Will the Present Crisis Revive the Neo-corporatist Sisyphus?

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Abstract

Despite a much less favorable context, neo-corporatism a.k.a. social concertation did not completely disappear from the practice of European interest politics after the 1970s. In a few countries, the former survived, but only by shifting a good deal of the latter to the meso-level of economic sectors and even by permitting micro-level bargaining at the level of individual firms. The most frequent and persistent form of neo-corporatism or social concertation in Europe came to rest on so-called "pattern bargaining;" whereby, organizations representing one industrial sector (usually metal-working) reached an agreement on wages and other issues and this was then generalized from sector-to-sector to cover almost the entire economy—without any need for a formal national accord. Many advanced capitalist economies, however, proved immune to this form of interest politics, much to the delight to neo-liberal economists who persisted in asserting their belief in the superior performance of pluralist systems or, even better, in systems where no collective bargaining at all took place. With the dramatic financial crisis that began in late 2008, the conditions that had previously promoted or impeded neo-corporatism, tripartism, policy concertation, social pacting, systems of political exchange or whatever it should be called, were radically altered due to a decline in the balance of forces between capital and labor in favor of the former. This article explores whether the 30-year cycle of the neo-corporatist Sisyphus, postulated by Jürgen Grote and myself, will be revived by this crisis—or whether it can be safely exorcised from political practice and academic debate.

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1 Prologue

Gerhard Lehmbruch and I came together over the concept of corporatism and both of us have remained attached to it ever since, even though we defined it differently. For Gerhard it was a mode of policy-making; for me, it was a way of organizing interests. We resolved this difference by hypothesizing that the two were causally related: a viable system of regular consensual bargaining between capital and labor (social concertation) required a particular organizational structure (neo-corporatism). It is, therefore, fitting that in remembrance of our long-lasting collaboration and friendship, I attempt to assess the fate of this relationship in the context of the present economic crisis.

Despite a much less favorable context, neo-corporatism and social concertation did not completely disappear from the practice of European interest politics after the 1970s (Kenworthy 2003; Visser 2009). In a few countries, e.g., Austria, Finland, and Norway, the former survived at the macro-level but only by shifting a good deal of the latter to the meso-level of economic sectors and even by permitting micro-level bargaining at the level of individual firms (Traxler 1995; Crouch 2005). Both also required increasingly direct intervention by state authorities, either to reach agreements or to ensure their implementation (Traxler et al. 2001). The most frequent and persistent form of neo-corporatism-*cum*-social concertation in Europe came to rest on so-called "pattern bargaining" whereby organizations representing one industrial sector (usually metal-working) reached an agreement on wages and other issues and this was then generalized from sector-to-sector to cover almost the entire economy—without any need for a formal national accord. Germany, Greece and Switzerland have long had such a system; Denmark and Sweden moved in that direction during the 1980s and 1990s. Spain and Portugal practiced it more erratically, reflecting no doubt broader political calculations stemming from their recent democratization (Royo 2002). In one case, Ireland, macro-concertation made its first appearance during this period—despite the absence of 'appropriate' organizational structures (Hardiman 2002) and in the Netherlands it re-emerged after an absence of over 20 years, but soon shifted downward to the meso-level (Visser and Hemerijck 1997). Many advanced capitalist economies have proven immune to this temptation, much to the delight to neo-liberal economists who persisted in asserting their belief in the superior performance of pluralist systems or, even better, in systems where no collective bargaining at all took place. Australia, Canada, New Zealand, the United Kingdom, and the United States are prominent examples, although the first experienced brief bouts of national social pacting in the 1980s. France's system of bargaining was consistently pluralist during this period, but only due to a heavy dose of direct state intervention in the process. Italy stands out as the most extreme example of a national economy that tried almost every conceivable variety of interest intermediation—from coordinated national pact-making to completely uncoordinated sectoral agreements—without institutionalizing any one of them successfully.

In a previous article, Jürgen Grote and I argued that the practice of neo-corporatism and social concertation had been following a Sisyphean pattern since the last third of the nineteenth century with roughly 20–25 years between its peaks and troughs—although we were not able to come up with a convincing hypothesis to explain this periodicity (Schmitter and Grote 1997). In most cases, the inversion of trend was triggered by the resistance or outright defection of capitalists, but why this should be the case remains a mystery (at least, to me). One might consider invoking the impact of so-called Kondratiev Waves with their 50 year cycles, but their very existence is controversial and their causality with regard to the behavior of capitalists is even more mysterious.

The great novelty is that, since the 1980s, social concertation has been taking place without the presumed covariance between *organizational structures* that were hierarchical, monopolistic and broadly encompassing and *policy-making structures* that involved officially sanctioned but nonetheless private actors in producing and implementing a variety of "social pacts" (Fajertag and Pochet 1997; Rhodes 1998; Hassell 2003). This unanticipated disjuncture had two effects: (1) It opened up the possibility for neo-corporatism/social concertation in countries whose structures of organized interest previously seemed inappropriate (*viz*. Italy, Spain, Portugal and Ireland); and (2) It opened up the possibility for concerted policy making in issue arenas that are dominated by pluralist interest associations—even very weak and dispersed ones (*viz*. consumer protection, environmental standards, health insurance and public safety). Ergo, the sites and instances of policy concertation over the past 30 years—including those involving capital and labor—have probably not declined in number (but they may have become much less binding in nature and more specialized in content). And they have even increased to cover new policy issues (where actors may be quite differently organized, if barely organized at all).

The following hypotheses might help to explain this puzzling disjuncture between organizational structure and decision-making process that was so central to initial speculation about neo-corporatism:

1. Associations representing the interests of business and workers have become increasingly "divorced" or, at least, "dissociated" from their respective 'friendly' political parties, along with considerable convergence in the appeals and programs of these parties which has resulted in an abandonment of the commitment to full employment by Leftist or Social-Democratic parties.
2. Globalization has had a disruptive impact upon the 'balance of class forces' between Capital and Labor and this has inhibited both the need for and the willingness of the former to engage in mutually concerted policy-making.
3. The ideological hegemony of "neo-liberalism" and the (alleged) greater success of "Liberal Market Economies" have provoked a process of convergence among "Coordinated Market Economies" (Hall and Soskice 2001) where neo-corporatist practices were most firmly entrenched and this—along with the prescriptions of international financial and trade organizations (IMF, IBRD, WTO, etc.)—has discredited these practices, as well as the Keynesian paradigm that had previously justified the need for them.
4. European integration and its imposition of an additional layer of policy making upon its member states has contributed to "embedding" liberal economic

policies at the supra-national level and this was extended even further by European Monetary Unification and the autonomous powers arrogated to the European Central Bank.
5. The decline in working class collective identity and in the distinctively 'solidaristic' demands that this implies is due to individuation in the nature of workplace—combined with the growth of service sector employment where class relations are more fragmented and ambiguous.
6. The rise in the relative importance of public employment has given its representatives a privileged status within a generally shrinking trade union movement at the expense of manual working class organizations that were more inclined to favor concertation arrangements.
7. Contemporary liberal democracies have witnessed the emergence of new lines of political cleavage around issues that cut across and, hence, divide the previously overriding cleavage between Capital and Labor, e.g., environmental protection, gender equality, gay rights, e cosi via.
8. Political militants, especially youths, have shifted in their effort and attention from 'orthodox' channels of partisan and associational representation to social movements—many of which have no stable organizational connection with either parties or interest associations.
9. Countries have to engage in greater competition with each other in order to attract foreign direct investment and this has undermined the rights of workers to collective representation and their potential for disrupting production which in turn has led to a decline in the power of trade unions and the attractiveness for capitalists of compromising with them.
10. Trade liberalization on a global scale—especially when extended to China and other low wage countries—has diminished inflationary pressures, even under conditions of full employment, and this makes containing wage pressures a much less salient issue than in the past for neo-corporatism.
11. An aging population has meant that more and more trade union members are retired and, hence, less concerned with pressing current demands for wages and working conditions than with protecting future welfare benefits, and that lies more in the domain of state policy-making than that of social concertation.
12. The trend toward increasing the political independence of national central banks and, especially, the European Central Bank has deprived policy concertation of one of its most flexible mechanisms, i.e., the ability to make side-payments in social and/or fiscal policy in exchange for wage and working condition concessions.
13. The shift in substantive content from moderating wage demands and lowering inflation to improving international competitiveness by lowering non-wage costs and containing welfare spending has also detracted from the appeal of 'orthodox' concertation arrangements.

Whatever the validity of each of these hypotheses, there is not a single one of them that is not welcome from the perspective of business interests and the associations that defend them. Since one of the guiding hypotheses about neo-corporatism is that historically such a bargaining arrangement between organized capital and labor depended on something approximating a "balance of class forces," and since this is manifestly no longer the case, how is one to explain its persistence? The answer, we shall see, may be that "by changing, it remains the same"—to paraphrase de Lampedusa.

So, *pur si mouve*! Neo-corporatism and social concertation have not completely disappeared from the policy process, even as practiced between consenting adults representing capital and labor at the macro-level of aggregation in Europe. According to a recent systematic survey by Lucio Baccaro (2007), it has actually been on the increase since 1975. Seen from the perspective of advocacy, 10 of the then 15 EU + Norway governments called for some version of it in 1975 and 14 were doing so by 2000 (although the number fell back to 11 by 2003). Seen from the perspective of actual practice, 8 were using some version of it for purposes of negotiating either salaries or welfare issues in 1975 and 11 were doing so by 2000 (again, with a subsequent decline to 9 by 2003). One might have predicted that this inflection would have continued and might even have accelerated after the crisis struck in 2008; however, more recent data that extend to 2010 (Visser 2009; Alonso 2013: 37) actually show a modest recovery after 2003 with a peak in 2008.

Presumably, however, every time it was practiced during this period from 1975 to 2003, organized capital was a voluntary participant, since no one has invented a way to apply it without its consent. Australia tried to do so in the early 1980s, but this collapsed rather quickly. Inversely, Japan has been quietly, protractedly and more-or-less effectively been accomplishing this without the participation of labor.

Why this should be the case when there are so many good reasons why organized business interests should have rejected neo-corporatism or social concertation in any form and at any level is puzzling. "Path dependence" is currently the most fashionable explanation for the persistence of such apparently irrational or improbable outcomes. Actors persist in their practices simply out of habit or because the short-term costs of changing them outweigh the longer-term benefits. It seems unlikely, however, that unsentimental marginalist calculators like business executives would remain in such constraining arrangements unless they generated demonstrable and immediate comparative advantage over their more pluralist competitors. As noted above, neo-corporatism at the national level after World War II until the late 1970s was associated with key aspects of economic performance in the advanced capitalist democracies of the OECD: greater ruliness of the citizenry, lower strike rates, more balanced budgets, high fiscal effectiveness, lower rates of inflation, less unemployment, less income inequality, less instability at the level of political elites and less of a tendency to exploit the "political business cycle" (but not higher growth rates)—all of which suggested that countries scoring high on this property were more governable and, hence, attractive in terms of long-term investment in material goods and human capital (Schmitter 1981).[1]

[1] Which is why a recent article by Barbara Vis et al. (2012) that uses an aggregate indicator of economic performance that includes economic growth and concludes that, more recently, there has

Econometricians such as Calmfors and Driffill (1988) even concluded that countries with "corporatist bargaining structures" were as capable of economic success as those following more orthodox neo-liberal and pluralist practices.

Largely on the strength of that endorsement, a substantial literature on "varieties of capitalism" emerged in which well-entrenched neo-corporatist structures and concerted bargaining were considered an integral part of a set of institutions labeled as "coordinated market economies" by Hall and Soskice (2001) that performed comparatively as well as their polar opposite: "liberal market economies." The defining characteristics of each variety of capitalism have tended to vary from author-to-author, but have included such other institutions as corporate governance, equity markets, regulatory mechanisms and even vocational training systems. This approach tends to deny any particular salience or significance to the system of interest intermediation. Moreover, it comes accompanied with the hypothesis that whether it is pluralist or corporatist, its contribution to performance depends on its "complementarity" with the other institutions. 'Hybrid' varieties that combined neo-corporatist bargaining with the wrong type of corporate governance arrangements are presumed to be less successful.

Subsequent econometric studies with more recent data have called into question some of the "benevolent" findings regarding the impact of neo-corporatism alone (Crepaz 1993; Traxler 2000), even in its heartland of small European social democracies (Woldendorp 1997). No one has ever been able to show that neo-corporatist systems have been correlated with persistently higher rates of economic growth. In the turbulent times at the end of the 1990s and the beginning of this century, as we have noted above, policy concertation between social classes, sectors and professions shifted away from the contention of wage costs and reduction in inflationary pressures toward such matters as improving productivity, encouraging worker flexibility and reforming welfare systems. At least one major study has concluded that its impact has been disappointing in these policy arenas—unless backed up with the coercive intervention of state authority (Brandl and Traxler 2005). The previous assumption that such agreements between business and labor could be voluntarily enforced by the private contracting 'social partners' was shown to be much more dubious under the new conditions of enhanced global competition.

With the dramatic crash of late 2008, the conditions that have previously promoted or impeded neo-corporatism, tripartism, policy concertation, social pacting, systems of political exchange or whatever it should be called, have radically altered. After years of decline in the balance of forces between capital and labor in favor of the former, the terms of encounter are no longer the same. The ideological hegemony of business interests has been seriously undermined by the collapsed credibility of neo-liberalism, as well as by the revelations of fraud and misconduct by financial interests. Materially speaking, many enterprises have been

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been no significant difference between corporatist and pluralist systems of interest intermediation may be beside the point.

devastated in their balance sheets and recovery to profitability—except for those that are not tied to domestic markets and depend heavily on the export of high quality products. Recovery in these sectors most "exposed" to global competition may require the cooperation of a skilled (but still unionized) labor force that is willing to accept wage increases and other benefits inferior to the increase in productivity. Moreover, the sooner consumer demand recovers and order books fill quickly, then, regular negotiations between employers' associations and trade unions are likely to follow in many European countries, although admittedly given previous trends, this could be satisfied at the meso-level of industrial sectors or even, in those cases where unions have been especially weakened, at the micro-level of individual enterprises. 'Classical' macro-corporatist agreements covering the entire economy would not have much to offer—and it is difficult to imagine a scenario under which re-juvenated labor confederations coupled with triumphant Social Democratic political parties would be in a position to impose them. It is even dubious that they would have a joint interest in doing so.

The initial reaction by state authorities to the financial crisis that exploded in 2008—even in governments dominated by conservative parties—demonstrates that they are not just disposed but anxious to intervene (previous ideological protestations to the contrary, notwithstanding). So far, their emergency measures have involved distributing massive welfare to capitalists and no concertation with labor at any visible level. At the beginning, there was simply not sufficient time for tripartite negotiations, but subsequently it has become by no means clear what solutions such negotiations would be capable of reaching and delivering. The organizations for collective action by both capital and labor have been weakened by internal divisions and virtually all consultation has been directly (and often clandestinely) between public monetary and budgetary authorities and large private firms. However, this unprecedented level of subsidization of the very enterprises whose decisions produced the present crisis has already begun to generate a popular backlash. It is not difficult to imagine a scenario in which governments—of whatever partisan composition—would eventually seek to divert this criticism by creating various forums for 'social partnership' rather than to have it spill over into the much less predictable arenas of partisan competition and legislative process. This combination of factors could well lead to yet another revival of neo-corporatism/social concertation, probably at the sectoral level and especially in small, relatively homogeneous and internationally vulnerable European countries. For those countries with larger, more heterogeneous and externally sheltered economies that have had no (or only unsuccessful) experience with such arrangements—and whose structures of organized interests tend to be much less centralized, monopolistic and comprehensive—this prospect is much less likely.

An added complication emerged when the initial financial crisis morphed into a fiscal crisis of national indebtedness and, then, into a crisis of the Euro. This is a sector of the economy that has usually been exempt from either neo-corporatist structures or social concertation. Monopolistic associations do usually exist for the representation of both capital and labor, but the component of the latter is relatively minor and masked by a considerable variety of contractual relations between owners and employees. Where coordination and regulation did exist (and it had been declining radically under the impact of neo-liberal ideology), most of it seems to have taken place under the aegis of the largest private banks and financial institutions with the cooperation of compliant government agencies. The agents presumably in charge at both the national and supra-national levels, i.e., the national and European central banks, are expressly shielded from the explicit influence of organized interests and presumed to take their decisions purely on the basis of technical calculations. Hence, it should come as no surprise that neither neo-corporatism nor social concertation were brought to bear in response to the Euro-crisis—which is not to say that a great deal of negotiation did not take place more informally between capitalists and government officials.

By now (2014), the crisis seems to have diminished and may even have crested. But it is not yet over. The worst case scenario cannot be completely excluded. Momentary recession could turn into protracted depression with mass unemployment reaching levels attained in the 1930s and aggregate output taking more than a decade to recover. Political protest on a large scale could threaten governments and undermine the implicit social contract that connects capitalism and democracy. This was precisely the context in which the initial experiments with macro-corporatist bargaining emerged voluntarily in Denmark, Norway, Switzerland and Sweden during the late 1930s, but one should not forget that it was also the context in which state corporatist structures were imposed on the entire system of interest intermediation by authoritarian regimes in Italy, Portugal, Spain and most of Central Europe—not to mention in National Socialist Germany and its conquered states of Belgium, France and the Netherlands.

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