

**Striking Deals: Concertation in the Reform
of Continental European Welfare States**

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Abstract

The reform of the welfare state entails changes in interdependent policy fields stretching from social policies to employment and wage policies. These linked policy fields are often governed by varying sets of corporate actors and involve different decision making procedures. Adaptation in one policy field is often uncoordinated with other policies, and can work at cross-purposes, produce negative externalities, or fail due to missing supporting conditions. The paper has two objectives. It first argues that renewed emergence of tripartite concertation is due to the need to co-ordinate policies across policy fields. Second, it evaluates the institutional factors which have facilitated concertation in some cases, but not in others. Using a similar country design, the paper compares four continental European countries with similar reform pressures but different reform trajectories: France, Germany, Italy, and the Netherlands.

Zusammenfassung

Die Reform des Wohlfahrtsstaates erfordert Veränderungen in interdependenten Politikfeldern, von der Sozialpolitik bis hin zur Beschäftigungs- und Lohnpolitik. Diese interdependenten Politikfelder werden von unterschiedlichen Konstellationen korporativer und politischer Akteure kontrolliert und sind unterschiedlichen Verfahren der Entscheidungsfindung unterworfen. Adaptationen in einem Sektor sind häufig nicht mit anderen politischen Entscheidungen koordiniert und können somit negative Auswirkungen haben oder aufgrund der ungünstigen Grundbedingungen fehlschlagen.

In dem vorliegenden Discussion Paper wird zunächst argumentiert, daß die Notwendigkeit, politische Entscheidungen über die Grenzen der politischen Sektoren hinaus zu koordinieren, zu einer Renaissance dreiseitiger Konzertierung zwischen Tarifparteien und Regierungen geführt hat. Weiterhin werden die institutionellen Faktoren herausgearbeitet, die eine Konzertierung in einigen Fällen ermöglicht haben, in anderen jedoch nicht. Es werden vier Länder verglichen, die ähnliche Strukturen und Reformzwänge aufweisen, aber unterschiedliche Lösungswege gewählt haben: Frankreich, Deutschland, Italien und die Niederlande.

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1 Introduction

The reform of the welfare state is on the political agenda in Europe. Given the challenge of high unemployment, economic internationalisation and socio-demographic changes, more and more governments seek to adapt social and employment policies. The reform pressures are relatively similar in continental European welfare states, since they all suffer from the same ills of the “welfare without work” syndrome (Esping-Andersen 1996). Yet while some governments have unilaterally pushed for reforms against vested interests, others have sought concertation in order to co-ordinate adaptation and achieve a broad social consensus for change. Our goal is to provide an explanation for the apparent divergences of national reform approaches in four continental European welfare states which otherwise share similar reform pressures: the Netherlands, Italy, France and Germany. The Netherlands have been noted as a success story of concertation (Visser and Hemerijck 1997), and Italy’s recent experience of government-union agreements on reforming wage bargaining and pension policies can be seen as an example of concerted reform (Regini 1997). On the other hand, Germany serves as a case where concertation has not been successful thus far despite the initiatives of two different governments (Bispinck 1997). Moreover, the French example shows that large social conflicts over unilateral welfare reform can occur (Uterwedde 1998).

Comparing these four continental European welfare states, we seek an answer to the question: why do some countries choose to engage in concertation to adopt reform measures, while others show patterns of deadlock or contestation? We think there are two reasons why concertation plays an important role in the reform of the welfare state. First, welfare state reform entails more than welfare retrenchment (that is, merely cutting public expenditure), it involves the adaptation of social, employment and wage policies which are largely interdependent, in particular in respect to their impact on employment. Second, concerted reform built on a consensus of governments, employers and unions can be crucial not only to overcome potential blockages against reforms but also to co-ordinate policies across policy fields. These two rationales for studying concerted reform reflect two strands of current research which we seek to bridge.

Thus far, the current academic debate on welfare state retrenchment has been largely focused on a quantitative approach that looks mainly at expenditure cuts

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(Clayton and Pontusson 1998). Even where governments were most determined to curtail social expenditure as in the UK and the USA, overall welfare retrenchment has remained limited and welfare cuts at best patch-work. While overall welfare spending did not decrease much, certain social groups – especially welfare recipients who have no veto powers – were hard hit by reductions in benefits. The inability of governments to substantially roll back welfare and, particularly, to alter core parts of social security has been explained by the lack of popularity, the diffuse long-term benefits of such measures, and by institutional lock-in effects (Pierson 1994). Nevertheless, the welfare state is undergoing a more profound restructuring process, for example, by shifting from public to private welfare provision (Shalev 1996). In contrast to the period of welfare expansion, today's politics of welfare restructuring seem to reflect the cross-class alliances in which export sector interests of employers and labour are juxtaposed with, or even prevail against, the interests of the public (or sheltered) sector (Pierson 1998; Clayton and Pontusson 1998). These insights seem to suggest that we ought to understand welfare state reform in a broader context of labour market changes and the role of the social partners.

A second strand of studies has looked at the renaissance of concertation through social pacts during the 1990s (Fajertag and Pochet 1997; Hassel 1998; Schmitter and Grote 1997). They see tripartite concertation as a response to enhanced international competition and public budget constraints. In the run up to European Monetary Union many governments have opted for co-operation with domestic political actors to achieve the convergence criteria, thereby engaging in “competitive corporatism” (Rhodes 1997). We think, however, that the underlying logic of social pacts is misunderstood by focussing too narrowly on the issue of wage restraint for competitiveness. Social policy reform – cutting social contributions and payroll taxes to boost employment, and adapting social insurance to new employment forms – is as important a part of social pacts as wage restraint and deserves to be studied as well.

Hence we want to advance two arguments which bridge both research perspectives. First, concerted reform addresses the institutional regulation of welfare regimes – consisting of wage bargaining, labour market policies, social transfers and labour law. Second, concertation is dependent on institutional prerequisites, most importantly the governance of policy fields. In continental Europe, unions and employers can play a facilitating or an impeding role since they are often involved in the self-administration of social security and occupy many veto positions within the political system. Since governments have largely lost the means to buy consent from social partners through welfare expansion, they have to be more strategic and capable of convincingly threatening the social partners with intervention in order to compel them into co-operation. On the other hand, when

Table 1 Labour Market and Welfare State Indicators, 1980–1996^a

Country	Employment rate (%)		Social expenditures (% GDP)		Social wage costs (%)		Unemployment rate (%)	
	1980	1996	1980	1995	1980	1995	1980–89	1990–96
<i>Universalist</i>								
Sweden	79.4	69.8	29.8	33.4	39.0	41.4	2.7	7.0
Denmark	75.4	74.2	27.5	32.6	8.0 ^b	8.3 ^b
<i>Continental</i>								
Germany ^c	66.3	64.0	25.7	29.6	42.9	44.9	5.9	6.7
France	63.8	58.8	23.5	30.1	44.4	48.1	9.0	10.9
Netherlands	54.2	66.4	28.5	28.0	43.2	44.5	9.7	6.6
Italy	56.2	51.3	18.4	23.7	46.0	50.2	9.5	10.8
<i>Liberal/residual</i>								
UK	70.2	68.7	18.3	22.8	28.1	28.6	10.0	9.0
USA	66.9	73.6	13.7	16.3	26.4	28.1	7.2	6.3
Japan	70.3	74.1 ^d	9.9	14.1	38.8	41.6	2.5	2.6

a Standardized unemployment rates (OECD definition), except for Denmark.

b Denmark: non-standardized unemployment rate.

c West Germany only.

d 1995.

Sources: OECD Labour Force Statistics (for employment rates), OECD Employment Outlooks (for unemployment rates), OECD Social Expenditure Statistics (for social expenditures) and Institut der Deutschen Wirtschaft (for social wage costs). Calculations by authors.

the trade unions can influence the outcome of reforms and avoid unilateral imposition, they have a rational interest in concertation, particularly when state intervention is likely.

Following a most-similar country design, we have chosen four continental European countries as examples of conservative welfare state regimes that tend to rely on payroll taxes, provide mainly earnings-related benefits, and are primarily transfer-oriented. Since the mid-1970s these welfare states have suffered from “welfare without work” (Esping-Andersen 1996), that is, high levels of unemployment and relative low employment rates (Table 1). They face the dilemma of an increasingly inactive population which receives social transfers paid by a shrinking active population (Scharpf 1998). Because welfare standards are high

and the labour market dynamic is low, indirect labour costs and financial pressure on social security systems are high, amplified by increased international competition and EMU's convergence requirements. In all four countries, governments have responded with a whole range of welfare reforms during the last two decades. Even though the German and French governments have invited the social partners to tripartite talks several times in the 1990s, they have not – thus far at least – been able to achieve the sequence of concerted reforms as achieved by their Dutch and Italian neighbours.

In the next section, we will discuss the governance structure of policy fields as a useful analytical concept for studying concertation in welfare reforms. We will argue that the degree of autonomy from state intervention in the two policy fields is crucial for explaining the willingness of social partners to enter into concertation and make commitments. The second and third sections will provide an overview of the policy process in the fields of wage bargaining and pension policy. The final section develops an explanation of the success (or failure) of the concertation process. We are aware of the limitations of a four-country study: Such a “small-n” comparison cannot rule out alternative explanations. Future research could test our hypothesis against the experience of other continental European welfare states, such as the intervention of the Belgian state into wage bargaining, the Austrian concerted pension reforms, or the Portuguese concertation efforts.

2 Preconditions for Concerted Reforms: Modes of Governance and Bargaining Power

In order to understand why some continental European welfare states relied on concertation in reforming wage formation and social policies, it is useful to study the way in which these policy fields are linked, how they are governed, and the role the three main actors play. Our approach to concertation uses insights from corporatist studies on organised interests, in particular on “private interest government” (Streeck and Schmitter 1985) and the more recent governance approach (Hollingsworth, Schmitter, and Streeck 1994). In contrast to unilateral reforms common to Anglo-Saxon welfare retrenchment and deregulation in industrial relations, concerted reform is the result of voluntary concertation. This can be tripartite negotiations between the state, employers and trade unions or self-regulation which is delegated by the state to (or traditionally assumed by) the collective interest organisations.

As was the case with the corporatist income policies of the 1970s, a necessary prerequisite of today's concertation is that the participating collective organisations

can assure the support and compliance of their members and that they are entitled, capable and recognised as corporate actors to negotiate contracts with other associations (Hollingsworth, Schmitter, and Streeck 1994: 7). In this respect, associations perform a double mediation process: As collective organisations they mediate between their members, and they intermedicate with other corporate actors in the policy field (Streeck and Schmitter 1985). In contrast to public policy making, policy making by trade unions and employer associations is not based on publicly legitimated force, but rather on their associational power: their membership strength, organisational resources, and mutual recognition.

Under governance we understand the regulation of the “rules of the game” that define the competencies of collective actors and the mode by which they interact in the decision making process. The governance structure also shapes the opportunity structure of corporate actors and the policy style of decision-making processes (Visser and Hemerijck 1997: 54). Two aspects are crucial for the governance of these policy fields: first, the capacity of the state to intervene into self-regulation and, second, the social partners capacity to veto political decisions and their role in implementation.

In its role as regulator, the state establishes the institutional conditions under which collective action and employment relations take place. The right to organise collectively, negotiate binding agreements, and use strike or lockout are regulated by labour law, as are the general conditions of employment contracts. By legislation and/or by court decisions it may regulate who takes part in negotiations and which associations are entitled to sign binding agreements, which can become a political decision in systems with politically split union movements. In addition to procedural regulation, the state may have the right to intervene directly into the material regulation of wages, that is, set minimum wages and/or set limits to wage increases (wage freeze). The state’s capacity to intervene into “free” collective bargaining is thus manifold: by deciding on the rules of the game, by supporting one actor, by changing perceptions through information, and by intervening directly when decisions cannot be reached otherwise. Similarly, the state plays a crucial role for social security systems, imposing mandatory insurance, financing or subsidising social expenditures from taxation, setting benefit and contribution levels, regulating non-state insurance and providing tax incentives.

Both industrial relations and social security are “shared” public spaces between state and organised interests (Crouch 1986), though the degree of autonomy of the actors varies between the fields and across countries. Where the social partners have self-regulatory competencies, governments need their consent for reform, be it that they have veto possibilities or they are needed for the implementation. When the social partners are relatively autonomous and the state is not

part of the negotiations, much depends on the goodwill of the social partners to serve the common interest. In these circumstances the potential of state intervention in the absence of agreement – the “shadow of the state” – can be crucial in putting pressure on the social partners to negotiate.

We assume that concerted reform processes result from “political exchange” (Pizzorno 1978) in which the government asks for social acceptance of reform policies by the social partners, particularly the unions, who have a credible threat potential to obstruct welfare retrenchment policies in the industrial (strike) and political (electoral) arena. In return, governments offer influence on decision making and further political support to trade unions and employers’ confederations. Instead of mobilising their members against unilateral welfare retrenchment, unions give their consent to a concerted reform, if they can safeguard some social rights, cushion the effect of cuts, and receive more influence on changes. This political exchange involves two policy fields in particular: wage bargaining and pension policies. In the following, we will look at both policy fields in order to establish an empirically driven account of why concertation developed in some cases and not in others.

3 Reforming Wage Bargaining

During the 1990s, international competitive pressure and the advance of European monetary union shifted governments' preferences in wage moderation from fighting inflation to enhancing competitiveness, presuming that wage restraint in favour of higher profits would lead to increased investments, economic growth and job creation (Boyer 1994). The problem of containing wage developments has been a long standing problem for most European countries – with the notable exception of Germany – for which governments have developed a whole set of corporatist income policies during the post-war period (Flanagan, Soskice, and Ulman 1983; Dore, Boyer, and Mars 1994). During the days of trade union strength centralised wage bargaining was frequently a means to achieve wage moderation. However, from the early 1980s onwards employers in most countries started to push for decentralisation and wage flexibilisation in order to adapt to heightened competition and technological changes (Baglioni and Crouch 1990). The wage bargaining systems in the four countries adapted very differently to those pressures.

France has evolved from a long legacy of state-imposed incomes policy towards a decentralisation of wage formation (Boyer 1994). In general, trade unions and em-

ployers' confederations played only a secondary role in wage formation. French trade unions are not only politically divided, but also very weak in terms of membership and have underdeveloped organisational structures (Ebbinghaus and Visser 1999). French employers associations have long been divided between the interests of nationalised industries and the paternalist small and medium-sized firm sector. Employers and unions have a very antagonistic relationship at national and workplace level, thereby provoking recurrent state intervention into "free" collective bargaining. The state determines the floor of wage bargaining by setting the nationwide minimum wage (SMIC), thereby leaving little bargaining space. Moreover, the Minister of Labour has the right to extend "erga omnes" collective agreements to an entire sector. Therefore an agreement that is not agreed upon by all unions – for instance, not by the Communist CGT – could still be made binding by the state.

Until the mid-1970s, generous minimum wage policy as well as competition by unions led to wage pushes in the private sector that went beyond productivity increases. After the first oil shock, the government attempted to keep wage increases down through wage freezes in 1976/77, temporary price and wage controls, severe wage guidelines and slower minimum wage increases. The new Socialist government pursued a new income policy, departing from wage indexation. It also attempted to reform collective bargaining by passing the 1982 Auroux laws, which require annual plant-level negotiations between the employer and workplace representatives. Yet, instead of providing the divided unions with more bargaining power, under the new legislation companies found it easier to introduce new more flexible pay systems (Howell 1992). Decentralisation has not strengthened trade unions' and employers' capacity to regulate employment conditions at branch or national level, but rather weakened them further and strengthened local sectionalism (Goetschy 1998). In fact, decentralised bargaining led to market-driven, employer-imposed wage settlements at the workplace level against the will of unions, and unit labour costs have increased only slowly since the 1980s. Therefore,

state power has rarely been sufficient to compensate for an inherent lack of trust between business associations and unions, firms and wage earners. The pursuit of incomes policies by a strong state has still achieved less than the broad vision of social market economy and the complex set of fortuitously balanced institutions typical of Germany. (Boyer 1994: 67)

German wage bargaining is the opposite case from French interventionism and firm-level bargaining: the *absence* of state intervention in wage bargaining (*Tarifautonomie*) is legally enshrined. There has never been any centralized incomes policy involving statutory wage guidelines. Even during the "concerted action" in the 1970s, unions and employers held the view that wage bargaining was not

Chronology A: Concertation on Wage and Employment Reforms

Netherlands

- 1982 Bipartite Wassenaar Agreement on “General guidelines on employment policy”
- 1990 Bipartite agreement on “More employment for ethnic minorities”
- 1993 Bipartite agreement on “A new course: agenda for collective bargaining 1994”
- 1997 Bipartite agreement on “Agenda 2002”

Italy

- 1992 Tripartite agreement abolishing *scala mobile*
- 1993 (July) Ciampi Protocol: agreement on labour costs and collective bargaining reform
- 1996 Employment Pact (*accordo per il lavoro*)
- 1998 Social Pact for Growth and Employment

Germany

- 1996 (Jan.-Feb.) talks on Alliance for Jobs and “Standort” Deutschland, (April) unions withdraw; (Oct.) strikes on cutting statutory sick pay, later renegotiated in collective agreements
- 1998 Alliance talks begin under new government (Dec.)

France

- 1982 Auroux law: annual firm-level bargaining
 - 1997 Matignon Meeting; employers leave in protest over proposed working-time law
-

to be discussed with the government. Wage development was nevertheless responsive to economic conditions due to the institutions of centralised industrial unions, plant-level consultation procedures, and the tight monetary policy of the *Bundesbank*, the autonomous central bank (Streeck 1997). While German industrial unions have developed a system of pattern bargaining in which wage increases are fairly standardised, these encompassing unions have to anticipate the economic implications of wage increases and the possible monetary retaliation by the *Bundesbank* (Scharpf 1991). German unions used the informal practice of “extra pay” above negotiated wage rates by larger companies as a way to achieve the political aim of a solidaristic wage policy (the same pay for the same work) but also to unofficially top-up wages where companies could afford it.

This traditional wage formation process ran into problems in the 1990s when the wage drift between negotiated and real wages narrowed and the wage squeeze worsened as larger companies cut down on the extra pay during the recession 1991/92 (Hassel and Schulten 1998). Moreover, reunification put a great strain on wage equality, since unions had pushed for fast wage equality at the expense of east German companies that were still lagging behind in productivity. An attempt to bring about a social pact was made by the metal workers' union (IG Metall) in November 1995. The union agreed to accept moderate wage increases in exchange for an employer commitment to create a certain number of new jobs and for government concessions on welfare cuts (Bispinck 1997). Warned by the French social unrest at the time, the Centre-Right government invited the social partners to summit talks. However, when the government presented its proposal on welfare retrenchment in April 1996, the unions left the summit talks in protest. Although neither a national pact nor a sectoral agreement in the metal industry came about, the sectoral bargaining rounds of 1996 ended with moderate wage increases. When the Social Democrats and the Greens took over the government in 1998, they initiated a new tripartite concertation process; the issue of *Tarifautonomie* was again hotly debated, but not resolved.

The Netherlands had a long post-war history of statutory wage policy – annual guidelines by the Minister that were then subject to bipartite negotiations – which was practised until 1963 and formally existed even until 1970. Thereafter, the government retained the right to impose a wage freeze or a ceiling on wage developments, and intervened on seven occasions between 1970 and 1982. Collective bargaining was dominated by wage agreements in large enterprises, setting the pattern for the rest of the industry and economy. In order to pre-empt state intervention, the social partners committed themselves in the historic Wassenaar Accord of 1982 to wage moderation below inflation and productivity growth which aimed at reducing overall labour costs. Surprisingly, the voluntary self-commitment let real wages decrease by 1.5% annually between 1980 and 1983 (Visser and Hemerijck 1997: 99). “Dutch unions, impressed by soaring unemployment, convinced themselves that improving the profitability of Dutch industry was a *sine qua non* for whatever strategy of recovery and job growth” (Visser and Hemerijck 1997: 81). Two days before the agreement of Wassenaar, the new government had announced that it was determined to freeze public wages, the minimum wage and transfer payments and to abolish wage indexation. The unions suffered from membership losses, organising less than 30% of Dutch workers in the early 1980s (Ebbinghaus and Visser 1999), and had to swallow a voluntary acceptance of a *de facto* wage freeze in exchange for an offer by employers to negotiate on working time. In 1984, the indexation of public sector pay and social transfer payments were finally abandoned, and wage formation has remained below price and productivity increases. In 1993, a new bipartite agreement (*New Course*)

again pledged the continuation of a “responsible wage development” and co-ordinated further decentralisation (Visser and Hemerijck 1997: 112).

Italian labour relations, like those in France, traditionally suffered from strife between unions and employers. Co-operation between the social partners has been difficult because of the relative fragility of collective bargaining and its low level of institutionalisation, as well as political tensions which hamper the already difficult task of building a national and social consensus (Treu 1994: 162). From 1946 until 1992 wages were indexed (*scala mobile*) by an automatic adjustment in line with changes in consumer prices. Between 1977 and 1984 several ad hoc agreements aimed at wage moderation in return for peaceful labour relations. There were two main problems with those agreements. First, the unions were unable to control the wage push from below in addition to the *scala mobile*. This prompted the employers, who were traditionally in favour of the *scala mobile*, to demand a shift of wage bargaining to the plant level. Second, welfare expenditure became a major part of social bargaining or *quid pro quo* political exchange.

Social conflict was “fiscalised” i.e. social consensus had to be bought by immediate concessions of welfare provisions, because the unions had little trust in the ability of governments to ensure that any immediate sacrifice by the workers through restraining their exercise of bargaining power would be rewarded in the longer term by gains to workers through improved growth and economic stability. (Treu 1994: 165)

Since 1984, there have been ongoing negotiations about the merits of concerted incomes policies. In the 1990s, tripartism re-emerged when the social partners pressed the government to reduce indirect labour costs: a first tripartite agreement pledged in July 1990 to reduce labour costs through state subsidies. In 1990/91 the negotiations entered a new phase in which the employers were determined to reduce labour costs in the face of growing competition. The unions were seeking to strengthen the role of union representatives at the plant level and to gain wider bargaining mandate, whereas the employers still doubted the unions’ ability to control decentralised bargaining.

In July 1992, a historic compromise was struck with the government in which the three union confederations formally accepted the end of automatic wage indexation (Regalia and Regini 1998) against the protest of large sections of their membership and only few days after a general strike. The concession the unions gained in return for wage moderation was the commitment by the government and the employers to reform the bargaining system and the plant-level representatives. A year after the abolition of the *scala mobile*, the government and the social partners signed the Ciampi Protocol (Regini 1997), which reorganised the bargaining system into two levels: at the sectoral level, agreements lay down wage norms for several years on the basis of inflation forecasts, and at the second,

plant level, additional wage bonuses can be paid on the basis of productivity increases. The agreement also modernised the workplace-level union representation (RSU or Unitary Union Representation) in order to bargain over wages at the plant level (Regalia and Regini 1998: 477). Since then, wage formation has been within the framework of nationally set wage guidelines, which are topped up by plant-level agreements.

In Germany and France, there has been no co-ordination between governments and social partners with regard to wage bargaining. Employers pushed for decentralisation of collective bargaining in order to achieve more flexible and moderate wage formation. In the case of France, the efforts to reform the local bargaining system with the help of the Auroux laws in 1984 did not strengthen the wage formation system. Wage moderation was achieved by the decentralisation of wage bargaining and the weakness of French private sector trade unions. In the German case, *Tarifautonomie* remains strongly entrenched, and wage moderation continues to be outside the realm of tripartite concertation. In both cases, political exchanges on wage bargaining were both unnecessary and inconceivable. On the other hand, in the Dutch and in the Italian case, a credible threat of state intervention leading to a political exchange with the social partners was a necessary precondition for pacifying the previously unstable wage bargaining systems.

4 Reforming Pensions

Since old age and invalidity programmes account for the largest share of social expenditures, they are a crucial area for welfare state reform. All four welfare states had been known to grant very generous earnings-related pension benefits, with basic or social pensions in the Netherlands and Italy. In particular, public sector employees received favourable conditions, especially in France and Italy, but to some degree also in Germany and the Netherlands. Labour shedding through early retirement was used by employers to adapt to the economic changes and by governments to reduce labour supply (Esping-Andersen 1996). Although the cost pressures led to increases in social contributions, retrenchment efforts in the area of old age and disability pensions met with considerable widespread resistance, particularly by unions.

In all four countries, the social partners are involved in the self-administration of social insurance schemes. Parity representation became the golden rule in Germany in a deliberate effort to institutionalise a societal balance between labour and capital (Manow 1997). A tripartite format with state-nominated “arbitrators” between the opposing social partners was common in the Netherlands and Italy.

Chronology B: Concertation on Pension and Sick Pay Reforms

Netherlands

- 1985 Cut in disability / sick pay benefits
- 1987 Social welfare changes (disability and unemployment benefits)
- 1993/94 Bonus/penalty system and sick pay mandate for employers
- 1995 Restructuring of self-administration (tripartite supervision)

Italy

- 1992 Amato pension reform by decree
- 1993 Ciampi government: supplementary pension framework
- 1994 General strike against Berlusconi reform plans, fall of government
- 1995 Dini government-union agreement on pension reform
- 1997 Prodi government-union agreement on pension reform

Germany

- 1989 Pension reform (broad consensus)
- 1996 Tripartite agreement on part-time pension before end of Alliance talks
- 1996 Pension reform (limited consensus)
- 1996 Sick pay law (contested by unions, becomes subject of collective negotiations)
- 1999 Suspension of 1996 pension reform by new Left-Green government

France

- 1993 Balladur "recovery plan": phased-in pension reform
 - 1995 Juppé reform plan causes strike wave, concessions after tripartite talks
-

In French social insurance, the bipartite board elects the president of the fund, but the state nominates the director (Palier 1997). In addition, all countries but Germany have a tradition of tripartite Social and Economic Councils, which play a more or less institutionalised role in advising social policy-making. The Netherlands and France also stand out because of the importance of collectively negotiated schemes for supplementary and pre-retirement pensions that are directly administered by the social partners.

In the Netherlands, favourable disability pensions were massively advanced by unions to ease the labour market and by employers to shed off less productive but highly protected workers (Aarts and Jong 1996). In the early 1980s, almost

14% of the Dutch labour force received either disability or early retirement pensions (Visser and Hemerijck 1997: 9). In two reform steps in 1985 and 1987, the Dutch government lowered sickness and disability benefits and tightened eligibility rules despite protests from the unions. These measures showed only limited success since collectively negotiated schemes were able to fill the replacement gap left after the reform. When the Social Democrats returned to power, linking of pension benefits was made conditional on employment growth since 1992 (Visser and Hemerijck 1997: 140–141). As disability numbers soared further, the Centre-Left coalition announced radical reform changes in 1991, provoking the largest demonstration organised by the unions in post-war history and a deep division within the Social Democratic party. The government changed the rules on sick leave and disability insurance in several steps during the years that followed, introducing disincentives for employers abuse and tightening eligibility criteria and re-examination, particularly of younger claimants. Firms were required to pay sick pay during the first weeks of an employee's absence due to illness (Aarts and Jong 1996; Visser and Hemerijck 1997). The 1994 elections led to substantial losses for the governing parties. However, the Social Democrats returned to power thanks to a Left-Liberal coalition and were able to continue with their reform efforts.

During the 1980s, Germany was more successful in cost-containment than its neighbour, the Netherlands, but expected demographic shifts and widespread early retirement had put the need for a substantial pension reform on the agenda. With the support of the Social Democratic opposition and both social partners, the Centre-Liberal government enacted a consensual pension reform in 1989, the day before the “fall of the Berlin Wall”. Beginning in 1992, the reform gradually raised the retirement age to 65 for women and men, phased out most pre-retirement options and introduced flexible pensions with actuarial deductions or accumulation. Yet German unification led to an extraordinary increase in early retirement. Since a quarter of public transfers were financed by social transfer payments, the social contributions increased from 35% in 1990 to 41% of gross wages in 1996 (Manow 1997: 40–42).

At the beginning of 1996, the Kohl government invited the social partners to summit talks, and a limited tripartite agreement on part-time pension was agreed upon in February. Under the pressure of the employers and the junior Liberal party, the government presented its proposal on welfare retrenchment in April, including a reduction of sick pay, a general welfare freeze, a gradual extension of retirement age, and an increased flexibility of employment contracts. The unions left the summit talks in protest and organised a campaign against the welfare cuts, while employers welcomed the government's unilateral measures. Soon afterwards the cuts in mandatory sick pay became law. The 1996 pension reform that was enacted anticipated the phasing-in of benefit cuts and increased age lim-

its. These measures were suspended by the new Left-Green government after the 1998 election.

The Italian

governments of the 1980s introduced a number of restrictive reforms designed to keep inflation and public expenditure under control without altering the guiding principles of the welfare state. The insufficiency of these measures as well as the lack of an overall strategy led to the radical policy changes of the early 1990s. (Niero 1996: 118)

The Amato government introduced a short-term rise in contribution rates by decree but also planned the long-term increase in pension age by five years and minimum contribution period by ten years phased in over a decade (Ferrera 1997: 240–241). Only a year later, in midst of the deep crisis of the Italian political system, the technocratic Ciampi government added cost-savings restrictions on seniority pensions and disability benefits, and introduced the legal and fiscal framework for supplementary pensions to be negotiated by social partners on the branch or company level. However, these remained only small incremental steps, that had little impact on workers' "acquired rights", particularly on those of senior workers.

Yet in late 1994 the new Centre-Right government under Berlusconi "tried to change unwritten rules of the game that had regulated the Italian social security system" (Regini and Regalia 1997: 216), provoking widespread protest by the unions and on the streets which was able to force the government to backtrack. In May, the new technocratic Dini government, supported by the parliamentary Left, was able to strike a deal with the unions (while the employers refused to sign), phasing in substantial pension reforms (Ferrera 1997: 241). While the law introduced important system changes and broke with the tradition of incrementalist policy making, the

key condition for obtaining trade-union consensus was, in fact, retention of the previous pension system as far as more elderly workers were concerned, with the introduction of a new and more rigorous system for workers with lower seniority. (Regini and Regalia 1997: 217)

The Centre-Left Prodi government continued with the concerted policy approach, further developing the framework for supplementary pensions and implementing the harmonisation of pensions. The reform of the seniority pensions that had been put on a two-year freeze in 1995, however, remained controversial between the Prodi government and the unions as well as the small Communist party (RC), on which the government depended. In fact, as part of a deal with the RC on

thirty-five hour work week legislation, and further negotiations with the unions, the government was able to accelerate some pension reforms in 1997.

As in Italy, radical unilateral reform efforts have met with widespread protest in France, but unlike its Italian counterpart, the French government has not been able to engage in enduring concertation on substantial reforms with trade unions and employers. Given their responsibility for unemployment insurance, which also covers supplementary early retirement plans, the social partners had to come to bipartite agreements on cost-saving measures in order to reform social policy. Moreover, the government offered state aid in return for a larger say in the restructuring of these private schemes at various times. The Balladur government, after threatening to regulate by degree, was able to sign a tripartite protocol in 1993. The protocol installed a tripartite supervisory committee and limited the state aid to one-third of the accumulated deficit in the unemployment scheme. With regard to pension reforms, the Balladur government encountered surprisingly little opposition when, after meeting with the social partners and studying a commission report, it devised a recovery plan that increased the general solidarity tax for a pension liability fund, introduced price indexation for pensions, and gradually extended the contribution period.

Following the election of President Chirac, the new Conservative Juppé government had announced a massive reform package in November 1995 which provoked widespread protests. Since the special public sector schemes were also to be reformed, the state railways unions and some other public sector workers went on strike during the winter of 1995/96. The politically fragmented union movement was also split over its position on reform: the FO (Force ouvrière), which had a strong position in the national sickness funds, defended the status quo, the Communist CGT (Confédération générale du travail) took a leading role in the strikes, and the moderate CFDT (Confédération française démocratique du travail) partly recognised the need to reform. While the government made concessions to postpone some policies, in particular concerning the special pension schemes in the public sector, it implemented some urgent measures of the social security reform unilaterally by emergency decrees and parliamentary legislation.

This brief analysis of the pension reform process in four countries indicates how much governments need the consent of the social partners to achieve major reforms. In addition to their veto opportunities, the social partners have the capacity to undo state induced reforms by developing supplementary schemes when they engage in collective bargaining. In Germany, increasing economic and financial challenges led to reform efforts in 1989 and again in 1996. The first was built upon a broad government-opposition consensus, while the latter reform failed to achieve concertation except for part-time early retirement. In France, the Conservative government had put pensions on the reform agenda in 1993 under Balla-

dur and again in 1995 under Juppé. In the second case this sparked widespread opposition by workers and unions since it affected the strike-prone public employees more directly and immediately. Similarly, the Berlusconi government encountered widespread resistance when it tried to enact more radical pension reforms than had been envisaged before, while later Centre-Left governments were able to negotiate pension reforms with the main unions which gradually phased in changes, thus having a smaller impact on older workers. Finally, in the Netherlands, the reforms in 1987 by the Centre-Liberal government cut the generous benefits and eligibility criteria of the disability pensions in the early 1990s.

5 Conditions for Concerted Reform

Our analysis of wage and social policy has shown that in the Netherlands and Italy parallel processes of concertation have emerged. The Dutch social partners regained concertation capacity by agreeing in the Wassenaar Accord to moderate wage formation and to cut social costs, thereby forestalling state intervention. The process of concertation in wage bargaining helped also bring about concerted reform in others arenas, though this was far from immediate. It was only after the government took unilateral reform measures to restructure the governance in social policy administration that the social partners returned to tripartite concertation. The Dutch concerted reform process was relatively sequential (from wage moderation to social policy reform), taking more than a decade. It was also a relatively open process of gradual social learning that did not follow any preconceived “model” (Visser and Hemerijck 1997).

In contrast, the Italian concertation process was more crisis-driven because of internal reasons (the fall of the old *partitocrazia*) and external pressures (meeting the EMU criteria). As the first step, the Ciampi pact not only abolished the *scala mobile* and committed the social partners to wage moderation, it also brought the fragmented bargaining practice into a hierarchical system. Since the state was relatively weak and incapable of enforcing this aim, the technocratic government needed the support of employers’ associations and trade unions in the midst of the political crisis to legitimate its reforms. The defeated radical reform plans of the Berlusconi government – a year before the French strike wave – showed that Italian unions were able to obstruct reform efforts. Yet the subsequent “deals” showed also that they were able to enter into concertation with the governments, which needed the consent of the unions in implementing their social policy reforms. The linkage between wage and social policies is most simultaneous and explicit in the Italian case – the political exchange was facilitated by the agreement on wage formation and offered a cushioned welfare reform which sheltered

the older workers and current pensioners from the severe impact of the reforms, thus requiring further adjustment rounds in the future.

Our analysis of the German case showed that until the fall of the Berlin Wall in November 1989, the system was still producing wage moderation and gradual welfare adaptation, though a decade later problems had accumulated in both areas. Concerted reform efforts in 1996 were impeded by the Centre-Liberal government's effort to impose welfare cuts for electoral reasons. The only concerted reform (on part-time pensions in 1996) shows that a consensus was possible, yet only where the interests of the social partners coincided in externalising social costs onto the public scheme.

Finally, the last case shows how little basis there is for concertation in France, despite many efforts by Right and Left governments to invite the "social partners" to tripartite concertation. The state-led initiatives to reform collective bargaining and induce negotiations on working-time reduction were unable to force or even lure employers and worker representatives to meaningful bargaining at the local and sectoral level. The Auroux laws weakened unions and pre-empted higher level bargaining. In the realm of social policy, while the unions have tried to defend their autonomy from state intervention because self administration in social insurance provides them with a source of legitimisation and resources, they have continued to become more and more dependent on state subsidies. Moreover, substantial welfare reforms such as the Juppé plan caused social unrest and union protests. The state remained incapable of achieving concertation; it tried to intervene into social policy by increasing state subsidies and shifting social contributions to state-controlled general taxes.

What stands out when we look at the institutional prerequisites for concerted reform? First of all, concertation is not always a suitable tool for reform. The French example clearly shows that tripartite concertation is meaningless when the social partners are unable to regulate the labour market and when wage moderation is achieved by the decentralisation of wage bargaining. Where social partners can only obstruct political-decision making, but do not have the capacity to self-regulate in a responsible way, governments have to resort to unilateral reform policies, though they are unable to control collectively negotiated schemes. Employers on the other hand relied on micro-corporatism at the workplace level since it allowed more flexibility, but they opposed tripartite concertation at the national level.

Secondly, the capacity of the state to intervene into self-governed policy fields in order to overcome reform blockages seems to be crucial. In the realm of wage policy, the Dutch and Italian governments had the possibility to intervene. A wage freeze was a credible threat by the Dutch government in the early 1980s,

and in Italy the abolition of the *scala mobile* in the early 1990s was contentious but it did receive union approval.

Similarly, with regard to social security, the ability of governments to intervene varies considerably between countries. Both France and the Netherlands share a tradition of self-governance of an important part of social insurance: the French social partners run the unemployment and voluntary early retirement funds, while the Dutch early retirement schemes are negotiated at the sectoral level by the collective bargaining partners. In France these negotiated schemes have increasingly run into financial difficulties and therefore required state intervention to set contribution levels. In the Netherlands, the schemes have been incorporated into a larger project in which the social partners, once accustomed to making social policies at the expense of the taxpayer, have been asked to take on responsibility for social costs. The intervention of the Dutch government in reorganising the governance of social insurance, and the transition to a system of state-led tripartite supervision were just as important reforms as substantive changes in benefits were. In Italy and Germany the political system remained responsible for setting conditions for contributions and benefits, not the social partners sitting on self-administration boards. In the case of Italy, this allowed the government to negotiate more cushioned reforms in return for wage moderation, whereas in the German case the two realms remained separated and responsibilities divided: the state had to worry about social expenditure, the collective bargaining partners about wages.

Thirdly, political exchanges must serve the interest of the social partners, which depend on the degree to which they can insulate themselves from the pressures of the employment crisis. In Italy, the Ciampi pact finally reorganised the tenuous relationship between national and local bargaining hierarchy and strengthened union representation on the workplace level. Trade unions became a partner for negotiating social policy changes which helped to circumvent widespread opposition as had occurred against Berlusconi's unilateral welfare cuts.

In the case of the Netherlands, the unions and employers had a higher degree of centralisation and could rely on existing social partnership institutions. Since the Dutch unions suffered from long-term membership losses and were rather weak at the workplace level, they had to worry about the employers' push towards decentralisation. Committing themselves to concertation was the only way they could regain influence over wage bargaining.

Compared to their Dutch counterparts, German trade unions are firmly entrenched at the workplace and in the collective bargaining system. They were therefore under less pressure to make concertation a success since they still mustered enough organisational powers by traditional collective bargaining without making deals with the government. Responsibility for social insurance rests

solely on the government's shoulders, while the unions can count on mobilising political opposition by the labour wing of the Centre and Left parties against unilateral reform projects.

Therefore, there are some indications that the centralised structure of trade unions – which used to be the precondition for “neo-corporatist” concertation in the 1970s – might not play the predominant role for concertation in welfare reforms. Despite the fear of Italian employers about wage drifts, Italian trade unions could enter into voluntary wage restraints and, with the help of the state, rationalise the collective bargaining hierarchy. The German case might be used for arguing that even an opposite effect can be observed: strong and centralised unions which have a stable power base might be less inclined to enter into negotiations on welfare reforms because they have little to gain from them. But even when interest organisations are willing and able to participate in concertation, much depends on the role of the state in reforming the governance structure and in compelling the social partners to come to a responsible agreement.

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