

Robert Schuman Centre

A New Social Contract?

The Social Contract and the
Problem of the Firm

COLIN CROUCH

RSC No. 96/46

EUI WORKING PAPERS



EUROPEAN UNIVERSITY INSTITUTE

EUROPEAN UNIVERSITY INSTITUTE



3 0001 0026 9510 6

EUI Working Paper RSC No. 96/46

Crouch: *A New Social Contract?*
*The Social Contract and the Problem
of the Firm*

The Robert Schuman Centre was set up by the High Council of the EUI in 1993 to carry out disciplinary and interdisciplinary research in the areas of European integration and public policy in Europe. While developing its own research projects, the Centre works in close relation with the four departments of the Institute and supports the specialized working groups organized by the researchers.

EUROPEAN UNIVERSITY INSTITUTE, FLORENCE

ROBERT SCHUMAN CENTRE



A New Social Contract?

The Social Contract and the Problem of the Firm

COLIN CROUCH

A Working Paper written for the Conference organised by the RSC on
A New Social Contract? held at the EUI the 5-6 October 1995,
directed by Yves Mény and Martin Rhodes

EUI Working Paper RSC No. 96/46

BADIA FIESOLANA, SAN DOMENICO (FI)

All rights reserved.
No part of this paper may be reproduced in any form
without permission of the author.

© Colin Crouch
Printed in Italy in July 1996
European University Institute
Badia Fiesolana
I – 50016 San Domenico (FI)
Italy

The business firm has become a central institution in contemporary society in ways which make it, whether the owners and managers of firms want this or not, a problematic institution for democratic politics, or indeed for any politics at all, and therefore for the construction of any new form of social contract. The question has several very diverse aspects, and it is their cumulative effect that makes the issue so problematic. First, increasing weight is placed on the individual firm (rather than a whole industry, or government policy) to find new opportunities for economic progress, which has raised the firm to a position of primacy among the institutions of our societies. Second, large corporations are in certain circumstances able to exercise real power in a manner that is not provided for in either economic or constitutional theory. Third, firms are becoming important institutions of identity for their personnel, partly because the most advanced firms increasingly feel a need to develop a company culture, and partly because this growing strength of firms is happening at a time when, several other social institutions undergoing crises, people are becoming increasingly dependent on their place of work to satisfy a range of social needs. Fourth, firms have an increasing wider social legitimacy, partly through their role in funding or sponsoring aspects of social life outside the sphere of their market activities, and partly because their forms and practices are coming to be seen as almost the only acceptable ones for running organizations of many different kinds.

I shall briefly explain what I mean by each of these points before going on to consider why I think they create a political problem.

The Changing Position of the Firm in Western Society

Increased dependence on the firm for economic success

For the first few post-war decades, in most western economies there was a co-existence between autonomous companies (exploring and exploiting niches in the constantly changing and innovating product markets) and government policy (which, whether through demand management, indicative planning, provision of infrastructure, or some other devices, provided a macro-level framework). Although the political rhetoric of the political right stressed a need to reduce the role of government, while that of the left wanted to increase it, governments of all kinds agreed on a basic pattern of this kind. The diversity of approaches was surveyed by Shonfield (1965) in an influential work, and he returned to the subject in

later contributions written when this model was already in crisis (1983, 1984).

Since then a number of changes have occurred which have shaken these patterns. There has been failing confidence that demand management of a Keynesian kind can restrain inflation. There have also been various changes which have increased the uncertainty and lack of predictability of product markets in an economy characterized by: rapid technological change and innovation; intensifying global competition; the return to an era of steep trade cycles after the end of the Keynesian interlude; the increased orientation of product and service development towards volatile consumer markets. All this is well known. The implication that is important for the present argument is that the individual company comes to be generally perceived as the only mechanism sufficiently flexible and close to market to cope with product market uncertainty. While many firms might fail in the attempt, some will succeed and survive; and while they are making the attempt they plausibly demand as much freedom as possible from extraneous constraint.

There is therefore an extreme lack of confidence on the part of the public sector that it could play a constructive part in such an environment. This is exacerbated by the prevalence of neo-liberal ideology, but cannot be reduced to it as it has independent causes. In fact, one reason for the popularity of neo-liberalism may be that it recognized a deficiency in public policy of which policy-makers were already aware, and provided them with an alternative. The lack of confidence may not always be justified: such developments as Minitel and the TGV have shown that the state (or at least the French state), has had a capacity to innovate successfully in high-technology, customer-oriented sectors. However, within the industrial world at large today a lack of confidence in public capability has to be taken for granted. Governments increasingly believe that the only action they can take is to deregulate, to get themselves out of firms' way (Rose-Ackerman 1992).

Within the argument about the primacy of the firm there is considerable inconsistency over whether very small or very large companies better embody the scope that firms offer. Until very recently it appeared that new advantages lay with small firms, which are better able to realize the values of innovativeness, fast movement and flexibility (Geroski and Schwalbach 1986; Acs and Audretsch 1990; Thurick 1995). Around the time that the crises within such firms as IBM and Fiat were coinciding with a rapid rise in small computer companies in California or the tiny firms in *la terza*

Italia, it was widely argued in the management science literature that the days of corporate giants were numbered. Small firms have been seen as particularly important in the creation of jobs (see for example the affirmation of this in European Commission 1994, p. 13). But, somehow without disturbing this conclusion, gigantism has come back in favour. A few massive mergers in pharmaceuticals, mass media corporations and elsewhere, the achievement of giant size by Microsoft, have heralded a return to arguments about the absolute need for enormous size, and even for strategic alliances among companies which already individually have enormous size, if firms are to stand any chance in a globalized economy (Hayward 1995).

Behind these fluctuations some things remain constant. If small firms seem central to economic success, that is taken as a clear demonstration that firms must be given as much entrepreneurial freedom as possible, because no public body could deal properly with small, flexible units. If giant firms seem central to economic success, that is taken as a clear demonstration that firms must be given as much entrepreneurial freedom as possible, because no public body could deal properly with such transnational, trans-sectoral organizations. Or, even if public power of some kind ought to be exercised, it is doomed to be unsuccessful in the global economy of giant corporations and financial institutions (Strange 1994: ch 2).

Large corporations and real power

There have been many periods in the past where large firms have been real power players on the political scene. However, (i) this did not in general occur within societies that had the democratic aspirations of contemporary advanced societies, and (ii) with a small number of exceptions (mainly in the UK and the Netherlands) even large firms could not escape national jurisdictions. The new global corporations, especially when they form strategic alliances, have a capacity to regulate world trade, to select among regimes for soft laws on such issues as labour conditions, corruption and taxation, in a manner and with a speed and flexibility that completely outpaces the slow, pluralistic and constitutionally correct practices of cross-national political mechanisms (for example the European Union).

Economic theory, which is accepted on this point by most constitutional approaches, argues that the concept of power cannot be applied to pure competitive market economies, since within the pure market no one actor can affect price or any macro-variable by its own actions alone; all actors

are anonymous and non-strategic by the definitional criteria of the perfect free market. Of course, the possibility of monopolies and of collusion among firms appearing in practice is recognized, but laws are then framed to prevent these and uphold the pure competitive model. Contemporary markets, it is then pointed out, are very competitive indeed. Therefore, there is no need to worry about the power of companies; such a phenomenon simply cannot exist, provided we guarantee the competitive order.

There are two weaknesses in this argument. First, a competitive market and a pure market are wrongly treated as one and the same. It is possible for a market comprising only two firms to be ferociously competitive. However, such a market is not 'pure'; it cannot be claimed that the firms in a market with a small number of actors match the criteria whereby markets ensure the impossibility of power (anonymity and lack of strategic capacity). It is only within the pure market of economic theory (multiple actors, none of whom can produce an effect by acting alone) that competition takes a form that can be held to be a sufficient condition for removing all anxieties about concentrations of power within the authority structure of giant firms.

Second, the approach to monopoly within most national jurisdictions is naive. Although anti-monopoly regimes now usually recognize a concept of market power and not just an accounting measure of monopolistic presence, attention is still primarily concentrated on individual product markets, and generous scope is given to the consideration of substitute goods as diluting monopoly power. (For example, the market in cola drinks comes close to being a global duopoly, but people can drink lemonade or many other substitutes, so it is not as matter for concern.) Monopoly law and regulatory practice are very reticent in considering the implications of giant size that is distributed across different product markets and national markets, so long as a firm's presence in any one of these does not itself constitute a monopoly. This ignores the capacity of transnational corporations to marshal global and cross-sectoral resources strategically, outside the conditions internal to any one product market. Such strategic action constitutes an act of power and is not therefore confinable within market theory.

For example, the media giant, News International, has recently been using its global strength (extensive newspaper ownership in a number of countries, a strong presence in the heavily oligopolistic world of satellite television) to subsidize the price of some of its UK newspapers in order to reduce the market share of, and possibly to destroy, some of its

competitors. The competitors do not have the same global and cross-sectoral resources as News International and are therefore unable to follow its price reductions while holding constant the size and quality of their products. It has proved impossible to have this regarded as questionable behaviour within British monopoly legislation. In contrast, the privatized British telecommunications corporation, BT, *has* been prevented from using profits from running the main public telephone system in order to subsidize the consumer prices of its telephone equipment, on the grounds that its competitors in this latter field do not have a similar capacity. This has been possible because, as a privatized, formerly state-owned, corporation, BT is subject to special regulatory arrangements. It is the fact that it used to be within the public sector that enables BT to be seen as raising a problem of market power, not the fact of the market power *per se*, that concept being difficult to acknowledge within the purely private sector.

Companies as cultures and as communities

The most advanced firms increasingly feel a need to develop a company culture, or 'whole company' approach, if they are to succeed. This means shaping all their activities, and every possible element that comes within the scope of the firm, in targeted pursuit of competitive success. In particular, their employees and the *personæ* of their employees', their characters and the quality of their loyalty to the organization, must be fashioned according to a central, co-ordinated plan. The guiding concept is 'human resource management'.

Although present employment conditions are often dubbed post-Fordist, these developments constitute an extension of Fordism to parts that Taylorism never reached. Although the immediate origins of such practices today are often imitations of Japanese practices, they have an older history, some western firms having long developed the idea that employees should identify with the company and give it a commitment of time, loyalty and affection going far beyond the strict terms of the employment contract. Among German firms in particular senior managerial staff became a kind of private civil service or *Beamtetum*, in imitation of the 19th century German state's demand for such loyalty in exchange for the status honour conferred on its officials (Kocka, 1981).

A second and increasingly more vigorous source, however, derives from the growing relative importance of the various services sectors within the economy. Whereas in manufacturing firms there might be considered to be a distinction between the production process (where the employees are

located) and the product (where there are few people), in services the process *is* the product, and the personality of many employees is engaged as much as their technical performance. It is this characteristic of domestic service that makes that set of occupations particularly humiliating to perform, with extraordinary requirements for personal deference as well as impersonal subordination to authority.

From the point of view of many people in western societies, the claim of the employer to make demands on a growing number of aspects of personality is a problematic intrusion on private space. Clearly, some people do not feel this, or IBM and many similar companies would never have been able to recruit a work force, but one might expect the supply of such persons to be relatively limited. If large numbers of employees, going beyond the ranks of the self-selected, are expected to act in these ways, and towards private corporations rather than towards the public agency of the state, the situation becomes rather different.

However, this tendency is contradicted by two other central trends in contemporary company practice:

- (i) particularly within the increasingly dominant Anglo-Saxon form of corporate ownership, firms change their identity changes very rapidly as they engage in take-overs, mergers and frequent reorganizations; it is difficult for such shapeless structures to insist on conformity to a company culture;
- (ii) the growing casualization of the work force (including such developments as temporary labour contracts, franchising and the imposition of self-employed status on people who are *de facto* employees) is difficult to reconcile with long-term bonding to a company culture. To some extent of course these two contrasting practices - human resource maximization and casualization - are found in different kinds of firm, or between different types of employee (core versus marginal) within firms.

Both these points raise an interesting question. It might be difficult for a firm whose own identity is subject to fluctuation and fragmentation, and/or whose employment strategy involves casualization, to demand deep personal commitments, but in a world where firms are trying to maximize everything, they might well try.

In this they might be helped by a further development. The growing strength of firms as institutions is occurring at a time when several other social institutions are undergoing crises, and some people are becoming increasingly dependent on their place of work, and therefore on their

employing firm, to satisfy a range of needs going beyond work and income. In the majority of advanced societies growing divorce rates have made many families unreliable as social units; crime and the motorization of transport have reduced the role of neighbourhoods and urban public space; outside the USA, religious organizations continue to decline. It may therefore be hypothesized that the work place has grown in relative importance as a social as well as an economic resource for many people.

The legitimacy of firms in the wider society

Firms have an increasing role in funding or sponsoring aspects of social life outside the sphere of their market activities. This extends the role and - because these are non-market areas with non-market decision processes - the power of firms and their central decision-makers to further areas of society. The extended crisis of public finance in most advanced societies, combined with a political priority on reducing public expenditure in order to limit taxation, is the main cause of this change. The relative role of public funding for many activities has declined. Its place is increasingly taken by the growth of sponsorship, whether from motives of advertising, public beneficence, the desire for immortality, a scheme for reducing taxation obligations or an enjoyment of power. Nearly every non-profit or low-profit human activity that requires financial support now seeks sponsorship by companies. A share in control of the activity is only occasionally, though sometimes importantly, required in exchange. However, there is always an exercise of power in the decision to sponsor one activity rather than another.

This process has two interesting consequences:

(i) the decision-making power of persons who have authority within firms, within the market sphere, is extended to other spheres - spheres where the rules of professional competence and the market that contain their power in the firm itself do not apply. In particular, they may thereby be able to exercise influence over areas that had been deliberately protected from corporate power and market forces (such as higher education and the arts). In some ways firms hereby acquire a public rather than a private power. This can happen in many ways, but perhaps the most obvious is the practice, originating in the USA but rapidly spreading, of permitting charitable donations to be offset against liability for taxation. If one assumes that the tax revenues thereby foregone result in reduced public expenditure, what has happened is that wealthy corporations (and individuals) have been able, not only to decide which of a number of

activities to favour with their own money, but simultaneously to pre-empt public money for the same activities, removing decision-making power from public agencies.

(ii) Through their growing prominence in sponsorship activities companies come to be seen as the most significant and legitimate institutions within society, which makes it more difficult to articulate criticisms of their behaviour. A further consequence of this is that senior managerial personnel are in this way acquiring some of the attributes of a ruling class (see Crouch 1993).

Of course, it can be argued that public funding for cultural and intellectual activities can be at least as dangerous as funding by rich corporations; at least some corporations to the lists of sponsors introduces some pluralism, even if it is the pluralism of a very narrow segment of society. Many examples can be provided to demonstrate the force of this point, particularly with respect to the behaviour of state-owned television channels in several countries. However, as I shall discuss in more detail below, states and citizens in many democratic societies had developed codes and understandings about the permissible limits of government interference. Such codes have often not developed around privately funded activities.

On a different point, because firms are increasingly the central institutions of our societies, their forms and practices are coming to be seen as almost the only acceptable ones for running organizations of many different kinds. Non-firm organizations are losing confidence in their *sui generis* status and believe that they must model themselves on firms, even if this means changing the character of their activities. The argument has been applied in particular to government departments and public services. (Osborne and Gaebler's *Reinventing Government* (1992) is in many respects the key text for this, though it is often forgotten that, as their title implies, the authors were trying to find new, innovative ways in which government could learn from business in order better to carry out its tasks; they were not advocating the privatization or diminution of government.) There may often be efficiency gains from this process, as firms in the market place clearly have better records at caring about the efficient application of means to ends than, say, churches, state bureaucracies or families.

However, the extension of the logic of the firm can be problematic for two reasons:

(i) Often, though not always, the reason why an activity has not been treated in this way in the past has been that it has been inappropriate or distorting to do so. Some of the controversies resulting from the imposition of internal markets in health services have this character; many of the transactions involved between teams of health workers are diffuse exchanges governed by an ethic of professional duty and extreme concentration on the goal of patient care (Altenstetter and Haywood 1991). It is not just high transaction costs which are involved in trying to replace that dense network of co-operation by transparent, quantifiable accounting rules. To counter the danger of distortions from such a process, in some cases public policy prevents the complete acceptance of a corporate logic; however, if it still insists on similar overall outcomes it might simply shift the distortion to a different point. For example, a supermarket chain can improve productivity by closing smaller outlets and building a small number of very large outlets on out-of-town sites. (The loss of trade from previous customers who do not have private cars and cannot reach the new outlet is probably cost-effective, because these will usually have been poor people of low spending power.) Now read those sentences again, replacing 'supermarket chain' by 'local education authority', 'outlet' by 'school' and 'customers' by 'pupils' and one can see why school authorities are not as cost-effective as supermarket chains. However, today education authorities may well be required to achieve the kind of productivity gains found in supermarket chains, while not being able to use that particular strategy.

(ii) If firms are the only *sui generis* institutions, then the only valid expertise is that which derives from experience in managing them. Not only does this mean that managers from commercial firms are likely to be placed in authority over many other fields of action, but persons with commercial experience will monopolize advice on public policy. This further extends the power of persons from the firm sector to other sectors of life as discussed above, helping to turn them into a new form of ruling class. Also, of course, it places them in a strong position to protect their own private interests.

To date the apogee of this process of subordinating other institutions to the logic of corporate structure has been *Forza Italia*, the first political party to be in effect a branch of a corporate giant, with employees taking the place of members - and, for good measure, using the television stations owned by the firm for unrestrained political purposes.

Why these Developments Pose Problems for a New Social Contract ?

Within societies that place considerable and perhaps increasing weight on the containment and scrutiny of public political power, the tolerance of the several extensions of the power of firms (in reality, of a limited number of individuals in key positions in firms) leads to considerable imbalance, since these extensions are largely unregulated, unnoticed and unscrutinized. This imbalance makes it difficult to envisage the corporate sector being brought to the table to agree to a social contract, unless it was very much on its terms in a way that undermined the existing rights of customers, the general public and, particularly, employees.

The imbalance takes primarily two forms. First, firms are able to elude public action because of the greater agility afforded to them by the lack of scrutiny and constraint. (Good examples of this would be seen from a comparison of how the EU sets about introducing a regulation and how a strategic alliance of global corporations reaches agreements on its procedures - which is also a regulatory process.) Second, as we have seen, in a number of different ways dominant individuals from firms increasingly exercise influence and sometimes control over many public and non-firm domains. In this activity too they are not subject to the same procedural rules as public or political actors, even if the scope of their action may sometimes rival these.

Furthermore, at the very moment when the power and scope of the corporate sector is growing, it is in several respects becoming less constrained and less accountable in how it uses that power than in the recent past. Globalization makes possible a certain amount of 'regime shopping', which has in turn led to a wave of deregulation as national governments seek to lower the cost of accepting their jurisdiction and act in fear that any constraints on firms may burden them in international competition. The slack labour markets of the fourth quarter of this century (compared with the third) makes possible increasing evasion of obligations to employees.

These tendencies are partly contradicted by a number of developments. In the USA the eagerness of citizens to take legal action against any company (or individual or government department) that deceives them or injures their interests in any way, and the willingness of the courts to respond favourably to these actions, makes firms very cautious and wary about any damage they might cause - at least to sections of the public rich enough to risk taking US court action. This imposes some important forms of

corporate good behaviour going beyond what is required by statute law. Europeans and European legal systems have yet to learn to act way. Further, the growth of ecological concerns almost everywhere in the advanced world has required the imposition of new constraints on enterprises, and some pressure towards 'stakeholder capitalism' - which means essentially the more or less formal recognition of the rights within a company of interests other than shareholders: employees, customers, persons in the environment affected by a firm's operations.

There is however an important imbalance here. While it is probably true that the protection of customers and the wider environment against the actions of private corporations has gained considerably in importance in recent years, the protection of those most vulnerable to the actions of corporate management - employees - has stood still or in some cases may even have declined in the search for labour market 'flexibility'. It is certainly the case that these rights are under considerable political pressure on the grounds that they have become associated with high unemployment: once macro-economic measures for tackling unemployment have been virtually ruled out, there is virtually total reliance on company managements for creating jobs. If the price they demand is a reduction in labour standards, there will be strong pressure to accede. In this way the reduction of unemployment has become a rallying call of the political right in several countries, reversing the previous historical pattern. In the western country where the attack on labour rights has proceeded furthest (the United Kingdom), the position has been reached that an employee stands a good chance of sustaining a right against an employer only if it can be interpreted as a right of an investor, a member of an ethnic minority, or a woman (For a discussion of how pension rights in particular have a sound basis only because they can be seen as investor rights, see Davies and Freedland 1995: 575; see the same authors (pp 381-5 and 583-5 for an analysis of how the strength of ethnic minority and gender rights in the UK have moved in the opposite direction to employee rights.)

This raises the fundamental problem posed by the neo-liberal state: the sole macro-economic policy remaining to a state that has accepted the logic of the priority of the company as set out at the beginning of this article is to de-regulate the corporate environment as much as possible (Crouch and Streeck 1996). Universal deregulation is in fact the functional equivalent for the 1990s of Keynesianism or *planification* during the 1950s and 1960s. It is background, macro-level action by the state in support of corporate entrepreneurial activity. The problem with it is that it is like Samson's action in pulling down the temple containing his enemies:

it killed him too. One everything has been deregulated, the state no longer has even a *potentiality* for a capacity to act. The economic fate of the population rests solely with the firms, domestic and transnational, which operate within its boundaries. There can be no assurances that the invisible hand which may enable such an economy to achieve a high level of efficiency will do so in a way which can provide a reasonable and stable standard of living for all persons living within the society. The aspiration for such a standard will however remain.

What is to be Done?

It is relatively easy to spell out the kinds of measure that could equip firms with a constitutional and legal framework required by their social predominance and consistent with the concept of a renewed and balanced social contract - which is different from and larger than what is required to enable them to act as the orderly *economic* actors that they are in most advanced societies.

First, in recognition of the growing dependence of employees on firms, employees' rights as individuals and as groups need to be protected and advanced in such areas as: protection from unfair dismissal, openness and access to information, consultation and codetermination (e.g. works councils), the effective right to representation by autonomous organizations (i.e. trade unions). (Trade unions in a world in which individual companies are dominant and many employees engaged in relations of commitment and loyalty to firms' goals need to be rather different from most existing unions - but that is a different question.) Second, the concept of 'stakeholder capitalism', already more easily realized within certain northern European jurisdictions than within Anglo-American company law or southern European practice, has recently become a useful focus of debate, especially in the UK. This could prove a fruitful means of expressing employee, customer and ecological interests. Third, company law needs to take a broader, less purely economic, market-bound view of the concept of corporate power. Experience emerging from the regulation of, privatized corporations may well be usefully applied more generally. Further, however, this is not just a matter of regulatory control, but in fact also of policy to guarantee the strength and viability of the competitive order itself, in the full sense envisaged by the original *sozialer Markt*. That is, it requires a broad range of positive measures for the small and medium business sector as much as negative controls on corporate giants.

Fourth, funding and sponsorship of non-market or weak-market activities need to be placed on a more constitutional basis. In the debates of the mid-1980s that led to the rise of private, and decline of public, sponsorship of cultural, sporting and educational activities a caricature was presented of a dangerously monolithic and political state against a vibrant pluralism of benevolent private donors. In reality, in many countries the state had found creative and successful ways of establishing barrier institutions, relatively impervious to political pressure and more or less pluralistic, for channelling public funds; whereas the world of private, and especially corporate, donors contains much dubious practice and power-mongering. In part, a restoration of the concept of the public sector, mediated through barrier institutions, requires revival and re-energizing before matters have slipped beyond recall. In addition, however, much can be done to reduce the pre-emption of control by the corporate sector. Taxation regimes which grant exemptions for charitable giving, or even which accept sponsorship as allowable business expenditure, need to privilege types of corporate sponsorship and donations that accept constitutional forms. By this I mean forms modelled on the autonomous, self-governing foundation or trust pattern of the Ford Foundation, the Volkswagen Stiftung, etc., rather than the cruder forms of direct funding that have grown at such an extraordinary pace in very recent years.

Finally, areas of human activity outside the scope of firms and markets - education, culture, health, religion - need to recover self-confidence, self-assertiveness, own definitions of efficiency and procedures for achieving it, and belief in their characteristics *sui generis*.

While one could extend such a list of requirements in a number of other respects, and usefully debate their practicality, one must stop short in order to end with a final reassertion of the difficulty at the present time of most such ideas. Attempts to implement any elements of such a programme encounter two fundamental obstacles. These are:

1. Europe is currently experiencing simultaneously a globalization of economic processes but a reassertion of the nation state (against supranational political entities) at the political level. There is therefore a growing divorce between the level at which political action needs to be taken and that at which it can be taken. There is an important exception to the decline of supranationalism: policy to deregulate markets. But this is the exception that proves the rule, being an extension of the point made above with reference to purely national polities. The deregulatory part of the European integration project, the pursuit of the European Single

Market, has met with universal applause, no government being more supportive than the neo-liberal British one which in all other respects is fully opposed to further integration. This is because deregulation is a form of integration that immobilizes the scope for further political action.

2. At a time of economic uncertainty and fears of the implications of growing competition, there is extreme reluctance to impose constraints on the interpretation of the needs of firms offered by the corporate sector itself, especially given the new prominence that that sector has acquired in policy-making as discussed above. While discussion of stakeholder capitalism flourishes, firms within, for example, German company law, are eagerly looking for ways of becoming more like Anglo-American companies, with the flexibility and unencumbered manoeuvrability afforded by having shareholders as the sole legitimate stakeholders. Paradoxically, it is at times of relatively easy prosperity, when business is perhaps most inclined to relax and behave itself, that other social actors are inclined to take its success for granted and therefore to impose rules of behaviour on it. When times are tough, and firms most likely to explore every avenue, every kind of behaviour, to achieve success, everyone else is afraid to question them.

In particular it is very difficult at the present time to argue in favour of strengthening employees' rights at work. In the absence of any confidence in macro-economic measures, the problems of unemployment in European economies are increasingly seen as amenable to solution only by weakening the rights of employees and strengthening those of managers, so that it is easier and cheaper to deploy and dispose of workers as management chooses (see, for example, the central burden of the argument of the OECD's *Jobs Study* (OECD 1994).

There are exceptions and counter-trends; in a complex world there always will be. The EU's policy on works councils has made extraordinary progress, defying several of the expectations of the above arguments; the sheer scale of the ecological dangers that we are producing often induces greater public fear than do firms' threats that attempts to regulate them on these grounds will make them move elsewhere. South Korea and some other newly industrialized countries are showing how, after a period of unrestrained corporate dominance, publics do begin to assert other priorities. In general however, for as long as conditions 1. and 2. obtain, and in particular for as long as it is difficult for public agencies to produce strategies for productive job creation and economic advance that do not simply involve placing more reliance on the individual firm, the new

position in our society that the firm has acquired will remain a major constraint on any attempts to renegotiate the social contract - unless of course it is to be one on a kind of East Asian model of a company-dominated culture in which mass citizenship rights in the wider society were much diminished from the current expectations of most western European populations. That would certainly be new.

References

- Acs, Z.J. and Audretsch, D.B., *The Economics of Small Firms: a European Challenge* (Dordrecht: Kluwer 1990).
- Altenstetter, C. and Haywood, S. (eds), *Comparative Health Policy and the New Right* (Basingstoke: Macmillan 1991)
- Crouch, C., ¿Una nueva revolución gerencial?, *El Futuro de Socialismo* No. 7, 1993
- Crouch, C. and Streeck, W., 'L'avenir de la diversité du capitalisme', in *ides* (eds), *Y a-t-il plusieurs formes du capitalisme?* (Paris: La Découverte 1996)
- Davies, P. and Freedland, M., *Labour, Legislation and Public Policy* (Oxford University Press 1995)
- European Commission, *Growth, Competitiveness, Employment* (Luxembourg: Official Publications Office of the European Communities 1994)
- Geroski, P. and Schwalbach, J., *Entrepreneurship and Small Firms* (Brussels: Centre for European Policy Studies 1986)
- Hayward, J. (ed.), *Industrial Enterprise sand European Integration: From National to International Champions in Western Europe* (Oxford University Press 1995)
- Kocka, J., *Die Angestellten in der deutschen Geschichte 1850-1980* (Göttingen: Vandenhoeck und Ruprecht 1981)
- Organization for Economic Co-Operation and Development (OECD), *The OECD Jobs Study*, several volumes (Paris: OECD 1994)
- Rose-Ackerman, S., *Rethinking the Progressive Agenda: The Reform of the American Regulatory State* (New York: Free Press 1992)
- Shonfield, A., *Modern Capitalism: The Changing Balance of Public and Private Power* (Oxford University Press 1965)
- Shonfield, A., *The Use of Public Power* (Oxford University Press 1983)

Shonfield, A., *In Defence of the Mixed Economy* (Oxford University Press 1984)

Strange, S., *States and Markets*, second edition (London: Pinter 1994)

Thurick, R., *Small Firms, Enterprise and Economic Growth* (Amsterdam: Tinbergen Institute 1995)



EUI WORKING PAPERS

EUI Working Papers are published and distributed by the
European University Institute, Florence

Copies can be obtained free of charge
– depending on the availability of stocks – from:

The Publications Officer
European University Institute
Badia Fiesolana
I-50016 San Domenico di Fiesole (FI)
Italy

Please use order form overleaf

Publications of the European University Institute

To The Publications Officer
European University Institute
Badia Fiesolana
I-50016 San Domenico di Fiesole (FI) – Italy
Telefax No: +39/55/4685 636
E-mail: publish@datacomm.iue.it

From Name
 Address.

- ☐ Please send me a complete list of EUI Working Papers
- ☐ Please send me a complete list of EUI book publications
- ☐ Please send me the EUI brochure Academic Year 1997/98

Please send me the following EUI Working Paper(s):

No, Author
Title:
No, Author
Title:
No, Author
Title:
No, Author
Title:

Date

Signature

Working Papers of the Robert Schuman Centre

RSC No. 94/1

Fritz W. SCHARPF
Community and Autonomy Multilevel
Policy-Making in the European Union *

RSC No. 94/2

Paul McALEAVEY
The Political Logic of the European
Community Structural Funds Budget:
Lobbying Efforts by Declining Industrial
Regions *

RSC No. 94/3

Toshihiro HORIUCHI
Japanese Public Policy for Cooperative
Supply of Credit Guarantee to Small Firms -
Its Evolution Since the Post War and Banks'
Commitment

RSC No. 94/4

Thomas CHRISTIANSEN
European Integration Between Political
Science and International Relations Theory:
The End of Sovereignty *

RSC No. 94/5

Stefaan DE RYNCK
The Europeanization of Regional
Development Policies in the Flemish Region

RSC No. 94/6

Enrique ALBEROLA ILLA
Convergence Bands: A Proposal to Reform
the EMS in the Transition to a Common
Currency

RSC No. 94/7

Rosalyn HIGGINS
The EC and the New United Nations

RSC No. 94/8

Sidney TARROW
Social Movements in Europe: Movement
Society or Europeanization of Conflict?

RSC No. 94/9

Vojin DIMITRIJEVIC
The 1974 Constitution as a Factor in the
Collapse of Yugoslavia or as a Sign of
Decaying Totalitarianism

RSC No. 94/10

Susan STRANGE
European Business in Japan: A Policy
Crossroads?

RSC No. 94/11

Milica UVALIC
Privatization in Disintegrating East European
States: The Case of Former Yugoslavia

RSC No. 94/12

Alberto CHILOSI
Property and Management Privatization in
Eastern European Transition: Economic
Consequences of Alternative Privatization
Processes

RSC No. 94/13

Richard SINNOTT
Integration Theory, Subsidiarity and the
Internationalisation of Issues: The
Implications for Legitimacy *

RSC No. 94/14

Simon JOHNSON/Heidi KROLL
Complementarities, Managers and Mass
Privatization Programs after Communism

RSC No. 94/15

Renzo DAVIDDI
Privatization in the Transition to a Market
Economy

RSC No. 94/16

Alberto BACCINI
Industrial Organization and the Financing of
Small Firms: The Case of MagneTek

RSC No. 94/17

Jonathan GOLUB
The Pivotal Role of British Sovereignty in
EC Environmental Policy

RSC No. 94/18

Peter Viggo JAKOBSEN
Multilateralism Matters but How?
The Impact of Multilateralism on Great
Power Policy Towards the Break-up of
Yugoslavia

RSC No. 94/19

Andrea BOSCO

A 'Federator' for Europe: Altiero Spinelli
and the Constituent Role of the European
Parliament

RSC No. 94/20

Johnny LAURSEN

Blueprints of Nordic Integration. Dynamics
and Institutions in Nordic Cooperation,
1945-72

* * *

RSC No. 95/1

Giandomenico MAJONE

Mutual Trust, Credible Commitments and
the Evolution of Rules for a Single
European Market

RSC No. 95/2

Ute COLLIER

Electricity Privatisation and Environmental
Policy in the UK: Some Lessons for the
Rest of Europe

RSC No. 95/3

Giuliana GEMELLI

American Influence on European
Management Education: The Role of the
Ford Foundation

RSC No. 95/4

Renaud DEHOUSSE

Institutional Reform in the European
Community: Are there Alternatives to the
Majoritarian Avenue? *

RSC No. 95/5

Vivien A. SCHMIDT

The New World Order, Incorporated:
The Rise of Business and the Decline of the
Nation-State

RSC No. 95/6

Liesbet HOOGHE

Subnational Mobilisation in the European
Union

RSC No. 95/7Gary MARKS/Liesbet HOOGHE/Kermit
BLANK

European Integration and the State *

RSC No. 95/8

Sonia LUCARELLI

The International Community and the
Yugoslav Crisis: A Chronology of Events *

RSC No. 95/9

A Constitution for the European Union?

*Proceedings of a Conference, 12-13 May
1994, Organized by the Robert Schuman
Centre with the Patronage of the European
Parliament **

RSC No. 95/10

Martin RHODES

'Subversive Liberalism': Market Integration,
Globalisation and the European Welfare
State

RSC No. 95/11Joseph H.H. WEILER/ Ulrich HALTERN/
Franz MAYER

European Democracy and its Critique -
Five Uneasy Pieces

RSC No. 95/12

Richard ROSE/Christian HAERPFER
Democracy and Enlarging the European
Union Eastward

RSC No. 95/13

Donatella DELLA PORTA

Social Movements and the State: Thoughts
on the Policing of Protest

RSC No. 95/14Patrick A. MC CARTHY/Aris
ALEXOPOULOS

Theory Synthesis in IR - Problems &
Possibilities

RSC No. 95/15

Denise R. OSBORN

Crime and the UK Economy

RSC No. 95/16

Jérôme HENRY/Jens WEIDMANN

The French-German Interest Rate
Differential since German Unification:
The Impact of the 1992-1993 EMS Crises

RSC No. 95/17Giorgia GIOVANNETTI/Ramon
MARIMON

A Monetary Union for a Heterogeneous
Europe

RSC No. 95/18

Bernhard WINKLER

Towards a Strategic View on EMU -
A Critical Survey

RSC No. 95/19

Joseph H.H. WEILER
The State "über alles"
Demos, Telos and the German Maastricht
Decision

RSC No. 95/20

Marc E. SMYRL
From Regional Policy Communities to
European Networks: Inter-regional
Divergence in the Implementation of EC
Regional Policy in France

RSC No. 95/21

Claus-Dieter EHLERMANN
Increased Differentiation or Stronger
Uniformity *

RSC No. 95/22

Emile NOËL
La conférence intergouvernementale de 1996
Vers un nouvel ordre institutionnel

RSC No. 95/23

Jo SHAW
European Union Legal Studies in Crisis?
Towards a New Dynamic

RSC No. 95/24

Hervé BRIBOSIA
The European Court and National Courts -
Doctrine and Jurisprudence: Legal Change
in its Social Context
Report on Belgium

RSC No. 95/25

Juliane KOKOTT
The European Court and National Courts -
Doctrine and Jurisprudence: Legal Change
in its Social Context
Report on Germany

RSC No. 95/26

Monica CLAES/Bruno DE WITTE
The European Court and National Courts -
Doctrine and Jurisprudence: Legal Change
in its Social Context
Report on the Netherlands

RSC No. 95/27

Karen ALTER
The European Court and National Courts -
Doctrine and Jurisprudence: Legal Change
in its Social Context
*Explaining National Court Acceptance of
European Court Jurisprudence: A Critical
Evaluation of Theories of Legal Integration*

RSC No. 95/28

Jens PLÖTNER
The European Court and National Courts -
Doctrine and Jurisprudence: Legal Change
in its Social Context
Report on France

RSC No. 95/29

P.P. CRAIG
The European Court and National Courts -
Doctrine and Jurisprudence: Legal Change
in its Social Context
Report on the United Kingdom

RSC No. 95/30

Francesco P. RUGGERI LADERCHI
The European Court and National Courts -
Doctrine and Jurisprudence: Legal Change
in its Social Context
Report on Italy

RSC No. 95/31

Henri ETIENNE
The European Court and National Courts -
Doctrine and Jurisprudence: Legal Change
in its Social Context
Report on Luxembourg

RSC No. 95/32

Philippe A. WEBER-PANARIELLO
The Integration of Matters of Justice and
Home Affairs into Title VI of the Treaty on
European Union: A Step Towards more
Democracy?

RSC No. 95/33

Debra MATTER
Data, Information, Evidence and Rhetoric in
the Environmental Policy Process:
The Case of Solid Waste Management

RSC No. 95/34

Michael J. ARTIS
Currency Substitution in European Financial
Markets

RSC No. 95/35

Christopher TAYLOR
Exchange Rate Arrangements for a Multi-
Speed Europe

RSC No. 95/36

Iver B. NEUMANN
Collective Identity Formation: Self and
Other in International Relations



RSC No. 95/37

Sonia LUCARELLI

The European Response to the Yugoslav Crisis: Story of a Two-Level Constraint

RSC No. 95/38

Alec STONE SWEET

Constitutional Dialogues in the European Community *

RSC No. 95/39

Thomas GEHRING

Integrating Integration Theory: Neofunctionalism and International Regimes

RSC No. 95/40

David COBHAM

The UK's Search for a Monetary Policy: In and Out of the ERM

* * *

RSC No. 96/1

Ute COLLIER

Implementing a Climate Change Strategy in the European Union: Obstacles and Opportunities

RSC No. 96/2

Jonathan GOLUB

Sovereignty and Subsidiarity in EU Environmental Policy

RSC No. 96/3

Jonathan GOLUB

State Power and Institutional Influence in European Integration: Lessons from the Packaging Waste Directive

RSC No. 96/4

Renaud DEHOUSSE

Intégration ou désintégration? Cinq thèses sur l'incidence de l'intégration européenne sur les structures étatiques

RSC No. 96/5

Jens RASMUSSEN

Integrating Scientific Expertise into Regulatory Decision-Making.
Risk Management Issues - Doing Things Safely with Words: Rules and Laws

RSC No. 96/6

Olivier GODARD

Integrating Scientific Expertise into Regulatory Decision-Making.
Social Decision-Making under Conditions of Scientific Controversy, Expertise and the Precautionary Principle

RSC No. 96/7

Robert HANKIN

Integrating Scientific Expertise into Regulatory Decision-Making.
The Cases of Food and Pharmaceuticals

RSC No. 96/8

Ernesto PREVIDI

Integrating Scientific Expertise into Regulatory Decision-Making.
L'organisation des responsabilités publiques et privées dans la régulation européenne des risques: un vide institutionnel entre les deux?

RSC No. 96/9

Josef FALKE

Integrating Scientific Expertise into Regulatory Decision-Making.
The Role of Non-governmental Standardization Organizations in the Regulation of Risks to Health and the Environment

RSC No. 96/10

Christian JOERGES

Integrating Scientific Expertise into Regulatory Decision-Making.
Scientific Expertise in Social Regulation and the European Court of Justice: Legal Frameworks for Denationalized Governance Structures

RSC No. 96/11

Martin SHAPIRO

Integrating Scientific Expertise into Regulatory Decision-Making.
The Frontiers of Science Doctrine: American Experiences with the Judicial Control of Science-Based Decision-Making

RSC No. 96/12

Gianna BOERO/Giuseppe TULLIO

Currency Substitution and the Stability of the German Demand for Money Function Before and After the Fall of the Berlin Wall

RSC No. 96/13

Riccardo MARSELLI/Marco VANNINI
Estimating the Economic Model of Crime in
the Presence of Organised Crime: Evidence
from Italy

RSC No. 96/14

Paul DE GRAUWE
The Economics of Convergence Towards
Monetary Union in Europe

RSC No. 96/15

Daniel GROS
A Reconsideration of the Cost of EMU
The Importance of External Shocks and
Labour Mobility

RSC No. 96/16

Pierre LASCOUMES/Jérôme VALLUY
Les activités publiques conventionnelles
(APC): un nouvel instrument de politique
publique? L'exemple de la protection de
l'environnement industriel

RSC No. 96/17

Sharmila REGE
Caste and Gender: The Violence Against
Women in India

RSC No. 96/18

Louis CHARPENTIER
L'arrêt "Kalanke", expression du discours
dualiste de l'égalité

RSC No. 96/19

Jean BLONDEL/Richard SINNOTT/Palle
SVENSSON
Institutions and Attitudes: Towards an
Understanding of the Problem of Low
Turnout in the European Parliament
Elections of 1994

RSC No. 96/20

Keith BLACKBURN/Lill HANSEN
Public Policy and Economic Growth in an
Imperfectly Competitive World of
Interdependent Economies

RSC No. 96/21

John ARROWSMITH
Pitfalls on the Path to a Single European
Currency

RSC No. 96/22

Roel M.W.J. BEETSMA/A. Lans
BOVENBERG
Does Monetary Unification Lead to
Excessive Debt Accumulation?

RSC No. 96/23

Margaret LEVI
A State of Trust

RSC No. 96/24

Lorenzo BINI SMAGHI
How Can the ECB be Credible?

RSC No. 96/25

Olivier FILLIEULE
Police Records and the National Press in
France. Issues in the Methodology of Data-
Collection from Newspapers

RSC No. 96/26

Peter H. SCHUCK
The Re-evaluation of American Citizenship

RSC No. 96/27

Peter ROBINSON
The Role and Limits of Active Labour
Market Policy

RSC No. 96/28

Sasha BAILLIE
The Seat of the European Institutions: An
Example of Small State Influence in
European Decision-making

RSC No. 96/29

Neil WINN
The Limits of International Organisation
Leadership? European Crisis Management in
the 1980s and the Inherent Tension Between
Bilateralism and Collectivism

RSC No. 96/30

Paul ORMEROD
Unemployment: A Distributional
Phenomenon

RSC No. 96/31

Marlene WIND
Europe Towards a Post-Hobbesian Order?
A Constructivist Theory of European
Integration (Or how to explain European
Integration as an unintended consequence of
rational state-action)

RSC No. 96/32

Marlene WIND
Rediscovering Institutions: A Reflectivist
Critique of Rational Institutionalism

RSC No. 96/33

Evelyne RITAINE
Hypothèses pour le sud de l'Europe:
territoires et médiations

RSC No. 96/34
Ever B. NEUMANN
Russia as Europe's Other

RSC No. 96/35
Lars LJUNGQVIST/Thomas J. SARGENT
The European Unemployment Dilemma

RSC No. 96/36
Maurizio FERRERA
A New Social Contract?
*The Four Social Europes: Between
Universalism and Selectivity*

RSC No. 96/37
Serge PAUGAM
A New Social Contract?
*Poverty and Social Exclusion:
A Sociological View*

RSC No. 96/38
Sophie BODY-GENDROT
A New Social Contract?
*Le traitement de l'intégration et de la
marginalisation culturelle en France*

RSC No. 96/39
Paul ORMEROD
A New Social Contract?
Unemployment in Europe

RSC No. 96/40
Karel VAN DEN BOSCH
A New Social Contract?
*Trends in Financial Poverty in Western
European Countries*

RSC No. 96/41
Giovanna PROCACCI
A New Social Contract?
*Against Exclusion: The Poor and the Social
Sciences*

RSC No. 96/42
Ulrike GÖTTING
A New Social Contract?
*In Defence of Welfare: Social Protection and
Social Reform in Eastern Europe*

RSC No. 96/43
Martin RHODES
A New Social Contract?
*Globalisation and West European Welfare
States*

RSC No. 96/44
Fritz SCHARPF
A New Social Contract?
*Negative and Positive Integration in the
Political Economy of European Welfare
States*

RSC No. 96/45
Bob DEACON
A New Social Contract?
*Global and Regional Agencies and the
Making of Post-Communist Social Policy in
Eastern Europe*

RSC No. 96/46
Colin CROUCH
A New Social Contract?
*The Social Contract and the Problem of the
Firm*



