From Decentralization to Reorganization

Explaining the Return to National Bargaining in Italy and Spain

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In the 1980s the concept of social, democratic, or "neo" corporatism and the related concept of social concertation became the inspiration for an extensive literature on the role of collective bargaining in market economies. Some of this literature seemed to show that centralized bargaining among organized social actors (employers' associations and labor unions) and governments could mitigate economic tradeoffs by allowing these actors to coordinate their decisions and thereby solve key collective action problems.[1] However, this early optimism about the viability of centralized bargaining as an alternative mode of economic regulation subsequently faded. While some early studies viewed corporatist bargaining as a matter of partisan choice, the literature of the 1980s argued that negotiated social bargains on wages and economic policy could succeed only in countries that enjoyed highly encompassing and cohesive business and labor organizations.[2] As centralized bargaining has come under pressure in European countries once dubbed models of neocorporatism, the view has taken hold that systemic changes in the world economy (new production regimes and occupational structures, along with the integration of financial markets) have undermined the bases for national social bargaining even under ideal institutional conditions.[3]

Political economists commonly believe that the pressures of international market integration have ended Philippe Schmitter's "century of corporatism."[4] However, recent empirical data on a number of northern and central European countries with long traditions of corporatism have called this view into question. These data show no clear trend in favor of decentralized bargaining.[5] This view is also challenged by another recent development: the resurgence of national social pacts on wages and other items in several European Union (EU) member states during the 1990s.[6] This resurgence has been particularly prominent in some countries that in the past were considered to lack the key institutional features for successful centralized bargaining, cohesive labor and employer organizations, and hence categorized as under or less organized economies.

Why has national social bargaining resurged in two such EU member states, Italy and Spain? Many comparative studies suggest that centralized bargaining is likely to fail in these countries due to the lack of adequate institutional bases. Therefore, as market integration proceeds, countries such as Italy and Spain should be under particularly strong pressure to adopt more decentralized bargaining structures. The recent resurgence of national bargaining in these countries is likely to be seen as one more round of ad hoc agreements meant to qualify these countries in the short term for membership in the European Monetary Union (EMU) that is unlikely to transform industrial relations deeply or lastingly.

This article argues, in contrast, that the recent experiences of Italy and Spain entail a change in the dynamic of bargaining that is likely to produce a more significant and lasting reorganization of industrial relations than concertation efforts of the past. This change is highly significant in how market integration will likely affect bargaining practices in underorganized economies and, indeed, in the EU at large. Although abetted by the requirements for inclusion in the EMU, the return to national bargaining among governments, employers, and unions has other, more fundamental causes. It reflects the inability of employers to control costs and the failure of governments to achieve macroeconomic policy objectives in the absence of framework bargaining (or some alternative mechanism of coordination across bargaining units) during the late 1980s and early 1990s. During this period, governments in both countries sought to impose macroeconomic stability without the collaboration of the unions, betting that wage restraint could be achieved in a more decentralized bargaining context through reliance on a tight monetary policy and a strong currency. However, this strategy backfired; employers found it difficult to control labor costs in a fragmented and decentralized bargaining context and in economies that the overvaluation of the currency made inflation-prone. The lack of a cooperative bargaining framework for wages also undermined progress on other critical objectives of the national policy agenda, most notably labor market and pension system reforms. Because of these problems, governments, employers, and unions eventually sought, not just a new round of national agreements, but a reorganization of industrial relations that would allow for greater coordination among different levels of bargaining through central framework bargaining.

The experiences of Italy and Spain over the last two decades allow us to observe how the dynamic of institutional change has evolved in underorganized economies as market integration in Europe has proceeded. The shift from decentralization of bargaining in the 1980s to a recentralization in the 1990s suggests that market integration creates powerful incentives for governments (and at least some employers) to seek central agreements with unions on wages and other aspects of labor market regulation where other institutional avenues for coordination are weak or absent. These incentives are often overlooked because studies have been geared primarily to identify the institutional conditions of successful centralized bargaining from a static, cross-sectional perspective. They therefore do not consider the incentives faced by governments, employers, and unions to reach framework agreements either nationally, sectorally, or regionally where these conditions are missing.

Contrary to conclusions drawn from this static focus on institutional preconditions, the process of integration in Europe seems to be pushing these countries in an opposite direction, toward a reorganization of collective bargaining that deepens the institutional bases for concertation, rather than a decentralization of bargaining structures and the abandonment of concertation efforts. Indeed, the Italian and Spanish experiences suggest that integration may reinforce rather than undermine governments' and employers' incentives to seek framework agreements with unions. Systemic trends such as changes in production regimes and occupational structure, along with other factors such as regional disparities, demand greater flexibility in the content of national bargains than was typical of corporatist compromises of the past. However, such flexibility is not necessarily best achieved in a fragmented bargaining context. Increased competition in product markets and increased capital mobility reward institutional arrangements that allow exposed and competitive sectors to exercise some measure of control over the wage-setting process. The Italian and Spanish experiences suggest that efforts to impose wage restraint through a tight monetary policy in a fragmented bargaining context (such as the EMU area as a whole will likely represent) may not succeed when sheltered sectors are able to set the pace of nominal wage growth. Monetary integration may well lead governments and employers to seek a reconsolidation of bargaining structures in Europe in the future.

Italy and Spain are not the only European countries that have adopted economic strategies based on bipartite or tripartite national social pacts in recent years. Ireland and the Netherlands are two other prominent examples. Both of these other cases, however, represent small, open economies where we might expect corporatist solutions based on the reasoning set out by Katzenstein.[7] Spain and Italy, by contrast, are economies in which the exposed sector has not been as preponderant. Spain and Italy also went further in experimenting with the de facto alternative to a negotiated adjustment course, unilateral imposition of a tight monetary policy in a fragmented bargaining context. Their experiences are therefore particularly useful in understanding the choices that governments, employers, and unions face in the absence of either strong external sector dominance in the economy or highly unitary and cohesive business associations and/or labor movements.

The literature on neocorporatism has been concerned primarily with understanding the relationship between different bargaining institutions and economic performance, not with understanding how or why these bargaining arrangements come about. By contrast, this article seeks to explain change in bargaining institutions over time and in a particular set of countries. However, our understanding of the effects of different bargaining institutions and our thinking about the dynamics of institutional change affect each other in important ways. The findings of research on the effects of bargaining institutions are often used as the basis for understanding the choices that countries face and the direction that change is likely to take.[8] Yet, as the following analysis will illustrate, the conclusions that may be drawn by looking at the effects of bargaining institutions from a cross-sectional perspective do not necessarily capture the effects that changes in bargaining institutions are likely to have in a particular set of countries. Just because centralized bargaining is associated with better outcomes in countries with one set of institutional characteristics, economic performance in countries with other characteristics is not necessarily best served by a decentralization of bargaining. Governments' and social actors' experiences during changes in bargaining arrangements show the extent to which cross-national research on the outcomes of different bargaining institutions captures (or does not capture) their real choices in pursuing institutional change.

Institutional Typologies and Developments in Italy and Spain

Although much of the literature on social bargaining is quantitative and cross-national in approach, the theoretical debate guiding it has been based on the experiences of a limited group of countries and, more specifically, by particular contrasts among these countries. The most influential of these contrasts has been between the relatively successful experiences with centralized bargaining (at least until very recently) of the "organized" economies of North and Central Europe and the unsuccessful, early attempt to institute a negotiated response to economic crisis in the United Kingdom.

The collapse of Britain's experiment with social bargaining in the 1970s and its subsequent deregulatory shift helped establish the notion that negotiated adjustment policies are viable only under certain institutional conditions. Subsequent studies of corporatism focused on identifying these conditions through cross-sectional research by contrasting the institutional characteristics of "successful" and "unsuccessful" cases of negotiated adjustment policies. Many of these studies have tried to identify not only alternative institutional equilibria that might allow us to understand why attempts at social bargaining are more successful in some countries than in others, but also the available institutional options (and hence likely pattern of change) open to political economies when institutional equilibrium is disrupted or some institutional conditions are missing.

The two most important ideas advanced by these studies concern the level of wage bargaining and social actors' organization. For the first, Lars Calmfors and John Driffill found a hump-shaped relationship between the degree of centralization in wage bargaining and the level of unemployment across industrialized countries; unemployment was lowest in countries with either highly centralized or highly decentralized wage-bargaining institutions, while countries with wage bargaining at an intermediate level of centralization performed worst.[9] Although Calmfors and Driffill's finding no longer applied to countries with highly centralized bargaining systems after a rise in unemployment in the late 1980s, their model continues strongly to influence theoretical work because of the intuitive appeal of its underlying argument. Highly centralized bargaining allows union leaders to internalize the negative externalities of excessive wage settlements and thus to solve an important collective action problem faced by labor in the bargaining process, while intermediate levels of centralization encourage union negotiators to exploit their market power to gain higher wages for their members and/or to compensate for the inflationary consequences of aggressive bargaining in other sectors.[10]

While economists have focused on the level of wage bargaining, political scientists pointed to the importance of the bargaining agents' organization. It is generally accepted that centralized bargaining works best where labor is organized in an inclusive or "encompassing" fashion.[11] Although there is some debate over the precise form of this type of organization, the most important criteria appear to be unitary organization that encompasses all categories of skills and crafts within sectors and unions' monopoly of representation over categories of workers.[12] These features minimize the costs that union leaders incur in agreeing to wage restraint and ensure compliance with agreements. In addition, the organizational features of employers' associations are as important as those of labor unions.[13]

The literature on bargaining institutions has sought to distinguish the way in which adjustment is achieved in the organized economies of northern Europe from the liberal market model, exemplified by the United States, that dominates mainstream economics. It often results in a two equilibrium model of adjustment that nevertheless renders a highly deterministic view of the options available to so-called underorganized economies, in particular in regard to the potential role of bipartite or tripartite concertation efforts in supporting aggregate objectives such as employment and competitiveness. Since bargaining efforts are compatible with good economic performance only in the presence of highly organized economic actors, countries falling into an intermediate category of organization have little chance of sustaining such objectives through concertation efforts. If this conclusion is true, then adjustment in these countries requires the abandonment of concertation in favor of radical decentralization of wage bargaining and deregulation of employment conditions, that is, emulation of the British solution.[14]

The experiences of Italy and Spain up to the 1990s fit relatively easily into this conceptual framework. Concertation centered on negotiated incomes policies in both countries during the 1970s and 1980s ended in collapse. In Italy it involved two attempts to establish a stable process of framework wage bargaining. The first ended in an agreement in 1977 in which the three major labor confederations (CGIL, CISL, and UIL) agreed to voluntary wage restraint in return for macroeconomic policy concessions, a law on industrial restructuring, and the PCI's de facto participation in government. However, this agreement ended in 1979, when the PCI was forced out of the ruling parliamentary alliance and employers toughened their position. Formal tripartite negotiations were reinitiated in 1983 and led to a historic incomes policy agreement that centered on the revision of the *scala mobile* (the automatic wage floor indexation scheme, revised in 1975 to allow for a substantial upward wage compression). However, the unions split over the implementation of the agreement. When the Communist wing of the CGIL refused to sign a new agreement in 1984, this second attempt at concertation also came to an end. [15]

Spain's experience with concertation in the 1970s and 1980s was considerably more successful than Italy's. A negotiated incomes policy was effectively sustained for almost a decade. It began with the *Pactos de la Moncloa* of 1978, which were signed by all major political parties as part of the political regime transition. The *Pactos* were followed by a series of agreements that covered wages from 1980 through 1986 (with the exception of 1984), all of which were signed by the Socialist labor confederation (UGT) and the national employers' association (CEOE), although not by the Communist labor confederation (CCOO), which refused to sign the wage agreements for 1980–81 and 1985–86. Because Spanish legislation creates strong incentives for workers to adhere to any agreement signed by any representative union, wage settlements remained within the negotiated ranges as long as the national agreements were in effect. However, following a failed attempt to reach an agreement for 1987–1988, the UGT decided to join the CCOO in its more militant stance. In late 1988 the two confederations called a general strike against the government, and the following year the UGT leadership refused to campaign in favor of the PSOE in general elections. Thereafter, several attempts by the Socialist government to reestablish the negotiated incomes policy process failed to bring the unions back into the fold.[16]

The failure of these early concertation experiments is commonly attributed to Spanish and Italian labor unions' lack of institutional capacity to support an effective incomes policy. Most important is the ideological division of their labor movements. It is believed to make solidaristic wage policies difficult because it allows defecting unions to free-ride on a more militant posture to attract members and therefore raises the costs to unions that agree to wage restraint.[17] This explanation seems to support the notion that countries lacking the institutional characteristics of the organized economies will be forced to abandon centralized bargaining in favor of a significant decentralization of bargaining as market integration proceeds. Yet the validity of this argument is called into question by the turn of events in the 1990s. Contrary to the prediction that economic integration would favor a progressive decentralization of bargaining and the kind of deregulation of labor markets pursued a decade earlier in Britain, national framework bargaining has resumed in both countries; the underlying bargaining structure has been notably if incompletely recentralized and articulated; and industrial relations at all levels of the economy have become more fomalized.

This turn of events has been most explicit and dramatic in Italy. Following the breakdown of the negotiated incomes policy in 1984, industrial relations were decentralized, and the proportion of bargaining taking place at the firm level increased. Yet by the end of the 1980s national negotiations to control the cost of labor resumed. In 1992, in the midst of a mounting economic and political crisis, the unions agreed to abolish the *scala mobile* and to freeze company level bargaining for two years to support the government's emergency program of fiscal consolidation. In 1993 a new tripartite agreement institutionalized a new incomes policy framework; for the first time it attributed distinct roles to different levels of bargaining in order to achieve a higher degree of coordination in setting wages. According to the new system, national sectoral bargains (which are subject to national intersectoral framework discussions) set wage increases in line with expected inflation, while lower-level bargains (at the level of the firm and in some cases the locality) determined pay scales and distributed additional productivity gains. This division of labor among different levels of bargaining has created a more stable and institutionalized system of industrial relations in Italy. The new system of national framework bargaining involves two annual meetings to "define common objectives concerning the expected inflation rate, growth of GDP and employment," and it also made possible a historic agreement between the government and the unions on pension reform in 1995.[18]

Spain was somewhat less radical than Italy. It has not returned to a formally negotiated national incomes policy. Attempts by the PSOE's government in 1990 and 1992 to reach a new 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 legislation that would have abolished all remaining statutory labor ordinances and left negotiated agreements on deregulated aspects of employment to the social partners, without, however, requiring employers to negotiate.[19] Thereafter, the government imposed the reform measures unilaterally, setting off another general strike and paralyzing the collective bargaining round in many sectors in 1994.

However, since the standoff over labor market reform the industrial relations climate in Spain has been significantly transformed. Framework bargaining has resumed at the center, and a notable effort has been made to consolidate the underlying structure of bargaining. Following the 1994 general strike, employers and unions signed an agreement to regulate the devolution of regulatory competencies 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 resembling Thatcherite deregulation or the Swedish employers' offensive, the 1994 reform has primarily depoliticized the industrial relations environment and galvanized employers and union leaders in a steadier and more collaborative negotiation process. The collective bargaining process has also gained in importance as employers and unions have begun to negotiate on a significantly wider range of issues.[20]

Since the Socialist electoral defeat in 1996, there has been a steady stream of further agreements, including one in 1996 between the new conservative government and the unions on pension reform and another in 1997 between employers and unions to promote employment. The latter reduced dismissal costs for permanent workers and reorganized the structure of bargaining. An additional agreement in 1998 between the government and the labor unions improved benefits and employment conditions for part-time workers.[21]

Although the new social pacts in Spain have not returned to a formal incomes policy, several developments in the evolution of wage bargaining since the 1994 labor reform indicate a serious effort to recentralize and coordinate the wage bargaining process by other means. Although from a legal standpoint that reform facilitated further decentralization by allowing lower level bargains to override higher level ones, the trend since implementation of the law has been in the opposite direction. Although the number of agreements reached at the firm level has increased, the proportion of workers covered by these agreements decreased from 13.5 percent in 1993 to 11 percent in 1997. The number of agreements reached at the regional (autonomous community) level has also increased, but the proportion of workers covered by them remains small (5 percent in 1997). The single most significant shift in the structure of bargaining has been from the provincial-sectoral level, at which most workers are covered, to new national sectoral agreements, whose coverage increased to 32 percent of workers in 1997 from 22 percent in 1993. This upward shift in the territorial structure of bargaining has been accompanied by the gradual consolidation of the highly fragmented sectoral structure in which bargaining is organized. The most important example was the framework agreement reached by employers and unions in 1998 to consolidate bargaining in the metalworking sector.[22]

The centralization and consolidation of the structure of collective bargaining since the early 1990s have occurred voluntarily, sector by sector, and have not involved the mandated, systemic reorganization of bargaining that followed from the 1993 agreement in Italy. However, the 1997 agreement between unions and employers in Spain (supported by public policy measures, though not signed by the new government) clearly indicates the desire of both parties to achieve such a reorganization. Although it does not mandate changes (politically difficult in Spain because of the potential conflicts they might provoke between national sectoral and regional cross-sectoral union and employer organizations), it commits employers and unions to generalize the trend. It gives a primary role to national-sectoral bargains in setting framework conditions (including wage increases) for lower level bargaining, while leaving open the possibility that such national agreements remit particular items (such as pay scales) to lower bargaining units.[23] It thus bears a striking resemblance in its intentions, though not in its legal form, to the Italian agreement of 1993. Lastly, while the national labor confederations have eschewed a return to formal incomes policy agreements, they appear to have been implementing an informal incomes policy process since 1994 as part of their new relationship with employers.[24]

The return to national framework bargaining, following a period of more decentralized bargaining, is a puzzling shift in the direction of institutional change for those who view national bargaining as producing suboptimal economic outcomes in underorganized economies. Moreover, this reversal occurred when the process of European integration intensified sharply. It has also involved important qualitative changes. Whereas the concertation agreements of the past centered on the political exchange of wage restraint in return for government policy concessions (in particular social spending), the agreements of the 1990s have centered on procedural features of the industrial relations framework. The establishment of a more orderly division of labor among different levels of bargaining and the granting of a primary role to national sectoral agreements in setting wage increases also represent efforts to create stronger institutional structures of coordination for framework agreements reached at the center. Thus, whereas the national concertation agreements of the past may have constituted ad hoc measures to compensate for the absence of structures of coordination at other levels, the new concertation agreements come closer to fitting Traxler's description of "'key pacts' [that give] birth to corporatist institutions."[25]

Explaining the Return to National Bargaining in Italy and Spain

The return to national social bargaining in Italy and Spain belies the notion that integration would lead these countries to the kind of decentralization and deregulation of labor markets carried out in Britain in the 1980s. To be sure, many of the changes implemented in the two countries over the last decade, such as the abolition of the *scala mobile* in Italy and the abandonment of statutory labor ordinances and the reduction in dismissal costs in Spain, have sought to promote greater flexibility in labor costs and work conditions. However, the most important of these regulatory breakthroughs were accomplished only through the return to national bargaining. The abolition of labor ordinances in Spain is an exception, but it too has helped elevate the role of collective bargaining in the economy. Thus, the general trend in these countries has been toward greater institutionalization of collective bargaining practices and renewed reliance on bargaining at the center to break regulatory deadlocks and to set framework conditions for lower level bargaining. What explains these developments?

Many early studies of neocorporatism conceived of centralized bargaining as the outcome of efforts by social democratic parties to strengthen the position of labor within the economy. The return to national bargaining could therefore be explained, not by economic pressures, but by partisan politics. The ups and downs of national bargaining in Italy and Spain over the last two decades, however, are not particularly amenable to this explanation. The early experiments with concertation were initiated under center or center-right coalitions, and the Spanish concertation process collapsed under a Socialist party. The shift back to national bargaining in the 1990s seems even less consistent with the traditional partisan explanation. Although the first major bipartite agreement of the 1990s in Spain occurred under the PSOE, only after the Popular Party's (PP's) electoral victory in 1996 did the process of national negotiations gain momentum, and the most important agreements were reached only after the Popular Party's electoral victory in 1996. For example, an arrangement on pension reform failed to be signed under the PSOE. In Italy, the two most important agreements, the return to an incomes policy in 1993 and pension reform in 1995, were both negotiated before the Left's electoral victory in 1996.

Two alternative party politics explanations are stronger. First, national negotiations may be more successful under conservative governments because the unions are more willing to accede to the demands of employers out of fear. This explanation is applicable to Spain. Second, the agreements of the 1990s were facilitated by the decline of Communist parties; it became easier for ideologically split labor movements to embark on a united course of action. However, unity of action might also have facilitated a more militant stance, as in Spain between 1988 and 1994. While fear of a conservative government may have contributed to the success of national negotiations in Spain, neither argument explains why governments and employers would want (or be willing to support) the recentralization of bargaining in the 1990s.

The return to national bargaining in the 1990s might simply have been a function of the governments' effort to ensure their countries' participation in the EMU. Facing the deadline to meet the EMU convergence criteria, Italian and Spanish authorities sought agreement with the unions to break persisting standoffs over pension and labor market reforms.[26] If the EMU alone motivated governments and employers, then the return to centralized bargaining would likely have proved to be temporary, and long-term developments should bear out the prediction of a deregulatory shift in these countries. However, this explanation, too, fails to account for important aspects of the national bargaining. There is little doubt that the need to meet the EMU criteria gave Italian and Spanish authorities an important new motive to seek agreements with the unions. This motive seems particularly relevant in explaining the breakthrough agreements on pension reform. However, 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 can not be as easily explained. If wage restraint in underorganized economies is best achieved through decentralized bargaining, it is unclear why the short-term objective of meeting the EMU deadline would lead governments and employers to favor the recentralization of bargaining.

Marino Regini argues that the return to concertation in Italy reflects the renewed importance of the "state" arena in the competitiveness of business. While the agenda of Italian employers in the 1980s focused on flexibility in wages and hiring practices, new production technologies were simultaneously increasing the need for cooperative relations within firms. In the late 1980s consultative management practices (or microconcertation) spread rapidly in the more competitive and innovative firms and later to the government-brokered incomes policy deals of 1992 and 1993. Unlike the political exchanges of the past, the new Italian concertation process constituted an institutional mechanism to support international competitiveness through consultative practices that generated social consensus.[27] Martin Rhodes advances a different version of this argument. The new corporatism exemplified by Italy was made necessary by the conflict between the need to control costs, which induced employers to seek external labor market flexibility (flexibility in hiring and layoffs), and the need for cooperative relations within firms, which are easily undermined by excessive external flexibility. The new "competitive" corporatism in Europe, reflects an attempt by employers to reconcile these two needs. It limits the reliance on external flexibility to maintain cooperative relations within firms, while controlling costs to remain competitive.[28]

Regini's and Rhodes' analyses offer powerful counterarguments to the argument 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 may not be worth the loss of the cooperative attitude among workers that allows firms to compete on quality rather than price. However, it is not entirely clear how this microeconomical explanation of the need for cooperation within firms explains the return to national bargaining over wages and employment conditions. After all, one of the principal arguments in favor of decentralized bargaining is that it allows a closer match between bargaining and firm or locality specific conditions. Changes in production regimes are just as likely to generate support for the decentralization of bargaining.[29]

The microeconomic analyses of Regini and Rhodes are important in explaining the lack of support for a British-style deregulation of labor markets in Italy and Spain. Yet they neglect another critical aspect of the recent experiences of these countries that better explains the recentralization of bargaining: the inability of employers to control wages and of governments to end inflationary expectations through monetary policy in the absence of framework bargaining at the center. This failure of the institutional alternative to national bargaining, of decentralized 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 fostered a substantial deceleration in wage and price increases through 1986, and Italy combined a moderate monetary policy with periodic devaluations in 1985 and, de facto, in 1987 in the European Exchange Rate Mechanism (ERM) realignment. Wage growth accelerated again starting in 1987, first in the public and then in the private sector. In reaction to the renewed rise in inflation, Italy tightened monetary policy and resorted to quantitative credit controls to stop capital outflows. Continued pressure on the lira forced another currency realignment in January 1990. Thereafter, Italy switched to a new strategy against inflation. It lifted all remaining capital controls, shifted the lira into the narrow 2.25 percent ERM band (from its traditional 6 percent band), and made a firm commitment to maintain this parity. This new strong currency policy 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.

Table 1 Contractual Hourly Wages, Inflation, and Real 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
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 wage growth	-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
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
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 wage growth	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

Sources: CPI: OECD, *Economic Outlook*; Contractual hourly wages: Spain: OECD, *Economic Surveys* (various years); Italy (industrial sector only): OECD, *Main Economic Indicators*, various years

Spain had a similar experience. The inflationary surge in wages and labor costs during the initial stages of the transition to democracy was brought to an end by the 1978 *Pactos de la Moncloa*. Thereafter, real contractual wages stagnated and even declined under the incomes policy agreements signed by the UGT. Real wage growth turned positive again in 1987, the first year not covered by a framework wage agreement, although relative moderation in wage settlements continued through 1988, as long as it looked as if the concertation process might be restored. After the breakdown of negotiations in 1988, however, real wage growth accelerated significantly, reflecting the effort by the unions to recoup some of the losses suffered during the previous decade. This acceleration also occurred in the context of an increasingly tight monetary policy policy. Yet, as in Italy, this tightening of monetary policy was remarkably ineffective in limiting the rise in consumer prices.

This background sheds an important light on the return to national bargaining and accompanying institutional developments. In both Italy and Spain 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 in a fragmented bargaining structure.

This strong currency/high interest rate strategy seemed consistent with the idea 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 wage bargaining. Why did this strategy fail?

One answer centers on the insider/outsider conflict in European labor markets. Excessive job protection limits the responsiveness of wages to a decline in employment and hence austerity measures. However, econometric estimates of this insider effect on wages are not particularly persuasive as an explanation of the resurgence of inflation in Italy and Spain, as they show lower measures for these countries than for other countries, such as Germany and Japan, with less inflationary dynamics.[30] A second answer involves specific institutional features said to have reinforced a wage-price spiral, most notably, the *scala mobile* in Italy and the practice of negotiated, backward indexation clauses in Spain.[31] This explanation, however, is also problematic. A steady disinflation was possible in both countries prior to 1987 despite these institutional features. In fact, backward indexation clauses did not prevent losses in real contractual wages in Spain while national framework agreements were in effect (see Table 1). In Italy the protection afforded by the *scala mobile* was progressively diluted in the period just prior to the increase in inflation.[32]

The reversal in the Spanish and Italian disinflation processes at the end of the 1980s is better explained by two other factors, both of which were exacerbated by the heavy government reliance on monetary and exchange rate levers to impose wage and price discipline. The first was the limited effectiveness of monetary policy under conditions of increased international capital mobility. With the lifting of capital controls in the late 1980s, the policy course pursued by Italy and Spain 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.[33] These capital inflows were more volatile in Italy than in Spain 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 their grip on domestic liquidity. They created a vicious circle in which interest rate hikes, intended to send a signal to domestic wage bargainers, provoked a rise in short-term inflows, which in turn required further interest rate increases.

The second factor involved shifts in the sectoral dynamic of prices and wages. The capital inflows that Italy and Spain's high interest rate differentials generated in the late 1980s produced a significant appreciation of the lira and the peseta from 1987 to 1992 in both nominal and real terms.[34] This appreciation played an instrumental role in the macroeconomic strategies pursued by the two governments, as they were premised on the belief that currency appreciation would discipline wage growth by forcing employers in exposed sectors to resist higher wage demands.[35] 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 tradeable and nontradeable goods and services. Thus, from 1985 to 1992 the consumer price index for (nontradeable) services exceeded the price index for (tradeable) producer goods by almost 50 percent in Italy and 60 percent in Spain, compared to a divergence of only 10 percent in Germany.[36]

This acute sectoral price divergence also had an impact on the wage bargaining process. The attempt to impose disinflation by allowing the currency to appreciate was premised on the belief that bargaining in exposed sectors would set the pace of wages throughout the economy. This belief was partially based on past experience. Although an export sector leader never dominated bargaining as clearly in Italy or Spain as in Germany, industrial wages nevertheless tended to lead other wages up until the mid 1980s. However, under the fragmented and increasingly decentralized bargaining structure, the heavy reliance on a tight monetary policy in the late 1980s had the opposite effect than intended; it downgraded the role of the exposed sector in the bargaining round and allowed bargainers in sheltered sectors to set wage standards.

In Italy at the end of the decade large wage increases in the public sector set the pattern for wages in industry in the following round. In Spain, where public sector wages are more tightly linked to budgetary decisions, primarily the service and construction sectors set the pattern.[37] This shift in wage leadership may partly have reflected a union response to the new policy course. Yet, significantly, the sectors that took the lead in wage setting were also the ones over which the national labor confederations had the least control. In Spain the level of unionization in the service sector, for example, was only half that in industry. In Italy the rise in public sector wages at the end of the decade was driven by the presence of autonomous unions and grass-root committees (COBAS) formed by high skill workers who were unwilling to restrain their wages as part of the confederal unions' solidaristic wage strategy.[38]

The attempt in Spain and Italy to impose discipline in a fragmented bargaining system through a tight monetary policy thus had several perverse effects. It provoked speculative capital inflows that negated 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. And it downgraded the role of exposed sectors in the wage-setting process.

These effects were not reversed until the forced devaluations of the lira and the peseta in the 1992 ERM crisis. The crisis imposed heavy losses in employment in both countries. But its effect on the course of prices and wages was remarkable. The devaluation of the currencies ended the sharp divergence since 1987 between the prices of tradeable and nontradeable goods and services; disinflation consequently resumed. The differences between the two countries, however, 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 produced greater gains in competitiveness and a quicker economic recovery. The peseta was kept in the system initially at the cost of very high interest rates. Wages also responded far more quickly in Italy, thanks to the 1992 agreement with the unions. Spanish wages continued to rise during the 1993 stand-off between the government and the unions over labor market reform and were adjusted downward only after the resumption of centralized negotiations between employers and unions in 1994. The cost in terms of unemployment was also much higher in Spain: an additional 8 percent rise over 1992–94, compared to less than 1 percent in Italy.

In both countries governments thus faced the limits of the unilateral use of monetary policy to impose wage discipline. The failure of this policy course explains these governments' heavy investment in a return to a bargained incomes policy in the 1990s.[39] It was more successful in Italy than in Spain, where the failure of negotiations in 1993 prevented a rapid adjustment in wages and contributed to the severity of the economic crisis. The inability to reach a new agreement during the PSOE's last term was closely related to the erosion of trust between the parties by the experience of the 1980s, when an excessively tight monetary policy undermined the benefits of unions' wage restraint.[40] However, the PSOE's strategy in the early 1990s was also inconsistent. While the government sought desperately to reach a new incomes policy agreement, it maintained its heavy-handed approach to labor market reform and its very strict monetary policy. Indeed, the conservative government that took office in 1996 learned from the PSOE's experience. It backed the 1997 agreement between employers and unions with fiscal concessions and encouraged the central bank to follow a more measured monetary policy. The unions could see the benefits from their compromises in more vigorous employment growth.

Employers' experience from 1987 to 1992 is crucial in understanding the efforts to consolidate and articulate the underlying structure of bargaining. After favoring the decentralization of bargaining in the 1980s, employers in exposed sectors found that they were not able to exact wage restraint when settlements in sheltered sectors set the pace of inflation. The problem reached beyond the contentious issue of indexation mechanisms such as the *scala mobile* in Italy and negotiated compensation clauses in Spain because inflationary wage settlements in the public and service sectors influenced wage demands in industry even in the absence of indexation as long as bargaining remained fragmented. During the 1993 negotiations in Italy Confindustria thus 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 bargaining units).[41] Similarly, in Spain the national employer confederations, the CEOE and the confederation of small and medium-sized firms, CEPYME, have been the principal agents (along with the national union federations) behind the move to limit the fragmentation of the bargaining system.[42]

The unions' experience has been more complex than the governments' and employers', yet it too ultimately contributed to the return to national social bargaining and to the efforts to consolidate the underlying structure of bargaining. In both Italy and Spain concertation in the 1980s came at a significant cost to the national union confederations, 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 during the 1980s. In Spain the absence of a wage compression mechanism such as the *scala mobile* prevented the emergence of rival local unions. Nonetheless, the UGT was held responsible for the stagnation in real wages during the 1980s. It lost the dominant position at the plant level that it had gained in the democratic transition, and its subsequent alliance with the CCOO was intended to reverse this decline through a common, more militant bargaining stance.

Because of the past costs of concertation for the unions, their role in the return to national bargaining is harder to understand. Governments and employers were more willing to compromise in the 1990s. However, the concessions of the national unions were also motivated by the realization that the regulatory framework they had defended for so long was eroding their own position in the labor movement and their ability to act as strategic actors in the economy. In Italy the *scala mobile* not only caused the rise of the COBAS and *sindicati autonomi* among skilled workers, but also reduced the significance of the confederations for all workers by sharply narrowing the room for negotiation in wage bargaining. By replacing the *scala mobile* with a centralized incomes policy framework, the confederations vastly increased their importance for workers. Their greater importance was reflected in plant-level elections following the 1993 accord, in which they significantly increased their share of the vote.[43] Although the labor confederations opposed Confindustria's proposal for a single, national level of wage bargaining in 1993, the consolidation of bargaining in two articulated (as opposed to multiple, unarticulated) levels also bolstered their ability to control the course of wage negotiations, as reflected in the remarkable moderation in wage growth since 1992. In Spain the dramatic increase in unemployment after the 1992 currency crisis bolstered the belief that the unions represented a shrinking fraction of "insiders" in the labor market at the expense of the unemployed. In reasserting coordinated wage moderation and in agreeing to a reduction in dismissal costs, the unions sought to stop the downward spiral in employment. But they were also seeking to counter this perception and to redress the growing duality between a shrinking body of permanent workers and a growing proportion of temporary workers that undermined their position as representatives of Spanish labor. By the early 1990s union leaders also recognized that the fragmented bargaining structure was an obstacle in responding to the challenges of further integration under EMU.[44]

The pressures of economic integration in Europe thus led the key actors to seek a return to national negotiations and the consolidation and coordination of the underlying structures of bargaining. The governments responded to their failure to impose wage and price restraint in a fragmented bargaining context through a tight monetary policy by seeking new incomes policy agreements with the unions. They were more successful in Italy than in Spain. Employers were unable to control wages under an economic policy that placed far greater pressure on prices in exposed than in sheltered sectors and thus sought to reconsolidate the bargaining structure. The unions came back to the bargaining table because the old industrial relations framework eroded their position as economic and social actors. They gained, in return, a devolution of authority to the collective bargaining process and a reassertion of the role of national confederations and national sectoral federations.

To be sure, this institutional change is still at an early stage and has gone further in Italy than in Spain. The institutionalization of a new bargaining culture in which the focus of negotiation shifts from political concessions to procedural aspects of labor market regulation remains a challenge for unions and employers in both countries. The consolidation of the structure of bargaining also still has far to go, in particular in Spain, where conflicts between national and regional labor and employer organizations constitute a significant obstacle. Nonetheless, the developments of the last few years clearly illustrate how key actors have responded to the pressures of market integration and the prospect of even greater integration after the EMU by seeking to build structures of coordination and to institutionalize bargaining practices further, rather than to embark on deregulation.

Some Implications of the Italian and Spanish Experiences

Will the recentralization of bargaining be temporary, tied to participation in the EMU, or is it likely to persist? While participation in the EMU has strongly encouraged governments and employers to reach new agreements with the unions, the fundamental problems that convinced all three parties to resume framework bargaining will continue beyond the EMU deadline. 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 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 of labor costs. National actors will, therefore, most likely reinforce whatever institutional solutions have proven most effective in sustaining competitiveness in the past. Italy and Spain will probably continue national bargaining on wages and other issues.

Spain's and Italy's experiences, however, have broader implications. Since 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 under the strict monetary policy of an autonomous central bank. In countries with intermediate levels of centralization in wage bargaining, a nonaccommodating monetary authority is said to reinforce wage moderation and hence employment.[45] This model has also guided the institutional design of the EMU, which has given primacy to the establishment of an independent European central bank. The Italian and Spanish experiences of the late 1980s and early 1990s, however, reflect a different aspect of the relationship between monetary and wage bargaining institutions: the limits of monetary policy when wage bargaining (still within an intermediate category) is relatively fragmented and the bargaining parties lack an autonomous bargaining framework within which to coordinate wages across sectors. The positive performance of the German central bank has been strongly dependent on the organizational features of German unions and employers, especially the ability of the unions and employers' associations to coordinate their affiliates' bargaining positions.[46] By contrast, "in uncoordinated settings, wage bargainers are unlikely to be highly responsive to threats from the fiscal or monetary authorities."[47]

A second critical ingredient in the positive interaction of monetary and wage bargaining institutions in Germany has been the leadership of a key export sector in the bargaining round.[48] 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 to the growing public sector unions. Because of these contrasts, some have argued that the benefits of centralized wage bargaining and an independent central bank depend on the relative position of the tradeable goods and sheltered (in particular public) sectors in the economy. Centralized bargaining is believed to be most beneficial where the export sector dominates and least beneficial (or even harmful) where the public (or sheltered) sector dominates. The benefits of an independent central bank (or nonaccommodating monetary policy), in contrast, are believed to be particularly important where the public (or sheltered) sector dominates and to decrease with export sector dominance. [49]

However, the Spanish and Italian experiences suggest that the attempts to control wages by pressuring the external sector of an economy through a tight monetary policy in a fragmented and uncoordinated bargaining context are likely to backfire because the sheltered and less competitive sectors will set the pace of inflation and nominal wage growth. While exposed sector employers and unions in some of the traditional corporatist countries might retain important coordinating capacities when they give up peak-level bargaining, employers in Italy and Spain found that their ability to control wage growth was seriously impaired in the absence of framework bargaining. Thus, as international competition intensifies and integration proceeds, governments, employers, and unions may be particularly eager to reestablish some form of concertation where social actors lack the capacities associated with organized economies.

Finally, Italy and Spain may foretell more general pressures that will arise as financial and monetary integration proceeds in the EU. The inability of the Italian and Spanish governments to impose wage restraint through a tight monetary policy in the late 1980s and early 1990s was aggravated by their loss of control over monetary magnitudes after capital controls were lifted. Thus, increased market integration does not necessarily end the government's incentives to seek union cooperation. The European Central Bank may also not be able to replicate the record of the German *Bundesbank* without some alternate mechanism for wage coordination. As Iversen has argued, the level of centralization in wage bargaining is a function of the area covered by the monetary authority.[50] The EMU in effect decentralizes the level of wage bargaining across the EU since all national union organizations are less inclusive (they cover a smaller portion of the work force affected by an interest rate hike) and hence are less willing to internalize the inflationary externalities of wage increases. A similar loss of the relevant coordinating capacity occurs on the employer side. To the extent that relative labor costs within the EMU area continue to be important, governments, employers, and unions in some of the organized economies that have eschewed peak-level bargaining in the past may thus face new incentives to pursue the kinds of national social pacts in Italy and Spain. And EU policymakers may face new reasons to encourage an upward extension of bargaining to the European level.

NOTES

1. See, for example, David Cameron, "Social Democracy, Corporatism, Labor Quiescence, and the Representation of Economic Interest in Advanced Capitalist Society," in John H. Goldthorpe, ed., *Order and Conflict in Contemporary Capitalism* (New York: Oxford University Press, 1984); Charles Bean, Richard Layard, and Stephen Nickell, "The Rise in Unemployment: A Multi-Country Study," *Economica*, 53 (1986), 1–22.
2. See, for example, Colin Crouch, "Conditions for Trade Union Restraint," in Leon N. Lindberg and Charles S. Maier, eds., *The Politics of Inflation and Economic Stagflation* (Washington, D.C.: The Brookings Institution, 1985).
3. See Michael Wallerstein and Miriam Golden, "The Fragmentation of the Bargaining Society," *Comparative Political Studies*, 30 (1997), 699–731; Peter A. Hall, "Organized Market Economies and Unemployment in Europe: Is It Finally Time to Accept Liberal Orthodoxy?," paper presented at the Conference on Unemployment's Effects: The Southern European Experience in Comparative Perspective, Princeton University, November 1997.
4. Philippe Schmitter, "Still the Century of Corporatism?," *Review of Politics*, 36 (1974), 85–131.
5. See Wallerstein and Golden; Michael Wallerstein, Miriam Golden, and Peter Lange, "Unions, Employer Associations and Wage-setting Institutions in North and Central Europe, 1950–1992," *Industrial Labor and Relations Review*, 50 (1997), 379–401.
6. Anke Hassel, "Soziale Pakte in Europa," *Gewerkschaftliche Monatshefte*, 49 (1998), 626–38.
7. Peter Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Ithaca: Cornell University Press, 1985).

8. Hall; Colin Crouch, "Incomes Policies, Institutions and Markets: An Overview of Recent Developments," in Ronald Dore, Robert Boyer, and Zoe Mars, eds., *The Return of Incomes Policy* (London: Pinter, 1994).

9. Lars Calmfors and John Drifill, "Bargaining Structure, Corporatism and Macroeconomic Performance," *Economic Policy*, 6 (1988), 13–61.

10. See, for instance, Crouch, "Incomes Policies," p. 83.

11. Mancur Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982), pp. 47–58.

12. Cameron; Crouch, "Conditions"; and Miriam Golden,"The Dynamics of Trade Unionism and National Economic Performance," *American Political Science Review*, 87 (1993), 439–54.

13. See Peter Swenson, "Bringing Capital Back In, or Social Democracy Reconsidered," *World Politics*, 43 (1991), 513–44; David Soskice, "The Institutional Infrastructure for International Competitiveness: A Comparative Analysis of the U.K. and Germany," in A. B. Atkinson and R. Brunetta, eds., *The Economies of the New Europe* (London: Macmillan, 1991).

14. See, for example, Crouch, "Incomes Policies," p. 194.

15. See Robert J. Flanagan, David Soskice, and Lloyd Ulman, *Unionism, Economic Stabilization, and Incomes Policies: European Experience* (Washington, D. C.: The Brookings Institution Press, 1983), pp. 546–56; Marino Regini, "The Conditions for Political Exchange: How Concertation Emerged and Collapsed in Italy and Great Britain," in Goldthorpe, ed..

16. Richard Gillespie, "The Break-up of the 'Socialist Family': Party-Union Relations in Spain, 1982–1989," *West European Politics*, 16 (1990), 78–96; Sofía A. Pérez, "From Labor to Finance: Explaining the Failure of Socialist Economic Policies in Spain," *Comparative Political Studies*, (September 1999); Alvaro Espina, *Concertacion Social, Neocorporativismo y Democracia* (Madrid: Ministerio de Trabajo, 1991); Sebastian Royo, *Social Democracy and the Collapse of Concertation in Spain* (Ph.D. diss., Boston University, 1998).

17. See Crouch, "Conditions"; Ludolfo Paramio, "Los sindicatos y la política en España," in Alfonso Guerra and José Luis Tezanos, eds., *La Década del Cambio: Diez años de Gobierno Socialista 1982–1992* (Madrid: Sistema, 1992); Alvaro Espina, "Una evaluación de la dinámica de la negociación salarial en España (1976–1994): Del intercamio político a la cooperación," *Economía y Sociología del Trabajo*, 25/26 (1994), 269–94.

18. See Richard Locke and Lucio Baccaro, "Learning from Past Mistakes? Recent Reforms in Italian Industrial Relations," *Industrial Relations Journal*, 27 (1996), 289–303; Marino Regini, "Still Engaging in Corporatism? Recent Italian Experiences in Comparative Perspective," *European Journal of Industrial Relations*, 3 (1997), 259–78; Marino Regini and Ida Regalia, "Employers, Unions, and the State: The Resurgence of Concertation in Italy?," *West European Politics*, 25 (1997), 213–17; Stefano Negrelli, "Social Pacts and Flexibility: Towards a New Balance between Macro and Micro Industrial Relations: The Italian Experience," in Giuseppe Fajertag and Philippe Pochet, eds., *Social Pacts in Europe* (Brussels: ETUI, 1997), p. 48.

19. Included were aspects of functional flexibility such as the distribution of working hours but also some distributive issues such as the pay of temporary workers.

20. See UGT, *Anuario de Negociación Colectiva 1997* (Madrid: Publicaciones Unión, 1998); CEOE, "Balance de la encuesta sobre negociación colectiva en 1998," *Informes y Estudios de CEOE*, 81 (1999); CES, *Economía, Trabajo y Sociedad: Memoria sobre la situación socioeconomica y laboral, 1997* (Madrid: Consejo Económico y Social, 1998), ch. 3.

21. *El Pais*, Oct. 29, 30, 1998.

22. CES, *Economía, Trabajo y Sociedad*, p. 386; *Estadística de Convenios Colectivos de Trabajo* (Ministerio de Trabajo), Avance 1997, Table 2; *European Industrial Relations Review* (May 1998).

23. *Acuerdos para la Estabilidad del Empleo y la Negociación Colectiva* (Madrid: CEOE, 1997); *ABC*, Sept. 4, 1997.

24. In the wage round that followed the 1997 agreement, the unions significantly moderated their demands, asking for wage increases that were minimally above expected inflation. A similarly coordinated reduction in demands could be observed three years earlier, following the initiation of talks with the CEOE on regulating the abolition of the labor ordinances. See *European Industrial Relations Review* (December 1997), (February 1998); *El Pais*, Mar. 29, Apr. 7, 10, June 10, 11, 1994, Aug. 4, 1998.

25. Franz Traxler, "The Logic of Social Pacts," in Fajertag and Pochet, eds., p. 28.

26. In Italy this effort was abetted by the political crisis, which led public authorities to seek the unions' collaboration to legitimize tough fiscal measures. Michele Salvati, "The Crisis of Government in Italy," *New Left Review*, 213 (1995), 76–95.

27. Regini, "Still Engaging in Corporatism?"; Regini and Regalia; Mario Regini, *Uncertain Boundaries: The Social and Political Construction of European Economies* (New York: Cambridge University Press, 1995).

28. Martin Rhodes, "Globalisation, Labour Markets and Welfare States: A Future of Competitive Corporatism?," in Martin Rhodes and Yves Mény, eds., *The Future of European Welfare: A New Social Contract?* (London: Macmillan 1998).

29. Kathleen Thelen, *Union of Parts: Labor Politics in Postwar Germany* (Ithaca: Cornell University Press, 1991); Jonas Pontusson and Peter Swenson, "Labor Markets, Production Strategies, and Wage Bargaining Institutions," *Comparative Political Studies*, 29 (1995), 223–50; Torben Iversen, "Power, Flexibility and the Breakdown of Centralized Wage Bargaining: The Cases of Denmark and Sweden in Comparative Perspective," *Comparative Politics*, 28 (1996), 399–436.

30. See Samuel Bentolila and Juan J. Dolado, "Labour Flexibility and Wages: Lessons from Spain," *Economic Policy*, 18 (1994), 53–99; Espina, "Una evaluación," pp. 272–73; Richard Layard, Stephen Nickell, and Robert Jackman, *Unemployment: Macroeconomic Performance and the Labour Market* (Oxford: Oxford University Press, 1991), p. 407; Juan Francisco Jimeno and Luis Toharia, *Unemployment and Labour Market Flexibility: Spain* (Geneva: ILO, 1994), pp. 78–80.

31. OECD, *Economic Survey, Spain 1996*, pp. 66–67.

32. See Giuseppe Bertola and Andrea Ichino, "Crossing the River: A Comparative Perspective on Italian Employment Dynamics," *Economic Policy*, 21 (1995), 59–120.

33. Sofía A. Pérez, *Banking on Privilege: The Politics of Spanish Financial Reform* (Ithaca: Cornell University Press, 1997), pp. 169–73; OECD, *Economic Surveys: Italy 1990*, pp. 30–32; *Economic Surveys: Italy 1991*, pp. 43–45.

34. OECD, *Italy 1991*, p. 42.

35. Pérez, "From Labor to Finance"; OECD, *Spain 1992*, pp. 21, 28.

36. OECD, *Main Economic Indicators*.

37. Locke and Baccaro; OECD, *Italy 1991*, p. 37, and *Italy 1993*, p. 19; OECD, *Spain 1992*, pp. 22, 67; and *Spain 1994*, p. 73.

38. Andrew Richards and Javier García Polavieja, "Trade Unions, Unemployment and Working Class Fragmentation in Spain" (Madrid: CEACS, Juan March Foundation, Working Paper #1997/112, 1997); Locke and Baccaro.

39. See the statements of the governor of the Bank of Italy (and later prime minister), Carlos Ciampi, *Financial Times*, June 29, 1988, June 28, 1993; the Spanish finance minister, Carlos Solchaga, *El Pais*, Oct. 24, 1991; Espina, *Concertacion Social*, pp. 325–29; and Tiziano Treu, "Procedures and Institutions of Incomes Policy in Italy," in Dore, Boyer, and Mars, eds., p. 167.

40. See Olivier Blanchard et al., *Spanish Unemployment: Is There a Solution?* (London: Clarendon Press, 1995), pp. 11–12.

41. Locke and Baccaro, p. 299; also, Regini and Regalia, p. 222, and the statements of Confindustria's chief economist, Stefano Micossi, *Financial Times*, July 7, 1992.

42. One CEOE study indicates that national sectoral bargains yielded lower salary increases and more work-time flexibility than provincial or regional level bargains. CEOE, *Balance de la Encuesta*, p. 52.

43. Locke and Baccaro, p. 292.

44. Richards and García Polavieja; interviews with Julian Ariza (CCOO) and Manuel Garnacho (UGT), Madrid, October-November, 1998. Also, UGT, *Anuario*, p. 233.

45. Torben Iversen, "Wage Bargaining, Central Bank Independence and the Real Effects of Money," *International Organization*, 52 (1998), 469–504.

46. Wolfgang Streeck, "Pay Restraint without Incomes Policy: Institutionalized Monetarism and Industrial Unionism in Germany," in Dore, Boyer, and Mars, eds; Peter A. Hall, "Central Bank Independence and Coordinated Wage Bargaining: Their Interaction in Germany and Europe," *German Politics and Society*, 2 (Fall 1994), 1–23.

47. Peter A. Hall and Robert Franzese, "Mixed Signals: Central Bank Independence, Coordinated Wage-Bargaining, and European Monetary Union," *International Organization*, 52 (1998), 510.

48. Streeck, "Pay Restraint."

49. See Crouch, "Conditions"; Geoffrey Garrett and Christopher Way, "The Sectoral Composition of Trade Unions, Corporatism, and Economic Performance," in Barry Eichengreen, Jeffry Frieden, and Jürgen von Hagen, eds., *Monetary and Fiscal Policy in an Integrated Europe* (New York: Springer Verlag, 1995); Robert Franzese, "Monetary Policy and Wage/Price Bargaining: Macro-Institutional Interactions in the Traded, Public, and Sheltered Sectors," in Peter A. Hall and David Soskice, eds., *Varieties of Capitalism: The Challenges Facing Contemporary Political Economies* (forthcoming).

50. Iversen, "Wage Bargaining," p. 497.