

**RESEARCH AND POLICY UNIT « NOTRE EUROPE »**  
**President : Jacques Delors**

# **NATIONAL SOCIAL PACTS**

## **Assessment and future prospects**

Seminar organised by the Research and Policy Unit "Notre Europe"  
and the European Trade Union Institute

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Summarised report by Jean-Louis Arnaud

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## **Preface**

Our research and policy unit, in cooperation with the European Trade Union Institute held its fourth seminar on June 10, 1998, on a very sensitive subject given the current situation marked by the return of growth but also of persistent under-employment and the need to adapt our social model.

About thirty personalities, including employers, trade unionists, academics and politicians, came together to discuss the emergence of national social pacts as a new element in industrial relations at the European level.

What conclusions can be drawn from the various social pacts in Europe? What are the prospects for this type of tripartite agreement, including at the European level, as an instrument to fight unemployment and renovate the Welfare State? What should be the responsibilities of the different parties - the State, employers and trade unions - for ensuring success? These were the main questions posed.

This summarised report of the discussions is a contribution to a debate that is worth continuing since it is key for the future of employment in Europe and also of our social model, whose reform (respecting certain fundamental values) is a prerequisite condition of its survival.

Jacques Delors

August, 1998

# Introduction

"National pacts" or "tripartite pacts" are the result of a form of bargaining which has been successfully reformulated in the last 15 years in several countries of the European Union that brings together the social partners - trade unions and employers - and, in one form or another, the State.

It should be remembered that this type of agreement was one of the key elements in industrial relations systems until the 1970s. It declined in popularity with the onset of globalisation.

At a time when industrial relations systems are experiencing a trend towards decentralised bargaining, the signing of tripartite agreements signals a certain return to centralisation. It also illustrates the desire of Europeans to defend a model of economic and social organisation threatened by globalisation, so as to reconcile the demands of the market and the necessity for economic and social regulation to defend the values of bargaining and the Welfare State.

What is the objective of these pacts ? In the first place, the safeguarding of employment, but this method may also be used to modernise taxation policy, reform social security and, in general, to modify the Welfare State.

"One could say that these tripartite agreements are aimed at introducing an element of regulation permitting our economies to deal with the upheavals they are facing", Jacques Delors said, who chaired the debate. For him, regardless of the differences between social models of various countries, all Europeans face a common problem: that of knowing "how to adapt without compromising our beliefs" to meet "the shock of change", in other words, "globalisation, technological progress, the emergence of new competitors and unfavourable demographic threatening the long term future of social security systems designed under other conditions".

The seminar was divided into two sessions. The first, with an opening presentation by Reiner Hoffmann, was devoted to case studies of tripartite agreements in seven countries: five where this technique had generally succeeded (Denmark, Finland, Ireland, Italy and Portugal); one (Germany) where it had not worked; and another, Belgium, described as a partial success. Such agreements are not even the subject of debate in Great Britain and France - a fact which was strongly criticised by the French participants. The case of the Netherlands, one of the most interesting, was kept for later, serving to illustrate Jelle Visser's discussion and analysis of the pacts in his introduction to the second, more future-oriented session.

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## **I - National social pacts**

In Europe, the degree of economic convergence is striking - the qualification of 11 countries for the single currency being the best example. Yet divergences in the choice of policies to fight unemployment are also obvious. Taking this as his starting point, Reiner Hoffmann, director of the European Trade Union Institute, noted, taking care not to oversimplify things, the contradiction between the two alternative approaches:

- a strategy of deregulation with a high degree of flexibility
- a strategy geared to higher productivity based on high quality goods and services combined with high wages and social concertation - in other words, the key elements of the European social model.

### **The wage-productivity tandem**

Referring to the Commission White Paper, published under Delors' presidency, Hoffmann recalled that it argued that wage and productivity increases are compatible but that growth in real wages should remain one percent below growth in labour productivity. "In the last 3 or 4 years", he said, "trade unions have opted for wage moderation and have even signed agreements that exceed the 1% margin". But unemployment has not dropped - hence the discussions between trade unions, employers and governments, and the proposal by the President of the Commission, Jacques Santer, of a European pact for employment.

"These are not entirely new proposals", Hoffmann said. "Do not forget that in a large number of countries concertation goes far beyond the traditional area of collective bargaining".

According to him, in Italy, Ireland and Portugal, recent developments have not led to a further erosion of industrial relations. In Germany and Belgium, although the negotiation of national social pacts has not produced the same results, the framework of tripartite discussions is not considered any less suitable for the modernisation of the labour market.

With monetary union, it will no longer be possible to separate the different policies, argued Hoffmann, taking as an example the decision of the Belgian government that future pay developments must be in line with its three major trading partners - France, Germany and the Netherlands. As the trade unions predicted several years ago, monetary union will require policy coordination of collective agreements. "The example of Belgium very clearly shows that this is not merely a trade unionist's point of view since it is the Belgian government that now sees things in this way". Hoffmann added that the decisive question remained to find out

how to develop strong European-level coordination: "in other words, how all of this can happen in an autonomous way respecting the liberty of trade unions and employers to negotiate".

## **Eight points**

Picking up on the conclusions of his analysis of national social pacts in Europe, Hoffmann insisted on the eight following points :

1. Industrial relations in Europe are not being systematically eroded as is evident from the signing of important social agreements.
2. Even without European-level coordination, European trade unions have in recent years followed the recommendations of the European Commission in favour of wage moderation. Salary agreements have been signed everywhere with pay increases below productivity increases, which often means reductions in purchasing power in real terms.
3. Social cohesion has suffered notably because of the 'vicious circle', described later by Professor Visser. The 'new poor' are not confined to the United States. In the countries of the European Union, 15% of employees are already living below the poverty line (66% of the median income, according to the OECD and Eurostat). It is the trade unions that have taken into consideration the efforts to reintegrate the young and long-term unemployed into society.
4. Wage moderation is not a miracle cure for unemployment. What is required, rather, is a policy mix in which an innovative working time policy can have an important role to play. Part-time work must not be restricted to low-skilled work, but must be widened to include specialised and highly-qualified jobs.
5. Qualifications and training play a major role in social pacts. According to European Commission forecasts, only 20% of current technology will be used in ten years' time. Life-long learning is thus an absolute necessity.
6. Labour costs are not an essential element in the fight against inflation. On the other hand, productivity is an important indicator of competitiveness. In the ten years between 1986 and 1996, unit production costs fell from 100 to 87 in France and from 100 to 88 in Germany, but did not drop below 99 in the United Kingdom.

In Europe, the average annual increase in productivity is about 2.5%, higher than in the United States. This is even more interesting given that during the 1960s average productivity in a country such as West Germany was only 60% that of the United States, while today German productivity is higher than in the United States.

Proactive research and technology policies are vital to improve productivity and thus growth.

7. In the policy mix that accompanies social pacts, fiscal and social security reforms have their place.
8. Under the single currency, decentralised employment and collective bargaining are necessary but not sufficient conditions. The results of national social pacts and their use must be analysed to draw up a European social pact.

In any case, in the eyes of Reiner Hoffmann, it is essential to have strong employers' and trade union organisations. "If not", he said, "the European social model can only end in failure".

### **Italy: divine surprise**

During the 1980s, Italy suffered from simultaneous (and quasi-automatic) wage and price inflation. Sergio Cofferati, the Secretary General of the CGIL (Italian General Labour Confederation), and Serafino Negrelli of the Social Sciences Department of the University of Brescia, reflected on a period marked by the problem of public finances, dramatic inflation and public debt and by the often pathological nature of the relationship between employers and trade unions. But by the early 1990s the situation became untenable and provoked a profound change in the Italian industrial relations system.

By suppressing the automatic indexation of wages to inflation the collective agreement of July 31<sup>st</sup> 1992 opened the way for wage moderation. The agreement of July 23<sup>rd</sup> 1993 turned incomes policy into a mechanism for fair redistribution by making its objective (beyond that cleaning up public finances) the development of employment.

"The essence of the '93 agreement was its tripartite nature. Regulating the redistribution of wealth produced allows debt to be reduced and a fall in inflation which, as a result, stabilised at a reasonably low level", Cofferati explained. For him, the great innovation is to protect wages from inflation through the national collective agreement. But this does not exclude possibility of wage renegotiation at such levels which depends on the firms' productivity and performance.

Negrelli insisted on what he called the 'technical pillar' of Italian wage moderation, through the introduction of a 'programmed inflation rate' replacing automatic wage indexation thus transforming the system of industrial relations in Italy.

Cofferati recalled the stabilising effect of the '93 agreement, in particular, the 'responsibilisation' effect on employers and trade unions. He also cited the 1996 employment agreement signed by 31 organisations representing firms and trade unions from different backgrounds, which was intended to support the clean-up policies involving structural

measures in favour of employment. He recalled Italy's 'dualism' - the difference between the North where unemployment is below 6% and the Mezzogiorno where it is easily above 20%. He deplored the fact that the implementation of this agreement for employment had been so difficult, especially in the South as regards investment in heavy infrastructure. It had been slowed down by cumbersome administrative structures and bureaucratic rules which affect Italy more than most other European countries.

For Cofferati, the first lesson to be drawn from this experience of tripartite agreements was that "trust between employers and unions" is a prerequisite. "The initial will to succeed is important, but long-term behaviour is even more so because a lack of trust introduces tension and instability", he said, insisting on stability as, "an essential value for policies of social cohesion as well as for a country's development policies".

### **Portugal : heading for the Euro**

In Portugal, discussions between employers and trade unions began in 1984 in a very difficult climate of inflation, unemployment and intervention by the International Monetary Fund. It was at this time that the Industrial Relations Council with tripartite status was created.

The Portuguese economic recovery was described by the Economics Minister, Joaquim Pina Moura, and the Secretary General of the UGT (General Workers' Union), Joao Proença, who recalled the first agreements on incomes policy signed after 1987.

A broader agreement was signed more recently, in 1990, to cover changes and the reduction in working hours. This was followed by agreements on health and hygiene and the training of employees.

In January '96, there was a short-term agreement that lowered weekly working hours from 44 to 40 hours which, for the most part, covered sensitive sectors such as textiles and shoe manufacturing and applied to about 80% of workers. Then, in December '96, the government, trade unions and employers confederations signed a multi-annual agreement for strategic consultations on employment, competitiveness and development within a framework of macroeconomic stability. The objective is to reduce and maintain public deficit and inflation at a low level and keep interest rates low.

"This agreement was a fundamental step in our progress towards European convergence", said Pina Moura, for whom the results speak for themselves both as regards the convergence criteria and the reduction in unemployment and creation of jobs. The Economics Minister stressed that in one year his country had virtually met the targets that it had set out to achieve



over 3 years. He also noted that development of investment and that growth, which was at 3.7% in '97, will probably rise to between 4.5% and 5% this year.

"The agreement has created a very favourable climate for both public and private investment. In 1996, investment increased by about 12%", said Pina Moura, who viewed this type of pact as the principal instrument of any economic or social convergence policy, and added, "In the new framework of Economic and Monetary Union, it is necessary to think of coordinating social policies at the European level. It is also necessary to envisage mechanisms for discussing industrial relations that can influence, through employers and trade unions, the definition of objectives and instruments of monetary and exchange rate policy".

### **Ireland : integration at all levels**

In Ireland, the partnership has been in place since 1987. Each pact covers a 3-year period. The latest, the Partnership 2000 pact for employment and competitiveness, signed in '96, is the fourth. For Rory O'Donnell of University College, Dublin, the key elements in this latest agreement are the following :

1. centralised wage-setting
2. tax reductions
3. an action program against social exclusion
4. a partnership at company-level
5. setting a minimum wage policy for the coming years.

Since '96, economic growth has been strong in Ireland, and GDP has increased by 7% every year. In the last 4 years, employment has increased by an annual rate of nearly 6% in the non-agricultural private sector and by 4% in the service sector. The rise in employment and growth have been such that certain sectors such as construction and electronics suffer from a lack of manpower.

Peter Cassells, Secretary General of the ICTU (Irish Confederation of Trade Unions), then summarised the results of this 10-year experience. He said the first lesson was that the partnership must not be limited to incomes policy but must cover all the elements of macroeconomic policy and all incomes, including pensions. It is also necessary to ascertain how the package as a whole will be perceived, whether the system is sufficiently fair and regarded as equitable. Finally, it is recommended that all social and economic interests be involved, including organisations representing the unemployed, women and pensioners.

The second lesson was to operate not only in terms of the national social pact but to integrate all levels, national and local (to encourage local development) and also the work-place (which implies adapting to change).

Cassells said: "To make all of this work, interdependence has to be accepted. The trade unions, employers and government cannot achieve their objectives in isolation. They are mutually dependent and a certain degree of confidence is necessary between the different groups. A willingness to share power and influence is also to be desired. Here, the role of the government is primordial because if it does not want to share the power with the other partners, it will be difficult to make progress".

He explained: "There are different elements to be taken into account in this form of partnership including consultation, negotiation, collective negotiation and exchange of information. In fact, it is not only a question of negotiating but also of envisaging the short- and long-term interests so as to try and balance the two, concerning salaries and taxes, for example".

Obviously this new approach has the advantage of forcing the partners to take into account the changes in our societies :

1. On the needs of the individual, Cassells noted: "Both trade unions and companies have great difficulty in dealing with modern workers, with individuals whose lives have become more complex, in the sense that they want to reconcile their working and private lives."
2. Technological progress and the need for training.
3. Encouraging people to participate in the company's success. How should people be rewarded ? Should profit-sharing be accepted ?
4. Finally, industrial relations versus partnership : "I do not believe that there is a conflict between the two notions", he concluded, "but it is necessary to modernise our approach. Much more must be done at the workplace level than previously".

## **Finland : 30 years' experience**

Esa Swanljung, President of the STTK (Finnish Salaried Employees Confederation), recalled: "As regards the setting of salaries under tripartite agreements, we have 30 years of experience behind us. The first agreement was signed in the 1960s at a time when the economic situation was very bad because Finnish firms were not sufficiently competitive in export markets. Hence, a severe devaluation, but also the start of a consultation process to avoid excessive price and wage inflation".

Other agreements followed to ensure that salaries moved in the right direction for workers. In the 1967-98 period, GDP growth was very high and placed Finland just behind Japan. But this was not enough to avoid a severe recession in the early 1990s. The economic crisis and unemployment were combined with a political crisis and generalised strikes. It took a policy shift, by a government favourable to workers, to relaunch the tripartite system and produce a four year pact concerning wage policy at the end of '95, aimed at lasting until 2000. There were two successive agreements on employment which included a certain form of wage moderation, touched on fiscal policy and income taxes and introduced job sharing - a system which encouraged job creation

Swanljung believes that the system has worked well. Certain modifications contributed to this success. Flexibility in working hours was accepted, despite some reticence, as well as the principle under which paid work must be more remunerative than unemployment, thus encouraging people to work even on a temporary basis.

For his part, Jaako Kiander, of the Finnish National Institute for Economic Research, believes that the economic performance of the last 4 years has been good. Average annual growth has been about 5%, unemployment has dropped from 18% to 13% (the most rapid drop in Europe this decade) and the number of jobs had risen by 2% per annum. But, in his eyes, that does not mean that the future will be trouble-free.

### **Ever more flexibility**

Kiander said that there is always a risk of political change and that employers want ever more flexibility, understandable given the pressure of globalisation. He also noted that some self-confident trade unions are ready to discard the pact believing that they are capable of obtaining better wage conditions especially in view of spectacular returns on capital against a backdrop of declining income from labour.

For Jussi Mustonen, Director of Economic Policy at Finland's Industry and Employers' Confederation, tripartite discussions leading to overall agreements are only one instrument among others. This is the way employers see things for 2000. "Finland now being part of the European Union", he said, "we must regard the policy of fighting inflation in a very different way from that we knew under the old Scandinavian cycle of inflation and devaluation".

"The basic institutions and our collaboration with the trade unions and government will continue as in the past", he explained, "but it is clear that changes in behaviour and our way of operating at the central level are necessary. We are going to have much more local flexibility and, to offset the loss of our own economic and monetary policy, far more decision-making

not only at the centralised level of the trade union confederation but also at the company level to benefit from a further instrument for flexibility ».

## **Germany : the impasse**

As in Finland, tripartite discussions started about 30 years ago, in 1967 to be precise, explained Roland Issen, Federal President of the DAG (German Employees Trade Union Organisation). At that time, the Federal Republic was facing its first serious economic recession. Trade unions, employers and the government tried to reach agreement on steady economic growth targets, monetary stability and on a high level of employment. This was what was called in Germany 'social discussions' with regular meetings chaired by a representative of the Ministry for Economics and Employment.

"Despite some preliminary results", Issen said, "it soon became clear that there were far too many representatives and no fundamental agreement about economic policy". Later, there was a second attempt at tripartite negotiations aimed at discussing minimal norms and harmonisation measures in order to act more effectively on the European stage. Then, at the start of the 1990s, efforts were made to agree a policy for reunification since it was known that this would require a capital transfer of DM150-180bn per annum from the West to the East. Issen said that after a period of consensus difficulties arose when the burden of financing reunification was not shared equitably between the different sectors of the German population.

Issen recalled that the fourth phase started in the early 1990s without fanfare with informal discussions between the Chancellor, four employers' associations and the Presidents of DAG and DGB (German Trade Union Confederation) "in order to develop common framework conditions while recognising the autonomy of each of the parties", he said.

After the 1994 Bundestag elections it was agreed that more meetings and a greater commitment were necessary. The Alliance for Jobs was created whose objective was to increase the growth rate and employment levels. In this framework, trade unions were ready to accept collective agreements including wage moderation and increases in productivity. They were also prepared to accept employers' demands for greater flexibility allowing companies to follow the economic situation more closely and to adapt accordingly to changes in their order books, which eliminated much overtime working.

As proof of their solidarity the trade unions were willing to accept reductions in working hours (without loss of salary) given that this should have created job opportunities. For their part, employers agreed to a 5% increase per annum in the number of training schemes.

It was more difficult to persuade the government to temporarily follow a Keynesian policy to stimulate demand and thus give an additional boost to the economy. This was contrary to the austerity policy required for accession to the single currency. Issen added that trade unions were thus under further pressure from employers who no longer wanted to pay for sick-leave and to wanted to limit protection against redundancy. When, following the regional elections in April '96 (which produced better-than-expected results for the Christian Democrats), the Federal government held discussions exclusively about economic measures, the trade unions decided to put an end to their discussions with the Chancellor.

"We are now going to wait for the Parliamentary elections in September to see if it will be possible to restart the dialogue", said Issen, for whom it is only possible to increase growth through a joint government/trade union/employers strategy. To conclude, he remarked : "Since there is a deficit of at least six million jobs, huge investment will be necessary to absorb unemployment. This is the reason for our favouring workers' profit-sharing and for a socially-acceptable policy of sharing the wealth of the country".

### **An attempt to explain**

Why is it that Germany has had such limited results from its tripartite discussions ? Reinhard Bispinck, who teaches at the Institute of Social and Economic Sciences of the Hans Böckler Foundation, gave three reasons :

1. The three parties perceive the role of the market, competitiveness and wage policy in different ways. For example, he highlighted the speeches of business leaders about the risks they are running, despite the economic strength of Germany and the overall competitiveness of its products. He also highlighted the repeated request for the deregulation of the labour market while the trade unions, which accept a certain form of flexibility, remain convinced that the decentralisation of industrial relations and greater flexibility in working will not in the long term permit the problem of unemployment to be resolved. Finally, he stressed the difference as regards salaries between what the trade unions are prepared to accept in terms of moderation and a norm that would fix salaries below the overall increase in productivity.
2. There is a lack of confidence, said Bispinck: "Successful tripartite negotiations require socially acceptable burden-sharing. There must be real mutual respect which does not exist between the parties concerned. The trade unions are extremely sceptical about this social pact because of the negative experiences in the past, especially with regards to burden-sharing".
3. The strategic interests of the parties do not coincide. For Bispinck, employers in particular see no interest in participating in this type of alliance at a time when their objective is the decentralisation of industrial relations.

## **Denmark : Wages are taboo**

Hans Jensen, President of the LO (Federation of Danish Trade Unions), said that Denmark did not have a real tripartite procedure but that the government invites employers and trade unions to negotiate as and when necessary. Jensen mentioned the 1987 agreement where the Liberal government aimed to improve competitiveness and steer the country from high to low inflation. He noted that since the arrival of the Social Democratic government in 1993, there has been a major change with unemployment dropping from 13% to 6%-7%. Youth unemployment is below 5%, and long-term unemployment has been cut in half.

The minimum wage has not changed. The strategy adopted aims at training workers to maintain a high level of competitiveness, improving productivity and does not touch on wages.

For Jensen, one of the great Danish successes has been job-sharing. He explained: "The system involves taking a group of workers out of production to send them on training courses in order to improve their qualifications and to replace them with as many unemployed as possible with the necessary training".

The previous agreement in Denmark is now up for renegotiation. Jensen said: "We will be precise in our demands but this will not blind to the demands of the other parties so as to reach an agreement that must last until 2005 and which will propose the elimination of unemployment while maintaining the positive economic situation that we have today".

## **France : admiration and regrets**

Louis Gallois, President of the SNCF, Pierre Guillen, a member of the Monetary Policy Council of the Bank of France, and Nicole Notat, Secretary General of the CFDT (French Democratic Labour Federation) successively expressed their admiration for the positive results of social pacts in the countries mentioned, but also their scepticism about the capacity of French employers' and trade union organisations to follow this course, at least in the current climate.

"I am not sure whether France is at this stage. In fact I am certain that it is not", Gallois said. He summed up the French situation with two remarks :

1. First, he noted the key role of the State, not as a social partner but in the full exercise of its regalian power. He cited the example of the 35-hour working week Act which, "entirely precluded negotiations and yet was meant to encourage them".
2. The second remark was about the 'unsaid' principle. : "Things get done, but they must not be mentioned because in so doing one cannot escape from the perverse effects of ideology, which, in France, replace action with words and paralyse action".

This was an analysis shared by Nicole Notat when she said : "In France today, one can change, but on condition of not saying so. But in behaving this way, the difference is accentuated between the reality that employees and people in general live and perceive in their daily lives (if they are not schizophrenic !) and the presentation that public figures make of this reality".

For Mrs Notat, public figures (whether from government, employers' or trade union groups) are not aware of the interest and the necessity of entering into tripartite negotiations. "Even the idea of working in a threesome is a source of ideological debate. It either arouses frankly hostile reactions or perplexity about its chances of success. To make people realise that this method may produce positive results for everyone, it will be necessary to call upon a man or a woman who is independent of the various bodies but who also has their tacit support. He or she must be very highly paid because seeing whether an agreement of this type can be reached is, from the outset, an impossible task !"

As for Pierre Guillen, he provided some indications about what motivated French companies' decision-making as regards growth and employment. He said they were linked to two elements :

1. The cost of labour, which is a wider notion than that of wages alone.
2. The degree of flexibility in the labour market.

The French government's important role in setting the cost of labour means there are always delays in regulation and changes in complementary pension schemes, unemployment insurance or social security, noted Guillen. He said : "This means that everyone decides when he wants to act and, as a result, changes in labour costs are pro-cyclical rather than anti-cyclical".

Guillen was also sceptical about the possibility of signing a truly tripartite pact but believed that, "if the various decision-making centres were to come together for a few days, or few weeks the elements of labour costs would be clearer. This would, without the need for coordination, make each player or decision-maker more responsible and aware of others' demands".

## **The time-scale, exchanges**

## **and common values**

Jean Lapeyre, Deputy Secretary General of the CES (European Trade Union Confederation), made an initial summary of the tripartite pacts in the countries that have them. He pointed out three main characteristics :

1. Lapeyre said that tripartite discussions represented "a long-term strategy, which assumes a certain degree of confidence and understanding between the parties involved, and continuity in the main objectives which goes beyond electoral up and downs and changes in political regimes".

The 'Dutch miracle' (described later in this report) was based on an agreement in 1982, completed in 1993, Lapeyre recalled. He explained that: "this long-term strategy must provide a general framework for economic growth, the cleaning-up of public finances and the encouragement of employment through proactive policies". But it also presupposes that the social partners are prepared to give and take. Lapeyre cited the example of Belgium where, on the one hand, the trade unions accepted wage moderation and, on the other, employers refused to commit themselves to job creation. He stressed: "There was no exchange possible. One side was asked to give something while the other side gave nothing".

This also presupposes structural reforms which, of course, need time to be implemented, whether they concern social security or the organisation of work.

The pacts must be limited to the definition of major objectives, without entering into details, Lapeyre noted, citing for example the first Dutch agreement in '82 that was only two pages long.

2. The strategy is multi-layered: "Dealing with the changes underway and the effects of European integration requires the definition of a strategic economic framework for growth that creates employment at the European, national and even sectoral level", he said. "And this through a real industrial policy which is dramatically lacking at the European level at the moment".

"Past and present employers' policies, aimed at a complete decentralisation of negotiations, seem wrong if a coherent strategy presupposes convergence towards the same objectives, albeit through different means and at different rhythms". Lapeyre continued: "The European level is not an additional layer", he said, "but a necessary level to ensure political, economic, monetary and social coherence in the process of European integration. But this also presupposes that people look beyond their specific interests to the general interest which requires from all parties a civic approach that takes into account rights and obligations".



3. This pact strategy must be based on common values and not on uniformity: "The European social model does not require uniformity but the sharing of common values", Lapeyre said, giving the example of social protection and noting that whatever its method of financing or management it was based throughout on the principle of solidarity.

"At the European level, it is certain that the major economic and employment guidelines need to be synchronised and implemented in synergy even though one set is established in June and the other in December", he concluded, while restating the demand, on behalf of the CES, for a European economic cooperation pact for growth and employment.

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## II - Analysis and future prospects

Jelle Visser, Professor at the University of Amsterdam, spoke of the "Art-of-Making-Social-Pacts". For him, 'art' implies imagination, capability and skill. He added that his views were based on the Dutch case alone, "on this miracle that began 15 years ago after a long period of stagnation and even decline, and allowed the Netherlands to succeed rather well in recovering economically", he said, insisting on "rather".

Visser recalled that there is no formal social pact in the Netherlands such as those proposed or concluded in Ireland, Italy, Belgium, Germany or Finland. But, for the past 15 years, there has been a process of social concertation between trade unions, employers and the government about various policy objectives and resource allocation. This process was guided by several general agreements, the most important being the Wassenaar Accord of 1982, the so-called *New Direction* Agreement of 1993 and the 1996 Agreement on flexibility and security (c.f. appendix). In the same spirit, the Agenda 2000 Agreement was approved last April to cover the next four years which coincides with the duration of the current legislature.

### **Breaking the vicious circle**

"Why social pacts ?", Visser asked. He replied that they were necessary to break the vicious circle of "welfare without work", a phrase coined by Gøsta Espin-Andersen.

When economic activity slows, for external or domestic reasons, and unemployment rises, he said, increasing welfare inevitably leads to an increase in the cost of labour, especially for low-paid jobs. Those low-paid workers are the first to be made redundant. They then receive unemployment pay that further burdens the State budget. The vicious circle is complete.

"Following the oil shocks, the Dutch economy suffered, like many European economies, from a devastating interactive logic between lower growth, a deteriorating labour market, labour-saving investments, and rising social costs".

"A vicious cycle of high wage costs, low net earnings, exit of less productive workers, rising social security contributions, elicits further layoffs and intensifies the spiral of welfare without work. Jobs disappear in sectors where productivity increases stagnate and prices of goods and services cannot be easily raised. Moreover, if (public) service sector salaries are linked to exposed sector wage developments, and productivity lags, it leads to a loss of jobs in the very sector where many low-skilled labour may be integrated. To cut a long story short, the crisis

of inactivity helps to create a new class of non-employed, low-skilled, permanently inactive, welfare-dependent citizens, who are unable to gain access to the formal labour market".

What is necessary, Visser went on, is to: slow down or lower the number of people depending on benefits and hence reduce the social wage component. It allows governments to use the improved public finances to lower the tax and contribution wedge at or near the minimum. This can help to get more unskilled workers back into jobs. Through this chain of (co-ordinated or negotiated) responses the vicious circle of 'welfare without work' can be reversed.

Visser is convinced that social concertation, as practised in the Netherlands, can help by:

- a) improving information and social learning;
- b) creating more commitment with policies through broad agreements over wage moderation, job sharing and taxation;
- c) organising a better division of responsibilities between and within the three main interests (employers, unions, government); and
- d) providing a better specification of policy instruments applied by each of these parties (for instance between wage and taxation policies).

"I am convinced", said Visser, "that this has produced a superior answer in comparison with a decentralised bargaining situation in which each firm or union makes its adjustment".

In the '82 Accord between trade unions and employers, unions accepted the need for higher profit margins for employers to be in position to hire more workers and that this, in turn, demanded wage moderation. The latter accepted that employment is an unavoidable subject, that changes in working hours are to be the only item on the agenda but only one of the elements up for negotiation.

### **The virtuous circle**

Negotiated wage restraint has a positive effect on investment. Since it avoids raising interest rates to stem inflation, it checks the appreciation of the national currency and thus maintains the competitiveness of exports. But the effect was more negative on domestic demand since holding down salaries affected the purchasing power of households. The effect was beneficial on employment especially in sectors employing unqualified workers and the service sector.

In return for wage moderation, employers accepted a reduction in working-time from 40 to 38 hours per week in the mid-1980s and then to 37 or 36 hours in the mid-1990s, at the same time allowing much greater flexibility in operating hours and work schedules as well as more variation over the year. The State agreed to lower taxation and social security contributions.

There were other policy changes. Beginning with the halt in social benefits payments in 1983, the lowering of maximum benefits and tighter eligibility criteria for unemployment insurance in 1987, the major welfare reforms took place in the early 1990s with the tightening of the two main exit routes from the labour market: disability insurance and early retirement.

Then much more proactive labour market policies were introduced with subsidies and measures for youth training. "People had to be persuaded that they should earn their living by working and not through welfare", Visser observed. "They had to be made to understand that if they continued not to work for their whole lives, there could be no solution and the social security system would go bust".

As a result, the Netherlands has had the highest job-creation rate in Europe over the past 2 or 3 years, although this often involves part-time working. Unemployment, which formerly stood at 13% when the plans were unveiled, is now at 5.2%. "By better sharing the tasks between different levels of society, things improve. It is a process of controlled decentralisation", Visser noted. "It is not possible to do everything central level. Some power must be transferred to the decentralised level. The government must set tax levels, and not the trade unions. The trade unions are responsible for wage policies and not governments".

## **Learning to live together**

Leaving aside the Dutch case, Visser went on to examine in more general terms the mechanisms of social concertation.

Social pacts seemed to him to "occupy a grey zone between a whole series of divergent interests". Naturally those at the negotiating table must report to and be judged by their members but the important thing is to share the same outlook, to reconcile objectives and find common ground for the well-being of the country.

For him, this type of practice has an effect on societal support - learning to live together - and on decision-making. Social discussions serve as a school for those who want to make their voices heard. They force the person who exits from a negotiation to explain himself. They open up long-term horizons, because the person who participates knows that he will not be taken seriously if he does not keep his promises and that his negotiating power will be nil if he does seriously endeavour to honour his promises.

Among the positive effects of social concertation, Visser indicated its impact on political life and decision-making, in terms of institutional stability, wider horizons, respect for commitments made, understanding of "disagreeable facts" and joint decisions based on

conflict resolution. "Participants", he said, "are forced to explain and justify their decisions and strategies and to assume their responsibilities in front of the other participants, their followers and public opinion".

"Social concertation makes the parties redefine the content of their self-interested strategies in a 'public-regarding way'", he added, highlighting what is, for him, the most interesting aspect... "Whatever the conflict of interests, the participants are forced to come to an agreement. This encourages conflict-resolution policies rather than bargaining".

Among the negative effects, Visser noted, first of all, that social concertation is not a panacea, free from inconveniences and political risk. "It does not guarantee success and can even institutionalise failure", he said. "By increasing interdependence between the interest groups and sanctioning their participation in public policy, interest organisations gain veto power, which they may use to slow down decision-making and frustrate public policy."

What are the necessary conditions for success ? "First of all", Visser said, "social concertation presupposes that State representatives are willing and able to share political authority with functionally-organised interest groups and also that the latter are capable and willing to mobilise their members in exchange for political influence".

The organisations are empowered to negotiate and accept compromises in the name of their members, but they must be capable of conducting this type of discussion which requires independence and a certain form of leadership. Insisting on this point, Visser observed : "That explains why in some countries it is difficult while in others good results are produced". He insisted also on political and strategic determination of the authorities to share regulatory power with organisations in the civil society that they do not administratively control. He added that: "The state's authority to approve, reward and ratify implies the power to disapprove, punish and nullify, and hence the possibility to insist on *bonafide* negotiation processes."

To sum up, he said he was convinced that "a 'strong' practice of social concertation needs a 'strong' state. This is not to be confounded with a large state, rather the opposite is true: a state which is not over-committed can less easily be taken hostage and is more credible when it does threaten to intervene. A strong state", according to Visser, "is a state which promises not too much, but usually does what it promises".

## **Beyond trade union boundaries**

Over the past ten years, the Irish have had similar experiences to those described by Visser, according to Rory O'Donnell who said : "Social apprenticeship, the role of institutions in the

discussions and the analysis of the problems of society alongside the negotiations were key elements. It was necessary to define the situation in which the country found itself and to solve problems rather than choosing a negotiating approach", he said. "But there is a difference. Our model tries to include, in addition to the traditional social partners, organisations representing the unemployed, the handicapped, gypsies, old people and so on".

O'Donnell recognised that it was not without difficulty since this raised the problem of the representativity of those invited and the agreement of the others. "The extension of the social pact to cover these social groups has not been a real success", he said. "Perhaps we should reexamine the approach".

"We indeed have no experience of extending the social dialogue to other groups", Jelle Visser replied, "mainly because the trade unions represent - or say they represent - everyone, including those mentioned above ! But it is true that if one invites other groups, how can one be sure that these organisations really commit their members ?"

This problem of the degree of commitment of the different parties also drew the attention of Roland Issen because the same problem arises in the case of some of the best-known and best-established organisations. In Germany, in any case, do not major employers' organisations often draw attention to the fact that they cannot make statements that bind them ? Issen asked the Dutch professor and researcher four questions :

1. How can the commitments of all the parties to the discussions be made binding ? Issen wondered if in the Netherlands, in particular, the large multinationals operate differently from other companies and have different attitudes ?
2. Are there guaranteed minimum wages and a guaranteed minimum for those who work part-time ?
3. Can the provisions of a pact be extended beyond those participating to stop other companies gaining an unfair competitive advantage ?
4. What are the effects of the Dutch model on the distribution of income and capital ?

## **Small is beautiful**

The obligatory nature of the commitment sometimes creates problems, Visser admitted, especially for employers' and particularly as regards employment, because the organisations can always say : "It is decided at members' level". "But", he noted, "there is undoubtedly a great difference between Germany and the Netherlands. We are a small country where people meet and know each other. Unlike the Germans, we do not really have a legal culture and we do not have long debates about legal questions. We are pragmatic and work on the basis of gentlemen's agreements".

Concerning part-time working, Visser noted that two-thirds of women are employed part-time, and that for men the proportion is 18%. The formula is increasingly attractive for people who want to reconcile family and professional life. "It is important", he said, "that these workers are not discriminated against. Like other workers, they should be guaranteed both a minimum wage and profit-sharing. In Germany, there are workers who do not have social protection. We cannot choose that system because we must, above all, avoid subsequent social exclusion. The Scandinavian system is preferable".

In reply to Issen's third question, Visser said that to talk of extending the provisions of the pact is to refer to the system of collective agreements. "It is not the employers", he said, "who attacked the system, but the OECD and certain central banks, which were against it. The employers were in favour of it because it protects them against the non-organised, and the government finds in it a further possibility of influencing the participants through encouraging them to do something they would not otherwise have done. If used carefully, it is a very useful instrument".

As regards wages, Visser recognised that the system accentuates inequalities. "But this is especially true for high incomes", he said, "while for average incomes the difference is slight, in any case much less pronounced than in the United Kingdom and the United States, thanks to a compulsory minimum wage which is a useful instrument, above all if it is fixed at an adequate and reasonable level".

Concerning the joint decisions that are the pact's goal, Minister Joaquim Pina Moura said that Portugal had created and got up and running an *ad hoc* commission to monitor the implementation of the agreement but that it had become a paralysing body when it began to discuss the legislative instruments to put the compromises agreed into practice.

At this stage in the discussions, the employers, in particular, had obstructed the process, as if they had a right of veto over the application of the provisions of the pact. "The procedure had to be changed", Pina Moura said, "If there is no consensus, the government presents the draft bills to the employers and trade unions. It has the duty and power to progress matters and no one has the right to oppose them".

"It is the trade unions that brought this matter up", the trade unionist Proença said. "It is the government's duty to legislate while entirely respecting the text of the compromise that the parties had agreed upon".

**Everything is  
"hunky-dory"**

Mrs Notat asked Jelle Visser: "Did trade unions and employers spontaneously agree with the choices and decisions taken on everyone's behalf even though these involved delicate matters ? Were there no negative reactions or was everything hunky-dory ?"

"Of course there were conflicts", Visser said, explaining why, for the most part, the parties toed the line. He insisted on two points :

"It took three years and the huge pressure of the economic crisis to reach the first agreement in '82. Three years before, the trade unions had almost signed an agreement, but the majority of their members had voted against and it was not implemented. Sometimes, unfortunately, a shock is necessary, a major crisis and something extremely urgent for such an agreement to be reached". In '92-'93, the pressure was different, but equally strong. It was the government that threatened to reduce the minimum wage, to change the social security system and to stop increases in salaries. "All of these factors together", Visser said, "led the parties to sit down and negotiate".

"Generally speaking, there was little opposition from trade unionists except at the beginning, especially in the public sector where they are used to the government paying for past mistakes", Visser said, adding that on the employers' side, Philips showed a rather negative attitude but that the other large multinationals such as Shell, Unilever and Akzo were much more open to this type of social discussion. On the other hand, a sector such as information technology, because there are virtually no employers' associations, was particularly reticent.

## **Virtuous decentralisation**

In reply to a question from Marie-Thérèse Join-Lambert, Visser explained how decentralisation worked, with agreements at sectoral level and a procedure that allowed the agreement to be extended to all companies in the sector, even those that did not take part in the negotiations.

"70%-75% of all workers are covered", he said, "by a collective agreement, mostly sector agreements". He cited the case of the banking sector where the sector-wide agreement covered all banks, including foreign banks - Deutsche Bank, for example.

In reply to Jacques Delors, who asked him if national pacts and sectoral agreements are compatible and whether relations are top down or bottom up, Visser replied : "Top down", and added : "One level does not decide for another. Not at all. The national pact is not binding. It only provides guidelines. But it is true that a trade unionist who does not follow the



provisions of the national pact and asks for additional salary increases is subject to pressure from his colleagues and from the trade union headquarters...When the joint meeting has decided that employment is more important than salaries, it is difficult not to follow".

In reply to Bispinck who asked why one only sees national pacts in small countries, Visser observed : "It has been seen in Italy and there are some agreements in Spain which is not a small country". He remarked that it is true that this type of pact does not exist in France, the United Kingdom or Germany but it is not because they have to worry about the monetary effects resulting from salary increases that the small countries can ignore, as Bispinck had suggested. "No", he said, "In the United Kingdom I simply do not see the possibility of a social pact. In France, it would be very difficult, as shown by experience, and ditto for Germany".

## **European problem**

For Emiglio Gabaglio, Secretary General of the CES, the real question is to know whether the use of social pacts should be applied immediately at the European level. "Was it not with a European pact in mind", he said, "that President Delors asked us, the European social partners, to commit ourselves ?"

Also citing the Santer proposal for an social pact, he added : "We have already worked on and discussed the idea of a European pact. Furthermore, among the elements necessary to strengthen social discussions mentioned by Professor Visser, some are already in place. The existing social dialogue includes analysis, awareness of the problems, the sharing of some values and options and even the capacity to negotiate European framework agreements. An extension is even envisaged !"

"Perhaps without knowing it, an embryonic procedure has been established that presupposes the possibility of organising through pacts at the European level", he said with some enthusiasm, but recognised that the most important thing that was lacking in this approach was the contents of such a pact. "The employers' organisations would certainly point this out", he observed, "OK, but what do we want to do, what's up for bargaining and what are the elements for a trade-off because there is no pact without a trade-off?"

The obstacles seem real, but Gabaglio was defiant, stressing the arrival of the Euro. He believed that a European framework was essential for managing wages policy to counterbalance the centralised management of monetary policy. For him, this was a challenge to which the social partners must react. He was in favour of avoiding the "trap of centralisation" and above all did not want a "hyper-centralised Brussels". He was in favour, he

said, of the concept of *managed decentralisation*, but said that it would not happen spontaneously or automatically and that guidance from the centre is necessary".

## **A reserved view**

Jacques Delors's retrospective review of European-level social concertation was more reserved than that of Gabaglio. The former President of the Commission remembered the divisions within the two major organisations the CES (European trade union organisation) and UNICE (The European Union of Industrial and Employers' Confederations), and also of the self-centredness of the different parties in various capitals - for example, "the fear of the Germans of losing their specificity".

Delors also noted that the Commission he presided over had tried to establish the basis for the coordination of national economic policies in 1986, but that the Council of Ministers, on the other hand, did not want to know about it. This is an obstacle to the establishing of a European pact and also threatens Economic and Monetary Union, he said.

As for the future, he was also reserved. He noted that with the Single Currency the question of adjustments was raised. "Will they be implemented from above or below ?"

"There is currently a risk of economic overheating in Ireland and perhaps also in Denmark", he observed. "How will the Governors react ? Will they not be tempted to level up interest rates to the Irish level ? And does this not risk discrediting, from the outset, in the eyes of trade unions, the idea they may have of sustainable, reasonable, stable and employment-creating growth ?"

"We thus risk", he continued, "seeing interest rate adjustments that make the trade unions doubt the determination of the Council of Ministers and governments to commit themselves at the European level through a pact that establishes the framework and encourages national efforts, which could be very useful, especially in countries that have no such thing".

"It is not easy for the President of the Central Bank and the Board of Directors to set monetary policy", Delors recognised. "But", he said, "I can see them already. They are alarmed about what is happening in Ireland and Denmark, as if happiness is not for this Earth and we should only concentrate on the problem areas ! Neither is this psychology balanced by an alternative vision of the Finance Ministers who have a sort of complex as regards their Governors".

Although, for him, this experience is beginning in uncertain conditions, Delors believed we should not be discouraged. "Tomorrow", he said, "who can say that the economic provisions of the Maastricht Treaty will not be applied ? The final word has not been said. It is not

through the 11 Finance Ministers of the Euro zone that it will happen, but perhaps in another way". Double pressure - political and trade union - must be maintained.

## **Interpreting reality**

Coming back to the prospects of European-level social concertation, Peter Cassells stressed the interest of having a forum to analyse problems, of whatever kind, as they arise so as to develop "a capacity to interpret reality". He insisted on what was lacking in the current system: "The possibility of analysing, with the help of third parties, where the European economy is going, and of identifying the subjects that are going to influence the future of Europe, and to agree on these".

Cofferati asked: What can push us towards this type of discussion at the European level? Extreme necessity? He did not believe this, although when your house is on fire you try and put it out as quickly as possible! He preferred to insist on, and profoundly hoped for, the recognition of the role of social organisations, regretting that in some countries they are treated as subsidiary by political circles.

Cofferati also considered a trade union authority of a confederal nature necessary. To produce a social pact that is macro-economically coherent, each federation cannot negotiate what it wants, he said, adding that some matters must remain within the responsibility of parliaments and governments.

For Thérèse de Liedekerke, Director of Social Affairs for UNICE, it was dangerous to make the social dialogue and discussions an end in themselves. She noted that "for several months at the European level, it has become a sort of slogan, more so in the political arena than in that of the social partners", she said, expressing the fear "that we will lose sight of what is feasible in the circumstances and what we can realistically achieve through a pragmatic approach".

For her, the traditional debate about the European social model is a false debate. "In fact", she said, "we have a European social model. It is inscribed in the Treaty in Articles 2 and 3 of the Social Protocol. This recognises that consultation, discussions and negotiations between social partners are tools that can be useful, tools for the management and development of social policy. In virtually all member states there are well-developed models of concertation, negotiation and consultation. This should encourage optimism for the future".

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Overall, there are many encouraging factors in the development of industrial relations systems in certain European countries. A new dialectic is evolving between centralisation and decentralisation, responsibility and solidarity. The results remain to be consolidated and its economic and social benefits extended to all the countries. This is the road, embarked upon with the relaunch of the social dialogue in 1985, that action at the European level must continue along.

## **APPENDIX N° 1**

### **List of participants**

(in alphabetical order, see abbreviations on following page)

1. **Reinhard Bispinck** (WSI/HBS)
2. **Peter Cassells** (General Secretary ICTU)
3. **Sergio Cofferati** (General Secretary CGIL)
4. **Emiglio Gabaglio** (General Secretary CES)
5. **Louis Gallois** (President SNCF)
6. **Pierre Guillen** (Member of the Monetary Policy Committee of the Bank of France)
7. **Reiner Hoffmann** (Director of the European Trade Union Institute)
8. **Roland Issen** (President DAG - Bundesvorstand)
9. **Hans Jensen** (President LO)
10. **Marie Thérèse Join-Lambert** (Inspector General of Social Affairs)
11. **Jaako Kiander** (Government Institute for Economic Research)
12. **Jean Lapeyre** (Deputy General Secretary CES)
13. **Thérèse de Liedekerke** (Director of Social Affairs UNICE)
14. **Joël Livyngs** (Chef de cabinet of Magda De Galan, Belgian Minister of Social Affairs)
15. **Jussi Mustonen** (Director of Economic Policy Confederation of Finnish Industry and Employers)
16. **Serafino Negrelli** (University of Brescia - Dept. for Social Studies)
17. **Nicole Notat** (General Secretary CFDT)
18. **Rory O'Donnell** (University College Dublin)
19. **Joaquim Pina Moura** (Minister of Economics, Portugal)
20. **Joao Proença** (General Secretary UGT)
21. **Esa Swanljung** (President STTK)
22. **Jelle Visser** (University of Amsterdam)

WSI/HBS : Wirtschafts- und Sozialwissenschaftliches Institut in der Hans-Böckler-Stiftung

ICTU : Irish Congress of Trade Unions

CGIL : Confederazione Generale Italiana del Lavoro

CES : Confédération Européenne des Syndicats

SNCF : Société Nationale des Chemins de Fer Français

DAG : Deutsche Angestellten - Gewerkschaft

LO : Landsorganisationen i Danmark

UNICE : Union des Confédérations de l'Industrie et des Employeurs d'Europe

CFDT : Confédération Française Démocratique du Travail

UGT : União General de Trabalhadores

STTK : Finnish Confederation of Salaries Employees

## **APPENDIX N° 2**

**Contribution of Mr Reiner Hoffmann**

### **EMPLOYMENT PACTS IN EUROPE**

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## **1. Introduction**

The Maastricht Treaty put in place the foundations for European Economic and Monetary Union (EMU). The fact that eleven Member States now qualify for membership of EMU shows that the convergence criteria contained in the Treaty represented a highly successful launching pad for efforts to set national budgets back on the road to health and efficiency and for the achievement of price stability. The European social partners and their member organisations have expressed their firm support for EMU.

And yet, despite this successful outcome on the monetary front, unemployment in Europe remains stuck at alarmingly high levels. Virtually all actors on the political stage have declared that the fight against unemployment must be a top priority. The employment policy priorities set at the Essen Council provided the first foundations for an employment policy coordinated at European level, albeit without the binding force of the Maastricht convergence criteria. Further progress was made with the incorporation of an employment title into the Amsterdam Treaty and the employment policy guidelines subsequently agreed in Luxembourg. But the controversy in the run-up to the EU jobs summit showed clearly once again that significant disagreement still reigns concerning the appropriate instruments for combating unemployment, with regard both to European-level powers and the policies initiated at national level. Essentially, we can distinguish two alternative approaches: 1) a strategy geared to social concertation which adheres to the high productivity-high quality-high wage “trinity” and 2) the neo-liberal strategy of deregulation according to which concertation is not only dispensable but actually dysfunctional (cf. Traxler 1997).

In contrast to the neo-liberal view that Europe is not viable as a production site on account of its high wages and social welfare benefits, the Commission offers a different assessment in its White Paper: rather than advocating a low-wage strategy for the EU - and thus contrary to the path followed in the US - the Commission points out that labour costs are far from being the sole determining factor of international competitiveness and that the strong oscillations in labour costs are the consequence of massive exchange rate fluctuations in bilateral exchange rates between the ECU, dollar and yen. It is further argued that wage differentials with the new industrialised countries are so tremendous that wage cuts or a low-wage strategy would achieve no more than a negligible impact in terms of competition advantages (cf. Commission 1993: 67). And so a second way is proposed, one that is compatible with the “spirit of the European social model”. The proposal is that growth in real wages should remain one per cent below growth in labour productivity.

The European Commission’s approach refers explicitly to the need for social concertation and the White Paper contains numerous points of relevance for a European employment pact as proposed for discussion by Jacques Delors as early as August 1993.

With the IG Metall initiative in 1995 - followed by the DGB and its member trade unions and the DAG - the debate on how to deal with the employment crisis was given new input not in Germany alone but in Europe as a whole. This is evident from the tremendous interest shown in the initiative by trade unions from other EU member states and from the speech given by Commission President Jacques Santer to the European Parliament in January 1996. Referring explicitly to the IG Metall initiative, Santer proposed a European pact for employment. A point frequently overlooked is, however, that a “jobs alliance” was no German speciality, insofar as comparable experiments are to be found in several EU member states. Indeed, institutionalised forms of concertation are the basis for industrial relations in the Scandinavian countries and in the Netherlands. But also in countries with a lesser degree of concertation - e.g. Ireland, Italy, Portugal - social pacts have been concluded in recent years and have led not to the further erosion of industrial relations but to their further development and stabilisation, while at the same time offering an expression of stronger macro-economic concertation (Traxler 1997). Any comparison and assessment of the social pact concerned must take account of the still existing differences in national systems of regulation, and, in particular, of industrial relations systems. In the following section the most important features of these systems will thus be outlined, after which experiences in Ireland, Italy, Portugal, Belgium and German will be briefly described and some preliminary conclusions drawn.

## **2. Differences in national industrial relations – different reform conditions for national employment pacts**

The role and function of the government are of decisive importance with respect to labour relations in general and agreement on incomes policy in the framework of macroeconomic regulation of the economy in particular (to the extent that this is determined by policy at all). For example, for agreement on incomes policy, for which the government establishes the legal framework (procedural and substantive regulations), Mesch (1995) distinguishes three variants, practised in Europe in differing manners: *firstly*, an interventionist incomes policy with restrictions on wage freedom (for example, in Belgium); *secondly*, a limitation on the possibilities for influencing collective



wage agreements through neo-liberal strategies (e.g. Great Britain); and *thirdly*, the orientation towards neo-corporatist management; i.e. coordination of economic and social policy with collective wage agreements (pronounced in the Netherlands and the Scandinavian countries, and partly in Italy).

In almost all Western European countries, government influence over labour relations is, albeit to differing degrees, characterised by the pressure of employers for further *decentralisation of wage negotiations*, a direct reaction to the possibilities offered to businesses by the globalisation process. However, differences here should be noted: "A decentralisation of collective agreement negotiations can take place in an uncontrolled (unorganised) or controlled (organised) manner: the former means that decentralisation occurs as the consequence of the collapse of the regulatory power of the level above. Controlled decentralisation occurs when the wage associations of the levels above delegate certain regulation powers to levels below, yet maintain a certain control over this level". (Mesch 1995, p. 25). With respect to the *changes in the designated negotiation levels* in Western Europe, classification into five groups is possible:

- (1) countries in which the status quo could essentially be preserved (the Netherlands, Finland, Spain);
- (2) countries in which uncontrolled decentralisation and the dismantling of regional collective wage agreements could be achieved;
- (3) countries in which controlled decentralisation and indirect coordination of sectoral negotiations have developed (Germany, Austria, Denmark, Sweden in part);
- (4) countries featuring recentralisation (Norway); and
- (5) countries in which simultaneous centralisation and decentralisation can be observed (such ambivalent developments are particularly notable in Italy, France and Belgium).

This list alone shows that we cannot at all speak of a linear trend towards uncontrolled decentralisation, but rather that while the globalisation process has indeed put pressure on trade union wage negotiations in regions and sectors, very different and flexible answers have been found or are being sought which respond not only to the economic decentralisation trend in the globalisation process but also to the complex needs of trade union members and enterprises as a result of social modernisation processes in the EU member states.

The challenges facing both national wage systems and the general framework conditions of trade union interest representation against the background of *socioeconomic structural changes* (modernisation of society, pluralisation and individualisation) in Western Europe largely coincide. Despite similar problems, only the beginning of a convergence; i.e. a unification of national labour relations, can be observed. Respective national labour relations differ strongly from each other and identical or similar problems are dealt with very differently (Mesch 1995, Streeck 1996). This will emerge clearly from the following brief descriptions of selected national employment pacts.

### 3. Between success and failure – examples of national employment pacts

In **Ireland**, under the pressure exerted by the catastrophic labour market situation, the employers' federations and the government concluded a Programme for National Recovery back in 1987. This was followed by the Programme for Economic and Social Progress (1991-1993) and the Programme for Competitiveness and Work (1994-1996). Taken together the pacts seek to modernise the economy and industrial relations through a wide-ranging development process. In the Programme for Competitiveness and Work (PCW), total pay increases of 8.25% for the period 1994 to 1996 were agreed, against the background of a forecast 7.5% increase in the price index (see D. Nevin 1996). Alongside the preservation of real earnings, the PCW places the emphasis on the fostering of employment and the creation of new jobs. However, the successes to date are no more than modest. It is true that the level of the national debt has been able to be further reduced and the rate of inflation in Ireland has fallen to 2.5%. The unemployment rate – 11.8% - is still high and but significantly lower than in 1993 (15.6%). Even so, the Irish agreement deserves our attention, particularly on account of its approach to fostering economic enterprise and vocational training measures at local level.

In the closing month of 1996, a new National agreement, Partnership 2000, was concluded and ratified by unions in January 1997. In summary, this agreement retains the same priorities as other agreements but with a different emphasis, i.e. the development of partnership structures at the level of the workplace, protection of living standards and measures to tackle the prevailing experiences of social exclusion (Carey 1997).

In **Italy** a considerable contribution to the stabilising of industrial relations was made by the "social pact" concluded in 1993 between the trade unions, the employers and the government. The agreement provides for two rounds of meetings a year between the State, the employers and the trade unions. In the spring round of talks the guidelines for public expenditure, the forecast inflation rates, GDP and employment growth are laid down, while the autumn round is held to discuss the measures required for implementation of the budgetary policy goals. This consultation with the social partners is intended to give the trade unions a maximum degree of indirect participation in macro-economic developments. This "concertation policy" was accepted by the centre-right coalition, the transitional government and continued by the "Olive Tree" coalition. Of particular importance in the context of this agreement are the solidarity contracts (*contratti di solidarietà*) which are regarded as an instrument for remedying the employment crisis by means of working time reductions. "This compensation for loss of income as a result of less working time varies between 50 and 70% depending on the company's size and the sector involved. Funds allocated for redundancy payments may be used to finance this kind of measure" (see G. D'Aloia 1995, p. 101). Also under the terms of the "new social partnership" a compromise was able to be reached, after much controversy, on the reform of the pension system.

The consultation among the government and the social partners led, in September 1996, to a major agreement, the Pact for Employment. It is in the agreement that questions relating to working hours and the flexibilisation of working relations are tackled in an overall fashion. The Pact for Employment aims to:

- strengthen and extend the effectiveness of pro-employment policies,
- promote new infrastructure investments,
- strengthen human capital via initial and permanent training,
- render the labour market instruments more appropriate,
- review certain forms of employment relations.

In **Portugal** too the political changes following the parliamentary and presidential elections seem to have led to a change of direction in the labour market policy debate. In January 1996 a tripartite agreement was signed between the UGT, the employers' federations and the government. The principal components of this agreement are: a) a reduction in the normal statutory working week to 40 hours in conjunction with the introduction of provision for flexibility; b) the general guideline for the 1996 collective bargaining round of a 4.5% nominal pay increase, alongside forecast inflation of 3.5% and forecast productivity increases of 2%. The CGTP considered the agreement to be unacceptable from both an employment policy and free collective bargaining standpoint and therefore did not sign it. Already under the neo-liberal government of Prime Minister Cavaco Silva a medium-term "economic and social agreement" had been signed in the Permanent Council for Social Concertation by the employers' federations and the two trade union confederations (CGTP and UGT). This had been preceded at the end of the 1980s by widespread protests against the policy of deregulation conducted by the government. The tripartite agreement is also to be viewed as an expression of the new government's hopes of reviving the dialogue with the trade unions. It is intended as the point of departure for further negotiations on a strategic agreement combining measures in various policy fields designed to achieve, in the medium term, greater competitiveness, growth in employment and improved social cohesion. The extent to which the tensions between the trade union confederations CGTP and UGT can be relaxed will also depend on the success of this agreement.

A significant factor here is the Maastricht convergence criteria and the austerity policy conducted to meet them, for this has been explicitly rejected by the CGTP. Also of considerable significance is the agreement on collective bargaining in the public sector signed by the UGT (FESAP and STE) and the CGTP (*Frente Comun*). This stipulates a maximum working week of 39 hours and further phased reductions designed to lead ultimately to a 35-hour week. It is also intended that negotiations should be held to negotiate measures for the reduction of "precarious" employment contracts (R. Naumann 1996).

On 20 December 1996, the government, the main employers' federations and UGT signed the wide ranging "Agreement on Social Consultation", which, amongst other things, provides for measures regarding the promotion of employment, incomes policy, education and vocational training. The agreement is planned to run to 1999 and has direct significance for the 1997 pay round insofar as it specifies a reference figure of 3,5 % for nominal pay increases.

The experiments with "social concertation" in **Belgium** have not to date, as far as the trade unions are concerned, produced relevant effects in employment policy terms, while the wage freeze decreed by the government for 1995 and 1996 represented a clear case of interference in the process of free collective bargaining. Back in May 1993, after heated discussion and controversy, an agreement between the trade unions and the employers was able to be concluded. This covered :

- the employment of young workers (under 26),
- accompanying measures in the event of company restructuring,
- career breaks,
- the introduction of part-time work combined with part-time early retirement as from the age of 55.

The tripartite negotiations in April intended to achieve a "Contract for the Future on Employment". However, one of the national union federations, the FGTB, declared it was unhappy that the draft pact contained no adequate guarantees on job creation. After the idea of a national pact had fallen through, the government adopted three framework laws on competitiveness and employment, the future of social security and budget policy which, by and large, included all the major points of the draft pact. Under the new legislation, future pay developments must be in accordance with those in France, Germany and The Netherlands, Belgium's three most important trading partners.

In Germany the IG Metall proposed in 1995 to the employers and the government an "alliance for jobs" (*Bündnis für Arbeit*), by keeping wage demands down to the level of inflation in 1997 (pay increases for 1995 and 1996 were already defined in the two-year agreement signed at the beginning of the year and the next pay round is due in the spring of 1997). The elements of the proposed "alliance" are: 1) The IG Metall will agree to starting rates below the collectively agreed minimum rate "for a limited period" for newly recruited long-term unemployed being offered long-term contracts; 2) The IG Metall will agree to its members taking time off in lieu of overtime worked, in the form of individual "time banks"; 3) for their part, companies must agree not to make any redundancies over the course of the next three years and to increase the total number of places available for trainees by 5% per year (companies which do not increase training places should make a payment in lieu), and 4) the government agrees to shelve plans to cut welfare and unemployment benefits. If these criteria are met, employers in the metalworking industry would create 330 000 jobs between 1996 and 1998 which would include 30 000 for long-term unemployed.

The IG-Metall initiative was welcomed by the DGB and most of its member unions. The German white-collar workers' union (DAG) also stated that it was prepared to give its active support to the "alliance for jobs". At the beginning of December 1995 the DGB issued details of its demands and the Federal Government agreed to place the matter on the agenda for the "Chancellor's address" (attended by the Government, employers and trade unions) on 23 January 1996. With specific reference to the goals laid down in the European Commission's White Paper on Growth, Competitiveness and Employment in December 1993, the proposal was for a "social pact" for more employment and training designed to lead, by the end of the century, to a halving of the number of registered unemployed and a job for every young person. The different elements of the proposal may be summarised as follows:

1. The number of jobs should increase significantly in the next three years.
2. Private and public sector employers should undertake to increase the supply of jobs
3. There should be a commitment at federal, *Länder* and local level to increase the number of public sector jobs by the creation of more part-time jobs and jobs for the disabled. In addition, steps should be taken to ensure that economic and structural policy, research, training and environmental policy is geared to the

model of a sustainable and qualitative growth, promoting innovation, supporting the opening up of new areas of employment, and hence stepping up competitiveness.

4. The DGB and its member unions call for a reform of the welfare state.
5. The trade unions stress their readiness to use the collective bargaining process to serve these ends. Working time should also be further reduced in a manner which serves job creation.

The Chancellor's address of 23 January 1996 was accompanied by an eight-page paper "alliance for jobs and the preservation of German production sites" ("*Bündnis für Arbeit und Standortsicherung*") and represented a compromise which still contains considerable potential for conflict. The immediate abolition of the statutory provision for early retirement was able to be prevented. In addition, the Federal Government undertook to cut unemployment benefit by only 3% rather than 5%. The greatest potential for conflict lies in the plans for an employment- and growth-friendly restructuring of the tax system, about which nothing has been said.

After the presentation by the Federal Government in April 1996 of a radical plan to cut public spending and restructure the welfare state, the negotiations over an "Alliance for jobs" were stopped. The trade unions made it known that they would no longer be taking part in the "Chancellor rounds". The German Parliament adopted the economy package in September with the most important measures coming into force on 1 October, including the reduction of statutory continuation of pay during illness from 100% to 80%.

#### 4. Conclusions

1. That stable industrial relations in Europe remain an important factor in the fight against mass unemployment and the modernisation of the economy is evident from the various forms of concertation conducted at national level. Industrial relations are certainly not being eroded in the world at large but they are subject to an underlying process of transformation and modernisation. However, the various endeavours to improve the situation by means of social alliances have contributed to differing results. In Ireland, Italy and Portugal they have undoubtedly contributed to a stabilisation of further development of social and industrial relations. At the same time, industrial unrest in the form of strikes has become significantly less frequent and widespread (see Aligiakis).

2. An essential focus of concertation is the conclusion of agreements on pay restraint. This has led – as proposed in the Commission White Paper – to the trade unions accepting pay agreements one percentage point below productivity developments. It is noteworthy that, in spite of all the differences in industrial relations systems and without any European-level coordination, the outcome of collective agreements in the pay sphere has been pretty much identical. Not that the policy of agreeing pay increases below productivity growth has led to any sustained increase in the employment intensity of growth. On the darker side is also the fact that workers in several countries have in recent years had no choice but to accept reductions in real income (see table 2), while, at the same time, there has been an increasing tendency towards the development of a "working poor" in Europe also (see Cerc 1991, Hoffmann 1997). Such a trend is certainly not in accordance with the "spirit of the European model" (EU White Paper).

3. The experiences with employment pacts have also made it abundantly clear that pay restraint is far from being the only means of combating unemployment. What is required, rather, is a policy mix in which innovative working time policy can have an important role to play. Such a policy is extremely many-sided and certainly not restricted to the reduction of the working week. Other facets include arrangements such as annualised working hours, early retirement, part-time work, etc. A decisively important aspect of such policy is the extent to which it can successfully reconcile firms' demands for more flexible labour inputs with the growing claims of workers for a greater degree of time sovereignty.

4. What is undisputed – under the conditions of overwhelming structural change – is the need for life-long learning. Virtually all employment pacts set a high value upon training and further training programmes. Generally speaking, however, they fail to establish the appropriate links between the increasing need for further training and innovative forms of working time.

5. Should there remain any doubt about the matter, the rather subordinate role of wage costs in the fight against unemployment and in creating competitiveness (high productivity-high quality-high wage policy) emerges clearly from the various efforts made in the context of employment pacts to reach agreements on different kinds of policy mix. Extremely important factors for improving competitiveness are an active research and technology policy, as well as a forward-looking structural policy in combination with an economic policy geared to fostering growth (see here too the various positions of the European social partners, Foden 1997). In actual fact, results in

this sphere to date are no more than modest. At various levels (national, regional) there do exist, however, some promising beginnings that could be used in the framework of a “benchmarking” exercise.

6. Further components of a policy mix are, indisputably, measures for the reform of the tax systems and also the social security system (cf. A recent ETUI publication - Bosco, Hutsebaut 1997). There is broad agreement between the social partners and the governments on, above all, the need to reduce the burden on labour (e.g. eco taxes). Both these policy areas have figured time and again in social pact negotiations, albeit without any particularly noteworthy success.

7. Under conditions of EMU it will be a question, in the future, of using the positive results available to date to enliven and reinforce a European employment pact. The European economic policy coordination required to this end must incorporate substantial and broad-based involvement of the social partners.

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## SOCIAL PACTS IN EUROPE - A COMPARATIVE OVERVIEW

	ITALY	GERMANY	IRELAND	PORTUGAL
<b>Title</b>	National Agreement on Incomes and Employment Policies and on Collective Bargaining Structure	Alliance for Jobs and the Preservation of German Production Sites	Programme for Competitiveness and Work	Short-term Social Dialogue Agreement
<b>Aims</b>	Incomes policy and employment. New system of industrial relations. Labour market policy. Support to the production system. Tariffs of public services	Job protection and job creation through new investment. Improving competitiveness of German production system. To halve the number of registered unemployed and to create 1.2 million additional jobs by the year 2000	Employment and competitiveness through detailed sectoral industrial policy objectives. Macroeconomic stability. Tax reform. Social partnership. Social equity.	Fostering employment, competitiveness and the living conditions. Incomes policy. Employment and labour market policies. Social security. Fiscal policy
<b>Signature</b>	7/1/93	1/1/96	1/1/94	1/1/96
<b>Duration</b>	Not defined. By the end of 1997 there will be a review of the new system of industrial relations	Not defined	Three years. From 1/1/1994 to 31/12/1996	One year
<b>Monitoring</b>	Two tripartite rounds of discussion take place each year. Spring session defines macroeconomic objectives. Autumn session discusses measures to implement budgetary policy targets. Government drafts an annual report on employment	No formal monitoring. Mutual commitments of the signatories to be verified through sectoral collective bargaining	A Central Review Committee monitors the achievement of the targets and objectives of the Programme.	A Monitoring Committee which includes representatives of the subscribers to the agreement meets at least once a month
<b>Wages</b>	Negotiated basic rates of pay must be kept in line with the inflation forecasts for the period covered (2 years) with a pay revision clause linked to actual inflation at the end of the period	Moderate bargaining policy for employment and competitiveness to be discussed at sectoral level. Reduction of non-wage labour costs. IG Metall: pay increases linked to inflation (no compensation for productivity gains) for next bargaining round	Cumulative increase of negotiated rates of pay of 8% over three years with an inflation forecast of 7.5%	Recommended pay increases of 4.5% (1% above expected inflation). Higher or lower increases according to the economic and financial situation of industries and companies
<b>Working time</b>		More flexible working times. Working time "accounts". Smooth transition to retirement. Avoidance of overtime wherever possible. More part-time jobs subject to payment of social security contributions	Implementation of the EU Working Time Directive in consultation with the social partners	Statutory introduction of a 40-hour week and of more flexible working times. Greater flexibility regarding activities carried out by employees. Draft legislation aimed at defining part-time work to be submitted to the social partners

<b>Youth employment</b>	Improvements regarding apprenticeship contracts and fixed-term training contracts.	(see under "Vocational training")	Development of community-based work, combining work experience, education and training	Review (jointly with social partners) of the legal regime governing support to the hiring of youths so as to make it a real instrument of net job creation
<b>Vocational training</b>	The social partners share the goal of modernising vocational and "on-the-job" training	10% increase in the number of training places by 1997. Measures aimed at modernizing vocational training are to be continued. Some of the costs incurred by companies for training should be reduced. Dual vocational training system to be improved	Government and employers' commitment to improve training for the employed, apprenticeship and equity in the recruitment of apprentices	Some proposals included in the framework of short-term employment policy
<b>Fight against unemployment</b>	Legal provisions regarding management of employment crises: vocational retraining funds, better treatment of unemployed and temporary workers. "Solidarity contracts". Improvements in the operations of the "Cassa Integrazione" system	Special attention to the situation of long-term unemployed and other disadvantaged groups on the labour market. Special arrangements to be included in sectoral collective agreements. 3% reduction of unemployment benefits (see also "Aims")	Creation of a Competitiveness and Employment Protection Unit charged to assist firms in difficulties and encouraging and facilitating options other than redundancy. Adoption of a Programme Framework for Tackling Unemployment	Extension of duration of unemployment benefits. Improvements in the work of the labour exchanges, with a view to providing individual support to the unemployed and better matching of supply and demand
<b>Social security</b>	No specific provisions in the agreement. A major reform of the pension system was adopted, after consulting the social partners, in August 1995	Reforms required to protect financial foundations of the welfare state. Reductions of social security contributions by the year 2000. Gradual increase of retirement age. General commitment to reduce costs of social security. Competition in health care	Increase of social welfare payments by 3% and improvements in quality of services. Extra resources provided for health care.	Preliminary measures aimed at reforming the social security system (old-age pensions; family benefits, sickness benefits, reduction of social security contributions paid by employers and employees)
<b>Support to the production system</b>	Government is committed to adopt legislation to boost R&D and technological investment. New financial instruments to be introduced to help businesses and favour globalisation. Better use of EC structural funds. Revitalisation of public investment	Improving the preconditions for investments: SMEs, development of the services sector, reducing government expenditure in order to dynamise the economy, simplified administrative procedures and taxation system, sectoral social dialogue	Detailed sectoral industrial policy objectives for manufacturing industry, agriculture and services sector are included in the agreement	Fiscal measures to stimulate investment by SMEs and in less-developed areas. Measures concerning commerce. Participation of social partners in the management of the Community Support Framework (EC structural funds)
<b>Tax reform</b>		Corporate taxation must continue to be organized and simplified with a view to promoting growth and employment	Reduction of tax burden on the low paid and shift of the burden of taxation away from income tax (increase of Corporation Tax). Measures to counter the problem of the black economy	Some reductions in personal income tax for families and workers. Prevention and fighting of tax-evasion. Harmonisation of VAT to EC directives

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**ANNEXE N° 3**

**Contribution de M. Jelle Visser**

**Concertation - the Art of Making Social Pacts**

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May 1998

# Concertation - the Art of Making Social Pacts

**Jelle Visser**

*“Educated, eyes-open optimism pays; pessimism can only offer the empty consolation of being right. The one lesson that emerges is the need to keep trying”* (David Landes in: The Wealth and Poverty of Nations: Why Some Are So Rich and Some So Poor, New York: Norton, 1997)

The conference organizers have asked me to reflect on the conditions for success of national pacts for employment, welfare reform and wage moderation. I will do so from the perspective of the country that I know best and have studied most intensively—the Netherlands. There were no explicit Social Pacts, of the kind tried or concluded in Ireland, Italy, Belgium, Germany or Finland. In the Netherlands, during the past fifteen years we do however witness an ongoing practice of social concertation between unions and employers (the so-called “social partners”) and the government over policy objectives and policy instruments, punctuated by some general accords, the most important of which are the *Wassenaar Accord* of 1982, the *New Direction Accord* of 1993, and the *Flexibility and Security Agreement* of 1996. Recently, in April of this year, the representatives of the central organizations of trade unions and employers’ associations, together with government appointed experts in the Social Economic Council, have agreed a so-called *Agenda 2000* for the coming four years (which happens to coincide with the next legislature).

What follows is largely drawn from my study of the Dutch experience of the past fifteen years.<sup>1</sup> This is not because I think that there is a “model” (there are many) or that this so-called “model” can be or should be imported or copied by other countries (I think that it cannot). More modestly, I defend the idea that from the Dutch experience with social concertation - the term that I shall use throughout this paper - we can learn some general points about the Art-of-Making-Social-Pacts

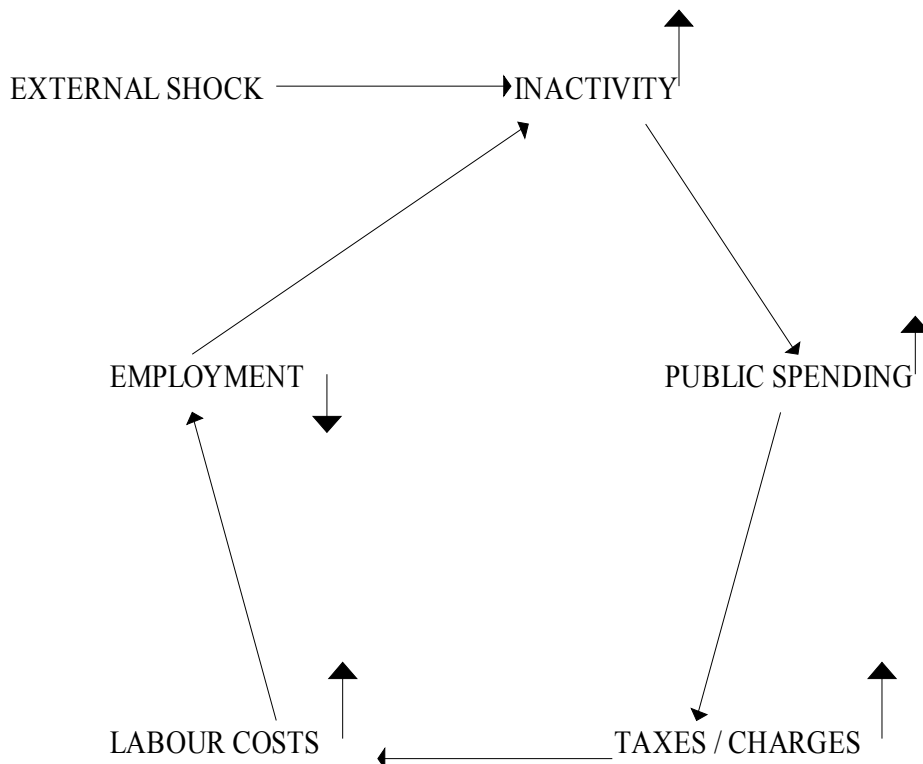
## *Why Social Pacts?*

Let me first try to answer the question what purpose is or should be served by social pacts. Where they exist, their content differs quite substantial from the incomes policy pacts of the 1970s (Pochet 1998). Much more oriented towards the supply side of the economy, the pacts of the 1990s are attempts to reconcile the EMU-target criteria of low inflation and public finance reform with economic growth, competitiveness and employment growth. Other objectives are welfare and labour market reform. The question that I want to pose is: can social pacts help to break the vicious circle of “welfare without work”?

Figure 1: the vicious circle of welfare without work

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<sup>1</sup> Jelle Visser and Anton Hemerijck, *A Dutch Miracle. Job Growth, Welfare Reform and Corporatism in the Netherlands*, Amsterdam: Amsterdam University Press, 1987



With the help of Figure 1 we can rephrase our question as follows: can social pacts help to break or reverse the cycle, and/or improve the response of decision makers (politicians, firms, trade unions) to the external shocks (i.e., shorten the time lag for adjustments, provide a more adequate reading of the signs, better dissemination of information, greater trust between economic agents, etc.)?

Reversing the cycle goes like this: if adjustment to external shocks is swift and wage moderation is used to boost competitiveness in the exposed sector and creates or maintains more jobs in domestic (public or private) services, it can slow down or lower the number of people depending on benefits and hence reduce the social wage component. It allows governments to use the improved public finances to lower the tax and contribution wedge at or near the minimum. This can help to get more unskilled workers back into jobs. Through this chain of (co-ordinated or negotiated) responses the vicious circle of “welfare without work” can be reversed.

My claim is that, in the Dutch economy of the past fifteen years, social concertation did help by (a) improving information and social learning; (b) creating more commitment with policies through broad agreements over wage moderation, job sharing and taxation; (c) organizing a better division of responsibilities between and within the three main interests (employers, unions, government) in accordance with a trend towards greater autonomy for the “social partners” (withdrawal of the state from traditional demand-oriented incomes policies) and towards decentralization of collective bargaining (from the national to the sectoral or firm level); and (d) providing a better specification of policy instruments applied by each of these

parties (for instance between wage and taxation policies). My claim is that this has produced a superior answer in comparison with a decentralized bargaining situation in which each firm or union makes its adjustment. I agree with Robert Boyer (1995) that there are no convincing reasons to believe that “les négociations décentralisées entre firmes et salariés conduisent spontanément à une distribution du revenu qui soit compatible avec les objectifs généraux de la politique économique concernant l'équilibre extérieur, la croissance et la création d'emploi.”

#### *Welfare without work: the Dutch example*

Let me first explain a few things about the Dutch case. There is no doubt that in the 1980s the Netherlands, like many continental European countries, was trapped in a cycle of “welfare without work”, a phrase coined by Gøsta Esping-Andersen (1996). (The country has still not completely recovered from it; activity rates have increased sharply but are still only just above the European average, and below rates in the U.S. or Scandinavia). In the early 1980s unemployment had reached a record number of 800,000, nearly fourteen per cent of the labour force. An almost equal number of workers had been eased out of the labour market through disability benefits and early retirement. Broad unemployment which also includes unemployed persons who are unavailable for work, beneficiaries of disability pensions, early retirement, people on social assistance, workers in government-sponsored training schemes and in public labour pools, had soared to 28 per cent of the labour force (OECD figures).

Following the oil shocks, the Dutch economy suffered, like many European economies, from a devastating interactive logic between lower growth, a deteriorating labour market, labour-saving investments, and rising social costs. Firms in high-wage economies can only survive if they are able to increase labour productivity. This is most commonly achieved through labour-saving investments and by laying off less productive workers. Under the principle of traditional breadwinner family dependence, increased inactivity drives up taxes and payroll social security contributions. This, in turn, puts pressure on wage costs, which provides new ground for reassessing the remaining workforce in terms of their level of productivity, most likely leading to another round of dismissals. A vicious cycle of high wage costs, low net earnings, exit of less productive workers, rising social security contributions, elicits further layoffs and intensifies the spiral of welfare without work. Jobs disappear in sectors where productivity increases stagnate and prices of goods and services cannot be easily raised. Moreover, if (public) service sector salaries are linked to exposed sector wage developments, and productivity lags, it leads to a loss of jobs in the very sector where many low-skilled labour may be integrated. To cut a long story short, the crisis of inactivity helps to create a new class of non-employed, low-skilled, permanently inactive, welfare-dependent citizens, who are unable to gain access to the formal labour market.

#### *The “Dutch Miracle”: reversing the vicious cycle*

In the mid-1990s Dutch policies again draw international attention. Foreign and domestic observers discover a “Dutch miracle”; they highlight the extraordinary rate of job creation; the successful approach of the EMU convergence criteria; the sustained policy of wage

moderation; the apparent willingness of Dutch workers and Dutch unions to accept part-time jobs, the lack of social unrest and the consensual style of policy making.

What happened? Three main policy changes have supported the high rate of job growth. The first - in importance and timing - is wage moderation, adopted in the *Wassenaar Agreement* of 1982 and continued since. With the Dutch guilder pegged to the Deutschmark, the real exchange rate has decreased and helped to make Dutch firms and products more competitive abroad.

Negotiated wage restraint entailed two exchanges. In the first exchange, trade unions and employers have traded lower wage demands against a reduction of working-time, first from 40 to 38 weekly hours (mid-1980s), later to 37 or 36 weekly hours (mid-1990s) on average, at the same time allowing much greater flexibility in operating hours and work schedules, as well as more variation over the year. This exchange, initially as a defensive measure for the sake of safeguarding jobs (work sharing), has helped unions to sell the policy of wage moderation to their members and enabled them to continue a policy of "work before income". In the second exchange, between unions and employers on the one hand and the government on the other, wage moderation is traded against lower taxes and social charges. This has lowered labour costs and helped to maintain spending power and domestic demand, thereby creating the conditions for more employment and continued wage moderation (a possible virtuous cycle). With the passing of time, there was a shift from the first to the second exchange, made possible by the improved public finances and the broader tax base which results from the creation of more jobs.

The second policy shift refers to the reform of the social security system. Initially, the government's objective was to contain costs and reduce the deficit in government spending. Beginning with the halt in social benefits payments in 1983, the lowering of maximum benefits and tighter eligibility criteria for unemployment insurance in 1987, the major welfare reforms took place in the early 1990s with the tightening of the two main exit routes from the labour market: disability insurance and early retirement. The shift from low (overt) unemployment towards high labour market participation becomes the ultimate policy objective and a condition for further welfare reform, necessary because of demographic change (ageing); growing health costs and health risks; sharper international competition for taxation and investment; industrial change and changing patterns of work, organization and family relations.

The third policy shift concerns the innovation of labour market policies and the emphasis on activating measures of various kinds, particularly targeted at the core of the younger long-term unemployed. This combines with further reforms in social security, and the removal of disincentives for employers to offer and for the (long term) unemployed to accept low paid employment and/or training. The aim is to move towards an "activating welfare state".

#### *The role of social concertation*

Formally, there are no Social or Employment Pacts in the Netherlands. But social concertation between the social partners (in the bipartite *Foundation of Labour*) and with the government (twice annual meetings between the government and the Foundation) or with independent, government appointed experts (in the tripartite *Social-Economic Council*) has become a matter

of routine. The main purpose is what Walton and McKersie (1965) call “attitudinal structuring”: talks before the actual negotiations begin in order to define a common agenda and find out where the limitations of the other side are (“what one reasonably cannot and should not ask if a conflict is to be avoided”). Most importantly, institutionalized concertation (in the Foundation or Council, and their attached research and working groups) enable unions, employers and government representatives to participate in “the joint observation of unpleasant facts” (Wolfgang Streeck). This is especially important in the case of negative external shocks. In a typical “agreement to agree”, the social partners and government appointed experts of the Social Economic Council did in 1992 underline the view that in an internationalizing and integrating economy the importance of such national institutions has become more rather than less important (SER 1992).

#### *The Accord of Wassenaar and “New Direction”*

The justly famous Wassenaar accord of 1982 between the two leaders of the central organizations of unions and employers was “a recommendation concerning aspects of employment policy”, written down on only two pages. The accord advised negotiators of sectoral and firm agreements to forego nominal wage increases and suspend the payment of contractual cost-of-living adjustments, due in 1983 and 1984, in order to create a financial basis for negotiations over employment stimulation measures, including the possibility of a reduction of weekly working hours. The accord was a big success; the “recommendation” was widely followed, price escalators disappeared, nominal wages were restrained, unit labour costs fell, negotiations over shorter working hours became the start for a more flexible organization of work and prepared the ground for the surge of part-time jobs. Over and beyond its immediate impact on helping the country through difficult times, the accord initiated a new consensual phase in Dutch industrial relations. More than 80 reports, guidelines, joint opinions, reports, recommendations, accords and agreements have followed, on issues varying from wage moderation, extra measures for youth employment, jobs for ethnic minorities, rights of part-timers, better protection for temporary workers and easing of dismissal procedures, training, and temporary leave.

*Wassenaar* became what *Saltsjöbaden* (1938) had been for post-war Sweden: a reorientation towards a co-ordinated, bipartite and non-statutory model of negotiating central guidelines for responsible collective bargaining in sectors and firms. It marked the end of the centralized, interventionist and tripartite phase in Dutch wage policies, and allowed the government to concentrate on welfare and public sector reform and labour market policy. By making its budgets less dependent on private sector wages and by not being party to the negotiations, the government could not be taken hostage, nor could the “social partners” walk away from their responsibilities.

Following Philippe Schmitter (1983) concertation lies in the fuzzy zone between *accommodation of interests*, in which contracting parties “agree to some specific distribution of initial contributions and subsequent outcomes”, and *reconciliation of purposes* in which they “learn to interpret reality in broadly the same way and to value generally the same thing”. The Wassenaar accord is a fine example. It set in motion a serendipitous process in which the

“social partners”, through multiple and protracted exchange, became better informed about each other's intentions, more respectful of each other's capabilities, and willing to trust each other's commitments.

How much they had learned to trust each other became apparent in the so-called *New Direction* agreement of December 1993, in response to the shock of the international recession and rapid increase of unemployment in 1992-93. Negotiations had been extremely difficult and took almost one year. (Early 1992, prodded by the government, trade unions and employers had agreed a two month “wage pause”). Finally the central organizations agreed to advise their members to moderate wages (“zero wage increases”), lift the employers’ ban on shorter working hours, and promote decentralized bargaining. In particular, the agreement stated that “all proposals in collective bargaining, for which this agreement sets the priorities, should be tested on their possible effects on and their contributions to the reinforcement of the profitability and competitiveness of companies, as well as the increase in labour participation and employment.” The impact of *New Direction* was no less than that of *Wassenaar* eleven years before; unit labour costs fell by six per cent. In a number of sectors and companies experiments with shorter hours did start, introducing corridors of 32 to 40 weekly hours, relaxing constraints on unsociable (evening and weekend) hours and introducing lower overtime rates or compensation by time off rather than extra pay. About half of all full-time employees covered by collective agreements have now a working week averaging between 36 and 37 hours; 37 percent of Dutch people (65% of women; 17% of men) work part-time (less than 35 hours per week).

Comparing the two accords, there are some obvious similarities and differences. Both were concluded under the impact of a recession and job losses. Both accords were negotiated under the threat of government intervention. In 1982 the new (right-of-centre) government had decided to suspend cost-of-living-adjustment clauses and de-index social benefits from private wage increases, and to threaten employers with legal measures if no work-sharing measures were taken. This made it easier for unions to voluntarily agree real wage moderation in exchange for a small concession of employers as the best deal in town, and gave employers a chance to conquer ‘free’ collective bargaining, without state intervention (as had been common until 1982). In 1993 employers trusted the unions more than the government and wanted to safeguard the kind of bipartism that they had gained in 1982. Only three years before, the central employers’ federations had withdrawn from a tripartite *Common Policy Orientation Pact* negotiated in 1989, because they felt that the government did not live up to its promises (on tax relief) and feared that the pact was used as a ploy “to bring the state back in”.

The differences between the two accords are both in content and form. In 1982 the emphasis was on wage moderation and the restoration of profits as a condition for job creation, and on redistribution of jobs in order to halt the rise in unemployment. In 1993 job creation and job redistribution remained the prime objectives for the unions, but the containment of labour costs was combined with a cautious support for expanding domestic demand, made possible by low inflation, a large trade surplus, a strong currency, low interest rates and improved public finances. The 1993 accord marked the transition to the second type of exchange, mentioned above, between wage moderation and fiscal compensation, setting in



motion a virtuous circle of more jobs, less per capita taxes, hence more spending power while paying flat wages to those already in employment. The 1993 accord is also a further step in the process of “centralized decentralization” of Dutch industrial relations.

#### *Why did unions and employers do it?*

Why did the unions support the policy of wage moderation (and more generally of the policy of adjustment of the Dutch economy and welfare state)? I think that there can be little doubt that soaring unemployment, job and membership losses produced the support for wage moderation in 1982 that only few years before had not been there. However, the survival threat to the unions is not the whole story; it might just as well have pushed them further into a defensive position. My thesis is that the sharp curtailment of union bargaining power within an institutional and political context of unquestioned legitimacy has helped the unions to adapt and refocus their demands to wage moderation and job growth. In this sense, their participation in joint councils with employers and the continuation of public policies supporting sectoral organisation and collective bargaining helped. Concertation worked; for employers, who recovered from a profitability crisis and improved their competitive position in international markets; for unions, which could claim the success of more jobs and more members (reversing the steep decline of the early 1980s), as well as the maintenance of vital aspects of the welfare state, despite retrenchment; for the government, which could concentrate on improving public finances and necessary reform of the welfare state.

#### *What is social concertation?*

Let me now turn away from the Dutch case and concentrate on the general conditions for social concertation or Social Pacts? Researchers have centred their institutional arguments around two key variables. These are the administrative structures of the state, on the one hand, and the organizational attributes and power resources of organized interests of employers and workers on the other. Concertation presupposes that state officials are able and willing to share political authority with functionally organized interest groups in society, and that these interest groups are willing and capable of mobilizing the support of their membership in exchange for political influence. In past years a great deal of research effort has concentrated on the society-centred characteristics of the functional interests of organized labour and capital. In particular, the so-called “encompassing organizations” (Olson 1982), i.e. comprehensive, centralized, and concentrated organizations, are believed to be inherently oriented towards responsible strategies of collective action, corresponding with the public goals of full employment, economic growth and price stability (Bruno and Sachs, 1985; Calmfors and Driffill, 1988; Visser, 1990).

We may define concertation as *the extra-parliamentary political practice of ongoing negotiations between the representatives of the organized interests of capital and labour over issues of social and economic policy-making, facilitated by the state, conditional upon substantive outcomes, and under the primacy of parliamentary control*. Institutionalized concertation can be understood as a form of generalized political exchange. The term “exchange” presupposes a fundamental degree of choice and self-interest of each of the

parties in the process, whether private or public, bipartite or tripartite. Ideally, in social pacts private interest groups such as unions or employers associations forego the use of their political and economic power for self-seeking purposes in exchange for participation in or control over the policies of others, including those of the state. By defining such adjustment processes as “ongoing” and “negotiated” we want to draw attention to the fact that each side has a degree of autonomy (they may choose not to participate or walk-out of the talks), but that in institutionalized concertation there are usually high exit costs.

#### *The positive effects of social concertation*

Institutionalized concertation entails a number of positive effects on policy learning and decision-making. These are (1) institutional stability, (2) longer time horizons, (3) “pacta-sunt-servanda”, (4) a shared understanding of “unpleasant facts”, and (5) a problem-solving style of joint decision-making. A concerted approach to problems and policy failures is founded, in the typology of Hirschman (1970), in the deployment of “voice”. Participants are obliged to explain, give reasons and take responsibility for their decisions and strategies to each other, to their rank and file, and to the general public. They must deliberate a wider range of policy issues, and take consideration of more alternative policy options. Concertation restrains participants “to go it alone” or “vote with their feet”. This creates a pressure to compromise, which over time may produce a sense of mutual debt and become an element of “loyalty”.

Institutionalized concertation tends to stabilize participation and give negotiations a longer time horizon. The knowledge that “we will meet again” (game theorists speak of a “shadow of the future”) helps to install patience and trust, and encourages a search for “win-win” solutions (Axelrod 1984). Continued participation helps to increase commitment and compliance, since to renege on a deal amounts to loss of bargaining credibility in the next round. Participants are forced to try and agree on the “state-of-the-world”, whatever their conflicts of interests might be. This helps to bring about a “problem solving” (productive) rather than a “bargaining” (distributive) style of policy making (Scharpf 1997). In economic terms the gains of such a system lie in the saving of transaction costs, as a consequence of the increased stability of participants and predictability of their behaviour, and the avoidance of damaging conflicts.

The most interesting property of social concertation lies in the possibility that interest groups redefine the content of their self-interested strategies in a “public-regarding” way. In my understanding, this is not a matter of good-spirited action in which interest groups give up their own interests, sell-out their members, or miraculously transform themselves from “rent-seeking” egoists to “public-regarding” altruists. “Public-regarding” behaviour of interest organizations depends on (1) organizational characteristics, (2) mutual trust between organizations, (3) a notion of duty and (4) a sense of fairness.

According to Mancur Olson (1982), *large and internally heterogeneous interest groups* (for instance unions which also organize pensioners) must compromise interests within their own ranks and cannot walk away from the negative external effects of their action. If they are large, they do not enjoy the “important advantage of being important” (Alfred Marshall) and therefore cannot hide their action from the public eye. This makes them susceptible for moral

persuasion. According to Robert Putnam (1993) *mutual trust* is enhanced through “a norm of reciprocity (...) or a continuing relationship of exchange, that is at any given time unrequited or imbalanced, but involves mutual expectations that a benefit granted now should be repaid in the future”. To sustain such a norm of reciprocity, Putnam maintains, actors must partake in “networks of civic engagement”, which allow them on an organizational footing to meet on a regular basis, and renew their pacts and pledges. The reasons for this are straightforward: networks of civic engagement increase the costs of defection; they nurture norms of reciprocity; facilitate communication; and improve the flow of trustworthy information and important knowledge; and, finally, they remember and celebrate past successes of co-operation, thereby encouraging future collaboration. *Duty* entails a shift in the definition and interpretation of what is in a group's best interest. Negotiators may be persuaded to include the interests of outsiders in the labour market in their interaction with each other and the state, if they are constantly reminded and encouraged to re-think and re-define their interests as a group in terms of what that means for other groups and for future generations. In Putnam's terminology, the denser the networks of civic engagement, the more such moral behaviour will be forthcoming. *Fairness* - or the idea that each side has to accept his part of the burden - is important for the continuation of any form of social or political exchange. Fairness is a behaviourally observed norm; the impression that others do not live up to their part of the deal tends to undermine one's own commitment. This is why soaring profits or stock options, or the absence of “jobs, jobs, and more jobs” can quickly erode the social basis for wage moderation.

#### *Possible negative effects*

While in this view concertation inspires a number of positive learning effects, it also harbours disadvantages and political risks. Concertation is not a *passe-partout*. It does not guarantee success, and it can even institutionalize failure. By increasing the interdependence between the interest groups and sanctioning their participation in public policy, interest organizations gain veto power, which they may use to slow down decision making and frustrate public policy. The reliance on the organizational capacities of societal interests can, in case of fundamental disagreement over policy alternatives, enable privileged interests to block innovation and stifle change. In terms of quality of decisions, compliance and implementation, the “problem solving style” of concerted decision making has many advantages over other styles (perennial bargaining; fighting it out; imposition of the majority view; state rule), but it tends to take more time and preparation. Problem-solving is the most fragile style of decision-making. Its built-in tendency to seek unanimity can easily lead to policy stalemates and defection. Finally, unrestrained by external pressure, concertation may turn into a “insiders cartel” which makes others pay the price of their cozy deals.

#### *Conditions for success*

What, then, are the conditions for successful concertation? There are two dimensions: *societal support* and *institutional integration*. Societal support denotes a combined indicator for (1) the objective and structural capacity and (2) the subjective and strategic willingness on the part of organized interests to engage in concertation. Social pacts can only develop if corporate actors

are sufficiently comprehensive and united. But they must also will to compromise and seek common solutions. The key argument is that concertation depends on the strategic capacity of comprehensively organized or “encompassing” societal interests. Encompassiveness relates to the two main functions of interest group representation, their capacity to represent members' demands in negotiations with others, and the ability to lead their members and ensure members' compliance with the agreements they conclude.

Institutional integration underscores the relative importance of the state and enabling public policies. It corresponds with a notion of “shared public space” (Crouch 1986), and can be viewed as the combined indicator of (1) the objective and capacity and (2) the political and strategic willingness of the public authorities to share regulatory authority with organizations of civil society, which they do not administratively control. The institutionalization of concertation requires state actors not merely to create and maintain a framework for political exchange, but also to develop a certain minimal steering capacity to guide societal bargaining in the direction of “public goods” (i.e., growth, competitiveness and employment; more opportunities for “outsiders”. etc.). This particular idea about the role of the state corresponds with the notion of a “shadow of hierarchy” in strategic games (Scharpf 1997). The ultimate availability of hierarchical intervention and state ratification of social pacts and agreements reached between private interests, helps to curb distributive conflict and limit opportunism among bargainers. The state's authority to approve, reward and ratify implies the power to disapprove, punish and nullify, and hence the possibility to insist on *bonafide* negotiation processes.

The general point is that the procedures and outcomes of social pacts are not beyond critique. In democracies, governments must answer, ultimately, to parliaments and voters. That is why concertation not only needs the *discipline of the market* (i.e. openness to international competition and to the democratic vote of those who must implement, and will feel the consequences of, social pacts and agreements on the ground (in firms, workplaces and labour markets). It also needs a *shadow of hierarchy*, i.e. the legal and political near-certainty that public authorities take corrective action if need be.. In my opinion, a “strong” practice of social concertation needs a “strong” state. This is not to be confounded with a large state, rather the opposite is true: a state which is not overcommitted can less easily be taken hostage and is more credible when it does threaten to intervene. A strong state, in my opinion, is a state which promises not too much, but usually does what it promises.

This “relative autonomy” of the state should not be misunderstood as if public authorities can change the operation or outcome of social pacts, or dictate the involvement of the “social partners”, as if they were operating a lever. They shape concertation and operate within it. By guaranteeing and facilitating the necessary infrastructure and policy scope of concertation, the democratic state can only prompt, perhaps bribe, but not coerce, private actors to adopt “public regarding” view and strategies. For concertation to work, consent and support must be given freely. The ultimate lesson is that it pays if everybody keeps trying.

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