Introduction

Whereas many experts regarded tripartite forms of bargaining as outmoded and believed that economic and monetary union would bring about an “Americanisation” of industrial relations in Europe, social concertation has undergone an astonishingly lively and broad-based revival in the 1990s. Of the fifteen Member States of the European Union, Germany, Spain, Ireland, Italy, Finland and Portugal witnessed the emergence or re-emergence of such initiatives during the
period 1992-1998. Since then, several attempts have been made to account for this phenomenon (Schmitter and Grote, 1997; Fajertag and Pochet, 2000; Rhodes, 2001).

The main hypothesis one of us proposed in previous books (Fajertag and Pochet, 1997; 2000) concerned the constraints and changes associated with the single currency. The hypothesis was that the prospect of monetary union had acted as a catalyst for the signing of social pacts, in particular for countries likely to have difficulty in sustaining a monetary regime aiming for low inflation and a stable currency while keeping their public deficits under control (Pochet, 1998 and 1999). In noting a degree of convergence, it was indicated at that time that a number of these agreements appeared to be unstable and linked with cyclical economic factors, rather than being a sign that bi- or tripartite relations were becoming structured or institutionalised into a sort of functional equivalent of neo-corporatist institutions.

It was also stressed that the transition to the third phase of EMU in 1999 would reopen a debate on suitable forms of concertation as well as on the content of agreements, no longer in the context of the Maastricht criteria establishing the single currency but in that of a unified monetary zone, the euro zone. We asked whether or not competitive pacts would be sustainable within the future monetary union.

In line with some recent contributions in the neo-corporatist literature (e.g. Molina and Rhodes, 2002; Ebbinghaus, 2004; Hancké and Rhodes, 2005; Rhodes et al. 2005) and the neo-institutionalist (Mahomey, 2004, Streeck and Thelen, 2005), we re-examine the exogenous and endogenous determinants which impact on the emergence and decline of social pacts in the last 15 years, their content and the position of the actors involved. In section one, we introduce a basic theoretical framework to an evolutionary understanding of new forms of social concertation. In section two, we assess the key traits of social pacts in the nineties. Section three focuses on what we call the post-Maastricht conditions and the different developments occurring in the countries analysed.

1. New waves of social concertation: born and evolution of a new institution

The key role of social partners in the management of socio-economic variables has been defined as one of the key aspects of the so-called European Social Model (Jepsen and Serrano Pascual, 2005). Yet, their role has not been constant along the post-war period. It has changed following different cycles. The mutant forms of the interaction between social partners’ representatives and national governments clearly represents a case of evolving institutions. In particular we do reference to the last fifteen years, when the resurgence of social concertation and then its decline have been labelled in terms of (new) social pacts.

Social pacts can be defined as specific forms of macro-cooperation between representatives of governments and organised interests who negotiate and co-ordinate policies across a number of formally independent but concretely inter-connected areas and levels (Avdagic et al, 2005). This cooperation innovates the traditional neo-corporatist agreements of the 1960s and 1970s in different respects. First, the macro-economic context where these social agreements have been signed have been characterised by a process of ‘liberalisation’ of western European political economies, consistent with more de-centralised collective bargaining and more flexible labour markets. The European context then has been characterised by the progressive economic integration of single states that led to the introduction of the European monetary union (EMU) in 1999. The content of these agreements also changed: instead of pacts based on redistribution of growing economic and financial resources, new pacts have been signed in a context of permanent
austerity consistent with a more regulatory content aiming to a more competitive economies. Finally, the role of single participants have shifted as well: governments have almost everywhere played the role of *pivot*, with a huge influence on the agenda and the content of agreements. Trade unions, by contrast, have seen a reduced weight in negotiations. All these traits are usually identified as typical features of a new institution.

How to explain the creation and further development of this new institution? Here, we do reference to two different literatures still in need for cross-fertilisation. That on industrial relations, and that on institutional stability and change.

As far as the literature on industrial relations (IR), according to Regini (2000), co-operation between social and political interlocutors depends on the interaction between quite complex strategies and calculations and not on formal prerequisites. Even in countries lacking neo-corporatist traditions and characterised by a profound institutional weakness (like Spain and Italy), co-operation can be realised and then favour the attainment of important reform packages in economic, employment, and welfare policies. We think this is a key conceptual tool for the analysis of long-term evolution between social and political actors, being flexible enough to take into account changing endogenous and exogenous dynamics. In the present paper we adopt that approach by adding more emphasis to organisational resources of the actors involved in the reform process.

Paul Edwards (2005: 277) suggested that ir should” work with researchers in “mainstream” social science disciplines to tease out the theoretical contribution of IR”. That will be our approach and the second bulk of the literature we take into account is that of new-institutionalisms which is now dominant in the political sciences (M and Jenson 2003) . Several accounts on welfare capitalisms in the 1990s emphasised the increasing stability of welfare and economic institutions and the persistent divergence between specific ‘packages’. Pierson (1996; 1998) among others stressed the sticky nature of welfare state policies despite the increased importance of irresistible forces that put social institutions inherited from the ‘golden age’ under pressure. Terms like positive feedback and increasing returns allow to understand the logic and mechanisms active in reinforcing a certain path of decisions. Other contributions defined the long-term evolution of institutions in terms of initial contingent events leading to sequences with deterministic properties (Pempel, 1998; Mahoney, 2001). In this case, innovation is possible but is theorised as the effect of critical junctures or radical shifts that interrupt long continuities. Exogenous shocks are the key determinant of changes.

A more recent bulk of the neo-institutionalist literature has by contrast looked at the internal flexibility of institutions and the not so narrow room for innovation. Thelen (2004) clearly identified different processes of institutional evolution beyond the traditional distinction between ordinary stickiness and extraordinary rupture. Not only institutions emerge and die, but they also evolve and go through ‘transformation without disruption’ (Streeck and Thelen, 2005). Marginal and incremental changes can thus accumulate and lead to innovative results: that is the case of gradual transformation. This more ‘evolutionist’ approach is consistent with the interest for the strategic behaviour of actors related to institutions. The existence of an institution is linked to the interaction (cooperation and/or conflict) between actors characterised by ‘bounded rationality’ (Avdaci et al, 2005). Specific institutions involve in fact ‘rule makers’ who set and modify rules, and ‘rule takers’ who are expected to comply with them. The interaction between the former and the latter is assumed to be characterised by imperfection consistent with a gap between ideal and real patterns of rules. This leads to the dynamic implementation and the
ongoing cultivation of institutions, and the quite paradox of stable institutions that vulnerable to change at the same time.

In line with that actor-centred approach of the institutions (Scharpf, 2002, Streeck and Thelen, 2005), this paper assumes an evolutionary perspective to describe two-decades of social concertation in EU member states with a major emphasis on the strategic role of actors and on dynamics affecting their interactions. That perspective will give us the opportunity to diachronically assess the social relationship between governments and social partners. We will compare, in particular, the past, present and future conditions for social agreements. As argued elsewhere (Fajertag and Pochet, 2000), we assume that European integration, and especially the EMU process, deeply influenced national actors to promote concertation. Yet, they are not the sole variable leading to social agreements. More than a single direct link between the ‘irresistible force’ represented by Europe and the emergence of social pacts, we refer to a multi-dimensional process where a constellation of factors interacts (at different times) and leads to more or less favourable conditions for concerted action.

European constraints represent key aspects of a complex interaction between exogenous and endogenous factors which influence the room for pacting. Such integrated perspective allows us to do reference to three main variables: the European Monetary integration (both the pre and post EMU phases), the role of actors (and of the main variables affecting their weight and organisation), and the interlinkage between policy issues (e.g. wage-setting, employment and welfare policies) in a global institutionalist approach.

The second type of variables we address, then, refers to the content of political exchange. In particular, we focus on the supposed link between the policy issues of wage-setting, welfare reforms, and flexibility in the labour market regulation. As proposed by Rhodes (2001), the co-existence of different priorities (as an effect of different strains on employment and social policies) can increase the opportunities for innovation, and even for painful policies, including cutbacks. The more reform dimensions there are, the more opportunities exist for ‘trading’ them with one another. In each country, the room for policy manoeuvre depends on the nature of such interaction. Commitments by actors to different ‘ideal’ reform packages provide the basis for trade-offs in which both political and policy goals are subject to a particular form of political exchange. According to that approach, the rise of social pacts in the 1990s was interpreted as the effect of wide packages of innovations concerning incomes, labour market flexibility, and welfare ‘security’. The ability of decision makers to combine different fields was assumed to be decisive for the resurgence of concertation (Ebbinghaus and Hassel, 2000). The interactions of actors intervening in different institutions (labor market and welfare state) have impacted the emergence and consolidation/dissolution of the social pacts.

In line with a more critical understanding of conflicting interests on reforms, we hypothesise that the ‘fall’ of social agreements, between the late 1990s and the beginning of the new century, is related to problems of connecting different policy fields. As Hassel puts it: “(...) negotiation between government and trade unions on voluntary wage restraints and welfare reforms often took complex forms, because reform process in the two policy fields followed rather different dynamics” (Hassel, 2003: 716-730). Following recent contributions by Traxler (2000 and 2002), we think that in the post-EMU phase wage policies on the one hand and welfare and labour market on the other have been increasingly disconnected. While the former proves easier to be adapted to the new macro-economic context (and to different balance of power resources for single actors), the latter are more stable and thus need ad hoc agreements to be revised. This
would help us to explain the absence of new social pacts in the major part of EU countries in the last years, while limited agreements have been signed by governments and social partners (e.g. pension reforms in Germany and France, see Natali and Rhodes 2004).

The last hypothesis, then, is related to the flexible nature of concertation in the last two decades. Given our main focus on the mode of policy-making and the content of political exchanges, we argue that pacts are the result of complex strategic interactions of political and social actors. Hence, our hypothesis is that concertation in the 1990s did not leave traces of institutional roots able to create favourable conditions for further pacts afterwards (Fajertag and Pochet, 2000). By contrast, being social agreements highly related to situational conditions (e.g. power resources of key actors, the content of their agenda, and the seriousness of problems), a less favourable constellation of factors has led to non-agreements and unilateral actions.

This refers in particular to the changing role of trade unions. While the particular context of the first part of the 1990s represented a functional equivalent for lacking organisational resources, the less favourable context later on has led to a declining weight (e.g. in Italy). In some EU countries (notably Sweden and UK), a process of decentralisation of collective bargaining have affected the opportunity for co-ordination. In some other, forms of co-ordinated decentralisation have happened in line with a more flexible and differiantiated bargaining. In such differiated institutional landscape, is it still possible for trade unions to be part of social pacts?

Our interrogation is on social pacts as institution of political exchange between various policies (mainly wage and welfare state reforms). For us, the social pacts were such institution but did not succeed in having positive feed-back effects which would have embedded them within the general national institutional framework. In the following section, we define the main aspects of social agreements in the first part of the 1990s (in the wake of the EMU process). We focus on macro-economic conditions (favouring social concertation), the content of the implemented political exchange, and then the key actors involved in the process.

2. Social pacts in the 1990s

The emergence of a new generation of agreements in the 1990s occurred in a generally fluid context, affected by a series of profound changes. Among the background elements which shaped this period, it is worth mentioning market globalisation, monetary union and a fresh awareness of the likely effects of population ageing. Each of these factors had direct or indirect consequences on three different but intertwined policy issues: the labour market, pay bargaining and social security reform.

The internationalisation of the economy, the liberalisation of capital markets, the development of new forms of production and the information technology revolution were transforming the labour market, placing the emphasis on competitiveness and labour force skills, as well as introducing renewed tension into the flexibility/security pairing. The funding of social protection was likewise at the heart of the debate, from the point of view of overall labour costs (see Scharpf and Schmidt, 2000). Population ageing raises questions about the financing of social protection systems, especially in relation to pensions and healthcare: it necessitates a certain number of fundamental adjustments with a view to ensuring the continuity of intergenerational solidarity mechanisms. Furthermore, the growing budgetary impact of State pension schemes poses the question of how to allocate the margins obtained by virtue of the budgetary discipline resulting from the stability pact, and that of the trade-off to be conducted between different social priorities.
By creating a new monetary context and a shared discipline, economic and monetary union altered some of the fundamentals of economic competitiveness in the Member States. The search for ways of achieving non-inflationary growth led to a shift in wage determination policies and to confidence that the system of pay bargaining will generate wage rises in keeping with the competitiveness conditions existing within a unified monetary zone (Pochet, 1998).

The impact of EMU on industrial relations systems had been analysed in detail in several recent publications, so we do not intend to dwell on it any further here (Pochet, 1999; Martin, 2000, Martin and Ross, 2004). We would merely note that new actors started sweeping into the national collective bargaining arena, namely the European Central Bank and the Council of Finance Ministers (Ecofin). On the one hand they recommend a decentralisation (or regionalisation) of collective bargaining; on the other, they stress the need for structural reform of the labour market and welfare state arrangement. This new macro-economic policy context led to a new type of social agreements.

Unlike the pacts concluded during the sixties and seventies, in a stable economic environment of sustained growth and full employment, social pacts in the 1990s sought to accommodate the uncertainties associated with a difficult and somewhat unpredictable economic climate. Agreements such as those in Portugal and Finland, for example, attempted to consolidate the economic changes already underway so as to make them irreversible. The aim was to cease being dependent, in the former case, on the textiles, clothing and footwear industry; in the latter, on the timber sector. By opting for the single currency and the monetary regime associated with it, the government and the social partners were obliged to ensure and undertake this rapid transition at the risk of being confronted by an asymmetric shock.

The Irish case is a particularly significant example of the desire to anchor a new model of production within a stabilised monetary framework. The series of five successive pacts concluded between 1986 and 2000 specifically did seek to spearhead and facilitate the opening up, modernisation and development of the national economy. In the case of Ireland, the social pact incorporated a vast number of themes, ranging from support for macroeconomic policies to regional development, via social flanking measures and assistance for marginalised or disadvantaged groups.

Summing up, in the first part of the 1990s, many EU countries experienced high public deficit, slow economic growth and high inflation (e.g. Italy and Portugal). A huge recession then hit Europe in the period 1992-93. In some cases, as we have seen above, paradigmatic shifts of the socio-economic model were in progress and thus needed a strong social consensus to be implemented (e.g. Finland and Ireland). What is more, most pacts, be they agreements actually signed and sealed (Ireland, Netherlands, etc.) or abortive attempts (Germany, Belgium, etc.), were initiated in a context of severe unemployment and with a clear determination to rectify it. A high percentage of job-seekers constituted an important lever for the setting up of a concerted strategy with the social partners. An environment of acute tension, be it economic (Ireland, Netherlands in the early eighties and Finland in the early nineties) or political, led countries to opt for a contractual approach.

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1 Exceptions were represented by Belgium and Greece that did not organise social concerted agreements despite long-term socio-economic problems (Table 3).
Table 3. 1990s Social pacts in the EU

<table>
<thead>
<tr>
<th>Social Pacts</th>
<th>Macro-economic conditions</th>
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<tbody>
<tr>
<td></td>
<td>Acute Problems</td>
</tr>
<tr>
<td>Yes</td>
<td>Italy, Portugal, Spain, Finland, Ireland; Netherlands*</td>
</tr>
<tr>
<td>No</td>
<td>Belgium, Greece</td>
</tr>
</tbody>
</table>

*In the Dutch case we refer to social agreements in the 1980 which was in line with the new monetary policy.

Source, Hancké and Rhodes (2005)

From an institutional point of view, it is worth stressing that “technical” bodies have often played a crucial role in setting the agenda for talks and in guiding the discussions. It was the case in the Netherlands, Italy and Finland. Nevertheless, the mere existence of such institutions is not sufficient in itself. In Sweden, the equivalent bodies (the National Mediation Committee or “Rehnberg Committee”) did not manage to initiate and mastermind the elaboration of a social pact. By contrast, the absence of any such institution in Germany led to the emergence of a complex array of talks. The task was all the more awkward in that – because of “Tarifautonomie” (collective bargaining autonomy) – wages were not officially a subject for negotiation.

2.1. Content

The content of agreements obviously aimed to respond to changes in the economic and social environment. Generally speaking, three major themes dominated social pacts in the 1990s. The pay discipline introduced within the Member States in fact formed part of the new monetary context, in that it is a form of non-inflationary growth. In most Member States, wages and productivity were uncoupled, replaced by the new coupling of wages and competitiveness (Fajertag and Pochet, 2000). This is what lead us to opt for an analysis in terms of monetary regime rather than focusing solely on the Maastricht criteria. There is disturbing evidence of a coincidence between the moment of adoption of an inflation-centred monetary regime and a significant drop in earnings as a proportion of a country’s GDP. Moreover, the sharing of productivity gains was a goal, to varying degrees, of all the agreements concluded (or approved) during the nineties on the setting of guidelines for pay bargaining (Belgium, Denmark, Finland, Ireland, Italy, Portugal and Sweden). Thereafter, several processes were devised for comparing wage rises. The most obvious case was that of Belgium, where the Competitiveness Act of 1996 provides for mandatory and structured comparisons (Pochet, 2004). As far as the trade unions are concerned, the Doorn process brings together at cross-industry and sectoral level the Belgian, German, Dutch and Luxembourg unions for annual meetings to exchange information concerning wage rises in each country (see also Hassel and Hoffmann, 2000 and Dufresne 2002).

The full extent of the trend towards greater labour market flexibility must be assessed with caution (Regini, 1999). There is evidence of a moderate relaxation rather than an overhaul of the continental European model. What is more, this relaxation – relatively uneven from one country to another – appears not to be intrinsically linked to the conclusion of negotiated pacts. The efforts to achieve flexibility must be viewed in parallel with the introduction, in all Member States, of active policies for employment and vocational training as well as policies to re-regulate atypical work, in a certain number of cases such as the Netherlands, France and Portugal. The
case of Spain is a noteworthy example of agreements (1997) linking the relaxation of certain conditions for dismissal in return for a reduction in temporary work. These agreements were followed by another one between the government and the trade unions in 1999 on part-time work. Thus the relaxation of labour market regulations has more to do with the diptych flexibility/security, highlighted at Community level.

Concerning social security, its more common dimension was the search for negotiated solutions to the State’s need for budget cutbacks in order to comply with the public deficit criteria. In Italy’s case, for example, within the context of budgetary stabilisation it was necessary to define ways of reforming one of Europe’s most costly pension systems. However, an OECD study (1996) has revealed that social security was not the item most affected by drastic reductions in public finance deficits.

The importance of these three subjects did not prevent the inclusion of other related themes. For instance, the implementation of specific measures in regions lagging behind was an extremely important dimension of the Italian compromise. There is evidence that agreements did tend to become more comprehensive, covering quantitative aspects as well as introducing more qualitative measures, even though the strategies used differ from one Member State to another: a wide-ranging horizontal agreement (Ireland, Portugal) or a series of successive single-issue agreements (Italy). However, the latest developments (Portugal, Greece) are heading in the direction of a series of limited agreements, as has already happened in Spain.

These differences in approach can be explained partly by national traditions of concertation and by the circumstances surrounding their development. Most of the actors engaged in the more longstanding processes, such as in the case of the Netherlands, insist that the negotiation of a social pact has two dimensions: the search for a solution on the substance of the matter and a mutual learning process (see Hemerijck et al, 2000). In some cases, the reaching of an agreement hinging on wages policy has fostered a climate favourable to an all-round dialogue and has engendered a positive outcome in other difficult areas (Italy’s case being a typical one here). This is not however the case in all instances. In Spain, a climate favourable to social dialogue came about despite the absence of any agreement on wages policy, and despite results in terms of average wage rises having been below the European average in recent years (Pérez, 2000; Molina, 2004).

2.2. Actors

In the 1990s, the balance between the negotiating partners shifted substantially as compared with the situation prevailing when the pacts of the sixties and seventies were signed. One fundamental element which typifies the process of drawing up pacts, and on which their success depends to a large extent, was the emergence of a consensual analysis among the parties of the implications of a changing system of production and the formulation of joint preferences for low inflation and a stabilised exchange rate system. This form of shared culture, regularly referred to by the actors themselves, in a sense marked a break with the traditions of “classic” bargaining, where macroeconomic considerations had less of a bearing and where the medium-term economic prospects seemed more stable. And yet the existence of a shared analysis of the problems and their implications clearly did not imply a prior consensus as to the solutions and methods to be adopted. The bargaining field was not narrowed by a common reading of events, but it was expressed differently (Fajertag and Pochet, 2000).
Tripartite negotiations were consolidated in the nineties and, consequently, so was the relative role of the State within a concertation process whose main axis had previously been the relations between the social partners. This tripartism and one of its dominant features, the heightening of the State’s role, must be evaluated in practical terms and not literally. Thus, governments appear to have been implicitly responsible for steering the bargaining process. A direct functional logic explains the reasons why governments have acquired increasing powers in the social arena: to gain control over wage determination in order to maintain pay rises deemed compatible with competitiveness and monetary stability, and to guarantee a minimum of support for planned reforms in the fields of social security and the labour market (see Moreno and Palier, 2004).

Whereas it is easy to appreciate why such developments suited governments, this is less evident in the case of the trade unions. The results achieved are by no means comparable with those of earlier pacts. Because of budgetary restrictions, governments were not in a position to oil the wheel of the negotiations. The employers’ representatives occupied a position of strength as concerns some of their demands, in particular flexibilisation of the labour market. It is not surprising that in some countries tensions within the trade unions or divisions between them came to the fore during the negotiation and conclusion of centralised agreements. The tendency of agreements to involve pay restraint, increased labour market flexibility and social security adjustments – in contrast with traditional demands – necessitates a re-reading of the situation by the trade union organisations. The need to participate in the bargaining process and to retain some influence over decision-making was clearly an important argument which helped bring them to the negotiating table (Bordogna and Cella, 1999).

The signature of central social pacts by the employers likewise requires some analysis, given that rapid decentralisation, along the UK lines, might appear more profitable. On the basis of data available for Italy, Spain and Ireland, it seems that decentralised negotiations were viewed as difficult to control and hence risky. In the uncertain times of the transition to the single currency, predictable agreements were regarded as a safer option than a break with centralised bargaining. The employers’ attitude can also be explained in most cases by a reappraisal of the concept of centralised talks. In fact, central agreements were more and more often leaving a great deal of scope for the text to be interpreted at sectoral or even regional level. Hence, it was actually a matter not so much of centralisation but of co-ordinated decentralisation, whereby centralised agreements set out a framework for decentralised implementation (Fajertag and Pochet, 2000).

The debate has gradually moved on in various countries from the question of nominal wage rises to that of global wage costs. Here, the main actors are the State – through its control over taxation – and the social partners, often jointly responsible for social security. This makes a centralised dialogue all the more useful.

Collective bargaining is therefore evolving in between two extremes and, depending on the circumstances, comes closer to one or other of these typical patterns. Firstly, a win-win situation where, faced with the radical changes inherent in EMU and with the external economic constraints, governments and the social partners enter into social pacts or macro-agreements so as to meet the requirements of the single currency and modernise the nation’s economy. Secondly, a tense dialogue on modernisation between the government and some of the main players, a configuration encountered in Spain with the tension between government and trade unions which led to the failure of the 1993-1994 social pact; in Portugal, where one of the two unions rejected the three-year agreement; and in Greece, where concertation is only gradually becoming an established practice. These three examples likewise testify to the lack of a clear distinction
between what derives from the political order (and from Parliament) and what is a matter for bargaining.

3. The post-EMU situation

The selection in May 1998 of the eleven countries joining the third phase of EMU (then joined by Greece in 2001) occurred at the same time as a turn-around in the economy. The post-EMU macroeconomic context was radically different from that which prevailed in the first half of the nineties. Here we do refer to three periods with different if not opposite macro-economic conditions, and divergent incentives for a ‘sound finance’ policy (see Hancké and Rhodes, 2005). The first period (between the Maastricht Treaty and the launch of EMU) was characterised by economic stagnation, high-level deficit, and high inflation, all coupled with stringent obligations to converge with the Maastricht criteria (Table 4).

**Table 4: The post EMU Context**

<table>
<thead>
<tr>
<th>Before EMU</th>
<th>After EMU</th>
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**External Constraints**

<table>
<thead>
<tr>
<th>Macro-economic conditions</th>
<th>Growth, interest rate decrease, decreasing unemployment</th>
<th>Stagnation, interest rate decrease, increasing budgetary strains</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stagnation, unemployment, budgetary deficit</td>
<td>Budgetary consolidation</td>
<td></td>
</tr>
</tbody>
</table>

**Monetary Integration**

<table>
<thead>
<tr>
<th>EMU set-up (Maastricht Criteria)</th>
<th>Stability and Growth Pact</th>
</tr>
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</table>

**Themes at national level**

<table>
<thead>
<tr>
<th>Wage increases</th>
<th>Global wage cost including tax, social security, pensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consensus-building, shared diagnosis, common trade union strategy</td>
<td>(Partly internalised) wage moderation vs. demands for wage growth, trade union division</td>
</tr>
</tbody>
</table>

**Themes at European level**

<table>
<thead>
<tr>
<th>Compliance with Maastricht criteria</th>
<th>Broad Economic Policy Guidelines, Employment, social exclusion, pensions, open method of co-ordination</th>
</tr>
</thead>
</table>

**Actors’ motivation**

<table>
<thead>
<tr>
<th>Government: control the changes in a low growth context</th>
<th>Government: new room for manoeuvre allowing labour cost reductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government: control the changes in a low growth context</td>
<td>Government: control the changes in a low growth context</td>
</tr>
<tr>
<td>Trade unions: maintain themselves as central actors</td>
<td>New balance of power in some sectors or regions</td>
</tr>
<tr>
<td>Employers: manage uncertainty</td>
<td>Internal Division, lack of coordination</td>
</tr>
<tr>
<td>Employers: between decentralisation and cooperation</td>
<td>Between radicalisation and co-ordination</td>
</tr>
</tbody>
</table>
The second period, between the introduction of the Euro and the beginning of the new century, consisted of a more favourable macro-economic context with higher GDP growth, declining inflation, and less severe financial strains in a number of European countries. This combined with less stringent incentives (within the Stability and Growth Pact). As put it by Hancké and Rhodes, 2005, the hard sanction (non-entry into EMU) disappeared and left room to softer procedures.

Taking the Maastricht criteria as a yardstick, we note that between 1998 and 2005 inflation remained under control throughout most of the euro zone. In the same period, overall government debt declined in all Member States (apart from France and Luxembourg, but both were below the 60% threshold set at Maastricht). At least five Member States were likely to have budget surpluses in 2000.

Turning now to unemployment and growth, at least five Member States (Austria, Denmark, Luxembourg, the Netherlands and Portugal) experienced rising rates of growth and low unemployment figures combined with stable public finances. This new context did allow many governments to enjoy greater budgetary margins which, while meeting the commitments contained in their stability or convergence plans, were generally earmarked for bringing down overall labour costs either through taxation or employers’ social contributions. Reform of social security, and in particular of its funding, became a more central issue.

The coincidence of EMU with a revival of growth seemed to ‘redistribute the cards’ among the main players. In various countries, tough negotiations did take place around the allocation of budgetary surpluses. Whereas twenty years of austerity had united the labour confederations in an attitude of resistance and participation, the decline in unemployment left them without a coherent strategy. Finally, the European agenda changed and the debate on the Maastricht criteria gave way to other social issues, including social security and particularly the question of how to fund pensions. European constraints on budgetary and inflation policy then lost much of their relevance.

In the last years, thus, more relaxed EU constraints coupled with mounting problems on the economic competitiveness and financial stability of Europe. In line with our second hypothesis, the post-EMU phase should conduce to lower opportunities for social pacting.

3.1. Content

As for the key policy fields at the centre of social dialogue, the first change in the post-EMU era concerned the end of consensus on pay restraint and the transition to a debate on overall wage costs which arouses fears of ending up with a process of “social dumping”. The second was the emergence of new issues and their interaction with the new European agenda.

As far as pay is concerned, this debate has been shaped by various elements. First of all, what is the precise link between pay restraint and job creation? And if such a link exists, how can it be kept under control? This is a similar debate to the one on the reduction of labour costs and its consequences for employment. One difficulty to be taken into account is the lapse of time required to judge the effectiveness or otherwise of a measure. Thus, after a relatively short period of pay restraint, the German trade unions deemed the results to be unconvincing and demanded substantial pay rises (Fajertag and Pochet, 2000).

Another aspect concerns equity. The outcome of prolonged pay restraint in various countries has been a distribution which is to the disadvantage of earned incomes. This dual assessment - pay restraint which does not necessarily create jobs, and a possible weakness of overall demand - has
led to a reappraisal of what had seemed to constitute a consensus: the sharing of productivity gains.

This situation has led to two contradictory developments.

In some countries/trade-unions, it has challenged the shared diagnosis and led in several cases to tension between trade unions as to what is the appropriate pay norm in a context of economic globalisation and of unemployment which was undoubtedly falling but still remains high, especially in the light of atypical forms of employment, exclusion from the labour market (sickness schemes and social welfare) and regional disparities. This is the case in Italy, with renewed tension between CGIL and CISL, in Spain between CC.OO and UGT, in Finland within the different sectors of SAK (the main blue-collar union) and in Germany over suitable pay formulas.

In other countries, wage-setting has become a more institutionalised, internalised and rules-based process (Hancké and Rhodes, 2005). In other words, it has been disconnected from broader concertation. With reference to the Euro-zone, in different countries (Finland, Belgium, Portugal, Ireland) wages are set by a small group of experts who define common norms which represent the target for incomes policy. In Germany, the IG Metall created a small commission to set appropriate wage level that are then proposed as regional and national benchmark.

As stressed in the previous section, social pacts of the 1990s were based on a complex interconnection between pay bargaining, labour market and social security reforms, and changes in tax rates. These practices were constrained by the need for all countries to comply with the Maastricht convergence criteria.

In the post-EMU era the scope for pacting has been reduced. Incomes policy has been decoupled from labour market issues and especially welfare reforms. As argued above, this was the result of both contradictory processes of evaporation of the shared understanding on the economic context, and of the internalisation of wage-setting. Narrower negotiations between political and social actors have focused on single policies (it is the case of pension reforms in Germany in 2001 and in France in 2003), or in more limited packages affecting labour market flexibility, active employment policies, and local development (it is the case of Italy with the Pact for Italy of 2002) (Natali and Rhodes, 2004; 2005).

Concerning the new issues at the national and European agenda, one of the most sensitive has been pensions, and in particular the sustainability of their financing over time. As pointed out by Pierson and Myles (2000), the changes are progressive and path dependent. It is in this sensitive field that the European level could be more extensively drawn on to justify reform (Andersson, 2000).

3.2. Actors

The end of the 1990s and the beginning of the new century marked a shift in the (previous) shared understandings of the needed reforms to macro-economic and social policies. While in the first years of the re-emerging concertation, governments and the organised interests did coalesce to face mounting pressures from EU and a more competitive international context, then, a new split actually happened between them. On different issues, employers and employees representatives and governments had different if not opposite points of view. As introduced in the previous paragraph, a first source of tensions has been represented by the decentralisation of collective bargaining systems. In many EU members (e.g. Finland, Germany, Italy) employers –
sometimes supported by the governments - have demanded a further decentralisation of bargaining structures, against the opposition of labour confederations. In few case, the division has appeared within the labour movement too (for in Italy, the major union confederation has defended sector bargaining, while the other two have been in favour of a more decentralised system. A further element of disagreement has then consisted of income policy. In some countries, the government and social partners agreed to freeze wages to improve comparative competitive advantages (that is the case of national tripartite agreement in the Netherlands in 2004). In some other countries, however, more intense demand for incomes increase arosed (again the case of Italy, and Finland). As a consequence of mounting divergence, the experience of social concertation had come under stress.

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

In Germany, the tripartite national forum (the Alliance for Jobs) discontinued its work at the beginning of 2003 after trade unions withdrew their support following a conflict with employers over pay moderation. The year after, around 500,000 people took part in demonstrations - called by the DGB trade union confederation, among other groups - to protest against the ‘Red-Green’ German government’s policy of social cutbacks. Criticism was focused on the government's *Agenda 2010*, which involves major changes and cutbacks in the social security and the unemployment benefit system.

In the Netherlands, the Balkenende government used reinforced potential for sanctions to convince trade unions to accept tripartite agreements (mainly based on wages freeze). In 2002, 2003, and 2004 it announced major retrenchments in social protection disability and other welfare domains as well as in the labour market field. Then, it offered to soften these proposals in exchange for lower wage demands by the unions (Van der Meer et al., 2005).

The end of shared understandings has been then related to new equilibrium between governments and social partners. Trade unions, in particular, have lost much of their power for negotiation. As introduced above, wages have been more and more disconnected from labour market and welfare policies. That dynamics was then reinforced by increasing demands (by both governments and employers) for a decentralisation of collective bargaining. Both tendencies reduced the need for labour representatives’ consent at the national level. The same has happened in the other key domain: that of welfare reforms. As argued elsewhere (Ebbinghaus, 2004; Natali, 2004b; Natali and Rhodes, 2005), political decision-makers learned from the first wave of innovations in the 1990s to organise social consensus. In some countries like France, Italy and to some extent Germany, trade unions proved their veto role in the pension reform process of the 1990s. Yet, in the last years governments have been able to circumvent the trade unions’ power through more effective strategies. In France, the Raffarin government in 2003 implemented a traditional blame-avoidance strategy (that of division, or *divide and conquer*) and reached a compromise with some labour confederations. In Italy, the Berlusconi government voted the last pension reform of 2004
despite the huge mobilisation of trade unions. There, policy-makers learned to reduce the potential threat of social conflicts through a light form of consultation (and compensation) implemented in a long reform phase (three years). We have labelled it a ‘stop-go’ strategy. In contrast to 1994, when the first Berlusconi government rejected union proposals, this time a different strategy was adopted. After the street protests, the dialogue was re-opened, first between the political parties of the governing coalition and then with the social partners (Natali and Rhodes, 2005). That strategic learning reinforced the government position vis à vis trade unions.

A further element to stress consists of the declining organisational resources of the labour movement across Europe. On average union density in the EU-15 decreased from 31% in 1995 to 27.3% in 2001 Visser (2004). The impact of the membership decline has been reinforced by trade unions’ rivalry and, in some cases, by fragmented structure of collective bargaining. In Spain, Portugal, Italy, but also Belgium, France and the Netherlands political, occupational, and territorial cleavages still affect labour organisations. What is more, in the post-EMU phase, in some of these countries divisions actually re-emerged. Mounting divisions then affected both welfare reforms and the debate on new institutions for bargaining. According to some recent contributions and to our first hypotheses, we think that in these countries both the lower contrains ‘from Europe’, and some endogenous institutional dynamics contributed to the emergence of divisions in the labour front that only partly disappeared in the first part of the 1990s.

**Conclusion**

Table 2 summarises the main factors that have led to the implementation of social pacts and their successive decline in most EU countries.

Countries with more acute socio-economic and financial unbalances have been the most affected by the experience of concerted agreements. In Souther European countries (Italy, Spain, Portugal) but also Finland and Ireland, wide social pacts have been implemented in the first part of the 1990s. The need to join the EMU forced policy-makers to introduce innovations affecting all the most important policy fields (incomes, welfare state, labour market). Moreover, despite the internal division of trade unions, the run to EMU favoured the development of functional equivalents (e.g. programmatic convergence and shared agenda).

In the new economic context which we have termed “post-EMU”, a new (policy and strategic) balance appeared. Between the launch of the Monetary Union in 1998 and 2001, the external pressure was (temporarily) attenuated thanks to the reduction in public deficits, as well as to low interest rates throughout the euro zone and all-time low rates in the “peripheral” countries (Portugal, Italy, Spain, Ireland and Greece), where growth had picked up. Consequently, the pressure to “join Europe”, in other words to fulfil the Maastricht criteria, and that deriving from high unemployment eased considerably, opening up new strains at the national level. Despite the then growing problems for the economic growth (after 2001) and the financial stability of public budget, the new exogenous dynamics have reduced the room for social concertation. In many countries, priorities at the top of the agenda changed. On the one hand, the shared understanding of macro-economics disappeared (both between employers and employees organisations, and within the labour confederations). On the other, the increased institutionalisation and
internalisation of incomes policy broke the policy-package at the centre of concerted agreement in the 1990s.

### Table 2. Key Determinants of the Long-term Evolution of Social Pacts

<table>
<thead>
<tr>
<th>Package deal</th>
<th>Wage policy (Co-ordinated/Uncoordinated; Centralised/Decentralised)</th>
<th>Welfare programmes and labour market (Institutional role of social partners)</th>
</tr>
</thead>
</table>

#### Pre-EMU phase

<table>
<thead>
<tr>
<th>EU Constraints</th>
<th>Improve wage moderation and credibility</th>
<th>Key role for Trade Unions</th>
<th>Increase legitimacy and consensus for reforms</th>
<th>Social Pacts</th>
</tr>
</thead>
</table>

#### Post-EMU phase

<table>
<thead>
<tr>
<th>Weaker EU Constraints</th>
<th>Internalisation Decentralisation of wage policies</th>
<th>Weak role for Trade Unions</th>
<th>New wave of reforms (snowball effect)</th>
<th>Ad hoc Agreements</th>
</tr>
</thead>
</table>

The growing conflict between employers and employees on the structure of collective bargaining (with the former asking more decentralisation against the opposition of the latter), and also within the labour movement on the strategy to improve economic competitiveness (as proved by the Italian case) contributed to weaken the role of trade unions and to limit the room for concerted action. Paradoxically, the balance between more demands for wage increase, the persistent deflationary monetary policy by the Central Bank, the need for the modernisation of welfare programmes, and the flexibilisation of labour markets proved more difficult than that at the base of subtractive agreements. As shown by Italy, new political and situational variables, like the rise of right-wing coalitions and the overcrowded agreements between governments and social partners but also sub-national authorities, civil society, etc. all contributed to a less favourable context.

Moreover, persisting organisational weakness and growing divisions led to the re(emergence) of decisive institutional shortcomings. The lack of strong exogenous constraints (e.g. the Maastricht
criteria), that represented a stimulus for the development of functional equivalents in the 1990s, favoured the resurgence of tensions, especially within the trade union movement.

It has let to ad hoc agreement. For example, in Italy, the first effect of these new dynamics has consisted of a leaner process of consultation coupled with narrow agreements on key specific issues. The pact for Italy of 2002 did not concern two of the main domains of the previous experience of concertation (wages and pension reforms). By contrast, it was about local development, activation policies, and more flexible regulation of the labour market. More limited agreements were also experienced by other countries (e.g. Portugal, France and Germany on pensions). As for the social security programmes, there too trade unions seem to have lost some of their veto power. Forms of strategic learning (division, compensation, stop-go strategies) allowed policy-makers to circumvent their potential for opposition. Somehow, the first wave of reforms and cutbacks introduced in the last decade opened more room for further interventation to redesign the welfare state and consequently a less urgent need for legitimation through the corporatist arena. The new constellation of variables that has reduced the opportunities for wide pacts: weaker European constraints have coupled with the institutionalised process of wage-setting, the decentralisation of bargaining, and a more pro-active approach by governments to recast welfare programmes (determined by strategic learning).

References (to be completed)


