SOCIAL PACTS IN EUROPE

Alexandra Pizzuto*

Abstract. This paper describes the evolution of social pacts in European countries since the post-war period, as conditioned by the changing economic, social and political environments. The requirements necessary for the successful implementation of a social pact are also discussed. The credibility of the policies to be implemented is singled out as a major requisite in this regard.

Introduction

A social pact is a method of policy implementation within democratic countries based on concertation between the social partners. As a result of negotiations between the government, employee unions, the business community and sometimes civil society, an agreement is drawn up incorporating a list of measures to be implemented. Social pacts are often considered to be a more effective method of policy implementation than collective bargaining, since they involve an agreement between the major economic and social players within a given country.

Social pacts in European countries developed as a result of the awareness by the main economic actors, namely the government, employers’ associations, and employee unions that in order for economic and social policies to be implemented effectively, a general acceptance of the need for these policies must exist.

This paper gives an insight into the factors which brought about the creation of social pacts since the post-war period in European countries. It briefly describes the major economic, social and political changes which brought in their wake changes in the content and main thrusts of social pacts.

* Alexandra Pizzuto is a Research Officer at the Malta Council for Economic and Social Development. The views expressed in this paper are those of the author and do not necessarily reflect those of the Malta Council for Economic and Social Development or any of its members.
The Evolution of Social Pacts

The content of social pacts in Europe has changed over the decades, particularly since the post-war period, as a result of changing economic, social and political conditions and this has led to different policy approaches.

During the post-war period, considerable effort was directed towards the reconstruction of the infrastructure which was destroyed during the war and towards the rebuilding of the economy. As a result, during the 1960s and 1970s Western Europe experienced rapid economic growth, low unemployment rates and rising wage rates. Most social pacts agreed upon in that period were directed precisely towards limiting wage increases to contain inflation. Wage moderation was often “traded off” in exchange for improvements in social protection (Hassel and Ebbinghaus, 2000). During this period, full or near-full employment strengthened trade union bargaining power, and this resulted in high levels of union membership and militancy, widespread industrial conflict, and unsustainable claims for wage increases (Goetschy, 2000). This led to new developments in social pacts whereby governments attempted to achieve moderation in wage increases by extending social benefits in return.

Welfare benefits, however, soon became acquired rights, deeply entrenched and consequently difficult to remove or reduce. During the 1980s and 1990s, the opening up of markets and the consequent need for international competitiveness made it harder for governments to raise taxes in order to finance social security costs (Hassel and Ebbinghaus, 2000). At the same time, social expenditure was pushed further by rising unemployment and demographic changes, limiting the governments’ ability to “trade off” wage moderation with extension of social benefits. For this reason, a number of European governments attempted to obtain a broad consensus with the employee unions and the business community. Social concertation was therefore sought for two reasons, namely to gain legitimacy for unpopular welfare restructuring and to overcome institutional veto positions by the social partners.

The accelerated pace of the globalisation process and the establishment of Economic and Monetary Union (EMU) continued to limit governments’
ability to independently conduct fiscal and monetary policy. In addition, the establishment of the single market in 1992, coupled with the globalisation process, exposed companies to enhanced competition, which, in the eyes of employers justified reductions in wage costs and greater labour market flexibility. These realities in turn limited the trade unions’ ability to wrench advantageous deals in the negotiations with the government from business.

EMU was a catalyst for the signing of social pacts and the carrying out of necessary adjustments to industrial relations. EMU itself can be considered as an economic pact with social implications, aiming at low inflation and a stable currency while keeping public deficits under control. The social pacts enacted the so-called “Maastricht criteria” impose external restraints which have a bearing on social pacts.

Irrespective of developments linked to European integration and the globalisation process, it became a matter of urgency for most European countries to reform their social protection systems. The viability of pensions systems were called into question mostly as a result of ageing populations and rising unemployment rates, which were plunging social protection funding arrangements into deficit.

The social pacts in the 1990s as a result tended to be different from those in previous decades as they rarely included any new social benefits in exchange for wage moderation and incorporated more long-term welfare gains to labour in the form of possible job creation. In contrast to the income policies of the 1970s, social pacts of the 1990s had a different macroeconomic rationale, with supply-side policies, aimed particularly at promoting competitiveness, being given more importance. In addition, the social paces of the 1990s often aimed at simultaneously addressing policies concerning employment, wages, flexibility of labour, social protection and taxation.

In recent years, EU Member States started to face new requirements associated with the Lisbon Agenda targets which are aimed at making the EU “the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion” by 2010 (European Council, Lisbon, March 2000). This is bound to have a bearing of social pacts.
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In spite of these developments, employee unions still have a major say in EU member states. Governments generally prefer to introduce welfare reforms by consensus and consultation. Striking a deal with unions on welfare reform may also be a means to prevent a negative spill-over from social policy into wage bargaining. Given the constraints on public finances as a result of the Maastricht criteria, welfare reform today is part of a larger employment creating strategy requiring adjustments in wage formation, social security, taxation, employment regulation and educational, and the collaboration of employee unions in these matters remains important for governments.

The Contents of Social Pacts

Various European countries have adopted social pacts for policy making and implementation over the years. In some countries, social pacts can be traced back to the post-war period. As already explained, the rationale for the drawing up of social pacts has changed over the decades. The need for drawing up social pacts may have gained increasing importance in recent years due to the risks which many countries are facing as a result of the globalisation process.

Although social pacts have not always led to the achievement of the desired outcomes, there are a number of success stories. The case of Ireland is often cited as a case in point. Ireland has gained substantially from the drawing up and implementation of social pacts since the 1980s, and it has been argued that as a result the country was able to reap the full benefits of EU accession, including the rapid increase in its GDP per capita which was merely 70% of EU average prior to EU accession and is currently about 140%.

A number of social pacts, drawn up by twelve different countries¹ were analysed for the purpose of this paper. Fifty five such pacts were considered in this study. The themes that featured most frequently in these pacts are the following, in order of importance:

¹ Social pacts from the following countries were covered in this study (numbers in brackets refer to the number of pacts considered in the respective country): Austria (1), Belgium (5), Czech Republic (1), Finland (8), Ireland (6), Italy (6), Lithuania (1), Netherlands (6), Poland (2), Portugal (10), Slovenia (3), Spain (6).
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1. Stimulation of employment and economic activity
2. Reforms in wages policy
3. Reforms in social welfare (pensions and health)
4. Development of human capital
5. Changes in taxation and government expenditure
6. Income redistribution
7. Meeting the challenges of Economic and Monetary Union
8. Strengthening legislative structures

The topics which featured most prominently within the pacts analysed relate to the stimulation of employment and economic activity, reforms in wages policy and development of human capital. The recently enacted pacts tended to tie these topics with the globalisation challenge and competitiveness. The general view in these pacts is that competitiveness should not be promoted at the expense of workers’ welfare.

The human capital element refers to education, health and pension schemes, which are of major social importance. The “taxation and government expenditure” theme is also a common feature in European social pacts. As is well known, the ageing population in many countries has put great pressure on government finances, and this reality is being increasingly referred to in social pacts.

A number of these pacts have also included measures which relate to requirements imposed by the EU, particularly those in connection with the Economic and Monetary Union (EMU). The Maastricht Treaty incorporates a set of measures which must be achieved by all members of EMU, relating mainly to the levels of the long term interest rate, inflation rate, exchange rate stability as well as fiscal balance and the containment of government debt. However the Maastricht Criteria per se do not feature in many of the pacts analysed, either because the pacts were adopted prior to the creation of the Maastricht Treaty or because they relate to countries that only recently became members of the EU which did not have to abide by such regulations at the time of implementation.

There is a degree of heterogeneity in the Social Pacts considered for this study; mainly in the policy areas covered, in the type of signatories, as well as in the level of success of the pacts enacted.
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A number of social pacts covered just one or two areas such as the case of Spain, and in certain cases, the Netherlands and Finland. Other countries implemented social pacts which were more comprehensive in terms of coverage, with some aimed simultaneously at eight or nine areas. These included those of Ireland, Slovenia and in certain cases Portugal.

However, one might mention that those countries that adopted pacts which were not so broad-based, carried out concertation and agreements on a more frequent basis. This was the case, for example, of Spain, which had various social pacts focusing on merely one or two areas, as well as Finland, which very often dealt with merely incomes policy agreements within their pacts.

Ireland and Finland were perhaps among the countries to have been most consistent over the past couple of decades to enact such pacts for 2-3 year terms. Ireland, since 1988, has drawn up 6 social pacts, in each case covering a three year period, whereas Finland since 1990 has carried out a social pact almost every two years, each time for a two year term. The extent of the coverage of each area may also differ from one social pact to the next, since an area may have been targeted in more depth by some countries than by others.

The type of signatories may also differ within the social pacts, mainly reflecting the economic and social council composition of the respective country. For instance, the social pacts enacted in Belgium, Austria, and the Netherlands were carried out through bipartite agreements, between the unions and employer representatives, given that the government is not represented on the council. However, generally this study tackled social pacts which were enacted following tripartite concertation, between government, union and employer representatives.

Not all social pacts have, however, been successfully implemented. Portugal and Italy had three social pacts respectively that were considered to have failed in their implementation mainly due to the fact that one of the main signatories, in both cases being the largest trade union of the country, failed to sign the agreement. The implementation of the social pacts was still attempted given that these two countries do not need a unanimity vote for bills to be accepted. However, their success was jeopardised following the lack of commitment by all social partners.
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The Criteria for the Success of Social Pacts

The drawing up of a social pact per se need not bring about improvements in drawing up and implementing economic and social policies. Their success depends on a number of criteria, including credibility, continuity, concreteness and wide coverage.

Credibility

Credibility is an indispensable condition if economic policy is to be taken seriously within a country. Towards this end, it is necessary that the government shows itself able and willing to implement the policy in question and fully commits itself to do so. Social dialogue is likely to improve the credibility of policies because such dialogue improves the chances of acceptance by consensus and also draws on a wider pool of knowledge. It is sometimes wrongly assumed that the government knows best when it comes to drawing up and implementing policies – in reality government may at times by excessively politically motivated (Persson and Tabellini, 1990).

In addition employers associations and employee unions often possess knowledge which could be effectively tapped through social dialogue. It can therefore be argued that it is desirable that reforms be negotiated through social pacts and not pushed through by governments unilaterally.

Another factor fostering credibility is steadfastness of the policy makers. Often political pressures lead to decisions to reverse a previously announced programme. A social pact which makes policy reversals difficult, therefore, tends to improve credibility in itself and in the related policies.

Continuity

The stability and quality of social pacts are likely to be superior in cases where such pacts are concluded on a regular basis, since their recurrence fosters the development of mutual trust and enables the relative gains to be assessed over a longer time-frame. In a country where the pact is a one-off or a sporadic event, these are likely to be associated with a lesser degree of trust, as the costs and benefits are measured in a “short run” context (Marin, 1990).
Concreteness

The effectiveness of social pacts is likely to be undermined when concertation only results in general policy statements, without concrete agreements, and without strong commitments by the social partners. For this reason it is important that such agreements specify time frames or “deadlines” for the fulfilment of proposed reform steps or measures.

Wide Coverage

Pacts which cover a wide range of issues of importance for governance, economic development and employee welfare are likely to be more successful that those which cover a narrow range. The main reason for this is that broad coverage presents more opportunities for trade-offs and also improves the chances of an integrated approach.

These criteria are likely to render social pacts effective in achieving the desired outcomes and can positively generate a culture of consultation and social concertation, thereby contributing to the cultivation and consolidation of a climate of cooperative negotiation and mutual trust. New concertation processes can result in virtuous cycles, in which problem-oriented negotiations can contribute to effective problem-solving. Absence of the criteria just listed can lead to unsuccessful outcomes, sparking off vicious cycles of mutual distrust and conflicts (Siegel, 2003).

Concluding Remarks

This paper discussed the evolution of social pacts in Europe and drew a number of lessons from existing social pacts which could be useful for Malta. There is of course no guarantee that social pacts will result in better policy making within a country, but effective social dialogue and concertation has a better chance of ushering in reforms to the satisfaction of all parties concerned.

A number of criteria on which a successful social pact should be based were identified, with credibility being considered as a major requisite in this regard.
References


