Between Deregulation and Social Pacts: The Responses of European Economies to Globalization

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In the 1990s, the "challenges" raised against the traditional forms of regulation of the European economies have dramatically increased and have seemingly grown ever more threatening. In the opinion of some scholars,[1] and even more so in the platitudes of the mass media, the greatest threat seems to be raised by the globalization of markets and the intensification of international competition. These phenomena compel national economies to adjust prices, products, technologies, and human resources more rapidly and more extensively than their regulatory systems allow.[2] Also, the process of European monetary unification—which precludes recourse to many traditional economic policy instruments such as currency devaluation and covert protectionism—has imposed similar exigencies of increased competitiveness on national economies and has compelled them to reform their regulatory systems. Demographic trends are no less disruptive for welfare systems, and so is the persistence of structurally high levels of unemployment for labor market institutions.

These processes exert largely similar pressures for change on all the economies of the European Union. But are the responses to these pressures equally uniform (or at least are they bound to become so to be effective)? Or are the European countries responding (and will presumably continue to do so) to the common

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challenges in different ways? In the latter case, the crucial question becomes the following: how can one account for the emergence of different responses in the European economies?

1. TRENDS TOWARD CONVERGENCE

Obviously, supporting the view that national responses are growing more uniform—through mechanisms of either explicit imitation or organizational learning via trial and error—are the numerous versions of a "theory of convergence" among the advanced economies. This theory, which periodically reappears in the social sciences, considers the role of the processes of change affecting all the advanced economies to be so powerful that they drastically reduce the possibility of alternative responses. At the basis of all convergence theories is the idea that the modernization of advanced economies and societies must follow established paths, essentially dictated by exogenous factors. Although preexisting institutions and "loser" groups may raise resistance, all that they are able to do is delay the course of history.

Numerous versions of this theory[3] have been confuted in their empirical evidence or the logic of their arguments, or else they have simply been contradicted by subsequent events. Nevertheless, the 1990s have seen the accumulation of a striking series of general factors and processes—those mentioned at the outset—that seemingly enjoin common responses. As a consequence, convergence theories have regained credibility among scholars and policy makers.

In particular, the trends toward the globalization of markets, on one hand, and the persistently higher levels of unemployment in Europe compared with North American ones, on the other, are at the origin of the prescriptions for the general deregulation of labor markets, industrial relations, and welfare systems that several economists, central banks, and organizations such as the OECD and the IMF almost daily dispense to European governments. Since these prescriptions have already been widely applied in the model of Anglo-American capitalism, the implication is that the European economies will tend to converge on this model. The insistence on the need for general deregulation reflects, at bottom, nothing but a rather crude version of a theory of convergence.

Yet this theory has regained its hegemony in more indirect and sophisticated forms as well. Examples are provided by the debate on the decline of neocorporatism or on the consequences for national regulatory systems of the "regime competition" triggered by European economic unification.[4] The very circulation of ideas on which institutional models are most appropriate is a powerful factor of convergence because it offers legitimation incentives to policy makers who prioritize imitative processes.

However, the main problem with a new version of convergence theory is that in numerous countries, certain recent changes seem to move in an direction opposite to—or at least at odds with—the processes of deregulation, decentralization, and unilateral initiative in labor markets, in industrial relations, and in welfare systems that are seen as universal trends. The increasing reliance on centralized social pacts (a practice that in the 1990s has spread with greater or lesser success among many of the continental European countries) to cope with the new challenges and therefore to contain wages, flexibilize the labor market, and reform the welfare state seems to empirically gainsay the inevitability of common responses. Indeed, the hypothesis is sometimes advanced that the European countries may be moving toward a revival of concertation, rather than toward the deregulation of their economies.[5] Also, some scholars claim that concertation is far from dead and will cyclically reappear in the advanced economies.[6]

Aside from the differing popularity of these two views, they commit a symmetrical error of perspective. Both of them underestimate the profound differences among the European countries in whichever dimension that they believe is bound to prevail (whether deregulation or concertation), or else they explain these differences simply in terms of different stages in the same process. Moreover, both focus their attention on changes in some of the areas of socioeconomic regulation most exposed to the new challenges, while they neglect other and equally decisive areas.

Thus, a good part of the economic and political science literature on the decline of neocorporatism focuses on trends toward bargaining decentralization and the flexibilization of labor markets while neglecting the differing degrees of coordination and control by organized interests in these processes, as well as their differing abilities to participate in welfare reform. When these differences among the European countries are taken into account, they are usually conceptualized as a contrast between radical ruptures and changes made slower and more difficult by institutional stickiness, rather than as the outcome of alternative trajectories.

Conversely, the literature on the revival of concertation tends to focus on the search for social pacts on employment and competitiveness—which give priority to consensual incomes policies and welfare reform—but it neglects the tendencies, present in all countries but of greatly varying magnitudes, toward collective bargaining decentralization and labor market deregulation. Since at least some debate on the desirability of a social pact to meet the new challenges has emerged in almost all the European countries, implicit in this perspective is a simple distinction between successful pacts and (temporarily) unsuccessful ones, which once again points to a difference in gradation, rather than to alternative trajectories.

Hence, although both perspectives claim to describe (or to prescribe) universal trends, the empirical evidence that they provide is based solely on some countries and on certain areas of socioeconomic regulation, while it is apparently contradicted by other countries or regulatory areas. These shortcomings indirectly provide grist for the mill of “neoinstitutionalist” theories, which are the most determined and best equipped to confute the thesis of inevitable convergence among advanced economies. Yet I shall seek to show that neither do these theories offer a fully satisfactory explanation of the different alternatives pursued by the European countries in response to common challenges.

2. THE ROLE OF INSTITUTIONS

Neoinstitutionalism traditionally enjoys greater prestige in political science, especially among scholars of political economy and industrial relations.[7] This theory too comes in numerous versions.[8] The basic idea, however, is that preexisting institutions play a key role in shaping responses to exogenous factors by acting as a filter or intervening variable between external pressures and the responses to them. The institutional context, in fact, provides actors with a set of resources and constraints that they must necessarily take into account when choosing among different alternatives and consequently shapes their actions. Since institutional contexts vary from one country to another, being rooted in their histories, the neoinstitutionalist perspective has no difficulty in recognizing and explaining the divergence among responses to common challenges: different alternatives are pursued because the preexisting institutions and their role in mediating the impact and direction of change are different.

Traditionally, the objective of neoinstitutionalist theories has been to draw up typologies that capture the crucial characteristics of institutional arrangements from the point of view of their impact on the underlying economic-social variables. Various typologies have sought to interpret the divergences in the areas discussed in this article—that is, in the regulation of industrial relations, labor markets, and welfare systems.[9]

The two polar types of response to the common challenges mentioned in section 1—the one based on unilateral initiatives of deregulation and decentralization and the one that instead aims to achieve concerted reregulation among central actors—might be seen as giving rise to one such typology. Using standard terminology to emphasize the key aspects of each, one could call the two alternative responses respectively "deregulation" (a response that seeks to create greater room for the market by eliminating the constraints imposed by other institutions) and "concertation" (an attempt to reinforce forms of regulation that combine the roles of the interest associations and of the state to produce a mix of control and consensus) and investigate the role of preexisting institutions in leading actors to choose one or the other response.

The explanatory power of neoinstitutionalist theories, which stress the structural divergence of the responses by the advanced economies to common challenges, is far greater than that of convergence theory. However, in their most popular versions, these theories have a few shortcomings as well. First, they tend to yield a static picture in which it is difficult to frame internal tensions and pressures for change and assess their importance and implications. They typically employ a functionalist scheme of analysis that relates a given institutional context to the policy outcomes that this context tends over time to foster or allow. Often omitted from analysis and therefore unexplained are the actors' attempts to change such outcomes and to impose different solutions, which do not achieve immediate success but reveal tensions that may accumulate to the point of eroding the consensus necessary for the traditional solution to work.

The second frequent shortcoming of neoinstitutionalist explanations is that they fail to account for the variability of solutions to be found in each country, when joint consideration is made of different areas of policy or of socioeconomic regulation. In the next section, I will deal with three areas of particular importance for assessing the type of response made by each country to the common challenges: labor market regulation, industrial relations in their key dimension of collective bargaining, and the social security system. In any given country, the institutional context that influences the responses that predominate in these three areas is basically the same. Whether one considers the labor market, the collective bargaining structure, or the social security system of that country, its policy-making institutions, legislative mechanisms, and main actors are substantially the same. Consequently, national responses to external challenges in these three areas should, theoretically, move in the same direction—namely, either toward deregulation or toward concertation.

However, as we shall see in the next section, the changes that have actually occurred in the past ten years in Europe show that this almost never happens. In some countries (such as Sweden and Denmark), for example, there has been a trend to decentralize wage bargaining and to make the labor market very flexible but no serious endeavor to cut welfare unilaterally. In others (such as Germany and France), reform of the social security system has instead come about less consensually, but the labor market has been flexibilized only to a very limited extent. And so on. In short, each national economy may adopt different solutions according to the policy area concerned, and in the majority of cases, it is not possible to identify the largely similar "national responses" that the uniformity of the institutional contexts might suggest.

This is because the set of constraints and incentives provided by the institutional context does influence change, but it does not completely determine it. The agents of this change (usually employers' associations and governments) act pragmatically: they concentrate on the policy areas in which they encounter less resistance or which they consider to be more vital to the interests that they represent. Hence, they take only partial account of the context in which they operate and even less of the abstract need to provide consistent responses in the various policy areas. As we shall see in the conclusions, therefore, neoinstitutional explanations should be complemented by a wider set of hypotheses concerning actors' behavior.

For reasons of space, I shall try to synthesize in synoptic tables (see appendix) the actual responses of European countries in the three areas specified above, discussing only the most significant examples in some detail. After showing that these are indeed different responses but not sharp alternatives—even less internally consistent solutions related to preexisting institutions—in the final sections, I shall address the crucial issue of possible explanations for these differences.

3. THE RESPONSES OF EUROPEAN ECONOMIES: DEREGULATION VERSUS CONCERTATION?

As repeatedly mentioned, the areas of socioeconomic regulation on which I shall focus are labor markets, collective bargaining, and social security. These are three of the areas most radically affected by the new challenges, and their change is therefore at the center of scientific debate and at the top of the political agenda. Regulation of the labor market, of the bargaining structure, and of the welfare system involves numerous institutions and rules whose overall change is difficult to grasp. To facilitate comparison among actual trends in the European countries,[10] along the horizontal axes of the tables in the appendix, I shall consider only some crucial aspects of the three policy areas—those that have been most exposed to the new challenges and that in all countries have been subject to great pressure for change in recent years. As regards the labor market, I shall restrict comparison to the regulation of work entry and exit (i.e., rules for hiring and firing), neglecting another important aspect—working time—even if this has undergone substantial change in all countries. In discussing wage bargaining, I shall concentrate on its central component—namely, the collective bargaining structure. As far as social security is concerned, I shall consider the main income maintenance programs: pensions, unemployment insurance, and sickness and disability benefits.

Summarized along the vertical axis of Table A1 in the appendix are the responses by the European countries in each of the three areas considered. Indicated first for each area is what have traditionally been considered to be the main alternatives: rigidity or flexibility in labor market regulation, centralization or decentralization of collective bargaining, and expansion or retrenchment of social security.[11]

However, in the past ten to fifteen years (this being the time frame of my analysis), none of the European Union countries has shifted toward the first option in any of the three alternatives considered. For example, although the German, French, Italian, and Spanish labor markets are more rigid than the British and Danish ones, recent trends in them have not been toward greater rigidity but toward flexibilization. On the other hand, in none of the countries of the European Union (with the partial exception of the United Kingdom) has this process of flexibilization given rise to policies for the outright deregulation of the labor market. Since the comparison concerns not the regulatory systems of European countries but their directions of change, the traditional alternatives seem to be of little relevance. This is by no means to imply that national responses are becoming standardized—as argued by convergence theories—only that they should be reconceptualized to grasp the actual alternatives, which are less clear-cut but nonetheless significant. This I shall seek to do in the pages that follow (and to summarize in tables in the appendix).

Of course, even the aspects selected to represent each of the three areas may have undergone changes of different kinds. In several countries, for example, labor market entry has been greatly liberalized but exit much less so. Reform of unemployment benefits has been substantially consensus based in all countries, but this has not been the case of pensions and sickness benefit. And so on. Even if changes in socioeconomic regulation are disaggregated in three different areas, therefore, the allocation of each country to one or other of the alternatives given on the vertical axis is still very difficult and largely subjective.

Moreover, in order not to complicate the picture further, these alternatives are formulated as dichotomies, and this means that the placements of countries in the various tables have involved some distortion. For example, there is a considerable difference in the scope assumed by the project of "bargaining decentralization without greater coordination" in the United Kingdom and Denmark. Whereas in Table A1, these two countries are set side by side, the other tables in the appendix seek to clarify in what way they are comparable.

Finally, the indicators for the aspects selected to represent each of the three areas cannot always be interpreted univocally. Does the extension to atypical contracts of the protection traditionally afforded to open-ended contracts,[12] for example, indicate greater caution in the flexibilization of labor market entry or instead a desire to facilitate it? And if the pressure applied by the employers for the decentralization of bargaining becomes so insistent that it dominates the industrial relations debate but has not given rise to institutional changes,[13] is this or is this not a "direction of change" toward decentralization?[14]

3.1. The Different Ways to Flexibilize the Labor Market

Despite the limitations just mentioned and the difficulty of interpreting events in some countries, Table A2 in the appendix unequivocally shows that the directions of change in the regulation of labor market entry and exit have indeed been different. To be sure, in no country of the European Union (with the possible exception of France) has recent legislation or collective bargaining added further rigidities in the labor market. In all countries, labor market reforms have tended to inject a higher degree of flexibility. But in some cases—such as Britain, Ireland, and Denmark, as well as to a lesser extent the Netherlands and Sweden[15]—flexibility has acquired the role of a general principle on which the working of labor markets is based and of the guiding principle that informs all new legislation and social partners' strategies.

There is a tendency in these countries to intervene with a few general rules that apply to all workers, leaving ample regulatory autonomy to the social partners. Labor market entry has been substantially liberalized (particularly in the Netherlands, where there is greater reliance on atypical forms of employment), and involuntary exit is made relatively easier by their legislation and public administration than in the other group of countries.

In other cases—such as France, Germany, Spain, Norway, and Italy[16]—although measures to deregulate the labor market have been introduced, they have been contradicted by others meant to reregulate it. Or, more important, they have been conceived as limited and partial exceptions to the general rules that apply to a labor market and are not called into question as such. That is to say, they are introduced as controlled experiments designed to inject flexibility into some or other segment of the labor market, but they are subject to monitoring and possible revocation and in no case intended for generalized extension.

The limited and controlled nature of these measures—which makes them selective and targeted rather than generalized—is therefore the feature that distinguishes the approach of this group of countries to labor market deregulation from that of the others. These measures are aimed at specific social groups, such as young people, or at particular geographical areas, such as the less-developed ones (e.g., through "territorial pacts"), and they are usually of limited duration.

Involved here is primarily a difference of method or of policy-making approach, which nevertheless significantly affects the outcome—that is, the extent and the features of labor market reform in the countries concerned. Controlled or selective flexibilization strategies start from the premise that not only is the pure and simple deregulation of labor markets not feasible but also that it is not advantageous in terms of greater flexibility. First, the result of attempts to dismantle certain institutions or rules may be that their place is taken by other equally constraining regulatory mechanisms, or they may even generate hidden rigidities. Second, since the same institutions that impose constraints on firms may also provide them with resources or competitive advantages, the cumulative effect of deregulation may prove to be negative.[17]

There is a trade-off between the two alternatives of flexibilization in the sense that each of them implies costs and benefits for each actor, so that the choice of one or other of them does not depend simply on power relations among the actors involved but instead places each of them in a dilemma. A generalized flexibilization of the labor market may reduce firms' costs and enable them to adjust more rapidly to changes in the market, thereby giving them potentially greater competitiveness and increasing employment. On the other hand, a policy of selective and targeted flexibility may in part achieve the same objectives, without substantially lowering the level of protection enjoyed by the core labor force, which ensures both its cooperation and firms' interest in investing in its training.

3.2. The Variable Context of Bargaining Decentralization

Over the past ten years, the system of collective wage bargaining has displayed sharply divergent trends among the countries of the European Union. The 1980s were marked by a general and powerful thrust toward decentralization,[18] which was especially evident in Britain but also in Sweden—namely, in the country that had long given primacy to centralized collective bargaining in pursuit of wage solidarity policies. Nor did countries in which the central level of bargaining continued to predominate (Austria, Norway, Finland, Belgium, the Netherlands) seem immune to the decentralization of the wage determination process.[19]

In the 1990s, this trend seems to have been reversed in several European countries as a result of the increasing use of centralized social pacts, whether formal or informal, mainly intended to promote incomes policies that would restore competitiveness to the national economy.[20] An emblematic case is Italy, which has seen governments reach important tripartite agreements on incomes policies with the social partners (1992 and 1993) and successfully negotiate laws to reform social security.[21] Several other European countries (the Netherlands, Ireland, Norway, and, among countries not discussed in this article, Finland, Portugal, and Greece) have in the same years begun or successfully revived tripartite concertation of incomes policies.

However, closer inspection shows that centralization processes are not involved in these cases either. As emerges most clearly from the content of the tripartite agreement of July 1993 in Italy, the new social pacts do not envisage recurrent top-level bargaining as in the classical Scandinavian experience—namely, the pattern of centralized and detailed determination of wages and working conditions that, in the 1980s, broke down in Sweden because companies found it incompatible with their need for flexibility.[22] The new social pacts generally establish rules and procedures for the conduct of collective bargaining but do not fundamentally constrain industry- and company-level negotiation, nor do they prevent firms from designing different incentive structures. Although the institutional mechanisms differ, the logic of incomes policy, which has inspired the new social pacts, is rather similar to the Austrian system. The central level of bargaining does indeed influence the overall wage dynamics but at the same time assigns the task of determining the relative wage levels to decentralized negotiation. Franz Traxler has conceptualized this trend as "organized decentralization," thereby contrasting it with the "disorganized decentralization" of the collective bargaining system characteristic of countries such as Britain, the United States, and New Zealand.[23]

Moreover, the way in which bargaining decentralization is realized should be considered jointly with the existence, or otherwise, of different informal mechanisms to coordinate wage dynamics. These mechanisms place some countries in the category of "coordinated market economies," which, according to Soskice, respond to the common challenges in sharply different ways from the "uncoordinated market economies."[24] From this point of view, the incomes policies devised by the countries that have introduced concertation schemes in the 1990s are nothing but instruments to reinforce the central coordination of wage dynamics.

Therefore, while in the 1980s bargaining decentralization was a generally uniform trend, in the past ten years it has moved in two very different directions. In a first group of countries, industry- and company-level negotiation has increasingly taken place within the framework of an overall recentralization of the collective bargaining system—as in Ireland and Norway.[25] A variation in the same pattern has been the tendency to delegate wage-setting tasks to lower and peripheral levels but in parallel with the strengthening of overall coordination functions—as in Italy with the new bargaining structure established in 1993 and confirmed by the social pact of December 1998 and in the Netherlands with the enhanced role played by the social partnership institutions, such as the tripartite National Economic Council and the bipartite Labour Foundation.[26]

On the other hand, in a second group of countries, the trend toward the decentralization of wage bargaining has in no way been steered by the center or counterbalanced by the strengthening of existing coordination mechanisms. In Britain, pressures for decentralization, which were already powerful in the 1980s, have continued without setting any significant countertendencies in motion. But also France and Spain, although they have been subject to less pressure than Britain, have seen a progressive decrease in the importance of industry-level agreements and an increase in company-level ones.[27] And this has happened in the absence of central incomes policies to guide wage dynamics (significantly, the first tripartite agreement reached in Spain for more than ten years—in 1997—covered various aspects of the labor market but not incomes policy). In Denmark and especially in Sweden, the 1980s instead saw a dramatic breakdown in the centralized bargaining system typical of the Nordic countries.[28] Although informal mechanisms of wage coordination are still strong in those countries (especially in Sweden, where attempts at recentralization have been made in the 1990s), the pressures for decentralization have neither been coordinated from the center nor have they been offset by new rules. Lastly, in Germany, the traditional bargaining structure has not been substantially altered, but this has long been a priority goal for the employers' associations, which have exerted strong pressure in this direction.[29]

3.3. Differing Degrees of Consensus to Welfare Reform

Finally, the social security system has been subjected to cuts, or at least to proposals for reform, in all the countries of the European Union, albeit for different reasons. Together with health care systems, continental pensions systems have grown into the largest item in the public budget—an item that governments have had to significantly reduce to fulfill the "Maastricht parameters." Even when the convergence criteria have been fulfilled, the worrying demographic trends and the low labor market participation rates of many European countries have helped to keep the substantial scaling down of public pensions systems among the priorities on policy makers' agendas. As for unemployment insurance, as well as sickness and disability benefits, these have often been cited as one of the causes of the poor functioning of the labor market—at least in those countries, such as Denmark,[30] which in the past have made what is now deemed overgenerous provision. In short, in all the European countries with social security systems that bear down heavily on public finances, some proposal for cutbacks has been made or is on the agenda.

However, since a reduction in benefits clashes with the interests of important social groups, two options are available: either policy makers can seek to gain the consent of those groups and their representatives to welfare retrenchment, or they can seek to eliminate the rules and customs that enable the latter to exercise veto powers over change. In this policy area, too, one therefore finds the more general alternative between deregulation and concertation. In fact, some governments have unilaterally introduced cuts and deregulation to achieve efficient results even at the expense of consensus, while the majority have preferred to involve the social partners, negotiating reform of the social security system with them and settling for often modest results as long as they can count on the support of interest organizations able to guarantee acceptance of change by their members.

Since in all the countries of the European Union (with the exception of Britain) the social partners still play a central role in the management of social security systems through tripartite institutions or the powers delegated to them by the state, not surprisingly the majority of governments have sought to involve them in the reform process.[31] And yet, not all governments have done so to the same extent and with equal conviction, thereby once again displaying different responses to common challenges. The two alternatives are clearly exemplified by the reform of the Italian pensions system undertaken by the Dini government in 1995, on one hand, and the attempts at reform made shortly afterwards by the Juppé government in France, on the other. The Italian solution was to make the spending cuts much more gradual than is generally deemed appropriate, but the consensus on the reform provided by trade unions able to obtain more or less convinced endorsement by workers nevertheless delivered a positive result. In France, on the other hand, the Juppé government's unilateral action, the specific purpose of which was to strip the social partners of their powers over management of the social security system, provoked the largest wave of protest since May 1968.[32]

Also in the Netherlands and Germany, some welfare benefits have been unilaterally cut by governments and parliaments without the consent of the trade unions, which have reacted by mounting large-scale protest against these measures (particularly in 1991 in the Netherlands over disability benefits and in 1996 in Germany over sickness benefits).[33] By contrast, pensions and unemployment benefits have been reformed largely through negotiation not only in the Scandinavian countries—albeit with some conflict in Sweden—but also in Ireland and even, in 1996, in Spain under the center-right government.[34]

3.4. The Uncertainty and Instability of National Responses

This brief comparison among the alternatives pursued by the European economies in certain areas of socioeconomic regulation allows conclusions to be drawn regarding the first question asked in the introduction (namely, to what extent have responses to common challenges been uniform and to what extent have they been different).

First, a glance at Table A1 in the appendix suffices to show that in each area, countries have moved in different directions. The range of variation is narrower and more finely shaded than the traditional dichotomies (rigidity-flexibility, centralization-decentralization, expansion-retrenchment) would suggest, but the alternatives adopted are nevertheless real. Overall, by combining the three directions of change indicated at (a), there emerges an analytical alternative to the "deregulation" of the economy that can be called the alternative of "concertation." This no longer displays the typical features of the old neocorporatist systems, such as bargaining centralization, close regulation of the labor market, and expansion of welfare benefits. Instead, the distinctive features are the search for greater wage coordination to counterbalance the effects of decentralization, closer control on the selective and experimental character of flexibilization processes, and the involvement of the social partners in welfare reform to render it compatible with competitiveness without endangering consensus.

Second, countries tend to adopt apparently contradictory solutions between one policy area and another. Apart from a few cases in which one discerns largely congruent changes (such as Britain's move toward more general deregulation or Italy's move in the opposite direction of concertation), most European countries have shifted toward one of the two poles in one area but toward the other pole in another area. The interconnection between contiguous policy areas is therefore much less than one might have expected. This may depend on a variability in the scale of priorities adopted by the actors of change, or on the differing strengths of preexisting constraints, or again on the need to offset the effects of change in one policy area with different choices in another one.

Third, only a few countries seem to have chosen among the available alternatives in any policy area in an unequivocal, stable, and widely shared manner. In most of the others, choices appear to be provisional and subject to powerful tensions as well as to repeated attempts by crucial actors to redefine them. The case of Germany is emblematic: in the mid-1990s, German employers forcefully pushed for wage-bargaining decentralization, while the unions sought to compensate for the expected welfare cuts with an Alliance for Jobs. Although both attempts failed, they have remained on the agenda (especially since the electoral victory of the red-green coalition) as elements of relative uncertainty and instability in the regulatory framework.

In short, the contrasting alternatives of deregulation and concertation are still poles toward which the European economies strive (as well as providing social scientists with useful ideal types for synthesizing trajectories often beset by contradictory choices). Yet the concrete experiences of European countries display a much more composite, confused, and uncertain pattern. Above all, the different national responses increasingly less appear to be static and permanent solutions determined by preexisting institutions and increasingly more to be differences in the processes of change that give rise to precarious and unstable outcomes. If the institutional context is not (any longer) able on its own to explain the variability and complexity of these responses, what alternative explanations are forthcoming?

4. HOW CAN THE DIFFERENT RESPONSES TO COMMON CHALLENGES BE ACCOUNTED FOR?

The political economy literature offers a few interpretations of the rise of different alternatives in the European economies. Each of them sheds some light on the divergences but fails to provide a satisfactory explanation. I shall now briefly examine each of these explanations since their insights and shortcomings can be used as the basis for a more general interpretation—which I set out in the final section. The first two strands of interpretation are the simplest but also the weakest. I shall therefore dwell more at length on the third and fourth explanations because their limitations provide important elements for an overall interpretation.

4.1. The Degree of Centrality in the Process of Monetary Unification

The first interpretation of the differing national responses to common challenges hinges on a country's position in the international system. Among the countries of the European Union, their differing propensities for deregulation or, instead, for concertation may depend on the extent to which they are peripheral or central to the process of monetary unification—or, in other words, they may depend on the extent to which it was initially difficult for a country to fulfill the convergence criteria and now to continue complying with them.[35] It is thus the weakest countries from this point of view—namely, the most peripheral ones or those most beset by the problems of monetary convergence (Italy, Spain, Portugal, Ireland, Belgium)—that have given greater priority to the stipulation of social pacts as symbols of the national endeavor to achieve a goal that precludes internal divisions.

Although this is an apparently plausible interpretation, it fails to account for a number of important national cases (the Netherlands, for example, where there has been much emphasis on concertation even though fulfillment of the "Maastricht parameters" was a foregone conclusion). Moreover, it explains the divergences in terms of a process—that of monetary unification—whose implications only became clear after several social pacts (in Ireland, for example) had already been firmly established.

4.2. The Variable Balance of Power

A second and very simple interpretation explains the different responses in terms of the balance of power among the actors involved. Since the variability of power relationships may depend not only on structural factors but also on conjunctural ones, this explanation takes account of the often changeable and unstable nature of the alternatives pursued in different countries. For example, the marked prevalence of concertation in Italy in the mid-1990s, in contrast to the late 1980s, is sometimes explained as resulting from the weakening of its actors, which therefore "needed to be able to rely on each other."[36] There is no doubt, in fact, that confidence in the role and, above all, the public image of Italian employers have been eroded by their close involvement in the corruption scandals. And equally weak has been the legitimacy of the political class, either because it was identified with the old regime or because it was based on technocratic credentials that did not derive from democratic elections.

However, neither can this interpretation be generalized to other countries. In Sweden, the trade unions are still very powerful (indeed, almost uniquely, they have grown even stronger in the past ten years), but this has not prevented the formation of "interclass coalitions" consisting of sectoral employers' associations and unions that have led to the breakdown of centralized collective bargaining and the solidaristic wage policy.[37] Conversely, in the Netherlands and Ireland, the unions are rather weak, with scant presence in the workplace, and yet the concertation option has increasingly gained strength.

More in general, this interpretation is based on the implicit assumption that the actors whose power relationships determine the variability of responses always have internally shared and externally conflicting interests. Yet we have seen that the alternatives pursued in the three policy areas often correspond to trade-offs for each actor, who is therefore internally divided on which of the conflicting needs should be given priority. The choice of one or the other alternative should therefore be explained by other factors.

4.3. Economic Structure and the Interests of Actors

Another interpretation relates not to power relationships but to the varying needs of the actors in the different production systems. What policies are most relevant for them depends on a country's economic structure and its position in the international division of labor. In all countries, labor-intensive, low-value-added firms coexist with high-skill-based ones, but the relative balance of a nation's production structure is critical. If, as in Britain or in Ireland, a large part of the economy is geared to mass production, there is clearly a more pressing need for generalized labor market flexibility. Where the orientation is toward high-value-added products, as in Germany and partially France, selective flexibility strategies that do not affect the deployment of a highly educated and cooperative core labor force may be more appropriate.

Paradoxically, however, the needs of actors sometimes seem antithetical to those arising from the traditional workings of their economic system. One thinks, for example, of the different stances recently taken up by the German and Italian employers' associations. It is well known that the Italian production system, in which small firms predominate, bases its competitiveness mainly on high versatility and rapid adjustment to changing markets: a versatility and rapidity made possible by what I have elsewhere called "an interweaving between weak institutional regulation and effective but unstable voluntaristic regulation."[38] The German productive system, by contrast, gains its main competitive advantages from the capacity of its institutional context to efficiently provide firms with collective goods such as labor force cooperation, coordination of wage dynamics, and highly and broadly skilled human resources. And yet the principal concern of the German and Italian employers' associations does not seem to be reinforcement of their respective competitive advantages by enhancing the institutional structure on which these are based; indeed, exactly the opposite priorities are pursued.

Both actors are aware that in advanced economies such as the European ones, increased competitiveness and decreased costs depend, on one hand, on greater flexibility of firms and labor but, on the other, on the greater ability of the national system of which they are part to provide them with "collective goods." These two common problems, however, have been traditionally met in different ways and to different extents in each economy. Hence, the urgency and the priority given today to each of them vary between one country and the other. Put briefly, one may argue that Germany's main problem is that of flexibilizing its economy, even at the risk of weakening those collective goods for firms that have traditionally given them their principal competitive advantage—hence the recent obsession of German companies with regaining flexibility vis-à-vis their foreign competitors. Conversely, the crucial problem for Italian firms today is institutionalizing the production of collective goods—traditionally unstable and uncertain in that country—more than enhancing the flexibility that hitherto has been its strongest suit. Consequently, despite Confindustria's frequently expressed antagonism to a political–trade union environment that it views as hostile and its repeated demands for greater labor market flexibility, it now gives priority to continuing concertation and indeed on numerous occasions has said that it must be safeguarded at all costs.[39]

These observations therefore suggest that responses by the European economies differ according to the trade-off for their firms between deregulation and concertation, between more market and a more adequate supply of collective goods. Since both these conditions are necessary for economic performance but the existing mix between them differs in each economy, national actors may be induced to give priority to the condition that is less prevalent in their system, even at the cost of jeopardizing their traditional competitive advantages.

I shall return to this interpretation later, for the moment pointing out that the Italy-Germany comparison is difficult to generalize. British firms operate in a deregulated context unsuited to the production of the collective goods that might be beneficial to them, but they do not seem overly concerned to redress the balance. Nor, on the other hand, do Austrian firms—which find themselves in the opposite situation—seem as determined as German firms to alter the industrial relations context in which they operate. Apparently, it is just as possible that employers will be determined to exploit the competitive advantages that they enjoy, rather than being concerned to remedy the weaknesses of the system in which they operate. This introduces the topic of actors' uncertainty and of the complexity of their logic of action, which will be discussed in the final section.

4.4. Convergence toward an Intermediate Model

A last interpretation has sometimes been put forward in the scientific debate, as well as receiving considerable attention in political discussion. In its simplest terms, it can be stated as follows. The responses by the European economies to their common challenges differ precisely because they aim to converge on an intermediate model. Since the preexisting institutions have shaped national strategies, giving them different features, a process of convergence means that countries start from often opposite situations and consequently must inevitably follow very different routes. Sweden, for example, has been forced to decentralize its wage-bargaining structure, while Italy has had to find instruments with which to coordinate it, simply because both economies seek to converge on an intermediate model that has proved to be more efficient—namely, coordinated industry-level bargaining. The Dutch government has unilaterally reformed a few social security programs, while the Spanish one has involved the unions in the process because in the former case, it was necessary to reduce the social partners' paralyzing grip on welfare policies, whereas in the latter it was useful to give them more responsibility.

Starting from different positions and seeking to imitate the dominant model (prompted to do so by EC decisions inspired by the prevalent system or through autonomous but explicit imitation, or even unconsciously as a result of some sort of learning process), the other countries are compelled to follow routes that are only temporarily—and therefore apparently—divergent. There is no doubt about which, in this interpretation, is the hegemonic system in Europe: the German one, of course. Martin Rhodes, for example, regards recent trends in various countries as attempts to converge on a model of "competitive corporatism"—for which the German and Dutch institutions are best equipped—abandoning both Scandinavian-style "social corporatism" and British-style laissez-faire.[40]

This interpretation, too, seems convincing at first sight, with the added advantages that it resolves the conflict between convergence theories and neoinstitutionalist ones, accounts for processes of change rather than stable outcomes, and is not tied to contingent factors. At bottom, the argument is straightforward: the directions of change displayed by the European economies are indeed different, but they tend centripetally toward an intermediate level. Of course, there are numerous countertendencies against this convergence: as regards the labor market, for example, a traditionally rigid country such as France has recently imposed tighter constraints than those of a highly flexible country such as Denmark, and Britain, generally speaking, does not seem at all ready to shift from the pole of deregulation to converge on an intermediate model. But these are countertendencies that can be interpreted as simple delays or as temporary wrong turns.

The main shortcoming of this interpretation, however, is that it fails to consider (even less seeks to explain) the fact that it is precisely the system toward which the others seem to be converging because it has proved to be the most efficient—the German model—that is currently most riddled with tension and unrest, as well as subject to strong pressures for change applied by all its actors (primarily the employers but also governments and unions). If the dominant regulatory system is itself torn by controversy on the amount and direction of change required, how can it continue to orient the responses of the other European economies? And why, if it is an intermediate model able to reconcile opposing needs, are its actors so intent on changing it and so divided on the direction in which such change should move?

5. CONCLUSIONS

I shall now recapitulate the most persuasive aspects of the interpretations discussed so far and then go on to suggest how they might be improved. The new challenges require the European economies to strike some sort of balance between their opposing needs of deregulating labor markets, industrial relations, and welfare systems, on one hand, and of creating or maintaining a social pact for national competitiveness, on the other. Given different points of departure, power relations, capacities for institutional learning, and different priorities determined by the characteristics of the national economy, the common requirement to strike a balance between opposing needs will induce the actors of change to opt for different strategies: decentralization or coordination, general or targeted and selective flexibility, and negotiating welfare reforms at the cost of modest results or imposing them unilaterally at the cost of consensus. These actors are largely pragmatic: they seek change only where it is possible and most urgent, without any overarching project. As they follow these different and fragmented routes and policy-making approaches, however, the European economies may achieve relatively convergent outcomes, ones able to mediate the contradictory aspects of these alternatives and give rise to something similar to a “competitive corporatism” model.

Yet this is anything but the “end of the story.” The European economies that approach what may be considered an intermediate model—or a reasonable point of convergence between opposing requirements—are those in which uncertainties, ambiguities, and difficulties in setting collective priorities are most likely to arise. The German case shows that the dilemmas, internal conflict, and the weak basis of internal solidarity are especially manifest among employers to the point that they bring the industrial relations system dangerously close to breakdown.[41] In Sweden, the uncertainty of employers as to the main goals to pursue has by no means diminished since the country's bargaining system has grown more similar to Germany's: on the contrary, the Swedish employers' associations have followed what has been called a "ziz-zag" route to decentralization.[42] Not dissimilar are the tensions that have recently erupted among Italian employers, at precisely the moment when it became clear that concertation—strongly supported by Confindustria—was helping firms to achieve important objectives and the Italian system to approach the dominant intermediate model. But Sweden again shows that these tensions—precisely in the countries that have moved furthest along the road toward the intermediate model—are also apparent in the opposing front, the trade unions.

It thus seems that as long as a national economy is clearly biased toward one or the other alternative and striking a balance still appears remote, it is easier for the actors most penalized by this bias to reach internal agreement on priorities, on alliances, and on the strategies to pursue. The cognitive and interpretive framework within which all actors operate is strongly influenced by explicit or implicit comparison with the reference model, so that those of them that seek to redress the balance enjoy a certain hegemony. This relative "epistemic unity," however, begins to break up as imbalances in one or the other direction are redressed and the priorities adopted are no longer seen as "natural" and taken for granted.

Faced with these mounting uncertainties, how do actors behave when they must finally choose between the alternatives available? The processes of "convergence on the center along different trajectories" have been too few so far to provide a sound empirical basis to answer this question. All we can say is that in an economy close to a point of convergence between the opposing requirements of deregulation and concertation, the choices made by its actors seem to be less conditioned by preexisting institutions than they are based on an interactive game among the actors themselves. Each of these actors has less incentive to question the points of convergence already agreed on if the others continue to support them with conviction. It is therefore the set of constraints on and incentives to change provided by each actor that largely determines the behavior of the others. This may not be a very satisfactory conclusion; however, beyond this general point, it is bound to remain rather indeterminate until we can collect more systematic observations.

Here I can only list a few examples of the general argument. In Italy, for instance, Confindustria showed unexpected determination to defend concertation, despite internal dissent, until the Prodi government's decision to introduce the thirty-five-hour working week by law—a decision that could be interpreted as a breach of the cooperative game by another actor. In Germany, the unwillingness of the unions to delegate bargaining functions to works councils has been a decisive factor in dissuading employers from pushing their vigorous decentralization campaign to the limit. By contrast, the fact that more than two-thirds of German firms do not show an interest in actually adopting fixed-term contracts—which were revised in 1996 to meet their demands for flexibilization of the labor market—can only be explained by the unions' willingness to accept a high level of functional flexibility for permanent workers. In the Netherlands since the Wassenaar accords of 1982, and more recently in Sweden with the Rehnberg Commission, it has instead been the "shadow of hierarchy"[43] that has steered the bargaining behavior of the social partners. Although the latter have full formal autonomy, their choices at decisive moments have been determined by the incentives provided and the sanctions threatened by the government. In Italy, the government negotiated the reform of social security with the unions in 1995 because, ultimately, not doing so would have meant breaking a cooperative game that was crucial for other key policy areas (incomes policy). This problem did not arise in the same period in France, where union cooperation was not crucial to government action; nor did it in the Netherlands in 1991, since the consensus of the social partners on incomes policy had been forthcoming for about a decade; nor in 1996 in Germany, where decisive influence on the wage dynamics has always been exerted by the Bundesbank, not by the government.

These latter examples suggest that a cooperative game is likely to last longer the more all actors have been able to develop a capacity for strategic learning. Yet the discussion in section 4.3 of the differing behavior of Italian and German employers highlights the substantial unpredictability of such a game if it depends solely on the actors' rationality. In the absence of external constraints or of rules of the game that can only be modified at high cost and with systemic effects, the ability of actors to have their long-term interests prevail over the maximization of immediate benefits can by no means be taken for granted.

There seem to be two situations in which a cooperative game most easily breaks down and produces change in the policy areas considered. The first has been discussed by Pontusson and Swenson as regards Sweden and was then applied by Thelen in the explanation of different outcomes in Germany.[44] In Sweden, the productive structure and the industrial relations institutions have enabled the formation of "cross-class coalitions" or alliances between some sectors of employers and labor force groups concerned to alter the bargaining structure. In Germany, by contrast, because the pressures for change have not been able to coalesce, they have failed to disrupt longstanding cooperative games and replace them with others.

The second situation is the one in which exogenous factors intervene to induce an actor to review its position vis-à-vis current arrangements. In this case, the other actors may no longer be able to keep their ambivalences and uncertainties under control, and internal cleavages consequently open up. By change induced by an "exogenous" factor, I mean a shock deriving from sources other than those that the actors are able to control through their interaction. An example is the demographic trends now compelling the governments of all countries to revise the logic of their intervention in social security, thereby creating internal divisions in unions torn between all-out protection of their members' acquired rights and their preoccupation with the future sustainability of the system. But exogenous shocks may also derive from the political system in the strict sense, as demonstrated by the Italian episode of the bill on the thirty-five-hour working week mentioned at the outset. That decision was wholly extraneous not only to the concertation agenda but also to the program of the government, which was forced to accept the Communist Refoundation Party's demand to avert a political crisis that would have jeopardized Italy's participation in the first phase of the Euro. However, it gave renewed voice to the business sectors less interested in maintaining concertation and that saw a chance to blame the government if the cooperative game broke down.

The uncertainty and the contingent nature of the variables that influence actors' choices explain not only why the European economies have responded differently to common challenges but also why, internally to a particular country, responses may differ in each of the policy areas examined in this article. Of course, they do not explain why some of these responses have been more successful in some cases and less so in others, but this is a different analytical problem that requires examination of other variables besides the ones considered here.

APPENDIX

Table A1
The Alternatives for Change Pursued by the European Economies in Three Policy Areas

	Policy Areas Subject to Challenge		
	Labor Market Regime (entry and exit)	Wage Bargaining (bargaining structure)	Social Security System (pensions, sickness, unemployment)
Types of response (traditional alternatives and actual trends)			
Rigidity/flexibility			
(a) Flexibility as controlled exception	I, D, F, E, N		
(b) Flexibility as general principle	GB, EI, NL, DK, (S)		
Centralization/decentralization			
(a) Decentralization with more coordination		I, NL, N, EI	
(b) Decentralization without more coordination		GB, F, E, DK, (S), (D)	
Expansion/retrenchment			
(a) Retrenchment through negotiation			I, E, EI, DK, S, N
(b) Retrenchment through unilateral action			GB, F, D, NL

Note: D = Germany, DK = Denmark, E = Spain, EI = Ireland, F = France, GB = Great Britain, I = Italy, N = Norway, NL = the Netherlands, S = Sweden.

Table A2
The Alternatives of Change in Labor Market Regime

(a) Flexibility as a controlled exception/experiment	
Italy	Increased flexibility as regards both exit (liberalization of collective dismissals in 1991) and entry (work-and-training contracts [CFL] since 1984, temporary agency work since 1997) but with close legal and contractual restraints. For example, restrictions on use of CFL for low-skilled workers, rules and tight constraints on the use of temporary agency labor. Preference for solutions selectively targeted on disadvantaged groups or areas (young people, the South), without altering the overall regulatory framework.
Germany	Protection against dismissal reduced for white collars (1993) and employees of small firms (1996) but increased for blue collars (1993). Fixed-term contracts were allowed in 1985 and again in 1996, but the respective laws have only four years' validity, and the duration of fixed-term contracts and their renewal are subject to constraints (2/3 of German firms do not use them).
France	The use of atypical contracts was liberalized in 1985-1986, but a subsequent law (1990) restricted their use, increasing their costs. Collective dismissals were made easier in the 1980s, but the laws of 1989 and 1993 increased the constraints, requiring firms to accompany dismissals with a "social plan." In practice, 85 percent of the social plans submitted by firms with more than 300 employees are rejected by the public administration.
Spain	In 1984, fixed-term contracts were allowed almost without restrictions, but in 1992, 1994, and 1997, the experiment was scrapped. Since 1994, in exchange for closer controls on entry, the legislation has sought to introduce flexibility in exit. Whereas the courts have ruled that 80 to 90 percent of dismissals are illegitimate, the agreement and law of 1997 have introduced more flexible open-ended contracts for workers younger than age thirty.
Norway	Flexibility has been greatly encouraged; indeed, in the mid-1990s, more than 14 percent of employees had atypical contracts. But constraints on temporary hirings were introduced in 1995. Exit flexibility is very low.
(b) Flexibility as a general/guiding principle	
Britain	The deregulation of the labor market in 1980 and 1985 has made further intervention unnecessary. The low level of legal protection for permanent employees (the lowest in Europe) makes atypical contracts less attractive to employers. The distinctive feature is not so much the amount of deregulation as its generalization.
Ireland	Exit and entry flexibility has traditionally been high, on the English model. Tripartite concertation has latterly created a climate of consensus that has enabled employers to continue to act in the labor market with few constraints.
Holland	Labor law intended to enhance the autonomy of the parties, with a minimum of compulsory rules. Firings require authorization by the Labour Offices, but 95 percent of dismissal applications are granted within three months. General liberalization of part-time work and substantial lack of constraints on temporary agency work. The latter is not restricted to specific cases or with maximum duration.
Denmark	Traditionally high exit flexibility, with rules bargained by the social partners and supported by exceptionally generous unemployment benefits. Flexibilization of entries as well during the 1990s, with a large increase in atypical forms of employment. Few general rules, covering all categories of workers (e.g., reform of unemployment benefits in 1994 and 1996).
(Sweden)	Active labor market policy places greater emphasis on reemployment compared with job protection. The rules are stricter than in the other countries belonging to this group but with recent tendencies toward general flexibilization (e.g., government commission of 1992, which proposed both the liberalization of temporary contracts and the reduction of firing constraints and costs).

Table A3

The Alternatives of Change in Wage Bargaining

(a) Decentralization with greater central coordination	
Italy	The tripartite agreement of 1993 introduced rules and procedures on the bargaining system and specified the competencies of the various levels: national industry-level bargaining is now confined within the expected inflation rate, while decentralized bargaining deals with company productivity and nonwage matters. The two-tier system was confirmed by the social pact of 1998.
Holland	The Wassenaar accords of 1982 started a process of industry- and company-level decentralization guided from the center. The tripartite agreement of 1993 encouraged decentralization but at the same time reinforced top-level coordination and consultation by enhancing the status of the bipartite Labour Foundation and the SER (tripartite National Economy Council).
Norway	In the early 1980s, wage bargaining was increasingly decentralized. However, after the 1986 employers' defeat in their attempt to get rid of the "low-wage guarantee," collective bargaining was recentralized. In 1993, the five-year social pact reaffirmed incomes policy and central coordination. Renewed (since 1996) employer demands for decentralization have been advanced within this framework.
Ireland	Between 1987 and 1996, a series of multiyear tripartite agreements established guidelines for wage bargaining then conducted at the company level and sometimes established the maximum percentages of increases.
(b) Decentralization without greater central coordination	
Britain	Various measures in the 1980s and 1990s have indirectly encouraged decentralization. As a consequence, bargaining now takes place almost exclusively at the company level. Wage levels and working conditions are established at the industry level for only 10 percent of workers covered by collective bargaining. Individual bargaining has also been encouraged.
France	Company-level bargaining was made compulsory by the Auroux laws of the early 1980s; since then, it has expanded at the expense of industry agreements, which have also declined in importance because of the unions' inability to ensure compliance with them. The interconfederal agreement of 1995 fostered further decentralization. Individualized pay schemes are also very common.
Spain	Highly fragmented bargaining system. In 1994, changes were made to the Workers' Statute to impose order on the system, but they encouraged decentralized bargaining. The majority of agreements have been reached without being coordinated, also as a result of the crisis of concertation after 1986 (since its revival in the late 1990s, it has dealt with issues other than wages).
Denmark	Gradual decentralization since the 1980s, first to the industry level and then to the company level. Increasingly, industry contracts only set minimum pay levels, rather than overall ones, assigning a key role to company-level and individual bargaining (in the private sector, the latter system applies to fully 48 percent of employees) without mechanisms for coordination apart from the traditional informal ones.
(Sweden)	The dramatic breakdown in the centralized bargaining system of 1983 was brought about by the metalworking employers and unions. The unions now defend industry-level bargaining, though the employers have successfully campaigned for the increased role of company-level bargaining. The 1990s have seen unusual government intervention to coordinate wage bargaining, albeit with uncertain success.
(Germany)	Employers have urged decentralization to the company level accompanied by restraints on strike action at this level. Informal coordination mechanisms are still important, but works councils have increasingly accepted wage levels below sectorally bargained ones, and firms have defected from their associations, sometimes creating rival associations that do not abide by collective agreements.

Table A4

The Alternatives of Change in the Social Security System

(a) Retrenchment through negotiation/involvement of social partners	
Italy	Pensions reform negotiated by various governments with the unions (except for the Berlusconi government, which failed on this point) but above all by the Dini government in 1995. Negotiations centered on a project drawn up by the unions. An agreement was reached that was subjected to a workplace referendum and then converted into law. The method of prior discussion with the social partners on issues of this kind was confirmed by the social pact of 1998.
Spain	In 1996, an agreement was reached between the unions and the Aznar government on maintaining pensions at the same level until 2001. Unemployment benefits were reformed in 1992-1993, without significant conflict.
Ireland	Under the tripartite agreement of 1987, the unions accepted cuts in public spending in exchange for the maintenance of certain welfare benefits. In 1990, agreement was reached in the NESC (National Council, which includes the social partners) on a program of welfare reform.
Denmark	The key program for welfare cuts (the “activation program” of 1994 and 1996, which reduced the duration of unemployment benefits) was drawn up with the substantial support of the unions, although some of them protested against certain aspects of the reform.
Sweden	Cutbacks in social security, especially to unemployment benefits, have been widely discussed in the 1990s, but their implementation without the consent of the unions has proved impossible. In 1996, the government sought to set a limit on the duration of benefits, but protest by the unions forced it to back down.
Norway	The social pact of 1992 (“solidarity alternative”) offered guarantees to the unions that various welfare benefits (sickness benefit in particular) would be maintained.
(b) Retrenchment through unilateral action	
Britain	The Job Seekers’ Act of 1995 replaced the unemployment benefit with an allowance not only less generous but also based on individual contracts and therefore entirely outside trade union control.
France	In November 1995, the government presented a plan for social security cuts and transferred management tasks previously performed by the social partners to parliament. A wave of protest followed, only subsiding when the government convened trilateral talks. A number of changes were made to the plan, but the social partners were still excluded from management of social security programs.
Germany	In April 1996, the government announced a package of welfare cuts (particularly as regards sickness benefits and the retirement age of women). The unions refused to continue with informal concertation and in June and September launched a nationwide campaign against the package, which was nevertheless approved by parliament in basically its original form.
Holland	In 1991, the government ignored the joint recommendations of the social partners and altered disability benefits, which had become the main means to facilitate industrial restructuring. The largest trade union mobilization since the war ensued. In 1994, the government privatized sickness insurance, again amid union protests. Finally, the Kok government assigned the management of welfare benefits to a government agency operating independently of the social partners.

NOTES

1. See, for example, Ralf Dahrendorf, "Economic Opportunity, Civil Society and Political Liberty" (paper presented at UNRISD conference on "Rethinking Social Development," Copenhagen, 11-12 March 1995); Colin Crouch and Wolfgang Streeck, eds., *Political Economy of Modern Capitalism: Mapping Convergence and Diversity* (London: Sage, 1997).

2. From this point of view, the rhetoric of globalization is just as powerful as economic reality, in that it conveys the idea of a decisive challenge that the less competitive economies will be unable to meet and will therefore succumb.

3. Ranging from the standardizing consequences of industrialization through the instrumentalism of an affluent working class, predictions of the institutionalization of class conflict or indeed its "withering away," to the "end of ideology."

4. Wolfgang Streeck, "The Internationalization of Industrial Relations in Europe: Prospects and Problems," *Politics & Society* 26, no. 4 (1998).

5. Giuseppe Fajertag and Philippe Pochet, eds., *Social Pacts in Europe* (Bruxelles: ETUI, 1997); Philippe Pochet, "Les pactes sociaux en Europe dans les années 1990," *Sociologie du Travail*, no. 2 (1998).

6. Philippe Schmitter and Jürgen Grote, "The Corporatist Sisyphus: Past, Present and Future," European University Institute Working Papers, no. 97/4 (1997).

7. This is not to underrate the importance of institutionalist approaches in economics (suffice it to mention the work of Douglas North and Oliver Williamson) and in sociology (especially the work of Walter Powell and Paul DiMaggio). Nevertheless, it is mainly in political science that neoinstitutionalism has made a major contribution to the analysis of welfare systems, industrial relations, and the labor market—that is, the themes examined by this article.

8. For excellent reviews, see Peter Hall and Rosemary Taylor, "Political Science and the Three New Institutionalisms," *Political Studies*, no. 44 (1996); Guy Peters, "The New Institutionalism and Administrative Reform: Examining Alternative Models," Instituto Juan March Working Papers, no. 113 (1998).

9. Among the best known, mention should first be made of the models of interest intermediation that Philippe Schmitter has called respectively neocorporatist and pluralist and of the types of welfare systems classified by Richard Titmuss into institutional-redistributive, residual, and meritocratic-particularistic but then repeatedly redefined to give rise to the currently most widely accepted typology comprising the Scandinavian, Anglo-Saxon, and continental European models. See Gösta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Princeton, NJ: Princeton University Press, 1990). Also, the organization of production—which labor economists and sociologists often only study as a consequence of technological change and managerial strategies—is viewed in this perspective as a choice closely conditioned by the institutional context. See Marc Maurice, Francois Sellier, and Jean-Jacques Silvestre, *Politique d'éducation et organisation industrielle en France et en Allemande* (Paris: PUF, 1982). This has given rise to the concept of "production regimes," which were simply distinguished between Fordist and post-Fordist in early studies, while the subsequent literature has developed more articulated typologies. See especially the work of David Soskice, "Reinterpreting Corporatism and Explaining Unemployment: Coordinated and Non-Coordinated Market Economies," in R. Brunetta and C. Dell'Aringa, eds., *Markets, Institutions and Corporations: Labour Relations and Economic Performance* (London: Macmillan, 1990) and "Divergent Production Regimes: Coordinated and Uncoordinated Market Economies in the 1980s and 1990s," in H. Kitschelt, P. Lange, G. Marks, and J. Stephens, eds., *Continuity and Change in Contemporary Capitalism* (Cambridge, UK: Cambridge University Press, 1998). Finally, the

distinction between different "models of capitalism"—the Anglo-American and the Rhenish, to which the Japanese one is often added—covers to some extent all the aspects and institutional variables included in previous typologies. See Michel Albert, *Capitalisme contre capitalisme* (Paris: Seuil, 1991), for an early and rather crude formulation. More sophisticated analyses can be found in Suzanne Berger and Ronald Dore, eds., *National Diversity and Global Capitalism* (Ithaca, NY: Cornell University Press, 1996); Crouch and Streeck, eds., *Political Economy of Modern Capitalism*.

10. The empirical analysis deals with ten countries (see appendix). The data and information used have been taken from a variety of sources. First, I have drawn on the results of a comparative study on eight European countries coordinated by myself for the European Commission, DGXII. These results are presented in Gösta Esping-Andersen and Marino Regini, eds., *Why Deregulate Labour Markets?* (Oxford, UK: Oxford University Press, forthcoming). Comparative collections on recent trends in some of the areas considered, which have provided valuable information, are the volume edited by Fajertag and Pochet, *Social Pacts in Europe*, and especially the collection of country studies edited by Anthony Ferner and Richard Hyman, *Changing Industrial Relations in Europe* (Oxford, UK: Blackwell, 1998). Further useful sources of comparative data are a research study recently commissioned by the FIAT industrial relations office on flexibility practices in various countries, the journal *European Industrial Relations Review,* and, for the past three years, the EIRO (European Industrial Relations Observatory) database coordinated by the European Foundation in Dublin. Of course, I have also drawn from the literature on individual countries, particularly those emblematic of ongoing trends or that have seen the most striking changes (United Kingdom, the Netherlands, Sweden, Germany, Italy).

11. Some of these alternatives are relevant to areas other than the ones with which they are associated here: for instance, one can also discern tendencies toward rigidity or flexibility in the bargaining structure or toward centralization or decentralization in social security systems and so on. However, considering only the principal alternatives helps simplify what would otherwise be a too complex classificatory scheme.

12. As in the Netherlands, see Cees Gorter, "The Dutch miracle?" in Esping-Andersen and Regini, eds., *Why Deregulate Labour Markets?*

13. As in Germany, see Kathleen Thelen, "Why German Employers Cannot Bring Themselves to Abandon the German Model," in T. Iversen, J. Pontusson, and D. Soskice, eds., *Unions, Employers and Central Banks: Wage Bargaining and Macro-Economic Policy in an Integrating Europe* (Cambridge, UK: Cambridge University Press, 1999).

14. These difficulties in the construction of qualitative indicators are well known (an emblematic case being the "index of labor market rigidity" constructed by the OECD in 1994 and then radically revised). In order to handle them at least in part, I have used a large amount of information and assessment provided by national experts (see note 10) in allocating a country to one or the other alternative. The countries in parentheses in the tables are cases in which the pros and cons make their placement most problematic (Sweden) or in which major efforts at change have been made but with little success (Germany). However, the aim of this article is to show that the directions of change in each of the three areas may differ and that few countries have opted unequivocally for deregulation or concertation. This seems generally confirmed by the tables, despite the uncertainty and subjectivity that inevitably arise when classifying a particular country.

15. See Gorter, "The Dutch Miracle?"; Anders Björklund, "Going Different Ways: Labor Market Policy in Denmark and Sweden," in Esping-Andersen and Regini, eds., *Why Deregulate Labour Markets?*; FIAT, "Flessibilità del lavoro: Confronto internazionale e spunti per la realtà italiana" (mimeo, 1998); Simon Deakin and Hannah Reed, "River Crossing or Cold Bath? Deregulation and Employment in Britain," in Esping-Andersen

and Regini, eds., *Why Deregulate Labour Markets?*; George Taylor, "Labour Market Rigidities, Institutional Impediments and Managerial Constraints: Some Reflections on the Recent Experience of Macro-Political Bargaining in Ireland" (paper presented at SASE 8th International Conference, Geneva, July 1996).

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29. See Thelen, "Why German Employers Cannot Bring Themselves to Abandon the German Model"; Reinhard Bispinck, "Germany: The Chequered History of the Alliance for Jobs," in Fajertag and Pochet, eds., *Social Pacts in Europe*; Otto Jacobi, Berndt Keller, and Walther Müller-Jentsch, "Germany: Facing New Challenges," in Ferner and Hyman, eds., *Changing Industrial Relations in Europe.*

30. See Björklund, "Going Different Ways."

31. See the various country studies in Ferner and Hyman, eds., *Changing Industrial Relations in Europe.*

32. On the Italian solution, see Regini, "Still Engaging in Corporatism?" On the pension reform in France, see Laurent Duclos and Olivier Mériaux, "Private Interest Governments under State Constraint: The Case of French 'paritarism'" (paper presented at SASE 10th International Conference, Vienna, 13-16 July 1998); on the protest movement against such reform, see Francois Piotet, "Les événements de décembre 1995, chroniques d'un conflit," *Sociologie du Travail*, no. 4 (1997).

33. See Fuchs and Schettkat, "Germany: A Regulated Flexibility"; Bispinck, "Germany: The Chequered History of the Alliance for Jobs"; Anton Hemerijck, "Renegotiating the Dutch Welfare State" (paper presented at SASE 10th International Conference, Vienna, 13-16 July 1998); Jan Peter van den Toren, "A 'Tripartite Consensus Economy': The Dutch Variant of a Social Pact," in Fajertag and Pochet, eds., *Social Pacts in Europe.*

34. See Martinez Lucio, "Spain: Regulating Employment and Social Fragmentation"; O'Donnell and O'Reardon, "Ireland's Experiment in Social Partnership, 1987-96"; Björklund, "Going Different Ways"; Dølvik and Martin, "A Spanner in the Works and Oil on Troubled Waters."

35. See Pochet, "Les pactes sociaux en Europe dans les années 1990."

36. Michele Salvati, "The Crisis of Government in Italy," *New Left Review*, no. 2/3 (1995).

37. Pontusson and Swenson, "Labor Markets, Production Strategies, and Wage Bargaining Institutions."

38. Marino Regini, "Social Institutions and Production Structure: The Italian Variety of Capitalism in the 1980s," in Crouch and Streeck, eds., *Political Economy of Modern Capitalism.*

39. Of course, there are other variables of a more organizational character that can explain Confindustria's position, which differs from that of other employers' associations such as Confcommercio. The fragmentation of employer representation and its consequent loss of influence, in particular, may have induced Confindustria to step up its presence at the "concertation table" to regain legitimation among employers. However, its strongly positive stance has not changed even on the occasion of the social pact signed in December 1998, when it lost its oligopolistic position as a result of the new government's decision to involve the maximum possible number of actors in the negotiations.

40. Martin Rhodes, "Globalisation, Labour Markets and Welfare States: A Future of Competitive Corporatism?" in M. Rhodes and Y. Meny, eds., *The Future of European Welfare: A New Social Contract?* (London: Macmillan, 1997).

41. See Thelen, "Why German Employers"; Jacobi, Keller, and Müller-Jentsch, "Germany: Facing New Challenges."

42. Kjellberg, "Sweden: Restoring the Model?"

43. Fritz Scharpf, ed., *Games in Hierarchies and Networks* (Frankfurt: Campus, 1993).

44. See Pontusson and Swenson, "Labor Markets, Production Strategies, and Wage Bargaining Institutions"; Thelen, "Why German Employers Cannot Bring Themselves."