

# WILL EUROPE WORK?

Integration, employment  
and the social order

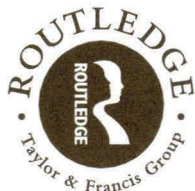
edited by Martin Kohli  
and Mojca Novak



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## 4 Employment and labor market policies in South Europe

*Maria Petmesidou*

This chapter examines employment trends, industrial relations and labor market policy reform in South Europe in the last two decades. In the first part the challenges that the European welfare states have been facing since the early 1980s are briefly discussed. The emphasis is on how responses – emanating from the national, supranational and local/regional level – to new challenges modify traditional forms of socio-economic regulation. A classificatory framework is developed that can help us to summarize a wide range of policy strategies. Further, the peculiarities of South European social, employment and welfare structures are highlighted. In the third part convergence or divergence in labor market regulation in South European countries is examined in the light of recent debates on alternative policy paradigms.

### **Policy options in the European context and the peculiarities of the European South**

The change factors confronting European welfare states and their traditional forms of socio-economic regulation have been widely studied in the last few years (Esping-Andersen 1996, 1999; Rhodes 1996). First, a convergence of internal pressures on European welfare states (demographic change, technological transformation, cost explosion of welfare programs coupled with structurally high levels of unemployment, the emergence of non-standard work-careers and changing household and family patterns) makes necessary a common basis of reform and action. Second, pressures created by the globalization of markets call for rapid adjustments of products, technologies and labor markets, while new production regimes transform the world of work and industrial relations. Third, participation in the common currency further restricts the scope of policy choices (i.e. the use of traditional measures of economic leverage like various forms of protection and currency devaluation).

In parallel, significant changes in the policy context are observed, as diagnosis of mounting challenges and tensions of traditional forms of socio-economic regulation, as well as the search for solutions, take place within an emerging multi-tiered system of governance (Pierson and Leibfried 1995, also Streeck in this volume). On the one hand, EU competencies are widening. For instance, regarding employment policy, there is a progressive Europeanization of policy objectives, indicating that the

outlines of a supranational labor market policy are in close reach; and some authors even forecast “a supra-nationalization at EU level of unemployment burdens” as a result of the process of achieving monetary union (Leibfried 1994: 243–4). On the other hand, a progressive redrawing of the boundaries of state intervention in most European countries creates more scope for action in matters of socio-economic regulation for the sub-national levels (regional, local, and firm level).

Under these conditions the landscape of European industrial relations and labor management is continuously shifting, while the supranational dimension is strengthened. An example pointing towards this direction is the resolution adopted by the European Metalworkers Federation, which aims to co-ordinate bargaining policy throughout Europe in order to counteract the potential negative effects of monetary union on pay and employment conditions (that is, the potential bidding down of pay and working conditions by employers feared to be “the outcome of the increased transparency and competitiveness of a common currency zone”) (EIRR 1999a).

The various policy responses to the above challenges can be conceptualized on the basis of three bipolar distinctions that as ideal-types can synthesize in a useful way actual policy options by European countries. The first bipolar distinction counterposes centralization to de-centralization (e.g. of industrial relations and labor management). The second contrasts concertation to deregulation (unilaterally introduced by governments); while further within the *concertation pole* we distinguish between micro-concertation taking place at the firm-level and macro-concertation consisting in peak level pacts between the government and the industrial partners. The third distinction refers to two different formulae of government: the *active society* or *workfare society* notion puts forward a perspective which redefines the links between social policy and labor markets in a way which sharply contrasts with the de-commodification of labor that the welfare state formula of government embodied in the mid-twentieth century. The *active-society* perspective reflects:

a fundamentally neo-liberal axiom that associates job growth, economic development and social well-being with wider participation in society and expansion of the entrepreneurial culture . . . it seeks to make all individuals into workers . . . while at the same time it signals the end of the age of the fully-employed, “tenured” worker and the dramatic rise of part-time, irregular and non-standard forms of employment.

(Walters 1997: 225)

Actual policy responses include a range of combinations of elements pertaining to one or the other pole of these ideal-type distinctions. Often responses may include contradictory strategies:

[as] the new challenges require the European economies to strike some sort of balance between opposing needs of deregulation of labor markets, industrial relations and welfare systems, on the one hand, and of concertation able to provide a social pact for national competitiveness, on the other.

(Regini 1998: 19)

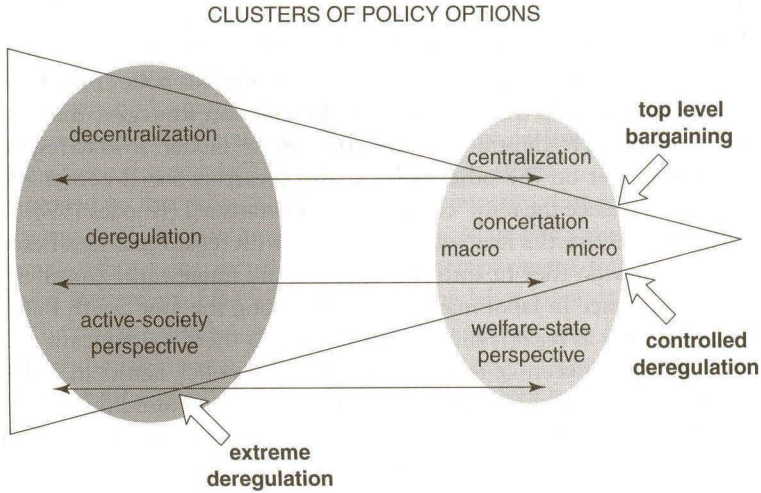


Figure 4.1 Clusters of policy options.

It is outside the scope of this chapter to delve deeply into the particular strategies adopted by various European countries (as well as to crucial underlying factors influencing different strategies, such as power relations, institutional traditions and organizational learning, the position of a country in the European/global economy, its capacity to respond to the requirements of monetary union, etc.). Three groupings of policy strategies are schematically defined in Figure 4.1, on the basis of the three bipolar distinctions, as indicative of alternative policy clusters with differing orientations.

The policy strategies subsumed under the heading of “recurrent top-level bargaining” combine wage solidarity within various sectors with a *quid pro quo* political exchange between the partners, encompassing also welfare provisions which decommodified labor. These characteristics were epitomized in the corporatist, Fordist pattern of socio-economic regulation in Europe that has been in decline since the 1980s (such a tradition remained weakest in many parts of South Europe though).

In the last two decades policy responses – conceptualized along the three bipolar distinctions – may take the form of either *extreme deregulation*, or of more or less *controlled deregulation/decentralization*. Among EU countries, the UK offers a striking example of the former policy paradigm: that is, policies of deregulation of labor markets and industrial relations unilaterally introduced by the government, coupled with: (1) the decentralization of bargaining procedures; (2) numerical and functional flexibility; and (3) the dismantling of welfare guarantees.

An alternative policy orientation in European countries tends to re-strengthen social concertation around public policies as a crucial strategy in boosting national competitiveness. This new type of social concertation is considered to depart from the *quid pro quo* logic of an immediate political exchange of benefits between

the partners and rather promotes a regulatory framework of policy: it facilitates a controlled debasement of regulations, selective and concerted flexibility as well as regulated welfare state restructuring (Rhodes 1998; Regini and Regalia 1997; Regini 1998). Some authors go so far as to clearly define this policy orientation as a promising alternative to the Anglo-Saxon deregulation strategies, that, on the one hand, attempts "a readjustment of the 'continental' model" so as to respond to market pressures, yet on the other hand it also preserves social consensus and social protection (hence the term "competitive corporatism") (Rhodes 1998: 179).<sup>1</sup>

From this perspective the main questions raised with regard to South European countries are: How do they fit into this classificatory framework? Are there any trends of convergence in labor market policies among the four South European countries, especially as regards the latter paradigm? Is there a significant redrawing of boundaries between central and sub-national policy actors in industrial relations? However, in tackling these issues we must bear in mind that the above range of change factors need also to be linked to the peculiarities of socio-economic and political structures in South Europe.

### *Aspects of social, employment and welfare structures*

(A) Late industrialization, followed by a rapid shift to post-Fordism since the early 1980s, well before industrialization had deepened and Fordist production structures with their accompanying patterns of collective solidarity and universalist social citizenship had been fully developed, constitutes one important characteristic of South European countries. This is linked to a rather weak tradition in building social consensus (though of course there are significant differences between the four countries) (Petmesidou and Tsoulouvis 1994).

In the 1980s and 1990s de-industrialization coincided with de-ruralization. Coupled with demographic pressures, and a rapidly increasing female participation in the labor market, this condition produced high levels of unemployment in South Europe (striking examples being Spain with a record high unemployment rate, as well as South Italy). Further, significant structural adjustments introduced in the decade 1975–1985 under the pressure of a number of mutually reinforcing factors, such as the two oil shocks, the transition from an agricultural economy to post-Fordism, the opening up of South European economies, combined with the release of pent-up wage pressures and the democratization of union organizations in countries such as Spain, Portugal and Greece, after the fall of dictatorships, were decisive for employment trends. Preparations for EU accession by these three countries constituted an additional pressure.

In the period of the transition to democracy Spain experienced a very serious fall in employment that marked a significant departure from the rest of Europe. In the mid-1980s net employment losses amounted to about 17 percent of total employment in 1974; over two million jobs were lost and these were mostly in the manufacturing, construction and agricultural sectors, while service sector employment slightly increased (OECD 1996b: 57).<sup>2</sup> Unemployment jumped from 5 percent in the late 1970s to 21 percent in the mid-1980s. Job growth during the



economic expansion period (of the late 1980s) did not succeed in closing the gap with the labor force, which had kept growing over the previous decade of declining employment opportunities. As the recovery lost momentum in the first half of the 1990s, unemployment reached 22.2 percent in 1996 (of which 53 percent was long-term unemployment).<sup>3</sup> At the end of the decade employment started to show a strong recovery and overall unemployment declined significantly for the first time since the mid-1970s (to 15.3 percent in 1999).

Compared to the other South European countries, Greece experienced low rates of economic growth until the late 1990s. Male participation stagnated, but the female labor force increased rapidly. Unemployment rose sharply between 1975 and 1985, from 1.7 to 7.0 percent of the labor force. It fell slightly in the second half of the 1980s but increased rapidly again in the 1990s reaching 11.6 percent of the labor force (7.8 percent for men and 17.4 percent for women) by the end of the decade. If we also take into account hidden unemployment (about 3 percent according to a report of the European Employment Observatory), total unemployment amounted to about 14 percent of the labor force (over 50 percent of it being long-term unemployment).<sup>4</sup>

In contrast to these trends, the structural adjustments set in motion by the opening up of the Portuguese economy in the late 1970s and early 1980s, as well as special factors linked to accession to the EU, contributed much to absorbing the labor supply in this country. Male and female unemployment fell sharply between 1985 and 1992: from 6.6 to 3.6 percent and from 11.7 to 5.0 percent, respectively. These trends contrasted with developments in most EU countries, where structural labor market conditions worsened throughout the 1980s (OECD 1996a: 77). What is more, the fall of female unemployment at about 7 percentage points in the period 1985–92 was twice as large as that of men, reducing the excess of female over male unemployment to around 1.4 points (even under conditions of comparatively high participation rates for women);<sup>5</sup> the gap slightly increased in the late 1990s, yet it is still one of the lowest among OECD countries.

Italy exhibited a comparatively high annual average rate of growth of GDP from 1975 to 1990 (3.0 percent). Throughout this period employment grew by a yearly average of only 0.5 percent; this rate was above the EU average (0.1 percent) in the decade 1975–85, but well below it in the following period of economic recovery (1985–90). This manifests a comparatively low employment-intensity of growth, and output expansion was achieved largely by raising productivity. During the 1980s far-reaching restructuring and reorganization in the industrial sector decreased labor demand in it, while at the beginning of the 1990s similar trends affected the service sector as well (European Commission 1996a: 1). A substantial fall in employment (by 3.7 percent) between 1990 and 1994 was followed by a period of employment stagnation.<sup>6</sup> In January 1995 unemployment reached the historical height of 12.2 percent (22.0 percent in the South and 7.2 percent in the North). Long-term unemployment also significantly increased to reach 65 percent of the unemployed in 1998. Further, in Italy – as well as in Greece – unemployed young people are more likely to be long-term unemployed than their unemployed elders.<sup>7</sup>

(B) South European countries exhibit strong official rigidities in employment regulations and industrial relations; however, this condition is counterposed to informal flexibilities pertaining to a wide black economy. Greece constitutes a characteristic example of a highly legalistic mode of labor market regulation offset by the functioning of a wide informal sector, as according to a study (Schneider 1999) a little less than a third of GDP is produced in the black economy, ranking Greece at the top of the OECD countries.<sup>8</sup> This phenomenon is also closely linked with labor market fragmentation (across the formal/informal labor market divide and the protected/unprotected sectors). Moreover, Greece, together with Portugal, exhibit a high degree of centralization of collective bargaining coupled with extensive state intervention in industrial relations at least until the early 1990s.<sup>9</sup>

(C) Social protection systems are doubly fragmented in South Europe. Welfare guarantees depend upon a full and uninterrupted occupational career that establishes contributive entitlements, while those who cannot secure such a career in the formal labor market are left unprotected. A policy of a universal income safety net was only introduced in Portugal, it is absent in Greece, while in Spain and Italy some initiatives in this direction at the regional/local level remain uncoordinated. Further, wide inequalities in the level of benefits offered by social security funds increase polarization between groups of hyper-protected and weakly protected beneficiaries (particularly in the case of Greece). What is more, income maintenance programs and welfare service delivery are based upon a particularistic-clientelistic system in which corruption and discretion are endemic characteristics (Ferrera 1996; Petmesidou 1996a). Some authors talk about an “anomic division of political labor” in South European countries, meaning by this term the penetration and exploitation of state institutions and decision-making structures by a wide range of socio-economic interests that greatly limit the state’s authority and administrative capacity.<sup>10</sup>

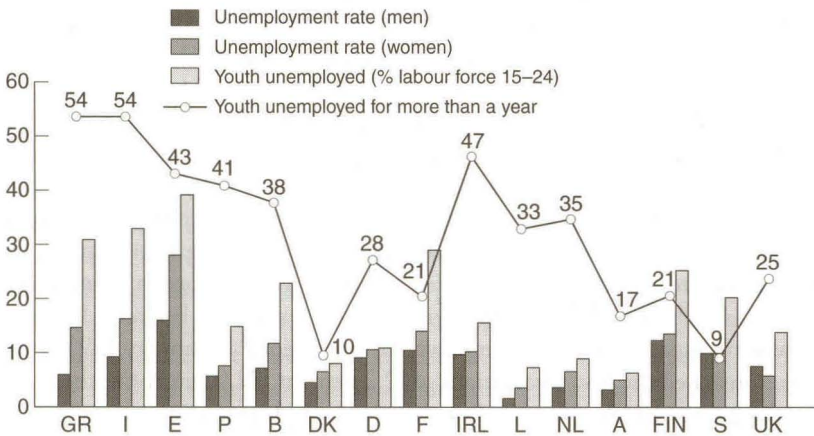


Figure 4.2 Unemployment trends, 1998.

Source: Eurostat 1999 (data for youth unemployment for more than a year refer to 1996).

(D) Another peculiarity of South European countries concerns the central role of the family/household as a strategic unit of decision-making, regarding employment opportunities of its members, and a redistribution unit providing its members with the means to overcome distress, unemployment and bankruptcy. In parallel a familist labor market management gives priority to the protection of the earnings and career continuity of the male breadwinner (in the formal labor market).<sup>11</sup> This is also connected to a major difference in unemployment trends that sets South European countries apart from a good many EU countries. In the latter countries the most significant problems emerged with persons who became unemployed under conditions of recession and were later caught up in the wheels of passive income support policies. In South Europe this situation affects a limited proportion of older workers, whilst the most significant problem is high and persistent unemployment among youths and generally among women (Figure 4.2). Another facet of these conditions is the comparatively low degree of employment polarization among households in South European countries (Gregg and Wadsworth 1998). Although unemployment increased rapidly in Spain, Greece and Italy in the 1990s, this trend was not accompanied by the simultaneous rapid increase over time in both workless and fully employed households and an abrupt decrease of mixed-work households (that is, households in which at least one member is employed); as is for instance the case in some North European societies (e.g. the UK) even under conditions of declining unemployment. Instead, in South European countries we discern a large proportion of mixed-work households.

### **Major labor market policy reforms in the 1980s and 1990s – social pacts**

South European countries embarked upon wide-ranging plans for labor market and welfare policy reform linked to privatization strategies relatively later than other industrialized countries. It is in the decade of the 1990s, under the pressure of EU convergence criteria which weakened social resistance, that governments put through major reforms introducing market forces in the public sector and deregulation measures for labor markets. The time and pacing of these reforms, as well as the extent to which they draw upon a social concertation process, or instead are introduced by governments in a unilateral way, vary among South European countries. On the one hand Italy (and to some extent Portugal) provide examples of a “consensus building process at the macro-level” supporting significant reforms for adjusting public policies to external and internal constraints. On the other hand, in Spain and Greece social concertation is rather weak. Among other factors, the highly politicized and conflictual character of industrial relations in these countries until recently (mostly due to a strong labor market dualization, in the case of Spain, affected by a policy of temporary-contracts) considerably limited the possibility of wide social agreements on policy reform.

### *Italy*

In Italy, from the mid-1970s to the early 1990s, collective bargaining processes repeatedly shifted emphasis between the “center” and the “periphery,” that is between peak level political exchange among the social partners on the one hand, and informal, voluntaristic agreements at the firm-level on the other, according to circumstances and power relations (Regalia and Regini 1992). Yet until the early 1990s this dualism in collective bargaining was not linked to well-established rules about the competencies of and the issues addressed at each level. A phase of explosive trade-union mobilization in the late 1960s was followed by a period of political exchange at the central level. By the early 1980s peak level bargaining collapsed, mainly because of the crisis of union representation. The tripartite accord for an anti-inflation policy (that would revise the *scala mobile*, that is the inflation-linked wage escalator), signed in January 1983, hardly produced a stable concertation. Throughout the 1980s industrial adjustment took place through the widespread use of bargaining in the lower tiers of the industrial relations system. Under these circumstances a strategy of micro-concertation emerged which may not have favored large-scale agreements of socio-economic reform, yet it firmly hindered extreme deregulation.<sup>12</sup>

Peak level negotiations over the cost of labor and the collective bargaining structure were resumed in 1989. In the next couple of years new tripartite agreements acknowledged the deadlock of the *scala mobile*; these, however, were once more restricted to declarations of principle, postponing again any significant reform. The situation changed drastically in 1992, when the “Clean Hands” operation was launched as a response to the political crisis that erupted in close connection with widespread economic scandals. Under the conditions of crisis and the pressures exerted by the Maastricht stipulations for joining the EMU, a process of building social consensus across political boundaries emerged in Italian society that consolidated the claim of “removing politics from the budgetary process” as the principal policy option for Italy to enhance national competitiveness and secure its place in the European economic and monetary union.

In 1992 a tripartite agreement was reached which abolished the *scala mobile*; the core of the agreement checked wages growth without however introducing compensatory measures that traditionally accompanied political trade-offs in the 1980s. Despite some resistance by workers in the most unionized factories, the concluded agreement was met in a positive way as bringing about a significant change in the relationships between the social partners and the state.

A year after, the technocratic government led by Ciampi signed a crucial agreement that redefined the overall system of collective bargaining. It introduced an incomes policy based on a joint commitment of the parties to link wage increases to the expected inflation rate; the bipolar character of the Italian collective bargaining system (at the national and company or local level) was consolidated and the roles and competencies of each level were clearly specified. The social actors explicitly confronted the task of regulating collective bargaining, introducing rules as to the relationships between the various levels, and enhancing formalization.

Further, negotiations over pensions reform gave rise to a most severe conflict and then to an agreement between government and unions on a law which introduced significant changes in the social insurance system: such as the shift from the old earnings-related to a new contributions-related formula, the standardization of rules for public and private employees, stricter rules on the cumulative receipt of disability benefits and incomes from work, and tighter controls on beneficiaries. A subsequent reform, agreed in November 1997, brought about substantial savings in the public budget, and thus contributed to Italy's joining the first wave of European economic and monetary union.

The "Employment Pact" concluded in September 1996 constitutes another major development in labor market regulation. It attempted to lift most of labor market rigidities so as to enhance flexibility, in a controlled way though. In mid-1997 the provisions of this accord were incorporated in new legislation (the so-called "Treu package"), which legalized temporary work agencies, yet under controlled guidelines; introduced cuts to the level of employer social security contributions on part-time work; established new types of contracts like area contracts (especially for the South); improved apprenticeship and provided community work for young unemployed people in the South; it also introduced new measures with real innovations in the education and training system. A new social pact on "Development and Employment," signed in December 1998 by a broad range of social partners (and ratified by the Parliament in early 1999), extended the social concertation strategy to the territorial level by involving in it the local administrations in the context of a process of devolution of state tasks to regions, provinces and municipalities.

Evidently, for social concertation to be effective and stable in the long-run, most of these agreements on "rules" need to be "fleshed out" with common views and definitions of socio-economic development and national competitiveness by the social partners (Regini and Regalia 1997: 229). Otherwise the prospects for the co-operative game to yield a stable basis of wide consensus are rather bleak. This is indeed an open issue in Italy, given that the social dialogue has hardly yielded such a common frame of reference up to now. A too narrow focus on market and cost efficiency criteria limit considerably the basis of consensus on a common approach. These conditions create an unstable and precarious equilibrium, in which controversial issues, such as the introduction of the 35-hour working week, or the demand by *Confindustria* (General Confederation of Italian Industry) that the national level of bargaining is abolished can easily threaten social concertation.

## Spain

In Spain, in the last two decades, major reforms for tackling the employment crisis supported a growing liberalization of entry in the labor market. Although some of the reforms may have been introduced under the pressure of unions' demands, a practice of social concertation has developed hardly at all. Corporatist arrangements remained contingent and non-institutionalized (Roca 1991). This has

given the government considerable flexibility to support negotiations at some conjunctures and keep its distance from them at others. Strategic fluidity has thus been a central feature of economic policy in Spain (Martinez Lucio 1992).

At the time of the transition to democracy, governments sought to establish some kind of "corporatist global agreement" with the unions and the employers' associations (e.g. the Moncloa Pact signed in the late 1970s) in an attempt to prevent future social conflicts and enhance the credibility and legitimacy of governmental policy. Between 1977 and 1984 five such peak level accords were signed mainly as part of a strategy to combat inflation through wage growth moderation.

In the mid-1980s the Spanish authorities opted for a safety valve to the employment crisis, and this consisted in low-cost fixed-term and temporary contracts. Instead of reforming the core of the labor market, this strategy rather allowed the development of a *fringe* where labor market regulations, in particular dismissal procedures, would be much less restrictive. The introduction of low-cost fixed-term contracts resulted in growing labor market dualism, by isolating a core of *insiders* (usually adults with indefinite contracts), from a periphery of *outsiders* (young workers and women, with temporary contracts). Needless to say, wage moderation fell mainly upon the latter.

The social dialogue failed during the economic growth period (1985–90) and any subsequent attempts to restore it, particularly when the Spanish economy entered the recession, had no positive results. Consequently, throughout the 1980s and 1990s governments unilaterally introduced labor market reform.

Reforms in the 1990s further supported a radical deregulation in the labor market: in 1992 new legislation aimed at reducing the budgetary cost of unemployment insurance, while the 1994 reforms sought to improve the firms' ability to allocate labor efficiently by increasing both internal and external flexibility. They also significantly changed the balance between law and collective bargaining by giving the latter a more fundamental role, so as to make wages more responsive to local conditions. In addition, the range of criteria for legitimate collective dismissals was expanded so as to include organizational and production-related reasons; while, at the same time, some attempt was made to tighten the rules for fixed-term contracts. Procedures for small-scale layoffs were revised and the approval process for larger layoffs was streamlined. What is more, internal flexibility increased with the relaxation of the so-called *Ordenanzas Laborales* (since 1994 most of these labor regulations have gradually been abolished) and restrictions on part-time work were lifted.

In the last decade any attempts (though hardly successful) to build peak level social concertation emerged as a response to the challenge of EU integration as well as to changes in the balance of political power following the December 1988 general strike. In an attempt to develop links with the labor movement, especially on specific issues of immediate sensitivity (such as the stabilization of pensions or the creation of more permanent jobs) the conservative party government (in office since 1996) favored peak level bargaining, albeit through a process that separates negotiation fora and issues, rather than through comprehensive pacts

covering a range of policy matters (as is the case in Italy). Soon after the conservative party came to power, an important agreement reached between the social partners, after difficult negotiations, can be interpreted along these lines. It further decreased redundancy and dismissal compensations in exchange for a reduction in job precariousness. Public subsidies and reductions of social security contributions were provided to employers as incentives for promoting indefinite contracts and transforming temporary into fixed-term jobs.<sup>13</sup> The conjunctural (and fragile) character of recent accords lends support to the view that these do not manifest a "resurgence of corporatism." Rather they constitute a defensive move on the part of the unions which feared "the potential privatization thrust" of the right-wing government; the weakening of left-wing parties because of heightened internal divisions and corruption scandals constitutes one more important factor influencing the industrial relations scene (Gutiérrez and Guillén 2000: 212).

In a nutshell, successive responses to the employment crisis consisted in a radical deregulation giving rise to casualization of employment and dualization of the labor market. Arguably, these conditions led to the consolidation of "a culture of temporary contracts in Spanish firms" with long-term detrimental effects on employment and national competitiveness (European Commission 1997: 175). In the short term, an increased elasticity of employment over the business cycle was observed. But the sharp distinction between temporary and permanent contracts affected the labor market in a negative way: it created wage pressures and increased the insider power of permanent workers, because they are less likely to suffer the potential dismissals due to wage increases; further, it did little to reduce rigidities in the protected sector (Segura *et al.* 1991). Additional serious negative effects on productivity, training and migration have also been recorded as a consequence of enhanced labor market dualism. In a sense, the Spanish experience clearly reflects most of the potential pitfalls of radical deregulation.

### Portugal

In Portugal large-scale revolutionary mass mobilizations in the period of the transition to democracy influenced significantly the industrial relations pattern. The highly politicized stance of the trade unions and the predominance of a relationship of mistrust between the social partners halted the modernization of the Portuguese industrial relations system (Barreto and Naumann 1992).

From the revolutionary period up to the late 1970s the polarized approach of the CGTP<sup>14</sup> trade union (the class-oriented main trade union confederation affiliated to the Communist Party) and extensive state intervention, through legislation and the imposition of limits to pay increases, limited the scope of collective bargaining. In the 1980s union mobilization declined, as union density also did, and the state's direct intervention in collective bargaining decreased; however, the state's intervention in the settlement of conflicts and in support of negotiation is still far from negligible. Significant factors that contributed to these changes were: the shift of power relations in favor of neo-liberal political forces

(the forging of a strategic alliance between the Social Democratic and the Socialist Party), the emergence of the UGT union<sup>15</sup> with a moderate stance, and increasing employer power (particularly in the form of employer discretion at the company level).

By the mid-1980s collective bargaining stagnated at the sectoral level. Similarly, at the company level workers' involvement in the regulation of work relations was limited. In 1984 the establishment of the Permanent Council of Social Concertation (CPCS) as an institutionalized basis for peak level tripartite negotiations, aimed at introducing a new dynamism to collective bargaining. Since then the CPCS has become the main vehicle for a process of political exchange between the state and the social partners. However, developments did not measure up to expectations. Tripartite national negotiations failed to lead to a real reform of industrial relations; instead they functioned as a legitimizing process for liberalization and restructuring.

Nevertheless the Portuguese labor market has performed remarkably well since the mid-1980s. In the late 1970s–early 1980s the Portuguese economy suffered from severe structural problems, such as a large and inefficient agricultural sector, the very small size of businesses and inefficient management, large-scale nationalization and state intervention in price regulation and market processes, an archaic tax system, inadequate infrastructure and widespread illiteracy (OECD 1996a: 75). The effect was low overall efficiency and increasing unemployment, which reached its peak in 1985 hitting 8.7 percent of the labor force. The shift to market oriented policies in the 1980s, combined with specific conditions concerning Portugal's accession to the EU and widespread flexibility, achieved mostly in an informal way, contributed much to absorbing the labor supply shock of the 1970s and early 1980s. Particularly between the mid-1980s and early 1990s employment increased sharply and unemployment remained low by EU standards. What is more, such performance was achieved under conditions of high participation rates, particularly so in the case of women, long-term demographic trends of decreasing fertility and increasing life expectancy, as well as large-scale employment shedding in agriculture.<sup>16</sup>

Since the mid-1980s tripartite agreements on incomes, employment and welfare policy laid down guidelines for collective bargaining and legal reforms. The 1987 accord adopted the concept of expected inflation rate as the reference point for wage negotiations. It was followed by the 1990 "Economic and Social Agreement." Due to the wide range of regulations and their significant importance, this accord is by far the most crucial. It focused on the objective of promoting effective growth of real wages towards the EU average, under non-inflationary conditions, and improvement of international competitiveness of Portuguese firms. In addition, guiding principles were decided in respect, among others, to budget policy and other macro-economic and industrial policies, earnings policy, legislative reform in social security, working time, safety in the workplace, educational and training, atypical work and dismissals. An official decision was also reached by this accord to reduce working time to 40 hours per week by 1995 in exchange for enhancing flexibility in work schedules.



Further, significant reforms of the Portuguese pensions system were agreed upon in the first half of the 1990s. These raised contributions and contribution periods, but at the same time improved social insurance coverage, while the privileges of public sector workers were removed.

The "Short-Term Social Pact" signed in January 1996 under the initiative of the socialist government constitutes another important step in social concertation. The agreement elaborated guidelines for nominal wage growth, taxation and social security, introduced regulations for restricting child labor, adopted a policy of local initiative programs for job creation and facilitated the implementation of measures already agreed upon (i.e. the reduction of standard working time to 40 hours per week and a more flexible organization of working time largely based on reduced job demarcations). It also introduced, on an experimental basis, a minimum income scheme, the features of which have yet to be further elaborated. In addition, the pact formulated training measures, emphasizing on-the-job training and better counseling of the unemployed and owners of small firms. Equally important was the objective of empowering social partners in the design of regional policies and the allocation of EU-funds.<sup>17</sup>

The extent to which these peak level agreements signal a phase of consensus on a regulatory framework of industrial relations and labor market policy is an open question. Given the polarization between the CGTP trade union and the employers association (CIP – Confederation of Portuguese Industry), and the contradictions within the trade union camp, tripartite peak concertation failed to provide an impetus for a more ambitious reform enlarging the autonomy of collective bargaining at the company and national level. The failure of the 1990 peak tripartite agreement on a reduction to 40 hours working week (with compensating flexibility measures) to stimulate negotiations between the partners for its implementation, and its subsequent enforcement through legislation enacted in 1996, testify to the above point. Similarly, CGTP and CIP refused to support an agreement on the regulation of arbitration. Further, CGTP did not sign the 1996 tripartite agreement and PIS showed limited commitment. This indicates an inability by the social partners to regulate their relations autonomously, a condition that strengthens the role of the state.

## *Greece*

In Greece, until recently, excessive politicization of unionism, deep conflicts within the union camp, as well as extensive state intervention in industrial relations considerable limited the role of organized labor in socio-economic development.

Up to 1990, there was strong government intervention in the wage formation process, through an inflation indexation system and direct mingling in collective negotiation procedures.<sup>18</sup>

Important policy reforms were introduced in a unilateral way. In 1991 the automatic inflation indexation system for wages was abandoned and new legislation on industrial relations was introduced that eliminated direct government

intervention in collective negotiations. Legislation supporting part-time and fixed-term employment and the introduction of the possibility for firms to use a fourth shift were the two major labor market reforms in the early 1990s that increased flexibility of working time. However, there was little use of these forms of contracts up to now (European Commission 1996c).

Further, legislation in the social security field passed in the early 1990s (i.e. laws 1902 of 1990, 1976 of 1991 and 2084 of 1992) was targeted mainly at reducing the public debt and social security deficits; yet these laws hardly succeeded in rationalizing the system and overcoming fragmentation in social security (Petmesidou 1996b).

Since 1997 an attempt to initiate peak tripartite agreements was made by the government under the pressure of promoting macro-economic measures and labor market reforms held to be necessary for meeting the Maastricht requirements. The first round of the social dialogue started in spring 1997 and extended over 1998. The policy measures put on the agenda by public authorities concerned primarily employment and labor market flexibility. The "Agreement of Trust" signed by the social partners and the government in November 1997, as the outcome of the first stage of the dialogue, is a rather vague statement with no binding obligations. Disagreement on many of the above issues was strong between the social partners.

A social dialogue on pension reform took place in parallel and also extended into 1998–99. Yet it hardly touched upon incisive changes of the pension system. The so-called mini-reform of pensions through legislation enacted in December 1998 only marginally tackled the issues of fragmentation in social security and fiscal crisis of a number of social funds. A new round of dialogue announced by the government in 1999 was postponed, as the political cost of a major reform appeared to be high at that conjuncture. Similarly, in early 1999, an attempt by the government to develop a social dialogue on significant reform of the tax system did not bear fruit, as GSEE (the General Confederation of Greek Workers) refused to participate.

Given the weakness of the industrial relations system and the rather decorative role of the social dialogue so far, labor market reform was unilaterally introduced by the government through legislation (law 2434 of 1996 on "Policy Measures for Employment, Vocational Education and Training," and its follow-up, law 2639 of 1998 on "Regulating Industrial Relations"). Among the main aims of these laws were: enhancing labor market flexibility and regulating atypical forms of work; linking passive to active labor market policies (so as to promote employability); upgrading OAED (the Manpower Employment Organization) services, as a pre-condition for a more efficient labor market policy, in parallel with the establishment of private employment offices. The new legislation aimed also to facilitate the design and implementation of a long-term employment strategy that would redistribute resources between passive and active labor market measures through the implementation of continuing training and employment subsidization programs. Although drawing upon the agenda of the social dialogue, these legal developments hardly reflected a consensual process of reform and some issues of the new legislation were vociferously opposed by trade unions

(e.g. work time flexibility). This hindered significantly their effective implementation (Petmesidou, 2000: 312–17). The contentious issue of a 35-hour working week (without wage cuts) has persistently been put forward by GSEE as a pre-condition for a serious social concertation process; but this is approached with scepticism by both the employers' association and governmental officials.

### **Concluding remarks**

In an overoptimistic vein some authors (e.g. Rhodes 1998) tend to extrapolate from examples of a revival of peak level concertation around public policies an emerging paradigm of economic governance and labor market regulation that is held to be a potential alternative to policies of extreme deregulation. "Competitive corporatism" is held to be a model of economic governance drawing upon consensus on the necessity of national adjustment to internal and external pressures for increasing competitiveness, through more or less controlled deregulation measures, expected to avoid the detrimental effects on socio-economic inequalities, exclusion and marginalization that extreme deregulation has. Often, examples from South Europe (mainly Italy and Portugal) are elicited in support of this view.<sup>19</sup> On the basis of the above analysis, however, there are serious doubts as to the prospects of peak level concertation even in Italy where the co-operative game took a more systematic form.

Despite attempts to stimulate a social dialogue, mostly influenced by policy trends in the EU, Greece remains greatly distanced from labor market and employment policies drawing upon social concertation. This is mainly due to the immaturity of the industrial relations system and the restricted scope for autonomous bargaining among social partners at both the central and local level; under these conditions the state remains the key locus of action.

Similar conditions characterize Portugal. The peak tripartite concertation policy introduced in the mid-1980s failed to give an impetus for a more dynamic model of industrial relations, as the inability of social partners to conclude agreements on the guidelines set by peak tripartite pacts shows. In the last decade, some examples of initiatives for bi-lateral agreements between the social partners at the local level exhibited a strong potential for exerting pressure for the renewal of the overall framework of labor market and employment regulation, though such a trend is expected to be "an extremely contradictory and protracted process with uncertain outcome" (Barreto and Naumann 1992: 422).

Widespread job insecurity is one of the determining features of the Spanish labor market. A policy of liberalization of entry to the labor market has persistently been pursued by the Spanish governments in a unilateral way since the mid-1980s. Unemployment and high incidence of temporary working are the two prominent issues that have brought unions to the negotiation table. The potential of certain practices of negotiation to lead to durable regulatory agreements is an open question. Besides, the government's strategy to separate negotiation fora and compartmentalize issues manifests that the time of peak level pacts tying a range of policy areas and interventions is over; and indeed in

the last two decades in Spain such pacts were a rare phenomenon with not much durability. The increasing importance of collective bargaining and tripartite agreement at the sub-national level, as was for instance manifested by the concluded Basque country employment deal (that provides for early retirement, the recruitment of young unemployed, the elimination of overtime hours and improved rights for temporary workers) (EIRR 1999b) makes the picture more complicated.

Industrial relations reform in Italy comes closer to the direction of regulated flexibility and organized decentralization: macro-concertation on economic and incomes policy, labor market and social policy reform provided the guidelines for more autonomous lower level bargaining (at the regional, district and firm level). However, as stressed above, up to now most of the peak tripartite agreements hardly offered any indication of a common view on social and economic development by the social partners. Given that competitive corporatism distances from a *quid pro quo* logic characterizing traditional corporatist arrangements, the existence of a common view of national goals for social and economic development is a crucial precondition for the durability and effectiveness of social pacts. A too narrow emphasis on market and cost efficiency makes the consensus building process very fragile.

For the potential of this new type of social concertation in Europe to yield durable consensus on joint efforts by the social partners to enhance competitiveness (at the regional, national and supranational level), a European-wide reinvigoration of the social debate around the reconstitution of the role and status of social and employment policy *vis-à-vis* economic policy is required. Overcoming the huge asymmetry between the implementation of efficiency and equity criteria would be the focal point of such a debate. Mounting academic and political pleas for a concerted action to improve the Social Quality of Europe through “a creative reciprocity between European economic and social policies” (Beck *et al.* 1997: 264) offer significant stimulation in this direction. Further, important developments in the European Union, such as steps taken towards a more co-ordinated employment policy framework among EU countries so as to fight unemployment and unacceptable forms of social marginalization, as well as the encouragement of autonomous negotiations of social partners at the European level, may spark off possibilities for a new basis of consensus around joint efforts (consolidated through social agreements) for a more efficient development of human resources. However, one cannot be very optimistic about the prospects of such a trajectory of European integration.

## Notes

- 1 Other authors talk about “organized decentralization” or more loosely about “controlled deregulation” (Traxler 1995; Regini 1998). Streeck (in this volume) in an attempt to grasp the contours of “the new European social model” under conditions of intensified international competition emphasizes the shift from “protective and redistributive” to “competitive and productive solidarity.” However, he focuses on the overall change trend of socio-economic regulation in Europe rather than on the patterning of alternative reform strategies.
- 2 For the causes see Argandona 1997; Rhodes 1997; and European Commission 1997.

- 3 Regional differences were also high, as unemployment was roughly 50 percent higher than average in Andalusia, and about 50 percent lower in Navarra.
- 4 Hidden unemployment refers to all those *discouraged* unemployed who become inactive; it also has to do with the large number of self-employed in Greece (about one-third of total employment) among whom unemployment cannot be easily defined and detected (Petmesidou 1998).
- 5 This was 61.9 percent in 1998 (EU-15 average for female participation: 58.1 percent; and respective rates for Spain, Italy and Greece: 47.5, 44.3 and 48.1 percent).
- 6 A small increase in employment (approximately 1 percent) was observed in 1998 reflecting a more services-oriented growth mix (European Commission 1999).
- 7 Unemployment slightly fell in 1999 (to 11.1 percent).
- 8 Similarly in Italy about 17 percent of the labor force (31 percent in the South) were employed in the black economy in 1998 (European Commission 1999).
- 9 Compared to the other South European countries, Greece remains a rather immature system of industrial relations (Kritsantonis 1992; Petmesidou 1994).
- 10 For instance, in the case of Italy, until the 1980s, Fabrini talks about a “non-state state,” that is a state with weak economic management capacity, that lacks the ability to provide strong direction in social and economic reform (referred to by Della Sala 1997: 32).
- 11 For a long time South European social protection systems remained outside the scope of various comparative projects – with the exception of Italy, which is subsumed under the continental-corporatist model (see for instance Esping-Andersen 1990), or the state corporatist model (Korpi, in this volume). Yet, as also argued elsewhere (Petmesidou 1996a), some distinctive characteristics of South European social protection systems differentiate them even from the Bismarckian model with which they undoubtedly exhibit affinities. In addition to high fragmentation of income maintenance systems, other distinctive features are a dualistic structure counter-posing fragmentation in social security to universalism in health care (albeit still a weak variant of universalism, particularly in the case of Greece), the dominance of pensions in the social budget crowding out resources for other types of benefits like family and housing benefits or for the provision of services to families and the implementation of active labor market policies (Ferrera 1996).
- 12 As Regalia and Regini (1992: 466) stress, this change of emphasis was closely linked with a dominant strategy at that time that assigned crucial importance for national adjustment to the firms’ ability to restructure and promote new forms of work organization and partnership in industrial districts.
- 13 The measures were targeted to the young and long-term unemployed, unemployed over 45 years of age, to the promotion of women employment in sectors in which they are underrepresented, as well as to the activation of disabled persons (Gutiérrez and Guillén 2000: 209–15).
- 14 General Confederation of Portuguese Workers (usually referred to as *Indersindical*)
- 15 General Workers’ Union.
- 16 A policy option of fixed-term and temporary contracts, similar to that adopted by Spanish authorities, was also introduced in Portugal much earlier than in Spain; yet the use of such contracts has not been as widespread as in Spain. At the end of the 1980s new legislation aimed at regulating the conditions under which such contracts could be used; in parallel, dismissals were made easier (European Commission 1996b).
- 17 A new medium-term pact signed in summer 1996 further enlarged agreement on the upgrading of human capital.
- 18 Changes in nominal and real wages were extensively influenced by government policies, a condition that affected unfavorably unit labor costs, price stability, availability of jobs and the general labor market situation.
- 19 Sometimes, though falsely, even Greece is referred to as an example of “a strong thrust towards the centralized bargaining of incomes policy and the signing of formal tripartite agreements” (Regini 1998: 10).

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