NATIONAL ALLIANCES FOR JOBS AND PROSPECTS FOR A EUROPEAN EMPLOYMENT PACT

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Contents

Introduction

Government policy aimed at tackling the employment crisis on Western European labour markets faces three major problems: the interdependence of different policy areas, different combinations of players and differing interpretations of what the crisis actually involves. Labour markets are affected by a number of policy areas, amongst the most important of which are fiscal policy, taxation policy, wages policy and social policy. All these policy areas affect the problem of unemployment in different ways which can either reinforce each other, undermine each other or cancel each other out. Furthermore, job creation is not the primary concern of the key players in these policy areas. At the same time, labour market policy, which is the policy area specifically responsible for tackling the issue of unemployment, has a relatively limited influence on employment compared to the four policy areas mentioned above.

In addition to this, there are often different decision-taking procedures and combinations of players in the individual policy areas. Apart from the politicians, the most important players in the case of employment policy are the social partners. In most West European countries, they not only influence the labour market and wages policy through their central role in the collective bargaining process, but also have considerable scope for influencing social policy, including veto rights, through their representation on the bodies that administer the social security system. Thirdly, the problem of unemployment is interpreted in different ways. Employment is affected by a number of different factors, some of which are cyclical whilst others are structural. Politicians - and academics - are unable to agree on exactly how important individual factors are for employment, since they affect different groups in different ways.

In addition to these general problems, any European employment policy is faced with one other difficulty. It has to operate at two levels - the European level and the national one. The interaction between the national and European levels is characterised by the heterogeneous nature of the institutions in the different EU member states and their economic and political interdependence. The European social model that evolved in Western Europe after the Second World War is characterised by a comprehensive welfare state and a highly institutionalised industrial relations system (Grahl/Teague 1997, p. 405). These highly institutionalised systems have led to the development of different collective bargaining systems in the different countries, with unions and employers that have very different organisational capacities and very different understandings of their political role (Schulten 1999, p. 36).

Such institutional and organisational differences have led to individual member states responding differently to the problem of unemployment and the profound structural changes occurring in Western European labour markets since the 1970s. Unemployment rates are one manifestation of these differences. Despite the single market and economic and monetary union, we are a long way from having a homogeneous European labour market, with unemployment ranging from 16% in Spain and 11% in France to 2.8% in Luxembourg and 3.3% in the Netherlands. Behind these figures lie major differences in productivity levels and in the labour market institutions and the collective bargaining and social security systems.

The ever closer political and economic integration of the European Union's member states has meant that the common problem of employment policy has become a key issue at a European level. The Treaties of Rome already identified a common goal of achieving a high level of employment within the process of European integration. The "worrying employment situation" was highlighted, amongst other things, in the European Council's resolution on the guidelines for a Community labour market policy in 1980 and there followed a number of statements, decisions and recommendations on the subject, most of which, however, came to nothing (Hoffmann/Hoffmann 1997a). It is only in the last few years that there have been genuine efforts at a European level to tackle unemployment and modernise the labour market. These have been rather contradictory, ranging from neo-liberal deregulation to innovative reforms. This process of "Europeanisation" of employment policy is based on experience gathered at national level which is then generalised to create supranational policies which in turn try to influence national policy.

There are plenty of examples of successful employment pacts at national level, achieved as a result of concerted action by government and social partners, which are then used as a model for new efforts at a European level. There have been several attempts at achieving concerted action at a European level, dating back as far as the 1970s, for example there have been a number of conferences on the subject, organised by the employment and social security ministries and attended by the European social partners - and sometimes also by finance and economics ministers. By 1978, six such conferences had examined a whole range of macroeconomic and social policy issues, including full employment, inflation, wage restraint and taxation (Dolvik 1999, p. 33). A Standing Committee on Employment - with representatives of unions and employers - was also set up, and was last reformed this year.

With the advent of globalisation and particularly of European Economic and Monetary Union (EMU), concerted European action is becoming increasingly necessary, although this does not mean that the EU member states should be relieved of their responsibility for employment policy. It is not simply a question of having European employment policy on one hand and institutional diversity at national level on the other. Rather, there is a complex interaction between the adaptation of national employment policy in response to the negative effects of economic and monetary union on the one hand, and European employment policy initiatives on the other. The European Employment Pact agreed at the Cologne Summit is the latest step in this process, and serves to illustrate the way in which national experience of labour market regulation and wages policy and increasing efforts to coordinate employment policy at a European level serve as reference points for each other.

This paper aims to outline the parallel development of adaptation of wage and social policy at national level on the one hand, and European employment policy initiatives on the other. It will then examine the prospects for a European employment pact.

1. Adaptation of National Systems: Alliances for Jobs in Europe

Despite all the national differences, similar processes aimed at adapting to the new conditions of the Single European Market and preparing for monetary union have been evident since the mid-eighties in all the member states of the EU. These processes of adaptation have particularly affected the institutional structure of the labour market, wages policy and the social security system. All EU member states have introduced individual reforms in at least one or other of these fields, with the majority of countries carrying out several reforms in all three policy areas. Given the current competition between labour markets there is no longer any debate amongst the member states about the basic direction which the adaptation of their social policy to the requirements of the European economy should take. Indeed, the principal institutional reforms of the labour market needed to increase employment - wage restraint, more flexible working practices, pay differentiation and greater incentives to enter employment - can be found in some form or other in all the member states, irrespective of the political colour of the government or superficial differences in the attitudes of the social partners.[1] The reforms largely follow the recommendations of the European Commission, as initially outlined in its White Paper and later specified in the Essen employment policy priorities.

1.1. Wages policy in Euroland

The most important development for the unions is with regard to national wages policy. The competitive repercussions of European Economic and Monetary Union are already having a clear effect on national wage structures. It is unmistakably the case that the convergence criteria for monetary union have meant that all EU member states have introduced a clear policy of wage restraint (Schulten 1999, p. 37), which has in many cases taken the form of agreed wage guidelines (Table 1). Formal wage guidelines which explicitly do not fully reflect increases in productivity were agreed in the 1990s in Italy, Ireland, Belgium, Sweden, Denmark (in a limited fashion until 1991), Portugal and Finland.[2]

The influence of European Economic and Monetary Union on the new direction of national wages policy is illustrated by two important points. Firstly, in many cases the introduction of wage guidelines was justified by the need to meet the monetary convergence criteria and secondly, some of the wage guidelines agreed were modelled on wage developments in other countries.

In the case of the most recent agreement in Ireland (Partnership 2000), the capping of wage increases is specifically attributed to the need to meet the convergence criteria. The same was clearly true in the case of the index-linking of pay rises in Italy and the subsequent reform of wage structures through the Ciampi Protocol in 1993. Similarly, the Portuguese government has been trying to convince the unions since 1998 of the need for a "wages policy that is compatible with EMU". In 1996, a pay formula was agreed in Portugal according to which wage increases would be restricted to no more than half the increase in productivity. However,

[1] Critics of EMU pointed out from the outset that adaptation of this kind was bound to take place. Wages policy ends up being a safety net which comes into play when currency devaluations are no longer an option (Altvater/Mahnkopf 1993). However, in practice the adaptation processes have turned out to be much more complex than these analyses had anticipated, going far beyond the issue of wages policy.

[2] The information on developments in the individual countries comes from eironline. European Industrial Relations Observatory Online and also from: Ferner, Anthony, Hyman, Richard (1998) and Pochet, Philippe, Fajertag, Giuseppe (1997).

the fact that the Portuguese CGTP union refused to sign the agreement meant that the formula proved unworkable.[3] The same reasons are also being used to justify attempts to centralise wages policy in Spain.

Another development is that European countries are increasingly beginning to model their national wages policy on those of their most important neighbours. In Belgium, wage increases were tied by law to the average forecast pay rises in Germany, the Netherlands and France. In the October 1998 cross-sector collective agreement, a wage increase of 5.9% over the next four years was agreed, based on the expected average increases for this period in the neighbouring countries (Kuntze 1998). Since 1998, wage guidelines in Italy have been based on inflation forecasts for the whole of the EU. Finland created wage buffer funds to try and protect workers against possible external shocks during the transition to monetary union. In both Denmark (1987-91) and Sweden (1995), the social partners voluntarily agreed to restrict wage increases by ensuring that labour costs did not grow faster than in other European countries.

Sweden provides another indication of the extent to which the pressure to meet the convergence criteria for economic and monetary union affects wages policy even in those countries that have not joined monetary union. Because of the failure of the attempt between 1995 and 1997 to prevent wages in Sweden from rising faster than in other EU countries, the Ministry of Employment has set up task forces to examine possible far-reaching changes to the pay bargaining system, with a view to achieving greater wage restraint. Their proposals, which are centred on a restriction of the right to strike and the introduction of statutory arbitration procedures, have so far been successfully blocked by the unions. Some observers have identified the increasing inability of Sweden's social partners to guarantee wage restraint as a major obstacle to Sweden joining monetary union.

Table 1: EU member states' wages policy in the 90s

Wage guidelines		**Moderate wages policy without wage guidelines**	
Based on other EU countries	**Fixed limits**	**Decentralised pay bargaining system**	**Centralised pay bargaining system**
Belgium (since 1989)	Portugal (1996)	Spain	Netherlands
Italy (since 1992)	Finland (since 1991)	Britain	Germany
Sweden (since 1995)	Ireland (since 1987)	France	Austria
Denmark (1987-91)			Denmark

There are two groups of EU member states that have as yet not introduced any wage guidelines in preparation for EMU. The first group consists of those countries where pay bargaining is so decentralised that the social partners are unable to control the general

[3] The UGT-P (General Workers Union) did support an agreement along these lines. The CGT-P, formerly known as Intersindical (Confederacao Geral dos Trabalhadores Portugueses), is the umbrella organisation for Portuguese workers. Both unions are affiliated to the ETUC.

evolution of wages. These include France and Britain, where wage guidelines are pointless, since the social partners are unable to implement them. In France, collective agreements are relatively comprehensive, but the significant wage negotiations take place either at company level or not at all. The socialist Mauroy government passed the Auroux Laws in 1982, which reformed the pay bargaining system by requiring there to be annual wage negotiations at plant level involving unions and employers. But far from increasing the bargaining power of the divided French unions, this merely had the effect of making it easier for the employers to bring in more flexible pay structures. The decentralisation of pay bargaining introduced by the Auroux Laws merely further weakened the ability of both unions and employers' associations to regulate working conditions and encouraged local divisions (Goetschy 1998). Plant- and company-level pay bargaining led to wages being largely market-led and in many cases being determined unilaterally by the company management.

The situation in Britain is similar, with only a minority of workers still being covered by collective agreements. As in France, although under a government with a different ideology, the British pay bargaining system was also transformed and largely decentralised during the 1980s. In Britain too, in those cases where collective bargaining still takes place at all, it is generally at company level.

The second group consists of those countries - principally Germany and Austria – which, because of their highly centralised pay bargaining systems, have traditionally been characterised by wage restraint. Since the Second World War, both of these countries have been largely spared the incomes policy problems of other European nations, since they have been able to keep their wages policy pretty much in line with the Bundesbank's strict monetary policy, with the result that wage increases have been kept relatively low (Flanagan et al. 1983). As for the Netherlands and Denmark (since 1991), it can be said that informal wage guidelines exist for which the German wage agreements act as an upper limit.

If we look at the attempts to adapt national employment policy to the requirements of European integration in the light of the above, the first thing that can be seen is that - despite the institutional differences in the pay bargaining systems - there has been an increasing convergence in the outcome of wages policy during the 1990s. Despite the general lack of active coordination on wages policy issues amongst the unions in the various countries, it is apparent that most countries have come up with similar responses to the challenge of meeting the convergence criteria. Wages policy has been reformed and in general made easier to control, and wage restraint has been accepted by most of the unions in countries with wage guidelines as being necessary for survival in today's highly competitive markets. In those countries that do not have wage guidelines, it is usually because there is no need for them, either because the social partners no longer have any control over wages or because the countries have traditionally exercised wage restraint anyway.

1.2. Social and labour market policy

The adaptation of national employment policy to meet the challenges of the new competitive environment affects not only wages policy but also large parts of the social security system and labour market policy. All the member states have been exposed to the temptation of "protecting jobs at home at the expense of neighbouring countries by competitive deregulation and tax cuts" (Scharpf 1999, p. 142).

Thus, during the nineties, most EU member states have introduced reforms aimed at making the labour market more flexible, for example promoting loan employment and fixed-term contracts (in the Netherlands) or reducing protection against dismissal (in Germany, Great Britain, Greece and Spain). The effects of competition to cut labour costs can be seen in the measures that have been taken to reduce non-wage labour costs in Belgium, France and Ireland as well as the general efforts to cut labour costs associated with the long-term unemployed and low-skilled workers in Denmark, Italy, Portugal and France. As for taxation, marginal tax rates for people on low incomes have been cut in France, Great Britain, Denmark, Ireland, the Netherlands and Sweden, whilst Ireland and Portugal have rewarded wage restraint by reducing income tax.

As far as pensions are concerned, Italy and Holland - both countries with particularly high expenditure on pensions and social security - have attempted to curtail pension entitlements for people who have not yet reached retirement age. Similar attempts have been made in France and Greece, whereas other countries (Germany, Italy, Great Britain, Belgium and Portugal) have taken measures to raise the legal retirement age. Many countries have cut back benefits in general, e.g. unemployment benefit (Great Britain, Austria, Denmark, Ireland, the Netherlands and Sweden) or sick pay (Germany and Sweden) (OECD 1997 and Eichhorst 1999).

On the other hand, in addition to all these competition-driven measures to cut costs, there is also evidence that the member states have been pursuing an active labour market and training policy aimed at improving the employability of people who are out of work, in keeping with the European Commission's employment policy priorities. There have been a range of individual measures basically aimed at offering the unemployed job opportunities and incentives to work rather than simply paying them state benefits.

In terms of active labour market policy initiatives, there have been a number of job creation schemes for groups that are excluded from the labour market. Ireland and the Netherlands have developed their own work experience programmes offering work placements to the long-term unemployed. The Netherlands have also introduced programmes for specific target groups, such as the job creation scheme for ethnic minorities agreed in 1990. Measures to provide more help to job seekers through employment agencies have been implemented in Britain, Austria and Belgium and the employment agency monopolies in Germany, Austria, Denmark and Finland have been abolished. Finally, the Netherlands, France and Portugal have taken measures to protect part-time workers.

In short, the competing requirements of wages and social policy in the European Union's member states frequently lead to the implementation of cost-cutting measures. At the same time, several attempts are also being made to make job seekers more employable by creating a more dynamic labour market and promoting training.

1.3. The role of social pacts

What is the role of alliances for jobs (also known as social pacts) in this context? In the attempts to adapt national wages and social policy that have been outlined above, there are crucial differences with regard to the role of the social partners. Governments seem to have adopted one of two approaches to achieve their employment policy goals: they have either chosen to cooperate with the social partners, or they have unilaterally decided to decentralise and deregulate their domestic labour markets. Those countries, particularly France and Britain, in which the collective bargaining system was decentralised against the will of the unions underwent this process mostly during the 1980s. However, the left-wing governments of the nineties have shown little sign of increasing cooperation with the unions.[4] Conversely, those countries which did not abandon their macroeconomic dialogue with employers and unions during the 1980s have seen increasing cooperation between the government and the social partners since the mid-eighties, leading in several cases to the successful signing of alliances for jobs (see Table 2). Wages policy, usually in the shape of wage guidelines, forms an important part of these social pacts. Nevertheless, it is complemented by a raft of other initiatives geared towards reforming social policy, labour market policy, taxation policy and the social security system (Hassel 1998, pp. 626-635).

Cooperation on the issue of adapting national wages and social policy to keep pace with European integration is principally to be found in Scandinavian countries such as Denmark and Finland, but also in Austria. In these countries, the government and social partners have traditionally negotiated and coordinated labour market and wages policy centrally. Special measures were additionally approved in the agreement between the social partners in Denmark and in the individual social pacts in Finland.

Table 2: Cooperation between social partners and government in EU

Country	Year	Name
Coordinated cooperation in reforming the labour market		
Austria		
Netherlands	1982	Agreement on 'generally binding recommendations on employment policy issues' (Wassenaar)
	1990	More Jobs for Ethnic Minorities
	1993	A New Direction: Agenda for Collective Bargaining 1994
	1997	Agenda 2002
Ireland	1987	Programme for National Recovery
	1990	Programme for Economic and Social Progress
	1994	Programme for Competitiveness and Work
	1997	Partnership 2000 for Inclusion, Employment and Competitiveness
Italy	1992	Tripartite Agreement on the Abolition of the Sliding Scale (Scala Mobile)
	1993	Ciampi Protocol: Agreement on Labour Costs of 23 July 1993
	1996	Employment Pact (Accordo per il Lavoro)
	1998	Social Pact for Growth and Employment
Denmark	1987	Agreement between the Social Partners
Finland	1991	Stability Measures
	1995	Social Pact
	1998	Social Contract
Luxembourg	1999	National Action Plan for Employment (Plan d’action national en faveur de l’emploi)

4 An exception to this was provided by the tri-partite Matignon summit called by the Jospin government in 1997 to address the translation into national law of the Working Time Directive. The negotiations ended when the employers walked out.

Country	Year	Name
<u>**Limited Cooperation**</u>		
Greece	1997	Pact for Competitiveness (not signed by small and medium-sized enterprises)
Spanien	1994	Toledo Pact (not signed by employers)
	1997	Agreement between Social Partners
Portugal	1996	Short-term Tripartite Agreement (Acordo de Concertado Social de Curto Prazo) (not signed by the CGTP)
	1997	Strategic Social Pact (Acordo de Concertacao Estrategica)
Belgium	1993	Global Plan (no agreement reached)
	1996	Negotiations on an agreement about the future of employment (no agreement reached)
	1998	Cross-sectoral collective agreement (only achieved after legal intervention)
Germany	1996	Alliance for Jobs and Prevention of Plant Closures (no agreement reached)
	1998	Alliance for Jobs, Training and Competitiveness
Sweden	1999	Growth Pact (allians för tillväxt) (no agreement reached)
<u>**Countries without coordinated cooperation**</u>		
Great Britain		
France		

We can also speak of cooperation in the case of the Netherlands, although here it is of a more informal nature, since the reforms of Dutch employment policy begun in 1982 are based on a collective agreement and not on formal accords with the government. The unions play an important role in this form of coordinated cooperation, with the emphasis being on adaptability.

Successful *formal* alliances for jobs which could serve as a model for the German alliance can be found in Italy and Ireland. The governments of these countries have signed written agreements with the social partners on the reform of wages and social policy and have largely been able to successfully translate these agreements into long-term cooperation. The unions have generally only come to accept their new role as partners in the alliance after heated debate, but once the agreement has been signed they have adhered to it despite occasional pockets of resistance.

In some countries, attempts to create alliances for jobs have been made that were only partially successful or where no agreement was finally reached at all. This category includes formally agreed social pacts that were not signed by all the social partners – as, for example, in Spain in 1994, Portugal in 1996 or Greece in 1997. In other countries, agreements that had been fully negotiated were then abandoned by one side or other, as was the case in Germany in 1996 or in the most recent attempt at creating an alliance for jobs in Sweden in 1999.

Why do governments and social partners choose to cooperate through alliances for jobs? The social partners have a long tradition within the context of national employment policy and have many ways of influencing wages and social policy. This means that in most European countries it is much easier to implement employment policy reforms with the approval of the social partners than without it. However, the backing of the social partners, particularly the unions, comes at a price and can only be obtained if they are granted concessions as well as being expected to make them. Since issues such as cutting costs/wage restraint and introducing more flexible working practices affect the unions' interests directly, concessions to the unions are built into agreements on these issues. Thus, if labour costs are to be cut, then this must be done with a view to increasing competitiveness or boosting employment in the services sector, without workers necessarily having to accept pay cuts. If working practices are to be made more flexible, then this new flexibility should not place excessive demands on workers, or they should at least be put in a position where they can meet these new demands.

In reality, the agreements are rarely as stylised as this. More usually, the individual measures agreed on by the members of the alliance are introduced gradually and are often revised after a few years. Italy, however, provides one example of a pact which contains very clearly stated concessions. In the Pact for Growth and Employment of December 1998, a commitment was made to lower the income tax rate for annual incomes between 15 and 30 million lire from 27% to 26%. In addition, the government promised to invest 1.6 billion lire in vocational training measures over the next three years. The government also acceded to the employers' request for tax on wage components agreed at plant level to be reduced by 1%. It was agreed that wage costs should be reduced by 1.25% by the year 2003 by abolishing or deferring certain non-wage labour costs. Finally, the government gave an assurance that it would cut red tape and offer incentives for firms to change casual employment into regular employment (Telljohann 1999).

It is important to understand that the difference between the Anglo-Saxon model of institutional reform of the labour market and the social pact approach is that in the case of the latter, the government seeks to counterbalance measures aimed at deregulation and cutting costs with concessions to the union side. Nevertheless, 'cutting costs', 'incentives for entering employment' and 'flexibility' are still the key themes in social pact agreements as well. As such, social pacts do not constitute a fundamentally different approach to the reform of social and wages policy, they simply make these reforms more likely to be accepted by society by involving the social partners.

From a union viewpoint, the advantage of participating in alliances for jobs is that it tends to mean they have more influence over social and wages policy reforms than if they refuse to cooperate with the government. This mechanism is well-known from the literature on corporatism in countries that have traditionally regulated their labour markets through cooperation between the employers' associations, unions and government. In countries that do not have a corporatist tradition, such as Italy and Ireland, the influence of the unions on important social policy reforms is unmistakable. The 1995 pensions reform in Italy was almost exclusively conceived by the unions with their interests at heart: "Indeed the condition for getting union approval was the retention of the existing retirement provision for older workers and the introduction of a partly or wholly radical new pension scheme system for young workers". (Regini, Regalia 1997, p. 217)

Furthermore, there is a tendency for joint institutions in the areas of labour administration, arbitration and vocational training either to be created or to gain in importance, in some cases enabling the unions to be involved in jointly regulating these areas for the first time (Hassel 1998, pp. 626-635). In 1996, Italy created a National Vocational Training Council under the auspices of the Ministry of Employment, which was charged with restructuring and reforming the vocational training system. In 1991, an agreement in Portugal which was also signed by the CGTP provided for the creation of job protection committees. These institutional reforms of the procedures for the approval of employment and social policy, which also redefine the competences of the various groups involved, have generally served to stabilise and empower the unions. This can be clearly seen by comparing the above-mentioned countries with those in which the unions' influence has waned to the extent that they no longer have any say in wages policy, outside their ability to organise demonstrations and strikes. Many of the unions involved in alliances for jobs, especially those in southern Europe, were faced with a choice between coordinated cooperation in reforming the labour market or the prospect of becoming increasingly politically marginalised.

The fact that social pacts bring stability to the unions' bargaining power at a national level means that they can also indirectly make a positive contribution to the coordination of employment policy at a European level. This is true both with regard to the recently agreed macro-economic dialogue between the social partners and European governments and with regard to cooperation between the unions themselves. For example, the first attempt at union coordination of wages policy at a European level was undertaken by countries where the unions are actively involved in social pacts. In the so-called Doorn Agreement of September 1998, representatives of the Belgian, German, Luxembourg and Dutch unions agreed to try to obtain wage settlements in their national pay rounds that would fully reflect the increase in both inflation and productivity. Such an agreement would be impossible between countries which no longer had structures for influencing wages policy at a macro-economic level.

In summary, it can be seen that European Economic and Monetary Union has already had a clear impact on national wages and social policy during the 1990s. All of the member states of the EU are under considerable pressure to reduce costs, and labour market and social policy are increasingly at the centre of attempts to adapt to this new environment. The need to drive down costs has meant that all countries, irrespective of the political colour of their government or the position of the social partners, have introduced reforms geared towards cutting costs and making the labour market more flexible. At a national level, alliances for jobs can help with this process by enabling governments to smooth the introduction of unavoidable reforms whilst at the same time bringing stability to the role of the social partners within the national collective bargaining system.

2. Europeanisation of employment policy: the road from Essen via Amsterdam to Luxembourg

In its White Paper on "Growth, Competitiveness and Employment" published in December 1993, the European Commission (1993) already declared its intention to contribute to boosting Europe's competitiveness and tackling the continuing problem of unemployment. It set a target of creating 15 million jobs by the year 2000, which - based on figures at the time - meant halving unemployment within the EU. The White Paper identified two alternative ways of reducing unemployment in Europe. One was the United States model in which modest growth in GNP is compensated for by a high level of job creation. This approach was considered inappropriate as a means of safeguarding and developing the European social model, since it is based on a "clear trend towards lower-paid jobs" (ibid. p. 50). Instead, the Commission argues for "radical change, but not simply the deregulation of the European labour market. Rather, what is needed is a new, sensible and simplified structure for regulating and offering incentives." (ibid. p. 150). Furthermore, it says that in the interest of improving the rate of return on investments, real wages should on average increase by one percentage point less than the increase in productivity. The White Paper talks of the "need for further wage restraint". This is something that the Commission has been repeating for several years in its recommendations on the basic guidelines for member states' economic policy, and is of course closely tied to the monetary convergence criteria agreed in Maastricht (Commission 1998).[5]

The employment policy priorities agreed at the Essen Summit in 1994 marked a first qualitative step forward for European employment policy. The Essen Summit endorsed the view expressed in the Commission's White Paper that economic growth alone would not suffice to solve the problem of unemployment in Europe. Member states were therefore urged to launch long-term programmes aimed at modernising their labour markets, based on the following five main employment policy priorities:

- Promoting investment in vocational training
- Increasing the job intensity of economic growth
- Reducing non-wage labour costs
- Moving from a passive to an active labour market policy
- Increasing efforts to help disadvantaged groups in the labour market.

The Commission was charged with "assessing" member states' actions in this respect on the basis of annual progress reports. There were undoubtedly some initial success stories, but at the same time there was a tendency amongst many member states, given the pressure to meet the convergence criteria and in the light of the Essen priorities, to give priority to further deregulation of the labour market and the gradual dismantling of their social security systems. Ultimately, what was lacking was a series of binding quantitative and qualitative targets.

These binding targets were to arrive at the "extraordinary EU Employment Summit" in November 1997. The summit had been preceded by the inclusion of a chapter on employment in the Treaty of Amsterdam - something the unions had been calling for for some time (European Trade Union Institute 1996). This provided a formal basis for the development of a coordinated European employment strategy (Article 125).

According to the provisions of the treaty, the Council, acting on proposals from the Commission, has the task of approving annual employment policy guidelines by a qualified majority vote. Member states must take these guidelines into account when implementing their national employment policy. They must also present an annual report to the Council and the Commission in which they give details of the principal steps that have been taken to implement these employment policy guidelines. The member states have their employment policies assessed on a yearly basis, and as a result of these assessments the Council can approve recommendations for the member states on the basis of a qualified majority vote. The chapter on employment also considerably strengthened the role of the social partners by providing for their involvement in the drawing up, implementation and evaluation of the employment policy action plans. This creates the conditions for a framework for regulating European labour markets that would transcend the limitations of regulation at a national level. This new instrument also provides an opportunity to limit the threat of a potentially disastrous race between member states to cut social security costs and deregulate, and indeed to counter it by developing an innovative regulation policy.

[5] This wages policy recommendation is already being implemented in several member states without any particularly active European coordination of wages policy having been undertaken by the unions. In some cases the real wage increase was more than one percentage point behind the increase in productivity (Fajertag 1998). See also section 1.1.

At the employment summit in November 1997, European Commission submitted the first set of employment policy guidelines which contain concrete ideas with regard to an innovative new way of regulating the European labour market. They are centred around four key points:

- Improving employability.
- Promoting entrepeneurship.
- Encouraging adaptability amongst companies and their employees.
- Intensifying measures to promote equal opportunities between women and men.

Not only are the Commission's guidelines remarkably coherent compared to the White Paper and the Essen Summit's employment policy priorities, but for the first time in the history of European employment policy they also contain quantitative targets. The first of these is for unemployed adults to be offered either a job, a place on a training or retraining scheme or some other assistance designed to help them get back to work before they have been unemployed for twelve months. The second is that the same things should be offered to young unemployed people before they have been out of work for more than six months. "Promoting entrepreneurship" picks up on the Essen employment policy priorities by calling for the tax system to be made more employment-friendly and for a reversal of the long-term trend towards higher taxes and other levies on labour. In Europe, tax rates rose from an average of 35% in 1980 to over 42% in 1995. Every member state is to set targets for a gradual reduction of taxes and levies, taking into account current levels, with particular emphasis being placed on cutting income tax and non-wage labour costs for low-skilled and poorly paid jobs. The European trade unions have more than welcomed this proposal, indeed it is something they specifically called for at the 9th Annual ETUC Congress.[6]

Moreover, the possibility of lowering V.A.T. on labour-intensive services that are not subject to transnational competition is to be looked into (Foden, Magnusson, 1999), although this was not established as a binding commitment.

The first evaluation of European employment policy since Amsterdam was made at the Vienna Summit in December 1998, and the incoming German Presidency was charged with drawing up a European Employment Pact.[7]

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6 In Germany, similar suggestions made in the context of the alliance for jobs led to considerable controversy.

7 The idea of a European employment pact had already been revived in the SPD's START programme during the German election campaign, and it reappears in the 1998 coalition pact between the SPD and Alliance 90/the Greens. The idea of charging the German Presidency with drawing up an employment pact was formally suggested in a joint letter from German Chancellor Gerhard Schröder and French president Jacques Chirac to the then president of the European Council, dated 8 December 1998. The letter argues that in the future the governments of the member states should commit themselves to binding and verifiable targets for the employment policy guidelines, not only in the case of youth and long-term unemployment but also, for example, with a view to ending discrimination against women in the labour market. The letter goes on to say that "common minimum environmental standards are needed, as well as progress in taxation and social policy, to prevent particularly unfair tax practices and social dumping". It proved impossible to win the support of British prime minister Tony Blair for this initiative.

3. Prospects for a European Employment Pact

As we have shown, concerted employment initiatives or pacts are not a new phenomenon in Europe and since the mid-1980s have played an increasingly important role in the reform of the labour market in several countries. In the Federal Republic of Germany this type of cooperation dates back to the time of the Concerted Action meetings between the economics minister and the social partners which took place on a regular basis between 1968 and the middle of the 1970s. Initiatives have also been seen at European level since the early 1970s and the EU White Paper specifically recognised the need for European social partnerships. However, the then President of the Commission, Jacques Delors, was unable to win enough support at the time to implement his vision of a European employment pact. After IG-Metall president Klaus Zwickel had launched an initiative to create a German employment pact at the IG-Metall conference in November 1995, Commission President Jacques Santer revived the idea at European level. In January 1996 he presented his plan for a European pact to the European Parliament. It was based on three main elements: a macro-economic policy mix, an active European structural policy and new initiatives in the area of social dialogue, in which the social partners would play a particularly important role.

Santer was unable to push through one of his main proposals, however. He wanted to use the surplus funds from the EAGGF that were available at the time to finance trans-European networks. This proposal was unanimously rejected by Europe's finance ministers, since they wanted to use the surplus to balance their budgets with a view to meeting the Maastricht convergence criteria. Despite this, a number of partial successes were achieved, for example in the case of EU-funded local employment initiatives. To date, 89 local employment initiatives have been started with assistance from the Structural Funds (Spineux et al., 1999). The field of social dialogue, too, has seen the first partial successes which could contribute to a reform of the regulation of European labour markets. These include the framework agreement on part-time work passed as an EU Directive on 15 December 1997 and which must be translated into national law by 20 January 2000. In addition, the framework agreement between the ETUC, UNICE and the CEEP on fixed-term contracts was passed by the Council as a Directive on 28 June 1999, and the social partners have reaffirmed their intention to look into similar agreements on other types of flexible working practices.[8] This means that initiatives to regulate atypical forms of employment, something which the Commission had been putting forward since the beginning of the 1980s and which had always been blocked because of opposition within the Council, have now been at least partly implemented (Mückenberger 1993). The European Trade Union Confederation in particular is of the opinion that there are several issues that could be negotiated at a European level and which could be included in a European employment pact, for example agreements on temporary work, teleworking or lifelong learning.

The European Employment Pact agreed in Cologne in June 1999 follows on from all these past experiences and at the same time goes some way beyond them. It is conceived as a long-term initiative - something which is undoubtedly necessary if we look at what happened at a national level - and embraces three mutually interdependent processes. The first involves coordination of economic policy and improving the interaction between wages policy and monetary, budgetary and financial policy by means of a macro-economic dialogue. This dialogue is

[8] For a detailed discussion of both framework agreements, see Dürmeier 1999 and Clauwaert 1999. For the sake of completeness, the first European framework agreement on parental leave which dates back to 1997 should also be mentioned.

intended to contribute towards generating long-term non-inflationary growth (Cologne Process) . The second involves developing and improving the implementation of the coordinated employment strategy begun in Luxembourg and is known as the Luxembourg Process. Finally, the Cardiff Process seeks to bring about far-reaching structural changes and modernisation with a view to promoting innovation and increasing the efficiency of the markets in goods, services and capital.

Since we already have some preliminary experience with regard to the Luxembourg Process (1997) and the Cardiff Process (1998), the truly new element in the European Employment Pact is the macro-economic dialogue. This is intended to make the Luxembourg Process more effective by setting additional measurable targets. Amongst other things, the Commission is due to launch a project in 1999 entitled 'Peer Review of Proven Procedures', aimed at establishing a sound basis for future evaluations of national action programmes. This will involve developing common indicators and methods of obtaining directly comparable statistics. Furthermore, renewed emphasis is being placed on the fact that the economic reforms geared towards boosting competitiveness should be accompanied by a social dialogue.

However, the third pillar of the European Employment Pact, known as the Cologne Process, is designed to reduce as far as possible the tension between wages policy and financial and monetary policy. The planned cooperative macro-economic dialogue is also intended to involve the European Central Bank (ECB), without putting its independence in jeopardy or seeking to call into question the autonomy of the social partners. The ultimate aim of this is to ensure that wages policy evolves in a sensible manner that will enable the goal of long-term non-inflationary growth to be achieved. Although the intended effects on employment policy are by no means guaranteed, the fact that monetary policy is included in the dialogue - something that the unions have repeatedly demanded (Gabaglio 1999) - means that there is cause for optimism. However, this means that the unions urgently need to coordinate their wages policy at a European level, not only to avoid the growing danger of wage dumping but also so that they can do justice to their new European-level role in the macro-economic dialogue.

There are clear signs that moves are afoot to coordinate wages policy at a European level (Kuhlmann 1999, Schulten 1999). Indeed, the prospects of such coordination were discussed at length at the 9th Annual ETUC Congress in Helsinki in July 1999 (ETUC 1999). A future European coordination structure should serve firstly to guarantee that inflation is incorporated into pay rises and secondly to make the most of the income opportunities afforded by productivity gains. A productivity-linked wages policy coordinated at European level would offer a chance to prevent any repetition of the reductions in real income that many countries have had to accept over the last few years. It would also serve to halt the trend towards the kind of increasingly competition-driven wages policy that has been pursued de facto not only in the smaller EU countries but also in Germany. At the same time, this European coordination structure would leave sufficient scope for employment policy measures still to be taken at a sectoral and national level, since productivity gains need not only be used for pay rises but should indeed also be used to reduce working time, for training, or for other measures designed to protect jobs. The main problem with this is likely to be the extent to which the "employment-related commitments" are binding and verifiable. In any case, a wide-ranging exchange of information and experiences between the countries of Europe is needed, and the European Employment Pact could provide a highly suitable framework for this purpose. Nonetheless, such a strategy would come to nothing if agreements were made in the context of national employment pacts that were not in line with the European-level policy.

Yet again we can see how closely national reforms are linked to European employment policy. National social pacts usually strengthen bargaining power at national level, particularly with regard to wages policy. Wage guidelines that take other countries' agreements as their upper limit can increase the social partners' bargaining power by strengthening the unions at a national level. This means that national social pacts are no obstacle to an employment policy coordinated at a European level and under certain circumstances can even serve to prepare the ground for such a policy.

The architecture of the European Employment Pact makes it clear that it is certainly not simply a neo-liberal strategy for bringing wages down nor is it by any means confined to issues relating to income. Rather, the thinking behind it is based on the experience gained with national pacts, and it therefore seeks to expand the range of topics discussed in order to improve the chances of reaching a compromise (Traxler 1997). In doing this, it recognises that wage restraint is far from being the only instrument that can be used to fight unemployment. On the contrary, it is clear that there is a whole range of political measures that can be taken to tackle this problem, in areas such as taxation policy, industrial and structural policy, training, working time, work organisation etc. The crucial question is which of these measures should be included as part of an intelligent policy mix within the European Employment Pact. The issues included for discussion should be ones that can no longer be resolved by individual member states, meaning that there is a clear added value to be obtained from addressing them at a European level. The long-term, European-level approach of the Cologne Process also promotes better understanding between the major players in the field of employment policy. A European Employment Pact that takes into account all the different national, regional and plant-level experiences could pave the way for a reform that would be flexible enough to keep a high level of social cohesion whilst still maintaining competitiveness on world markets (Hoffmann, Hoffmann 1997 b).

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