

Alexandre Afonso

CHANGING WELFARE STATES

# Social Concertation in Times of Austerity

EUROPEAN INTEGRATION AND THE POLITICS OF LABOUR  
MARKET REFORMS IN AUSTRIA AND SWITZERLAND



A M S T E R D A M   U N I V E R S I T Y   P R E S S

# **Social Concertation in Times of Austerity**

**European Integration and the Politics of  
Labour Market Reforms in Austria and  
Switzerland**

Alexandre Afonso

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# Table of Contents

<b>List of Tables and Figures</b>	7
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<b>List of Abbreviations</b>	9
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<b>Acknowledgements</b>	13
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<b>1</b>	<b>The Strange Survival of Social Concertation in Times of Austerity</b>	15
1	The Puzzle	15
2	The Argument in Brief	20
3	Outline of the Book	22
<b>2</b>	<b>Social Concertation as a Political Strategy</b>	25
1	Gone with the Wind? The Transformations of Corporatism in Europe	25
2	Describing and Explaining Social Concertation	36
3	A Theory of Political Choice for Social Concertation	44
4	Summary	52
<b>3</b>	<b>European Integration, Domestic Politics and Social Concertation</b>	53
1	Internationalisation and Social Concertation: A Prelude	54
2	The Dynamic of Supranational Market-Making in the EU	56
3	The Contested Impact of European Integration on Social Concertation	58
4	European Integration and the Politics of Social Concertation	63
5	Summary	73
<b>4</b>	<b>Methods and Cases</b>	75
1	Measuring Social Concertation	75
2	Explaining Social Concertation: Process-Tracing	77
3	Explaining Social Concertation: Comparing Cases	80
4	Strategies of Data Collection	88
5	Summary	89

<b>5</b>	<b>The Context of Social Concertation in Switzerland and Austria</b>	<b>91</b>
1	Switzerland: Veto Points, Right-Wing Dominance and the Emergence of the Swiss People's Party	93
2	Austria: Corporatism and the Exhaustion of "Proporz"	103
3	Summary	109
<b>6</b>	<b>Social Concertation and Cross-Border Labour Mobility</b>	<b>111</b>
1	Cross-Border Labour Mobility and EU Enlargement	113
2	Austria: Cross-Class Consensus Under a Common Threat	120
3	Switzerland: The Strong Weapons of the Weak	132
4	Summary	154
<b>7</b>	<b>Social Concertation and Unemployment Policy Reforms</b>	<b>155</b>
1	The Politics of Unemployment Policy	156
2	Austria: The Limits of Unilateral Policymaking	159
3	Switzerland: Welfare State Retrenchment and the Radical Right-Wing Push	174
4	Summary	193
<b>8</b>	<b>Synthesis and Comparative Outlook</b>	<b>195</b>
1	Assessing Explanatory Variables	195
2	Limitations and Comparative Evidence	201
3	Conclusion: Securing Consent in Times of Austerity	211
	<b>List of Interviews</b>	<b>215</b>
	<b>Notes</b>	<b>217</b>
	<b>References</b>	<b>223</b>
	<b>Index</b>	<b>253</b>

## List of Tables and Figures

### Tables

Table 1	Authority Index (0-1) of Trade Unions in Wage Bargaining in eight countries, 1960-2000	30
Table 2	Summary of Case Selection	87
Table 3	Share of Seats of the main parties in the Austrian Nationalrat, 1986-2008	105
Table 4	GDP per capita in the EU 25, EFTA and candidate countries in PPS, 2004. Average: 100	117
Table 5	Agendas of “orthodox” unemployment policy reforms	157
Table 6	“Concertation scores” of policy reforms	195

### Figures

Figure 1	Collective Bargaining Coverage in eight countries, 1960-2000	31
Figure 2	Trade Union Density in eight countries, 1960-2009	33
Figure 3	Index of Strike Activity in eight countries, 1960-2009 (decade averages)	34
Figure 4	Index of Routine Involvement of Social Partners in Policymaking, seventeen countries, 1960-2010	37
Figure 5	Parliamentary Representation of Populist Right-Wing Parties	71
Figure 6	Distribution of Seats in the Swiss National Council, 1987-2011	98
Figure 7	Standardised unemployment rate, Austria, Switzerland and European Union, 1993-2009	164

## List of Abbreviations

ABVAKABO	Public Sector Union (Netherlands)
AK	Chamber of Labour (Austria)
AMS	Public Employment Service (Austria)
AVRAG	Law on the Adaptation of Labour Law (Austria)
BAK	Austrian Chamber of Labour
BMWA	Federal Ministry for Economy and Employment (Austria)
BZÖ	Alliance for the Future of Austria
CDA	Christian Democratic Appeal (Netherlands)
CDU	Christian Democratic Union (Germany)
CHF	Swiss Francs
CLA	Collective Labour Agreement
CME	Coordinated Market Economy
CSU	Christian Social Union (Germany)
CVP	Christian Democratic Party of Switzerland
DCP	Draft Common Position
DG	Directorate General
DGB	German Trade Union Federation
EC	European Community
ECJ	European Court of Justice
EEA	European Economic Area
EES	European Employment Strategy
EFTA	European Free Trade Association
EIRO	European Industrial Relation Observatory
EMU	Economic and Monetary Union
ERT	European Round Table of Industrialists
ETUC	European Trade Union Confederation
EU	European Union
FDP	Free Democratic Party (Switzerland)
FNV	Dutch Trade Union Confederation (Netherlands)
FPÖ	Freedom Party (Austria)
GBI	Construction and Industry Trade Union (Switzerland)

GDP	Gross Domestic Product
GPA	Union of Private Sector Employees (Austria)
HSV	Union of Social Insurance Agencies (Austria)
ICTWSS	Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts
IMES	Federal Office of Migration and Integration (Switzerland)
ITF	International Transport Workers' Federation
IV	Industrial Union (Austria)
LACI	Law on Unemployment Insurance and Insolvency (Switzerland)
LME	Liberal Market Economy
LPF	List Pim Fortuyn (Netherlands)
MP	Member of Parliament
NAP	National Action Plan
NEAP	National Employment Action Plan
NGO	Non-Governmental Organisation
NMS	New Member States of the European Union
OECD	Organisation for Economic Cooperation and Development
ÖGB	Austrian Trade Union Confederation
OMC	Open Method of Coordination
ÖVP	Austrian People's Party
PDC	Swiss Christian Democratic Party
PES	Swiss Green Party
PP	People's Party (Spain)
PPS	Power Purchase Parities
PRR	Populist Radical Right
PRRP	Populist Radical Right Parties
PSOE	Social Democratic Party (Spain)
PVV	Freedom Party (Netherlands)
RAV	Regional Employment Office (Switzerland)
SAV	Swiss Employers' Union
SECO	State Secretariat for Economic Affairs (Switzerland)
SGB	Swiss Trade Unions Federation (in German)
SGV	Swiss Union of Small Business and Craft (in German)
SME	Small and Medium Enterprises
SMUV	Union of Metalworkers and Watchmakers (Switzerland)
SPÖ	Austrian Social Democratic Party
SPS	Swiss Social Democratic Party
SVP	Swiss People's Party (in German)
UDC	Swiss People's Party (in French)

UK	United Kingdom
UNICE	Union of Industrial and Employers' Confederation of Europe
UPS	Swiss Employers' Union (in French)
USAM	Swiss Union of Small Business and Craft (in French)
USS	Swiss Trade Union Federation (in French)
VOC	Varieties of Capitalism
VVD	Party for Freedom and Democracy (Netherlands)
WIFO	Austrian Economic Research Institute
WKÖ	Economic Chamber (Austria)



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## 1 The Strange Survival of Social Concertation in Times of Austerity

### 1 The Puzzle

In December 2008, when the president of the trade union confederation ÖGB, Rudolf Hundstorfer, became the new Austrian minister for social affairs, the magazine *Profil* presented his career move as a “deliberate downgrade”. In Austria, the magazine argued, the head of a social partner organisation ranked higher than a minister (Profil 2009). Along similar lines, the general secretary of the Dutch trade union confederation FNV, Agnes Jongerius, was described in *de Volkskrant* as the “real” minister for social affairs of the Netherlands. In the words of the leader of the liberal party VVD Mark Rutte, who would later become Prime Minister, the actual minister in office was nothing more than her *hulpsinterklaas*, a look-alike dressed like Santa Claus who is not the real Santa Claus (de Volkskrant 2009). Finally, a Swiss trade unionist interviewed in September 2011 argued that the president of the business association *Economiesuisse* was “worth three ministers” in terms of his influence on policy decisions in Switzerland. Given that the Swiss federal government only counts seven ministries, it was clear who “called the tune” in this country (Le Temps 2011).

Even if these statements may be exaggerated, they nevertheless highlight the central role that trade unions and business associations still play in the political systems of many European countries, especially when it comes to welfare and labour market policies. Negotiations between governments, labour and business representatives – or *social concertation* – influence many important policies such as the mandatory age of retirement, the strictness of employment protection, the extent of wage increases, or the level of unemployment benefits. Insofar as these negotiations determine *whose interests* are taken into account and prioritised in policy reforms, they decisively shape the setup of welfare states and labour markets in Europe. They influence the distribution and redistribution of wealth, the degree to which workers are protected against social

risks such as unemployment, sickness and poverty, and are believed to strongly influence economic performance. For instance, agreements between organised labour and employers have been considered central in paving the way for the employment “miracles” that countries such as the Netherlands or Ireland experienced in the 1990s and 2000s (Baccaro & Simoni 2007; Visser & Hemerijck 1997). At the same time, trade unions are often accused of defending particularistic interests, thereby hindering the adaptation of welfare states and labour markets to the imperatives of a globalised economy. Economists essentially view organised interests as “rent-seeking” organisations reaping benefits for their members to the detriment of the common good (Olson 1982).

Because trade unions and employers are major veto players in welfare and labour market reforms in many countries, the absence or failure of negotiations between governments and organised interests can hinder or even jeopardise these reforms altogether even if they are supported by majorities in parliament. Hence, many examples show that reforming *against* organised interests is always a politically risky exercise. In France, for instance, Alain Juppé’s attempt to increase the minimal time of contribution for public sector pensions in 1995, or the introduction of a new type of flexible employment contract (the *Contrat Première Embauche*) by Dominique de Villepin in 2006 were met with massive street protests led by trade unions and civil society organisations, and were subsequently withdrawn or substantially watered down. Even in a country believed to be a model of “consensus democracy” like Switzerland, a change in the benefit rate of occupational pensions supported by two-thirds of the Swiss parliament was challenged in a referendum by trade unions in 2008, and 72 per cent of Swiss voters refused the reform. In the 1960s already, Norwegian political scientist Stein Rokkan argued that “however weighty the decisions of electoral majorities, nothing is likely to get settled without the consent and the participation of corporate groups controlling key resources” (Rokkan in Flora et al. 1999: 261).

This book seeks to understand why governments sometimes cooperate and seek agreements with trade unions and employers in policy reforms, and why at other times they choose to carry out reforms in a unilateral manner. This question is particularly important because the current socio-economic context can be considered fairly hostile for concertation, particularly when it comes to the interests of organised labour. Indeed, the context of contemporary labour market and welfare state reforms has changed radically since the times described by Stein Rokkan, when steady economic growth and full employment allowed powerful trade unions to

obtain substantial improvements in purchasing power or in social protection for their members (Katzenstein 1984, 1985; Lehmbruch & Schmitter 1982). In most countries, those days are largely over. If one considers that the power of trade unions relied upon their control over a large part of the workforce through their membership, its steady decline all over Europe should have removed incentives for governments to involve them. Between 1970 and 2008, the share of trade union members in the workforce dropped by 33 per cent in Austria, seventeen per cent in the Netherlands, thirteen per cent in Germany, and fourteen per cent in Switzerland. In 2008, only seventeen per cent of workers in the OECD were members of a trade union (Visser 2009). Besides, the bargains which typically underpinned “neo-corporatist” deals between social partners in the past have become ever more difficult to strike in a context of “permanent austerity” and internationalisation, characterised by European integration, globalisation, persistently higher levels of unemployment, population ageing and rising concerns about the long-term sustainability of welfare states. Paul Pierson (1998) argues for instance that we now live in a context in which the choice for governments is basically between welfare cutbacks or policy blockade. The recent Eurozone crisis, which has prompted many governments to cut spending in a dramatic manner, has probably made this statement even more pertinent today.

In spite of this unfriendly context, however, the willingness of governments to engage in social concertation with trade unions and employers is far from fading out, even if it has become less stable than in the past: concertation has emerged in countries where it was thought to be strongly hindered by institutional legacies, and has been challenged in countries where it used to be the norm (Berger & Compston 2002). Baccaro and Simoni (2008: 1327), for instance, show that 80 per cent of European governments were willing to negotiate welfare state reforms with trade unions and employers in 2000, while this share represented only 50 per cent in the 1970s. Between 1980 and 2006, there were nearly 160 attempts all over Western Europe to strike so-called “social pacts” between governments, labour and business about wage increases, pensions reforms, employment protection or disability benefits (Hamann & Kelly 2010: 1). Even in a country known for its strong state such as France, former President Nicolas Sarkozy promised in February 2010 that he would not increase the mandatory age of retirement without negotiating with trade unions and employers, because “pension reform is too important to not be carried out in a concerted and open manner, and drawing upon a shared analysis” with social partners (Le Monde 2010). At the same time, the role

of social partners in policymaking seems to have declined substantially in one of its traditional strongholds, Sweden (Lindvall and Sebring 2005).

In this book, I explore the changing political logic of social concertation with a close empirical investigation of labour market reforms in Austria and Switzerland, two countries where this process has traditionally played a very prominent role in shaping welfare and labour markets arrangements. In his now classic *Corporatism and Change*, Peter Katzenstein (1984) presented these two countries as paradigmatic cases where international economic vulnerability fostered highly institutionalised and stable patterns of cooperation between labour and capital in all major areas of socio-economic policymaking. Against this background, Austria and Switzerland can be considered *most likely* cases for the persistence of corporatist policymaking in Europe (George and Bennett 2005: 121). If governments in these countries fail to use concertation as a way of making policy, or if trade unions or employers are left out of the final policy bargains struck in parliament, one can expect substantial transformations in the occurrence and logic of social concertation also elsewhere in Europe. In particular, these two countries are used to exploring the impact of two “destabilising” factors for social concertation, namely European integration and changes in party competition.

First, European integration is considered to have had a major impact on the relationships between governments and organised interests at the domestic level, even if the nature of this impact remains ambiguous. While Katzenstein considered international economic interdependence as an incentive for domestic concertation, European integration has taken away many tools of macro-economic steering that constituted the backdrop of neo-corporatist arrangements in the past. In the aftermath of the Single European Act, prominent scholars argued for instance that European integration would “cut the currency of power resources” for the social partners because competences in economic policymaking would be shifted away from the domestic sphere (Streeck & Schmitter 1991). European integration would undermine corporatism because it also undermined the power of the state in social and economic regulation; since there would be nothing left to bargain about at the domestic level, corporatism would become a hollow shell. On the other hand, however, European integration has later been believed to *strengthen* the cooperation between the state and organised interests by increasing the need for domestic governments to coordinate multiple macroeconomic objectives. For instance, it has been understood as the main trigger behind the emergence of “social pacts” in countries like Spain, Portugal or Italy in the 1990s and 2000s,

whose institutional and political context was hitherto believed to be insuperably hostile to social concertation (Fajertag & Pochet 2000; Grote & Schmitter 1999). This piece assesses the impact of European integration on social concertation by comparing a strongly Europeanised policy sector (the regulation of cross-border labour mobility after the latest enlargements of the European Union) with a more strictly “domestic” policy sector (unemployment policy). Following a similar logic, I compare a member state (Austria) with a non-member state (Switzerland), even if the extent to which Switzerland can be considered a “control” case for the impact of European integration is not clear-cut.

Second, changes in patterns of party politics have also been considered to strongly affect social concertation. In the past, the cooperation of governments, trade unions and employers in policymaking drew upon stable relationships between organised interests and political parties enjoying a stable core of support amongst voters. Traditionally, social democratic parties have been close allies of trade unions, and conservative and liberal parties could relay business interests within the political sphere. However, the last 30 years have witnessed a steady weakening of those traditional political parties in many Western European countries, and the emergence of new political forces. The most prominent development in this respect has certainly been the rise of “national-populist” radical right-wing parties with a clear anti-establishment political agenda (Mudde 2007). In many respects, this development is connected to European integration, as it has been analysed as the result of a new cleavage between “losers” and “winners” of internationalisation which cuts across the class divide (Kriesi et al. 2008). In contrast to the idea put forward by Katzenstein, according to which internationalisation strengthens domestic cooperation between social forces, it can also create new conflicts which may undermine corporatist strategies of policymaking.

In this book, I analyse how these developments have affected the participation of organised interests in policymaking, and the ability of parties and social partners to strike compromises. To that end, Austria and Switzerland are also prime examples to analyse the impact of those new political forces on social concertation. If national-populist parties have become important electoral forces in many countries of Western Europe such as France, Italy, the Netherlands or Denmark, Austria and Switzerland are the only countries where national-conservative parties have actually outvoted their centre-right counterparts at some point in time (McGann & Kitschelt 2005: 148). The Swiss SVP and the Austrian FPÖ and BZÖ taken together represent about 30 per cent of votes. Through a comparison of

social concertation strategies by governments across time and across issues, the impact of different party coalitions on social concertation can be assessed.

## 2 The Argument in Brief

This book proposes a framework to explain why governments sometimes choose to include and seek compromises with organised interests over policy reforms, and why sometimes they do not. In contrast to existing analyses explaining the persistence of concertation as a functional or structural response to a set of macro-economic problems, I explicitly focus on the *party-political* interests which underpin this government strategy (Ahlquist 2010; Baccaro & Simoni 2008; Hamann & Kelly 2010). Hence, one of the main arguments is that governments do not involve organised interests in policymaking because of functional mechanisms (because of the problem load they have to deal with), path-dependence reasons (because of the degree of institutionalisation of corporatist structures) or ideational factors (because of social partners' cognitive resources), but because of party-political and electoral concerns.

More precisely, I analyse concertation as a political strategy pursued by governments to build alliances when their base of party support is fragmented, or to pre-empt or react to politicisation processes by trade unions when issues become salient for voters. In times of fiscal austerity, this happens relatively often because labour market and welfare state reforms often involve retrenchment measures which are likely to be unpopular amongst voters and parties. Hence, the analysis of reforms in Switzerland and Austria shows how grand party coalitions characterised by internal conflicts or internal divisions are more likely to opt for concertation with social partners than ideologically cohesive majority coalitions, who do not need to build support outside their own base. Cohesive party coalitions may, however, choose concertation when trade unions manage to politicise issues vis-à-vis voters in a way that weakens the government.

Whereas European integration has often been considered either as a strengthening or a weakening factor of social concertation in Europe, my findings show that its impact is ultimately mediated or offset by party-political factors and the degree of politicisation of issues. Hence, European integration only affects the choice of governments to opt for concertation if it creates internal divisions between ruling parties, or if it becomes highly politicised at the domestic level. For example, I show that



divisions between the radical right and centre-right parties over issues of European integration may spur centre-right parties and employers to seek compromises with trade unions to broaden the base of political support for liberalisation reforms. While the rise of right-wing populism may undermine concertation in some instances by pushing centre-right parties to the right, it can also strengthen it in some instances by forcing social democrats and centre-right parties to cooperate more closely, and use social partners to strike compromises in a context of ideological divisions.

My analysis departs from existing research on social concertation and corporatism in a number of respects. Peter Katzenstein's (1985) classic *Small States in World Markets* explained corporatism in small European states by the structural incentives provided by their lack of autonomy in the international system. An ideology of social partnership in the face of international economic interdependence allowed for de-politicised and stable patterns of cooperation between labour and capital in small European states. More recently, many analyses of the re-emergence of social concertation in Western Europe have tackled it as a *functional* response to a specific set of economic problems, such as the coordination of welfare reforms and collective bargaining (Ebbinghaus & Hassel 2000), or to the increasing "problem load" caused by European integration (Hancke & Rhodes 2005). A significant strand of research in comparative political economy, such as that inspired by the very influential Varieties of Capitalism approach (Hall & Soskice 2001), has tended to adopt a similar view in which "capitalist political economies and the social relations that undergird them are fundamentally non-conflictual" (Howell 2003: 110).<sup>1</sup> My approach differs in the sense that it considers politics and conflict as an integral part of socio-economic governance (Streeck 2009: 5). It shows that institutional continuity is often not guided by functional or structural logics but is rather underpinned by constant struggles of actors to overthrow, maintain or convert existing institutions for different purposes (Hall & Thelen 2009: 20-21). Rather than a de-politicised process used routinely to *avoid* party-political conflicts, social concertation has become a political strategy which *emerges from* and *causes* party-political conflicts. Hence, if Katzenstein saw corporatist policymaking as a sustainable and peaceful strategy to solve socio-economic problems, party-political developments in corporatist countries have shown that this way of making policy has also created the conditions for the emergence of ever stronger national-populist parties championing a critique of "politics behind closed doors". What was considered a "low-voltage" policy strategy has become increasingly contested.

### 3 Outline of the Book

Chapter two outlines the characteristics and evolution of social concertation in Western Europe and its changing underlying power relationships from the 1970s onwards. It shows that despite the steady transformation of its organisational *structure*, notably the decline in trade union membership, social concertation as a political *process* is still a central mechanism of policy adjustment in many European countries. The chapter then reviews explanations for the persistence of social concertation available in the literature, including enduring functional incentives for economic coordination, the expertise and knowledge possessed by organised interests, and employer interests. It then proposes two mechanisms focusing on the political rationales for governments to involve social partners in policymaking: mobilising party support, and mobilising voter support.

Chapter three introduces an international dimension to the analysis. It assesses the potential impact of two “usual suspects” causing the persistence or decline of social concertation, namely European integration and changes in patterns of party competition. It first highlights the contradictory expectations available in the literature on the domestic impact of European integration on social concertation, and then analyses changing patterns of party politics which took place partly *in reaction* to European integration. In this chapter, I outline how the domestic politicisation of European integration can also affect social concertation, notably through the emergence of national-populist Eurosceptic parties, and the increasing politicisation of European integration at the domestic level.

Chapter four presents the methods and cases used in the analysis. It first highlights the specific methodological problems posed by the empirical analysis of social concertation, and outlines the double strategy of causal inference used in the analysis: process-tracing for within-case validity, and comparative case study analyses. The chapter then presents the rationale for the selection of cases.

Chapter five “sets the stage” for the empirical chapters. It introduces the political and economic context of social concertation in Switzerland and Austria. It presents the actors, institutions and processes of policy-making in these two countries, their underlying power relationships and their party-political evolution over the last decade. It notably highlights the substantial changes which have taken place in the party systems of these countries hitherto considered as models of stability. Whereas their political systems were characterised by the central role of social partners and consensual cooperation within grand coalition governments, the rise

of national-populism is considered as a massive potential challenge for the traditionally strong coordination between parties and interest groups in decision-making.

Chapter six analyses social concertation patterns in the regulation of the free movement of workers in Austria and Switzerland after EU enlargement. The chapter presents the main stakes and evolution of labour mobility within the EU and its potential consequences for social concertation in the context of EU enlargement. Then, for each country, after outlining the traditional features of labour migration policy, it describes and assesses domestic social concertation procedures to regulate the access to labour markets for workers of new member states, as well as measures to prevent wage dumping through labour market regulation. The strategies of employers, trade unions and governments are outlined, and the impact of different party coalitions on social concertation is assessed in the two countries. For example, I show how cleavages within right-wing parties over issues related to European integration in Switzerland spurred a very encompassing pattern of social concertation, whereas this phenomenon tends to fade out into strictly domestic issues. In both countries, I show how some segments of employers could also champion measures of labour market protection against wage and social dumping.

Chapter seven analyses concertation processes over reforms of unemployment protection, where policy change is more driven by domestic rather than by EU agendas. The chapter first presents the terms of political conflict and reform agendas in this policy domain, before presenting existing unemployment policies in both countries. The empirical analysis shows how the Austrian right-wing government that ruled between 2000 and 2006 tried to marginalise social partners in policymaking, and how this strategy was countered by trade unions through politicisation, spurring a return to social concertation. After the restoration of a grand coalition between social democrats and conservatives in 2006, social concertation could be used as a mediating arena for a party coalition characterised by recurring internal conflicts. In Switzerland, by contrast, the electoral and ideological competition between centre-right and radical-right parties, weakening the centre, has fostered a long-lasting demise of social concertation in the field of labour market policy.

In chapter eight, I summarise the empirical results, outline the limits of the analysis and bring in a comparative perspective. New avenues for research are also proposed, notably with respect to the need to bring politics, labour and the state back to the centre of analyses in comparative political economy.

## **2 Social Concertation as a Political Strategy**

Modern political systems can be analysed at two levels: at the level of the mass citizenry, and at the level of the corporate groups controlling major resources within the system. At the mass level there is formal equality within territorially defined electorates: within each constituency one vote counts as much as any other, and decisions are reached by some form of aggregation of equally weighted preferences. At the corporate level there is no equality: there may be provisions for parity in the organization of arenas of bargaining but what counts in the dealings among corporate groups is the capacity to mobilize, to control and quite particularly to withdraw resources of direct importance for the maintenance of the territorial political system (Rokkan in Flora et al. 1999: 261).

### **1 Gone with the Wind? The Transformations of Corporatism in Europe**

In the 1960s, the Norwegian political scientist Stein Rokkan described the functioning of the political system in his country in a manner that stood in sharp contrast with textbook descriptions of modern democracies at the time. In Norway, Rokkan argued, the most important decisions in economic policy were not taken in parliament or within political parties but at bargaining tables gathering the government, trade union leaders, farmers, fishermen, smallholders and business organisations. In these bargaining rounds which “had come to mean more in the lives of rank-and-file citizens than formal elections”, decisions were not taken by majority rule but through “complex considerations of short-term advantages in alternative lines of compromises” (Rokkan 1966: 106).

In many ways, Stein Rokkan’s early description of the “corporate” sphere of decision-making functioning alongside the “mass-democratic” sphere would pave the way for a whole strand of research seeking to understand how collective decisions were made outside “official” chan-

nels of democratic representation, such as elections and parliaments. Not only in Norway, but in many other countries, stabilised patterns of interaction between private organised interests and public authorities played an essential role in social regulation, from the setting of wages to the management of health systems, pension schemes and economic policy. Later on, with the works of Schmitter (1974) and Lehmbruch (1979), “neo-corporatism” would come to be used as the main concept to analyse decision-making characterised by cooperation between the state and non-elected organised interests, most notably those of labour and capital.

In this chapter, I introduce the main characteristics of neo-corporatism and outline the transformations of its *structural* base over time, before moving to the persistence of its *procedural* components, or social concertation. I then present a theoretical approach to social concertation which emphasises partisan and electoral mechanisms as central determinants of the choice of governments to engage in social concertation. This approach will then constitute the backdrop of the empirical analysis.

### 1.1 The Rise and Decline of a Concept

Neo-corporatism can be defined as a system of economic governance and policymaking which combines a certain type of *structure* of organised interests in society (corporatism) with a certain type of *process* of policymaking (concertation) (Kriesi 1998a: 364-365; Molina & Rhodes 2002). The main characteristics of neo-corporatism are, first, the presence of a small number of hierarchically organised, encompassing, monopolistic and functionally distinct interest associations (most commonly representatives of workers and business), and second, their cooperation “with each other and with public authorities not only in the articulation and even intermediation of interests, but also in the authoritative allocation of values and the implementation of policies” (Molina & Rhodes 2002: 307).

The idea of organised systems of interest intermediation was inspired by the experience of the authoritarian regimes of Southern Europe under fascist rule (Italy, Spain, Portugal), where the representation of private interests was tightly controlled and structured by the state. Stripped out of its authoritarian component, “democratic” neo-corporatism as outlined by Schmitter’s (1974) path-breaking work was defined as:

a system of interest representation in which the constituent units are organised into a limited number of singular, compulsory, non-competitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports. (Schmitter 1974: 13)

In many ways, this understanding of interest representation in modern democracies contrasted sharply with dominant approaches to interest group politics at the time. Rather than the fragmented, uncoordinated competition between various groups seeking influence over the political process outlined by pluralist models (Dahl 1963; Held 1996: 202), centralisation, structure, coordination and hierarchy were central characteristics of the organisation of economic interests in Western Europe. Most importantly, whereas pluralism tended to downplay the issue of power by describing political processes as an open competition between a wide variety of groups (Parsons 1995: 134), neo-corporatism emphasised the closure and high entry costs of decision-making which favoured a limited number of interests over others.

There were both functional and historical explanations for the emergence of neo-corporatist structures of interest intermediation. From a functionalist perspective, neo-corporatism responded to the development of capitalism characterised by the oligopolistic concentration of wealth and power, and was therefore considered a “functional necessity” of advanced societies (Baccaro & Simoni 2008: 1324). Functionally, centralisation and hierarchy were important to foster cooperation amongst labour and capital: a small number of centralised organisations (ideally one on each side) were faced with lower transaction costs than a great number of competing organisations, a configuration in which risks of leap-frogging (each organisation asks a little more than the others) persist. This was especially important in wage bargaining, to avoid inflationary competition amongst groups. Hierarchy, for its part, ensured a degree of control over different levels amongst the organisation, for instance to avoid plant-level branches not complying with agreements negotiated at higher levels (Baccaro 2003: 685-686). With respect to macro-economic management, corporatism appeared as a coherent structure to manage supply and demand within a Keynesian framework, where wage moderation within a system of centralised wage bargaining could be coordinated with monetary and fiscal policies in an encompassing manner.

Besides these functionalist explanations of corporatism, other approaches have argued that neo-corporatist structures had to be sustained by *historical* and *institutional* factors that varied across countries (Kriesi 1998a: 380). In this perspective, historical trajectories of state-building and the propensity of the state to “share public space” with private interests was considered central (Crouch 1993). For instance, countries where the state radically parted from the church (such as France) showed less propensity to live and cooperate with organised interests than countries where this separation was less pronounced, such as the Netherlands (Hemerijck 1992). Similarly, coalition patterns between societal segments (aristocracy, agricultural class, bourgeoisie) also played a role by favouring or hindering a repressive stance towards the organisation of labour (Moore 1966). Typically, repressive policies towards the labour movement fostered its radicalisation, thereby hindering the emergence of cooperative systems of industrial relations (Marks 1989; Western 1999). This type of factor explains why corporatist networks have emerged in some countries and not in others, and therefore go beyond functionalist explanations.

Throughout the 1970s and 1980s, neo-corporatism became increasingly popular as a focus of research (Cawson 1985, 1986; Lehmbruch & Schmitter 1982; Schmitter 1982; Streeck & Schmitter 1985). It came to be considered an “overarching and coherent method for understanding the working of economies and societies” (Molina & Rhodes 2002: 307; see also Held 1996: 227). In many respects, however, its analytical value became subsequently flawed by inconsistent applications and substantial “concept stretching” as it was applied in an ever wider array of domains. It then lost its appeal as an object of analysis at the end of the 1980s and 1990s, along with the perceived erosion of corporatist structures due to the disappearance of Keynesian policies of demand management, European integration (Streeck 1993), the collapse of centralised wage bargaining in one of the flagships of corporatism, Sweden (Pontusson & Swenson 1996), and the steady decline of union membership in a majority of Western European countries (Visser 2006, 2009).

At the end of the 1990s however, the interest in the collective organisation of labour and capital experienced a revival with the Varieties of Capitalism (voc) approach (Hall & Soskice 2001; Kitschelt et al. 1999). Voc theory showed a renewed concern for organised interests, particularly on the side of employers, in the functioning of capitalism, and more precisely on the non-market, cooperative arrangements which underpinned the functioning of advanced capitalist economies. In many respects, the

voc literature drew heavily upon earlier concepts of neo-corporatism, but with an emphasis on the firm as the central actor rather than trade unions and the state (Schmidt 2009). Whereas neo-corporatism was primarily concerned with the intermediation of interests of labour and capital with the state in macro-economic coordination (inflation, wages, monetary policy) the voc approach was primarily interested in inter-firm relations (cooperation vs. competition) across different spheres of the economy (corporate governance, wage bargaining, skill regimes, welfare state arrangements) and the complementarities between these different spheres (Hall & Gingerich 2009).

There is a strong overlap between characteristics emphasised by the earlier literature on corporatist countries and those of so-called “Coordinated Market Economies” (CMEs). In the voc terminology, this subset of countries comprises the political economies where socio-economic governance relies more upon non-market coordination and cooperation across firms and between capital and labour (Germany, Switzerland, Austria, the Netherlands, Sweden, Denmark, Japan, Norway) than on arms-length competition. By contrast, this latter mode prevails in Liberal Market Economies (LMEs) (the USA, the UK, Ireland). All countries previously considered corporatist are part of the group of CMEs, whereas Liberal Market Economies rather display pluralist, weakly structured systems of interest representation. The development of encompassing structures of wage coordination and “social partnership” in Ireland over the 1990s is a notable exception, however (Hardiman 2002).

One of the main claims of the voc literature is that diversity in capitalist arrangements is resilient because different institutional arrangements across countries produce different comparative advantages on world markets, thereby generating self-reinforcing dynamics. Hence, different coherent arrangements of wage bargaining, skill production and social protection make it possible to produce different kinds of products. German high-skilled specialised industrial production is only made possible via cooperative behaviour amongst employers and unions in the maintenance of a solid vocational training system producing specific skills, and supported by patient capital controlled by banks. By contrast, highly innovative software products in the Silicon Valley emerged thanks to the availability of fluid capital on stock markets in the USA. Most importantly with respect to the earlier literature on corporatism, in which the interests and strategies of labour played a central role in economic governance, the voc approach has tended to consider both labour and government interests as subordinate to those of employers.



## 1.2 Diversity and Change in Neo-Corporatist Structures

Western political economies have displayed great diversity both as to the degree of institutionalisation of their structures of coordination on the one hand (as measured for instance by the degree of coordination of wage bargaining, business and trade union centralisation), and their underlying power relationships between business and labour (as measured by unionisation rates) on the other.<sup>2</sup>

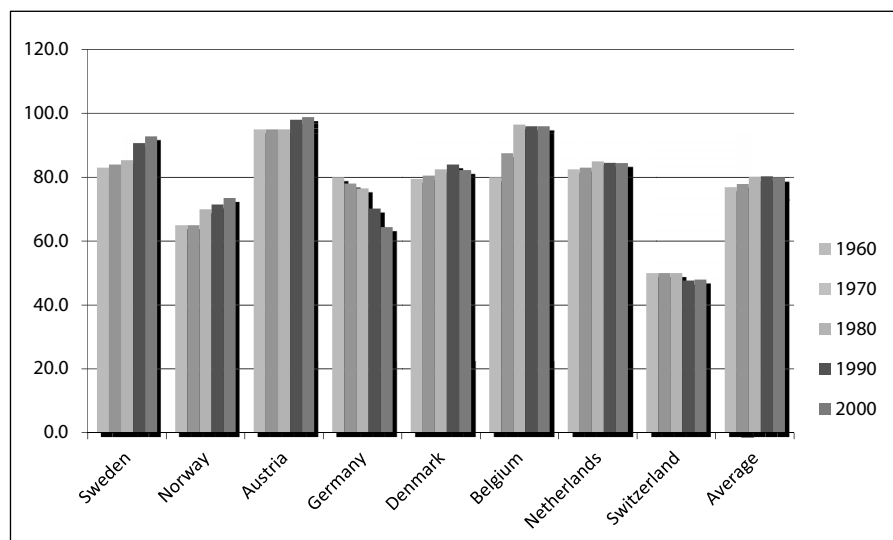
For instance, Austria, Norway or Sweden used to be considered the most corporatist countries in Europe due to their quasi-monopolistic system of interest representation, the constitutional obligation to consult organised interests for any matter of public policy, and nearly full coverage of collective bargaining (Siaroff 1999: 184). By contrast, Switzerland has displayed somewhat looser arrangements. Social partners are regularly consulted in policymaking, but organisations, particularly on the side of labour, have traditionally been more fragmented and less centralised. A proxy indicator which can be used to assess the evolution of the structural elements of corporatism is the index of formal trade union authority in wage-setting arrangements devised by Jelle Visser (2009). This indicator takes into account the degree of fragmentation of trade unions as well as the degree of coordination of wage bargaining arrangements, and is the most up to date among available indicators of corporatism. As shown in Table 1, most countries have remained relatively stable in their positioning across time vis-à-vis one another, even though there is a clear downward trend, especially in Sweden, Denmark, Belgium and the Netherlands. The coverage of collective bargaining, however, has tended to increase slightly despite a decentralisation movement in many countries (Figure 1).

**Table 1** Authority Index (0-1) of Trade Unions in Wage Bargaining in eight countries, 1960-2000<sup>3</sup>

	Sweden	Norway	Austria	Germany	Denmark	Belgium	Netherlands	Switzerland
1960	0.750	0.790	0.780	0.515	0.690	0.650	0.900	0.450
1970	0.725	0.800	0.800	0.505	0.700	0.585	0.725	0.450
1980	0.630	0.800	0.800	0.450	0.650	0.530	0.700	0.450
1990	0.615	0.785	0.780	0.460	0.600	0.500	0.635	0.305
2000	0.650	0.700	0.680	0.430	0.500	0.500	0.600	0.300

Source: ICTWSS

**Figure 1**      **Collective Bargaining Coverage in eight countries, 1960-2000**



Source: ICTWSS

In terms of power relationships, there has also been great variation across countries in the strength of labour and capital as measured by unionisation rates, or the centralisation and authority of trade unions. Nordic Countries and Austria traditionally displayed high degrees of unionisation and centralised labour movements supported in the political sphere by strong social democratic parties, whereas Switzerland, the Netherlands, Belgium and Germany have had somewhat weaker labour movements, and less powerful social democratic parties. In his seminal analysis of the political economy of small states, Peter Katzenstein already outlined these differences:

Systematic differences exist among the small European States in the relative centralisation and orientation of business and in the power and centralisation of labour (as measured by unionisation rates, Left voting, and Social Democratic incumbency). Switzerland has a particular affinity with the Netherlands and Belgium. These three countries have politically strong, internationally oriented, centralised business communities, and relatively decentralised and weak labour movements. They are liberal variants of democratic corporatism. Austria, Norway and Denmark have strong, centralised labour unions, and business

communities that are politically weak, express a national orientation, and are relatively decentralised. They are social variants of democratic corporatism. Sweden mixes these two political patterns (Katzenstein 1985: 105).<sup>4</sup>

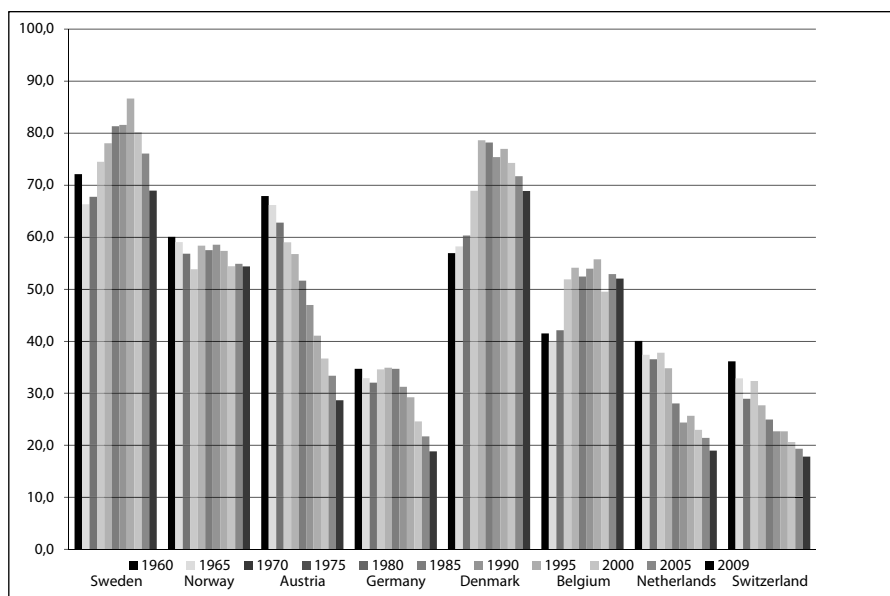
Hence, in Katzenstein's (1984) analysis, Switzerland and Austria appeared as two extremes of a continuum between "social" and "liberal" variants of corporatism. Switzerland had the most centralised and most internationalised business community as well as the most fragmented labour movement, whereas Austria had the weakest and most inward-looking business community and the most centralised and strong labour movement. Austria had been governed by social democrats for extensive periods throughout the post-war period, whereas conservative political forces have constantly outnumbered the social democrats within the grand coalition that has governed Switzerland since 1959 (Kriesi & Trechsel 2008).

Over the last 30 years, the most prominent evolution in the underlying structural features of corporatism in a majority of European countries has been the steady decline of organised labour power as measured by trade union density, thereby showing a convergence towards the "liberal" end of corporatism (Checchi & Visser 2005; Traxler 2004; Visser 2006). Hence, while 33 per cent of the workforce were trade union members in the OECD area in 1970, this percentage had decreased to eighteen per cent in 2008 (Visser 2009). Within the European Union, the number of trade union members declined from 46 to 43 million between 2000 and 2008, whereas the number of non-unionised employees increased from 120 to 140 million people. Trade union density fell from 27 per cent to 23 per cent in the EU during this period (DG Employment and Social Affairs 2010: 25).

Once again, aggregate trends hide differences across countries mainly due to institutional differences, but gains in some countries are small compared to losses in other countries. Hence, in countries featuring a so-called "Ghent system", where entitlement to unemployment benefits is partly linked to trade union membership, such as Denmark, Belgium or Sweden, trade union density has tended to remain stable or increase moderately (in line with the increase of unemployment), but in the other countries, trade union density has declined steadily, and quite sharply in some countries (Ebbinghaus & Visser 1999). The main explanations for this decline are structural changes in the labour market, most notably the shrinking of the industrial sector and the growth of the service sector, where unions are less represented. In most countries, union members are typically older than average employees because new entrants in the

labour market have typically entered jobs and workplaces in services not or weakly covered by unions (Checchi & Visser 2005; DG Employment and Social Affairs 2010: 27). The increase in unemployment levels since the 1970s has also limited the bargaining power of trade unions vis-à-vis employers on the labour market, thereby also decreasing incentives to join.

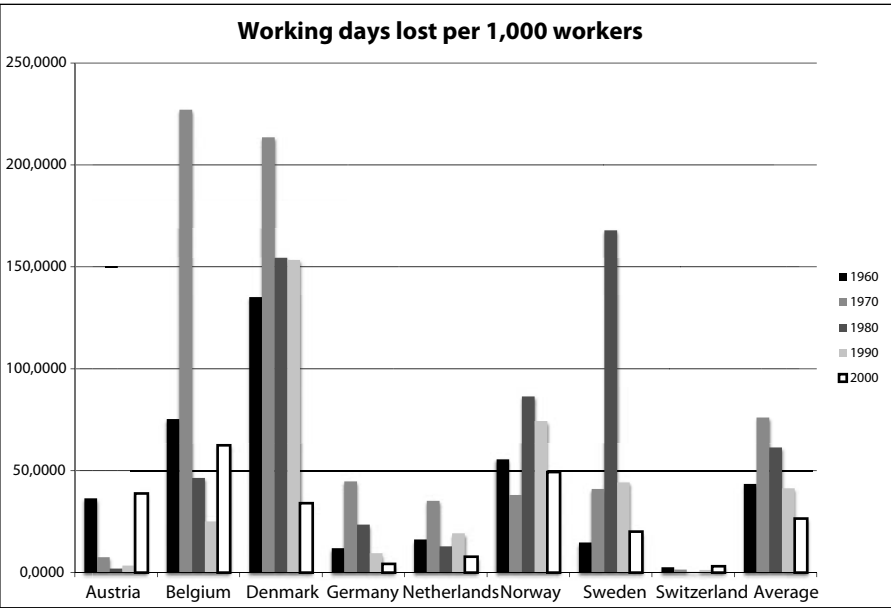
**Figure 2 Trade Union Density in eight countries, 1960-2009**



Source: ICTWSS

After a peak in the 1970's, strike activity has also declined together with the decline of union membership (Figure 3), so that the disorganisation of labour in Western European countries has concretely meant labour quiescence rather than uncoordinated resistance, at least when it comes to relationships with employers. An important exception are general strikes, which tend to be directed towards the state rather than towards employers. This type of strikes, by contrast, has been on the rise since the 1980s (Hamann et al. forthcoming). As will be argued later, this is also an indicator of the more political orientation of trade union activity in recent decades: as they have been losing ground within the market vis-à-vis employers, trade unions have increasingly turned towards the state to secure social rights.

**Figure 3** Index of Strike Activity in eight countries, 1960-2009 (decade averages)



Source: Armingeon et al. 2007

Evidence of changing power relationships between capital and labour over the last 30 years can also be observed in economic outcomes. Even if trade union membership has remained stable in some countries, what matters in the first place is the capacity of organised labour to secure benefits for its members. Empirical evidence on the distribution of wealth and inequality is fairly clear in relation to the weakening of organised labour pointed out above. Since the second half of the 1970s, the labour share, or the share of national income constituted by employee compensation, has declined steadily, whereas it had been essentially increasing over the 1950s and 1960s (Guscina 2006; Lübker 2007: 2). Hence, if 58 per cent of national income in OECD countries went to workers in the second half of the 1970s, this share had declined to just above 50 per cent in the second half of the 1990s. The trend is similar across all EU countries (Arpaia et al. 2009: 6). The declining capacity of organised labour to secure its share in economic growth is due to the labour market developments outlined above, the exponential growth of the financial sector over the last decades, but also a deliberate strategy of wage restraint by trade unions in some countries in order to save jobs and boost competitiveness

in a context of high unemployment, even at the expense of declining real wages. This strategy has been particularly prominent in Germany since the second half of the 1990s, and has set the pace for many other countries in Europe (Scharpf 2011: 15). In Germany, net real wages have hardly risen since the beginning of the 1990s, and have even declined between 2004 and 2008 in spite of the fact that economic growth has been substantial during this period (Brenke 2009).

Another related consequence of the decline of labour power is the increase in income inequalities virtually everywhere in Europe and beyond. Kenworthy (2008) shows that pre-tax household inequality between 1979 and 2005 has increased everywhere, even in Scandinavia and to a large extent in Germany, as a result of supply-side policies aimed at making low-skilled employment more flexible (Carlin & Soskice 2009). The only exception appears to be the Netherlands, where job growth and the massive entry into employment of women has offset household inequalities by reducing dramatically the proportion of households with no income at all (Kenworthy 2009). Apart from that, even in countries where trade unions have remained strong in organisational terms, their capacity to achieve wage increases and equality on the labour market has been considerably reduced, notably as solidaristic systems of wage-setting were being dismantled, and more individualised, performance-based systems of pay-setting were being adopted. If wide union coverage typically used to flatten wage dispersion (Checchi & Visser 2009), Baccaro (2011) finds that trade unionism and collective bargaining nowadays are no longer significantly associated with equality. Hence, if the “hardware” of corporatism is still there, the “software”, or the outcomes it delivers, is substantially different.

In many ways, transformations in the underlying structures of corporatism in Western Europe have been profound. Trade union membership has declined substantially in most countries, and even in the countries where it has remained stable, the capacity of trade unions to deliver solidaristic policies has been considerably weakened. Set against those developments, it is puzzling to observe that the procedural side of corporatism, or the routine involvement of both trade unions and employers in policy reforms, or social concertation, has persisted to a large extent. Insofar as the involvement of trade unions in policymaking was thought to rely on the control they possessed on a large part of the workforce, the decline in their representativeness should have lowered incentives for governments to involve them in policymaking.

## 2 Describing and Explaining Social Concertation

An implicit assumption in neo-corporatist theories was that the *structural-economic* constitutive elements of corporatism (wage bargaining coverage and coordination, unionisation rates, etc.) were functionally related to its *procedural-political* dimension, namely the interaction patterns between the state and organised interests in policymaking (concertation). In contrast to the emphasis on the structural features of corporatism outlined before, (social/corporatist/policy) *concertation* mainly designates a process of policy-making through close collaboration between labour, capital and the state in the different phases of the policy process, and via a complex set of institutions and networks providing input for organised interests. Social concertation can be defined as a process whereby Governments

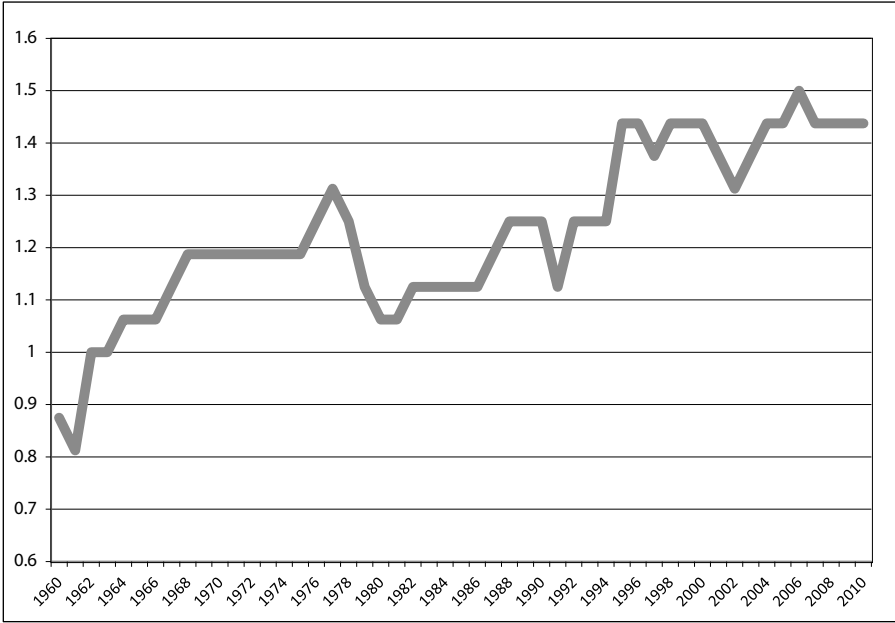
share their policy-making prerogatives with trade unions and employer associations, not just informally by incorporating their inputs but also formally by setting up a bargaining table and engaging in negotiations with them over public policy. (Baccaro & Simoni 2008: 1)

The structural and procedural dimensions of corporatism were considered to be related insofar as high trade union density and collective bargaining coordination were considered a precondition for the occurrence of social concertation. On the one hand, governments would not engage in negotiations over public policy with trade unions or employer organisations that are organisationally too weak to be credible negotiating partners (Avdagic 2008: 7). Hence, there is an interest in participating in corporatist concertation only if the other actors involved are organised in a way that ensures compliance from their members with regard to the agreements negotiated at peak level. This is especially important for trade unions. Government and employers would engage in negotiations with trade unions only if these trade unions are credible representatives of the workforce (as measured by their number of members), and if they are able to make their members and local branches comply with what union leaders have agreed upon at peak level. On the other hand, the organisational dimension may also be dependent on the procedural dimension, because the attractiveness of trade unions or employer associations for members may also depend on their ability to represent their interests and secure benefits for them from the government.

The connection between corporatist structures and processes has been severely questioned by the resilience of social concertation despite the de-

cline in the underlying structures of neo-corporatism (Baccaro 2003). Indeed, in contrast to corporatist structures, concertation as a way of policy-making is not declining, and even emerged in countries which did not display the pre-requisites of corporatism. Hence, recent research shows that the willingness of governments to engage in concerted reforms with trade unions and employers is still strong. Baccaro and Simoni (2008: 1327) show that in 1977, 83 per cent of European governments were willing to pursue concerted wage policies, that this share then dropped to 47 per cent in 1985, but increased again to 77 per cent in 2003. For welfare policies, a steady upward trend is observable, from under 50 per cent in the 1970s to about 80 per cent in 2000. Using an indicator from Jelle Visser's ICTWSS database for the EU15, Norway and Switzerland, a similar picture can be observed (Figure 4). According to this data, the degree of involvement of social partners in policymaking has even become greater in the 2000s than in the 1960s and 1970s, while the 1980s marked a decline largely made up for in the 1990s.

**Figure 4** Index of Routine Involvement of Social Partners in Policymaking, seventeen countries, 1960-2010



Source: ICTWSS database, own calculations

Index scale: 0 – no involvement; 2 – regular involvement.



The most prominent manifestation of the resurgence of concertation in Europe has been the signing of so-called “social pacts” in many European countries, such as Spain, Italy, Ireland or Portugal over the 1990s (Avdagic 2010; Avdagic et al. 2011; Fajertag & Pochet 2000). Social pacts are “publicly announced formal policy contracts between the government and social partners over incomes, labour market, or welfare policies that explicitly identify policy issues and targets, means to achieve them, and tasks and responsibilities of the signatories” (Avdagic 2010: 637). Hamann and Kelly (2010: 1) show that there were in total 157 attempts by governments to agree on such pacts with trade unions and employers between the 1980s and 2006 in the EU15 and Norway, 110 of these resulting in actual tripartite agreements covering 145 issues. Inspired by this development, German Chancellor Gerhard Schröder argued in 1999 that “it is only through the cooperation of the government, employers and trade unions that more employment can be created in the economy” (quoted in Trampusch 2004: 547).

Set against the general weakening of organised labour in most countries of Western Europe, this persistence or even increase in social concertation is puzzling. Why do governments still cooperate and seek agreements with trade unions in times of austerity, in which the latter have become paper tigers regarding their organisational resources? In the face of these developments, some scholars have argued that the organisational and the procedural side of neo-corporatism may no longer be linked as assumed in the past. Hence, if the structural dimension of corporatism is on the decline, its procedural dimension is still alive and kicking (Baccaro 2003).

In order to explain this phenomenon, the political economy literature has proposed a series of explanatory frameworks which emphasise enduring functional incentives for concertation, the dependence of governments on information and knowledge possessed by organised interests, and the continuing interest of employers to maintain economic coordination. In this section, I will review these frameworks, before proposing a theory of government choice for social concertation which takes into account the political interests of governments in concertation.

## 2.1 Enduring Functional Incentives

A common explanation for the resilience of social concertation is that, despite the declining organisational power of trade unions, governments are still, and maybe increasingly, dependent on private organised interests to carry out policies in complex societies. In many respects, this argument

can be linked to the alleged shift from top-down policies to more cooperative styles of policymaking put forward by the literature on “governance without government” (Papadopoulos & Benz 2006; Pierre & Peters 2000; Rhodes 1996). Hence, to the extent that the command-and-control capacity of the state is always limited in liberal democracies, concertation and cooperation with stakeholders appears as a rational way of social steering in a context of interdependence. Concertation is sought when the state needs the social partners to carry out specific goals in domains when its powers are limited, or to ensure compliance with public regulations.

A good example here is wage moderation, in which the fulfilment of certain goals in economic policy is dependent upon the compliance with wage agreements by both companies and trade unions. In most European countries, the state does not intervene directly in wage-setting outside the public sector – apart from minimum wages – but has nevertheless specific policy preferences to keep inflation low and employment up. This is especially important because wage bargaining is directly related to other domains of direct interest for public budgets, such as fiscal and social security contributions. For governments, concertation is therefore a way to keep a grip on macro-economic developments which are set by private actors.

Along these lines, Ebbinghaus and Hassel (2000) mainly explain the persistence of concertation in Western Europe by the need to coordinate industrial relations developments and welfare state reform so as to ensure desirable employment outcomes. For instance, concertation can also help smooth the effects of welfare retrenchment by “bundling” it with reforms in collective bargaining. Trampusch (2007) shows that cuts in public welfare benefits can be accompanied by an extension in solidarity provided by collective labour agreements, thereby giving rise to complex public-private arrangements of social protection. For governments, engaging in concertation can therefore be a way to make concessions more acceptable by broadening the scope of policy agreements. In Ireland, for instance, a series of tripartite agreements have provided for wage increases below productivity being accepted by trade unions in exchange for cuts in income tax (Roche 2007). Through concertation, governments and organised interests can increase the range of domains across which mutual concessions can be made, and facilitate encompassing policy deals covering many issues.

Ensuring compliance with public policies is another functional incentive for governments to engage in social concertation. In many policy areas, such as unemployment policy, safety and health regulations of the workplace or taxation policy, social partners are central actors in the domain of implementation. It is important to consult them to be able to car-

ry out public policies effectively. As implementation research has shown, the command-and-control powers of governments with regard to private actors, and even with regard to its own bureaucratic units, is limited. Hence, non-compliance with public policies is relatively easy in contexts with many chains of delegation (Pressman & Wildavsky 1973). Sanctions and monitoring are generally costly, and it is easier to make sure that actors agree and accept policies beforehand. Drawing upon these premises, the best way to build trust and ensure compliance is to involve potential players and stakeholders in the decisions that concern them. For instance, regulations regarding safety at work apply both to companies and workers, and regulations that would be considered inapplicable by trade unions and employer associations – as representatives of the main recipients of those policies – stand little chance of yielding probing results. By elaborating legislation jointly with social partners, governments maximise the chance that policy recipients will actually comply with them. However, in this case as well, the structural weakening of organised interests also poses a problem, because the consultation of organisations which only represent a minority of economic actors does not guarantee compliance.

## 2.2 Knowledge and Ideas

Another explanation put forward in the literature is that the rationale of concertation may have shifted from a bargaining logic to an “informational” one (Culpepper 2002). Hence, Governments engage in corporatist concertation because of their *cognitive/informational* dependence on social partners. In many domains, trade unions and employer associations are the primary sources of information regarding the concerns of workers, on problems arising on the labour market or in the implementation of specific public policies. They own specific types of knowledge that are of great value for policymakers: information about the preferences of their members, but also a source of ideas for policy innovations. Culpepper (2002: 778) argues for instance that corporatist institutions are important learning devices to develop shared understandings through an “informational logic” that is different to the “bargaining logic” of neo-corporatist deals in the past:

Unlike in neo-corporatist bargaining over income policies, states negotiate with the social partners not primarily to secure their acquiescence, but instead to enlist their active assistance in designing and mobilizing support for substantial reforms of public policy. State pol-

icy-makers lack the combination of technical, relational, and local information necessary to design successful blueprints for reform, and so they are dependent on the social partners to acquire this information. (Culpepper 2002: 774)

Following this idea, in contrast to the classical idea of corporatism as a process of exchange of mutual strategic concessions, contemporary policy concertation is rather characterised by an exchange of learning and information. Drawing upon work on the role of ideas and learning in policies (Hall 1993; Heclo 1974), Culpepper argues that concertation allows overcoming uncertainty because social partners

are the most useful interlocutors for governments, combine capacities for information circulation and problem-solving. These groups can identify collective problems in light of the common experience of members, and organisations frame those problems based on superior information about the problems faced by each individual. (Culpepper 2002: 775)

In this framework, the “cognitive resources” possessed by the social partners appear as decisive factors in the success or failure of policy reforms. Culpepper supports his argument with examples drawn from pension reform in France and Italy. While specific internal procedures allowing for internal discussion and legitimacy allowed Italian unions to reach an agreement on pension reform with the Government, the fragmentation and confrontational structures of French trade unions failed to deliver such a policy output in terms of deliberation and learning (Culpepper 2002: 782). Along related lines, Baccaro (2003) also argues that deliberation and discourse play an essential role as a mechanism of coordination within trade unions in the absence of centralisation and hierarchy in countries which lack the structural pre-conditions of corporatism.

If the “learning capacity” of corporatist institutions remains difficult to assess and compare, there is no doubt that ideas, learning and representations of social reality play a role in the involvement of social partners in policy, because the preferences of actors can change even in the absence of changes in material conditions (Culpepper 2008). For instance, the Dutch Wassenaar agreement of 1982 could emerge because trade union leaders also shifted their ideology to a “supply-side” interpretation of the deep problems that the Netherlands were facing at the time (Hemerijck 2003: 54). In order to attract investment, create more jobs and reduce

unemployment, the profitability of companies had to be increased as well. This, to say the least, was hardly imaginable within the view of labour interests that prevailed until then. Similarly, employers in Italy and Ireland came to favour the centralisation of wage bargaining as a result of learning processes whereby cooperation with labour came to be considered more desirable than market-driven solutions (Culpepper 2008).

### 2.3 Employer Interests

If labour organisations have been faced with a substantial decline in terms of membership, organised capital seems to have remained “immune to the forces of socio-economic change” (Traxler 2010: 152). Even if internationalisation has challenged the governing capacity of business organisations (Streeck et al. 2006), their power resources have been far from declining along the same lines as trade unions, because capital is less dependent on collective organisation than labour. Drawing upon this, Franz Traxler put forward the idea that *employers* may have been the actors that have maintained corporatist concertation insofar as “the continued strength of organised business sustains corporatism and pulls labour into its dealings, given the practice of involving organised interests in public policy according to the principle of class parity” (Traxler 2010: 152.). Hence, employers would have “lifted labour on their shoulders” in the maintenance of corporatist concertation.

In many respects, this idea is in line with research conducted since the 1990s which has emphasised the active interest and involvement of employers in the building of labour market and social protection arrangements. Authors such as Swenson (1991, 2002), Mares (2003) or Estevez-Abe et al. (2001) have notably argued that coordinated collective bargaining and welfare institutions have been decisively shaped by employer interests to fulfil specific economic purposes. For instance, generous unemployment policies do not only insure workers against social risks, but also secure their incentives to invest in specific skills which are sought by employers in coordinated market economies (Estevez-Abe et al. 2001). By contrast, residual social protection in liberal market economies is consistent with investment in more portable skills profitable in more flexible and fluid labour markets. With a more historical approach, Swenson (2002) argues that the development of welfare arrangements in Sweden and the United States has been more structured by cross-class alliances and intra-employer conflicts than a crude class divide as assumed by advocates of the power resources approach (Esping-Andersen 1990; Korpi

1983). He shows that significant segments of business interests were actually favourable to the development of social protection, for instance as a way to secure social peace and temper insurgent tendencies amongst the working class.

Pushing this reasoning further, one could also assume that employers still have a persisting interest in maintaining concertation structures of policymaking as a way to maintain social peace. This seems especially important in a context of the weakening of organised labour. With declining membership and coverage, industrial action may be the only remaining resource for trade unions to exert pressure both on employers and the government, however with fairly uncertain outcomes. Thelen and Wijnbergen (2003) argued for instance that a departure from cooperation with labour is not a viable option for German employers, especially in the context of globalisation. Fiercer international competition and “just in time” production techniques increase the cost of industrial action, and make employers even more dependent on a cooperative attitude from trade unions.

If these frameworks present fairly compelling arguments to explain the persistence of social concertation in times of austerity, they also feature a series of shortcomings. The idea that there are enduring functional incentives for concertation, or that concertation contributes to learning and deliberation notably cannot explain variation across countries and across time. Functionalist explanations are by default relatively static. Considering ideas and knowledge as causal factors, for its part, is always difficult insofar as ideas and knowledge are difficult to assess and falsify empirically. Finally, the benevolent stance of employers towards social protection arrangements and trade unions assumed by employer-centred approaches seems too idealistic set against empirical evidence. Employers are assumed to be conscious of their long-term interests and somehow “pull the strings” of modern political economies. Yet, if employers may have been antagonists or consenters vis-à-vis welfare state development, they have rarely been protagonists as such (Emmenegger & Marx 2011; Korpi 2006; Paster 2011a). Most importantly, politics and electoral concerns are considered essentially subordinated to the mechanisms of economic coordination favoured by employers, without much consideration for the political interests governments may have.

In the following section, I propose a government-centred approach to social concertation which precisely seeks to bring back political and partisan factors to the core of the analysis, and use it to propose a number of hypotheses to explain the choice of governments to opt for policy concertation.

### 3 A Theory of Political Choice for Social Concertation

To the extent that social concertation is a way whereby the state “shares public space” with organised interests by giving them a power of co-decision in public policymaking, the question of government choice for social concertation should be considered central. The pivotal actor in the process of social concertation is the government. As the sole actor with a clear democratic mandate to make binding public decisions, the government can choose to opt for concertation or alternatively for legislative procedures that exclude unions and employers from policymaking (Baccaro & Simoni 2008: 1324; Hamann & Kelly 2007a: 974; Woldendorp 2005: 30). Hence, analysing the resilience of social concertation necessarily entails uncovering the interests that the parties in office pursue when they accept that they must share their policymaking prerogatives with representatives of labour and capital. This is especially important if one considers that concertation is associated with a particular set of costs. Negotiating with trade unions and employers implies compromising and therefore moving away from parties’ ideal policy positions, it is often lengthy and can considerably protract policy, and the failure to come up with actual agreements can cause a loss of credibility for all the actors involved (Hamann & Kelly 2010: 24). In this context, governments can be assumed to engage in concertation when its alleged benefits outweigh its costs.

In general, there is a consensus in the literature around the idea that the lack of autonomy of the state is the primary reason for governments to engage in concertation:

When the state shares public space, it usually lacks the legitimacy, competencies, and implementation capacity to single-handedly carry out desired reforms of social and employment policy. Therefore, formal or informal forums for tripartite social dialogue between the government and the social partners facilitate their developing a shared understanding of the problems, as they discuss policy alternatives and their implications, and reach compromises on a common purpose. (Ebbinghaus 2010: 256)

This factor not only applies to explaining long-term developments of state-society relations (corporatism has emerged in countries with a weak state autonomy vis-à-vis private organised interests), but also the resort to concertation over time and across policy areas within the same institutional setting. The decision-making autonomy of ruling party coalitions

can be considered a central determinant of the choice for concertation. Here, autonomy refers to the ease with which ruling coalitions can build up parliamentary majorities for reforms.

An important idea here is also that the choice of governments to co-operate with trade unions and employers is not only guided by concerns about economic coordination, but also by party-political and electoral concerns (Ahlquist 2010; Baccaro & Simoni 2008; Hamann & Kelly 2010). Hence, governments may want to involve social partners in policymaking not only to have a grip on macro-economic parameters beyond their control, such as wage bargaining, but also to mobilise extra-parliamentary sources of support for policies, which can help increase the acceptability of those reforms by other parties or by voters. Drawing upon this, concertation can be understood as a depoliticised channel of compromise-building amongst parties, or as a way to pre-empt mass mobilisations against potentially unpopular policies. In this context, party politics and the politicisation of issues are considered central.

### 3.1 Party Politics and Concertation

Party-political configurations are crucial determinants in the choice of Governments to involve organised interests in policymaking. Parties and organised interests are part of interdependent arenas of decision-making that are governed by different rules. Since trade unions and employers are not subject to electoral pressures, usually negotiate reforms away from public scrutiny, and maintain strong patterns of cooperation through multiple committees and bodies of social concertation, they may be more able to agree on policy reforms than political parties which have to decide under the scrutiny of voters and public opinion. Parties, by contrast, are pushed to differentiate themselves from their opponents, can be sanctioned for the policy deals and compromises they may strike with other parties, and are more concerned with short-term issues.

Gerhard Lehmbruch (1977: 100) already noted that the corporatist and the partisan sphere display different capacities of compromise-building for short-term and long-term decisions. Hence, the logic of electoral competition in party politics tends to foster short-term and partly suboptimal policies. Political parties are either “incapable of building sufficient consensus within a short time span, or they produce irrational decisions”. By contrast, since organised interests usually enjoy a more specialised expertise of social and economic issues than parties, they may be more able to strike compromises, along the lines of the “informational logic” pro-



posed by Culpepper (2002). This does not downplay the idea, however, that deep distributional conflicts may pit employers against trade unions. However, both ultimately have an interest in finding agreements in order to influence policies. If they do not, governments may act alone without consulting them.

Because of the costs associated with concertation outlined above, governments will seek to “shift” decision-making responsibilities to the corporatist sphere only if their autonomy of decision-making is limited, that is, if their capacity to build majorities in parliament is hampered. This capacity is ultimately conditioned by different setups of the party coalitions in power.

First, minority governments are weakly autonomous because they have to negotiate political support with other parties to pass reforms. In their comparison of Italy, Ireland and South Korea, Baccaro and Lim (2007) notably argue that minority and caretaker governments are more prone to resort to social pacts as a way to mobilise extra-parliamentary support for reforms. That was notably the case of the Irish government when it signed the first of a 20-year series of social pacts in 1987. In her analysis of the determinants of social pacts in Europe, Avdagic (2010) corroborates this finding. She shows that party-political strategies are at least as important as macro-economic conditions or the macro-economic “problem load” created by EMU to explain social pacts.

Second, grand coalitions also suffer from low autonomy, especially if they are characterised by ideological conflicts. Large coalition governments have a lower action capacity because, by definition, they have to accommodate heterogeneous policy preferences (Tsebelis 1999: 591), particularly if the coalition partners are marred by internal divisions. In this context, governments can use trade unions and employers as “policy brokers” between parties with ideologically broad differences, as a way to build compromises when parties cannot agree amongst themselves (Heinisch 2000: 90). As argued above, trade unions and employers may be more prone to compromises than parties because they are not subjected to the centrifugal tendencies observed in multiparty systems.

Finally, single-party majority governments or ideologically cohesive majority coalitions are characterised by a greater degree of autonomy and may therefore be less prone to engage in tripartite negotiations. Their smaller internal ideological differences constitute a minor impediment on action. This is essentially why corporatist policymaking has been particularly prominent in countries with proportional representation giving rise to frequent oversized coalitions, whereas first-past-the-post systems giv-

ing a large autonomy to one single party have corresponded with residual concertation procedures. This is especially the case for right-wing governments that do not need the support of the trade union clientele, contrary to grand coalitions or left-wing majority coalitions. As an extreme case, the Conservative Party of Margaret Thatcher conquered power in clear opposition to the unions, as it decided soon enough that its core electoral clientele were the middle classes and not the working class. It then implemented a clear agenda geared to curtail the power of unions in industrial relations and economic policymaking (Howell 2005).

Whereas the presence of social-democratic parties in Government has often been considered a pre-condition for corporatist policymaking (Alvarez et al. 1991; Hicks 1999), this condition no longer seems to be fully accurate today. In the past, left-wing parties were especially well-positioned to ensure the cooperation of labour organisations because their traditionally strong ties fostered credible mutual commitments. Trade unions could afford to deliver wage moderation in exchange for policy compensations because they were dealing with partners they could trust. In a context of strong party-union ties and class identity, this argument was particularly convincing. However, the ties between social democratic parties and trade unions have become looser in many countries, not least because the social base of labour unions and social democratic parties has become increasingly distinct. While unions still remain the most represented amongst blue-collar workers, the electoral base of social democrats is increasingly constituted of social and cultural specialists with potentially distinct policy preferences (Kitschelt 1994; Kriesi 1998b: 169). Hence, the relation between social democratic incumbency and policy concertation is therefore probably no longer as pertinent as before (Kitschelt 1994). This is especially striking if one considers two highly praised “corporatist successes” in Europe in the 1990s, Ireland and the Netherlands, where social democracy does not really exist as a political force (in Ireland) or never governed alone but always in coalitions with liberal or Christian-Democratic parties (in the Netherlands). Even if it may be exaggerated to argue that corporatist policymaking has become neutral in terms of party politics, the links no longer seem to be as mechanistic as before. In a context of organisational weakening and the disappearance of traditional macro-economic tools of demand management, trade unions may no longer have any other choice than to compromise also with conservative and liberal parties.

Finally, insofar as the materialisation of social concertation agreements is dependent upon ratification in parliament, there have to be mecha-

nisms of coordination between the sphere of organised interests and political parties. These coordination mechanisms can essentially be of two types. First, they can be constituted by organisational links between political parties and organised interests, for instance by crossed memberships between associations and political parties (Allern 2010; Anthonsen et al. 2010). The fact that trade union officials also sit in Parliament, for instance, typically facilitates the coordination of corporatist deals and parliamentary acquiescence. This is especially important in the case of minority governments, where gaining support from trade unions also means support from their political allies. Second, in the light of the loosening party-union ties mentioned above, strong party discipline is the main mechanism of coordination in typical parliamentary systems: if ruling parties have agreed to something, parliament will accept it.

**Hypothesis one:** Large, ideologically divided government coalitions are more prone to choose social concertation than ideologically cohesive majority coalitions.

### 3.2 Concertation as a Way to Pre-empt Politicisation

Besides being an alternative channel of compromise-building between political parties, social concertation can also be a way for governments to minimise resistance to reforms that are likely to be unpopular, or possibly to increase its electoral prospects. As argued by Hamann and Kelly (2007a: 975),

social pacts can lend legitimacy to unpopular policies – and perhaps the government – by inclusion of the social partners, thus broadening the support coalition. This can also apply to minority governments or weak governments seeking support for their policies outside of parliament [...] Reaching out to the social partners demonstrates a willingness to be inclusive and to engage in compromise, which may help parties' electoral ambitions.

Along a similar line, Ahlquist (2010: 572) writes that social pacts are

essentially part of an electoral strategy for political parties, particularly those parties with close links to major labor peak associations. Pacts are one way in which a party can try to convince voters that economic outcomes under its rule will be better than those under a challenger.

Hamann and Kelly (2007b; 2010) argue that the increased interest of governments for social concertation over the last 30 years has been coupled with the changing features of partisanship and electoral behaviour in Western Europe. Up to the 1970s, parties competing for office could rely upon a relatively stable share of core voters that would support their policies. Once they were elected, governments enjoyed a substantial margin of manoeuvre to carry out policy reforms. Moreover, as labour market and welfare reforms in the postwar period were essentially characterised by steady economic growth and the expansion of social protection, the potential for an electoral backlash was also smaller.

Since then, however, electoral volatility has increased substantially due to a number of factors, ranging from changing demographics, increasing education levels, the increasing role of the media, or the blurring of traditional class lines. Partisan identification has declined almost everywhere in Europe, and voters may now shift their vote between parties or from one party to another, depending on issues, circumstances or the personality of political leaders (Manin 1997). Moreover, the increasing importance of electoral polls and media coverage has put governments under increasing scrutiny as to their actual policy performance. In other words, government policies are more likely to be sanctioned electorally than before, because information about policies available to citizens has increased, and because former party allegiances have become looser. In the specific context of welfare and economic policies, the type of reforms which have to be carried out in a context of tight economic conditions, such as cuts in benefits, in entitlements or increases in payroll taxes, are also more likely to be unpopular and contested by voters in the polls or in the streets. Welfare reform has become a very risky exercise electorally, especially because voters tend to have a “negativity bias”, that is, they are more likely to sanction policies that harm them than to reward policies that benefit them (Vis 2010).

In this context, politicians have an interest in minimising the blame for unpopular policies (“blame avoidance”) (Weaver 1987; Green-Pedersen 2002). This can consist among others of “passing the buck”, for instance by delegating painful measures to lower levels of government, or other strategies to conceal the extent of cutbacks. Yet, a strategy that has not been given much attention is the pre-emption of potential sources of blame by trade unions through concertation. Indeed, one can consider that unpopular measures only become unpopular if they are politicised as such by political actors, and if they become politically salient. For instance, Armingeon and Giger (2008) show that welfare retrenchment is

not automatically sanctioned by voters; this is the case only if retrenchment becomes a salient issue during electoral campaigns, that is, if they are politicised by parties or interest groups.

Trade unions are among the most likely actors to politicise issues and make them highly salient for voters through “outside lobbying” (Kollman 1998). Here, I understand politicisation as a process whereby issues become important for voters, which “creates a powerful incentive for politicians to develop the tools to intervene, so that they can be seen to respond to the concerns of voters” (Culpepper 2010: 54). Even if their base of membership has declined, trade unions still have the organisational capacity to influence public opinion through media or street protests so as to attract the attention of the public to particular issues. The best example of the strong media influence of trade unions despite their weakness in terms of membership is probably France, where their very low membership base does not prevent the main union confederations from taking hundred thousands of people to the streets, causing significant concern for the government. Moreover, what could be observed in countries with weak corporatist institutions such as France seems to have spread to countries with more institutionalised systems of industrial relations, as shown by the increase in “political” general strikes in the EU15 already mentioned.

Hamann, Kelly and Johnston (forthcoming) show for instance that in the EU15, there were eighteen general strikes in the 1980s, 26 in the 1990s, and 28 in the following decade (Hamann et al. forthcoming). General strikes, in contrast to regular strikes, tend to be directed more towards the government than towards employers and therefore tend to have a more political content. Moreover, these authors show that the exclusion of trade unions from policymaking is strongly associated with the occurrence of political strikes, or happened when negotiations over social pacts broke down, which indicates that such political protests by trade unions are used to “keep the pressure up” on governments in order to make their demands accepted, and can be a credible tool to do so. Indeed, wide-ranging protests by trade unions influencing voters can result in a policy blockade and electoral failure. Welfare and labour market reforms can easily acquire high political salience, and if it becomes clear that a majority of voters are opposed to them, the government may find itself in a difficult political situation. Unilaterally implementing unpopular reforms followed by union-led conflict can either severely hamper chances of re-election of the parties in office, or in any case limit their margin of manoeuvre to actually carry out reforms.

In this context, seeking agreements with trade unions is also a way to pre-empt mass mobilisations over issues that are likely to be controversial and keeping a lid on the potential blame for policies. Employers can be believed to play a less important role than trade unions in this process, because business strategies of influence on policies tend to be more based on secrecy and “inside lobbying” rather than broad appeals to public opinion. As Culpepper (2010) convincingly shows in the case of corporate take-overs, business interests tend to prevail when issues are of low salience or highly technical. When issues become politically salient, however, policymakers are compelled to pay more attention to the preferences of the median voter, and they may be less willing to favour business interests if their chances of re-election are at stake (Culpepper 2010: 5ff.). When governments engage in concertation with trade unions, however, employers also have incentives to participate in order to shape outcomes and to try to keep a grip on the contours of public policy. One can assume that employers prefer to engage in negotiations with governments and trade unions in order to shape and possibly contain public intervention rather than remain excluded and possibly having to deal with the consequences of policies influenced by trade unions alone. The “shadow of hierarchy” is always a powerful incentive for organised interests to participate in policymaking (Van Waarden 2003: 17).

Drawing upon this, one can hypothesise that Governments will also resort to concertation when issues are likely to become of high political salience, as a tool to pre-empt damageable politicisation and blame, possibly by providing side-payments to trade unions. This strategy may apply independently of the partisan setup of the Government. Ideologically coherent majorities, such as that held by Nicolas Sarkozy in France, can resort to concertation as a way to appease trade unions as well when issues become politicised. Besides, it can also be assumed that highly salient issues are also more likely to create conflicts amongst parties in office, and ideologically divided party coalitions may not be well equipped to face wide-ranging protests by trade unions. Hence, concertation should be especially strong in cases of both high political salience and partisan divisions.

**Hypothesis two:** Governments choose social concertation when issues become politically salient as a way to pre-empt politicisation by trade unions, independent of their party composition.

## 4 Summary

In this chapter, I have outlined the political strategies that can underpin the choice of governments for social concertation in times of austerity. Set against approaches which emphasise the need for economic coordination across different spheres, the expertise of social partners and continuing employer interests, I have argued that concertation is essentially driven by party-political considerations on the side of governments. It still remains a privileged strategy of policymaking because it can be expedient in a context of party conflicts and the need to carry out reforms that are likely to face resistance and contestation, notably by trade unions. On the one hand, it allows for the resolution of conflicts when ruling parties are faced with internal divisions by insulating policymaking from the constraints of electoral politics. On the other hand, it allows pre-empting political opposition by trade unions before controversial issues become salient, and can have risky electoral consequences for the parties in office. Including trade unions in policymaking is a way to avoid or respond to protests which may attract media attention, and limit the margin of manoeuvre of policymakers. As will be shown, these mechanisms can also help explain concertation in countries where corporatism has been highly institutionalised, such as Austria and Switzerland. In the next chapter, I will introduce the role of European integration and changing patterns of party competition as destabilising elements, which can feed into this model.

### **3 European Integration, Domestic Politics and Social Concertation**

This chapter introduces an international dimension to the theoretical framework. I focus on European integration and its domestic politicisation as challenging factors for social concertation, and propose a set of heuristic hypotheses to explore the impact of European integration on social concertation. European integration has been seen as a major influence on concertation, yet the causal mechanisms whereby this influence takes place have stayed relatively unclear. Whereas existing scholarship has tended to posit a somewhat mechanistic relationship between them, either in the direction of a weakening or of a strengthening, this chapter explores the complex mechanisms whereby domestic politics mediates the effects of European integration on social concertation

First, European integration has become increasingly politicised at the domestic level, and the domestic adaptation to “Europe” no longer takes place in a “de-politicised” manner through technocratic or administrative procedures of macro-economic adjustment. As European integration becomes more politically salient domestically, I argue that social concertation as a political strategy can also play a role for governments to build a domestic consensus about European integration. Second, European integration and processes of internationalisation in general can also affect social concertation by reconfiguring the context of party competition (Kriesi et al. 2008). The most prominent evolution in this respect has been the emergence of right-wing populist parties capitalising on the opposition to internationalisation in all its forms (Bornschier 2010). Insofar as concertation was traditionally linked to stabilised patterns of party competition, this evolution can be believed to challenge the capacity of corporatist bargains to be translated into actual policy reforms.



## 1 Internationalisation and Social Concertation: A Prelude

Almost thirty years ago, the two seminal volumes written by Peter Katzenstein (1984, 1985) highlighted the corporatist strategies adopted by small European states to cope with international economic interdependence. The small countries he analysed – Austria, Switzerland, the Netherlands, Sweden, Norway, Denmark and Belgium – displayed the typical corporatist characteristics outlined in the previous chapter: strong co-operation between the social partners and the state in the elaboration of social and economic policies on the one hand, and strongly organised labour markets on the other. These countries, Katzenstein argued, reacted differently from bigger states to the international economic crises of the 1970s. Instead of confrontational or protectionist strategies, they opted for negotiated processes of adaptation and free trade policies. Concerted adaptation strategies yielded policies coupling economic openness and so-called “domestic compensation measures”.

Katzenstein’s approach can be considered path-breaking because it explained national political strategies and institutional arrangements by conditions that prevailed in the international sphere. In this respect, it was one of the first examples of the “second-image reversed” perspective, which considers domestic politics not only as a *cause* but also as an *effect* of international relations (Gourevitch 1978). According to Katzenstein, institutionalised policy concertation in small European states was essentially a result of the functional pressures induced by their international environment. Because of the size of their domestic markets, small states could not rely on protectionist strategies and instead have strongly relied on exports. They notably thrived in a limited number of niche markets with high-value-added goods. By contrast to big states, small states could not afford to impose tariffs to protect domestic industries, since similar policies by other countries would have dramatic consequences. They had to keep their domestic markets open if they wanted big states to accept their products.

The downside of this strong dependence on exports was a greater degree of vulnerability vis-à-vis changes in the international economy. Economic performance essentially depended on demand generated abroad, and was therefore determined by factors outside the sphere of competence of the state. This common situation of dependence shared by government, capital and labour alike led these actors to avoid open conflicts in order to stay competitive in world markets (“we are all in the same boat”). Dependence on international markets fostered an ideology of social partnership

and the emergence of policy solutions jointly agreed between the state, employers and trade unions.

The policy outputs achieved through corporatist policymaking in this context were designed to reconcile economic openness and some level of social protection for the domestic workforce. This was mainly done by coupling external *laissez-faire* (low tariffs) with domestic policy activism through “domestic compensation measures” (active welfare protection, income guarantees, active labour market policies) to balance the social consequences of free trade and rapid economic change. This was achieved through a wide array of pro-active measures to foster employment: manpower policies aimed at requalifying workers of declining industries, generous mechanisms of income compensation, a relatively large public sector acting as a buffer vis-à-vis international fluctuations, or centralised systems of wage moderation to maintain competitiveness in world markets (Katzenstein 1985: 49).

The shape and extent of these compensation measures were determined by the underlying power relationships between labour and capital. Social corporatist countries (Austria, Norway, Denmark) relied more upon public adaptation strategies than liberal corporatist countries (Switzerland, Netherlands, Belgium). The latter left more room for market forces in economic governance. The contrasting examples of Sweden and Switzerland are significant in the way they responded to the economic downturn of the 1970s and the decline in employment that it provoked. Sweden used generous income compensation policies and funded active measures of requalification for workers. In Switzerland, by contrast, the costs of economic change were essentially borne by women – an important part of them retreated from the labour market – and by foreign workers – whose work permits were not renewed if they lost their jobs (Bonoli & Mach 2000). These different strategies showed the difference between public and private responses deployed by social and liberal-corporatist countries.

In the 1970s, the possibility to use social compensation strategies was certainly greater than now, although it also differed across countries (Scharpf 1991). The institutional environment created by the European Union has severely changed the constraints and opportunities in which corporatist political economies evolve. In the next section, I briefly outline the market-making dynamics of European integration, before outlining their domestic effects on social concertation.

## 2 The Dynamic of Supranational Market-Making in the EU

If corporatist governance in small European states has been shaped by external influences since their early phase of industrialisation, as argued by Katzenstein, European integration has significantly changed the nature of those external influences. European integration involves a much deeper level of economic integration and a stronger institutional dimension than any other existing international regime (Beyeler 2003: 160). In the past, the room for manoeuvre of small open economies in social and economic policies could be restricted by possible sanctions of disinvestment or capital flight. This certainly represented a constraint on domestic policymaking, but did not *legally* hamper possibilities of domestic compensation.

European integration, by contrast, does constrain policymaking within its member states to a much greater extent. The scope of EU legislation is much wider than that of any other international organisation. EU law precedes domestic law in its areas of jurisdiction, and rulings of the ECJ have a binding effect. With the loosening of the unanimity rule in the last constitutional reforms in the EU, it has become more likely that member states must adopt legislation against their preferences (Beyeler 2003: 160). Most importantly, the room for manoeuvre of member states on any issue regarding the four freedoms within the single market is severely constrained by EU competition law. As a result, some of the existing “compensation strategies” adopted by small states, notably those of social corporatist countries focusing on public strategies, may no longer be possible.

Fritz Scharpf’s (1999, 2010) idea of “negative” and “positive” integration provides a good starting point to understand the differential extent of integration in the social and economic domain within the European Union. Despite considerable achievements towards the creation of a European polity, the most important dynamic behind European integration has been *economic*. Scharpf convincingly explains that the core of European integration, despite recurring attempts to strengthen the “social dimension” of the EU, has mainly consisted in measures aimed at extending market mechanisms: the free movement of goods, capital, services and labour. The achievements of the EU in this domain have been very impressive set against the anti-competitive practices that prevailed in many member states in the 1970s and 1980s, including public monopolies, protectionist non-market arrangements, different standards and rules across countries, cartels, restrictive immigration policies, etc. This is called “negative inte-

gration” because it seeks to achieve integration by *removing* national regulations that limit market mechanisms. Mutual recognition, for instance, has been a central mechanism in this process.

By contrast, “positive integration” consists in the *creation* of new rules at the supranational level (through harmonisation), that are mainly aimed at regulating markets and correcting their deficiencies. The creation of rules, such as common standards for products or the harmonisation of social security systems, can also serve to enhance competition by facilitating the circulation of goods, labour and services. The creation of a common tax system or social policy directives essentially fall into the realm of positive integration. An example of this can be the European directives on working time or parental leave, or any measure of social policy developed at the European level. In this domain, integration has been much less far-reaching. Domains such as welfare regulation have mainly remained in the realm of member states. “Soft” modes of governance such as the Open Method of Coordination (OMC) have emerged as a way to coordinate social and employment policies across member states, but they have remained a weak constraint, and it seems that their actual impact has remained limited (Höpner & Schäfer 2008: 13).

Scharpf explains the predominance of negative integration by the different institutional mechanisms that govern both forms of integration. Negative integration mainly depends from supranational institutions (Commission and European Court of Justice) whereas competences in positive integration lie in intergovernmental institutions (Council and European Parliament). This means that transaction costs to reach decisions are much higher in the latter than in the former. Greater majorities (unanimity or qualified majority) are necessary to achieve decisions in positive integration, whereas lighter decision procedures prevail in negative integration. Competition policy, for instance, has been an important domain of activism of the Commission. Most interestingly, path-breaking initiatives in negative integration have been prompted from outside elected bodies (Council or European Parliament) such as the European Court of Justice, whose rulings have played a central role in the creation of the single market. *Cassis de Dijon* for the free commercialisation of goods across countries, *Rush Portuguesa* for the free provision of services across countries, or recently *Viking* and *Laval* for the prevention of national practices that may distort competition on service provision across borders, are only a few examples (Dolvik & Visser 2009)

Recently, Höpner and Schäfer (2010) have argued that European Integration may have entered a new “post-Ricardian” phase whereby distinct

varieties of capitalism can no longer rely upon their respective institutional advantage, and where stronger convergence can be expected. Hence, while previous phases of integration for product markets had allowed coordinated and liberal market economies to draw upon their respective institutional advantages in international competition, recent initiatives in the domain of corporate takeover regulation, company law and industrial relations may have started the unravelling of coordinated market economies by transforming their organisation foundations on site. A similar statement is made by Scharpf (2010), who argues that the asymmetry on which integration is based does not allow the EU to become a “social market economy”. The basis of their argument is that supranational market integration has asymmetric effects in liberal and coordinated (corporatist) market economies. Whereas liberal market economies may benefit from further economic integration, the performance of economies based on a high-skill/high-wage equilibrium may be damaged by recent steps of integration, thereby also creating further domestic resistance and resentment. This ultimately undermines the viability of the European project (Höpner & Schäfer 2010: 362).

### **3 The Contested Impact of European Integration on Social Concertation**

European integration has been believed to both undermine and to strengthen social concertation at the domestic level. Whereas economic liberalisation was essentially believed to hollow out corporatist arrangements in the aftermath of the completion of the Single Market, the economic criteria of EMU have been understood as the main cause of the re-emergence of social concertation in the 1990s. In this section, I outline these two contrasting positions before proposing an alternative approach which brings politics back to the centre of the analysis.

Despite their differences, the approaches presented in this section predict a uniform impact of European integration on domestic concertation, either negative or positive, through a form of “institutional isomorphism”. That is, they assume that European integration deploys similar effects at the domestic level, independent of the configuration of domestic politics. European integration is assumed to be so powerful as to trump domestic politics, and the discrepancy between national and European procedures of policymaking is assumed to be the determining factor influencing this impact.

### 3.1 European Integration as a Weakening Factor for Domestic Concertation

In the wake of the creation of the Single Market in 1992, many analysts thought that domestic corporatism would collapse under the effect of European integration (Streeck & Schmitter 1991; Streeck 1993). Since the macro-corporatist arrangements of the 1970s were tightly linked to Keynesian policymaking implying the coordination of wages, tariffs, taxes and monetary policy, the supra-nationalisation of many of those policies would affect the very rationale of corporatism. The main idea was that corporatism as a way of making policy made little sense in more internationalised markets, because governments themselves would lose most of their powers of economic regulation (Martin & Ross 2004). This would happen as a result of both economic and political changes.

On the economic side, European integration can be believed to alter the balance of power on which corporatism rested. European integration accelerates structural change, weakens organised labour and strengthens capital. The transnational integration of markets accelerates economic change and fosters deindustrialisation in high-wage countries, thereby also contributing to the decline of trade union membership. The opening of public utilities to competition and the privatisation of public services is a direct attack on traditional trade union strongholds. Besides, greater opportunities of investment abroad increase the bargaining power of business over trade unions. Threats of industrial action can be countered by threats to move production abroad by employers, for instance to Eastern Europe (Raess 2006). European integration also facilitates “regime-shopping” in national systems of economic regulation. Companies can more easily bypass local regulatory arrangements (like collective labour agreements) by relocating their headquarters to countries with less stringent regulatory regimes, thereby starting a “race to the bottom” amongst national systems of regulation. A stunning example of this was the posting of workers in the construction sector in Germany during the 1990s, which underwent a significant disorganisation trend when foreign companies could exploit the loopholes of legislation, post workers from cheaper countries and circumvent local rates of pay (Balch et al. 2004; Hunger 2000; Menz 2005). In this context, incentives to join trade unions decrease, because their ability to protect wage standards becomes simply too weak compared to the strengthening of capital.

On the political side, European integration can lower incentives for governments to engage in concertation because it opens up other channels to make policy. The emergence of a supra-national structure of de-

cision-making allows national executives to escape the constraints of domestic politics by shifting issues to supranational arenas (Grande 1996; Moravcsik 1994) or by playing “two-level games” (Putnam 1988), that is, using supranational constraints to strengthen one’s position at home and vice versa (Hay & Rosamond 2002).

Along this line, Moravcsik argues that European integration “strengthens the state” by redistributing initiatives, institutions, information and ideas at the domestic level. First, European integration increases executive control over domestic policy agendas (*initiatives*). National executives enjoy in principle a monopoly of representation of national interests in international negotiations, thereby giving them a “gate-keeping” power in the claims that will be negotiated at the international level. International agreements are generally only presented to Parliaments or voters, if at all, when they have already been concluded. When they come back to the domestic level to be ratified, they are presented as “take it or leave it” deals. The ratification of international agreements is most of the time subjected to deadlines, thereby leaving less time for concertation with organised interests. Second, European integration shifts decision-making to the channels of foreign policy (*institutions*), which tend to be more closed towards societal interests than other domains, such as social or economic policy. Traditionally, trade unions and employers entertained strong links with ministries of social affairs and/or employment, but links with ministries of foreign affairs tend to be less institutionalised, and the influence of trade unions and employers is therefore weaker. Third, European integration creates informational asymmetries (*information*) both about the issues at stake and the preferences of other governments. When executives present unpopular policies at the domestic level, they can shift the blame on other states or on supranational institutions, arguing that “Brussels made them do it” (Grande 1996). Finally, European integration provides governments with additional sources of *ideological* legitimisation in the sense that they can claim to represent “the national interest” and outplay criticisms (*ideas*).

As a whole, these economic and political factors have been believed to weaken domestic social concertation by changing the power balance which underpinned it in the past, either by empowering capital over labour, or by empowering governments over organised interests. With the emergence of a transnational interest community at the supranational level, the loss of power of organised interests may be counterbalanced by corporatist deals struck at the supranational level. However, this does not compensate for the loss of influence at the domestic level, which remains

the main locus of regulation of social protection and employment relationships (Falkner & Leiber 2004: 247). Empirical evidence for this kind of mechanisms was found by Schneider et al. (2007; Schneider & Baltz 2005) in the domestic pre-negotiations for EU decision-making. Hence, they argue that “the interaction between government agencies, interest groups and parties in the formation of EU legislation is largely *étatiste*” (Schneider et al. 2007: 444), with a strong role for bureaucratic discretion. However, the policies they analysed seemed for very technical or low-salience nature, such as EU regulations on the use of PVC materials in toys (Schneider & Baltz 2005).

**Hypothesis three:** There is a weaker degree of concertation in Europeanised issues than in domestic issues because European integration strengthens governments domestically.

### 3.2 European Integration as a Strengthening Factor for Concertation

Contrasting with the dire initial prospects for social concertation in the aftermath of the Single European Act, the 1990s witnessed its re-emergence in many European countries. This phenomenon has essentially taken the form of “social pacts”, or formalised agreements between governments, trade unions and employers over one or many measures of social and economic reform. Interestingly, this has often been analysed as a direct consequence of European integration. Schmitter and Grote (1997: 3) argued for instance that the rebirth of corporatist policymaking in Europe over the 1990s was primarily due to “the feverish efforts of national governments to adapt to EU directives, product and professional standards, verdicts of the ECJ and the convergence criteria for EMU”.

In particular, the rebirth of corporatist policymaking in Europe has been considered a response to the need for coordination induced by the Economic and Monetary Union. The convergence criteria of the Stability and Growth Pact have put great pressure on some countries to reconcile multiple macro-economic objectives at the same time: containing inflation, cutting public spending, or increasing revenues to reduce public deficits.<sup>5</sup> In this context, the cooperation of trade unions and employers was considered central to building a domestic consensus over domestic adjustment. Hence, social pacts emerged in countries such as Italy, where the extent of the reforms that had to be conducted to meet those criteria was extremely important. Drawing on this, Hancké and Rhodes (2005) es-



mentally explain the emergence of social pacts by the extent of the “problem load” faced by governments. In a more longstanding perspective, Hassel (2006) shows that in a context where the tools of monetary policy or the manipulation of exchange rates are no longer available, seeking wage restraint by engaging in concertation with trade unions (or “competitive corporatism”) is the only tool left for governments to keep a grip on unit labour costs.

Following up on his argument made 25 years ago, Katzenstein (2003: 23) also argued that the mechanisms he highlighted to explain concertation in the 1970s may have been amplified by European integration, insofar as “increasing Europeanisation strengthens corporatist tendencies in the small European states, which are predisposed for bureaucratic and political reasons toward Europeanisation.” (Katzenstein 2003: 25) Small countries, that are still – and even more than before – dependent on exports cannot afford domestic conflict on European issues, and therefore need to set up domestic compromises to remain competitive. Moreover, in a context of increasing economic interdependence, the logic that applied only to small states 30 years ago may nowadays also apply to bigger states, since the direct leeway of all countries – whatever their size – over their economy has shrunk dramatically.

Along slightly different lines, Vivien Schmidt (2006a) also argues that European integration fosters corporatist policymaking at the domestic level because it “fits” better with the way policies are made within the European Union. In this respect, her argument is in direct contradiction with the liberal-intergovernmentalist argument put forward by Moravcsik. Decision-making procedures within the European Union, Schmidt argues, are characterised by a “semi-pluralist” form of interest intermediation displaying great openness for private interests, which brings it closer to a corporatist mode of policymaking than to a statist mode as found in France or in the United Kingdom (Schmidt 2006a: 672). Indeed, supranational interest lobbying, in particular on the side of business, has existed since the early phases of European integration, along with the delegation of competences in important domains (industrial standards and regulations, for instance) to the EU level. The EU’s policymaking process is relatively open to organised interests amongst others because the integration of “organised civil society” is believed to compensate for the weakness of classical channels of representation in the EU (Greenwood 2007: 178).<sup>6</sup>

This openness of policymaking to private interests at the European level is believed to spill over to the domestic level because there is a better

degree of “fit” with EU policymaking in corporatist systems than in statist systems. European policies therefore tend to push statist systems towards the corporatist type, and reinforce corporatist systems through some form or “bureaucratic socialisation”. The incentive for the inclusion of private interests is especially observable in the domain of EU social policy, which contains explicit guidelines as to the consultation of domestic social partners. Empirical support for this thesis was found in the implementation of EU social directives on working time or parental leave developed at the EU level through a form of corporatist intermediation. Hence, Falkner et al. (2004; 2005) found a reinforcing or at least stabilising effect of EU social policy on domestic patterns of corporatist intermediation, for instance in Ireland and Austria.

**Hypothesis four:** There is a stronger degree of concertation in Europeanised policy domains than in domestic policy domains.

#### **4 European Integration and the Politics of Social Concertation**

So far, the impact of European integration on social concertation, either positive or negative, is essentially understood as a result of structural, macro-economic or administrative incentives. European integration is believed to affect domestic social concertation either by strengthening or weakening its macro-economic incentives, or by changing its underlying structures. Similarly to the explanations outlined in the previous chapter, these approaches tend to adopt a rather de-politicised view of European integration. More specifically, they tend to assume that technocratic strategies can easily be deployed in the adaptation of national rules to European policies without much of a role for politics. Along this line, Peter Mair argued that

the current wave of scholarship on Europe persists in more or less ignoring politics in the treatment of European integration and Europeanisation. Where conflicts arise [...] it is because of “misfit”: that is, there are a variety of administrative, policy-based, or institutional reasons why various European proposals fail to match existing domestic practices. These conflicts are then settled through the use of administrative, policy-based or institutional solutions. In this sense, there seems little room for political or partisan contestation in Europeanisation – whether we speak of the actors involved, who usually tend to favour

de-politicisation in any case, or of the analysts and scholars, who tend to see politics as being irrelevant to the issues at stake. (Mair 2004: 344)

This is especially problematic in light of the fact that European integration has become an increasingly politicised issue at the domestic level:

Since the signing of the Single European Act, and especially since the contentious ratification of the Maastricht Treaty, wider publics have become politicized with regard to the EU. For the first time, European issues have forced their way onto the agenda of national politics, and domestic politicians can gain or lose votes as a result of the positions they have taken in Brussels. The new cleavages generated by debates over “more versus less Europe” seem to be cutting across the traditional cleavages of class, religion, and geographic location, thereby undermining the coherence of domestic political parties and party systems. Even more surprisingly, an overwhelming proportion of prominent national politicians – irrespective of party affiliation – have tended to support EU initiatives (except in Great Britain), but they have found themselves increasingly disavowed by their previously compliant followers. Politicisation, in other words, has tended to be inimical to further extensions of the integration process. (Schmitter 2003: 79)

If European integration has become a politicised issue (Hooghe & Marks 2009), the de-politicised manner whereby it is believed to affect social concertation seems difficult to sustain both theoretically and empirically. On the one hand, the market-making impetus of European integration has created a substantial amount of resistance at the domestic level, as shown by the misfortunes of the EU Constitutional Treaty in France, the Netherlands or Ireland in 2005, and many other referendums on the issue of European integration. Without a doubt, the refusal of the Treaty by Dutch, French and Irish voters was closely linked with ongoing discussions about the liberalisation initiatives mentioned above (Höpner & Schäfer 2010: 362). Moreover, as will be emphasised below, eurosceptic parties have become substantial electoral forces in many European countries, and have contributed to restructuring coalition politics also in strictly domestic policy domains.

Supranational market-making may affect social and economic structures and perhaps undermine the structural bases of corporatism, but

it also creates a potential for politicisation that can be exploited by domestic political forces. This makes it difficult for governments to “cut slack” domestically because European issues are under increasing public scrutiny, and bringing in unpopular EU reforms can now have severe electoral consequences. In this context, understanding the emergence of social pacts as a “problem-solving” or “functional” response to economic problems may neglect the more purely *political* strategies pursued by governments. As argued in the previous chapter, concerns about economic efficiency are only one amongst many factors that drive governments’ political strategies, and the goal of ensuring popular or party support is at least as important. At the empirical level, Avdagic (2010) has shown that the extent of macro-economic problems alone does not fully explain the occurrence of social pacts in Western Europe, and that Governments’ political calculations play a central role as well. In short, European integration can no longer affect concertation in a “quiet” or mechanistic manner whereas it has become a fairly noisy and contentious issue.

Indeed, the elite arrangements which characterised European integration in the past have been challenged since “Europe” has entered the contentious world of domestic politics. Whereas the early years of European integration had been characterised by a “permissive consensus” in which low issue salience allowed European leaders to further integration without much domestic opposition, the increasing politicisation of European integration has turned it into a “constraining dissensus” where the margin of manoeuvre of political leaders has become smaller: “elites, that is, party leaders in positions of authority, must look over their shoulders when negotiating European issues. What they see does not reassure them.” (Hooghe & Marks 2009: 5)

There is substantial evidence that European integration has become increasingly prominent and controversial as a political issue in domestic politics. Kriesi (2007) shows for instance that the share of news reports devoted to European integration in France, the Netherlands, Germany, Britain, Switzerland and Austria more than doubled between the 1970s and the 1990s. Similarly, the share of national protest actions directed towards “Europe” have increased from 5-10 per cent in the 1980s to 20-30 per cent in the second half of the 1990s (Imig 2004). Finally, an expert survey found that European integration was the third most important issue in national party competition in Western Europe in 2003, behind taxes/public expenditures and deregulation/privatisation, but ahead of immigration (Benoit & Laver 2006:

160). The directive on the liberalisation of services in the European Union, or “Bolkestein directive”, was for example considered the first instance of wide politicisation of a liberalisation issue within the Single Market:

Until then, internal market policies had gone mainly unnoticed, but this time protest soared. [...] With the Services Directive, politicisation hit the internal market. (Schmidt 2009: 847)

For social concertation, this is especially important if one considers that the most salient issues related to European integration have been service liberalisation (the “Polish plumber” debate) or the opening of labour markets for new EU member states. That is, precisely the issues where trade unions and employers traditionally play a predominant role. In this context, the approaches focusing on macro-economic incentives or administrative socialisation face strong limitations because they mainly consider that domestic adaptation to European integration can take place in a depoliticised manner.

In the following sections, I propose two mechanisms whereby European integration may *politically* affect the choice of governments for social concertation. These mechanisms essentially draw upon the framework put forward in the previous chapter. First, Governments may resort to concertation as a way to devise compensation measures for the market-making dynamics of European integration on which they have limited control, and make domestic liberalisation more acceptable to workers and citizens. This is mainly due to the fact that EU deregulation initiatives are increasingly met with popular resistance. Second, European integration can contribute to a reconfiguration of domestic partisan alliances and new cleavages between or among political parties. The most important evolution in this respect has been the emergence of populist radical right parties in many European countries, and especially in Austria and Switzerland. To the extent that modalities of social concertation were closely linked to stabilised patterns of party competition, this reconfiguration of domestic cleavages may alter government incentives for concertation. In this context, the alliance strategy of centre-right parties becomes pivotal.

#### 4.1 Supranational Market Integration, Concertation and Domestic Compensation

If there has been ample literature on the “democratic deficit” of the European Union, many authors have recently argued that the most important impacts of the EU on democracy have taken place at the domestic level (Schmidt 2006b; Schmitter 2003). Hence, the transfer of competences from national to supranational institutions has contributed to undermining the legitimacy of national parties and governments. Philippe Schmitter has argued for instance that the true democratic deficit in the European Union is not so much related to the lack of democratic procedures in EU institutions themselves (Council, Commission or Parliament), but rather to the democratic problems it generates *within member states*. European integration, Schmitter argued,

increasingly limits the options for national politics, and citizens are less and less presented with substantive alternatives that they can choose from. (...) It is not so much the lack of democracy at the supranational level, as the intrusion and “perverse” effects of European integration on national democracy that should worry us.<sup>7</sup>

In many ways, the damaging impact of European integration on the legitimacy of national democracy stems from a mismatch between the *effective* locus of power and the *legitimate* locus of power for citizens. Hence, if national governments have delegated an ever wider array of competences to supranational institutions in the area of economic policy, national parties and governments have remained the main actors that citizens hold accountable for the functioning of their national economies. Against the backdrop of the EU’s asymmetric path to integration, Scharpf (2010: 243) similarly argues that this mismatch “is presently undermining political support for European integration and weakening democratic legitimacy at the national level”. In a nutshell, governments have to take the blame from citizens for EU neoliberal policies and measures of economic deregulation, whereas they have lost control over the process of European integration and where it is heading.

This dissatisfaction does not emerge spontaneously, but is essentially triggered by the politicisation of European integration by domestic parties and/or interest groups. Given the complicated and often technical nature of European integration issues, citizens rely on cues from secondary organisations to form an opinion about them (Anderson 1998). The most prominent actors politicising European integration in domestic political

battles have been extreme-right and extreme-left parties. De Vries and Edwards (2009: 5) notably show that

whereas right-wing extremist parties oppose European integration with the defence of “national sovereignty” and successfully mobilize national identity considerations against the EU, left-wing extremist parties resist further integration in Europe on the basis of the neoliberal character of the project and effectively cue voters against the EU on the basis of economic insecurity arguments.

Besides fringe parties on the left or on the right, trade unions have been particularly likely actors to politicise issues related to European integration along fairly similar lines as extreme-left parties. As argued above, the most salient issues have touched upon measures of labour market liberalisation of direct importance to them. Hence, mobilising against the Bolkestein directive has been relatively easy because its implications were made particularly clear for local workers. In contrast to fringe parties, mainstream parties are more reluctant to politicise European integration because the electoral pay-offs may be uncertain, do not fit well within a left-right axis, and may reveal internal divisions (Green-Pedersen forthcoming). It may be assumed that national governments are especially vulnerable to politicisation over issues of European integration because they only partly control the measures that are implemented at the EU level.

In this context, it is increasingly difficult for national governments to gather popular support and possibly ensure re-election because they are stuck between increasing supranational constraints from above, and increasing dissatisfaction from citizens from below. Since social concertation can be understood as a political strategy for governments to build political support, it may be an expedient tool to pre-empt opposition to supranational integration measures, at least as far as trade unions are concerned. If EU-led liberalisation cannot be stopped, seeking support from trade unions at the domestic level by devising “accompanying measures” can be a way to restore some governance capacity and to reassure voters. This can for instance take the form of “social compensation measures” as outlined by Peter Katzenstein. However, in contrast to the functionalist understanding of compensation implied by Katzenstein, compensation should be understood as the result of a politicisation process where Governments are spurred to act. Employers play a secondary role in this

process, but they may be encouraged to take part in concertation procedures to shape policy outcomes, or perhaps limit the reach of government intervention.

**Hypothesis five:** European integration triggers social concertation only when it becomes politicised at the domestic level.

#### 4.2 Social Concertation, Right-Wing Populism and Coalition Politics

Another way whereby European integration can affect social concertation is by reshaping domestic party coalitions, notably with the emergence of national-populist parties who have capitalised on euroscepticism. This opens new potentials and constraints for coalition-building at the domestic level, with important potential consequences for social concertation.

Kriesi et al. (2006; 2008) argue that processes of internationalisation, most prominently European integration, have created a new political divide observable everywhere in Europe between “losers” and “winners” of these processes. This new cleavage does not fully correspond to the classical class divide. Hence, “losers” can be blue-collar workers threatened by deindustrialisation, or smallholders or shop owners threatened by foreign competition. The emergence of this group of “losers” creates new electoral potentials for political organisations, different opportunities for coalition-building amongst political parties, and possibly increasing fragmentation in national party systems. Kriesi et al. notably show that the makeup of political spaces in Western Europe has changed substantially since the 1970s. The cleavage between integration and demarcation vis-à-vis European integration or immigration has become more prominent. This evolution has favoured an increasing fragmentation of party systems and the empowerment of fringe parties at the expense of mainstream parties, who have proved hesitant in their positioning vis-à-vis the new cleavage (Kriesi et al. 2006: 928).

A central feature of this process has been the emergence of right-wing national-populist parties as prominent political forces in countries such as the Netherlands, Austria, Switzerland, France, Denmark or Italy. Their main line of differentiation with mainstream right-wing parties has been their stance on European integration and/or immigration issues. In short, they mainly claim to represent the “losers” of globalisation, with blue-collar workers and small business owners constituting the core of their electorate (Oesch 2008). Radical-right populist parties have emerged as

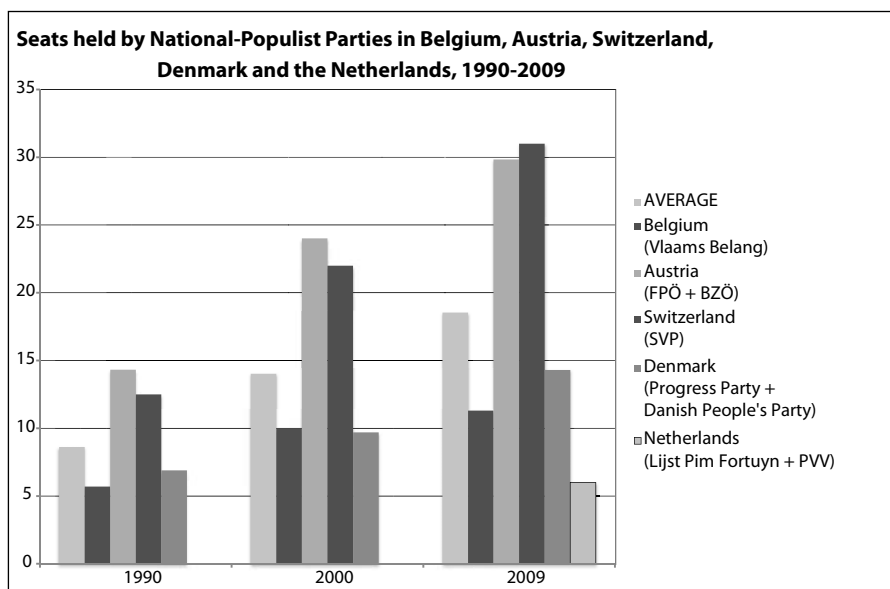


a significant electoral and parliamentary force in Western Europe since the mid-1980s. From about 8.6 per cent in 1991, the average share of seats of national populist parties in the parliaments of Switzerland, Austria, Belgium, the Netherlands and Denmark had reached 18.5 per cent in 2009 (Figure 5).<sup>8</sup>

Mudde (2007) has described the ideology of these parties as a combination of populism, nativism and authoritarianism at the core of their ideologies. Populism refers to an anti-establishment political discourse which draws a line between the parties themselves representing the “people” on the one hand and the political establishment or the “elites” on the other (Bornschier 2010: 35; Mudde 2004). Nativism “holds that states should be inhabited exclusively by members of the native group (‘the nation’) and that non-native elements (persons and ideas) are fundamentally threatening to the homogenous nation-state.” (Mudde 2007: 19) Finally, authoritarianism refers to an ideology advocating a tough stance on issues of law and order, and possibly to a hierarchical form of party organisation which contrasts with the pluralist organisation of other parties (Bornschier 2010: 35).

Papadopoulos (2005) rightly points out that these parties found a particularly fertile ground in so-called “negotiation” or “consociational” democracies characterised by frequent oversized cabinets and corporatist systems of decision-making. This notably includes Switzerland (with the *Schweizerische Volkspartei*), Austria (the *Freiheitspartei Österreich*), the Netherlands (with the *Lijst Pim Fortuyn*, and then Geert Wilders’ *Partij voor de Vrijheid*) or Denmark (with the Progress Party, and then the *Dansk Folkeparti*). Besides the fact that proportional electoral systems obviously make it easier for new parties to make their way into parliament, negotiation democracies are also more prone to a populist critique since decision-making entails a great deal of negotiations and compromise-building behind closed doors between elites, notably through social concertation. In this context, populist denunciations of a “cartel of elites” has been a particularly fruitful strategy for radical-right parties (Crepaz 1994). In particular, the national-populist criticism of concertation arrangements offers “the tantalising prospect of weakening existing power arrangements in the continent’s various organised market economies with their cosy ties between mainstream political parties, labour market associations and economic elites.” (Heinisch 2003: 96) Hence, the increase in the parliamentary representation of populist radical-right parties (Figure 5) can at least partly be understood as a reaction against opaque corporatist institutions and processes.

**Figure 5 Parliamentary Representation of Populist Right-Wing Parties**



The emergence and strengthening of PRRPs in countries with strong corporatist institutions and organised labour movements is particularly interesting because these parties have progressively conquered the traditional clientele of trade unions (Lubbers et al. 2002). Hence, surveys have shown that workers (white and blue collar) have become the core clientele of PRRPs, ahead of small business owners, in Austria, Belgium, Denmark and Norway, whereas in Switzerland they are only surpassed by those small business owners amongst SVP voters (Oesch 2008: 350). Over the past decade, PRR parties have hence been considered a new type of working-class party (Betz 2004: 12), even if the policies they have been advocating have been radically different from those of both trade unions and social-democratic parties, particularly in the realm of social and labour market policies.

Set against this background, the rise of national-populist parties as an indirect effect of internationalisation can be thought to affect concertation through three mechanisms. First, the increase in the electoral strength of PRRPs has substantially increased the potential size of right-wing party blocs in parliament. By including the far right either as a coalition partner or as a support party, centre-right parties can retrieve votes that were either wasted in abstention or went to the social democrats (Bale 2003: 69).

This notably increases the likeliness of ideologically cohesive right-wing coalitions between centre-right and populist right parties, which are less prone to engage in social concertation.

Second, the competition from PRRPs has pushed centre-right parties further to the right, thereby accelerating the centrifugal tendencies of party systems (Bale 2003). Whilst PRRPs can be useful to centre-right parties as a catalyst for voters who otherwise would not vote for right-wing parties, they also constitute dangerous competitors for votes. In reaction to this, centre-right parties all over Europe have sought to move ideologically towards the right by integrating the core themes of radical right parties in their party platforms ("contamination") (Norris 2005). Even if Social Democrats have also had to reposition themselves towards the far right (Bale et al. 2010), the ideological distance between centre-left and centre-right parties can be expected to increase.

In this context, centre-right parties are conferred a pivotal role because they can either choose to coalesce with social democrats, usually in a grand coalition, or with populist radical right parties in a simple majority right-wing coalition. Whereas early PRRPs largely appeared as pariahs with whom coalition governments were ruled out (a "cordon sanitaire"), this has changed substantially over the last decades. Right-wing coalitions between centre-right and radical populist parties have come about in many countries. By contrast, coalitions between social democrats and radical populist parties in Western Europe are a much less likely option. If centre-right parties opt for cooperating with social democrats while still seeking to cover the ideological space invested by PRRPs, the emergence of a consensus becomes problematic because the ideological distance between coalition partners may be too large. The further away from one another the ideal policy positions of ruling parties are, the more difficult it is to find policy compromises. It is precisely in this context that trade unions and employers can act as "policy brokers", as mentioned in the previous chapter, because they are insulated from the electoral game.

By contrast, if centre-right parties choose to coalesce with the radical right, retrenchment is more likely to happen, and concertation as a mode of compromise-building is likely to be marginalised. This strategy seems to be more efficient for centre-right parties as policy-seekers because PRRP are generally closer to their position than social democrats. Bale (2003: 75) for instance argues that differences between mainstream and radical right parties are generally more a matter of degree rather than kind. Drawing upon this, the occurrence of concertation can be assumed to depend upon the strategy pursued by centre-right parties. If they co-

alesce with populist radical right parties, social partners will be marginalised. By contrast, if they coalesce with social democrats, corporatism will come to play a substantial role as a way of finding compromises between increasingly estranged centre-right parties and social democrats.

**Hypothesis six:** If centre-right parties coalesce with social democrats under the threat of national-populist-parties, concertation is used as a tool to build compromises between ideologically divided parties.

**Hypothesis seven:** If centre-right parties coalesce with right-wing populist parties, social concertation is marginalised.

## 5 Summary

In this chapter, I have examined the relationship between social concertation and European integration, understood in the literature as one of the most decisive influences in the relationship between governments and organised interests at the domestic level. After outlining the way supranational market integration in the European Union can affect concertation, I have outlined available approaches which posit a direct impact of European integration on social concertation either in the direction of a strengthening, or in the direction of a weakening. Then, acknowledging the idea that European integration has become increasingly politicised at the domestic level, and that it may have created new political cleavages, I have outlined an approach which posits that this impact is mediated by the factors emphasised in the previous chapter: politicisation and party politics. The hypotheses formulated here will serve to compare cases of strong and weak Europeanisation as presented in the following chapter.

## 4 Methods and Cases

The major part of social policy, and especially labour market policy, is a competence of the social partners. This means that Parliament has a somewhat weaker role, because what comes to us is already arranged policy packages. [...] If the whole thing eventually appears in the media, it was actually agreed weeks and months in advance, behind closed doors. And it is very difficult to know what the nature of the deal was, to know what the position of the trade unions was, how it was met in the negotiations [...] So you really need personal contacts inside the organisations and people who communicate things to you. Often, internal contact persons within the organisations do not know much either, because the elites of the trade unions are probably better connected to the elites of the employers than with their own hierarchy. Social Policy Advisor, Green Party Austria (Interview AUT5)

### 1 Measuring Social Concertation

The methods researchers use in the social sciences should be determined by the empirical problems they seek to explain, rather than the other way around: methodology should be aligned with ontology (Hall 2003). Starting from this, measuring and explaining social concertation implies a number of methodological pitfalls. First, as highlighted by the quote above, compromises between social partners are often struck in closed settings. In day-to-day procedures of social concertation about public policies, opacity is often a constant, and is even sometimes a pre-condition for compromises to emerge, because employers and trade union elites may have an interest in concealing the concessions they make to the other side from their own rank-and-file. Schmitter and Streeck (1981) have pointed this out very accurately when they described the interactions between the *logic of membership* and the *logic of influence*. Now, this poses a set of methodological problems as well. In this study, I rely

essentially on qualitative methods. I use a rather simple typology to measure concertation, and a combination of process-tracing and comparison of cases to explain it.

The main advantage of qualitative methods and case studies is that they can achieve a higher level of conceptual validity than statistical methods, however over a smaller number of cases. In qualitative research, one can better “identify and measure the indicators that best represent the theoretical concepts the researcher intends to measure” through a deeper knowledge of cases (George & Bennett 2005: 19). By contrast, quantitative research essentially relies on *proxies* to measure concepts, and proxies are difficult to find for corporatist *processes*. The measurement of *processes* in general is particularly tricky when it comes to corporatist concertation because of their especially fluid, immaterial and sporadic nature.

If measures of structural-economic aspects of corporatism (centralisation, coordination of wage bargaining, union density, etc.) are commonly used in quantitative research, this is not the case for its procedural dimension. This dimension tends to be neglected, or considered as just one element amongst many others (see e.g. Siaroff 1999). In his survey of quantitative indicators of corporatism, Kenworthy (2003) mentions only a few attempts in this direction, notably by Lehmbruch (1984), Compston (1994, 1995) and Traxler, Blaschke and Kittel (2001). One can add one more recent attempt by Baccaro and Simoni (2008), in which they measure the willingness of governments to engage in concertation.

However, these latter authors also rely on case studies to understand the political logic of concertation (Baccaro & Simoni 2008). Qualitative-comparative analysis has yielded interesting results too in the analysis of social pacts (Avdagic 2010), but here again, the public nature of social pacts implies fewer problems of measurement. While explaining why there were no social pacts in Austria, Sweden and Denmark, Avdagic (2010: 640) acknowledges that

these countries have a range of long-established participatory institutions, and social partners are often involved in day-to-day governance of specific policy areas. In a sense, such developed corporatist infrastructure may have made formal social pacts redundant. Indeed, governments and social partners in these countries were able to agree on some wide-ranging reforms during the 1990s without ‘packaging’ these instances as formal social pacts.

In order to assess the extent of participation of organised interests in policymaking, I use a simple ordinal typology inspired by those used by Falkner and Leiber (2004) and Talos and Kittel (2001). In line with the idea that government autonomy plays a central role in the resort to concertation, policymaking processes can be characterised by the degree of autonomy of the government vis-à-vis organised interests in the decision-making process. Hence, (1) *unilateral decision-making* refers to a policymaking process where the autonomy of governments is maximal: organised interests are not consulted, and policy is made exclusively by the government. (2) *Consultation* refers to a policymaking process where the government consults organised interests, although without engaging in negotiations with them, and remains the sole actor in control of policy outputs. In (3) *tripartite concertation*, the government sets up a bargaining table where public officials, employers and trade unions negotiate policy reforms. However, they do not necessarily need to find an agreement that is fully backed by participating actors; the government remains free to carry out policy reforms even without the full support of social partners. Finally, a (4) *corporatist compromise* – what Talos and Kittel refer to as *Akkordierung* – comes about when trade unions, employers and government negotiate a policy reform and eventually reach an agreement that is fully supported by participating actors. This is the basic heuristic tool to grasp the variation in the dependent variable of the analysis.

## 2 Explaining Social Concertation: Process-Tracing

Problems of data collection and measurement are not the only reason why case studies can be considered the most effective way to analyse social concertation. Case study research is also especially accurate for the development of new hypotheses in an inductive manner, and the exploration of causal processes in single cases (George & Bennett 2005: 19ff). As outlined in the theoretical chapter, there is still a great deal of uncertainty regarding the factors underpinning the re-emergence of social concertation in Western Europe, and the potential impact of European integration and party politics thereon.

As already outlined, assessments of this impact have been somewhat inconclusive, also because existing analyses remain at the macro-level (Schmidt 2006a), or dealt with a specific policy area where there is an explicit policy of promotion of social partnership at the domestic level (Falkner & Leiber 2004). The analysis of domestic concertation over cases

of negative integration has remained a largely untouched field. Hence, there is still a need for theory development, and case study research is especially suited for this: “in conducting interviews, reading secondary accounts, or reviewing historical documents, the researcher may inductively discover independent variables that previous theories may have overlooked” (George & Bennett 2005: 18, 20).

Hence, if research should be theory-driven, it should not be theory-determined, so that the analysis of empirical data should allow taking alternative explanations on board. Even if hypotheses are important as heuristic devices in case study research, the richness of empirical accounts implied by in-depth analysis requires some flexibility with respect to theory, and a rigid application of hypothesis-testing is likely to miss potential theoretical insights that can emerge in the course of the research. Hence, case studies can be used to test existing theories through a congruence test (if the theoretical causal processes correspond to those that are observed in the cases) as well as heuristic devices to develop hypotheses if the predictions of existing theories do not match reality (George & Bennett 2005: 75).

The possibility for induction in case study research does not preclude the analysis from being concerned with causality (Mahoney 2000). This piece of research is still reasonably positivistic in the sense that it assumes that reliable causal inferences about the real world can be produced (the “science” in social science). Even if their conception of causality is essentially influenced by quantitative approaches, the standards for social research set out by King, Keohane and Verba (1994) can be considered reasonable benchmarks for the present analysis. Firstly, the *goal is inference*. Scientific research is designed to make descriptive or explanatory inferences on the basis of empirical information about the world. Secondly, the *procedures are public*. Scientific research uses explicit, codified and public methods to generate and analyse data, which makes it possible to access the reliability of the research. Thirdly, the *conclusions are uncertain and provisory*, because the social world itself is uncertain. Fourthly, the *content is the method*. Scientific research adheres to a set of rules of inference on which its validity depends. This means that there exist *intersubjective* standards to assess the validity of social science research.

The conception of causation in case study research is, however, different from the one employed in statistical analysis (Mahoney & Goertz 2006; Mahoney 2009). While quantitative researchers are interested in “average” probabilistic relationships between variables, qualitative researchers are more concerned with contextual causation. To take an ex-



ample, statistical researchers would be typically interested in the factors that increase the probability of war (democracy, economic development, natural resources) between two countries by analysing a large data set of instances of war where these factors vary, whereas qualitative researchers would analyse the causes of particular instances of war by tracing the causal chain between certain historical events (e.g. the assassination of Archduke Franz Ferdinand of Austria) or structural causes (mounting power alliances and imperialistic ambitions) with a particular case of war. This kind of logical reconstruction (within case analysis, or *process-tracing*) is probably the main way to establish causality in qualitative, small-N research (George & Bennett 2005; Gerring & Thomas 2007; Hall 2003; Mahoney 2000).

In case study research, the simple co-variation of independent and dependent variable does not allow one to establish causality if the causal mechanisms that link these two variables are not supported by empirical data drawn from interviews, official documents, or the like:

It is not sufficient to examine the covariation of X1 and Y, because there are too many confounding causal factors and because the latter cannot usually be eliminated by the purity of the research design or by clever quantitative techniques (control variables, instrumental variables, matching estimators, and the like). Thus, a covariational style of research is usually insufficient to prove causation in a case study format. (Gerring & Thomas 2007: 172)

In a nutshell, process-tracing “attempts to identify the intervening causal process – the causal chain and causal mechanism – between an independent variable – or variables – and the outcome of the dependent variable.” (George & Bennett 2005: 206) Process-tracing allows us to deal with complex modes of causality that are inherent to the real world, like equi-finality, or threshold effects, whereas statistical research assumes, despite its methodological refinements, causality to be linear. With process-tracing, the causal chains between two variables can typically be fractioned into several intermediate steps with intervening variables, and a phenomenon can have several causes that act jointly to produce an outcome.

Concretely, this means reconstructing causal chains with different bits and pieces of information drawn from different sources. Theoretical assumptions should at least leave some “traces” in the observation of empirical events. This is what Bennett and George call the “congruence” method, that is, to systematically confront empirical facts to theory (George &

Bennett 2005: 181ff). Maybe the most important added value of case study research is that it allows for the exploring of causal mechanisms at work in concrete individual settings rather than in a virtual, average setting. The role of *context* is central. This notably permits a greater degree of control over potentially spurious correlations, but it also implies a number of trade-offs in terms of the ability to generalise findings, which makes the selection of cases from which inferences are derived especially important. I now turn to case selection.

### **3 Explaining Social Concertation: Comparing Cases**

Besides within-case analysis and process-tracing, I use comparisons across cases as another way to establish causality. If, as argued above, a “co-variational” method is not sufficient to establish causal inferences in a case study format, the comparison of different instances of the same class of events provides greater leverage on the pertinent variables that explain the phenomenon under scrutiny. In order to establish that a specific event A is caused by a specific factor B, it is necessary to consider cases where this factor B is absent; if A is present even in the absence of B, then B cannot be considered a *necessary cause* of A. This is the base of comparative politics as a method (Peters 1998; Przeworski & Teune 1970; Van Biezen & Caramani 2006). Here, case selection is geared to provide a variance in the variable “European integration” by comparing decision-making in a strongly Europeanised policy sector and a weakly Europeanised policy sector in a member state of the EU and in a non-member state. Different patterns of party politics also vary in the cases, particularly across time.

One of the potential biases of existing studies on the domestic impacts of “Europe” is the lack of variance on the independent variable, so that explanations tend to be biased towards EU-level explanations (Haverland 2006; Levi-Faur 2004; Saurugger 2005; Sciarini et al. 2004):

Europeanisation research typically focuses exclusively on cases where potential EU pressures, incentives or ideas are present. Hence research is typically confined to EU member states; with regard to policy studies, typically policy sectors are studied where EU competences exist; when the EU is theorised as an agent of new ideas, typically areas are selected where the EU promotes a new idea, and so on. This case selection implies that the independent variable we should be very interested

in, the EU-level factor, is not a variable at all but a constant. The causal effect cannot be determined. [...] Without variation in the independent variable, it is difficult to confirm the “EU matters” hypothesis when the hypothesised pattern or outcome is matched by our observations, as there is no control through case selection for other potential explanations, such as globalisation. (Haverland 2006: 135)

Hence, advocates of a pure co-variational method of inference as applied in statistical research would argue that many pieces of research in this field display “indeterminate” research designs. This means that no causal inference in terms of necessary or sufficient causes can be deduced from them, since the independent variable, European integration, shows no variation. One cannot deduce that specific domestic developments are due to the European Union if one does not take into account countries that do not belong to the European Union, or policy domains that are not “Europeanised”. Indeed, if one observes similar developments in weakly Europeanised domains and in strongly Europeanised domains, the “net” influence of the EU can be seriously downplayed, and other potential independent variables should be considered.

Even if this argument may be too stringent because it downplays the ability of within-case analysis to establish causality, it touches upon important methodological problems in the analysis of the domestic impact of European integration. Virtually anything that is taking place in domestic politics can be linked in one way or the other to the EU, so that it has become a universal explanation for whatever researchers may be looking for, in line with the common propensity of politicians to shift the blame for unpopular policies to supranational arenas (“Brussels made me do it”). This is especially significant when it comes to policy concertation because the change or persistence of corporatist policymaking can be due to a wide variety of political or structural causes apart from European integration, such as globalisation, the transformation of employment structures, changes in party politics, the rise of neoliberal ideas, or other factors. Hence, comparing cases with varying degrees of Europeanisation at least partly allows for disentangling the causal impact of the EU from other potential causes. If a systematic difference in the extent of policy concertation is observed in Europeanised domains, then it can be inferred that Europeanisation does have a causal impact on social concertation. If no systematic difference can be observed, then the EU cannot really be considered as a sufficient or necessary cause of variation, and one has to look for alternative explanations.

Even though this analysis relies upon case studies, it is not geared to explaining the *causes* of specific events selected upon the dependent variable (*backward-looking research design*) as most commonly done in qualitative research, but rather to exploring theoretical hypotheses (*forward-looking research design*) as is more common in quantitative research (Mahoney & Goertz 2006; Scharpf 1997: 26). Hence, case selection is made on the independent variable, most notably European integration. In other words, the overarching structure of the research design is geared towards assessing the “effects of causes” rather than the “causes of effects” (Exadaktylos & Radaelli 2009). In principle, such a research design “allows for the possibility of at least some variation in the dependent variable”, since its value (the degree of concertation) is unknown when one starts the research (King et al. 1994: 129). Broadly speaking, the comparison is a most-similar-systems design where the variable Europeanisation and EU membership varies. This is done by comparing four policy reforms as instances of concertation in two policy domains (one strongly and one weakly Europeanised) and two countries (one member state and one non-member).

### 3.1 Country Selection

As outlined above, in order to assess the impact of EU membership on policy concertation, it makes sense to compare member states with non-member states. However, as argued by Haverland (2006), it is difficult to consider West European non-members such as Norway or Switzerland as true “control cases” for the impact of the EU since they are also influenced by the EU in many domains (e.g. through bilateral agreements, membership in the European Economic Area, or various cooperation networks). On the other hand, it makes little sense to compare totally different non-European countries like Japan or New Zealand because of the difficulty to find comparable policies on the dimensions under scrutiny (most importantly the Europeanised policy cases). In the present analysis, Austria is compared to Switzerland, following up on Katzenstein’s (1984) famous analysis of corporatism and change in these two countries.

In order to investigate the impact of European integration on corporatist policymaking, it is necessary to analyse countries where corporatist policymaking *can* take place even if the empirical analysis may reveal that it *does not* take place (the so-called *possibility principle*) (Mahoney & Goertz 2004). In this research, I analyse European countries with an institutionalised tradition of social partnership, with an advanced level of eco-

conomic development and which display similar features in their political systems. The criteria used for the selection of cases, the institutionalised tradition of corporatist policymaking, are analytically different from the dependent variable of the analysis, which is policy concertation in a specific policy domain at a specific point in time. The degree of institutionalisation of social concertation varies between them, but the selected countries nevertheless remain comparable while providing some interesting diversity in background factors at the same time. In many respects, the two countries selected can be considered as *most likely* cases for the persistence of corporatist policymaking in Western Europe. If variation in the extent of concertation can be observed there despite an institutional setting strongly geared towards stability, then substantial change in the form and logic and form of concertation elsewhere can be expected. In the following paragraphs, I briefly present the selected countries, while a much more thorough contextual presentation will be made in the next chapter.

Austria is often considered the ideal-type corporatist country, so that it is a case in point to investigate the impact of European integration on concertation. By any standards, it scores highest in composite indexes of corporatism (1999) mentioned above, notably because it displayed highly typical structures in terms of trade union membership, coordination of wage bargaining and centralisation of interest group structures. Social partners have been traditionally centrally embedded in the policymaking process through the system of chambers (*Kammer*), whereby all companies and all dependent workers are represented via compulsory membership (Talos & Kittel 2001). In the most institutionalised corporatist system in the world, policy concertation seems nevertheless to have declined since the 1970s. This trend, as will be shown more thoroughly in the empirical part, has been accelerated by strong changes in patterns of party politics, with the emergence of the radical right and the decline of mainstream parties (Obinger & Talos 2006; Pelinka 2008). Austria has been a member of the EU since 1995. With respect to the type of corporatism, Austria stood at the opposite end of Switzerland in Katzenstein's analysis as regards the left-wing orientation of its corporatism: it is the country where organised labour was the strongest and employers' associations were the weakest. Now, the structural underpinnings of Austrian corporatism have been substantially challenged by a steady decline of union membership over the last 40 years, and it no longer seems accurate to qualify it as a case of "social corporatism" and, here I refrain from producing hypotheses about it.

Switzerland, similarly, has a longstanding tradition of social partnership, mainly dominated by employers' associations. Interest groups have traditionally played a very important role in the governance of Switzerland's economy. Even if the structural foundations of corporatism (union density, coordination of collective bargaining) have been weaker than in Austria, social partners have played a central role in the formulation of policies through very formalised patterns of interaction in the pre-parliamentary phase (Oesch 2007; Papadopoulos 1997; Sciarini 2006). Underlying power relationships have also been fairly different from Austria. Switzerland has entertained for long a reputation of a conservative country with a very pro-business stance. In Katzenstein's (1985) analysis, Switzerland was considered the most liberal country among the small democratic corporatist states. It was the country where employers' associations were the strongest and where unions were the weakest. In contrast to Austria, Switzerland is not a member of the EU but has established a relatively dense network of cooperation agreements with the EU, so that "Europeanised" cases can be investigated there as well.

### 3.2 Selection of Policy Sectors

The selection of policy sectors is geared to provide a variance in the variable "Europeanisation". The aim is to compare a domain where the EU's influence is weak (unemployment policy reform) with a domain where it is strong (the implementation of transitional arrangements regarding free movement of workers after EU enlargement). The selection of policy sectors is underpinned by the idea that the EU acts in different degrees across policy sectors, most importantly between policies geared to extending market mechanisms (negative integration), and policies aimed at regulating markets (positive integration). The former tend to fall under EU competence whereas the latter have essentially remained a province of national states. The Europeanised case considered here is directly related to a European Treaty whose terms may be legally enforced, and deals with a case of "negative integration". Existing analyses of the domestic impact of the EU on social partnership have essentially dealt with "positive" integration.

This strategy rests on the assumption that Europeanisation can be controlled to some extent, and that there are policy sectors that are not, or only weakly, Europeanised. Even if the European Union has progressively come to cover a wide array of domestic competences, it may also be mistaken to consider that all policy domains are Europeanised. In many do-

mains, most prominently in social policies and labour law, national states still remain the primary locus of decision-making, and there remains a wide diversity of socio-economic and institutional arrangements across countries (Streeck 1998). I adopt a rather formal definition of Europeanisation in terms of its institutional/legal dimension, and do not consider instances where domestic policies may be influenced by “ideas, arguments or ways of doing things” stemming from the EU (Radaelli 2003). Europeanisation is defined as the extent to which national governments share authority with EU supranational bodies in a given policy domain (Hooghe & Marks 2001). That is, a strongly Europeanised domain is an institutional decision-making environment where national autonomy in decision-making is strongly constrained by EU rules, whereas a weakly Europeanised policy domain is a domain where national autonomy in decision-making remains substantial.

Of course, such a sectoral focus is subject to certain methodological problems. First, the actors and political stakes involved in different policy sectors can be hard to compare (e.g. labour market policy, environmental policy, pensions, utilities, etc.). The necessity to choose actual policymaking processes that can be found in the two countries is a further difficulty. This analysis includes policy domains that are both linked to labour market policy, in which the actors involved are essentially the same (namely employers and trade unions) so that processes can be compared with respect to the actors potentially involved. Second, such a sectoral focus may tend to downplay spillover processes across policy domains, and the possibility of package deals that involve many issues at the same time. For instance, trade unions may agree to concessions in a specific domain in exchange for concessions from employers in another domain. As will be shown, this logic of compensation and side-payments will play a prominent role in the issue of free movement of workers, where measures of labour market protection were used as side-payments to ensure the acquiescence of trade unions.

### *Labour Mobility After EU Enlargement*

The first case considered is the domestic policymaking process regarding the opening of domestic labour markets for workers of new member states after the enlargement of the EU in 2004. On 1 May 2004, ten new countries joined the EU: Poland, Cyprus, Malta, Slovenia, Slovakia, the Czech Republic, Hungary, Estonia, Lithuania and Latvia. The most contested point regarding the entry of these countries, whose wages and living standards are on average much lower than the EU average, was the access of their na-

tionals to the labour markets of other EU countries (Donaghey & Teague 2006; Gajewska 2006; Krings 2009). The integration of labour markets at the EU level being one of the pillars of European integration, the main point was not to decide if the workers from these countries could come and work freely in Western Europe, but rather *when* and *how*. Hence, each EU country was allowed to set a transitory period in which the access to their labour market could be restricted. The “Europeanised” decisions investigated here precisely address the elaboration of these regulations of access for Eastern workers to the labour market of the two countries, as well as possible measures of re-regulation geared to prevent wage and social dumping. Hence, selected cases involve decisions conducted on a national basis but under strong EU pressure, each country being forced to open its labour market in the medium term.

This case is considered pertinent as an object of analysis for a number of reasons. Firstly, decision-making in this domain is embedded in a system of multilevel decision-making. Domestic autonomy is limited by decisions made at the supranational level. This policy derives directly from a European (accession) Treaty whose terms may be legally enforced at the domestic level. Domestic actors therefore enjoy a certain leeway in the use they make of transitional arrangements, which allows room for domestic politics to play a role, but domestic decision-making is constrained by commitments made at the supranational or intergovernmental level. Second, it is a case of *negative integration* in the sense that it aims to replace domestic regulations regarding the entry of workers by market mechanisms. Third, this issue is of utmost significance in the context of current debates over the social consequences of European integration, as demonstrated by the political concerns raised by the recent ECJ rulings over the cases of Laval, Viking Lines, Rüffert or Luxembourg (Dolvik & Visser 2009; Donaghey & Teague 2006; Höpner 2008; Scharpf 2010).

### *Unemployment Policy Reforms*

As emphasised in the previous chapter, the extent of European integration has been much more important in economic and competition policies than in social policies. Despite attempts to lay the bases of a “social Europe”, member states have been very eager to preserve their national competences in this domain. For instance, the amount, modes of financing and duration of social security benefits (for instance with regard to replacement rates in unemployment compensation) still vary to a great extent across the EU, notably because of longstanding logics of path de-



pendence. It is very difficult to depart from an established policy path once it has been traced, since its system of funding, expenses and actors' expectations linked to it strongly foster its perpetuation (Pierson 1993, 1994). Besides this, attempts of harmonisation in this domain have been difficult to achieve because payroll taxes are used as a competitive tool between countries. Countries with low payroll taxes use them to attract investment and do not want to increase them, while countries with high levels of social protection do not want to bear the political costs of cutting benefits. Drawing upon this, it is reasonable to consider social protection as a weakly Europeanised domain in comparison with the policy on labour market opening.

The domestic cases used for the comparison with Europeanised cases are reforms of unemployment compensation. First, this is a core element of the participation of social partners in policymaking. They are very often directly involved, from policy formulation to implementation through their direct management of unemployment funds or their presence in committees supervising the activities of unemployment compensation institutions at various levels. The co-management of the social security system by social partners is especially a core feature of Bismarckian welfare states such as those found in Switzerland and Austria (Clegg 2007: 597). Second, unemployment policy is comparable with the Europeanised case because it involves essentially the same actors. On the other hand, given this greater domestic leeway in "domestic" cases, there is also a wider institutional diversity in terms of policies, institutional arrangements and salience of issues, which brings the risk of comparing "apples with oranges" (Locke & Thelen 1995). As far as possible, other examples of social policy reform drawn from secondary literature will also be considered to increase the representativeness of case studies.

**Table 2**      **Summary of Case Selection**

		Switzerland	Austria
Europeanisation	strong	Extension of free movement of workers to EU8 and "flanking measures" (2004)	EU enlargement adaptation law (2004)
	weak	Third revision of unemployment insurance law (2002)	Labour Market Reform Law (2004)

## 4 Strategies of Data Collection

As already mentioned, data collection is a demanding task when it comes to policy concertation because of the relatively closed settings in which it takes place. Data collection was conducted in two steps for each policy reform. In a first step, data was collected from official documents (government reports, parliamentary debates), the quality press (*Der Standard* in Austria and *Le Temps* and the *Neue Zürcher Zeitung* in Switzerland), and in some cases, archival records. In a second step, semi-directive expert interviews were conducted with actors directly involved in negotiations of policy reforms. Interview partners were representatives of the peak associations of trade unions and employers, government officials, and members of political parties or NGOs. In total, 24 interviews were conducted between March 2007 and May 2012.<sup>9</sup> Usually, the heads of labour market policy departments on the government side, and members of the executive secretariat on the side of employers and trade unions or, if unavailable, technical collaborators were the privileged interlocutors. All interviews but two were recorded and transcribed fully or partially, and extensive excerpts (translated) are provided here in the text for purposes of illustration.

The *triangulation* of sources is used as the main method to validate empirical evidence. Facts are presented drawing upon a confrontation of the same events as analysed firstly in the press, then in grey literature and official documents, and thirdly in interviews with relevant actors. Different sources of information tend to produce different perspectives on political events. For instance, government officials often present concertation as their own initiative and tend to strongly downplay conflicts, even if concertation procedures were only triggered after substantial mobilisation by trade unions. The media, for their part, tend to emphasise conflict and controversies, whereas actual processes conducted behind closed doors are often much less spectacular. This is not only due to the internal functioning of the media themselves (conflicts and disagreements are more appealing to readers) but also to the different communication strategies adopted by the actors involved. Employers and trade unions often emphasise disagreements and criticism when they talk to the media, because it is the channel whereby they justify themselves towards their members, showing that they are fighting hard against their opponents. But behind closed doors, they generally seek to find compromises in a much more cooperative way than presented in the media, the goal generally being to reach an agreement with the other side. In general, actors are conscious

of the different “arenas” and their logic of functioning, as well as the different audiences and goals pursued by the other side. As far as possible, quotations of interviews, press or official material are provided in the text to back up empirical evidence in a transparent manner, following what Moravcsik (2010: 31) calls “active citation”.

## **5 Summary**

This chapter has outlined the methodological foundations of the empirical analysis presented in the following chapters. Causal mechanisms are explored through a strategy combining within-case analysis and comparison across cases. Whereas the comparison across cases allows for the assessing of outcomes, within-case analysis allows for exploring causal mechanisms at work. Austria and Switzerland have been chosen because of their institutionalised patterns of policy concertation and their difference with respect to EU membership, whereas free movement of workers and unemployment policy reform have been chosen as contrasting examples with respect to the variable “Europeanisation”. In the next chapter, I present the context of corporatist policymaking in the two countries.

## 5 The Context of Social Concertation in

### Switzerland and Austria

Swiss and Austrian success can be measured in political as well as economic terms. Political leaders in both countries have fashioned policies that have left largely unquestioned the legitimacy of their political institutions and practices. In both societies symbols of widespread public disenchantment are rare. Political parties and, in the case of Switzerland, the institution of direct democracy continue as the unquestioned avenues for mass political participation. [...] New social movements and novel forms of politics, which have grown in importance elsewhere, are insignificant in Switzerland and Austria. [...] In short, Switzerland and Austria are remarkable stories of political success. (Katzenstein 1984: 20)

Grand Coalition governments have dominated politics in Austria [...] ever since World War II, and for even longer in Switzerland. For decades, huge majorities of Austrian and Swiss voters endorsed this arrangement. [...] Yet even a Grand Coalition is vulnerable to becoming a monopoly unresponsive to new issues. Sooner or later, some citizens will abandon established loyalties and vote for the rascal they do not know in preference to those that they know too well. (Rose 2000: 30)

Since World War II, Austria and Switzerland have commonly been described as ideal types of political stability, successful political integration and economic prosperity. Pope Paul VI for instance famously called Austria the “Island of the Blessed” in 1971 to emphasise the absence of visible conflicts in this country as compared to the social unrest that characterised other parts of Europe at the time. Similarly, Denis de Rougemont (1965) and André Siegfried (1948) titled their books on Switzerland respectively “The History of a Happy People” (*La Suisse ou l’Histoire d’un Peuple Heureux*) and “The Poster Child of Democracy” (*La Suisse, Démocratie-Témoin*). In these books, they emphasised the absence of open conflicts

observed elsewhere, and the peaceful cohabitation of different cultures and classes within a same polity. With a more critical tone, the historian Hans-Ulrich Jost once argued that the stability and consensus of Swiss politics were so deadening that they may be responsible for the high suicide rate in this country.

In the comparative politics literature, the underlying factor put forward to explain political and economic stability in Austria and Switzerland has been a set of institutions which fostered the cooperation between the main political and economic forces (Katzenstein 1984; Lehmbruch 1967; Lijphart 1999). Both countries have been considered prime examples of the “consensus” type of democracy outlined by Lijphart (1975): proportional electoral systems, a decentralised division of power, oversized coalition governments, tight patterns of cooperation between elites and, most importantly for this analysis, strongly institutionalised systems of “social partnership”. Social partnership, or the institutionalised cooperation of labour and capital, was considered a cornerstone of this model insofar as it made it possible to solve socio-economic conflicts within institutions of class cooperation tightly linked to the political sphere.

The empirical account that will be given in the following chapters differs in many respects from this picture of stability, peaceful cooperation and consensus. This is due to the fact that these “consensual” features have been exaggerated in the past, and that significant changes have indeed taken place in these countries over the last twenty years. First, the ideas of “concordance”, “social partnership” and “consensus” have acquired a mythical status, and have often been used to downplay actual power relationships, possibly to justify policies that favoured specific political and economic interests and restricted access to others. Just to give a few examples, it is striking to note that the “poster child of democracy” only granted voting rights to women at the national level in 1971, and that the Austrian “Island of the Blessed” still had the fourth largest gender wage gap in Europe in 2008.<sup>10</sup> Similarly, a large part of the foreign workforce had to leave Switzerland after the economic recession of the mid-1970s because it was not covered by unemployment insurance protection (Schmidt 1985). Until 2002, Austria was the only EU country to explicitly deny non-EEA nationals the right to stand up for elections in works councils (EIRO 2002).

Second, if stability – if not necessarily the absence of conflict and power relationships – was indeed a central characteristic of the political-economic systems of Austria and Switzerland until the 1990s, substantial

changes have taken place since then (Crepaz 1994; Pelinka 2008; Vatter 2008). Besides the pervasive impact of European integration and globalisation observed elsewhere, the emergence of new “populist” political forces of the radical right has been particularly prominent in these two countries. In both countries, traditional parties no longer seem to be the “unquestioned avenues for mass political participation” described by Peter Katzenstein; mainstream parties have been continuously weakened to the advantage of “anti-establishment” forces over the last twenty years. Electoral turnout has also declined substantially in both countries, and reached an all-time low in Switzerland in 1995, when only 42 per cent of citizens took part in the federal elections. Organised interests, for their part, have lost a substantial part of “their control over the segments of society they claimed to represent”, as shown by the steady decline of trade union membership in both countries. Union density in Austria displays one of the sharpest declines in Europe between 1960 and now, while by European standards it has always been notoriously low in Switzerland.

In this chapter, I outline the changing political context of social concertation in Austria and Switzerland, and present the main institutions, actors, and the main features of the decision-making processes in both countries. This will constitute the background framework to the two following chapters on cross-border labour mobility and unemployment policy reform.

## **1 Switzerland: Veto Points, Right-Wing Dominance and the Emergence of the Swiss People’s Party**

### **1.1 Institutions**

Switzerland displays almost all the ideal-type features of a consensus-democracy as defined by Lijphart (1999: 34ff): executive power-sharing in broad coalition cabinets, executive-legislative balance of power, a multiparty system, proportional representation, interest group corporatism, a federal and decentralised government, strong bicameralism, constitutional rigidity and central bank independence. Only with regard to judicial review – which is very weak – does Switzerland deviate from the model (Lijphart 1999: 41). The Swiss Government is elected by the legislature as in a classic parliamentary system, but similarly to a presidential system, the government is not dependent on legislative confidence (Kriesi 1998a: 186). It stands out as the only system of this type in the

sample of countries analysed by Lijphart (Lijphart 1999: 119). It has a “directorial” form, where the seven Ministers formally have the same powers. Even if the Swiss government has been composed of a largely oversized coalition composed of the four major parties – about 80 per cent of seats in parliament – since 1959, this does not mean that parliamentary support for any legislative proposal is taken for granted. Weak party discipline and the internal heterogeneity of parties (Kriesi 1998a: 206-207) create many political situations that are *de facto* similar to those of a divided government, and parliamentary majorities among fragmented parties are often hard to build (Kriesi 1998a: 204). More often than not, active work of persuasion and bargaining between the government and parliamentary fractions takes place to ensure parliamentary support, with party coalitions varying from one issue to the next. In this regard, Swiss executive-legislative relations display many features observed in the US Congress and Senate.

Parliament is composed of two Chambers with equal powers, the *National Council* (200 seats) elected by proportional representation, and the *Council of States* (46 seats) where each canton has two representatives. Different electoral rules have provided for different partisan setups of the two chambers. The Council of States was initially designed to protect the interests of Catholic cantons, and it still strongly over-represents the small conservative cantons of central Switzerland, as well as the two historical centre-right parties, the CVP and the FDP despite their steady weakening in electoral terms. Perfect bicameralism constitutes a substantial veto point for government initiatives, as each chamber has to agree on the same version of a bill for it to take effect (Lijphart 1999: 39). In theory, the Swiss parliament is a non-professional parliament. Swiss MPs are not supposed to exert their political office on a full-time basis, but in reality, most of their time is devoted to political activities, and a strong professionalisation movement has been observed (Kriesi 1998a: 210). The money MPs earn from their political activity corresponds to a compensation, but not a full-time salary. To a large extent, MPs hold professional positions elsewhere, be it in corporate boards for members of right-wing parties, or leading positions in trade unions for social democrats (David et al. 2008: 38; Kriesi 1998a: 212).

The second major veto point in the political system is direct democracy, which has certainly played a more important role in Switzerland than in any other advanced democracy. Between 1848 and 2011, Swiss citizens have taken part in 570 direct-democratic votes, including compulsory and optional referendums, and popular initiatives.<sup>11</sup> While

constitutional amendments are subject to a compulsory referendum, any law passed in parliament can be challenged in an “optional” referendum (introduced in 1874) if 50.000 citizens request so by way of petition. Besides, an amendment to the constitution can be proposed and voted on if it is supported by 100.000 citizens (popular initiative) (Kriesi & Trechsel 2008: 49ff; Papadopoulos 2001). The effects of these institutions on the political system are ambivalent. On the one hand, they create strong incentives to pre-empt conflict and co-opt potential opponents. Direct democracy has been understood as the institutional source of the Swiss “consensus” democracy insofar as it has prompted governments to co-opt potential veto players which could undermine policy initiatives (Neidhart 1970). This leads in general to very slow-paced reforms because building compromises which can satisfy all potential opponents often takes years. On the other hand, they also allow fringe political groups to politicise and possibly undermine reforms agreed through long and complex negotiations between political parties. This has tended to introduce a substantial dose of uncertainty in the decision-making process, with substantial implications for corporatist concertation.

First, the great number of veto points in the political system entails a weak degree of autonomy for the government in decision-making. This creates strong incentives to build political support by including social partners, because trade unions and employers belong to the few groups with the organisational and financial resources to engage in direct democratic campaigns and block legislation on a regular basis. Second, a complex system of interlocking decision-making arenas (a parliament in a strong institutional position, the possibility to challenge laws in referendums, implementation by the cantons) prevents the government from making credible commitments with trade unions and employers, since its decisions can be challenged at many later points in the decision-making process, notably in parliament and in referendums (Armington 2003: 176). Hence, even if it entails strong incentives to build corporatist compromises, the great level of uncertainty linked to this system tends to favour relatively incomplete agreements between political actors. This is one of the main reasons why Swiss corporatism is an elaborate system of sectoral bargaining across punctual and partly uncoupled issues rather than a coherent agenda-setting tool such as that found within the framework of “social pacts” in other countries.



## 1.2 Actors

One of the important characteristics of the Swiss actors' system has been the weakness and fragmentation of political parties contrasting with the strong organisation of organised interests, particularly on the business side (Kriesi & Trechsel 2008: 99; Mach 2006b). This has been historically explained by the protracted expansion of the federal state, the precocious organisation of business, and a multitude of social, linguistic and cultural cleavages. While business associations were able to organise early on under the leadership of strong export-oriented economic sectors, the development of the federal state was hindered by a whole series of institutional veto points. By default, competences that are not explicitly attributed to the federal state in the constitution are a responsibility of the cantons. Hence, after the federal state was created in 1848, any new attribution of competences to the federal level required a constitutional amendment subject to a compulsory referendum, thereby strongly limiting the expansion of federal competences in economic and social regulation. In this context, the federal state delegated a wide series of tasks to business organisations through direct subsidies to associations, or via "expert groups" and committees forming a para-administration, thereby strengthening their power and legitimacy (Mach 2006b). In some ways, the expansion of private regulation by organised interests was a response to the institutional limits on public intervention.

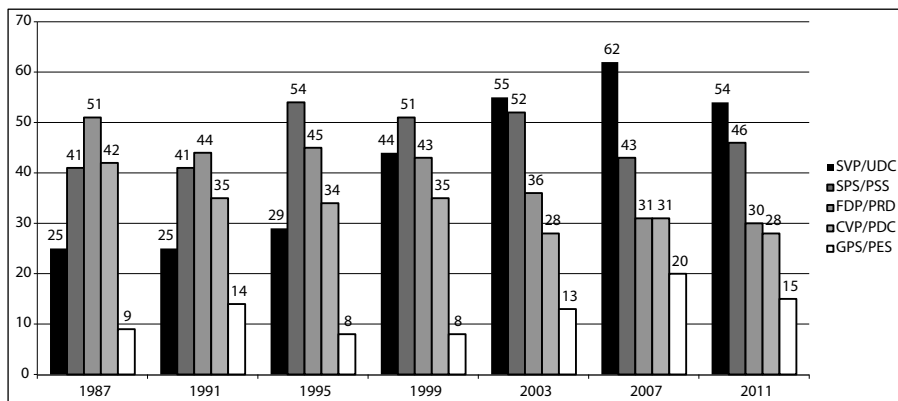
At the same time, the regional, linguistic and religious cleavages fostered a highly fragmented party system which followed the highly decentralised structure of the country. As a consequence, the Swiss party system is one of the most fragmented in Europe, and has been traditionally characterised by the dominance of right-wing parties. In the elections held in November 2011, no less than eleven different parties obtained seats in the National Council (the lower chamber of parliament). The number of parties which really "count" by influencing majorities, however, is smaller. Since 2009, there are five parties that are represented in the federal government, the Federal Council: the liberal FDP (*Freisinnige Demokratische Partei*), the Christian-Democratic CVP (*Christliche Volkspartei*), the social democratic SPs (*Sozialdemokratische Partei der Schweiz*), the national-populist SVP (*Schweizerische Volkspartei*), and the conservative BDP (*Bürgerliche-Demokratische Partei*). In general terms, political parties are organisationally weak, strongly decentralised, and fairly heterogeneous internally. For instance, the Christian Democrats are rather moderate in the French-speaking cantons such as Geneva or Fribourg, but much more conservative and pro

free-market in the Catholic cantons of central Switzerland. Even if the new political strategies deployed by the Swiss People's Party and its aggressive campaigns clearly mark an evolution in this respect, political parties have traditionally been much weaker than interest associations in both financial and organisational terms (Kriesi & Trechsel 2008; Mach 2006a). Moreover, the former are often dependent on the latter in terms of financial resources. This holds true both for business interests and right-wing parties on the one hand, and for social democrats and trade unions on the other.

Between 1959 and 2003, the Swiss government has been composed of the very same combination of parties following what has been known as the "Magic Formula": two FDP, two CVP, two SP and one SVP, the social democrats always taking part in governments dominated by right-wing parties. Following its electoral successes over the 1990s, the SVP managed to conquer a second seat at the expense of the CVP in 2003. However, in 2007, a majority of parliament chose not to re-elect its leader Christoph Blocher in the government, preferring a more moderate member of the party, Evelyne Widmer-Schlumpf. As a consequence, the SVP excluded her as well as her cantonal section (*Graubünden*) from the party structures, which led to the creation of the BDP as a splinter group of moderate sections within the SVP.

In many respects, these amendments in the composition of the government after 44 years of stability are only one consequence of broader changes in the party system mainly driven by the strengthening of the SVP (Lachat 2008). Once an agrarian conservative party with strongholds in Protestant cantons, the SVP has evolved from the 1990s onwards into a national-populist party championing immigration control, traditional values, and welfare state retrenchment along the lines of what Kitschelt and McGann (1995) call a "winning formula" combining authoritarianism and free-market liberalism (see also Betz 1993). Its electoral progression has mainly taken place at the expense of the FDP and the CVP, whose electoral score has steadily declined since the mid-1990s. Taken together, their electoral score now barely exceeds that of the SVP alone. By contrast, the electoral score of the SP has been more resilient, but at a fairly low level in comparative terms. New political forces such as the Ecologists, and more recently the Green liberals, have also increased their electoral share throughout the 1990s, and contributed to the further weakening of the traditional parties which have structured Swiss politics from the creation of the Federal State until now.

**Figure 6**      **Distribution of Seats in the Swiss National Council, 1987-2011**



Source: Armington 2007

As will become clear in the following chapters, these changes in the partisan power relationships in parliament have led to important consequences for social concertation, and more precisely for the translation of corporatist compromises into actual legislative reforms. After dealing with political parties, I move now to the collective organisation of business and labour, which are also central actors of Swiss politics.

The most defining characteristic of organised interests in Switzerland is probably the historical imbalance between the strength of business interests, and the weakness of organised labour. As mentioned previously, this was already noted by Peter Katzenstein in his description of “liberal” corporatism in Switzerland, and this is also the reason why the Swiss case fits uneasily within typologies of corporatism which essentially rely upon the structure of organised labour as an indicator (e.g. Siaroff 1999: 183-187).

The representation of business interests in Switzerland has been influenced by the dual structure of the economy between a highly competitive internationalised sector (manufacturing, engineering, watchmaking, chemical and pharmaceutical products, banks) and a sheltered domestic sector strongly anchored to a local and regional level (construction, hotels and restaurants, small crafts, retail trade) (Knöpfel 1988; Mach 2006b). *Economiesuisse* and the Swiss Employers’ Union SAV are the main representatives of the former, whereas the SGV (*Union Suisse des Arts et Métiers/Schweizerischer Gewerbeverband*) and the Swiss Farmers’ Union SBV represent the interests of the latter. There is a functional division of tasks

between these bodies. While *Economiesuisse* essentially deals with issues of tax, trade and general economic policy, the SAV represents employers in issues of collective bargaining, labour market and social policy. As a whole, these organisations have constituted a strong and cohesive bloc with tight links to right-wing parties for most of the twentieth century, commonly known as the “Bürgerblock” (*Bloc bourgeois*). The cornerstone of this alliance was an implicit compromise about free trade policies necessary for the expansion of export industries on the one hand, and a whole series of protectionist policies for domestic sectors on the other, such as generous agricultural subsidies or a loose antitrust legislation allowing companies to protect the domestic market through cartels and other barriers to entry (Knöpfel 1988; Mach 2006b). From the 1990s onwards, however, this compromise has been challenged by export industries faced with an increasingly competitive environment and more difficult economic conditions, notably the rise in unemployment and social expenditures (Mach 2006b). Hence, employers in key segments of internationalised industries were no longer ready to bear the costs caused by protectionist policies, and have championed substantial reforms in the domains of agricultural policy, competition policy and internal liberalisation throughout the 1990s (Mach et al. 2003). Similarly, increasing conflicts emerge between banks and the financial sector on the one hand, and the sectors of the “real” economy such as the machine industry on the other. Hence that business interests are no longer as cohesive as they used to be in the past (Kriesi 2006; Mach 2006b). As a whole, they remain a leading force in Swiss politics.

Swiss trade unions have generally been considered weak and fragmented. However, as participants in an organised system of industrial relations, and as potential veto players in referendum campaigns, their power cannot be reduced to their low membership only (Oesch 2010: 83). The fragmentation and organisational weakness of the Swiss labour movement can be explained by several factors. First, the religious and linguistic cleavages mentioned above hindered the political articulation of the class cleavage. Second, a specific pattern of economic development prevented the mass organisation of labour. The Swiss urban structure emerged along decentralised lines to take advantage of hydraulic energy, and industry has relied for a long time on home production by farmers, thereby hindering the emergence of large urban industrial centres where the working class could have organised more easily (Favez et al. 1998). Finally, the historical dependence of the Swiss economy on foreign labour from the mid-nineteenth century onwards made it difficult to organise

large parts of the working class because of the unstable residence status and high turnover of the immigrant workforce (Oesch 2010: 84). Moreover, with foreign workers enjoying no political rights, social democrats have been deprived from part of the electoral support they could have enjoyed elsewhere.

The biggest trade union confederation is the social-democratic Swiss Federation of Trade Unions, whose member trade unions counted nearly 370,000 members in 2009, whereas the smaller Christian Democratic confederation Travail.Suisse counted 161,000 members (Oesch 2010: 85). As elsewhere, Swiss trade unions have been confronted with a decline in membership due to changing economic structures, as well as increasing pressures by employers over the 1990s for the decentralisation of industrial relations (Mach & Oesch 2003; Mach 2006b). The decentralisation of bargaining structures meant a concrete weakening in the Swiss context, as shop-floor labour representation in Switzerland is weak compared for instance to German and Austrian works councils. Moreover, as Switzerland is not a member of the European Union, the European Works Council Directive does not apply.

Faced with this rather difficult context, however, Swiss trade unions have managed to readjust their organisational and political strategies to stop this decline (Oesch 2010). This notably involved a more frequent use of political strategies through legislative proposals or referendums to counter their weakening in the sphere of industrial relations (Trampusch 2008; Widmer 2007), as well as major internal reorganisations such as the creation of the now biggest trade union *Unia*, which resulted from the merger of the construction trade union GBI (*Gewerkschaft Bau und Industrie*) with the metal, machines and watchmaking trade union SMUV (*Schweizerischen Metall- und Uhrenarbeiterverband*) (Oesch 2010).

### 1.3 Processes

The pre-parliamentary phase, despite its weak visibility, is considered the most important in the decision-making process in Switzerland (Papadopoulos 1997; Sciarini 2006: 495). In particular, it is essentially in the pre-parliamentary phase that corporatist deals are struck through multiple procedures of consultation and co-determination (expert committees, consultation procedures, both formal and informal) between the government and administration, interest groups and political parties. In his seminal work, Neidhart (1970) explained the importance of the pre-parlia-

mentary phase by the role of direct democracy as a “Sword of Damocles” hanging over political decisions. As argued above, since any sufficiently organised (*referendumsfähig*) political group can challenge parliamentary bills in a referendum, there are strong incentives for the government to integrate the claims of potential opponents at the very beginning of the policy process. In this perspective, the functional aim of the pre-parliamentary phase is to gather enough political support to make it “failure proof” in later stages.

Different actors can initiate a legislative act: the government, the parliament, the cantons or even 100,000 citizens, through the popular initiative. Parliamentary initiatives for legislative acts can take the form of a parliamentary *motion* supported by a majority of both chambers (and is binding for the government) or a *postulate* (which is not binding). For the period 1995-1999, for instance, 26 per cent of legislative acts originated in the chambers, versus 41 per cent by the administration (Sciarini 2006). The Swiss parliament proves to be relatively active, even though Switzerland shares the tendency towards increasing executive dominance observed in many democracies (Kriesi 1998a: 204; ).

Even though the procedure for constitutional amendments or federal decrees may be slightly different, the broad phases remain similar. First, the Federal Council commissions one of its departments to elaborate a draft law project, usually under the responsibility of a senior civil servant with the support of a section of the administration. Then, this draft can already be sent, formally or informally, to interest groups or other sections of the federal administration for consultation. Drawing upon this first project, an “expert committee” is constituted to either revise or elaborate a draft law proposal. Despite its denomination, an expert committee not only gathers “experts”, such as academics or scientists, but also representatives of cantons, and most importantly representatives of organised interests. As far as possible, the bureaucracy tries to find a compromise between stakeholders, even though it may pursue its own policy agenda guided by the political preferences of the Head of Department (see for an example Mach et al. 2003).

After a draft law project is examined or modified by an expert commission, it is sent out for consultation (*Vernehmlassungsverfahren*) to a wider range of groups, from cantons and parties to non-governmental organisations. The aim of this procedure is to assess its substantial content, and sound out the likelihood of it passing the hurdle of parliament or a referendum vote (Sciarini 2006: 498). Sometimes, law projects are buried altogether after reactions during the consultation phase are judged too

negative. After the consultation phase, the project is eventually modified – the administration enjoys significant freedom in the interpretation of the results – and followed by a consultation of state offices and departments. The final project, accompanied by an explanatory “message”, is transmitted to the Federal Council, who adopts it and transmits it to Parliament.

As argued above, the handling of government bills in the Swiss parliament involves a great deal of negotiations and compromise-building. Traditionally, parliament would change little to the bills proposed by the government, but there is evidence of a more active role of parliament in legislative decision-making, notably as a result of the party-political changes outlined above (Sciarini 2004). Bills are first handled by a permanent or ad-hoc commission of one of the chambers, which proposes modifications and submits it to the plenum, where articles are voted on. The bill is then transmitted to the other chamber which proceeds in a similar manner. If there are disagreements between the two chambers, the bill returns to the first chamber until an agreement is reached, the final stage being a “conciliation conference” gathering members of both chambers if no compromise can be found.

Once a bill has been accepted by both chambers, it can still be challenged in a popular referendum if political actors dissatisfied with it manage to gather 50,000 signatures. However, the choice to challenge a bill is subject to strategic choices by political actors, as conducting a referendum campaign is a fairly costly exercise. Political organisations often choose to concentrate their organisational and financial resources on some objects while giving up on challenging others, notably after weighing the chances of success. This is also the case for trade unions. Finally, even if this falls outside the scope of what is analysed here, it must be mentioned that implementation itself is also a veto point in itself (Kissling-Näf & Wälti 2004). The cantons are responsible for the implementation of policies (“implementation federalism”), and there is evidence of divergent implementation patterns across policies, particularly if cantons disagree with them in the first place (Battaglini & Giraud 2003).

On a final note, if the Swiss political system seems extremely peculiar in terms of executive-legislative relations, the structure of government and most importantly, the role of direct democracy, the analysis of political processes within this system does not preclude comparisons and generalisations. If the idea that Switzerland is a “special case” has been part of the mythology of Swiss politics together with the ideas of “concordance” and “consensus”, an increasing number of comparative analyses show that

it is in fact a country with a “normal” political life (Church 2004; Kriesi & Trechsel 2008). It can be compared to other countries providing that careful research strategies, and “analytical equivalents” are used while making comparisons (Fontana et al. 2008).

## **2 Austria: Corporatism and the Exhaustion of “Proporz”**

### **2.1 Institutions**

The Austrian institutional architecture displays less unusual features than the Swiss with respect to its political system. As in other parliamentary systems, the Austrian government is directly responsible vis-à-vis the lower chamber (*Nationalrat*) and can be impeached through a vote by single majority in parliament. The actual locus of decision-making is the government and individual ministries as such, and the parliament cannot really be considered as a real veto point. In contrast to Switzerland, ministers and their respective parliamentary fractions should be considered part of the same entity by virtue of strong cohesion and party discipline (Pelinka 2008: 431-432). Compared to Switzerland, Austria has a lower number of veto points. The only institutional element that really limits government capacity if a majority is found between ruling parties is constitutional review (if requested by the President), which is absent in Switzerland. The Austrian political system displays more majoritarian features than the Swiss, notably because of a lower degree of partisan fragmentation (predominance of two main parties) and more distinct parliamentary features. Hence, there is a clear “government/opposition” divide when there is a minimum-winning majority government, a configuration that has not materialized in Switzerland since the early twentieth century.

The Austrian governmental system is characterised by a relative autonomy of individual Ministers. The Head of State, the *Bundeskanzler*, is a *primus inter pares* who does not really enjoy veto power over initiatives put forward by individual ministries. His position stems from his leadership in the party structure rather than his formal position in government. This means that he has no direct control over ministries held by members of another party in the case of coalition governments (Pelinka 2008). In these situations, he has to share power with the *Vizekanzler*, who is usually the leader of the second strongest party in government.<sup>12</sup> Ministers are formally responsible to the *Nationalrat* only, and concretely also to their party structure, that has allowed them to hold office. Although there is a



President in Austria, his actual powers are limited, similarly to Germany. He cannot directly veto a law, but only refer it to the Constitutional Court if it is believed to violate the Constitution (Pelinka 2008: 432).

Even though the Austrian parliament apparently enjoys greater resources in terms of staff and professionalisation than its Swiss counterpart, its subordinate position vis-à-vis the government makes it a weak actor in itself. In a parliamentary system with strong party discipline, the support of the government is invariably a guarantee that the project will be accepted in parliament. The Austrian upper House, the *Bundesrat*, does not constitute a veto point in itself either because of its limited powers: it can only examine a piece of legislation after it has been examined in the *Nationalrat*, it can only rely upon a “suspensive” power, and cannot block legislation from being adopted except in very specific cases, mainly related to the constitutional rights of the federal entities. The first Chamber, the *Nationalrat*, counts 183 seats, and MPs are elected according to party-list proportional representation. Each *Land* elects a number of MPs proportional to its population. The partisan composition of the *Bundesrat* (63) depends on election results in the regional parliaments (*Landtage*), as they are elected by regional parliaments.

## 2.2 Actors

Similar to Switzerland, the Austrian political system has also been considered a model of *Konkordanzdemokratie* (Pelinka 2008: 433). Compromises at the political level were sought if both the two major parties were in government, but also if one of them was in the opposition. This feature was fairly close to the political mechanisms found in Switzerland in the sense that broad support between the major political forces was sought independently of the party effectively holding office (Lehmbruch 1967). Between 1945 and 2008, Austria was governed for a total of 37 years by grand coalitions formed by the Social-Democratic SPÖ (*Sozialdemokratische Partei Österreich*) and the Christian-Democratic/conservative ÖVP (*Österreichische Volkspartei*): 1945-1966, 1987-2000, 2006-now (Pelinka 2008: 433). Austria has featured one of the most stable government systems in Europe, especially considering that the party system is much less fragmented than in Switzerland, leaving the two main parties to govern together or in alternation, and given that decision-making has not been “disturbed” by the uncertainty implied by direct democracy.

A major difference between the Swiss and Austrian party systems is their underlying power relationship. While social democracy in Switzer-

land has never exceeded 30 per cent, and has therefore always been forced to take part in government on a minority basis, Austrian social democracy has been much stronger, has even governed alone for substantial periods of time, and has been in the opposition for only brief periods. Until about the mid-1980s, the electoral share of the two main Austrian parties had remained fairly stable, between 40 and 50 per cent of votes. Things started to change fairly dramatically from this period onwards, with a steady decline in their electoral share to the advantage of the FPÖ (*Freiheitspartei Österreich*), a former liberal party initially formed by ex-members and officials of the Nazi party. Its electoral score took off when it turned into a modern national-populist anti-immigration party under the leadership of Jörg Haider, along similar lines as what happened in Switzerland with Christoph Blocher's SVP. In contrast to Switzerland, this decline affected conservatives and social democrats to a similar extent.

**Table 3**      **Share of seats of the main parties in the Austrian Nationalrat, 1986-2008**

	1986	1990	1994	1995	1999	2002	2006	2008
SPÖ	44%	44%	36%	39%	36%	38%	37%	31%
ÖVP	42%	33%	28%	28%	28%	43%	36%	28%
FPÖ(BZÖ)	10%	18%	23%	22%	28%	10%	11(4)%	20(9)%

Source: Armingeon (2009)

Even if electoral change was already substantial in the 1990s, the real watershed in Austrian politics came with the parliamentary elections held on 3 October 1999, which yielded fairly unexpected results. Whereas the SPÖ came out as the strongest party with 33.2 per cent of votes, the second turned out to be the FPÖ with 26.9 per cent. The FPÖ came ahead of the ÖVP by only 415 votes. The leader of the strongest party, the incumbent SPÖ *Bundeskanzler* Viktor Klima started negotiations with the ÖVP to build once again a grand coalition. However, negotiations failed. In the face of its electoral losses, the ÖVP leadership preferred to go into opposition rather than engaging in a coalition with the SPÖ. Ideological changes within the party elite of the ÖVP over the 1990s had also triggered a more adversarial stance towards cooperation with the social democrats and trade unions (Obinger & Talos 2006). The neoliberal agenda it had started to advocate could only be pursued *against* the social democrats and by curtailing the veto power of trade unions.

After the option of a minority SPÖ government was ruled out because of insufficient political support, formal negotiations between the ÖVP and

the FPÖ about the formation of a “black” (ÖVP) and “blue” (FPÖ) coalition government rapidly resulted in an agreement between the two parties. A government was formed under the leadership of Wolfgang Schlüssel as Chancellor, sending the SPÖ into opposition after 30 years in office (Obinger & Talos 2006: 23-24). The ÖVP/FPÖ coalition controlled 104 (both 52 seats) out of the 183 seats in parliament. A little more than one year later, internal controversies within the FPÖ led many members to resign from the party and found the BZÖ (*Bündnis Zukunft Österreich*). Anticipated elections were called in November 2002. These did not challenge the majority of the coalition in power (down 7 seats), but would change the power configuration therein: the ÖVP jumped from the third to the first place and increased its score by 15 per cent. It gained 27 seats whereas the FPÖ literally collapsed, and lost 34 seats. The new 2002-2006 Austrian government would gather 97 seats in parliament (79 for the ÖVP and 18 for the FPÖ).

The new “Black and Blue” coalition government adopted a resolutely more adversarial stance vis-à-vis social democrats and trade unions. In contrast to the tradition of compromise-seeking across the political spectrum, ruling parties no longer sought to find compromises with the opposition (Tálos & Obinger 2006). Between 1999 and 2005, only one-third of laws gathered support from both ÖVP and SPÖ (“corporatist majorities”) whereas the rest were bare “political majorities” (ÖVP and FPÖ vs. SPÖ and Greens) (Müller 2006). The agenda of the FPÖ was already fairly difficult to reconcile with that of the ÖVP within the coalition, so that accommodation with the opposition was even less of an option. As will be made clear in the empirical analysis, this entailed important implications for the role of organised interests in Austrian politics.

Indeed, whereas the ranking of Switzerland among corporatist countries has been disputed, Austria has unambiguously ranked first – ahead of Norway and Sweden – in all 23 rankings of corporatism in the literature reviewed by Siaroff (1999: 184). The social partners have traditionally played a central role in the drafting of virtually any piece of legislation, and have relied on a highly institutionalised system of interest representation, through semi-public monopolistic structures (chambers), which emerged right after World War II. The government is constitutionally obliged to consult the chambers in the drafting of legislation.

The Austrian labour movement has been much less fragmented than its Swiss counterpart, which is partly due to the fact that it was redrawn right after World War II. It relies upon a functional differentiation between the Chamber of Labour (*Arbeitskammer*), whose membership is compulsory

for all employees, and the ÖGB trade union. The main function of the *Arbeitskammer* is the representation of workers in parity bodies and in the elaboration of legislation. It does not take part in collective bargaining, this task being assumed by the ÖGB (*Österreichische Gewerkschaftsbund*) or more precisely its sectoral affiliates. In contrast to the chamber of labour, membership in the ÖGB is voluntary, and as it could not rely upon the institutional safeguards enjoyed by trade unions in countries with a Ghent system of unemployment insurance, its membership has been declining fairly sharply since the 1960s (see Figure 2).

Austrian employers are represented by a similar structure through the economic chamber (*Wirtschaftskammer*), whose membership is also compulsory and, whose internal representation structures give a strong advantage to small firms. In contrast to the division of tasks within the labour movement, the WKÖ does represent business interests in policymaking, and its affiliates take part in collective bargaining as well. As membership is compulsory and the organisation provides for equal voting rights for all members, small firms and self-employed workers in crafts and trades have a clear advantage: 72 per cent of active members in 2011 were self-employed workers, against only 19 per cent represented limited companies (*Gesellschaft mit beschränkter Haftung*) and only 0.4 per cent companies with a share value (*Aktiengesellschaft*) (WKÖ 2011: 84). Larger industrial companies are represented via the *Industrielle Vereinigung* (IV), but this organisation does not enjoy the same rights as the WKÖ. In many ways, this structural imbalance between big and small firms – which contrasts sharply with the Swiss case – is due to a specific historical trajectory. A very large part of the Austrian industrial sector was nationalised after World War II, which basically left private interest representation only to small firms, big industries being mainly under state control. In many ways, this specific pattern may explain the absence of a “neoliberal turn” amongst Austrian employers as observed elsewhere in Europe during the 1990s (Paster 2011b). This neoliberal reorientation in other countries, for instance in the Swiss case, mainly came from export-oriented employers. In Austria, the institutions of interest intermediation somehow prevented this kind of radical voice from emerging among employers.

### 2.3 Processes

Formally, law proposals in the Austrian political system can be initiated by many actors: by the government, by a group of at least five members of the first chamber (*Initiativeantrag*), by one of its permanent parlamenta-

ry committees (*Ausschüsse*), by at least one-third of the second chamber, or alternatively by 100,000 citizens or a sixth of the population entitled to vote in three *Länder* (Pelinka 2008: 441).

Similar to Switzerland, the pre-parliamentary phase is considered to be of extreme importance, even if it is weakly formalised. The only really formalised step within this phase is the *Begutachtungsverfahren* (consultation procedure), which involves ministries, the *Länder*, the peak social partner organisations and, depending on the piece of legislation put forward, other sectoral interest groups. Similar to the Swiss *Vernehmlassungsverfahren*, the aim of the Austrian *Begutachtungsverfahren* is to “test” the reception of a specific piece of legislation within society, and therefore acts as an “early warning system” for societal acceptability (Pelinka 2008: 447). The ministry which drafts legislation proposals maintains significant control over the procedure and the interpretation of results. It remains up to the Minister to take the results of the consultation into account and modify the draft law proposal, to withdraw it or to go forward with it in the Council of Ministers, where it has to be agreed upon unanimously. Once a piece of legislation has been agreed by the Council of Ministers, the whole government stands behind it, and by virtue of its majority in parliament and high party discipline, the likelihood that a piece will be rejected in the *Nationalrat* is virtually non-existent (Pelinka 2008: 448).

Legislation in Austria is first discussed and possibly amended in parliamentary committees before it is voted on in the plenum. The “first reading” is the formal entry of a law in parliament; its main goal is to entrust the examination of legislation to one of the parliamentary committees. Then, in the “second reading”, legislation is examined within a committee composed of members of each parliamentary group following their strength in terms of seats, divided by area of expertise. In general, parliamentary committees follow the division of policy domains within government ministries. The results of the deliberation are then given in a written report used as a guideline for the vote in the plenum. The vote and plenum parliamentary debates constitute the third and final reading of legislation. After a project has been accepted in the *Nationalrat*, it is then submitted to the *Bundesrat*, where it goes through the same procedure, but as argued above, the *Bundesrat* essentially follows the decision of the *Nationalrat*, and does not have a significant veto power. The law is then enacted.

Due to the changes in party politics outlined above, there have been substantial changes in decision-making processes over the last two decades (Obinger & Talos 2006; Pelinka 2008; Talos & Fink 2003). Even if

this trend has been observed since the 1980s onwards (Crepaz 1994), this has been especially strong with the accession to power of a new ÖVP/FPÖ coalition in 2000. First, even if a majority of proposals submitted to parliament are still government proposals (*Regierungsvorlagen*), there has been a clear increase in parliamentary initiatives (*parlamentarische Initiativanträge*). Government proposals represented 83 per cent of all bills submitted to parliament in the period 1971-1975, whereas this proportion declined to 67 per cent for 1995-2002 (Pelinka 2008: 442), which should rather be interpreted as a sign of decline of social partnership than as a real “emancipation” of the parliament vis-à-vis the government. Indeed, parliamentary initiatives that can possibly gather a majority in parliament can only come from ruling parties. Submitting them directly in parliament is a way to overcome the whole set of procedures that are compulsory for government proposals, notably the consultation of social partners through the *Begutachtungsverfahren*. At the beginning of the 1990s already, Crepaz (1994: 58) saw the decrease in the proportion of governmental proposals in the overall activity of parliament as a decline of corporatist institutions. *Regierungsvorlagen* were the typical form whereby corporatist bargains were submitted to parliament for ratification.

To conclude, similar to Switzerland, the consensual features of the Austrian political system have undergone a process of “normalisation” and witnessed the emergence of more majoritarian features. Also, along very similar lines, one can consider that the system of “consensus” which prevailed in Austria has generated its own contestation: the opacity of consensus arrangements have been increasingly contested by populist forces, substantially weakening mainstream parties.

### 3 Summary

In this chapter, I have outlined the commonalities and differences in the political context of social concertation in Switzerland and Austria with respect to institutions, actors and decision-making processes. The chapter has notably outlined the changes to the traditionally “consensual” patterns of policymaking in these countries. These changes were mainly caused by the emergence of national populist parties. As will be made clear in the chapters that follow, this factor will play an extremely important role insofar as changes in the party system also challenge the capacity of corporatist compromises to be translated into actual legislative reforms, and to build political coalitions across parties.

An important feature to bear in mind is the difference in executive relations in both countries: whereas coalitions are basically formed for whole legislatures in Austria and mainly take place in government, they are mainly formed in parliament in Switzerland, and may vary from issue to issue. This institutional difference is important for the comparison of social concertation in Austria and Switzerland because the locus of party coalitions differs between the two countries. This means that the Swiss parliament can vote against policy deals agreed between the government and social partners, whereas this is extremely unlikely in Austria. Finally, the existence of the optional referendum is also a major institutional difference which sets Switzerland apart, as it does not exist in Austria. However, as already argued, one can consider it as a particular channel through which political actors can contest political decisions after they have been passed in parliament, something that in other countries can be done with strikes, protests or other forms of political action. Using such analytical equivalents allows us to go beyond particular national differences, and use concepts that can be found in different countries or fulfil similar functions even if they may bear different names (Peters 1998). For instance, the Austrian system of Chambers and the Constitutional Court can be seen as resources of power for trade unions which fulfill similar functions as the referendum in Switzerland.

## 6 Social Concertation and Cross-Border Labour Mobility

When it comes to the opening of the labour market, it makes everybody realise that [...] one cannot have too many enemies. In social policy it's mostly left against right, but in the opening of the labour market it's not left against right, and this means that you have to collaborate with the left. They [the Government] have realized that against the svp, the Swiss Democrats and the left together, this was too dangerous. SGB Central Secretary (Interview CH7)

It was not difficult to convince the [Economic Chamber], because they also feared that their members would be threatened: the chimneysweepers, the carpenters and so forth. They were also afraid, they thought that from now on, if chimneysweepers, window builders and carpenters could come from Brno or from elsewhere to work and compete with them, they were also threatened as entrepreneurs, just like employees. And so there was – and there still is – an alliance between employers and workers. Head of Section International Affairs, Österreichische Gewerkschaftsbund (Interview AUT2)

The renovation of a school in a Swedish town in 2004 was the starting point of vivid debates about how labour mobility could challenge the very underpinnings of social concertation in the European Union. In 2003, a Latvian company called *Laval un Partneri* won a contract to refurbish a school in the town of Vaxholm, near Stockholm. Right after Sweden opened its labour market to workers from the new member states of the European Union, Laval “posted” 35 Latvian workers who remained effectively employed in Latvia to carry out the work. The Swedish Building Workers’ Union *Byggnads* asked the company to sign a collective labour agreement complying with the standards of the wage agreement of the Swedish construction sector. The company refused to do so, and decided instead to conclude an agreement with *Latvian* trade unions, which provided for much lower wage rates. In response, the Swedish trade union



resorted to industrial action by blocking access to the construction site. Unable to carry out its contract, *Laval* took the case to the Swedish labour court seeking reparation, claiming among others that trade union action restricted its freedom of competition and the free movement of services in the Common Market. The Swedish court rejected the claim of Laval, but referred the case to the European Court of Justice to clarify if the action of the Swedish trade union indeed conflicted with some aspects of EC law. In 2007, the European Court of Justice in Luxembourg, while acknowledging the right to strike, ruled that the industrial action of the Swedish trade unions indeed restricted the freedom of competition in the single market (Woolfson et al. 2010).

This ruling, together with other cases involving a similar use of discrepancies in industrial relations arrangements in Europe for competitive purposes, yielded massive reactions from trade unionists all over Europe. In response to another ruling of the ECJ, the General Secretary of the International Transport Workers' Federation (ITF) David Cockroft argued for instance that

what's at issue here could hardly be more fundamental. The right to defend your job against the right of a business to do what it takes to up its profits; a Europe for the powerful or a Europe for its citizens. This is not about new entrants, or labour costs. It is about the rights and basic beliefs that most of us have always believed underpinned the European Union. (cited in Lindstrom 2010: 1320)

While industrial relations, labour standards and rights to industrial action had remained the province of member states, unregulated labour mobility in the European Union has been perceived as the Trojan horse which could potentially undermine cooperation between trade unions and employers in Europe. Most importantly, these developments showed that the issue of cross-border labour mobility had now come to the forefront of the conflicts between trade unions and employers.

This chapter analyses patterns of corporatist concertation in the regulation of cross-border labour mobility in Austria and Switzerland after the latest enlargements of the EU. Even if it has been far less studied than wage bargaining, pension reforms or active labour market policies, the regulation of international labour mobility is increasingly seen as an area of prime importance for the governance of labour markets in advanced economies. "Liberal" or "protectionist" labour migration policies can have important effects on the size of the labour supply, on wages, on domestic

demand, or on social security contributions. As such, labour migration is also a domain where extensive negotiations between employers and trade unions take place, even if structures of concertation may be less institutionalised than in other domains (Caviedes 2011; Menz 2009; Penninx & Roosblad 2000).

Most importantly for the scope of this analysis, both EU negative integration and national populist contestation have played an important role in this domain. On the one hand, the principle of free movement of workers and services has removed the possibility for member states to regulate access to their labour markets through immigration control, thereby generating mounting concerns about wage and labour standards in many countries (Menz 2009; Ruhs & Anderson 2010). On the other hand, international migration is certainly the most prominent issue in the agenda of national-populist parties in Europe. In the two countries analysed here, the opening of the domestic labour market to workers of new member states was a highly salient process with a substantial involvement of both trade unions and employers, and was subject to vivid politicisation by anti-immigration protest parties. In this chapter, I show how politicisation strategies and coalition-building patterns fostered or undermined concertation procedures in this domain.

The chapter first presents the history and main political stakes linked to cross-border labour mobility within the enlarged EU, as well as a brief description of the decision-making process at the supranational level. The core of the chapter consists of an analysis of domestic concertation processes in Austria and Switzerland. This involves the decision of whether or not to open the labour market through the use of transitional measures, but also measures of re-regulation to protect wage and employment standards.

## **1 Cross-Border Labour Mobility and EU Enlargement**

The free circulation of people is one of the four fundamental freedoms guaranteed by EU law, alongside the free movement of goods, services and capital. It includes the right of EU nationals to move freely to another member state, to take up employment and reside there with their family members (Eur-Lex 2004). Cross-border mobility in the EU involves two intertwined elements, namely the mobility of *workers* and the mobility of *services* across borders. In the former, workers move freely and are legally employed in the country where they work, whereas the latter implies that

workers are “posted” in one country to carry out work while they remain employed in another country. This practice is for instance widespread in the construction sector, and introduces uncertainty as to the rules applying to their employment (“home-” or “host-country” principle). The extension of these principles to the NMS after EU enlargement was the main subject of political battles at the domestic level.

### 1.1 Development of Labour Mobility in the EU

A major achievement of European integration has been the facilitation of the mobility of people across borders. The free movement of workers in the European Union was envisaged from the early days of European integration. In the Treaty establishing the European Coal and Steel Community (1951), member states (at this time France, Germany, Italy, Belgium, the Netherlands and Luxemburg) already committed themselves to promote the free movement of workers in the coal-mining and steelmaking industries (Art. 69), and the Treaty of Rome (1957) subsequently extended this right beyond coal and steel in its article 48. In line with the economic purpose of the Treaty, however, this freedom was limited to *workers* and did not include pensioners, students or family dependents. Besides, it excluded employment in the public service (art. 48 al. 4).

In 1968, at the end of the transitional period of twelve years provided for in the Treaty of Rome, the free movement of workers within the EC became effective (European Commission 2001: 2). However, a wide variety of national administrative and legal barriers continued to limit the actual mobility of workers within the Community, because member states could still apply “limitations justified on grounds of public policy, public security or public health” (art. 48 al. 3 of the Treaty of Rome). Hence, community nationals migrating for work in the early years of European integration still had to apply for residence permits that could be denied on a discretionary basis. Regulating the movement of persons remained a highly guarded national prerogative (National Economic and Social Council 2006: 96). However, greater transparency was progressively required from member states, and it became more difficult for them to deny entry to citizens of other member states. At the same time, stronger individual rights were provided under community law to claim for judicial redress (Caporaso & Tarrow 2009; Ferrera 2005).

Over the years, a number of European directives and regulations extended formal rights to move and seek employment abroad, and removed barriers arising from the lack of coordination of social security systems

(National Economic and Social Council 2006: 92). In 1968, Directive 68/360 on the abolition of restrictions on movement and residence within the Community for workers of Member States and their families specified that only an ID card or passport (and no visa) could be required to stay and work in another member state. Regulation 1612/68 on the freedom of movement for workers within the Community forbade any sort of discrimination by a member state between its own nationals and nationals of another member state in the operation of tax and social welfare codes, housing or training benefits. In 1971, Regulation 1408/71 on the coordination of social security systems gave a major impetus to the advancement of free movement.

An initial problem of free movement was the lack of coordination between social security systems, so that a worker would not be entitled to social protection with contributions made in another member state (Ferrera 2005). Even if social protection remained a national prerogative, a greater degree of coordination between member states was achieved to allow workers to be covered by social security schemes even if they moved abroad (Ferrera 2005). The principle came to include a wider category of groups beyond wage-earners, such as the self-employed, students, and third-country nationals that held residence status in a member state. Some rulings of the ECJ also widened the scope of free movement to the families of workers, independently of their employment status. Even if public employment has been the subject of specific rules, some of its domains have also progressively been opened to citizens of other member states along the years.

The principle of free movement gained particular significance after the Single European Act of 1986, which aimed to create an EU-wide integrated market for goods, capital, services and labour. The accession of new member states (Greece in 1981, Spain and Portugal in 1986), where wages were much lower than in “old” member states, also made the issue more conspicuous. Even if transitional arrangements were provided for the extension of free movement to those countries, migration flows proved very moderate in a period of economic slowdown, and transitional periods were even shortened (European Commission 2001: 2). However, more than the freedom of settlement, it would be the free movement of services and worker “posting” that would raise significant concerns about wages and labour standards in richer member states (Menz 2005). Transnational service provision appeared as an important channel whereby wage differentials across countries could be exploited by companies.

In 1990, the ECJ, in its *Rush Portuguesa* ruling, stated that posted workers employed in an EU country (whatever their nationality) could not be subjected to local immigration restrictions, and that the freedom to provide services could not be breached. However, member states could still impose work and wage standards on foreign companies posting workers providing they were not discriminatory with respect to EU single market rules. The 1996 Posted Workers Directive (96/71) formalised this ruling into EU law, and secured a core of national legislation in terms of wage and social standards that member states could impose on member states (Streeck 1998). In the framework of the directive, however, the regulation of posted work was dependent on the emergence of a national compromise on the protection of wage standards. In Germany, for instance, such an encompassing compromise between trade unions and employers failed to emerge. The posting of workers has been considered the “Achilles’ heel” of Rhenish capitalism because outcomes of collective bargaining were only extended with respect to minimal standards.<sup>13</sup> This made the posting of foreign workers very profitable, and it was used on a large scale in the construction works carried out in Berlin after reunification (Hunger 2000; Menz 2003, 2005).

Despite the progressive facilitation of labour mobility, flows of permanent intra-EU migration remained fairly modest. Much of the discussion around labour mobility before the 2004 enlargement “bemoaned how little movement was actually taking place [...] Thus labour mobility was seen as one of the unfulfilled promises of the EU.” (Donaghey & Teague 2006: 652) Indeed, only a very small percentage of citizens of the EU15 actually worked and lived in another member state, even if this share has been increasing over the 1980s and 1990s (Recchi 2008). In many ways, the perspective of the EU’s eastward enlargement changed perceptions of labour mobility. Instead of lamentations about the low levels of labour migration, significant concerns emerged about potential migration flows from the less affluent accession states.

## 1.2 EU Enlargement and Transitional Arrangements on the Free Movement of Workers

In 1993, at the Copenhagen European Council, EU member states agreed that the countries of the former Eastern bloc should be able to join the European Union, and elaborated a number of criteria (so-called Copenhagen criteria) that candidate countries had to fulfil if they wanted to join (Schimmelfennig 2003). These criteria included among others “a func-

tioning market economy, as well as the ability to cope with the pressure of competition and the market forces at work inside the Union; the ability to assume the obligations of membership, in particular adherence to the objectives of political, Economic and Monetary Union".<sup>14</sup> In the aftermath of this, ten countries of Central and Eastern Europe plus Cyprus and Malta applied to join the EU. For ten of these countries their membership became effective on 1 May 2004. Romania and Bulgaria would join on 1 January 2007.

The 2004 enlargement represented the most challenging enlargement in the history of the EU, not only in terms of size (number of new entrants and size of their population) but also regarding the impact these countries would have on the overall socio-economic profile of the Union (Donaghey & Teague 2006: 653). At the time of accession, average living standards in new member states were much lower than that of the EU15. The GDP per capita across the EU25 varied from one to five between Latvia and Luxembourg (Table 2).

**Table 4** GDP per capita in the EU25, EFTA and candidate countries in PPS, 2004. EU25 = 100

Luxembourg	223	Slovenia	78
Ireland	139	Portugal	73
Denmark	122	Malta	72
Austria	122	Czech Republic	72
Netherlands	120	Hungary	61
United Kingdom	119	Slovakia	52
Belgium	119	Estonia	50
Sweden	116	Lithuania	48
Finland	115	Poland	47
France	111	Latvia	43
Germany	109	Croatia	46
Euro-zone	107	Romania	32
Italy	105	Bulgaria	30
EU25	100	Turkey	29
Spain	98	Norway	153
Greece	82	Switzerland	130
Cyprus	82	Iceland	116

Source: Eurostat (2005)

In many respects, the heterogeneity of the European Union after enlargement increased incentives not only for individuals to migrate, but also incentives for companies to use those differentials through worker posting. This could be done, for instance, by “posting” workers in high-regulation, high-wage countries while complying with the rules of low-regulation, low-wage countries (Dolvik & Visser 2009; National Economic and Social Council 2006: 85).

In the wake of enlargement, several member states, most notably Germany and Austria, raised concerns about migration flows which could cause “serious disturbances” on their labour markets, and asked for a transitional period during which the free movement of labour could be limited. At the outset, the Commission was opposed to this idea, arguing that fears of mass migration were not justified in light of previous experiences with southern enlargements. This view was shared by employer organisations at the EU level (such as UNICE and the ERT). They admitted, however, that “some adjustments” may be needed regarding the direct extension of free movement to Eastern Europe (Bohle & Husz 2005). Amongst advocates of limitations on free movement, the European Trade Union Confederation, but also the European Economic and Social Committee actively engaged in favour of a transitional period, notably through a series of events designed to “build partnerships” with Central and Eastern European trade unions and rally them – without much success – to the necessity of transitional arrangements. Because Germany and Austria directly shared borders with accession states, the German Confederation of Trade Unions DGB (*Deutscher Gewerkschaftsbund*) and the Austrian ÖGB also actively advocated limitations in this domain (Bohle & Husz 2005: 102-103).

In the end, the solution of transitional arrangements was chosen, probably more due to the decisive role of the German and Austrian governments than to the influence of interest groups themselves. Even if business – especially big business with strong pro-liberalisation preferences – was better organised and more powerful than labour at the European level, the position it advocated did not outweigh the electoral concerns of governments confronted with anxious public opinions at home (Bohle & Husz 2005: 104). The most decisive move in this respect was the demand made by the German *Bundeskanzler* Gerhard Schröder for a seven-year transitional period, which he presented as “existential” for the protection of wage and labour standards in Germany. Interestingly, this position was backed by the conservative opposition of the CDU/CSU, and rallied other member states as well (Der Standard 2000a, 2001d; Interview AUT4).

Countries such as the UK, Ireland or the Netherlands, by contrast, advocated full free movement right from the outset.

In the face of these oppositions, the European Commission published an information note outlining different possible scenarios for the free movement of workers after enlargement (European Commission 2001). These included (1) the full and immediate application of the *Acquis communautaire* without any transition periods or safeguard clauses; (2) the immediate establishment of free movement but with safeguard clauses in case of severe disturbances of the labour market, (3) a flexible optional system of transitional arrangements, (4) the establishment of a system of fixed quotas set at the national or local level and (5) a complete derogation from the *Acquis* for a limited period of time (European Commission 2001; Ziegler 2002: 133).

Drawing on this information note, the Commission submitted its Draft Common Position (DCP) for each of the central and Eastern European candidate countries. The DCP proposed a transitional regime along the lines of solutions two and three, which allowed some margin of manoeuvre for member states. The DCP anticipated a general transition period of five years, after which an extension could be possible upon request of member states in case of “disturbances” of the labour market. The transitional period could only be shortened on the basis of a unanimous Council decision. A *standstill clause* was introduced to ensure that member states could not make their immigration laws more restrictive regarding the entry of workers of candidate countries during the transitional period (Sajdik & Schwarzsinger 2007: 199). Furthermore, community preference would apply in favour of nationals from new EU member states over third-country nationals during the transitional period.

Finally, a common position (“2+3+2”) was reached in the Council in June 2001. The 2+3+2 solution was considered lighter and more flexible than the DCP, since the initial transition period was reduced to two years. After these two years, the *Acquis* applies unless member states notify the Commission that they want to maintain restrictions, on the basis of national law. If so, the transitional period is prolonged by three years, but only applies in countries that wish to do so. Then, a final period of two years can be requested by member states, after which the full *Acquis* has to apply. The possibility to modify this model of the transitional period was not provided for (DG Employment 2004).

Transitional arrangements only concerned migration and not transnational service provision (Dolvik & Visser 2009: 497). Hence, if individual migration remained limited, the freedom of service provision with new



EU member states entered into force on 1 May 2004 except for Germany and Austria, who asked for derogations in this domain as well. This would have important consequences for post-enlargement migration patterns because the limitations on migration would channel labour to a large extent to the gateway of cross-border service provision and worker posting (Dolvik & Visser 2009: 492). The case of Laval mentioned at the beginning of this chapter is a good example of the potential consequences of this development.

During the pre-accession debates, projections commissioned by the European Commission predicted a limited increase in immigration from “new” to “old” member states. Migration flows were estimated at around 300,000 people per year for the whole of Europe in the first five years post-accession, which would represent a very small number for each member state (Boeri & Brücker 2000). These projections were based, however, on the assumption that all EU members would apply full freedom of movement from the outset. Yet, even if some countries such as the Netherlands and Spain initially announced that they would not apply transitional measures, some of them changed their minds. Most member states chose to take advantage of transitional periods and apply different restriction measures, and Ireland, the UK and Sweden were the only countries that fully opened their labour market right after enlargement (Gajewska 2006: 380). Switzerland, which is not a member of the EU but which concluded a bilateral agreement on the free movement of workers with it, aligned with Germany and Austria on a transitional period of seven years. A delayed time frame was applied when Romania and Bulgaria joined the EU in 2007. Full free movement applied for the countries that joined in 2004 on 1 May 2011 and will apply on 1 January 2014 for the A2. Most countries of the EU15 lifted restrictions before the end of the maximal transitional period, Germany and Austria remaining the only countries maintaining them until the end (Galgoczi et al. 2011). In the following section, the decision-making process regarding the use of these transitional arrangements is examined in depth in Austria and Switzerland.

## **2 Austria: Cross-Class Consensus under a Common Threat**

When Austria joined the EU in 1995, the issue of the free movement of workers from the countries of Central and Eastern Europe was already looming on the horizon. The question of the free movement of labour was important for Austria because of its geographical proximity to ac-

cession countries. This proximity, coupled with important differentials in terms of wages, labour market regulation and social protection, was a significant cause for concern for Austrian trade unions right at the beginning:

Austria entered the EU in 1995, that is two years after this declaration of Copenhagen, which meant that the countries of the Eastern bloc would enter. So we knew, when we entered the EU, that sooner or later, the neighbouring countries would also join the EU. And it became soon fairly clear that the movement of workers would become free as well. [...] Many people looked at the map and saw that Austria was the country in the “mouth of the wolf”. [...] It was the only white stain, it was all red around it [...] Right away, there has been a reaction of defence in the population, saying “okay, we want to join, we want to be part of the EU but we want to be sure that the Austrian labour market remains protected”. Within the trade unions, a slow movement started, in which some, like me as a European, have said that we shouldn’t apply transitional measures too restrictively, but the great majority thought that the Austrian labour market should be and should remain protected. Head of section international Affairs, ÖGB (Interview AUT2)

This was the overall framework in which the decision-making process over labour market opening in Austria was embedded. As will be shown, however, trade unions were not the only domestic actors concerned about the potential labour market consequences of eastern enlargement. The specific configuration of business interests in Austria, and notably the dominance of small firms in the structures of interest intermediation, fostered a defensive stance from employers as well.

## 2.1 Labour Migration Policy in Austria

Austria’s pre-enlargement labour migration policy displayed similar patterns to those in neighbouring Switzerland and Germany, but on a smaller scale (Bauböck & Wimmer 1988: 661). Austria’s postwar economic boom led to a growing demand for labour, which would be filled by “guest workers” principally from south-Eastern European countries, such as Turkey and Yugoslavia. Foreign labour strongly increased at the end of the 1960s and the beginning of the 1970s, from 76,500 in 1969 to 227,000 in 1973, among which 178,000 from Yugoslavia and 27,000 from Turkey (Bauböck 1999; Jandl & Kraler 2003).

Traditionally, immigration policy has been closely managed within social partnership institutions in Austria. The first guest worker programmes were for instance established in 1961 as part of a deal between the ÖGB and the *Wirtschaftskammer* which provided for the entry of about 47,000 guest workers in exchange for an expansion of the competences of the ÖGB in the commission for prices and wages (Bauböck & Wimmer 1988: 661). The immigration law of 1975 further institutionalised the powers of the social partners in immigration policy at all levels, giving competences to parity committees in everything from the setup of immigration quotas to individual work permits (Bauböck & Wimmer 1988: 662). The rationale of this policy was that migrant labour should only be used in periods of economic growth. Trade unions were eager to maintain control over the supply of foreign labour.

As elsewhere, the oil crisis of the mid-1970s radically reduced the demand for foreign labour (Bauböck & Wimmer 1988: 662; Jandl & Kraler 2003). Similar to Germany and most other West European countries, a range of measures was taken by the government to end foreign labour recruitment and restrict the access of migrants to employment. The Aliens Employment Act (*Ausländerbeschäftigungsgesetz*) passed in 1975 remained the main legal tool for the control of labour migration for most of the following years, and contained rather restrictive measures regarding admission policy. By 1985, the employment of Turkish and Yugoslav workers had dropped to half the level of 1973. At the end of the 1980s, however, a renewed period of economic expansion created labour shortages in construction and export-oriented industries which would, again, be filled by new or returning immigrants from Yugoslavia and Turkey (Bauböck 1999). Because of this, but also because of the conflict that broke out in Yugoslavia, the proportion of foreign nationals within the Austrian workforce steadily increased from the 1990s onwards.

In this context, a series of legislative reforms geared to immigration restriction were implemented from the 1990s onwards, both as a response to the rise in immigration but also due to the growing political pressure exerted by the FPÖ on this issue. Hence, a quota for the employment of foreigners was introduced in 1990. This quota was initially set at 10 per cent, but then lowered to 9 per cent after Austria joined the European Economic Area in 1994. During the 1990s, a series of further measures restricting entitlement to entry and residence of third country nationals were passed: a new Aliens Act was passed in 1992, followed by a Residence Act in 1993, followed again by an Aliens Act in 1997 (Jandl & Kraler 2003). However, these measures did not prevent the proportion of foreigners in the labour market from steadily increasing throughout the decade.

## 2.2 Cross-Class Consensus and Supranational Lobbying

From the outset of enlargement talks, Austrian trade unions strongly advocated limitations in the free movement of workers should the new countries join the EU. Very early on, they put forward a number of conditions that should be endorsed by the Austrian Government within their negotiating position in the enlargement process. Hence, strong lobbying activities by the ÖGB and the AK took place vis-à-vis the Government and political parties to impose transitional measures as a key issue in the agenda of Austrian negotiators (Interview AUT2, AUT4; Tumpel 2004). Trade unions had a deliberate strategy to politicise this issue at both the national and European level:

It was the main concern of the AK and the trade unions in general to ensure adequate protection of the domestic labour market during the [accession] negotiations. The special situation of the Austrian labour market was presented in countless public meetings, debates, press conferences and so on, and we highlighted the absolute necessity to introduce transitional arrangements for the free movement of workers and cross-border work (as part of the freedom to provide services). Both with respect to this mediatisation within Austria, and ultimately in the decision-making process in the chapter “Free Movement of Workers” in the accession negotiations, the AK decisively contributed with its expertise and analyses. (...) One of the most successful outputs was also a so-called Austrian “non-paper” on the free movement of workers, coordinated by the negotiators in the Ministry of Foreign Affairs working closely with the AK. This was presented at an early stage to the other EU member states to promote the understanding of the sensitive situation of the Austrian labour market due to its geopolitical situation. President, *Bundesarbeitskammer* (Tumpel 2004)

As early as 1996, the general assembly of the *Bundesarbeitskammer* adopted a resolution demanding that the issue of the free movement of workers be put at the centre of the enlargement negotiations. Full free movement should be realised progressively and take into account the situation of the Austrian labour market, through the use of an appropriate transitional period; the new countries should enter the EU only upon their acceptance of the EU’s social and labour market standards; the representation of workers in the new member states should be promoted so that institutionalised social dialogue would be possible; and that the applicant countries practice a stable economic and monetary policy (Bundesarbeitskammer Österreich 2008).

In 1998, when the negotiation process was already underway, these claims were voiced again through a resolution in the general assembly of the AK, which also asked for a strong involvement of the social partners in the elaboration of the negotiating position of the Austrian government within the Council. During the same year, a study on the likely migration implications of enlargement for the Austrian labour market was commissioned by the *Bundesarbeitskammer* to the Austrian Institute for Economic Research (wifo) (Walterskirchen & Dietz 1998: 1-2). More generally, this issue was becoming a subject of vivid debates in the media in Austria. Drawing upon the study mentioned above, the president of the *Bundesarbeitskammer* Herbert Tumpel declared in 1998 that, considering the current state of the Austrian economy, it would take twenty years before the Austrian labour market could be opened without restrictions to Eastern European workers (Der Standard 1998). From the outset, trade unions advocated *material* and not only *time* requirements for the opening of the labour market, arguing that a transitional period would not solve anything without a fast catching-up process in the accession countries. Hence, they proposed that the labour market be opened only when wages in the accession countries would reach 80 per cent of Austrian median wages (Der Standard 2001f; Interview AUT4).

Austrian trade unions were also active at the supranational level, for instance in the framework of the European Trade Unions Confederation (ETUC). The ETUC in general displayed a more liberal view on the issue of free movement than Austrian (and German) trade unions, the latter always trying to temper voices within the organisation that argued in favour of totally opening borders to accession states (Interview AUT2).<sup>15</sup> Besides, the Austrian government and the social partners carried out joint initiatives to advocate transitional arrangements limiting the free movement of workers and services after enlargement. The AK and the ministry of foreign affairs jointly issued an information paper to explain to other member states the specific situation of Austria with regard to the free movement of workers. This explanatory paper was sent to all EU15 member states, as well as to accession countries (Interview AUT4; Tumpel 2004).

The Austrian SPÖ/ÖVP grand coalition shared the preferences advocated by the trade unions. On several occasions even before the accession negotiations with the candidate countries started, the ÖVP declared that it would welcome transitional measures (Der Standard 1998). This position can be explained by concerns in terms of public opinion observed elsewhere, but also by the interests of the specific clientele of the ÖVP and

of the economic chamber. On the one hand, the imminence of Eastern enlargement and the perspective of a massive flow of Eastern European workers generated, probably more than elsewhere, massive fears in the population. An opinion poll conducted in 2001 revealed that only one-quarter of Austrians were “in principle” for European integration, and that 55 per cent supported transitional measures for the entry of workers from accession countries into the Austrian labour market (Der Standard 2001h). On the other hand, the specific nature of business interests in Austria also favoured a protectionist stance in this domain.

As mentioned above, small- and medium-sized companies are the single largest constituency within the WKÖ, which has strong ties to the ÖVP. Whereas export industries would have had something to gain from an opening of the Austrian labour market, the costs and benefits were more mixed for small and medium companies:

In Austria, the power lies within the Chambers. And the WKÖ is a craftsmen's organisation [...] It is small businessmen who have their say. And when those small businessmen, the baker, the hairdresser and what have you, when they are afraid, they will tell their president that he needs to protect them. Then he will be talking to our president [of the ÖGB], with the President of the *Arbeitskammer*, and if the three are eye to eye [...] then there is no government in Austria that will contradict them [...] Also because political opponents, if you want to call them like that, have the same position on this issue. Head of International Affairs, ÖGB (Interview AUT2).

And so, therefore relatively soon we have reached a consensus, that transitional provisions would be necessary in Austria. [...] It was clear that the trade union side would demand forcefully to close the labour market, whereas employers would have had a more liberal stance, and would be interested in getting skilled labour from the new member states. But free movement has two sides. There is also the freedom to provide services, which would have deeply affected our companies, especially in the border area, in the construction sector, these protected sectors. In the end, that has led us to say: “Ok, we cannot cherry-pick, we cannot open here and close there. It must be a balanced step” [...] I don't think it was really a “compromise” as such, in my memory, because actually the two advocated the same position, namely that there should be transitional arrangements and that the labour market should be closed for a certain amount of time. The question was maybe rather,

at the internal level, if we would bring ourselves to do it. But this was clear very soon: yes, we also have an interest for our companies in the domain of services to have transitional arrangements and we couldn't say that we did not want it for the free movement of workers. Social policy official, wKÖ (Interview AUT7).

Although employers surely also had an interest in increasing the supply of labour as a way to ensure wage moderation, opening the labour market also meant the risk of increasing competition from foreign service providers and self-employed workers from accession countries. In the end, the wKÖ decided to support transitional arrangements. The IV, the employer body of bigger industries, rallied to the position of the wKÖ, although arguing for a sufficient level of flexibility. This convergence of interests between employers and trade unions, and then by virtue of horizontal coordination, between the SPÖ and the ÖVP, allowed for a large base of political support for transitional arrangements (Heschl 2008: 14; Interview AUT2; Interview AUT7). Only the Green Party was opposed to limitations, arguing in favour of a more offensive labour market policy fostering upskilling instead of a merely defensive policy through measures of immigration restriction (Der Standard 2001f; Interview AUT5).

Even though the first choice of Austrian trade unions would have been to subordinate the opening of the labour market to *substantial* criteria regarding wage differentials and unemployment levels, the proposal by the German chancellor Gerhard Schröder at the end of 2000 to introduce a seven-year transitional period was warmly welcomed:

When Chancellor Schröder proposed this seven-year transitional period in Bayern, we all let out a deep sigh because there was something on the table with which we could negotiate. And the Austrian government has immediately taken it as its own solution. At the *Arbeiterkammer* we have always said that a catching-up [of wage levels] was necessary, otherwise it would create big problems. But strictly speaking we also found that the seven-year transitional arrangement was an acceptable solution, and the trade union withdrew its position. And then everything was coordinated by the Ministry of Foreign Affairs. The Ministry was also very keen to find a compromise. And there have been many discussions, also at the political level, between president Trumpel (*Arbeiterkammer*), president Verzetnitsch (ÖGB), the wKÖ – which also wanted transitional periods – and the IV, which is not formally a social partner,

and therefore its voice was not as important, but in the coordination they were always there. Collaborator International Affairs, Bundesarbeitskammer (Interview AUT4)

When the transitional arrangements at the EU level were agreed, the Austrian minister for economy and employment described it as “one of the biggest successes of Austrian diplomacy” (Der Standard 2001g). Once the general framework was fixed at the European level, however, national legislation had to be passed domestically before enlargement for the provisions of the accession treaty to come into effect at the domestic level (Der Standard 2003a). However, whereas close cooperation between ministries, employers and trade unions could be observed in the “upstream” phase of this policy, the government in power had changed when it came to implement these transitional measures. In many ways, the ÖVP/FPÖ would be much less accommodating with labour interests while passing domestic legislation.

### 2.3 The Domestic Application of Transitional Measures

The main aim of the EU-Enlargement Adaptation Law (*EU-Erweiterungs-Anpassungsgesetz*)<sup>16</sup> was to provide the national legal basis for the application of the transitional regime.<sup>17</sup> In the absence of a domestic legislative framework, unrestricted free movement with the new member states applied directly because there was no legal basis for the handling of citizens of “old” and “new” member states differently (Interview AUT7; Österreichisches Parlament 2004). The law aimed at establishing that citizens of the EU8 countries were *not* excluded from the scope of application of the existing Aliens Law (which applied hitherto only to non-EU citizens). Bilateral agreements with some accession countries, notably Hungary and the Czech Republic, would provide for the seasonal recruitment of workers on a bilateral basis, whereas migration from other countries would remain limited by quotas.

The ÖVP/FPÖ coalition, led by the minister for economy and employment Martin Bartenstein (ÖVP), opted unsurprisingly for a transitional period of seven years (that is, the maximum possible) assorted by quotas and restrictions regarding access to unemployment benefits (EIRO 2004c). As such, there was no doubt that the Austrian Government would use the transitional regime after the political efforts that had been made to impose this solution at the European level. However, the domestic application of the transitional arrangement allowed for a certain margin



of manoeuvre. In this respect, it provided for some opening for workers through seasonal work permits, which are used essentially in a number of specific economic sectors, such as agriculture or construction, as a way to fill gaps in low-skilled jobs (EIRO 2004b, c). Besides this, it also provided for a modification of the Unemployment Insurance Law in order to restrict unemployment benefits for seasonal workers of the new member states (Österreichisches Parlament 2004: 2). No changes were foreseen in the framework of industrial relations. A law passed in the 1990s (*Arbeitsvertragsrechts-Anpassungsgesetz/AVRAG*) already provided for the extension of collective labour agreements to all employees in Austria, including posted workers.

The draft bill proposal was further developed within the subdivision of EU and international labour market law of the Ministry of Economics, by a civil servant who had taken part in the negotiations of the transitional arrangements at the EU level (Interview AUT8). Some consultations were held with the commission on foreign labour employment under the auspices of the public employment service, but it proved to be a fairly light procedure since the law was meant to be the “mere” transposition of the broad consensus described above (Interview AUT7). Hence, it essentially provided the legal basis for the continuing restriction of access to the labour market for nationals of accession states (Österreichisches Parlament 2004: 1-2).

However, the bill also introduced some specific provisions allowing for the entry of workers on a seasonal basis. This element would be the main bone of contention for the trade unions and the left because it was believed to provide a backdoor for cheap labour migration under unacceptable social conditions. After it was drafted, the proposal was sent for consideration to a wide variety of groups in the framework of the compulsory *Begutachtungsverfahren* in early 2004, with a short deadline to reply.<sup>18</sup> Actual enlargement would take place less than three months later. The bill generated dissatisfaction from trade unions, who argued that it provided too many exceptions to the limitation regime.

Although the AK agreed with the intention to apply transitional measures, it criticised a great number of provisions of the law. Several provisions allowed for exceptions (trainees, frontier commuters and seasonal workers) and according to them, favoured backdoor low-skilled immigration flows (Bundesarbeitskammer Österreich 2004). Whereas the draft bill provided for exceptions for the entry of certain categories of workers, the *Arbeiterkammer* argued for the suppression of these exceptions for workers who could not be considered high-skilled. Trade unions also

criticised the intention of the government to maintain seasonal work permits mainly used in agriculture and the tourism industry, and demanded their drastic reduction instead. Finally, the AK considered the restrictions on unemployment benefits for seasonal workers as highly questionable from a social and economic point of view, and even considered them anti-constitutional (Bundesarbeitskammer Österreich 2004).

By contrast, the WKÖ argued that the bill did not provide for sufficient flexibility in the labour market. In the framework of the transitional arrangements, it should have provided for a flexible and progressive opening that could ensure the competitiveness of the Austrian economy. Whereas Austria and Germany had obtained derogations regarding the liberalisation of services in a number of economic sectors, the risks of unfair competition from foreign companies were limited, and resorting to foreign labour was still an option to fill in vacancies in the lower segments of the labour market. In this framework, the Austrian employer body asked for the quick conclusion of bilateral agreements on recruitment with some new member states, as well as a relaxation of admission criteria for certain categories of workers. The ability to recruit skilled personnel without bureaucratic hurdles was considered a decisive element to ensure the competitiveness of the Austrian economy (Wirtschaftskammer Österreich 2004a).

## 2.4 Majoritarian Decision-Making in Parliament

The parliamentary handling of the bill proved to be very quick. The project was submitted to Parliament just a few weeks before enlargement actually took effect. The draft law proposal was examined by the *Commission for Employment and Social Affairs* on 16 March 2004, and then discussed in the plenum on 24 March 2004, whereas enlargement was scheduled for 1 May.<sup>19</sup> This tight schedule was criticised by the opposition, notably by the SPÖ, arguing that the Ministry had waited until the very last moment to submit legislation to protect the Austrian labour market in the face of enlargement.<sup>20</sup> In terms of substance, the SPÖ largely relayed the criticisms raised by the *Arbeiterkammer* during the consultation procedure:

The regulation that the Government has achieved regarding seasonal workers [...] is not in any way adapted to ensure sufficient security measures for workers on the Austrian labour market. Instead of admitting people with no rights to Austria for a short or longer time, it would

have been better to foster the real integration of citizens in the labour market. So this bill is not adapted [...] With this piece of legislation, one achieves another type of immigration from the backdoor, to bypass the quotas via seasonal work, trainees and frontier commuters. With this possibility, this open hole, this law cannot achieve its aim, that is, protect people on the Austrian labour market. SPÖ MP (Stenographisches Protokoll 2004a: 59)

Along these lines, the SPÖ and the Greens proposed minority modifications aimed at restricting the possibility to import cheap foreign labour from accession states (Stenographisches Protokoll 2004a: 94). Social democrats argued that with a variety of exceptions for frontier commuters, trainees and seasonal workers, the restrictions on free movement could be easily bypassed. They demanded that those workers should be included in the quotas set at federal and state level, and that the limitations regarding access to unemployment benefits for seasonal workers were suppressed (Stenographisches Protokoll 2004a: 58). Another proposal demanded that any new bilateral migration agreement concluded with neighbouring countries should be signed only if workers could not be found in the Austrian labour market (Stenographisches Protokoll 2004a: 80). The resort to foreign labour was presented as a cheap way to satisfy labour needs in weakly attractive sectors instead of raising wages. Against the majority in Parliament held by the ÖVP/FPÖ coalition, however, these modification proposals were rejected.

The coalition parties emphasised the need to quickly accept the draft law because otherwise there would be no legal basis for limiting the entry of citizens of the new EU member states. FPÖ and ÖVP argued that the position of the social democrats and trade unions was inconsistent because it was precisely them who had championed transitional measures to protect the Austrian labour market (Stenographisches Protokoll 2004a: 92). Regarding the restrictions on access to unemployment benefits for seasonal workers, they argued that seasonal workers did not satisfy the criteria of “availability for work” since they had to leave the country once their employment contract came to an end (Stenographisches Protokoll 2004a: 92).

The imminence of EU enlargement was mentioned a number of times to emphasise the need to accept the bill. Ruling parties argued on many occasions that in case this piece of legislation was not adopted, the Austrian labour market would be totally open without any restriction for workers of new EU-member states:

Ladies and gentlemen, I would like to draw your attention to the following: by the non-adoption of this piece of legislation, on the 1st of May of this year the aliens' employment law will *eo ipso* cease to apply to the citizens of the new EU member states, and this would lead to a massive migration movement towards the Austrian labour market, which, in the current situation, considering the current bad unemployment figures, will not favour the economic upturn we are all hoping for, nor the social system in general. Minister of Social Affairs Haupt (FPÖ) (Stenographisches Protokoll 2004a: 60).

I warn you before you use it as a reason to refuse this bill, because that would again mean that on May 1st 2004, the Austrian labour market will be fully open. For an Austrian deputy, who wants to manage the labour market responsibly, there is nothing else to do than accept this bill. Abg. Walter Tancsits (ÖVP) (Stenographisches Protokoll 2004a: 92)

At the end of the Parliamentary session, as could be expected, the law was adopted by a ÖVP/FPÖ majority, and the modification proposals put forward by the SPÖ and the Greens were rejected. After its adoption in the *Nationalrat*, the bill was handled by the *Ausschuss für Arbeit und Soziales* of the *Bundesrat* on 14 April 2004, and voted in the plenum on the 16th, that is, only two weeks before enlargement would take effect. The law entered into force on 1 May 2004, at the same time as EU enlargement.

## 2.5 Summary

This case has shown a sharp contrast between the “uploading” phase of this policy on the one hand, and its “downloading” phase on the other. While the involvement of social partners in the elaboration of the transitional arrangements at the EU level was substantial under the grand coalition SPÖ/ÖVP, its domestic implementation under the ÖVP/FPÖ coalition was characterised by a much more unilateral and adversarial approach. In many respects, this already points to the idea that partisan coalitions are a more important influence on concertation than European integration as such. Turning now to Switzerland, let us examine if this holds in this case as well.

### 3 Switzerland: The Strong Weapons of the Weak

Similar to Austria, the opening of the labour market for workers of accession states in Switzerland was a highly salient political process where concertation procedures played a pivotal role. In many ways, concertation was even more developed in Switzerland than in Austria, and triggered rather unlikely developments set against the traditionally weak position of labour in this country. For example, Swiss trade unions achieved a strengthening of the legal framework of industrial relations and the possibility to introduce minimum wages, something that employers and all right-wing political parties had strongly opposed for decades. This is especially interesting given that social concertation in other domains has tended to decline, as will be made clear in the case of unemployment policy reform.

As will be shown, strong concertation patterns were due both to determined politicisation strategies, and to a specific partisan configuration. Hence, the divisions of right-wing parties underpinned by the eurosceptic position of the *SVP* made trade unions and social democrats a necessary ally for centre-right parties and employers to pass legislation. In the following section, I first outline the political-economic underpinning of Swiss labour migration policy. Then, I analyse the concertation procedures conducted in the run-up to the opening of the Swiss labour market to workers of accession states.

#### 3.1 Labour Migration Policy in Switzerland

Foreign labour has played a central role in the labour market in Switzerland from the mid-nineteenth century onwards, when early industrialisation generated a strong demand for labour which could not be satisfied by the domestic workforce (Arlettaz & Arlettaz 2004). This was both a consequence and a cause of existing power relationships. On the one hand, given the weakness of trade unions, employers faced little opposition when importing foreign workers as an alternative source of labour. On the other hand, the maintenance of a large migrant workforce with no voting rights possibly hampered the power resources of left-leaning political forces. The main institutions of immigration control were established in the interwar period, and were mainly structured around a defensive objective (Arlettaz & Arlettaz 1990). Hence, Swiss immigration policy typically granted few rights to non-nationals, notably with stay permits linked to employment, while allowing for large numbers of them to enter the country (Ireland 1994).

Switzerland came out of World War II with its industrial capacities intact, and drawing on existing strategies, Swiss employers resorted massively to foreign labour to cope with the strong increase in demand coming from the reconstructing countries of Europe. Hence, they opted for *extensive* (increase the volume of labour) rather than *intensive* (capital investments) growth strategies (Flückiger 1992). The first bilateral recruitment agreement, with Italy, was signed in 1948 (Cerutti 2005). The Swiss government set up guest worker programmes that were fairly similar to those found in Austria and Germany, but on a much larger scale considering the size of the country. Given the uncertain length of postwar growth, importing workers was seen as a safer strategy since they could be laid off should a new downturn arise.

The mass expansion of labour migration, however, was severely challenged from the 1960s onwards. In the face of the strong increase of the number of immigrants in Switzerland (it nearly doubled during the 1950s) anti-immigration political groups began using direct democracy to attempt to limit immigration. Hence, groups such as the *National Action* launched several popular initiatives to limit or reduce immigration flows, thereby putting the Swiss Government under great pressure in this domain (Cerutti 2005; Mahnig 2005). Limiting drastically the supply of foreign labour would have had tremendous consequences for the Swiss economy in a period of strong economic expansion. At the end of the 1960s, the government set up a system of annual immigration quotas and prioritisation for national workers. This was a way to pre-empt anti-immigration sentiments amongst the population, and meant that companies had to prove that there was no worker available for a given function in the Swiss labour market before they could apply for a work permit. This system was generally favoured by trade unions as a way to secure wage standards. Thereafter, at the end of the 1970s, the proportion of foreign nationals in Switzerland dropped substantially. More than a result of those quotas, it was mainly due to the economic downturn combined with precarious stay permits and the absence of a compulsory unemployment insurance, which allowed Switzerland to “export” its unemployment (Afonso 2005).<sup>21</sup>

As a whole, the Swiss immigration system until the 1990s could be characterised by its strongly defensive and protectionist nature, but also by the availability of large low-skilled immigration channels available for employers essentially in the domestic economy (Dhima 1991; Sheldon 2001). On the one hand, immigration quotas limited the supply of foreign labour, and the federal government checked the wage and employment conditions of migrant workers to ensure that they complied with collec-

tive agreements where they existed, or “usual standards” if they did not. This mechanism of state control of immigration permits created bottlenecks in the labour market which prevented the rise of a large low-pay sector (Oesch & Rieger 2006).<sup>22</sup> On the other hand, however, there was substantial room for lobbying by private companies in the distribution of work permits (Cattacin 1987), and mechanisms of automatic transformation of seasonal permits (mainly used by agriculture, construction and hospitality) into permanent permits created a bias towards low-skilled migration (Dhima 1991; Flückiger 1992). To some extent, immigration policy could be understood as an indirect form of subsidy for low-skilled domestic companies, since it provided a large pool of unskilled labour susceptible to slow down wage progression in low-skilled sectors (Afonso 2004, 2006; Dhima 1991).

At the end of the 1980s, the Swiss system of immigration control, but also Swiss foreign economic policy as a whole, was challenged by the provisions of the Single European Act. Swiss export companies relied to a great extent on exports to the EC, and did not want to face risks of discrimination. In this context, the Swiss government sought to negotiate the participation of Switzerland in the Single Market in a selected number of areas without formally joining the EU. A first attempt to achieve such a strategy of selective integration failed with the rejection of the European Economic Area by a tight majority of Swiss voters in a referendum in 1992 (Sciarini 1992b). The EEA agreement provided for the full adhesion to the *Acquis Communautaire*, however, without the power of co-decision. The negotiation of the EEA agreement proved to be a bitter experience for the Swiss Government, as it found itself dragged into an encompassing framework of economic opening whereas it initially only wanted to participate on a selected number of issues. It ended by proposing a request for membership of the EU as an emergency move, which confused many voters, a majority of whom refused the agreement (Sciarini 1992a).

A major issue of the vote on the European Economic Area in December 1992 was the opening of the Swiss labour market to EU workers. The “invasion of foreigners” that would happen should the agreement come into force, an idea put forward very prominently by the SVP, proved to be the most important factor in the “no” vote (Kriesi et al. 1993). At the time, little was envisaged to accompany labour market opening despite important wage differentials between Switzerland and neighbouring countries, and this was considered a major reason why Swiss voters refused the agreement (Interview CH2). Moreover, the rejection of the EEA agreement was

a significant victory for the SVP, and also marked the start of its progression as a major political force in Switzerland.

Thereafter, the Swiss Government engaged in a long and painful negotiation process both with the EU (on labour market opening along with other issues) and with domestic social partners (on so-called “flanking measures” to free movement) from 1994 onwards (Dupont & Sciarini 2001). At the external level, Switzerland conducted negotiations with the EU on a selected number of areas, in order to catch up with the setback of 1992. Among these first seven bilateral agreements (public procurement, technical barriers to trade, research, road transportation, air transportation, agriculture, free movement of persons), the issue of the free movement of workers was certainly the most problematic. The SVP was determined to oppose any opening of the Swiss labour market, and had put immigration in general at the centre of its agenda. The combination of euroscepticism and migration control has been the life and blood of the ideology of the SVP, allowing it to increase its parliamentary representation from 13 per cent of seats in 1991 to 31 per cent in 2007.

Considering the opposition it would have to face at the domestic level, the Swiss government sought to negotiate a permanent derogation to the rule of free movement (Fischer et al. 2002: 151). However, it was faced with a firm position from the EU side: if it wanted to participate in the Single Market, Switzerland would have to open its labour market to EU workers. Moreover, within the camp of Swiss employers, it also became progressively clear that the opening of the labour market would be highly profitable for companies in need of skilled labour:

At first we thought that the free movement of workers was just something that the EU wanted in exchange for the other issues. For us, this was not a central issue but rather a secondary concession that we had to give. But then it appeared to us progressively that this was also a central concern for our members. We absolutely wanted the free movement of workers. The economy would not work without freedom of movement. We need people to come to work in Switzerland, especially skilled labour. Member of Direction, Swiss Employers' Union (Interview CH8)

In the end, the EU and the Swiss Government reached an agreement on a gradual opening of the Swiss labour market with a long transitional period and safeguard clauses. The gradual opening included the maintenance of immigration limitations during the first two years (2002-2004). Thereafter, from 1 June 2004 and for a period of three years, the issuing of



work permits would no longer be subjected to prior control of wage and working conditions. An important point introduced upon request of the EU was the so-called *guillotine clause* according to which all agreements would be linked together. Hence, the rejection of one single agreement would cause all other agreements to lose their validity.

At the domestic level, the rejection of the EEA agreement showed that the issue of labour market protection was important amongst voters, who feared that their wage and working conditions would deteriorate under the effect of increased competition in the labour market. From the outset, Swiss trade unions threatened to launch a referendum against the whole package of bilateral agreements if sufficient measures of labour market protection were not guaranteed. For them, the liberal nature of labour market regulation in Switzerland (the absence of a national minimum wage, the weak degree of coverage of collective bargaining, low employment protection) made it especially vulnerable to downward wage pressures should immigration quotas and prior control of employment conditions be abolished. Since these *external* measures of labour market protection would disappear, trade unions thought that this should be compensated by strengthened *internal* regulation measures. Collective labour agreements were a privileged tool to achieve this, notably by allowing their extension to whole economic sectors. By advocating collective bargaining as a tool of labour market protection rather than direct legal provisions, they could also enhance their own position in labour market regulation. Whereas the Swiss People's Party put forward similar fears regarding downwards pressures on wages, it totally opposed any re-regulation of the labour market and advocated its closure through existing immigration rules instead.

For the government, it would have been very difficult to have the whole set of bilateral agreements accepted in a popular vote if they were opposed by both the trade unions, the left and the Swiss People's Party at the same time (Interview CH7). Whereas the claims of the Swiss People's Party were taken into account in the form of long transitional measures in the negotiations with the EU, a domestic "re-regulation" process was initiated to gain the support of trade unions. The Government set up a tripartite commission comprising representatives of employers, the state and unions to come to an agreement on a series of so-called "flanking measures" (*Flankierende Massnahmen*) to prevent wage dumping. After long negotiations between social partners, these flanking measures included most importantly the facilitated extension of collective labour agreements (Fischer 2002). More precisely:

- A law on posted workers obliged foreign companies to submit their workers to the same conditions as Swiss workers as regards laws, ordinances and compulsory CLAs during their stay in Switzerland;
- The extension of collective labour agreements was made easier in special circumstances (“demonstrated and repeated” abuse on wage standards). Until then, a collective labour agreement could be extended only if it involved 50 per cent of employers and 50 per cent of employees of a specific economic sector. In the framework of the first batch of flanking measures, both these quorums were reduced to 30 per cent should “repeated abuse” be observed;
- Minimum wages could be arranged through standard contracts in sectors with no collective labour agreement;
- Tripartite commissions were set up in each canton to monitor labour market development; and to decide when special regulations applied.

Having achieved strong support from the social partners, these measures were similarly strongly supported by both chambers of the Federal Parliament, even though the Swiss People’s Party still opposed it (Fischer et al. 2002). The bilateral agreements were challenged by a referendum launched by small parties of the extreme right, but was accepted by voters on 21 May 2000 by a majority of 67.2 per cent. This was the prelude to another set of negotiations held in the wake of EU enlargement, which will now be analysed in greater detail.

### 3.2 EU Enlargement

For Switzerland, the entry of the ten new EU countries in 2004 implied an “update” of the bilateral agreements negotiated in the framework of the first round of negotiations. With EU enlargement, all but one of the agreements were automatically extended to the accession states. The agreement on the free movement of persons was an exception because, in contrast to the other agreements, it was concluded between Switzerland, the EU *and* the fifteen member states individually. Because of this, new negotiations on the modalities of extension were required. They took place along with the negotiation of a second batch of bilateral agreements (Afonso & Maggetti 2006).<sup>23</sup> As an extension of the first package of agreements, the “guillotine” clause continued to apply. This meant that any aspect of the bilateral packages which would not be accepted would cause all other agreements to be declared invalid. This also applied to the extension of free movement of workers,

even though the concrete consequences of rejection still remained uncertain.

In December 2002, an interdepartmental working group gathering the Departments of Economy, Foreign Affairs and Justice and Police was set up to elaborate a negotiation mandate with the EU. At the domestic level, the SGB established informal contacts with the State Secretariat for Economic Affairs (SECO) to make its position clear as to the necessity of strengthening existing flanking measures (Interview CH7). The idea was to ask for a reinforcement of flanking measures that would be negotiated domestically along with the negotiations between Switzerland and the EU. The main concern for unions in this respect was the lack of resources providing for effective controls of the labour market in the cantons. Where cantonal “tripartite commissions” were set up – which was not the case in all cantons – they lacked resources in terms of permanent staff (labour inspectors). In many ways, the establishment of tripartite commissions was considered a minimal political measure designed to gain union support for the bilateral agreements, but in terms of implementation, they remained paper tigers (Interview CH7). Trade union claims were therefore not only related to the new risks of wage dumping caused by EU enlargement as such, but also to the implementation of the existing flanking measures.

Before new bilateral negotiations started, representatives of the social partners were invited to take part in the hearings of the foreign policy commissions of both chambers to adopt the negotiation mandate elaborated by the Government (Interview CH7). A few days before the hearings, trade unions organised a press conference clarifying their demands, which outlined the risks and problems related to free movement and enlargement, and increased the political pressure on decision-makers before actual negotiations began (USS 2003).

### 3.3 Bilateral Negotiations

The negotiation mandate adopted by the Federal Council<sup>24</sup> outlined the objectives of the Swiss Government in the negotiations with the EU, namely an agreement on the realisation of the free movement of persons between Switzerland and the new EU member states, but this process should not occur *before* the end of the transitional period agreed in the Accession Treaty (Conseil Fédéral 2004b; Hirsbrunner & Schäfer 2004). Hence, workers from accession states should not be able to move freely to Switzerland while EU15 member states could maintain restrictions in

this domain. The main point was therefore to ensure that Switzerland would not be subjected to tighter deadlines than the EU15 as regards free movement. Moreover, it also included a safeguard clause according to which limitation measures could be reintroduced in case of “excessive” immigration.

The negotiation process formally began on 16 July 2003 (IMES 2003a, b, c, d, 2004a, b, c, d). From the outset, EU negotiators wanted to apply the same conditions for the new EU member states as for the EU15. Switzerland, on the contrary, wanted to establish a longer transitional period for the new member states, arguing that this period would allow an assessment of the long-term effects of free movement with the EU15. This was also justified by the likely opposition that a quick opening would face at the domestic level, most notably from the SVP (Conseil Fédéral 2004a).

This position led to a stalemate for the first five negotiation rounds (Conseil Fédéral 2004a: 5531). In the sixth, however, the EU accepted the principle of a separate regime applying to the new EU member states (IMES 2004a). Switzerland would be allowed, similarly to the EU15, to establish a distinct transitional period of seven years during which immigration restrictions could be maintained, 21 April 2011 being the final deadline for implementing total free movement. Besides this, new quotas could be introduced until 2014 in the case of “excessive immigration”.<sup>25</sup> Besides quantitative restrictions, this transitional period would also include qualitative restrictions for specific sectoral activities (construction, cleaning, security) in which risks of abuse were considered greater, along the same lines as what had been obtained by Austria and Germany (Conseil Fédéral 2004a: 5531).

The agreement was subjected to a consultation procedure among parties and interest groups during the summer of 2004. Almost all political actors, except parties of the far right, supported the extension providing that certain measures be fulfilled regarding the protection of the Swiss labour market. Most actors acknowledged the potential effects of a negative vote on the agreement on the Swiss economy (Conseil Fédéral 2004b: 5545-5549). Social democrats subjected its approval to the reinforcement of the flanking measures. The Swiss People’s Party rejected the agreement altogether, arguing for delaying negotiations until the effects of the first bilateral agreement could be assessed (Schweizerische Volkspartei 2004a, b).

### 3.4 Tripartite Concertation on Domestic Compensation

Despite the initial hostility of employers and somewhat mixed feelings within the federal administration, the Federal Councillor in charge of the Department of Economy, Joseph Deiss, commissioned its direction of employment within the SECO to set up an expert working group with the social partners to examine a strengthening of the existing flanking measures (Interview CH2, CH5, CH7, CH8). This process, however, was only initiated after trade unions made their referendum threats explicit:

We took a very tough stance, we said that we couldn't support the agreement if we weren't sure that guarantees against wage dumping were provided. Then there was the meeting with the head of the department, where he had a press release ready. It said that Mr Deiss [head of the department of economy] had heard the concerns of the social partners, but that there was a general trust in the existing flanking measures. And there, we said that if it was only about signing that press release and giving our support, we could stop right there because we disagreed totally. It wouldn't be like that. The SECO, the right, the employers, everybody was against reinforcing the flanking measures at the outset. There was this meeting with the commission of foreign affairs of parliament, and employers were there. They made fun of our demands. They said that those 150 labour inspectors we demanded were ridiculous, that it would be a control machine, the police in every company. As if it were something totally absurd. SGB Central Secretary (Interview CH7).

Indeed, at the outset, employers, right-wing parties and the Government were opposed to a reinforcement of the existing flanking measures:

There is no necessity to extend the existing flanking measures [...] it is well known that the trade unions would like to use EU enlargement to "improve" the Swiss legislation on the free movement of workers. Trade unions' demands that were not satisfied [in the first package] will be put on the table again with a new justification. The Swiss Employer's Union and Economiesuisse refuse these manipulations [...] It would be irresponsible to scare the Swiss population again with [fears of] uncontrolled immigration and increased wage competition. There is no evidence of that, and the instruments to fight it are already there. The peak organisations of the economy are not ready to be dragged into new

discussions on domestic adaptation. Joint Statement by Economiesuisse and the Swiss Employers' Union (Economiesuisse & UPS 2003: 2-3).

The other sections within the State Secretariat for Economic Affairs, notably the direction on economic policy, did not like this regulatory initiative that somehow hindered attempts to liberalise the economy in other domains, to introduce more competition, less regulation, suppress administrative barriers, etc. For them, universally applicable collective labour agreements were a swearword. Making obligatory rules with which companies have to comply was unacceptable to them. So for them, reinforcing those rules was considered absurd. Former head of section labour relations, SECO (Interview CH2).

However, employers desperately wanted the bilateral agreement to come into force, and soon understood that negotiating with trade unions was necessary to gain their support. Nonetheless, they were determined to make as few concessions as possible in this domain:

So then there was a change of position on our part. It was also clear that one could not ignore the views of trade unions. In principle when we entered the negotiations, we said that we wanted nothing to be done. It was also a tactical question. We weren't going to say: "Oh yes sure there should be flanking measures". But it was clear that we wanted the minimum possible." Member of direction council, Swiss Employers' Union UPS/SAV (Interview CH8)

In the meantime, trade unions had vividly politicised the issue in the media to put pressure on the Government. When they put their requests on the table in a first meeting in October 2003, it became clear that their support was necessary in the face of an eventual popular vote, given the firm opposition of the far right on this issue. In this sense, triggering negotiations was already a significant achievement given the hostility of employers and dominant political forces:

We had a strategy to make it a political theme, to write articles in order to create a debate. We held a press conference in May, we wrote articles in the *Tages Anzeiger*. It was clear that before the parliamentary commissions began, we had to find cases of wage dumping to give some seriousness to our demands. We had to show that this was not only theory, but also something that happened in practice. One always has

to do that to back up one's arguments. [...] At the outset we didn't know if there would be negotiations on this issue, and it was already a victory, an expert group. Because once the expert group starts its proceedings, it's difficult to end up saying that nothing should be done. One discusses issues, one evaluates the measures, etc. But the head of Department alone wouldn't have done anything [...] Once there was a working group, however, his reputation was at stake, because journalists knew it, and they could ask him what he would do in this domain. [...] The Government could only afford not to do anything if they had thought that they could win a referendum against the left and the extreme right together. Central secretary, Swiss Federation of Trade Unions (Interview CH7).

Trade unions made clear publicly that without a strengthening of the existing flanking measures, they would launch or at least support a referendum against the extension of free movement (Basler Zeitung 2003; Interview CH3, CH7). In this context, the Minister for Economic Affairs, Joseph Deiss, justified the creation of a working group to strengthen the protection of the labour market by

a purely political motivation, in the noble sense of the term, that is, to put means in place to reach a goal. Since the agreement was being negotiated upon, and since we knew that it would in all likelihood be voted upon in a referendum, or in any case in Parliament, we had to be sure that it would have some chance to pass [...] And there, one touches upon the province of the social partners, and if you take measures with which one or the other disagrees, then it becomes very difficult to get anything done. Former Minister of Economic Affairs (Interview CH6)

For trade unions, playing with the referendum threat to impose re-regulation measures was a double-edged sword. Creating fears regarding downward pressures on wages was handy to put pressure on the Government and trigger measures of regulation. However, in the perspective of a referendum vote, it could also lead to an overall rejection of both the bilateral agreement and the flanking measures. This was also risky in terms of image because they could be labelled as eurosceptic and create tensions with the social democrats, even if latent conflicts were contained:

Politically it was difficult. You can oppose only if your power of veto is taken seriously [if you show that you can launch a referendum]. [If we had campaigned against the bilateral agreements], we would have said

that we are not against Europe, but that we are against social and wage dumping, which is a purely domestic matter [...] It is clear that this was a bit risky because there could have been a split with the social democrats. For the constituency of social democrats, Europe has not led to so many problems, but for railways, for postal services, for construction [our members], it has brought issues of concern. It is seen as a vector or liberalisation that puts workers under pressure. At the SGB we don't have such a big commitment to Europe as the social democrats, but we're still pro-European. But we are happy if we don't need to become too involved. [...] The social democrats had to take stock a bit. Some backbenchers may have said that it was blackmail, it didn't bring them anything. Voters in the new middle classes would have said "again, those anti-European protectionists". There was some discontentment, but not explicit, it was rather anecdotal. Central Secretary, Swiss Federation of Trade Unions (Interview CH7).

Nine meetings of the expert working group<sup>26</sup> were held between November 2003 and June 2004, mainly in parallel with the bilateral negotiations between Switzerland and the EU. Members of the working group were regularly informed about developments in the bilateral negotiations in order to adapt accordingly. In many respects, the domestic negotiation process followed the lines of the recipe that had worked for the first bilateral agreements (Interview CH2, CH7).

Initial demands by trade unions consisted of the possibility to introduce minimum wages without the necessity to prove that there had been "repeated abuse", the facilitation of the extension of collective agreements, a reinforcement of protections against the dismissal of union representatives, a reinforcement of controls through the hiring of a greater number of labour inspectors, and improvements in the implementation of the law on posted workers (SECO 2004: 4-14). The most important union demand, at least with respect to its implications for the Swiss economy, was certainly the proposition to introduce preventive measures through the obligatory extension of collective labour agreements and the establishment of minimal wages even without proof of abuse (Interview CH2, CH3, CH7; SECO 2004). This would have represented a considerable empowerment of public authorities in the regulation of wages and employment relationships. This proposition was strongly opposed by employers, who argued that this would make the employability of low-skilled workers more costly and therefore increase unemployment and illegal employment (SECO 2004: 4-14,6-7). No compromise could be found in this domain.



The compromise that was reached essentially built on existing measures adopted in the first package of “flanking measures”, in which labour agreements could be extended if they covered 30 per cent of employees and 30 per cent of companies in a given sector (SECO 2004: 15ff). Given that the Swiss labour market would be totally open as a result of the free movement, unions asked for the possibility of collective agreements to be extended without quantitative restrictions. Employers in export-oriented industries such as machines, in which extended and binding collective labour agreements are not used, were strongly opposed to the imposition of working conditions on companies who had not signed collective labour agreements. They insisted on the voluntary dimension of collective bargaining. Building on the proposals of the social partners, the federal administration proposed to suppress the quotas of employers and to raise the quorum of employees again to 50 per cent, in order for collective labour agreements to be more easily extended while guaranteeing a “democratic” legitimacy of compulsory labour agreements. This would be the compromise adopted, despite the high reluctance of export employers.<sup>27</sup>

Within the working group, there was a united front on the side of trade unions, but a less firm stance on the part of employers due to diverging interests between export-oriented and domestic companies. Representatives of the export economy were firmly opposed to re-regulation measures because they did not have much to fear from the opening of the Swiss labour market (Interview SECO2). For them, the setup of flanking measures was purely political, in order to gain the support of trade unions to the bilateral agreements. For companies active in the domestic market, most notably the construction sector, the situation was different. They had an interest in protecting the Swiss labour market from the competition from cheaper foreign companies that could post workers. This meant strengthening protection measures for Swiss wages and making them binding for foreign companies operating in Switzerland, along the same lines as in Austria. Even though this position was not advocated right from the beginning, consultation within the organisation during the process made this issue emerge progressively (Interview CH5). Representatives of the Swiss Employers’ Union, who represent export industries but also the construction sector, were in between these two positions:

We had quite violent discussions within the employer association. There were two camps, or rather three. Representatives of the construction sector were clearly in favour of protecting their businesses, especially in border regions. [...] They said yes, we must protect the labour

market. On the other hand there were those who said that they wanted nothing. Nothing needs to be done. In between, there were those who were negotiating, those who defended our position vis-à-vis both sides, and vis-à-vis the unions. We had to see what we could accept and what we could not accept. And then it took a little something to force the hand of the board of directors [to accept the principle of flanking measures]. We had to tell them that we had to continue on this path because otherwise there was no chance of winning the referendum. Member of Direction, Swiss Employers' Union (Interview CH8).

Export industries have no interest in protecting domestic businesses and Swiss wages. For them, the high level of wages is a loss of competitiveness in world markets. The Swiss Employers' Union, which also represents the construction industry, had to juggle with competing interests among its members. But Swissmem [the machine industry employer body] was free to show its opposition. For them, the abolition of the quorum of employers [to extend collective labour agreements] was out of the question. They had agreed to the measures in the first package, but then they were totally opposed. Imposing working conditions to companies who did not subscribe to them was out of the question<sup>28</sup>, and hiring inspectors meant more red tape, more state, more regulations. For export industries, there is no interest in protecting domestic industries in Switzerland. For a variety of tasks, it would be cheaper to use the services of foreign contractors. To build their factories in Switzerland, they would have had an interest in there being no law on posted workers. For their production plants, rather than contracting *Zschokke* [a big Swiss construction firm], it would have been cheaper to hire Polish contractors. The same for machine maintenance or services. That's all cut on production costs. They clearly made it explicit. For them, foreign competition already exists everyday, it occurs on the products in global markets. This is understandable. They take care of their business, which consists in producing in Switzerland with competitive prices despite Swiss wages. The Swiss Employers' Union was torn between these interests and the construction industry, which represents 120,000 jobs. However, they managed to convince and reconcile both sides. Head of Section Labour relations, SECO (Interview CH2).

Whereas the absence of consensus made it impossible to envisage new tools in the repertoire of flanking measures, employers eventually agreed on a reinforcement of the labour inspectorate. The federal structure fostered a decentralised institutional setup, the cantons being responsible

for the monitoring and control of the labour market. This involved the hiring of supplementary labour inspectors in order to give the tripartite commissions the means to proceed to effective labour market controls (SECO 2004: 15ff). Many cantons had not set up the foreseen tripartite commissions yet, and the number of labour inspectors provided for by cantonal administrations was clearly insufficient to proceed to efficient controls. Trade unions asked for the hiring of about 150 labour market inspectors. Despite some resistance due to the alleged administrative costs that enhanced controls would represent, notably from the side of small businesses, employers eventually agreed to this point as well.<sup>29</sup> A final important dimension of the flanking measures was the regulation of employment for posted workers, who should be subjected to the same employment conditions as local workers, their employment should be notified to public authorities, and the obligatory contribution to vocational training in sectors where such arrangements exist should be paid.

At the end of the negotiation procedure, the State Secretariat for Economic Affairs drew up a report which would constitute the basis for the draft proposal put forward in Parliament. In the official consultation procedure, a majority of political actors, including cantons, major interest groups and political parties backed the measures, even if right-wing parties felt rather uneasy about these regulation measures. They basically only accepted them as part of a political deal to ensure the support of trade unions. Employers' associations in economic sectors such as agriculture, hotel and retail trade complained about the administrative load that this reinforcement would represent for SMEs, but did not fundamentally challenge the deal. Trade unions and social democrats supported the flanking measures, highlighting that they constituted the minimum they would agree to. Both trade union and employer organisations advised the Parliament to stick to the agreements which had been made between the social partners in the framework of the working group (Union Patronale Suisse 2004: 1). The SVP, for its part, refused the measures, thereby distancing itself from centre-right parties. It criticised the weakness of other parties and employers and their "subordinate" position towards trade unions:

After the trade unions and left-wing parties have made it a central condition [for their approval] that this extension is linked to encompassing flanking measures, and after economic associations and other parties have showed their readiness to make substantial concessions [in this respect], the SVP's position is to reject the agreement. (Schweizerische Volkspartei 2004a).

Basically, the SVP refused “too expensive” labour inspectors, the “bureaucratisation” of labour law caused by the requirement to notify public authorities for posted workers, and the “deterioration” of the freedom of contracts due to the facilitation of the extension of CLAS (Schweizerische Volkspartei 2004b). In general terms, this was a first step in the drifting apart between this party, and other right-wing forces (FDP, CVP and employers) that would also materialise later in the campaign.

### 3.5 Reluctant Parliamentary Support

The parliamentary phase took place at a very high pace compared to the normal length of decision-making in Switzerland. The whole parliamentary process was settled in less than one month, in December 2004. Moreover, its formal procedure was somewhat altered with regard to the “standard” way of passing laws in the Swiss Parliament. Instead of an examination by both chambers one after the other, the bill was examined simultaneously by the parliamentary commissions of both chambers in order to accelerate the process (Interview CH1). Besides, while bills are usually examined by permanent parliamentary committees, an ad-hoc committee especially in charge of examining the flanking measures was set up in the National Council. It was examined by the special committee on foreign affairs in the Council of States.

The quick pace of the parliamentary process was clearly due to external constraints (Interview CH1, CH3, CH4). Time pressure caused by multiple negotiation levels (negotiations at the EU level, domestic ratification in Parliament and via referendum) was put forward as a strong constraint on policymaking.

It is very surprising at the parliamentary level to have such a quick process, which is clearly linked to the flanking measures and all the modifications caused by the Bilaterals 2. All of this has been done very quickly even though it was a big dossier. These are decisions we have to make, ratifying those agreements. The last time I have seen such a quick process, it was in 1991, when it was about adapting to the European Economic Area. It was also a very quick process. [...] In any case the aim was to be quick and not to handle it as thoroughly as other objects. Because of the pressure, the need to ratify this quickly. SPS MP (Interview CH1).

For objects of this type, for which it is necessary to obtain adhesion, the longer the campaign lasts, the easier it is for opponents to criticise,

to destroy and denigrate. I don't want to continue a one-year campaign on this subject. If you cannot finish your works [of Parliament] in December, you close the voting options for next year. A referendum term starting after the spring session will not allow for a vote before next December, and a year's campaign is a long time. Head of Department of Economic Affairs (CVP) (CPE-CE 2004)

Both the extension of bilateral agreements and their domestic “flanking measures” were handled together by both chambers, although at this point they were not formally linked together. The first chamber to examine the bill was the Council of States, which essentially stuck to the draft of the Federal Council. A majority of state councillors were very critical of the measures of re-regulation presented by the government. The facilitated extension of CLAs was presented as a step too far in labour market regulation. If the opening of the labour market was welcome insofar as it was a form of liberalisation, its re-regulation was thought to cut the advantages of the opening:

I have the impression that, with these flanking measures, one wants to close again as much as possible the door that has been opened with the extension of the free movement of persons. MP (SVP) Hannes Germann (Bulletin Officiel du Conseil des Etats 2004: 733)

Those who really want jobs in this country have to make sure that companies are competitive with their products. Competitors are coming in ever greater numbers from emerging low-income countries. The less we put ourselves in a unity corset through obligatory commitment [to collective labour agreements], the bigger the market opportunities are for our firms. The consequences are: we are competitive, we keep jobs in this country, and we keep obligatory commitments to a minimum. Those who want jobs to remain in this country have to fight the overload of laws and recommendations. The obligatory compliance to collective labour agreements in case of abuse will punish the wrong people. Not only the wrong workers, but also the wrong employers, those who fight in the market to bring home the bacon. In short: the best worker protection is to guarantee the competitiveness of firms and the best company leadership. MP Johann Schneider-Ammann<sup>30</sup> (FDP) (Bulletin Officiel du Conseil National 2004: 1987)

In the commission of the Council of States, attempts by a minority wing of the FDP, CVP and SVP parties to water down regulation measures were voted down. These attempts notably aimed at maintaining the status quo regarding rules of extension of CLAs, and delaying the entry into force of the strengthened flanking measures.

As a whole, for right-wing parties, the flanking measures were not really necessary to protect the Swiss labour market, but rather for *political* reasons. It was not only important to give some guarantees to trade unions, but also to give guarantees to voters regarding labour market protection in the perspective of a referendum vote:

A last element: politics. We are at an essential point of this agreement between the social partners, and it is essential also to have the flanking measures accepted. We must not unbalance the agreement between the partners. We should have the same wisdom as the Federal Council [...], that is, to respect the agreement between partners. Can we take the risk that this guillotine clause applies, that is, that all the agreements of 1999, the agreement on technical and commercial barriers, on agriculture, on research are cancelled? This would be a dramatic situation and we cannot take this risk. Let us stop believing that the EU needs our country anyway and that they are ready to accept anything we would propose. Let us negotiate toughly with the EU, but let us not overestimate the appeal we represent for them. MP (FDP) Charles Favre (Bulletin Officiel du Conseil National 2004: 2012)

Because of the bigger representation of the social democrats in the National Council, the political support for flanking measures was also stronger. The greater representation of the Swiss People's Party in this chamber, however, also made it more contested, even if there were also significant divisions *within* the SVP. Even if the party as a whole was opposed to the domestic flanking measures, the issue of the labour market opening per se revealed divisions between the "nationalist" wing and the "economic" wing linked with the export economy. This division would materialise later on in the referendum phase as well. Hence, some influential party members, such as the entrepreneur Peter Spuhler, backed the bilateral agreements while the leadership of the party rejected them.

Interestingly, some additional elements of labour market protection were introduced in the parliamentary committee besides those agreed upon in the corporatist arena. This was essentially the result of an alliance between the left and moderate centre-right MPs linked to the construc-

tion industry keen on labour market protection (Interview CH1, CH2, CH3, CH7). Finally, an important decision was made by formally linking in one single legislative act the extension of free movement and the domestic flanking measures, so that they could not be uncoupled in a referendum vote. The left was afraid that the flanking measures alone would not be supported by the right and employers in a referendum vote. In case the Swiss People's Party challenged the flanking measures only, it would have been difficult for employers to support measures that went against their preferences:

There were two logics behind this. The first was that the Right could have accepted the free movement of workers, but then would challenge the flanking measures in a referendum. [...] For them, the two objects had to be linked because these flanking measures, we could have argued that they were not enough [and challenged the opening to obtain even more regulation]. Well, it was difficult to evaluate, but we had had enough exchanges to see how this could happen. On the side of the svp, or employer organisations, they could have started a referendum against the flanking measures alone. Well, employer organisations certainly would not have done it alone, but if the svp had done it, employer organisations would have had to follow. Social Democratic MP (Interview CH1).

As a whole, this contributed to a closure of options and possibilities for modifications in Parliament. This specific form of political process was criticised on several occasions during Parliamentary debates:

I also have some problems with the policy and the position of the employer's federation, notably with Mr Hasler. This cannot be so, that a "little package" is prepared between the trade unions, employers and the Government before the political process begins. It shouldn't and cannot be so. We have to rebel against this, especially those in this room who claim to represent the economy. MP (svp) Peter Spuhler (Bulletin Officiel du Conseil National 2004: 1990)

The commission was a victim of particular pressure from the Government. From the beginning it adopted a posture saying: we cannot do something else than what the Government presents to us. So we were "anesthetized" and this led to the fact that all other proposals were met with great scepticism. [...] I feel in a situation similar to blackmail. We

are blackmailed with the argument that the social partners have agreed on this package, and that we should eat it without discussion. If that were the case, we would be a notary's office and not a Parliament anymore. MP Carlo Schmid (CVP) (Bulletin Officiel du Conseil des Etats 2004: 734, 745)

I have given the mandate, more than a year ago by now, to the State Secretariat for Economic Affairs to set up a workgroup composed of the social partners in order to examine the opportunity of a revision of the flanking measures, and if this was justified, to imagine its possible contours. I have made this, Mr Schmid-Sutter, because I thought that in our country, these questions are usually discussed by the social partners. It is not about putting the parliament under pressure, nor blackmailing it, but this country has always had the practice – and I defend it – according to which the material principles of employment relations should not be incorporated into labour law, but rather be decided by the social partners. That is why I beg you to follow this path because we can guarantee that the social partners have accepted it and it is, in general, their province. Federal Councillor (CVP) Joseph Deiss (Bulletin Officiel du Conseil des Etats 2004: 740)

In the bloc of centre-right parties (FDP/CVP), a divide was visible between those who accepted the compromise reached by employers and unions to ensure the support of the left towards the bilateral agreement, and those who challenged the legitimacy of this compromise and called for a more liberal solution, that is, challenging the extent of the flanking measures. This position was thought by the “pragmatic” part of the right to be risky on two levels. First, as already argued, having the left and unions joining the extreme right to oppose the bilateral agreement would surely lead to a rejection in the referendum. As argued by the head of the Employers' Union, it was “politically naïve” to believe that a referendum could be won without the unions.<sup>31</sup> Second, a refusal of the agreement would be very problematic vis-à-vis the EU, who would surely not accept Switzerland to treat new member states differently from the EU15. This acted as a strong incentive for right-wing parties to cooperate. In the end, an impressive party discipline among the FDP and the CVP supported the overall package, which was accepted by 142 votes against 40 in the National Council. Even one third of the SVP supported the package of bilateral agreements.



### 3.6 Referendum phase: a clash between employers and the radical right

Despite its strong support in Parliament, the extension of free movement to the new member states was unsurprisingly challenged in a referendum launched by the extreme right (Swiss Democrats), supported by the Swiss People's Party. However, following the divisions between its "economic" and its "nationalistic" wings, the party also proved to be somewhat divided on the referendum vote. Hence, the general assembly of the party decided to recommend a "no" to the extension of free movement whereas several influential party members advocated the acceptance of the agreements. The campaign notably displayed a conspicuous opposition between the svp and representatives of employers. The head of the main employer body, Peter Hasler, was criticised in the press as a "collaborator" of trade unions, and was accused of no longer representing the interests of the Swiss economy (Pressedienst svp 2005). The svp even suggested that the Swiss Employers' Union should *merge* with the trade unions, because they were both united against the economic interests of Switzerland.

In the end, the extension and the flanking measures were accepted on 25 September 2005 by 56 per cent of voters with a participation rate of 53.8 per cent. Here again, the identification with parties played a determining role in voting behaviour. 89 per cent of sympathisers of social democrats accepted the agreement, whereas only 13 per cent of voters declaring themselves close to the ideas of the svp did the same (Kopp & Milic 2005: 14). A significant part of the electorate (about one-third) declared that it had voted yes because "there was no other choice", in the sense that they did not want to challenge the economic interests of Switzerland vis-à-vis the EU (Kopp & Milic 2005: 17).

### 3.7 Summary

In Switzerland, extensive concertation procedures were carried out to build a compromise between trade unions and employers on labour market opening. This was made after substantial mobilisation by trade unions, in exchange for a reinforcement of labour market regulation and labour inspection. This was achieved through typically corporatist procedures that are hardly found elsewhere in social policymaking in Switzerland. In contrast to Austria, employer organisations are dominated by big businesses and were opposed to protectionist measures in the first place. However, in the shadow of a popular referendum, employers had to agree to trade union demands in order to ensure their support. It was

clear that the eurosceptic party SVP would lead the campaign against labour market opening, and employers and the government could not afford the opposition of both trade unions and the SVP. This issue was of utmost importance to them, and they could not risk a collapse of economic relations with the EU in the case of a failure of the popular vote. Moreover, a segment of employers keen on protecting the Swiss domestic market rallied to the claims of trade unions, in a similar fashion to what happened in Austria.

A great degree of fragmentation of political coalitions increased incentives for the government to build a base of political support by involving the social partners. European integration created a divide within the right which prompted employers to collaborate with trade unions in order to gather sufficient political support. In this sense, this was considered a substantial victory for Swiss trade unions and social democrats in an increasingly polarised environment:

The bilateral agreements [on the free movement of workers] are the most important thing we have achieved during this legislature. Otherwise it is clear that we are in an extremely polarized situation, where the government is more right-wing than ever [...]. The positions of right-wing parties are rarely oriented towards real solutions, as the SVP exerts strong pressures on them. It's hard to find solutions in the field of welfare protection. In this regard, the flanking measures [to the free movement of workers] are a success story which contrasts with the general story. President, Swiss Trade Union Confederation (Interview CH3)

If you think about the political projects of that legislature, little has happened. *Avanti* [a big road infrastructure project] did not pass, the tax package [providing for tax cuts for families and high incomes] did not pass. In the government's record, there is only the bilateral agreements with the EU. For us, the flanking measures are a very substantial progress in labour law, it is a revalorisation of CLAs. In the cantons, there are now tripartite committees who discuss wages, working conditions, etc. This is good. [...] It is one of the few projects that have been very successfully completed. (Central Secretary, Swiss Trade Union Federation) (Interview CH7)

In the Swiss case, European integration entailed a great degree of concertation because of the different patterns of party coalitions in Europeanised and non-Europeanised domains. As will be shown in the second

case, there is a strong difference between a Europeanised case where the right is divided between a “eurosceptic” and a “pro-bilateral” side, and, a domestic case where the right is united on a retrenchment agenda.

#### **4 Summary**

The analysis of decision-making processes in Austria and Switzerland about the free movement of workers shows different trends, but also many similarities in the political processes at work. First, concertation was extensive in both cases, except when it came to the domestic implementation of transitional arrangements in Austria. This already provides little empirical evidence for the idea that European integration systematically weakens social concertation. Second, if indeed concertation was extensive, it seems to have been more due to the configuration of interests, coalitions and politicisation processes than to a socialisation process coming from the supranational level, or supranational incentives alone along the lines put forward by Peter Katzenstein. In the next chapter the analysis of unemployment policy reforms will allow us to see how the mechanisms of social concertation play out in the absence of an “EU factor”.

## 7 Social Concertation and Unemployment Policy Reforms

After the blue-black government came to power in 2000, the nature of social partnership completely changed. The government regularly invited employers only and then declared “the social partners were there”. They began to kick out labour representatives from all the structures of social partnership, and even from all the places of power in the entire social security system. The trade unions have taken the opportunity, so to speak, to reach a negotiated outcome [on this issue] instead of being even more excluded. This is in fact the only reason why this agreement came into being. Social policy expert, Austrian Green Party (Interview AUT5).

With the strengthening of the SVP, a new political strategy emerged within right-wing parties. They were no longer afraid to propose strong cuts in the welfare system. They have partly succeeded in that [...] And this [reform] was the trigger for further measures of retrenchment [...] It was all under the leadership of the SVP. Former Vice-president, Swiss Social Democratic Party (Interview CH12).

Unemployment policy has historically been a prominent domain of cooperation between governments, trade unions and employers. In contrast to cross-border labour mobility, policy changes in this domain are generally more triggered by domestic or structural developments than by supranational market integration, and lines of cleavages between political actors may be different. This chapter presents patterns of domestic policy concertation in unemployment policy in Austria and Switzerland, and shows how the trajectory of corporatist concertation has diverged between these two countries in this field. Whereas corporatist concertation in Austria has followed a cyclical pattern influenced by the political interests of the coalition in power, it has undergone a steady decline in Switzerland due to the increasing polarisation between political parties, and the weakening of centre-right parties to the advantage of the radical right. The chapter

first briefly outlines the characteristics of this policy field in general, as well as broader dynamics of reform in unemployment policy in Bismarckian welfare states. Then, it analyses concertation processes over specific reforms in both countries.

## **1 The Politics of Unemployment Policy**

Unemployment policy has featured high on the agenda of mature welfare states, and even more so recently since the outbreak of the global economic crisis in 2008. Faced with continuously higher unemployment rates and deteriorating public finances from the early 1980s onwards, governments have sought to reduce or contain the cost of unemployment protection, while at the same time adapting it to new risks underpinned by changing labour market structures (Clegg 2007). During the period of steady economic growth that followed World War II, unemployment policy was essentially geared to cope with so-called “frictional” or temporary unemployment. Yet, labour markets in Europe have undergone profound changes which also fostered changes in systems of income protection and labour market policy in general.

Most basically, the incidence of unemployment has been consistently higher in the last thirty years than at any other time since World War II (Clegg 2007: 599). Unemployment is no longer only frictional, and after the oil crises of the 1970s, most European countries have dealt with increasing levels of “structural” and long-term unemployment, that is, unemployment levels that persist even during economic upturns. The nature of unemployment risks has also changed: the growing importance of the service sector has fostered the spread of more flexible employment relationships and “atypical” work trajectories, in which spells of unemployment are more frequent than in industrial sectors, where lifelong employment was often the norm. Because of these changes, it has become difficult for many workers, especially women, to achieve full eligibility for existing unemployment benefit schemes originally devised for male earners employed in secure jobs. Hence, new risks for specific social groups have made it necessary to devise *more* unemployment protection measures while tighter economic conditions and a climate of permanent financial austerity have asked for *less* – or at least less costly – unemployment policies (Clegg 2007). This has constituted the general, and somewhat contradictory, background of unemployment policy reforms in recent years.

**Table 5**      **Agendas of “orthodox” unemployment policy reforms**

<i>Reform agenda</i>	<i>Types of policy reforms</i>
Cost containment	• Cuts in benefit levels
	• Cuts in benefit durations
	• Stricter eligibility requirements
Recalibration	• Enhanced/safeguarded protection for those with no/atypical work histories
	• Reduced protection for those with long work histories
	• More needs-based benefit entitlements
Activation	• Stricter job-search/acceptance requirements with effective sanctions
	• Increased investment in training/job creation for the unemployed
	• Development of reintegration plans/contracts for benefit recipients
Integrative administrative restructuring	• Closer policy harmonisation of different benefit tiers
	• Closer integration of benefit and employment administrations
	• Development of ‘single gateways’ to services

Source: Clegg (2007)

Even if actual policy reforms across countries have differed depending on the overall incidence of unemployment, parties in office, or institutions, policymakers in Western Europe have turned to a relatively “standardised basket of policy ingredients and agendas” while reforming systems of unemployment protection (Clegg 2007: 599). In this context, four broadly defined policy reform agendas can be outlined: *cost containment*, *recalibration*, *activation*, and *integrative administrative restructuring* (Clegg 2007: 601). In the empirical section, the cases of unemployment policy reform analysed fall at least within one of these agendas.

First, in the face of the increasing demands due to greater unemployment and smaller receipts due to tighter economic conditions, *cost containment* has provided the backdrop for many policy reforms in this domain. In the face of rising deficits of unemployment funds due to higher expenses, retrenchment in allowances has been a means to go back to balanced budgets, be it in the form of cuts in benefit levels (replacement rates in the case of contribution-based benefits), cuts in the maximum duration of benefits, or a tightening in eligibility criteria, such as longer minimal contribution periods. Over the last twenty years, net replacement rates in unemployment compensation have for instance consistently decreased in most OECD countries (Allan & Scruggs 2004).

Second, against the background of transformations of the labour market mentioned above, there have been reforms aiming at the *recalibration* of benefit rights to the advantage of specific groups perceived as *outsiders* of the labour market, such as workers with atypical work trajectories (e.g. in pensions, see Häusermann 2010). These reforms could aim at relaxing eligibility criteria for specific groups, in relation to motherhood for instance. In a context of fiscal austerity, however, governments have sought to compensate these measures of expansion by retrenchment measures for *insiders*, that is, workers hitherto extensively covered by existing social security schemes (e.g. special regimes for public servants for instance). This strategy, however, has proved politically difficult to carry out. Hence, the state has been asked to cover a wider array of risks linked to employment relationships, even if benefits have been reduced because of finite financial resources. The scope of coverage may have been extended, but the extent (or “thickness”) of coverage has often been reduced.

The third prominent agenda in unemployment policy reform has been *activation*, which has been underpinned by the ever increasing role of public employment services (Weishaupt 2011). Activation aims at moving individuals off social benefits and getting them more actively into employment through increased incentives to take up jobs or training. Incentives for active job searching have included tighter job-search requirements, looser definitions of “acceptable” employment which jobseekers have to accept (*acceptance criteria*), and a tightening of sanctions in case of non-compliance. Besides increased control over the unemployed, reforms have also aimed at increasing resources for training activities or the creation of earmarked springboard jobs. The activation agenda has also been characterised by a formalisation of the relationships between jobseekers and public employment services via written agreements, contracts or so-called “monitoring plans” geared to clarify the rights and responsibilities of both parties over the course of an unemployment spell. Activation has constituted a leading feature within the so-called “flexicurity” agenda as a compensation measure for the deregulation of labour markets. Activation is an investment in workers, which is considered more effective than the investment in jobs, for instance through industrial policy measures and subsidised employment.

Finally, a last – less prominent – agenda has been the *administrative restructuring* of the policy sector dealing with unemployment. This has included reforms to improve the integration of the different organisms that provide benefits on the one hand, and those that deliver training and placement on the other. This mainly constitutes the administrative con-

sequence of the “activation” agenda outlined above. The introduction of more conditionality for benefits also requires a more seamless exchange of information between paying and placement authorities. Besides this, another administrative restructuring agenda has also been led by improved coordination between unemployment insurance, unemployment assistance and other areas of social security, including pensions, sickness or family policy. This is notably to avoid loopholes in the overall social security system, but also to fight “abuses” when individuals are unduly receiving benefits from different social security schemes (for instance unemployment benefits and disability at the same time).

In many respects, the instances of policy reform analysed in this chapter show a higher degree of disparity than the cases of cross-border labour mobility. Whereas the “Europeanised” reform cases have been prompted by the same stimulus at the European level, “domestic” cases are prompted by relatively autonomous national initiatives. They are, however, as argued above, inspired by similar reform dynamics. Moreover, since I am essentially interested in the *process* of policymaking rather than on the substantial content of policies – even though politics is ultimately determined by substantial issues – these differences may be slightly less important.

## **2 Austria: The Limits of Unilateral Policymaking**

As argued above, the accession to office of the FPÖ-ÖVP in Austria in 2000 marked a radical change in government strategies towards social concertation. Willing to break with a longstanding tradition of cooperation with social partners, the new coalition adopted a systematic strategy of marginalisation of trade unions in the formulation of welfare and labour market reforms (Obinger & Talos 2006). Unemployment policy is a good example of such a development, notably with a clear strategy to introduce more flexibility in the labour market that would have been difficult to implement in the framework of classical “social partnership” institutions. However, the case analysed here, the *Arbeitsmarktreformgesetz* of 2004, also shows that such a unilateral strategy is faced with limits when it becomes highly politicised, and when the government is weakened. In this context, a return to concertation proves to be an expedient strategy to restore the credibility of the government and carry out a successful reform in cooperation with trade unions. In the following sections, I outline the main features of social and labour market policies in Austria, and then analyse the specific concertation processes linked to the *Arbeitsmarktreformgesetz*.



## 2.1 Labour Market and Unemployment Policy in Austria

As part of a “progressive consensus” between Social Democrats and Conservatives in the postwar period, Austria has traditionally displayed a level of social spending above the average of OECD countries. In 2001, social expenditure amounted to 26 per cent of GDP as compared to 22.6 per cent in the OECD (Obinger & Talos 2006: 55, 69). Expenditures in labour market policy as a whole amounted to 2 per cent of GDP as compared to 1.69 per cent for the OECD average in 2005 (Armingeon et al. 2007). Austria stands out as a typical Bismarckian welfare state, where social benefits are closely related to previous contributions (Esping-Andersen 1990; Obinger & Talos 2010). Contributions to health, unemployment and pension insurance are directly levied on wages on a parity basis between employers and employees. The Austrian system of unemployment policy combines a system of insurance aimed at providing income compensation for the unemployed and a fairly strict system of placement of jobseekers on the labour market administered by an independent public body, the *Arbeitsmarktservice Österreich* (AMS). After the period of entitlement to regular unemployment insurance benefits has ended, unemployment benefit recipients may apply for unemployment *assistance*, which is also based on previous earnings but is set at lower levels (OECD 2005).

Unemployment benefits are related to previous earnings up to a certain ceiling.<sup>32</sup> The maximum duration of benefits entitlement depends on the time individuals have been contributing.<sup>33</sup> Benefits are financed on a basis of parity by employers and employees (3 per cent each out of gross income) and are collected together with health insurance contributions (BMWA 2005: 30–31; OECD 2005). Unemployment insurance is compulsory for all dependent workers. In order to be entitled to unemployment benefits, jobseekers must have contributed for at least one year, and most importantly, be available for placement on the labour market.

The AMS is the responsible body for the implementation of labour market policy at the national, regional and local levels. This involves both the placement of jobseekers and information to companies about jobseekers. It is an independent service enterprise under public law created in 1994, after employment services were outsourced from the then Federal Ministry of Employment, Health and Social Affairs. It is managed by a board of directors and a board of governors, social partners and the government being represented on a basis of parity in the latter under the principle of “self-government” (*Selbstverwaltung*) (Arbeitsmarktservice Österreich 2006). Moreover, specific permanent working groups have a consultative function in a wide variety of domains.

Even if the level of conflict and the occurrence of corporatist compromises in unemployment policy has varied over time, the rule generally pursued by governing coalitions in Austria was that “social partners” had to find a compromise before unemployment policy reforms could be passed (Talos & Kittel 2001: 124). This principle became somewhat slacker over the 1990s, when the need for the government to reduce deficits made it adopt a less accommodating stance towards organised labour. Talos and Kittel (2001: 126) already noted a visible shift in power relationships between social partners over the 1990s, with employers being more able to advance their claims as compared to the 1970s. This was partly due to a context where balancing state budgets was becoming a growing concern for conservatives and social democrats alike, notably because the “Austro-Keynesianist” strategy of crisis management which had been implemented to fight unemployment in the late 1970s had resulted in a massive increase in public debt (Scharpf 1991). However, corporatist networks remained a major channel of decision-making in this policy field despite a stronger focus on retrenchment in benefits or conditions of entitlement. As will be shown below, this would change to a much larger extent from 2000 onwards.

## 2.2 “Black and Blue” Agenda: From Frenetic Unilateral Reforms to Exhaustion

When the ÖVP/FPÖ coalition came to power in 2000, unemployment policy stood out as a domain in which clear policy reforms geared to retrenchment and enhanced control over the unemployed were formulated (Obinger & Talos 2006: 124). In the beginning of the 1990s already, Jörg Haider had been asking for a toughening of sanctions towards “jobseekers unwilling to work” (Der Standard 1999a). These claims were later taken up by the ÖVP and the *Wirtschaftskammer* before the elections of 1999. In particular, toughened sanctions in the case of abuse of unemployment benefits were on the electoral platforms of both the FPÖ and the ÖVP, and were backed by the WKÖ as a way to increase “flexibility and competitiveness” (Der Standard 1999a, b, c).

In the 2000 government programme, “measures to fight abuses in the domain of unemployment insurance and unemployment assistance” were foreseen as part of an effort to come back to balanced state budgets (Regierungsprogramm 2000: 19). At the organisational level, competences in the domain of labour market policy were transferred from the Ministry of Social Affairs – that had always traditionally been headed

by a former trade unionist – to the Ministry of the Economy and Labour, whose policy agenda was more focused on economic efficiency than on social protection. As the new Minister, Martin Bartenstein (ÖVP) argued that the centre of gravity of labour market policy would be shifted from social policy (*Sozialpolitik*) to “competitiveness policy” (*Standortpolitik*) (Der Standard 2000b).

A first important and overarching law package (*Budgetbegleitgesetz*) at the end of 2000 set the tone for policy initiatives in this domain. This involved both the substantial content of policies and their process of elaboration. Whereas this kind of policy reforms was usually elaborated in concertation with the peak associations alone, this one was developed in a working group gathering all sorts of experts and representatives of heterogeneous organisations whose proposals were presented in an undifferentiated way (Obinger & Talos 2006: 125). This report served as the basis for a far-reaching package of retrenchment measures: it provided for the suppression of the contribution of the federal state to labour market policy, the reduction of family contributions, a reduction of the basic replacement rate of unemployment benefits from 57 to 55 per cent (and proposed at first a reduction to 53 per cent), a longer minimal contribution period for entitlement, tougher regulations for young people, and new sanctions (Obinger & Talos 2006: 125).

In the following period, the coalition started a series of institutional reforms in the structures of the social security institutions, whose aim was basically to weaken the institutionalised position of trade unions and replace them with people closer to the governing parties (Der Standard 2001c, e; EIRO 2001). The coalition notably dismissed the chair of the governing board in the Association of Social Security Providers (*Hauptverband der Sozialversicherungsträger*, HSV), Heinz Salzmueller, who was also the chair of Austria’s biggest trade union, the Union of (blue-collar) Employees of the Private Sector (*Gewerkschaft der Privatangestellten*, GPA). This was done on the basis of a new regulation according to which members of the governing board could not belong to organisations entitled with rights in collective bargaining. This provision was also used to refuse the candidacy of the head of the Railways Employees Union to this same governing board, who took the case to the constitutional court and eventually won in October 2003 (EIRO 2003). Hence, a central attempt by the government to undermine the representation of organised labour in the social security system was blocked.

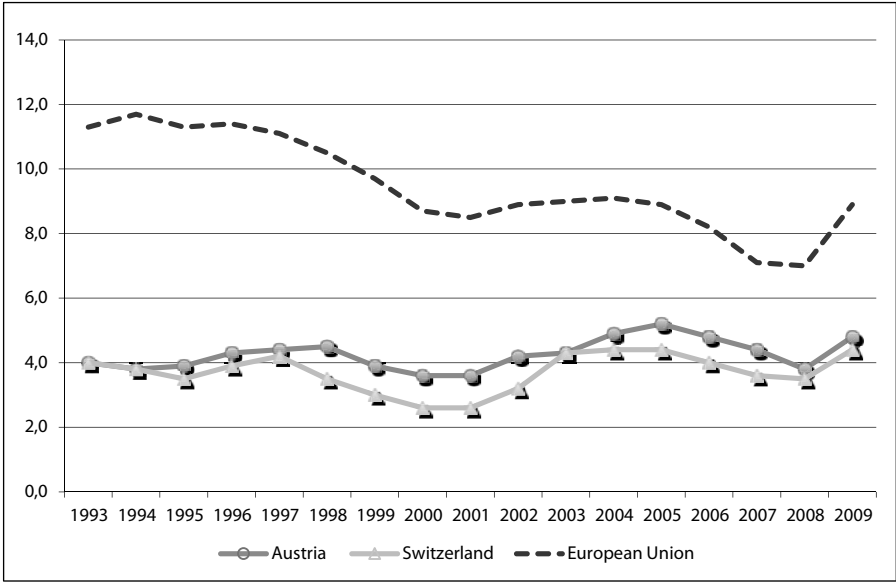
This overruling by the Constitutional Court added to a series of other elements that had considerably weakened the coalition in power. First,

the collapse of the FPÖ in 2002 due to internal divisions within the coalition led to new elections. The majority of the parties in power was still comfortable, but it was diminished by seven seats. The influence of the FPÖ as the main advocate of changes in social partnership institutions had been considerably weakened. Second, a series of retrenchment reforms had reached a stalemate: a reform of the health system promised by the government had not been realised, the taxation of accident benefits and the extension of “ambulatory” treatment had proven highly ineffective, had been blocked by the boards of social security governing bodies and had to be withdrawn on the grounds of constitutional law (EIRO 2003). Third, even if the coalition had been able to carry out an important pension reform in June 2003, the massive strike organised by trade unions to protest against it prompted the government to appease them in order to prevent further industrial action. In the aftermath of this, the government “encouraged the social partners to develop proposals for the harmonisation of the various public pensions systems and to draft jointly a new regulation on unemployment benefit entitlement” (EIRO 2004a). Finally, unemployment figures had been increasing steadily since the beginning of the legislature, from 194,000 unemployed in 2000 to 240,000 in 2003. The issue was politicised by trade unions as a failure on the part of the government despite its frenzy of reforms:

After 2001, when the labour market underwent a breakdown, the Chamber of Labour and the ÖGB were the driving forces behind the fact that labour market policy became a political theme in Austria. [...] We have jeopardised the attempts by the government to make the statistics look nicer. They have tried to take people that were in education programmes away from unemployment statistics. We have successfully communicated this to the media, so that the newspapers have directly asked the minister how many people were in education programmes. It was no longer possible to make the situation look nicer than it was. Then the theme of labour market policy really became a Number One political theme under the leadership of trade unions. And this labour market reform was a response by the government because politically, it was obliged to show that it was doing something. I really think we have played a major role in making the government do something. A media analysis would clearly show that we were the triggers. The government was on the defensive and somehow was confined in a corner. AK official, labour market policy division (Interview AUT3).

On the side of trade unions, whose influence had been substantially weakened during the black and blue coalition, the construction of such a political theme in the media was also a way to regain credibility (Interview AUT5).

**Figure 7**      **Standardised unemployment rate, Austria, Switzerland and European Union, 1993-2009**



Source: OECD.

In many ways, all these factors contributed to create a context of shared weakness between the government and trade unions, and concertation could satisfy the political objectives of both actors. Bringing about a successful reform of employment policy in a negotiated manner could improve the public image of the government after a series of failed reforms, whereas trade unions could restore their influence in policymaking after having been systematically marginalised. As will be shown below, the elaboration of this labour market package followed a fairly classical corporatist path, in contrast to the overall period of government leadership put forward by many analyses in the domain of welfare state reform (Baccaro & Simoni 2008; Obinger & Talos 2006).

### 2.3 Using Corporatism to Re-gain Credibility: The *Arbeitsmarktreformgesetz*

The *Arbeitsmarktreformgesetz* was an overarching package of reforms whose aim was to “update” the system of placement of jobseekers in order to increase the mobility of the workforce and to foster a quicker placement of jobseekers in the labour market. This was to be achieved in the framework of measures generally described as “incentivisation”. By increasing the possibility for the AMS to require jobseekers to take up employment, the reform was believed to provide efficient new tools to fight long-term unemployment by loosening two of the criteria of “acceptable work” (*Zumutbarkeitsbestimmungen*). The first was the “vocation protection” (*Berufschutz*), that is, the right for jobseekers not to accept a job in a domain which does not correspond to their training. This right was set in order to protect, say, a lawyer from being forced to take a job as a plumber, and was guaranteed during the whole period of entitlement to unemployment benefits. The second criterion was the acceptable travel times from home to work. Jobseekers were not to be obliged to take up a job outside their place of residence. This right was especially guaranteed for workers with family responsibilities.

Discussions about a reform of these acceptance criteria began in November 2001 (Der Standard 2001b). Between the end of 2001 and the summer of 2002, informal negotiations between social partners were punctuated by contradictory declarations from both sides in the press. On the one hand, trade unions asked for the introduction of a “right to upskilling” to deal with unemployment and structural change. This meant that jobseekers who could not find a job after a certain period of time could be offered a qualification scheme funded by the AMS. Instead of downward mobility on the qualification ladder, job placement should rather foster *upward* mobility. This measure, however, was considered too costly by employers and the ministry alike (Der Standard 2001a). On the other hand, employers unveiled a strategy paper in the summer of 2002 in which they favoured a strong toughening of acceptance criteria inspired by the Hartz reforms carried out in Germany (Der Standard 2002). In this context of polarisation, discussions remained in a stalemate until new elections were held at the end of 2002, which kept the issue on standby for another period of time.

After this pause, a working group was set up under the government *Schlüssel II* in May 2003 to formally discuss a reform of acceptability criteria. A report aimed at analysing the implementation of existing criteria was issued jointly with the AMS (Interview AUT6).<sup>34</sup> This report would then serve as a basis of discussion between social partners and government agencies, in order to work on a draft ministerial proposal in the

framework of an ad-hoc working group. Before negotiations began, trade unions argued that they would be ready to accept a reform of acceptance criteria if wage compensations were introduced, namely a wage guarantee for placement in jobs outside the sphere of qualification of jobseekers, and the introduction of an individual monitoring plan for closer supervision of jobseekers by the AMS (Der Standard 2003b).

This working group, presided by the head of the labour market section of the Ministry for Economic Affairs and Labour, gathered labour market policy specialists of the Ministry, the AMS, the ÖGB, the AK, the WKÖ and the *Industriellevereinigung*.<sup>35</sup> As argued above, the reforms of the acceptance criteria were the most important issue of the negotiations, and would be the main focus of bargaining between social partners. Employers wanted more flexibility through a loosening of acceptance criteria (also with respect to downward professional mobility) whereas trade unions wanted increases in resources for up-skilling and active labour market programmes to accompany structural change:

We wanted to have more flexibility. We wanted to allow for longer travel times than was the case at the time. At that time, the practice was that one could not be placed in a job across *Bundesländer*. So, to be placed in a job from Vienna to Lower Austria was not possible. Even if someone lived at the outskirts of Vienna and if Lower Austria was very close, this was not possible. Things like that. Then we wanted to loosen the vocation protection, so that someone could be placed outside the profession he had been trained in. This should have been after a certain period of time. So those were the main points. We wanted to make the system of placement of jobseekers more efficient, faster and that nobody would remain unemployed because of limits on travel times and vocation protection. We simply wanted more flexibility in the labour market. Social Policy Official, WKÖ (Interview AUT7)

The labour market situation as it has evolved in Austria, where there are important structural changes, required much more than this reform package [proposed by the Government]. Our main critique was that it was too little. We thought: there are structural adjustments on the labour market and we need more targeted active labour market policies to accompany structural changes with qualification measures and support workers. To that end we need more money and more personnel for the public employment service so that we can foster good performance. Head of section Labour Market Policy, AK Wien (Interview AUT3).

The agenda of the government was incidentally fairly close to the claims of employers. The most important issues were the *Berufschutz* and the maximum journey times from home to work. Other issues put on the agenda dealt with recalibration measures, such as the adaptation of entitlement and acceptance criteria for people with children, and the introduction of an unemployment insurance for self-employed and contract workers. This latter issue had notably been put forward by sections of employers. The clientele of the *wkö* consists of a large proportion of self-employed who were interested in a social safety net for periods of professional inactivity. On the other side, trade unions had concerns with regard to contract workers, whose employment conditions are particularly precarious. In the end, this issue would be dropped from the reform and delayed to a later time.

Employers were strongly in favour of loosening all acceptance criteria so that jobseekers could be placed in any available job in order to maximise flexibility. Jobseekers should be placed as quickly as possible in available jobs as long as those respected existing provisions of labour law and collective labour agreements. Trade unions were opposed to this loosening of the criteria, because of the de-qualification spiral it would foster. Instead, they argued that the placement of jobseekers should contribute to skill enhancement by focusing on qualification programmes, in order to increase the productivity of employees and of the economy as a whole. Finally, and most importantly, job placement should in any case preserve the existing living standard of workers (Interview AUT6).

Trade unions had been asking for some time for an income guarantee in the placement of jobseekers, that is, a guarantee that the salary of a job proposed to a jobseeker would correspond at least to a certain percentage of her previous position. Even if, at the outset, employers were opposed to this, they eventually accepted it as a *quid pro quo* for the loosening of the vocation protection (Interview AUT1). When the introduction of a wage guarantee appeared as a central condition for trade unions to agree to a removal of the *Berufschutz*, disagreements as to the extent of this wage guarantee arose. For employers, a loss of income of 30 per cent with regard to the previous position should be acceptable, whereas trade unions had declared that the limit of acceptability for them was an income loss of 10 per cent (Der Standard 2003b). In short: a job should be considered acceptable (and therefore be accepted by the unemployed) if its related wage represented no less than 90 per cent of the previous job held by the unemployed before receiving unemployment benefits.



In the end, an agreement was reached on an income guarantee of 80 per cent during the first 120 days, and of 75 per cent for the end of the period of benefits (Interview AUT1). For workers who were employed part-time before their period of unemployment, the wage guarantee was set at 100 per cent of the previous average wage.

This was totally new, we had never had that in Austria. At this point trade unions asked that since the vocation protection was shortened, so it meant a worsening for workers, we should introduce an income guarantee. This was totally new in Austria. This had existed in Germany, and the Germans had a system in which, if somebody is not placed in its own initial profession, that a certain percentage of one's previous income is at least guaranteed in one's new job. We call it "*Entgeltschutz*" that is, a specific percentage must be guaranteed. Employers didn't want it at the outset, but we insisted on this and the price to pay was the shortening of the vocation protection [...] This was the compromise. Head of labour Market Policy Division, BAK (Interview AUT3).

Another point on which the social partners reached an agreement was the question of acceptable journey times from home to work. The existing criteria were the borders of *Bundesländer*, the unemployed not being obliged to take up a job that would be outside their *Land* of residence. In this domain as well, employers asked for maximum flexibility. Finally, an agreement was reached on a maximum journey time of two hours per day, or the equivalent of 25 per cent of the total working time in case of part-time employment.

Finally, social partners agreed on the introduction of an individual monitoring plan for jobseekers, which was already partly carried out by the *Arbeitsmarktservice*. It consisted of a contract agreed between the jobseeker and the AMS on foreseen activities, including training activities. From both sides, this element was believed to foster a more efficient, individualised and quick placement of jobseekers on the labour market. As it had been a demand voiced for some time by trade unions, this was also considered an element that could balance the toughening of acceptance criteria for jobseekers. A new, slightly revised system of sanctions was introduced, as well as a more adapted handling of jobseekers with dependent family members, and an "early warning system" providing for people still in employment but who know in advance that they will be out of work to resort to the AMS and accelerate job placement.

Eventually, a compromise on this whole set of issues was struck after several returns were made between experts involved in the working group and higher levels within the hierarchy of trade unions and employers (Interview AUT7). Logrolling across different issues usually takes place at higher levels with the organisations. The “shadow of hierarchy” once again, plays an important role as incentive for compromises:

This was very disputed, especially with the definition of acceptable work. [...] Because the positions of each side clashed with each other. And on the employee side, they wanted to make protection even stricter. At the expert level, this came to no result, since the positions were too different. And then at the level of the heads of institutions, the Secretaries-General or the level of presidents, there have been meetings in which they tried to take the contentious issues at the expert level, take them to the political level and find a consensus. And I think at some point there was a presidential summit or a summit of the Secretaries, where they met amongst themselves. What had failed at the level of experts was solved at a higher level. Then of course there were compromises, no question. Everybody had to give in somehow. I do not know how this happens elsewhere. Here we allow the policy experts to negotiate. And you try to find an agreement. Most of the time people can agree on some points, but for others it remains open. Then the experts will say: “Ok, we could agree on this and this but not on this”. Thus, every expert informs its President. We do that, the AK does that, the ÖGB does that. And then they talk together. They usually have an interest in agreeing on a common package because they might say: “We want to remain the masters of the process. Because, if we don’t agree, the government will do something, whatever”. Therefore, it is in the interest at the high political level to say: “Ok, we need to give each other something”. Then there was this big press conference with the presidents of the WKÖ and the ÖGB where the compromise between social partners was presented as the cornerstones of the reform. Minister Bartenstein then felt very bound to these cornerstones and asked his bureaucrats: “Now make a law out of these cornerstones. (Interview AUT7).

At this particular point in time, on the issue of the acceptance criteria, we reached a compromise between employers and trade unions, so at the level of the social partners. At this point each one managed to meet his demands, and the other accepted them. Even though there are both advantages and disadvantages for both sides, the package as a

whole constituted a “win-win” situation. Drawing upon this, a consensus emerged and this was put into practice. This was also accordingly communicated to MPs in Parliament. Head of Section Labour market Policy, *Bundesarbeiterkammer* (Interview AUT3).

Building upon this, the ministerial proposal received strong support from interest groups during the consultation that took place between mid-March and mid-April 2004. Naturally enough, however, both trade unions and employers voiced some level of moderate criticism. The AK was more critical, claiming that there were some substantial improvements in the law regarding the wage guarantee and the individual monitoring plan, but that the tools deployed to reduce unemployment were still insufficient. In spite of this, trade unions did support the law and acknowledged the value of the social partner agreement which underpinned it (*Bundesarbeiterkammer Österreich* 2004). The WKÖ, for its part, was satisfied with the content of the reform proposal (*Wirtschaftskammer Österreich* 2004b). On the basis of these remarks, the ministerial proposal was examined and agreed upon in the Council of Ministers on 27 April 2004, before it was submitted to parliament.

As its main guidelines had been agreed upon by the social partners, the reform proposal did not undergo significant changes in Parliament. In contrast to the other Austrian case analysed here, it was supported by both the coalition parties, the ÖVP and the FPÖ, but also by the SPÖ. As often mentioned by interview partners, a strong “vertical” coordination between social partner organisations and parties, namely *Arbeitskammer*, ÖGB and SPÖ on the one side, and WKÖ, *Industriellenvereinigung* and ÖVP on the other side took place. However, despite its support, the SPÖ declared that it was not convinced that this package of measures would have a significant impact on high unemployment figures if further government spending was not devoted to active labour market policy.

As argued above, however, few substantial changes were made to the ministerial draft in the commission for economic and social affairs of the *Nationalrat*. The social partner agreement on which it was based served as strong legitimisation criterion for the draft proposal, particularly on the side of government parties:

In other countries, reforms have been decided and enforced in an adversarial manner, for example in Germany, where there are much stricter rules, but here we have negotiated between the two sides. This has a high level of acceptance within the population, which means it will also

be implemented successfully. So, ladies and gentlemen, the value of the social partners is not that they agree on something once again, but the value of this agreement is that it comes right from practice. We, as employers, are happy because employers will find employees more quickly, and the average worker will stay unemployed for less time. We have achieved, overall, a win-win situation. As a representative of employers, I am very grateful to the employee side. I am sorry that Mr President [of the ÖGB] Verzetnitsch cannot be here today, because he has played an essential part in the negotiations. MP Reinhold Mitterlerner, ÖVP and Member of the Direction of *Industriellenvereinigung* (Stenographisches Protokoll 2004b: 25) (my translation)

Set against this broad compromise, only the Green Party, whose links with social partner organisations are more distant, openly opposed the reform, claiming that it constituted another step towards a sanctioning of the unemployed rather than an effort to fight unemployment (Parlamentsdienste Österreich 2004; Stenographisches Protokoll 2004b). They argued that the reforms of the acceptance criteria did not aim at solving real problems of economic or social nature, but were exclusively ideologically grounded to further constrain jobseekers to accept badly paid jobs (Interview AUT5). They strongly criticised what they perceived as a clear toughening of unemployment policy, most notably with the suppression of the *Berufschutz*. Further points criticised were the allegedly unilaterally imposed supervision plan by the AMS without consideration for jobseekers' needs, and the allegedly unclear definition of journey times (Stenographisches Protokoll 2004b: 26). The Greens vividly criticised the SPÖ for accepting a law that constituted for them a clear deterioration of the situation of jobseekers, based upon their longstanding critical stance towards Austrian social partnership (Crepaz 1994: 56). In the final vote, they were the only political force to oppose the law.

#### 2.4 The Return of the Grand Coalition: Internal Conflicts and the Rebirth of Austrian Corporatism

After this case hinted at the survival of corporatist methods of policy-making even during the ÖVP/FPÖ coalition, political evolutions under the successive SPÖ/ÖVP government from 2006 onwards showed that social concertation could still play a role in social and economic policymaking in this country against the backdrop of the weakening of mainstream parties. Hence, this period was characterised by a “rebirth” of Austrian corporat-

ism after its apparent demise under the ÖVP/FPÖ coalition (Der Standard 2009; Obinger 2008). Social partners managed to find many compromises that were then taken up by the government and translated into actual policy, for instance on the issue of unemployment insurance for self-employed and agency workers (Interview AUT3). In many ways, this was a result of changing pro-active strategies to “occupy public space” by trade unions, and the many internal conflicts between the ÖVP and the SPÖ. When the government is weak, the central role of social partners is restored.

In the face of their bad experience during the previous Government, trade unions took advantage of the period of uncertainty that followed the 2006 elections to agree on a number of issues with the WKÖ in order to “occupy the policy space” and prevent more radical proposals from emerging from political parties:

The trade unions had the possibility to take part in order to prevent the worse from happening, instead of letting it go. That was also the case later, in 2007. A whole series of corporatist compromises came about between the national elections in 2006 and the coalition agreement that was concluded early 2007, at a time when the ÖVP was hesitating between joining a grand coalition with the social democrats and joining a black-blue-orange [conservative/national-populist/liberal] coalition or something of this kind, that is, something very scary from the point of view of trade unions. It seems that the rationale for them was: let's agree on things quickly ourselves before the really bad guys come to power and carry out their own agenda. A lot of corporatist compromises were decided in this phase in order, from the point of view of trade unions, to prevent worse solutions from emerging [from political parties] [...] Often, these were lazy, or rather bad compromises but [...] interestingly, it has always been the case that social partnership displayed a greater capacity of action than the Government, because it is more able to find compromises. These are well-exercised structures. Social Policy Analysts, Green Party (Interview AUT5).

Interestingly, this strategy proved relatively successful because the grand coalition SPÖ/ÖVP that emerged from the 2006 elections would be marred by internal conflicts, which would ultimately lead to the fall of the government after only two years. This tended to strengthen social partners in policymaking. Because of their capacity to agree on issues in a relatively effective way, trade unions and employers could come up with ready-made solutions that were also relatively handy for the Government:

In the last government (SPÖ/ÖVP), in which the two coalition partners really hated each other, it was more difficult for them to bring about policies. In reality, the only laws that have come about were those on which the social partners could find a compromise because, on the one hand, they are tightly linked to political parties, and on the other hand they can rely on their strong expertise and are deeply grounded in reality [...] Within the government and the Parliament, they could only agree on issues that had already been prepared by the social partners, just like this labour market reform thing. Here the social partners have played a mediation role because [political parties] were pure enemies. Many reforms have failed because one party did not want the other to enjoy a success, and every time when the other proposed something, it criticised it openly. [...] In other cases, when other Governments were in power and that coalition partners had a closer relationship, it could happen that we as social partners agreed on something, but then no majority for it could be found in Parliament. For instance because the Greens could say: "What you want is nice, but we want something else". If we cannot find a majority in Parliament, nothing happens. Head of Labour Market Policy, Austrian Chamber of labour (Interview AUT3)

In many ways, this is more proof that the death certificate of corporatism in Austria was premature, and the result of this type of process of policymaking depends more on political configurations than a radical demise caused by structural dynamics. Of course, however, the *content* of the bargains which are struck in the framework of these concertation procedures is severely constrained by financial and economic factors, but this does not seem to hinder concertation as a *process* of policymaking.

## 2.5 Summary: Concertation as an Alliance of the Weak and Weakened

In Austria, the decision-making process leading to the adoption of the *Arbeitsmarktreformgesetz* was characterised by typical corporatist features in a context where the government was in a position of weakness after a series of failed reforms, and after trade unions had been marginalised in policymaking for a long period of time. In this context, concertation appeared as a useful strategy for both actors to restore their political credibility: the government could bring about a successful policy reform supported by the social partners, whereas trade unions could restore some of the political clout they had lost during the first years of the ÖVP/FPÖ

coalition government. After long negotiations, a compromise was found on the introduction of more flexibility in this domain, but this was compensated by the introduction of an income guarantee, which had been a demand of trade unions for a long time. Moreover, the introduction of a personalised monitoring plan for jobseekers was favoured by both trade unions and employers. Even if the 2003 pension reform, which was implemented without consulting the social partners, was often used as a prime example of the demise of corporatism in Austria (Baccaro & Simoni 2008; Hamann & Kelly 2007a), the case analysed here shows that the government could also opt for concertation at some points in time when it corresponded to its political interests. In periods of weakness, internal conflicts, or losses of credibility in public opinion, the Government faced strong incentives to strike compromises with the social partners in a relatively secure way. Corporatist compromises were still possible, even if the financial implications in this case were not as heavy as those of pension reform.

### **3 Switzerland: Welfare State Retrenchment and the Radical Right-Wing Push**

In contrast to the regulation of labour mobility analysed in the previous chapter, welfare state reform in Switzerland is characterised by a visible decline in the importance of corporatist concertation due to the climate of permanent financial austerity mentioned above, but also changing patterns of party competition. On the one hand, as elsewhere, cost containment has constituted the backdrop of most recent reforms in this domain, thereby making agreements more difficult to find between social partners. On the other hand, this retrenchment agenda was also championed by right-wing partisan forces in Parliament spurred by the Swiss People's Party (SVP). The emergence of this strong political force championing financial austerity, welfare state retrenchment and tax cuts had a significant impact on the stance of other right-wing parties, and on corporatist concertation as well.

In the following sections, I outline the main characteristics of welfare state development in Switzerland before turning to the analysis of a specific case of reform, the third revision of the Unemployment Insurance Law.

### 3.1 Welfare State and Unemployment Policy in Switzerland

The status of Switzerland in the world of welfare has been somewhat ambiguous. For a long time, it was considered a *liberal* welfare state with residual features contrasting with the conservative welfare states of culturally similar countries, namely Germany and Austria (Obinger 1998a). Indeed, its core schemes were introduced very late in comparison with similar countries: pensions (introduced in 1946 in Switzerland, 1889 in Germany, 1927 in Austria), unemployment insurance (made compulsory in 1982 in Switzerland, in 1920 in Germany and in 1927 in Austria) (Schmidt 1985: 111). Political institutions have been considered central in explaining this belated development. Federalism and direct democracy in particular have been presented as stumbling blocks hindering welfare state expansion in this country (Immergut 1992; Obinger 1998a, b). Each attempt to transfer competences in the domain of social policy from the cantonal to the federal level required a constitutional amendment, and had therefore to face a potential refusal in a popular vote. These institutional elements added up to an already unfavourable configuration of power in which traditional supporters of welfare state expansion, namely trade unions and social democrats, have always played a subordinate role in policymaking (Kriesi 1980: 693; Mach 2006b).

Legal dispositions for the intervention of the federal state in unemployment insurance were already set up in 1924, but this intervention remained limited to subsidising a fragmented system of regional or occupational schemes managed by the cantons, trade unions or private companies, so that the unemployment protection system covered less than a quarter of the workforce in 1975 (Kriesi 1980: 209; Saxer & Saguchi 1967: 210). Against the backdrop of full employment and the weakness of organised labour, the political pressure for a nationwide public employment fund was also less pressing. When the Swiss economy was hit by a sudden economic crisis in the mid-1970s, the costs of the recession were largely externalised on outsiders of the labour market, namely foreign workers with a precarious stay status who left the country when their contracts were terminated, and (married) women who quit the labour market as they could rely on a protected male breadwinner workforce (Schmidt 1985). This allowed the country to maintain a situation of nearly full employment despite the disappearance of 300,000 jobs and the sharpest decline in GDP in the OECD (down 7.3 per cent between 1973 and 1976) (Afonso 2005, 2006; Bonoli & Mach 2000). Schmidt (1985: 13; see also Piotet 1987) describes this strategy as the “national-liberal-corporatist way to full employment”.



A compulsory unemployment scheme was only introduced in the aftermath of this economic crisis. This was done after a first project initiated in 1969 had reached a stalemate in 1972. Back then, employers and right-wing parties thought that such a project was redundant, and trade unions opposed the creation of a centralised public scheme because they were running their own unemployment compensation funds (Kriesi 1980: 210). After the oil shocks of the 1970s, however, the project was resumed and agreed upon swiftly through extensive corporatist concertation during the summer of 1974 (Kriesi 1980: 210). The constitutional amendment providing for the creation of a national public unemployment fund was backed by both trade unions and employers, the Parliament accepted it without modifications, and it was then accepted in a popular vote in June 1976 (Kriesi 1980: 211). When it entered into force on the basis of a federal law in 1982, the unemployment scheme was devised so as to minimise the tax wedge, with low contribution rates, even if replacement rates were set at fairly generous levels. During the 1980s, unemployment remained below 1 per cent.

### 3.2 Reforms in an Era of Austerity

In the beginning of the 1990s, unemployment increased to unseen levels due to an enduring situation of economic stagnation. The system of funding of the unemployment insurance scheme proved unable to cope with this new situation. For six consecutive years, growth rates were lower than 1 per cent. Between 1990 and 1997, the number of unemployed increased from 18,000 to 190,000, reaching 5.2 per cent of the workforce (Bertozzi et al. 2005: 70). Among the factors underpinning this deterioration of labour market conditions, there was the changing work behaviour of social groups that tended to retire from the labour market in the 1970s, namely women and foreign workers (Fluckiger 1998). In particular, foreign workers no longer acted as a labour market buffer because of the stabilisation of their legal status: while only 21 per cent of foreign workers had a permanent stay permit in the 1970s, this proportion had increased to 58 per cent in 1990 (Armingeon 2004). Changes in family structures also no longer allowed for a massive retreat of women from the labour market.

If Swiss unemployment figures in this period may appear relatively low by international standards, they were high enough to cause great political concern, because the unemployment insurance system soon accumulated a great amount of debt. At the outset of the economic downturn of the 1990s, the main aim of policy reforms in this domain was to cope

with dramatically rising deficits in funding: CHF 470 million in 1991, then 2.5 billion in 1992. Payroll contributions proved insufficient, and general tax money had to be added by the federal state (Bertozzi et al. 2005: 75). An emergency decree adopted in 1993 raised the maximum duration of allowances to cope with the rise of long-term unemployment, but also for a reduction in the statutory replacement rate from 80 to 70 per cent. This decree was opposed by both unions and employers in the subsequent popular vote, the former objecting to the reduction of benefits and the latter demanding stronger cuts (Häusermann et al. 2004: 43). Despite this, the emergency decree was accepted by a large majority of voters.

In the revision of the law on unemployment insurance that would follow in 1995 (*Deuxième révision de la loi sur l'assurance chômage*), the social partners were not able to find a compromise either on the issues of funding and benefits. In this context, the Swiss Parliament played a pivotal role in striking a deal that trade unions and employers had been unable to agree upon (Häusermann et al. 2004). The reform was oriented towards an activation agenda, which could be supported by both sides. This notably included the setup of a structure of regional employment services, and the strengthening of activation measures with a corresponding increase in funding (Bertozzi et al. 2005). The right and employers saw it as a more effective tool to control the unemployed and prevent potential abuse, whereas the left and unions could see it as a measure fostering the reintegration of jobseekers in the labour market (Häusermann et al. 2004: 45). Moreover, a "solidarity contribution" (a 1 per cent contribution perceived on the part of wages above that that was insured) on high wages was introduced, and then raised to 2 per cent in 1999.<sup>36</sup>

After the 1995 law was accepted without being challenged by a referendum, the financial situation of welfare state institutions continued to deteriorate, and the government decided to take further emergency measures to cut expenditures in social policy. In the fall of 1996, it issued another emergency decree (*Arrêté fédéral urgent*) providing for budget cuts for early retirement, federal credits and unemployment insurance. In this latter domain, the draft provided for 1 to 3 per cent cuts in benefits. Whereas trade unions gave up on challenging the law in a referendum, this was eventually done by a small organisation of jobseekers of La Chaux-de-Fonds, in the canton of Neuchâtel. To the surprise of most observers, they managed to gather the required amount of signatures. After that, they were then joined by trade unions as well in the referendum campaign, and the law was defeated by a majority of Swiss voters (Hirter & Linder 2002: 26). Politically, this was taken as a sign that cuts in replacement rates

would be difficult to achieve in the face of the referendum threat (Neue Zürcher Zeitung 1997). Against this background, solutions for the long-term funding of the unemployment insurance fund were still to be found.

### 3.3 Third Revision of the Law on Unemployment Insurance

The empirical case of reform analysed here is embedded, as already argued, in a context of changing power relationships between political parties. At the end of the 1990s, the Swiss People's Party increasingly appeared as a strong competitor for traditional centre-right parties also in the field of welfare reform. In the 1990s, compromises in parliament could still be struck between trade unions and social democrats on the one side, and CVP, FDP and employers on the other (Häusermann et al. 2004; Interview CH10). By the end of the decade, however, centre-right parties had lost a considerable number of seats to the SVP both at the federal and cantonal levels. Between 1991 and 2001, the SVP won 199 seats in cantonal parliaments, whereas the FDP lost 65 and the CVP 131 (Le Temps 2001).

Similar to other national-populist parties in Europe, immigration and law and order policies have featured particularly prominently in the policy agenda of the SVP. However, it has also pursued a relatively clear retrenchment agenda in the fields of unemployment and disability policies, even if it did not put these at the forefront of its electoral campaigns. As was made clear by interview partners, there is a clear decoupling between the themes which are put forward by the party in its electoral campaigns, and those that are supported in parliament. Welfare state reform is typically a theme where the electorate, particularly its working class component, has failed to follow the positions of the party elites, so that it has been relegated to the background in electoral strategies. However, this did not mean that it was not important in actual legislative processes:

There is the “general policy”, where we work in commissions in all these domains [of social policy reform]. We are well organised, we have scientific collaborators who study these domains, and we have contacts with different organised interests. This is policy. And then there is electoral politics, where there is a strategy to emphasise the subjects in which we are strong, not the ones in which we lose. In welfare state reform we have invested a lot of energy, but we have to admit that we have often lost [in referendums]. This is why we don't really put forward health policy reform, in which we have often lost, or the social insurance system. This does not mean that we don't fight for it

[in parliament] with the same state of mind. But when it comes to leading an electoral campaign, it's clear that we have a strategy to lead the battle where it suits us, that is, immigration and public safety. Former SVP MP, Interview CH14

The strengthening of the SVP was a threat for centre-right parties in the sense that it challenged their position as the main representatives of business interests, which have historically constituted an important source of funding for the FDP and the CVP (Le Temps 2010). When he was interviewed by *Le Temps* in 1999, the SVP leader Christoph Blocher for instance argued that

business people come to see me and ask me to defend their interests, because the FDP, who is too often ready to make concessions to the left, does not fulfil this function anymore. For the last two or three years, even FDP or liberal entrepreneurs have been telling me that the SVP is the party that best defends the interests of business. (Le Temps 1999)

Along these lines, Blocher called on centre-right parties, and particularly the FDP, to move away from compromises with the left and “clientelistic practices” which would lead to its decline (Temps 2001). Faced with the need to reassert their position as the “parties representing the economy”, the FDP and, to a lesser extent, the CVP moved further to their right to restore their links with business interests, and therefore showed less willingness for compromises with the left and trade unions (Le Temps 2001). Within the FDP in particular, this move to the right could be felt in 2001 with the nomination of a president with a clearly more hardliner profile, Gerhold Bührer, who would later become the president of the business association Economiesuisse, as well as a renewed focus of party priorities towards reductions in social contributions and less red tape to foster a more business-friendly environment (Le Temps 2006). This transformation was made clear by interview partners on the left, but also within centre-right-parties:

The situation in the middle of the 1990s, or the beginning of the 1990s, which led then to the revision of 1995, was much more constructive as the political fronts were not so hardened yet. And in this sense also the left and the employee side was stronger. Thus, in the second revision of the unemployment insurance, we succeeded better in obtaining measures in favour of the unemployed and improving their situation, in

particular also with the active labour market measures. In this sense, what was new with this third revision was this brutal, hard retrenchment, linked with cuts in contribution rates for high incomes [...] What was in the background, perhaps also for this hardening, was what happened in Parliament. It was already the expression of this fight for hegemony within the bourgeois camp, and this whole tax cuts euphoria, which at that time already played a role, and which led to the fact that the bourgeois parties have engaged in a competition among themselves to show off who is the champion of tax cuts, who is the best to relieve top incomes and the wealthiest. I really believe this was the background of this development. [...] [the change in the electoral strength of the SVP] played a role, I believe. (Interview CH12)

There is no doubt [that the FDP has become more right-wing]. [...] The party has tried to recover the share of the electorate who had turned to the SVP, by taking positions ever more on the right. The German-speaking sections [...] were generally more right-wing, and this position has prevailed [...]. [The fact that this evolution was due to the SVP] was not made explicit, but it was more than implied. There were different wings within the PRD in parliament. A “right-right” wing, with a few figures such as [name], who is now president, which really worries me personally. There are some more “political”, pragmatic people but this centrist strand has declined along the years. One has to see that the number of seats has also declined. In the end we [the centrists] were special cases, we were like corks on the water. We were no longer important for them, for the majority of the parliamentary group. Former FDP MP, Interview CH13.

This reduced willingness for compromises can also be interpreted as a right-wing backlash against the series of swift reforms that were undertaken in Switzerland during the early 1990s, when the economic slowdown triggered substantial measures of welfare state expansion:

I have the impression that in the 1990s, we have made many compromises, many reforms. And after 1995, after the flanking measures [to the free movement of workers], the round table, in which the parliament has always had more or less to follow what the administration and the social partners had prepared, we couldn't do this forever. On both sides, amongst trade unions there was some discontentment, or people who were not satisfied [with those compromises], and also on the side of

employers. Especially with the SVP, who became stronger. This means that it was already something destabilising. There are times when we can work well together, then again periods when it is more polarised. It is quite normal. Secondly, some reforms of the 1990s ended up being very costly [...] Public finances have deteriorated again in 2000, and on the right there was dissatisfaction after the period of economic unrest in the 1990s. [...] Among right-wing parties, many people have said that such compromises were too expensive. These are elements of polarisation, and the strengthening of the SVP. It belongs a little together. I do not know exactly what is the cause and what is the consequence, but it belongs together. And it opened a period, I would say the last eight years, where it became more difficult to find compromises, in essence, from 1999 onwards. The change in government with Blocher's entry has not changed much.<sup>37</sup> For me the important thing was the polarisation in Parliament. Former SGB Secretary General (Interview CH10)

Within this broader context, the formal point of departure of the third revision of unemployment insurance was a parliamentary motion initiated in 1998 by a special parliamentary committee of the National Council in charge of examining what was called the "stabilisation programme" [of public finances] (*Stabilisierungsprogramm* 1998) (Gasser & Greub 2001; Interview CH11).<sup>38</sup> The primary locus of initiative in this case was therefore the parliament. After the strong increase in public debts during the 1990s, the federal government issued a decree called *Objectif budgétaire 2001* which set up a constitutional principle providing for the automatic compensation of public deficits with cuts in expenditure in the budget of the following year (Conseil Fédéral 1997). It only allowed a 2 per cent budget deficit. This mechanism was accepted by 70 per cent of voters in June 1998 in a popular vote.

In the aftermath of this vote, a programme of fiscal austerity had to be agreed upon to meet the newly introduced constitutional principles. According to the government, a reduction of the public debt could only be achieved by a concerted strategy and a "fair distribution of sacrifices" across political forces. In the spring of 1998, the then minister of Finance, Mr Kaspar Villiger, gathered political parties, cantons and social partners for a so-called "roundtable" to elaborate a concerted set of measures of fiscal consolidation (*programme de stabilisation*) that could gather sufficient political support across the whole political spectrum. This package provided for some supplementary receipts, but the bulk of it consisted of cuts in expenditure and the transfer of charges to the cantons (Conseil

Fédéral 1998; Neue Zürcher Zeitung 1998). In the domain of unemployment insurance, this programme provided for the maintenance of a 3 per cent payroll tax, a higher limit for higher contribution rates, and cuts in expenditures to be maintained until 2003.

In November 1998, this package was accepted in Parliament, mainly with the support of right-wing parties, despite several attempts by the social democrats to reduce the extent of the cuts. Moreover, on top of this package, the right-wing majority of Parliament voted in favour of a series of parliamentary motions commissioning the Government to devise even more cuts in spending in the domains of asylum, pensions and unemployment insurance once the austerity package, whose effect was limited in time, would come to an end.

These parliamentary motions were the initial impuls for a reform of unemployment insurance. It set up tight financial conditions to be fulfilled in this domain, and asked that

before the winter of 2000, the Federal Council prepare a draft revision for the financial restructuring of unemployment insurance, so that it becomes possible to collect only two per cent of wages, and that the cantons and the Confederation cease to provide payments for unemployment insurance.<sup>39</sup>

This measure was fought by social democrats and the ecologist party, but was eventually accepted by a majority within both chambers and transmitted as a mandate to the Federal Council. The Government was sceptical about the feasibility of reducing contributions in a painless manner. Considering persistently high levels of unemployment, bringing contribution rates down to two per cent would not allow for building sufficient reserves for periods of economic downturn, and would certainly mean further retrenchment in benefit levels.<sup>40</sup> In this case, the right-wing majority of Parliament was more concerned with lowering the tax wedge, and adopted a more radical stance than the Government in terms of retrenchment.

### 3.4 An Incomplete Corporatist Agreement

On the basis of the parliamentary mandate, the Federal Council commissioned its State Secretariat for Economic Affairs (SECO) and its office for labour to elaborate a reform plan that would bring contribution rates down to 2 per cent, but also deal with the entry into force of the agreement on the free movement of workers between Switzerland and the EU.

Despite the fact that no direct regulation or bilateral agreement imposed a change in Swiss unemployment policy (apart from the fact that contributions made abroad would entitle workers to claim unemployment benefits), free movement was believed to generate additional costs for the unemployment insurance system. EU workers taking up jobs in Switzerland and contributing for the minimum time, which was relatively short in comparative terms, could claim benefits. It was therefore foreseen to make conditions of entitlement more restrictive.

After the guiding lines of the reform were elaborated within the State Secretariat for Economic Affairs in collaboration with the Department of Finance, a committee of experts was constituted, which met between December 1999 and April 2000 (Archives Swiss Federation of Trade Unions 2002; Gasser & Greub 2001). The members of this expert committee were drawn from the permanent control committee of the compensation fund for unemployment insurance (*Aufsichtskommission für den Ausgleichsfonds der Arbeitslosenversicherung*), namely representatives of the SECO, employers (both the SAV and small businesses), trade unions, cantons, unemployment insurance funds (both public and managed by trade unions) and two labour economics professors from the Universities of Geneva and Basel (Direktion für Arbeit 1999, 2000; Interview CH10, CH11).

As already mentioned, the mandate given by the majority of Parliament was to bring the contribution rate down to 2 per cent of wages. The head of the labour market division of the SECO acknowledged that such a low contribution rate made it difficult to build up reserves for periods of economic slowdown, but it should be considered the main objective of the reform (Direktion für Arbeit 1999).<sup>41</sup> From the outset, some elements were left outside the scope of the revision, such as the replacement rates, the structure of public employment services (*Regionalen Arbeitsvermittlungszentren – RAV*) and the activation measures introduced in 1995. The reform would therefore essentially concern contributions, conditions of entitlement and the maximum duration of allowances. In all these domains, the stringent financial mandate given by Parliament imposed severe retrenchment.

Firstly, the explicit goal of the revision was the establishment of a new system of funding which sought to balance contributions and expenditures in a sustainable manner (Conseil Fédéral 2001: 2129). The current system was characterised by an entanglement between general and payroll tax, and between income compensation and active labour market measures. Besides, contribution rates drew upon emergency measures decided in the aftermath of the turmoil of the 1990s, and their scope was limited in



time. A funding system elaborated by the Department of Finance provided for a fixed participation of the federal state and the cantons to active labour market measures, whereas income compensation *per se* would be funded exclusively by payroll contributions. Despite the parliamentary mandate limiting contributions to 2 per cent, employers and trade unions agreed that some flexibility was necessary to build a real automatic stabiliser, and that contributions could be adjusted later on. Even employers acknowledged that in the case of insufficient receipts, a reduction of benefits in times of high unemployment was not a fair solution (Direktion für Arbeit 1999, 2000).

A point which would be particularly debated was the “solidarity contribution” levied on high wages, which had been introduced earlier on a provisional basis. The federal unemployment insurance scheme did not guarantee an equal level of compensation for all levels of earnings. Wage compensation was only guaranteed up to a certain wage ceiling by the federal unemployment scheme. But in the face of the heavy financial difficulties that arose in the 1990s, the 1995 revision of unemployment also foresaw a “solidarity contribution” on a wage span above that level of guarantee. High income earners had to pay a 2 per cent contribution on that layer, which introduced an element of redistribution besides the principle of social insurance (Conseil Fédéral 2001).

Removing this solidarity contribution was very problematic for the sustainability of the scheme if it were coupled with the suppression of federal and cantonal funding. According to previsions made by the Department of Finance, its suppression combined with the suppression in general tax money would translate annually into CHF 535 million less income to unemployment funds (Conseil Fédéral 2001: 2142). In the end, the Department of Economic Affairs chose to keep it and reduce it to 1 per cent instead of 2 per cent. Employers would have preferred its full suppression to the advantage of further cuts in allowances. For the Government, however, drastic cuts in allowances stood little chance in a referendum vote (Conseil Fédéral 2001: 2142). In this respect, the draft bill deviated from the demands of the parliamentary mandate, but the Federal Council considered it sufficient (Conseil Fédéral 2001: 2143). Despite the preservation of this source of income, the overall level of funding of the unemployment compensation scheme was still lower than before. Cuts in expenditure had to be carried out to make it financially balanced.

In order to adjust with diminishing receipts, cuts in entitlement and allowances were decided despite the staunch position of trade unions. At first, employers asked for a system where the duration of allowances

would be exclusively determined by the time of contribution (Conseil Fédéral 2001). This would prevent people from contributing for the minimal duration and then receiving benefits for the maximal duration. The project of the government was to increase the minimum time of contribution from six to twelve months. This was opposed by trade unions, who argued that this would have negative effects for workers with atypical work trajectories. Despite these arguments, the administration proposed to go forward with an increase in the minimum duration of contributions. This was also part of the declared aim to adapt to the free movement of workers by preventing immigrants to claim benefits too early on. Finally, the most debated issue was the maximum duration of allowances. The Department proposed a reduction of the maximal duration of benefits from 520 to 400 days as a way to achieve cuts in expenditure while at the same time increasing incentives to take up employment (Interview CH10). Trade unions claimed that this would impact negatively on people with low qualifications, and foster de-qualification processes.<sup>42</sup>

During the final expert group meeting, a series of compromises on minor points of the law geared to recalibration was agreed on, but not on allowances. This however, was softened by the maintenance of the period of 520 days for workers above 55. The other major point was the maintenance of a solidarity contribution on higher wages in order to build up reserves. This was opposed by employers (Interview CH10, CH11). At the end of this phase, the main proposals of the bill were:

- The regular contribution rate on wages to the unemployment insurance scheme was lowered from 3 to 2 per cent.
- The higher income tier between CHF106,000 (the maximum yearly insured wage) and CHF267,000 would still be submitted to a “solidarity contribution” but lowered from 2 to 1 per cent.
- The minimum time of contribution (within a framework time of two years) was raised from six to twelve months. In short, in order to be entitled to receive unemployment benefits, people out of work must have been working in Switzerland (and therefore contributing to the unemployment scheme) for a period of twelve months (against six hitherto) within the last two years that precede their request for benefits.
- The maximal duration of benefits was reduced from 520 to 400 days (Conseil Fédéral 2001).

Whereas the draft bill sought to find some balance between reduced funding, balanced budgets, and cuts in allowances that could be accepted in a

referendum, it was strongly criticised in the consultation phase. All right-wing parties and employer organisations criticised the maintenance of the solidarity contribution on high wages, whereas the left and trade unions proposed its increase to 3 per cent (Conseil Fédéral 2001: 2143). The left and trade unions were in favour of reducing contribution rates at a later point in time to ensure a sufficient amount of reserve funds, whereas the right supported an immediate reduction. Overall, the Swiss Federation of Trade Unions rejected the bill, on the main ground that nothing justified cuts in allowances (Union Syndicale Suisse 2000).

At the end of the consultation, the Government decided to maintain the solidarity contribution on high wages, which was considered an essential means to guarantee the long-term funding of the unemployment insurance scheme (Conseil Fédéral 2001: 2148). Its reduction from 2 to 1 per cent was a middle way that could eventually gain support from a majority in Parliament. As a whole, the Government chose to stick to the solutions elaborated by the federal administration and find a balance that could stand a chance to pass both in parliament and in a popular referendum. As a whole, the bill displayed a clear retrenchment orientation while trying to maintain some sources of income that had been established on an “emergency” basis. Besides, the project was believed to be balanced by a number of minor improvements and adaptations, for instance in the domain of maternity or the indexation of benefits to inflation (Conseil Fédéral 2001).

### 3.5 Parliamentary Phase: Party Competition and Retrenchment

As shown above, the second half of the 1990s have been characterised by changing dynamics in the logic of party competition in Switzerland. The most notable change has been a marked decrease in the parliamentary seats of the centre-right parties CVP and FDP to the advantage of the national-populist SVP. In many ways, this change in political power relationships contributed to challenge traditional modes of corporatist policymaking, and this would materialise fairly clearly in the parliamentary handling of the third reform of unemployment insurance. Indeed, agreements between social partners were no longer a guarantee that social policy reforms would be accepted in Parliament. In the words of a prominent trade union official,

It's something that had never happened before in the 1990s, to almost lose control of the development [in Parliament], at least as far as I'm

concerned. But it also has to do with people. [...] It was easier in the 1990s than in the 2000s, the legislature 1999 to 2003 was already very polarised. For eight years now we've had a highly polarised Parliament, with a bit of a breakdown, or a weakening of the parties of the centre. I think it is one of the first revisions in which this could be felt. [...] Because that's where it just begun [...] that even if the social partners agreed upon something, it was no longer a guarantee that it would be agreed in Parliament. First Secretary, SGB (Interview CH10)

It is more difficult to find compromises. Before, in the commission for the economy, there were people like [former CVP and FDP MPs]. With those people it was possible to find compromises. Now it is no longer possible. It has to do with the fact that amongst centre-right parties, there are a few strong people, and the others follow. And those strong people are hardliners. Those who used to build bridges are not there anymore. It's the same in the finance commission, it's only left-right. The SVP has played a role in this by pushing parts of the FDP and CVP to the right. Also, in the last elections, and those before, people who have been elected have been much more right-wing. There are fewer moderates who are ready to collaborate with the left. And the SVP plays with this. Compromises can still be found in energy policy, education policy, but social and finance policy, it's impossible [...] And the pressure comes from the SVP, more than from employers. Social Democratic MP (Interview CH4)

In many ways, this new context would foster further retrenchment measures in Parliament and a move away from the balance sought by the Government. The first council to handle the revision of unemployment insurance was the Council of States. In its session held in May 2001, the Permanent Committee on Public Health and Social Security rallied the Federal Council on most points, but voted against the governmental proposal to maintain the solidarity contribution on high wages as a way to ensure funding (Bulletin Officiel du Conseil des Etats 2001; *Parlamentsdienste* 2001b). For a majority of the Upper Chamber, this solidarity contribution was considered like an income tax that had little to do with the principle of insurance. However, the expert commission also foresaw the possibility to reintroduce this solidarity contribution in times of higher unemployment. Some right-wing MPs in the Council of States argued that the Government had broken its promise by maintaining this solidarity contribution on a permanent basis, while it had been put in place on a provisional basis:

I agree with the majority of the parliamentary commission: a full suppression of the solidarity contribution is fair. A levy on high wages is just like a wealth tax [...] As part of emergency measures for the financing of unemployment insurance, the Federal Council had said that these additional contributions on incomes between CHF 106,800 and CHF 267,000 would be suppressed as soon as the debt would be reduced [...] At the end of 2003, the debt will be reduced. If the Federal Council does not suppress this contribution now, it does so against its promise, and it will once again create a system of redistribution. Taxes such as these affect the competitiveness of Switzerland, which we all care about. [...] The proposals of the Government are an absolute minimum. In principle, the maximum duration of benefits should be reduced to less than 400 days, and the minimum contribution period should be longer than six months. It is a pity that no minority proposals were made in that direction because they really deserve our full support. svp  
MP This Jenny, (Bulletin Officiel du Conseil des Etats 2001: 390)

Against this, the Head of the Department of Economic Affairs, Mr Pascal Couchepin argued that further cuts in funding would be perceived as a provocation by the Left. The project already contained a significant number of retrenchment measures:

You know that everything related to unemployment insurance raises passions, notably in French-speaking Switzerland. Remember who launched the referendum last time [nb: referring to the jobseekers of La Chaux-de-Fonds]. It is very easy to get 50,000 signatures in an atmosphere marked by uncertainty. [...] Imagine the strength of the argument with or without this per cent. Without such a per cent, there is nothing but retrenchment, and with this per cent, there is an element of balance, of solidarity which allows to reform unemployment insurance. You can call it opportunism, at the end of the day we need social policies that are supported by the majority of citizens and the cantons. This is what we have managed in Switzerland. We have always sought to avoid confrontation. This is why I propose you to do it in a peaceful way now, accepting this small sacrifice that is not painful. Don't make it a matter of principle. Let us be pragmatic and realistic. Federal Councilor Pascal Couchepin (Bulletin Officiel du Conseil des Etats 2001: 394)

Nevertheless, the solidarity contribution was suppressed by a majority of the Upper Chamber in spite of this and against the opposition of Social

Democrats and Greens. Moreover, the lowering of the contribution rate was decided to come into force earlier than initially foreseen, and restrictions to entitlement for high-income earners were softened. After these decisions reducing the elements of redistribution in the bill, the Swiss Federation of Trade Unions declared that it could not accept the bill as it had been modified by the Upper Chamber, and called for a referendum if the National Council did not change this decision (24 Heures 2001).

The bill was then examined by the Commission for Economy and Taxes of the National Council (Bulletin Officiel du Conseil National 2001; Parlementsdienschte 2001a). Interestingly, the project was debated just after the Swiss National Airline, Swissair, went bankrupt as a result of a too ambitious acquisition policy, letting thousands of people lose their jobs (Parlementsdienschte 2001a). The Lower Chamber adopted a stance less geared to retrenchment than the Council of States. It followed the Federal Council on the question of the solidarity contribution, thereby disagreeing with the First Chamber. Moreover, it introduced a mechanism according to which the Government could adapt the maximum period of benefits for regions with high unemployment and for older workers. The Lower Chamber also proposed to give competence to the Federal Council to raise contribution rates by 0.5 per cent if debts surpassed a certain level (around CHF 5 billion). Despite these elements, the project was still considered unacceptable by the left because of the cuts it involved in benefits:

The previous revision of the unemployment insurance [of 1995] was balanced and was a compromise acceptable to all parties. The funding was ensured, the benefits were acceptable, and the chances of reintegration of unemployed people on the labour market were improved. The draft that we examine now breaks this balance. Admittedly, given the changes made by the commission, the project can be considered acceptable for the funding of the insurance scheme, since we have reintroduced the solidarity contribution on high incomes which had been abolished by the Council of States. It is worth recalling that 1 per cent levied on high wages brings some CHF 135 million and that it establishes reserves when the economic situation is favourable. This revision is, however, not acceptable and not acceptable at all, in terms of benefits. To be entitled to benefits, one should have contributed for a year, whereas six months were enough up to now. In addition, the duration of benefits decreases from 520 days to 400 days. This second lowering of benefits is even more serious because its implementation would pose painful problems for people with low or no qualifications. Contrary to what

business circles have alleged, it is illusory to believe that cutting benefits will affect the rate of unemployment and the costs of the insurance scheme. MP Jean-Claude Rennwald (ps) (Bulletin Officiel du Conseil National 2001: 1868)

In the National Council, several proposals were put forward by the SVP and the FDP to even further tighten the eligibility for benefits and reduce their duration. The overall rationale for this was the will, in the face of improving economic conditions, to come back to the situation that prevailed *before* the economic downturn of the 1990s. A part of the FDP was in favour of the suppression of the solidarity contribution, but this element was reintroduced in the project by a coalition between the CVP and the Social Democrats.<sup>43</sup> Social Democrats and Greens eventually opposed the law on the grounds that it was too restrictive, and the SVP as well because it was too generous. The law was supported by the Council only thanks to the support of Christian Democrats and the FDP. The support for the solidarity contribution created a divergence with the Council of States which, in virtue of perfect bicameralism, had to re-examine the project.

In March 2002, the Council of States essentially stuck to its position. Hence, it refused both points that had been introduced by the National Council, namely the possibility to extend the duration of benefits in some cantons (33 vs. 6 votes) and the maintenance of the solidarity contribution (30 vs. 11), though with the possibility for the Government to reintroduce it should debts reach five billion Swiss francs (Bulletin Officiel du Conseil des Etats 2002). Finally, the Council of States won on the issue of the solidarity contribution, which was suppressed in the National Council as well, thereby giving up on its more centrist stance (Bulletin Officiel du Conseil National 2002). Interview partners reported that this was due to the increasing strength of the SVP:

It was above all the pressure of the right-wing party, the SVP, which was very strong, and which led to the fact that the committee of the National Council, that was originally more moderate and which had also built elements into the revision to meet our criticisms [of the Social Democrats], for example to relieve regions with very high unemployment rates, that these elements, which had been supported by part of the moderate and open liberal parties, were taken out of the whole political process. There was a hardening during this political process, under the pressure of the radical right. [...] It was actually also, in my opinion, in my memory, one of the first examples, which I had experi-

enced, of the breakdown of the CVP and FDP under the pressure of the radical right [the SVP] in this struggle for hegemony in the bourgeois camp. Former vice-president, SP (Interview CH12)

The proposal put forward in the National Council to allow the Government to extend the maximal duration of benefits was accepted by the Council of States, providing that cantons would foot 20 per cent of the bill. In the final votes, the whole reform package led to a clear-cut left-right vote. In the National Council, the law was accepted by 114 yes votes and 58 no votes and fifteen abstentions. The Social Democrats and the Greens voted against it, whereas the FDP, the CVP and the SVP voted in favour in March 2002.<sup>44</sup> Even before the end of the Parliamentary process, the Swiss Federation of Trade Unions and the Confederation of Christian Trade Unions announced that a referendum against this “anti-social” revision would be launched (Le Temps 2002).

### 3.6 Referendum Arena: Citizens’ Support for Retrenchment

On the day following the final vote in Parliament, a committee gathering some trade unions, associations for the defence of the unemployed and left-wing parties announced that they would challenge the law in a popular referendum. Three days later, the central committee of the Swiss Confederation of Trade Unions decided to support the referendum despite the opposition of its secretary general, who argued that the referendum would be very difficult to win and that the law nevertheless contained some points of improvement regarding the system of funding, but also allowances (Archives Swiss Federation of Trade Unions 2002; Interview CH10). After it had gathered nearly 70,000 signatures by 18 June 2002, the popular vote was put on the agenda for 24 November of the same year. On 24 November, the bill was accepted by 56.1 per cent of voters with a participation rate of 46.3 per cent (Hirter & Linder 2002).

As expected, whereas voters who declared themselves close to centre-right parties (FDP/CVP) massively voted yes (88 per cent for the PRD and about 71 per cent for the CVP), voters on the left opposed the bill (by 60 per cent). Interestingly, voters of the SVP, the leadership of which had championed even tougher retrenchment measures, proved to be less enthusiastic, supporting it by 67 per cent (Hirter & Linder 2002: 21). The most commonly evoked reasons for accepting the revision were the fight against abuse – in a fairly general and unspecified way – and a reduction of public expenditures (Hirter & Linder 2002: 24). In comparison with the



vote on the reduction of daily allowances defeated in September 1997, the mobilisation within the left camp seemed to have declined substantially: the support for the position advocated by the social democrats and trade unions had declined by about 10 per cent between the two votes (Hirter & Linder 2002: 26). In many respects, the opposition to retrenchment in the area of unemployment policy had declined along with the improvements in the economic situation (Hirter & Linder 2002: 26).

### 3.7 Summary: the Demise of Concertation and the Rise of Parliament

In many respects, the case of the third revision of unemployment insurance in Switzerland supports the analysis of Häusermann, Mach and Papadopoulos (2004), who argue that social policymaking in Switzerland has been characterised by a declining role of corporatism and the increasing role of parliament in striking compromises. The case analysed here, however, points to a decline in the occurrence of compromises in general, as Parliament proved to adopt an even tougher stance towards retrenchment than the Government, and acted more as a radicalising force than as an intermediary between the social partners as in the cases they analysed.

The decision-making process of the third revision of the unemployment insurance law contrasts sharply with the case of free movement. As noted by an interview partner,

there is a big difference. There is the difference of external constraint. This means we have to reach a solution; we cannot leave two or three key points open, like in the other case [of unemployment insurance]. There has to be a compromise until the very details. And both sides have to support the outcome, because otherwise we lose something in common. Whereas [for unemployment insurance] here we didn't really lose anything. We would lose the system of funding, but we could have come back with it. [With this external constraint] Parliament is also more prone to take these forces into account, because they know that we are putting something at stake. And these are still examples where the alliance between CVP, PRD and SP still works well. Only the SVP is out of it. And the SVP loses its appeal for those who are on the right fringe [of centre-right parties]. On the contrary, some SVP join the others. Former First Secretary, SGB. (Interview CH10)

On domestic issues, right-wing parties are so strong that they can afford anything, unless there is a fear of a referendum. This is the only

way. Otherwise if the three [right-wing] parties agree, everything is settled. On the bilateral agreements, the economic stakes were so big that it made a difference. SPS MP (Interview CH1)

In this respect, the strengthening of the Swiss People's Party seems to have had a lasting influence on corporatist concertation in Switzerland. Similar examples of more adversarial policymaking could be observed in later reforms, such as the eleventh pension reform (voted against by Swiss citizens in 2003), the reform of the conversion rate of the occupational pension scheme (defeated in March 2010), or the recent fourth revision of the unemployment insurance scheme, which foresaw substantial cuts for young jobseekers without any sort of measure to compensate potential "losers". In all these reforms, the Swiss People's Party played a leadership role by pushing centre-right parties away from compromises with the left, and these reforms were challenged, with different degrees of success, by referendums initiated by trade unions. In many ways, the main losers of the fragmentation of centre-right parties (FDP/CVP) in Switzerland have been the Social Democrats and trade unions. Considering existing power relationships, the fragmentation and radicalisation of centre-right parties has made it much more difficult for Social Democrats and trade unions to further their agenda in the field of welfare state reform.

#### **4 Summary**

In this chapter, I have analysed processes of social concertation in two cases of unemployment policy reform in Austria and Switzerland. The Austrian case was characterised by a corporatist compromise in a context where the right-wing government was considerably weakened after a period of frenetic but partially failed reforms, and corporatist compromises came back as a central decision-making procedure after the Social Democrats and the ÖVP returned to power, and experienced difficulties in agreeing on compromises at the centre of the political spectrum. The Swiss case, by contrast, is characterised by a clearly more adversarial stance of the main political forces. In this latter case, the political pressure exerted by the Swiss People's Party on centre-right parties has tended to undermine the partial compromises which could be found between social partners. In the next section, I will compare these results more systematically with the case of labour migration policy.

8     **Synthesis and Comparative Outlook**

How can my empirical findings be interpreted? More precisely, how do the causal mechanisms hypothesised in the theoretical part operate in the cases analysed in the empirical part? And what do the cases analysed teach us about social concertation in Europe? First, this chapter sums up the results and assesses the explanatory power of three variables put forward in the hypotheses: European integration, party coalitions and politicisation. Then, it assesses the applicability of the theoretical insights in other cases with a very brief comparative glance at other traditionally corporatist countries (Sweden and the Netherlands), bigger states (Spain, Italy, France and Germany) and another policy sector (pensions). Finally, it concludes with an assessment of the functions of social concertation in times of austerity and globalisation.

1     **Assessing Explanatory Variables**

1.1    **European Integration**

Drawing on a co-variation approach only, European integration alone cannot be considered a necessary nor a sufficient factor to explain the extent of social concertation. There is no clear difference in the extent

**Table 6**        **“Concertation scores” of policy reforms**

	Labour Market Opening (Europeanisation Strong)	Unemployment policy (Europeanisation Weak)
Austria	Corporatist compromise during SPÖ/ÖVP Government 1996-2000) Consultation during ÖVP/FPÖ government	Corporatist compromise after a period of unilateral policymaking
Switzerland	Corporatist compromise	Tripartite concertation without compromise, adversarial decision-making in parliament

of concertation between the Europeanised cases and the domestic cases. Most importantly, it is difficult to observe the causal mechanisms predicted by hypotheses three (European integration undermines concertation) and four (European integration strengthens concertation) in the empirical analysis.

According to *hypothesis three*, the negotiation of the transitional arrangements at the supranational level in Austria should have been characterised by minimal concertation because it could have allowed the government to “cut slack” vis-à-vis social partners. However, there was a strong involvement of trade unions and employers in this case. In the Swiss case, the extent of concertation was also clearly more important in the Europeanised case, therefore also contradicting the idea of a systematic government empowerment to the detriment of social partners in Europeanised issues. In a nutshell, governments cannot “cut slack” if issues have become highly salient for voters, and if they need to build a domestic compromise about the adaptation to European integration.

In some respects, the only Europeanised case where one could see such a strategy of “cutting slack” was the domestic implementation of the free movement of workers in Austria under the ÖVP/FPÖ government. This policy was considered the “mere” implementation of a policy deal that had been successfully reached before, and the government introduced measures in labour migration policy against the will of trade unions and Social Democrats by playing with the tight deadlines before enlargement. However, one cannot really consider that European integration was the *cause* of this mode of policymaking, because the government had adopted a more unilateral approach in cases of welfare reform as well. European integration just provided supplementary institutional pressure to force the speed of policymaking and ignore trade unions, which did not consider the measures introduced by the government for seasonal workers really important anyway. If issues are highly salient, it is politically difficult for governments to adopt a unilateral approach, and they tend to prefer the costs of cooperation to the risks associated with open conflict with trade unions, unless they consider themselves strong and cohesive enough to face them. This type of calculation was relatively clear in the Swiss case, when the government first wanted to implement the extension of the free movement of workers without concertation, and then was constrained to set up a concertation arena after trade unions made clear that their support for the bilateral agreements was not secured without a reinforcement of the protection of Swiss wages.

According to *hypothesis four* (European integration strengthens concertation), one should observe a stronger degree of concertation in Europeanised policy domains because of a supranational incentive to cooperate with social partners, or through some form of socialisation from the supranational level. Yet, this kind of mechanism was observed in none of the cases analysed here. One could object that this is due to the fact that the Europeanised reforms analysed are cases of negative integration, and therefore do not entail explicit guidelines as to the involvement of social partners. However, evidence from other cases suggests that in cases of positive integration as well, governments keep a great deal of autonomy in policymaking procedures at the domestic level. For instance, a report on the implementation of the national employment action plan (NEAP) of the European employment strategy during the ÖVP/FPÖ government in Austria showed that even in a domain with explicit guidelines for the inclusion of social partners, the government could still adopt a unilateral approach to policymaking:

All organisations [...] submitted their views on a draft version of the 2003 NAP. Interestingly, the final version of the 2003 NAP drawn up by the government – which was submitted to the European Commission at the beginning of October 2003 – was subsequently resubmitted only to the employers' organisations. Therefore, only WKÖ and vöi were able to examine whether their views and proposals are represented in the final 2003 NAP. [...] The employees' organisations, which have not received the official, final version of the 2003 NAP from the government, complain that they have not even been informed by the government of whether their views have been taken into consideration and, if at all, to what extent they have been included. According to AK, the coalition government of the conservative People's Party and the populist Freedom Party has, as in recent years, refused any substantial dialogue with organised labour on designing the NAP. Aside from the government's formal consultation of the labour organisations (which took place only in written form), no further negotiations on the 2003 NAP were conducted. (EIRO 2005)

Hence, it appears that European integration *per se* cannot influence patterns of social concertation directly because as the main gatekeepers of the policy process, governments always choose who participates in policymaking, and who is kept out.

## 1.2 Party Coalitions

The configuration of party coalitions is the factor with the biggest leverage to explain the choice for concertation by governments. In many respects, it trumps the effect of European integration because the differences observed between strongly Europeanised and weakly Europeanised cases – most importantly in the Swiss case – can be attributed to corresponding differences in party coalitions.

The general *hypothesis one* (ideologically divided grand coalitions are more prone to choose concertation than ideologically cohesive majority coalitions) and the more specific *hypotheses six* (concertation is used as a tool for compromise-building between social democrats and centre-right parties under the threat of national-populist parties) and *seven* (social concertation is marginalised if the centre-right coalesces with the radical right) are confirmed in the cases analysed here. Hence, corporatist compromises can be observed in the cases where party coalitions were fragmented or characterised by ideological conflicts, which made it necessary to build political compromises between left and right. This is particularly visible in the case of the free movement of workers in Switzerland, in which the divisions between the centre-right and the svp made it necessary for the former to rally the support of the Social Democrats and trade unions. This was especially difficult when the dynamics of electoral competition had pushed centre-right parties further to the right, and made them less ready to negotiate concessions with the Social Democrats. This was notably visible in the reluctant acceptance of backbenchers of centre-right parties to accept measures of labour market protection against wage dumping. In this context, corporatist concertation was an expedient channel of decision-making insulated at least to some extent from the centrifugal dynamics of party competition.

An analytically similar configuration can be observed in Austria during the periods of grand coalition, particularly since 2006. In this case as well, concertation was used to build compromises in a context of increasing polarisation between mainstream political parties. Since the spö and the övp are increasingly growing apart ideologically but still have to cooperate to stay in office, corporatist concertation constitutes a useful channel to build “ready-made” policies. In these cases, the pressure from the radical right is paradoxically a strengthening factor for corporatist concertation if centre-right parties decide to cooperate with social democrats. Populist pressures from the radical right cause a strengthening of concertation and leads social democrats, conservatives, employers and trade unions to cooperate more closely to devise policies. When the base of

party support for policies is fragile or fragmented, risking open conflicts with trade unions is a dangerous strategy with potentially disastrous consequences in electoral terms. Negotiating with the unions and ignoring the radical right, however, is likely to contribute to the further weakening of mainstream parties and the reinforcement of the radical right.

Conversely, coalitions between the mainstream right and the radical right tend to marginalise concertation with social partners in policymaking. This can be observed during the first years of the ÖVP/FPÖ coalition government, and in the case of unemployment policy reform in Switzerland. In these cases, one could observe a clearly more adversarial style of decision-making in which a right-wing party coalition imposed reforms without seeking compromises with the left and trade unions. This can be explained by the fact that the policy positions of these coalitions is clearly more geared towards market-driven and retrenchment solutions, and that they are cohesive and strong enough to risk open conflicts with trade unions. In Austria, these open conflicts resulted in a general strike to protest against a major pension reform in 2003, and in Switzerland in a series of referendums led by trade unions against attempts to retrench the welfare state by right-wing parties. The Austrian case of unemployment reform shows that this strategy, however, is associated with political costs, and may weaken the coalition in power. In this context, there can be a return to concertation in order to appease conflicts and implement reforms in a more peaceful manner. A successful concerted reform, in turn, can restore the credibility of the government after a series of failed unilateral reform attempts. In this context, the power resources which can be deployed by trade unions in terms of politicisation play a decisive role.

### 1.3 Politicisation

In chapter one, I have outlined approaches to concertation which emphasised the role of ideas and learning and the somewhat lesser role of power relationships (Culpepper 2002). While the ideas of political actors certainly matter in policy reforms, the empirical evidence presented here shows that power relationships are still the essence of corporatist concertation in Europe. However, the kind of resources that are mobilised are not the same as those that were traded in the 1960s and 1970s. In a nutshell, if trade unions have lost a great deal of their organisational resources within the sphere of industrial relations and vis-à-vis employers, they are still able to “keep the heat” on governments. If trade unions

manage to politicise issues up to a point when governments think that it could influence voters, then governments may seek to involve them in policymaking.

*Hypothesis two* (concertation is used by governments to pre-empt politicisation by trade unions) and *five* (European integration triggers concertation when it becomes politicised at the domestic level) are confirmed. The acquiescence of trade unions was sought in all issues that could be considered highly salient, even if a corporatist compromise did not emerge in the case of Swiss unemployment policy. Moreover, the role of politicisation sheds light on the extent of concertation in a few cases. First, it helps explain the extensive concertation procedures carried out about unemployment reform in Austria even if the government was a right-wing majority coalition. In many respects, these procedures can be understood as a response to the massive protests organised earlier by trade unions against unilateral attempts by the government to reform the pension system. This was then combined with the successful politicisation of the issue of unemployment by trade unions, and the weakened position of the government after a series of misfortunes in policy reforms. By contrast, the domestic implementation of the transitional arrangements in Austria, and even more the dispositions regarding seasonal workers, were not considered very salient, which allowed the government to pass more unilateral reforms.

Second, politicisation also helps explain why Swiss trade unions managed to trigger a concertation process in the case of the free movement of workers despite the initial hostility of employers and the government alike. Indeed, it is only after trade unions made clear that they would engage in a referendum against the free movement of workers that the government decided to set up a bargaining table and negotiate over a reinforcement of labour market protection. Moreover, they managed to construct the issue of labour market and social dumping as a prominent political problem, taking advantage of the fact that the Swiss People's Party was very active in this domain as well. Hence, in these two cases, the strategy of "going public" and appealing to voters through "outside lobbying" was a successful strategy to prompt the government to set up a bargaining table about labour market regulation. It can be argued, however, that the Swiss domestic case was also characterised by a great deal of politicisation. However, the costs of a rejection by voters of this reform would have been clearly lower than those of a rejection of the bilateral agreements. All actors acknowledged that the rejection of the bilateral agreements would have put the Swiss economy in a very difficult situation. Finally, it is interesting to



observe that employers only reluctantly engaged in concertation in order to shape and contain public intervention. This strongly contrasts with the idea often put forward in the literature that employers are protagonists in class cooperation because it fulfils important economic functions (Estevez-Abe et al. 2001; for a critique, see Korpi 2006). If some employers may have an interest in labour market regulation for competitive purposes (such as protectionist small business), most of the time they engage in concertation in order to limit the reach of public intervention without anticipating its long-term structural effects (Emmenegger & Marx 2011; Paster 2011a).

With particular respect to *hypothesis five* on the politicisation of European integration, it is interesting to note how governments resort to concertation to build support for Europeanised policies that are likely to be very unpopular among voters, such as the opening of the labour market for workers of new member states. In this context, cooperating with trade unions is a way to pre-empt resistance and electoral sanctions. In a context where it is increasingly politicised and contested, European integration can indeed strengthen concertation. However, this is likely to happen not because of macro-economic or functional incentives, but as a way to seek politically the acquiescence of national electorates that are ever more sceptical and disillusioned with European integration. However, as the recent economic crisis in Southern Europe has shown, it is difficult to reach compromises in a context where there is hardly anything to re-distribute as side-payments for sacrifices from organised labour.

## **2 Limitations and Comparative Evidence**

As explained earlier, the main objective of case study research is to understand causal mechanisms at work in a small sample of cases in order to develop theory. The emphasis is therefore placed on *depth* rather than *coverage*, but it should ultimately provide insights to understand a wider universe of cases. To do so, it is necessary to outline how the results are influenced by case selection and how the theoretical insights may be transposed to explain other cases. Here, drawing on examples from other countries, I discuss possible limitations linked to institutional specificities, the limited variance in party-political coalitions, the size of countries, and the policy sectors analysed.

## 2.1 How Institutions Alone No Longer Create Compromise

The first set of possible limitations has to do with the degree of institutionalisation of corporatist arrangements in the countries under scrutiny. Both Austria and Switzerland can be considered “special cases” to some extent, due to the system of Chambers in Austria which requires any employer to be part of the system of corporatist representation, and direct democracy in Switzerland which provides strong incentives to negotiate policies with organised interests. Hence, it could be argued that the institutional systems of these countries are simply too peculiar to teach us anything meaningful for other countries. However, these institutional features do not influence policymaking in a way that is totally absent in other countries insofar as one can find functional equivalents. For instance, the threat to challenge legislative proposals in referendums routinely used by Swiss trade unions may be compared to the mass demonstrations organised by unions in other countries to force their way into policymaking (Fontana et al. 2008).

Moreover, given that many of these country-specific institutional features are veto points and provide incentives for compromise-building, these factors could be considered as a source of bias if they totally prevented variation in the dependent variable. In the case at hand, however, the empirical analysis has shown that despite institutional settings which provide strong incentives for corporatist policymaking, there is still a substantial degree of variation in the use and degree of social concertation. There are cases where concertation was marginalised, and others where it was maintained. For instance, despite the referendum, Swiss welfare state reforms have become more adversarial. If the use of concertation by governments varies even in systems where the institutional framework provides so many incentives for concertation, it is reasonable to think that it will vary as well in countries where the institutional framework provides fewer incentives. This is essentially because institutions no longer seem to influence corporatist policymaking in the way they did in the past. The rules have stayed, but the players have changed.

## 2.2 Party Coalitions: Insights from Sweden and the Netherlands

The second limitation of this study is that it provides limited variance in the shape of party coalitions in power. The coalitions that are observed are only left-right grand coalitions and right-wing minimum-winning coalitions. Minority governments or left-wing majority coalitions are not present in the cases at hand, so that it is difficult to say how different party con-

figurations may affect corporatist policymaking. Austria and Switzerland display relatively similar party blocs, and while social democracy used to be a prominent force in Austria, it no longer seems to be able to gather enough electoral strength to govern alone, as it does in other European countries.

Existing research tends to support the idea that the party-political mechanisms emphasised here are a major determinant of corporatist policymaking in other countries as well, where social democracy may be stronger. For instance, in a comparative analysis of Sweden, Denmark, the Netherlands and Switzerland, Anthonsen and Lindvall (2009) argue that developments in party politics are the main explanatory variable accounting for the persistence or decline of corporatist policymaking. Countries where party systems have evolved towards a bipolar pattern of party competition, such as Sweden, have seen a clear decline in corporatist policymaking, while countries where a tradition of power-sharing and grand-coalitions has persisted, such as the Netherlands, Denmark and Switzerland, have witnessed a maintenance of corporatist policymaking. While my findings may be slightly different on the Swiss case because the degree of polarisation clearly varies across policy issues, their theoretical argument is compatible with mine insofar as it considers the shape of party coalitions to be a central determinant of social concertation: multiparty governments face coordination costs which make corporatism an expedient tool to devise policy, while minimum-winning majority governments do not need to resort to corporatism to devise policy. A quick look at the cases of Sweden and the Netherlands provides support for this idea.

Sweden has been presented as the most spectacular case of corporatist decline in Western Europe (Anthonsen et al. 2010: 176; Lindvall & Sebring 2005: 1057). Pontusson and Swenson (1996) explained this evolution by changes in the preferences of employers, who decided to withdraw from all institutions of corporatist policymaking in the early 1990s in response to a more competitive economic environment which could not be reconciled with centralised wage bargaining. By contrast, Lindvall and Sebring (2005), Anthonsen and Lindvall (2009) and Anthonsen et al. (2010) argue that the decline of Swedish corporatism can be explained by the combination of a more polarised pattern of party competition and persisting party-union ties. Hence, the strength of Swedish social democrats and their close ties with the unions lowered incentives for organised labour to negotiate policy jointly with employers. Indeed, because of close organisational ties with the party in power, trade unions preferred

directly lobbying the social democrats in power instead of negotiating policy with employers within corporatist arenas. Employers, for their part, “regard labour market policy as entirely dominated by the social democrats, and see unions, social democrats, and bureaucrats as hostile to the liberal agenda that organized business advocates.” (Lindvall & Sebring 2005: 1070)

In some way, the mechanism that these authors describe is a mirror image of the one presented here in the field of unemployment policy reform in Austria and Switzerland. While unions were marginalised by right-wing party coalitions in Austria and Switzerland, employers seem to be marginalised by social democrats in Sweden, and no longer see social concertation as a forum where they can push their policy agenda forward.<sup>45</sup> This not only confirms the idea that cohesive majority coalitions are less prone to engage in corporatist policymaking than grand coalitions, but the Swedish case also seems to indicate that this is true on the right and on the left: power-sharing, and not social-democratic dominance as assumed in the past, is a precondition for corporatist concertation. In Denmark, by contrast, recurrent minority governments and the longstanding “impossibility of forming a purely left- or right-wing government” have contributed to keep concertation relatively stable as a device of policymaking (Anthonsen & Lindvall 2009: 182).

The Netherlands displays similar characteristics as Denmark in the sense that bipolar competition has failed to emerge for a long time, and power-sharing has remained a recurrent feature of party government due to the high degree of fragmentation of the party system (Mair 2008; Andeweg 2008). In this context, corporatism has remained a necessary policymaking tool because government coalitions gather parties with heterogeneous preferences, and executive power is faced with considerable transaction costs. Hence, together with Switzerland, Luxemburg and Belgium, the Netherlands is the only country that “never experienced either a wholesale alternation in government or the development of bipolar competition during the later post-war period.” (Mair 2008: 237) Moreover, electoral volatility in the Netherlands has been among the highest in Europe. Dutch voters have been particularly prone to switch their vote between parties from one election to the next. While this share represented about 12 per cent in Europe in the 1990s, it was at 19 per cent in the Netherlands, up from 5 per cent in the 1950s (Mair 2008: 238). As argued by Hamann and Kelly (2007: 976-976), this development can be linked to the persistence of social concertation. Governments use concertation to defuse potential electoral sanctions from voters with ever declining

party allegiances. In line with this idea, social pacts have been a recurring feature of Dutch economic and social policy throughout the 1990s and 2000s, as documented by Visser and Hemerijck (1997; see also Woldendorp 2005; Woldendorp and Delsen 2008).

However, in this country as well, destabilising party developments have tended to challenge concertation as a policymaking tool in the 2000s, when the emergence of new political formations (first the LPF, *Lijst Pim Fortuyn*, after the name of its founder assassinated in 2002, and then Geert Wilders' PVV, *Partij voor de Vrijheid*) started to challenge prevailing patterns of coalition formation. As a whole, Dutch coalition governments have become less inclusive, and coalition formation has become more politicised in the recent period (Andeweg 2008: 260), which has tended to make corporatist policymaking more problematic as well. Hence, the successive Balkenende cabinets (I, II, III and IV) between 2002 and 2010 have carried out an austerity agenda which led to "lengthy, difficult, usually acrimonious negotiations" between social partners in which trade unions had to engage in a "continuous effort in damage control in which they were only partially successful" by using strikes and other types of political action (Woldendorp and Delsen 2008: 324). In 2010, a new government led by the liberal VVD and the Christian-democratic CDA with the – conditional – support of the right-wing populist PVV came to power, and advocated a similarly staunch retrenchment agenda of fiscal consolidation exacerbated by the onset of the global economic crisis. This agenda was surely welcome with a great deal of defiance from trade unions (EIRO 2010), even if the alliance between the PVV and other right-wing parties proved relatively short-lived. In many ways, the difficulty to reconcile trade union claims with those of a national-populist radical right party putting pressure on its right-wing allies has been similar in the Netherlands to Switzerland and Austria. Even if not all national-populist parties share the neoliberal agenda of the Swiss SVP, they surely adopt a resolutely anti-trade union stance. In the Netherlands, for instance, the PVV proposed to give voting rights to non-union members in the negotiations of collective labour agreements as a way to dilute the influence of labour organisations (BNR 2011).

### 2.3 Small and Big States: Evidence from France, Spain, Italy and Germany

The third possible limitation is the classical distinction made by Peter Katzenstein (1985) between small and big states. As corporatism was closely associated with small states, it may be argued that the theoretical insights drawn here may only apply to small, corporatist countries, while bigger

states may display a completely different kind of politics. As emphasised in the theory chapter, small states have been believed to face more incentives for domestic concertation than big states because of their greater degree of integration in the world economy. Typically, consensus and compromise were characteristic features of small states, while big states could afford political conflict and tug-of-war competition because they had more leeway in their macro-economic policies. In many ways, however, this distinction has become more problematic since politics in small states may have become more conflict-driven, and big states now face the same macro-economic constraints as small states. After 40 years of international economic integration, all advanced capitalist economies, independently of their size, may have become “small states in world markets”.

First, the empirical material gathered here has emphasised the highly political and contested nature of social concertation even in small states. While partisan conflicts were believed to stay in the background to the advantage of pragmatic negotiations between social partners, I have argued that corporatist policymaking in Austria and Switzerland is strategically used by partisan governments to build compromises when they cannot pursue a unilateral strategy of policymaking. It does not emerge as an “automatic” or “functional” response to international pressures, but from strategic decisions by governments confronted with concrete power relationships. Moreover, a development not foreseen by Peter Katzenstein was the emergence of national-populist parties, which can be linked at least in part with the closed patterns of policymaking he described. Indeed, policy compromises elaborated through grand bargains between political parties or during corporatist negotiations between social partners have been particularly prone to the populist critique of national-populist parties denouncing the collusion of elites against “the people”. In many ways, the populist turn which took place in these countries since the 1990s can therefore be understood as a backlash against the “depoliticised” patterns of policymaking which had been at the core of social and economic policymaking in the 1960s and 1970s. In terms of conflict, small states seem to have become more like big states, even if the fragmentation of their party systems still makes it necessary to find compromises across parties.

Second, big states may have also become more like small states insofar as economic vulnerability has become a central determinant of their economic policy strategies as well, and many of them have developed more cooperative strategies of policymaking with organised interests. The big exception here is the United Kingdom, which has failed to develop any

sort of institutionalised cooperation between employers and trade unions in policymaking, as neither the organisational resources of trade unions nor the party system prove favourable to corporatism (Howell 2005). However, other big countries which were believed to display institutional features averse to corporatism, such as Italy and Spain, underwent a “corporatist revival” in the 1990s. Existing research has tended to see these developments as the result of functional pressures à la Katzenstein. In a context where the control over tariffs and monetary policy has become unavailable because of European integration, seeking agreements with trade unions and employers over wage moderation has become the only way to keep inflation and wages in check within open markets (Molina 2006; Royo 2006).

Again, however, international functional pressures are not enough to explain the occurrence of concerted reforms (Avdagic 2010). Party-political factors played a prominent role in fostering or impeding the emergence of concerted strategies of policymaking. In Spain, for instance, the right-wing PP (*Partido Popular*) government which ruled between 1996 and 2004 was forced to rely on a minority in parliament, and adopted a more consensus-seeking approach towards social partners as a way to build support for political reforms. Moreover, it had learned from the negative electoral impact of open conflicts with the trade unions on its rival party, the PSOE, in the late 1980s (Molina 2006: 654). In Italy, by contrast, even if the international pressures were relatively similar, party-political mechanisms differed. If the disintegration of the party system in 1992-1993 allowed for a greater autonomy of trade unions from political parties in deploying concerted action, the evolution of the party system towards bipolarity in the following period has rather hindered corporatist policymaking, as Silvio Berlusconi’s government often adopted a confrontational strategy towards the unions (Molina 2006: 658). Hence, in small and in big states, partisan and electoral politics is an essential element which influences the use of corporatist strategies of policymaking.

Even in France, where policymaking is still far from displaying corporatist features, the difficulty to carry out liberalisation reforms has led the government to develop more cooperative strategies with social partners, even if this was often only a façade. Hence, the massive protests and strikes which met Alain Juppé’s pension reform plans in 1995 not only led the Government to withdraw its project, but also contributed to its defeat in the elections called prematurely by President Jacques Chirac in 1997. Learning from past experiences, President Nicolas Sarkozy called for a “social summit” with the social partners to discuss his pension reform

plans in February 2010, whose main agenda was an increase in the age of retirement. He was aware that a new “hot season” of mass mobilisation would be very damaging for the electoral prospects of the ruling majority in the next elections, especially considering that opinion polls had shown that a majority of French voters were opposed to such measures (Le Monde 2010).

Another “big” state where partisan politics has been linked to corporatist policy strategies has been Germany, where institutionalised social concertation already relied on a longstanding tradition. Trampusch (2004) debunks functional explanations to explain why the Alliance for Jobs (*Bündnis für Arbeit*), an attempt to build a longstanding corporatist forum in Germany, emerged and was eventually disbanded. Positioning herself against the vast majority of the literature which analysed the Alliance for Jobs as a *pragmatic* response to tackle mass unemployment, she argues that it was essentially driven by an electoral and power-seeking strategy by both political parties and social partners. Hence, Gerhard Schröder’s SPD used concertation to build an alliance with trade unions as part of its electoral strategy against the Kohl Government. Social democrats built part of their campaign on the conflicts between trade unions and the CDU Government, and argued that reform attempts by the CDU were doomed to fail because unions would persistently block them. Hence, a cooperative stance with the unions was presented to voters as an electoral argument for the SPD. The Alliance allowed trade unions to present themselves publicly as a proposition and reform-prone political force rather than a veto player, and restore the influence in policymaking that they had lost since the mid-1990s. From the point of view of employers, finally, the Alliance allowed them to maintain an input in decision-making in the face of political uncertainty, even if a left-wing government was in place:

In the first months of the red-green Government, economic and employer associations saw the Alliance for Jobs as an instrument to contain the “red alliance” between trade unions and social democrats, to have a counterbalance against the fiscal and financial policy of the finance minister Oskar Lafontaine, and when possible, as a means to carry out unpopular policies. (Trampusch 2004: 553, my translation)

In the German case, the Alliance collapsed after it had fulfilled its electoral purposes, and the SPD went on to carry out its infamous “Hartz” reforms, which provided for significant cuts in unemployment benefits, in clear opposition to the unions (Weishaupt 2011: 266). Hence, this case once



again shows that social concertation does not emerge as a response to economic problems only, but above all as a result of party-political calculations. Besides, it also contrasts with the Swedish case mentioned above in the sense that German social democrats, in contrast to their Swedish counterparts, engaged in a longstanding process of divorce from organised labour. Even if it may be of course too bold to present Switzerland and Austria as representative of the rest of Europe, the political mechanisms put forward here to explain concertation as a partisan strategy are clearly not limited to these two countries, nor to small countries only. The success and outcomes of this political strategy in other countries, however, are clearly beyond the scope of this study.

#### 2.4 Policy Sectors: The Pension Reform Conundrum

The last significant limitation of the present study has to do with the specificities of the policy sectors analysed. Unemployment and labour migration policy display different distributional features compared to other policy domains which have been more often analysed in studies of social concertation, such as pensions or wage bargaining. In many respects, the distributional features of labour market policy are fairly different from those of pension reform in particular. While the risk of getting old is universally and (relatively) equally distributed amongst the population, the risk of unemployment is much more concentrated. Cuts in unemployment benefits therefore only affect a restricted group, depending on the level of economic insecurity, while cuts in pensions will affect the whole population. Labour migration policy, by contrast, is a regulatory rather than a redistributive policy, even if it does have distributional implications (Freeman 1995). As a consequence, pension systems have proved much more difficult to reform than other policy sectors because the costs of change affect potentially all voters. This means that governments will either steer clear of it, try to avoid the blame, or face severe electoral sanctions. The whole idea that welfare states are “immovable objects” was based on the analysis of pension reform in the first place (e.g. Pierson 1994). Because pensions represent a higher share of public spending than any other area of social policy, pension reform has often been considered to represent welfare reform as a whole. However, other policy fields may display different reform dynamics.

Accordingly, patterns of social concertation have also differed in the field of pensions as compared to labour market policy. Because of its specific distribution of costs and benefits, pension reform in Europe has

often been characterised either by policy deadlock when labour unions managed to block reforms relying on broad popular support, or unilateral reforms when governments felt strong enough to face the opposition of trade unions or electoral sanctions by voters (Armingeon and Giger 2008). The ability of social partners to agree on pension reforms has also certainly been weaker, and examples of successful “corporatist” pension reforms have been rather rare (Häusermann 2009). As already mentioned, compromises in this field have often been struck around “post-industrial” needs and demands, such as marginal expansions for mothers and part-time workers in exchange for increases in the retirement age (Häusermann 2010). Because of the overall structure of trade union membership in Europe, organised labour has been reluctant to accommodate this new kind of claims, and has been eager to preserve the acquired rights of their predominantly male, older constituencies. In some ways, while labour market and labour migration policy have allowed for a core of issues around which mutual concessions could be made between social partners, pension reform has tended to leave labour unions increasingly out of the picture.

Recent pension reforms in Austria, Switzerland, but also the Netherlands, clearly follow this picture. While the labour market reform law of 2004 analysed here allowed for a corporatist compromise in Austria, the reform of public pensions in 2003, which was carried out unilaterally by the government, has displayed totally confrontational patterns (Fink and Talos 2004; Obinger and Talos 2006). In Switzerland, the last successful pension reform carried out by the government in 1995 was more the result of a compromise between political parties than between social partners (Häusermann et al. 2004). Subsequent reforms have been faced with severe policy deadlocks, first in 2003 when a reform opposed by social democrats and trade unions was defeated by a majority of 67.9 per cent of voters in a popular referendum (Engeli 2004), and again in 2010 when it was defeated in the Lower Chamber by both the social democrats and the Swiss People’s Party.<sup>46</sup>

In the Netherlands, a pension agreement (*pensioenakkord*) providing for a rise in the retirement age to 67 years by 2025 in exchange for enhanced flexibility for workers in strenuous activities was concluded between trade unions, employers and government in June 2011, after lengthy and protracted negotiations (NRC Handelsblad 2011). However, it literally caused an internal breakup in the peak trade union confederation FNV, after the two biggest member unions, *Bondgenoten* and ABVAKABO, voted against the agreement and challenged the leadership of the FNV, judging the concessions made as unacceptable. Disagreements over this pension

agreement would ultimately lead to a complete reorganisation of the confederation in order to restore internal trust (Grünell 2012). Moreover, after the Dutch coalition government collapsed in April 2012 after disagreements between the PVV and other government parties, the new caretaker coalition failed to support major elements of the *pensioenakkord* in parliament (NRC Handelsblad 2012). In many ways, these developments stand in sharp contrast with the “success story” of Dutch social partnership in the 1990s, which may be due to a more difficult economic and financial context, but also the policy specificities just mentioned. Hence, if trade unions are still credible partners with whom governments can negotiate reforms in the field of labour market policy, this seems to be less the case in the field of pensions, in which their role may have become a force of opposition only. Policy-specific dynamics play an important role here, and patterns of cooperation between labour and capital across different policy sectors surely require further investigation.

### **3 Conclusion: Securing Consent in Times of Austerity**

In the introduction of this book, I have outlined the puzzle that the persistence of social concertation represents in times of permanent austerity. In the 1980s and early 1990s, the common wisdom was that the participation of organised interests in policymaking would decline because the regulatory capacity of the state over the economy was also declining. In many respects, state control over the economy has indeed shrunk substantially, but social concertation has been far from fading out. Similar to what Polanyi (1957) emphasised in his *Great Transformation*, the extension of markets invariably generates resistance, and therefore requires channels to create political consent, if not necessarily a countermovement correcting the shortcomings of markets. In a context of permanent austerity, the need to seek popular consent about painful socio-economic reforms has become even more important than before, and social concertation remains an important way for governments to mobilise support and build politically viable compromises. However, the substantial content of these compromises is fairly different from the golden age of economic growth and full employment of the 1960s and 1970s, and the effectiveness of social concertation in securing popular consent can be seriously questioned.

In many respects, the global economic crisis that broke out in 2008 has probably been a magnifier of the tight constraints limiting government autonomy in the context of globalisation and finance capitalism on

the one hand, and the problems governments have faced to build support for a capitalist system which creates increasing inequalities on the other (Streeck 2011). After many governments bailed out the financial system on the brink of collapse in 2008, and engaged in packages of economic stimulus, many left-leaning thinkers hoped for a new era of political control over markets, and maybe a return of Keynesian policymaking. Even a free-market advocate like Martin Wolf, the chief economics editor of the *Financial Times*, wrote that the day the US Federal Reserve decided to save the investment bank Bear Sterns from bankruptcy would be remembered as “the day the dream of global free-market capitalism died” (Wolf 2008). In the future, there would be more regulation and more democratic control over the functioning of markets.

In many ways, the period that followed was a tough return to reality. In 2010, “austerity” was named “word of the year” by the Merriam Webster dictionary<sup>47</sup> and many countries in Western Europe have been engaged in stringent fiscal consolidation programmes involving massive cuts in public and social spending over 2011 and 2012. These packages were being justified by the decreasing fiscal revenues caused by the economic slowdown, but also by the need to reassure financial markets and credit rating agencies about the ability of governments to pay back their debts. Some countries such as Greece, Ireland or Portugal have been forced to ask for bailout packages from international financial institutions when they found themselves on the brink of state default. The interest rates they had to pay on their public debt were skyrocketing as investors were betting on their collapse. Even countries with reasonably sound finances such as France were implementing austerity measures to conserve the “triple A” from (private) rating agencies guaranteeing that they were trustworthy debtors. As democratic governments were justifying their political actions almost exclusively with the need to “reassure financial markets”, the dreams for a new era where politics would prevail over markets seemed rather far away.

At the same time, these fiscal consolidation measures were met with wide-ranging public resistance in many countries around the world. A series of austerity packages involving cuts in public pensions, public sector wages and welfare benefits were met with public protests and riots in Greece, and general strikes in Portugal. In the summer of 2011, the United Kingdom experienced one of the biggest series of riots in major cities in its recent past, and Wall Street and the stock exchange of major cities in the world were being “occupied” for several months in 2011 by social movements which started in Spain under the label “indignados” (“*indignants*”).

The importance of organised interests in this hostile context, however, has been far from fading away. Governments have been looking for interlocutors to negotiate and seek support for these cuts. Older corporatist structures have appeared as an expedient way to try to secure political compromises in this new context. In the autumn 2008, for instance, when the global economic crisis was already deploying its effects on the economies of Europe, the Dutch government and the social partners signed a tripartite agreement loftily titled “*Samen doen wat mogelijk is*” (Doing together what is possible) (Stichting van de Arbeid 2008). More recently, the Portuguese minority government of the then prime minister José Socrates agreed on a tripartite agreement with the social partners on 22 March 2011 as a way to reinforce its position on the eve of a crucial vote on a package of austerity measures in parliament, which could have prevented a bailout from international institutions. The austerity package would not pass, however, causing the government to resign (EIRO 2011).

As these examples show, social concertation has appeared as an expedient tool for governments to negotiate and build political support for austerity measures. However, the extent to which citizens consider these compromises acceptable seems to be eroding considerably, because older structures of interest representation have failed to protect the interests of a whole series of vulnerable groups. Typically, young workers in many European countries have been the most severely hit by the last recession, with reported unemployment rates sometimes exceeding 50 per cent in countries such as Spain. At the same time, they are considerably under-represented among trade union members, they feel disconnected from the party system, and they are only left with unconventional forms of political action to voice their dissatisfaction. In the past, the lack of transparency of corporatist arrangements could be compensated by the promise of economic growth and social equality. In current times, the decreasing capacity of social concertation to deliver fairness and prosperity makes it ever harder for governments to use it as a tool to secure popular consent. If social concertation is to keep its political purpose, it needs major reforms to make it more inclusive, and more democratic.

## **List of Interviews**

- Interview AUT1, Section Chief, Labour Force Division, Arbeitsmarktservice Österreich, 23 September 2008, Vienna.
- Interview AUT2, Section Leader, International Affairs, ÖGB, 30 September 2008, Vienna.
- Interview AUT3, Section Leader, Labour Market Division, Chamber of Labour, 02 October 2008, Vienna.
- Interview AUT4, Collaborator Section EU and International Affairs, Chamber of Labour, 02 October 2008, Vienna.
- Interview AUT5, Social Policy Experts, Green Party, 03 October 2008, Vienna.
- Interview AUT6, Head of Section Labour Market Policy, Federal Ministry for Economy and Employment, 07 October 2008, Vienna.
- Interview AUT7, Collaborator Section Social Policy, Economic Chamber, 08 October 2008, Vienna.
- Interview AUT8, Deputy Head of the Subdivision International and EU Labour Market Law, Federal Ministry of Economy and Employment, 09 October 2008, Vienna.
- Interview AUT9, Collaborator Section Labour Market Policy, Arbeitskammer Wien, 13.10.2008, Vienna.
- Interview CH1, MP Council of States, Social Democratic Party, 01 March 2007, Geneva.
- Interview CH2, Former Head of Sector Labour Relations, State Secretariat for Economic Affairs, 09 March 2007, Neuchatel.
- Interview CH3, President of the Swiss Trade Union Federation, 20 March 2007, Bern.
- Interview CH4, President of Special Commission “Flanking Measures” of National Council, Social Democratic Party, 20 March 2007, Bern.
- Interview CH5, Vice Director of the Swiss Union of Small Business and Crafts, 26 March 2007, Bern.
- Interview CH6, Former Federal Councillor and Head of Federal Department for Economy, 02 April 2007, Fribourg.

Interview CH7, Central Secretary, Swiss Trade Union Federation, 03 April 2007, Bern.

Interview CH8, Member of Direction Council, Swiss Employers' Union, 11 May 2007, Bern.

Interview CH9, Social Democratic MP, 19 June 2007, Bern.

Interview CH10, Former Central Secretary of the Swiss Trade Union Federation, 11 December 2007, Bern.

Interview CH11, Deputy Head of Project Unemployment Insurance Reform, State Secretariat for Economics, 11 March 2008, Bern.

Interview CH12, Social Democratic MP and Former Vice President of Social Democratic Party, 06 May 2008, Bern.

Interview CH13, Former FDP MP, 1 May 2012, phone interview.

Interview CH14, Former SVP MP, 23 May 2012, phone interview.

Interview CH15, SVP MP, 21 May 2012, phone interview.

## Notes

- 1 Recent research in the Varieties of Capitalism framework has tried, however, to integrate the role of party politics in economic institutions (Iversen & Soskice 2006; Iversen & Stephens 2008), but conflict has still remained fairly absent in this approach as well.
- 2 It may be important to differentiate those two dimensions because corporatism has often been equated with *social* corporatism, or institutionalised labour power (Pekkarinen et al. 1992). If ideal-typical corporatist economies (Sweden, Norway, Austria) have indeed been characterised by traditionally strong labour movements, the conflation of those two dimensions may overlook countries where organised interests have played a central role in economic coordination, but where labour was weak. This has notably been the case in Switzerland or Japan, for instance (Blaas 1992; Siaroff 1999: 183-187). In the face of the declining power of organised labour over the last decades, this distinction is also important to understand the persistence of corporatist policymaking in the recent period.
- 3 For the calculation of the measure, see [http://www.uva-aias.net/uploaded\\_files/regular/ICTWSScodebook30\(2\).pdf](http://www.uva-aias.net/uploaded_files/regular/ICTWSScodebook30(2).pdf) (accessed 25 July 2012).
- 4 Five main indicators were used to build this classification on the side of business, namely international production in foreign subsidiaries as a percentage of exports, direct foreign investments per employee, export per employee, total balance sheet of the largest three banks as percentage of GDP, and the associational monopoly of business (Katzenstein 1985: 106). For the strength and centralisation of labour, seven indicators are considered: the percentage of unionisation of the total labour force, the organisational unity of the labour movement, confederation power in collective bargaining, the scope/coverage of collective bargaining, the importance of works councils and co-determination, the percentage of social democratic vote, social democratic presence in Government (Katzenstein 1985: 106-114).
- 5 These objectives were (a) *inflation*: no more than 1.5 percentage points higher than the three lowest inflation member states of the EU, (b) *government deficits* (no more than 3 per cent of GDP) and public debts (no more than 60



per cent of GDP, (c) *stability of exchange rates* and (d) *stability of the currency* through membership in the European Monetary System for two consecutive years.

- 6 As Greenwood (2007: 178) puts it, the integration of civil society organisations was thought to compensate for the lack of politics at the EU level: “the multi-level, multi-component decision-making architecture of the EU is oriented towards consensus-seeking, and leaves little room for adversarial contestation. Each of the three main decision-making institutions are themselves founded upon multiple elements, with any majority issue-specific and liable to shift”. Furthermore, there is no mechanism of adversarial party politics that could bring controversies to the people, and the parties in the European Parliament are essentially organisational devices that lack popular recognition.
- 7 [http://www.arena.uio.no/news/News2006/schmitter\\_european\\_parties.xml](http://www.arena.uio.no/news/News2006/schmitter_european_parties.xml), consulted September 2008.
- 8 Average share of seats in parliament for radical right parties in five countries: Austria (FPÖ + BZÖ), Switzerland (SVP), Denmark (Progress Party + Danish People’s Party), Belgium (Vlaams Bloc, then Vlaams Belang), the Netherlands (Lijst Pim Fortuyn + PVV). Own calculations based on data from Armingeon et al. (Armingeon et al. 2007).
- 9 Whereas about ten interviews per policy sector were foreseen at the start of the research, a great degree of overlap between the two policy sectors was observed: the same people within the same organisation were very often responsible for the two policy areas under scrutiny, so that the final number of interviews is smaller than expected.
- 10 <http://www.oecd.org/dataoecd/29/63/38752746.pdf>, last accessed 22 November 2011.
- 11 [http://www.admin.ch/ch/f/pore/va/vab\\_2\\_2\\_4\\_1.html](http://www.admin.ch/ch/f/pore/va/vab_2_2_4_1.html), last accessed 23 November 2011.
- 12 This was, however, not the case in the 2000 coalition government where the leader of the FPÖ, the second strongest party, did not enter the government. The office of *Vizekanzler* was not held by Jörg Haider but by Suzanne Riess-Passer.
- 13 In this respect, the French system of automatic statutory extension of collective bargaining by the state seems more robust than the German corporatist system. In France, wages are set in laws, whereas in corporatist countries collective agreements are more like contracts of private law whose validity beyond signing parties is subjected to a whole set of limitations.
- 14 See [http://ec.europa.eu/enlargement/the-policy/conditions-for-enlargement/index\\_en.htm](http://ec.europa.eu/enlargement/the-policy/conditions-for-enlargement/index_en.htm), accessed 24 September 2012.

- 15 However, in 2005 – that is, when it came to prolonging restrictions – the ETUC took a resolution proposing to lift all restrictions on the free movement of workers. Austrian and German trade unions were put in a minority (Der Standard 2006; Interview AUT2).
- 16 414 d.B. (XXII. GP) *EU-Erweiterungs-Anpassungsgesetz*, accessible at [http://www.parlament.gv.at/PG/DE/XXII/I/I\\_00414/pmh.shtml](http://www.parlament.gv.at/PG/DE/XXII/I/I_00414/pmh.shtml), last accessed 24 September 2012.
- 17 The draft ministerial proposal was submitted to Parliament in February 2004, and also provided for limitations as to the transnational provision of services in a certain number of sectors. Germany and Austria had obtained a derogation for this free movement of services in a series of sectors, namely construction, gardening services, cleaning, care and social services. As provided in the European treaty, Malta and Cyprus were excluded from this regime.
- 18 Available replies to the consultation process can be found under [http://www.parlament.gv.at/PG/DE/XXII/ME/ME\\_00128/pmh.shtml](http://www.parlament.gv.at/PG/DE/XXII/ME/ME_00128/pmh.shtml), last accessed 24 September 2012.
- 19 The timing of the parliamentary process can be found under [http://www.parlament.gv.at/PG/DE/XXII/I/I\\_00414/pmh.shtml](http://www.parlament.gv.at/PG/DE/XXII/I/I_00414/pmh.shtml), last accessed 24 September 2012.
- 20 “Die Bundesregierung hingegen beziehungsweise Herr Minister Bartenstein hat aber bis zum allerletzten Zeitpunkt gewartet, um diesem Hohen Haus Regelungen für den Arbeitsmarkt vorzulegen” (Stenographisches Protokoll 2004a: 58).
- 21 Besides the law on foreigners dating back to 1931, the federal ordinance on the limitation of the number of foreigners (*Ordonnance limitant le nombre des étrangers – OLE du 1er novembre 1986, RO 1986 1791*) issued in 1986 and revised each year has been the main legal instrument of the immigration system that prevailed until the first bilateral agreements with the EU.
- 22 Along with vocational training (which provides a comparatively high degree of human capital) and a relatively generous system of unemployment compensation, immigration control can be understood as one of the elements within the Swiss labour market regime that has prevented the rise of large wage inequalities as found in Anglo-Saxon countries by forming bottlenecks in the labour market (Oesch & Rieger 2006). In comparative assessments, Switzerland is a puzzling case since it is a country where inequalities are relatively small despite the fact that fiscal and welfare policies are only weakly redistributive.
- 23 These were partly leftovers of the first round of negotiations in which no compromise could be found, but also new issues: taxation of savings, fight against tax fraud, adhesion to the Schengen and Dublin conventions, pro-

cessed agricultural products, media, education, pensions, environment and statistics.

- 24 From the side of the EU, the negotiation mandate was accepted by the Council on 6 March 2003, whereas it was accepted by the Federal Council on 2 July 2003 after the consultation of the Conference of Cantonal Governments and the Commissions of Foreign Policy of the National Council and the Council of States (Commission de Politique Extérieure du conseil des Etats 2003; Commission de politique extérieure du Conseil national 2003; Conseil Fédéral 2004b: 5530).
- 25 That is, if the yearly number of immigrants increases by more than 10 per cent of the average of the three preceding years; in this case, the Swiss government could limit the increase of annual quotas to 5 per cent.
- 26 The group was presided by the head of the labour market section of the direction for employment and gathered representatives of the Swiss Trade Union Federation; Travail.Suisse (the Christian Trade Union); the Swiss Employer's Union; Unia, the biggest individual trade union; the Swiss Union of Arts and Crafts – USAM, the representative of small businesses; *Swissmem*, the employers' association of the machine industry, as well as representatives of the administration, both related to labour market policy in Switzerland and the section on international affairs from the Department of Justice and Police for the "immigration" aspect.
- 27 Some of the concerns raised on the side of small companies was that in some sectors like retail trade, where there are only two big actors (Coop and Migros), these could dictate conditions to all smaller companies in the sector because they gather more than half of the workers. These arguments were dismissed, however, because Migros and Coop are companies that do not form a recognised employer body, the only entity that can ask for extension. These rules, moreover, only applied in case of "observed and repeated abuse" the regular quotas of 50 per cent employers and 50 per cent workers applying in all other situations.
- 28 The extension of collective agreements is not a widespread practice in those sectors, companies being keen on preserving their autonomy at firm or plant-level. By contrast, it is common in construction, a very regulated sector with relatively high wages.
- 29 The difficult question was, however, to determine this number. Building on the propositions made by the social partners, state representatives proposed that at least one inspector per canton be hired, but at least one inspector for 25,000 jobs, leaving inter-cantonal collaborations possible. If the foreseen total number of inspectors reached approximately the number asked by the unions, substantial room for manoeuvre was left for cantonal implementa-

- tion. The hiring of labour inspectors was decided to be partly financed by the cantons and partly by the federal government.
- 30 Schneider-Amann became the head of Swissmem, the employer body of the machine industry, and later federal councillor in charge of the Department of Economic Affairs. Schneider-Amann is the owner of a big company that produces machines as well.
  - 31 *St. Galler Tagblatt*, 10 June 2005 quoted in Oesch (2007).
  - 32 EUR 3,139 in 2003. The basic replacement rate amounts to 55 per cent of the previous wage, with various complements for individuals with children or low earnings, but cannot exceed 80 per cent of previous earnings (60 per cent for people with no children).
  - 33 The maximum duration is 52 weeks, but this time may be increased if job-seekers take part in education programmes.
  - 34 The initial project also included a project of extension of the coverage of unemployment insurance to the self-employed and agency workers (*freie Dienstnehmer*), which was a wish from some segments of employers and trade unions alike.
  - 35 As reported by interview partners, although the group was set up especially for this purpose, its members were familiar with one another in a variety of other working groups dealing with labour market policy. The first sessions were devoted to agenda setting, in order to determine the framework of discussions and the issues that would be debated and bargained in the working group. The agenda-setting phase is considered important since it sets the frame and calendar of bargaining; it allows for taking the issues where one can find a possible compromise and leave out the issues for which one knows that it will be too difficult to reach a consensus (Interview AUT6).
  - 36 This measure was based on the principle that the proportion of wages which was insured against unemployment would be limited, but the proportion of the wage on which contribution would be due would be higher than the insured income. This was an element of redistribution from high-income earners, who are as a rule less likely to become unemployed, to lower-income earners. Moreover, this also represented non-negligible receipts for the unemployment insurance fund, up to CHF 135 million a year (Conseil Fédéral 2001).
  - 37 The leader of the SVP Christoph Blocher was elected to the Federal Council in 2003, and was not re-elected in 2007.
  - 38 Motion 98.3525 “Assainissement de l’assurance-chômage” deposited by Commission 98.059-CN, 6.11.1998.
  - 39 Motion 98.3525 Assainissement de l’assurance chômage. [http://www.parlament.ch/f/cv-geschaefte?gesch\\_id=19983525](http://www.parlament.ch/f/cv-geschaefte?gesch_id=19983525), last accessed 24 September 2012.

- 40 In order to act as a cyclical “automatic stabiliser”, the unemployment insurance fund had to gather sufficient reserves in times of expansion to be able to cope with expenses in times of slowdown.
- 41 The objective of a reduction in payroll taxes was especially present since Parliament launched a motion demanding a reduction in the contribution rate one year earlier as initially projected. This was vividly criticised by Social Democrats and Greens, for whom the period of economic improvement should be used to reduce debts and gather reserves for periods of higher unemployment (Le Temps 2000). However, this motion was defeated in the upper chamber by 21 votes against ten (24 Heures 2000).
- 42 Hence, jobseekers would be forced to accept jobs below their level of qualification when their benefits would come to an end.
- 43 This polarisation could be observed in the final vote on the law on this phase: 32 in favour, 22 against, 73 abstentions and 73 absentees.
- 44 Nominal vote available on [http://www.parlament.ch/poly/Abstimmung/46/out/vote\\_46\\_2181.pdf](http://www.parlament.ch/poly/Abstimmung/46/out/vote_46_2181.pdf), last accessed 24 September 2012.
- 45 In contrast to employers, however, trade unions cannot “retreat” to the sphere of industrial relations because their position there is even weaker. What is left is the public sphere, through referendums and the mobilisation of public opinion.
- 46 This case also showed that the policy stance of the Swiss People’s Party also varies between domains where the rhetoric of abuse can be mobilised (unemployment protection, disability policy) and those that closely touch upon its clientele (pensions).
- 47 <http://www.npr.org/blogs/thetwo-way/2010/12/20/132203336/austerity-is-merriam-websters-word-of-the-year>, last accessed 24 September 2012.

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## Index

- Acquis Communautaire* 119, 134  
activation 157-159, 177, 183  
active citation 89  
Ahlquist, John 20, 45, 48  
Akkordierung 77  
Alliance for Jobs (Germany) 208  
Arbeitskammer 123-124, 127-129  
Arbeitsmarktreformgesetz 159,  
165, 173  
– legislative process 165  
Arlettaz, Gérald and Silvia 132  
Armingeon, Klaus 49, 95, 160, 176,  
210, 218n  
Austria  
– employers 107  
– labour migration policy 121  
– legislative process 107  
– polarisation between main-  
stream parties 173  
– political parties 104  
– political system 103  
– trade unions 106  
– unemployment policies 160  
Avdagic, Sabina 36, 38, 46, 65, 76,  
207  
  
Baccaro, Lucio 16, 20, 27, 35-38,  
41, 44-46, 76, 164, 174  
bailout 212-213  
Bale, Tim 71  
Balkenende, Jan Peter 205  
  
Bartenstein, Martin 127, 162, 169,  
219n  
Bauböck, Rainer 121-122  
Belgium 21, 30-32, 54-55, 70-71,  
114, 117, 218n  
Bennett, Andrew 18, 76-80  
Berlusconi, Silvio 207  
Betz, Hans Georg 71, 97  
Bilateral agreements EU-Switzer-  
land 82, 120, 135-139, 141-144,  
147-149, 151, 153  
– negotiation process 139  
Bismarckian welfare state 87, 156,  
160  
blame avoidance 49  
Blocher, Christoph 97, 105, 179,  
181, 221n  
blue-collar workers 47, 69, 71,  
162  
Bolkestein, Frits 66, 68  
Bonoli, Giuliano 55, 175  
Bürgerblock 99  
  
cantons 94, 97, 137-138, 146, 175,  
177-178, 184, 220n  
Cattacin, Sandro 134  
Caviedes, Alexander 113  
Cawson, Andrew 28  
CDU 118  
CDU (Germany) 208  
Compston, Hugh 17, 76

- concertation
  - and party politics 45
  - and right-wing populism 69
  - as an electoral strategy 48
  - definition 36
  - employer-centred explanations 42
  - evolution over time 36
  - functionalist explanations of 38
  - ideational explanations 40
  - in Germany 208
  - measurement 75, 77
  - measurement over time 37
- consultation 40, 63, 77, 100-101, 108-109, 129, 139, 144, 146, 170, 186, 197, 220n
- Contrat Première Embauche 16
- corporatism
  - and concertation 36
  - and varieties of capitalism 28
  - definition 27
  - diversity of 30
  - earlier literature 25
- Couchepin, Pascal 188
- Crepaz, Marcus 93
- Crouch, Colin 28
- Culpepper, Pepper 40-42, 46, 50-51, 199
  
- Dahl, Robert 27
- Deiss, Joseph 140, 142, 151
- deliberation 41, 43, 108
- Denmark 19, 29-32, 54-55, 69-71, 76, 117, 203-204, 218n
- Dhima, Giorgio 133
- direct democracy 91, 94, 101-102, 104, 133, 175, 202
- Dolvik, Jon-Erik 57, 86, 118-120
  
- Ebbinghaus, Bernhard 21, 32, 39, 44
- Economiesuisse 15, 98, 140, 179
- Emmenegger, Patrick 43
- employment miracles 16
- entitlement to welfare benefits 32, 49, 122, 160-163, 165, 167, 183-184, 189
- Esping-Andersen, Gosta 42, 160
- Estevez-Abe, Margarita 42
- European Central Bank 213
- European Commission 57, 67, 115, 119-120
- European Court of Justice 56-57, 61, 86, 112, 115-116
- European Economic Area 92, 134, 136
- European integration
  - as a strengthening factor for concertation 61
  - as a weakening factor for concertation 59
  - negative and positive integration 56
  - opposition to 67
  - politicisation of 63
  - Single Market 56-57, 112, 116
- Europeanisation 62, 80-82, 84, 87, 89
  
- Falkner, Gerda 61
- federalism 102, 175
- Ferrera, Maurizio 114-115
- Fischer, Alex 135-137
- flexicurity 158
- Flückiger, Yves 133-134
- FPÖ 19, 105-106, 109, 122, 127, 130-131, 159, 161, 163, 170-171, 173, 196-197, 199, 218n

- France 16-17, 19, 28, 41, 50-51, 62, 64-65, 69, 114, 117, 207, 212, 218n  
     – trade unions 41
- Freeman, Gary 209
- gender 92
- George, Alexander 18, 76-79
- Germany  
     – wage moderation in 35
- Gerring, John 79
- Ghent system 32, 107
- Gourevitch, Peter 54
- Grande, Edgar 60
- guest workers 122, 133
- guillotine clause 136-137, 149
- Haider, Jörg 105, 161, 218n
- Hall, Peter A. 21, 28-29, 41, 75, 79
- Hamann, Kerstin 17, 20, 33, 38, 44-45, 48-50, 174, 204
- Hancké, Robert 21
- Hardiman, Niamh 29
- Hartz reforms 165
- Hassel, Anke 21, 39, 62
- Häusermann, Silja 158, 177-178, 192, 210
- Haverland, Markus 80-82
- Heclo, Hugh 41
- Heinisch, Reinhard 46, 70
- Hemerijck, Anton 16, 28, 41, 205
- Heschl, Franz 126
- Höpner, Martin 57-58, 64, 86
- Howell, Chris 21, 47, 207
- Immergut, Ellen 175
- implementation 26, 39-40, 44, 63, 84, 87, 95, 102, 131, 138, 143, 154, 160, 165, 189, 196-197, 200, 221n
- indignados 212
- inequality 34-35
- Ireland 16, 29, 38-39, 42, 46-47, 63-64, 117, 119-120, 132, 212
- Italy 18-19, 26, 38, 41-42, 46, 61, 69, 114, 117, 133, 195, 205, 207  
     – trade unions 41
- Jost, Hans-Ulrich 92
- Juppé, Alain 16
- Katzenstein, Peter 17-19, 21, 31-32, 54-56, 62, 68, 82-84, 91-93, 98, 217n
- Kelly, John 17, 20, 38, 44-45, 48-50, 174, 204
- Kenworthy, Lane 35, 76
- King, Gary 82
- Kitschelt, Herbert 19, 28, 47, 97
- Knöpfel, Carlo 98-99
- Korpi, Walter 42-43, 201
- Kriesi, Hanspeter 19, 26, 28, 32, 47, 53, 65, 69, 93-97, 99, 101, 103, 134, 175-176
- labour migration policy 121, 132, 193, 196, 209-210
- labour mobility 23  
     – and employer interests in Austria 125  
     – and employer interests in Switzerland 144  
     – and EU enlargement 116  
     – development in the European Union 114  
     – transitional arrangements in Switzerland 137  
     – transitional measures in Austria 127
- Laval ruling 57, 86, 111-112, 120

- learning 40-43, 199  
 Lehmbruch, Gerhard 17, 26, 28,  
     45, 76, 92, 104  
 Lijphart, Arend 92-94  
 Lindvall, Johannes 18, 203-204
- Mach, André 55, 96-101, 175, 192  
 magic formula (Switzerland) 97  
 Mahnig, Hans 133  
 Mahoney, James 78-79, 82  
 Mair, Peter 63-64, 204  
 Manin, Bernard 49  
 Mares, Isabela 42  
 Menz, Georg 59, 113, 115-116  
 methods
  - comparative approach 80
  - controlling the impact of  
     European integration 80
  - data collection 87
  - process tracing and theory  
     development 77
- Molina, Oscar 26, 28, 207  
 Moore, Barrington 28  
 Moravcsik, Andrew 60, 62, 89  
 Mudde, Cas 19, 70
- Neidhart, Leonard 95, 100  
 neoliberalism 67-68, 81, 105, 107  
 Netherlands 15-17, 19, 28-31, 35, 41,  
     47, 54-55, 64-65, 69-70, 114, 117,  
     119-120, 202-204, 218n
  - social concertation in 204
  - trade unions 15, 210
- Norway 25-26, 29-31, 37-38, 54-55,  
     71, 82, 106, 117, 217n
- Obinger, Herbert 83, 105-106, 108,  
     159-162, 164, 172, 175, 210  
 Oesch, Daniel 69, 71, 84, 99, 100,  
     134, 219n, 221n
- ÖGB 15, 107, 118, 121-123, 125, 163,  
     166, 169-171  
 Olson, Mancur 16  
 outside lobbying 50, 200
- Papadopoulos, Yannis 39, 70, 84,  
     95, 100, 192  
 Paster, Thomas 43, 107, 201  
 payroll taxes 49, 87, 177, 182-184  
 Pelinka, Anton 83, 93, 103-104,  
     108-109  
 Penninx, Rinus 113  
 pensioenakkoord (Netherlands)  
     210  
 pension reform 209  
 Peters, B. Guy 39, 80, 110  
 Pierson, Paul 17, 87, 209  
 Piotet, Georges 175  
 pluralism 27, 29, 62, 70  
 Pochet, Philippe 19, 38  
 Polanyi, Karl 211  
 Polish plumber 66  
 Portugal 18, 26, 38, 115, 117, 212  
 posted workers 59, 115-116, 118,  
     120, 128, 137, 143, 145-147  
 Putnam, Robert 60  
 pvv (Partij voor de Vrijheid) 70,  
     205, 211, 218n
- race to the bottom 59  
 Radaelli, Claudio 82, 85  
 referendum 16, 95-96, 99, 101-  
     102, 110, 136-137, 140, 142, 145,  
     147-152, 177, 184, 186, 188-189,  
     191-192, 200  
 Rhodes, Martin 21, 26, 28, 39, 61  
 Rokkan, Stein 16, 25  
 Rose, Richard 91  
 Rougemont, Denis de 91

- salience 50-51, 61, 65, 87
- sanctions (in unemployment policy) 157-158, 161-162, 168
- Sarkozy, Nicolas 17, 51, 207
- Saurugger, Sabine 80
- Scharpf, Fritz 35, 55-58, 67, 82, 86, 161
- Schlüssel, Wolfgang 106, 165
- Schmidt, Manfred 92, 175
- Schmidt, Vivien 29, 62, 67, 77
- Schmitter, Philippe 17-19, 26-28, 59, 61, 64, 67, 75
- Schröder, Gerhard 38, 118, 126, 208
- Sciarini, Pascal 80, 84, 100-102, 134-135
- SECO (State Secretariat for Economic Affairs) 138, 140-141, 145, 182-183
- SGB (Schweizer Gewerkschaftsbund) 111, 138, 140, 143, 181, 187, 192
- Sheldon, George 133
- Siaroff, Alan 30, 76, 106, 217n
- Siegfried, André 91
- social pacts 17-18, 38, 46, 48, 50, 61, 65, 76, 95
  - definition 38
- Socrates, José 213
- Spain 18, 26, 38, 115, 117, 120, 195, 205, 207, 212
- SPD (Germany) 208
- standstill clause 119
- Streeck, Wolfgang 18, 21, 28, 42, 59, 75, 85, 116, 212
- strikes 33, 163, 212
  - general strikes 33, 50
- Sweden 18, 28-30, 32, 42, 54-55, 76, 106, 111, 117, 120, 203, 217n
  - corporatism 203
- Swenson, Peter 28, 42, 203
- Swiss People's Party 97, 152, 218n
  - impact on centre-right parties 179
- Swiss People's Party 93, 97, 136-137, 139, 149-150, 152, 174, 178, 193, 200
- Switzerland
  - conflicts between employers and the radical right 152
  - corporatism 84
  - employers 98
  - foreign workers as cyclical buffer 175
  - labour migration policy 132
  - legislative process 100
  - political parties 96
  - political system 93
  - trade unions 99
  - unemployment in the 1990s 176
  - unemployment policy 175
- Talos, Emmerich 77, 83, 105-106, 108, 159-162, 164
- Teague, Paul 86, 116
- Thatcher, Margaret 47
- Thelen, Kathleen 21, 43, 87
- trade unions
  - and social democratic parties 47
  - decline in power resources 32
  - density 17, 32, 36, 76, 84, 93
- Trampusch, Christine 38-39, 100, 208
- Traxler, Franz 32, 42, 76
- Tsebelis, George 46
- Tumpel, Herbert 123

- unemployment policy
  - agendas of reform 156
- United Kingdom 29, 62, 117, 206, 212
- upskilling 126, 165
- Van Waarden, Frans 51
- Varieties of Capitalism 58
- Vatter, Adrian 93
- veto 16, 94-96, 102-105, 108, 142, 202, 208
- Villepin, Dominique de 16
- Vis, Barbara 49
- Visser, Jelle 16-17, 28, 30, 32-33, 35, 37, 57, 86, 118-120
- wage differentials 115, 126, 134
- wage-setting 30, 35, 39
- Wassenaar agreement 41
- Weaver, Kent 49
- Widmer, Frédéric 100
- Widmer-Schlumpf, Evelyne 97
- Wildavsky, Aron 40
- Wilders, Geert 70, 205
- winning formula of radical right parties 97
- wko *see* Austria: employers
- Woldendorp, Jaap 44, 205
- Wolf, Martin 212
- youth unemployment 213



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