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CORPORATISM

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ABSTRACT

This paper intends to survey the meaning of corporatism (section 1), the foundations of corporatist policies and institutional substitutes for it (section 3), the evolution through time of corporatism, from its golden days (section 2) to its practical demise in more recent years (section 4). It also raises the issue whether a future is to be expected for it (section 5, which concludes the paper).

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1. CORPORATISM, SOCIAL PACTS AND INCOMES POLICY.

Corporatism (or neo-corporatism) is an ambiguous concept, which has been defined by economists, political scientists or sociologists in a variety of ways, in some cases in relation to the different analytic orientation or the specific purposes of the inquiry. If we focus on the process involved in corporatism, we can define it as 'an institutional arrangement that involves negotiation, bargaining, collaboration and accord between major economic groupings in the society, in particular business and unions, usually involving also governments.' This largely corresponds to definitions of corporatism in Cameron (1984), Bruno, Sachs (1985), Burda (1997) and is the same as Cubitt's 'Corporatism 4' (Cubitt, 1995). It stresses the nature of 'the rule of the game' that could help to set up an encompassing organization *à la* Olson (1982), capable of overcoming the social costs due to existence of a prisoner's dilemma. Other definitions can refer to the number of existing unions (the degree of centralisation of wage setting) or to the values of their objectives or the weights put on them (Cubitt, 1995).

Corporatist arrangements usually take the form of social pacts. These differ from the collective bargaining involved in bilateral negotiations between business and labour, even when such negotiations refer not only to wages, but also to employment levels, labour organisation, etc.. Social

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pacts require direct or indirect participation also of other, mainly public, institutions, which makes the outcome of negotiations more complex and interesting (Regini, 2001). Social pacts are a form of institutional incomes policy. They seek to instil cooperative industrial relations, by establishing appropriate institutional mechanisms that aim at changing the nature of the competition (or game) between the various income recipients. This can be done by introducing an explicit requirement for cooperation or, in any case, by imposing a cooperative solution like arbitration or by engaging in an economic or political exchange. The underlying idea is that income distribution should not be decided by the market. On the contrary, consensual policies must be shifted from the market sphere into the political agenda, as Tarantelli (1986, 1987) claimed. At this level distributional conflicts can be set as part of economic and social policies, in such a way as to bring about a better macroeconomic performance. From a number of points of view social pacts can be considered as being a part of – or a complement to – the Keynesian-like institutions and policies implemented after WWII.

2. THE GOLDEN DAYS OF CORPORATISM

While different forms of incomes policy have been implemented since World War II, when in Anglo-Saxon countries some governments introduced a sort of wage and price freeze, social pacts have been adopted only later. They were extensively stipulated mainly in European countries and, to some extent, in all the other Continents since the 1960s, when labour markets began being ‘tight’, as a consequence of Keynesian policies and protracted high employment. In the United States, the Kennedy administration introduced voluntary wage and price guidelines in 1962. In 1956, following a previous sort of judicial procedure, a Conciliation and Arbitration Commission began to operate in Australia. Together with regional commissions it set the minimum terms and conditions of employment and dealt with unfair work dismissals. Australia also developed a kind of ‘social agreement’. In 2005 the wage setting powers of the Conciliation and Arbitration Commission were largely transferred to the Australian Fair Pay Commission. Austria had (and still has) a centralised bargaining structure, the Parity Commission for Wages and Prices, in which the government, unions and firms participate on equal footing. In France, as part of the 'V plan' in 1964, it was decided to consider wage and price problems explicitly. The prospect of a high rate of growth of national income was offered in return for wage moderation. In the United Kingdom between 1948 and 1950 the Labour government negotiated a voluntary wage restraint with the trade unions. Later, between 1974 and 1979, an attempt was made to draft a ‘social contract’ between trade unions and the Labour government. The unions were granted a role in the formulation of economic policy – especially industrial relations legislation – in exchange for wage moderation. In Scandinavian countries, unions were stronger than elsewhere long since and industrial relations were thus less dependent on the state, but a number of tripartite formal or informal agreements were developed (and are still in force), not only in the realm of labour relations but also in other fields, such as social and environmental issues, less so in Sweden than in Denmark and Norway (Lindvall, Sebring, 2005; Mailand, 2008).

3. WHY A COOPERATIVE AGREEMENT? SUBSTITUTES TO CORPORATISM.

As theorized by Tarantelli (1982, 1986, 1987), corporatism is a form of centralized representation of the interests of business, unions and the government capable of dealing with income distribution better than the market. Government intervention through taxes, services, etc. is essential for reconciling the dual nature of wages as cost to firms and income for workers. While contributing to the draft of social pacts, the government should also make credible plans for pursuing macroeconomic stabilisation and growth, by means of a consistent set of instruments, including the dynamics of wages agreed to through social pacts.

As said, corporatist agreements usually involve some kind of wage moderation, in exchange for the promise, especially, of higher employment and lower inflation or provision of public goods and services by the government ('economic exchange'). Sometimes, compensation takes the form of general policy attitudes reflecting on other relevant aspects of common life, such as environment protection or civil rights safeguard and the like ('political exchange').

The main compensation needed by the unions in reward for moderation of nominal (and, ultimately, of real) wages can be assurance of a high employment level. The amount of compensation depends on a number of institutional and political factors. These influence the extent of the conflict of interests opposing the unions to business and the government and the existence and extent of forms of implicit compensation or of substitutes of social pacts.

The factors on which implicit compensation depends (i.e., union's inflation aversion and partisanship) and its substitutes (i.e., government or central bank conservatism) are important in order to reduce the cost of social pacts to the unions deriving from wage moderation (and thus the amount of explicit compensation required). They also affect the costs and benefits of the other actors involved.

The costs of social pacts to unions can be reduced (or eliminated) by their inflation aversion. Unions might dislike inflation for a number of reasons. They may be concerned about the effects of inflation on variables different from real wages and employment or output, such as other incomes and financial investments not protected against price rises, fiscal drag, loss of competitiveness, risk of devaluation, etc. The unions' inflation aversion has been of the utmost importance in some countries (e.g., Germany) for the whole period after WWII, not only for some of these reasons (in particular, protection of unindexed incomes and competitiveness) but also for historical reasons. In the last two decades unions' inflation aversion has played an important role in other countries as well, particularly in Europe in conjunction with the need for disinflation related to fulfilment of the Maastricht criteria.

Partisan unions[1] might ensure moderation of wages simply in order to support the general political programme of the government or a politically affine government. Thus partisanship too could help to explain social pacts in the absence of explicit compensation, in countries where the other substitutes for compensation do not operate. However, in some cases, as in Germany in the 1970s, partisanship can have added to the unions' demands (Streeck, 2006).

Conservatism, i.e. a higher weight put by the central bank on inflation relatively to unemployment, is usually a substitute for side payments to unions or even for corporatism[2]. In fact, corporatism can be thought of as an institutional device alternative to conservative monetary policies and the monetarist recipe for ensuring macroeconomic stability (mainly price stability, and also employment).

The conservative central banker has characterized the discussion on macroeconomic stabilisation at least starting the early 1980s. The central idea of advocates of central bank conservativeness since Barro, Gordon (1983) is to create a credible commitment to a non-inflationary policy – eliminating the inflation bias. The possibility that conservativeness can really improve the economic performance is not without opposition (see e.g. Skott, 1997; Lawler, 2001). More recently, among others, Soskice, Iversen (1998, 2000) and Coricelli, Cukierman, Dalmazzo (2006) have shown that a conservative central banker can be beneficial also because he eliminates negative wage externalities in decentralized wage-setting systems. However, the conservative central banker is only an imperfect substitute for the lack of union coordination and wage centralization is a Pareto superior solution (Jerger, 2002; Acocella, Di Bartolomeo, Tirelli, 2007).

The conservative central bank can be thought of as a kind of 'forced' cooperation to settle the conflict between the union, on the one side, and business and the public sector, on the other, but – as said - is often not the best solution. A conservative central bank in a monetary union with active trade unions is indeed sub-optimal in the absence of fiscal coordination (Acocella, Di Bartolomeo, Tirelli, 2007). This institutional arrangement is, however, the kind of solution to the conflict chosen by designers of the institutional architecture of the European monetary union. This choice might

[1] Labour has been often partisan to governments led by left-wing parties, especially in Australia, Britain and Scandinavian countries, even in recent experience.
[2] In fact, in the case of Germany, Chancellor Helmut Schmidt regarded with a great sense of gratitude Bundesbank's restrictive action, which 'shielded him against the ever more expensive demands made on the government' by the unions (Streek, 2006: 22).

have found some inspiration from the economic literature of the 1970s and early 1980s, but the founding fathers of EMU appear also to pursue other goals than simple macroeconomic stability. One such goal could be that they wanted to settle the conflict over income distribution through monetary policy trusting that a small change in unemployment could effectively discipline wage claims. This was indeed the solution chosen in Anglo-Saxon countries in the 1980s. In other contexts, as in some Mediterranean or Scandinavian countries, such an option could not work due to the unions' resistance and social pacts or collective agreements were stipulated that in most cases avoided macroeconomic instability, at least in the short run, while having no pronounced effect on income distribution. Another explanation of the partial transfer to the EMU level of German conservative institutions only, and not of other German institutions (such as corporatist ones), could be that choice of other institutions was left to member countries, possibly with the idea that in any case they should care for keeping the German pace. Eventually, concertation in Germany could have played the role of an instrument for 'regime competition' within the Union, as it was indeed the case.

4. THE WEAKENING OF SOCIAL PACTS

The world of Keynesian-like institutions and policies implemented after WWII slowly deteriorated since the end of the 1970s. This was also so for social pacts. The 1980s were marked by a general and powerful thrust towards decentralisation, which was especially evident in the United Kingdom, the Netherlands, Ireland and Spain, with a reduced capacity of drafting incisive agreements.

At first sight, the 1990s brought a reversal of trends as a result of the increasing occurrence of national agreements and tripartite social pacts, formally, as in Finland, Greece, Ireland, Italy, Norway, Portugal and Spain, or informally and on a more continuous basis, as in Austria and the Netherlands. Failed attempts include Belgium, Germany, France, whereas it is not easy to classify the attempt to forge an 'Alliance for Jobs, Training and Competitiveness' in Germany after the change in government in 1998 (see also Bispinck, Schulten, 2000). However, pacts stipulated in the 1990s and in the following years ('second generation social pacts') appear to differ from the earlier ones in at least one important respect. They established wage moderation or reduction against reductions – rather than increases – in public expenditure and government action to protect employment and labour rights (Regini, 1997; Visser, 2002). This may be thought of as the consequence of new occurrences taking place, first in relation with the neo-liberal attack to Keynesian-like policies and institutions emerged in the 1980s in the United Kingdom and the USA. It was also the consequence of the specific requirements set by the Maastricht criteria for taking part to European Monetary Union and ensuring a smooth transition from a planned to a market economy of formerly Socialist countries, on the one hand, and of the increase in competition deriving from globalisation, on the other. A kind of ‘competitive corporatism’ (Rhodes, 1998) thus emerged, specifically in European countries as a way to face the challenges of the monetary unification, the transition, economic integration and globalisation.

Altogether, after the demise of the Bretton Woods regime, these events changed the kind of economic, social and political model that had ruled in the thirty years or so after WWII, based on Keynesian policies, the welfare state and national neo-corporatism.

The balance of political power had shifted against labour because of direct and indirect competition from foreign labour. Then unions began suffering a loss of confidence among their constituencies, lost militancy and had to accept new (lower) bargaining levels and standards.

Business too faced the new challenges of foreign competition in product markets. However, it also saw new opportunities deriving from access not only to these markets but also to foreign labour markets. This contributed to weaken it from the constraints of the neo-corporatist game. In fact, as Streeck (2006: 20) notes, business had never been enthusiastic about institutionalized tripartism, perceived as a vehicle for organized labour to insert itself in the centre of economic policy-making and to impose constraints and encroachments on managerial prerogatives. According to Streeck (2006: 20), tripartite cooperation was accepted by the business class for reasons of political expediency as a second-best solution, or as the lesser evil compared to unbridled shop-floor militancy. They were ‘afraid of political interference, in a “negotiated economy”, with their freedom to invest or not to invest; and increasingly believed, rightly or not, that labour and the democratic national state were responsible for what they experienced as an exacerbating profit squeeze.’

4. A FUTURE FOR CORPORATISM?

The decline of corporatism is thus tied to globalisation and competition between workers across countries. Business can easily play one country’s workers off other countries’ by moving products and capital from one place to another. In a historical perspective, ‘competitive corporatism’ has been an attempt to fill new wine in an old bottle, but seems to have finally led the regulatory institutions of capitalism to a state of torpor.

Reflecting on the fact that these institutions were born when the playing field was common to the constituent parts of corporatism, within the nation state, a possible way out could derive from finding a new common playing field, at a wider, international level. This would require globalisation of labour and government. It is, however, not an easy prospect to build upon, not only because there are difficulties in globalisation of labour (as some past experiences have shown)[3], but also as even more difficulties

[3] However, recently the International Trade Union Confederation has been established and global union federations have been reformed (Evans, 2010).

arise on the side of global public governance. Compounding at a global scale the interests once (and to some extent still) represented or mediated by national governments would be even more difficult than the already difficult task of representing and mediating the interest of labour and business at this level. Doing the same at a regional, e.g. European, level might have a higher chance of feasibility. In any case, for specific issues or to face specific contingencies national social pacts can certainly continue to play a role.

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