Striking deals: concertation in the reform of continental European welfare states

Bernhard Ebbinghaus and Anke Hassel

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 unco-ordinated with other policies, and can work at cross-purposes, produce negative externalities, or fail owing to the lack of supporting conditions. The article has two objectives. First, it argues that the 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 article compares four continental European countries with similar reform pressures but different reform trajectories: France, Germany, Italy and the Netherlands.

KEY WORDS Collective bargaining; concertation; governance; reform process; social partners; welfare states.

The reform of the welfare state is on the political agenda in Europe. Given the challenge of high unemployment, economic internationalization and socio-demographic changes, more and more governments are seeking 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 lately been noted as a success story of concertation (Visser and Hemerijck 1997). Also Italy’s recent experience of government–union agreements on the reform of 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 thus far not been successful despite the initiatives of two different governments (Bispinck 1997). Moreover, the French example shows
how great social conflicts over unilateral welfare reform can occur (Uterwedde 1998).

In 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 that 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 in overcoming potential blocks against reforms but also in co-ordinating policies across policy fields. These two rationales for studying concerted reform reflect two strands of current research which we seek to bridge.

So far, the current academic debate on welfare state retrenchment has been largely focused on a quantitative approach that looks mainly at expenditure cuts (Clayton and Pontusson 1998). Even where governments were most determined to curtail social expenditure, as in the UK and USA, overall welfare retrenchment has remained limited and welfare cuts were at best patchwork. Welfare spending was not much reduced but costs shifted to some social groups, especially those welfare recipients who have no veto powers. The inability of governments to roll back welfare substantially and in particular 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, if not prevailing 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 study 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 (EMU) 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 when it focuses too narrowly on the issue of wage restraint for competitiveness. Social policy reforms – cutting social contributions and payroll taxes to boost employment, and adapting social insurance to new patterns of employment – are as important elements of social pacts as wage restraint and they deserve to be jointly studied.

Hence we want to advance two arguments which bridge both research
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 threatening the social partners convincingly with intervention in order to compel them into co-operation. On the other hand, when 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 relatively low employment rates (see Table 1).

**Table 1 Labour market and welfare state indicators, 1980–96**

<table>
<thead>
<tr>
<th>Country</th>
<th>Employment rate (%)</th>
<th>Social expenditure (% GDP)</th>
<th>Social wage costs (%)</th>
<th>Unemployment rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universalist</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td>79.4</td>
<td>69.8</td>
<td>29.8</td>
<td>33.4</td>
</tr>
<tr>
<td>Denmark</td>
<td>75.4</td>
<td>74.2</td>
<td>27.5</td>
<td>32.6</td>
</tr>
<tr>
<td>Continental</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany(^c)</td>
<td>66.3</td>
<td>64.0</td>
<td>25.7</td>
<td>29.6</td>
</tr>
<tr>
<td>France</td>
<td>63.8</td>
<td>58.8</td>
<td>23.5</td>
<td>30.1</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>54.2</td>
<td>66.4</td>
<td>28.5</td>
<td>28.0</td>
</tr>
<tr>
<td>Italy</td>
<td>56.2</td>
<td>51.3</td>
<td>18.4</td>
<td>23.7</td>
</tr>
<tr>
<td>Liberal/residual</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>70.2</td>
<td>68.7</td>
<td>18.3</td>
<td>22.8</td>
</tr>
<tr>
<td>USA</td>
<td>66.9</td>
<td>73.6</td>
<td>13.7</td>
<td>16.3</td>
</tr>
<tr>
<td>Japan</td>
<td>70.3</td>
<td>74.1(^d)</td>
<td>9.9</td>
<td>14.1</td>
</tr>
</tbody>
</table>

\(^a\) 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 expenditure) and Institut der Deutschen Wirtschaft (for social wage costs). Calculations by authors.
They face the dilemma of an increasingly inactive population which receives social transfers paid by a shrinking active population (Scharpf 1998). Deriving from high welfare standards and little labour market dynamic, indirect labour costs and financial pressure on social security systems are high and amplified by increased international competition and the 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 have 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 in 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. Given a four-country study, we are aware of the limitations of such ‘small-n’ comparison which cannot rule out all 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.

I. 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 that the three main actors play. Our approach to concertation uses insights from corporatist studies on organized interests, in particular on ‘private interest government’ (Streeck and Schmitter 1985) and the more recent governance approach (Hollingsworth et al. 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 organizations.

As was the case with the corporatist income policies of the 1970s, a necessary prerequisite of today’s concertation is that the participating collective organizations are assured of the support and compliance of their members and that they are entitled, capable and recognized as corporate actors to negotiate contracts with other associations (Hollingsworth et al. 1994: 7). In this respect, associations perform a double mediation process: as collective organizations they mediate between their members and they mediate with other corporate actors in the policy field (Streeck and Schmitter 1985). Policy-making by trade unions and employer
associations is not based on publicly legitimated force, unlike the state, but on their associational power: their membership strength, organizational 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 in self-regulation, and second, the social partners’ capacity to veto political decisions and their role in implementation.

As regulator the state sets the institutional conditions under which collective action and employment relations take place. The right to organize collectively, negotiate binding agreements, and use strikes or lockouts is regulated by labour law, as are the general conditions of employment contracts. By legislation and/or by court law 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 in 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 in ‘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 in social security systems, imposing mandatory insurance, financing or subsidizing social expenditure 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 organized interests (Crouch 1986), although the degree of autonomy of the actors varies between the fields and across countries. Where the social partners have self-regulatory competencies, governments need the consent of the social partners for reform, whether they have veto possibilities or are needed for 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 in serving common interests. In these circumstances, the ‘shadow of the state’, that is, the potential of state intervention in the absence of agreement, 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, which have the potential to obstruct welfare retrenchment policies in the industrial (strike) and political (electoral) arenas. In return, governments offer influence on decision-making and further political support to trade unions and employers’ confederations. Instead of mobilizing their members against unilateral welfare retrenchment, unions give their consent to concerted reform, if they can safeguard some social rights, cushion the effect of cuts, and have more influence on change. 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.

II. REFORMING WAGE BARGAINING

During the 1990s, international competitive pressure and the advance of EMU 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 developed a whole set of corporatist income policies during the post-war period (Flanagan et al. 1983; Dore et al. 1994). During the days of trade union strength centralized wage bargaining was frequently a means of achieving wage moderation. However, from the early 1980s onwards employers in most countries started to push for decentralization and wage flexibility 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 the state-imposed incomes policy to a decentralization of wage formation (Boyer 1994). In general, trade unions and employers’ 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 they have underdeveloped organizational structures (Ebbinghaus and Visser 1999). French employers’ associations have long been divided between the interests of nationalized industries and the paternalist small- to medium-sized firm sector. Employers and unions have a very antagonistic relationship at national and workplace levels, thereby provoking recurrent state intervention in ‘free’ collective bargaining. The state determines the floor of wage bargaining by setting the minimum wage (SMIC) nation-wide, thereby leaving little bargaining space. Moreover, the Minister of Employment has the right to extend ‘erga omnes’ collective agreements to an entire sector. Therefore, an agreement that is not accepted by all unions, for instance, not by the Communist CGT, could still be made binding by the state.

Until the mid-1970s, a generous minimum wage policy as well as competition from the unions led to wage pushes in the private sector that went beyond productivity increases. After the first oil crisis, 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 incomes policy, departing from wage indexation. It also attempted to reform collective bargaining through 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). Decentralization has not strengthened trade union and employer capacity to regulate employment conditions at branch or national level, but weakened them further and strengthened local sectionalism (Goetschy 1998). In fact, the decentralized bargaining led to market-driven, employer-imposed wage settlements at workplace level against the will of the 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. A centralized incomes policy has never been set in place; even during the 1970s’ ‘concerted action’, unions and employers held

**Chronology A** Concertation on wage and employment reforms

<table>
<thead>
<tr>
<th>The Netherlands</th>
<th>1982</th>
<th>Bipartite Wassenaar Agreement on ‘general guidelines on employment policy’</th>
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<tbody>
<tr>
<td></td>
<td>1990</td>
<td>Bipartite agreement on ‘more employment for ethnic minorities’</td>
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<tr>
<td></td>
<td>1993</td>
<td>Bipartite agreement on ‘a new course: agenda for collective bargaining 1994’</td>
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<tr>
<td></td>
<td>1997</td>
<td>Bipartite agreement on ‘Agenda 2002’</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Italy</th>
<th>1992</th>
<th>Tripartite agreement abolishing <em>scala mobile</em></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1993</td>
<td>(July) Ciampi Protocol: agreement on labour costs and collective bargaining reform</td>
</tr>
<tr>
<td></td>
<td>1996</td>
<td>Employment Pact (<em>Accordo per il Lavoro</em>)</td>
</tr>
<tr>
<td></td>
<td>1998</td>
<td>Social Pact for Growth and Employment</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Germany</th>
<th>1996</th>
<th>Talks on Alliance for Jobs and ‘Standort’ Deutschland (Jan.–Feb.), unions withdraw (April); strikes on cutting statutory sick pay (Oct.), later renegotiated in collective agreements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1998</td>
<td>Start of Alliance talks under new government (Dec.)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>France</th>
<th>1982</th>
<th>Auroux laws: annual firm-level bargaining</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1997</td>
<td>Matignon Meeting, employers leave in protest over proposed working-time law</td>
</tr>
</tbody>
</table>
the view that wage bargaining was not to be discussed with the government. Wage development was nevertheless responsive to economic conditions owing to the centralized industrial unions, plant-level consultation procedures and 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 standardized, these encompassing unions have to anticipate the economic implications of wage increases and possible monetary retaliation by the Bundesbank (Scharpf 1991). German unions used the informal practice of ‘extra pay’ above negotiated wage rates by larger enterprises as a way of achieving the political aim of a solidaristic wage policy (the same pay for the same work) but also to top-up wages unofficially where companies could afford it.

This traditional wage formation process has run 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 of 1991/92 (Hassel and Schulten 1998). Moreover, reunification put a great strain on wage equality, since unions had pushed for quick wage equality at the expense of East German companies which still lagged 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 offered 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). Alarmed 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, 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. With the new ‘Red–Green’ government in 1998, a new tripartite concertation process began; the issue of Tarifautonomie was again hotly debated, but not resolved.

The Netherlands have a long post-war history of a statutory wage policy – annual guidelines by the Minister that were then subject to bipartite negotiations – which was in place until 1963 and existed formally 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 industry and the 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 fall by 1.5 per cent 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 announced that it was determined to freeze public wages, the minimum wage and transfer payments, and abolish wage indexation. The unions suffered
from membership losses, organizing less than 30 per cent 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 the 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 decentralization (Visser and Hemerijck 1997: 112).

Italian labour relations, as in France, have traditionally suffered from strife between unions and employers. Co-operation between the social partners has been difficult because of the relative fragility and low level of institutionalization of collective bargaining, as well as political tensions which have hampered the already difficult task of building a national and social consensus (Treu 1994: 162). From 1946 to 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 were aimed at incomes policy in return for peaceful labour relations. There were two main problems with these agreements. First, the unions were unable to control 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 plant level. Second, welfare expenditure became a major part of social bargaining or quid pro quo political exchange.

Social conflict was ‘fiscalized’ 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)

From 1984 onwards, there have been ongoing negotiations over 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 plant level and a wider bargaining mandate, whereas the employers doubted the unions’ ability to control decentralized bargaining.

In July 1992, an 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) in the face of protests from large sections of their membership and only a few days after a general strike. The concession which the unions gained in return for wage moderation was the commitment by the government and the employers to reform the bargaining system and the role of
representatives at plant level. A year after the abolition of the *scala mobile*, the government and the social partners signed the Ciampi Protocol (Regini 1997), which reorganized the bargaining system into two levels: at the sectoral level, agreements laid down wage norms for several years on the basis of inflation forecasts, and at the second, plant level, additional wage bonuses were to be paid on the basis of productivity increases. The agreement also modernized workplace-level union representation (RSU or Unitary Union Representation) for wage bargaining at plant level (Regalia and Regini 1998: 477). Since then, wage arrangements have 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 decentralization of collective bargaining in order to achieve more flexible and moderate wage formation. In the case of France, 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 decentralization of wage bargaining and the weakness of French private sector trade unions. In the German case, *Tarifautonomie* remains strongly entrenched, and wage moderation 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 Italian cases, a credible threat of state intervention leading to a political exchange with the social partners was a necessary precondition for pacifying the former unstable wage bargaining systems.

### III. REFORMING PENSIONS

Since old age and invalidity programmes account for the largest share of social expenditure, they are a crucial area for welfare state reform. All four welfare states were 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 specially 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 considerable widespread resistance, particularly by the 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 institutionalize 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. 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 except Germany have a tradition of tripartite Social and Economic Councils, which play a more or less
institutionalized role in advising on social policy-making. The Netherlands and France are also remarkable for the importance of collectively negotiated schemes for supplementary and pre-retirement pensions directly administered by the social partners.

In the Netherlands, favourable disability pensions were enthusiastically advanced by unions to ease the labour market and by employers to shed less productive but highly protected workers (Aarts and de Jong 1996). In the early 1980s, almost 14 per cent 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 the eligibility rules, despite protests from the unions. These measures had only limited success since collectively negotiated schemes were able to fill the replacement gap left after the reform. With the return to power of the Social Democrats, linking of pension benefits was made conditional on employment growth since 1992 (Visser and Hemerijck 1997: 140–1). As disability numbers soared further, the Centre–Left coalition announced radical reform changes in 1991, provoking the largest demonstration organized 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 over the next few years, introducing disincentives for employer abuse, tightening eligibility criteria and re-examination,
particularly for younger claimants, and shifting sick pay responsibility over the first weeks to firms (Aarts and de Jong 1996; Visser and Hemerijck 1997). The 1994 elections led to substantial losses for the governing parties, but the Social Democrats returned to power thanks to a Left–Liberal coalition, which continued with the reform efforts and also changed self-administration.

During the 1980s, Germany was more successful in cost-containment than its Dutch neighbour, but expected demographic shifts and widespread early retirement had put the need for 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. Begun in 1992, the reform gradually increased 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, social contributions increased from 35 per cent in 1990 to 41 per cent of gross wages in 1996 (Manow 1997: 40–2).

At the beginning of 1996, the Kohl government invited the social partners to summit talks and a limited tripartite agreement on part-time pensions was agreed in February. Under pressure from employers and the junior Liberal party, the government presented its proposals on welfare retrenchment in April: a reduction in sick pay, a general welfare freeze, a gradual extension of the retirement age, and increased flexibility of employment contracts. The unions left the summit talks in protest and organized 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 limits. 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 cut the long-term increase in the pension age by five years and in the minimum contribution period by ten years phased in over a decade (Ferrera 1997: 240–1). Only a year later, in the midst of a deep crisis in 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 at branch or company level. However, these were only small incremental steps, which had little impact on the ‘acquired rights’, particularly for 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 and so forcing 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 traditions, 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 pension harmonization. The reform of seniority pensions which had been put on a two-year freeze in 1995, however, remained a point of controversy 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 35-hour working-time 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 widespread protest in France but, unlike Italy, 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, at various times the state offered state aid in return for a larger say in the restructuring of these private schemes. The Balladur government, after some threats to regulate by degrees, was able to sign a tripartite protocol in 1993. The protocol installed a tripartite supervisory committee and limited state aid to one-third of the accumulated deficit in the unemployment scheme. With regard to pension reforms the Balladur government, after meetings with the social partners and based on a commission report, devised a recovery plan that increased the general solidarity tax for a pension liability fund, and introduced price indexation for pensions and a gradual extension of the contribution period, though without much opposition.

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 railway unions and 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: Force Ouvrière (FO), which had a strong position in the national sickness funds defended the status quo, the Communist CGT took a leading role in the strikes, and the moderate Confédération Française Democratique du Travail (CFDT) partly recognized 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 in social security reform unilaterally by emergency decrees and parliamentary legislation.

This brief analysis of the pension reform process in the four countries indicates how much governments need the consent of the social partners to achieve major reforms. In addition to their veto opportunities within self-administration, the social partners have the capacity to undo state-induced reforms by developing supplementary schemes as part of their collective bargaining tasks. In Germany, in order to face increasing economic and financial challenges, reform efforts were undertaken in 1989 and again in 1996. The first was built on 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 Balladur and again in 1995 under Juppé. In the second case this sparked widespread opposition from workers and unions since it affected more directly and immediately the strike-prone public employees. Similarly, the Berlusconi government met 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 senior 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, which the Left–Liberal government reinstated in the early 1990s.

IV. 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 cut social costs, thereby forestalling state intervention. The process of concertation in wage bargaining also helped to bring about concerted reform in other arenas, although this was far from immediate. It was only after the government had taken 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 step-wise social learning and was not following any preconceived ‘model’ (Visser and Hemerijck 1997).

In contrast, the Italian concertation process was more crisis-driven for internal reasons (the fall of the old partitocrazia) and because of external pressures (meeting the EMU criteria). As a 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. In the Italian case, the link between wage and social policies is simultaneous and explicit – the political exchange was facilitated by the agreement on wage formation and offered a cushioned welfare reform which sheltered 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, although a decade later problems had accumulated in both areas. Concerted reform efforts in 1996 were impeded by the Centre–Liberal government’s effort to push through 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 met in externalizing social costs on to the public scheme.

Finally, the last case shows how little concertation is established 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 local and sectoral levels. The Auroux laws weakened unions and pre-empted higher level bargaining. In the realm of social policy, the unions have tried to defend their autonomy from state intervention since social insurance provides them with a source of legitimation and resources. At the same time they became 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 in social policy by increased state subsidies and by shifting social contributions to state-controlled general taxes.

Considering the institutional prerequisites for concerted reform we can point to three observations. First, 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 decentralization of wage bargaining. Where social partners can only obstruct political decision-making, but have not the capacity to self-regulate in a responsible way, governments have to retreat to unilateral reform policies, although 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.

Second, the capacity of the state to intervene in self-governed policy fields in order to overcome reform blocks seems of crucial importance. In the realm of wage policy, the Dutch and Italian governments had the possibility of intervening. 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 had 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. Whereas in France these negotiated schemes have increasingly run into financial difficulties and therefore required state intervention to set contribution levels, the Dutch schemes, after similar problems, have become an instrument of the larger project of internalizing the welfare costs by the social partners and of suppressing free-riding at the expense of the public. The intervention of the Dutch government in reorganizing the governance of social insurance, and changing the system to a state-led tripartite supervision, was as important a reform as substantive changes in benefits. 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.

Third, political exchanges must serve the interests 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 re-established the tenuous relationship between national and local bargaining hierarchies and strengthened union representation at workplace level. This in turn also made them a partner in negotiating social policy changes and circumventing widespread opposition, as had occurred with Berlusconi’s unilateral welfare cuts.

In the case of the Netherlands, the unions and employers had a greater degree of centralization 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 worried about the employers’ push towards decentralization. Committing themselves to concertation was the only means of regaining influence over wage bargaining.

Compared to the Dutch situation, 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 could still muster enough organizational powers to seek to settle industrial disputes by traditional collective bargaining without making deals with the government. In the area of social insurance, the government shoulders responsibility, while the unions can count on mobilizing political opposition from the labour wing of the Centre and Left parties against unilateral reform projects.

Therefore, there are some indications that the centralized structure of the trade unions – which used to be the precondition for ‘neo-corporatist’ concertation in the 1970s – might not play a predominant role in 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, rationalize the collective bargaining hierarchy. The German case might be used for arguing that even an opposite effect can be observed: strong and centralized unions, which have a stable power base, might be less inclined to enter into negotiations on welfare reforms because they have little to gain. But even when interest organizations are capable and willing to enter 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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