



Negotiated Austerity?

A Comparative Survey of Social Concertation in
Canada, Denmark, Ireland, and Spain

Bryan Evans, Stephen McBride, and James Watson
Ryerson University & McMaster University

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ABOUT US

Austerity and its Alternatives is an international knowledge mobilization project committed to expanding discussions on alternatives to fiscal consolidation and complimentary policies among policy communities and the public. To learn more about our project, please visit www.altausterity.mcmaster.ca.

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About the Authors

Bryan Evans (b1evans@politics.ryerson.ca)

Stephen McBride (mcbride@mcmaster.ca)

James Watson (watoj10@mcmaster.ca)



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Introduction

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Thomas McDowell, Colette Nyirakamana, Claudia Milena Diaz Rios, Sune Sandbeck, Juan Arasanz, Rasmus Hansen, and Hubert Rioux

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Various forms of social concertation between trade unions, capital and the state emerged in much of Europe to play a political and economic role in the process of post-war reconstruction. These are an institutionalized process of social dialogue expressed through “institutional arrangements ... that directly involves major interest groups in policy development and implementation” (Bradford and Stevens 1996, 146). The end product of the negotiations taking place within this tripartite space consists of negotiated formal or informal agreements arrived at by the participants (Pochet and Natali 2010, 17).

This study, through a comparative analysis of neo-corporatism in Canada, Denmark, Ireland and Spain. seeks to understand neo-corporatism as an expression of class relations and the uneven distribution of political and economic power between capital and labour.

The Emergence of Competitiveness and Austerity Corporatism

The political role of neo-corporatist structures was the containment of the political and economic capacities of the working class in the post- World War Two period. Specifically, neo-corporatist structures provided a forum for trade union perspectives with respect to economic planning and incomes policy. In exchange, the requirement was that trade unions would integrate “capitalist growth criteria in union wage policy and their administration of wage restraint to their members” (1980, 174).

International competition intensified through the 1980s and consequently “corporatist bargains were subjected to the pressures of maintaining profitability” (Albo and Roberts 1998, 169). Negotiations within neo-corporatist structures had transformed from a process where workers’ incomes were restrained in exchange for an expansion of the ‘social wage’, into a mechanism for negotiating the implementation neoliberalism. This transformation from social corporatism to competitive corporatism was one where the state co-ordinated the compromises necessary between employer and union organizations to establish the conditions facilitating sustained capital accumulation (Teague and Donaghey 2009, 56). The processes thus became the vehicle through which governments would negotiate the implementation of competitiveness strategies.



Looser labour markets empowered employers while European integration placed constraints on national-level discretion in the formulation of economic policy. For labour, there were now few remaining incentives to deliver wage restraint in return for improvements to the social wage and employment security as both state and employer partners held fewer bargaining chips as well as their own diminished incentives to compromise with labour (Schmitter and Streeck 1991). This particular model of social bargaining was superseded by market forces which were now singularly capable of imposing discipline on labour (Gobeyn 1993, 20). Financialization and, particularly in the European Union, economic and political integration required governments to dismantle or restructure institutions and political arrangements which were not acceptable to capital (Kurzer 1993, 244-5). And the transformation of employment relations more generally and the decline in working class political capacities spelled the end of neo-corporatism (Grahl and Teague 1997).

Of course, the political and economic landscape has transformed dramatically since the end of the post-war boom and with this the very purpose of neo-corporatist arrangements. Indeed, in the post 2008 crisis period, neo-corporatism had shifted toward “negotiated flexibility” as a means of containing job loss but have also been the site for manufacturing austerity policies (Anxo 2015, 263). Trade union participation in neoliberal corporatist structures has been characterised as a “policy of powerless social dialogue” (Wahl 2004, 46).

Through and following the 2008 Financial Crisis, as aggressive fiscal consolidation followed the short-lived Keynesian revival, austerity corporatism turned to social partnerships and social pacts as important mechanisms in negotiating the terms of austerity. Social dialogue in several European countries enabled a negotiated response to the crisis where trade unions often agreed to “cuts in working time, wage moderation measures and flexibilisation of remuneration contracts” (Urban 2015, 269-70). This defensive strategy of some trade unions reflected the weakening of working class organizations to resist the profound shift in power relations which had taken place since the 1980s. European trade unions through their participation in social pacts demonstrated a willingness “to acquiesce to wage moderation, more flexible working conditions or privatised social services in exchange for maintaining employment” (Bieling and Lux 2014, 154).

In other countries where deep fiscal retrenchment and labour market disciplinary policies were constructed through social partnership arrangements, such structures dissolved. The austerity social partnerships were mechanisms through which to bargain wage restraint, more flexible working hours, and welfare reforms in exchange for tax cuts and employment security. In addition, the social pacts sought to fulfill the requirements of the European Monetary Union (EMU), since the negotiated outcomes contributed to lowering state budget deficits. The consequence of austerity corporatism has been to reinforce the declining share of



wages as a proportion of GDP and this is “despite the formal commitment of European unions to a wage policy intended to reverse or at least halt this decline” (Hyman 2010, 8).

More than defensive bargaining, the ‘social partnership’ approach of the European labour movement “amounts to a strategy that not only further abandons the autonomy of the labour movement but confirms the logic of neoliberalism” (Bieler 2007, 113). The reconstruction of neo-corporatist structures as a mechanism for negotiated austerity expresses the profound shift in class power relations which have taken place.

Canada: Missing the Corporatist Boat?

While social dialogue organized through and by the state is associated with Western Europe, such structures are not unknown in Canada. However, those structures which have been created tended to be sectorally organized and focussed on labour force skills development. Historically some efforts to engage in more broad-based policy dialogue and experiments in cross-class negotiation either were short-lived and/or were purely advisory in function. This has led to the suggestion that “Canada may have missed the corporatist boat” (Panitch 1979, 85).

There are a number of reasons for this. Primary among these is that the decentralized nature of Canada’s constitutional structure has made the establishment of coherent policy objectives much more difficult to achieve. As a consequence, business and labour interest groups have historically aligned along these same constitutional fault lines. The result is that labour organization have traditionally been locally organized and relatively weak in the formulation of state policy at both the provincial and national levels. Business representation has been highly organized, largely within provinces, as well as sectorally (Rutherford, 1998, 132). The important caveat here is that corporatist institutions have been set up more readily in provinces where the New Democratic Party and the Parti Quebecois have formed government.

Over the course of the 1980s and into the 1990s, a number of quasi neo-corporatist institutions were established but were limited to a purely advisory role on labour and labour market policy. As such these were fora to enable social dialogue rather than structures to arrive at agreed upon decisions through social concertation.

Spain: From Tentative Democracy to Crisis Corporatism

Neo-corporatist social concertation in Spain developed in the context of the 1980s economic crisis and the transition to democracy following the 1975 death of Franco (Hamann 1998; Confederación Sindical de Comisiones Obreras 2016; Estefanía and Serrano 1988). As the transition to democracy was very recent and



fragile, both unions and employers' organizations were weakly organized and did not have the skills and capacity to engage in social dialogue. The unions – the UGT linked to the Socialist (PSOE) and the CCOO connected to the Communist (PCE), relied on the parties to voice their policy preferences in the various legislatures.

In this context, the first attempt at designing economic and labour policies conducted through and by political parties without the direct participation of non-governmental actors resulted in the *-Pactos de la Moncloa* (Moncloa Pacts) which prioritized democratic and macro-economic stability, wage moderation, and moved toward the legal recognition and regulation of trade unions (Cabrera 2011). Within the framework of *the Pacts* a series of laws were adopted which established the policy bases for social concertation. This included the following elements : 1) participation of the 'most representative unions' in collective bargaining defined by support on works council elections rather than by membership; 2) 'statutory extension' which stipulated that collective agreements applied to all companies and workers of the geographical and/or sector constituency, regardless of whether they form part of the organizations engaged in the bargaining process or not; and 3) 'ultra-activity', which defined that collective agreements remained valid beyond their formal expiration date until they were renewed or renegotiated (Fernández, Ibañez, and Martínez 2016).

The social partners were actively engaged by the state during the initial 2008-9 response to the economic crisis and were able to conclude the bipartite Interconfederal Agreements on Employment and Collective Bargaining (AENC-I & AENC-II) in 2009 and 2012 and the Tripartite Social and Economic Agreement in 2011. Labour market negotiations stalled in 2009 and the introduction of unilateral austerity measures in 2010 led to open conflict between the government and the labour movement. The UGT and the CC.OO called again for a general strike in September, the threat of which forced a renewed interest in tripartite negotiations and led to the 2011 agreement. Significant reforms to the structure of collective bargaining implemented by the PSOE in 2011 increased pressure for a decentralized system of bargaining, expanded opt-out clauses and reduced the regulatory reach of sectoral agreements (Molina & Miguélez 2013), and introduced enterprise-based micro-corporatism (Hamann and Martínez Lucio 2003).

With the PP's victory in 2012, the government of Mariano Rajoy imposed a new labour reform designed to alter the structure of social concertation and further weaken unions. Although the unions and business organizations had renegotiated the Agreement on Employment and Collective Bargaining for 2012, the PP dismissed this agreement and limited the conditions by which expired agreements would be automatically renewed (Pérez 2014). Without the automatic renewal that 'ultra-activity' provided, unions lost a recurrent entry point for negotiations (Pérez Infante 2017).



Tripartite policy concertation was gradually abandoned as a response to the crisis, and the period since 2008-9 has seen the normalization of unilateral government legislation and the marginalization of collective bargaining through decentralization, with a concomitant increase in the power of both employers and the state to circumvent tripartite negotiations. Out of the decline of Spanish social concertation, new social movements and radical parties on the left emerged, challenging the institutional status quo within the labour movement and rejecting the politics of social partnership in austerity.

Ireland: From Competitive to Austerity Corporatism

A centralized bargaining system was established in the 1960s where the Irish Confederation of Trade Unions (ICTU) and Federated Union of Employers (FUE) participated in social concertation. Moreover, the tripartite National Industrial and Economic Council (NIEC – est. in 1963) proposed that corporatist structures for linking economic planning to wage regulation be created.

With the 1987 election of Fianna Fáil, a tripartite Programme for a National Recovery (PNR) was negotiated between the social partners. Significantly, the re-emergence of social partnership was premised on the understanding that wage moderation would be essential to moderating inflation and reducing budget deficits. The ICTU agreed to support wage restraint in exchange for tax concessions and the maintenance of welfare payments.

The final national programme negotiated by the social partners prior to the financial crisis was the *Towards 2016* (T16). This was a ten year agreement running from 2006 to 2016 (O’Kelly 2010). As the crisis deepened in 2009 the budget deficit grew. In response, the government attempted to renegotiate the pay agreement with a view to cutting wages, particularly in the public sector, while the Irish Business and Employers Confederation (IBEC) argued that the agreement should simply be annulled. The ICTU rejected both options and countered with a 10-point recovery plan. This plan reiterated the unions’ commitment to social partnership and offered a broad-based set of proposals to address the crisis in ways other than recourse to cuts in public expenditures and wages. Despite widespread opposition to the government’s austerity proposals, the government unilaterally withdrew from negotiations in March 2009 and introduced an emergency budget that included across the board pay cuts and increased pension levies for public sector workers (Doherty 2011).

IBEC withdrew from the national wage agreement on December 23, 2010 (Sheehan 2010). IBEC’s withdrawal effectively decentralized pay negotiations to the enterprise level and marked the first time since the 1981-1987 period that Ireland did not have a functioning national wage agreement, the central pillar of Irish social partnership.



While the ICTU had resisted employers' attempts to renegotiate the *Toward 2016* pay increases and opposed the government's unilateral imposition of public sector pay cuts, its leadership nevertheless attempted to salvage what was left of social partnership by imposing a unilateral moratorium on industrial action and seeking a return to the negotiating table with the government in the latter's plans to reform the public sector.

Negotiations resulted in the Croke Park Agreement, ratified by the ICTU on June 6th, 2010. The agreement traded further public sector pay cuts and compulsory redundancies in exchange for greater redeployment flexibility. But it also committed to increased work hours and finding service efficiencies, limits on industrial action, and a reduction in staff levels by between 18,000 to 21,000 positions by 2014 through attrition and early retirement. Teachers also saw the introduction of a two-tier pay scale, with new hires entering after January 2011 earning a fraction of what their more senior colleagues were paid, and the imposition of the "Croke Park hours" which forced teachers to spend an additional 33 unpaid hours per annum on school meetings and other administrative duties. The Croke Park agreement afforded few substantive protections in return. At the centre of this capitulation is the 'social partnership' process, where in the course of its 23 years of existence, the ICTU's leadership became integrated, albeit in a junior role, with the Irish state (Boyd, May 14, 2010).

The austerity measures unilaterally introduced by the Fianna Fáil coalition combined with the withdrawal of the employers' association from the national wage agreement effectively ended Irish social partnership.

Denmark: An Enduring Social Corporatism?

Social partnership in Denmark can be traced back to the 1899 September Compromise, in which the national trade union confederation (LO) (then DsF) and employer confederation (DA) recognized the right of the other to exist and agreed to the basic structure of centralized collective negotiations, self-regulated by the social partners themselves under the principle of 'conflict-based consensus' and voluntarism (Due and Madsen 2012).

With Denmark's 'second' industrial revolution of the late 1950s and 60s came increased concern over rapid wage growth and an overheating economy. A move towards more active incomes and labour market policies would require sustained involvement of the social partners. Accordingly, through the early 1960s, increasingly sophisticated forms of enabling tripartite cooperation beyond collective bargaining were established. The Economic Council, established in 1962, provided a venue for the discussion of socioeconomic developments with a view towards integrating concerns arising from these into collective bargaining. Although the initial efforts faltered, with the state having to step in after collective bargaining failed to reach an agreement in 1963, the idea behind the Economic Council would serve as an important model for future tripartite cooperation.



The state meanwhile, has usually taken a passive role in the determination of wages and working conditions, leaving the social partners to negotiate these among themselves under the core principles of self-regulation and voluntarism, although it has occasionally intervened during periods of economic crisis or severe conflict. Interestingly, opportunities for broad-based policy dialogue in Denmark often appear to increase during periods of political intervention, suggesting that the state extends political participation to the social partners as an opportunity for them to shape policy outcomes directly (e.g. during the 1970s, 1987, and after the financial crisis).

However, through the 1980s and 1990s, the sustainability of Danish corporatism became a question. Decision-making and wage-setting increasingly were devolved to the sectoral and enterprise levels, rendering peak organizations like DA and LO less significant, and there has been a shift from the national to local levels of representation.

In 1987, the LO signed the Joint Declaration, acquiescing to, among other things, a policy of competitive wage moderation, and this was the last instance of a comprehensive social pact being concluded in Denmark. The continued marginalization of the social partners' involvement in policy concertation by the 2001-09 liberal-conservative coalition and the overt hostility directed towards the labour movement at the end of the coalition's reign, when unemployment benefits and early retirement retrenchment was unilaterally implemented, marked a nadir in Danish social concertation. The liberal-conservatives pursued policies that significantly weakened the trade unions by attempting to further decentralize collective bargaining to the sectoral level and breaking the central role of unions in the provision of unemployment benefits, which had fallen under their administration and offered a significant incentives for union membership.

The Social Democrats returned to government in 2011 and initiated an effort to court the social partners in developing stimulus packages aimed at reviving the Danish economy and restoring tripartite concertation (Mailand 2012 and 2016). The talks broke down because LO found it difficult to explain to their members why work hours should be increased during times of relatively high unemployment (which had climbed from 2.5 percent in 2007 to 6.9 percent in 2012).

Conclusion

What is observed in this review of corporatist arrangements in four rather disparate cases is that these processes and the policy outputs they manufacture are as protean as the class relations upon which they are based. The political and institutional foundation upon which corporatist arrangements are constructed, unsurprisingly, come to give expression to the uneven distribution of the power resources available to the social partners. It has been noted that "the balance



between the negotiating partners has shifted substantially as compared with the situation prevailing when the pacts of the 1960s and 1970s were signed" (Pochet, Keune and Natali 2010 , 22).



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