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## *Employment, Industrial Relations and Social Policy: New Life in an Old Connection*

**Colin Crouch**

### **Abstract**

*The purpose of this paper is to account for the revival of both academic and substantive interest in what had long been seen as an unimportant byway of social policy: the role of social partners, especially trade unions, in the management of national social insurance systems. The answer is found in the budgetary crises facing these systems along with the frequent embedded role of the social partner organizations in their governance. Meanwhile, this welfare state role of trade unions then has implications back on to the conduct of industrial relations. The diversity of national experiences is considered, including the reasons for British exceptionalism on this question. Particular use is made of a comparison between Italy and the Netherlands on the one hand (cases of some success in the role of social partners in managing change in social insurance arrangements), and France and Germany on the other (at the time of writing, cases of stalemate).*

### **Keywords**

*Trade Unions; Welfare state reform; European welfare reform*

In most Western European societies the equivalent term for “social policy” refers to both the welfare state and industrial relations, a usage that sounds strange to British ears. This is so much so that, in order to make the distinction, the English word “welfare” is used in French and Italian discussion to denote the specific part of social policy that has to do with pensions, social security, various social assistance programmes, and sometimes health services too.<sup>1</sup> Historically, both institutionalized industrial relations and the provision of various social benefits were seen as a response to the predicament of the growing new industrial working class, protected from the insecurities of the capitalist labour market by neither the wealth of the bourgeoisie and aristocracy nor the institutions of family, church, community and *noblesse oblige* that were thought, rightly or wrongly, to provide some protection to rural populations.

This is not just a matter of concepts and ways of thinking, but of hard

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policy too. Trade unions are usually involved in the administration of national systems of pensions and social insurance, which are in turn closely related to status as an employee, often as an employee in a specific occupation or economic branch. British exceptionalism here is something that developed over the years. British unions originally doubled as industrial relations actors and as the organizers of rudimentary providers of contributory, occupation-related social insurance schemes. When government began to establish a state system, in the National Insurance Act 1911, trade union and other voluntary schemes were given a role alongside the new state provision, and unions could participate in the administration and distribution of benefits even if they had not previously organized their own voluntary scheme. Had this been maintained, this aspect of the British welfare state, like several others, would have resembled those of Scandinavia.

However, the unions' own schemes took a severe beating as they tried to cope with the extraordinary increase in unemployment of the late 1920s. Gradually the unions reached the conclusion that this was not an area where they wanted to be directly involved. They continued to lobby for the strengthening of welfare benefits and took up policy stances on issues like the means test, but by the time of the major advance in British welfare policy thinking in the mid-1940s, they had decided to shed their involvement in administration in favour of a pure state-run scheme (Finlayson 1994: 264–70).

This proved very useful in the construction of the particular British form of the postwar compromise and welfare state enlargement. Lazy thoughtways led to anything specifically British within the European context being dubbed "liberal", with reference to both the nineteenth-century legacy of English liberalism and the increasing tendency of the British during the 1980s and 1990s to remodel their institutions on a version of US economic liberalism. Not only is the latter rather anachronistic for an account of the 1940s, but it omits a fundamental compromise, or more accurately a convergence, between two forces in the Britain of that time. One of these was social democracy, or socialism. Following the experience of how the country had been organized during the Second World War, this was full of a new confidence in the planning and steering capacities of the central state. The other was the "mandarin" tradition of the civil service: elitist, always self-confident, imbued with a genuine concept of public service, and reinforced in its sense of the capacity of the central state by both the war and the colonial experience, especially the government of India. In the wake of the war these two forces, coming though they did from very different, often opposed, classes within society, had much in common: a belief in the capacity of the state to do public good, but also in its almost Jacobin lack of a need to consult with or embed itself within the wider population.

This latter might appear to be the price the Labour Party had to pay to win the former, but it must have seemed a cheap price at the time. The Labour Party was inclined to feel that it itself constituted the voice of the relevant part of the wider population and therefore required no wide consultation. ("Socialism is what the Labour Government does," as Herbert Morrison famously remarked.) And the unions had demonstrated clearly that they did not want to be involved in running the welfare state, just as they had

renounced any ambitions for worker participation in managing either nationalized industries or private firms.

Meanwhile, in much of continental Western Europe unions had become firmly installed in the governing bodies of national or specific occupational social insurance and similar systems, with a particular moment of consolidation coming in the reconstruction years immediately following the Second World War. For many years after that the diverse national developments which had created these systems seemed to be of minimal interest outside those concerned with the minutiae of administrative arrangements. In Austria, Belgium, Germany, the Netherlands, and above all in Switzerland, union participation in running social insurance seemed all of a piece with the neo-corporatist and codeterminative models of the industrial relations system, but a very uninteresting part of it. These institutions were rarely if ever engaged in any interesting issues of coordination or inflation-avoidance. They possibly just added some of the cement that held together a structure, the main business of which was steering collective bargaining outcomes and changes in working conditions. Things seemed more interesting in Scandinavia, where such participation seemed even more fully part of the tripartite character of the state.<sup>2</sup> Sometimes, especially in Sweden, these had important macro-economic effects, when government, advised by social partners, used to steer pension fund accumulations into industrial investment.

In France and Italy formal union involvement in the management of pension and social security schemes seemed totally at odds with the prevailing industrial relations context. This involvement had developed fitfully from the late nineteenth century onwards, and had been consolidated in the participatory consensus institutions with which those countries had equipped themselves in the solidaristic atmosphere of 1944–7. Then had followed the Cold War, the exclusion of the majority Communist wings of the labour movement from national respectability, and the marginalization of the weakly representative and internally divided non-Communist minority. Industrial relations became, as they had been in the 1920s and 1930s, a non-existent arena, or one of uncompromising conflict, with codeterminative and tripartite institutions of the immediate postwar years being reduced to residual status. The continuation of union involvement in the management of social insurance schemes seemed just an aspect of the last of these alternatives, its very survival in such an otherwise hostile environment serving as a testimony to its lack of seriousness.

Today matters look very different. Given a widespread belief that welfare states, and especially their social insurance components, must be reformed, union participation in the reform process has become fundamental in all systems where unions and employer organizations have a formal role of the kind we are discussing. Unless governments are willing to risk the conflict that would ensue from expelling unions from social insurance management, they have to win union agreement jointly to make the reforms. As we shall see below, the Dutch and Italian cases show that this can be achieved. The French and German ones suggest that it can be very difficult (Ebbinghaus and Hassel 1999). From this flow a number of rather diverse consequences.

First, no matter how weak they might become in terms of the main indicators of union strength (membership, resources, engagement in collective bargaining), unions with this kind of institutionalized role in an arena high on the policy agenda at the present time cannot be easily marginalized or excluded from national respectability. This can be seen from a comparison between the UK and France. Unions in the former country retain a considerably higher membership and material resource base than their French colleagues, and they are engaged more effectively in serious collective bargaining. They have, however, been effectively excluded from serious participation in national events. Following the poor experiences of the 1970s, no major political party is interested in their cooperation in the management of wage inflation. During the 1980s Conservative governments either expelled union representatives from national consultative bodies or closed down the bodies themselves. The Labour government elected in May 1997 made important improvements in union workplace rights, but showed no inclination to treat them as serious participants in national economic or social policy. Although this exclusion can be partly explained by the specific policies of governments in the 1980s, the prior, earlier unnoticed, specificity of British unions' voluntary exclusion from administration of the welfare state has contributed further to their weakness in these years when elsewhere the national political role of unions is being intensified.

Although French unions now have barely 7 per cent of the private-sector workforce in membership, and only 12 per cent of the public sector, and though they are too divided among themselves to engage in any concerted action, successive governments seek to cultivate their participation in national policy-making. One reason is that the French unions retain an extraordinary capacity for social disruption irrespective of their formal strength. Another, however, is the government's realization that no reforms can be achieved in the welfare arena without their support and preferably their active cooperation.

From a governmental point of view, the British case demonstrates the advantages of the British elitist model of welfare state development, of not having to bother with consultation with groups in the population affected by a policy area: the British social insurance system has presented far fewer barriers to employment flexibility than those in most of the rest of Western Europe, and reform of the system is fairly easily achieved. This is a judgement which will not necessarily be shared by British workers and pensioners, but meanwhile the reform capacity of systems embodying greater employer rights has in fact varied quite considerably. A major purpose of this paper is to explore what might be some of the conditions for this reform capacity, and therefore for the nexus between industrial relations and social policy, to move to the forefront of employment policy initiatives. First we must examine the background logic of various different arrangements in this arena.

## **Social Insurance and Forms of Citizenship**

Original conceptions of an intrinsic link between industrial relations and

social policy in nearly all countries, including the UK, included the concept of bipartite employment-based contributions to the social insurance funds from which unemployment benefit, sickness and accident benefit, and retirement pensions were paid. The insurance is against risks which might prevent a person from working and thus earning money; the contributions therefore constituted a setting aside (mutually by employer and employee) of part of the earnings that, notionally, would otherwise be paid, so that they could be enjoyed by the worker when facing any of these risks.<sup>3</sup> This conception has had a number of consequences.

### *Occupational versus universal citizenship*

First, as a number of authors has pointed out (e.g. Daly 1996; Esping-Andersen 1996a; Lewis 1993), given the male breadwinner concept of the workforce embedded in late nineteenth- and early twentieth-century ideas of industrial work, social insurance developed as an essentially male system, with non-working women gaining only widows' rights. Ideas of family dependants (wife and children) were often built into benefit scales. Second, rights were tied to years of participation in the employed workforce. Those finding it difficult to join the workforce, or those spending periods as self-employed, often had access only to inferior systems of social assistance. Third, especially in countries with strongly developed systems of occupational training and therefore of occupational identity (e.g. Austria, Germany, Switzerland, to a lesser extent Denmark), the social insurance systems of different occupations were kept very separate from each other, with little or no cross-financing or general government subsidy. As a result levels of benefit varied sharply according to different occupations.

If welfare-state entitlements are a kind of citizenship right, these systems constituted citizenship based on participation in the workforce rather than as a generalized right based on adult status (as in the case of legal and political citizenship in the model famously developed by T. H. Marshall, 1963). This is citizenship as an exchange of rights and duties. There is nothing odd about this; the original Athenian concept that has inspired virtually all subsequent ideas of citizenship was based on the duty to bear arms. Its implications have been interesting, as it has led to general and occupational citizenship developing along different lines. Long after they had won the vote, married women were underprivileged in social insurance schemes. Since it was originally introduced to ease the social exclusions and deprivations of employee status, the self-employed also initially found themselves excluded. On the other hand, occupation-based rights have been of great assistance to foreign immigrants, who have often been able to acquire welfare citizenship before, or even in the face of exclusion from, political citizenship. This has been particularly prominent in Germany, where there has been a combination of high levels of immigration, strict political citizenship laws, and generous occupational welfare citizenship rights (Guiraudon 1998).<sup>4</sup>

Subsequent developments have been complex. On the one hand the rigid occupational derivation of rights was eroded in face of the demands of democratic citizenship. Increasingly generous systems of social assistance,

extensions of women's rights, and other innovations all reduced the stark contrast between those with rights earned at work and those without them.

Some systems moved more fully towards political or universal citizenship rather than an occupational citizenship base for welfare-state entitlements, principally the Scandinavian countries and the UK. In all the Nordic countries, however, social partners, especially the unions, remained important in the management of the social insurance systems, so there was always scope for interlock between it and the industrial relations system, retaining an occupational and representative component within a universalist framework (Hippe and West Pedersen 1996; Øverbye 1996). There were then two developments which reinforced the occupational link. First, initially in Scandinavia in the 1950s and later and more weakly in the UK, an income-related component was added to the basic social insurance entitlement, so that some connection was retained between an individual's pay level in the workforce and that while retired or otherwise out of employment (Øverbye 1996; Kangas and Palme 1996). The departure from strict egalitarian principles involved in this was accepted by social democratic parties as the price for sustaining the loyalty of middle-income groups to the national public system. In theory, an occupation-based scheme implied the maintenance of occupational inequalities within social policy, while a universalist scheme implied redistribution and equality. In practice, government subsidy of the former introduced an element of redistribution while earnings-related benefits in the latter introduced inequality.

#### *Work and welfare states: the double relationship*

Second, the rapid development of the Scandinavian and to a lesser extent the British welfare states, not just as sets of transfer payments, but as providers of substantive services, produced a major expansion of predominantly female employment in delivering these services themselves (Hassel, forthcoming). This was then accompanied by a more general growth in female employment. *De facto*, therefore, systems which had been based on universalistic rather than occupational citizenship came to acquire the latter characteristics as the majority of adults, and not just of males, worked. Esping-Andersen (1996a; 1999) has demonstrated how the viability of the Scandinavian welfare states came to depend on this cyclical process of female employment generating both an enlarged taxation base and reduced dependency on transfer payments, which in turn increased the resources available to the welfare state for the development of substantive services, which in turn increased female employment, and so on . . .

Even more generally, the Scandinavian welfare states had both depended on, and been used for the generation of, a high level of labour-force participation by both men and women. Compared with virtually all other countries, Sweden in particular consistently spent a higher proportion of its budget on active rather than passive labour market policies. By active policies are denoted such measures as help with job search, assistance with geographical mobility, and occupational training, all designed to enable people to find work, at which point they cease to require state assistance

because they have incomes of their own. Passive policies are those which provide unemployment benefit, disability pensions, early retirement and other transfer payments that keep people out of the workforce.

Under the pressure of rising unemployment, by the late 1980s this had ceased to be so clear. Active labour market policy sometimes became a means for keeping people out of the unemployment statistics, the schemes in which they were enrolled often not having much chance of leading to serious employment. At the same time the more passive policies of such countries as Italy, the Netherlands and France were making an equivalent response, retiring people from the labour force at lower ages and at lesser levels of disability or sickness than in the past.

The important point is that social policies developed primarily by labour-movement parties and trade unions in Scandinavia were as heavily linked to participation in employment as those of the Bismarckian tradition, albeit in different ways. It was certainly not part of their design to enable able-bodied men or women of working age to lead comfortable lives without working. While Scandinavian welfare rights were more rooted in universal than in occupational citizenship, this was the universal citizenship of a community which worked for its living, men and women alike. When the British Labour government of the late 1990s began to stress the role of welfare policy as a means of increasing people's capacity to work and to argue that participation in work was a citizenship duty, it was neither adopting neo-liberal arguments nor inventing a "third way" of social policy, but speaking from the heart of the social democratic social policy tradition.

#### *Social insurance contributions and labour costs*

A third aspect of the link between industrial relations and welfare policy which has today acquired a new and problematic importance is the role of employment-based contributions. Originally this was simply an obvious part of the logic of the insurance principle. While contributions and benefits remained small, there was little need to consider any implications for unit labour costs in the employer's contributions. In any case, in a true labour market, any rise in non-wage labour costs should lead to a reduction in wages, with a neutral net effect for unit labour costs. In fact, if one assumes that employers in this way pass on the costs of insurance schemes to employees, while employees themselves also make compulsory contributions, the economic functions of social insurance are to increase savings ratios, to impose prudence on workers, making them reduce their current consumption by putting aside contributions against income-reducing risks, and to help them organize mutual risk-sharing through the state insurance system. The only redistribution that takes place is from those in work to the unemployed, sick and old—often only within the particular occupational group. Vertical redistribution takes place only if the state subsidizes the schemes from general taxation levies, and then only if the taxation involved is progressive.

This labour-cost neutrality ceases to function if there are institutional mechanisms which sustain actual wage levels irrespective of social insurance

contributions. These include: legal minimum wages based on current subsistence needs; collective agreements which similarly tie wage levels to some function of subsistence levels; or the knock-on effect of social security programmes which sustain the subsistence standards of the unemployed, and therefore raise the level of income required to induce people into employment. Some version of these mechanisms has existed in virtually all industrial societies since the late nineteenth or early twentieth centuries. However, in earlier decades the implications for employment were restricted by the fact that, except in the smallest nation states, most trade took place within a country, often protected by a framework of tariffs. A national system of employers' and employees' contributions therefore created a level playing field for inter-firm competition, which gave employers an incentive to support such schemes rather than develop company-level ones. Even then, the German government in the 1880s was sufficiently worried about the effect, on the export of German goods, of the lead the country had taken in developing compulsory social insurance with employers' contributions to try to persuade other national governments to imitate it.

In the decades after the Second World War the size of employer and employee contributions grew steadily as the advanced welfare states that we know today developed; levels of benefit rose, not only proportionally with wages, but absolutely as newly prosperous populations generated higher expectations of the standard of living they could maintain during periods of absence from the workforce and in retirement, and as longevity also rose. At the same time industrial relations institutions placing a floor under, if not a ratchet on, actual wage costs also developed. These contributions therefore became an increasingly important cost component. Employers were unlikely to be able to offset increases in contributions with reductions in wages, while employees were likely to seek wage increases to offset increases in their own contributions. If, as was the case during these decades, real wages were rising anyway, there need be nothing so dramatic as a wage reduction, merely a smaller rise than might have been granted in the absence of social security payments. But the main factor preventing any crisis of contribution burdens in these years was something else.

These were years of male full employment and a growing labour shortage, while productivity levels in even the most efficient European economies still trailed behind those of the USA. By accident, employers' contributions to social insurance schemes came to serve a positive economic function. Employers had an incentive to economize on the use of labour, to install labour-saving technologies and working methods. European productivity rose; employment levels remained high because expansion continued to be so rapid. At the same time, and also as a consequence of the general labour shortage, the more prosperous countries attracted large numbers of immigrants. At least in the initial stages, immigrants come disproportionately from the population of working age. They contribute taxes to finance the welfare state, but make few demands on it. In Scandinavia and to a lesser extent the UK, the relationship between welfare state and female employment already discussed was also set in motion. Overall, the labour market, the welfare



state, and economic efficiency were related to each other through a series of benign cycles.

The story of how various parts of this model came unstuck has been told several times (Esping-Andersen 1996b, 1999). In summary, the following problems developed. First, the capacity of the manufacturing sector to employ low-skilled workers peaked, partly because skill requirements were rising, partly because automation had replaced much unskilled labour, and partly because industries still needing such workers were tending to migrate to countries with very low labour costs. To a considerable extent the growth of social and community services, particularly but not solely within the welfare state, replaced manufacturing in this role, though the overall employing capacity of these services was more weighted to the upper end of the skill hierarchy. However, by the late 1980s growth in this sector too had peaked, especially in countries where it was primarily public employment. Low-skilled workers were coming increasingly to depend for employment opportunities on low-paying private services sectors (the distributive trades, food outlets of various kinds, and other personal services) (Hassel, forthcoming; Scharpf 1997). These low-productivity sectors could only grow if their unit labour costs were low, but this was being prevented by the size of social insurance contributions. The incentives of the social security contributions systems to economize on labour were now having perverse welfare effects.

Initially the link between co-determinative social insurance systems and industrial relations now acquired a new usefulness. Union and employer representatives, who had in their industrial relations work seen a need for exit from the workforce by some low-productivity groups, were encouraged in their social insurance management roles to introduce early and disability retirement schemes (Hassel, forthcoming). However, in so doing they were storing up trouble for the future.

Meanwhile, in most countries declining birth rates, increased longevity, and a tendency to earlier retirement through special schemes and increasingly generous disability pensions were producing a sharp change in the balance between declining contribution-paying and growing benefit-receiving populations. In particular, it was very tempting to employers to get rid of redundant workers by offering them early retirement or a generous assessment of disability; the social insurance system could take over the cost of their subsistence. While in the long run this would only raise the costs of the scheme to employers themselves through higher contributions, for those getting in early on the idea there was a major gain in at least the short term as the generality of employers and employees would share the cost. However, these tendencies combined dangerously with a certain growing tax resistance among electorates and an amount of tax-regime shopping by firms.

The early retirement tendency had itself initially been benign and economically wise. In countries with rapidly expanding education systems it makes good economic sense to encourage a less well educated and notionally lower-productivity older workforce to retire and make way for a better educated younger generation. This seemed particularly important for countries with major problems of youth unemployment. However, this

practice not only coincided with demographic and tax-resistance factors creating problems in the balance between contributions and benefits, but it often failed to have the expected effect on youth employment. Sometimes (as particularly, it seems, in France) employers developed a preference for older workers and did not expand employment in order to employ the young, despite a major expansion in educational achievements.

In Italy, where government policy in the 1980s encouraged retirement among some people in their forties or even younger,<sup>5</sup> there was also little effect on youth employment. This was partly because one of the main deficiencies in Italian employment is the great regional cleavage which leaves much of the south of the country outside the economic growth of the northern and central regions. In addition to the well-known problems of the *Mezzogiorno* which cause this, there is a particular absence of opportunities for women in the south, despite the fact that young southern women are, on average, better educated than either men in the south or both men and women in the rest of the country. The main reason is an absence in that region of the main employment source for women of all education levels: social and community services.

This is itself related to the problems of the distinctive form taken by the welfare state. In most of Western Europe apart from Scandinavia and the UK, the emphasis of social policy has been on transfer payments, as embodied in the social insurance systems which are here our main concern (Esping-Andersen 1990). As the costs of these grew, they tended to crowd out possibilities for spending on direct services (health, education, social services). In southern Europe this is further intensified by two factors. First, this general bias of welfare spending patterns is reinforced by and in turn reinforces strong traditional family patterns, which assign caring roles to female family members. Relatively little nursing care is provided in southern Europe. It is assumed that a mother, sister, wife or female cousin will look after the sick, whether by visiting them in hospital or caring for them at home. Second, the clientelism of local politics in the region means that local governments tend to use the resources at their disposal to make direct payments to individuals rather than to provide services. The net result of this bias against service provision is that fewer women find employment, which reduces the social insurance contributions they would make if they were working.

The benign role of contributory social insurance systems from the 1950s to the 1970s therefore become highly perverse by the 1980s. In principle, and technically, it is not difficult to see ways out of the impasse. Most obviously, employers' contributions to the funds could be redesigned in various ways to stop them giving disincentives to employ labour. The employment-based part of employers' contributions *stricto sensu* could be reduced to a small proportion of the total, and taxes levied on firms on the basis of turnover, profits, assets or some other variable to compensate for the deficiency. Far more than in the past the net worth or level of economic activity of a firm bears little relation to its number of employees. Particularly in manufacturing, very high value added can be achieved by a small workforce equipped with advanced technology. Basing firms' contributions to social insurance

schemes on their numbers of employees, while entirely rational in the first instance and strictly speaking entirely just, is almost by definition shifting the burden more and more to the low-productivity sectors, precisely those which are vital to the provision of new employment but which are highly sensitive to labour costs (Hassel, forthcoming). More controversially and either alternatively or additionally, the balance of contributions can shift from the strict 50:50 basis usually embodied in policy to place a larger share on employees.

More controversially still, the trend to earlier retirement can be not only arrested—that is tending to happen in most countries now—but actually reversed. If we now live longer and stay healthier during that old age, it seems perverse that we should be leaving the labour force younger. These possibilities are limited by the fact that labour productivity arguments against an ageing workforce still apply in many, though by no means all, occupations. However, the growth of part-time work and its very gradual spread to men as well as women can be helpful here. It can also enable people to make a gradual adjustment to retirement, instead of the shock of one day suddenly ceasing to have life guided by the work rhythm of the past 40 years. The idea of elderly people staying on at work might seem inhumane, especially if, as is often the case with part-time work, they have to move to jobs of a lower status than that to which they have become accustomed. But that needs to be set against the inhumanity of sudden retirement. The balance of inhumanity of the two scenarios varies from situation to situation.

It is frequently objected that it is irrational to combat a shortage of job opportunities among those with low-productivity labour by an expansion in the supply of such labour. This is, however, only true if the social insurance system is employment-neutral. In most contemporary economies it is in contrast highly relevant (Hassel, forthcoming). Those in work both contribute to its cost and do not call on its benefits, reducing the overall burden that falls on employers and therefore enabling them to expand employment. In economies with employment-related welfare costs, employment can produce employment; the supply of labour can increase its own demand. These paradoxical effects can hold true even without considering any deregulation of the labour market.

## **The Governance of Social Insurance and Labour Market Reform**

If reforming the perverse tendencies of the social insurance system is in principle possible, what are the political obstacles which prevent it from taking place rapidly everywhere? In the first instance the finger points to the involvement of social partners in management of the systems. If they are primarily concerned with protecting the interests of those within the system, they will not be concerned with expanding opportunities for those outside, and may even see such an expansion as threatening those for whom they are concerned. Surely, if the social partners are not involved, there is nothing to prevent governments—who in theory are responsible to insiders and outsiders alike—from reallocating costs and expenditures in order to produce the benign effects that it is possible to achieve.

The British case presents both the demonstration of this point and its limitations. After the initial world-leading character of its postwar reforms, the elite-led character of the British welfare state seemed to make it rather proof against subsequent democratic demands for expanding generosity. The idea of income replacement hardly developed at all; instead a subsistence model of benefits remained dominant, and by the 1990s the income replacement rate of British unemployment benefits was the lowest in Western Europe apart from Greece and Italy (OECD 1994; 1997). When an element of earnings-relatedness was introduced in the 1960s it was rather minor; an alliance between the egalitarianism of the socialists and the desire of the private pensions industry to have a public system that left a lot of scope for private provision and occupational schemes.

True to its status as a social insurance system without social partner participation, the British system became one of weak universal (as opposed to occupational) citizenship. It was, however, a citizenship model rather than a residual one, because all except the wealthiest expected to make some use of it. This had ambiguous consequences. While it produced one of the meanest benefit systems in Western Europe, it did produce a far less gender-differentiated system than many others. Further, benefits not being tied closely to occupational contributions, it did not discourage part-time work or periods of temporary participation in the labour force—two further factors which considerably assisted female employment. Because the level of benefits, and therefore contributions, has been low, the latter do not constitute a severe barrier to the employment of low-productivity labour, enabling the lower end of the labour market in private services to grow, by the mid-1990s offsetting the decline in manufacturing employment.<sup>6</sup>

The British social insurance system and general welfare state are currently undergoing a reform wave, just as elsewhere in Europe. Part of the agenda is the same as elsewhere: trying to use the benefit system to re-equip people for employment rather than simply support their absence from it. As everywhere else, this is a stick and carrot policy: criteria of eligibility for benefit become tougher and rougher; opportunities for retraining and for assistance with obstacles to taking on work become more creative and helpful. What, however, seems distinctive about the current British debate over pensions reform is that there is virtually no public debate at all. The whole issue is dealt with in private discussions between government representatives and the handful of pensions firms which dominate the private sector. There is no involvement by the generality of employers, by the unions, or by representatives of pensioners themselves. This is a distinctiveness that stems clearly from the absence of any representative component in the management of British social insurance institutions.

If these are the mixed consequences of the absence of a social partnership model, the presence of social partnership should give us the opposite characteristics: generous benefits related to income replacement; based on occupational citizenship and therefore tied to male breadwinner interests; discouraging part-time or non-continuous labour-force participation (Hemerijck and Manow, forthcoming; Esping-Andersen 1996b); associated

with weak development of low-productivity employment; difficult, blocked, but open and public debate over reform.

This stereotype does seem to characterize the German and French social insurance reform debates. As noted above, both countries have strong models of co-determination in the welfare system—running with the grain of general industrial relations in the German case, rather incongruous with it in the French. There are differences in the outcomes of the two cases. France does not so much exhibit the low female labour-force participation anticipated by the model, though French women do share the dislike of working part-time that one would expect from a social insurance system based on the accumulation of time served in the workforce. Quite separate aspects of social policy have somewhat eased the position of working mothers in France. For many years French policy-makers were obsessed with the country's low birth rate; since republican rather than Catholic groups dominated policy-making, the result was a series of natalist policies which did not at the same time try to keep women in a home-making role.

The German manufacturing model remains extremely strong, so that country has less need than many others to move into new service sectors in order to protect its economic performance. It is also not a system which protects existing workers at the expense of the young. As a result of the vocational education system, the German economy remains almost alone in the advanced world in having youth employment levels below those of the adult population. However, partly for these very reasons, the German case does show even more clearly than the French the way in which a social insurance system moulded to the interests of full-time males in manufacturing and governed by co-determination mechanisms is slow to adapt to the encouragement of female and part-time working and services sector development. Until now, representatives of workers in the core sectors have had little incentive to reform their system, because their members are doing very well. Their numbers are being reduced as productivity in the export sectors continues to rise, and this must soon have an effect in threatening opportunities for their sons. They have, however, little reason to accept changes which might threaten the security of their own anticipated benefits in order to get their wives and daughters into part-time jobs. The German *collective bargaining* system still functions more or less as “responsibly” as it did in the 1970s and 1980s; it was probably always the dominant role of the price-sensitive export sector and the stern stance of the Bundesbank rather than “encompassingness” as such which ensured non-inflationary wage behaviour. Within *social insurance*, however, the system has had fewer disincentives to protect its insiders at the expense of those outside (Hemerijck and Manow, forthcoming).

In fairness to these insiders, one must also point out the major issue that all German institutions have had to face following unification in 1990: no other advanced society has faced a comparable task to that of absorbing 16 million people who had experienced a far lower standard of living and completely different working patterns, but who had strong expectations of rapidly moving to the lifestyle of their new fellow citizens. Ensuring that the whole existing workforce of the eastern *Länder* did not become a mass of outsiders

was in itself a major institutional challenge. It has been achieved with some success, but has probably absorbed and even exhausted much of the capacity of the system for strategic action and change.

However, this very point reminds us that it can be factors and institutions outside the strict terms of a system itself which can affect its behaviour. While one can demonstrate that the internal conditions of codeterminative occupational insurance systems make them resistant to reform, exogenous or partly exogenous elements might provide incentives for change, to which the system can respond. Indeed, the fact that these systems do have a clear representative arrangement for their governance means that they are capable of responding strategically when the incentive for change is sufficiently strong. Two cases which can be set against the French and German are the Dutch and Italian.

### *The Dutch reforms*

As is now well known, largely thanks to the detailed study by Jelle Visser and Anton Hemerijck (1997), the Dutch collective bargaining and welfare state system has been subject to an extraordinary reform wave during the 1990s, which considerably increased the country's employment participation rate, especially among women, where it had previously been exceptionally low (see also Hemerijck and Manow, forthcoming). Further, the country's extraordinarily heavy dependence on removing people from the labour force with disability pensions is gradually being reduced. There is not space here to dwell on the details of the reforms, not all of which have been successful and which follow quite a diversity of political paths. Elements of the emerging Dutch system closely resemble a British model of gradually privatized welfare; others seem to match a more Scandinavian approach. Rather distinctive is the particularly high level of part-time work, including among males. We can, however, ask why this system, which shared the characteristics of a model which enables us accurately to predict lack of change in the French and German cases, eventually demonstrated a capacity for reform.

One answer is that the government took decisive action, clearly threatening a major dismantling of the codetermination structure of the social insurance system if the social partners did not respond (Ebbinghaus and Hassel 1999). One can also add two further factors. First, the Dutch unions had been becoming progressively weaker, with dramatic and continuing membership losses. Related to this, and in contrast with Germany, the Dutch economy was not a strong industrial power. Rather like the British economy, the Dutch has long had major commercial and financial services sectors which reduced the priority of manufacturing industry in both public policy and the approaches of the social partners. There was therefore little to compare with such German unions as IG Metall and IG Chemie in fostering and protecting the manufacturing model.<sup>7</sup> The Dutch industrial relations system was therefore vulnerable to very serious threat of collapse; the position of its insiders was not therefore necessarily much stronger than that of the outsiders. This served as a disincentive to rent-seeking behaviour and an

incentive among employer and employee representatives alike to listen seriously to plans for reform.

By themselves, however, vulnerability and fear of collapse do not induce action to reform; they can simply cause collapse. The second important characteristic here was that the relevant Dutch organizations had not lost their institutional position and therefore potential strategic capacity (Ebbinghaus and Hassel 1999; Hemerijck 1992; Hemerijck and Kloostermans 1995; Visser and Hemerijck 1997). In the 1980s their combination of formal institutional security and drastic membership loss was making Dutch labour-market organizations seem like a group of abandoned and broken-down vehicles blocking a roadway while being incapable of any movement. The combination of government threat, looming existential crisis, but continued potential steering capacity, seemed to be enough to bring drivers and passengers back to the vehicles, to repair them, and to start them moving, often in a decisive way.

In comparison with the Germans, Dutch labour-market institutions have had to face both the determination of government and the weakness of the manufacturing sector: vulnerabilities which provided paradoxical advantages. Although observers usually place more stress on the former (Ebbinghaus and Hassel 1999), I suspect the latter was not only important in its own right but a factor determining government behaviour. While it is true that German federal governments are subject to a number of constitutional limitations, its coalitions are usually considerably more focused than the multi-party groupings of the Netherlands; it cannot be taken for granted that Dutch governments would be more decisive than German ones.

The French would seem to share the Dutch vulnerabilities: a manufacturing sector that has not been functioning anything like as well as the German one; and trade unions with problems of declining membership, indeed, in the private sector a considerably worse situation than in the Netherlands. Also, while electoral calculations and subsequent *cohabitation* had blunted the usual confidence and autonomy of the French state, the centre-right government did go so far as to change the constitution of the governing bodies of the social insurance system, reducing the role of the unions (Ebbinghaus and Hassel 1999). Also, there must always be a strong expectation that at some point the French state will act in a tough manner. I believe that the fundamental factor preventing French imitation of the Dutch lies not so much in state capacity as in the lack of strategic capacity among the social partners, especially the unions. As noted, the codetermination of the social insurance system is very much at odds with the dominant traditions of French industrial relations, which remain deeply conflictual. There is therefore little support for action in the social insurance sector from the wider industrial relations system. One aspect of this, which also stems directly from the low membership level, is the lack of resources at the disposal of the unions. This makes it very difficult for them to develop the expertise that something like social insurance reform requires, and inclines them to take up general ideological stances instead.

Perhaps more important for lack of strategic capacity, the French labour movement remains deeply divided. The religious differences among Dutch unions had long ago been submerged in an overall commitment to

cooperation, and in any case today the two main wings (socialist and Catholic) have merged into a common organization. The main French union confederation, the Communist Confédération Générale de Travail (CGT), remains opposed to reaching agreements with employers or governments, and this defiance seems to increase as the organization's relative position within the labour movement declines. The other four or five organizations are all willing to participate in collective agreements and codetermination, but since they are rivals they are likely to try to outsmart each other in any major bargaining event. Therefore, any union going down the road of cooperation with government plans for reform, or even broaching its own proposals for change, will immediately be accused by the CGT of betrayal of workers' interests, and will probably not be able to construct a coalition with other unions either. The crucial characteristic here is not so much the ideological colour of one or another union, but the complete lack of strategic capacity which is imparted to the labour interest as a whole by the extent and character of the divisions.

### *The Italian reforms*

Italian unions demonstrated from the 1993 wage structure reform onwards a capacity to overcome the divisions among themselves ostensibly similar to those of the French. On the other hand, problems of vertical coordination remain a major hazard for any Italian organization trying to achieve strategic capacity. Italian shop-floor militant movements, unlike the old shop-steward organizations in the UK, do not even formally form part of the official union structure but are quite autonomous associations. There is therefore a severe challenge for any Italian organization engaging in shared reform initiatives with government and employers. Nevertheless, in both collective bargaining itself and pension reform the Italian experience during the 1990s has been more similar to the Dutch than to the French or even to the German. How can we explain this most unlikely case of divergence from what, on the basis of the German evidence, we might expect from a codeterminative social insurance system?

To some extent there has been the same shared economic vulnerability as in the Netherlands and France, though in fact the industries of the northern and midlands regions of the country have proved more resilient and adaptable to the new competitive environment than their opposite numbers in either of those countries. There has also been government determination to see reform, and following the collapse of the Christian Democratic Party Italy faces the theoretical possibility of periods of government by a more or less neo-liberal right. However, the main autonomous neo-liberal reform initiative that tried to bypass social partnership, by the Berlusconi government in the early 1990s, led to the fall of the government. Meanwhile, in reality the political system remains as fragmented and incapable of delivering decisive majorities as ever. It is difficult to see Italy having a higher level of governmental capacity than either France or Germany.

One answer might lie in the sheer absurdity that had been reached by the pension system, enabling able-bodied people in their early forties to leave the



workforce on pensions that were not being funded by anything other than unupportable public debt. The situation was similar to, though more problematic even than, the Dutch disability pensions. However, it is doubtful whether this would have been enough to force a concentration on reform without the final, crucial component of the Italian context of the 1990s: the widely shared determination of virtually all elites and a large proportion of the general population to see Italy remain at the core of the European Union and in particular to enter the single European currency. The reasons for this exceptional commitment to the European Union and the euro can be variously interpreted: a desire to see the country achieve the status that its size and the strength of its economy seemed to deserve, but which its political and bureaucratic practices seemed so often to let down; a desire to be rid of the constantly weakening lira; a preference for rule by foreigners in Brussels over rule by a political class that had been publicly demonstrated to be corrupt.

Whatever the combination of motives social research might reveal to us, the outcome was not in doubt and was fully, even exceptionally, shared by the labour movement and the business community: Italy must qualify for entry to the euro. If this meant a tough central line on wage restraint in order to meet the Maastricht inflation criterion, so be it; if it meant a major onslaught on the early retirement scheme in order to meet the public deficit criterion, that too must be done. There were organizational costs for this assertion of a slender strategic capacity by labour leaders. The unofficial movement seems to have grown in strength. Other social partners seem to expect that it is enough if the unions deliver their own consent to an agreement; they cannot be expected to keep the unofficial movements in line too.

Keeping the energy of the reform wave moving now that euro entry has been achieved and cannot be reversed has proved more difficult. Meanwhile, the system has not really been adapted to meet the needs of a multi-sector, two-gender workforce; the main achievement of reform has been getting rid of an early retirement system that had become impossible to maintain. However, the activities of the 1993–7 period show how only partially exogenous pressures can disturb what seems like the irresistible path-dependency of the social insurance model.

## **Conclusions**

One could examine other cases: for example, the way in which a prior strong employment and unionization of women (mainly in the welfare state itself) prevented Danish social insurance ever developing the full-time, industrial male bias, despite very strong union involvement in the management of the unemployment system (Clasen, forthcoming; Due *et al.* 1995; but see also the more pessimistic view of von Nordheim Nielsen (1996), who sees the relationship between the pension system and industrial relations leading to a fragmentation of the Danish pension system).

We have, however, seen enough to be able to draw some central conclusions. These concern the importance of examining agency as well as

structure, of politics as well as sociology, of the micro- as well as the macro-level of action. Setting out the core characteristics of system types is not enough to enable us to predict how the actors in an individual case will respond. This is partly because real cases are extremely unlikely ever to be pure examples of one model, or of one ideal type. Empirical social structures are not only highly complex, but they embody a diversity of interests, legacies of past periods, and even some attributes which do not follow any organizational logic at all but just happen to be there. It is therefore possible for a component of a case that does not follow the logic of what we might have discerned as its core model suddenly to have an importance and determine change. Dutch departure from the German model of a primarily manufacturing-based economy would be one example; the priority of the single European currency for the Italians another.

Also, while all but the most determinist models will accept the notion of what economists call external shocks, it is only partially exogenous elements that have featured strongly in the above account. A determination to enter the euro was not an external shock to the Italian system, but something which imparted a particular character to the normal interest calculations of the endogenous actors.

Identification of path dependency has become a favourite device of comparative policy analysts in recent years. It originates in Douglass North's highly successful use of the concept in his study of the history of capitalist institutional development. This has encouraged the search for "lock-in", when social actors pursue a path which, initially offering advantages, eventually becomes a trap. It draws further strength from the popular comparative research methodology, whereby cases are allocated to theoretical boxes, and the behaviour of the inhabitants of the boxes is then statistically compared. (For example, welfare states are labelled "liberal", "social democratic" or "corporatist", and the unemployment performance of the different groups compared.)

These procedures lead to exaggeration and even reification of core characteristics. The import of the Northian path-dependency model is that once a group of actors have enjoyed some success moving along a particular path, they lose the capacity to try alternative approaches, generate institutions which lock them in, and eventually lose the capacity to change. North derived the idea from studies of scientific and technological methodology, where researchers following a particular design paradigm would become unable to cope with challenges that were not anticipated by the logic of that paradigm. But transferred to something as incoherent as a social institution this analogy can be only partial and eventually deceptive. It leaves out of account the mixed character of real as opposed to ideal-typical institutional legacies, and the importance of different weighting of calculations of action induced by the partial exogeneity that we have noted above. Similarly, the research method of testing statistically the behavioural outcomes of characteristics which have been used as labels of cases misses the fact that most cases are mixes of types, and actors within them will at certain points switch from following one of the logics available to them, to another, perhaps lying latent in their potential repertoire, or in a state of disrepair as in the case of

the Dutch labour-market institutions, thereby frustrating the analyst's attempt to pigeonhole them.

Followers of these methodologies are likely to miss much of what is going on in actual policy-making and dilemma-facing. The point is a very general one, but it has particular application to the topic here under debate. We have been observing a set of institutions (those of codeterminative social insurance), which for a long time were not called upon to perform any strategic tasks of note, suddenly being faced with some urgent new challenges (to reform in order to facilitate certain labour market changes). At the same time these institutions are rediscovering their connections to a different field (industrial relations) with which they have always been linked but which often developed in different ways. This is happening during a period of quite diverse changes, embodying often very different logics: globalization, the decline of manufacturing, the feminization of the labour force, European integration, the dominance of neo-liberalism. We should not expect to be able to make hand-me-down predictions of how whole classes of cases will react without precise observation of the forces at work in individual instances.

## Notes

1. This is not a result of a linguistic deficiency; *bien-être* and *benessere*, while literally corresponding more closely to well-being than to welfare, convey the latter meaning adequately. They are occasionally used, though the idea of welfare state is more likely to be rendered as *la protection sociale* or *lo stato sociale*. The word "welfare" having a Germanic rather than a Latin root, the German language—normally so ready to use foreign borrowings—is for once content with *Wohlfahrtsstaat*. When it comes to industrial relations, *relations professionnelles* makes perfectly good French, but *relazioni industriali* and *industrielle Beziehungen* betray an English borrowing. Outside the English language, words related to industry and its derivatives refer strictly to manufacturing and cannot easily be extended to other areas of economic activity.
2. In Belgium, Denmark, Finland and Sweden there is the additional element of the so-called Ghent system, whereby state unemployment insurance schemes are administered by the unions, who feel a strong identification with the schemes. Although it is not necessary to belong to the union in order to participate in the schemes, either workers do not know this, or it is simply easier to recruit and sustain their membership when they are having regular contact of this kind with the union organization. Either way, the Ghent system seems to explain why union membership in Norway (which does not have such a system) is rather lower than in the other Nordic lands; and why Belgium has a considerably higher membership level than either of its neighbours (France and the Netherlands).
3. "Risk" might seem an odd concept to use in the case of retirement pensions. However, as Ferrera (1997) somewhat callously explains, in the late nineteenth century when these concepts were being developed, the life expectancy of a manual worker extended little beyond the age when one was considered as no longer of any use in the workforce; there was, however, a "risk" that one might go on living for rather longer than that. Ferrera goes on from there to argue that, now that life expectancy has extended considerably beyond the point of ending normal working life, the whole idea of a risk of excessively long survival has been

lost; indeed, people actually plan how they will enjoy their years of retirement. This leads him to advocate the scrapping of the idea of compulsory state pensions beyond a subsistence level and the privatization of provision for more generous retirement income.

4. In acquiring welfare citizenship before political, German immigrants are re-enacting the experience of Germans themselves. The Bismarckian state developed its welfare system before its democracy, thereby reversing Marshall's (1963) evolutionary scheme of first legal, then political, then welfare citizenship.
5. The *pensione di anzianità* or seniority pension, for some reason colloquially called "baby pension", in English, though it was a distinctly Italian invention.
6. There continues to be a net decline in male and full-time work, but strong increases in part-time female jobs.
7. It was perhaps in awareness of the vulnerability of an industrial relations system which lacks sensitivity to export prices that Dutch unions in the manufacturing sector merged to form a single union, regaining a weight within the main federation that they had lost to public service unions.

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