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The Resurgence of National Social Bargaining in Europe:

Explaining the Italian and Spanish Experiences

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I. Introduction

In the early 1980s, the neo-corporatist model of centralized bargaining between employers, unions, and governments came to be seen as an important mechanism for addressing problems of macro-economic adjustment. A significant body of empirical work suggested that centralized bargaining correlated with better macro-economic performance in terms of employment, price-stability, and/or the trade-off between these two variables (Schmitter, 1981; Cameron, 1984; Bruno and Sachs, 1985; Bean, Layard, and Nickell, 1986; Tarantelli, 1986). The principal explanation offered for these findings was that corporatism allowed social actors to solve important collective action problems, in particular those faced by labor unions in the process of wage negotiations and involving the negative externalities of excessive wage demands on inflation and employment. Centralized bargaining was also seen to allow for the possibility of coordination between wage bargainers and macro-economic policy authorities, allowing the latter to pursue less restrictive policies, and as a way to reconcile the imperatives of external competitiveness with such Social Democratic (and to some extent Christian Democratic) ideals as social protection and reduced income disparity. In this sense, it also came to be seen by many as the basis for a "European" model of adjustment based on explicit social consensus rather than on anonymous market forces.

By the late 1980s, much of this optimism about the benefits of centralized bargaining had faded. First, political economists began to observe that attempts at economic adjustment through centralized bargaining (or "concertation") appeared to be far more successful in some countries than in others. Much of the literature therefore shifted to the task of identifying the conditions that distinguished the successful cases from the unsuccessful ones, and suggested that concertation efforts were only viable in a small range of countries that enjoyed a very particular set of institutional conditions. Later in the decade, corporatist arrangements came under pressure in many of the Northern European countries once seen to exemplify this model of economic adjustment (notably Sweden). This, in turn, convinced many observers that the viability of this "European" alternative to the liberal market had been undermined by the evolving nature of international market competition even in countries with ideal institutional legacies; specifically, by the integration of financial markets, changes in the occupational structure of most industrialized countries (the rise of service sector employment in relation to industrial employment), and changes in production regimes away from the Fordist mass-production model toward various forms of flexible quality production.[1] These economic developments are believed to have spurred new interest coalitions and fiscal constraints that militate against corporatist bargains and in favor of a general decentralization of bargaining.

By the mid -1990s, the course of events in Europe, however, seemed again to challenge the received wisdom. While there has been a clear shift away from the once highly centralized pattern of wage bargaining in some countries, notably Sweden, there has been a return to national level pacts on wages and other issues (in particular labor market regulation and pension reform) in many others. Some of these countries, such as the Netherlands, Denmark, or Norway, have long-running traditions of politically mediated bargaining between employers and labor unions. Others, such as Ireland, Portugal, Italy, or Spain, do not have such long-running traditions. The first two (Ireland and Portugal) have nevertheless sustained successful adjustment strategies centering on negotiated incomes policy agreements for now almost a decade, while in the latter two (Italy and Spain) there has been a return to national social bargaining in the 1990s.

This paper examines the return to centralized social bargaining in the latter two countries, Italy and Spain. The experience of these two countries is particularly striking from the standpoint of the comparative literature for two reasons. First, in both countries governments and social actors have sought to re-institutionalize bargaining at the center after experiencing a period of considerable decentralization in bargaining. This decentralization followed the collapse of earlier concertation efforts in the 1980s and seemed to confirm the view that increased market competition and integration would force a shift toward decentralized market adjustment. The recent reversal in this trend thus raises a number of important questions. Secondly, both countries lack the key attributes commonly associated

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[1] The first is seen to limit the willingness of employers to participate in consensus bargaining with unions, and to have reduced the leeway for social spending, and hence the ability of governments to engage in "political exchange" with labor unions (see Pizzorno, 1978). The second and third factors are believed to exacerbate conflicts of interest between workers, and hence to undermine the consensus necessary for centralized bargaining on the labor side (for a review of these arguments, see Pontusson, 1992 and Wallerstein and Golden, 1997).

with successful corporatist bargaining in the comparative literature. Their economies do not fit the profile of small, open economies in which (following the logic laid out by Katzenstein [1985]) a very high degree of vulnerability to external economic conditions creates an overriding interest on the part of social actors in the achievement of consensual adjustment strategies (an argument that might be adapted to help explain the recent Irish experience). Italy and Spain also lack one of the most important institutional characteristics identified in the literature as a prerequisite for successful centralized bargaining: unitary and encompassing labor and employer organizations. The return to centralized social bargaining in these two countries thus paradoxically challenges both the view that market integration will lead governments and social actors to pursue a decentralization of bargaining, as well as one of the central insights of the earlier literature on corporatism (namely, the primacy of pre-existing institutional conditions).

One view that is sometimes offered to explain these seeming paradoxes is that the recent resurgence of national social bargaining in countries such as Italy and Spain has simply been a function of the imperative to join EMU, and that it is therefore likely to be of only passing significance. Contrary to this view, this paper argues that the recent experiences of Italy and Spain are of significance beyond the run-up to EMU, and that they may even offer important insights into the role that centralized social bargaining may play in the EU at large after monetary union. Although abetted by the imperative of inclusion in EMU, the return to national framework bargaining among governments, employers, and unions in these countries, it is argued here, has other, more fundamental causes. It reflects the inability of employers to control costs, and the failure of governments to achieve macro-economic policy objectives in the absence of some structure of wage coordination that might serve as an alternative to framework bargaining, during the late 1980s and early 1990s. During this period, governments in both countries sought to impose macro-economic stability without the benefit of framework agreements, betting that wage-restraint could be achieved in a more de-centralized bargaining context by relying on a tight monetary policy and a strong currency stance. This strategy, however, backfired as employers found it difficult to control labor costs in a fragmented and decentralized bargaining context, and as the overvaluation of the currency caused by tight monetary policies rendered the two economies more, rather than less, inflation-prone. The lack of a cooperative bargaining framework on wages also undermined progress on other critical objectives on the national policy agenda, most notably labor market and pension system reforms.

These negative experiences suggest that there are powerful incentives for governments (and at least for some employers) to seek central agreements with unions on wages and other aspects of labor market regulation precisely where employers and unions are not organized in an entirely cohesive fashion. These incentives are underestimated in much of the existing political economy literature, which has been geared primarily to identifying the institutional conditions for successful centralized wage-bargaining from a comparative statics perspective and fails to consider the incentives faced by governments, employers, and labor unions to seek framework agreements at either the national or semi-national (regional or sectoral) levels where those conditions are missing.

The inability to respond to international pressures and solve basic economic problems in the absence of some form of national framework bargaining in Italy and Spain, and the subsequent effort by governments and employers to create such a framework in these countries, may offer a preview of the incentives that other European governments may face once their own economic governance institutions are challenged by the move to a European wide monetary policy regime. At the very least, the experiences of these countries suggest that international competition and integration also create pressures that run counter to an end to corporatist bargaining and negotiated incomes policies in Europe.

In the following section, I review some of the literature on corporatist bargaining, in order to place the Italian and Spanish experiences in context. As the discussion will make clear, much of this literature leads us to expect these countries to be amongst the least likely cases for the successful resumption of national social bargaining. In the following section I offer an overview of the two cases and consider various explanations that have been offered to explain the national social pacts of the 1990s (including the onset of EMU and the need to sustain cooperative relations with workers at the micro-level of the economy). Although these explanations capture important elements of the Italian and Spanish experiences, they tend to overlook another significant cause of the return to centralized bargaining: the failure of governments to impose wage restraint unilaterally through tight monetary policy measures and to achieve other national policy objectives in the absence of framework agreements. In the last section, I consider the implications of the Italian and Spanish experiences for the broader debate on European Monetary Union.

I. Institutional Typologies and Developments in Italy and Spain.

One of the features of the literature on corporatist bargaining is that the theoretical debate has been dominated in a very large measure by the experiences of a limited set of countries, and more specifically, by a particular set of contrasts among these countries. The most influential of these contrasts has been that between the relatively successful corporatist experiences (at least until very recently) of the so-called "organized" economies of Northern and Central Europe on one hand, and the unsuccessful, early attempt to institute a corporatist response to economic crisis in the United Kingdom.

The collapse of the British experiment with social bargaining in the 1970s, and that country's subsequent deregulatory shift towards the liberal-market model did much to establish the notion that negotiated adjustment policies could work only under certain institutional conditions. The latter-day literature on corporatism therefore focused on identifying these conditions by contrasting the institutional characteristics of "successful" and "unsuccessful" cases from a comparative statics perspective. The purpose of much of this work has been to identify alternative institutional equilibria among market economies that might allow us to understand why attempts at social bargaining are more successful in some countries than in others, but also what the available institutional options (and hence likely pattern of change) are for political economies when an institutional equilibrium is disrupted or certain institutional conditions are missing.

The two most important ideas to come out of this literature concern the level at which wage bargaining takes place and the manner in which social actors are organized. As regards the first, the main work of reference is a study by economists Lars Calmfors and John Driffill (1988), which showed evidence of a hump-shaped relationship between the degree of centralization in wage bargaining and the level of unemployment across industrialized countries, so that unemployment was lowest in countries that had either highly centralized or highly decentralized wage-bargaining institutions, while countries whose wage-bargaining occurred at an intermediate level of centralization performed worst. The Calmfors and Driffill findings were based on data for the period 1974-1985, and the hump-shaped relationship ceased to apply following the rise in unemployment in countries with highly centralized systems in the late 1980s. The study has also been criticized on a number of important conceptual grounds (see Golden, 1993; Soskice, 1990). Nonetheless, the model continues to have a strong influence on theoretical work in the area because of the intuitive appeal of its underlying argument: that highly centralized bargaining allows union leaders to internalize the negative externalities of excessive wage settlements (inflation, and its consequences) in deciding their bargaining positions and thus to solve an important collective action problem faced by labor in the collective bargaining process.

While economists such as Calmfors and Driffill have focused on the level at which wage bargaining takes place, political scientists have contributed to the debate by pointing to the importance of how social bargainers are organized. It is generally accepted that centralized bargaining works best where labor is organized in an inclusive or "encompassing" fashion (Olson, 1982: 47-58). Although there is some debate over the precise form of organization that this implies (see Golden, 1993), the most important criteria appear to be that unions be organized in a unitary fashion, so as to encompass all categories of skills and crafts within sectors; that they enjoy a monopoly of representation over the categories of workers that they represent; and that there be only a small number of unions at the national level (Cameron, 1984; Crouch, 1985; Pontusson, 1992; Golden, 1993). These features are seen to minimize the costs that union leaders incur when agreeing to wage restraint and to ensure compliance with agreements after they have been reached. Where, by contrast, these conditions are missing, unions agreeing to wage restraint in the bargaining round face the penalty of losing members to competing unions or revolts from affiliates that may choose to exploit their market position to extract better bargains.

Lastly, a number of authors have pointed out that the organizational features of employer associations may be as important as that of unions. Where employers are organized in a relatively unitary or cohesive fashion, they may also see more benefits in bargaining with unions in a centralized fashion and be able to deliver more consistently on their side of the bargain (Swenson, 1991; Soskice, 1991). Cohesive employer associations may also help businesses to develop and maintain supply-side arrangements that result in greater productivity increases, including vocational training systems that secure higher skill levels among workers, and this in turn allow firms to go along with real wage increases while keeping unit labor costs down (Finegold and Soskice, 1988; Hall, 1997).

The two-equilibrium view that emerges from this literature has been principally concerned with distinguishing the dynamics of the organized economies of Northern Europe from the liberal-market model (exemplified by the United States) that dominates the mainstream economics literature. Yet this conceptual framework renders a highly deterministic view of possible paths for so-called "under-organized" economies, in particular as regards the potential role of organized social bargaining in supporting objectives such as employment and competitiveness. The notion that social bargaining is only compatible with good economic performance in the presence of highly organized economic actors leads to the conclusion that countries falling into an intermediate category of organization have little chance of sustaining such objectives through centralized social bargaining (or concertation) efforts. If this is so, then adjustment in these countries requires the abandonment of concertation efforts in favor of a radical decentralization of wage-bargaining along with radical deregulation of employment conditions (see for example Crouch, 1994: 194). Stated differently, the model suggests that successful adjustment in these countries requires a shift toward the American model of labor market regulation (that is, emulation of the British solution). And to the extent that economically efficient equilibria are believed to define the range of possible political outcomes in the medium term, this diagnosis takes on the character of a prediction.

The experiences of Italy and Spain up until the 1990s fit relatively easily into this conceptual framework. Concertation efforts centering on negotiated incomes policies took place in both countries during the 1970s and 1980s but ended in collapse. In Italy, this effort involved two principal attempts to establish a stable process of framework bargaining. The first of these attempts led to an agreement in 1977, in which the three major union confederations (CGIL, CISL, and UIL), which had formed an alliance - the *Federazione Unitaria* - to negotiate with the government in the early 1970s, agreed to voluntary wage restraint in return for a number of concessions in government policy, a law on industrial restructuring and reconversion, and also, according to some observers, as a quid pro quo for the PCI's de facto participation in government (see Flanagan, Soskice, and Ulman, 1983: 546-56). The formal process of negotiations initiated in 1977 also yielded agreements on vocational training and on pension reform in 1978. Yet it ended in 1979, when the PCI was forced out of the ruling Center-Left parliamentary alliance and employers toughened their position (see Flanagan et al., 1983; Regini, 1984).

Formal tripartite negotiations were reinitiated in Italy in 1983, leading to an historical incomes policy agreement that centered on the revision of the *scala mobile* (the automatic wage floor indexation scheme that was revised in 1975 so as to allow for a substantial upward wage compression). However, disagreement over the implementation of the 1983 agreement led to a split in the *Federazione Unitaria* and brought this second attempt at concertation to an end when the Communist wing of the CGIL refused to sign on to a new agreement in 1984.

The Spanish experience with concertation in the 1970s and 1980s was more successful in some ways than the Italian. A negotiated incomes policy was effectively sustained for almost a decade (from 1978 to1986). The process began with the *Pactos de la Moncloa* of 1978 which, although not negotiated by unions and employers, were signed by all major political parties as part of the political regime transition. The *Pactos* were followed by five additional agreements: a 1979 bilateral agreement between the unions and the employer association, CEOE, setting the principles that were to govern concertation, and four subsequent agreements that covered wages from 1980 through1986 (with the exception of 1984). All of these agreements were signed by the UGT (the Socialist trade-union confederation), the CEOE, and in some cases the government. The Communist confederation, CC.OO., however, refused to sign on two occasions (the 1979 agreement covering 1980-81, and the 1984 agreement covering 1985 and 1986). Nevertheless, because Spanish legislation creates strong incentives for workers to adhere to any agreement signed by a “representative” union, actual wage settlements remained within the negotiated ranges for as long as the national agreements were in effect

In spite of its apparent effectiveness, the Spanish concertation process broke down in 1986. Having agreed to a substantial decline in real contractual wages during the first term of the Socialist (PSOE) government that took office in 1982 by tying wage settlements to inflation assumptions that were consistently overshot, the UGT demanded an upper wage range limit 2 points above the government's inflation assumption.[2] The government, however, preferred to walk away without an agreement to cover private sector wages for 1987-1988. The rift became irremediable a year later when, after another round of failed negotiations,[3] the UGT decided to break its support for the government and to join the CC.OO. in a more militant stance. In late 1988, the two confederations joined forces in a general strike against the government, and the following year the UGT leadership refused to campaign in favor of the PSOE in the general elections (see Gillespie, 1990; Espina, 1991). Thereafter, several attempts by the Socialist government to reestablish the negotiated incomes policy process failed to bring the unions back into the fold.

The failure of these early experiments with centralized social bargaining in the two countries is commonly explained in terms of the lack of institutional capacity to support an effective incomes policy on the part of Spanish and Italian labor unions (see Crouch, 1985; Boix, 1995). The most important organizational feature highlighted in this regard in the

[2] Real contractual wages do not necessarily reflect final salaries for all workers, as there was considerable wage drift in the 1980s (Giráldez Nuñez, 1998). However, such drift (defined as the difference between contractual wages and measures of earnings per hour based on survey data from the *Encuesta de Salarios* of the INE) appears to have applied overwhelmingly to the wages of skilled workers in Spain. In the case of unskilled workers, existing studies find very little difference between agreed and actual wages (see Lorences and Felgueroso, 1994; Abellán et al., 1997). The accuracy of the growth in earnings measures based on the sample of the *Encuesta de Salarios* is also called into question by the fact that it consistently exceeds “compensation per employee” measures calculated by the INE from aggregate National Accounts data. The latter measure, however, does not distinguish between salaries and employer social security contributions.

literature is the ideologically divided nature of the labor movements in the two countries and the fact that parallel national confederations vie with each other for membership. This competition limits the degree of union monopoly, and is therefore believed to limit the ability of unions to enforce accords (Golden, 1993). It is also believed to make union solidarity particularly difficult, because it allows defecting unions to "free-ride" on a more militant posture in attracting members and therefore raises the costs for unions that sign on to wage restraint (see Espina, 1994).[4]

Such explanations of the failures of the early concertation experiments in Italy and Spain seem to confirm the notion that countries lacking the institutional pre-conditions of the organized economies will be forced to abandon centralized bargaining efforts in favor of a significant decentralization of bargaining and deregulation of labor markets. A number of authors have challenged this interpretation of the early concertation experiences in the two cases, pointing out that there are effective functional equivalents to a unitary labor organization and alternative explanations for the collapse of concertation in the two countries (see Regini, 1984; Pérez, forthcoming). The utility of the comparative statics perspective in explaining institutional developments is also called into question by the turn of events in the 1990s in the two countries. Contrary to the prediction that market competition and integration would favor a progressive decentralization of bargaining and the kind of deregulation of labor markets pursued a decade earlier in Britain, the decade has seen the resumption of social bargaining at the national level, a re-centralization of wage bargaining, and the further formalization and articulation of collective bargaining as an institutional mechanism of adjustment.

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[3] In the 1988 negotiations, the government insisted on limiting wage growth to an extremely conservative inflation assumption of 3 percent, even though a similar assumption for 1988 was already being widely overshot.

[4] In addition to the organizational characteristics of unions, other features of the institutional setting of wage bargaining are also believed to have militated against the success of concertation efforts in the two countries. Most significant, in this regard, were the high degree of sectoral fragmentation and the coexistence of several levels of bargaining that were not clearly articulated. This structure of bargaining is said to have put upward pressure on wages by allowing "pay increases in the most productive sectors [to spread] to other sectors" or by producing a cascade-effect in which higher-level bargains ended up serving as floors to be topped in lower-level bargains (OECD, 1990: 24; Espina, 1994) as well as to have impeded wage moderation in other ways (see Boix, 1995; Paramio, 1992).

This turn of events has been most explicit and dramatic in the Italian case. Following the break-down of negotiated incomes policy in 1984, industrial relations underwent a period of decentralization, with an increasing proportion of wage bargaining taking place at the firm-level (Katz, 1993; Locke and Baccaro, 1996). Yet, by the end of the decade, national-level negotiations to control the cost of labor had resumed. Two agreements, signed in 1990 and 1991, remained at the level of declarations of principle because of persisting disagreement over the reform of the *scala mobile*. However, in 1992, in the context of the mounting economic and political crisis, the unions agreed to the abolition of the *scala mobile* and to a two-year freeze on company level bargaining to support the governments' emergency program of fiscal consolidation (Regini and Regalia, 1997).

A year later, in 1993, a new tripartite agreement was signed which institutionalized the new incomes policy framework, and for the first time attributed distinct roles to different levels of collective bargaining. According to the new system, national industry-level bargains (which are subject to centralized framework agreements) adjust pay-scales to the expected rate of inflation while lower-level bargaining (at either the firm or locality level) is given the function of distributing additional productivity increases. This articulation of the different levels of collective bargaining created a more stable and institutionalized system of industrial relations than had previously been achieved. In addition, the new system of national-level framework bargaining (which includes two annual meetings to "`define common objectives concerning the expected inflation rate, growth of GDP and employment' and `to verify the coherence of behavior by the parties engaged'") also made possible a historic agreement between the government and the unions on pension reform in 1995 (Regini and Regalia, 1997: 213-17).

The turn of events in the Spanish case has been somewhat subtler than in Italy. There has been, as of yet, no return to a formally negotiated incomes policy at the national level. Attempts by the PSOE government in 1990 and 1992 to reach a new kind of framework agreement that would have tied wages to productivity increases were unsuccessful. Another attempt broke down in 1993 when the unions refused to go along with labor market legislation that would abolish all remaining statutory labor ordinances and leave it up to the social partners (but not oblige employers) to negotiate agreements on those aspects of employment that would thus be deregulated. (These included many aspects of functional flexibility, including working hours, but also the pay of temporary workers). After the collapse of negotiations, the government imposed the reform measures unilaterally, setting off another general strike and paralyzing the collective bargaining round in many sectors in 1994.

However, in the period since the stand-off over labor market reform, the industrial relations climate in Spain experienced a very significant transformation. Following the 1994 general strike, employers and unions signed a framework agreement to regulate the devolution of regulatory competences to the collective bargaining process, defying the expectations of those (including union leaders) who had feared that the loss of the ordinances would produce a deregulatory spiral. Far from a Thatcherite deregulation or Swedish employers' offensive, the main effect of the 1994 reform has been to de-politicize the industrial relations environment and to galvanize employers and union leaders into a more collaborative relationship. The collective bargaining process has been further institutionalized and gained in importance, as employers and unions have begun to negotiate on a wider range of issues, and as the number of firms and workers covered by such agreements has increased.

Equally, if not more, significant is the fact that, although the 1994 labor reform was designed to facilitate a decentralization of collective bargaining away from the national sectoral and toward the regional and company levels, the overall trend in collective bargaining since the reform has been in an opposite direction. Although the number of agreements reached at the firm level increased from 2642 in 1993 to 3270 in 1996, the proportion of workers covered by these agreements decreased from 13.5 to 12 percent. There has also been an increase in the number of agreements reached at the regional (autonomous community) level, yet the proportion of workers covered by these agreements did not rise above 5% in 1996 (less than a 2% increase from 1994). The single most significant shift in the structure of collective bargaining, rather, has been from lower levels of bargaining (in particular the provincial-sectoral level) toward the national sectoral level, which rose to cover 30 percent of workers in 1995 from 22 percent in 1993. This upward shift has been accompanied by a process of consolidation in the highly fragmented sectoral divisions in collective bargaining, reflecting the efforts by employers and unions in several important sectors to achieve a greater measure of coordination so as to address sectoral objectives. The most recent example is a framework agreement reached by the UGT and CC.OO. with *Confemetal* (the sectoral employers' association) to re-structure collective bargaining at the national level in the metalworking sector (EIRR, May 1998).

Although there has not been a return to formal national agreements on wages in Spain, there has been a return to national-level social bargaining on other key issues in the 1990s. One of these was the bilateral 1994 agreement between employers and unions to regulate the devolution of those labor market parameters previously covered by the labor ordinances. There have been two further agreements since the Socialist electoral defeat in 1996: one in 1996 (between the new conservative government and the unions) on pension reform, and another in 1997 (between the employers and the unions) on reducing dismissal costs for permanent workers. This last agreement is of particular significance as dismissal costs were the single most contentious component of labor costs in the eyes of Spanish employers and the unions refused to negotiate away any protection afforded by this aspect of Spanish labor law under the Socialist government. The quid pro quo in 1997 was a promise by employers to convert a significant number of temporary contracts (legalized by the PSOE government in 1984 and accounting for over a third of total employment contracts by the late 1980s) into open-ended ones along with government incentives (reduced social security tax contributions) for new hires with permanent contracts.

Lastly, although the new social pacts have not produced formal incomes policy agreements in Spain, there are clear indications that the unions have been pursuing a significant measure of national coordination in wage bargaining as part of their new relationship with employers. In the wage round that followed the 1997 labor market agreement, the unions significantly moderated their wage demands, opting for wage demands that were minimally above expected inflation for 1998, and, with few exceptions, recent wage settlements have reflected this criterion (EIRR, December 1997:10; EIRR, February 1998: 289; *El País*, August 4, 1998).[5] The 1997 labor market agreement also calls for a clearer articulation of various levels of collective bargaining. Although it did not enforce as explicit a division of functions as the

Italian agreement of 1993, it does stipulate that it would be desirable to reserve some collective bargaining items, including wage scales, for national-level sectoral bargains, while making room for the possibility that such bargains remit the determination of wage scales to lower levels (*ABC*, September 4, 1997: 55).

Explaining the return to national social bargaining

The recent return to national social bargaining in Italy and Spain challenges the notion that such bargaining can only succeed in the context of unitary and encompassing social actors and that economic pressures will lead these countries to opt for a decentralization and deregulation of labor markets similar to that carried out in the UK. To be sure, many of the changes in labor market regulation implemented in the two countries over the last decade are intended to create greater flexibility in labor costs and work conditions (the abolition of the *scala mobile* in Italy; the abandonment of statutory labor ordinances and the reduction in dismissal costs in Spain, for example). However, the most important of these regulatory breakthroughs have been accomplished only through the return to centralized bargaining. The abolition of labor ordinances in Spain is an exception, but it itself has implied an expansion of the role of collective bargaining in the economy. Thus, the general trend that can be observed in these countries has been toward a greater institutionalization of collective bargaining practices and a renewed reliance on bargaining at the center to break regulatory deadlocks and set framework conditions for lower level bargaining. This has included a return to negotiated incomes policy agreements in Italy and more informal wage coordination by the unions in Spain. What explains the sharp discrepancy between the expectations set out in much of the theoretical literature and this turn of events in the two countries?

One possibility is that the return to national level bargaining is a simple function of the effort by governments to ensure their country's participation in EMU. Faced with the deadline to meet the EMU convergence criteria in the face of major fiscal challenges and continued

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[5] A similarly coordinated response in wages could be observed following the 1994 agreement to regulate collective bargaining with employers.

inflationary pressures, so goes this account, Italian and Spanish authorities have sought agreement with the unions as a way to break persisting standoffs over pension and labor market reforms.[6] The implication is that the return to centralized bargaining and to a more collaborative stance on the part of employers and governments are likely to be temporary phenomena, and that developments in the longer-term will in fact bear out the conventional prediction of a shift away from centralized bargaining in these countries.

There is little doubt that the imperative to meet the EMU criteria offered Italian and Spanish public authorities an important new motive to seek agreements with the unions in the 1990s. This motive seems particularly relevant, for example, in explaining the decision by governments to seek agreements on pension reform. However, other aspects of the return to centralized bargaining in Italy and Spain cannot as easily be accounted for in these terms. The institutionalization of a national incomes policy framework in Italy and the move in both countries to give national-sectoral (rather than lower level) bargaining a primary role in wage setting are two such examples. It is important to note that this upward reconfiguration of wage bargaining was strongly favored by employer associations in both countries, and that the maintenance of a dual structure in Italy was due to the insistence of the unions (Locke and Baccaro, 1996: 299; Royo, 1998: 186 (fn)). Given the premise that wage restraint is best achieved through decentralization of wage-bargaining in under-organized economies, it is unclear how the short-term objective of meeting the EMU deadline would lead governments and employers to favor (or agree to) such a re-centralization of collective bargaining. It is also striking that in Spain this re-centralization has occurred in the context of a labor law intended to support the decentralization of bargaining.

Some observers of the Italian industrial relations scene have pointed to other, more fundamental, causes for the revival of centralized collective bargaining. Regini (1997) argues that the return to concertation in Italy reflects the renewed importance of the “state” arena in the

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[6] In the Italian case, this effort to gain the unions’ consent is also said to have been encouraged by the political crisis, which challenged the legitimacy of public authorities and the employers who were hit by corruption scandals and hence sought the unions’ collaboration as a means of legitimating the measures necessary to meet the EMU criteria. See Salvati, 1995.

competitiveness of businesses. While the political agenda of Italian employers in the 1980s focused on the problem of flexibility in wages and hiring practices, new production technologies in internationally competitive sectors simultaneously increased the need for cooperative relations within firms. The result during the late 1980s was a surge in consultative management practices (or micro-concertation) in the more competitive and innovative firms (Regini, 1995). By the end of the decade, however, the need to control costs led to an attempt to raise this cooperation to a higher level. *Confindustria* and the public enterprise association, *Intersind*, sought a deal with the unions aimed at extracting a reduction in social security contributions from the state. Yet this attempt at a bilateral agreement broke down when *Confindustria* balked at a union demand to extend work place representation rights to small firms (Regini and Regalia, 1997). It was only when the crisis of the Italian political system and the 1992 ERM currency crisis brought the economy's vulnerability to external pressures into full view that the government was able to persuade both parties to agree to the restructuring of collective bargaining around the 1992/93 incomes policy deals.[7]

Regini (1997) notes a fundamental difference between the Italian concertation process of the early 1990s and that of the early 1980s: whereas the first was premised on state compensation to the unions in return for wage restraint, the new concertation is based on a devolution of regulatory powers to the collective bargaining process rather than fiscal side payments (see also Treu, 1994; Baccaro, 1998). The new concertation exemplified by Italy, he suggests, is thus less geared toward redistributive outcomes. It constitutes rather an institutional mechanism to support international competitiveness through consultative practices that are able to generate social consensus. The new macro-concertation of the 1990s thus represents a logical extension of the micro-concertation of the 1980s.

Regini's analysis resonates with a slightly different argument forwarded by Martin Rhodes (1997) who argues that the recent Italian experience exemplifies the shift toward a new "competitive" corporatism which is made necessary by the conflict between two countervailing economic pressures: the need to control costs, which induces employers to seek external labor

[7] That is, abandonment of the *scala mobile* in favor of pegging wages to future inflation, bi-annual centralized consultation meetings, national industry contracts, and work-place representation reform.

market flexibility (that is, flexibility in hiring practices), and the need for cooperative relations at the firm level that can facilitate internal flexibility yet may be undermined by excessive external flexibility. The new corporatism in Europe, Rhodes argues, reflects an attempt by employers to reconcile these two needs (limiting the reliance on external flexiblity in order to maintain cooperative relations within firms while controlling costs) in order to remain competitive.

The analyses of Regini and Rhodes represent powerful counter-arguments to the notion that international economic pressures unambiguously favor the deregulatory path followed by Britain in the 1980s. Controlling costs by limiting employment protection and dismantling consultative mechanisms inside and outside firms may well not be worth losing the cooperative attitude from workers that allows firms to adjust their production practices and compete on quality rather than price. However, it is not entirely clear how this micro-economically based explanation of the need for cooperation and consultation within firms explains the return to centralized bargaining over wages and employment conditions. After all, one of the principal arguments in favor of decentralizing bargaining is to allow a closer match between wages and firm-, sector-, or locality-specific conditions. And, as the literature on many Northern European countries indicates, changes in production regimes and micro-economic developments are just as likely to generate a shift toward lower levels of bargaining either through strategic choices on the part of unions or inter-class alliances against centralized bargaining (Thelen, 1991, 1993; Pontusson and Swenson, 1995; Iversen, 1996).

The micro-economically centered analyses offered by Regini and Rhodes are important in explaining the lack of support for a British-style deregulation of labor markets in Italy and Spain. However, they neglect another critical aspect of the recent experiences of these countries: the inability of employers to impose wage restraint and that of governments to end inflationary expectations in the absence of a centralized bargaining framework. This failure of the institutional alternative to national level bargaining available in these countries (relatively decentralized and fragmented bargaining coupled with a tight monetary policy) is reflected in the evolution of real wages and unit labor costs in the 1980s and 1990s.

In Italy, the incomes policy agreement of 1983 had been instrumental in supporting a substantial deceleration in wages and prices during the early 1980s. This disinflationary process continued through 1986, while Italian authorities combined a relatively moderate monetary stance with periodic devaluations (in 1985, and again, de facto, in the 1987 ERM realignment). Yet it came to a halt in 1987, when wage growth accelerated again, first in the public sector and thereafter in the private sector. The renewed rise in inflation led the Italian authorities to tighten their monetary policy while resorting to quantitative credit controls to stop capital outflows. Continued pressure on the lira, however, forced another currency realignment in January 1990. After this experience, Italian authorities switched to a new policy stance of trying to break the inflationary trend in wages by lifting remaining capital controls, shifting the lira into the narrow 2.25 percent ERM band (from its traditional 6 percent band), and making a firm commitment to maintain this parity through the necessary monetary policy measures. This new "strong currency" policy course resulted in a significant loss of competitiveness and a large widening of Italy's current account deficit from 1989 to 1992. Yet, as Table 1 indicates, it had remarkably little impact on either wage growth or inflation.

A rather similar experience can be observed in the Spanish case. The inflationary surge in wages and labor costs that occurred during the initial stages of the transition to democracy was brought to an end by the 1978 *Pactos de la Moncloa*. Thereafter, real wages not only stagnated but in fact declined for a number of years in the context of the incomes policy agreements signed by the UGT in the 1980s. This trend, however, came to an end in 1987, the first year not covered by a framework wage agreement. Real wage growth turned positive for the first time in almost a decade, but the relative moderation in wage settlements (that is, decline in real unit labor costs) continued through the period 1986-88, while it looked like the concertation process might still be restored. However, after the definitive breakdown of negotiations in 1988, real wage growth accelerated significantly, reflecting the effort by the unions to recoup some of the real wage losses suffered during the previous decade.

The acceleration in real wage growth in Spain at the end of the 1980s also occurred in the context of a very tight monetary policy stance. Interest rates were allowed to rise to such levels in Spain at the end of the decade as to make the peseta the strongest currency (closest to its upper band) in the ERM for almost three years following its 1989 entry into the system. Yet, as in Italy, this high interest rate/strong currency strategy was remarkably ineffective in bringing down consumer prices. In fact, the unions were able to extract some of their highest real wage concessions from employers after the authorities raised interest rates even further in order to maintain the peseta in the ERM in 1992.

Table 1. *Contractual Hourly Wages, Inflation, and Real Contractual Wages*
(percentage change over previous year)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Spain															
contractual wages*	12	11.4	7.8	7.9	8.2	6.5	6.4	7.8	8.1	7.9	7.2	5.4	3.4	3.7	3.8
compensation per employee	13.7	13.8	10	9.6	9.1	6.8	7.4	6.9	9.5	9.5	10.4	6.7	2.2	2.2	3.8
CPI	14.4	12.2	11.3	8.8	8.8	5.2	4.9	6.8	6.7	5.9	5.9	4.6	4.7	4.7	3.6
real contractual wages	-2.4	-0.8	-3.5	-0.9	-0.6	1.3	1.5	1	1.4	2	1.3	0.8	-1.3	-1	0.2
real compensation per employee	-0.7	1.6	-1.3	1.2	0.3	1.6	2.5	0.1	2.8	3.6	4.5	2.1	-2.5	-2.5	0.2
Italy															
contractual wages	17.0	15.2	11.5	10.7	4.8	6.5	6.1	6.1	7.3	9.8	5.4	3.7	3.3	3.1	1.8
compensation per employee	16.2	16.0	11.8	10.1	7.5	8.2	8.7	8.7	10.7	8.7	5.8	3.7	2.9	4.8	5.5
CPI	16.4	14.9	10.6	8.6	6.1	4.6	5	6.6	6.1	6.5	5.3	4.2	3.9	5.4	3.8
real contractual wages	0.6	0.3	0.9	2.1	-1.3	1.9	1.1	-0.5	1.2	3.3	0.1	-0.5	-0.6	-2.3	-2
real compensation per employee	-0.2	1.1	1.2	1.5	1.4	3.6	3.7	2.1	4.6	2.2	0.5	-0.5	-1.0	-0.6	1.7

Sources: CPI: OECD, *Economic Outlook*; Contractual hourly wages: Spain: *Cuentas Financieras de la Economía Española (Banco de España)*; Italy (industrial sector only): OECD, *Main Economic Indicators*. Nominal Compensation per Employee: European Economy (European Commission) n. 65, 1998.
*The Spanish measures for contractual wages include any adjustments due to negotiated backward indexation clauses.

This background sheds important light on the return to centralized bargaining in Italy and Spain. In both countries, governments sought to compensate for the lack of an incomes policy by relying on the external exchange rate anchor of the ERM and allowing interest rates to rise to unprecedented levels in order to impose wage discipline within a relatively fragmented bargaining structure. This strong currency/high interest rate strategy appears consonant with the notion that, in the absence of truly encompassing and cohesive social actors, adequate wage adjustment is better achieved through the imposition of rigorous monetary policies than through attempts at centralized bargaining. What then explains the failure of this strategy?

One answer that is sometimes offered centers on the insider/outsider conflict in European labor markets. According to this argument, excessive job protection limits the responsiveness of wages to a decline in employment and, hence, austerity measures. Much has been made, in the Spanish case, of the way in which this insider/outsider conflict may have been aggravated by the 1984 introduction of fixed-term contracts, which, by creating a large temporary workforce that is first to be let go in a downturn, is said to have emboldened permanent workers to bargain for higher wages (see Bentolila and Dolado, 1994; Blanchard et al., 1995). However, estimates of this "insider" effect on wages are not particularly persuasive. The Spanish insider weight estimated by Bentolila and Dolado, for example, is considerably lower than that estimated for Japan, Germany, and even the United Kingdom (see Espina, 1994: 272-73) And other studies show Italy and Spain as having considerably higher levels of wage flexibility than either Germany or the UK (Layard, Nickell, and Jackman, 1991: 407; Jimeno and Toharia, 1994: 78-79).

Another explanation involves specific institutional features of wage bargaining in the two countries that are said to have reinforced a wage-price spiral. The most important of these is the *scala mobile* in Italy, but a similar effect is attributed to the widespread practice of negotiated indexation clauses in Spanish collective bargaining (OECD, 1996: 66-67). However, this kind of explanation is also problematic. A steady disinflation was possible in both countries prior to 1987 in spite of these institutional aspects of wage-bargaining. In fact, as the figures in Table 1 (which include adjustments due to these clauses) reflect, backward indexation clauses in Spain did not prevent real losses in contractual wages as long as centralized framework agreements were in effect.[8] And the protection afforded by the *scala mobile* was being progressively diluted in the period just prior to the pick up in inflation (see Bertola and Ichino, 1995).[9]

The reversal in the Spanish and Italian disinflation processes at the end of the 1980s is better explained, rather, by two other factors, both of which were consequences of the heavy extent to which the authorities relied on the monetary and exchange rate levers in their attempt to impose disinflation. The first of these factors was the limited effectiveness of monetary policy measures in the context of fixed exchange rates and increased international capital mobility.[10] With the lifting of capital controls in the late 1980s, the monetary policy course pursued by the Italian and Spanish authorities had the effect of producing massive inflows of short-term, speculative capital that sought to take advantage of the two countries' high interest rate differentials vis à vis other ERM countries. These capital inflows were more volatile in the Italian case than in the Spanish, due to periodic crises of confidence in Italian public finances. Yet they had roughly similar effects. They made it extremely difficult for monetary authorities to retain a grip on domestic liquidity levels because they created a self-feeding cycle in which interest rate increases intended to send a signal to domestic wage bargainers provoked a rise in short-term inflows, which in turn required further interest rate increases, which encouraged further inflows, and so on.

The second consequence of the attempt to impose wage restraint through monetary policy measures in the context of a fragmented and uncoordinated wage bargaining structure involved shifts in the sectoral dynamics of prices and wages in the two economies. The capital

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[8] Contractual wages do not represent final salaries to the extent that there is wage drift. Such drift has been shown to apply mostly to skilled rather than unskilled workers in Spain, and was most pronounced during the years of concertation (see fn. 2 above). In the period thereafter, there were several years of negative wage drift (negative differences between growth in contractual wages and in earnings per employees, as based on the sample of the *Encuesta de Salarios* of the INE) (See Giráldez Núñez, 1998).

[9] The level of inflation coverage of the *scala mobile* was reduced from 100 to 80 percent in 1983. A year later it was made subject to a predetermined cap, and in 1986 cost-of-living adjustments were made less uniform for different categories of workers.

inflow dynamic that Italy and Spain's high interest rate differentials generated in the late 1980s also produced a significant appreciation of the lira and the peseta (in both nominal and real unit labor cost terms) over the period 1987-1992.[11] This appreciation (and concomitant loss of competitiveness) was not just an unintended consequence of economic policy. It played an instrumental role in the macro-economic strategies pursued by governments in the two countries. The strategy was premised on the notion that the real appreciation of the currencies would discipline wage growth by forcing employers in the exposed sectors of the economy to resist higher wage demands and, at the same time, contribute to disinflation by cheapening imports (Pérez, forthcoming). Yet these expectations were undermined by the extent of the shift of resources away from exposed and competitive sectors toward sheltered and less competitive sectors, and by the growing divergence between the evolution of prices in tradeables and non-tradeables. These trends are illustrated in Table 2, which shows the widening difference between consumer and producer prices, and the steep rise in the ratio of the domestic (GDP) price deflator to the traded goods and services deflator in the two countries.

The sectoral divergence in prices also had an important impact on the wage-bargaining process in the two countries. The attempt to impose disinflation by allowing the currency to appreciate and incurring a high loss in external competitiveness was premised on the notion that bargaining in the exposed sectors would set the pace of wages throughout the economy. This notion was partially based on past experience. Although wage bargaining in both Italy and Spain was never as clearly dominated by an export sector leader as it may have been in Germany or Sweden, industrial wages tended to lead other wages up until the mid 1980s. However, in the context of a fragmented and increasingly decentralized bargaining structure, the increasing reliance on a tight monetary policy in the late 1980s seems to have had the opposite effect to that which was intended: it downgraded the role of the exposed sector in the wage bargaining round and allowed wage bargainers in sheltered or non-market (see Dore, 1994) sectors to set wage standards.

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[10] The incompatibility of an independent monetary policy and fixed exchange rates in the context of high capital mobility (the so-called Mundell-Fleming condition) has long been recognized by economists and is discussed in Frieden (1991) and Andrews (1994).

[11] The nominal appreciation was less continuous in the Italian case, given the 1990 downward adjustment, but the real appreciation was fairly steady.

Table 2. *Sectoral Price Trends: Italy and Spain (1985-1992)*

1985 = 100

	1985	1986	1987	1988	1989	1990	1991	1992
Italy								
CPI all items	100	106.1	111	116.5	124.2	131.7	140.3	147.8
CPI services less rent	100	108.9	114.9	122.4	132.1	141.9	152.8	172.9
Producer prices	100	100.2	103.2	106.8	113.1	117.8	121.7	124.8
Spain								
CPI all items	100	108.8	114.5	120	128.2	136.8	144.9	152.8
CPI services less rent	100	111.3	119.9	129.1	140.8	153.6	169.3	177.3
Producer prices	100	100.9	101.8	104.8	109.2	111.5	113.3	117.4

Source: OECD

In Italy, at the end of the decade the pattern became one in which very large wage increases in the public sector fed through to wages in industry in the following round (Locke and Baccaro, 1996; OECD, 1991: 37; OECD, 1993: 19). In the Spanish case, it was predominantly the service and construction sectors that took on this role, although public sector wages also took on more of a lead (OECD, 1992: 22, 67; OECD, 1994: 73; Astudillo, 1998: 464-66). Moreover, in their efforts to recoup some of the real wage losses incurred in the 1980s, the unions seem to have learned to pace their negotiations so as to reach settlements first in those sectors most able to pass on costs (Espina, 1994). What is more significant, however, is the fact that in both countries, the sectors that came to take much of the lead in wage setting were ones over which the national unions had lower levels of control. In Spain, the level of unionization in the service sector, for example, was only half that in industry (Richards and

Polavieja, 1997).[12] And in Italy, the rise in public sector wages at the end of the decade was driven largely by the presence of autonomous unions and grass-roots committees (so called *COBAS*) formed by high-skill workers who were unwilling to restrain their wages as part of the confederal unions solidaristic wage strategy (Locke and Baccaro, 1996).

The attempt by Spanish and Italian authorities to impose discipline in a fragmented bargaining system through a tight monetary policy and an overvalued currency thus had several perverse effects. It provoked speculative capital inflows that sought to take advantage of high interest rates and an appreciating currency, negating the ability of monetary authorities to control domestic liquidity. It encouraged a shift of resources to those sectors of the economy least exposed to foreign competition, rendering the economies more rather than less inflation-prone (see OECD, 1992). And it downgraded the role of the exposed sectors of the economy in the wage-setting process. This last effect not only played havoc with the assumption that disinflation could be imposed by placing pressure on wage bargainers in the exposed sector. It also undermined the capacity of the national unions to exercise control over wage trends in general - a capacity that was required to allow the exposed sector to act as the wage leader.

These tendencies were not reversed until the forced devaluation of the lira and the peseta in the course of the 1992 ERM crisis. The crisis imposed a heavy toll in terms of employment in both countries. But its effects on the course of prices and wages are quite remarkable. The devaluation of the currencies ended the sharp sectoral divergence in prices (between tradeables and non-tradeables) that had taken place over the period 1987-1992, and this, in turn, made possible a resumption of the disinflation process in both countries. However, the differences between the two cases are also telling. The devaluation of the Italian lira, which was forced to leave the system, was more significant than that of the peseta and allowed for larger gains in competitiveness and a quicker economic recovery. The peseta was kept in the system at the cost of very high interest rates. On the other hand, wages responded far more quickly in Italy, thanks to the 1992 incomes policy agreement with the unions. Spanish wages continued to rise in 1993, in the context of the continued stand-off between the government and the unions over labor

[12] This reflects the small size of many firms and the prominence of professional and technical staff in that sector.

market reform, and only adjusted downward after the resumption of centralized negotiations between employers and unions later that year. The cost in terms of unemployment was consequently much higher in Spain than in Italy (an additional rise of 8 percent over 1992-94 compared to a rise of less than 1 percent over the same period in Italy).

In both countries, public authorities thus had to face the limits of a unilateral use of monetary policy in their effort to impose wage discipline. The failure of this policy course constitutes the fundamental reason for the heavy effort that governments invested in seeking a return to bargained incomes policy in the 1990s. To be sure, this effort was far more successful in Italy than in Spain, where the failure of negotiations between the Socialist government and the unions in 1993 prevented a rapid adjustment in wages and contributed to the severity of the economic crisis. The inability to reach such an agreement in Spain during the PSOE's last term had much to do with the extent to which trust between the parties had been eroded by the experience of the 1980s, when the unions saw the employment benefits of their wage restraint undermined by an excessively tight monetary policy stance.[13] The conservative government that took office in 1996 seems to have taken a lesson from the PSOE's experience. It has promoted centralized bargaining between the employers and unions by backing such negotiations with a more measured monetary policy stance. This, in turn, has allowed the unions to see the benefit of their compromises in terms of more vigorous employment growth.

The experience of employers in the 1987-1992 period also played an important role in the return to national-level framework bargaining. Having favored a decentralization of bargaining toward the firm-level in the 1980s, employers in exposed sectors found that they were not able to exact wage restraint in a fragmented bargaining context in which settlements in sheltered sectors came to set the pace of inflation. While the abolition of the *scala mobile* was a crucial objective for employers in Italy, the problem reached beyond this institutional mechanism, as inflationary wage settlements in the public and service sectors would eventually come around to influence wage demands in industry even in the absence of indexation as long

[13] For an assessment of Spain's monetary policy course and its impact on unemployment, see Blanchard et al.(1995), pp.11-12.

as bargaining remained fragmented. During the 1993 negotiations, *Confindustria* therefore sought to institutionalize "a single locus of collective bargaining at the national level" (a proposal that was rejected by the unions who insisted on retaining a secondary role for lower levels in wage determination (Locke and Baccaro, 1996: 299)).[14] Similarly, in Spain the national employer confederation has actively promoted the move to limit the sectoral fragmentation of bargaining and to have national level sectoral bargains take precedence over the provincial level.

Lastly, the experience of the unions has been more complex than that of the other parties involved. However, it, too, ultimately contributed to the return to national social bargaining. In both Italy and Spain, the concertation episodes of the 1980s came at a significant cost to the national unions, although this cost took different forms. In Italy, the wage compression that resulted from the 1975 *scala mobile* accord produced widespread discontent among skilled workers and gave rise to the *sindicati autonomi* and the *COBAS*, which grew significantly in importance over the course of the 1980s (Locke and Baccaro, 1996). In Spain, the absence of a wage compression mechanism such as the *scala mobile* prevented the emergence of rival local unions. Nonetheless, the concertation agreements of the 1980s came at a heavy cost to the UGT, which was held responsible for the decline in real wages incurred in the 1980s; a decline that was widely seen to have failed to produce any economic benefits.[15] The UGT lost the position of dominance that it had gained at the plant level in the course of the political regime transition. Its subsequent alliance with the CC.OO. was intended to end this trend by embarking on a common, more militant stance in wage bargaining.

Given the costs that concertation carried for the unions in the past, their role in the return to centralized bargaining may seem harder to understand than that of governments and employers. Moreover, the social bargains of the 1990s have involved major concessions by national union leaders (the abandonment of the *scala mobile* in Italy, that of high dismissal costs for permanent workers in Spain). The explanation for this change in the unions' stance may of

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[14] This preference for recentralizing bargaining also seems to have reflected the efforts of the *Confindustria* leadership to coordinate the bargaining stances of its affiliates (Regini and Regalia, 1997: 222).

[15] This experience is important in explaining why the Spanish unions continue to resist any talk of formal incomes policy, even when they are exercising informal centralized control over wages in line with expected inflation.

course lie in the greater willingness to compromise on the part of governments and employers in the early 1990s, and in the generalized political pressure not to miss out on EMU. In the Italian case, that pressure was further augmented by the collapse of the traditional political party system, which coincided with the 1992 currency crisis and for a while turned the social partners into the de facto guarantors of Italian democracy (Salvati, 1995).

More than these conjunctural factors, however, seems to have been at play. The concessions of the national unions in the two countries were also motivated by the realization that the regulatory framework that they had defended for so long was eroding their own position in the labor movement and their influence in the economy. In Italy, the *scala mobile* was not only driving the rise of the *COBAS* and *sindicati autonomi* representing skilled workers. It also reduced the significance of the unions in the life of all workers because it sharply narrowed the room for negotiation in wage bargaining (Locke and Baccaro, 1996: 292). Conversely, by replacing the *scala mobile* with a centralized incomes policy framework, the confederal unions managed to vastly increase their importance in the life of workers, a shift that was reflected in plant level elections following the 1993 accord, in which the confederal unions as a group gained around 90% of the vote (a significant increase from previous years).[16]

In Spain, on the other hand, the dramatic increase in unemployment following the 1992 currency crisis gave increased credence to the notion that the unions represented a shrinking fraction of "insiders" in the labor market at the expense of the unemployed. In reasserting a stance of coordinated wage moderation, and in agreeing to allow for new permanent contracts with low dismissal costs, the unions were seeking to stop the downward spiral in employment. But they were also seeking to counter their perception as insiders and to redress the duality between a shrinking body of permanent workers and a growing proportion of temporary workers that was in fact undermining their position as representatives of Spanish labor (on this point, see Richards and Polavieja, 1997).

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[16] This was accompanied by a reorganization of work place representation that allows for further internal democracy within the labor movement and has helped to re-legitimize the confederal unions as representatives among workers (see Locke and Baccaro, 1996; Baccaro, 1998).

Some Possible Implications of the Italian and Spanish Experiences

The experiences that led governments, employers, and unions to return to national-level bargaining in Italy and Spain have a number of important implications. The first concerns the question of whether this re-centralization of bargaining is likely to be only a temporary phenomenon tied to the goal of participation in EMU, or whether it is likely to persist beyond the onset of EMU. The preceding discussion suggests that, although the goal of participation in EMU may have strongly encouraged the efforts of governments and employers to reach agreements with the unions, the fundamental problems and motivations that led all three parties to seek (or agree to) a resumption of framework bargaining operated independently of the EMU deadline. The incentives leading governments and employers to seek this resumption reflect their inability to extract wage restraint and impose disinflation through a pro-active monetary policy stance in a fragmented bargaining context. The unions, on the other hand, were led to agree to the new social pacts by the recognition that a strategy of entrenchment under the existing frameworks of industrial relations in the two countries was ultimately eroding their position both as social and economic actors.

These motivations are likely to persist after the onset of EMU. Although achievement of the goal of participation might reduce some of the immediate pressure for cooperation, governments and employers will continue to face the problem of controlling the sectoral dynamic of wage-setting in a fragmented bargaining structure. To be sure, the extent of these problems will depend on economic conditions and on the tenor of the European Central Bank's monetary policy stance. It may also be that sheltered sectors will be exposed to greater competition as EMU breaks down product market barriers, lessening some of the tensions in wage bargaining observed in the 1987-92 period. The general tendency for the least competitive sectors to take the lead in wage-setting when national unions and employers do not exercise coordination at the center, however, is likely to persist. And the need to maintain the external competitiveness of national economies vis à vis the rest of the EMU area will increase because devaluation will be ruled out as a mechanism for adjustment in labor costs. This is likely to encourage all national actors to reinforce whatever institutional solutions have proven most effective in sustaining competitiveness in the past. In the case of Italy and Spain, this implies a continuation of centralized framework bargaining on wages and other issues.

The Spanish and Italian experiences, however, also have implications that go beyond the two cases. With the collapse of peak-level bargaining in Sweden, much has been made of the merits of the German model of coordinated, industry-level bargaining in a monetary strait-jacket provided by an autonomous central bank. In countries with intermediate levels of centralization in wage-bargaining, an independent central bank is said to reinforce wage moderation and hence employment (see most recently Iversen, 1998; Soskice and Iversen, 1998). This model has also guided the choice of institutional structure for EMU, which has given primacy to the establishment of an independent European central bank modeled on the German Bundesbank. The Italian and Spanish experiences in the late 1980s and early 1990s, however, reflect a different aspect of the relationship between monetary and wage bargaining institutions: namely, the limits of monetary policy when wage bargaining (still within that intermediate category) is relatively fragmented and the bargaining parties lack an autonomous capacity to coordinate wages across sectors in the absence of framework bargaining. As several authors have pointed out, the positive performance of the German central bank regime has been strongly dependent on the organizational features of German unions and employers: specifically, the leadership position of one sectoral union, the IGMetall, and the ability of the employer associations to coordinate the bargaining positions of their affiliates (Streeck, 1994; Hall, 1994). By contrast, "in uncoordinated settings, wage bargainers are unlikely to be highly responsive to threats from the fiscal or monetary authorities" (Hall and Franzese, 1998: 510).

The experiences leading up to the resumption of centralized framework bargaining in Italy and Spain are also significant from another standpoint. A second critical ingredient of the positive interaction of monetary and wage-bargaining institutions observed by political economists in the German case has been the leadership of a key export-sector in the bargaining round (Streeck 1994). The collapse of solidaristic peak-level bargaining in Sweden, conversely, is often attributed to the gradual loss of leadership of export industry within the national labor movement as a result of the growth of public sector unions. These contrasts have led some authors to argue that the benefits of either centralized wage bargaining or an independent central bank depend on the relative position of the tradeables and sheltered (in particular public) sectors in the economy (Crouch, 1985; Garrett and Way, 1995; Franzese, forthcoming). Centralized bargaining is believed to be most beneficial in the context of export-sector dominance and least beneficial (or even harmful) in the face of public (or sheltered) sector dominance. The benefits of an independent central bank (or a non-accommodating monetary policy), on the other hand, are believed to be particularly important in the presence of a dominant public (or sheltered) sector and to decrease in the presence of export-sector dominance (see in particular Franzese, forthcoming).

However, the Spanish and Italian experiences in the late 1980s and early 1990s again tell a different aspect of the story. They illustrate the limits of attempts to control wages by placing pressure on the external sector of an economy through a tight monetary stance when this is attempted in a fragmented and uncoordinated bargaining context. Such attempts in such a context, they suggest, are likely to backfire by allowing sheltered and less competitive sectors to take the lead in wage-setting. While employers and unions in some of the traditional corporatist countries of Northern Europe may retain important coordinating capacities when they give up peak-level bargaining (Soskice, forthcoming), employers, governments, and unions in Italy and Spain found that their ability to retain control over wage setting was seriously impaired in the absence of framework bargaining.

Put differently, the Spanish and Italian experiences suggest that, in the absence of a very radical deregulation of labor and product markets, the imposition of a tight monetary policy in a fragmented bargaining context is likely to allow sheltered sectors to set the pace of inflation, and hence, eventually, that of nominal wage growth throughout the economy. If employers and unions lack the capacity to coordinate wages across sectors autonomously, it is only through framework bargaining or a re-centralization of bargaining that the exposed sectors of an economy have a chance to regain some say over this pace. Although national unions may be torn between pressures emanating from the two sectors, their interest in sustaining employment is likely to lead them at the very least to mediate, however imperfectly, between the two. To insist on effective export sector dominance as a precondition for concertation may thus be to ignore the fact that concertation may represent the only way for exposed sectors in under-organized economies to limit the inflationary consequences of sheltered sector leadership in wage setting. All this means, that, as international competition intensifies and integration proceeds, it may be precisely in those countries where social actors lack some of the organizational capacities traditionally associated with corporatism where governments, employers, and unions may be particularly eager to reestablish some form of concertation.

Lastly, the Italian and Spanish experiences may foretell more general pressures that may take place in the EU as monetary integration proceeds. Monetary union subjects macroeconomic policy in the whole area to a single, monetary authority. As the benefits of centralized wage bargaining hinge largely on the willingness and ability of union leaders to limit wage demands in order to avoid monetary policy measures that will result in higher unemployment, the level of centralization in wage-bargaining is a function of the area covered by the monetary policy authority (Iversen, 1998: 497). EMU will therefore in effect decentralize the level of wage bargaining across the EU because even the most concentrated national union organizations will be less inclusive (cover a lesser portion of the work-force affected by an interest rate hike) and hence, following the argument, less willing to internalize the inflationary externalities of wage increases. A similar loss of the relevant coordinating capacity will occur on the employer side. To the extent that relative labor costs within the EMU area continue to matter, governments, employers, and unions in some of the organized economies that have eschewed peak-level bargaining may thus face a new set of incentives to pursue the kinds of national framework bargains that we see in Italy and Spain.

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