors that help us understand the continuous signing of social pacts in Slovenia, and the likelihood of pacts emerging in the future in the NMS.

The third and final point we wish to address concerns the balance between protected sectors and those exposed to international competition. In other words, could new social pacts - as is maintained by two recent articles (Traxler and Brandl, 2009; Johnston and Hancké, 2009) - be linked to pay discipline in sheltered sectors?

1. Social pacts, trade union structures and the crisis in the EU-15

The chapters of this book have shown how differently the actors have behaved in the five countries (Portugal, Spain, Italy, Greece and Ireland) which lacked a neo-corporatist tradition. Recent contributions to the literature have stressed the importance of governments (Baccaro, Lim, 2007; Baccaro, Somoni 2008; Avdagic, 2010), whereby weak or minority governments would be more inclined to sign social pacts. We have shown in the national case studies (see also the introduction) the need for a change of government in order to test the robustness of a social pact. In this conclusion we would like to emphasise the effect of the way in which the national social partners, mainly the trade unions, are structured.

In Portugal the trade unions have remained divided along ideological lines, making it difficult to pursue a strategy of cumulative pacts. A similar tendency has been reinforced in Italy, especially under the latest Berlusconi government, which has in recent years successfully played on splits between the unions, whereas previously its attitude had united them in opposition. As for Greece, on the face of it the country basically has a unitary trade union movement, or at least one that is dominated by a single confederation, but in actual fact there are deep divisions based on political preferences. Given that the balance between the factions does not give a clear majority to either those in favour of or those against a pact, the Greek system does not provide the room for manoeuvre afforded by a pluralist trade union tradition. In this case, the government can sign a pact with just one of the trade unions (see Italy, Spain or Portugal).

Spain, on the other hand, is a case where the trade unions increasingly converge in their analysis. This trend has been encouraged by the fact that the CC.OO has increasingly been moving towards the centre ground, unlike other communist-dominated unions such as the CGTP in Portugal or the CGIL in Italy. For complicated reasons, no doubt, this led the CC.OO to sign an agreement on pension reform (1997) without the UGT. This is highly unusual: it would be hard to imagine such an agreement between the government and the CGTP but without the UGTP in Portugal, or a CGIL agreement without the CISL or the UIL in Italy. Splits in the union movement have in part been overcome by ad hoc agreements in both Portugal and Italy. Such ad hoc agreements have not always, however, made it any easier to sign macro-pacts: this has not proved possible in Portugal. In the Italian case the relationships between the main trade unions have varied from unity of action to deep split the last two decades. The ad hoc pacts (Pact for Italy 2002 and the 2009 agreement on changes in collective bargaining practices) were signed when unity of action was not possible, mainly because of the different positions towards the right-wing government of CISL/UIL on the one hand and CGIL on the other.

The structural composition of the trade unions is therefore a major element in the stabilisation of social pacts (see also Hassel, 2009). In addition, in Spain convergence between the two trade unions is accompanied by structural weakness on the side of the employers (Pérez in this volume), who thus have an interest in promoting negotiation rather than confrontation for internal organisational reasons, raising the likelihood of social pacts. This was not the case in Greece or Portugal, where the employers' organisations had little interest in signing social pacts because the situation at plant level is little influenced by formal rules adopted at sectoral or national level. That may also explain why there has been a broadening of the scope of negotiations (e.g. to encompass immigration) under Spain's Zapatero governments; in this respect Spain has similarities with Ireland where the topics addressed by the successive pacts have been broadening too (e.g. to include housing). The difference between the two is that Ireland has a macro-pact which is periodically renewed, whereas in Spain there is a succession of agreements which are not formally interconnected, following on from the failure in the late 1980s and early 1990s to sign broad social pacts (Pérez and Pochet, 1999).

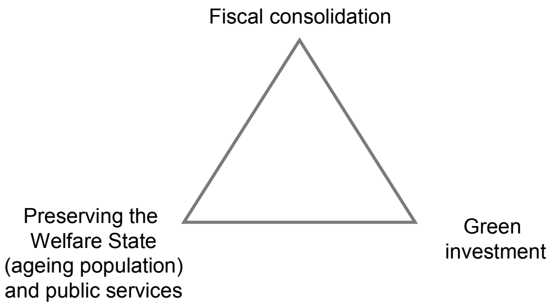
Apart from the actors' structures and strategies, the external economic and monetary environment also plays a structuring role. Concerning the macro-economic situation in relation to social pacts, all five countries have experienced three different periods: a crisis in the early 1990s combined with the constraints posed by the EMU entry criteria; an upturn in the late 1990s and early 2000s with an easing of the external constraints and strong growth (Natali and Pochet, 2009); and finally, at present, a deep crisis which is causing all Member States (bar one) to fall short of the public deficit criteria of the Stability and Growth Pact.

Only two countries - Ireland and Spain - had established stable social pacts by the time the crisis struck. For the time being, the crisis does not seem to be strengthening national pacts or causing them to collapse. One might have thought that, since the crisis originated primarily from financial capitalism, this would have provided an opportunity for private sector employers and trade unions to find scope for macro-level compromise. Nothing of the sort has happened, and the studies carried out to date generally conclude that interim labour market arrangements (short-time working) or company agreements have been used instead (Glassner and Keune, forthcoming). Social pacts have not played a role; rather, year-long talks aimed at concluding new pacts have come to grief in Ireland in late 2009 and Spain in early 2010.

We should nonetheless refrain from making generalisations at this stage. The crisis is not over yet, and its end could clear the way for macro-agreements between governments and the social partners to deal with the consequences of the crisis for welfare, employment and budget deficits. Especially thorny is the reduction of deficits at a time when population ageing is beginning to make itself felt. Thus deficits will have to be reduced while at the same time increasing expenditure on pensions (and healthcare). In addition, the environmental crisis and climate change call for substantial investment of the order of at least one point of GDP (Stern, 2007), but no doubt more, in green infrastructure (transport, intelligent electricity grids, alternative energy, etc).

All countries will therefore be faced with a trilemma: reducing the public deficit, investing in going green, and preserving the welfare state and public services (Figure 1). Emerging from the crisis by means of social pacts therefore means establishing a new trade-off between governments, trade unions and employers' organisations on these three challenges and it is unlikely that it will be possible to overcome more than two of them. Given that wage moderation is now more or less taken for granted in sectors exposed to global competition (see section 3; Hassel, 2006), it is not easy at first sight to see what form a new trade-off could take. On the other hand, forcing workers to shoulder the main cost of budgetary adjustment in a crisis for which they bear no responsibility whatsoever could provoke severe protest. The complexity of this state of affairs is compounded by the simultaneous need to thoroughly rethink the model of consumption and production in order to reduce CO_2 emissions (the automotive sector being only the most obvious example). Also, most likely, debt reduction and compliance with the stability and growth pact will have a lasting impact on national social policy.

Figure 1 **The trilemma faced today**



Greece will be a particularly interesting case to monitor here, with two possible outcomes: either enforced deregulatory labour and welfare state reforms or the shaping of a new social pact supporting a regressive agreement but probably more balance than unilateral governmental decisions. Recent history and the structure of the trade unions do not however tip the scales towards the latter solution.

2. The (virtual) absence of social pacts in Central and Eastern Europe

Among the major events in the 2000s have been the two rounds of enlargement in 2004 and 2007, formally incorporating 10 former state socialist countries of Central and Eastern Europe (CEE) plus Malta and Cyprus into the political and economic structures of the EU. In this section we will focus on the role of social pacts in the 10 former state socialist EU member countries, and in particular on the four cases studied in this volume (Hungary, Slovakia, Poland and Slovenia). Clearly, social pacts have been scarce in the 2000s in CEE, and in the 1990s as well for that matter. Slovenia is the exceptional case in this respect, with social pacts being signed repeatedly since 1993 until today (Stanojevic in this volume). We will further discuss this exception below. Apart from the Slovenian case, a symbolic social pact emerged in 2008 in Slovakia as an 'afterthought' to reforms already undertaken

(Bohle and Greskovits in this volume), one social pact was signed in Bulgaria in 2006, and in Romania a couple of controversial pacts were signed in the early 2000s.[1] In addition, a number of unsuccessful attempts were made to sign a social pact in particular in Poland (Gardawski and Meardi in this volume). However, in the majority of the CEE countries no noticeable activities or achievements can be observed in the 2000s where social pacts are concerned.

This could be considered surprising if we consider the function social pacts have had in a number of EU-15 countries. Here, one of the major factors increasing the likelihood of the emergence of social pacts has been the problem load faced in terms of unemployment, inflation, financial instability, poverty, etc. (European Commission 2009; Fajertag and Pochet 1997). Without a doubt, this problem load has been enormous throughout CEE. The initial transformation crisis of the first half of the 1990s was the period in which this problem load was by far the greatest, but with a few exceptions it has remained large throughout the post-1989 period. Also, for EU-15 countries the specific challenge of complying with the EMU entry criteria has been identified as a major reason for the conclusion of social pacts (Fajertag and Pochet 2000). The CEE countries have been facing two such challenges during the late 1990s and the 2000s. One was compliance with the EU accession criteria, requiring major reforms in the political, economic and (to a lesser extent) social sphere. The other has been the preparation for EMU entry. All CEE members are obliged to enter EMU at some point in time, although no specific dates have been set for entry. So far Slovenia and Slovakia have completed their entry, while Lithuania's first application for entry was rejected. Other countries like Poland and Hungary have postponed their application because of the difficulty of meeting the EMU criteria without causing major social unrest and/or

1. In Bulgaria this was the Pact on Economic and Social Development for 2007-2009, signed by the government, the employers and the trade unions. This broadly conceived pact includes important elements of economic policy, social policy, labour market policy, reform of the public administration and the strengthening of industrial relations.
In Romania a social pact was signed by the government, the trade unions and the employers' organisation in February 2001 but one of the main trade union confederations (Cartel Alfa) withdrew from it seven months later, which led to the cancellation of the pact. In January 2002 a new pact was signed but without the two main trade union confederations (Cartel Alfa and BNS), which calls into question the value of the pact.

because of the observation that EMU members have often been affected by slow economic growth.[2]

Unlike several of their EU-15 counterparts, and with the few exceptions mentioned above, social pacts have not been used in CEE to deal with their general socio-economic problem load or with the more specific issues related to EU and EMU accession. In this section we hope to shed some light on the reasons for this relative absence of social pacts in CEE. The scarceness of social pacts, combined with the huge problem loads faced, argues against simple functionalist explanations for the emergence of social pacts. Moreover, we would emphasise that there is no single factor that can explain their absence in CEE. A one-off explanation could not match the wide variety among the CEE countries in terms of economic structure, political system, types of welfare state or industrial relations systems (Bohle and Greskovists 2007; Keune 2008). Rather, we can identify a number of elements of such an explanation that may apply to individual country cases to varying extents. We will to this effect discuss below (i) the extent to which the national systems in CEE contain the capacity to pact; and (ii) whether or not the goals that pacts aim to achieve are fulfilled by other mechanisms. Thirdly we will summarise some of the lessons learned from the four CEE cases included in this volume.

The capacity to pact

The first question here is to what extent the capacity to conclude pacts exists in the CEE countries. This question concerns both the capacities of the government, employers' organisations and trade unions as well as the relations between the three. As far as the capacities of the three actors are concerned, there seems to be a consensus in the literature that social pacts are negotiated by electorally weak governments facing large economic and social problem loads (e.g. Baccaro and Lim 2007); they need pacts to enact reforms and avoid problems of legitimacy, re-election or societal opposition. In this respect, the fact that CEE governments have experienced a high turnover and systematically

2. At the same time, the current economic crisis has again increased the desire of the CEE countries to enter EMU following the apparent stabilising effect of the euro during economically turbulent times.

dissatisfied electorates would argue in favour of seeking support through social pacts. However, they have not often done so.

This is at least partially related to the capacities of the other actors, i.e. the trade unions and employers' organisations. One issue here is the extent to which these bodies organise workers and employers. Trade union density varies between 12.7% in Poland and 37.2% in Slovenia, whereas the density of employers' organisations varies between 20% in Poland and 40% in Hungary and Slovenia (Table 1).[3] These are relatively low numbers compared to the EU-15, in particular concerning employers' density. Average trade union density in the EU-15 was 25.6% in 2005, while that of employers' organisations varied between 40% in the UK to 100% in Austria in 2006 (European Commission 2009). This already portrays unions and employers' organisations as weak actors. Considering that Baccaro and Lim depict social pacts as coalitions between the weak, this does not necessarily mean CEE unions and employers have no capacity to pact (as is demonstrated by, for example, Spain or Ireland). However, actors can also be too weak to pact. And the weakness of the CEE unions and employers' organisations is exacerbated by a number of factors. One is the relatively low coverage of collective bargaining, with the exception of Slovenia and to some extent Bulgaria: collective bargaining coverage in the EU-15 was 68.8% in 2006, compared to 43.6% for the EU-12 (the CEE countries plus Cyprus and Malta) (European Commission 2009). In addition, collective bargaining in CEE predominantly takes place at the company level, again with the exception of Slovenia and to some extent Romania and Slovakia. Finally, the centralisation of wage bargaining and the capacity for vertical coordination are also low (European Commission 2009), resulting in a low bargaining governability (cf. Traxler 2003). Together, these factors point to limited capacities to coordinate across the economy, to govern local pay setting and to enforce macro-level agreements. Hence, with the exceptions indicated, in most CEE countries the unions and employers' organisations have only limited capacities to make credible commitments in social pacts.

3. Apart from the role of employers' organisations', until recently Slovenian employers were obliged to be a member of the chamber of commerce, which consequently played a key role (in collective bargaining) and had an almost complete coverage of the economy.

Table 1 **Trade union and employers' density and collective bargaining in CEE**

	Trade union density 2005	Employers' density 2006	Collective bargaining coverage 2005-6	Main bargaining level(s)
BG	20.4	-	38.0	Company
CZ	21.0	32	49.6	Company
EE	15.9	25	16.0	Company
HU	18.7	40	35.0	Company
LT	13.2	20	11.0	Company
LV	18.8	25	16.0	Company
PL	12.7	20	40.0	Company
RO	37.0	-	60.0	Sector/company
SI	37.2	40	95.0	National/sector
SK	30.6	30	48.0	Sector/company

Sources: Industrial Relations in Europe 2008; EIRO; www.worker-participation.eu

From a slightly different perspective, Traxler argues in this volume that concluding pacts requires finding a consensus among all three parties, which means that each of them should wield veto power and should be able to impose negative externalities on the others. The power to do so depends for unions and employers on two resources: (i) the extent to which bargaining structures equip the negotiating parties with a hold over the labour market, largely determined by the divide between multi-employer settlements in combination with high collective bargaining coverage and single-employer bargaining with low coverage; and (ii) the level of symbolic means of sanctioning government policies and hence to lend symbolic support and legitimacy to such policies (Traxler in this volume). Concerning the first resource, the data presented above show that in most CEE countries uncoordinated single-employer bargaining combined with limited bargaining coverage prevails, indicating that the negotiating parties have only a limited hold over the labour market. Slovenia, with its high coverage and dominance of multi-employer bargaining, is the clear exception here, accompanied to some extent by Slovakia and Romania. Hence, in most CEE countries the bargaining situation limits the capacity to pact or the likelihood of social pacts to emerge.

As for the symbolic means of sanctioning government policies, bargaining structures are of less importance here. However, to make symbolic support credible, some degree of public support and confidence in the parties providing symbolic support is required and these parties should possess some mobilisation capacity. On both these issues, the literature is quite sceptical. Unions are widely portrayed as lacking legitimacy among the population, because as organisations they are associated with the old regime (in particular the successor unions); or, as is to some extent the case of Solidarność, because they have been so enthusiastically involved in helping to construct capitalism that they forgot to defend workers against its perils (Gardawski and Meardi in this volume; Ost 2009; Crowley 2004). This, together with generally low membership levels and in some countries significant intra-labour movement fragmentation or conflict also results in low mobilisation capacity. Employers' organisations also suffer from relatively low membership figures and, in a number of countries, fragmentation (Mailand and Due 2004). And when business mobilises, as was the case in Hungary in 2006, this has been the action of a few large foreign investors rather than an economy-wide coordinated effort led by employers' organisations (Bohle and Greskovits in this volume).

The goals that pacts should achieve and the availability of alternatives

Apart from the more general capacity to pact, discussed above, we should also consider the question as to what specific goals pacts could potentially pursue and what alternatives or functional equivalents are at hand in particular for governments. One key question here concerns wage moderation. Governments are interested in wage moderation since from a macro-economic perspective it is seen as one of the major factors allowing for the control of inflation, unemployment and public expenditure. Wage moderation could be pursued through social pacts; however, as indicated above, in most CEE countries the prevalence of low coverage single-employer bargaining makes it hard for unions and employers to make credible commitments in this sense. Still, in principle there are alternatives to such centralised wage setting. One is pattern bargaining, a voluntary, decentralised and informal type of coordination which rests on the leading role of a particular bargaining unit or a cartel of contiguous bargaining units below the peak level (Traxler 2003). Pattern bargaining can be observed in countries like Austria and Germany but not in any encompassing way in CEE, even though there may be some pattern setting by large multinationals. The other alternative mechanism, posited by Calmfors and Driffill (1988) as the other extreme of centralised agreements, is decentralised wage setting governed by the market. And indeed, in most CEE countries this is the dominant mode of governance where wage setting is concerned, with the noticeable exception of the statutory minimum wage. This is especially true for the sectors exposed to international competition, which make up a large share of the often small and always open CEE economies. It is also true in an entirely different way for the relatively large informal sector that can be found in many CEE countries (Schneider 2004). The only large sector escaping market discipline (and where wage developments may also to some extent affect labour costs in the exposed sector) is the public sector, which is also where most union membership is concentrated and where most union mobilisation takes place. The question for governments, then, is how to achieve wage moderation in the public sector (Traxler in this volume), but encompassing social pacts do not seem to be the solution to this dilemma.

Fiscal and welfare reforms are a more complex case. Such reforms have been high on the agenda in CEE since the early 1990s. During the initial transformation crisis the welfare state was largely used as a buffer to absorb outflows from the labour market and soften the impact of falling incomes (Keune 2008). Since the mid-1990s, however, welfare schemes had come under severe financial strain because of the dramatic increase in the number of benefit recipients, unfavourable demographic developments and falling tax revenue and social contributions (Rhodes and Keune 2006). As a result, from the mid-1990s onwards, fiscal and welfare state reform moved to the top of the political agenda, but this time with the aim of reducing costs and increasing efficiency, reducing welfare dependency and changing incentive structures and governance systems. Yet reform has proved difficult for two reasons. First, economic crisis and growing poverty have led to increasing social needs and demands for welfare. Second, democratisation has created institutional opportunities for political parties and unions to block extensive retrenchment, preventing government elites from cutting taxes and spending at will (Campbell 1996). Indeed, fiscal and welfare state reforms have been a hot political issue and have been heavily contested.

However, again with the striking exception of Slovenia, fiscal and welfare reforms in the 2000s have not been the result of negotiations with unions and employers in CEE. Rather, governments have enacted reforms without the consent of unions and employers' organisations, or reforms have stalled after protest and social unrest. An example of the former is Slovakia, where sweeping welfare and tax (and labour market) reforms were made by the Dzurinda government in the period 2002-2006. At decisive moments of these reforms the Dzurinda government suspended tripartite consultation and did not shy away from open confrontation with the trade unions in particular (Bohle and Greskovits in this volume). And although the Slovak Trade Unions Confederation, in alliance with the opposition parties, tried to stop these reforms, including through a referendum, it did not manage to change the government's reform strategy. The referendum did not reach the turnout threshold and other forms of protest failed as well. On the one hand this exposes the limited power and mobilisation capacity of the unions and the opposition. On the other hand, Bohle and Greskovits argue in this volume that the Slovak government also skilfully dampened protest by 'picking the right losers', i.e. by ensuring that the burden of the reforms fell largely on the weaker social groups, in particular the Roma minority, which received only limited support from the rest of society in their protest against the reforms.

In Hungary, the Gyurcsány government also tried to introduce a draconian austerity package in 2006 and also largely bypassed the tripartite council in drawing up these reforms. However, the reforms affected larger, politically more influential and more resourceful social groups, including public sector employees and large parts of the middle class, which resulted in widespread, massive and sustained protest (Bohle and Greskovits in this volume). Protest came from the opposition parties and from violent radical right-wing groups, but also comprised strikes by public transport workers and teachers and threats of disinvestment by the large multinationals operating in the country. Unlike in Slovakia, the Hungarian government saw itself forced to abandon many of its planned reform plans and the governing coalition disintegrated (*ibid.*).

Slovenia, the exception to the rule, and the pact almost concluded in Poland

The above discussion is to a large extent concerned with explaining the absence of social pacts in CEE in the 2000s. However, there still remains the question as to whether pacts are indeed an impossibility because of structural factors, or whether they have not occurred because of contingent factors. To address this question we want to address briefly two of the cases discussed in this book. One is Slovenia, the exception to the rule, where there has been a series of pacts in the past 20 years. The other is Poland, where in the early 2000s in particular attempts to conclude a social pact were almost successful.

Slovenia does indeed represent a rather unique case in CEE for several reasons. And the real peculiarity of Slovenia as compared to the other CEE countries is the fact that its economy is a very coordinated one, including a key role for social dialogue and collective bargaining. In a recent paper, Crowley and Stanojevic (2009) discuss the reasons for the emergence of Slovenia's coordinated economy. Broadly, Slovenia benefited from being a relatively homogeneous society and from having limited external account problems, allowing it to take a gradualist approach towards post-socialist transformation without too much pressure from the IMF or too strong a need to attract foreign direct investment. More specifically, they argue that it is the only CEE country that came out of state socialism as a relatively market-oriented economy with a dominant export-oriented sector dependent on skilled labour. As a result, employers had a strong interest in coordinated institutions and were able to push for such institutions through the chamber of commerce, which until recently had a 100 percent coverage rate by law, and through their relatively well-organised employers' organisations (*ibid.*). But not only employers' interests are of relevance here. The authors point out that Slovenia was also the only CEE country where labour was strong enough to play a key role in the formation of the Slovenian capitalist political economy in the very early nineties, and that it managed to back up its position by mobilising the working class in this crucial period and organising a wave of strikes. And workers and employers also managed to determine common interests. Key to the Slovenian economy was a core group of export-oriented companies, where workers cooperated with managers: 'Employers supported the job security of core workers in this sector in order to motivate them to develop company-specific skills. In this way, managers and workers in the sector developed a cross-class coalition, and this coalition within this dominant sector had a strong influence on the laws that became the core of the Slovenian coordinated model' (Crowley and Stanojevic 2009: 15). Social pacts have become part and parcel of this model. It remains a moot point whether this model has emerged largely because of historical and hard-to-imitate reasons, or whether it has resulted from deliberate policy choices by Slovenian elites in the process of constructing post-socialist capitalism.[4] If indeed the main factors are policy choices, part of the Slovenian experience could possibly be followed by other countries.

Poland is significant for this discussion, above all because it shows us that the absence of social pacts does not necessarily mean that no attempts have been made to conclude such pacts. Gardawski and Meardi (in this volume) show that while during the 1990s many obstacles existed that made social pacts very unlikely to emerge, by the early 2000s most of these obstacles had disappeared. For example, the Tripartite Commission had gone through a process of institutionalisation over the years, strengthening its position; repeated contacts between the social partners had helped to slowly build trust between them; and the links between the trade union confederations and political parties had been largely severed, resulting in a de-politicisation of the unions and opening up possibilities of cooperation between OPZZ and Solidarity (*ibid.*). Also, at that moment in time, Poland faced high unemployment and low growth, the government was rather weak, and there was a sense of shared objectives across society, in particular the objectives of entering the EU and EMU and of improving the employment situation in the country (*ibid.*). Given this situation, not so different from Italy in 1993, Jerzy Hausner, Minister of Labour, proposed the Pact for Work and Development in 2003, including the reform of public finance, healthcare, and labour law. In the end this pact did not materialise. However, it received quite some support from politicians, unions and employers. It was Solidarity that finally opposed Hausner's proposal for four reasons (Gardawski and Meardi in this volume): it still did not trust the post-communist government enough to be comfortable with legitimising it through its participation in a social pact; the pact mostly penalised the best-organised sectors (heavy industry and the state sector); it had learned its lessons from its support for earlier market reforms and felt that the social acceptance of such reforms had been exhausted; and it considered that the pact was largely regulatory instead of distributive and included too few material benefits for workers.

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4. For various positions on this see Bohle and Greskovits 2007; Crowley and Stanojevic 2009; and Feldman 2006.

The authors draw a number of conclusions from this experience. The most important ones for the purposes of the present analysis are, first, that social pacts do not in fact follow a simple functionalist logic: the demand for pacts does not automatically lead to their conclusion. Secondly, at least in Poland, pacts may be unlikely but not impossible. Indeed, the reasons for the failure of the proposed 2003 pact are not insurmountable and are contingent rather than structural.

3. Sheltered and exposed sectors

The rationale for signing social pacts under the EMU was to control inflation, as inflation increases over the medium term could no longer be compensated for by currency devaluation. Indeed, social pacts in the 1990s imposed wage moderation in countries where inflation and wage increase were high (Pochet, 2002). These wage increases were generally dominated by the bargaining in exposed sectors, in particular the engineering and chemical sectors, where the trade unions are traditionally rather strong. Two recent articles (Traxler and Brandl, 2009; Johnston and Hancké 2009) however suggest that today the situation is different; rather, they highlight the role and potential of the sheltered sector in the signing of social pacts. The basic argument is that the open sectors have been tamed by global competition and forced to enter into a process of wage moderation. On the contrary, sheltered sectors are less affected by global competition. As Traxler (in this volume) notes, the sheltered sector can externalise wage increases which could substantially affect the exposed sector in many different ways (e.g. wage inflation, labour shortages and higher taxes). This could, among other things, undermine the exposed sector's international competitiveness. The goal of social pacts, which was to impose wage moderation on the exposed sectors in the 1990s, might progressively change to controlling wage increases in the sheltered sector. The argument in the two articles mentioned was mainly based on quantitative data; we will complement this approach by evidence from the case studies presented in this volume.

We will briefly discuss three factors that influence the likelihood or feasibility of such pacts being directed towards the sheltered sector: the balance of power between the actors concerned, the impact of globalisation and the mechanisms of wage setting and wage coordination prevailing in a country.

The first point relates to the actors. The bastion of trade unionism in virtually all EU countries is to be found in the sheltered sectors (public administration, health, education) and to a lesser extent in sectors only recently exposed to competition (railways, postal services, gas, electricity, etc.), whereas the unions are losing members in traditional industries and have difficulty in organising new emerging sectors. Thus the relative weight of the sheltered sector within the trade union structure is gradually being strengthened. That said, it does not necessarily mean that these sectors have become or will become the leaders/coordinators of national collective bargaining (see below).

The trade unions' counterparts on the employers' side are the local, regional and national public authorities, and to a much lesser extent private sector employers (in the privatised utilities). Therefore it is governments, directly or indirectly, that are on the front line. Here the public authorities are no longer a broker/referee/facilitator in the negotiations but fully involved as a partner. The position of governments is thus much more complex as very often they take the final decision (Broughton, 2009).

Secondly, the accelerating process of globalisation (both in terms of opportunities for companies to relocate all or part of their production and of falling transport costs[5]), means that exposed sectors are increasingly open to global competition. For this reason, external discipline arising from a loss (or fear of loss) of market share exerts strong pressure against an upward adjustment of wages, particularly in countries/sectors where costs (especially wage costs) are higher than those of competitors. This competition is becoming even stronger as many lower-wage countries are producing more complex products nowadays. For example, the automotive industry in the new Member States has progressed from assembling bottom-of-the-range cars to mid-range vehicles (Johnston and Hancké, 2009). In other words, external constraints have taken over from the adjustment constraint arising from monetary union (wage moderation to combat inflation) and from the loss of opportunities for currency devaluation if competi-

5. At least until now, the climate change debate could in future significantly push up transport costs by introducing taxes on CO2 emissions (see below).

tiveness is lost. This means that the exposed sectors have continued wage moderation after entering into the EMU. It was no longer necessary to have a social pact to enforce wage moderation, at least for the exposed sectors. This puts the spotlight on the sheltered sectors since they are more likely to generate renewed substantial wage increases which may have consequences for inflation and for wage costs in the exposed sectors. For example, in Finland: “The employers’ decision to end social pacts on incomes policy carries with it major risks. It is not at all certain whether unions in the sheltered sector will be content with the export sector setting wage levels. In the previous bargaining round, in fact, the very opposite took place as outright competition for the highest level of wage increases took place amongst unions and some of the highest increases were achieved in the municipal sector”.

This leads us to our third factor, the mechanisms linking wage developments in the sheltered and exposed sectors. We identify two. The first relates to the way in which collective bargaining is organised and in particular the way it is coordinated. In the case of sectoral bargaining, wage bargaining may be dominated by one sector (usually metalworking), which sets the pattern for wage increases (pattern bargaining) and in effect imposes external constraints on the rest of the economy (see for example the chapter on Finland). But the dominant sector may change, and protected sectors could become the *de facto* benchmark of collective bargaining (see Finland in this volume). Some feared that this would happen in the case of Cyprus (see Natali and Pochet in this volume).

The second mechanism at work is catch-up bargaining, whereby comparisons between sectors in the wake of differential pay rises over a period of several years leads to demands to make up for lost ground. This differs from bargaining coordination, which is synchronic, in that its relative timing is the same: wage claims are coordinated in a given year or bargaining round. Catch-up bargaining is diachronic: after a period of five to ten years, ongoing imbalances lead to demands for wages to catch up. However, these demands may still have immediate effects if bargaining is coordinated, and catch-up wage rises are regarded as a benchmark for annual/biannual rises in other sectors. Social pacts could be used to contain sheltered sector wage increases.

Van der Meer and Visser (in this volume) make this point for the Netherlands as follows: "(…) The gap between public salaries and wages in the private sector widened, especially at the top of the income structure (Salverda *et al.*,2008). National wage coordination thus enables union representatives in the public sector to strive for equality with the private sector(…)". On the other hand, social pacts would serve to moderate claims in the protected sector by making them take account of constraints in exposed sectors and by curbing the momentum of catch-up wage demands.

In a recent paper comparing Austria and the Netherlands, Alison Johnson (2009: 7) arrived at the same conclusions. In Austria, wage restraint was maintained throughout the entire course of the business cycle because pattern bargaining coordination tied wage growth in all sectors and a competitiveness check existed at the first stage of each wage bargaining round. "Strong employers indirectly enforced this coordination mechanism on shadowing unions. (…) in Austria, wage trends for more sheltered sectors were consistently below wage trends in the manufacturing sector under EMU". In the Netherlands, on the contrary, there is no control from exposed-sector unions on sheltered sector unions. "Wage growth in the sheltered sectors increased substantially when favourable economic conditions arose, namely a drop in unemployment and increases in labour demand, because employers could not tie wage demands in these sectors to more competitive sectors".

The wage dynamics between protected and exposed sectors have played a significant role in the debate on social pacting. As Pérez (in this volume) underlines, "In the particular scenario lived by Spain during the first decade of EMU (one in which its growth far outpaced that of other EMU economies factored in by the ECB), pacts aimed at controlling wage settlements in the sheltered sectors of an economy can serve an important purpose". The Irish contribution too considers as a significant success of social pacts in Ireland the capacity of government and the unions to jointly achieve a degree of discipline over a traditionally powerful public sector.

Indeed, it is not unlikely that the next generation of social pacts will be aimed specifically at controlling wage developments in the public sector. The interests of governments and both trade unions and employers in the exposed sectors could coincide in imposing wage moderation on the sheltered sector.

Our analysis of social pacts has shown that these are flexible institutions which adapt to external circumstances but also to internal developments. Nonetheless, neither a functionalist perspective nor an analysis based on external constraints (*vincolo esterno*) can explain the trends observed. Institutional aspects are central, as are the political dynamics fashioning these institutions: the strength or weakness of governments and the social partners. It is particularly interesting to analyse social pacts as institutions, since this makes us examine the conditions under which an institution takes shape and becomes stabilised (or not). The context is all the more important in that, in most of the countries analysed, these institutions are not sufficiently mature to have a structuring effect on their environment by altering the actors' perceptions and expectations.

In this context the economic crisis and the respective approaches towards resolving the trilemma presented in section one will be key factors to gain a better understanding of the processes whereby emerging institutions either gain stability or else disappear.

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List of abbreviations

ACE	Strategic Social Concertation Agreement
ADEDY	The Civil Servants' Confederation
AES	Socio-Economic Agreement
AKAVA	Confederation of Unions for Academic Professionals
AKEL	Progressive Party of Working People
ALPA	Airline Pilots Association
AMCE	Agreement for the Improvement of Growth and Employment
ANC	Agreement on collective bargaining
ARAN	Agenzia per le relazioni sindacali
ASTI	Association of Secondary Teachers Ireland
BCC	Business Centre Club
BEPGs	Broad Economic Policy Guidelines
CAP	Confederation of Portuguese Farmers
CC.OO	Trade union confederation of workers' commissions
CCCI	Cyprus Chamber of Commerce and Industry
CCNL	National collective labour agreement
CCP	Confederation of Portuguese Commerce
CDA	Christian Democratic Party
CEE	Central and Eastern Europe
CEO	Chief Executive Officer
CEOE	Spanish confederation of employers' organizations
CEPYME	Spanish confederation of small and medium sized enterprises
CGIL	General Confederation of Italian Workers r
CGTP	General Confederation of Portuguese Workers-Intersindical
CIP	Confederation of Portuguese Industry
CISAL	Italian Confederation of Free Workers' Unions
CISL	Italian Confederation of Workers' Unions
CiU	Convergence and Union
CLS	Centre for Labour Studies
CMTU	Confederation of Malta Trade Unions
CNV	Christian Trade Union Federation
CoC	Chamber of Commerce
COLA	Cost of Living Allowance
CORI	Conference of Religious of Ireland
CPB	Central Planning Office
CPCS	Standing Council for Social Concertation
CRZZ	Central Council of Trade Unions
CTP	Portuguese Confederation of Tourism
CU	Centre-left Christian Union

D66	Progressive, social-liberal Democrats 66
Deok	Democratic Labour Federation of Cyprus
DIER	Department of Industrial and Employment Relations
DIKO	Democratic Party
DISY	Democratic Rally
DNB	Dutch Central Bank
DOE	Greek Primary Teachers Federation
ECB	European Central Bank
ECHP	European Community Household Panel
ECOFIN	Economic and Financial Affairs Council
ED	United Democrats
EDEK	Movement for Social Democracy
EES	European Employment Strategy
EET	Hellenic Bankers Association
EGSSE	National General Collective Agreement
EIRA	Employment and Industrial Relations Act
EK	Confederation of Finnish Industries
ELA	Basque Workers' Union
EMS	European Monetary System
EMU	Economic and Monetary Union
EPA	Survey of the working population
EPl	Employment protection legislation
ERM	Exchange Rate Monetary
ESC	Economic and Social Council
ESEE	National Confederation of Greek Traders
ÉT	Council of Interest Represenation
ETC	Employment and Training Corporation
ETUC	European Trade Union Confederation
ETYK	Cyprus Union of Bank Employees
EU	European Union
EUROKO	European Party Cyprus
EWC	European Works Council
FCS	Forum for Civil Society
FIDES	Trade Union of Doctors and Dentists of Slovenia
FIDESZ	Hungarian Civic Union
FIOM	Italian Federation of Metalworkers
FNV	Dutch Trade Union Federation
FOI	Federation of Industries
FZZ	Trade Unions Forum
GDP	Gross domestic product
GRTU	Chamber of Medium and Small Enterprises
GSEBEE	General Confederation of Craftsmen and Small Manufacturers of Greece
GSEE	Greek general confederations of workers
GWU	General Workers Union
HCPI	Harmonized Consumer Price Index
HRM	Human Resource Management

HZDS	People's Party – Movement for a Democratic Slovakia
ICTU	Irish Congress of Trade Unions
ILO	International Labour Organisation
IMAD	Slovenian Institute of Macroeconomic Analysis and Development
IMF	International Monetary Fund
INEK	Cyprus Labour Institute
Inem	National Institute for Employment
IR	Industrial Relations
KNSS	Confederation of New Trade Unions of Slovenia
KOZ	Confederation of Trade Unions of the Slovak Republic
KPP	Polish Employers Federation
LBRL	White Paper on Industrial Relations
LDS	Liberal Democracy of Slovenia
LPF	Populist List Pim Fortuyn
LPR	League of Polish Families
LTO	Dutch Federation of Agriculture and Horticulture
LVRL	Green Paper on Industrial Relations
MCED	Malta Council for Economic Development
MCESD	Matla Council for Economic and Social Development
MEA	Malta Employers Association
Mepa	Malta Environment and Planning Authority
MEV	Macro Economic Explorations
MHP	Federation of Managerial and Professional Staff Unions
MHRA	Malta Hotels and Restaurants Association
MKB	Dutch Federation of Small and Medium-sized Enterprises
MLP	Malta Labour Party
MPA	Labour Market Fund
MSZOSZ	National Confederation of Hungarian Trade Unions
MSZP	Hungarian Socialist Party
MUBE	Malta Union of Bank Employees
MUMN	Malta Union of Midwives and Nurses
MUT	Malta Union of Teachers
NAP	National action plan
NATO	North Atlantic Treaty Organization
NCSI	Netherlands Centre for Social Innovation
NERA	National Employment Rights Authority
NESC	National Economic and Social Council
NESDO	National Economic and Social Development Office
NESF	National Economic and Social Forum
NGO	Non-governmental organization
NIB	National Implementation Body
OEB	Employers’ and Industrialists Federation
OECD	Organisation for Economic Co-operation and Development
OELMEK	Cyprus Secondary Teachers Union
OKE	Economic and Social Council of Greece
OLME	Federation of State School Teachers of the Secondary Education

OMED	Greece's Mediation and Arbitration Service
OPZZ	All-Poland Alliance of Trade Unions
OTOE	Greek Federation of Bank Employee Unions
PASKE	Trade union faction of the Pan-Hellenic Socialist Movement
PASOK	Panhellenic Socialist Movement
PASYDY	Pancyprian Public Servants Trade Union
Pasyxe	Cyprus Association of Bank Employers and the Pancyprian Association of Hoteliers
PAYG	Pay-as-you-go
PCE	Spanish Communist Party
PCW	Programme for Competitiveness and Work
PDIA	Pension and Disability Insurance Act
PDP	Personal Development Plans
PEC	Pact for Employment and Competitiveness
PEO	Pancyprian Federation of Labour
PESP	Programme for Economic and Social Progress
PiS	Law and Justice (Conservative Polish political party)
PKPP	Polish Confederation of Private Employers
PNR	Programme for National Recovery
PNV	Basque Nationalist Party
PO	Civic Platform
POED	Cyprus Greek Teachers' Organisation
POEDHN	Panhellenic federation of public hospitals workers
POE-OTA	Federation of workers of all specialisations in the municipalities and local communities of Greece
PP	People’s Party
PPF	Programme for Prosperity and Fairness
PPS	Purchasing Power Standards
PS	Socialist Party
PSD	Social-Democrat Party
PSL	Polish People's Party
PSOE	Spanish Socialist Workers Party
PT	Confederation of Service Industry Employers
PvdA	Social Democratic or Labour party
RHSD	Council for Economic and Social Accord
SAK	Central Organisation of Finnish Trade Unions
SBBE	Federation of industries of Northern Greece
SD	Social Democrats
SDS	Slovenian Democratic Party
SEB	Federation of Greek Industries
SEK	Cyprus Workers' Confederation
SER	Social Economic Council
SIPTU	Services, Industrial, Professional and Technical Union
SLD	Democratic Left Alliance.
SLS	Slovenian People's Party
SME	Small and Medium-sized enterprises

SNS	Slovak National Party
SORS	Statistical Office of the Republic of Slovenia
STAR	Labour Foundation
STTK	Confederation of White-Collar Workers
TNC	Transnational corporation
TT	Confederation of Finnish Industry and Employers
TUC	Trades Union Congress
UGL	General Labour Union
UGT	General Workers' Union
UGT	General workers' confederation
UHM	Union of United Workers
UIL	Union of Italian Workers
UMASA	University of Malta Academic Staff Association
VAT	Value added tax
VNO-NCW	Federation of Dutch Enterprises (VNO) and the Dutch Christian Federation of Employers (NCW)
VVD	Liberal Party for Freedom and Democracy
WPCD	Workers' Participation Development Centre
WTO	World Trade Organisation
ZLSD	United List of Social Democrats
ZSSS	Union of Free Trade Unions of Slovenia

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