Robert Schuman Centre

Globalisation. Labour Marketsand Welfare States: A Future of 'Competitive Corporatism'?

MARTIN RHODES

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BADIA FIESOLANA, SAN DOMENICO (FI)

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European University Institute
Badia Fiesolana
I – 50016 San Domenico (FI)
Italy

Abstract

This working paper examines the relationship between globalisation, labour markets and welfare state reform in order to make some general points about the direction of change in institutional relationships in West European countries. Its central argument is that state steering capacity is being constrained by developments beyond national borders, but that this does not necessarily mean a loss of state control or convergence in a `neo-liberal' direction. Indeed, reforming labour market regulation and recasting welfare states may require in most European countries a search for a new type of `corporatism' rather than its abandonment. Rather than an Anglo-Saxon style de-regulation of the labour market, a readjustment of the `continental' model to accommodate market pressures will require the preservation of social protection and social consensus.
In a single market, with, potentially, a single currency, successful economic adjustment - including greater flexibility in labour markets and the organization of the welfare state - will also require in many countries a flexible, market-oriented, `competitive' corporatism.

Introduction

The relationship between globalisation and welfare states has neither been adequately theorized nor empirically investigated. Much of the literature assumes a convergence among European welfare states on a 'lean welfare model', given external competitive pressures and unsustainable domestic commitments, while, in the absence of a strong European industrial relations system and social dimension, the collapse of corporatist structures alongside the fragmentation of labour markets is inevitable (for a survey, see Rhodes 1996). Despite much controversy in the literature over the origins of these changes in national institutional structures, it does seem to be the case that developments in international capitalism are reducing the ability of states to control their economic 'borders', in part because, as Cerny argues, the scale of goods and assets produced and exchanged has diverged from the structural scale of the nation-state, making it increasingly more difficult to provide and control particular public goods (Cerny 1995). At the same time, these developments have altered the balance of power in domestic settings, shifting influence in favour of capital and giving it an effective veto power in certain cases through enhanced exit options via relocation to foreign markets.

This paper does not seek to deny the relevance of the globalization argument: indeed, its central purpose is to try and identify some ways in which globalization interacts with domestic institutional developments. Its central argument is that state steering capacity is being constrained by developments beyond national borders, but that this does not necessarily mean a loss of state control or convergence in a 'neo-liberal' direction, in terms either of institutional change or policy objectives. Indeed, reforming labour market regulation and recasting welfare states may require in most European countries a search for a new type of 'corporatism' rather than its abandonment and, rather than an Anglo-Saxon de-regulation of the labour market, a readjustment of the 'continental' model to accommodate market pressures with the preservation of social protection and social consensus. Successful economic adjustment, including greater flexibility in labour markets and the organization of welfare states, may require, in turn, a flexible form of 'market' or 'competitive' corporatism rather than attempted moves in a neo-liberal direction.

Nevertheless, these developments will have important consequences for the organization of welfare states: greater flexibility in the labour market means greater wage flexibility and wage dispersion, increased flexibility in the funding of programmes linked to labour costs and greater flexibility in the design of social security systems. Inevitably, the nature of the 'social contract' will change in the process, involving the greater centrality of the firm, both as an actor and model for socio-economic organization, and the tailoring of social intervention more closely with the demands of competition. As a result, although it may be possible to prevent a convergence on a new 'Hobbesian order', the low levels of income inequality that have been a feature of the northern continental European welfare states in the past will prove difficult to preserve. Nevertheless, it is the contention of this paper that those countries most successful in adjusting their economies to the new demands of the global era will be those which simultaneously make the operation of their labour markets and product markets more efficient, while also preserving social cohesion and trust.[1]

External Pressures, Domestic Responses

Two major external pressures have important implications for industrial relations in western European countries and, potentially, also for welfare states:

1. More intense *international competition* and *globalisation* are placing pressure on both wage and non-wage costs and creating the conditions in which 'social dumping' within western Europe and relocation to countries outside western Europe becomes a potential threat to the status quo. The new international division of labour within large transnational firms and the introduction by multinationals of 'alien' elements into national bargaining arenas causes adjustment problems especially for centralized systems. Cross-class 'flexibility' alliances have undermined 'social corporatist' systems and induced a shift to a more sectorally-based form of bargaining (e.g. some Scandinavian countries[2]) while employers in all systems are searching for greater company and plant level flexibility in three areas:

- internal (or functional) flexibility in the work place;
- external (or numerical) flexibility vis-à-vis the wider labour market;
- and greater pay flexibility at local levels.

2. At the same time, the *creation of the single market* and *movement towards EMU* are also placing greater pressure on wage cost competition given the difficulty of competitive devaluation. This again focuses effort on adjusting costs to rapidly changing competitive situations and the focus of employers turns naturally to their capacity for adjusting firm level costs through a combination of flexibility strategies - producing for greater freedom from regulatory pressure in the areas of pay, hiring and dismissals and deployment of labour within the firm.

The above pressures lead therefore to attempts to *decentralize* in industrial relations systems. But, although this might suggest that pressures are all focused on decentralizing and deregulating labour markets, there are two important counter-pressures.

1. First, also in response to competitive pressures, and the diffusion of new forms of 'best practice' management and work organization, manufacturers - and also certain service-sector companies - are embracing the principles and techniques of flexible specialization, lean production and total quality management. This implies the creation or maintenance of *co-operative labour relations* and a *high-trust internal firm environment*. The optimal world of internal flexibility in this environment is therefore built not by unilateral management action but on team work and low levels of hierarchy within firms. It also depends not just on high levels of skills but also on high capacities for skills acquisition. At the same time, building and sustaining high levels of trust within the company/plant demands not a high degree, but a moderate degree of external flexibility, i.e. the capacity of entrepreneurs to adjust their quantity of labour. Too high a level of external flexibility destroys trust and undermines internal flexibility. This trade off - producing a productive form of 'regulated co-operation'[3] - is a critical one for sustaining both competitiveness *and* consensus in European labour markets.

1 2

2. At the same time, both cost competitiveness and stability require more than
(a) simply a deregulatory strategy at the level of the firms: they also require a means
(b) of preventing wage drift and inflationary pressures from building up in the labour market. This has focused the attention of governments in countries where trade unions are still significant actors on *centralization* on the broad priorities of national wage bargaining, both as a means of keeping inflation in line with Maastricht convergence criteria and preventing rising wage costs from damaging competitiveness and creating more unemployment.

In sum, there are pressures for both a decentralization and a centralization (in some cases a recentralisation) of industrial relations systems. An 'optimal' solution would combine some form of incomes policy or national wage co-ordination with pay flexibility within certain margins at the level of the firm, as achieved, for example, in the Dutch system of 'centralized decentralization' (see below). However, such systems clearly also have negative consequences. The building of high trust, internal firm environments with an accent on flexible skills acquisition, alongside a degree of pay flexibility, may do little for labour market 'outsiders' and will increase wage differentials. A more variegated labour market seems inevitable, as does the spread of 'discontinuous' life-work cycles, implying the adjustment of social security systems to cope.

Institutional Adjustments

This paper does not wish to suggest that the above pressures will lead to direct, and predictable institutional changes in labour markets and industrial relations systems, nor that the outcomes of change will be in the direction of convergence in employment systems or welfare state organization. Research in recent years on the changing configurations of work, employer-employee relations and welfare attest to the persistent of differences, due to the continued importance of the 'societal effect' - i.e. the complex relationships between key elements of national economic systems which make them resistant to change and critical in the mediation of any external pressures, be they technological or political/institutional (e.g. the promotion of a European Union social policy (Maurice 1995; Jones and Cressey 1995). Yet given the nature of the 'external environment', which is considerably more constraining and less tolerant of national distinctions than in the past, some responses will more successfully accommodate these pressures than others.

In theory, a west European country's political/institutional structure must accommodate the following pressures without jeopardizing its socio-economic/political stability if it is to retain its competitive position in a globalizing economy :

- the need to sustain or enter onto a 'high quality' adjustment path (competition based on quality rather than 'price') for key parts of its industrial structure;
- the need for co-operative, competition-oriented labour relations within plants;
- the need for controlled labour costs and prices;
- the capacity for complex trade-offs between external and internal flexibility in the labour.

As already stated, this does not employ a micro-level convergence in institutions. As shown by recent research on employment and labour market policies, quite different institutions may be functional for different types of firm-market relationship. It would make little sense, for example, to transfer the German model to a country or region with a quite different system of production with different needs and requirements, regardless of the fact that the German system may be more 'functional' for German industry than the Italy's training system for Italian industry (Regini 1995). But at the more general level of broad institutional relationships, only a limited range of institutional configurations are available to meet the objectives outlined above or solve the problem of their non-delivery. This is why this paper refers to 'optimal' institutional arrangements and combinations of different types of flexibility. Similar arguments have been used in the past to compare countries in terms of their capacity for controlling unemployment and inflation (the combination of which has been referred to as the 'misery index'). The well-known U-curve model of Calmfors and Driffill, for example, postulated that either highly centralized systems of wage bargaining or highly decentralized systems were capable of delivering the desirable result in of low inflation and low unemployment, but that countries in the middle would suffer substantial collective action problems in achieving either (Calmfors and Driffill 1988). By contrast, this paper argues that neither highly decentralized systems in Europe nor highly centralized systems are capable of responding to the multiple challenges identified above. Instead, although they are not without their dangers, pragmatic and flexible social pacts involving the social partners - even if they are only moderately well organized and if they include significant elements of decentralization - are best suited to allow a flexible form of adjustment to external challenges.

Successful 'convergence', if it were to occur, would be on some form of 'competitive corporatism' which would be rather different in form from the 'social corporatism' of the Scandinavian type that has absorbed the attention of most analysts in the past, in several major ways:

- it would not necessarily involve concertation between centralized peak organisations with a monopoly of coverage, on either the employers or trade union side, since in the post-Fordist, post-Keynesian era such structures have been undermined even in those countries where historical trajectories once favoured them;
- it would rather involve much weaker organisations, each seeking to defend their own organizational cohesion by engaging in concertation with each other and governments, the latter being the most likely instigators (as proven by recent experience) of 'social pacts';
- it would not involve redistributive/equity-linked, labour-market/welfare politics of the Scandinavian 'social corporatist' type but rather only weak components of this type;
- it would rather involve the negotiated adjustment and restructuring of labour market regulation and labour-market linked welfare programmes, especially pensions funding and entitlements and social security arrangement, while also aiming to achieve, to some extent, two of the more traditional objectives of 'social corporatism' - macro-economic stability and higher levels of employment (although this may be through a combination of measures to defend the existing employed and provide new opportunities for the unemployed);
- it would involve, to a greater or lesser extent depending on the country, negotiating shifts along the external/internal flexibility continuums - involving quite important regulatory reform in some countries

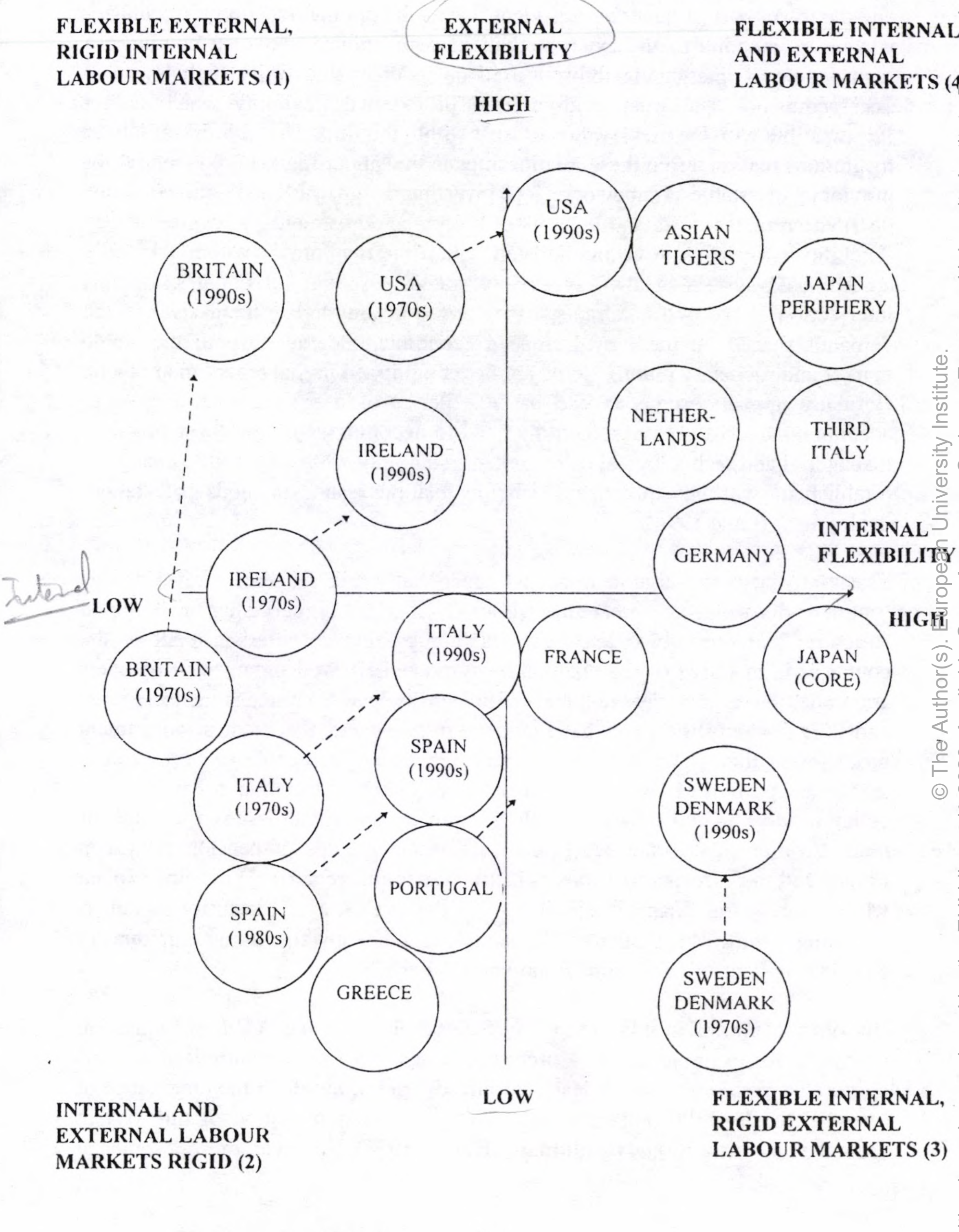
- and finally, it would be a convergence only within broad parameters: the space for national diversity in institutional arrangement will narrow, but the 'societal effect' will remain important in shaping particular policy structures and outcomes.

In spite of the differences between them, the underlying logic of 'social' and 'competitive' corporatism is in a crucial sense the same: the search for a meaningful form of political exchange in which certain 'goods' are bargained. In the market for political exchange of the 'social corporatist' type, the goods are much more predictable and less subject to negotiation themselves than in the 'competitive' corporatist type, and the costs of entering and exiting the latter type of market are much lower. This suggests that 'competitive' corporatism will much less stable and more subject to periodic break down and frequent renegotiation. The terms of the bargain may change from one set of negotiations to the next. But before examining this issue closer by looking at a number of examples of recent western European social pacts, what of the politics of flexibility that lie at the heart of these new types of concertation'?

Recasting European Labour Markets

Although the rhetoric of 'flexibility' is frequently deployed by either employers or trade unions in a highly politicized, if not ideological, way, 'flexibility' in labour markets must be taken seriously if we are understand the adaptability of countries to new demands of competition in a globalising economy. If we refer to diagram 1, we can see, roughly, how different European countries compare, both with themselves and their international competitors, along two dimensions of labour market flexibility - internal flexibility and external flexibility.

DIAGRAM 1: LABOUR MARKET FLEXIBILITY TRENDS



Moderately Flexible Internal and External Labour Markets

As already mentioned above, the area between the upper part of quadrant three and the lower part of quadrant 4 is identified as the optimal location for countries wishing to respond to the external challenges mentioned above. It combines a high degree of internal flexibility (based on redeployable skills, high levels of skill acquisition and trust) with a level of external flexibility which is not incompatible with the preservation of trust within the firm. The network of labour institutions that underpin these relationships in the labour market are essential for providing a stable framework for investment, growth and an equitable distribution of the costs and benefits of economic adjustment.[4] A degree of pay flexibility (which is not accommodated within the diagram 1) within a broadly co-ordinated system is also, as already stated, essential for countries at this intersection of the two quadrants if they are to accommodate themselves to the demands placed on them by European economic integration (both the single market and monetary union). Some are better equipped in this regard than others. Germany appears to be a case par excellence of a system that is able to accommodate cost pressures and the need to accommodate new 'best practice' managerial and technological developments smoothly, with so far little change to established working practices, labour relations and methods of labour deployment (Lane 1994).

Essentially, it is the argument of this paper that either movement towards this 'optimal' location, or remaining within it, requires a particular institutional structure, and one which approximates 'competitive corporatism'. All of the countries in this area of the diagram have moderately well organized employers and trade unions and average membership density levels. France is the exception, and it is certainly the case that France currently faces the greatest adjustment problems in this group because its trade unions are incapable or organizing a significant portion of the French work force (either of the blue collar or white collar variety) behind a bargain with government on critical issues at the labour market/welfare state interface (a contrast of the politics of pension reform in France and more corporatist Italy is instructive in this regard). This helps explain why restoring the financial equilibrium of the French social security system is involving a shift from a Bismarckian social insurance towards a non-employment based, state-controlled system (Bonoli and Palier 1994).

But other countries in this group may face problems as well. The Scandinavian countries, for example, are in a process of transition from a centralized 'social' corporatist system towards a less centralized system, in which the emergence of 'cross-class flexibility alliances' make difficult the stabilization of this system around a new institutional equilibrium (Iversen 1996). However, present trends in

Denmark suggest the preservation of a degree of concertation in industrial policy and a search for a new institutional structure for wage bargaining close to the German model of *Tarifautonomie* (independent wage bargaining) within a monetary straight-jacket. Germany is also facing problems, with demands for greater internal and external flexibility from employers and problems in negotiating a reform of Germany's generous social protection system. A downward - but negotiated - adjustment of this system seems inevitable, alongside a greater decentralization of wage setting and work force adjustment flexibility. Highly compressed wage differentials - one of the key components of the German system - are likely to expand, as employers attempt to break with the established practice of bringing skilled and semi-skilled workers within similar pay parameters, with unpredictable consequences for worker solidarity. While some - who would also point to the decline in firm membership of employers' organisations as individual employers seek greater pay autonomy - see such trends as the first step towards the collapse of the German system, others see it as essential if the country is to respond more flexibly to competitive challenges. For as Carlin and Soskice (1997) argue, radical deregulation is not the answer to the need for German firms to adjust rapidly in response to changes in world markets, for this would undermine the interlocking set of institutions that provides German companies (and, to a lesser extent, other companies in this group) with comparative institutional advantage - the industrial relations and vocational training system which provides a co-operative and highly skilled work force and a form of corporate governance and inter-company relations which provides patient capital and a capacity for technology transfer (see also Rhodes and van Apeldoorn 1997). But they, may on the other hand, benefit from greater internal flexibility with regard to the pay and career development of skilled workers than is provided under the present system of collective bargaining,

Flexible External and Inflexible Internal Labour Markets

As diagram 1 shows, the trajectory of Europe's neo-liberal example - the United Kingdom - is far from being optimal in terms of its combinations of 'flexibilities' (quadrant 1). This is an interesting trajectory because the major innovation since the 1970s - when the UK was close to the southern European cluster in terms of its rigid labour markets - has been the increase in external flexibility, as employers' ability to hire, fire and recruit on a diverse range of labour contracts has been increased. Many would argue that there has been a simultaneous increase in the level of internal labour market flexibility, especially with the break down of union control over the work place. However, the positive effect of this shift towards greater internal flexibility in terms of employer's unilateral power, has been counteracted by the lack of any substantial increase in levels of trust (except in inward investing Japanese firms which, in some sectors, have revolutionized work organization) and still high levels of hierarchy in most UK firms. At the same time, the traditional fragmentation of employers and trade unions has increased, making the provision of collective goods (such as an effective training system) an impossibility, making it difficult for the country to escape its 'low skills equilibrium'.

The flexibility trajectory of British firms is therefore in danger of taking them along a 'price-based' rather than 'quality-based' competition path, even if lower levels of unemployment than in other European countries suggest a degree of success in labour market innovation. In this respect too, Britain is moving closer to the American model of job creation, with lower costs allowing the recruitment of greater numbers on lower wages (assisted by the abolition of the old Wages Councils - which imposed a UK equivalent of a minimum wage) and provoking the emergence of a new social category - the 'working poor'. Another problem is that, with a decentralized wage bargaining system, the assumption that employers will be able to contain costs and wage drift may prove to be unfounded (as suggested by the still apparent tendency of inflation to rise uncontrollably with economic growth). But the organizational disarray of UK industrial relations militates against an incomes policy (as does the bitter memory of its failure in the 1970s), and will prevent a Labour government from developing a more organized labour market strategy, even if it should seek to develop one (which seems unlikely).[5]

Ireland is following a rather different course, and is moving much closer to the continental systems, especially in terms of its emphasis on consensus-based labour market policy making. Its 'social pact' of recent years has held, despite strong internal tensions, and provides an interesting case-study of concertation - or 'competitive corporatism' - in a cold climate (see below for further details).

Rigid Internal and External Labour Markets

The countries in quadrant 2 - what we can refer to as the 'southern cluster' - are in many ways the most interesting in the context of the present discussion, since, despite their manifold difficulties in making the transition towards an optimal combination of flexibilities, they have made important progress within the framework of new social pacts. Employers in these countries have conventionally had to cope with heavy constraints in both external flexibility and internal flexibility, and - beyond the rhetoric of their disputes with trade unions - this has had important consequences for industrial adjustment and employment. Of course, there has always been considerable flexibility in many of these countries, in the form of extensive black economies, small firms beneath the regulatory thresholds (as in Italy where the 1970 Workers' Charter only covered firms with more than 14 employees) and in the unionized, yet highly flexible small firm clusters of the 'Third Italy' (hence its location in quadrant 4). But in many large firms, external flexibility and adjustment has been limited by the rigid nature of collective bargaining and state regulation, while all firms have suffered from problems of high internal hierarchy and low levels of trust, and the absence of effective national training systems.

At the same time, wage inflation has been difficult to contain, and in Italy was compounded by a generous system of wage indexation that was only dismantled in the early 1990s. While labour market reform in some countries has been ineffective and conflict-ridden, provoking perverse outcomes (as in the excessive growth of temporary contracts following their liberalization in Spain in the late 1980s), in others it has been more consensual and bargained through increasingly well-consolidated 'social pacts', those of Italy and Portugal being the prime examples. As a result, innovations in labour market institutions and policies are putting some of these countries on a transition path that may lead them towards convergence on the 'optimal' location at the intersection of quadrants 3 and 4. This depends, however, on the durability of the new 'competitive corporatism' that has been developed in these countries and on their capacity to build some of the institutional attributes of 'regulated co-operation' as it exists in the 'best practice' European countries, namely the Netherlands and Germany. This is not to say that these countries must emulate precisely the institutional design of those countries, but rather that they must achieve some 'functional equivalents' in terms of industrial relations, wage bargaining, training and innovation, while at the same time making their labour markets more flexible to remove the sometimes acute 'insider-outsider' problems that afflict them and improve employment prospects for those excluded from the labour market (in essence, this is the lesson being imparted to these countries by the OECD).

Of course, there is always the possibility that these countries could move towards quadrant 1, i.e. in an Anglo-Saxon direction, in which the 'public goods' associated with a movement towards quadrant 3 would not be provided by the state, in collaboration with the social partners, but rather would be provided within 'company communities' that create their own support cultures (see Crouch and Streeck 1997). In this event, these countries are unlikely to be able to take the high-wage, quality production path of economic development (even if they have pockets of advanced production as a result of foreign direct investment) and social inequality, which has narrowed in some of these countries (notably Spain) in recent years, will increase.

Social Pacts and 'Competitive Corporatism'

In one of the few attempts to link the character of a country's labour market flexibility to its levels of bargaining, Alain Lipietz argues that flexibility and negotiated involvement cannot be combined *à la carte*. In particular, a high level of flexibility (in this case conceived of simply in terms of wage flexibility) is assumed to be incompatible with a high level of negotiated involvement, certainly at the societal level, as in the Scandinavian case, while moderate levels of wage flexibility will be compatible with sectoral level negotiations and a high level of flexibility with individual contracts and minimal union involvement (the USA)(Lipietz 1997). The recent evolution of the Swedish model, which has seen employers seek greater wage flexibility by pushing bargaining away from the central level, would seem to support this conclusion. It may also be the case that the German system will see greater wage flexibility involve a shift to lower levels of bargaining, in which plant-level works councils take power away from branch level union negotiators. The combination of flexibility and negotiated involvement in the 'post Fordist' conception of 'flexible specialization', as advanced by Piore and Sabel (1984), for example, is deemed infeasible.

This argument suffers, however, from two deficiencies. Firstly, flexibility is mainly conceived in terms of 'liberal wage flexibility' which effectively excludes consideration of the 'constructive' nature of certain forms and combinations of 'flexibilities' for firms and employees. Second, its relationship of certain levels of bargaining with certain types of flexibility is too restrictive, given the emergence of multiple bargaining levels in many countries as employers, trade unions and governments seek to respond to the external and domestic pressures. It is the argument of the analysis in this paper that recent innovations in a number of countries have witnessed the attempt to combine a societal form of bargaining *alongside* flexibility at lower levels, be they the branch or the firms, in which a general system of co-ordination is sustained. It is this search for new institutional responses to demands for 'flexibility' and 'competitiveness', within the external straight jacket of EMU and greater cost competition that underpins the recent emergence of new forms of corporatist bargaining in western Europe.

'Social pacts' of one sort or another have been concluded and implemented in recent years in the Netherlands, Belgium, Finland, Ireland, Portugal, Spain (in a limited sense), Italy and Greece. We can illustrate the diversity but also the commonalities of such pacts by taking four examples: Ireland, Italy, Portugal and the Netherlands.[6]

In the ***Irish*** case, a rather comprehensive social pact negotiated in 1987, 1990 and again in 1993 built on a tradition of centralized wage bargaining and a trend established in the 1980s to address tax, education, health and social welfare issues at the central level as well. The emphasis of all three agreements (the most recent entitled the 'Programme for Economic and Social Progress') has been on macro-economic stability, greater equity in the tax system, and enhanced social justice - in the form of inflation-proof benefits, job creation (in manufacturing and international services sectors) and the reform of labour legislation in the areas of part-time work, employment equality and unfair dismissal, although the labour market remains characterized by a high degree of rigidity, with unemployment and poverty traps exacerbating the problem of long-term unemployment (Rhodes 1995). Pay rises have been subject to floor and ceiling levels. In return, the trade unions have delivered industrial relations harmony. A rather sceptical evaluation of these pacts has concluded that they have not delivered much when compared to the 'social corporatism' of the Scandinavian model: main objectives such as employment creation have not been achieved and tax reforms have been only incompletely implemented and there has been little serious consideration of how training is linked to the wage-formation system or to how it should be developed as a collective good (Teague 1995).

Nevertheless, government commitments across a range of issues have been respected, including increasing resources in education, public housing and health care, while also extending social protection to part-time workers and introducing legislation on unfair dismissal, employment agencies and conditions of employment. The social pacts have also played a major role in securing macro-economic stability, delivering a high level of economic growth in recent years, compared with its European neighbours, and making Ireland one of the most likely members of EMU, since it now more or less fulfils all of the convergence conditions. Also importantly, industrial peace has been preserved, as has the organizational cohesion of the social partners in a time of upheaval - not to mention the tendency of multinationals to try and avoid the recognition of unions (see below). Still to be addressed, however, is the problem that these agreements have largely been tailored to the demands of the stronger unionized sector (rather than those of small and medium-sized firms facing international competition) and that the emphasis has been on protecting the post-tax income of the employed 'insiders', while showing less concern for the 'outsider' unemployed (Kavanagh et. al., 1997).

In the ***Italian*** case, negotiations in the early 1990s that initially focused on reforming Italy's automatic wage-indexation system - the *scala mobile* - were extended to include the rationalization of bargaining structures and the reform of union representation in the work place. In the significant agreement of July 1993, the *scala mobile* was abolished and a far-reaching reform of incomes policy and collective bargaining was achieved. Henceforth, biannual tripartite incomes policy and collective agreements were to set macroeconomic guidelines and establish a framework for incomes policy; sectoral agreements were to be signed at the national level on wages (valid for two years) and conditions of employment (valid for four); and enterprise level agreements were to be concluded for four years and negotiated by workers' representatives. The latter innovation created a new form and level of representation within the firm - *Rappresentenza sindacale unitaria* - in which two-thirds of representatives were to be elected by the entire work force (and not just union members as before) and one-third appointed by representative unions, providing an important link between the work place and higher levels of union organization (Regini and Regalia 1997).

Apart from contributing to Italy's fulfilment of EMU entry conditions - which it has achieved by effectively taking inflation out of the labour market - this social pact also covered a number of other areas, including new measures to compensate those laid off in restructuring, improvements to the training system (boosting internal flexibility), the legalization of temporary work agencies (improving external flexibility), assistance for the unemployed to enter the labour market, and improving the general performance of Italian industry. But it has also become the forum for bargaining the future of broader aspects of social regulation. The most significant step in this regard was the agreement signed between the unions and the government on pension reform in May 1995 (the employers abstained) which was put to referendum in the workplaces by the unions where it obtained a hard-won but significant majority backing. This consensus was achieved at the expense of a more radical reform (it retained the previous pension system for elderly workers and introduced, wither partially or in full, a more rigorous systems for less senior workers) but it also avoided protracted industrial dislocation, as occurred in the case of the Juppé reforms in France (Regini and Regalia 1997), and avoided any adverse knock-on effects on other aspects of the social pact, despite the fact the implementation of the incomes policy has favoured an increase in company profits at a time of reductions in purchasing power. Whether the system can survive the current challenges - the introduction in 1996 of a 'one last push for Maastricht' austerity budget and discontent in various powerful sections of the labour movement (notable the metal workers) with constrained pay agreements - remains to be seen.

In the ***Portuguese*** case, there have been five tripartite pacts since 1987 - the latest was signed in 1996 - focusing on incomes and social and labour market measures. They have been presented from the outset as critical for improving the competitiveness of the Portuguese economy and for integration into EMU. The agreements have been very wide-ranging, covering pay rise ceilings, levels of minimum wages, easing regulations on the organization of work (rest, overtime and shift work) - i.e., internal flexibility - and on the termination of employment - external flexibility, and the regulation of working hours. The 1992 agreement was broadened further to cover social security issues, including improvements in health insurance reimbursements and tax relief on housing. The latest 1996 agreement also implements an incomes policy, linking wage rises to inflation and productivity forecasts (with scope for variation within margins at lower levels), and union agreement has been secured by a commitment to training and employment placement services, to enforcing various rights for part-timers, and a broad programme of working time reduction, with the introduction of a 40 hour week in two stages. The new agreement also covers numerous social security issues, including the reduction of social security contributions for those employers belonging to employers' associations (a measure also conceived to strengthen organizational cohesion) and the introduction of a minimum income on an experimental basis for those on very low incomes. In addition, income tax for those on low incomes will be reduced, a more favourable tax treatment will be made of a variety of health and education benefits and old age pensions will also receive more favourable tax treatment.

Perhaps the most interesting developments have been in the ***Netherlands*** where, as a result of monetary stability, budgetary discipline and social security, something of a 'model' attracting policy emulation in other countries has begun to emerge.[7] In the Netherlands, the early and mid-1980s witnessed one of the most severe employment crises in western Europe, with unemployment reaching 15.4 per cent in 1984. This was attributable in part to the immobilism in industrial relations of between the early 1970s and early 1980s (which followed twenty years of state-led, centrally guided, corporatist governance until 1968), a period during which both trade unions and employers rejected a state-led system of incomes policy. In the 1970s, when the twin oil-price shocks fuelled inflation and rising unemployment across western Europe, the negative consequences for the Netherlands were compounded by a break down in relations between the social partners that helped produce a vicious cycle - referred to as 'the Dutch disease' - in which real labour costs accelerated ahead of productivity gains, profits deteriorated, firms substituted capital for labour or relocated to low labour cost areas, and unemployment rose spectacularly (Hemerijk and van den Toren 1996).

Since 1982, however, the picture has been quite different. Since the signature of a national social pact between employers and trade unions in November 1982, there has been a return to corporatism, but a more flexible and responsive bi-partite rather than tripartite version, one involving a considerable degree of decentralization in wage-bargaining and that is compatible with intensified international constraints. This has provided the basis for industrial relations peace, wage moderation and an ongoing process of labour market *re*regulation that has helped keep wage costs down, prevent increasing inequality and boost employment (above all part-time and temporary contracts) to the point where the present 6.7 per cent unemployed is one of the lowest in the OECD area, and where between 1983 and 1993, job growth (at 1.8 per cent per annum) exceeded both the OECD and EU averages (Hemerijk and van den Toren 1996). The 1982 agreement was consolidated in 1993 at a time when a new rise in unemployment began to place the consensus under pressure. In the 1993 accord, there is provision for greater decentralization of bargaining to company level within the overall coordinated structure - described by Visser (1996) as 'centralized decentralization'. In addition to wage moderation, over this period, concertation has also produced agreements on social security contributions, work sharing and industrial policy, training, job enrichment, low wage skills for low skilled workers, the development of 'entry-level' wages and, most recently, the 1995 'flexicurity' accord in which rights for temporary workers have been strengthened in return for a loosening of dismissal protection for core workers. There has also been a recent revival of tripartite corporatism, with the reorganization of Dutch employment services along tripartite lines in 1991 and calls by the tripartite Social and Economic Council (which has been marginalised by the shift to bipartism in recent years) for a renewal of national consensus creation, involving government, employers and trade unions in the face of European integration and international competitive pressures. Most importantly, government intervention has been essential in helping break the blockage in negotiations on social security reform, an area where it has proven much more difficult to find agreement on changes to the amount and duration of benefits.

The Dutch case, then, as Visser describes it, is one of corporatism, but not one that is 'against markets': rather, it is a system of 'corporatism and the market' (Visser 1996) in which monetary stability, budgetary discipline and competitiveness have been achieved, while also reforming social security and boosting employment, and escaping both the increase in social inequality that has occurred in Britain and the break down in consensus and large scale social unrest suffered by France. *En bref*, it is perhaps the most advanced example of 'competitive corporatism' in western Europe.

The Origins and Durability of 'Competitive Corporatism'

Despite the diversity of the 'new social pacts', they share a number of common features (*International Labour Review* 1995):

- governments are usually the instigators and in this respect they are state-led;

- they are special initiatives that create a new layer of industrial relations on top of established routine practice, but gradually the 'special' and the 'routine' have become mixed, providing a degree of institutionalization for the new pacts and the co-operative industrial relations practices that underpin them;
- they seek to introduce new forms of labour market flexibility, but frequently they also include new and negotiated forms of social protection, as in the Irish and Portuguese cases;
- they seek to reduce deficits in public or social spending, but do so in a way that avoids either unilateral decision making or a substantial equity deficit and have also successfully avoided disruptive social protest, although in certain countries (Italy is currently the major example) the strains are beginning to show;
- they seek to share the burden of achieving productivity gains and the benefits of growth, although this is much harder to achieve in practice than some of the other objectives.

Why do these pacts work? The main reason seems to be the search for 'least bad' solutions by all partners concerned in hard times. Vulnerability to external forces seems to be a key variable in explaining the adjustment of domestic institutional structures and relationships. Governments need to find partners in achieving broad macro-economic objectives at a time of difficult adjustment to the demands of European integration - especially the Maastricht convergence criteria for membership of EMU. While on the one hand this period has seen a growing shift in the locus of policy making towards central bankers (which in some cases, as in Italy, have become government leaders), taking inflation out of the labour market requires a policy of co-operation between government and the social partners. In this sense, governments are dependent on union and employer organisations and it is in their interest to prevent the latter from declining in terms of their representational strength. Somewhat paradoxically, as shown by the Italian case, this representational strength should be somewhat less than a monopoly, for where trade unions have enjoyed maximum power resources in this respect (as in the Scandinavian case) this has become increasingly incompatible with the emergence of a post-Fordist, internationalized business system and has increasingly tempted governments to bypass or constrain the actions of the social partners (as in the strategy of the Swedish government in the 1980s in importing wage discipline by tying the Krone to the DM).

As recently argued in the Italian case (but this is also applicable to the other countries where 'new' social pacts have been successfully negotiated), unions which do not have high power resources but are well rooted in the work place and embedded in networks of more or less institutionalized co-operation can be successfully involved in concertation because they provide both a constraint and a resource for their partners (Regini and Regalia 1997): a constraint because they can still effectively veto many policies to which they are opposed (even if this influence is heavily reduced in a period of tight labour markets and deflationary policies); and a resource not only because they can deliver the support of their members behind agreements, but because in their absence as effective intermediaries, a more militant, fragmented and undisciplined labour movement would be even more difficult to deal with. This is one reason why employers have not engaged in an anti-union strategy of the British type (where derecognition is increasingly common) and are unlikely to do so if they wish to contain labour costs and promote or maintain co-operative work relations within the firm (nor, should it be stressed, are they likely to weaken their own associations to a critical degree: even in the German case where employers' associations have seen companies abandon their associational membership and seek break away from sectoral wage bargaining, employers' associations remain strong bargaining partners).

But of course, this last point does indicate a major source of union weakness - their loss of membership and fear of a further loss of associational strength. One way of sustaining this strength is to be seen to be capable of delivering results - albeit meagre ones because of the poor economic context - to their members and thereby prevent membership loss. Another is to change orientation and seek, as the Dutch trade unions have done, to make 'precarious' - i.e. part-time and temporary workers - a key part of their constituency, negotiating in the Dutch case a 'Flexibility and Security' agreement to accommodate such workers in 1996, a strategy which also helps stem a loss of membership and counter the erosion of union strength (Visser 1996). As Regini and Regalia (1997) argue, as both resource and constraint for their social partners, unions may discourage both governments and employers from taking unilateral action that would risk confrontation, while they may also be able to convince their rank and file that existing power relations will not allow them to obtain more than the joint regulation of wages and some economic and employment policies. In brief, all three of the social partners need the other to achieve 'least bad' outcomes.

What are the threats to the durability of the new social pacts? One is *external*. For while international competition is one of the factors that may be promoting co-operative labour relations in those countries where unions are well institutionalized in firms, at the same time, internationalization and the operations of multinational companies may menace co-operative labour relations if they break with national industrial relations conventions and undermine the connection between employees and trade unions. This occurs in most countries, but has been particularly notable in those countries with very high levels of inward investment:

a recent survey in Ireland, for example, shows that many multinationals operating in that country have been seeking ways of avoiding dealing with unions.

A second threat is *internal* and may derive from the relatively low exit costs involved in these pacts. Especially in those countries with a prior tradition of worker militancy and weak federal unions, it is much too early to say whether involvement in pacts marks a permanent shift to a more co-operative form of labour relations, or, indeed, whether the incentives for co-operation can be maintained in the medium-term. In the Italian case, for example, the commitment of the trade unions is being strained by the constraints on purchasing power that has resulted from the social pact and by government pressures to proceed further with pension reform. On the other hand, it may be that the costs of exiting from these pacts is actually quite high, even if they are not deeply institutionalized. The exit costs for employers stem from the consequences of a break down in wage discipline and an inability to control labour costs. The exit costs for trade unions may also be high, for abandoning collaboration also means abandoning influence and perhaps, also, a reduction in their own capacity for collective action if they are consequently sidelined by employers.

A solution to both problems may come from the European level. Despite the many problems facing the constitution of 'Social Europe', the recently introduced legislation on European works councils and their implementation in a growing number of transnational companies in Europe may prevent such companies from breaking with national industrial relations practice and from breaking the connection between their workers and unions. As for the problem of exit from these
pacts, additional incentives for continued participation must be provided at the national level in terms of a return to productivity-linked wage increases as well as employment creation as soon as their is a return to non-inflationary growth. But the trade off between employment and productivity is probably an insufficient bases for ensuring the durability of such pacts. What is required is a commitment 'to a conception of national competitiveness which gives rise to a joint effort for the full development of human resources' (Marsden 1995), and in this respect the conclusion of an employment pact at the European level stressing the importance of education and training can play an important role.

The Implications for Welfare States

The innovations demanded in labour market management by the pressures identified in section one above will not prevent the trends already present in labour markets (feminisation, the increase in temporary and part-time work), or necessarily solve its problems (including the growing problem of long-term - especially youth - unemployment). All of these are demanding, in themselves, adjustments to employment policy and social protection systems, if only to offset the increase in 'implicit disentitlement' many of them involve (women workers with inadequate social security cover linked to maternity leave, the problems of those trapped in the cycle of short-term jobs and periodic unemployment from accumulating an entitlements at all in certain countries. However, where governments are linked to social partners through stabilization or competition pacts, there is unlikely to be an assault on the welfare state of the Thatcher kind because reform will have to be cautious and negotiated if the more general process of concertation is not also to be undermined (where there is no possibility of such a pact, but where the worker rank and file remains militant, as in France, reform will also be slow, but in this case because of policy paralysis). This is important, because governments in these countries are seeking additional legitimacy for welfare reform that they are increasingly failing to find at elections, especially from an increasingly alienated middle-class constituency in certain countries.

Where social pacts have been formed around general macro-economic objectives and/or specific labour market objectives, it is much more likely that concertation over more general welfare issues can also successfully occur, especially in those cases where the 'emergency' character of such pacts has given way to a more embedded, institutionalized set of relationships, as social pacts have overlapped with parallel and more conventional forms of bargaining and the experience of concertation has altered not just the norms of industrial relations behaviour but also, as in the case of Italy, the institutional make up of the system itself. Under such circumstances, far from the pursuit of an outright neo-liberal strategy, some elements of what has been termed 'progressive competitiveness' or 'incentive compatible egalitarianism' could be put in place in national systems of social protection (Bowles and Gintis 1995). These might include the following:

- a shift away from legislated or rule governed labour market regulation to negotiated labour market regulation, e.g. in minimum wages, as has occurred, for example, in the Irish and Portuguese social pacts;
- the relaxation of high levels of security for full-time core workers, in return for greater protection for peripheral (although increasingly central) temporary and part-time workers, as in the Dutch 1996 central agreement on 'Flexibility and Security';
- a redesign of social security systems to prevent implicit or explicit disentitlements, in relation to two groups in particular: women workers (who are often discriminated against by male bread-winner-oriented social security systems; and those not in permanent, full-time employment who may also be

discriminated against in terms of entitlements: this has also already been achieved in certain social pacts already implemented;

- a parallel redesign of social security systems to allow a guarantee of access to skill acquisition and social services at any point during the life cycle, especially through education and training (as advocated, for example, by Esping-Andersen 1994);
- and the negotiation of flexible retirement schemes, as successfully achieved in the Netherlands.

There are, however, obvious dangers in linking the future of the welfare system too much to negotiation based in the labour market. One consequence might be the loss of legitimacy of the parliamentary process if there is a policy bias towards the sphere of organized interests, although as shown by the experience of many pacts (including the Portuguese case discussed above) the interest of the socially excluded have also been taken into account. A second would be an over-burdening and complication of bargaining among organized interests, increasing the costs involved for the social partners. And finally, it may link critical policy choices too closely to particular interests organized along traditional employer-union lines. Regardless of interesting examples - such as the Dutch - of unions moving beyond their traditional membership base, in order both to boost membership and engage in a more flexible approach to labour market regulation, the possibility that these may continue to back essentially 'insider' policies, that protect their core clienteles, should not be discounted, as has been the case in Ireland where neither the problem of labour market 'outsiders', nor the employment and poverty traps that exacerbate long-term joblessness, have been directly addressed. Under such conditions, sharply rising trends in poverty are unlikely to be reversed. Nor should one neglect the fragility of and perils of policy making based on concertation if the institutional basis for such a strategy is not secure and if the costs of exit for either of the social partners are low.

Conclusions

This paper began by arguing that a combination of mainly external pressures are reshaping European industrial relations systems and constraining welfare states. These are: international competition in a more liberal world (and internal European) trading order, the path towards and completion of European Monetary Union, and the spread of new modes of work organization (lean production, flexible specialization and total quality management). It was also argued that while the future shape of industrial relations systems will depend in large part on their past and existing institutional structure, three objectives are being (and will increasingly be) prioritized in these countries' adjustment strategies and this will require a degree of institutional convergence:

- greater external flexibility in labour market (i.e. adjusting the barriers between the firm's internal labour market and the outside world), but only to the point where relations of 'trust' within the firm are not eroded;
- greater internal flexibility in labour markets (dependent not just on the ability of the employer to reorganize the work process, but on higher skill levels, less hierarchy in firms and greater 'trust');
- and - especially under EMU - wage cost containment.

Achieving these objectives requires innovation in bargaining and in the behaviour and institutional configurations of industrial relations systems. The optimal location of these, in terms of the combination of internal and external flexibility, will continue to be at the intersection of quadrants 3 and 4, diagram 1. The optimal organizational shape of these systems will be something along the lines of the German or Dutch dual system of representation (with significant variations according the industrial relations tradition), including a considerable decentralization of bargaining on many issues to company/plant levels, but involving some form of incomes policy or wage co-ordination.

Hence, the future is neither neo-liberal, nor one of 'social corporatism' but, for many European countries one of 'competitive' corporatism, prioritizing competitiveness and macro-economic stability and employment creation and redistribution, but down playing the 'equity' function of more traditional, 'golden age' forms of corporatism. This is a future, then, of pragmatic, productivity-oriented social pacts or coalitions. While the longer term consequences are unclear, these developments will have both direct and indirect consequences for welfare states: greater internal and external flexibility for firms means greater wage flexibility and wage dispersion, increased flexibility in the funding of programmes linked to labour costs and greater flexibility in the design of social security systems. Whether political and industrial relations systems can sustain this new form of class compromise and social contract, is of course, another question.

NOTES

[1] See Dunning (1997) for an extended discussion of the dependence of successful market-based economies on the provision of public goods.
[2] On cross-class 'flexibility' alliances in Scandinavia, see Iversen (1996).
[3] For a development of this argument, see Marsden (1995).
[4] For discussions of the debates on 'flexibilities' and 'rigidities' in European labour markets, and their implications for innovation and economic growth, see Villeval (1996) and Foden (1994)
[5] On the relevance of incomes policy for the future of the UK economy, see Kessler 1994).
[6] The details come from various issues of the *European Industrial Relations Review* and from *International Labour Review* (1995).
[7] Indeed, in the battle with employers demanding radical welfare and labour market reform who have been attracted to 'lean' welfare and deregulatory policies by the success in recent years of the extensively liberalized New Zealand model, social democrats and trade unionists in Germany and Belgium, for example, have been deploying the 'Dutch model' as proof that there is a 'third path' between the high levels of social protection of the continental European countries and Anglo-Saxon neo-liberal option. For two very useful studies of developments in the Netherlands, see Visser (1996) and Hemerijk and van den Toren (1996).

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