

THE RENEGOTIATED ALLIANCE
BETWEEN THE LEFT AND ORGANISED
LABOUR IN WESTERN EUROPE

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2007

Submitted for the Degree of Doctor of Philosophy

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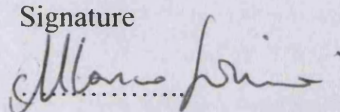
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A handwritten signature in black ink, appearing to read "Marco Simoni", written over a dotted line.

Abstract

The alliance between the Left and organised labour in the majority of European countries is not over, contrary to the arguments of much of the current literature on industrial relations and electoral socialism. During the 1980s and 1990s, social democratic governments approved over 70% of their socio-economic policies in cooperation with trade union confederations. These policies are distinct from the Keynesian model of the post-war decades which directly benefited labour, and are based on the monetarist macroeconomic regime. As a consequence, the alliance can be renegotiated only under certain conditions, which do not always exist. This thesis builds a comprehensive framework to account for party/union interactions, including instances of renegotiated alliances and also of more strained relationships. In order to do so, it examines the constraints and incentives faced by each actor separately, and then brings them together. Quantitative and qualitative methods, as well as historically-informed discursive approaches and game theoretical modelling, are employed.

In an age of globalisation and social fragmentation, social democratic parties no longer need trade union partnerships for purposes of economic management, but they retain electoral incentives to include unions in policy making. These incentives are contingent upon union acceptance of limited gains from policy negotiations: excessive concessions to unions would alienate non-union workers from the social democratic vote. In turn, organised labour is able to accept modest gains (which, under an unfavourable overall scenario are nonetheless positive) only if it is very cohesive. I show that confederation democracy – not coercion as traditional neo-corporatism would contend – is negatively correlated to wage militancy because it contributes union cohesion, and therefore it is key to determining party/union cooperation. The argument of the renegotiated alliance explains the importance of decision-making processes in determining outcomes, the enduring political relevance of trade unions, and the characteristics of the social democratic electorate.

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List of Abbreviations

AN	National Alliance (Italy)
AUEW	Amalgamated Union of Engineering Workers
CBI	Confederation of British Industry
CCOO	Workers' Commissions (Spain)
CFDT	French Democratic Confederation of Labour
CGIL	Italian General Confederation of Labour
CISL	Italian Confederation of Labour Unions
CLP	Constituencies of the Labour Party (UK)
CME	Coordinated Market Economy
CONC	Union members concentration
CONFDEM	Confederation Democracy
CONT	Union hierarchy
DC	Christian Democracy (Italy)
DGB	German Federation of Trade Unions
DnA	Social Democratic Party (Norway)
DS	Democrats of the Left (Italy, since 1998)
EIRR	European Industrial Relations Review
EMS	European Monetary System
EMU	European Monetary Union
EP	European Parliament
EPL	Employment Protection Legislation
FE	Fixed Effect
FGLS	Feasible Generalised Least Squared
FI	Forza Italia (Ahead, Italy: conservative party)
GDP	Gross Domestic Product
GMWU	General Manual Workers Union (UK)
GSEE	Greek Trade Union Confederation
ICTU	Irish Confederation of Trade Unions
ILP	Independent Labour Party
IMF	International Monetary Fund
ISTAT	Italian Institute for Statistics
LME	Liberal Market Economy
LO	Swedish, Danish or Norwegian Trade Union Confederation
MEP	Member of the European Parliament
MP	Member of Parliament
MSI	Italian Social Movement
NEC	National Executive Committee (UK Labour party)
NUM	National Union of Miners
NVV	Dutch Union Confederation
OECD	Organisation for Economic Cooperation and Development
ÖGB	Austrian Labour Federation
OLS	Ordinary least squares
P/U	Party/Union
PASOK	Panhellenic Socialist Movement

PCI	Italian Communist Party
PCSE	Panel-corrected standard error (OLS estimator)
PDS	Democratic Party of the Left (Italy, 1992-1998)
PLP	Parliamentary Labour Party (UK)
PPI	Italian People's Party
PRI	Italian Republican Party
PS	Socialist Party (France or Portugal)
PSI	Italian Socialist Party (until 1992)
PSOE	Spanish Socialist Workers' Party
PvdA	Labour Party (the Netherlands)
RC	Party for the Re-founding of Communism (Italy)
RE	Random Effect
RULC	Real Unit Labour Cost
SAP	Swedish Social Democratic Party
SD	Danish Social Democratic Party
SPD	German Social Democratic Party
SPÖ	Socialist Party of Austria (Social Democratic Party of Austria since 1991)
TGWU	Transport and General Workers Union (UK)
TOTS	Terms of trade shocks
TUC	Trades Union Congress (UK)
UD	Union density
UGT	General Workers' Union (Spain or Portugal)
UIL	Italian Labour Union
UK	United Kingdom
Unison	Public Sector Union in the UK
UR	Unemployment Rate
USS	Swiss Union Confederation
VOC	Varieties of Capitalism
WBCOOR	Wage Bargaining Coordination
WM	Wage Militancy
WWII	World War Two

To Elena and Francesco, my parents

Acknowledgements

This thesis is about a relationship between two collective actors: social democratic parties and trade unions. Like any other relationship, it is built on a complex mix of interests, beliefs and feelings, and among these feelings, love plays certainly a prominent role. Unfortunately, “love” is not really a commonly used explanatory variable in political economy; this is why at the beginning of each chapter the reader will find brief “love quotes.” These are intended to give a metaphoric image of the political science narrative, so that the casual reader not acquainted with the topic might find this work of some interest as well.

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London, Geneva, and Rome, 2002-2006

Chapter 1

The End of the Alliance between Social Democratic Parties and Trade Unions?

*Odi et amo. Quare id faciam, fortasse requiris.
Nescio, sed fieri sentio et excrucior.¹*

Gaius Valerius Catullus

Is the alliance between social democratic parties and trade unions over, as many commentators seem to believe? Have de-industrialisation and globalisation undermined the pivotal left-wing alliance in Western Europe? These questions are of central importance to the character and structure of the European Left, and have been heavily debated among political scientists and political practitioners in the last several years. The answers are almost invariably given from either the party perspective or the union perspective, rather than focusing on the features of their actual interaction, and these answers have tended to conclude that this once solid partnership has had its day. This thesis argues instead that the party/union alliance has indeed changed since the ‘Golden Age’ of the social democratic compromise in the post-war period, but it is not over.

¹ I hate and I love. Wherefore would I do this, perhaps you ask? / I do not know. But I feel that it happens and I am tortured.

Scholars of party politics contend that social democratic² parties no longer have an interest in sustaining a strong policy collaboration with the trade unions: they argue that this would reduce their chances of electoral success because over the last twenty-five years in Western countries, the balance of power and influence between capital and labour has tilted towards the former (Scharpf 1991; Kitschelt 1994). Industrial relations specialists also follow this analysis, observing that unions can no longer rely on their old political allies, and therefore their political clout is greatly reduced (Ferner and Hyman 1992b; Ross and Martin 1999a).

These conclusions all rely on a key assumption that is not always at the forefront of analysis, namely that the party/union alliance is associated to, and only to, the traditional 'Keynesian' set of economic policies, including a strong role of the state in the economy, significant redistributive policies, and demand-side management of the economy (Piazza 2001). However, once this assumption is dropped and left to empirical verification, the party/union alliance seems more vital than expected. Systematically collected information from 15 European countries shows that during the 1980s and 1990s social democratic governments processed over 70% of their economic policies in open collaboration with trade union confederations.

Details of these measures of the party/union alliance are given early in Chapter 2. Here it suffices to say that even if the party/union alliance seems less stable over time than it used to be, even if the magnitude of its results in terms of number of policies is reduced, and even if the set of economic policies is very

² This thesis is concerned with the mainstream reformist parties of the Left, and uses the descriptors 'labour', 'socialist', and 'social democratic' in a loose manner. This habit is very common in the literature and to my knowledge never severely challenged. For a similar loose use of the descriptor 'social democratic' see for example: Kitschelt (1994) or Ladrech and Marlière (1999).

different from the one pursued in the post-war decades, the party/union alliance has undergone a deep renegotiation, but not a rupture. In other words, this thesis shows that, during the 1980s and the 1990s, policy collaboration between social democratic governments and trade unions was still a significant phenomenon in many European countries. Compared to previous decades, the policy outcomes of party/union interaction are more varied and they are not systematically associated with increased public spending, as it used to be during the years characterised by the so-called “Keynesian consensus” (Hall 1989). Nonetheless, a very intense collaboration in socio-economic steering is visible in many countries.

This thesis will investigate the political and institutional factors that affect the relationship between parties and unions, and that cause them to renegotiate or to dissolve their alliance. It will ask the following question: given the new social and economic context that developed in European countries during the 1980s and 1990s, which factors account for renegotiated party/union alliances *vis à vis* more strained types of relationships? In pursuing this objective, the thesis aims to bridge the literature on industrial relations, on the political economy of socialist parties, and the classic party politics literature, in order to offer a comprehensive understanding of recent occurrences within the European Left movement.

There are weighty empirical and political reasons to support the choice of focusing the research strategy of this thesis on the party/union interaction as the main study object. First, in many influential pieces of recent literature, the party/union relationship is treated as an independent variable in order to explain occurrences in either the party or the unions.³ From a methodological viewpoint,

³ For example Przeworski and Sprague 1986; Gallagher and Williams 1989a; Ferner and Hyman 1992a; Kitschelt 1994; Ladrech and Marlière 1999; Martin and Ross 1999.

this approach generates a problem of endogeneity: the actor is affected and affects the relationship at the same time. As a consequence, neither the existing literature on social democracy nor that on trade unions is able to explore the role that each of the two actors has had on the alliance, and on its new features, since the 1980s. This thesis focuses on the relationship itself. Therefore, I will not deal with the effect that different types of alliance have on each of the two actors, but I will be able to identify which political and institutional variables lead to different types of relations, i.e. renegotiated alliances or non-collaborative approaches.

In addition, it is relevant to broader theories of political contestation to know if, and if so how, different types of party/union interaction can still be understood under a single framework. If social democrats and organised labour react to similar variables in different countries along defined patterns, this would reinforce the view that political cleavages between the right and the left still hold, with labour weighting down heavily on the side of the mainstream left. It would open new political reflections on the permanence of the social constituencies of political parties during globalisation.

In the last several years, various phenomena under the subheading of “globalisation” – such as the internationalisation of markets and the increased mobility of labour – have inspired a stream of literature in the political economic disciplines oriented towards observing the “end of history” (Fukuyama 1992). In a nutshell, this approach tends to downplay the room for manoeuvre of national actors. Indeed, under highly competitive globalised markets, technically optimal solutions gain predominance over ideology-driven preferences (Scharpf 1991). This thesis supports instead the view that constellations of organised interests at the national level, and therefore modes of policy interaction, can still differentiate

the politics of different European countries. Therefore, divergence in policy outcomes is still likely to occur.

The Argument in a Nutshell

The data I have collected show that during the 1980s and 1990s social democratic parties continued to process the majority of their socio-economic policies, over 70% of the total on an average, with the cooperation of trade union confederations. It must be emphasised, however, that instances of non collaboration are therefore as high as to account for nearly 30% of total instances.

The core claim of this thesis is that under globalisation and in the post-industrial society, trade union confederations and social democratic parties still have key incentives to cooperate in policy making. In order for these incentives to operate, however, organised labour must be very cohesive: therefore, it must adopt democratic decision-making rules that cut across occupational sectors, a system to which I refer as “confederation democracy.”

The overall economic context of the 1980s and 1990s is not favourable for labour. Growth is stagnant, unemployment on the rise, and the world consensus among policy makers and economists has shifted from the maintenance of full employment to inflation control. However, if union leaders can persuade members to abide by the “new” social democratic policy program they can still achieve policy gains. The new policy program does not include the policy measures ideal-typically preferred by unions, including, for example, increased public spending, increased cash transfers, and employment protection legislation – all of which were dumped by social democratic programs. However, policy gains can lock trade unions into a prominent role in the management of labour markets (which looks very much like an uncertain investment for the future) as well as

shelter union rank-and-file from the worst effects of the ongoing labour market liberalisations.

However, given the stringency and harshness of this renegotiated compromise, and given the limited availability of short-term payoffs for union rank-and-file (such as increased transfers or increased welfare benefits, see Mares 2006), only democratic unions can unify members around this harsh compromise, and fill the interpretation gap that is likely to arise between leaders and members over the appropriateness of compliance. Discussion, persuasion, voting and a clear democratic accountability of leaders before members (which reinforces their legitimacy and credibility) will contribute to narrowing the information gap, reduce the impact of factionalism, and ultimately avoid wage and policy drift at local level. In the absence of a democratic means of decision-making, trade unions will lose the strategic capacity to abide harsh compromises, and will need increased side-compensations to ensure compliance. Given that social democrats are not ready to revert to “old” Keynesianism and thereby secure an increasing level of benefits for union members, fragmented unions are likely to be evicted from the policy-making arena.

From the perspective of the social democratic government, the picture is similar, albeit from the opposite perspective. Social democrats no longer have economic reasons to seek union compliance. Given that inflation is controlled by independent central bankers, social democrats no longer need union cooperation to control wage dynamics. However, they still retain core electoral reasons to include them in policy making on issues related to welfare state institutions and labour market reforms. In the post-industrial society, the “old” dilemma between working class and non-working class votes has changed. The new social

democratic dilemma is more subtle as it includes materialistic and non-materialistic issues: this scenario complicates the task of cutting distributive compromises between different portions of the social democratic electorate. By systematically involving trade unions in the definition of policies, social democrats ensure that they can win the maximum number of votes through market-appealing and libertarian policies, while minimizing losses from traditional unionised working class.

To achieve this aim, however, the social democrats are only willing to offer limited payoffs to unions because otherwise they would lose too much of the non-union support. Therefore, in order to embark on negotiations with organised labour, they first have to believe that the unions are sufficiently cohesive for the signatures of leaders under peak agreements to entail the compliance of rank-and-file. If, instead, the union confederation is fragmented, the party will attempt to balance its dilemmas unilaterally.

This argument is based on original empirical material that I have gathered through systematic content analysis of primary sources, secondary sources, and interviews with key informants. In turn, this material has been processed through an array of different quantitative and qualitative methods, as well as formalised and discursive approaches. In particular, I combined both large-N and small-n research settings so as to exploit their properties fully. Before detailing the research strategy and outlining the plan of this thesis, I will now introduce the historical background upon which this dissertation rests. The historical method will help to clarify the limits and scope of my analysis, and the departure point from which my conclusions will be reached. The second section of this chapter will then review the explanation offered by the existing literature

of the fate of the party/union alliance. Section three will clarify the methodology adopted to overcome the shortcomings of existing accounts, and will present the plan of the rest of this thesis.

1.1 The Historical Background

The 'Golden Age'

From the beginning of post-war period until the 1980s, social democratic parties and trade unions in northern European countries fostered a very distinctive policy program. In their respective roles as the political and industrial wings of the labour movement these two actors developed a strong alliance that, when successful, resulted in a very identifiable kind of welfare capitalism (Esping-Andersen 1990).

This socio-economic project found its complement in the moderate attitude of trade union confederations. The large bodies of organised workers were the obvious social allies of social democratic governors. They supplied the party with mass support and votes. Moreover, under social democratic governments, they moderated their wage claims in order not to hinder the overall governmental spending strategy. Workers did not need to look for high nominal wage increases in order to improve their welfare, and rather sought to keep them at a sustainable, slow, pace. Wage moderation would keep inflation low, while public spending would keep internal demand, and therefore employment, high. In economic terms, this means that the alliance between social democrats and the unions had the effect of mitigating the trade-off of the Phillips curve (Cameron 1984).

Until the 1980s, the party/union alliance can be conceptualised as based on two intertwined foundations: a *social* foundation and a *policy* foundation. The

social foundation is related to the support provided to the party by the working class as a social bloc. Social democratic parties in post-war Europe could not be considered “class” parties in a strict sense. The industrial working class had never represented the majority of citizens in any western democracy, and therefore social democrats had attempted to forge inter-class alliances ever since their rejection of a revolutionary means to power. Nonetheless, at the core of their social support rested the working class, organised by trade union confederations (Przeworski 1985: 35-37). When social democratic parties were able to win office, the working class would be the main beneficiary of the socialist economic program that, to put it very simply, aimed at separating the destiny of the workers from the volatility of the markets (Esping-Andersen 1990: 47).

The second, *policy*, foundation of the “social democratic paradigm” was the “political exchange” by which trade unions would moderate their claims in order to facilitate the governmental spending policy and avoid inflationary pressures (Cameron 1984). In Europe, the best economic performances were linked to the existence of large trade union confederations, encompassing workers from a variety of sectors, that, by exerting strong control on their affiliates and members, were able to trade moderation for political relevance, i.e. lower wage increases in the short-run for higher economic benefits in the long run (Pizzorno 1978; Lehmbruch 1984). The *social* and *policy* foundations of the party/union relationship were complementary and mutually reinforcing. Moreover, when implemented for a sustained period of time, they generated increased consensus towards the socio-political bloc constituted by the party/union alliance (Esping-Andersen 1990: 105-143).

Until the 1980s, the “social democratic paradigm” was attempted or implemented only in northern Europe, while southern European socialists were in opposition or still struggling against authoritarian regimes (Gallagher and Williams 1989). The literature reflected this difference, identifying northern social democracy and southern socialism as distinct branches of the same family, i.e. while different, they shared the same broad ideology. The difference in the party/union alliance between northern and southern Europe was considered one of the main differentiating features between these two political milieus. In southern Europe, where a party/union collaboration in policy making had never been realised, the union movement happened to be more militant, more fractionalised, and more politicised, reflecting relatively big divisions along political lines (Bergounioux 1983; Marlière 1999 5-6).

The Crisis

Between the end of the 1970s and the beginning of the 1980s this picture changed considerably. Northern European socialists experienced serious electoral setbacks that questioned the effectiveness of their strategy (Kitschelt 1994: Table I.1 page 5). The most striking and famous example comes from events in Britain. The long-lived tradition of collaboration between the Labour party and the TUC did not produce acceptable socio-economic outcomes. Inflation was out of control and public spending was not helping to decrease unemployment; frequent strikes, mass rallies, and secondary actions by the unions marked the “winter of discontent,” which eventually resulted in electoral loss for the Labour party and the rise of Margaret Thatcher (Scharpf 1991: 83-88; Mares 2006: 202).

Meanwhile, southern European Social Democratic parties experienced stunning electoral success in France, Spain, Greece, and Italy. All of these parties

were bred on ideologies very similar to those of their northern sisters. Their statutes identified as their ultimate – utopian – goal the establishment of a socialist society, and a strong role for the state in the economy was the crucial means by which this goal could be achieved. However, when southern European socialists gained power, they almost never attempted to pursue traditional social democratic policies. The most exemplary of such case among southern European socialists in the 1980s is to be found in France.⁴ The *Parti Socialiste* (PS) won the 1981 elections with the mandate of implementing “Keynesianism in one state,” while in most of the Western countries, a new economic consensus grounded on the principles of monetarism prevailed. However, Keynesianism was short-lived in France: soon after the electoral victory, economic policy was reversed. Between 11 and 12 June 1981, the French devalued their currency and inaugurated a new restrictive policy aimed at curbing inflation, while supply-side measures were left with the burden of improving growth and employment (Hall 1987; Colombani and Portelli 1995). The cutting of spending plans, and the intense industrial restructuring led by the socialist government sparked opposition from trade unions. If in Britain the party/union alliance had failed in its mission, in France it appeared no longer to exist. Mass demonstrations of workers against the socialist government seemed to show that party/union policy collaboration had become a forgotten relic.

These episodes in France and Britain can be considered as thresholds in European political history both because of the direct influence they had on the

⁴ Even though geographically France is a central rather than a southern European country, it is generally grouped by the literature with the southern group together with Italy, Greece, Spain and Portugal. France’s political system shares with these countries a number of relevant features: a plurality of union confederations, the Catholic influence in organised labour, the fact that socialists gained office later on in the post-war period, and, perhaps, wine and the shore of the Mediterranean sea (Bergounioux 1983; Gillespie and Gallagher 1989).

polities of the two countries, and for the influence they exerted on the understanding of the European left by social scientists and political practitioners. The party/union alliance was considered a stable feature of Western European policy regimes until the 1980s. Additionally, the policy program that the two actors had pursued through their alliance had been clearly identifiable. However, after the “winter of discontent” and the “U-turn,” stability and clarity were both in question. Which factors of change have impacted specifically on the party/union alliance? How has the relationship between these two actors developed since the 1980s?

Factors of Change

Between the end of the 1970s and the beginning of the 1980s, industrial economies have witnessed structural changes that affected both the *social* and the *policy* foundations of the party/union alliance. With regard to the former, de-industrialisation strongly affected the very class structure of advanced economies. In relation to the latter, the internationalisation of capital markets – under the quasi-fixed exchange rate regime of the European Monetary System – seriously limited the room of manoeuvre available to national politicians in the political economy. As a consequence the two foundations were seriously undermined, bringing the majority of observers and scholars to contend the end of the traditional alliance of the Left.

From Industrial to Post-industrial Society

The increasing importance of the service sectors over the industrial sector within advanced economies is a well documented occurrence of the post-war era. The pace of de-industrialisation increased over time. Even if the pace of

change was not the same in all the countries, the phenomenon eventually affected the whole of Western Europe (Maddison 1995; Crouch 1999).

The industrial society, centred on the male breadwinner, quickly declined between the mid 1970s and the mid 1980s and a more complex and fragmented post-industrial society took its place. Service sector jobs were much more varied than jobs in industry, and the presence of women in the labour force increased considerably. As a consequence, the interests, values and identities formed in the workplace multiplied. The welfare state, which had successfully sheltered the majority of the population from hardship and materialistic worries, increasingly allowed the pursuance of non-materialistic objectives and ideals (Inglehart 1977).

The trade unions had a difficult time in facing these changes. The service sector is relatively fragmented and lacks hubs or locations of industrial mass-production, where in the past manual workers would have spent their days, and where collective identities were previously shaped by the unions. Union membership in the 1980s and the 1990s has duly declined, even if not uniformly across countries. Most importantly, the trade unions did not manage to penetrate the new sectors and the new cohorts of workers. Empirical data show that, when compared to the whole of the working force, union members are still disproportionately male, not young, and are employed in traditional industries (Ross and Martin 1999b; Ebbinghaus 2002).

The compositional change of the labour force into a myriad of different groups, the emergence of non-materialistic preferences, and the relative weakening of trade unions are mirrored by the decreased salience of class voting. Table 1.1 reports the Alford index for 20 countries over the three decades between

1960 and 1990: the higher the score of the index, the higher the support for social democrats from the working class rather than from other classes.⁵ Data show that the working class is less and less compact in its support of left wing parties, or, alternatively, that these parties are increasingly able to capture consensus from other sectors of the society. However, class support has not vanished altogether. A positive score in the index still shows that the share of working class voting Left is higher than the share of non-working class voting left. Moreover, in a number of countries, such as Finland, Sweden and Great Britain, the score is still relatively high.

In other words, de-industrialisation has increased the propensity of social democratic parties to move from their traditional core constituency in order to win electoral majorities. In doing so, these parties have to manage more complex policy programs, where material concerns must be matched with non-materialistic objectives, and this spawns new potential contradictions. In fact, the industrial working class is associated with traditional sets of values in the personal sphere, while more modern professions are naturally more liberal both in the conception of the society and in their approach to the market (Kitschelt 1994: 30-37).

⁵ The Alford index is the index most used to measure the incidence of class voting. It is based on the division of workers into manual and non-manual categories and the distinction of parties into Left and Right. The index is the difference between the percentage of manual workers that voted left, and the percentage of non-manual workers that voted left (Alford 1962). This index has been discussed extensively but when tested against other measures of class voting proved robust in its conclusions (Nieuwbeerta and De Graaf 1999: 30-31)

	1961-1970	1971-1980	1981-1990
Australia	29.3	27.8	19.4
Austria	27.4	28.9	18.3
Belgium	25.4	17.9	16.4
Britain	38.3	24.3	23.4
Canada	7.7	-	4
Denmark	52	28.1	20.9
Finland	50.2	36.9	35.7
France	18.3	17	11.7
Germany	24.8	14.9	13.4
Greece	-	12.3	9.7
Ireland	14.1	8.7	7.3
Italy	14.5	17.8	13.1
Luxemburg	-	24.8	18.8
Netherlands	14.7	21.8	15.5
Norway	32	33.8	20.5
Portugal	-	-	14.9
Spain	-	18.4	15.5
Sweden	40.7	37.3	32.7
Switzerland	-	17.6	12.8
United States	7.7	10.9	8.1
Mean	26.5	22.2	16.6
Std. Deviation	14.2	8.6	7.8

Table 1.1 – Alford Index in Twenty Countries (1960-1990).

The Alford index measures the level of class voting as the difference between the share of manual workers voting for left wing parties and the share of non-manual workers voting for left wing parties. Source: Nieuwbeerta and De Graaf (1999: 36).

Internationalisation of Capital Markets.

The period between the end of WWII and the mid 1970s has been considered marked by a “Keynesian consensus” whereby the primary objective of economic policy was to support full employment, generally through a constant increase in public spending (Hall 1989). The social democratic policy program, aiming at reaching a balance between market economy and state economy, was well suited to the overall world economic environment. Starting in 1973, when the Bundesbank decided to curb rising inflation through restrictive monetary means, the consensus shifted from the defence of full employment to the control of

inflation. When the same path was eventually followed by a reluctant Sweden in 1991, the reversal of the world economic consensus was complete and well-guarded by newly independent central banks across the continent (Notermans 2000: 166-221). Figure 1.1 shows that since the 1980s, the unemployment/inflation ratio in European countries has shifted dramatically.

There is a debate in the literature about the factors that ultimately determined this shift in consensus (for a brief and effective explanation see Przeworski 2001 note 9 page 320). However, massive rises in prices experienced in many countries urged the adoption of anti-inflationary measures. Heated price dynamics appeared to have a double cause in the oil shocks and the renewed wage militancy that had been spreading throughout Europe since the late 1960s. The reaction of the biggest economies was then to curb inflation by cutting money supply, with the immediate effect of increasing unemployment. The upsurge of neo-liberal leaders, such as Reagan and Thatcher, which expanded anti-inflationary policies into a coherent set of neo-liberal economic policies, reinforced the process towards a new consensus: given the increasing liberalisation of the capital market and the quasi-fixed exchange rate regime, running inflation rates constantly higher than other countries became extremely expensive (Notermans 2000: 170).

To sum up, the combination of a quasi-fixed exchange rate regime in Europe, along with high capital mobility, made (comparatively) higher inflation rates extremely expensive, and therefore not sustainable. As a consequence, budget policy became restrictive and the traditional social democratic demand-side policy lost the ability to foster employment because its inflationary consequences became too expensive (Scharpf 1991: 248). Supply-side policies,

primarily aimed at improving corporate profitability and, through this, investments and employment, became the cornerstone of both centre-left and centre-right political economic strategies (Boix 1998: 16-51). In this context, social democratic parties attempted to devise a specific kind of supply-side economic strategy, aimed at improving employment performances. This focused on public investments in training, and other active labour market policies that could improve employability without crowding out private investments and economic growth (Boix 1998: 51-81).

However, once the inflation rate became controlled by the central bank, trade unions were no longer needed for the implementation of the “new” social democratic political platform, even if this platform is still grounded on public spending. Empirical studies, both qualitative and quantitative in nature, show that social democrats still spent more than conservatives after 1973, even if the kind of expenditure has changed (Cusack 1997: 391; Boix 1998: 130-156).

However, public spending for training, active labour market policies, and some unemployment insurance did not require wage moderation to be economically sustainable, because independent central banks were vested with the mission of controlling price levels through monetary means.

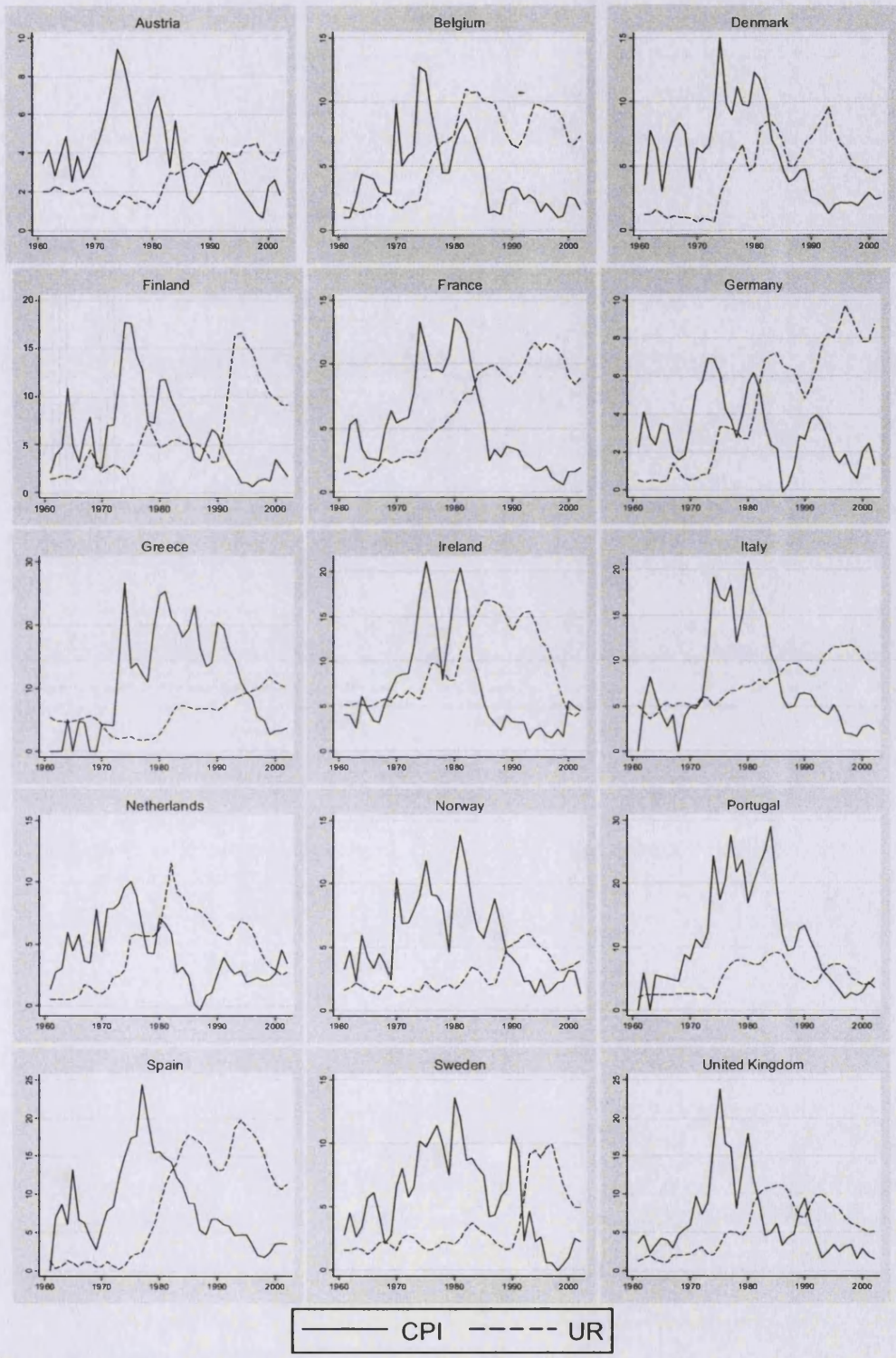


Figure 1.1 – Inflation and Unemployment in Europe
 Consumer price index (annual change) and unemployment rates in fifteen European economies.
 Source: European Commission (2006a, b).

The Research Question

Given that the *social* and *policy* foundations that were supporting the alliance between social democratic parties and trade unions during the post-war decades no longer hold, what is driving the party/union relationship during the 1980s and 1990s? What motivates collaboration or non-collaboration between the two actors, and what policy results are derived from different types of interactions? This is the research question of this thesis, which is motivated by the fact that the end of the *social* and *policy* foundations of the party/union alliance did not result in a clear-cut interaction between the two actors, which was consistently observable across European countries. This indeterminacy is apparent both in *prima facie* evidence, and through analytical reasoning.

From an empirical viewpoint, in the period between 1980 and 2000, i.e. when the de-industrialisation and internationalisation of the capital and goods market were at an advanced stage, it was possible to observe both sustained party/union alliances *and* confrontational relations between the two actors.

In France in the early 1980s, the two Mitterrand septennials were marked by the strained relationship between the socialist governments and organised labour (Ross 1987). In Spain, where the socialists won office around the same period, the trade unions organised two general strikes against the government (Astudillo Ruiz 2001). In Sweden, the early 1990s were also marked by a strained party/union relationship. Unions' opposition to the policy of the socialist financial minister resulted in his resignation and eventually led to electoral loss for the party in 1991 (Notermans 2001: 213). Later on in the century, the relationship between New Labour and the TUC seemed very far from the tradition of the British Labour movement, which has been characterised in the

past by intense policy collaboration. Indeed, both the party and the unions insisted in marking their respective autonomy and the policy content of the party/union alliance in the UK remained very scarce (Glyn and Wood 2001 216-219).

Beside these examples of non-collaborative or even confrontational relationships, one finds sustained collaborations. In the late 1990s, in countries as different as the Netherlands, Italy, and Portugal, left-wing governments and unions collaborated on a wide range of socio-economic issues. These included reforms of the labour markets, and of welfare state provisions which were often accompanied by nationally-agreed income policies (Fajertag and Pochet 1997; 2000). Moreover, these complex policy packages were discussed and approved also in countries once considered unlikely to witness collaboration between the government and organised interests groups due to structural institutional deficiencies (Baccaro 2003). In particular, many of these countries lacked a highly concentrated, hierarchical union confederation, as well as an enduring tradition of social democratic governance.

So much for the clear empirical variation into the 1980s and 1990s, but simple analytical reasoning could suggest motives that could bring parties and unions to renew their collaboration in spite of the end of the traditional *social* and *policy* foundations.

First of all, the decreased salience of class voting does not entail that votes of the working class became altogether irrelevant for social democratic parties, or that they no longer exert an influence. Indeed, positive values of the Alford index (Table 1.1) suggest that the share of manual workers voting for left wing parties is still higher than the share of non-manual workers, and this is likely to have an impact on the policy and behaviour of elected politicians. Second, even

if a new social democratic policy strategy does not need union collaboration to be implemented, the party might still benefit from an alliance with a large social bloc that is also the only mass organisation that can be found in post-industrial societies. Indeed, even if the shift in the world economic consensus towards a low-inflation regime has now rendered wage moderation unnecessary to control price levels, it is still a powerful tool in improving cost competitiveness, and therefore growth and employment. Third, union collaboration regarding welfare and labour market reform can help social democrats in solving the usual equality/efficiency dilemma of advanced capitalist economies, which has become stricter than ever in the economic context that has developed since the 1980s. In other words, during the 1980s and the 1990s many welfare state institutions needed reforms in order to cope both with international pressures, and with endogenous budget problems. The involvement of unions could facilitate the identification of the best routes to make economic reforms compatible with social needs (Rhodes 2001; Culpepper 2002; Hassel 2003b; Regini 2003). Fourth, given that the internationalisation of markets and the development of the service sectors have weakened the unions capacity in the labour market (Ebbinghaus 2002), unions could compensate this through an increased role in the policy arena. Indeed, even under an unfavourable overall macroeconomic framework, trade unions could influence the policy outcomes of social democratic governments, and in this way have an interest in concluding negotiations with them. Consequently, while the socio-economic developments of the mid-1970s prompted a change in party/union dynamics, in theory they did not preclude the renegotiation and reorganisation of the party/union alliance.

Against this background, it is perhaps useful to restate the core research question of this thesis. Given that the *social* and *policy* foundations that were supporting the alliance between social democratic parties and trade unions during the post-war decades no longer hold, what is driving the party/union relationship during the 1980s and 1990s? What motivates collaboration or non-collaboration between the two actors? In other words, which incentives and constraints, and which institutional configurations, push them to renegotiate or to terminate their alliance? What policy results are derived from different types of interactions?

In the next section I will start by reviewing the main conclusions that the literature has drawn on the patterns of party/union interactions observed since the late 1970s. I will show that the prevailing view of the literature concerned with this topic considers the party/union alliance as over, by force of the changed incentives of the social democratic parties. However, the methodological heterogeneity of this literature, which constantly switches its research object, does not allow for a systematic benchmark for the conflicting results suggested by a limited number of country-level case studies that exist.

Therefore, in order to reach a convincing answer to my question, I need to take a comprehensive methodological approach. This will have to start with the systematic collection of data on my dependent variable, i.e. the party/union alliance.

1.2 Reviewing a Composite Literature

In the previous section I underlined that two major changes in the economy and the societal structure of western countries have had a significant impact on the traditional party/union alliance. The policy programmes that this alliance once pursued are no longer viable, while the social bloc that supported

policy collaboration between the two actors has diminished in size and political relevance. In this section I will show that, perhaps unsurprisingly, most of the literature has concluded this analysis by declaring the party/union alliance dead, and leaving little, if any, scope for further collaboration between the two actors. In the previous section I highlighted that empirical observations are mixed and that sustained collaborations have continued during the 1980s and 1990s, even though this has not happened uniformly across countries and over time within country. What does the literature say about the variations that we have observed since the mid-1970s? Are these variations convincingly explained by the existing literature? I suggest that the answer to this question is no. Indeed, after analysing both general conclusions and specific case studies, I will suggest an overall approach that could refine our theoretical and empirical understanding of contemporary Left in Europe.

The End of the Alliance or Sustained Social Democracy?

The party/union alliance features as an explanatory variable in many studies focusing on the trajectories of either socialist parties or trade unions in contemporary Europe. The great majority of these studies endorses the argument whereby under a globalised, post-industrial economy, organised labour is de-linked from electoral socialism because the latter has abandoned its original policy program grounded on income redistribution and the maintenance of full-employment through public spending, and has instead targeted low inflation as the priority for economic policy.

The origin of this assessment of the party/union alliance is probably a simple methodological issue. While analysing only one of the two actors, authors in party politics or industrial relations need to treat as independent from their

study object all the interviewing variables, and therefore they need to treat the relationship with the other actor, as constant as far as is possible. The best way to deal with this methodological problem is to understand the party/union alliance as coincident with the traditional social democratic policy package (the paper that is most transparent on this interpretation is authored by James Piazza (2001), whereas in other studies this assumption remains rather implicit). Indeed, when the party/union alliance is equated to the policy outcome that it used to produce in the post-war decades, only the 'de-linking' conclusion seems possible.

Books like Ferner and Hyman's (1992a) or Ross and Martin's (1999a) are devoted to contemporary trade unionism. In the introductions to both books, the authors lament the fact that " [in] many countries social democratic governments took the lead in implementing liberalizing policy shift" (Ross and Martin 1999a: 15) induced by the "economic context" and by the increasing dominance of capital over labour (Ferner and Hyman 1992b: xix). As a consequence, in European countries trade unions have remained orphaned by their political ally and, more generally, have seen their political clout much reduced.

In fact, from the point of view of social democratic parties, powerful trade unions are considered to be detrimental to their electoral fortunes. The contemporary social democratic electoral dilemma was sketched out in a seminal book by Herbert Kitschelt (1994). Electoral competition is no longer fought only along a socialist/capitalist divide, but also over the new liberty/authority cleavage that cuts across it and is dominated by post-materialist values.⁶ In this new context, if they are to win elections, social democratic parties have to manage a greater variety of interests and beliefs, rather than rely on a single well-defined bloc of

⁶ Kitschelt builds on Inglehart (1977; and 1987)

interests. Therefore, a collaborative relationship with trade unions, which may be reinforced by formal links (as used to be the case in Sweden and the UK), is a liability rather than an asset for social democrats, because it limits their leverage on economic policy to forge an alliance that could include a multiplicity of different social groups (Kitschelt 1994: 225).

Again, Kitschelt's conclusions clearly depend on the assumption that a collaborative relationship between trade unions and Social Democratic parties will bring about traditional Keynesian-type policy. Indeed, only in this case would the relationship hinder the ability of social democratic governments to pursue the management of a greater variety of interests and values, and, ultimately, to be electorally successful.

All these interpretations attribute the end of the alliance to a strategic decision made by social democratic parties in their effort to adapt to the new socio-economic scenario. "Social democratic parties now display a disarming enthusiasm for economic orthodoxy [...] and a shrinking role for organised labour in the political economy of the Left" (Howell 2001: 33).

Different Views Are Contested

A different conclusion was drawn in a series of studies that supported the view according to which the traditional "political exchange" could also be sustained in a globalised scenario (Garrett and Lange 1991; Garrett 1998; Garrett and Way 1999). As we saw earlier, the social democratic paradigm in the post-war period, i.e. public spending versus wage moderation, was associated with a smoother Phillips curve, so with comparatively lower levels of unemployment and inflation (Cameron 1984). Similar statistical regularities can apparently also be found in the period after 1980.

According to this view, there are winners and losers in globalisation, as not all social groups benefit from the internationalisation of capital and goods markets. Groups that are threatened by these changes demand policies that will shelter them from the harshness of markets, therefore opening a new political space for social democrats. They will continue to use public spending in order to foster a more equitable distribution of resources, and indeed Garrett (1998) finds that the effect of partisan policies on a country's level of public spending *increased* rather than decreased as the integration of world economy progressed. In a number of different works, alone and with different co-authors (Garret and Lange 1991; Garrett 1998; Garrett and Way 1999), Garrett argues that a sustained collaboration between parties and unions is possible, along the tracks laid down in previous decades. Indeed, spending policy is effective in fostering growth only when is associated with large encompassing trade union confederations in which the influence of non-tradable sectors is low. In fact, the latter are the less adverse to inflation as they do not take the risk of being priced out by international competitors, and have a tendency to claim unsustainable wage increases. Hence, when the correct institutional setting is present, a virtuous circle of public spending is still a viable option, although it will lead to high deficit levels, higher interest rates and higher inflation. The efficiency and reliability of the corporatist system work as an incentive for domestic investors to stay, and for foreign investors to enter the country. In other words, through institutional mechanisms, social democratic parties and encompassing trade unions can offer a valuable alternative to the orthodox recipes for growth (Garrett 1998).

These conclusions and the reliability of the quantitative analysis underpinning them have been heavily contested in a subsequent work by Torben

Iversen (1999: 167), which explains economic performances through a new institutional theory whereby the inflation/unemployment trade off is determined by the interplay of wage bargaining and monetary institutions. However, Iversen's game theoretical equilibrium model is based on the assumption that "trade unions enjoy *strategic capacity*" (Iversen 1999: 109, emphasis in the text). In so doing, Iversen relies on the existing interpretation of the conditions under which unions enjoy strategic capacity (Schmitter and Lehmbruch 1979a; Lehmbruch and Schmitter 1982; Goldthorpe 1984). However, I will show in the next section that the shortcomings of this literature are key to addressing my research question on the motives behind renegotiated party/union alliance. Hence, Iversen's explanation of economic performance does not address the needs of my investigation.

In summary, the prevailing view among industrial relations scholars is that social democrats have detached from organised labour by changing their policy platform. Theories on electoral socialism reinforce this view by arguing that social democrats have an actual electoral disincentive to collaborate with organised labour. Conversely, Garrett and co-authors argue that some room for manoeuvre could exist for sustained collaborations, on the condition that unions incorporate the traditional institutional "pre-requisites" for "political exchange," namely concentrated membership, a hierarchical leadership, and a small relative weight of public sector unions.

All of these conclusions to some extent are contradicted by three papers that have focused specifically on the issue of the party/union alliance. One of these papers deals with it from a large- N perspective, whereas the others are two case studies on Spain and Sweden.

Thought-Provoking Papers Suggesting Alternative Research Paths

Three recent papers have directly addressed the issue of the party/union alliance, and each has approached the subject in a different way. Not surprisingly, each has reached a different conclusion (Astudillo Ruiz 2001; Piazza 2001; Aylott 2003).

From a large-N perspective, James Piazza (2001) aims to prove that the forces of globalization (defined as the liberalisation of trade and capital accounts) have caused the de-linking of social democratic parties and trade unions across OECD countries. Through regression analysis he shows that, between 1980 and 1995, the increase in globalization is negatively correlated to increase in union density and positively correlated to the abandonment of Keynesianism by social democratic governments. From these two empirical results he concludes that globalization undermined the party/union alliance. Therefore, according to Piazza, the alliance coincides in form and substance with what he calls “Keynesian policies,” namely “generous social spending” and “nationalized industry” (id. 426). Keynesianism was abandoned exactly when internationalisation of markets was increasing, therefore if one considers the alliance dependent on it (or, more forcefully, simply coincident with it) it is no surprise to find it dissolved. The great virtue of Piazza’s paper is to have made transparent this assumption (i.e. party/union alliance = Keynesianism), which implicitly underpins the “de-linking” argument found throughout the literature. This means that if this assumption is left to empirical verification, the de-linking conclusion can also change. In other words, if trade unions could agree on a set of economic policies based on economic orthodoxy (e.g. retrenchment of the welfare state, labour market liberalisations, etc.) the party/union collaboration could be sustained over time.

Indeed, the conclusions of two other papers, grounded on single-country case studies are quite different, as they do not identify party/union alliance with Keynesian policies. They are based on the cases of Spain and Sweden, both of which, for different reasons, can be considered critical case studies: the latter is a typical northern European social democratic country, and the former is, conversely, a southern country where socialists gained power only at a much later stage (Astudillo Ruiz 2001; Aylott 2003). The study on Sweden focuses on the organisational ties between the party and the unions, while the study on Spain looks at policy coordination between the two actors under the socialist governments.

The Cases of Sweden and Spain

Sweden is one of the countries where the social democratic paradigm has been applied for longer and with remarkable success. Not surprisingly, Sweden was the last country to enter in a low-inflation regime, therefore abandoning traditional Keynesianism. Here, the party/union alliance has been among the most stable and strong. Nicholas Aylott (2003), however, does not focus on the policy program that unions and the social democratic party decided to follow in the 1990s. He instead concentrates on the dynamics between the two organisations, in particular on the extent to which trade unions are able to influence party decisions even after the so-called *divorce*, i.e. the demise, in 1987, of the rule according to which unions members were automatically also members of the social democratic party. Aylott's empirical findings show that, even though the party/union relationship has undoubtedly changed in the sense that the "old assumptions of common purposes between the political and economic wings of the labour movement can no longer be taken for granted," (Aylott 2003: 387) this does not

mean the end of a strong and privileged relationship. The unions, in fact, maintain a strong hold at every level of the party decision-making structure. Moreover, the efforts of both the actors to ensure a fruitful collaboration are “even stronger” (id.) than before, when the ties were taken for granted. In fact, mutual interests in collaboration are still present. The LO (the Swedish blue-collar trade union confederation) can still supply mass-communication services, through its connections with a great portion of the working population, and the SAP (the Swedish Social Democratic party) can still supply the LO with a significant role in policy making.

The case study of Spain (Astudillo Ruiz 2001) focuses instead on policy-making. It concentrates on the reasons why, since 1983, the alliance between the socialist government and the socialist trade union confederation, the UGT, has failed, as the two anti-governmental general strikes indicate it has. Astudillo Ruiz (2001) notes that, even though the government did not implement demand-side management, its economic policy was still distinctly socialist as it was based on a substantial increase in public spending, aimed at reducing inequality and improving employment through supply-side measures. The party/union alliance, however, could not endure because of the lack of cohesion of the labour movement. Indeed, the socialist trade unions (UGT) were fighting a battle against the communist confederation, the CCOO, for workers representation. In the 1980s, Spain’s economic cycle was buoyant, and this pushed the CCOO towards more militant attitudes. Therefore, in order not to lose consensus among workers, the UGT had no choice but to follow the same stance, thus hindering any chance of coordinating with the social democratic government. The Spanish case is particularly interesting at the light of the fact that most of the literature holds the

changed social democratic strategy responsible for party/union de-linkage. Policy coordination failed here, however, despite the reiterated efforts made by the party throughout its governmental mandate (for a similar conclusion see: Boix 1998: 134-137).

Reconciling a Variety of Conclusions

The three papers just reviewed reach different conclusions and offer different insights, but they can become complementary if one aims to build an overall framework. Piazza's paper identified the assumption one needs to drop in order to have an empirically-based understanding of party/union interactions since the 1980s. The Astudillo Ruiz paper observes that, since the late 1980s, the party/union alliance in Spain had been impossible for impediments coming from institutional features of the union movement. This implies that, given more appropriate institutional means, the "new" policies that socialists had implemented in Spain, different from the traditional "Keynesian" set, could indeed be combined with a sustained alliance with the trade unions. The study on Sweden indirectly endorses this view, as it tells us that even with changed constitutional rules, the day-to-day interaction between unions and the party can be sustained as unions are still able to influence party politics.

This logic somehow remains in contradiction with the conclusions analysed in the previous section. Indeed, among scholars of European political economy, sustained party/union collaboration should still be based on a "political exchange" between wage moderation and spending policies (Garrett 1998). From a small-*n* perspective, instead, the chances of party/union collaborations seem linked only to cases in which trade unions can tolerate economic orthodoxy and

the end of Keynesianism. In summary, it is not possible to reconcile these different conclusions unless a systematic approach to the topic is undertaken.

Indeed, the different approaches to the party/union alliance reach different conclusions because they are based on limited sets of empirics and, most importantly, on different research questions. In the preceding discussion I have reviewed literature that has argued a variety of conclusions: (1) that social democrats and unions can generate good economic performance even in a globalised economy, and find social support for it among the 'losers' of globalisation; (2) that European trade unions are politically isolated by social democratic parties because the latter no longer centre their electoral strategy on them; (3) that the party/union alliance must be loosened if the party wants to win elections, and this is what is happening in many countries; (4) that party/union 'de-linkage' is proved by strong correlations between globalisation and the end of Keynesianism, but at country level collaborative interactions are visible under certain institutional settings.

These different conclusions on the party/union alliance depend on the fact that these authors engage at least four different debates in the political sciences, in different ambits where the pivotal left alliance plays a role. (1) The debate on the impact of trade unions and partisanship on economic growth; (2) The debate on the state and future of trade unions; (3) The debate on the state and perspectives of electoral socialism; (4) A very partial debate on the party/union alliance itself, on its developments and perspectives.

Given the heterogeneity of the approaches, in order to tackle my research question I need to address the topic in a systematic manner which will necessarily start with a complete empirical mapping of my key dependent variable, the

party/union alliance. This will allow me to benchmark theoretical conclusions reached by scholars of party politics and industrial relations, as well as grounding my own explanation on a transparent set of empirical evidence. The complete measure of party/union alliance in Europe during the 1980s and 1990s will represent by itself one of the contributions of this thesis. In fact, the literature dealing with the evolutions of the party/union alliance lacks a debate grounded on shared data and terminology.

In the following section, which concludes this introductory chapter, I will clarify the methodology and structure of the rest of this study.

1.3 Methodology and Plan of the Thesis

This thesis applies a standard research design based on the identification of a dependent variable, that is, the party/union alliance, and independent variables able to explain it. As such, it will investigate the institutional and political factors that influence different alliance patterns across countries and within countries over time, as well as the policy consequences of different types of party/union interactions.

Since the seminal book by King *et al.* (1994) suggested the adoption of common methodological standards in different types of social enquiry, political scientists have increasingly sought to combine the rigour of quantitative analysis with the depth of qualitative analysis. The classic divide between scholars interested in “explaining” political phenomena (i.e. quantitative methodologists) and those interested in “understanding” political phenomena (i.e. qualitative methodologists) was addressed by political scientists through the combined use of both approaches (APSA 2002). Following examples set by recent influential works in political economy (including for example: Boix 1998, Iversen 1999,

Mares 2006), this dissertation firstly builds its theoretical framework focusing on the large-*N* (Chapters 2 to 4) and then tests its conclusions through detailed comparative analysis of the small-*n* (Chapter 5).

I have shown in the previous section that the literature dealing with the party/union interaction is plagued by extreme heterogeneity in its approach to its empirical object, motivated by the variety of different research questions addressed. Therefore, the first step towards tackling my research question will be to measure the patterns of party/union interactions in European countries between 1974 and 2003. The measurement exercise will generate a hypothesis that will guide the rest of the study, which will then focus on each of the two actors in turn, devoting one chapter to the unions and one chapter to the social democratic parties respectively. The final empirical chapter will then revert to examine their interaction at the country level, leading the thesis to the conclusions of the final chapter.

Plan of the Thesis (Guide for Readers)

“Interaction,” “relationship,” and even “alliance,” are very vague terms. I will therefore spend Chapter 2 working to build an analytically specific definition of “party/union alliance,” and to measure it. By doing so, I will give this study a transparent basis, which will ease the task of assessing its conclusions against existing theories. I will suggest that if the party/union alliance is operational, this has to be visible in terms of policy results in socio-economic issues under centre-left cabinets. I will show that in Europe, between 1974 and 2003, mainstream centre-left governments designed over 70% of their socio-economic policies in accordance with organised labour. This finding is counterintuitive to most literature predicting party/union divorces. Given that both

the *social* and *policy* foundations of the traditional party/union alliance have faded, the factors driving the alliance during the 1980s and 1990s remain unclear. This puzzle is then divided in two different questions. How can trade unions comply with socialist policies if these are grounded on neo-liberal orthodoxy, and therefore do not allow for substantial payoffs for organised labour, such as increased transfers or increased welfare benefits? Why are socialists still pursuing collaboration with organised labour, given their changed set of electoral incentives? The answer that I suggest is based on the analysis of my measure of the party/union alliance, and it contends that party/union collaborations will occur when organised labour adopts democratic decision-making rules across occupational sectors (i.e. at the confederation level), because this ensures union cohesiveness. In turn, I argue that social democratic parties retain electoral incentives for cooperation with cohesive trade unions.

Chapter 3 addresses the key contention of my hypothesis, by suggesting an amendment to “neo-corporatist” theories. Conventional neo-corporatist theories contend that encompassing unions must embed two key institutional features in order to adopt co-operative, as opposed to militant, behaviour. First, the membership must be concentrated in the lowest possible number of unions. Second, unions must be centralised, i.e. decisions taken by leaders must be complied with by the whole body. Contrary to conventional views, this chapter shows that democratic decision-making mechanisms are more suited than hierarchy to achieving the centralisation of union confederations. This is because democracy reduces the fractionalisation of the confederation by increasing the legitimacy of decisions and leaders. This conclusion is corroborated by fresh empirical data processed through panel-data regression analysis: a variable on

confederation democracy, that I have designed and measured, is negatively correlated with wage militancy.

After having analysed the unions' side, in Chapter 4 I switch my attention to the party side of the equation. Historical accounts show that social democratic parties underwent a strong process of policy reappraisal in the 1980s and 1990s, and have converged on the endorsement of economic orthodoxy. At the same time, the systematic content analysis that I have carried out shows that social democratic governments increasingly attempted to involve trade unions formally in welfare policies and labour market reforms. In other words, social democratic parties have shifted their policies towards the Right side of the political spectrum while at the same time increasingly seeking the formal endorsement of their traditional constituency on this policy shift. This is understandable when seen through the lens of the spatial model of party competition proposed by Herbert Kitschelt (1994). In the post-industrial social scenario, social democratic policies must be able to satisfy simultaneously a variety of different, and potentially conflicting, preferences. Therefore, the new policy platform has to rest on a sequence of distributional compromises, both on materialistic and ideological issues. The formal involvement of cohesive trade union confederations can help social democrats to identify the best compromise, that is, the point at which the maximum number of votes can be gained through market-friendly liberal policies, while minimizing the loss from traditional working class constituencies. Chapter 4 ends with a substantial game theoretical section that brings together the two sides of my equation, i.e. the unions and the party. The formalisation of the game highlights that in a context characterised by decreasing (or low) union density, and when the social democratic policies

strongly depart from traditional Keynesianism, sustained party/union collaboration is strongly dependent on the level of union confederation democracy.

Chapter 5 will test my theoretical conclusions against the trajectories of the party/union alliance in Italy and the United Kingdom respectively, as two critical case studies. The qualitative method will allow me to show that political and organisational cohesiveness is key to explain the emergence of concertation under centre-left cabinets in 1990s Italy. Over the same period, the Labour government and the Trades Union Congress in the UK ceased to maintain their old tradition of “political exchange.” Indeed, the British Labour movement showed an extremely pronounced degree of fractionalisation throughout the 1980s and 1990s. Decreasing union density throughout the 1980s and 1990s exacerbated the fractionalisation problem, so that the New Labour retained no incentive for including unions in policy making. From a comparative perspective, however, the overall political economic approach of the two governments is very similar. Low inflation and economic orthodoxy have formed the cornerstone both of the Italian and the British Left. In Italy, however, trade unions were able to retain, through concertation, a stronger hold in the management of the labour market, and, as a consequence, in Italian society and polity.

Chapter 6, the concluding chapter, will then summarise the main findings and highlight their theoretical implications for neighbouring fields in political economy, thereby suggesting avenues for future research. My conclusions on trade unions, including the importance of decision-making processes and the important magnitude of union involvement in policy-making, can have an impact on research strategies on European unemployment. Additionally, they suggest that in a strongly fragmented society, the political clout

of trade unions might well increase, rather than decrease. Finally, the argument of the renegotiated alliance suggests that given that trade unions remain at the core of social democratic constituencies in many European countries, the centre-left and centre-right differ systematically with regard to their underlying electorate. This affects our expectations of the future developments in European politics, because under certain conditions policy contestation on economic issues, which has strongly decreased since the early 1980s, could increase again in the future.

This dissertation aims to contribute a critical account of the assumptions that are generally made in current political economic interpretations of advanced industrialised countries, by focusing on one partisan aspect of policy-making. It duly begins, in the next chapter, with the analysis, definition and measurement of the alliance between the social democratic parties and trade unions in Western European countries, which has been considered dead for a long time, perhaps prematurely.

Chapter 2

Mapping the Party/Union Alliance and Suggesting an Understanding of Its Determinants

When Rubens was divorced he found himself [...] once and for all 'beyond the borders of love.' [...] It is necessary to understand this apparent contradiction: beyond the borders of love there is love.

Milan Kundera, *Immortality*

To be politically meaningful, the party/union alliance must produce a tangible policy outcome. In an active alliance, social democratic governments should undertake policies addressing socio-economic issues in *collaboration* with their sister trade union confederations. This means that the two actors are able to find a common purpose, to identify shared objectives, and that they prefer this to having no collaboration.

This assumption forms the basis of the work developed in this chapter, which builds an analytical understanding of the party/union alliance so that I may measure it across countries. The development of a transparent measure of the

party/union alliance is the first step I need to take towards answering the research question of this study, i.e. what institutional and political factors have determined patterns in the party/union relationship in Western Europe since the advent of globalisation?

Indeed, a set of systematically collected empirical data will allow a benchmark of the conclusions of other studies to be drawn, in order to develop a comprehensive hypothesis in this chapter, and to test it in the rest of the thesis. Before undertaking this task I will now clearly identify the actors to whom I will refer, i.e. the parties and unions that form the universe under observation.

A body of literature defines the mainstream centre-left parties within each political system as “social democratic” (Featherstone 1988; Kitschelt 1994; Ladrech and Marlière 1999; Glyn 2001b; Notermans 2001). Even though the trajectories of different parties are embedded in different states, they share a number of features: their roots are traceable to the Industrial Revolution and to socialist thinkers who aimed to improve the working and living conditions of the working class; they take a reformist approach, rejecting violence and revolution as a means to political change. For these parties “Representative democracy became [...] simultaneously the means and the goal, the vehicle for socialism and the political form of the future socialist society.” (Przeworski 1985: 15)

The social democratic parties maintained ideological differences with other political movements having their social base among workers, in particular the Communist and the social Christian movements. In relation to this, it must be noted, that in a number of countries, particularly in Southern Europe, trade union confederations grew up along political cleavages, so that often more than one union confederation emerged (Hyman 2001).

The purpose of this dissertation is to investigate the party/union alliance. In order to simplify the measurement task, I do not include in my index non-socialist unions, such as Communist unions or Christian unions unless, in a later stage of their development, they fundamentally altered their ideological basis and became mainstream socialist unions. Therefore, the party/union alliance to which my operationalisation refers consists of social democratic parties and ideologically near union confederations. Other confederations are kept in the background. Table 2.1 details the universe under observation by matching the union confederations and the parties this study is focusing upon for each European country.

The next section of this chapter will spell out the criteria I have used to provide an indicator of party/union collaboration in European countries. My results show that, during the 1980s and 1990s, European social democratic governments processed an average of 72% of their economic policies in *formal* or *informal* collaboration with their sister trade union confederation. Careful analysis of the index will allow me to assess in a systematic manner the conclusions reached by previous literature. I will show that patterns of collaboration (non-collaboration) do not correspond necessarily to expansive (restrictive) policy packages. At the same time, there is room to believe that organisational features of trade unions play a crucial role in determining pattern variations across and within countries over time.

This hypothesis will be tested in the rest of the thesis, firstly with reference to the large-N, and then through two critical case studies on Italy and Britain respectively.

Country	Trade Unions Confederation	Party
Austria	ÖGB	SPÖ
Belgium	ABVV/FGTB	SP/PS (BSP/SPB until 1978)
Denmark	LO	SD
Finland	SAK	SDP
France	CFDT	PS
Germany	DGB	SPD
Greece	GSEE	PASOK
Ireland	ICTU	Labour
Italy	UIL (1974-1991); UIL and CGIL (1992-2003)	PSI (1974-1991); PDS-DS (1992-2003)
Netherlands	NVV	PvdA
Norway	LO	DnA
Portugal	UGT	PS
Spain	UGT	PSOE
Sweden	LO	SAP
United Kingdom	TUC	Labour

Table 2.1 – Trade Unions Confederations and Social Democratic Parties: Still Allies?
See List of Abbreviations for details.

2.1 Unpacking the Party/Union Relationship

How is it possible to know whether, in a given country, in a given year, the party/union alliance was alive and operating, or if it was dissolved? In other words, how is it possible to recognise the party/union alliance? The Swedish case (Aylott 2003) suggested that formal links between the two actors are not necessarily a good proxy: in this Scandinavian country the dissolution of formal links has not undermined an intense alliance whereby trade unions and party politicians actively seek common ground and objectives. Another possibility is then to focus on the type of policy platform furthered by social democratic parties, as most of the literature does. In this case the party/union alliance would be

likened to pro-labour spending policies. However, the Spanish case (Astudillo Ruiz 2001) demonstrates that spending policies are not necessarily conducive to collaboration between parties and unions either, making this approach inadequate too.

Arguably, there is a third approach to this relationship that could subsume the above two, while avoiding their weaknesses. Intuitively, an operative party/union alliance should produce policy outcomes in order to be considered politically important. Consequently, the alliance can be recognised as active each time a social democratic government develops its policies *in collaboration with the trade union confederation*. Parties and unions are through this able to identify a common purpose and shared objectives. Additionally, agreement on a given policy implies substantial interaction between the two bodies, irrespective of formal links.

It should be emphasised that “collaboration” is not understood here simply as the practice of democratic governments consulting interested parties before issuing a bill. It refers to a stronger type of interaction that aims to produce a piece of legislation, or otherwise further a policy, upon which the trade unions openly agree.

Which policies should be considered to constitute the ambit within which the party/union alliance operates? How it is then possible to recognise examples of collaboration versus failed coordination? I established in the last chapter that up until the 1980s the party/union alliance was centred on an exchange between wage moderation and state intervention in the economy (Goldthorpe 1984; Notermans 2000). Additionally, the “social pacts” that were agreed in many European countries during the 1980s and 1990s contained

numerous provisions including labour law and social security reforms, as well as income policies (Fajertag and Pochet 1997; 2000; Rhodes 2001). Consequently, in order to operationalise the party/union alliance it is sensible to focus on three policy areas that make up the core of socio-economic steering: macroeconomic management, social security, and labour law and employment regulation. In this way it is possible to design an indicator that can be applied to the entire post-war period.

Of course, these policy areas do not represent all areas of potential collaboration.⁷ However, it is arguable that collaboration in the design and implementation of policies in socio-economic matters combines the mechanics of actual interplay between actors (i.e. formal or informal organisational ties between the two organisations), with the tangible resultant policy. Moreover, by focusing on the outcome irrespective of its content (e.g. expansive versus restrictive economic policies, de-regulation versus re-regulation of labour markets) the coordinating ability of the two actors is emphasised – as opposed to focusing on the success or failure of their policies in economic terms. Indeed, the analysis of the efficacy of different sets of economic policies logically follows the analysis of the results of party/union interaction.

On this basis, I designed and measured an indicator of the party/union relationship across fifteen European countries (as displayed in Table 2.1) over a period of thirty years (1974-2003) through the systematic coding of textual information. The next sub-section gives necessary details on the design of the indicator, and I then present the results of the measurement.

⁷ For example, during periods when parties are in opposition, they can join with the unions to oppose conservative policies through social mobilization. Another typical example of collaboration is the financing of electoral campaigns by trade unions (see: Minkin 1992).

Design of the Indicator

The design of the indicator is based on a coding frame that, allowing systematic comparison of textual information, permits rigorous content analysis (Krippendorff 1980; Bauer 2000: 139).⁸ The general reliability of the indicator is enhanced by keeping the frame as simple as possible (Bauer 2000: 144).

With reference to each policy area, each country gets a score of 1 in each year when there is textual evidence that the policy-making process included a *formal or informal* collaboration with the trade unions. It gets a score of 0 otherwise. It is worth repeating that “collaboration” is not understood here as the practice of democratic governments consulting interested parties when developing or changing a policy. It refers to a stronger type of interaction that aims to produce a piece of legislation or change a policy with the open agreement of the trade unions.⁹

As I clarified in the previous section, this study focuses on socialist parties and unions. Therefore, if in a given year there is textual evidence that a socialist government furthered a given policy in agreement with the socialist confederation the score would be 1, irrespectively of any opposition from other confederations.

Following the same logic, during years in which the social democratic party is in opposition, the country is taken out of the sample. In other words, the measure does not refer to a constant sample of countries, but only to countries in which the social democrats hold cabinet positions. This rule is needed because a 0 score indicates that the social democratic government does not collaborate with the trade unions. As a consequence, the final measure of the party/union alliance

⁸ “Content analysis is a research for making replicable and valid inferences from data to their context.” (Krippendorff 1980: 21).

⁹ See the Statistical Appendix for the detailed codebook.

will be given as a share, and not in absolute values: it will indicate the share of party/union collaborations out of the total of possible instances.

In order to make clearer the meaning of this indicator, and its limitations, I will now give a few examples of collaborative relationships for each coded policy area. This exercise will especially highlight the importance of including both formal and informal types of party/union collaboration. The differences between these two types of interaction will play a crucial role at a later stage of this dissertation, in identifying the approach of social democratic parties towards organised labour (Chapter 4).

Macroeconomic Management

In a given year, a given country would score 1 in this policy area each time textual evidence shows that: (1) the trade unions openly agree via official documents or public statements to the macroeconomic policy of the social democratic government; or (2) the trade unions agree to fix a ceiling to wage increases either solely with the government, or in partnership with the employers' organizations (often referred to as "income policy"). In these instances trade unions collaborate with the socialist government on macroeconomic management, in the case of either an expansive or a restrictive political economic course. The first example qualifies as *informal* collaboration; the latter is a *formal* collaboration as it entails precise obligations for the parties involved. This criterion for differentiating between *formal* and *informal* collaborations is the same across all policy areas.

A typical example of income policy is the National Agreement signed by the Swedish LO with the employers' organization SAF in 1974, which among

other provisions fixed the wage increases for that year at 3.3%.¹⁰ An example of collaboration in macroeconomic management without income policies can be found in Italy. In 1984, a decree-law issued by the socialist-led Italian government abolished automatic wage indexation. The socialist and Catholic confederations – UIL and CISL – openly backed the policy, considerably easing its path to approval.¹¹

Social Security

This policy area includes all the spending measures for welfare provisions, including pensions, health insurance, unemployment insurance, and even training measures that involve public spending.¹² The score would be 1 in all the instances in which: (1) the unions participate in drafting the policy – as indicated either by open negotiation on the policy with the government, or by the fact that the government eventually includes in the policy most of the unions' requests; or (2) the unions are directly involved in the management of welfare provisions. Typical examples of the latter are the so-called Ghent system of unemployment insurance (Rothstein 1992), that in different periods is found in the Nordic countries, and continental countries such as Austria, Belgium, Denmark and France. Often the two criteria of drafting and involvement overlap. For example, in France in the early 1980s the unemployment benefit system for the private sector, run jointly by employers and unions and largely funded by the state, found itself under increased financial strain. In 1985, the two employers'

¹⁰ European Industrial Relation Review (EIRR), No.2 February 1974, page 10-11.

¹¹ The socialist and Catholic unionists were also ready to sign a tripartite agreement on it, but this proved impossible for the communist union, the CGIL, because of its ideological opposition. See section 5.2, and EIRR, No.122 March 1984, page 4 and No. 126 July 1984, page 4.

¹² The burden on public finance is the strongest threshold between the social security and labour law policy areas. In fact, certain policies, e.g. training policies, can be conceptually placed in both. When public spending is included they belong to the first area, and when it is not to the second area.

organizations (CNPFF and CGPME) signed an agreement with the four main union confederations to make it financially sustainable until 1987.¹³

Labour Law and Employment Regulation

This area differs from the previous one mainly because it does not involve public spending, except for the role that the state plays as an employer. This area includes both the codified rights and duties of employees, and the codified rights and duties of organised labour. The instances in which a country is given a 1 score are similar to the ones given for the previous policy area, i.e. the existence of textual evidence of union collaboration in drafting the policy, or union involvement in the implementation of the policy. An example of the first occurred in Belgium in 1995. Here, pressed by the strong pressures of the socialist-led government, the trade unions and employers' organization agreed on a text that would form the basis of future labour legislation. The accord included a number of corrections to employment regulations. The corrections aimed at reducing labour costs for corporations, while shifting a greater share of extra-wage expenses on measures to favour employment, such as training or childcare.¹⁴

These are illustrative examples of the substance that my indicator aims to capture. I will now cover a few methodology issues, before proceeding to show the results of the measurement exercise.

Measurement and Sources

One of the primary aims behind this approach to measurement is to come up with a technique which is both easily replicable and reliable for cross-country comparison. To this end, all the information I have coded comes from the

¹³ EIRR, No.143 December 1985, page 4.

¹⁴ EIRR, No. 255, page 16.

same source: the *European Industrial Relation Review* (EIRR).¹⁵ The measure is easily replicable because this journal is available in standard political science libraries and is published in English. If the detailed rules spelled out in the Statistical Appendix are followed, any researcher should get the same results, plus or minus a random error.

Furthermore, using a single source improves cross-country comparison because every country is treated in the same way: using different sources for different countries would assign a different bias to each country. In addition to this, I have coded all the issues of the EIRR, thus excluding all the problems and possible limitations linked to a sampling exercise: in fact my measure covers the complete observed universe (Bauer 2000: 145).

For every country, once collaborations or non-collaborations in each policy area are recorded, the intensity of the party/union alliance for that year can be expressed as the mean of the three scores. The country indicator is therefore a discreet variable that can assume four values (0; 0.33; 0.66; 1) indicating the fact that the two actors collaborate over one, two, three policy areas (i.e. complete collaboration), or none (i.e. arm's length relationship).

¹⁵ The EIRR reports extensively on all the issues connected to trade unions and industrial relations in Europe and was launched in 1974. The measure therefore starts in 1974 and finishes in 2003. The journal increased the scope of its coverage over time, and so the data for the first 3-5 years on certain countries, including Finland, Spain, Portugal and Greece, are missing.

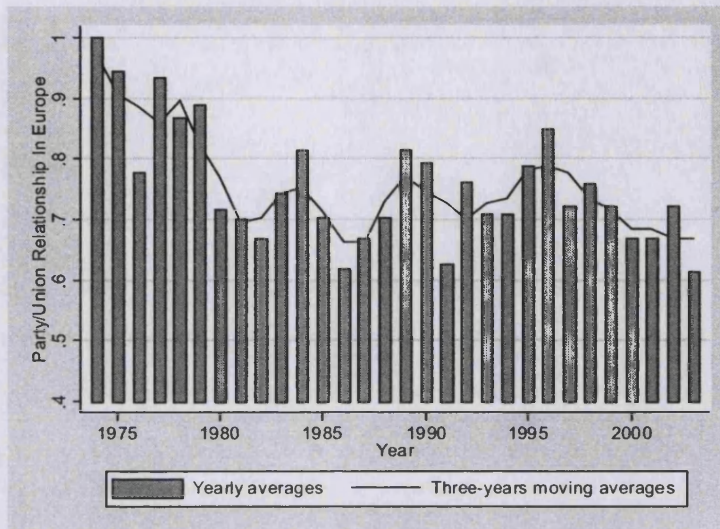


Figure 2.1 - Party/Union Alliance in 15 European Countries 1974-2003. Bars display yearly values; the curve displays three-year moving averages. It should be kept in mind that non-social democratic governments are not included in the sample on which the party/union alliance is measured. Countries include the EU15 barring Luxemburg and include Norway. Source: coded by the author, see Statistical Appendix for details.

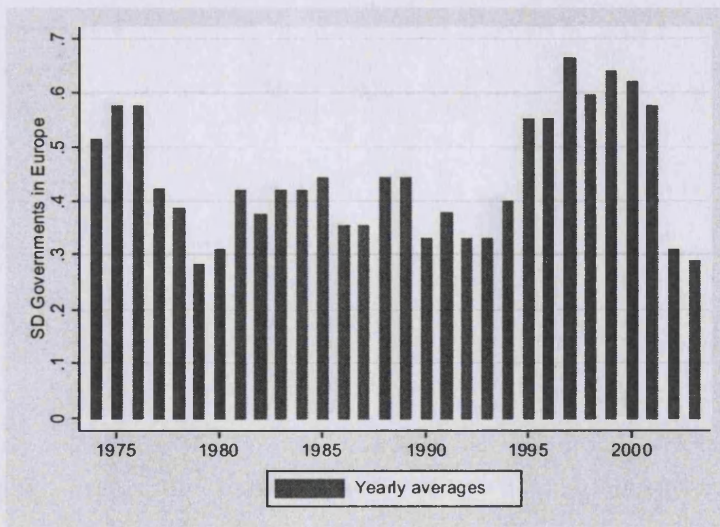


Figure 2.2 – Social Democratic Governments in Europe. The bars show the share of governments held by social democratic parties in the same 15 European countries as Figure 2.1. In other words, this graph shows the variation in the sample to which Figure 2.1 refers. See note 16 and the Statistical Annex for details.

2.2 Discussing My Dataset and the Existing Literature

Figure 2.1 is a graph summarising the result of the measurement exercise. It displays the trends in the intensity of the party/union alliance in Europe as a yearly mean of all my country scores (the figure shows both yearly averages and a smoothed curve that helps to highlight trends). Figure 2.2 shows, for illustration and transparency purposes, the share of European countries that, for any given year, was governed by social democratic parties.¹⁶ Indeed, it must be remembered that in any given country, when the social democratic party is in opposition, the country is taken out of the sample concurring to the party/union alliance indicator. Clearly, the number of European countries governed by social democratic parties varies each year, and so the sample to which my measure refers is not constant. The lower graph indicates the share of European countries that was governed by social democrats, therefore forming the universe of the observation reported in the upper graph. Consider the following example. In 1995, 55% of European countries were governed by social democratic parties (Figure 2.2).¹⁷ These governments, on average, pursued a remarkable 72% of their socio-economic policies in open collaboration with their sister trade union confederations (Figure 2.1).

A visual inspection of the two graphs does not suggest any correlation between the two variables. Policy results of party/union interactions appear not to be linked to waves of higher or lower social democratic electoral success. This is

¹⁶ I have coded this variable of “social democratic-ness” of governments by giving a score of 1 to a country with a one-party social democratic government, 0.66 if the social democratic government is the senior ally in a coalition government, 0.33 score if is a junior ally, or zero if is in opposition (see Statistical Annex for details).

¹⁷ It might appear a bit awkward to use a share instead of a discrete value, given that there are only 15 countries in the sample. However, it should be taken into account that my measure of “social democratic-ness” weights one-party governments and various types of coalition government differently (see previous footnote). Therefore, this type of European overview identifies more precisely the relative weight that social democrats exerted in the governments of European countries.

confirmed by the low correlation score (17%) between the two datasets. Moreover, these results are not consistent with the bulk of the literature on the subject, which predicts detachment rather than policy collaboration. According to my data, the number of policy collaborations decreases at the beginning of the 1980s. Indeed, until 1980 social democratic governments collaborated with their closest trade unions confederation in 90% of potential instances. The graph suggests that this percentage decreased at the beginning of the 1980s, and then oscillated around a mean of 72% between 1980 and 2003.

These trends seem to confirm some insights on the party/union alliance that I have reviewed through the background reconstruction of the previous chapter, and also to suggest that the existing explanations of recent trends in party/union interactions are not satisfactory. Until 1980, the social democratic paradigm still holds in those countries governed by social democratic parties. In 1975, for example, social democrats were in power in Austria, Denmark, Germany, the Netherlands, Norway, Sweden, and the UK. Not surprisingly, in that year, my variable on the party/union alliance as the share of socio-economic policies agreed by the two actors reaches 94%. Only in one country (Denmark) and in one single policy area (macroeconomic management), was no collaboration recorded in 1975. Even though systematically collected information from before 1974 is not available, it is reasonable to assume that similar results could be obtained.

Moving forward into the 1980s, while the effect of the *social* and *policy* foundations of the party/union alliance was weakening, the share of policy collaboration duly decreased. However, its decline was not nearly as strong as one would expect taking into account the mainstream wisdom on the party/union

divorce. Indeed, between 1980 and 2003, party/union interactions have produced tangible policy results, on average, in 72% of the possible instances, with peaks as high as 81% in 1984 and 1989, and 85% in 1996. Against these data it is safe to say that, when understood in terms of policy outcomes, the party/union alliance in the last twenty years of the 20th century in Europe was still a relevant political phenomenon.

This result directly contradicts all the literature that predicts a profound de-linkage between social democratic parties and trade unions, as well as the literature contending a general convergence towards neo-liberal, hence pluralist, modes of interests intermediation propelled by the forces of globalisation (Crouch and Streeck 1997). The intensity of the party/union alliance, that is, the share of socio-economic policies developed with the agreement of the two bodies, does indeed show a pronounced volatility between 1980 and 2003. The peak of 1996 (85% of shared socio-economic policy results) is paired with troughs in 1986 (62%) and 2003 (61%). However, the average score remains high (72%), and I do not have evidence to exclude that, before the 1980s, policy results of party/union interactions would have as well displayed a certain degree of volatility.

Previous Conclusions Reconsidered

A quote from James Piazza typifies the interpretation of the party/union relationship expounded by a large part of the existing literature:

Social democratic parties have come to regard unions as, at best, anachronistic and increasingly politically irrelevant actors amid a host of new potential allies or, at worst, political liabilities. (Piazza 2001: 418)

Given the sustained intensity of the party/union alliance in term of policy results throughout the 1980s and 1990s this position is hardly tenable. The entire argument proposed by Piazza and other authors (Ferner and Hyman 1992b; Kitschelt 1994; Martin and Ross 1999; Howell 2001) is centred on the assumption that the party/union alliance found its ultimate rationale in traditional social democratic policies, including high public spending, nationalisations, and so on.¹⁸ However, my data show that even after 1980, during a period characterised by low-inflation and monetarist mantras, when Keynesianism appeared no longer to be viable, social democratic parties and trade unions showed a lively alliance, and socio-economic policies were established through collaboration between these two actors in the great majority of possible instances.

Social democratic parties clearly do not consider the trade unions to be politically irrelevant, unless one imagines that governmental parties would bother to collaborate with irrelevant bodies on policy issues. This in turn means that analysis (or, more often, complaint) claiming that, from the trade unions' perspective, unions have been left in political isolation, should be carefully reconsidered in the light of the large-N evidence. Scholars in the industrial relations field, and the European political economy field, have supported the view that the political clout of unions has been constantly reduced under the combined effects of globalisation, decentralisation of collective bargaining, and the

¹⁸ This assumption is made explicit both by Piazza and Kitschelt. The former draws his "de-linking" conclusion by making correlations between globalisation and the demise of Keynesianism within social democratic parties ("Centre-left parties are not as closely committed to symbiotic friendship with the unions and adherence to generous social spending, nationalized industry or centralized bargaining." (Piazza 2001: 426)). The latter refers to the contention that social democratic parties must cut their organisational links with trade unions if they are to win elections. In fact, the party/union alliance, in the form either of formal links or of substantial leadership overlap, will "privilege traditionalists in the party". These will not be focusing on the quest for market efficiency, or on the challenge of what he calls "left-libertarian policies," leading social democrats to electoral disaster ((1994: 225)).

abandonment of traditional left stances by social democratic parties (Ferner and Hyman 1992b; Martin and Ross 1999; Howell 2001). To the contrary, however, my data show that unions still held a substantial political influence between 1980 and 2003, as they collaborated – hence agreed – on 72% of the socio-economic policies undertaken by social democratic governments.

These counterintuitive results confirm the validity of the overall research question of this thesis. Given that the *social* and *policy* foundations that were supporting the alliance during the post-war decades no longer held, what was driving the party/union relationship during the 1980s and 1990s? What motivates collaboration or non-collaboration between the two actors, and what policy results are duly derived from different types of interactions?

In the next section I will develop the examination of my dataset. I will address a number of intuitive questions arising from observation of the aggregate data. How do we explain yearly variation? In other words, why is there more policy collaboration in some years than in others – does this reflect variation over time within countries. What kind of policies are the unions agreeing upon when coordinating with social democratic governments? Is union collaboration/defection in policy-making linked to differentials in available payoffs to the working class in terms of increased welfare benefits, rights, or incomes?

Two Potential Explanations Are Excluded By Country Data

The summary of my measure of the party/union alliance, as share of socio-economic policies undertaken through open collaboration between the two actors, has shown that even during a low-inflation hard-currency era, parties and unions have continuously cooperated in policy making. Together with its

surprisingly high average value in terms of number of policy results, the party/union alliance between also showed a remarkable degree of volatility between 1980 and 2003. Figure 2.3 shows the measure of interest in each of the countries under observation, thereby unpacking the European average.¹⁹

A cursory inspection of the different graphs shows that, perhaps with the exception of Austria, the score of each European country displays a higher or lower degree of variation over time. This means that the extent to which social democratic governments and trade union confederations are able to coordinate over policy making varies over time, and this is mirrored by the number of policy areas in which they are able to reach agreements. This variation occurs in countries like Spain, Greece or Portugal, where the governance periods all fall after 1980, *and* traditional social democratic strongholds such as Sweden and Norway.

¹⁹ In each country, each vertical bar corresponds to a year during which social democratic parties were in government, irrespective of whether they were in a single-party government or a coalition. In the y-axis is the exponential of my coded variable. I use this transformation because otherwise it would have not been possible to distinguish in a graph between years with a zero score for the alliance (which can have four different values: 0, 0.33, 0.66 and 1), and years of non-social democratic governance. For example, in Italy between 1980 and 1983, in Ireland in 1983, 1984 and 1986, and in Portugal in 1985 the party/union relationship produced no policy outcome, as the bar shows a value of 1. This means that in neither of the three policy areas has there been a policy pursued through collaboration between the party and the unions. Conversely, in every year except 1988 in Austria, in Belgium between 1998 and 2003, and in the UK before 1979, all the three policy areas were decided upon through an explicit collaboration between the social democratic government and the trade union confederation.

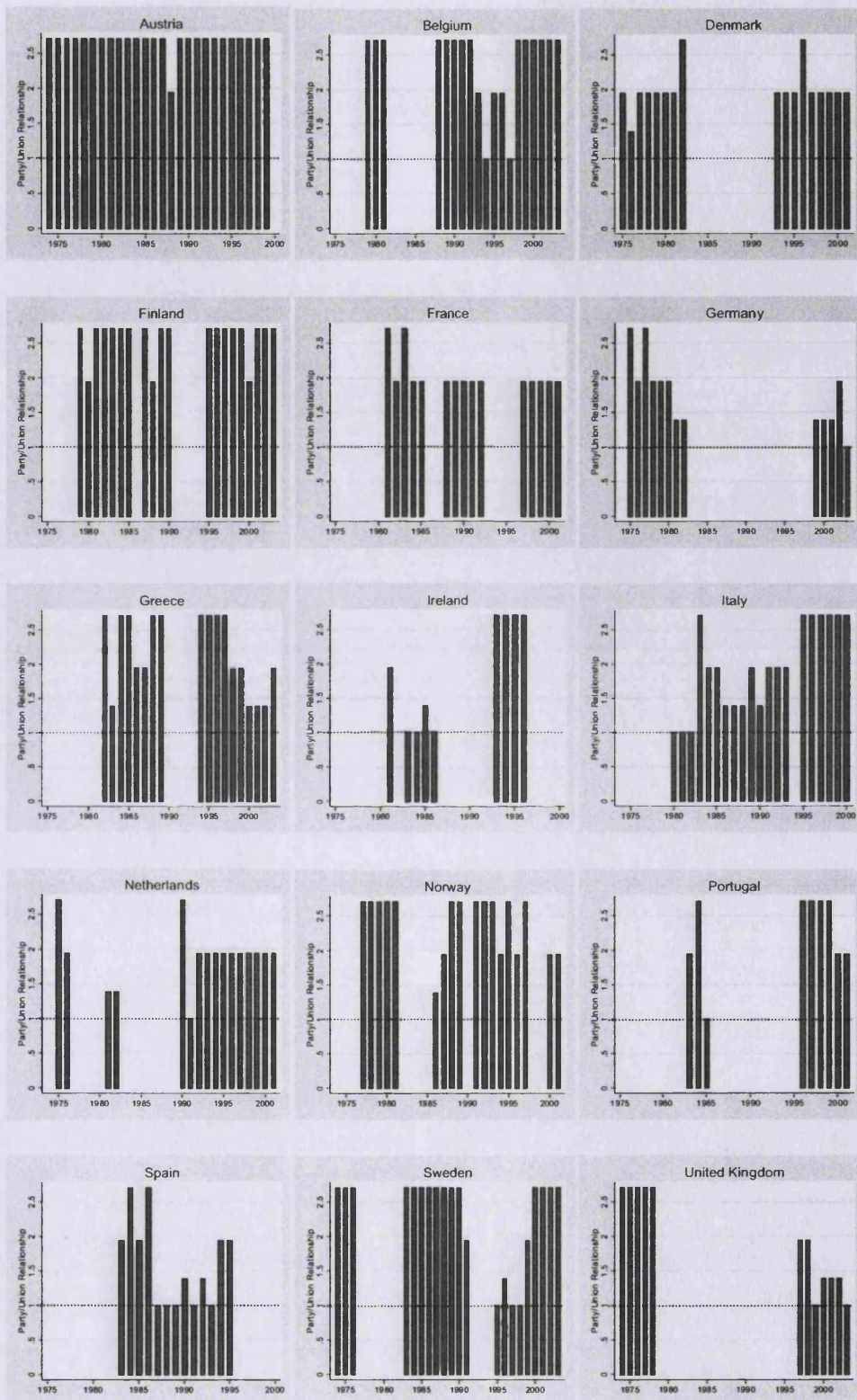


Figure 2.3 – Party/Union Alliance in 15 European Countries, 1974-2003.

Bars all refer to years of social democratic governance and are exponentials of annual values of the party/union alliance, i.e. e^x where x is the share of socio-economic policies furthered through collaboration between the government and the trade unions confederation; $x \in (0; 0.33; 0.66; 1)$. The dotted line is the level of zero policies, therefore the “end of the alliance”. Source: coded by the author, see Statistical Appendix for details.

One important conclusion can already be drawn from this analysis: the variations in overall policy results of party/union interactions at the European level are a combination of variations across countries *and* within countries over time. The countries that one would expect to be characterised by stronger party/union alliances – such as the Scandinavian countries – are not immune from periods of distant relationships. Similarly, one finds strong collaborations in certain years in countries like Italy, Ireland, or Greece, which do not fall at all in the conventional social democratic family of European capitalism (Esping-Andersen 1990).

Excluding Standard Institutional Explanations

The observation of party/union collaboration patterns at country level leads me to exclude that institutionalist political economic approaches are sufficient to deliver a satisfactory answer to my research question. Institutional approaches to political economic problems date back to the 1960s (Shonfield 1965), but the most influential schools developed towards the end of the 1970s and have evolved towards more sophisticated articulations ever since (Hall and Soskice 2001). With different foci, all these theorists would attach great explanatory power to the institutional configuration of each country, so that each subsequent layer of theoretical work would be able to rank countries according to the institutional constellation under observation. In the neo-corporatist version, for example, countries would be ranked from the most corporatist – those with an encompassing and disciplined trade union movement, combined with long-lived social democratic governments – to the more liberal – those including a pluralist system of interest intermediation, weak trade unions and a weaker political Left

(the most neat formulations are found in Lehmbruch 1979: 150; and Lehmbruch and Schmitter 1982: 5-6).

The most recent version of an institutionalist political economic approach to contemporary capitalism was completed by a group of scholars under the heading “Varieties of Capitalism” (VOC) (Hall and Soskice 2001). In a departure from previous theories, this approach is actor-based, and focuses on the firm as the most important actor in the capitalist economy. The VOC theory contends that countries build their economic comparative advantage on a given set of micro institutions, which leads their economies to either a coordinated or a liberal type of market capitalism. In Liberal Market Economies (LMEs) actors take decisions and coordinate their actions through “competitive market arrangements” (Hall and Soskice 2001: 8). In Coordinated Market Economies (CMEs), actors instead rely more heavily on non-market relations, including relational contracting, network monitoring, “and more reliance on collaborative as opposed to competitive relationships”(idem: 8).

Against the backdrop of both these institutionalist theories, one might expect to find little variation in the patterns of party/union policy collaboration at country level. In a VOC-approach perspective, both CMEs and LMEs have a tendency to build their comparative advantage on their own distinct set of institutions. Until an institutional change occurs, it is rational for the actors to maximise the virtues of their existing setting, sustaining similar patterns of decision-making and (*a fortiori*) policy making over time. Consider for example party/union collaboration on the management of the labour market (subheading “*Labour Law and Employment Regulation*” in section 2.1 in this chapter). According to the VOC approach, the regulation/deregulation of various labour

market institutions is one of the features that varies systematically between CMEs and LMEs, and that should therefore be sustained consistently in different countries.

A similar reasoning path that departs from the traditional corporatist approach could be followed. Trade unions and social democratic parties have an incentive to lock themselves in power through sustained collaboration, aimed to favour the social bloc of workers makes up trade unions and supports left wing coalitions.

However, these explanations, both in the VOC version and in the neo-corporatist version, cannot sufficiently account for the degree of variation in party/union interaction, both across and within countries over time. Figure 2.3 shows that variation occurs within each country, and in both directions: from weak alliance (i.e. few policy results) to strong alliance, and *vice versa* (e.g. in Italy and in Britain respectively); but also from strong alliance to weak alliance and back to strong again (e.g. in Sweden). The variation is particularly pronounced in countries as different as Norway and Spain. Institutions are known to be resilient over time, because it can be costly and politically difficult to change them (Iversen 1999). It is therefore not plausible to attribute difference in party/union interaction patterns to the overall institutional settings of different countries.

Apparently contradicting this argument, in Austria, perhaps the most ideal-typical corporatist country according to standard metrics (Lehmbruch 1979), party/union collaboration is very strong throughout the period under observation. Moreover, in Norway, Finland, and Denmark – of the strongly corporatist group – the policy results of party/union interaction are never zero, according to my

measure. However, the same applies to Greece and France, which do not correspond to the corporatist model. Additionally, countries with a relatively coordinated market economy like Sweden, Germany, Belgium and the Netherlands display periods in which the socialist governors did not include (or did not manage to include) trade unions in their socio-economic policy making. It seems, therefore, that the overall variations apparent in Figure 2.1 cannot be attributed to different institutional structures of the national capitalist regimes.

Excluding Standard Explanations – Continued

Another strand of the literature, which still somehow belongs to the institutionalist branch, might suggest an alternative explanation for variation in party/union policy results, based on the substance of social democratic economic policies. In a nutshell this argument would contend that unions and parties would coordinate over policy making when the latter adopted expansive, as opposed to restrictive, economic policies, even under a monetarist macroeconomic framework. In this case, union compliance with the moderation of wage increases would foster competitiveness and attract investments (Garrett 1998). Parties would therefore have an incentive to pay off unions' compliance with public spending that, since the 1980s, became predominantly oriented towards the supply side and aims to fostering employment levels (Boix 1998). Where this is not possible, either because unions have an institutional impediment to coordination (Astudillo-Ruiz 2001), or because the social democrats implement a restrictive political economic course, then the party/union alliance cannot be sustained. If this hypothesis is confirmed, the "de-linking" argument, according to which the party/union divorce depends on a change in the course of the social democratic political economy, could still be at least partially valid. In other words,

coordination between parties and unions would still be linked to expansionist political economic stances, even if the composition of the expenditure has changed since the post-war period, and even if it is grounded on the adherence to low-inflation targets. Conversely, the alliance will end when social democrats implement restrictive economic policies.

Unfortunately, this hypothesis linking party/union collaboration (detachment) to expansive (restrictive) political economy is disproved by a closer look at my country data, and in particular, by the combined observation of Italy and the UK.

The case of Italy shows that expansive policies *per se* are not a necessary condition for policy collaboration between social democratic governments and trade unions. Italy is one of the countries where the patterns of collaboration between centre-left governments and trade unions grew stronger during the 1990s, when the Italian governments adopted unprecedented austerity measures, in spite of little or no tradition in this respect (Regini 1984). This is reflected in the data shown in Figure 2.3. Scores indicating no collaboration during 1980-1983 rose up to total collaboration between the centre-left government and the trade unions in the period 1995-2000. However, the party/union alliance did not bring about the kind of policies one might have expected, namely increased spending and improved welfare conditions for workers. In the 1990s, the policy outcomes of the strong party/union alliance in Italy were: wage moderation with stagnant incomes, retrenchment of the welfare state, and liberalisation of the labour market (Regini 1999; Myles and Pierson 2000: 323-326; Biagioli 2003; Baccaro and Simoni 2004a).

If the Italian case suggests that spending policies are not a necessary condition for party/union collaboration, the case of the UK suggests, from the opposite angle, that neither are they a sufficient condition. In Britain, the relationship between the Labour government led by Tony Blair and the TUC was almost bare of policy results in spite of a long tradition of party/union collaboration during previous Labour governments (Crouch 2001; Glyn and Wood 2001). My data in fact show that the total collaboration registered between 1974 and 1978 was not repeated in the period after 1997. However, contrary to expectation, the Labour governments expanded the welfare state and public spending, improved rights for workers and unions, and meanwhile – in the absence of any centralised income policy – wages grew in Britain at a much higher pace than in previous decades (Wood 2001; Heery, Kelly and Waddington 2002).

In sum, in the UK the “end of the alliance” is paired with a mild expansion of the welfare state, increased rights for workers and rising incomes. In Italy, a very productive party/union alliance in terms of policy outcomes has delivered to workers a retrenchment of the welfare state, liberalised labour markets, and stagnant incomes. This set of empirical evidence brings me to reject that an expansionary (or restrictive) governmental political economic stance can be a strong explanatory factor able to justify convincingly party/union collaborations (or failed collaboration). In a later stage of this work (Chapter 5), the Italian and British cases will be analysed thoroughly as a qualitative test of my theory. In fact, as I have just underlined, they lie at opposite poles of my dataset, and therefore provide two critical tests for the theory that I will develop in Chapters 3 and 4.

In this section I have benchmarked the conclusions of the existing literature with my own set of empirical observations on the party/union alliance. I have underlined that conventional theories contending (or even assuming) widespread detachment between social democrats and organised labour do not hold, as – on average in Europe – the former still devise most of their socio-economic strategies in accordance with trade unions. Additionally, given the amount of variation across and, more importantly, within, countries, institutionalist theories, such as the conventional neo-corporatist scholarship and the more recent “Varieties of Capitalism” approach, fall short of providing a convincing explanation.

In the next section I will put forward an alternative hypothesis that will be tested in the rest of this study. This will still be institutionalist in nature, but it will focus on institutions as processes of decision making. Compared to institutional structures, decision making procedures are more easily changeable. Additionally, my hypothesis will bring politics, including electoral incentives and coalition-building processes, back into the substance of party/union interactions.

2.3 My Hypothesis: Democracy and Concertation Leading to a Renewed Alliance

I hypothesise that the changing patterns in party/union relationships in western European countries during the 1980s and 1990s were primarily caused by the decision-making rules of organised labour. This hypothesis has a conventional component insofar as I am arguing that institutional settings of organised labour remain the key “institutional pre-requisites” for “political exchange” (Pizzorno 1978; Goldthorpe 1984). However, it departs from traditional accounts because: (1) it focuses on institutions as decision-making procedures adopted by trade

unions, and not on the structure of trade unions; and (2) it contends that, during the 1980s and 1990s, social democratic parties still had core electoral reasons to embark upon policy negotiation with organised labour.

The Logic Leading to the Hypothesis

The data I have collected show that, during the 1980s and 1990s, social democratic parties continued to negotiate the majority of their socio-economic policies with trade union confederations. In the previous section I observed that expansive (or restrictive) political economic stances taken social democratic governments are not good predictors of collaborative (or non-collaborative) party/union interactions. On the contrary, a number of case studies on Spain have shown that despite the manifest willingness of the government to collaborate with trade unions, such cooperation proved impossible for reasons linked to the structure of the labour movement (Boix 1998; Astudillo Ruiz 2001). In particular, the absence of the traditional requisites for corporatism, i.e. encompassing, concentrated and centralised trade unions, was held responsible for the party/union “de-linkage” under the socialist government from 1984 to 1995. In other words, union members were not concentrated in a single confederation, not sufficiently coordinated by strong leaders, and the public sector unions played a significant role within the confederation (Boix 1998; Astudillo Ruiz 2001). Public sector unions are indeed less inclined to cooperative behaviours because they are not exposed to international competition (Garrett and Way 1999).

Studies on Italy and Ireland, however, have proven that despite lacking the same “institutional prerequisites” as in Spain (including low monopoly of worker representation and high impact of public sector unions), the trade unions embarked on enduring social partnerships with the governments during the late

1980s and 1990s (Baccaro 2003; Baccaro and Simoni 2004b). The concentration of members in a few organisations, the encompassment of many occupational sectors in the membership, and the standard metric of centralisation, that is, the authority of leaders over affiliates and members, were low in Italy and Ireland, as well as in Spain. However, in the former two countries, centralisation of decision making was not reached through hierarchical means, but through democratic methods (Baccaro 2001; 2002a; 2002b). The adoption of democratic decision-making procedures in these countries proved crucial to ensuring the compliance of rank-and-file in peak agreements on socio-economic issues, and also contributed to shaping their features (Baccaro and Locke 1996).

In addition to these recent findings, an inspiring work by Peter Lange carried out in the early 1980s, and based on six European countries, has shown that representative democracy can be effective as a means of centralisation for trade unions, which is traditionally considered one of the structural features crucial to the ability of labour confederation to negotiate effectively (Lange 1984; Lehmbruch 1984). Against this set of evidence and theoretical support, I hypothesise that the level of confederation democracy, that is, democratic decision-making procedures that cut across different occupational sectors, is a key institutional variable able to explain union behaviour. Therefore, the adoption (or failed adoption) of democratic rules could explain variations in the patterns of the party/union alliance.

Using this logic, I surmise that the reasons that push trade unions to negotiate in the political arena with government and business have not changed significantly since the description given by Alessandro Pizzorno (1978). Through policy collaboration they can gain more power, which, in turn, will be translated

into greater gains for their members. However, in the 1980s and 1990s, international and domestic economic constraints limited the availability of short-term payoffs for the rank-and-file (Pierson 1996; Mares 2006a). In such conditions, during peak bargaining, trade unions find themselves defending existing institutions rather than claiming for more. As a consequence, unions' collective action problems are more serious than ever. Information gaps between leaders and members are likely to emerge, generating wage and policy drifts at the local level. Drawing from Pizzorno's theoretical insight, my hypothesis is that the key instrument leaders adopted in order to reach compliance was persuasion by democratic means. Instead, non-democratic union confederations would experience greater fractionalisation and policy drifts at the local level, and would not be able to negotiate successfully with the social democratic government, if invited to contribute policy making.

My Hypothesis from the Party Side

Having explained the logic driving my overall hypothesis, and its focus on the unions, I must now clarify how this fits with the other side of the equation, i.e. the social democratic party. My data show a high degree of party involvement in policy making with unions, and my hypothesis is that these data suggest that social democratic parties continue to have a preference for involving trade unions in policy making. I hypothesise that the changed socio-economic framework that developed in European countries during the 1980s and 1990s, has *changed* but not *dissolved* the social democratic interest in collaboration with organised labour. I finally hypothesise that this preference is contingent on labour cohesiveness: if factionalism prevails, the party will then proceed to unilateral policy making.

This hypothesis is grounded on the following electoral argument. Social democrats have always built their electoral majorities on cross-class alliances. However, they have constantly faced the problem of non-stretchable policies: i.e., the more they departed from socialist stances to win consensus from other social groups, the more support they would lose from the working class (Przeworski 1985). In a two-dimensional political space this dilemma proved unsolvable, and social democrats were considered doomed to poor electoral performances (Przeworski and Sprague 1986). Instead, the scenario that has emerged since the 1980s is more favourable. As soon as non-materialistic concerns were able to mobilise votes, the socialists could attempt to gear their policies more creatively, and win voters on different topics (Kitschelt 1994). However, a similar dilemma remained. Indeed, social groups that are sensitive to non-materialistic libertarian issues are more liberal both in their approach to personal values, and in their approach to the market, than the traditional working class (Kitschelt 1994: 30-37).

I hypothesise that social democrats reverted to trade unions to address this dilemma by systematically involving them in policy making. In fact, the agreement of trade unions over reforms of the labour market and the welfare state, aimed at appealing to new sectors of the electorate (and deemed necessary to increase market efficiency and growth under low-inflation regimes) would have guaranteed the consensus of a sizeable portion of workers, and therefore their continuing support for the party.

I hypothesise that the social democrats are willing to secure limited payoffs to unions as organisations (that is, to union leaders) and to their rank-and-file, but in order to do so, they must be sure that the agreements of unions are also the agreements of the rank-and-file. Only a cohesive labour movement is able to

give this type of guarantee. If, instead, the union confederation is fragmented, the party will attempt to balance its dilemmas unilaterally.

In summary, I hypothesise that since 1980 the party/union alliance can end in two different equilibria. If labour adopts democratic decision-making methods that cut across occupational sectors, the two actors will engage in negotiation and collaborate in socio-economic steering. If the confederation is not democratic, hence fragmented, both actors will prefer to abstain from policy collaboration, ending in a very weak and non-productive relationship.

How This Hypothesis Departs from Previous Theories

This argument adds to both previous understandings of social democratic parties and trade unions in the late 20th century. I will sketch them here, and then discuss them at greater length in the concluding chapter.

Starting from social democracy, my argument stresses elements of continuity over change. Paradoxically, this has been made possible by the large amount of good research devoted to the transformation of social democratic parties. Indeed, my hypothesis acknowledges that the changes observable in patterns of party/union alliance since 1980 depended on changes in the social democratic strategy. The parties had to adapt to the new constraints they faced both in the economy and in the society. In a unidimensional political space, they moved towards the market side of the continuum. However, the policy expedient that they adopted to solve their dilemma, i.e. how far to move right, logically included a deeper involvement in policy making for their most traditional ally. In this way, social democrats attempted to devise new policy measures that could fit the new socio-economic context, while keeping a large part of their constituency steady. This interpretation stresses continuity because it shows that in times of

great difficulty, as the 1980s and 1990s certainly were, the social democrats sought increased help from organised labour, although in a totally different way if compared to previous decades. If confirmed by empirical data and by analytically sound modelling, this conclusion would reinforce the view according to which “Left” and “Right” are still relevant categories to an understanding of Western politics. Indeed, the systematic involvement of unions in policy making, and therefore the systematic granting of (small) payoffs for their compliance, would have the effect of maintaining the differentiation between the social bloc supporting the Left and the social bloc supporting the Right, even if the room for manoeuvre of national politicians on the national economy is much reduced.

With regard to trade unions, my theory departs from previous theories about the type of institutions that are considered the best means through which to solve their internal problems of collective actions. The previous literature on trade unions was grounded on the concept of neo-corporatism. The notion of “corporatism” implies that advanced capitalist economies have to give up a certain degree of democracy and voluntarism in the economic arena if they are to thrive economically and sustain balanced growth. In the neo-corporatist paradigm, the two features that allow encompassing confederations to overtake collective action problems are concentration – i.e. a membership that is not excessively fractionated – and centralisation through hierarchical control – i.e. where the decision-making power firmly is vested in the hands of confederation leadership while members and affiliates have very little capacity to influence union policies (Lehmbruch and Schmitter 1979; 1982; Streeck 1982; Goldthorpe 1984).

My hypothesis reverses this approach, not by denying the function of institutions, i.e. cohesion and coordination of labour, but in identifying the means

by which centralisation can be reached. I argue that democratic means are more able than hierarchy to ensure labour unity. In a seminal article, Peter Lange (1984) showed that both democratic and non-democratic unions could be associated with moderating attitudes during the 1970s. If my hypothesis is confirmed by empirical testing, Lange's conclusions would need to be amended in the sense that hierarchical unions were able to moderate *in spite* of the absence of democracy. In a number of instances, a buoyant economic cycle feeding the expansion of the welfare state, and very concentrated membership, could have balanced the absence of an appropriate, democratic, means of concentration.

How My Theory Could Be Proven Wrong

This thesis applies a standard research design based on the identification of a dependent variable (i.e. the party/union alliance as detailed in this chapter) and independent variables able to explain it. Approximating at best to the methods of the hard sciences, this study attempts to comply to the criterion of falsifiability (Popper 2002). Therefore, also following Peter Hall (1990: 598), this final subsection will highlight the empirical findings that would prove my hypothesis wrong, while the rest of this thesis will be devoted to proving it right.

The core of my hypothesis states that variations in the intensity of the party/union alliance in 1980s and 1990s Europe were attributable to the organisational differences of trade union confederations. More precisely, it proposes that confederations co-ordinate with social democratic governments if they embed democratic decision-making mechanisms. Therefore, if trade unions did not maintain the organisational differences that could account for different behaviours, then my theory would be wrong. Additionally, my hypothesis would be wrong if traditional corporatist structures (i.e. concentration and hierarchical

control) are the ones that account for different behaviours, rather than democratic decision-making mechanisms. Finally, if democratic internal rules in fact favour more militant attitudes, and therefore result in fragmenting instead of unifying the policy stances of the union movement, then my hypothesis would not hold.

Additionally, if in the majority of cases social democratic governments decide autonomously on socio-economic policies and merely consulting the interested parties, then my hypothesis would be wrong. If these actors simply enact their constitutional powers without systematically seeking to share responsibility with social partners, then the party/union relationship must have driving factors other than trade unions' internal rules.

Finally, if through a large-N analysis the hypothesis is able to explain the cross-country variation, it still may be wrong with regard to the within country variation. Indeed, a number of influential studies underline that social democratic parties and trade unions are deeply entrenched in national cultures and traditions (Featherstone 1988; Marlière 1999; Hyman 2001). Therefore, if national histories, cultural heritage, and industrial relations traditions are able to determine the type of party/union relationship, independently from institutional variables and common electoral constraints, then my hypothesis would be seriously questioned.

Conclusions

Systematic data collection on policies developed through a collaboration between social democratic governments and trade unions shows that the party/union alliance has been renegotiated in many countries, and therefore is not over. Albeit with some variation over time and across country, under social democratic governments in Europe between 1980 and 2003, a remarkable 72% of

the socio-economic policies were processed through an open collaboration between the two partners.

The existing literature fails to give a convincing explanation of the reasons leading either to renegotiated alliances, or to the so-called “de-linkage” between parties and unions. Both occurrences bear no clear relationship to social democratic policies as they developed after 1980. Indeed, both expansive and restrictive policies can be associated both with “de-linkages” and renegotiated alliances. To make sense of this composite scenario, I have proposed an alternative explanation drawn from recent country studies on Spain, Italy and Ireland, from seminal theorisations on the role of interest groups in policy making, and from classic studies on electoral socialism. The measure of the indicator of the party/union alliance and the formulation of a working hypothesis were the first two steps taken towards answering the research question posed in Chapter 1, which is worth recalling. Given that the *social* and *policy* foundations that have supported party/union alliance during the post-war decades no longer hold, what were the driving factors of the party/union relationship during the 1980s and 1990s?

The answer I propose is two-sided, accounting for the two actors involved in the relationship. I have hypothesised that trade unions will collaborate with their social democratic partner each time they can act as negotiators for labour. In order to do so, the unions need democratic decision-making rules at the level of the confederation. When democratic rules are lacking, the trade unions will then defect from policy collaboration. Following my argument, social democratic parties have changed, but not abandoned, their preference for collaboration with labour over policy making. Peak negotiations will help social

democratic parties to solve their overlapping policy and electoral dilemmas, and result in higher consensus. However, this preference for concertation is conditional on the existence of a unified, and therefore democratic, trade union movement. If this line of reasoning is correct, confederations' rules (democratic or not democratic) should be able to explain variations in the party/union alliance in Europe.

The next two chapters will focus on the trade unions and social democratic parties respectively, so that each side of my equation can be analysed thoroughly. I will start with the unions, whose institutional variation has been, and continues to be, considered essential to an understanding of contemporary capitalism.

Chapter 3

A New Understanding of Unions' Behaviour: Corporatism Turned on its Head

In spite of the deep-seated craving for love, almost everything else is considered to be more important than love: success, prestige, money, power ... Could it be that only those things are considered worthy of being learned ..., and that love, which "only" profits the soul ... is a luxury we have no right to spend much energy on? However this may be ..., I shall first discuss the theory of love ... and secondly I shall discuss the practice of love – little as can be *said* about practice in this, as in any other field.

Erich Fromm, *The Art of Loving*

The mainstream theory on unions' behaviour is centred around the concept of corporatism. It contends that unions must be *corporative*, i.e. not fully democratic,²⁰ in order to adopt co-operative behaviours (as opposed to militant behaviours). In twenty years' worth of studies, corporatist unions have been considered the only type suitable for long-lasting alliances with social democratic parties. This is because their structure would allow for durable political exchanges in both Keynesian and hard-currency macroeconomic frameworks (Goldthorpe 1984; Garrett 1998).

²⁰ The descriptor "corporatism" belongs originally to medieval and fascist compulsory craft associations.

This understanding can be tracked back to Olson's Logic of Collective Action and its fifth implication:

“Encompassing organizations have *some* incentive to make the society in which they operate more prosperous, and an incentive to redistribute income to their members with as little excess burden as possible, and to cease such redistribution unless the amount redistributed is substantial in relation to the social cost of the redistribution.”(Olson 1982: 53, my emphasis).

Olson's argument is very simple. If an interest group organises a sizeable portion of the society, it will bear directly any cost that it *imposes* on the society. Therefore, if the leaders of encompassing groups act rationally, they will take societal concerns into account while setting their strategies. However, Olson's formulation is ambiguous. It states that these organisations have *some* incentive to contribute to the thriving of their societies. When does this incentive operate? What conditions are needed? What institutions or internal arrangements are required?

The purpose of this chapter is to answer these questions with reference to trade union confederations, which are the most typical example of such organisations. Indeed, in many countries, workers are organised across different sectors so that the membership of a large confederation makes up a significant share of the total population of workers. In order to highlight the institutional settings that favour union collaboration on policy making with social democratic governments, this chapter will amend the literature on neo-corporatism.

The neo-corporatist literature argues that socially optimal outcomes will be reached by those encompassing unions that enjoy a high degree of monopoly

over workers' representation (concentration) and which have a highly hierarchical internal structure (centralisation). This chapter will show that the latter condition is proved not correct by empirical findings. The evidence shows that democratic decision-making procedures at the confederation level are more likely to lead to co-operative solutions than militant behaviour, as scholars of liberal corporatism would predict. This conclusion justifies the title of this chapter – “corporatism turned on its head” – since the very label “corporatism” might need reconsideration, when used to refer to cooperative trade union confederations.

This analysis addresses one side of my research question on the party/union alliance, whereas the next chapter will focus on social democratic governments and their attitude to concerted policy-making. The next section of this chapter will briefly review the literature on neo-corporatism. It will highlight the weak empirical basis of the argument supporting hierarchy as a tool of union centralisation. It will hypothesise that democracy is better suited to overcoming collective action problems and to lead to socially optimal outcomes.

Sections two and three will introduce fresh empirical evidence to the analysis. An indicator of confederation democracy will be proposed and measured. Then, through panel data regression analysis the impact of democracy on labour costs will be assessed. Regression analysis will confirm the new insights of my theory: unions adopting democratic rules are more able to exert wage restraints, while hierarchy has no impact on labour costs.

The final section will discuss the results and link this theory to the rest of the thesis. Democratic unions are better suited than non-democratic unions to collaboration with social democratic governments because the lack of democracy leads to fragmentation. If organised labour is fragmented, the centralisation of

decision making and compliance with governments are much more difficult to achieve.

The next chapter will then address the issue of party/union collaboration from the party side, completing the empirical analysis of the large-N.

3.1 Unions Institutional Features and their Impact on Economic Outcomes

What structural conditions are needed for unions to act collectively and overtake the internal problems of collective action? Since the 1960s, this question has been at the core of the research in liberal corporatism.²¹

The general objective of this literature was to explain how and why many capitalist societies – mostly European – steered their economies with the involvement of the collective bodies of the political economy, such as unions and business organisations. This policy method strongly contrasted with the pluralist system that was dominant in the United States, and was associated with similar economic performances but different socio-economic outcomes (Esping-Andersen 1990; Streeck and Kenworthy Forthcoming).

In the so-called “corporatist” countries organised labour was less militant. This resulted in a lower level of strikes and a slower pace of wage increases. However, labour was better off in the long run. In fact, when encompassing trade unions were able to moderate wage claims, they would gain a very mild Phillips curve in exchange, i.e. a sustained regime with simultaneous low inflation and low unemployment (Cameron 1984: 156-157). But under which

²¹ I will be using the descriptors “neo-corporatism” and “liberal corporatism” interchangeably, in line with most of the literature on the topic.

conditions were corporatist agreements reached and sustained over time? Why was labour involved in policy making, and willing to restrain wages in some countries, while in others it would engage in hard disputes with capital and the state?

Large, encompassing trade unions had *some* incentive to operate for the good of the society. However, their sheer size was not the only factor accountable for moderate behaviour leading to societal gains: a number of countries with large trade unions, like Italy, Britain and Finland, performed comparatively worse in the 1960s and 1970s. As a consequence, different institutional settings of the trade union movements were held responsible for different performances, and corporatist countries were differentiated from non-corporatist ones (Lehmbruch 1979: 150; Lehmbruch and Schmitter 1982: 5-6).

Olson (1982), Pizzorno (1978), and Lehnbruch (1979), among others, have identified two features that unions must incorporate in order to avoid collective action problems and to act effectively as the negotiating agents for labour: (1) Union members must be concentrated, i.e. there must be a high degree of representational monopoly in a few large bodies, and possibly a single confederation. This on the one hand increases the encompassment of the confederations, which are likely to include workers from a greater variety of sectors. On the other hand, it minimises the risk that during negotiations competing unions will increase their militancy in order to win support from the rank-and-file. (2) Unions must be centralised, i.e. decisions taken at the “centre” of the organisation, i.e. by union leaders, must be complied with by the whole body. In Pizzorno’s words, unions must be able to convince

“[their] members that their own ‘true’ interests are better served if they moderate their claims;” or else, the “union organisation [must be] strong enough to resist” pressures from its members (Pizzorno 1978: 284).

This insistent reference by the scholars of neo-corporatism to institutional and structural features is linked to the very nature of trade unions as voluntary associations. The unions’ leadership is in charge of representing a large and varied body of members: the relationship between peaks and rank-and-file is key to all potential problems of collective action. During negotiations in the labour market or in the “political market” trade unions’ leaders exchange moderation for power (Pizzorno 1978).²² In both these contexts, the leaders choose to under-exploit their short term market power, in order to reap higher benefits (in terms of sustained unemployment or higher welfare entitlements) in the long run. However, weighting long run advantages against short run sacrifices can generate interpretation gaps between peaks and members. These in turn are the source of major collective action problems because they can trigger internal distributive conflicts, and ultimately undermine the leader’s capacity to act as a negotiating agent for labour.

However, Pizzorno’s early definition of centralisation remains quite ambiguous in empirical terms. In fact, it refers to the *task* that must be performed by unions that want to act collectively, while saying nothing about the *method* unions (should) apply. Indeed, “some centralisation of decision making” can be

²² The exact content of the two types of negotiations is different, but the mechanics of the interactions are very similar. In the labour market negotiations occur over wages and the unions’ main threat is the strike. In the political arena trade unions aim to secure for themselves power and influence over public policies, which they exchange for consensus (Pizzorno 1978).

achieved through both democratic and hierarchical means, as underlined by Peter Lange (1984: 10).

Yet, the “authoritarian solution,” as all too often in history, seemed the simplest, and analytically more plausible. A number of case studies, related in particular to Austria and Germany, led to the conclusion that centralisation is better achieved when peak levels are vested with strong power over members and affiliates, so that these are left with low autonomy and little say in the decisions taken by their leaders (Lehmbruch 1979).

The logic underpinning this argument contends that in the absence of a negative selective incentive, the affiliate union would prefer to defect from wage moderation and reap the highest possible short-term benefit, while free-riding the long term collective gains. This would trigger a vicious circle and ultimately undermine leaders’ capacity to coordinate union policies, ending in sub-optimal collective outcomes (Lehmbruch 1979).²³

Within a couple of decades, this led to the generally accepted conviction in the literature that:

“The more encompassing the trade union movement, the greater the concentration among unions, and the more centralised the authority of the peak associations, the more likely [...] that the collectively optimal cooperative solution be obtained” (Golden, Wallerstein and Lange 1999: 195; see also: Traxler, Blaschke and Kittel 2001: 66-70).

²³ Indeed, this interpretation is very close to Olson’s view. Even if Olson never explicitly mentions the importance of coercion with regard to wage moderation, he considers coercion to be the main selective incentive used by unions to overcome internal collective action problems, e.g. when it comes to the collection of dues (Olson 1982: 19-35).

The importance of encompassment and concentration as institutional “pre-requisites” for corporatism has never been severely challenged. However, a number of empirical works and recent occurrences of “corporatism in unlikely countries” have cast doubts on the proposition that centralisation of decision-making needs to be achieved by hierarchical means. The next paragraph will highlight this clearly present but only partially acknowledged weakness in the corporatist theory.

The Hierarchical Route to Centralisation: Does It Work?

Any review of the literature casting doubt on the importance of hierarchy in achieving centralisation, must begin with the seminal article by Peter Lange (1984). He underlines that centralisation of decision making is theoretically at odds with democracy only if the latter is intended as *participatory* democracy, i.e. the continuous involvement of members in decision making. Centralisation, indeed, by definition “implies a reduction in the number of those actually involved in any direct way in the making of decisions” (Lange 1984: 10). If, however, one refers to the concept of *representative* democracy, whereby members are not continuously involved in decision making but delegate some prerogatives to democratically elected leaders, “centralization and democracy would appear to be analytically [...] distinct concepts” (idem). Under this premise, democracy and centralisation are not in opposition and can, theoretically and empirically, coexist.

Lange proceeds to measure union democracy as coincident with the Hirschman’s concepts of Exit and Voice, with reference to five European countries: Britain, Norway, Sweden, the Netherlands and Germany. He finds that there is no systematic relationship between wage moderation and democracy,

meaning that the successful implementation or failure of collective wage agreements is not dependent on internal decision-making rules. It must be emphasised, however, that the choice of the metric (i.e. democracy = exit + voice) is key to reaching this conclusion.

Further scepticism on the importance of hierarchy comes from Golden's (1993) quantitative analysis of unions' internal mechanisms. In common with many before her (Cameron 1984; Bruno and Sachs 1985; Calmfors and Driffill 1988), Golden assumes that wage moderation is conducive to better unemployment/inflation ratios and therefore uses these two variables in turn as proxies for unions that are able to exert wage moderation, that is, to act successfully as negotiating actors for labour. She finds that monopoly, i.e. member concentration in a small number of confederations, is more important than centralisation – understood as hierarchy and coercion – in order to achieve better economic outcomes. Her coefficients of a measure of centralisation are almost never significant (Golden 1993: 452).

Golden's interpretation of this result is linked to the concept of voluntarism. Collective and individual affiliation to unions is voluntary; therefore even the authority that peak levels can exert over members and affiliates is ultimately dependent on their acquiescence. As a consequence, she argues, the actual powers vested in peak levels – i.e. the hierarchical means – would not make a big difference to the ability of trade unions to exert wage moderation. Instead, the leaders' ability to mediate between conflicting interests within the confederation could be more important (Golden 1993: 451).

These two articles show that systematically collected information, processed through qualitative (Lange) and quantitative (Golden) methods, does

not confirm the importance of hierarchy in securing cooperative union behaviour. In addition, recent events in European countries suggest that democracy might be more able to explain the success or failure of tripartism than hierarchy.

In Italy and Ireland during the 1980s and 1990s, trade unions repeatedly participated in policy making on welfare and labour issues, and significantly moderated wage claims. In Italy, this occurred during centre-left cabinets, in Ireland under both conservative and centre-left cabinets. However, these agreements were not based on a coercive decision of leaders over affiliates and members, but on democratic ratification of agreements through ballots among workers and democratic scrutiny of leaders' action (Baccaro 2002b; 2002a; 2003; Baccaro and Simoni 2004b).

Even more interestingly, Italy and Ireland are known in the literature as non-corporatist countries. In other words, their systems of industrial relations lack the features of encompassment, centralisation and concentration that are deemed necessary for corporatist decision-making patterns (Regini 1984; Hardiman 1988: 3). However, the studies on these two countries suggest that these institutional deficiencies were overcome by the systematic use of democratic decision-making mechanisms, in particular when divisive policy issues were at stake (Baccaro 2002b; 2002a; 2003; Baccaro and Simoni 2004b)²⁴.

Hypothesis: Is Democracy an Alternative to Hierarchy?

Following these insights, it is reasonable to hypothesise that internal democratic mechanisms can be a powerful means of ensuring centralisation; that

²⁴ As reviewed in the previous chapter, the lack of "institutional preconditions" was held responsible for the failure of party/union coordination in Spain in the 1980s (Boix 1998: 131-137; Astudillo Ruiz 2001). Given that a similar institutional setting was not impeding corporatist agreements in Italy and Ireland, those conclusions should be carefully reconsidered.

is, ensuring that decisions taken at the centre of the organisation are complied with by the whole body. In other words, my hypothesis does not deny the need for unions to be centralised, but it supports the view that democracy is better able than hierarchy to reach stable and durable centralisation.

This hypothesis is based on *prima facie* evidence, and on analysis of the existing literature. However, other literature dealing with the mechanics of the democratic process offers supporting arguments to my logic. In his classical text *Democracy in America*, Tocqueville observed that the authority of law is much stronger under democratic regimes. “When [democracy] declares itself the imagination of those who are most inclined to contest it is overawed by its authority” (De Tocqueville 2004: 287). Tocqueville identified two main sources of the strength of democratically determined regulation. First, the minority that has not agreed on the law knows that it has a chance to become the majority. Therefore “it is interested in professing that respect for the decrees of the legislator which it may soon have occasion to claim for its own”(idem). Second, a citizen living within a democratic system knows that the law emanates from his own authority and “regards it as a contract to which he is himself a party” (De Tocqueville 2004: 288).

By analogy, I can refer this logic to trade union confederations as associations of wage-earners promoting their members’ working and living conditions (Webb and Webb 1898). Discussion, deliberation, and voting can bring together unions’ members and cadres around a shared policy platform, so as to minimise the probability of policy (and wage) drift at local level. Participation of members and affiliates on sensitive policy issues might reinforce the stability of the final decision, rather than promoting policy and wage drift, even if a

substantial minority does not agree on the policy outcome. Case studies at the level of the single union (whereas I focus on the confederation as an approximation of the whole of organised labour) confirm these insights (Undy and Martin 1984: 164-167).

Additionally, the periodic democratic scrutiny of leaders – who can be re-elected or not depending on majority assessment of their performance – reinforces their legitimacy and the stability of the organisation as a whole (Dahl 1998).²⁵ Leaders who are exposed to the judgment of their members are more likely to enjoy respect and trust than oligarchs or autarchic chiefs (Schumpeter 1962).

To summarise, in this section I have analysed existing theories of union behaviour. These contended that encompassment, concentration and centralisation are the institutional features that lead trade unions to contribute to socially optimal outcomes through co-operative behaviour. Careful analysis of existing literature and recent political accounts, however, has suggested that hierarchy might not be the best way of achieving centralisation. In particular there is little, if any, cross-country empirical evidence that confirms the theoretical prediction according to which hierarchical rules make cooperative unions. On the contrary, democratic rules at confederation level have been proven very effective in favouring union compliance in a number of relevant instances, which might be brought to a theoretical status. It should be stressed that I am *not* proposing a normative approach, but rather a positive approach. This means that, prior to any policy prescription, I am interested in understanding the impact that democracy as a

²⁵ For a strong analogy on the force of electoral rules in stabilising new democracies, see Huntington (1991: 267-269).

process of internal decision-making has on the ability of trade unions to adopt co-operative behaviours, as opposed to militant behaviours.

To this aim, which is key in testing the hypothesis developed in Chapter 2, I will now propose a measure of union confederation democracy, and will then construct a quantitative model of union behaviour.

3.2 Measuring Democracy

In the previous paragraph I stressed that *representative* democracy at the level of the confederation is theoretically and empirically compatible with unions' centralisation. Moreover, I have hypothesised that representative democracy can be a route to trade unions' centralisation, because it minimises the probability of policy drifts at local level.

If my hypothesis is right, trade unions that are more (less) democratic at the level of the confederation should be more (less) inclined towards co-operative behaviours. However, by what method can I measure representative democracy in trade union confederations?

To the best of my knowledge, the only attempt to measure union democracy was made by Lange (1984), quoted above. His measure was based on the work of Albert Hirschman (1970) that identified the features that organisations or firms must incorporate in order to be responsive to their members or consumers. In this view, responsive organisations or firms (unions, in Lange's approach) offer opportunities of *exit* and *voice* to their members (Lange 1984: 14).

Instead, I have based the construction of my indicator, on the work of Robert Dahl (1989; 1998). This is because I am interested in investigating the impact that democratic rules at the confederation level have on the behaviour of trade unions. Dahl offers a very abstract and concise definition of democracy,

which can be applied to different types of institutions. Hirschman's approach, on the contrary, refers only to the kind of institutions that ensure *responsiveness*, i.e. correspondence between members' opinions and organisations' policies. However, responsive institutions could be non-democratic, and under certain conditions democratic institutions could be non-responsive²⁶ I argue therefore that Hirschman's model is not the best to use if one wants to build an indicator of union democracy, because it would lead instead, by construction, to an indicator of responsiveness.²⁷

Democracy rather, is a "process, unique in its kind, in order to take binding collective decisions" (Dahl 1989: 9). In a democratic association "all members have to be considered equally able to participate to the decision making process leading to the strategies that the association will adopt" (Dahl 1998: 41).

In brief, Dahl's approach focuses on democracy as a *process*. The higher or lower responsiveness of the outcome to the will of the membership is a matter of the specific institutions that are established (Dahl 1989: third and fourth part). Instead, democracy is simply based on the principle of equality between the members of the association (Dahl 1989: 44-78).

Dahl identifies five "criteria for a democratic process" that should be satisfied in order to ensure that the governance of an association is based on the "need that every member has the same right of participation in the decisions on the strategies". These criteria are: (1) effective participation; (2) voting equality;

²⁶ Two examples will suffice: according to the American constitution, the President can be elected by a minority of the popular vote. In this case, the Presidency, which is a democratic institution, is not necessarily responsive to the will of the majority of its citizens. Similarly, no multinational corporation is managed democratically, even if it is able to respond promptly to its consumer' preferences.

²⁷ Against this analysis, Lange's (1984) conclusions are increasingly plausible. He finds that his measure of democracy as responsiveness is compatible with both wage restraint and wage militancy (Lange 1984: 65). Indeed, outside of a strictly Marxist approach, one could conceive that preferences of unions' members vary across countries.

(3) enlightened understanding; (4) control of the agenda; (5) inclusion of all adult members in collective decisions (1998: 37-40). (A more detailed explanation will be given in the next paragraph, when they are applied to trade union confederations.) These criteria are applicable to any association and therefore are particularly useful for my purpose. I will benchmark a number of institutional features of trade union confederations against them. Each confederation will be given a score of between 0 and 1, depending on the degree to which it satisfies Dahl's criteria on democracy.

My Indicator of Union Democracy

In order to reach a measurable and reasonably simple indicator, I have focused on two institutional dimensions of trade unions: (1) the accountability of confederation peak levels (AP); and (2) the ratification process of collective agreements at the national level (CR). These two dimensions are equally weighted in the actual index, which ranges from 1 (corresponding to the satisfaction of all Dahl's criteria for democracy) to 0 (when none of Dahl's criteria is satisfied).

The bar graph displayed in Figure 3.1 shows the result of the measurement of the overall objective index of confederation democracy (CONFDEM). I have measured it through interviews with trade unions officials and national experts on industrial relations, backed up by secondary sources. The final measure refers to 16 OECD countries over thirty years: 1974-2003²⁸.

²⁸ In countries where more than one confederation exists, I have weighted each score against the membership of each confederation (data on membership comes from Golden, Lange and Wallerstein 2002, see Statistical Appendix for the complete list of sources and coding rules).

Components of Union Confederation Democracy

AP and CR are two equally-weighted dimensions that depend on the following characteristics of trade union confederations' decision-making processes.

The score of the first dimension (AP) depends on two (equally-weighted) sub-components. AP is highest when the peak leadership is elected for a fixed-term mandate *and* the delegates to the national congress are elected by the membership. AP is zero when peak levels are appointed without a fixed term of office, and when the delegates at national congress are appointed by union boards affiliated to the confederation. Mixed configurations do exist, and they result in intermediate scores.

The score of the latter dimension (CR) is highest when collective agreements, in particular the most politically divisive ones, are decided upon through secret ballot among members (or, *a fortiori*, workers). An intermediate case is when unions' leaders only *consult* workers over collective agreements, either asking for show-of-hands vote, or asking for opinions in open assemblies. CR is null when the leadership never consults members over collective agreements. I will now briefly explain why these dimensions – and their scores – are able to capture the degree to which unions' internal rules comply with Dahl's criteria for democracy.

Accountability of Peak Levels: Criteria 2 and 4

Criterion number 2 (voting equality) states that the votes of the members of an association must be equally weighted (Dahl 1998: 37). If the delegates to the national congress (which usually elects the national leadership) are not elected by the membership but appointed by the boards of affiliates, criterion number 2 is not

satisfied. In this case, within the confederation, the votes of the leaders of the affiliate unions are more important than the votes of ordinary members.

If peak levels are elected for a fixed-term mandate, this means that they can be voted out, and criterion number 4 (control of agenda) is satisfied. This states that members should have a say on the association's agenda, so that strategies can be changed (Dahl 1998: 38). If members cannot vote out the leadership they are not in command of the agenda (including decisions on when to hold elections of leadership), which remains under the full control of the leadership itself.

Ratification of Collective Agreements: Criteria 1, 3, and 5

Criterion number 1 deals with "effective participation", that is, "before a policy is adopted by the association, all the members must have equal and effective opportunities for making their views known to the other members as to what the policy should be" (Dahl 1998: 37). In the unions' realm, this occurs at the highest rate when collective agreements are ratified by the whole body of members through a secret ballot. This allows for free expression of different opinions and for the membership to make a direct impact on the association's strategy.

Additionally, when this procedure of ratification is adopted, it could be inferred that criterion number 3, on "enlightened understanding", is also satisfied. This states that "each member must have equal and effective opportunities for learning about the relevant alternative policies and their likely consequences" (Dahl 1998: 38). Moments of discussion and persuasion that precede (secret) voting procedures (Stratton 1989; Baccaro 2002b) can be considered to satisfy this condition.

The criteria of effective participation and enlightened understanding are satisfied to a lesser degree when members are consulted on the agreements, or when less stringent voting procedures (such as show-of-hands) are adopted.

When it comes to union confederations, criterion number 5, on the inclusion of all adults members in collective decisions can be considered incorporated (and correspondingly satisfied or not satisfied) in the first four criteria. Indeed, criterion number 5 states that “All, or at any rate most, adult permanent residents should have the full rights of citizens that are implied by the first four criteria” (Dahl 1998: 39).²⁹

Table 3.1 summarises the correspondence between Dahl’s criteria for democracy and the dimensions of my (objective) indicator of confederation democracy (CONFDEM)³⁰. It is worth emphasising that this exercise of index-building has two main caveats. First, by trying to capture comparable formal procedures, it ignores country-specific characteristics of the labour movements, which are considered to be very important for the understanding of trade unionism by an influential stream of the literature (Hyman 2001). Second, by referring to purely formal procedures, my index ignores the substance of deliberative and electoral processes within the union confederations.

²⁹ Dahl’s criterion is derived from the need to exclude fully democratic regimes that withhold electoral rights from women or lower income cohorts. However, given that my study is concerned with union confederations found in advanced democracies, this criterion is partially redundant.

³⁰ It is perhaps useful to underline that this correspondence is a simplification and an approximation. The criteria, as applied in the construction of my indicator, are highly formal and are able to capture to a small degree the substance of the democratic process. Additionally, trade unions’ institutional features are highly specific to the individual confederation, and to the ideology within which the internal rules were bred. Indeed, few people I have interviewed with the aim of measuring my index have cast doubts on the overall possibility of constructing a comparative indicator on trade unions confederation’s rules. In their opinion, national idiosyncrasies would be too strong and render comparative large-N research on the topic impossible. Against this critique, I consider that the simplification I have adopted is the best suited for comparing levels of democracy precisely because it refers to few formal and comparable features, discarding other thicker variables.

Table 3.1 – Coding Union Confederation Democracy

Dahl's Criteria for Democracy	Dimensions of Union Confederation Democracy
1. Effective Participation	Secret vote (or consultation) of membership on national collective agreements
2. Vote Equality	Delegates to national congress elected by membership
3. Enlightened Understanding	Secret vote (or consultation) of membership on national collective agreements
4. Control of the Agenda	Peak levels elected for a fixed-term mandate
5. Inclusion of all adult members in collective decisions	Embedded in each of the previous four dimensions

For example, it is likely that informal procedures of membership consultation, via intermediate cadres, are in place even if formal rights are absent. Therefore, my index could be overly pessimistic when it comes to the actual assessment of the level of confederation democracy. A more sophisticated indicator would have implied a lengthy qualitative analysis of trade union rules and procedures in all the OECD countries, which goes beyond the scope and aims of this thesis. By focusing instead on formal aspects, I can reach, with limited effort, a simple and replicable index.

The bar graph displayed in Figure 3.1 shows a summary of my measure, through the mean values of the index's score in two sub-periods: 1974-1988 and 1989-2003. Union democracy is time variant only in 7 countries out of 16, which is consistent with general theories on the "sluggishness" of institutions and their resilience to change (North 1990). Additionally, this is consistent with the large number of time-invariant indicators of unions' institutions (Kenworthy 2003). Considering the mean values for two sub-periods (1974-1988 and 1989-2003), CONFDEM has increased in Ireland, Italy, France, United Kingdom, Spain and

Sweden, while it has decreased in Finland. In all the other countries, CONFDEM has remained constant. In the next paragraph I will begin to analyse this indicator, using correlation analysis to assess its impact on unions' ability to exert wage restraint.

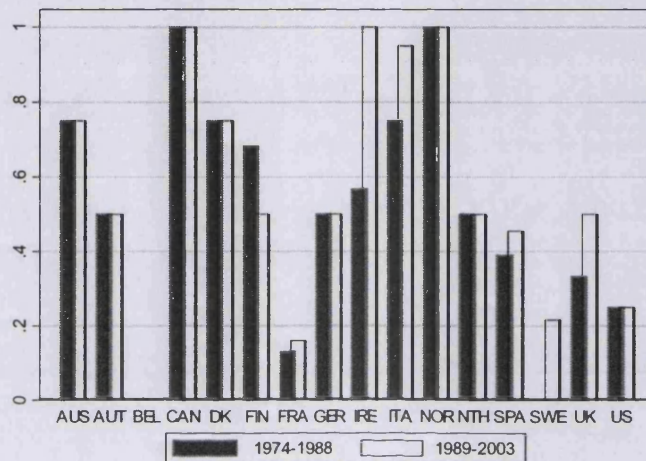


Figure 3.1 – Union Confederation Democracy Index in 16 OECD Countries (1974-2003).

The bar graphs represent average measurements in two sub-periods.

Assessing the Impact of Democracy on Labour Costs

The measurement of unions' institutional features – including concentration, hierarchy and wage bargaining settings – has a long tradition in the literature (for a complete overview of existing indicators see: Kenworthy 2003). The general aim of the indicators is to investigate the impact that different kinds of institutions have on key economic outcomes. Most of the literature has undertaken this research agenda using unemployment and inflation as the salient dependent variables (Bruno and Sachs 1985; Golden 1993; Garrett 1998; Garrett and Way 1999; Iversen 1999; Traxler, Blaschke and Kittel 2001; Traxler 2003).

Instead, following Nunziata (2001) and Traxler (2003), the variable that I expect to be dependent on different organisational features of the trade unions is labour cost. According to the mainstream view, first put forward by Cameron (1984), trade unions contribute to full employment, low inflation, regimes by ensuring slower wage increases and thereby controlling real labour costs. In other words, the effect that unions and other institutions of the labour market can have on unemployment and inflation is channelled through their impact on labour costs. Additionally, recent literature has demonstrated that inflation and unemployment are influenced by many other factors, particularly institutional interactions (Iversen 1999; Franzese 2001).

In order to assess the impact of unions' institutions, Nunziata (2001) and Traxler (2003) have used standard measures, such as real unit labour cost as the ratio between wages and total employed, weighted on productivity. Instead, I use a measure of wage militancy (WM) proposed by Blanchard in different papers (Blanchard 2000: 300-304; Blanchard and Philippon 2003: 24).³¹ WM is the difference between the actual change in real wages, and the change that should have occurred had wages grown according to labour productivity growth as determined *only* by technological improvement. Therefore, for each year, a negative value of WM represents an increase in wage moderation; that is, a reduction in real labour costs.

Compared to more traditional measures of real labour costs, WM has two relevant qualities. First, its value is not affected by capital accumulation. As such, if the unions have any impact at all on overall wage levels, this should be

³¹ Blanchard *et al.* labelled their variable "wage moderation". I suggest instead that "wage militancy" is more appropriate for my purposes. In fact, increasing wage moderation indicates decreasing labour costs, leading to semantic confusion. I rather say that when wage militancy increases, labour costs increase as well.

more apparent in WM than in other measures of real labour cost. Second, WM is computed under the assumption that wages represent the actual contribution of labour to output growth. This latter assumption is highly restrictive and the measure therefore underestimates the actual reduction in labour costs, any conclusion that might be reached is therefore more robust.

Table 3.2 shows a correlation matrix where average values of CONFDEM are correlated with average yearly change in labour costs. Here I use two specifications: WM and a more traditional measure of Real Unit Labour Cost (RULC) as provided by the European Commission statistical unit (European Commission 2006g). My hypothesis finds a first confirmation. In fact, both measures of labour cost are (negatively) correlated with confederation democracy, meaning that the more democratic on average a union confederation was between 1974 and 2003, the slower the increase in real labour costs was on a year-to-year basis. However, WM correlation scores to confederation democracy are higher than RULC correlation scores, which is consistent with the fact that the latter measure is dependent also on capital accumulation, on which unions have little impact. The two measures of real labour cost are obviously strictly correlated (0.84).

Figure 3.2 is a scatter plot of yearly average change in WM against average confederation democracy between 1974 and 2003 in my selected countries. Belgium, Ireland and, to a lesser extent, the UK seem to be outliers of the overall distribution. Figure 3.3 shows that when the outliers are removed from the scatter plot the correlation still holds.

	CONFDEM	Δ WM	Δ RULC
CONFDEM	1.0000		
Δ WM	-0.6076**	1.0000	
Δ RULC	-0.5598**	0.8466*	1.0000

(obs=16; **significant at 0.05; significant at 0.01)

Table 3.2 – Correlation Matrix: Confederation Democracy and Labour Costs.

The 16 observations are the 16 OECD countries. Δ WM and Δ RULC are average yearly changes in Wage Militancy and Real Labour Cost. Sources: RULC: European Commission (2006g); WM and CONDEM see Statistical Appendix.

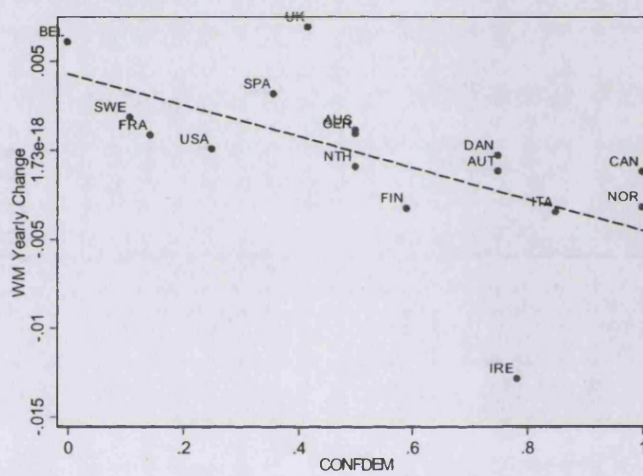


Figure 3.2 – Wage Militancy and Confederation Democracy with linear fit (1974-2003)

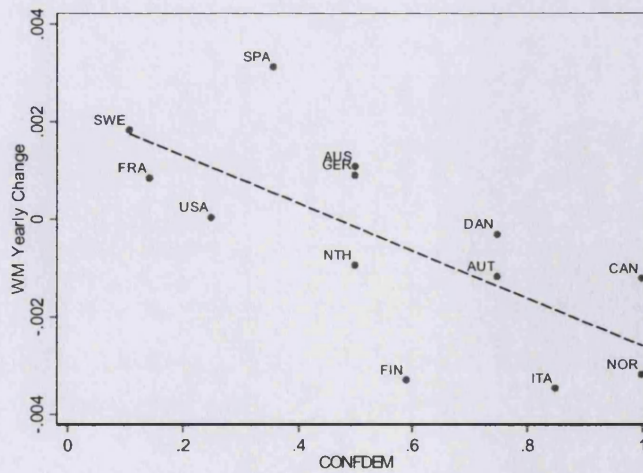


Figure 3.3 – Wage Militancy and Confederation Democracy without outliers (1974-2003)

This correlation analysis corroborates my hypothesis. However, more sophisticated multivariate analysis is needed in order to assess the relative importance of CONFDEM *vis à vis* other institutional features of unions and their industrial relations milieu. This will be done in the next section.

3.3 A Quantitative Model of Union Behaviour

The previous analysis showed a relatively high degree of correlation between confederation democracy and wage moderation, which suggests that my hypothesis might be well-founded. However, other institutional features of the trade unions as well as wage bargaining settings are known to affect wage militancy. Multivariate analysis is the appropriate tool with which to assess their relative importance.

By adopting regression analysis, I follow previous endeavours of other authors interested in the impact that different types of political institutions have on economic variables (Golden 1993; Nunziata 2001; Traxler, Blaschke and Kittel 2001; Traxler 2003; Baccaro and Rei 2005; Baker et al. 2005). Against this backdrop, I employ the technique of panel data regression analysis.

My baseline equation is the following:

$$w_{i,t} = \beta_0 + \sum_j \gamma_j x_{j,it} + \sum_n \sigma_n z_{n,it} + \varepsilon_{i,t}$$

Where w_{it} is real labour cost (measured as WM), in country i at time t ; x_s are j institutional variables referring to trade unions' structure; z_s are n macroeconomic controls; and $\varepsilon_{i,t}$ is the stochastic residual.

The Variables and the Choice of the Model

The vector of six variables relating to the organisational structure of trade unions, all ranging from 0 to 1, is as follows:

$$\sum_j \gamma_j x_{j,it} = \gamma_1 \text{CONFDEM}_{i,t} + \gamma_2 \text{UD}_{i,t} + \gamma_3 \text{UD}^2_{i,t} + \gamma_4 \text{CONC}_{i,t} + \gamma_5 \text{WBCOOR}_{i,t} + \gamma_6 \text{CONT}_{i,t}$$

CONFDEM is my measure of confederation democracy. I expect CONFDEM to be negatively associated with WM, i.e. the more democratic the confederation, the smaller the increase in labour costs. The less democratic the confederation, the more militant labour will be.

UD is union density. This is the traditional proxy used by the literature for encompassment. Expanding on the work of previous authors (Nunziata 2001; Baccaro and Rei 2005), I add into the equation its squared value (UD^2) because, following Olson (1982), I expect a non-linear relationship between wage moderation and union density. Up to a certain size, the unions will be large enough to affect overall labour costs, but not large enough to be encompassing, i.e. approximating the whole of the worker population. Therefore I expect UD to be positively correlated to WM, and UD-squared to be negatively correlated to WM.

CONC is a measure of inter-confederation concentration; that is, the distribution of members across national-level confederations. I expect CONC to be negatively correlated to WM. This is consistent with traditional neo-corporatist theories and previous findings according to which a union's ability to adopt moderate stances is a function of the monopoly of confederations over members representation (Golden 1993).

WBCOOR is the level of coordination of wage bargaining, which I expect to be negatively correlated to WM; that is, the more coordinated the wage bargaining, the less scope there is for wage militancy (Soskice 1990).

Finally, CONT is a measure of the authority of confederation peak levels over affiliates, ranging from 0 to 1. This index seeks to approximate the level of hierarchy that exists within a trade union confederation, focusing on the power that confederation peaks have over affiliate unions, including power of appointment, veto over wage agreements, veto over strikes, and control of strike funds. Some of the existing literature would expect this to be negatively correlated to WM too (Garrett and Way 1999: 414-415) but, as discussed earlier in paragraph 3.1, doubts have already been raised as to its overall importance.

The vector of three macroeconomic controls is the following:

$$\sum_j \sigma_j z_{j,it} = \sigma_1 \Delta GDP_{i,t-1} + \sigma_2 UR_{i,t} + \sigma_3 TOTS_{i,t-1}$$

Where ΔGDP is the (lagged) annual change in real GDP, UR the standardised unemployment rate, TOTS is the (lagged) terms of trade shocks, measured as changes in terms of trade. All the independent variables are standardised to vary between 0 and 1.

The Choice of the Model

A recent strand of literature has been devoted to the identification of the best estimation model for use in dealing with panel data in political science, when variables representing institutions or events (e.g. elections) are used (Beck and Katz 1995; Kittel 1999; Beck and Katz 2001). In fact, the application of

quantitative methods has been increasingly popular in the political sciences in the last decade, sometimes yielding dubious or outright wrong results (Kittel and Winner 2005).

Against the backdrop of these articles, I have reached by testing down an OLS (ordinary least squares) with PCSEs (panel-corrected standard errors) estimation model as the most accurate. The results are displayed in columns 3 to 6 of Table 3.3.

My panel included 16 OECD countries³². Following Traxler *et al.* (2001: 25-27; 2003: 11), I set up my models as a panel of nine-period average measurements: 1974-1976 1977-1979; 1980-1982; 1983-1985; 1986-1988; 1989-1991; 1992-1994; 1995-1997; 1998-2000. This is because annual variation in wages – i.e. my dependent variable – can hardly be attributable to institutions, which vary much less. Traxler (2003, note 9) adds that the three-year choice represents a compromise between the shorter duration of collective contracts and the longer duration of the business cycle, which both affect wage trends.

I start with a standard FGLS (Feasible Generalised Least Squared) estimation (columns 1 and 2 of Table 3.3). The FGLS is the standard method for estimating panel data regressions. A STATA routine Hausman test run on my variables has highlighted the appropriateness of FE(ts) (Fixed-Effect, or within) estimators over RE (Random-Effect) estimators. However, as emphasised by Beck and Katz (2001), the fixed-effect estimator is not efficient when independent variables are time-invariant (or bivariate). In my case, CONFDEM, CONC and

³² Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Spain, Sweden, United Kingdom, United States. Data sources: WM: own calculation from European Commission, Ameco database (2004) on the basis of Blanchard and Philippon (2003: 24); UD and TOTS: dataset from IMF (2001) kindly provided by Dr. Xavier Debrun; CONC: Golden, Lange and Wallerstein (2002); WBCOOR: Kenworthy (2003: 41); RGPDCH and UR come from Ameco database (2004); CONT: Kenworthy (2003: 53) from Golden, Lange and Wallerstein (2002). This latter variable is not available for Spain and Ireland. Full details can be found in the Statistical Annex.

WBCOOR are time-invariant in the majority of countries and would be perfectly collinear with country-dummies. Therefore, following both Beck and Katz (2001) and Traxler, Blaschke and Kittel (2001: 27-28), I exclude country-dummies and include time-dummies, eventually estimating a FE(t) model.

As was foreseeable, the model violates the basic assumption of the GLS model, as the stochastic error term (ϵ) is not serially uncorrelated and the variables seem not to be strictly exogenous, as transpires from standard tests performed on the estimations (rows 17 and 18). However, the residuals are not autocorrelated (row 19) and therefore, following Beck and Katz (1995) and Kittel and Winner (2005: 270), I can safely estimate an OLS model with PCSEs, which is much less optimistic than the FGLS and drops the violated assumptions.

Results

Columns 3 to 7 of Table 3.3 display the results of my estimations.

Overall, they corroborate my hypothesis. The fit of the models is satisfying: r-squared ranges from 0.50 to 0.69. The coefficient of my variable of confederation democracy is always strongly significant and negative. This means that the more democratic a trade union confederation is, the more closely associated the wage increases will be with increases in labour productivity, as opposed to overtaking them.

This clear impact of democracy is paired with the insignificance of the CONT variable, i.e. a measure of confederation hierarchy calculated by Lane Kenworthy (2000) based on Golden, Lange and Wallerstein (2002). The coefficient is negative, as neo-corporatists would predict, but it is extremely small and far from significant in all the estimations.

Table 3.3 – Regressions Results. Dependent Variable: Wage Militancy

	<i>Estimator</i>	1. FGLS	2. FLGS	3. PCSE	4. PCSE	5. PCSE	6. PCSE	7. PCES
1	CONFDEM	-0.0215 (-3.47)*	-0.0185 (-3.17)*	-0.0215 (-3.98)*	-0.0185 (-3.02)*	-0.0228 (-4.73)*	-0.0231 (-4.27)*	-0.0224 (-4.91)*
2	UD	0.1927 (3.5)*	0.0736 (1.6)***	0.1927 (3.74)*	0.0736 (1.37)	0.1933 (4.15)*	0.1006 (2.27)*	0.0927 (3.35)*
3	UD ²	-0.1803 (-3.33)*	-0.0654 (-1.45)	-0.1803 (-4.18)*	-0.0654 (-1.4)	-0.1795 (-4.32)*	-0.0913 (-2.27)*	-0.1178 [#] (-3.72)*
4	CONC	-0.0174 (-2.18)*	-0.0137 (-1.98)*	-0.0174 (-2.29)*	-0.0137 (-1.89)**	-0.0174 (-2.22)*	-0.0177 (-2.89)*	-0.0166 (-2.15)*
5	WBCOOR	-0.0317 (-3.15)*	-0.0278 (-3.84)*	-0.0317 (-3.04)*	-0.0278 (-3.22)*	-0.0308 (-3.00)*	-0.0293 (-3.78)*	-0.0311 (-2.96)*
6	CONT	-0.0059 (-0.69)		-0.0059 (-0.64)		-0.0062 (-0.65)		-0.0063 (-0.65)
7	GDPCH ^(t-1)	0.3292 (4.4)*	0.2477 (4.43)*	0.3292 (3.35)*	0.2477 (2.84)*	0.4383 (6.44)*	0.3784 (6.17)*	0.4328 (6.3)*
8	UR	-0.3347 (-2.77)*	-0.1705 (-3.06)*	-0.3347 (-2.84)*	-0.1705 (-1.93)**	-0.3292 (-2.74)*	-0.2231 (-3.32)*	-0.3289 (-2.68)*
9	TOTS ^(t-1)	0.1002 (2.75)*	0.0914 (2.62)*	0.1002 (2.13)*	0.0914 (1.95)*	0.1124 (2.38)*	0.1132 (2.57)*	0.1118 (2.37)*
10	Constant	0.0040 (0.24)	0.0163 (1.45)	0.0040 (0.27)	0.0163 (0.84)	-0.0031 (-0.23)	0.0116 (0.79)	0.0098 (0.67)
11	Observations	98	139	98	139	98	139	139
12	No. of countries	14	16	14	16	14	16	16
13	F-test	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
14	R-squared	0.6882	0.5892	0.6882	0.5892	0.634	0.5007	0.635
15	Adj. R-squared	0.6311	0.5353					
16	Wald-Test on the time-dummies	chi2(6) = 117.03 P. = 0.0092	chi2(8) = 29.92 P. = 0.0002	chi2(6) = 15536.37 P. = 0.0092	chi2(8) = 370.51 P. = 0.0000	no time dummies	no time dummies	
17	Wald test for Groupwise Heteroskedasticity	chi2 (14) = 158.90 P.>chi2 = 0.0000	chi2 (14) = 153.45 P.>chi2 = 0.0000					
18	Test for Spatial Correlation	chi2(91) = 103.877 P. = 0.1681	chi2(120) = 163.144 P. = 0.0054					
19	LM Test for Autocorrelation in the Residuals	chi2(1) = 0.8572 P. = 0.7697	chi2(1) = 0.7464 P. = 0.3876					

* significant at 1%; ** significant at 5%; *** significant at 10%; Kpss tests for stationarity confirmed that the dependent variable is stationary. The test has been performed on all the time series in each section; STATA routine diagnostic for collinearity showed a mild level of collinearity entirely dependent on the correlation between UD and UD². Column 7 computes the regression when UD² is instrumented with UD⁴ which eliminates all collinearity. The results appear stable; [#] UD⁴;

It should be emphasised that the two measures of hierarchy and democracy are not mutually exclusive. This means that a given trade union confederation could be democratic according to my measure (i.e. leaders are accountable to membership and collective agreements are voted upon), while also being hierarchical according to Kenworthy's indicator.

This is because my measure of democracy reflects the influence that membership has over peak levels and their decisions, while the confederation authority index reflects the power of peak levels over affiliates. For example, according to Kenworthy's measure, Canada, Finland, France and Germany score 0 in the CONT variable, meaning peak levels have no power over affiliates. My measure of confederation democracy for the same countries ranges from 0.11 (France in 1976) to 1 (Canada, all years), meaning that the level of confederation democracy in these different countries is very different.

The role of encompassment (UD and UD-squared in the table) is also confirmed by my results. The relationship between union density and wage moderation is parabolic, thus confirming the Olsonian view that opened this chapter. A very large trade union confederation is likely to internalise the consequences that its political stances have on the society at large, whereas large unions that are not sufficiently encompassing tend to exploit their market power at the expense of the rest of society.

Similarly, the higher the inter-confederation concentration, the more moderate wage dynamics will be. In other words, the fewer union confederations there are in a given country, the more moderate the wage increases *vis à vis* productivity increases will be. This simply confirms Golden's (1993) conclusions

on the importance of having *monopoly* of representation to avoid factionalism and wage drifts.

The level of wage bargaining coordination is a feature of the industrial relations system as a whole. The measure I use is a composite objective one. The negative sign of the coefficient confirms Sockice's (1990) interpretation, according to which institutional means can be as effective as market means in controlling wage pressures.

The coefficients of the three macroeconomic controls are consistent throughout my table. The (lagged) measure of real GDP growth is associated with high wage dynamics, while high unemployment rates act as a moderator for wage dynamics. More interesting is the positive sign of the TOTS (term of trade shocks) coefficients: it seems that when it comes to the effect that TOTS have on wage dynamics, the (positive) effect on income via the current account balance is stronger than the (negative) effect on competitiveness.

In general terms, my model confirms my hypothesis on the importance of democratic decision-making processes within union confederations. Additionally, with the exception of the importance attributed to hierarchy, my model is consistent with the most of the existing literature on corporatism, which increases its plausibility. In the next, concluding, section, I will highlight the specific place that confederation democracy can occupy in the theory of union behaviour, and how this is linked to the overall research framework of this thesis.

3.4 Democracy as a Condition for Cohesion

- In line with the existing literature (Golden 1993; Garrett 1998; Nunziata 2001; Traxler 2003), my quantitative model of union behaviour has confirmed that institutional features of trade unions have an impact on economic variables, particularly wage dynamics. This is because the structure and decision-making process within organised labour affects its capacity to adopt cooperative behaviours and gain economic benefits accordingly (Pizzorno 1978; Lehmbruch and Schmitter 1982; Goldthorpe 1984).

The specific contribution of my model resides in a relevant correction it proposes to the traditional corporatist literature. The very label of this literature suggests that, in order to reach socially optimal outcomes (i.e. sustainable wage increases), unions should abandon democracy and adopt a certain degree of despotism. Compulsory corporations are indeed institutions likened more to medieval and fascist regimes than to advanced European economies.

My model shows, on the contrary, that democratic internal rules at the confederation level, rather than hierarchy, enable trade unions to tame wage pushfulness. In order to achieve stable growth, wage increases should not exceed productivity increases, so as not to hinder cost dynamics (Blanchard and Philippon 2003: 22-23). This outcome is more likely to be reached in countries where trade union confederations are organised along democratic criteria, which include a leadership accountable to the membership, and the use of discussion and voting among members to ratify collective agreements. The contrast between this conclusion on the importance of internal democracy and the old corporatist approach justifies the title of this chapter, that is, “corporatism turned on its head”.

It is worth at this point recalling the main research question posed by this thesis: what drove the party/union alliance in the 1980s and the in 1990s? When defined as patterns of collaboration in socio-economic policy-making, the party/union alliance since the 1980s shows unexpected resilience, as over 70% of policies are agreed together by the two actors, even under unfavourable overall conditions. From the union perspective, I have hypothesised that democratic internal rules at the confederation level were key in explaining policy collaboration, because they favoured cohesion under a limited set of available payoffs for rank-and-file compliance.

The objective index of confederation democracy (CONFDEM) that I have measured, based on Dahl's criteria for democracy, showed considerable variation across country, and some variation over time within country (Figure 3.1). Organised labour across Europe differs with respect to its degree of internal democracy. In turn, this variation has an impact on the ability of labour to exert wage restraint, and therefore confirms my hypothesis. Countries with low levels of CONFDEM are more likely to experience wage militancy from organised labour: democracy favours cooperative behaviours.

But why is this so? Why are democratic trade unions better able than non-democratic trade unions to overcome internal collective action problems and collaborate over policy making and control wage increases?

Democracy Leads to Cohesion and its Absence to Fragmentation

Why is democracy better suited than hierarchy to reaching centralisation, that is, a state where decisions taken at the "centre" of the organisation, i.e. by unions leaders are complied with by the whole body of members (Pizzorno 1978: 284)?

The answer to this question can be derived from a closer look at the results of my regression analysis (Table 3.3). Here, my measure of confederation democracy is always negatively correlated to wage militancy, and highly significant. At the same time, the measure of hierarchy (CONT) proposed by Kenworthy (2003) and derived from Golden, Lange and Wallerstein (2002) has a minuscule coefficient, and, most importantly, is always far from being significant. These combined results suggest that confederation democracy and hierarchical means are not two poles of the same distribution, but two analytically and empirically distinct features.³³ In other words, my regression shows that different levels of wage militancy cannot be accounted for by the level of union confederation leaders' coercion powers. At the same time, it suggests that a lack of confederation democracy cannot be associated with a state of despotism. My results suggest that hierarchy has no effect on wage dynamics (hence it does *not* favour wage militancy or wage moderation). Instead, it is the absence of democracy that favours wage militancy.

To understand better, then, the effect of democracy (and its absence) on union confederation policies it is necessary to return to the definition upon which my measure was based. This reasoning will highlight that considering democracy in opposition to hierarchy, as much of the literature on corporatism seems to do, can be misleading. I have based the measure of confederation democracy (CONFDEM) on Dahl's conception, according to which democracy refers to the process with which decisions are taken (Dahl 1989: 9). This, under my framework, includes the selection and appointment of leaders and the ratification of collective agreements. Hierarchy within union confederations instead pertains to the control

³³ The technical explanation of this result, i.e. the explanation linked to the nature of the two indexes and how are they constructed, is given in the previous section under the subheading "Results".

that peak levels can exert over members and affiliates (Golden, Wallerstein and Lange 1999; Traxler, Blaschke and Kittel 2001: 67-70). Therefore, they are two analytically distinct concepts that can empirically coexist.

In theoretical terms (Dahl 1989; 1998), democracy can be considered as opposed to two different methods of decision making; authoritarian methods (via hierarchical means), and anarchic ones (i.e. refusing a single lead). In the unions' realm, hierarchy is incompatible with internal democracy only if the leaders are appointed by a force outside the unions themselves. This case is irrelevant within the empirical sample of western European countries, where unions are voluntary associations, and instead refers only to authoritarian regimes.³⁴

Therefore, the only decision-making process opposed to democracy that is compatible with the empirical setting of unions in western European countries is *anarchy*. In Dahl's theorisation, the anarchic approach rejects democracy because it rejects the state and its power of coercion. "The philosophical rationale of anarchy as opposed to democracy insists on the absence of coercion" (Dahl 1989: 55). The very origin of the word is *an arche*, meaning "without a guide", or "without a lead". As a consequence, when referring to trade unions confederations, the absence of democracy can be likened to the absence of unified leadership. Democratic decision-making processes have the effect of increasing the credibility and strength of leaders, and they unify a very diverse body of workers around the policy platform that gains the majority of the consensus. Therefore, the absence of democracy at the confederation level causes the fragmentation of organised labour. Consider a completely despotic union confederation, within which union leaders are recruited by an unaccountable bureaucracy, and which never consults

³⁴ Dahl labels this kind of non-democratic decision-making process as the "government of the guardians" whose theoretical tradition can be tracked back to Plato's *Republic* (Dahl 1989: 77-122).

members over the main decisions. If the leadership tries to broker an agreement entailing little side compensation for the rank-and-file, but still includes short term sacrifices, this will trigger wage and policy drift at local level.

This interpretation is consistent with my regression results and narrows the difference between the effect that *structures* and decision-making *processes* have on union behaviour. Concentration of members in fewer unions favours cooperation because it unifies workers around a single leadership, rather than dispersing them across multiple organisations. High accountability of the centre of the organisation and the democratic ratification of central decisions (that is, centralisation as democracy) will avoid factionalism and promote unity around leaders and policy platforms. This reasoning suggests that a simpler way of identifying cooperative unions is through the concept of cohesiveness, as a result of the combined effect of concentration of members and centralisation as democracy, the absence of which would lead the labour movement to fragmentation.

However, why has the theoretical conviction on the importance of hierarchy proved to be so popular over time (Lehmbruch 1979; Traxler, Blaschke and Kittel 2001), and why have country studies on the role of democracy emerged only recently (Baccaro 2002a; 2003)?

Union Democracy and Political Exchange During Welfare State Retrenchment

A possible answer to the question posed at the end of the previous section derives from the economic scenario that developed in the 1980s and 1990s. As reviewed in Chapter 1, during the 1960s and 1970s collaboration between social democratic governments and trade unions was based on the “political

exchange”, which was sustained by conspicuous payoffs in terms of slow but steady wage growth, higher welfare entitlements including pensions, health insurances, etc., and better working conditions, including less working hours, longer paid holidays, and so on (Przeworski 1985; Notermans 2000: Ch. 3; Mares 2006a).

However, the economic scenario of the last two decades of the twentieth century was profoundly different from the previous decades. From the late 1970s, anti-inflationary policies took over as the mainstream political economic drive. Additionally, many European countries faced severe budget deficits, and welfare state retrenchment, as opposed to welfare state expansion, became the norm. (Scharpf 1991; Pierson 2001). Under these conditions, it is arguable that, in order to achieve cohesiveness of workers, decision-making *processes* (i.e. centralisation through democracy) acquired an increased importance relative to organisational *structures* (i.e. concentration of membership).

In other words, during the 1960s and 1970s, if unions’ membership was concentrated enough to avoid drifts and competition between unions, the payoffs that unions gained through their negotiations with the state were enough to ensure compliance (Mares 2006a). In the new scenario that emerged in the late 1970s, the absence of substantial payoffs, such as increased welfare entitlements or increased transfers, made it harder for unions to enter the bargaining game (Scharpf 1991; Ross and Martin 1999a; Crouch 2000b).

In the 1980s and 1990s, trade unions were not negotiating in order to improve the overall short term well-being of workers, but to minimise its decline, in the hope that the concerted reforms would have beneficial effects on economic growth and unemployment in the medium term (Rhodes 1996; Traxler 1997;

Rhodes 2001). At the same time, leaders would negotiate to preserve the role of the unions in the labour market and in the policy arena. This would preserve their bargaining power, and in the future might gain higher benefits and entitlements for workers. In brief, this looks like the most severe textbook example of the conditions that favour an interpretation gap between members and leaders on evaluating short-term sacrifices for the rank-and-file and short-term power for union leaders, against long-term gains for everyone (Pizzorno 1978: 285). In this context it is very hard to imagine how the leaders of voluntary associations could have imposed on their members the acceptance of any compromise. Rather, the democratic involvement of the body of workers was needed to ensure that sacrifices would be voluntarily accepted, and this included processes of discussion, persuasion, and voting.

Conclusions

This chapter opened with a quote from Olson (1982) on his *Logic of Collective Action*. It contended that encompassing organisations have some interest in aiming for socially optimal outcomes, as they would bear directly any cost they imposed on the society. My analysis and my data suggest that democratic decision-making rules within encompassing organisations favour this process.

More specifically, this chapter has addressed one side of my research question: why were certain unions more inclined than others to negotiate with social democratic governments during the 1980s and 1990s? What institutional factors tame unions' militancy, favour co-operative behaviours, and therefore allow for sustained alliance with social democratic parties during deflationist times? My empirical analysis has confirmed the hypothesis I put forward in

Chapter 2; namely that confederation democracy promotes cohesiveness of labour under a single leadership, and around collective decisions. A democratic decision-making process plays the same role as a concentrated labour structure, i.e. it reduces fragmentation in encompassing unions, thereby reducing the chance that rent-seeking and militant behaviour emerges.

In Chapter 2, the patterns of party/union alliance in European countries showed considerable variation both across countries and over time within individual countries. From the unions' side, variation in their approach to negotiated policies can be explained with reference to their internal modes of operation. Democratic unions are the better suited to engaging in concerted policy with social democratic governments. This applies in particular in the period that followed the collapse of the "Keynesian consensus". Under an overall restrictive economic framework, and in the absence of substantial payoffs for rank-and-file members, democratic means, including persuasion, deliberation, and voting, acquired increased importance in ensuring the viability of concerted modes of policy-making.

I have already warned of the limits of my index of confederation democracy, which pair with the limits of large-N analysis (Coppedge 1999). In order to obtain a measure that could be comparable across countries, I had to focus on formal rules of decision making. In Chapter 5, the qualitative case study of party/union relationship in Italy during the late 1990s will allow for a more nuanced understanding of the role of confederation democracy. The relative importance of institutions as *processes* over institutions as *structures* will then be even clearer.

Before reaching this point, however, in the next chapter I will address the party side of my equation. Given that, as we have seen in previous chapters, there is little theoretical ground to justify a renewed alliance with unions, why did many social democratic governments embark upon collaboration with organised labour during the 1980s and 1990s?

Chapter 4

The Convergence on Concertation of Social Democratic Parties: The Two Equilibria of the Party/Union Alliance

Yesterday I got so scared / I shivered like a child
Yesterday away from you / It froze me deep inside
Come back come back / Don't walk away
Come back come back / Come back today
Come back come back / Why can't you see
Come back come back / Come back to me

And I know I was wrong / When I said it was true
That it couldn't be me and be her / Inbetween without you
Without you

The Cure, *Inbetween Days*

Leòn Blum, who in 1936 became the first socialist prime minister of France, said: “A better [income] distribution...would revive production at the same time that it would satisfy justice.”³⁵ In 1991, Allan Larsson, the Swedish social democratic prime minister, answered with the following: “[A permanent reduction in inflation] must take priority over all other ambitions and demands.”³⁶ The trajectory of social democratic economic policy during the last century is typified through this imaginary dialogue. Contemporary social democracy seems to have travelled a long way from its departure point of revolutionary Marxist doctrines.

³⁵ Quoted in Przeworski (1985: 209).

³⁶ Quoted in Notermans (2000: 196).

After spending a long time as the political agents of the industrial working class, social democrats have now lost most of their mass membership, and have enlarged the social boundaries of their electorate (Mair and van Biezen 2001). A modern catch-all party, as the social democrats have become in the majority of European countries,³⁷ should treat trade unions in the same way as any other interest group. Additionally, inflation is guarded by central banks, and the industrial working class is shrinking and often politically seduced by the extreme populist right. Against this background, why – as shown in Chapter 2 through the systematic coding of textual information (reported again in Figure 4.1) – did social democratic governments continue to pursue the majority of their socio-economic policies in open collaboration with sister trade union confederations between 1974 and 2003?

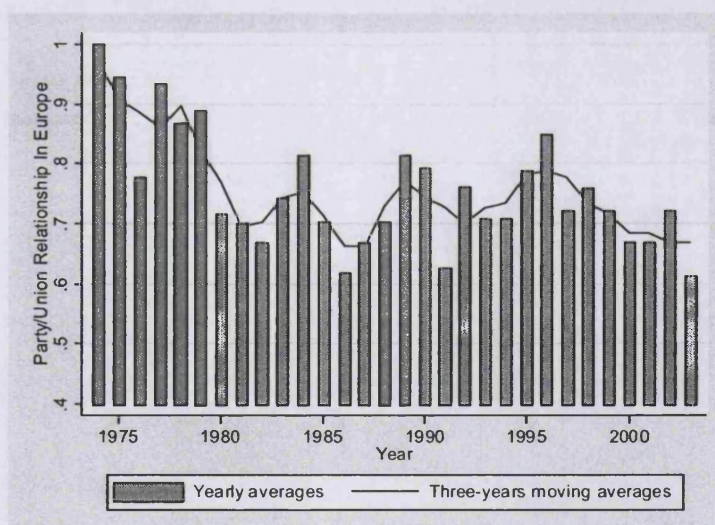


Figure 4.1 – Party/Union Alliance in 15 European Countries 1974-2003.

Bars display the share of socio-economic policies that social democratic governments pursued with the collaboration of their sister trade union confederation; the curve displays a three-year moving average. Countries include the EU15 except Luxembourg, and include Norway. Source: coded by the author, see Statistical Appendix for details.

³⁷ Perhaps with the exception of Ireland (Mair 1992).

The first half of this chapter will address this question. It will start by reviewing how the literature has analysed the new social democratic strategies that emerged in the wake of the changes to economic and electoral constraints that began to take place in the early 1980s. It will then introduce new material to the analysis. A close scrutiny of social democratic governments over twenty-five years shows that, while increasingly endorsing the new hard-currency macroeconomic regime and implementing market-friendly policy packages on welfare and labour issues, they have converged on the policy method of *concertation*, that is, the formal involvement of labour and business in socio-economic steering. According to my data, from the early 1980s the social democratic governments have attempted to broker *social pacts* on welfare and labour issues increasingly over time. I interpret these data basing on Herbert Kitschelt's (1994) model of political preference formation. I will argue that concertation is the political expedient social democrats adopted in order to solve their overlapping policy and electoral dilemmas. If labour is cohesive and not fragmented, negotiation with unions eases the task of reaching distributive compromises between different portions of the social democratic electorate.

The second half of this chapter will place these conclusions alongside the incentives and institutional constraints faced by trade unions, so as to bring together the two sides of my equation. I will use a game theoretical model to stylise a theory of the party/union relationship under low-inflation hard-currency regimes. The party/union relationship can be conceptualised as a special type of cooperation problem where (under perfect information) two equilibria are possible, contingent on the level of cohesiveness of organised labour. If labour is cohesive, i.e. adopting democratic decision-making rules to solve internal conflicts (see

Chapter 3, section 4), the equilibrium of the game is cooperation. If, instead, labour is fragmented, defection will prevail, with parties proceeding in unilateral policy-making while unions underscore their political autonomy. The formalisation of the game will allow for greater theoretical insights and will particularly help to highlight the relative importance of intervening variables other than the cohesiveness of organised labour in the party/union interaction. These include union density, the extent of the party's departure from the traditional social democratic economic policies, and the overall decomposition of the labour market.

The game theoretical model concludes the large-N section of this thesis, and concludes the construction of my theory. The next chapter will focus instead on analysis at the country level in order to test the theory against “thick” evidence. This will allow me to identify and highlight the causal links between the trade unions' organisational structure, the policy process designed to implement the new social democratic strategy, and the different policy outcomes caused by sustained party/union alliances and mutual defections.

4.1 The New Social Democratic Political Economic Strategy and the New Relationship with Organised Labour

In Chapter 1, I put forward what I called two analytically distinct *foundations* to conceptualise the relationship between social democratic parties and organised labour pre-1980. (1) From a political economic viewpoint, wage restraints were the necessary complement to the social democratic strategy that aimed to enlarge the role of the state in the economy. Wage restraint would prevent spiralling inflation and, at the same time, itself represented a reform of capitalism insofar as it limited the increased power of labour in the context of full

employment combined with collective bargaining (Glyn 1998: 3). (2) From an electoral perspective, the industrial working class constituted the bulk of the social democratic membership and electorate, and was organised in the workplace by trade unions (Przeworski and Sprague 1986).

This set of incentives for a close relationship with organised labour changed quite rapidly with the increasing internationalisation of the economy and the declining salience of class politics. I will now review the main traits of the “new” social democratic political economy, and how it has been developing in Europe since the 1980s, i.e. under a different set of economic and electoral constraints. This will allow me to understand if, and if so how, their changed set of incentives translated into a uniform approach to trade unions.

The Social Democratic Convergence

Between 1980 and 2000, social democratic and socialist parties across European countries experienced a remarkable process of political and ideological convergence (Sassoon 1997; Glyn 1998; Przeworski 2001). At different times in different countries (see section 1.1), social democratic parties abandoned the set of demand-side policies that had characterised their “Golden Age”³⁸ and gradually endorsed inflation as their first policy target, thus sacrificing other priorities like full employment, the expansion of welfare state, and the power struggle of labour over capital (Sassoon 1999: 29; Glyn 2001a).

Most of the literature underlines that the acceptance of economic orthodoxy was largely the result of a new set of political economic constraints that had begun to emerge in the mid 1970s. International capital flows increased rapidly, prompted by liberalisations, and the Bundesbank led a process aimed at

³⁸ The period between the end of WWII and the mid 1970s.

imposing a new hard-currency monetary regime over Western countries. Under the quasi-fixed exchange regime that took the place of the Gold Standard, comparatively higher inflation rates led to high imbalances in the balance of payments, higher interest rates (often followed by speculative attacks on the national currency, see: Favier and Martin-Roland 1990: 513), and reduced international competitiveness. Under these conditions, social democratic governments endorsed inflation as the primary target of economic policy, allowing unemployment to rise and granting independency to central banks (Notermans 2000: 160-122).

“As capital markets became internationalized and the international level of interest rates was raised, the terms of trade between capital, labor, and government shifted in favour of the capital side. For that reason any attempt to maintain or restore full employment in the private sector in the early 1980s had to be paid for by a massive redistribution in favour of capital incomes.” (Scharpf 1991: 248)

Room for manoeuvre in national politics was increasingly curtailed by a number of other political economic constraints, which included: (1) the establishment of the Maastricht criteria for entry into the European Monetary Union (Notermans 2001); (2) an endogenous financial crisis in national welfare systems, caused by rising unemployment and the ageing populations (Pierson 2001); (3) the strong pressure arising from international institutions towards European governments to push them to deregulate the labour markets in order to reduce unemployment level. According to the conventional wisdom spread in the 1980s and 1990s by neo-classical economics, European unemployment was the result of excessive labour market rigidity that was sustained and nurtured by

powerful trade unions, which were therefore seen as detrimental to their own societies (OECD 1994; IMF 2001).

Against this background, social democrats were induced to change their economic strategies. Charles Boix (1998: 40-46) proposed a model for the “new” social democratic policy, under the assumption that the determinants of growth reside on the supply-side of the economy, which is consistent with the previous analysis. The basis of the new social democratic strategies was the belief that economic policy should not undermine market mechanisms, and that economic growth sustained by private initiative is the primary road to a reduction in unemployment.

Based on these assumptions, Boix identifies a trade-off between unemployment and inequality that socialists have to face once in office: everything else being equal, the lower the unemployment, the higher the level of inequality. Therefore, the social democratic strategy will be focused on public investment in active labour market policies and training measures. These will reduce the stringency of the trade-off because higher qualifications (on average) will result in lower income inequality. Additionally, these measures will improve employment performances. Low unemployment will allow socialists to keep unemployment benefits at a relatively high level, again with favourable effects on overall inequality.³⁹

Organised labour has no role in this model. Once pivotal to the social democratic economic strategy, trade unions have vanished from the picture. Indeed, this new political economic stance does not need voluntary wage restraints, just a strong electoral majority (Boix 1998: 35).

³⁹ Conservative governments will instead rely on market mechanisms to maximise savings and investment rates, thus reducing unemployment through economic growth. Increased inequality is assumed not to worry conservative politicians too much (Boix 1998: 46-49).

Major cross-country reviews of social democratic policies since the 1980s support Boix's analysis. The European economic context of the 1980s and 1990s was not favourable for social democratic governments. Productivity was slowing down and growth was stagnant. These conditions could not sustain further expansions of the welfare state or more redistribution. Beginning with the U-turn of French socialists, who in 1981 abandoned their original program of pursuing "Keynesianism in one country", all socialists ended up abandoning nationalisation initiatives or other plans to control private firms, and began to allow unemployment to rise in order to control heated wage dynamics (Hall 1987; Ross 1987; Glyn 1998: 2).

Social democratic parties endorsed the hard-currency macroeconomic regime that was being imposed by independent central banks across the continent, and, in the words of an historian, this was only the most apparent shift within the "most dramatic programmatic reappraisal in the entire history of the [socialist] movement" (Sassoon 1997: 692). From a political economy perspective, "[t]he long-term historical evolution of 'social democracy' proceeded from revolution to reformism to remedialism" (Przeworski 2001: 316).⁴⁰ Przeworski's analysis underlines that the social democratic struggle to reform capitalism was gradually abandoned, leading socialist governors in the 1980s and 1990s to embrace mainstream neo-liberal convictions on the social virtues of the free market. As a consequence, they downplayed policies geared to promote equality as mere "remedies" against the worse forms of social imbalances resulting by the action of market forces.

⁴⁰ The author bitterly concludes: "The question remains is whether it will end in resignation."(idem).

Indeed, social democrats did not further expand the welfare state, often implementing outright retrenchment. The extent of labour market liberalisations and of actual retrenchment carried out by socialists depended, country by country, on a number of factors including: (1) the state of public finances; (2) the trade unions' policies; and (3) the policy framework within which the social democrats found themselves in power. From the 1980s onwards, however, there were no major deviations from the main policy course: social democrats embarked on comprehensive liberalisations in the product market, the service sector, and the labour market, unless these had already been completed by previous, conservative, governments. In this latter case, social democrats did not reverse liberalising policies, but endorsed them as the basis on which to found their economic programs (Gamble and Wright 1999; Esping Andersen and Regini 2000; Glyn 2001b).⁴¹

This new political economic context has been summarised into a class-based theory of de-linkage between organised labour and electoral socialism (Howell 2001; Piazza 2001). The new social democratic political economy, focused on price stability and market liberalisation, afforded little space for trade unions to play a role in economic management. The end of class politics is therefore linked to the choice made by social democratic parties to accept the new set of economic constraints. This choice increased their social distance from unions' membership, which in turn further reinforced the apparent de-linkage between the two bodies.

However, this "de-linking" theory contrasts with two sets of empirical findings including scholarly work on the effect of partisanship on economic

⁴¹ An exception is the rather episodic example of the legally enforced reduction of weekly working hours to 35 imposed by the socialist government in France in 1998 (Cette 2000).

outcomes, and my own set of data on the policy results of party/union interactions (Figure 4.1). Indeed, in spite of the acceptance of economic orthodoxy, substantial differences remain between social democratic economic policy and the conservative one, including different socio-economic consequences. Empirical evidence shows that social democratic parties still base their policies on public spending to a much greater degree than their conservatives counterparts (Cusack 1997; 2001).⁴² In turn, under certain institutional settings, social democratic policies can still create favourable economic outcomes and a more equitable income distribution, compared with conservative policies (Garrett 1998; Iversen 1999). In other words, these analyses maintain the possibility that unions might play a role in the definition of the “new” social democratic policies, even though the role might be very different if compared to earlier decades. In fact, trade union membership should still prefer the social democratic policy approach to the conservative one, especially under an overall neo-liberal macroeconomic framework.

The problem is that from the perspective of social democrats, political economic incentives for close relationships with trade unions seem to have ended. This leaves unexplained the fact that, during the 1980s and 1990s, social democrats pursued the majority of their socio-economic policies in open collaboration with their sister trade union confederations.

This puzzle is deepened by the fact that, from an electoral perspective, contemporary social democrats seemed to have an actual disincentive to further their relationship with organised labour. The next section will review these

⁴² However, the magnitude of the socialist/conservative differential in spending levels is less in comparison with earlier decades, and social democratic public spending is now primarily oriented towards the supply-side of the economy (i.e. the reinforcement of human capital) rather than the demand-side (Boix 1998; Jayasuriya 2000).

conclusions, and how they have been reached in the most comprehensive study of electoral socialism carried out in recent years.

The Electoral Scenario

In a nutshell, Herbert Kitschelt (1994) argues that, in the changed social scenario that emerged in the post-industrial economy, the social democrats' fate lay in their ability to appeal new segments of the electorate that were more sensitive to libertarian post-materialistic issues, and more sensitive to the needs of an internationalised market economy. According to Kitschelt, internal party politics, including the formation of a strong and autonomous leadership, are crucial to the success of this policy drift. Social democrats needed to engage a flexible strategy, and be able to change policy programmes quickly in order to maximise votes *vis-à-vis* left-libertarian as well as conservative competitors. Only by doing this could social democrats achieve electoral majorities in the context that had developed since the 1980s.

Under this framework, social democratic parties needed to detach themselves from trade unions, in order to increase their room for manoeuvre. Indeed, "strong linkages to labour unions privilege traditionalists in the party leadership who are unwilling to take on *either* the challenge of market efficiency *or* the challenge of left-libertarian politics" (Kitschelt 1994: 225, emphasis in the text). Kitschelt's conclusion is based on an empirical sample of nine European countries between 1973 and 1990, which he then raises to a normative status. Indeed, in his conclusions, he predicts that only parties able to detach from unions will gain office in Western democracies.

However, these conclusions are not compatible with my own dataset. Figure 4.1 shows that during the 1980s and 1990s, the majority of socio-economic

policies were furthered by social democratic governments in collaboration with their sister trade union confederations. It is theoretically possible that socialists do not learn from past mistakes, and that party/union agreements were consistently followed by electoral defeats. It is however highly implausible that parties repeatedly made, over twenty years, the same type of strategic error.

In summary, changes in the macroeconomic framework have curtailed the political economic incentives once held by social democrats to further their collaboration with trade unions. Similarly, changes in the social structure and in labour market composition seem actually to have produced a disincentive, on the party side, for a sustained alliance with labour. In order to reconcile the existing literature with my empirical observations I will now investigate my own data more closely.

Going Back to the Empirics: The Rise of Concertation

It is worth recalling that the index of the party/union alliance displayed in Figure 4.1 indicates the share of socio-economic policies that social democratic governments pursued with the *formal* or *informal* collaboration of their sister trade union confederations. “Collaboration” refers to a strong interaction in the policy-making phase that aims to further a policy upon which the trade unions openly agree. Socio-economic policies include macroeconomic policies, spending policies linked to various types of social insurance, and labour law and employment regulation policies (see Chapter 2 for the full discussion on the index).

Although it declined from the 1970s onwards, during the 1980s and 1990s the number of party/union collaborations resulting in policy decisions remained very high: on average 72% of social democratic socio-economic policies

were agreed with trade union confederations, with peaks as high as 81% in 1984 and 1989 and 85% in 1996.⁴³ In the previous chapter I argued that variations in the policy results of the party/union interactions can be attributable to differences in the cohesiveness of trade union confederations. Confederations organised along democratic rules are more likely to be willing to coordinate and negotiate with social democratic parties because they are less fragmented than non-democratic confederations. But why do parties want to coordinate with unions in the first place? Why do they not proceed with unilateral policy making?

In order to highlight trends in the party/union alliance, Figure 4.2 unpacks the party/union policy collaborations, differentiating between *formal* (white bars) and *informal* (dark grey bars) collaborations, which are conflated in the overall measure displayed in Figure 4.1. Interestingly, *formal* collaborations increase over time *vis-à-vis* *informal* collaborations. Between 1974 and 1978, 62% of all the policies agreed together by socialist governments and trade union confederations included a formal agreement between the two bodies. Between 1980 and 1989 this percentage increased to 75%, and in the period 1990-2003 it reached 84%.

This means that while the overall magnitude of the alliance was decreasing and the policy results were more volatile, the instances of sustained collaboration between the party and the unions increasingly assumed more formal characteristics, configuring examples of *policy concertation*.

Policy concertation indicates a process of co-determination of public policies in which labour, business, or both actors, are called to give their individual inputs and then agree on the final result through a formal understanding.

⁴³ These figures are not visible in Figure 4.1 because it displays three-year moving averages in order to highlight trends.

This method affects the mechanics of decision making because it requires the government to share its prerogatives with collective bodies of the the political economy. Additionally, concertation has an impact on policy contents because the output simultaneously satisfies all of the actors involved, irrespective of whether they are in a weak or a strong bargaining position. If an actor agrees on the result, it can be inferred that it prefers that policy to no agreement at all (Compston 2002: 32).

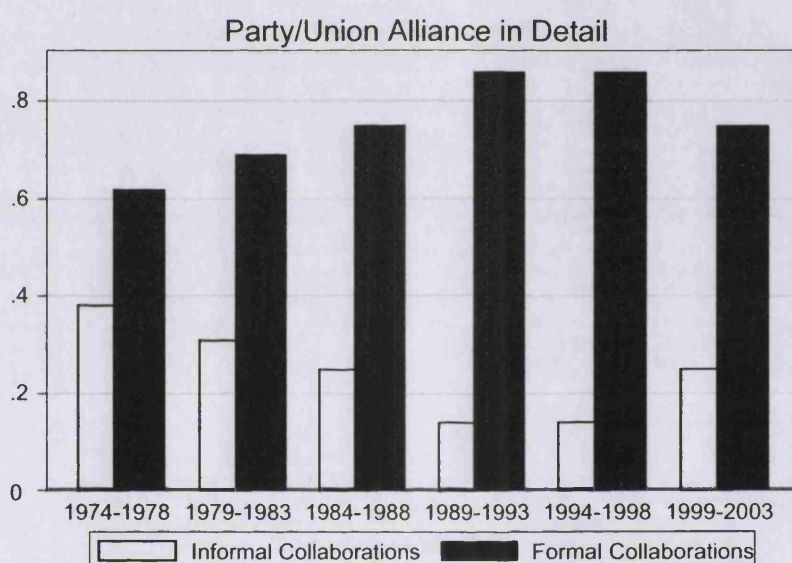


Figure 4.2 – Details on the Party/union Alliance in 15 European Countries. This figure shows the share of informal versus formal party/union collaboration against the total collaboration in socio economic policy making. Five-year averages between 1974 and 2003 are displayed.

The rise of concertation in Europe during the 1980s and 1990s has been acknowledged by a growing stream of the literature (Fajertag and Pochet 1997; Ebbinghaus and Hassel 1999; Fajertag and Pochet 2000; Baccaro 2003; Hassel 2003b). In general terms, the so-called “social pacts” consisted “of new market-conforming policy mixes” that tried to construct complex compromises between the needs of the markets and the principles of equity (Rhodes 2001: 166).

However, before examining this literature, in order to address the question of why social democrats might want to process policies through concertation, I need to differentiate between the policy-making phase and the policy results. In other words, I need to insulate in the analysis the moment that precedes the concertation process. In so doing, I can differentiate between the preferred strategy of the social democratic government and the actual outcome, on which a variety of factors impinge, first of all the trade unions' attitudes.

This will be done in the next section, where I will investigate partisan approaches to concertation. I will show that concertation became the preferred policy method of social democratic governments for socio-economic steering, and will conclude by qualifying Kitschelt's conclusions, based on his own model of political preference formation. Only if unions are fragmented (hence, not democratic according to the conclusions reached in Chapter 3), will social democrats not pursue close relationships with them. I will show that if unions are instead cohesive, parties have strong electoral incentives to promote policy collaboration.

4.2 Explaining Concertation: Social Democratic Parties Addressing Their Dilemmas

In order to shed light on the attitude of social democratic governments towards organised labour in the policy-making process, I have designed an indicator of governments' willingness to share their policy prerogatives with "social partners", i.e. capital and labour. This indicator will record the method of processing socio-economic issues favoured by a government before the

preferences of trade unions are taken into account.⁴⁴ Consequently the indicator does not show how (or if) the policy was actually approved, but simply focuses on the initial intention of the government.

This indicator was created for the same three policy areas of reference of the party/union alliance (macroeconomic policy, welfare policy and labour policy – see Chapter 2), as well as for the same 15 European countries and the same period (1974-2003). Similarly, the measures were based on information contained in the European Industrial Relations Review (all issues between 1974 and 2003). Scores of this index are displayed in Figures 4.2 and 4.3, after controlling for the partisan composition of the government.

An Index of Government Willingness to Concertation

For each country, year, and policy area, the willingness index takes a value of 1 when: (a) there is textual evidence that the government publicly invites the social partners to negotiate a national agreements to set wage increases, to design/reform social security policies or welfare state institutions, or to design/reform labour laws and employment regulations; or (b) the social partners are allowed to design or implement autonomously, i.e. via bipartite agreements, any of the aforementioned policies. In both cases, the government is effectively revealing its will to share its policy-making prerogatives with, or delegate them to, private organisations in the political economy (see Statistical Appendix for the complete codebook). If, instead, there is textual evidence that a government designs and/or implements policies without the formal involvement of social partners, and without having attempted a concerted reform, the willingness score

⁴⁴ These variables were coded within a wider research project carried out in collaboration with the International Institute for Labour Studies, within the International Labour Collaboration. Preliminary results were presented in Baccaro and Simoni 2005b.

is 0. It must be emphasised that this is distinct from the index of the party/union alliance in that, where a government could rely on the *informal* consensus of trade unions when designing policies and still receive a 0 score, since the emphasis here is on the formal involvement rather than informal influence.

I need to make two further clarifications before discussing this indicator.

(1) The indicator does not record whether or not the concertation attempt was successful. Many attempted negotiations (or attempted delegations) have failed. This indicator gives empirical evidence of the preferred attitude of governments towards social partners before the latter revealed their policy preferences in a negotiation game. (2) In the discussion that follows, macroeconomic policies (including income policies) are excluded from the analysis and from the measure of the index, which will instead focus on welfare and labour policies. There are two reasons for this.

First, there is a methodological issue relevant to the overall research question of this thesis. In the previous chapter, a measure of wage moderation was used to identify unions that are able (therefore potentially willing) to negotiate with social democratic governments in policy making. If I use a similar measure (i.e. willingness to pursue nationally-coordinated wage increases) as an indicator of social democratic willingness to coordinate with unions, it results in an empirical tautology. The second reason is linked to the meaning of concerted macroeconomic policies, which are essentially income policies that are nationally agreed via tripartite or bipartite agreements. However, David Soskice (1990) has demonstrated that nationwide wage coordination can be achieved through informal mechanisms embedded in national industrial relations systems.

Therefore in a number of countries, such as Germany, concerted income policies might be totally redundant.

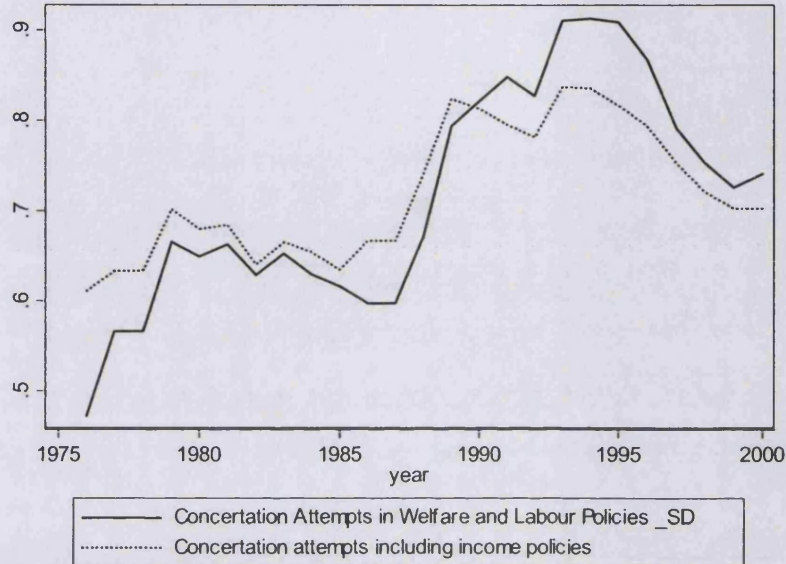


Figure 4.3 – Policy-making Approaches of Social Democratic Governments. The lines (three-year moving average measurement) show the share of attempts made to pursue concerted policies by social democratic governments on all socio-economic issues. The black line includes welfare policies and labour policies, and the dotted line also includes income policies.

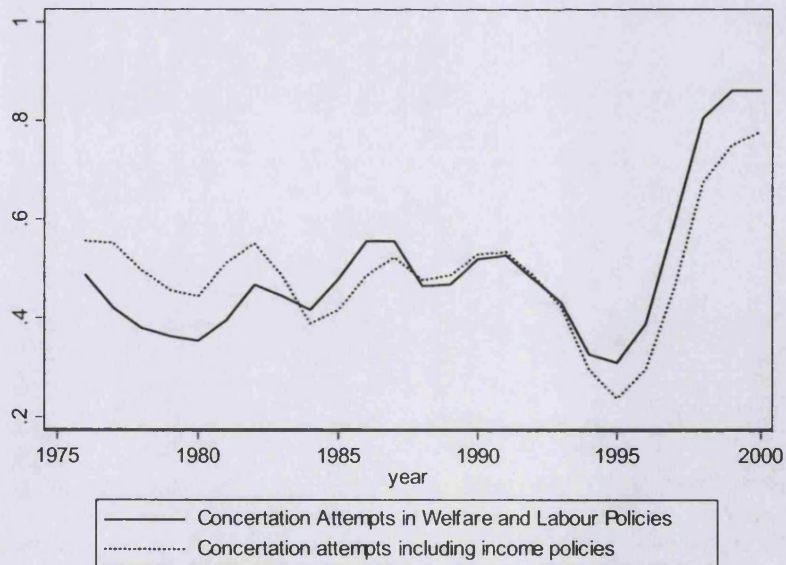


Figure 4.4 – Policy-making Approaches of Non-Social Democratic Governments. The lines (three-year moving average measurement) show the share of attempts made to pursue concerted policies by non-social democratic governments, on all socio-economic issues. The black line includes welfare and labour policies, while the dotted line also includes income policies. The peak recorded between 1998 and 2001 must be interpreted carefully as the country sample is very small in those years (3 or 4 countries).

Social Democratic Convergence on Concertation

Figures 4.2 and 4.3 plot three-year moving average measurements of my index, after controlling for the partisan composition of the government. Two main conclusions are reached: first, that social democratic governments progressively shifted towards concertation as their preferred method of processing socio-economic policies during the 1980s and 1990s; second, that again during the 1980s and 1990s, partisanship was a good predictor of governmental will to include social partners in the design of welfare and labour policies.

In 1976, social democratic governments were willing to further only approximately one third of welfare and labour policies through the formal involvement of social partners (the exact score is 0.36). This share increased over time, so that, in 1994, the centre-left governments in charge, being one-party governments as well as coalition governments attempted to address all their policy concerns in welfare and labour matters with the formal involvement of business and labour.⁴⁵

Similar conclusions cannot be reached for conservative cabinets. During the 1980s and 1990s, the share of concerted policies attempted by non-social democratic governments does not show much variation. Non-social democratic governments were willing to process welfare and labour policies through concertation in roughly half of cases, on average. This figure shows a peak towards the end of the 1990s, but this should be interpreted with care. This high score in average concertation attempts recorded by non-social democratic governments in the late 1990s is more of a statistical accident than a political phenomenon because the country sample is very limited. Indeed, the end of the

⁴⁵ The 1994 peak does not transpire in Figure 4.3 because it displays three-year moving average measurements in order to highlight overall trends.

1990s was an unprecedented period of electoral success for European social democrats. Between 1998 and 2001, only between three and four European countries were governed by non-social democratic governments. Among these were Norway and Ireland, where at the end of the 1990s the concertation system was deeply embedded in the political culture and in the industrial relations system (Dolvik and Stokke 1998; Gunnigle, McMahon and Fitzgerald 1999). Norway is part of the wider family of Nordic countries with traditionally concerted industrial relations, and in Ireland, a peak tripartite agreement has disciplined wage increases and determined the guidelines for macroeconomic management every three years since 1987, i.e. since the beginning of the economic boom.⁴⁶

These data give an empirical explanation of why, given the different constraints faced by social democrats since the late 1970s, the party/union collaboration over policy-making did not collapse. The processes of industrialisation and globalisation had undermined the policy and electoral foundations of the traditional party/union alliance. In spite of this, and in spite of a renewed set of electoral strategies and policy programmes, social democrats' preferred policy-making method for socio-economic steering became *policy concertation* in the course of the 1980s and the 1990s. Informal policy collaborations with trade unions declined but, contrary to expectations, the social democrats promoted a more stringent type of collaboration.

This empirical finding twists slightly the question that was asked at the beginning of this chapter. Party/union collaboration over policy making has

⁴⁶ The concertation attempts by non-social democratic governments are lower, and not trendy, when compared to the social democratic ones. However they are not irrelevant, as include roughly half of them on a yearly base. This observation might confirm early theorisations on the resilience of concerted policy-making over time, suggesting that a differentiation between "non-corporatist" and "corporatist" countries, that is, countries where policies are more likely to be developed through tripartite agreements, could still hold (Lehmbruch 1979: 150). This is however a different research path from the one of this thesis, which focuses on social democratic politics.

endured because social democrats have converged on concertation. However, how can this convergence be explained and interpreted?

Concertation: Why Social Democratic Governments Want It

In recent years, a new stream of literature, fuelled by the unexpected emergence of “social pacts” (a neologism, and in fact a synonym, of policy concertation) in the 1980s and 1990s, has been devoted to analysis of the phenomenon of concertation. It has addressed only indirectly the question of why governments want to involve social actors in their policy decisions (Fajertag and Pochet 1997; 2000; Hassel 2001; Rhodes 2001; Regini 2003).

This literature offers four main types of explanation of the phenomenon in question. (1) First, concertation can help governments to address problems that might otherwise be impossible to tackle. Under certain institutional settings, trade unions might be veto players and hold considerable clout over welfare or labour matters, in particular the reform of pension schemes, where budgets suffer the impact of ageing populations. (Bonoli 2001; Natali and Rhodes 2004). (2) Second, trade unions can provide governments with important information they embed on the most effective way to reform institutions of the labour market and the welfare state. Likewise, unions can effectively represent the preferences of those people who will be directly affected by the policies, particularly because the reforms implemented during the 1980s and 1990s included the retrenchment of the welfare state and flexibilisation of labour markets (Culpepper 2002). (3) Third, labour market liberalisations, widely implemented during the 1980s and 1990s, were advocated or imposed by a number of international organisations (OECD 1994; IMF 2001). These reforms affected crucial institutions of European societies and therefore posed a potential threat to the social fabric that had been built up since

the end of WWII. Through the systematic involvement of organised labour the government could attempt to find an acceptable compromise between the reasons of the market and the reasons of societal stability (Crouch 2000b; Regini 2003). (4) Fourth, the run up to the EMU pushed governments into establishing new wage-setting institutions through “social pacts” in order to “stabilize nominal exchange rates [...] and meet the core convergence criteria of the Maastricht Treaty” (Hancké and Rhodes 2004: 197).

The main problem with these explanations is that they do not offer a specific answer to the question of why social democrats intensified the involvement of trade unions in the policy-making process during the 1980s and 1990s. They configure a set of reasons that could be applied to any government irrespective of its partisan composition. Instead, the social democratic convergence on concertation, which is clear from my data, requires a specific theoretical interpretation linked to the policy and electoral incentives of European socialists. Given that Social democrats no longer have political economic reasons to nurture a close relationship with trade unions, in the next section I will suggest that the electoral field can suggest an understanding of their behaviour.

I will look at my data through the lens of Kitschelt’s spatial model of party competition. Interestingly, Kitschelt’s model of political preference formation will prove a powerful aid to reaching different conclusions on the party/union relationship than his own.

The Social Democratic Dilemmas

- “The transformation of capitalism since World War II, the rise of the Keynesian welfare state, together with the transformation of the economic structure that expanded the proportion of labor market participants who are highly educated, work with clients, and are female has shifted the main axis of voter distribution from a simple alternative between socialist (left) and capitalist (right) to a more complex configuration opposing left-libertarian and right-authoritarian alternatives.” (Kitschelt 1994: 30-31)

This is, in a nutshell, the argument upon which Kitschelt builds his theory on the “new” social democratic dilemmas, as developed across European countries since the late 1970s. This argument leads him to conclude that social democrats need to detach themselves from unions if they are to win office.

Figure 4.5 gives a spatial representation of this theory. In the post-war decades, voters were distributed evenly across the socialist-capitalist (left-right) divide. Therefore, the most logical positioning of the party was around its median voter, on the centre-left side of the spectrum, while it kept neutral on issues linked to libertarian/authoritarian ideologies (the position SD1 in the graph).

Socio-economic changes altered the distribution of voters. This shift reflected the increased importance of market mechanisms in contemporary societies, and the different composition of the labour force. Kitschelt assumes that preference formation of individuals is linked to their type of occupation, and therefore the traditional class divide, between owners and non-owners, has lost salience. The new distribution of voters is skewed towards the market-side of the continuum, and tilted so that the less market-oriented voters are also more libertarian. As a consequence, if they want to obtain political majorities, the social democrats have to re-position themselves and move towards a new policy configuration that is increasingly liberal and market-oriented (SD2 or SD3). In

doing so, “social democrats are confronted with the difficult task of combining coalitions among bits and pieces of the working class with various occupational segments of the white collar constituencies” (Kitschelt 1994: 33). Therefore, according to Kitschelt’s conclusions, parties need to become detached from unions, so as to increase their strategic flexibility.

However, this conclusion rests on the assumption that unions are unwilling to endorse market-oriented programs or more liberal stances in general (Kitschelt 1994: 225). If, instead, this issue is left to empirical verification, the conclusion can change.

Kitschelt’s Conclusions Qualified

The starting point for a different course of analytical reasoning is the observation that the (potentially) unionised working class does not cluster evenly in the new voter distribution, but spreads depending on the occupational sector of activity. Public sector employees (PSE), sheltered from market forces, will be placed on the socialist-libertarian side. The traditional industrial working class (W) is instead likely to be placed somewhere in the third quadrant, because it supports the traditional welfare state while at the same time its social milieu does not bring it to endorse new libertarian issues. At the same time, the growing pool of highly educated workers in international competitive sectors (CS) is likely to support a reduction of the public sector, while endorsing a more liberal society.

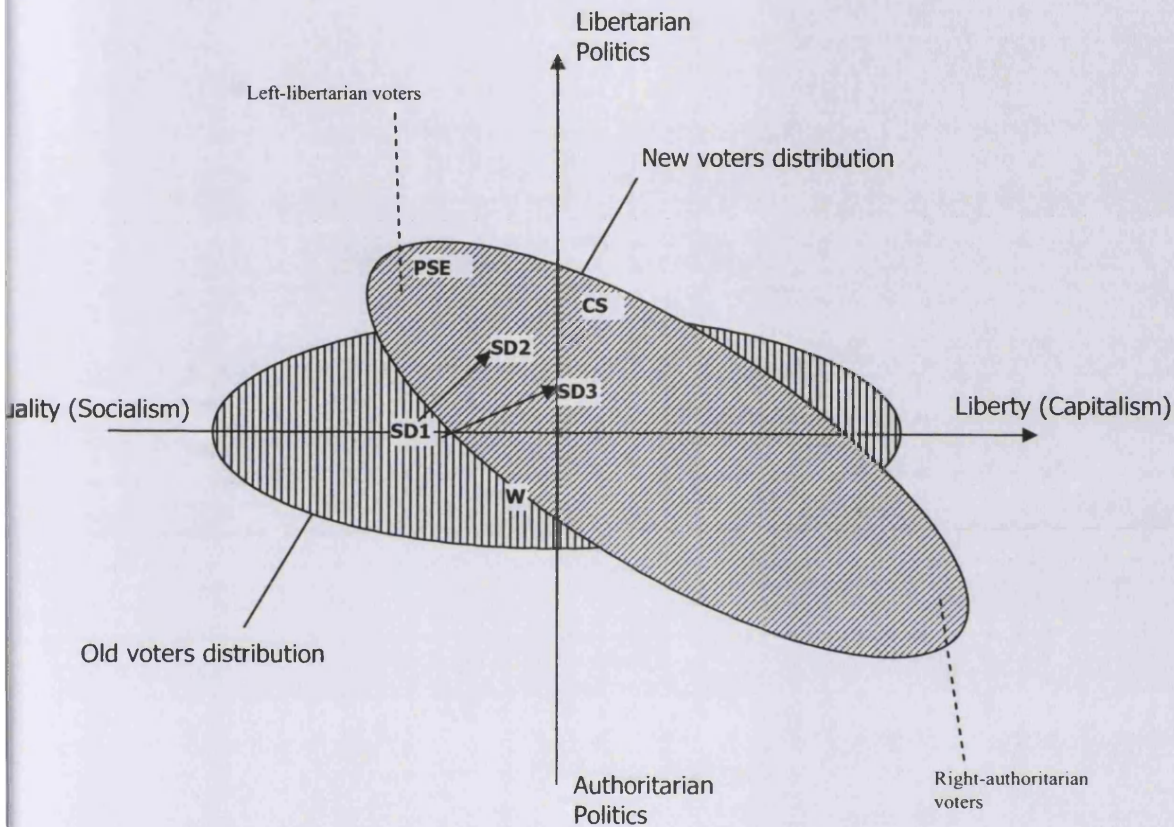


Figure 4.5 – The Changed Distribution of Political Preferences in the 1980s and 1990s.
 Source: Kitschelt (1994: 32)

The overlapping electoral and policy dilemmas of social democratic parties are therefore extremely clear. If social democrats simply abandon the traditional Keynesian welfare state while endorsing left-libertarian post-materialistic issues, they are likely to lose the vote of the traditional worker (W), potentially to a populist authoritarian party. If, instead, they simply defend existing welfare structures, they might not capture the vote of modern and dynamic sectors (CS). Under these conditions, appeals to class politics tend to

divide the working class, and they are no longer a feasible strategy for social democratic parties. They have instead to manage a variety of conflicting interests and to fine-tune their policies so as to maximise votes and the chance to gain executive office.

As Kitschelt emphasises, the exact distribution of voters changes country-by-country, and over time within individual countries: it is therefore reasonable to assume that social democrats do not know its precise shape. Under these conditions, policy collaboration with trade unions can be seen in a different light.

If (1) trade unions encompass a wide variety of sectors, including traditional workers in sheltered sectors, public sector workers, and workers belonging to the exposed service sectors; and if (2) the confederation is cohesive and able to discipline and solve distribution conflicts among its own members and affiliates; then the involvement of unions in the policy-making process helps social democrats to position themselves in the new political space.

Indeed, in many European countries, trade union confederations organise workers across different sectors. This is confirmed, indirectly, by a growing stream of the literature that analyses conflicts within organised labour between workers in sectors that are sheltered from or exposed to international competition (Crouch 1988; Garrett and Way 1999; Franzese 2001). If conflicts can be solved within organised labour, the agreement of cohesive encompassing unions over the social democratic policy drift (towards either SD2 or SD3 in the figure) can increase the overall consensus mustered by the social democratic government: the policy shift will be geared so as to win the consensus of trade unions. This ensures that they will gain more votes overall than they lose from their traditional

constituencies. Additionally, if social democrats are able to negotiate their socio-economic policies with trusted representatives of a variety of sectors, they will find strategy-setting much easier as at least a portion of the distributive compromise will have to be solved within trade unions, during the negotiating phase.

Therefore, if the trade union movement is cohesive, social democrats have a strong incentive to grant it some policy concession, so as to secure its endorsement of their economic policies. In turn, under an unfavourable overall scenario, trade unions will be given a chance to influence the policy outcome and minimize the negative consequences for their members, and themselves as organisations.

If instead unions are fragmented, policy concertation will not be a viable policy tool for social democrats. If the confederation cannot effectively and credibly represent all the affiliate unions and all the members, the negotiations will include a myriad of disconnected issues that must be discussed with each portion of the labour movement. As a consequence, the policy concessions that the party would need to make to them in order to gain their compliance would be too high, bringing it to the scenario depicted by Kitschelt, i.e. the alienation of the non-union workers in the modern service sectors. Additionally, if the confederation has no means by which to solve internal distributive conflicts among members and affiliates, the negotiations in the concertation phase are likely to break down and trigger social unrest. Fragmented organised labour, therefore, encourages social democrats to detach themselves from unions and, to pursue their policies unilaterally.⁴⁷

⁴⁷ There could in theory be a case where trade unions stick to “old” Keynesian policies: in this case the socialists would need to detach from unions as well, since this would bring them to the

Reverting to Old Allies During Difficult Times

Based on fresh empirical material, on the review of social democratic political economy, and applying existing theories of party competition, I have given an interpretation of the social democratic approach towards organised labour in the new context that developed after 1980.

Social democratic parties faced an overlapping electoral and policy dilemmas. They had to implement a “new” political economic strategy based on economic orthodoxy, on the virtues of private initiative, and centred on a low-inflation regime. Measures promoting employment and equality focussed on the improvement of social capital, i.e. on training measures and active labour-market policies. This strategy is market-oriented; it entails disengagement from traditional forms of the welfare state, and acceptance of new post-materialistic libertarian issues.

The new policies must be able to satisfy simultaneously a variety of different preferences. In fact, political preferences are linked to occupation type, and post-industrial labour composition is very diverse. Therefore, contemporary social democratic political economy has to rest on a sequence of distributional compromises on both materialistic and ideological issues.

In this scenario, social democrats have returned to their traditional ally, the trade union confederation, not because they share ultimate goals or purposes, but because cohesive trade unions can help social democrats to identify the best compromise; that is, the point at which the maximum number of votes could be

scenario depicted by Kitschelt: i.e. strategic paralysis, the disaffection of the market-oriented portion of the electorate, and, eventually, electoral disaster. This seems indeed to have been the case in the early phase of party/union interactions during the period under observation (roughly 1980-2000). This case was characterised by the fact that unions had not internalised the new policy programs of social democrats, and it will be analysed in the next section, as an instable configuration of party/union interactions.

gained through market-appealing liberal policies, while minimizing the loss from traditional working class constituencies.

Encompassing trade unions embed in their own body a number of the conflicts social democrats need to address when trying to build a supporting social coalition. The concertation process, including negotiations on distributive issues, shifts the process of conflict resolution from the policy arena to the trade union body itself. In the next section I will frame these conclusions within a game-theoretical model that will allow me to stylize and specify more transparently the different set of incentives, gains, and, therefore, preferences, of both sides of the party/union equation.

4.3 Two Equilibria for One Alliance: A Game-Theoretical Interpretation of the Party/Union Relationship Under Low-Inflation Regimes

At this point of the analysis I have all the pieces with which to put together a theoretical answer to the research question of this thesis, i.e. what is driving the party/union alliance in the 1980s and the 1990s? I will use a game-theoretical tool to bring together the conclusions reached in the previous chapters. First, I will describe the game tree in its extensive form, and then I will formalise the game in order to highlight the relative contribution of the different variables. I will show that when union cohesiveness is stalling, and the social democratic party has moved far away from its traditional set of socio-economic policies – which is consistent with events in most European countries – party/union collaboration will happen only if labour is very cohesive. Additionally, given that in the previous chapter I have shown that cohesiveness depends on democracy and

member concentration, these two are the key variables that can account for different patterns of party/union interactions.

In liberal democracies, elected governments can freely decide whether or not they wish to include trade unions (as any other collective actor) in the policy-making process. As such, the game starts with a move by the social democratic party.

Actors' Preferences and Assumption of Low-Inflation Regime

For the sake of simplicity, my modelling exercise refers to the interaction between a one-party social democratic government and a trade union confederation holding monopoly over workers' representation. The key assumption of my game is that the macroeconomic framework is characterised by a hard-currency regime where low inflation is targeted by independent central banks, consistent with the situation of most Western European countries since the early 1980s.

Previous attempts to use game-theoretical modelling of party/union relations have based the structure of preferences of the two actors on the preferred political economic stance and its interaction with the preferred course of wage policies (Scharpf 1991; Boix 1998). In these previous analyses the combination of expansive (restrictive) policies with wage restraints (militancy) was key in determining whether socialists and unions would be able to co-operate. I argue instead that in the changed macroeconomic scenario, wage increases have lost salience in determining the party/union relationship, and once they are taken out of the picture, the economic policy stance cannot explain party/union interactions by itself as, everything else being equal, both parties and unions prefer expansive policies to restrictive ones (Scharpf 1991; Boix 1998).

Since the 1980s, monetary policy considerably restricted the room for manoeuvre of political actors, and also changed the preference structure of trade unions. Inflation is controlled by independent central bankers through a careful discipline of money supply (Notermans 2000). Under a low-inflation regime, both trade unions and social democratic parties prefer wage moderation to wage aggressiveness because inflationary wage increases are paid by an immediate rise in unemployment levels (Garrett 1998; Hemerijck and Schludi 2000; Hassel 2003a). This does not mean, clearly, that unions are always able to exert wage restraint. However, this assumption finds indirect confirmation in trends in European labour costs: real unit labour costs in the EU15 decreased by 12.5% between 1980 and 2000, while they had increased by 3.4% between 1960 and 1980 (European Commission 2004).⁴⁸

Under this macroeconomic framework, as clarified earlier in Section 4.1, a social democratic government does not need the collaboration of trade unions to reach its preferred fiscal equilibrium. Therefore, the decisions of the party are solely dependent on its desire to remain in office. This assumption on party preferences is common in the game-theoretical literature analysing the behaviour of governments (see for example: Bueno de Mesquita et al. 1999: 793). Conversely, the objective of the trade union leaders who interact with governmental officials is twofold, as it traditionally is in the analysis of organised labour. On the one hand, union leaders are motivated by the desire to improve the working and living conditions of their members, while on the other they want to increase the power of their organisation (which, in turn, will be instrumental in the first aim: Webb and Webb 1898; Pizzorno 1978; Rothstein 1992).

⁴⁸ Series “Real Labour Costs, Total Economy”, countries “EU15 including Germany”, AMECO database of the European Commission.

Structure of the Game

Given my assumptions, I model the party/union relationship as a typical problem of cooperation: in doing so I follow the form of the previous examples (Scharpf 1991; Boix 1998). There are different types of cooperation game in issues of political economy: the Prisoner's Dilemma (PD) is perhaps the most famous one (Morrow 1994: 78-79). However, real world situations rarely satisfy the assumption of isolation that sustains the equilibrium in the PD. Most of the time actors interact, learn from this interaction, and construct their preference on the basis of the expected behaviour of the others: this clearly corresponds to the case I am concerned with (Sen 1977; 1985: 351; Ostrom 1998: 10-11; Biggs 2001: 9).⁴⁹ This game models party/union interaction for policy-making purposes. Indeed, parties and unions interact before and after governance periods, as well as repeatedly during governance periods. The relations between them generate an amount of information on each other, which generates trust, distrust, mutual expectations and ultimately will determine their relationship.

Against this backdrop, I model the party/union interaction over policy-making as an iterated game in which both actors learn from the previous round. There is a finite, but large, number of periods ($t = 0, 1, \dots, n$) during the tenure of a social democratic government. The party starts by moving in the even-numbered periods, and the unions react in the odd-numbered period. In each even-numbered period ($t = 0, 2, \dots, n - 1$) the party has to implement a policy in the field of socio-economics, which includes fiscal policies, welfare (spending) policies, and labour

⁴⁹ When the assumption of isolation is relaxed, problems of cooperation take different forms, which include 'Battle of the Sexes' games, or 'Assurance' games in which different, or multiple equilibria can be reached, depending on the information shared by the players, the level of trust between them, or the expectation on the other's behaviour. "If you play Always Defect, so will I; but if you play [Cooperate], so will I" (Sen 1967; McLean 1986: 383).

policies. The party cannot fail to start the game because the consensus it enjoys is a function of the policy it delivers, and the probability that it remains in office is directly correlated to the consensus it musters.

(1) In period $t = 0$, i.e. just after winning an election, the party has to decide whether to include trade unions in the formation of the policy, thereby starting a negotiation phase (i.e. cooperate), or not to include the trade unions in the formation of the policy, thereby proceeding unilaterally (i.e. defect). Therefore the unions' participation in the game is contingent on the decision that the party takes. If the party decides to defect, the party would enact unilaterally (during $t = 1$) the policy it proposed in the electoral manifesto (p^m). In this case, assuming that the electorate has voted the party into office on the basis of correct information about the manifesto, the party will keep its consensus steady: its utility gains, therefore, are nil (consensus is neither lost nor gained). In $t = 2$, when a new policy has to be initiated, the party will have to decide again whether to co-operate or defect.

(2) If in $t = 0$ the party decides to cooperate, the game moves to the next period, and the unions play. Given the new distribution of voters (analysed earlier in section 4.2) the party is willing to concede only small concessions to secure unions' compliance and moderation, because otherwise it would lose many votes from non-union cohorts, and its balance of votes would be negative. If the concessions are enough for the unions to cooperate, the policy is implemented through the coordination of

the two actors: if instead the unions defect, no policy is implemented. In the first case both actors achieve positive gains. The party enacts its policy with only marginal changes in the form of concessions for unions; plus, it gains the open consensus of a large mass organisation. The unions have retained their role in the labour market and the policy arena, and have additionally secured some policy concessions. If, instead, the unions defect, the negotiations break down and no policy is implemented. The party's utility gains are negative, as no policy is implemented.⁵⁰ The unions' utility gains, conversely, are nil as no policy concession is secured, but they retain credibility in the workplace as uncompromising defenders of the interests of the workforce, thereby incurring no cost either.

(3) In $t = 2$ the party has to start another round, and it will decide its move according to the previous results. Before examining the second round, however, it is necessary to make explicit the factors upon which the game is determined.

On What Basis Do Party and Unions Decide?

The decision tree of this game is shown in Figure 4.6. How do parties and unions take their decisions? The best way to answer this question, as often happens in game-theoretical analysis, is by starting from the end of the game, i.e. from the decision taken by the unions.

⁵⁰ The same negative utility is the consequence of an excess of concessions to unions if they are not able to comply with small concessions. An excessive amount of concession can be seen as a defection from the original policy manifesto, and the party would lose consensus from the electorate at large for failing to deliver the promised policy.

Facing a choice between cooperation and non-cooperation, rational unions under perfect information should opt for the first route. In this case, indeed, payoffs are maximised, because even under an unfavourable macroeconomic scenario the unions can reap policy concessions and affirm their role in the policy arena. Additionally, at the bargaining table, union leaders are likely to seek concessions in terms of their statutory role in the labour market and welfare state management, so as to further entrench their relevance as organisations. However, given that the party is willing to concede only small payoffs, and that its overall economic stance prioritises inflation over unemployment, the unions must be able to fill a larger information gap between members and leadership than the one encountered under a Keynesian macroeconomic framework (I discussed this problem faced by unions at length in sections 3.1 and 3.4). In Chapter 3 I demonstrated that concentration of membership and confederation democracy (i.e. cutting across occupational sectors) are the key internal features that allow encompassing (i.e. organising workers across different sectors) union confederations to moderate their claims. However, if encompassment (as proxied by union density) is stalling or decreasing, the more the social democratic economic stances have departed from their traditional positions, the more cohesive the trade unions need to be if they want to be able to negotiate successfully with the government.

Consequently, only if unions are very cohesive (i.e. concentrated and democratic across occupational sectors) will they be able to cooperate with social democratic governments and achieve the maximum payoff. If, instead, they are fragmented, the negotiation phase will trigger distributional conflicts within them. Lacking democratic procedures, confederations will experience considerable

policy drift at local level, the emergence of competing unions (Regini 1984), and the ultimate failure of co-operation with social democratic governments. The governments see this case as the worst possible outcome, as they lose consensus from unions *and* the electorate at large, for failing to implementing their electoral pledges.

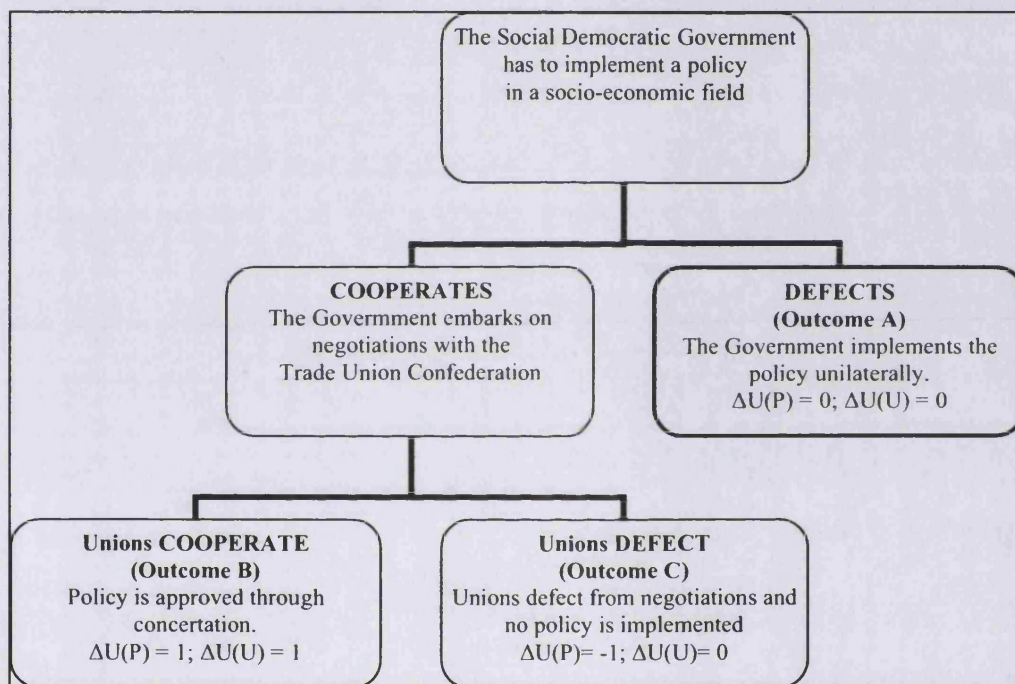


Figure 4.6 – Decision Tree of Party/Union Interactions.

$\Delta U(P, U)$ represent the utility gains of the party and the union respectively. In the case of party defection (A) utility gains for unions are marked as zero because this is the equilibrium in the dilemma faced by unions when confronting a defecting social democratic governments (see text and note number 51).

Moving up a level in the game, I can now examine the initial choice faced by the social democratic government. The party can pursue a risk-averse strategy and defect from cooperation. Defection entails it pursuing its own policy manifesto, and nil utility gains. It should be noted that, given the party has already won elections, if utility gains are nil, *ceteris paribus*, it still enjoys a relative majority within society. However, if the party believes that it faces an

encompassing and cohesive union confederation, it has an incentive to seek its point of maximum utility, thereby including the confederation in negotiations. If a policy is implemented *and* open consensus is obtained by a large body of organised labour, the government will improve overall consensus, and therefore overall utility (the theory behind this argument was discussed in section 4.2). Only cohesive unions, indeed, will comply to harsh compromises in which the party will concede only marginal changes to a policy program grounded on market efficiency and supply-side and means-tested welfare state measures. At this point I can analyse the second round of the iterated game.

(4) In $t = 2$ the game starts again on a new set of socio-economic policies, and the party will adjust its strategy according to the first round. If negotiations were successful, it will be convinced even more strongly that unions are cohesive and it will continue to cooperate. If negotiations were unsuccessful, the government will instead defect from cooperation. If the government has already defected in $t = 0$, it cannot change its mind on the basis of the information it has gained during the game, because no game was really played. As a consequence, it is unlikely to change course of action (unless it became willing – or needed – to take the risk of union defection). As a consequence, the “party cooperation/union defection” situation (outcome C in the tree) is unstable, whereas outcome (A) and outcome (B) are the two equilibria of the game, which are reached when organised labour is fragmented or cohesive (i.e. concentrated and democratic) respectively.

Preliminary Conclusions

Figure 4.7 shows the complete utility matrix of party/union interactions under a low-inflation regime. This is displayed for illustrative purposes as the equilibrium that is reached depends on the sequence of decisions displayed in Figure 4.6. The matrix structure is similar to the “Assurance Game” (Sen 1967), or the “Stag Hunt” game, a famous problem of interaction analysed by David Hume and J.J. Rousseau (Skyrms 2001). These games simplify the problems connected to the emergence of the “Social Contract”. The two actors would gain maximum utility from cooperation, but cooperation depends on the level of trust between them (Sen 1985; McLean 1986: 38; Biggs 2001). As proved by Brian Skyrms (2001), when the number of players is small, it is very hard to change the equilibrium from non-cooperative to cooperative. Indeed, if the unions are kept out of the game by a decision taken by the government in $t = 0$, they have no way of proving themselves cohesive in the game, as they are out of the game.

The representation of the party/union interaction in a game format has helped to highlight a paradox inherent in the conclusions I reached, through analytical reasoning and empirical testing, in the previous sections of this study. The equilibrium of this game, which represents the fate of the party/union relationship, is dependent on the extent to which organised labour is encompassing and cohesive, i.e. the fate is dependent on only one of the two players. However, the party (i.e. the other player) will make the first move according to its own perception of the degree to which the union is encompassing and cohesive. The overall equilibrium is therefore dependent on the choice (utility function) of the player who does not “determine” the game. Indeed, in the changed macroeconomic framework that has developed since the late 1970s,

unions no longer retain crucial influence over the macroeconomic equilibrium, as a low-inflation regime prevails across industrialised countries and inflation is determined through the discipline of money supply. As a consequence, if the unions are evicted from the policy arena in the first place, they are trapped in a defection equilibrium over which they have no influence.

Consider now how the unions can react in $t = 1$ (or any other odd-numbered t) if the government has defected in the first place (outcome A). In this case, the unions' utility gains from the interaction with the government are nil, as no interaction occurs.⁵¹ If unions enjoy perfect information on the policy program, they will adjust to the party detachment by stressing their role within the labour market as independent actors in the political economy. Under these conditions, if unions are willing to affirm a wider role in the policy arena at national level, they have no alternative but to engage on non-economic issues and to embark on non-materialistic policy campaigns, such as anti-war campaigns, anti-racism campaigns, and so on. Under a low-inflation regime, when the unions are out of the policy-making game they have very few shots to fire in the economic management field. This contributes explaining why, during the 1990s, trade unions increased their role in social movements, affirming themselves as the main organisation of "civil society" (Hyman 2001).

I will now proceed to formalise this game, so as to highlight the relative importance of the factors shaping the equilibrium of the game, and the conditions that must be satisfied in order for the equilibrium to change.

⁵¹ In the case of imperfect information, the unions might be negatively surprised by the policy course undertaken by the social democratic party, and might try to force government to collaborate through social mobilisation. However, the structure of the game does not allow them any real clout over the party's decision, and so the unions will pay the organisational costs associated with mobilisation without gaining any policy concession, and their utility gains will be negative. In this case, during the next turn the party is likely to repeat its decision and defect again. The unions will then have acquired sufficient information to adjust to detachment, i.e. to the outcome (A).

		Trade Union Confederation	
		<u>Cooperates</u> (protests)	<u>Defects</u>
SD Government	<u>Cooperates</u>	B(+, +)*	C(-, 0)
	<u>Defects</u>	A1(0, -)	A2(0, 0)*

Preference Ordering	SDG	TUC
B. Policy through concertation	4	4
C. Failure of concertation	1	2
A2. Unilateral policy. Unions adjust.	2	2
A1. Unilateral policy. Unions protest.	2	1

Figure 4.7 – Party/Union Relations In European Countries Since the 1980s.

Signs and zeros in the matrix indicate utility gains/losses/nil. In the preference ordering, 4 represents the most preferred course of events and 1 the least preferred course of event. Stars identify the two equilibria of the game.

4.4 The Formalisation of the Party/Union Game

The Party's Utility Function

Let the total utility of the party be equal to the number of votes it wins, and v be the votes won by the social democratic party before the game starts, as a share of total votes. This is, by definition, the sum of a share of unionised workers (w) and a share of non-unionised workers (n).

$$v = v(w, n) = \alpha w + (1 - \alpha)n \quad (1)$$

where α is the unionisation rate, or union density, $0 < \alpha < 1$

I assume that the number of votes that the party is able to capture from each of the two groups of voters is a function of the vector of policies (P) supplied by the party, as in a classic supply/demand political model.

$$n = n(P)$$

$$w = w(P)$$

As a consequence, given that my game starts with the party just having gained office, the change in the number of votes for the party depends both on the policies actually implemented and the policy that each of the two groups expected

from the party. Let P_w^e be the policies expected by unionised cohorts, and P_n^e the policies expected by non-unionised cohorts.

To simplify the notation, I will now refer to the party policies as p , ($0 < p < \infty$), but it should be kept in mind throughout that I am referring to a set of policies rather than a single policy. Increasing values of p (i.e. moves towards the right) denote policy packages that unions dislike, such as welfare state retrenchment, flexibilisation of the labour market, etc. Decreasing values of p (i.e. moves towards the left) instead represent policies that the unions appreciate, such as the defence of the welfare state, the increase of unions' role in the management of welfare state institutions and the labour market, etc. I assume, consistently with theories laid down in the previous sections of this study, that policy preferences are formed in the workplace and that they can be unified across occupational sectors by cohesive trade unions through democratic decision-making. The non-unionised workers will tend to like those sets of policies that the unions dislike, as they are more liberal both in the personal sphere and in their conception of the market by virtue of the type of occupations they have (see Section 4.2).

In other words, I assume a trade-off between the votes of unionised and non-unionised workers. However, this trade-off is dependent on a number of parameters including the unionisation rate (α) and the cohesiveness of the two groups of voters around their own preferred policy course. This latter is the last assumption of this formalisation of the side of the party, namely that the price the party must pay in terms of policies in order to win more consensus from the two groups of voters depends on their respective cohesiveness. Consider now the trade union confederation. If the latter is cohesive (because it is democratic and concentrated, see Chapter 3, Section 4), this means that it is able to adopt

moderate stances, that unify its body of members around a given policy package. Under these conditions, in order to win a large portion of unions' votes, small policy concessions are enough. If, instead, the union confederation is fragmented into a myriad of different affiliate unions with no democratic rule cutting across them, the consensus of each union must be won individually, through subsequent sets of policy concessions. For reasons of symmetry, and consistently with the theories of political preference formation analysed earlier in section 4.2, I assume that when non-unionised workers are concentrated in fewer occupational segments they hold less dispersed policy preferences. As a consequence, small changes in policy stances have a strong impact on the votes the government can win or lose. If, instead, the structure of the labour market is very differentiated, policy preferences among individuals will be differentiated as well, and large policy shifts will be required to produce large swings in votes.

These assumptions are formalised in the two derivatives:⁵²

$$\frac{dn}{dp} = N_n (p - p_n^e)^3$$

$$\frac{dw}{dp} = -N_w (p - p_w^e)^3$$

With: $0 < N_n, N_w < 1$

⁵² I am assuming here that votes (consensus) of the two different groups have a parabolic relation to policies, so that the derivative is of an odd order. This means that both the union preference for traditional welfare policies, hence state intervention in the economy, and the non-union cohorts' preference for state disengagement, find a limit within the boundaries of liberal democracy, which implies that some room for preferences must be always granted. For example, if a hypothetic ultra pro-union government progressively increases state intervention in the economy to the point where private property is endangered, the consensus of unions would start to decrease. Similarly, the non-union consensus on liberal policies finds a limit at the privatisation of public goods such as the judiciary, police, and, perhaps, hospitals (see for an analogy Kitschelt 1994: 9-12).

Where p is the policy actually implemented by the government, p_n^e and p_w^e the policies expected by non-unionised cohorts and unionised cohorts respectively, and N_n and N_w are parameters of cohesiveness that range between 0 (total dispersion) and 1 (total cohesiveness). The two derivatives have opposite signs to account for the trade-off between gaining union versus non-union votes. Finally, I am using a third-order function to represent a context wherein the consensus of the social groups is very sensitive to large differences between expected and implemented policies, and less sensitive to small differences between them. In other words, social groups tolerate some difference between electoral pledges and actual policies, but get very upset if the actual policies are very different from the pledges.

The decision that the government officials must take depends directly on the first derivative of equation (1) as social democratic parties aim to remain in office, thus either preserving or increasing their consensus. The first derivative of the (1) represents precisely the variation in the total consensus:

$$\Delta v = \frac{dv}{dp} = \frac{\partial v}{\partial n} \frac{dn}{dp} + \frac{\partial v}{\partial w} \frac{dw}{dp} = (1 - \alpha)N_n (p - p_n^e)^3 - \alpha N_w (p - p_w^e)^3 \quad (2)$$

The Unions' Utility Function

Let me now switch to the unions' side of the game. Before the game starts, i.e. immediately after the social democratic electoral victory, the unions have internalised a given expectation on the vector of socio-economics policies that the party will pursue P_w^e . The utility unions attach to it depends on the

policies incorporated in P_w^e , including the level of transfers to union members, the social security provisions, and the labour regulations including statutory roles of trade unions in the labour market.⁵³ To simplify the notation, I convert the vector of policies P_w^e into the same integer p I have used in the party equations.

$$U_w^e = U_w^e(p_w^e)$$

It is worth recalling that the overall utility of unions increases as p decreases, therefore, if p is the policy that the government offers to the unions during a negotiation phase, the unions should agree to cooperate with the government each time that $p < p_w^e$. However, it is an established conclusion of the literature that when the trade unions enter negotiations, information gaps are likely to emerge between leaders and the rank-and-file, so that additional institutional features are needed if the unions want to gain utility from policy concessions and not end in internal distributive conflicts or, worse, see the emergence of competing unions (Pizzorno 1978; Olson 1982). From the analysis in Chapter 3, I have established that encompassing union confederations need to be cohesive in order to moderate their stances and abide to compromises, and that democratic decision-making rules and a concentrated membership are the

⁵³ The complete utility function of trade unions is a complex equation that is dependent on at least four variables (as formalised by Mares 2006: 41), to which my analysis is in effect adding a fifth one. The first four are: the monetary stance of the central bank (β), the real net wages (ϖ), the transfers to union members (τ), and the social services available to members (ξ). I am adding to these the institutional role given to unions by force of political decisions (ι) as this is known to be positively correlated to union density (e.g. the management of unemployment insurance as in the Ghent systems; see Rothstein 1992). In its simplest form, the unions' utility function is therefore $U^U = U^U(\beta, \varpi, \tau, \xi, \iota)$, whose analysis is beyond the scope of this thesis. Therefore, when in the text I make reference to the derivative of total utility, it should be kept in mind that it is in fact a partial derivative, referring only to the change in utility that depends on the change in policies, all the rest being equal.

institutional requisites for cohesiveness (see Section 3.4). This is formalised by the following derivative:

$$\Delta U_w = \frac{du}{dp} = -\left[N_w(p - p_w^e) + (1 - N_w)(p - p^u)\right] \quad (3)$$

in which $(p - p^u)$ is the gap between the compromise actually reached by union leaders with the government, and the ideal policy stance of the rank-and-file. p^u can be understood as representing policy stances closer to “old” Keynesian policies, including a high level of transfers, high social provisions, and a high level of protection from dismissals.⁵⁴ When the trade union confederation is extremely cohesive (hence, democratic and with a concentrated membership), so that $N_w = 1$, its utility gains are equal to the policy concessions that it is able to gain from negotiations. When instead the confederation is completely fragmented, the utility will be negative and completely correlated to the information gap between union leaders and rank-and-file, which increases as the policy manifesto of the social democratic party shifts towards the right. This can be shown more clearly through simple mathematical manipulations⁵⁵, which turn equation (3) into the following expression:

⁵⁴ I assume that the p^u parameter is not known by the Social Democratic party.

⁵⁵ Consider only the argument within the parenthesis:

$$\begin{aligned} N_w(p - p_w^e) + (1 - N_w)(p - p^u) &= N_w(p - p_w^e) + (1 - N_w)[(p - p_w^e) - (p^u - p_w^e)] = \\ &= N_w(p - p_w^e) + (1 - N_w)(p - p_w^e) - (1 - N_w)(p^u - p_w^e) = \\ &= N_w(p - p_w^e) + (p - p_w^e) - N_w(p - p_w^e) - (1 - N_w)(p^u - p_w^e) = \\ &= (p - p_w^e) - (1 - N_w)(p^u - p_w^e) \end{aligned}$$

$$\frac{du}{dp} = -\left[(p - p_w^e) - (1 - N_w)(p^u - p_w^e) \right] \quad (4)$$

Where $|p - p_w^e|$ are the policy concessions gained by unions through negotiation, and $|p^u - p_w^e|$ is the difference between the preferred policy stance of union rank-and-file (“old” Keynesianism) and the policy that the unions expect from the social democratic government. In case the unions are expecting the policy as expressed in the party’s policy manifesto, the expression $|p^u - p^m|$ represents precisely the policy drift from traditional Keynesianism that social democratic parties across European countries have enacted (see Section 4.1).

Indeed, equations (4) and (2) can be simplified by setting the condition of perfect information over policies, so that the expectations of union cohorts, non-union cohorts and the party are the same, i.e. they coincide with the party’s electoral manifesto:

$$p_w^e = p_n^e = p^m$$

Then we have the variations in both the party’s votes and the union’s utility set, as follows:

$$\Delta v = \left[(1 - \alpha)N_n - \alpha N_w \right] (p - p^m)^3 \quad (5)$$

$$\Delta U_w = -\left[(p - p^m) - (1 - N_w)(p^u - p^m) \right] \quad (6)$$

The Equilibrium of the Game

The equilibrium of the party/union game described in the previous section depends on the parameters of equations number (5) and number (6). Let me now analyse their implications by going back to the beginning of my game. The party has won an election and faces two options. Either it implements its policy program unilaterally (p^m) or it decides to cooperate with the unions. In this latter case, the party needs to secure some payoff (concessions) for the unions in return for their collaboration, so that $p_c < p^m$. Given equation (5), the party will implement p_c only under the condition that:

$$\Delta v > 0 \Rightarrow [(1 - \alpha)N_n - \alpha N_w] < 0 \Rightarrow (1 - \alpha)N_n < \alpha N_w \quad (7)$$

In other words, if the unionisation rate (α) is stalling, or decreasing, the party will have an incentive to cooperate with trade unions only if their cohesiveness (N_w) is high. Under this condition, even a small policy concession will translate into a high return of votes for social democrats, with a relatively small loss of votes from non-unionised cohorts (point p_{c1} in Figure 4.8 – in order to simplify the illustration, the two graphs are constructed on the condition that half the workers are unionised, $\alpha = 0.5$, otherwise the scales of the y axis would not be the same for w and n). If, on the contrary, both unionisation and cohesiveness are low, the party is likely to lose votes from involving unions in policy making (point p_{c2} in Figure 4.9).

This latter case can be better understood through an analysis of the derivative of the union's utility function, i.e. equation (6). The unions will have an incentive to conclude negotiations with the government under the condition that:

$$\Delta U_w > 0 \Rightarrow (p - p^m) - (1 - N_w)(p^u - p^m) < 0$$

$$(p - p^m) < (1 - N_w)(p^u - p^m) \quad (8)$$

Keeping in mind that smaller values of p (i.e. moves towards the left) are by definition preferred by unions, this condition is satisfied the closer the party manifesto is to "old Keynesian policies," the more cohesive the confederation is, and the larger the policy concessions are. In Section 4.1 I reviewed that social democratic parties under low-inflation regimes have reappraised their policies, and abandoned Keynesianism. For the sake of this game, therefore, we can hypothesise that $|p^u - p^m|$ is quite large, rendering condition (8) rather difficult to achieve.⁵⁶ Therefore, in order for unions to have positive utility gains, either they need to be very concentrated, i.e. N_w close to 1, or they need to gain large policy concessions, i.e. $|p - p^m|$ must be large. This explains why, given the trade-off between union votes and non-union votes, the party will only include cohesive unions in negotiations. Otherwise, in fact, they would need to push policy concessions too far towards the left to win their consensus, and this would result in a net vote loss (point p_{c2} in Figure 4.9).

⁵⁶ Consider that higher values of p are not preferred by unions, and that therefore the equation (8) can be re-written as follows: $|p - p^m| > (1 - N_w)|p^u - p^m|$

Hypothesise now that the party has decided not to cooperate, but to defect, as it believes that the trade union confederation is not sufficiently cohesive to participate. In this case, the party has two options. Either it simply enacts the policy manifesto and it stays in p_m , therefore not trying to gain more votes through socio-economic policy-making, or it decides to move further to the right, so that $p_d > p^m$.

In this case, the condition to be satisfied is the opposite of the (7), namely that:

$$\Delta v > 0 \Rightarrow [(1 - \alpha)N_n - \alpha N_w] > 0 \Rightarrow (1 - \alpha)N_n > \alpha N_w \quad (9)$$

This is satisfied precisely when unionisation rates are low, and labour is fragmented (and party then moves to point p_{d2}). Figures 4.8 and 4.9 illustrate two different games and the party's utility functions under the condition that half of the working population is unionised, $\alpha = 0.5$. In the upper graph the trade unions are cohesive, and so the best choice for the party is to move towards p_{c1} . In the bottom graph, conversely, the trade unions are fragmented, and the party has an incentive to move towards p_{d2} .

We can surely assume that the rate of unionisation α is known to party politicians, and so can consider it in the game as a given constant. Therefore, the equilibrium (cooperation or defection) in the party/union interaction depends primarily on the assessment the party makes regarding the level of cohesiveness of the unions. In fact, if the party's manifesto has moved significantly far from traditional Keynesianism, and given the trade off between union votes and non-union votes, cohesiveness is key for unions' compliance (equation (8)).

In the previous chapter, I demonstrated through panel-data regression analysis that confederation democracy (cd) and concentration of membership (co) are the key variables that determine unions' cohesiveness. We can make this link explicit in conditions (7), (8) and (9) by substituting the following:

$$N_w = \beta_0 cd + \beta_1 co$$

Where $\beta_0 + \beta_1 = 1$ are two parameters that weight the relative importance of democracy and member concentration against total union cohesion. Averaging the results obtained by my regression analysis (Table 3.3 in Chapter 3), the average values between 1974 and 2000 for my sample of 16 OECD countries are $\beta_0 = 0.57$ and $\beta_1 = 0.43$. This means that the level of confederation democracy is on average more important than member concentration in determining the overall cohesion of organised labour (the relation between democracy and cohesion is discussed extensively in Section 3.4). In turn, this means that confederation democracy is the most important component of N_w . As a consequence, the more democratic a confederation is, the more likely it is that the party will be willing to include it in negotiations around socio-economic policy making.

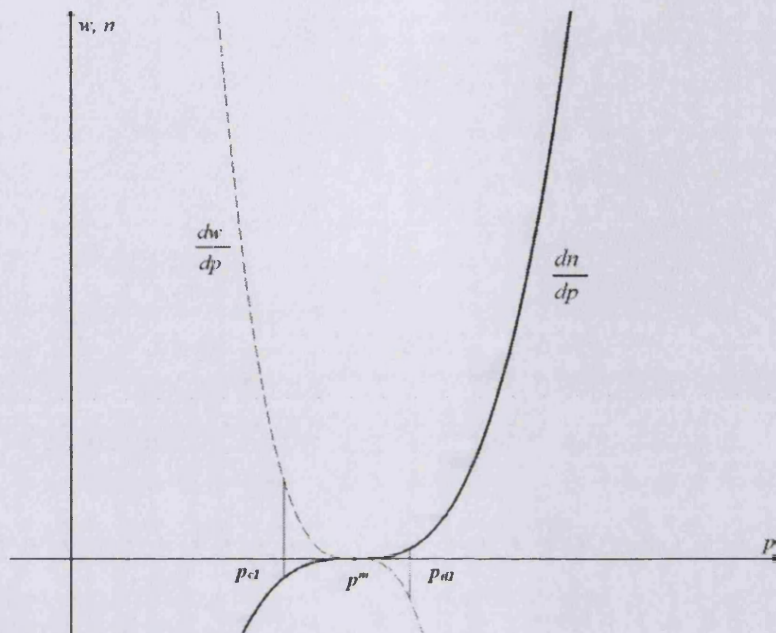


Figure 4.8 – Party/Union Cooperation On Policy Making.

The graph represents a situation in which by giving concessions to unions, thereby moving away from its original manifesto towards p_{c1} , the party gains more votes than it loses. It is assumed that union density $\alpha = 0.5$, so as to highlight the importance of cohesiveness

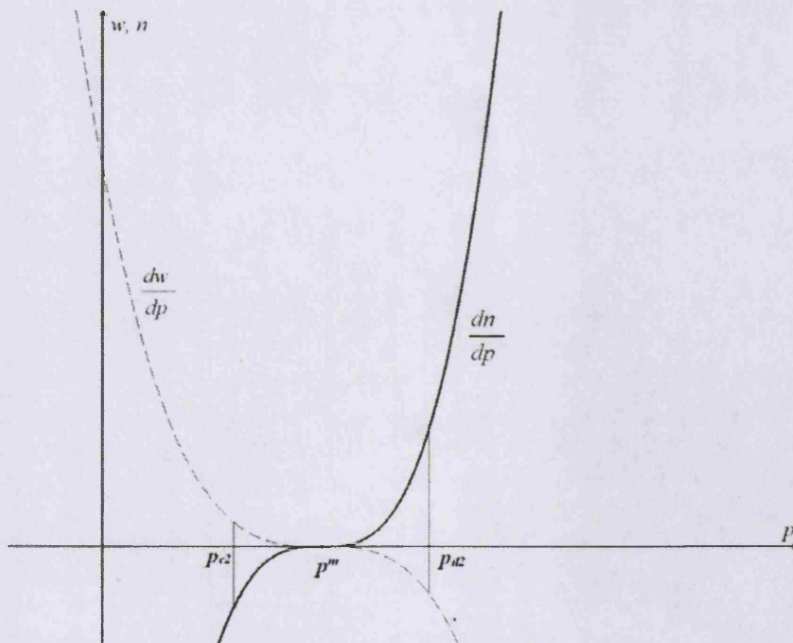


Figure 4.9 – Governmental Defection from Cooperation.

The graph represents a situation in which the party has an incentive to detach itself from unions and move towards the right of the political spectrum. By moving to p_{a2} , the party will gain more votes from the non-union cohorts than it loses from marginal leftist unions. It is assumed that union density $\alpha = 0.5$, so as to highlight the importance of cohesiveness.

Conclusions

This chapter concludes the part of this thesis devoted to the examination of the party/union alliance from a large-N perspective. Through the systematic scrutiny of social democratic governments between 1974 and 2003, I have discovered that while social democratic parties across Europe converged towards an endorsement of the emerging low-inflation macroeconomic regime, they also converged on concertation as a policy-making method. In other words, the social democratic parties increasingly sought to involve trade unions *formally* in socio-economic policy-making. I have interpreted this phenomenon in the light of a theory of political preference formation (Kitschelt 1994). In fact, under a low-inflation macroeconomic framework, social democrats no longer need the compliance of unions to keep inflation low, and therefore only their quest for consensus can explain their decision to seek cooperation with the unions. In other words, the party is the key actor in re-negotiating the alliance with trade unions, but the continuation or the end of the alliance depends on the cohesiveness or fragmentation of the trade unions. The game-theoretical model has clarified the mechanisms behind this apparent paradox.

The key assumption of the model is the existence of a low-inflation, hard-currency macroeconomic framework, guarded by independent central banks. Under this condition, the social democratic party does not need the compliance of trade unions to control inflation, and therefore its incentives to pursue policy collaboration with organised labour are electorally-driven. Indeed, social democrats can benefit from unions' collaboration, since it helps them to solve their intertwined policy and electoral dilemmas. Social democrats must win new voters through libertarian and market-friendly measures if they are to win

elections in the modern post-industrial society. However, by doing this they could lose the support of their original constituencies, still attached to the Keynesian welfare state and less inclined towards libertarian issues. The agreement of unions to the social democrats' new set of policies can therefore be used as an indication of the policy stance with which the maximum number of votes can be gained through market-appealing reforms, while minimising the loss from traditional working class constituencies. In order for this collaboration to happen, however, the union movement must be cohesive enough to tolerate a set of policies that do not necessarily represent the best choice for labour. In turn, the cohesiveness of the labour movement is dependent on the existence of democratic decision-making mechanisms at the confederation level. These avoid both the collapse of negotiations during the policy-making phase, and the emergence of irresolvable conflicts within the union confederation itself.

The party and the unions will achieve different types of gain through collaboration. The party will reach distributive compromises between different portions of its electorate with the blessing of organised labour. However, in order to obtain these, the party needs to grant some concessions to trade unions. Assuming that increased demand-side policies, in terms of additional universalistic transfers, are ruled out of the political economic strategy, concessions must take the form of a softening of the liberalising policies, as well as policy concessions to the unions as organisations. From the unions' perspective, given the unfavourable economic and political scenario they have faced since the late 1970s, these gains are the substantial reason for embarking on negotiations with socialist parties. In other words, internal democracy is a functional requirement for the cohesiveness of unions, and therefore also for their

participation in negotiations. However, these substantial policy gains are the ultimate rationale for their involvement, as has been highlighted by the formalisation of the utility functions.

There are four final conclusions that can be derived from the game-theoretical analysis. First, under perfect information, the equilibrium of the game is decided unilaterally by the party. If the unions are not cohesive, the party will defect, and the unions will have to adjust. If, instead, the unions are cohesive, the party will collaborate and so will the unions. This helps to explain why, over the last two decades trade unions have increasingly sought participation in social movements endorsing non-materialistic aims. Under low-inflation macroeconomic regimes, once they are out of the policy-making game, they no longer have the means to force party politicians into collaboration. For example, any retaliatory wage-militant behaviour would cause massive increases in unemployment levels, via institutional mechanisms exogenous to the party/union interaction. As a consequence unions that are evicted from the policy process will try to find a collective political role elsewhere, i.e. among social movements.

Second, the further a social democratic party's manifesto moves towards the right, the harder it is for trade union leaders to gather consensus among their members on "social pacts". This suggests that, for the sake of labour compliance, internal means of cohesiveness have become more important over time. In simple terms, when the policy outcome of party/union collaboration was very close to the preferred policy stance of rank-and-file (including higher welfare provisions, higher transfers, etc.), labour cohesiveness was less important for the satisfaction of condition (8), i.e. for unions' compliance to compromises. When the social democratic parties started moving towards the right, the salience of cohesiveness

increased, and, given that democracy and concentration are its key components (see Chapter 3), this might suggest an explanation of the increase of democratic practices among trade unions over time (Baccaro 2003).

Third, and quite counter-intuitively, the more fragmented the non-unionised workforce is, the more interested the party will be in pursuing policy collaboration with trade unions. Conditions number (3) and (4) in my formalisation show that, *ceteris paribus*, an increase in the dispersion of the policy stances of non-union cohorts (N_n) increases the likelihood that votes will be gained through policy concessions to unions. Once highlighted by the formalisation, this conclusion appears rather plausible. If non-unionised working cohorts do not cluster in different organised interest groups they will not have selective incentives to pursue their own collective goods, including their own preferred policies. It should be remembered that my whole argument rests on the assumption that individual policy preferences are linked to occupation sector and occupation type (Section 4.2).⁵⁷ In a scenario characterised by an extreme differentiation of occupational sectors (which applies more to the non-union sector than to the unionised sectors) the trade unions remain the only mass organisations with a selective incentive to act collectively. As a consequence, policy concessions to the unions are unlikely to trigger strong reactions from the non-unionised workforce, even if this opposes such concessions. In turn, the party will be keener, *ceteris paribus*, to trade such concessions for increased union consensus.

⁵⁷ The conditions under which non-unionised cohorts can increase or decrease their fragmentation are beyond the scope of this work. However, it is possible to suggest that the de-structuring of the service sector into a myriad of different occupational patterns and statuses has increased fragmentation. On the contrary, the emergence of peak business associations, consumers associations, and other civil society groups concerned with the efficiency of markets and advocating libertarian issues reduces fragmentation, thereby reducing the likelihood that social democrats will coordinate their policies with trade unions.

So far, the literature has focused on the negative impact that flexibilisation and labour market compositional change has had on trade union movements. The main contention of this rather large body of literature is that the reduction of places of mass-production, and the emergence of the very differentiated service sectors, have contributed to a decline in union membership and *thus* reduced the unions' political clout (Ferner and Hyman 1998; Ross and Martin 1999b; Crouch 2000b; Hyman 2001). This latter conclusion should be reevaluated in the light of my analysis. Indeed, if the unions were able to retain good level of density and cohesiveness, the increased fragmentation of the non-union workforce would have resulted in an increase of their political clout. This could contribute to explaining why social democrats increasingly prefer policy concertation, as observed earlier in this section (Section 4.2, Figure 4.3), as well as the unexpected emergence of "social pacts" in Europe at the end of the 1990s (when the process of labour market fragmentation in Europe was at an advanced stage (Crouch 1999)).

The fourth, and last, conclusion relates to the party's strategy. Figures 4.7 and 4.8 show that, under perfect information, the party has little incentive to stick to its original policy manifesto. The reality is clearly not as simple, as the graph represents in linear form vectors of policies (P) and of policy preferences (votes) (W and N). However, the model shows that if the party is not able to gain consensus through co-operation with the unions, it has an incentive to look for consensus among non-union cohorts. Given the iteration in the game, this means that defecting parties will experience a progressive shift towards the right side of the policy spectrum. Conversely, the collaborating party will give marginal concessions after marginal concessions to unions so as to cement further the union

role in policy making. In other words, the difference between the policies adopted by parties defecting/collaborating with the unions should increase over time.

The consequences of sustained party/union alliances *vis à vis* terminated alliances will be dealt with in the next chapter, which will be devoted to testing this theory against “thicker” evidence. Two critical case studies will be analysed: the United Kingdom and Italy under the centre-left governments of the 1990s. This will allow me to identify the causal links between the trade unions’ organisational structure, the new political economic strategy of the social democratic party, and the policy process that is adopted to implement this strategy, i.e. sustained party/union alliance (Italy) and mutual defections (UK). Additionally, the two critical case studies will identify the policy consequences of collaborations and mutual defections, showing that cohesive unions are able to shelter their members from the negative impacts of market-friendly policies, and retain a key role in the labour market under globalisation.

Italy under the Olive-Tree coalition and the UK under New Labour cabinet provide two critical case studies for a number of reasons that I will outline at the beginning of the next chapter. In the final chapter, Chapter 6, I will highlight the theoretical implications of this study and suggest directions for further research.

Chapter 5

Diverging Trajectories but Similar Endings? Concerted Policies in Italy, and the Unilateral 'Third Way' in Britain

It was inevitable: the scent of bitter almonds always reminded him of the fate of unrequited love.

Gabriel Garcia Marquez, *Love in the Time of Cholera*

The party/union relations that developed in Italy and in Britain in the 1990s provide two critical tests for the theory I have constructed so far in this thesis, because of their opposite, and counterintuitive, trajectories. Post-war Italy was characterised by a heavily politicised industrial relations system. In the aftermath of WWII, tensions between the communist party, the socialist party and the Christian democrats resulted in the establishment of three distinct union confederations reflecting political alignments (Regalia and Regini 1998). Yet in the 1990s, after the communist ideology had lost most of its salience, trade unions participated systematically in socio-economic steering, by agreeing to discipline wage increases, and by striking numerous deals with centre-left politicians on labour and welfare issues (Baccaro 2003). On the contrary, the UK had been the

cradle of the industrial revolution, of socialist thinking, and of the most paradigmatic case of party/union symbiosis developed since the late 19th century (Minkin 1992; Ebbinghaus 1995). Yet, from 1997 onwards, relations between the New Labour government, led by Tony Blair, and the TUC (Trades Union Congress) became typical of party/union divorce (Crouch 2001; Howell 2001).

Through detailed accounts of these two divergent trajectories, this chapter will show that the fact that the labour movements in the two countries had very different levels of cohesion is key in explaining the different fates of party/union alliance. The Italian labour confederations adopted democratic means in order to unify under a shared policy platform. Voting procedures involving workers across different sectors were adopted systematically to endorse even the most divisive agreements signed by the union leadership. In this way, the (very wide) intra-confederation dissent was channelled within the confederations, and the minority groups ended up accepting the results of the referenda. This also reinforced the legitimacy of the confederation leadership and so the emerging militant unionism was tamed. The TUC, instead, was unable to follow a similar path. In the 1990s, the new TUC leadership attempted to craft a new confederation policy aimed at securing a wider role as “social partner”. These efforts, however, were constantly undermined by the different stances of large affiliated unions. The British union confederation remained a relatively loose umbrella organisation, with little ability to bind dissenting sectors to a confederal majority policy stance. Under these conditions, and given the strong decline of union density throughout the 1980s and 1990s, the Labour party had little incentive to include unions in policy-making.

These conclusions confirm the theoretical argument constructed so far in this thesis, and rest on a detailed reconstruction of the party/union relations in each of the two countries. I will frame the narrative in the relevant historical background, so as to approach events post-1980, and the details of party/union relationships in the late 1990s, in an informed manner. The main sources of evidence on the policy process include: secondary sources, newspaper articles, primary sources such as party manifestos, trade unions conference proceedings, and internal documents, and, to a lesser extent, interviews with key informants.⁵⁸

Three reasons support my choice to carry out case studies at this stage of the project. First, this chapter provides two tests at the country level of the theory that I have constructed through Chapter 2, Chapter 3, and Chapter 4. Additionally, the cases of Italy and Britain are critical with regard to their position in the distribution of the dependent variable of this study, i.e. the party/union alliance as a share of policy results of their interaction during social democratic cabinets. Tests designed in this way are generally considered more robust. Second, detailed reconstruction of policy processes will highlight intervening variables, therefore framing my own explanation in a real context, rather than in an abstract game-theoretical model. Third, this method will allow me to highlight the differences between union and non-union policy platforms implemented by social democratic governments. What could unions gain from cooperation during the eminently deflationary period of the 1980s and 1990s? In order to answer to this question, in

⁵⁸ There is a large amount of informative material readily available to the researcher on these two cases. Therefore, I considered intense interviewing somewhat redundant and not necessarily conducive to obtaining more objective information than that I could access otherwise. I therefore carried out interviews only to clarify particular junctions, single policy events, or details of which I was particularly uncertain. Interviews were also used to confirm my overall interpretation (although this does not necessarily transpire from the text). The list of interviewees can be found in the Statistical Annex, conflated with the list of interviewees for the “Confederation Democracy” variable, (Section (d) in the Annex). Note that four interviewees, party politicians, asked their name not to be disclosed.

the last section of this chapter I will compare the policy results of party/union interaction in Italy with the (mainly) unilaterally-implemented socio-economic record of the Labour government in Britain in the late 1990s. I will show that the Italian unions essentially realised two gains through concertation. First, they were able to shelter their members from labour market liberalisation, while securing a role in the management of the flexibilised workforce. Second, they moved into a central place in centre-left politics, from which they might achieve further gains in the future. From the working class, or lower income, perspective, no overall difference is otherwise perceivable between the policies of the New Labour and those enacted by the Olive-Tree coalition.

Case Selection

The choice of Italy and the United Kingdom as the cases to be analysed is linked to the distribution of the dependent variable at the centre of this study, i.e. the party/union relationship as the share of socio-economic policies undertaken by social democratic governments in collaboration with trade union confederations (see Chapter 2 for a full discussion of the index).

This study is interested in identifying the factors that allowed (or did not allow) a sustained alliance between centre-left governments and trade unions during the 1980s and 1990s. As a consequence, while selecting case studies, I need to choose from events that occurred in this period. Additionally, I want to compare instances in which the alliance was sustained with cases in which it was not, so as to highlight differences. Third, in order to control for path-dependency, and in order to be able to highlight factors of discontinuity over continuity, I am interested in the cases that display the greatest share of change compared to the period before the 1980s.

Following this logic, for each European country I have averaged the party/union alliance index in two sub-periods, 1974-1983 and 1984-2003, and then calculated the difference between them. The results, reported in Table 5.1., show that Italy and the United Kingdom are the countries where the party/union alliance has changed the most, although in opposite directions. Until 1983, when the socialist party held governmental positions in Italy, only around 25% of socio-economic policies were undertaken through open collaboration with trade unions. In the period 1984-2003, this share rose to nearly 70%. In the UK the picture is reversed: until the early 1980s, Labour governments were ideal-typically social democratic, as unions were involved in every aspect of socio-economic steering. In the second sub-period, only 30% of policies were the product of party/union interactions under Labour governments.

Italy and the UK are two good tests for my theory for three additional reasons. First, in both countries the centre-left government came into power towards the end of the period under observation, rather than the beginning. This is important because one might consider that, by the end of the 1990s, the effects of de-industrialisation and globalisation had already been felt in the politics and economies of Europe. Additionally, background factors – such as size, population, GDP per capita – are very similar in the two countries, and therefore comparisons of the political-economic differences between the two are particularly instructive (as shown by the previous endeavours carried out by Regini 1984; and Crouch 2000a). Finally, unlike most qualitative research designs, in which the choice of cases is somewhat arbitrary, here I am able to use quantitative measures of the dependent variable (party/union alliance as the share of policy results of their interaction) as guidelines in the process of case selection. Indeed, changes in the

party/union alliance in Italy and the UK lie at the extreme poles of my distribution, and this increases the probability that the conclusions I reach can be extended and applied to other, less extreme, instances.

This chapter is divided into three sections. The first analyses the Italian case, the second reconstructs the British case, and the third will offer comparative accounts of the policy results of the centre-left governments in the two countries in the late 1990s.

	<i>P/U Relationship</i> <i>Yearly average 1974-1983</i>	<i>P/U Relationship</i> <i>Yearly average 1984-2003</i>	<i>Difference</i>
Italy	0.25	0.68	0.43
Ireland	0.30	0.61	0.31
Portugal	0.60	0.78	0.18
Greece	0.65	0.74	0.09
Netherlands	0.55	0.58	0.03
Denmark	0.61	0.64	0.03
Finland	0.92	0.95	0.03
Austria	1.00	0.98	-0.03
Belgium	1.00	0.80	-0.20
Norway	1.00	0.79	-0.21
Spain	0.60	0.37	-0.23
Sweden	1.00	0.74	-0.26
France	0.87	0.60	-0.27
Germany	0.63	0.30	-0.33
United Kingdom	1.00	0.30	-0.70

Table 5.1 – Inter-Temporal Differences in the Party/Union Alliance.
The P/U relationship is measured as the share of socio-economic policies that social democratic governments undertake with the open collaboration of trade unions (see Chapter 2 and Statistical Appendix for definition and sources).

5.1 The Rise of Democratic Corporatism in Italy⁵⁹

In Italy, the involvement of trade unions in socio-economic steering started in 1992, in the midst of an unprecedented economic and political crisis, and it was welcomed with considerable surprise by international observers (Schmitter and Grote 1997). Indeed, the labour movement in Italy was known to

⁵⁹ I borrow this definition from Baccaro (2002).

be insufficiently cohesive, from a political and organisational viewpoint, to sustain institutionalised “political exchange” (Regini 1984). This section offers a quick overview of the political and industrial relations setting of post-war Italy, and recalls - as the main example of failed party/union cooperation - the concertation attempt made by the socialist-led coalition government in the mid 1980s. It will then move into an analysis of the 1990s, when the initiation and institutionalisation of concertation took place. Supported by the extensive use of democratic instruments of decision making by organised labour, concertation became the standard mode of processing socio-economic policy for centre-of-left coalition governments in Italy.

A Cold-War Polity

In the post-war decades, relations between the trade unions and the state in Italy reflected cleavages in the policy arena. The split found in other countries between a (predominantly) bourgeois party (or coalition) and a (predominantly) working-class party (or coalition) did not exist in Italy. There, the main split was instead the communist/anti-communist divide (Elia 1970). As a consequence, from the early 1960s, most governments were formed around cross-class coalitions including the Christian Democrats (DC) and the Socialist Party (PSI), while the Communist Party (PCI) was always in opposition. The relative sizes of the PCI (roughly a third of the electorate) and of the predominantly communist trade union confederation (CGIL, organising roughly half of unionised workers) were significant impediments to institutionalised “political exchange” between labour and the government.

Indeed, the communist/anti-communist divide was also reflected in the industrial relations milieu. In the aftermath of WWII, the labour movement split

according to political affiliations. The CGIL was the largest union confederation: its decision-making bodies were composed of a majority of PCI members, and a minority of PSI members. Conversely, the CISL was the confederation of Christian unions and so was predominantly linked to the DC. The UIL was formed by socialists and left-leaning liberals belonging predominantly to the PSI (Figure 5.1 displays their relative size).

Links between parties and unions were not formal; that is to say that there was not, for example, automatic party membership for union members, as in Sweden, or statutory voting rights for unions in party decision-making, as in Britain. The links were nonetheless strong and operated through a considerable overlapping of membership, exchange of personnel between organisations, and reciprocal support (Weitz 1975; Golden 1988).

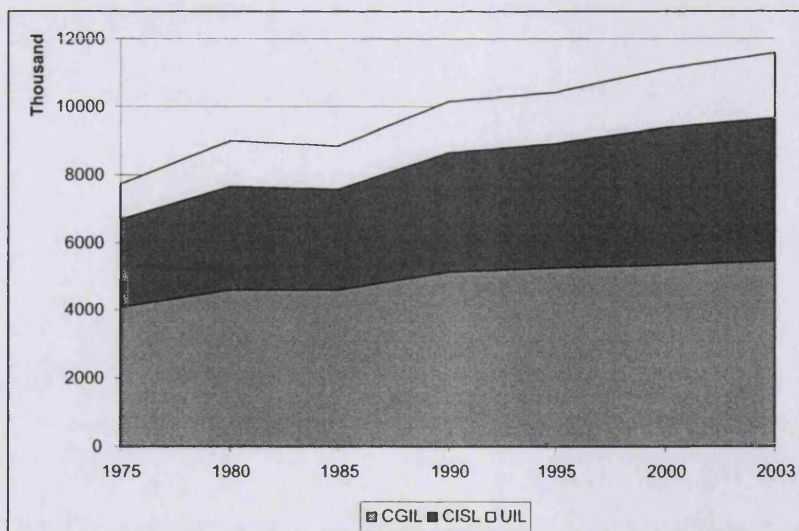


Figure 5.1 – Members of Trade Unions Confederations in Italy (1975-2003).
 Source: Golden, Lange and Wallerstein (2002), CGIL, CISL, and UIL websites (data collected August 2006)

The Failed Concertation Attempt in the 1980s

- Between the late 1970s and the early 1980s, Italy's inflation rates became its most serious socio-economic problem. In 1983, the first socialist-led coalition government was sworn in, and it attempted to involve labour in a program of voluntary wage restraint centred on an important cut in the automatic wage indexation. This was accompanied by compensation measures such as tax breaks, and additional transfers. The CGIL participated in the negotiation process, together with the CISL and the UIL, but at the very last moment the PCI decided to oppose the cuts and forced the leadership of CGIL to follow it: Mr Craxi, the socialist Prime Minister, made it clear that he would not cause a major rift in the labour movement by signing a separate agreement with CISL and UIL (Ginsborg 2003: 111-113; Cianca 2004). As a consequence, the government enacted wage indexation cuts through a decree-law which was openly backed by the CISL, the UIL, and the socialist minority within the CGIL, while the majority of the CGIL and the PCI vehemently opposed it.⁶⁰

The PCI contested the very legitimacy of the cuts. The logic of its argument contended that, given that the CGIL represented the majority of Italian workers, its opposition to the measure should have prevented the government from acting unilaterally. In line with this logic, the PCI promoted a popular referendum to repeal the decree-law. However, one year later, the referendum was defeated and the measure duly upheld (Baccaro, Carrieri and Damiano 2001: 47). This was the first major instance in which socio-economic reforms were eventually decided upon directly through democratic means. It would not be the last time that the results of democracy favoured moderate stances rather than

⁶⁰ EIRR, No.122 March 1984, page 4 and No. 126 July 1984, page 4.

militant positions. However, these events proved that political cleavages were strong impediments to institutionalised “political exchange” between labour and government.

The Changing Political System

The scenario changed very rapidly when the communist/anti-communist divide lost its salience, and the Italian political system evolved towards a bi-polar system. The dissolution of the Communist party was key to this development, starting a period of profound change in the Italian political system (Ginsborg 2003: 297-304). The PCI split into two separate parties. The larger one, first called PDS, then, from 1998, DS, positioned its policies within mainstream social democracy: it asked for, and was granted, affiliation to the Party of European Socialists, the European family of mainstream centre-left parties (Ladrech and Marlière 1999). The smaller party, which was called after the “re-founding of communism” (RC), took a more leftist stance.

As a consequence of this change, in 1990, the leader of CGIL – who by tradition was the leader of the communist faction within – dissolved the communist faction and became a member of the PDS. During the 1990 congress, he designed a union platform able to include both former communists and socialists, while a smaller militant group, including metalworkers unions, took a more leftist minority stance.⁶¹ The CGIL was no longer divided according to pre-determined party affiliations; instead, a standard majority-minority logic on unions’ policies became the governing rule.

While the largest part of the Italian left was still re-organising, and undergoing a period of deep ideological and programmatic reappraisal, the most

⁶¹ In <http://www.rassegna.it/2002/speciali/congresso-cgil/storia/1991.htm>: last accessed July 2006.

important governmental parties, including the DC and PSI, dissolved under the pressures of judicial investigations (Newell 2000: 61-65). Table 5.2 shows that after this period, the name (and most members) of the six most numerous party groups in the lower chamber of parliament were completely different.

1987-1992		1994-1996	
Party	Seats	Party	Seats
DC	232	Northern League	117
PCI	177	AN	109
PSI	94	PDS	109
MSI	35	FI	99
PRI	21	RC	39
Greens	13	PPI	33

Table 5.2 – The Six Largest Party Groups in the Italian Lower Chamber.

Camera dei Deputati, source: Newell 2000, Table 2.1 p. 24 and Table 2.4 p. 40.

For the effect of a new electoral law, the parties tended to cluster around two competing coalitions: a centre-left coalition, built around the PDS-DS, and a centre-right coalition built around the personality of Berlusconi. In brief, the Italian political system evolved from a “consensus” model towards a “majoritarian” model (Lijphart 1984). Notably, the trade union leaderships, and various political groups holding links to confederal unions and aligned to the DC and the PSI all realigned within the centre-left coalition. Therefore, while the three union confederations and their factions were associated until the 1990s with parties that pursued different policy agendas, after that point they found themselves coupled with parties allied in the same coalition. The party/union links remained, for the most part, informal yet effective. However, open support for the centre-left coalition became the rule rather than the exception (Mascini 1994; 1996a; 1996b).

The Beginning of Concertation: Income Policies

While it dealt with the “revolution” of its political system, Italy also faced an economic crisis. Between 1992 and 1993, the GDP contracted for the first time since 1975, consumption and investment decreased, outstanding public debt approached 110% of GDP, and at the end of 1992 speculative attacks motivated by the increase of real interest rates forced the lira out of the EMS. The currency crisis came close to threatening the liquidity position of the central bank. Debt default, however, was avoided through unprecedented austerity measures imposed in 1992 and 1993, which aimed to reduce borrowing requirements, and, therefore, interest payments (Signorini and Visco 2002: 78-87).

To the surprise of many observers (Schmitter and Grote 1997: 8-9), these austerity measures were sustained by two subsequent tripartite income agreements, signed by all the trade union confederations on the 30th of July 1992 and the 23rd of July 1993. The first one included the complete abolishment of the wage indexation system and a one-year pay freeze, and was followed by a cut in the official interest rate by the central bank. The second one included new rules on anti-inflationary wage increases and a new system of wage bargaining. The second agreement was particularly relevant as it established the rules for wage setting for a long period thereafter (Regini 1999: 14-16).

According to most economic observers, and to the two prime ministers who brokered the two deals, these agreements were key to avoiding the collapse of the Italian economy (Scalfari 1994; Pedersini 1997; Regini 1997). They favoured the process of fiscal consolidation, and contributed significantly to inflation control. In doing so, they prevented the two subsequent devaluations of the currency (in 1992 and 1994-95) from becoming inflationary, thereby turning

them into real devaluations (for an econometric estimate see: Fabiani et al. 1998). This was largely down to the 1993 agreement, which created a strongly coordinated decentralised system of wage setting, approximating complete centralisation while leaving some room for decentralised adjustments.⁶² Under its framework, social partners would bargain at national sector level, basing on the (governmentally determined) expected rate of inflation (Dell'Aringa and Lucifora 2000: 59; Biagioli 2003: 116-117). Figure 5.2 displays a measure of wage militancy, which took a clear downward trend after 1993.

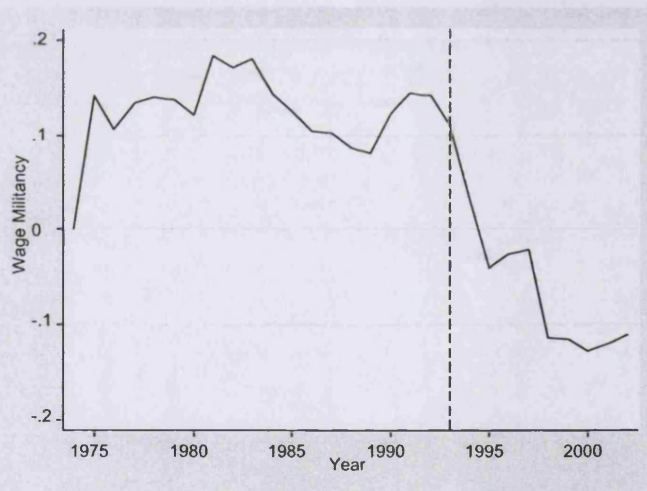


Figure 5.2 – Wage Militancy in Italy 1974-2002.

The figure displays a measure of wage moderation suggested by Blanchard and co-authors (2000; 2003). Under a number of non-restrictive assumptions this measure essentially weights actual wage increases against labour productivity increases, taking into consideration technological improvements and therefore discounting capital accumulation. The dashed line marks 1993, the year in which the most important income policy agreement was reached. Source: author's calculation from AMECO database. See Statistical Appendix for details.

⁶² The rationale for having a two-tier bargaining system is rooted in the territorial differences that characterise the Italian economy (Dell'Aringa and Lucifora 2000).

From a political perspective, the 1992 and 1993 agreements were signed when the traditional key actors in Italy, i.e. political parties (Scoppola 1997), were at their weakest point. “It is worth underlining the paradox whereby the labour unions [...] were called to collaborate with the governments precisely when political parties, under attack from many fronts, were indeed expelled from it” (Ginsborg, 1998: 520, my translation). Arguably, during 1992 and 1993, unions were able to co-ordinate with governments precisely *because* political parties had lost most of their salience, as well as their divisive influence on unions’ policies.

However, the two deals were not easily reached. The 1992 agreement was struck at the peak of the economic crisis, and the CGIL was reluctantly pushed to sign by the Prime Minister’s stated intention to resign if the negotiation failed: the trade unions did not want to bear the responsibility of another political crisis. The agreement met both with intra-union dissent in the CGIL and with grassroots protests. The militant faction within the CGIL denounced the agreement as illegitimate, on the same grounds of the PCI’s opposition to the 1984 cut in wage indexation: it contended that it was not democratically determined. During the autumn of 1992, union confederation leaders were violently opposed by competing unions that were surging at the local level.

In the midst of what it appeared as a legitimacy crisis of traditional confederal unionism, CGIL, CISL and UIL signed the 1993 agreement. This, however, was to be endorsed by a binding referendum among all the workers. Along with the aforementioned clauses on wage and bargaining, the agreement included measures to secure that trade unions could check their responsiveness to workers. Indeed, the agreement provided that elective Work Councils (Rappresentanze Sindacali Unitarie) had to be established in all public and private

workplaces. The legitimacy of confederal unionism could therefore be tested the hard way, i.e. by measuring consensus among workers through secret ballots (Baccaro, Carrieri and Damiano 2001).

Roughly 1.5 million workers participated in the referendum on the 1993 agreement, which got an approval rate of 68 %. “The referendum proved to be a powerful legitimising device for the union confederal leadership. In fact, no grassroots uprising took place this time” (Baccaro, Carrieri and Damiano 2001: 48). A *de facto* divided labour movement was unified through democratic means. Even though 32 percent of workers, one in three, rejected the accord, this dissent was not expressed in open protests and the minority eventually accepted the will expressed by the majority.

The 1992 and 1993 governments were not typical “partisan” governments. Indeed, the intensity of the political crisis (more than 200 out of roughly 1000 MPs were under judicial investigation, see Ginsborg 1998: 525) had given increased leverage to the President of the Republic in the choice of Ministers. However, in both 1992 and 1993 key cabinet posts were held by socialists, including PM Giuliano Amato in 1992 and the Minister for Labour, Gino Giugni, in 1993. Indeed, the unions retained their role of “social partners”, established during 1992 and 1993, during all subsequent periods in which centre-left coalitions were in office, and it was gradually extended to include virtually every aspect of socio-economic policy-making.

This analysis of the beginning of concertation in Italy in the early 1990s has confirmed many conclusions reached with the analytical model presented in the previous chapter. The cohesiveness of organised labour proves to be a key factor leading to concertation. Until the early 1990s, when the communist/anti-

communist divide still existed, political factors stood in the way of cohesion. However, once political impediments dissolved, additional institutional means to cohesiveness were still needed. As my model formalised, when socialist governors cease to implement labour-friendly policies, and instead seek for unions' endorsement of eminently deflationist policies, additional institutional tools (i.e. democratic decision-making rules) are required in order to fill the information (or opinion) gap between union leaders and the rank-and-file. The first agreement in 1992 was adopted without democratic endorsement and the consequent emergence of competing unions threw the stability of the union leadership into question. The second agreement, in 1993, was instead endorsed by the majority of workers, meaning that the minority had to conform, and so cohesiveness was ensured. From the perspective of the government, the agreement of organised labour over the austerity package proved to be a powerful instrument of consensus, which helped to smooth the fiscal consolidation process.

Reforming the Pension System with the Unions

In 1994, the three Italian union confederations vehemently opposed a pension reform proposed by the centre-right government led by Berlusconi. The Italian pension system, in common with that of many European countries, had been in considerable financial distress since the late 1980s. An ageing population, and the predominance of a pay-as-you-go (PAYG) type of benefit plan financed from payroll taxes, wherein pensions were computed according to final salary rather than actual capitalisation, combined to increase the drain of pensions on public coffers. The deadline set by the Maastricht agreements for the European single currency put further pressure on Italy to reform, if it was to enter the Euro with the first group. Compared with Austria, Germany, France and Sweden –

which are traditionally considered to provide generous social insurances – the Italian pension system was facing the highest problem-load, including the highest proportion of pension expenditures to GDP (Schludi 2001: 7). Virtually all political actors, including the governor of the Central Bank, most political parties, and economic commentators, agreed that there was a need reform, but all attempts up until this point had proved unsuccessful or ineffective (Ferrera and Gualmini 1999).

The centre-right coalition won elections in 1994. The trade union confederations – after having paid lip service to the principle of autonomy from party politics – put forward candidates for public office on the electoral lists of many different parties, except for the centre-right ones (Mascini 1994). Unsurprisingly, once in office, Berlusconi attempted to reform the pension system unilaterally, sparking the strongest wave of protests since the Hot Autumn of 1969. The trade unions called a general strike, which was suspended when the government withdrew its proposals the day before it was due to begin. A few days later, the government resigned (Baccaro 2002b: 417). The general strike was decided upon during a private meeting between the general-secretary of the PDS, the editor of the party's newspaper (a leading political figure), and the general secretaries of all the three union confederations.⁶³ The issue was clearly not confined to the realm of industrial disputes. Opposing the Berlusconi government was a highly political decision.

If the centre-right government could not reform pensions without the unions, who had claimed a role in the making of the reform, clearly nobody could. Indeed, given that union protests had been instrumental in the collapse of the

⁶³ I obtained this information through private conversations with party and union officials whose identity was asked to remain confidential.

centre-right coalition, the centre-left could not afford but to seek union consensus to its policy program. Indeed, in January 1995, a technocratic government supported by the previous centre-left opposition (including the former communist, now social democratic party, PDS) engaged in negotiations on pension reform with the unions and the main employers' association.⁶⁴

Employers withdrew from negotiations at an early stage, arguing that the proposed reform was not incisive enough. The unions and the government eventually agreed on a reformed pension system that contained several important innovations, including a "defined contribution" method for pension determination (in lieu of the previous "defined benefit" system) and the gradual phasing out of seniority pensions, which were among the primary causes of the financial troubles (Pierson and Myles 2001: 322-334). According to Pierson and Myles, who have conducted a cross-country analysis on the political economy of pension reforms, the Italian one was one of the most far-reaching in the long run in terms of expected savings for public finances (id. 326).

Indeed, the reform affected virtually all sectors, including the heavily unionised ones. As expected, it sparked protests among radical unions (particularly metalworkers' unions) and leftist parties like the RC. The method used to ensure the viability of the accord was the same as in 1993: democratic voting. Confederal unions organised over 40,000 assemblies in all major industries to explain the content and the rationale of the accord. Unlike in 1993, the net losses for workers were very evident. The workers had to be persuaded that it was in their own interest to render the pension system financially sustainable, and that an overall reduction in entitlements was necessary to

⁶⁴ Interviews with union officials and party politicians have revealed that the pension reform was not just negotiated, but co-written by officers of the treasury and trade unions' experts.

reaching this objective. The referendum on the accord passed with 64% of the 4.4 million participant voters in favour. When whole occupational sectors are considered, only metalworkers and university workers rejected the accord, but they eventually accepted the will of the majority (Baccaro and Locke 1996 18-24).

This second stage of the Italian case confirms my theoretical understanding of its mechanisms, and also the assumption on which my model is based. Concertation appears to be an eminently political phenomenon, and, more precisely, is the renegotiated version of the “political exchange” between the party (or centre-left coalition) and the trade union confederation(s). As I will show in Section 5.3, the pension reform undertaken by the centre-left majority was only minimally different from that proposed by the centre-right: the marginal differences between the two related to seniority pensions, which affected a minority of unionised workers. In other words, the main difference between the two reforms was the *method*.

Through their protests against the centre-right reform, and their compliance with the centre-left reform (to which they heavily contributed), the trade unions consolidated their role in the policy arena in general, and in the centre-left policy camp in particular. From the viewpoint of centre-left politicians, the protests were instrumental in bringing down the centre-right government, and their agreement was key to successfully implement a pension reform. To reach these aims the centre-left had only to secure minimal concessions to unions (which is consistent with my theoretical model) and gain their consensus for an outright retrenchment of the welfare state, which was one of the most far-reaching in Europe.

The Olive-Tree Governments and the Flexibilisation of the Labour

Market

When in 1996 the centre-left Olive-Tree coalition eventually won a general election, it was clear to everyone that the trade unions would continue to play an active role in socio-economic steering. *Concertazione* with the social partners became enshrined as the key method of addressing all socio-economic issues (Santilli 1996). The 1993 agreement on income policy was confirmed in 1996 and 1998 within broad wide-ranging tripartite understandings (Presidenza del Consiglio dei Ministri 1996; Trentini 1999). In 1997, the 1995 pension reform was amended through bipartite talks in order to strengthen savings and introduce anti-poverty measures. This time, the referendum among workers passed with a comfortable 84% majority (Baccaro 2002b: footnote no. 16). Additionally, the trade unions secured a statutory role in the managing of the newly introduced private pension schemes (Paparella 1997; see Table 5.2 for a chronology of *concertazione* during Olive-tree coalition governments).

The most important policy innovation, however, related to the fields of labour law and employment regulation. According to OECD metrics (OECD 1999, Table 2.5 p. 66) in the mid 1990s the Italian labour market incorporated the most rigid regulations after Turkey, Greece and Portugal. According to a very influential view, the high level of unemployment that Italy shared with other large European economies was indeed a consequence of such rigidities (OECD 1994; Siebert 1997; IMF 2001).⁶⁵ Implicitly buying into this argument, the centre-left

⁶⁵ For seemingly more robust econometric results contradicting this view see: Baccaro and Rei (2005) and Baker *et al.* (2005).

government embarked on tripartite negotiations aimed at improving labour market flexibility.

In 1997 a major package of reforms was introduced and the Italian labour market changed significantly. New working schemes were introduced, and the cases in which they could be employed were subsequently enlarged. Agency work was introduced for the first time; procedures for employing part-time personnel were simplified; fixed-term contracts and apprenticeship contracts were made easier to adopt. In brief, the range of cheaper non-standard flexi-jobs, characterised by lower protections and fewer welfare entitlements, was sensibly increased alongside the “old” standard employment (Baccaro and Simoni 2004a). The labour market therefore included multiple layers of regulations, including flexible and non-flexible occupational regimes. The centre-left reforms, as such, are usually referred to as re-regulations rather than de-regulations (Lodovici 2000). Flexible workers were essentially the newly employed, while those already in occupation, that is, the entire body of unionised workers, were not affected by the reforms.⁶⁶

The trade unions did not simply contribute to the design of the new rules, but also secured for themselves a regulatory function with regard to the flexible workforce. Legal provisions included norms giving to the social partners the role to determine all the details not specified in the legal framework. These included, for example, the quota of specific flexi-jobs that each industry could employ as a proportion of total workers. The employers’ peak association, *Confindustria*, openly contested these restrictive measures and continued to campaign for outright labour market liberalisation, including the relaxation of employment

⁶⁶ According to the main Italian institute for statistics, after the implementation of this reform more than half of the new jobs took “atypical” forms, i.e. part-time contracts, fixed-term appointments, and so on (ISTAT 2002: 178).

protection (EPL) in large industries. The staunch opposition of trade unions to any further liberalisation eventually pushed employers to endorse the centre-right coalition in the run-up to the 2001 elections (CESOS 2000; Confindustria 2001; Baccaro and Simoni 2004c).

Conclusions: The Party/Union Alliance Under Globalisation

The transformation of the Italian party system overlapped with the introduction of institutionalised concertation between centre-left governors and trade union confederations. A thorough evaluation of the policy results will be done in the third section of this chapter so as to offer a comparison with the case of the United Kingdom, which was characterised instead by the end of party/union cooperation. However, the analysis of the Italian case carried out in this section has largely confirmed my previous conclusions.

Cohesion of organised labour is the key factor that allows for policy collaboration between trade unions and centre-left governments in Italy. Until the early 1990s, cohesion was impeded by political divisions. However, the end of such divisions was not enough to sustain cooperation. In fact, given that the centre-left policies were based on low inflation and fiscal discipline, the trade unions needed to devise new strategies to prevent conflicting interests within labour from causing union fragmentation. As has already been observed by previous studies, democratic methods played a central role in this respect (Baccaro, Carrieri and Damiano 2001; Baccaro 2002a; 2003). Democratic rules unified labour around unappealing policy reforms, avoided policy drift at local level, and channelled dissent inside the boundaries of existing union confederations.

Figure 5.2 has shown that union membership in Italy did not decline in the 1980s and 1990s. Systematically collected data show that union density has only slightly decreased (Ebbinghaus 2003: 453). This means, according to my model, that centre-left politicians should retain an electoral incentive for coordination with unions each time the latter comply with their “new” set of economic policies with limited policy concessions. Thanks to democratic means of achieving labour cohesiveness, this is precisely what happened in Italy. If one considers the whole period of concertation between 1992 and 2001, the main, if not the only, policy gain for unions was in labour policies. Unions were able to shelter their members from the deregulation of the labour market, and to shift the burden of deregulation onto the growing pool of non-unionised workers employed in the service sectors. This, again, suggests that as the labour market becomes increasingly fragmented, non-union voters have less and less capacity to influence governmental policies, even if their ideological preferences bring them to endorse centre-left parties.

Consistently with my previous analysis, the emergence and continuation of concertation in Italy between 1992 and 2001 is a distinctly partisan phenomenon that should be understood in political terms. Indeed, trade union officials at the negotiating tables in 1992-1993, 1995 and 1996-2001 were facing politicians elected in, or appointed by, centre-left coalitions dominated by the social democratic party. Before the massive political re-alignment that happened in Italy between 1992 and 1994, political divisions within the left and within the labour movement had proved any “political exchange” unworkable.

The next section will tell a very different story, characterised by the opposite trajectory of party/union relations. In the UK union density sharply

decreased throughout the 1980s and 1990s, but the decline was not counterbalanced by an increased cohesiveness of the Trades Union Congress (TUC).

Date	Issue
September 1996	Tripartite “Pact for Work”. Includes measures to promote employment, framework agreement on flexi-jobs, local development measures. Confirms the 1993 income policy agreement.
January 1997	Supplementary (private) pension schemes will be managed in a tripartite fashion.
March 1997	National bipartite agreement on workers representation in the public sector.
June 1997	Major concerted innovation in labour law introduces significant flexibilisation measures – the so-called “Treu Package”.
September 1997	Agreement to reduce the deficit of the pension system through organisational means.
October 1997	Establishment of elective work council in the public sector.
November 1997	New bipartite agreement on pension reform. Increases savings from the 1995 agreements while introducing anti-poverty measures.
December 1997	Approved training measures as a follow-up of the “Pact for Work”.
April 1998	Tripartite agreement on child labour signed.
April 1998	Tripartite agreement on temporary agency work.
November 1998	National framework for vocational training approved: schemes will be managed by tripartite bodies.
December 1998	Tripartite agreement “Social Pact for Development and Employment”. Confirms the 1993 agreement on income policies and sets a number of policies to reduce labour costs, reduce taxes, and reform the vocational training system.
March 1999	Tripartite agreement to regulate strikes in public service sectors.
June 1999	Tripartite “Protocol of intent” to guarantee social peace during the Jubilee of year 2000.
December 1999	Social partners ask the government to extend agency temporary work through a joint agreement.
January 2000	New, concerted, regulation on part-time work aimed at increasing the number of part-timers.

Table 5.3 – Chronology of *Concertazione* during the Olive-Tree Coalition Governments.

Source: European Industrial Relations Observatory On-line, various issues.

5.2 From Symbiosis to Divorce: the British Case in Detail

“We were promised fairness not favours by the government yet it seems that the employers still have the favours and employees have not had the fairness”(Morris 2003). This bitter statement made by the general secretary of the TGWU union gives a hint of the extent of the party/union “divorce” that occurred under the New Labour government in Britain in the late 1990s.⁶⁷ Before embarking on an analysis of this recent development, this section will review the main traits of the party/union relations and the institutional frameworks on which they were crafted. The second part of this section reconstructs developments over the long Conservative rule of the 1980s and 1990s, and looks at how these led to the confrontational party/union relations of the late 1990s.

From the Myths of Early Industrialisms to the “Social Contract”

The relationship between the TUC and the Labour party was at its beginning as close as that between a parent and child. The founding meeting for an Independent Labour Party (ILP) was convened by a minority of TUC members in 1893 (Hyman 2001). Seven years later, the Labour Party was established by a number of TUC affiliates, and other socialist organisations such as the Fabian Society and the ILP (Minkin 1992: 3). The structure of the Labour party was a federal one, meaning that the different components, including the affiliated trade unions, exerted governing functions as organisations. From the 1918 constitution onwards, trade unions controlled over 90 % of the party’s annual conference, which, in turn, elected the National Executive Committee (NEC). The “block vote” was at the heart of party-union link. According to this procedure, each union

⁶⁷ At the moment of writing, New Labour is still in government, but I will limit my analysis to the years up to 2003.

appointed its own delegates to the party conference, and these were bound to vote in the same way, according to their union's mandate. Therefore, even a slim majority within a large union would secure many votes to the conference. Through the use of the "block vote", the party was *de facto* controlled by a combination of unions' leadership and parliamentary elites. Indeed, the bigger unions (such as the transport workers' union, engineers' unions, or public sector unions) have often acted as "praetorians" of the party leadership, defending it against ambushes from internal political factions (Minkin 1992 379-361; Webb 1999: 101-102; Ludlam and Taylor 2003: 731-732).

Given this governance structure, it is not surprising that post-war Labour cabinets were characterised by intense collaboration between government and unions in policy making. The Atlee governments between 1945 and 1951 enacted the ideal-typical "political exchange" whereby unions would negotiate voluntary wage restraints against increased welfare state provisions (Thorpe 2001: 104-124; Mares 2006: 175-179). As reviewed earlier in Section 1.1, post-war decades were characterised by the so-called Keynesian consensus, where state intervention in the economy was the preferred means by which to sustain full-employment. Britain was no exemption to this trend, and the Labour governments implemented their policy program in strict accordance with trade unions.

In the late 1970s, while Keynesian consensus was collapsing under the pressure of oil crises and stagflation, the Labour party won elections with a mandate centred on typical "political exchange" (Dale 2000b). According to virtually all observers and key informants I have interviewed, the years between 1974 and 1979 years are key to an understanding of recent developments in the

party/union relationship, because of the negative impact that failed party/union cooperation had on the party's fortunes.

In 1973, while still in opposition, the Labour party signed a "Social Contract" with the TUC. This was a wide-ranging agreement which envisaged the imposition of price controls, a reduction in income taxes for the lower income cohorts, tapping of rents, and the provision of job subsidies in exchange for the union's willingness to moderate wage increases (Pelling 1987: 291). A fair exchange between governmental policy and unions was certainly central to the Labour manifesto for the 1974 elections (Craig 1990: 190-1). Once Labour formed a new government in 1974, this "social contract" became the cornerstone of its efforts to reduce inflation. In 1974, trying to comply with this contract, the TUC recommended that wage claims should be limited to maintain purchasing power. In July 1975 and 1976, the TUC conference recommended that pay increases were limited to 6% and 5% per week respectively (Peden 1991: 203). In 1978 the government attempted (unsuccessfully) to set up an agreement with the TUC for a 5% ceiling on wage increases (*idem*: 204). In February 1979, in the run-up to general elections, a new "Social Contract" was signed between the Labour party and the TUC to reiterate their intention to steer the economy and industrial relations in close partnership (EIRR 1979: 26-32).

However, the involvement of organised labour in macroeconomic steering did not lead to successful socio-economic performances. Wage drifts remained very high throughout the period, so that average wage increases were double or treble the agreed levels (Peden 1991: 204). Inflation was thus untamed, and unemployment started to rise. Wildcat strikes dominated industrial relations as workers attempted to regain the purchasing power lost through inflation, so that

union actions increasingly caused social chaos. The authority of the TUC leadership over affiliate unions was extremely weak, so that each union crafted its own claiming policy, culminating in the “winter of discontent” wave of protest between 1978 and 1979 (Scharpf 1991: 83-88; Mares 2006: 202). Virtually every sector went on strike, and Britain was paralysed. In January 1979 the biggest one-day stoppage since the General Strike of 1926 took place, involving over one million local authority workers (Peden 1991: 205). At the end of Labour’s term, inflation rates still exceeded 8%, unemployment had more than doubled since 1974, and over 2400 strikes occurred across the country during the last year of the government (European Commission 2004; International Labour Organisation 2006). The dire social and economic situation led to the greatest political swing since 1945 and gave the Conservative party a comfortable majority, which was repeated in the subsequent four general elections.

A few conclusions follow from this account of UK party/union relations on the eve of change in the world economic consensus. The Labour party and the TUC were very close allies in the post-war decades. However, during the late 1970s, the alliance failed to deliver the expected economic outcomes, and eventually met with electoral defeat. The economic recession did not ease the situation. However, under an unfavourable overall scenario, the trade union movement proved to be far from cohesive. As unofficial strikes became the norm rather than the exception between 1978 and 1979, individual trade unions seemed to pursue rent-seeking and their own interest, which they perceived to coincide with the net income of their members, rather than as connected to the whole of society (Clark 2001: 17). Militant unionism was inevitably blamed for the 1979

electoral loss, and, in retrospect, this cost the labour movement dearly in terms of actual benefits for workers and unionists, and also in terms of political influence.

From the perspective of my model, the late 1970s can be seen as a situation in which the expectations of trade unions are far removed from the policies that the social democrats want to implement. Indeed, when the recession hit Britain, public finances and efforts to reduce inflation did not allow for the expansion of the welfare state or for a rise in the incomes of unionised workers. In the absence of a strong confederation authority, each union pursued its own agenda, thereby *de-facto* ending the “Social Contract” with the Labour party.

The Dark Era of Conservative Governments: 1979-1996

The Conservatives did not conceal their anti-union political program. Their electoral manifesto depicted the unions and their role in public policy as a threat to the constitutional order and to the prerogatives of Parliament, more than as a source of economic disaster (Dale 2000a: 266-70). The Conservatives’ policy program was thus tailored to curtail union power (Letwin 1992: 130-158). Margaret Thatcher pushed anti-union policies in an incremental manner, passing Employment Acts in 1980, 1982, and 1988. and the Trade Union Act in 1984. These laws limited the right to strike and to picket. They abolished closed shops and imposed additional burdens on unions, such as the obligation to call a ballot before a strike and also to vote before issuing political funds (Thorpe 2001: 200).

At the same time, the Conservatives embarked on a wide plan of liberalisation of public companies, which reduced the clout of public sector unions. Similarly, they severely limited increases in welfare spending, although they were not able to reverse the universalistic character of the health and welfare institutions (Schmidt 2000: 238-241). A tight control on money supply took the

place of wage restraints as a means of tackling inflation, allowing unemployment to soar (Peden 1991: 214-215). In an effort to generate low-inflation expectations, and establish market-driven growth, money control and unilateral policy action took the place of collaboration with trade unions throughout the Conservative rule (Letwin 1992: 118-123; Mares 2006 206-212).

The effects of these policies on unionism were very profound. By 1995, fifteen years after Thatcher's electoral victory, total union membership had almost halved, from 12.1 million to 6.8 million, while union density decreased by 20%, dwindling to a mere 33% of total workers (Golden, Lange and Wallerstein 2002).

Party/Union Relations in Opposition Times: Between Modernisation and Spin

During the three Thatcher terms the Labour party never managed to mount a serious challenge to the Tory predominance in the electorate. Subsequent Labour manifestoes for the 1979, 1983, 1987 and 1992 elections show a gradual movement towards more centrist positions, the abandonment of traditional interventionist economic policies, and the endorsement of the new world economic regime, including a shift from Eurosceptic to Europhile political stances (Dale 2000b). Looking at the main development of party/union interactions, two major events can be seen to have characterised the period 1979-1992 because of their effect on subsequent developments: the post-electoral "constitutional revolt" and the 1984-1985 miners' strike.

In the aftermath of electoral defeat, the left of the Labour party mounted a campaign to increase the level of democracy within the party. The key contention was linked to the allegedly excessive power held by the Parliamentary Labour Party (PLP) *vis-à-vis* the other components, i.e. the trade unions and the Labour Party territorial constituencies (CLP). Reflecting a view often shared by

scholarly observers (for example: Parnes 1956; Stepan-Norris and Zeitlin 1995), it was believed that increased internal democracy would have increased the militancy of the party, re-aligning policy with the left. On this issue, “[t]here was no agreed and consistent drive among union leaders to secure a new constitutional settlement after 1979. [...] *not a single resolution or amendment was submitted by the unions relating to [...] constitutional issues*” (Minkin 1992: 196, emphasis in the text). In a special conference called to amend the rules governing the election of the party leader, major unions such as the GMWU (public sector) and the AUEW (engineers) aimed to preserve PLP predominance, even if they favoured some reform of the rules. Other unions, such as the NUM (miners), and left-wing organisations supported a greater role for unions and the CLP. At the end of this process a new electoral college for the party leader was approved. The leader had formerly been elected by the PLP, but after the reform the new college was split three ways: 40% consisted of union representatives, 30% was made up of CLP representatives, and the PLP formed the remaining 30%.

This debate on constitutional settings underscored the differences between the unions’ stances on internal party politics. Rather than being a unified body, organised labour clearly comprised many independent sector-specific organisations loosely grouped under the TUC framework. Each developed its own union policy and political orientation, which it pursued independently.

The miners’ strike was the most remarkable example of how this type of labour organisation spilled over into the industrial relations milieu. The miners’ strike lasted for almost one year between 1984 and 1985, and is remembered as one of the most dramatic post-war industrial disputes in Europe. Over 10 people died, and more than ten thousand were arrested during clashes between the police

and picketing workers. Having started as a “normal” industrial dispute over massive dismissals, the protest quickly assumed the features of a political dispute between the left-leaning National Union of Miners (NUM) and the right-wing government. The former did not ballot the strike among workers, and its leadership was therefore accused of manipulating the will of workers for its own political aims. In retrospect, and in a comparative perspective, the most striking feature is that the leadership of workers on this occasion was completely in the hands of the NUM leadership, whereas the TUC leadership and party leadership had very little influence.

The Labour party leader, Neil Kinnock, was unable to take any stance whatsoever on the issue during the strike. He tried to distance the party from the violent events and suspended all relations with the NUM leadership. In retrospect, he regretted not having asked for a ballot among workers, and therefore leaving the initiative to the radical left leader of the NUM (Williams 2004).⁶⁸ While the party’s reputation was damaged by its complete inability to deal with the issue, it was also losing touch with the left-wing sympathisers with the miners’ struggle (Thorpe 2001: 202-203). In 1985, after the strike had been defeated, Kinnock gave a speech to the party conference in which he strongly criticised the conduct of the dispute. By doing so he contributed to the image of a profoundly divided labour movement, and of a party still unable to muster its relations with core parts of its constituencies (Minkin 1992: 139).

The miners’ strike is a very effective example of an industrial dispute lead without a clear political objective, and in complete disconnection with a

⁶⁸ Kinnock’s words about the NUM leader (Arthur Scargill) 20 years after these events are quite impressive. “Oh, I detest him (Scargill). I did then, I do now, and it’s mutual, [...] He hates me as well. And I’d much prefer to have his savage hatred than even the merest hint of friendship from that man”(Williams 2004).

nationwide strategy of organised labour. A similar event happened one year later, in 1986. The “Wapping dispute” was characterised by bitter confrontations over industrial restructuring caused by technological improvements in the printing industry. The trade unions were eventually defeated after refusing a compromise settlement. Interestingly, a few years before, the printers’ unions had refused a TUC plan devised by the young John Monks, which had aimed to ease the transition to the new technologies, and to prevent industrial disputes (Littleton 1992; Taylor 2000: 261).

During the Tory governments, the trade unions proved to be far from cohesive both with regard to internal party politics and to their relations with the employers and the state. The Labour party leadership was indeed managing relations with many different unions, rather than one cohesive confederation. Scholarly observers underlined that the policy and organisational fragmentation of the TUC did not diminish during the Labour party’s time in opposition (Visser 1988).

Preparing to Win With New Labour

After its defeat in the 1992 elections, the Labour party continued its movement towards policy reappraisal, i.e. the final abandonment of Keynesianism, and the embracement of a fully fledged policy program. This was eventually spun into the “Third Way”, or “New Labour”, rhetoric, i.e. a new comprehensive policy package, allegedly different both from the new right, and from the “old left” (Mandelson and Liddle 1996; Giddens 1998). While the Conservatives seemed to lose touch with the British populace, the process of the Labour party “modernisation” gained momentum.

For its symbolic value, the most relevant policy change was the amendment of Clause 4. This was a section of the LP constitution that included among the party's aims the commitment "to secure for all the workers [...] the common ownership of the means of production, distribution and exchange". It was a largely anachronistic clause that had never played a real role in the design of party policies. However it had represented for many years a source of identity for the party, and its umbilical relationship with socialism and unionism (Thorpe 2001 137-138).

The resolution of the Labour leadership group to change this clause to a more generic phrasing was motivated by two factors. On the one hand the new leadership wanted to demonstrate its command over the party's agenda. Indeed, previous efforts to change the clause had failed miserably because of unions' resistance. Additionally, the amendment of Clause 4 was a clear signal to the electorate of the fact that the Labour party would no longer be a hostage of militant unions (Blair 1997). The amendment was approved at a special party conference, where the 70% unions vote was split 55% to 45% in favour of change. The largest unions, including Unison (public sector) and the TGWU (transport), opposed the change. Again, internal decision-making mechanisms were key to determining this voting behaviour. The peak leadership of the TGWU did in fact support the reforms. Additionally, opinion polls among workers of both sectors showed that a majority supported the reforms. However, the voting behaviour of unions' delegations to the party congress was determined by the union's intermediate bodies. In summary, the absence of democratic means of decision making froze union factionalism within the party conference, in spite of a

potential majority among members on a unified policy platform (McIlroy 1998: 551-552; Thorpe 2001: 224).

Before the 1997 elections, other internal constitutional reforms were implemented to decrease the extent to which separate bodies such as trade unions and the CLP could affect the leadership control over the policy agenda. In 1995, the unions' presence in the NEC was reduced to 50%. Interestingly, the motion was proposed by Dan Duffy of the TGWU and supported by all the unions. Unions' sponsorship of individual MPs was abolished, and a motion was passed ruling that the Party's manifesto had to be endorsed through a referendum of members, rather than approved by the NEC (McIlroy 1998: 545; 553). Additionally, the NEC's influence on policies was further reduced by the introduction of the National Policy Forum, whose functioning machinery prevented the chance of a single faction adding policy issues to the party's agenda without the endorsement of the leadership (SCGN 1999; Webb 1999: 102-103).

The trade unions supported this measure, but major differences between their policy stances remained despite all the efforts of the TUC's new leadership to push the "New Unionism" agenda. In fact, in 1994, the TUC began a formal "relaunch". A more modern policy program, geared towards "partnership" with employers in the workplace rather than industrial confrontation, was devised (Heery 1998; 2002). According to Robert Taylor, who was for a long time employment editor of the *Financial Times*, the modernisation drive of John Monks, TUC general secretary, was more substantial than that of Tony Blair (Taylor 2000).

In order to reverse declining trends in membership, the TUC embarked on a process of organisational and policy change that in some respects paralleled the one implemented by the Labour party. The General Secretary insisted that

“[t]he days when trade unions provided an adversarial opposition force are past in industry. We have to admit that one of the reasons for the UK’s inadequate post-war economic record has been bad industrial relations and trade unions must take some of the blame” (reported by: Taylor 2000: 264).

These words closely resemble the very expressions used by Tony Blair to signify the distance between “Old” and “New” Labour’s approaches to industrial relations (Taylor 1995). John Monks was the first TUC leader to address the Confederation of British Industry (CBI), which he did a few months before the 1997 election, pledging cooperation between unions, business and governments to ensure macroeconomic stability, low inflation, low unemployment, competitiveness, more investment in education, technology and transport, and improvements in relations with the European Union. Monks argued that unions and business

“have a common interest - a common interest in the success of our enterprises, in wealth creation and in a country whose products and services can compete with the best in the market places of the world and which can maintain a decent, courteous and cohesive society.” (reported by Wagstyl and Wightin 1996: 20).

From the viewpoint of the confederation structures, a renewed effort was made to improve TUC efficiency and to increase its outward projection: “less minutes, more press releases” (Heery 1988: 64). A school for cadres was implemented, so as to give the unions’ structure, and the union officials an

increasingly professionalised profile that rendered recruiting campaigns much more effective. Additionally, a remarkable process of mergers between unions was pursued, which increased member concentration (Heery, Kelly and Waddington 2002). The overall objective of this strategy was to endow the confederation with stronger unitary capacity, and clearer policy stances *vis à vis* the state and employers. The ultimate aim was indeed to reach the same status of “social partner” held by many of its sister confederations on the European continent (Heery 1998; Taylor 2000: 259-269).

However, despite these efforts, differences between affiliate unions and evidence of lack of internal co-ordination continued to emerge. Indeed, the TUC did not incorporate internal decision-making mechanisms that could have prevented policy drift at the level of affiliate unions, or that could have bound dissenting unions to unitary policies. Indeed, the TUC was not the only voice of the workers. The largest union, Unison, dominant in the public sector, had passed motions in the 1995 and 1996 conferences to demand the return to public ownership of privatised utilities, increased investment in the public sector, repeal of Conservative anti-union legislation, opposition to pay restraint policy, and rejection of the Maastricht criteria for monetary union (McIlroy 1998: 554). The TUC insisted in public statements that unions were reliable partners for both Labour and Conservative governments and that they were willing to pursue the method of partnership, hence cooperation, between employers and employees, as well as between governments and social partners (Taylor 1996d; Wagstyl and Wightin 1996). This statement continued to be overshadowed by factionalism. In the 1994 and 1995 Congresses, motions asking for “total repeal” of Tory laws on unions were approved, while the TUC general secretary denied that this was an

objective of the unions (McIlroy 1998: 548).⁶⁹ In the 1996 Congress, a Unison/NUM motion endorsed a proposal supporting a specific level of minimum wage despite the TUC General Council's opposition. In fact, the TUC leadership had agreed that a tripartite body should have discussed the issue.

Against this background, Tony Blair made it clear to unions that they should not expect comprehensive involvement in policy making in the future Labour government. Distrust in the unions' capacity to moderate their stances and compromise on policy making would endure even after the elections. However, during the electoral campaign, Blair's persistence in highlighting party/union de-linkage was reinforced by strong advice from his pollsters. Focus groups showed that swing voters from the Tory side were ready to support Labour only if Blair showed clear resolve against union militancy (Gould 1998: 257-258). As a consequence, New Labour's electoral pledges to the trade unions were confined to: (1) vague commitments to change the worst parts of anti-union legislation, including the establishment of individual rights to join a union; (2) the commitment to establish a minimum wage, whose level was to be decided upon once in office depending on the economic context (Taylor 1995).

On the eve of the 1997 election, the TUC remained keener than Labour on partnership between the two. However, the policies advocated by many of its affiliates appeared to be too closely linked to interventionism and regulation than Labour party leadership could accept (Taylor 1995; McIlroy 1998: 551). Most accounts suggest that the TUC was aware of the fact that the Labour government would have not adopted concertation to devise its socio-economic strategy (Taylor

⁶⁹ It is often forgotten that a 1989 party conference (in which unions still held 90% of total votes) had rejected a motion supporting the "total repeal" of Tory legislation on unions with a majority of 63% (Minkin 1992: 472). Against this background, Blair's famous address to the TUC conference in 1995 stating that "There is not going to be a repeal of all Tory trade union laws" (Taylor 1995: 8) is much less impressive.

1996a; 1996b). Influential commentators suggested that the unions should have pushed to be formally divorced by the Labour party before elections, so as to increase their bargaining power from an independent position (Taylor 1996c). Deriving their strength from the renovated organisational capacity, many unions started to distance themselves from the Labour party in a highly demonstrative way (Heery 1998: 355).

Party/Union Divorce During the New Labour Government

“[O]ne of the main distinguishing characteristics of this government [...] is its rejection of the use of organisations of business and labour for purposes of socio-economic steering” (Crouch 2001: 93).

Under the New Labour government, the UK became an exemplary case of party/union divorce, and this is evident from the very few policy results of party/union interactions in the three policy areas that I have adopted as points of reference, i.e. macroeconomic management, welfare (spending) policies, and labour law and employment regulations.⁷⁰

On the subject of macroeconomic management, the Labour government adopted an orthodox approach to inflation. A few weeks after winning the 1997 election, the government reformed the Central Bank statute and gave responsibility for monetary policy to a newly designed committee in which the Bank's officials held a majority. The Chancellor charged the committee with the mission of targeting inflation at 2.5 % per year. On the one hand, this was a clear signal to markets about the seriousness (i.e. the commitment to a mainstream economic approach) of New Labour's stance on economic management (Annesley

⁷⁰ I will not discuss New Labour's political philosophy at length because this is well-placed within the more general trajectory of social democratic policy reappraisal already discussed in Section 4.1 (Przeworski 2001).

and Gamble 2004: 146). On the other hand, a 2.5 percent target would prevent over-zealous bankers from pushing inflation below that level irrespective of the consequences for employment (Glyn and Wood 2001: 203). These measures were largely inspired by the need to build a good reputation of competence in economic management. Indeed, economic incompetence had been held responsible both for Labour's defeat in 1979 and the decline in Conservative consensus that had occurred since 1992.

Building on this, the government applied very prudent fiscal stances. Following his own electoral pledges, the Chancellor did not change the spending plans of the Conservatives during its first two years in office. He then declared publicly two "golden" rules for sensible public spending, which led net public debt to decrease constantly from 48% of GDP in 1997 to 35.2% of GDP in 2003 (Glyn and Wood 2001: 206; Bank of England 2006). Under this policy framework, wage moderation from the side of the unions was not needed, and indeed it was not sought (nor did the unions ever showed any willingness to do this). Wage statistics confirm this: between 1997 and 2003, real unit labour cost increased by 5%, at a rather constant pace throughout the period (European Commission 2006g).

Likewise, union collaboration was not sought in the construction of the new welfare state institutions. These were coherently centred on the supply-side, and mainly aimed at improving employability and linking welfare entitlements to employment (O' Brien 2000). Incentives to enter employment, rather than rely on state assistance were paired with disincentives to remain unemployed. Training measures for the long-term unemployed were devised, so as to increase the active labour force. At the same time, anti-poverty measures took the form of tax credits

and tax exemptions (White 2001: 11). The Treasury estimated that, thanks to these measures, the real take home minimum wage of a single parent with two child was double the actual minimum wage level, i.e. 6.6 GBP per hour instead of 3.6 (Oppenheim 2001: 81-82).

Indeed, labour regulation, including the introduction of a minimum wage as a key anti-poverty measure, was the only policy area in which the government sought some collaboration with the trade unions. This can be better understood as “informal collaboration” or, as a scholar put it, “the new politics of pressure” (McIlroy 2000). However, the key electoral promises to trade unions referred to this policy area, and a clear effort was made to secure them a role in policy making (Ludlam and Taylor 2003: 734).

Once in office, the government set an independent tripartite Low Pay Commission, charged with the role of identifying the most appropriate level of the minimum wage (Gennard 1998: 21). The results of the commission were, however, not welcomed by unionists. The minimum wage was set at £3.60 per hour, whereas the TUC had asked for £4 per hour, and big unions, such as Unison, £5 per hour (Glyn and Wood 2001: 218). The Labour party delivered what it promised (the minimum wage), but not at the level the unions preferred.

Similar accounts can be given of the reform of employment regulation and industrial relations law. After intense months of tripartite negotiations that failed to deliver consensus on an overall policy package, the government issued a white paper called “Fairness at Work”, which formed the basis of subsequent legislation (DTI 1998; Ludlam and Taylor 2003: 735). The latter eventually enlarged rights for workers: the statutory period of work required for eligibility for protection against unfair dismissal was reduced to 12 months. However,

financial compensation, and not reinstatement, as the unions had asked, remained the main penalty for unfair employers. The potential compensation figure was nonetheless increased by almost five times, to £50,000. Additionally, dismissal of strikers was made partially unlawful, increasing the scope for industrial action (Hamann and Kelly 2003: 647).

With regards to unions' rights, the government reinforced the chances of union recognition, albeit making it conditional on an absolute majority in a ballot among workers. However, if a union was able to recruit half of the workers in a company, employers were compelled to recognise it. Additionally, discrimination in the workplace against trade union members was no longer tolerated (Glyn 2001b: 218; Hamann and Kelly 2003: 648).

Opinions on New Labour's labour market reforms vary widely. A relative majority contends that these measures by far and large follow the track previously marked out by the Tories. However, Blair's words insisting that Britain has the "most lightly regulated labour market of any leading economy in the world" (DTI 1998: 4) can either be read as demonstrating the need to protect these measures from attacks from "neo-liberal" vestals (Ludlam 2001: 114-116), or as proof that Labour's policies fundamentally endorsed the status quo ex-ante (Mares 2006: 213-217). Empirical data are mixed. On the one hand it is hardly disputable that rights for employees improved, and that by the effect of Labour's reforms unions' recognitions (and members) increased for the first time in twenty years (Heery, Kelly and Waddington 2002). On the other hand, no role for unions as a movement was apparent in the governmental policies as a whole, and indeed their weak involvement in policy making during the first term of Labour

government became even weaker during the second term in office (Hay 1999; Howell 2000; Ludlam and Taylor 2003 742-743).

Conclusions: Fragmented Divorce

The fragmentation of the labour movement, and the dire events during the “winter of discontent” deeply affected the continuation of the party/union alliance in the United Kingdom under the Labour government at the end of the 1990s. The efforts made by the TUC leadership and the personal conviction of its secretary general proved to be insufficient to convince the Labour party that unions could cooperate and sustain a role as “social partner”.

Pollsters’ insights into the electorate certainly conditioned this policy decision, but personal experiences of the party leadership played a great role too. Tony Blair and the other Labour leaders remembered the events of the 1970s, the “winter of discontent”, and the miners’ and printers’ disputes, very well. Likewise, they remembered the effect these events had on the internal life of the Labour party – which eventually split in the 1980s – and on its electoral fortunes. The fear that these types of events could be repeated was very strong throughout the run-up to the 1997 elections, and during Labour’s first term in office. As a consequence, the government leadership made sure that there was no chance these events could happen again: the adopted strategy was to keep the unions at arm’s length.⁷¹ This decision was based on the underlying judgment that observance of union policy during 1979 and during 1996 could not conclude that unions had changed their organisation policies. At the same time, the efforts made after 1994 to reduce fragmentation and promote cooperative behaviour were considered to be too little, too late.

⁷¹ Interview with Stephen Huges, MEP.

As a consequence, the type of relationship that emerged in Britain in the late 1990s was characterised by a mutual distancing, whereby both party and unions emphasised their independence and their different roles in British society. The unions were granted the same role as other lobby groups in policy making, and in fact lamented the fact that their role was lower than that of one of the main employer organisations, the CBI. On the other hand, the TUC continued improving unions' organisation in the labour market, and sought a wider role in the policy arena as an actor within the civil society social movements. The TUC claimed to be the main (mass) organisation in the UK seeking justice on domestic and international issues. At the same time, each affiliate union was not constrained by confederation policies, and was free to pursue industrial action to increase pay and improve working conditions.

This analysis corroborates the conclusions of my model. The trade union density decline in the 1980s and 1990s reduced the electoral incentives for the Labour party to include unions in policy making. The TUC fractionalisation – or perceived fractionalisation – further reduced the incentive. This was confirmed by the round of negotiations on the level of minimum wage and the reform of employment regulations. The government conceded small concessions to union requests, and these proved insufficient to buy their whole consensus. As my model has predicted, then, once the party defects from cooperation, a path is likely to emerge. Once unions are evicted from the policy process, they cannot force their participation in the political economic management, because inflation is controlled by the Central Bank. Instead, the government has a clear incentive to seek increasingly the endorsement of non-unionised sectors and alternative interest groups. This is confirmed by the fact that upper- and middle-class,

including capital-owners, seemed to give their endorsement in large numbers to the Labour party in the 2002 and 2005 elections (Leader 2005; Hinsliff 2006). However, research papers scrutinising the behaviour of different portions of the electorate are confined to the analysis of 1997 elections (Heath, Jowell and Curtice 2001): therefore, deeper research would be necessary in order to confirm this part of my model with certainty.

5.3 The Social Democratic Political Economy in Comparative Perspective.

The reconstruction of the relationships between centre-left governments and trade unions in Italy and Britain has confirmed my previous conclusions. This section will now briefly develop a comparative analysis between the policy results of union and non-union policies. I explained in the introduction to this chapter that the choice of Italy and the UK as critical tests of my theory was related to the distribution of my dependent variable. More precisely, the change in the policy results of party/union interaction in Italy and the UK was the largest among all European countries, and it occurred in opposite directions (Table 5.1). In Italy, party/union cooperation increased over time, while in the UK it decreased. Therefore, the comparison of their actual policy result in substantive terms is also likely to yield large differences. Interestingly, the comparison will show that, when endorsing liberalism and economic orthodoxy through concertation, unions' gains (in Italy) were limited to the preservation of a defensive role in the labour market, and the political arena.

One stream of the literature links the British party/union divorce, i.e. the absence of a role for trade unions in policy making, to the fundamental abandonment of the values and objectives of socialism by centre-left politicians

(Hay 1999; Howell 2000; Mares 2006b). Theorists of New Labour have argued instead that the latter keeps traditional Labour values steady, while adapting them to new circumstances (Mandelson and Liddle 1996; Giddens 1998). Instead, the contention of the aforementioned literature is that the eviction of unions from the policy process by the Labour governments is evidence *per se* of detachment from the interests of the working class.

I had already briefly shown in Section 2.2 (under the sub-heading “Excluding Standard Explanations Continued”) that this argument does not stand up to empirical verification. In fact, it seems that policies concerted with unions do not deliver consistently better outcomes for mid-to-low income groups. This final section explores in the socio-economic performances of Italy and Britain from a comparative perspective and aims to understand what payoff for unions, and the working class in general, was secured by the unions’ compliance with partnership agreements, as opposed to the ones provided by unilateral policy-making in the United Kingdom.

Trends in Incomes and Receipts

Data displayed in Tables 5.4 and 5.5 show that, after centre-left governance periods, Italian workers did not fare better than in the United Kingdom. Since 1992, at the outset of social partnership, real compensation measured at household level contracted in Italy due to the combined effect of slow growth and wage moderation. Italian households had to wait until 2001 for their income levels to be restored to 1992 values. Conversely, in the UK a better economic performance from 1997 translated into strong growth in real compensation. At the same time, wage share of GDP in the UK reversed a declining trend and began to grow again, from 61.8% in 1997 to 64.5% in 2002.

Instead, wage restraint in Italy from 1992 was paired with a steady decrease of wage share of GDP, from 61.5% in 1992 to 54% in 2002.

Income trends confirm that Italian concerted policies in the 1990s did not appear to be more favourable to workers than the Labour party's unilateral policies. Income distribution in Italy deteriorated (from the workers' viewpoint) very sharply at the beginning of the 1990s: the 90th/10th percentile ratio increased by almost 1 point between 1989 and 1995. Given that in 1992, wage moderation (Figure 5.2) overlapped in time with contraction of real compensation per employee, it is conceivable that increased income inequality was a side-effect of income policy agreements. Income distribution remained then rather steady throughout the social democratic governance period. (It should be kept in mind that income data reported in Table 5.5 are comparable within country over time, but are not comparable across countries.)

Income distribution in the UK remained quite steady during Labour's governments too. In fact, inequality decreased by a very marginal level. This means that the fruits of economic growth were distributed in constant proportions across income cohorts. However, it should be noted that this statistic marks a change in the trend recorded during previous Conservative governments, when higher income cohorts were able to secure *increasing* shares of the total national income (Table 5.6).

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Real GDP Growth (% year-on-year)																	
Italy	3.30	4.18	3.39	2.02	1.55	0.78	0.95	2.18	2.77	0.77	1.94	1.36	1.98	3.56	1.77	0.32	0.10
UK	4.50	4.96	2.29	0.62	1.30	0.33	2.40	4.39	2.79	2.72	3.24	3.16	3.08	4.04	2.24	1.99	2.47
Real Compensation of Households																	
Italy	89.6	92.1	94.8	97.6	99.4	100.0	98.3	97.0	96.1	97.2	99.3	96.2	98.4	101.2	103.6	104.4	104.3
UK	83.1	87.3	90.5	92.8	92.5	92.3	92.5	94.1	95.8	96.6	100.0	105.0	109.7	116.6	120.7	122.3	124.7
Wage share of GDP																	
Italy	62.6	61.6	61.3	61.9	62	61.5	60.4	58.4	56.4	56.6	56.8	54.1	54	53.3	53.4	53.5	54
UK	64	64.4	65.7	67	67.6	67.2	65.9	64.4	63.6	62	61.8	62.3	62.9	64	64.8	64.3	64.5
Social benefits for households as share of GDP																	
Italy	0.19	0.19	0.19	0.19	0.19	0.20	0.20	0.20	0.20	0.20	0.21	0.20	0.21	0.20	0.20	0.20	0.21
UK	0.21	0.19	0.19	0.20	0.23	0.25	0.26	0.25	0.25	0.24	0.23	0.22	0.22	0.22	0.22	0.22	0.22

Table 5.4 – Comparative Data on National Income and Compensation 1987-2003.

Source: own calculation on European Commission (2006a, b, c, d, e, f). Bold characters identify the beginning of concertation in Italy (1992) and the Labour party government in the UK (1997).

90th/10th Percentile ratio			
	<i>1989</i>	<i>1995</i>	<i>2002</i>
Italy	5.78	6.56	6.54
United Kingdom	4.03	3.93	3.99

Table 5.5 – Income Distribution 1089-2002.

Source: own calculation from Banca d'Italia (various years) and Office for National Statistics (2004).

Year	10th Perc.	25th Perc.	75th Median Perc.	90th Perc.
<i>Conservative Governments</i>				
1978	1.00	1.00	1.00	1.00
1987	1.06	1.08	1.17	1.26
1995	1.14	1.18	1.28	1.42
<i>Labour Governments</i>				
1996	1.00	1.00	1.00	1.00
2001	1.16	1.17	1.15	1.15

Table 5.6 – Distribution of Household Real Disposable Income, UK, 1978-2001.

Source: own calculation from Office for National Statistics (2004).

Spending Policies

When considering the outcome of party/union relations, income trends must be gauged together with social security expenditure. Indeed, it is known that unions will accept wage moderation and stagnant incomes if they can receive additional social transfers (Mares 2006). In other words, they consider social benefits to be part of the salary package when setting their preferences. In this respect, again, no remarkable difference results from a comparison of data from Italy and the UK. Private and publicly financed social benefits (last row in Table 5.4) remained steady in both countries under social democratic governments, and were slightly higher in the UK as a share of GDP. The internal composition of

social expenditure did not change much in the two countries either (Table 5.7). Critics of New Labour are right when they blame the fact that the government strongly followed the path set by Conservative governments. However, seen from a comparative perspective, concerted policies seem not to be more friendly to workers than those of New Labour, at least at the level of aggregate data.

	United Kingdom			Italy		
	1993	1997	2002	1993	1997	2002
Old Age	0.39	0.42	0.43	0.50	0.53	0.51
Health Care	0.24	0.24	0.28	0.25	0.23	0.26
Disability	0.10	0.10	0.09	0.07	0.07	0.06
Survivors	0.04	0.04	0.04	0.11	0.11	0.10
Family/Children	0.09	0.09	0.07	0.03	0.03	0.04
Unemployment	0.07	0.04	0.03	0.03	0.03	0.02
Housing	0.06	0.06	0.06	0.00	0.00	0.00
Social Exclusion	0.01	0.01	0.01	0.00	0.00	0.00

Table 5.7 – Composition of Social Expenditure in Italy and the UK 1993-2002.
Source own calculation from European Commission (2005).

The analysis of the Italian pension reform further corroborates these conclusions. In this case, it is possible to assess the policy with a domestic counterfactual, i.e. the failed pension reform that had been unilaterally pushed forward by the centre-right government few months earlier. Very interestingly, the differences between the actual reform and the failed reform are minimal. The savings determined by the successful one were roughly 10% less than the failed reform would have determined. The major difference between the two reforms regarded the composition of savings. Almost the entire savings of the centre-right reform were concentrated in the virtual abolition of seniority pensions. These pensions allowed workers to retire after a certain number of years in employment (in particular, this was 35 years for metalworkers) irrespectively of their age. On the contrary, the centre-left (successful) reform distributed the costs of

retrenchment over a larger social base, gradually phasing out seniority pensions (Baccaro and Locke 1996: 16).

However, this difference did not significantly diminish the extent of welfare retrenchment and its effect on workers. It certainly affected many different sectors; heavily unionised groups, including public sector workers, who gave up most of their privileges, industrial workers and service sector workers (Baccaro and Locke 1996: 17). Indeed, the most visible difference between the two reforms was the method adopted for their approval.

Labour Policies

The only policy area in which a clear difference appears between concerted and non-concerted policies is the field of labour market reforms. Interestingly enough, however, comparative accounts are still counterintuitive at a first glance, as British unilateral reforms resulted in increased rights for workers, whereas concerted policies increased the overall flexibilisation of the Italian labour market.

The Labour government reformed the norms for recognition of unions so that, conditional on their compliance to a quite burdensome procedure required to achieve recognition, workers acquired the “right to join, or not join” a union. In 1998 and 1999 union membership increased for the first time in 19 years. Between 1995 and 1998, that is, before the new labour laws, between 80 and 100 recognition agreements were signed each year. This figure jumped to 270 in 1999 with a further 130 cases in the first half of 2000 (Heery, Kelly and Waddington 2002: 1). These results cannot be linked only to the changed legislative framework. In fact, from the early 1990s, British unions embarked on a massive organisational and political reappraisal focusing on campaign management and

recruitment (Heery 1998; 2002; Heery, Kelly and Waddington 2003). However, the new legislative framework certainly did not hurt this process.

In addition to trade union recognition rights, the Labour party introduced norms that mildly increased worker protection, as well as the minimum wage and additional parental leave rights. As Glyn and Wood put it, “the Employment Relations Act is fundamentally concerned with individual employment rights rather than those of trade unions” (Glyn and Wood 2001: 219).

In stark contrast, it seemed that the labour market reforms under centre-left cabinets in Italy were more concerned with trade unions and trade union members’ rights than the rights of the individual employee. Reforms in Italy increased flexibility and thereby reduced the average level of worker protection. However, this was not obtained by a relaxation of existing norms, but through the introduction of new types of working regimes. As a consequence, the Italian labour market assumed the features of a segregated market, in which two different groups coexist. On one side was the traditionally unionised workforce, primarily employed in the public sector and in the industrial sector. On the other side sat the new recruits, primarily employed in the tertiary sector – where unions have a much lower penetration. The former enjoyed the whole set of employment protection legislation (EPL), including protection against dismissal, welfare entitlements such as maternity leave, health insurance, unemployment insurance and pension schemes. Conversely, the latter, employed through the new flexi-contracts, did not enjoy any of the EPL, and very few welfare entitlements. As an effect of these measures, between 1996 and 2001, two-thirds of the newly employed were contracted under the new forms of jobs, approaching 25% of all salaried employees (ISTAT 2002; Baccaro and Simoni 2004c: 176).

Against this background, a reasonable interpretation would be that union members had agreed to moderate their wage claims and to reduce their prospective pensions, but in return they were sheltered from labour market liberalisation. This arguably also yielded substantial benefits to the unions as organisations. Indeed, fragmented labour markets are known to be very difficult fields for union recruiting campaigns (Ebbinghaus 2002). Public stances taken by Italian union leaders support this interpretation. They argued that centre-right attempts to deregulate the labour markets outright, relaxing EPL legislation, were to be interpreted as direct attacks on the unions as organisations, as much as attacks on the dignity of workers (Cofferati 2002). In other words, by limiting the extent of labour deregulation (and acquiring new functions in the management of the new working regimes) unions actually preserved their role in the Italian labour market, and, *a fortiori*, in Italian polity.

Conclusions

Qualitative analysis of the cases of Italy and the United Kingdom has shown that ideological differences in governmental political economic stances cannot be held responsible for diverging party/union relations in the two countries. Additionally, in both countries trade union leadership had appeared keen to pursue concertation and partnership.

Unleashed by the collapse of political divisions, Italian trade unions played a key role during the Italian crisis of 1992-1995 by easing the process of inflation control, through wage moderation, and fiscal consolidation, with their acceptance of welfare retrenchment. In so doing, they favoured Italian participation in the EMU. The agreements were sustained through democratic decision-making rules, so that the rank-and-file were kept within the boundaries

of mainstream confederal unionism. The position gained by trade unions within the centre-left compact was subsequently used to strengthen their positions in the labour market. They accepted labour market liberalisation only as long as it did not apply to their members, whose employment rights remained largely untouched. Additionally, unions secured for themselves a continued role in the regulation of the liberalised labour market. This, in turn, would ensure that they would retain a role in the policy arena.

Conversely, in the United Kingdom, a fragmented labour movement was not invited to share policy-making prerogatives by the New Labour government. The result of this was not substantially different from the policy outcome of Italian concertation, as far as income distribution and expenditure were concerned. However, it entailed the sustained marginalisation of organised labour from the policy arena, and from the management of the labour market. Arguably, the modest increase in unions' rights, and their increased effort towards a renewed role in British society, keep open the possibility for the development of cooperation in the future. If the Labour party finds itself in electoral difficulty, it might again revert to its old ally if the structural fragmentation of organised labour is not seen to impede the definition of a credible unitary union strategy. What has dominated so far, however, is rather a progressive shift in the opposite direction. The New Labour party has increasingly sought non-union votes, thereby confirming one of the conclusions of my model on path-dependency of contemporary party/union relationships.

This chapter ends the empirical analysis of this thesis. The two tests of Italy and the UK have corroborated my main conclusions, and the comparative accounts presented in the third section of this chapter have suggested further that

party/union cooperation in the late 1990s did not yield substantial advantages for low-to-middle income cohorts, to which most union members are likely to belong. However, the methods adopted to pursue the policies are not void of consequences. Indeed, if policies are adopted through concertation, and the latter entails the defence of the unions' role in the labour market, then the unions remain key constituencies of the centre-left party or coalition. In the next, concluding, chapter, I will expand on this – and other – conclusions so as to highlight how the argument of this thesis could contribute to theories of European political economy and the understanding of political trends, as well as suggest further research avenues.

Chapter 6

The Renegotiated Alliance Between the Left and Organised Labour in Western Europe

[...] Love is not love,
Which alters when it alteration finds,
[...] Oh, no! it is an ever-fixèd mark
That looks on tempests and is never shaken;
It is the star to every wand'ring barque
[...] Love alters not with his brief hours and weeks,
But bears it out even to the edge of doom.
If this be error and upon me proved,
I never writ, nor no man ever loved.

William Shakespeare, *Sonnet CXVI*

At the beginning of the empirical work of this thesis in Chapter 2, I measured the party/union alliance using a metric based upon a simple insight: in a given country, if the alliance between the social democratic party and the trade unions is still alive, policy output of the collaboration between the two actors during social democratic governments must be visible. This method implies dropping the widespread assumption that ascribes the party/union alliance to solely “Keynesian” policies, and leaving it instead to empirical verification.

What I found could be called a “renegotiated alliance” between the mainstream left and organised labour in Western European countries. During the 1980s and 1990s, social democratic governments approved the majority (on

average 72%) of their socio-economic policies with the collaboration of their sister trade union confederation. The policies that derive from party/union cooperation are far removed from the “old” Keynesian set and include the acceptance of the monetarist macroeconomic regime that was adopted in European countries after the late 1970s. As a consequence, the alliance can be renegotiated only under certain conditions, which do not always exist. Indeed, in a sizeable minority of cases the alliance was not sustained.

Social democratic parties retain electoral incentives to include trade unions in policy making, but no longer retain incentives linked to their economic strategy because inflation is controlled by central banks. The electoral incentives, however, are contingent on the fact that unions accept only modest policy gains from negotiations: excess policy concessions would alienate non-union workers from the social democratic vote. In turn, unions are able to accept modest gains (which, under an unfavourable overall scenario are nonetheless positive) only if they are very cohesive. I have shown that confederation democracy is key to cohesiveness, and therefore key to explaining party/union cooperation.

The first aim of this chapter is to summarise the steps that led me to this argument of the “renegotiated alliance”. The overview of my findings will be contained in the first two sections of this chapter. I will start by recalling how the hypothesis was derived from the examination of current literature and readily available evidence. I will then review my first empirical results: since the 1980s policy collaboration between social democratic governments and trade unions has remained a relevant phenomenon of European politics. I will summarise the conclusions I have drawn on the analysis of the two actors, which I have

undertaken separately in order to explain the persistence of the (albeit weakened) party/union alliance in Europe.

Through the careful analysis of existing literature, and original empirical evidence processed through panel-data regression analysis, I have shown that confederation democracy, and not internal hierarchy as contended by current interpretations, pushes unions to cooperative behaviour. Democracy reduces the impact of factionalism, and therefore it has a positive effect on cohesion. In turn, original empirical data have demonstrated that social democratic parties have converged towards concertation, and so they tend to *formalise* the involvement of trade unions in policy making. Based on existing theories on political preference formation, I have argued that social democrats rely on unions to solve their electoral dilemmas.

The second section of this chapter then recalls the conclusions derived from my game theoretical model of party/union interactions, and from the examination of the critical case studies of Italy and the United Kingdom. The game theory explained that the importance of democracy within union confederations increased over time, and it clarified the impact of intervening variables such as union density and the social democratic policy program. The qualitative examination of party/union relations in Italy and the UK has, in turn, confirmed the main conclusions of my theory. Due to the relevant explanatory power that my theory attributes to democratic institutions, this argument has an eminently institutionalist nature. I will show that my argument is originally placed in the classic partition between historical institutionalism and rational choice institutionalism.

The final section of this chapter highlights four conclusions of this dissertation that can be relevant to other fields of the political economy. In so doing, it will suggest avenues for future research, rather than offering definite answers. First, I will show that my conclusions on trade unions, including the importance of decision-making processes and the significant involvement of union involvement in policy making, might suggest a need for further research on the interpretations of European unemployment. Second, an extension of this argument would suggest that different modes of policy-making might influence economic outcomes too. Third, another research path could investigate a hypothesis that emerged at the end of Chapter 4, namely that in a post-industrial society the political clout of trade unions might increase, rather than decrease, because the rest of the society undergoes a process of strong fragmentation.

The final lines of this thesis will suggest that, given that trade unions remain at the core of social democratic constituencies in many European countries, the difference between centre-left and centre-right could be more important than conventional wisdom would suggest, and that we could expect policy contestation on economic matters to increase again in the future.

6.1 Overview of Findings (1): Trade Unions Institutional Prerequisites and Social Democratic Strategies Under Examination

The Party/Union Alliance as the Phoenix of European Politics

This thesis has been devoted to answering a question key to understanding the contemporary Left in Western Europe. Given the changed social and economic context that developed in European countries during the

1980s and 1990s, which factors can explain instances of renegotiated party/union alliances *vis à vis* more strained types of interactions between the two actors? Indeed, the *social* and *policy* foundations of the traditional party/union alliance had collapsed. De-industrialisation had reduced the salience of working class support for social democratic parties, and the “political exchange” between wage moderation and public spending seemed no longer to be viable because of the effect of changed economic constraints. However, cases of sustained party/union coordination over policy making and cases of party/union ‘delinkage’ were both observable across Europe. This thesis has sought to give a comprehensive account of this apparently puzzling set of events.

Mainstream studies in the fields of industrial relations and party politics interpreted the new context of the 1980s and 1990s as characterised by party/union “de-linkages” across the continent. The change in the social democratic policy strategy, including the abandonment of Keynesianism and the endorsement of low-inflation strategies leaving little room for public spending have been linked to an inevitable detachment between the two partners (Scharpf 1991; Hyman and Ferner 1994; Kitschelt 1994; Ferner and Hyman 1998; Notermans 2000; Howell 2001). Only one strand of the literature has argued that under a low-inflation regime, cooperation between social democratic parties and large trade unions can be viable because it can reduce the unemployment consequences of disinflation through a spending strategy geared towards the supply-side of the economy (Garrett and Lange 1991; Garrett 1998).

These interpretations, however, clash with a limited number of thought-provoking papers. First, electoral incentives could still push the social democratic party to cooperate with unions (Aylott 2003). Second, instances of failed

cooperation are not necessarily linked with social democratic parties implementing restrictive policies, but are better explained with reference to institutional deficiencies of organised labour (Astudillo Ruiz 2001). Additionally, cooperation can be associated with restrictive policies (including welfare state retrenchment and wage moderation) and with unexpected institutional configurations of organised labour, such as a low level of internal hierarchy and the use of democratic means of decision-making (Baccaro 2003).

This analysis had shown that the “de-linkage” argument rests on the (sometimes implicit) assumption that associates the party/union alliance with so-called “Keynesian” economic policies. If, instead, the substance of the policy outcome of party/union interaction is left to empirical verification, the de-linkage conclusion can change (Kitschelt 1994; Ferner and Hyman 1998; Howell 2001; Piazza 2001). Therefore, I decided to set my research strategy on an empirical ground. This allowed me to verify the conclusions of the existing literature against a set of systematically collected data, and to design my own working hypothesis. Therefore, the first sub-question I answered was: where and when did parties and unions renegotiate their alliance?

The systematic coding of textual information contained in the *European Industrial Relation Review* – a periodical magazine providing regular updates on industrial relations– showed that between 1980 and 2003 European social democratic governments processed a remarkable 72% of their socio-economic policies – on average – in *formal* or *informal* collaboration with their sister trade union confederation (see Figure 6.1 and Section 2.1 for details). Socio-economic policies include welfare, labour, and income policies. If compared with the (albeit limited) data between 1974 and 1980, and with established accounts of the

“Golden Age” of social democracy in the 1950s and 1960s, the extent of collaborative party/union policy-making in the last two decades of the twentieth century had clearly decreased, and become more volatile, but it was also far from negligible.

This piece of empirical evidence is remarkable in light of the extensive literature contending that unions’ political clout was reduced by the process of de-industrialisation and fragmentation of the labour market, and that social democratic parties no longer needed unions to help implement their “new” political economic strategy because the new role of independent central banks had eliminated the need for wage restraint (Kitschelt 1994; Boix 1998; Ferner and Hyman 1998; Martin and Ross 1999). Indeed, my data show that between 1980 and 2003, European social democratic governments and trade unions coordinated on a wide variety of topics in numerous countries.

Similarly, my empirical findings cast serious doubt on the conventional wisdom that associates de-industrialisation and globalisation with policy convergence. A naïve version of this convergence argument would contend that internationalisation of the capital and goods markets had the effect of pushing policies, and therefore systems of interest intermediation, towards the Anglo-Saxon liberal model. In order to reach better economic performance in the globalised economy, the role of trade unions both in the labour market and the policy arena should decrease (Scharpf 1991; OECD 1994; 1997; IMF 2001). My data show that, even if the social democratic policies are based on a substantial acceptance of the macroeconomic constraints that derive from a low-inflation regime under capital mobility, and quasi-fixed intra-European exchange rates, in

the great majority of cases they still attempt to implement their policies with the collaboration of trade unions.

These results also contrast with the stream of the literature that debates more strongly against the “convergence” argument (Garrett and Lange 1989; 1991; Garrett 1998; Garrett and Way 1999). Indeed, party/union collaborations are not necessarily coupled to expansive policies (Baccaro 2002a), as some of the literature would deem necessary; similarly it is not unusual to observe very tense party/union interactions and ended alliances in combination with mildly expansive social democratic economic policies (Glyn and Wood 2001). Finally, variation in the policy results of party/union interactions is observable over time in almost every country, including countries with very different and distinct institutional settings (Cameron 1984; Hall and Soskice 2001).

Against the backdrop of this analysis, and the apparent disconnection between my set of empirics and existing theories, I drew a comprehensive hypothesis to explain the “renegotiated alliance”, building on a number of significant country studies (Astudillo Ruiz 2001; Baccaro 2002b; Aylott 2003) and alternative theoretical insights (Lange 1984; Golden 1993). This hypothesis is grounded on an eminently political conception of the party/union alliance. It contends that social democratic parties retain electoral incentives to coordinate their policies with unions. However, they are only willing to secure very few policy concessions for organised labour. In turn, when available benefits for members are low, trade unions must be very cohesive in order to fill the information gap between their leaders and rank-and-file. I hypothesised that the key variable allowing unions to increase their cohesiveness and adopt cooperative behaviour is the degree to which they are democratic at the level of the

confederation; this also explains party/union cooperation versus non-cooperation in policy making.

This hypothesis required me to break down my research question into two parts. First, under which institutional conditions did trade union confederations adopt a cooperative stance towards social democratic parties in the hard-currency low-inflation regime that had characterised Europe since the early 1980s? Similarly, in a post-industrial society, why would social democratic parties still adopt the majority of their policies in coordination with trade union organisations?

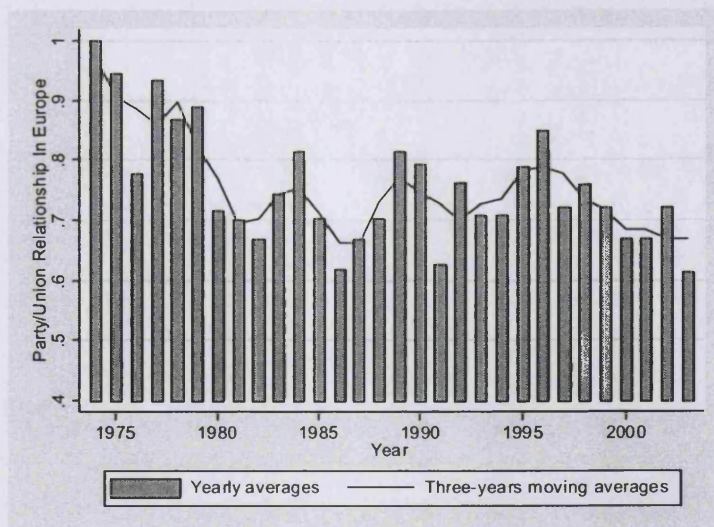


Figure 6.1 – Party/Union Alliance in 15 European Countries 1974-2003. Bars display yearly values; the curve displays three-year moving averages. It should be remembered that non-social democratic governments are not included in the sample on which the party/union alliance is measured. Countries include the EU15 except Luxemburg and include Norway. Source: coded by the author, see Statistical Appendix for details.

The Relevance of Democracy: Corporatism Turned on its Head

With regard to the unions' side of the bargain, my analysis focuses on the features that unions must embody in order to adopt cooperative, as opposed to militant, behaviour. This analysis is deeply embedded in the tradition of neo-corporatist studies which since the late 1970s have tried to understand the conditions under which trade unions are likely to cooperate with governments and employers, which largely coincided with the conditions under which they could exert restraint on wage claims (Pizzorno 1978; Schmitter and Lehbruch 1979b; Lehbruch and Schmitter 1982; Goldthorpe 1984; Streeck and Schmitter 1991).

The neo-corporatist literature has argued that socially optimal outcomes are more likely to be reached by union confederations that are: (1) encompassing – i.e. organising workers across many different occupational sectors; (2) concentrated – i.e. enjoying a high degree of monopoly over workers representation; (3) centralised – i.e. the whole body of members complies with decisions taken at the centre of the organisation (Pizzorno 1978; Goldthorpe 1984). The literature further argued that hierarchical means were needed to achieve centralisation, so confederations should exert strong control over members and affiliates (Golden, Wallerstein and Lange 1999; Traxler, Blaschke and Kittel 2001). This latter conclusion, however, has never been definitively empirically proved (Lange 1984; Golden 1993).

In fact, my analysis shows that hierarchical means are ill-suited to achieving centralisation. Instead, high accountability of the centre of the organisation and the democratic ratification of central decisions (that is, democratic means to achieve centralisation) will prevent factionalism, and therefore promote cohesion around leaders and policy platforms.

In order to reach this conclusion, I first measured confederation democracy across 16 OECD countries (see Section 3.2). This measure was based on Dahl's "Criteria for Democracy" and depends on (1) the degree to which confederation leaders are accountable to union rank-and-file, as opposed to accountable to intermediate leaders; and (2) the degree of involvement of union rank-and-file in the ratification of collective agreements (Dahl 1989; 1998). Confederation democracy proved to be strongly negatively correlated to wage militancy, a particular measure of labour costs (Blanchard 2000). Panel-data regression analysis on 16 OECD countries over 30 years (1974-2003) confirmed that confederation democracy contributes to wage moderation. Therefore, confederation democracy is – in addition to encompassment (measured as union density) and representation monopoly (member concentration) – an institutional prerequisite that promotes cooperative behaviour (see Section 3.3 for details).

This finding narrows the difference between the effect that *structures* and decision-making *processes* have on union behaviour. Concentration of members in few unions favours cooperation because it unifies workers, rather than dispersing them across many organisations. High accountability of the centre of the organisation and the democratic ratification of central decisions (centralisation as democracy) will avoid factionalism and therefore promote unity around leaders and policy platforms. Therefore, a simple way to identify cooperative unions is through the concept of cohesiveness, which is the result of the combined effect of concentration of members and centralisation (as democracy), the absence of the latter two features would lead, indeed, the labour movement to fragmentation (see Section 3.4 for the full discussion).

Additionally, the importance of union democracy is likely to have increased over time, i.e., since the collapse of the “Keynesian consensus”. Under an overall restrictive economic framework, slow growth and high unemployment, and in the absence of substantial side-compensations (e.g. increased transfers, or increased welfare benefits) to ensure rank-and-file compliance, persuasion, deliberation, and voting have become increasingly important in ensuring the compliance of members with the compromises agreed by leaders, and therefore the viability of concerted modes of policy-making. This theoretical insight is confirmed by the formalisation of the game-theoretical model of party/union relations, which I developed in Chapter 4.

The Social Democratic Convergence on Concertation

The motives that drive social democratic parties to renew their alliance with trade unions provided another puzzle. Indeed, an influential stream of the literature predicts a “de-linkage” with organised labour essentially motivated by two reasons. First, at the beginning of the 1980s, social democrats across the continent undertook the most dramatic programmatic reappraisal in their history (Sassoon 1997; 1999). At its core was the move to shift the main target of economic policy making from full employment to low inflation, and the outright abandonment of previous, Keynesian-inspired, economic policies. The “new” social democratic program did not include substantial payoffs for unions (such as increased welfare benefits, or increased transfers to workers), again because unions’ cooperation was no longer needed to implement wage restraint (Boix 1998). Indeed, when inflation is guarded by central bankers – as in most developed economies at present– rational unions should spontaneously moderate their wage claims if they want to avoid a surge of unemployment (Hassel 2003b).

Second, the deindustrialisation, tertiarisation and feminilisation of the labour force tilted the distribution of political preferences in Western societies. In fact, assuming that political preferences are strongly linked to the occupation type, the growing cohorts of workers in the service sectors are more pro-market and pro-libertarian than the traditional working class (Kitschelt 1994).

The “de-linkage” implied by these conclusions, however, seems not to have happened. In fact, the data on the renegotiated party/union alliance show a 72% ratio of cooperation in socio-economic policy making between 1980 and 2003. Thus, in order to shed light on the attitude of social democratic governments towards organised labour in the policy-making process, I have designed an indicator of a government’s willingness to share its policy prerogatives with the “social partners”, i.e. capital and labour. This indicator tries to capture governments’ preferences for concertation *ex-ante*, i.e. independently from the trade union stances. It consequently does not explain how (or if) the policy was actually approved, but only focuses on the governmental initial intent (see Section 4.2).

Systematic scrutiny of the intentions of social democratic governments in 15 European countries has highlighted that, between 1974 and 2003, social democrats converged on the policy method of *concertation* on labour and welfare issues, i.e. the formal involvement of labour and business in policy making. In other words, while the overall magnitude of the party/union alliance was decreasing and the policy results were more volatile (Figure 6.1), instances of sustained collaboration between the parties and the unions increasingly assumed more formal characteristics (Figure 6.2).

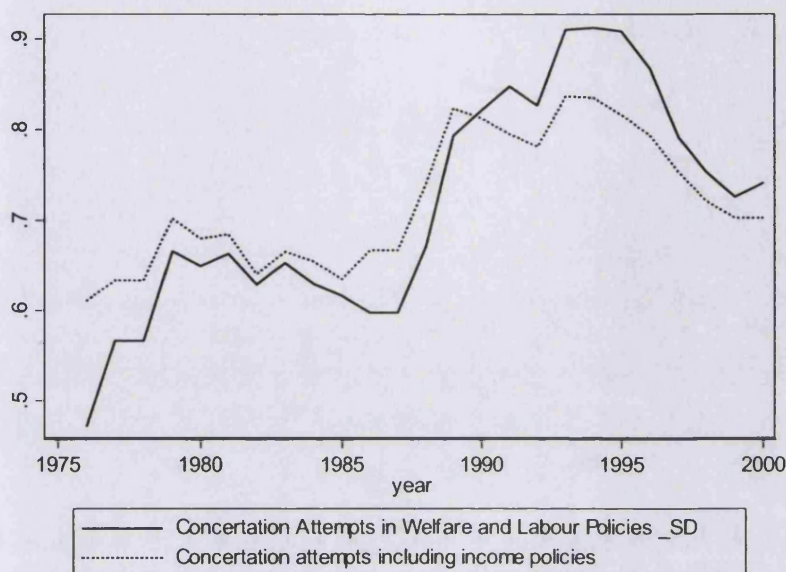


Figure 6.2 – Social Democratic Governments’ Convergence on Concertation.

The lines (three-year moving average measurement) show the share of attempts to pursue concerted policies made by social democratic governments, across all socio-economic issues. The black line includes welfare policies and labour policies and the dotted line also includes income policies.

I have interpreted this data using existing studies on electoral socialism and social democratic electoral dilemmas (Kitschelt 1994). Very interestingly, the same model of party competition that led Herbert Kitschelt to predict the de-linkage of the left and organised labour, proved to be powerful in explaining my set of empirics that contradicts its own conclusion. I argue that if labour is encompassing and cohesive (i.e. concentrated and democratic at the confederation level), the social democratic party can still benefit from policy collaboration, even if this collaboration is not needed to control inflation. Indeed, if political preferences are linked to occupational sector (as assumed by Kitschelt 1994), preferences must have multiplied according to the decomposition of the labour market. Therefore the policy strategy of social democrats rests on a sequence of materialistic and non-materialistic distributive compromises. If organised labour

is encompassing and cohesive, cooperation on policy making will provide the social democrats with the best compromise between union and non-union cohorts: it will ensure that the number of votes they gain from the growing pool of pro-market libertarian workers employed in non-union service sectors is no lower than the number of votes they lose from their traditional constituencies. Additionally, if social democrats are able to negotiate their socio-economic policies with trusted representatives of workers from a variety of sectors (as leaders of encompassing unions are) they will find the task of setting strategies much easier as at least a portion of distributive compromises will be solved within trade unions during the negotiating phase.

To summarise, if the trade union movement is cohesive, social democrats have a strong incentive to grant it some policy concessions, in order to win its endorsement of their economic policies. In turn, under an unfavourable overall scenario, trade unions will be given a chance to influence the policy outcome, minimise the negative consequences of neo-liberal policies for their members, and for the unions as organisations. If instead unions are fragmented, policy concertation will not be a viable policy tool for social democrats. Indeed, if the confederation cannot represent all its affiliate unions and members effectively and credibly, the negotiations will include separate discussion on a myriad of disconnected issues with each portion of the labour movement. As a consequence, the policy concessions that the party would need to grant to unions in order to gain their compliance would be several and significant, causing the alienation of non-union cohorts of workers. Additionally, if the confederation has no means of solving internal distributive conflicts between members and affiliates, the negotiations are likely to break down, triggering social unrest. Therefore, when a

union confederation is fragmented, social democrats have an incentive to detach from organised labour and to pursue their policies unilaterally.

This argument accounts for the increased preference for concentration displayed by social democratic governments (Figure 6.2), even because in the majority of European countries the size of trade union confederations (encompassment) has stalled but not decreased significantly (Golden, Wallerstein and Lange 1999; Ebbinghaus and Visser 2000; Ebbinghaus 2002). Hence, they remain an attractive electoral group – cutting, as they do, across occupational sectors – for social democratic parties.

6.2 Overview of Findings (2): The New Roads for Collaboration between the Left and Organised Labour

The Game Theory of Renegotiated Alliances

After having analysed separately the trade unions and the social democratic parties, I formalised their interaction during a social democratic government into a game-theoretical model, which allowed for the emergence of a number of additional conclusions (see Sections 4.3 and 4.4). First, I identified the conditions under which the relative importance of confederation democracy in sustaining party/union cooperation increases. The importance of confederation democracy increases: (1) as union density (i.e. the usual proxy for union encompassment) stalls or decreases; (2) the more the social democratic parties depart from their traditional stances on pro-market policies; (3) as the payoffs that unions can win from negotiations decrease. All three of these phenomena were common in European countries during the 1980s and 1990s. First, the number of union members generally declined or did not increase, as the growing

occupational sectors were primarily in service industries, which are traditionally resistant to union penetration. Second, from the early 1980s, social democratic parties across the continent decided to abide by the new set of economic constraints and endorsed inflation – as opposed to unemployment – as the first target of economic policy making. Third, given the new distribution of political preferences, the public in European countries was more pro-market and libertarian in comparison to the post-war decades. As a consequence, excessive policy concessions to unions would have resulted in a massive loss of votes from the growing pool of employees in the modern service sectors. As such, the salience of democracy for the compliance of rank-and-file over major concertation agreements increased over time.

Additionally, the game-theoretical model highlighted a paradox. Collaboration/non-collaboration between parties and unions under social democratic governments primarily depends on the cohesiveness of organised labour, and therefore on its components: confederation democracy and membership concentration. However, the first mover in my game is the governing party, which has to decide whether or not to include trade unions in the policy-making process. The equilibrium of the game, under perfect information, is decided unilaterally by the actor – the party – whose institutional features do not influence the equilibrium. Indeed, if the unions are not cohesive the party will defect, and the unions will have to adjust. If, instead, the unions are cohesive, the party will collaborate and so will the unions. This contributes to explaining why trade unions, during the last two decades have increasingly participated with social movements endorsing non-materialistic aims. Under low-inflation macroeconomic regimes, they no longer have the means to force party politicians

into collaboration. As a consequence, unions try to gain increased political role outside the political economic realm, i.e. among social movements.

Italy and UK as Critical Cases to Confirm the Theory

My overall theoretical argument has been tested through a detailed examination of the trajectories of the party/union relationship in Italy and the United Kingdom. Unlike a great deal of qualitative literature, where the choice of cases is somewhat arbitrary, I chose Italy and the United Kingdom because they are two critical cases in the distribution of the dependent variable of this study, i.e. the policy results of party/union interactions during social democratic governments. The analysis tracked the process that led to very intense policy concertation in Italy during the 1990s and bitter policy divergence between the Labour party and the unions in Britain around the same period.

Post-war Italy was characterised by a heavily politicised industrial relations system: divisions in the policy arena *de facto* blocked all the attempts made at institutionalised “political exchange” throughout the post-war period (Regini 1984). However, in the 1990s, after communist ideology had lost most of its salience, trade unions participated systematically in socio-economic steering, by agreeing to discipline wage increases, and by striking numerous deals with centre-left politicians on labour and welfare issues (Regini 1999). This process is largely explained by the ability of trade unions to unify under a shared policy platform. First, the collapse of communism laid the ideological base for unity, eliminating a factor of structural policy division within the labour movement. Second, the systematic use of secret balloting among workers to endorse subsequent agreements on wage increases and pensions reforms strengthened the legitimacy of confederation leadership, and the accords themselves (Baccaro

2003). Therefore, the large minority that opposed coordination with the government on eminently liberalising policies was unable to organise any significant protest, or to establish new competing unions, because it was defeated in ballots by the majority of workers.

The UK is an example of the opposite case. It was the cradle of the industrial revolution, and it witnessed one of the most paradigmatic cases of party/union symbiosis that had happened since the late 19th century (Minkin 1992; Ebbinghaus 1995). However, after 1997, the relationship between the New Labour government led by Tony Blair and the TUC (Trades Union Congress) became typical of party/union divorce (Crouch 2001). This can be explained by reference to my theory. Trade union density in the UK declined significantly during the 1980s because of Conservative anti-union policies and the fragmentation of the labour market. At the same time, the Labour party underwent a strong policy shift towards endorsing mainstream orthodox economic principles (hence following the same process as mainstream continental socialism). Under these conditions, organised labour has to be very cohesive to generate an electoral incentive for social democrats to include it in policy making. However, due to its traditional structure as the “Union of Unions”,⁷² the TUC remained a relatively fragmented confederation. The Labour party did not trust the efforts made by TUC leadership from the mid 1990s to reduce policy fragmentation and militancy, and to embrace cooperative behaviour. As a consequence, the government pursued its policy agenda unilaterally.

The comparison of policy results between the collaborative case (Italy) and the non-collaborative case (UK) shows that the gains secured by the unions in

⁷² I owe this definition to Steve Purcey (ILO).

the former were relatively marginal. They did not include substantial differences in income distribution, or level of transfers, but were confined to organisational advantages for trade unions and to sheltering union members from labour market liberalisation. However, these gains should not be overlooked. Organisational advantages such as, for example, statutory roles in regulatory bodies, reinforced and entrenched the position of trade unions in Italy in the labour market and in the policy arena of the centre-left coalition. In other words, as it did in the post-war decades (Esping-Andersen 1990), party/union cooperation ended in path dependence, as my game theoretical model had predicted. The reliance on trade union support strengthens the presence of unions in the post-industrial society and polity, and therefore renders future party/union cooperation more likely. Similarly, my model suggested that ended alliances lock parties and union into non-cooperative equilibria. The evidence on this point is not yet conclusive, but *prima facie* it seems that non-union interest groups increasingly endorsed the Labour party in the 2001 and 2005 general elections, hence confirming the insights of my model.

The Place of This Argument within the Institutional “Family”

The argument I have developed in order to understand the renegotiated alliance between social democratic parties and trade unions is eminently institutional as it attributes great explanatory power to variation in a single institution; that is, democracy among unionised workers. However, the specific methodology I have adopted places my argument in an original position within the institutionalist literature.

In a famous introduction to an edited volume, Kathleen Thelen and Sven Steinmo (1992) differentiated between rational choice institutionalism and historical institutionalism:

[...] perhaps *the* core difference between rational choice institutionalism and historical institutionalism lies in the question of preference formation, whether treated as exogenous (rational choice) or endogenous (historical institutionalism). (Thelen and Steinmo 1992: 9, emphasis in the text)

In other words, rational choice institutionalists assume that preferences are given and, therefore, that the role that institutions play is confined to shaping the strategy of actors. Historical institutionalists, in contrast, suggest that the very goals of actors are determined by the institutional environment. They problematise the process of preference formation rather as a “socially and politically” (idem: 11) constructed phenomenon.

The argument presented in this thesis is not easily placed in either of these two categories; in fact it suggests that the same institution can play both roles, depending on the actor concerned. Union confederation democracy, which is my key explanatory institution, shapes the preference formation of one actor – namely the trade union confederation – and shapes the strategy of the other actor – the social democratic party.

My regression analysis proved that the more democratic a confederation is – that is, the more the leaders are accountable to the members and the more the members are involved in the ratification of collective agreements – the more trade unions as a whole exert wage restraint (Section 3.3). Considering the level of wage restraint as a revealed (collective) preference, this thesis has shown that decision-making processes (which are institutions) systematically affect

preference formation across countries.⁷³ However, the same institution (via the effect it exerts on overall labour cohesion, see Section 3.4) affects the strategy, rather than the preferences, of the social democratic government, as my game-theoretical model has shown (Sections 4.3 and 4.4).

Therefore, the same institution can play the role of both shaping preferences and shaping strategies depending on the actor referred to. My specific example seems to suggest that one should expect internal institutions to influence the preferences of collective actors and, in turn, influence the strategies of third, interacting, actors. This insight can be particularly relevant to the process of formulation of working hypotheses in political science at large. In fact, the expected effect of institution can be key to setting a coherent and clear research strategy.⁷⁴

Against this analysis, the distinction between historical institutionalism and the rational choice institutionalism proposed by Thelen and Steinmo, it is analytically useful both for having more transparent research setting, and more effective explanations of political events, but this distinction might be redundant if it has the aim of giving a partition of the field. Both a rational choice and an

⁷³ A comparative case study has shown that different decision-making mechanisms are key to explaining divergent preferences at the micro level too (Baccaro 2001).

⁷⁴ Consider the following example of a hypothetical research project in the field of European studies. A typical research topic in this field is concerned with the explanation of support for or opposition to the European integration project (Inglehart 1970; Niedermayer 1991; Franklin, Marsh et al. 1994). Imagine a research project concerned with the impact that referenda on the ratification of treaties have on public opinion in member states. One could be interested in examining the impact that referenda have on public opinion, that is to say shaping the preferences of citizens on European integration. However, referenda could also have the effect of shaping the strategy of political actors (and not their preferences) within countries, pushing populist political formations towards anti-European rhetoric to gain consensus from “angered” portions of the electorate (Ost 2005). Clearly, it may be that referenda shape the preference of the population via their effect on the strategy of political actors. It is plausible, however, that in countries where referenda are not called and treaties are ratified by the parliament, populist rhetoric will insist much less on Euroscepticism and more on other issues (e.g. immigration, national identity, etc.). This example, which is clearly hypothetical, nonetheless shows that it is very easy to think about other cases in which the same institution affects preferences and strategies depending on the actor that is considered. It is key to a coherent research strategy to formulate the expected effect clearly.

historical approach are needed depending on the level of analysis, on the proximity between the institution and the actor considered, and, most importantly, on the research question at stake.

After having given an overview of my main findings and placed this study within the broader literature on institutionalist political economy, this chapter now moves into its final section. I will highlight four theoretical insights of my argument, explain how they are relevant to neighbouring topics, and discuss how they can improve the understanding of contemporary European politics.

6.3 How My Theoretical Insights Suggest Further Research Paths

This last section of the thesis will highlight how four conclusions of this dissertation can be relevant to neighbouring fields in political economy. In so doing, it will suggest avenues for future research, rather than offering definite answers. Therefore, this section will show the contribution of this thesis to a theory-based development of the political science.

First, my thesis has shown that trade unions are continually and systematically involved in policy-making across European countries. Given the limited gains that they can secure from negotiations, this fact suggests a correction on their complete utility function, which could alter existing interpretations of European unemployment. Second, this dissertation has proved that decision-making processes can influence economic outcomes, since confederation democracy influences wage militancy. An extension of this argument would suggest that different modes of policy making might influence economic outcomes too. Third, the formalisation of the game-theoretical model has suggested that in the fragmented post-industrial scenario, the political clout of

trade unions could increase, rather than decrease. Lastly, given that trade unions remain at the core of social democratic constituencies in many industrialised countries, the differences between the centre-left and the centre-right could still be more important than conventional wisdom would suggest.

Organised Labour and European Unemployment

This thesis has not directly addressed the typical question on the impact that different systems of interest intermediation have on economic performance and related indicators, such as unemployment level and inflation level. This question has been widely addressed first by scholars of neo-corporatism, and by more recent political economic approaches (Cameron 1984; Calmfors and Driffill 1988; Soskice 1990; Golden 1993; Iversen 1999; Franzese 2001; Mares 2006). However, by demonstrating the importance of decision-making processes within unions, and by underlining the significant role still played by unions in the policy arena, this dissertation is indirectly suggesting that, even in such a dense field, unexplored avenues for research could still exist.

The latest comprehensive account of the trends in European unemployment has been given by Isabela Mares (2006). Her book builds on the previous theoretical understanding of the relationship between unemployment and the wage bargaining structure (Calmfors and Driffil 1988), and on the effect of institutional interactions between wage bargaining and monetary policy (Iversen 1999). Mares adds to the explanatory variables the level of taxation to account for inter-temporal and cross-country variation in unemployment levels. However, like earlier literature, Mares assumes that the strategic capacity of unions essentially depends on their structure and, most importantly, on the level at which wage bargaining happens: firm level, industry level, or national level. My argument first

suggests that by focusing only on the wage bargaining structure, these authors miss most of the action, which actually happens during the *process* of wage negotiation. In other words, the effect that the level of wage setting might exert on overall wages, and thus economic performance, might be channelled through the decision-making processes that are associated to different levels of bargaining. In other words, the process critically affects the unions' preference structure, enabling, or not enabling, trade unions to reach their theoretically optimal outcome.

Indeed, both Iversen (1999) and Mares (2006) build their models on the assumption that "trade unions enjoy *strategic capacity*" (Iversen 1999: 109, emphasis in the text); hence the extent to which unions can make use of this capacity depends on the level of wage bargaining. Once this assumption is laid, the utility function of unions can be set as the sum of utilities of union members, and it becomes one of the key equations in determining the level of wages and, therefore, unemployment.

Leaving aside formal notation, the utility function of unions in its most complete form, as developed by Mares (2006: 41), is dependent on: (1) the monetary stance of the central bank, (2) real net wages, (3) transfers to union members, and (4) social services available to members. However, my thesis has shown that unions as collective actors also care about two other types of "goods": first, the institutional arrangements that endow them with statutory roles in the labour market, which are known to increase their strength (Rothstein 1992); and second, their role as core constituencies of the social democratic parties, which, in the future, might lead to increased benefits for members (Pizzorno 1978).

However, in order to include these two variables in the utility function of unions, it is necessary to drop the assumption of “strategic capacity” because the two latter “goods” reflect the preferences of the leaders, and not of the rank-and-file. In other words, the maximisation of the utility function (and therefore its interaction with employers’ and states’ preferences in determining wage and unemployment levels) would be also a function of the strategic capacity of leaders to achieve their preferences, even if they cannot deliver increased real wages, increased transfers, or increased social services to members.

This new utility function of unions could help to design a more complete account of European political economy, grounded on a coherent political science narrative, and with increased explanatory power.

The Political Science Narrative of European Political Economy

Hall and Soskice have pointed to the fact that the study of European political economy should highlight the importance of institutions

“that provide the actors potentially able to cooperate with one another with a capacity for *deliberation*. By this, we simply mean institutions that encourage the relevant actors to engage in collective discussion and to reach agreements with each other” (Hall and Soskice 2001: 11).

This thesis has followed their suggestion and reached a positive conclusion on the importance of confederation democracy in taming wage militancy, as well as in promoting cooperation between organised labour and the left.

A logical extension of this argument would be to explore if, and if so how, processes of decision making and policy making affect economic results,

including employment levels. Under the assumptions that prices are set as a mark-up on costs, and that wages are set by actors and not by the market, it may be the case that, in Europe, employment performance has been comparatively better in countries where the government reformed labour market institutions in coordination with the social partners (i.e. labour and business). This hypothesis would contend that joint institutional innovation, and not labour de-regulation, was the factor that allowed a number of European countries, including the small open economies, to reduce unemployment levels during the 1980s and 1990s. By including unions and business in policy making, states ensured that reform of the labour market did not have a negative effect on productivity and incomes, and instead had a positive effect of employment. On the contrary, if partial deregulation was not accompanied by institutional innovation, as it happened in France and in Italy, the net effect of flexibilisation was negative because it depressed productivity and internal demand.

Data on labour costs on the UK confirm *prima facie* this logic, albeit only counterfactually. Britain is known to have one of the most lightly regulated labour markets in Europe, and is normally considered to be an example of “Liberal Market Economies” (Hall and Soskice 2001). Neo-classical economics suggest that labour market de-regulation is conducive to better employment performance because of its direct effect on controlling wage dynamics (IMF 2001; Nunziata 2001). However, comparative data on labour cost in the UK suggest different conclusions. Between 1993 and 2003, while unemployment in the UK more than halved, from 10.4 to 4.9 per cent of the labour force, real compensation per employee (RULC) constantly increased, totalling an increase of more than 5% in ten years. In the same period, RULC in the Euro area decreased by 3%, and yet

unemployment in 2003 still approached almost 9% of the active workforce (European Commission 2006h; 2006f). In other words, it is plausible to hypothesise that labour market deregulation in the UK was embedded in a coherent institutional setting, and therefore it delivered positive employment performance, even though it did not have the effect of taming wage push. On the contrary, deregulated labour has sub-optimal effects in predominantly coordinated market economies, where the innovation of labour market institutions, and not their dismantling, is the key to good employment performances.

This reasoning is in line with a very recent paper by Torben Iversen and David Soskice (2006) that encourages political scientists to bring into their works the insights offered by New Keynesian economics, in order to develop an original political science narrative of European political economy grounded on political explanations (and institutional variables), and which would potentially be more convincing than current mainstream accounts based on neo-classical economics. This thesis indeed suggests that policy-making methods might bring about distinctive economic performances, under Neo Keynesian assumptions. This research idea would require extensive empirical research, but it might also deliver important results.

Organised Interests and the Policy Process

The conclusions of my thesis suggest another clear research path related to the impact of globalised markets and post-industrial production regimes on the policy processes of Western countries. The formalisation of the party/union relationship that I carried out in Chapter 4, Section 4 highlighted an apparent paradox: the more a society is fragmented with regard to its policy preferences, the greater the political clout of its trade unions. In recent years, industrial

relations analyses and quasi-normative literature on the role of organised labour have overlooked this hypothesis, which seems quite plausible from the perspective of classical literature on “collective action” (Olson 1982).

Recent accounts on trade unions have underlined two sources of weakness for organised labour. On the one hand, vertical movements by the employers, which increasingly manage firms at the international level (upwards) and prefer wage bargaining at firm level (downwards), have undermined the clout of trade unions, whose preferred level of action remains the national level (Ferner and Hyman 1998; Martin and Ross 1999; OECD 1999). At the same time, the increased feminilisation and tertiarisation of the labour force have had a negative impact on unions that could not adjust rapidly enough to the increased diversity in the workplace, and were therefore less able to penetrate the new service sector workplaces (Ebbinghaus 2002).

These conclusions are quite robust and based on extensive empirical research. However, by focusing only on the changes in labour markets from the unions’ perspective, this literature might have missed the links between the continuing capacity of unions to mobilise consensus, and the fragmentation of the post-industrial society at large. Indeed, in many European countries, unions still enjoy the loyalty of many workers: membership decline has been uneven and, overall, limited (Ebbinghaus and Visser 2000). At the same time advanced capitalist economies have undergone a process of strong societal fragmentation (Crouch 1999; Esping Andersen and Regini 2000). This fragmentation was also caused by the process of labour market decomposition, whereby the number of occupational sectors increased and working patterns diversified. However, society has also fragmented for the effect of other cultural and demographic phenomena.

Increased religious, cultural, and ideological variation within society generated a myriad of intertwined social groups.

Consequently, in countries where unions retained most of their membership, the political clout of organised labour might have increased because trade unions no longer face a small number of strongly organised large interest groups (e.g. farmers, capital owners of large national factories), but instead face an extremely fragmented society. In other words, the unions' *absolute* strength in the labour market might have decreased because of de-industrialisation and globalisation, but the effect of de-industrialisation and globalisation on the rest of society might have increased the unions' *relative* political strength.

Should this hypothesis be proved right, it would add significantly to an explanation of the resilience of welfare state institutions (Pierson 2001), which are known to benefit union members more than other groups (Mares 2006) in spite of nearly two decades of neo-liberal ideological dominance. It should be emphasised, however, that a great deal of empirical research of quantitative and qualitative nature would be needed to investigate this matter. This thesis has shown that certain institutional factors can improve unions' cohesion and therefore increase their political clout under globalisation. However, a much larger research project paying special attention to the interplay between trade unions and emerging interest groups would be needed to explore the argument developed in these last few paragraphs. While a lot of attention has been devoted to the interaction between unions and employers' groups (Swenson 1991; Thelen 2001), there has been much less focus on the interplay of unions with other emerging actors in the "civil society." In order to achieve a greater understanding of the policy process in Western European countries, the most recent accounts of industrial relations and

the role of trade unions in the policy process need to be bridged with the growing literature on the role of other “civil society” organisations – such as NGOs, lobby groups, and religious and community-based associations (Kaldor 2003; Anheier, Kaldor and Glasius 2004).

Conclusions: Increased Contestation in World Politics?

In a nutshell, the argument of this thesis on the renegotiated alliance contends that, in Western Europe, when unions are cohesive the Left and organised labour coordinate over policy/making even in the post-industrial scenario characterised by low-inflation hard-currency regimes. This argument implies that the structure of European political systems makes them prone to increased policy contestation in the future between the mainstream centre-left and the mainstream centre-right.

In fact, centre-left parties and unions have renegotiated their alliance in the majority of European countries. This means that organised labour remains at the core of social democratic constituencies, thereby sustaining an important difference between the mainstream centre-left and the mainstream centre-right. It has been observed that from the early 1990s, these two groups of parties considerably narrowed their programmatic differences, particularly on economic matters (Budge 1994). However, my thesis suggests that they still diverge quite significantly in terms of their underlying electorate. From one viewpoint, my thesis suggests that the Lipset-Rokkan argument on “freezing” cleavages still holds explanatory power (Lipset and Rokkan 1967). Put another way, my thesis suggests that the difference between left and right is resilient and largely based on the social composition of their electorate, rather than being solely ideological

(Bobbio 1995), and that this difference is wider than their actual policies would suggest.

Decreased policy contestation on economic issues depends on the fact that national actors believe that their interests are less divergent and consequently assume that they can gain more from cooperation (it is possible that this belief is induced by neo-liberal ideological domination, see Przeworski 1998). However, should this belief change due to unforeseeable economic events, or as a result of new political ideas, it might cause one of two things to happen. If policy contestation on economic issues takes the form of a simple distributive conflict between the well-off and worse-off, the political struggle might be fought by future incarnations of the current centre-left and centre-right parties, because it would find a favourable channel of expression in the structure of existing political and social coalitions. If, instead, the new conflict of interests, perhaps steered by a new political ideology, is based on political cleavages that cut across income groups as well as different countries, then national political systems will need to re-structure, and will eventually be completely transfigured.

Statistical Annex

This statistical annex contains coding rules and sources for the variables that I have designed and measured, or derived, for this thesis. These include:

- a) The index of the Party/Union Alliance (presented in Chapter 2)
- b) The Index of Government Attempts at Concertation (Chapter 4).
- c) The index of “Social Democraticness” of Governments (Chapter 2 and Chapter 4).
- d) The index of Union Confederation Democracy (Chapter 3).
- e) Wage Militancy and Other Variables Used in the Regression Analysis (Chapter 3)

a) The Index of the Party/Union Alliance

This index aims to capture the intensity of the alliance between social democratic governments and the trade unions, understood as the degree of involvement of trade unions in policy making. The construction of the index proceeded in three steps: (1) Identification of the three policy areas in which collaboration between social democratic governments and trade unions might occur; (2) Coding of instances of collaboration/non-collaboration in all Western European countries between 1974 and 2003 in each of the three policy areas; (3) Averaging the scores for each year for each country to reach a (discrete) country measure of either 0, 0.33, 0.66, 1, or no value (i.e. when a non-social democratic government is in office).

(1) The three policy areas in which policy collaboration might occur are: (a) Macroeconomic management; (b) Welfare policies; (c) Labour policies.

(a) Macroeconomic management: includes income policies and the overall stance (i.e. restrictive/expansive) of fiscal policies.

(b) Welfare policies: includes all substantive spending policies, i.e. universal pension schemes, unemployment benefit schemes, health insurance schemes, etc. Does not include labour rights for which employers (and the state as an employer) bear the costs (e.g. a policy that establishes rights for parental leave).

(c) Labour policies: includes labour and employment regulations, employment and labour laws, i.e. regulations on dismissals, flexibilisation of labour markets, union rights in the workplace, etc. The key difference between this policy area and the previous one concerns their funding: policies under this heading are not spending policies as such, even though they might affect public finances because the state is the employer of public sector employees.

(2) For each country (see below) in each policy area in each year between 1974 and 2003 I have assigned a 1 (0) score if the social democratic government implemented its policy stance with (without) the collaboration of its sister trade union. (Years in which a non-social democratic government was in charge have not been taken into consideration and therefore do not contribute to the total score of the index.) In order to identify collaboration versus non-collaboration I have relied on information contained in all the issues of the European Industrial Relations Review (EIRR) between 1974 and 2003.

A score of 1 is assigned each time textual evidence suggested that:

a) The social democratic (SD) government processed the policy concerned through a formal agreement including the trade union confederation (formal collaboration).

- b) The SD government implemented the policy concerned in open agreement with the trade union confederation (evidence being joint public statements, or public statements made by trade union leaders).
- c) The government gave unions and employers the mandate to determine a policy (e.g. a labour regulation) through bipartite agreement. The social partners failed to agree, but the SD government endorsed the unions' stance by incorporating them into the policy they implement, increasing the failure of the bipartite negotiations.
- d) The government decided not to change the existing policy (which had been agreed with unions during an earlier year) because the unions did not agree on the proposed change.
- e) The lobbying action of trade unions was successful in changing the government's stance.

Case (a) is the only instance of *formal* collaboration; whereas cases (b) to (e) are considered *informal* collaborations (see Chapter 4 Section 2).

A score of 0 is assigned instead when no textual evidence suggested that the party/union collaboration was active, and in particular if:

- f) The government did not act in accordance with trade unions, i.e. either the unions opposed governmental policies, or they expressed neutral assessments of them.
- g) The government claimed that it was enacting "labour-friendly" legislation (e.g. increasing rights for employees), but it limited its relationship with the unions to mere consultation.

In addition, the following three rules were applied during the coding. These are particularly relevant because they also apply to the coding of the next variable (Government Attempt to Concertation).

- i. Each of the three policy areas includes a variety of different policies. If in year X the social democratic government of country A implemented two different policies in the same area through different policy-making methods, the most relevant policy determines the score. This assessment of “relevance” is perhaps the most difficult qualitative assessment for the coder to make. The policy considered most relevant should be the one which had the greatest impact on public spending, or the one which had the widest broad consequences from the viewpoint of labour. E.g. in March the government of country A formally agreed with trade unions on the adjustment of unemployment benefits to inflation. This agreement would score 1 in the “welfare” policy area. However, if in August during the same year a large social conflict erupted over a major pension reform, this second episode would dominate the yearly score (i.e. resulting into a 0), because the stakes were much higher in the August disagreement than in the March agreement.
- ii. If in year X in country A one policy is processed through collaboration with the unions, and later in the same year another policy is processed without collaboration but with no textual evidence of unions’ disagreement, then the first collaborative episode retains priority in the coding (this applies even if the sequence is reversed).
- iii. All the variables are sticky over time, meaning that they keep their score until something happens to change it. Similarly, when the change occurs, it sticks. This rule does not apply to the “macroeconomic management” area in the case where an income policy agreement expired and was not renewed.

List of Countries, Trade Unions and Social Democratic Parties (Table A.1)

Country	Trade Confederation	Unions Party
Austria	ÖGB	SPÖ
Belgium	ABVV/FGTB	SP/PS (BSP/SPB until 1978)
Denmark	LO	SD
Finland	SAK	SDP
France	CFDT	PS
Germany	DGB	SPD
Greece	GSEE	PASOK
Ireland	ICTU	Labour
Italy	UIL (1974-1991); UIL and CGIL (1992-2003)	PSI (1974-1991); PDS-DS (1992-2003)
Netherlands	NVV	PvdA
Norway	LO	DnA
Portugal	UGT	PS
Spain	UGT	PSOE
Sweden	LO	SAP
United Kingdom	TUC	Labour

b) The Index of Government Attempts at Concertation

This variable aims to capture a government's willingness to process socio-economic policies through concertation, that is, to involve the trade unions formally in policy design and/or implementation. This variable has been coded on the same countries, the same policy areas, the same time frame (1974-2003), and is based on the same source as the previous variable. However, here I have included both social democratic and non-social democratic governments.

This variable gets a score of 1 in the "macroeconomic management" policy area when textual evidence suggested that:

- The government asked the social partners to meet and to set a tripartite income policy.
- The leaders of the trade unions and the employers organisations were invited by the government to negotiate with each other in order to determine wage increases for the private sector (which often becomes the condition to avoid statutory pay freezes)
- An income policy agreement was in force. This means that if in year T a three-year income policy was agreed, the variable will have a score of 1 for the years T, T+1; and T+2. However, if the agreement was reached at the end of the year, so as to start from the following year the latter counts as year T, and if in the T-1 year there was no agreement in force, the score for T-1 is 0.

The variable scores 0 in the “macroeconomic management” policy area when textual information suggested that:

- The government imposed a pay freeze.
- There was a situation of “free bargaining for all” without any intervention whatsoever by the government.

This variable gets a score of 1 in the “welfare policy” area when textual evidence suggested that:

- The government asked the trade unions to get together (with or without the employers organisations) and devise a strategy for policy making in spending areas.
- The trade unions were given a role in the management of spending policy. If the policy was devised by the government, with no evidence of the participation of trade unions, but this policy delegates to them a management role, the variable still scores 1. In this case it is assumed that the policy was devised with the unions.
- If in country A the trade unions were institutionally involved in the management of spending policies (e.g. unemployment benefits), the

rule of “stickiness” – number (iii) in the previous section – does not apply and instead a rule of “relapsing” applies. This means that if in year T the government decided to enact autonomously an important spending policy, e.g. a reform of the pension system, without the collaboration of the trade unions then the “welfare policy” variable in year T gets a 0 score. However, if the trade unions were still in charge of managing a sizeable portion of the welfare institutions, so that after the turmoil of year T+1 institutional collaboration was restored, then the “welfare policy” score returns to 1. N.B. This rule is the only case in which rule number (iii) on the “stickiness” of variables is not applicable: it always applies otherwise.

This variable gets a score of 0 in the “welfare policy” area when textual evidence suggested that:

- The government enacted welfare policies, i.e. spending policies, without explicitly inviting the collaboration of social partners.

This variable gets a score of 1 in “labour policy” when textual evidence suggested that:

- The government asked the trade unions to get together (with or without the employers organisations) to determine policy making on topics of labour regulation and employment relations.
- The government delegated the regulation of labour and union/employer relations to collective agreements. In particular, in a number of countries the social partners devised ground rules on employment relations autonomously via collective negotiations. This is considered an agreement on labour matters (and scores accordingly) to the extent to which the government either turns bipartite regulation into law, or gives it force of law, or otherwise acknowledges the autonomy of social partners on this subject.

- Similarly to the previous policy area, the “relapsing” rule rather than the “stickiness” rule applies to countries whose labour and employment relations were regulated through collective agreements.

This variable gets a 0 score in “Labour Policy” when textual evidence suggested that:

- The government enacted labour or employment policies without asking explicitly for the collaboration of trade unions.

This variable was coded within a wider research project on Social Pacts at the Labour Institute for Labour Studies, carried out in collaboration with Professor Lucio Baccaro. Preliminary results of the project were presented in a conference paper in 2005 (Baccaro and Simoni 2005).

c) The Index of Governmental “Social Democraticness”

This variable aims to capture the weight of social democratic, socialist or labour parties within the cabinet. It is coded for the same countries as previous variables, between 1974 and 2003. Parties are listed in Table A.1. Sources for this variable include the EIRR, sources easily available on the Internet such as party electronic archives, and other reference material.

- This variable gets a score of 1 when a socialist, social democrat, or labour one-party government is in office.
- This variable gets a score of 0.66 if socialists form the senior party within a coalition government, or if the coalition is among parties of a similar weight and the socialists hold the premiership.
- This variable gets a score of 0.33 if the socialist party is the junior member in a coalition government (even if holding premiership), or if the coalition is among parties of similar weight and the socialists do not hold the premiership.
- This variable gets a score of 0 if socialists are in opposition.

The score starts taking the appropriate value (e.g. 1 in case of social democratic one-party government) in the year in which elections are held.

d) The Index of Union Confederation Democracy (CONFDEM)

This index aims to capture the level of democracy within union confederations. It comprises two equally-weighted dimensions: accountability of peak levels (AP) and consultation and ratification of collective agreements (CR). The two dimensions are then averaged and normalised to 1 to make up the index for each union confederation. Yearly country scores are then derived by weighting the level of democracy of each confederation against its relative size in terms of members (data on membership comes from Golden, Lange, and Wallerstein 2002).

Scores for the AP dimension were attributed to each union confederation as follows:

AP = 2 if (a) the peak leadership of the union confederation was elected for a finite term AND (b) the delegates to the national congress were elected by members (either directly or indirectly through a chain of delegation), as opposed to appointed by the boards of the affiliated unions.

AP = 1 if either (a) or (b) does not apply.

AP = 0 if neither (a) nor (b) applies.

Scores for the CR dimension are attributed to each union confederation as follows:

CR = 2 if ballots among union members (or, *a fortiori*, workers) were adopted to ratify national collective agreements with the state, with the state and employers, or at the industry level. CR = 2 even if ballots were adopted to ratify only the very divisive and contested agreements.

CR = 1 if national collective agreements with the state, with the state and employers, or at the industry level were ratified through “softer” procedures than

balloting, such as show of hands, or mass assemblies in which dissent was allowed to emerge.

CR = 0 if national collective agreements with the state, with the state and employers, or at the industry level did not exist, or if the participation of members in their ratification was not contemplated.

List of Countries and Sources

Information for the index of confederation democracy was derived from interviews with key informants (i.e. national experts on industrial relations and/or trade union officials), backed up with secondary sources when necessary. The two numbers after the EIRR acronym refer to the journal issue and page respectively.

The interviewees on Italy and the UK are more numerous compared to other countries because information gathered through those interviews was used also to complement information gathered for the case studies developed in Chapter 5.

<u>Country</u>	<u>Union Confederation(s)</u>	<u>Interviewee</u>	<u>Secondary Sources</u>
Austria	OGB	Martina Krichmayr (ILO official, formerly OGB official)	EIRR, 16.5; Stresser 1992: 132-133-159; Traxler 1998: 248
Australia	ACTU	Rae Cooper (University of Sydney)	
Belgium	ACV/CSC; ABVV/FGTB	Luc Demaret (ILO official)	EIRR, 162.9; 215.16; Vilrocx and Van Leemput 1998; Blanpain 2004: 222
Canada	CLC	Ms. Barbara Byers (CLC official); Brian Langille (University of Toronto)	Carter <i>et al.</i> 2001: 58

Denmark	LO	Steen Scheuer (Roskilde University); Bo Sørensen (LO)	EIRR, 4.17, 170.5; Jacobsen and Hasselbalch 1998: 218; Galenson 1998: 18, 63
Finland	SAK; STTK	David Seligson (ICFTU official); Lilja Kari (Helsinki School of Economics)	Kari 1998
France	CGT; CFDT; CGT-FO	J.P. Delhomenie (ILO official); J. Javiller (Université Paris X and ILO)	Despax and Rojot 1987: 165; 171
Germany	DGB	Frank Hoffer (ILO official); Martin Behrens (Hans Boeckler Foundation)	Jacobi and Müller-Jentsch 1998
Ireland	ICTU	Patricia O'Donovan (ILO, formerly ICTU official); Kevin Hodson (ICTU shop-steward)	Baccaro (2003)
Italy	CGIL; CISL; UIL	Lucio Baccaro (MIT, formerly ILO official); Antonio Lettieri (CGIL); Anna Colombo (EP fonctionnaire); Marco Piattella (EP fonctionnaire); Vittorio Baldan (EP fonctionnaire, former DS fonctionnaire); Pasqualina Napoletano (MEP); Susanna Florio (CGIL and CES fonctionnaire);	Treu 1998: 154; 129; 198; EIRR 12.8;
Netherlands	FNV	Tom Etti (FNV official)	Blanpain 2004b: 148
Norway	LO; YS	Tor Monsen (ILO official, formerly LO official)	Dolvik and Stokke 1998: 145; YS website
Spain	UGT; CCOO	Lydia Fraile (ILO official)	Alonso Olea and Rodriguez-Sanudo 2001: 117, 118.

Sweden	LO	U. Edstroem (LO official)	Adlercreutz 1997: 154; 156; 201
Switzerland	SGB/USS	Werner Carobbio (USS official)	Bernstein and Mahon, 2001: 164; 165; 172
United Kingdom	TUC	Andrew Charlwood (Leed University); Stephen Huges (MEP); Bill Morris (former TGWU General Secretary); Steve Purcey (ILO official); Werner Sengenberger (ILO official);	TUC, 2006
United States	AFL-CIO	Jim Baker (ILO official); J.Zellhoefer (AFL-CIO official)	

e) Wage Militancy and Other Variables Used in the Regression Analysis

Sources and Formula for Wage Militancy (dependent variable)

This formula is derived from Blanchard and Philippon (2003), and an email exchange with Olivier Blanchard.

WM = Wage Militancy

Raw data:

TFP = AMECO database series: "Total factor productivity: total economy"

RCE = AMECO database series: "Real compensation per employee, deflator private consumption; total economy"

AWS = AMECO database series: "Adjusted wage share total economy"

Algebra:

Technologically Warranted Wage Growth (TWWG) = Yearly change in TFP –
Yearly change in \dot{A} WS

WM = Yearly change in RCE – Yearly change in TWWG

WM was computed for all the countries on which the European Commission provides comparable data, for each year between 1973 and 2003. These include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, United Kingdom, and the United States. In the regression analysis I had to exclude Greece because I was unable to collect sufficient information on the institutional variables.

Real Unit Labour Costs (RULC), used in the correlation analysis, comes from the AMECO Database provided by the European Commission, series “Real Unit Labour Cost, total economy”.

Sources of Independent Variables

Union density (UD)

Measure derived from a dataset kindly provided by Mr. Xavier Debrun (IMF).

Inter-confederation concentration (CONC)

Data collected by Golden, Lange, Wallerstein on union concentration across confederations, i.e. HERF index in Golden, Lange, Wallerstein (2002)

Wage bargaining coordination (WBCOOR)

Kenworthy Wage Coordination Index. Kenworthy 2003: 41

Hierarchical Control (CONT)

Kenworthy union centralisation (hierarchy). Index ranging from 0 to 4. Kenworthy 2003: 35

GDP Change (Δ GPD)

Own Calculation from AMECO series “gross domestic product at 1995 market prices.”

Unemployment Rate (UR)

AMECO series “unemployment rate total: Eurostat definition.”

Terms of Trade Shocks (TOTS)

Measure derived from a dataset kindly provided by Mr. Xavier Debrun (IMF).

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