Blunting Neoliberalism

Tripartism and Economic Reforms in the Developing World

Edited by Lydia Fraile

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Lydia Fraile

Preface

Social dialogue has attracted renewed interest as part of the debate on the responses to the global financial crisis. Unemployment has risen significantly and, in many developing countries, the incidence of informality and working poverty is on a steep upward trend. Response measures need to be well designed and adapted to the rapidly worsening position of enterprises and workers, which calls for the involvement of employers and workers, as actors of the real economy. The strategy also needs to be fair and needs to avoid putting the burden of adjustment on the innocent victims of the crisis. It is a fact that tripartite social dialogue has gained momentum since the advent of the crisis.

More fundamentally, the crisis has highlighted the need for a new approach to policymaking. It is now widely agreed that market forces, important as they are, will not generate long-term growth and prosperity for the majority of people – not unless proper government policies and institutions are put in place. Already before the crisis there were signs that the world economy was unbalanced. The *World of Work Report 2008* shows that since the 1980s income inequality had increased in the majority of countries. Importantly, wider income inequality was often inefficient from the economic point of view. The report also stresses the role social partners play in preventing excessive income inequalities.

While the ongoing crisis has opened up a new space for tripartite policymaking, more research was needed in order to highlight *how* tripartism can work successfully. This volume provides a highly relevant contribution in this respect. It is based on case studies for eight countries, namely Chile, Republic of Korea, Poland, Singapore, Slovenia, South Africa, Uruguay and Zimbabwe. A key lesson from the study is that the involvement of strong, independent social partners helps improve socio-economic outcomes. In the reviewed countries where tripartism is effective, well-designed employment regulations and social protection have been adopted. These policies have limited, to some extent, the inequalities and vulnerabilities that tend to emerge in countries where tripartism is ineffective or does not exist. For instance, it is thanks to tripartite policymaking that the pension system was not privatized in one of the countries under study and that the majority of people continue to receive a pension benefit.

What is more, the volume documents cases where effective tripartism helped overcome earlier crises. In particular, some successful performers adopted social pacts embodying a comprehensive package of anti-crisis measures, negotiated between government and social partners. These social pacts proved instrumental in improving the design of the measures. They also strengthened perceptions that the burden of the crisis was being shared fairly, thereby facilitating implementation of the strategy.

It is sometimes argued that efforts to improve fairness come at the cost of weaker economic growth. The volume rejects such a simplistic trade-off between efficiency and equity goals. It shows that there is no single road to economic dynamism. Some countries achieve high economic growth by relying mainly on market forces, entailing deregulated labour markets, limited coverage of social protection and weak worker rights. Such an approach often comes at the price of growing income inequalities and intensified labour market insecurity. Other countries have adopted negotiated reforms and have been rewarded with both robust economic gains and positive social outcomes. The latter approach is more complex and costly to the public purse than the first one. But, as the volume shows, it works.

The volume provides a solid example of how the Global Jobs Pact – a tool agreed at the International Labour Conference of June 2009 for promoting jobs recovery in the face of the crisis – can be implemented in practice. The piece could not be more timely.

Raymond Torres
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List of Acronyms

ANC	African National Congress (South Africa)
AWS	Solidarity Electoral Action (Poland)
BCEA	Basic Conditions of Employment Act (South Africa)
BEE	Black Economic Empowerment (South Africa)
BIG	Basic Income Grant (South Africa)
BPS	Social Provident Bank (Uruguay)
BUSA	Business Unity South Africa
CEE	Central and Eastern Europe
CEPAL	Economic Commission for Latin America and the Caribbean
CMEA	Council for Mutual Economic Assistance
COMISEC	Sector Commission for Mercosur (Uruguay)
CONAPRO	National Programmatic Concertation (Uruguay)
COSATU	Congress of South African Trade Unions
CPC	Confederation of Production and Commerce (Chile)
CPF	Central Provident Funds (Singapore)
CUEPACS	Congress of Unions of Employees in the Public and Civil Services (Malaysia)
CUT	Unitary Workers' Central (Chile)
DEMOS	Democratic Opposition of Slovenia
DeSUS	Democratic Party of Pensioners of Slovenia
EBRD	European Bank for Reconstruction and Development
EDB	Economic Development Board (Singapore)
EIRO	European Industrial Relations Observatory On-line
EMCOZ	Employers' Confederation of Zimbabwe
EOI	Export-oriented industrialization
EPL	Employment Protection Legislation
ESAP	Economic Structural Adjustment Programme (Zimbabwe)
ESC	Economic and Social Council (Slovenia)
ESS	Employment Service of Slovenia

FEDUSA	Federation of Unions of South Africa
FKTU	Federation of Korean Trade Unions (Republic of South Korea)
GATT	General Agreement on Tariffs and Trade
GEAR	Growth, Employment and Redistribution (South Africa)
HCI	Heavy and chemical industries
IAC	Industrial Arbitration Court (Singapore)
ICFTU	International Confederation of Free Trade Unions
IDB	Inter-American Development Bank
IMAD	Institute for Macroeconomic Analysis and Development (Slovenia)
IMF	International Monetary Fund
JUNAE	National Employment Board (Uruguay)
KCTU	Korean Confederation of Trade Unions (Republic of South Korea)
KEF	Korea Employers' Federation (Republic of South Korea)
KNSS Independence	'Independence' Confederation of New Trade Unions of Slovenia
KPP	Confederation of Polish Employers
LCA	Law on Collective Agreements (Slovenia)
LLR	Law on Labour Relations (Slovenia)
LDS	Liberal Democracy of Slovenia
LRA	Labour Relations Act (South Africa)
MDC	Movement for Democratic Change (Zimbabwe)
Mercosur	Common Market of the Southern Cone
MTUC	Malaysian Trades Union Congress
NACTU	National Council of Trade Unions (South Africa)
NECF	National Economic Consultative Forum (Zimbabwe)
NEDLAC	National Economic Development and Labour Council (South Africa)
NEF	National Economic Forum (South Africa)
NMC	National Manpower Commission (South Africa)
NSZZ Solidarity	'Solidarity' Independent Self-Governing Trade Union (Poland)
NTUC	National Trades Union Congress (Singapore)
NWC	National Wages Council (Singapore)

OECD	Organisation for Economic Co-operation and Development
OPZZ	All-Poland Alliance of Trade Unions
PAP	People's Action Party (Singapore)
PDIA	Pension and Disability Act (Slovenia)
PIT–CNT	Intersyndical Plenary of Workers–National Convention of Workers (Uruguay)
PRSPs	Poverty Reduction Strategy Papers
PSB	Productivity and Standards Board (Singapore)
PSL	Polish People's Party
SACP	South African Communist Party
SACU	Southern African Customs Union
SADC	Southern African Development Community
SASE	Society for the Advancement of Socio-Economics
SATU	Singapore Association of Trade Unions
SLD	Democratic Left Alliance (Poland)
SLS	Slovenian People's Party
SNEF	Singapore National Employers' Federation
SOEs	State-owned enterprises (Republic of South Korea)
SRP	Skills Redevelopment Programme (Singapore)
TAC	Treatment Action Campaign (South Africa)
TNF	Tripartite Negotiating Forum (Zimbabwe)
UNDP	United Nations Development Programme
ZANU	Zimbabwe African National Union
ZANU-PF	Zimbabwe African National Union Patriotic Front
ZCTU	Zimbabwe Congress of Trade Unions
ZDODS	Slovenian Employers' Association of Crafts
ZDS	Slovenian Employers' Association
ZFTU	Zimbabwe Federation of Trade Unions
ZLSD	United League of Social Democrats (Slovenia)
ZSSS	Association of Free Trade Unions of Slovenia

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1
Introduction

Lydia Fraile and Lucio Baccaro

> *A blind faith in spontaneous progress had taken hold of people's minds, and with the fanaticism of sectarians the most enlightened pressed forward for boundless and unregulated change in society. The effects on the lives of people were awful beyond description. Indeed, human society would have been annihilated but for the protective counter-moves which blunted the action of this self-destructive mechanism.*
>
> *Karl Polanyi, The Great Transformation 1958, 2001*

This book examines the impact of tripartism on economic reforms in developing countries[1] since the 1990s. Tripartism, also known as social or policy concertation, refers to the consultation and negotiation of public policies between representatives of national governments, trade unions and employer associations, who may also play a direct role in their implementation.[2] These practices have a long tradition in Western Europe and have been the subject since the 1970s of large academic literatures on corporatism and social pacts. In recent decades they have spread beyond the classic corporatist countries to others like Ireland, Italy and Spain, with more fragmented structures of interest organization, that were previously thought to be infertile ground for tripartism (Regini 1997; Fajertag & Pochet 1997, 2000; Baccaro 2003; Hassel 2006).

Much less is known, however, about the role played by tripartism in other parts of the world.[3] The available literature tends to focus more on the formal analysis of the tripartite institutions that exist in different countries than on the actual impact of these institutions. The gap we seek to fill with this project concerns this latter issue. We do not try to answer the – equally interesting – question of why tripartite institutions or, more specifically, social pacts emerge in some developing countries and not in others, or why tripartism is stronger or more consolidated in some countries than in others. We focus, rather, on the policy impact of tripartism on national policymaking in an age, the 1990s and early 2000s, which has been characterized by the predominance of neoliberalism; have tripartite negotiations altered in any way the pace, sequence or content of economic reforms? Have they affected the environment in which reforms are implemented? We explore this issue through case studies of eight countries from different parts of the developing world that exhibit varying degrees of tripartism – from weak to strong. The countries are Chile, the Republic of Korea, Poland, Singapore, Slovenia, South Africa, Uruguay and Zimbabwe.

The 1990s were a decade of economic liberalization. In many countries governments embarked on or intensified previous efforts to remove barriers to trade and financial flows, and to pursue deregulation and privatization together with orthodox, restrictive macroeconomic policies. The international financial institutions (the IMF, the World Bank) played a key role in this process, pushing reforms through a standard policy package that came to be known as the 'Washington Consensus'.[4] The reform dynamics varied significantly across regions. The debt crisis of the 1980s prompted countries in Latin America and sub-Saharan Africa to switch development strategies away from import substitution industrialization and to shrink the role of the state, while the collapse of communism plunged countries in Central and Eastern Europe into transition to market economies. In contrast, liberalization in Asia tended to be more strategic, gradual and selective. Nevertheless the common goal for all reformers was to achieve greater integration into the global economy in order to benefit from better access to markets, capital and technology.

Results so far have been uneven and, for the most part, disappointing. While some developing countries, notably China and India, were able to take advantage of the opportunities afforded by globalization, many others have not fared as well. According to the World Bank's 2007 *World Development Indicators* (pp. 185–6), developing economies grew faster over the last decade (1995–2005) than in the two previous decades and faster than high-income countries, increasing their share of total global output from 39% to 46%. The gains, however, were highly concentrated in East Asia and the Pacific, whose share of total global output rose from 13% to 19%, and in South Asia, where it went from 6% to 8%; the shares of other developing regions remained the same. Moreover, the report notes that global and regional averages are driven by a few large countries which carry much weight in the aggregate measures.

Income inequality and poverty trends suggest a similarly mixed picture. Extreme poverty is declining but there is growing income inequality in many countries. The UN reports that the proportion of people in developing countries living in extreme poverty (under $1/day) fell from 31.6% in 1990 to 19.2% in 2004. However, 'success is unevenly shared since the decline in global poverty is mostly due to rapid economic growth in Asia'.[5] Rising food prices and the current international financial crisis threaten to halt this trend. Although experts disagree on whether global income inequality among individuals has increased or decreased in recent decades (see Milanovic 2005; Sala-i-Martín 2006), they nonetheless concur on some basic facts.[6] First, income inequality *between countries*, measured in GDP per capita, has increased from 1980 to 2000 as high-income countries pulled ahead while many middle- and low-income countries lost ground. Second, if one weighs GDP per capita by population size, then income inequality has decreased from 1980 to 2000, thanks to fast economic growth in China, India and other Asian countries. Third, income inequality *within countries* has increased in 1980–2000 in most countries, including the largest. Underlying this latter trend, the IMF in a recent study notes, 'the income share of the richest quintile [of the population] has risen, whereas the shares of the remaining quintiles have declined'.[7] Another study by the ILO shows that the share of wages in total income has declined in the last two decades in 51 out of 73 countries for which data are available.[8] It is against this background of widespread liberalization and uneven results that we seek to analyse the impact of tripartism.

1.1 The general argument

Did tripartism affect the course of economic reforms? The evidence presented in this volume suggests that, when relatively strong (by which we mean institutionalized, with real impact on policy formulation, and with strong and independent labour representation), tripartism has been able to insert a concern for equity into the policymaking process, and this has in turn helped countries reconcile economic and social goals as they underwent liberalization. This concern for equity manifests itself in various ways including measures to minimize dislocation and job losses during economic crises and restructuring; training programmes and other active labour market and industrial policies to help workers and enterprises cope with structural change; and efforts to extend or strengthen worker rights and social protection, and to preserve solidarity components in welfare and tax reforms.

In the most successful cases, incomes policy has been a key building block of tripartite agreements as well as a useful tool for macroeconomic management. Slovenia, for instance, has used tripartite wage setting since the mid-1990s to bring down inflation and limit wage dispersion as it transitioned to a market economy while keeping unemployment low. Another example is Singapore, which has used tripartite wage setting since the 1970s to promote moderate wage growth and wage flexibility, move the economy into higher value-added sectors and respond to external shocks. In addition to incomes policy, both countries stand out for their extensive training and lifelong learning programmes, which are the products of tripartism. This has been combined with industrial policies and active state intervention in Singapore, and with strong job protection legislation and a gradual approach to restructuring in Slovenia to ensure smooth economic adaptation at a low social cost.

Tripartism has bolstered universal welfare schemes and progressive taxation in Slovenia, where the trade unions blocked proposals for pension privatization and a flat income tax that were implemented in other transition countries. In Singapore, tripartism has been instrumental in expanding social protection over time, through its central provident fund – which people can use to finance their subsidized apartment and has resulted in a 90% home ownership rate – and in offering affordable childcare and other services through union-run cooperatives. The provident fund, however, relies strictly on compulsory individual and family savings with almost no element of income redistribution.

These policies have helped Slovenia become the first transition country to join the Euro currency area in 2007 and to do so with good employment marks and low income inequality. Eurostat data show an employment rate in Slovenia of 67.8% in 2007, higher than the EU-15 rate of 66.9%, and a low unemployment rate of 4.9%, compared to 7% for the EU-15. The Gini coefficient, which measures income inequality, was .24 in 2006, the same as that for Sweden and Denmark. Singapore, in turn, has not only maintained a long record of macroeconomic stability and low unemployment, but high income inequality also. Singapore Department of Statistics data for 2007 show an unemployment rate of 3.1% and a Gini coefficient of .46 (after government benefits and taxes). Although tripartism in Singapore is well institutionalized and has had a real impact on policy formulation, trade unions have limited autonomy from government, and this may explain the low emphasis placed on egalitarian distribution. On the other hand, equity concerns have been clearly present, for instance, in the policy responses to the 1998 Asian financial crisis and the growing attention paid to the plight of low-wage workers in recent years.

While helping countries reconcile economic and social goals, tripartism did not change the fundamental thrust and content of reforms in the 1990s, which retained their market orientation. Rather than construct an alternative to neoliberalism, tripartism had the effect of blunting it, taking out its sharper edges. Hence the title we chose for the book.

Tripartite negotiations had no observed impact on financial liberalization in any of the countries in our study, although in some cases they dealt with bank restructuring in the aftermath of financial crises. Sometimes governments involved the social partners in the formulation of the country's position in trade negotiations, but more often tripartite discussions focused on ways to mitigate the social impact or to promote competitiveness in sectors affected by trade liberalization. In either case what was up for discussion was not the policy itself, i.e., the opening of the economy and integration into regional trading blocks, but rather the pace and particulars of implementation and how to cope with adverse effects. This finding is consistent with a previous study of structural adjustment programmes in developing countries in the 1980s and early 1990s (Trebilcock 1996), which reported that tripartite consultation occurred only rarely and then at a late stage, dealing with the consequences of adjustment, rather than the adjustment policy itself.

Trade unions managed sometimes to slow down privatization and limit its scope, negotiating instead the restructuring of state enterprises in certain public utilities and services. In some cases they also blocked or watered down proposals to privatize pensions along the lines of the Chilean individual capitalization system. More often, tripartite negotiations limited deregulation of the labour market; in fact, worker rights were expanded in several of the countries in our study in the context of democratization.

From a labour perspective, the tripartism we examine in this book has served a largely defensive purpose and is, in this respect, considerably different from the type of tripartism that provided the building blocks of the 'social corporatist' model aptly described in the literature on advanced, and especially Scandinavian, countries (e.g., Pekkarinen, Pohjola and Rowthorn 1992; Pontusson 2005). The classic social corporatist model, which captured European experiences in the post-war Keynesian era, was based on the notion of 'political exchange' (Pizzorno 1978; Mares 2006), by which trade unions exchanged a commitment to moderate wage demands for full employment policies and the development of comprehensive and largely decommodifying[9] welfare states (Korpi 1983; Esping-Andersen 1990). As a result of both compression of market earnings in highly centralized collective bargaining rounds, and redistributive taxation and transfer policies, the countries with social corporatist regimes had a considerably more egalitarian distribution of incomes than others. In contrast, the tripartism that has prevailed in developing countries in the 1990s generally lacks the redistributive and decommodifying features of the old corporatist model, even though, as argued above, it did manage to take away the edge from neoliberal policy reforms.

South Africa provides a good example of the constraints tripartite institutions face when trying to implement redistributive policies under current conditions, and more generally of the difficulties faced by social democracy in the developing world. This country emerged from the apartheid regime with a strong commitment to redress the inequalities inherited from the previous era, and with a series of participatory institutions in virtually all policy fields, which ensured strong tripartite involvement in policy formulation. Yet in 1996, in the midst of a currency crisis and associated capital flight, the post-apartheid government abandoned its early left-Keynesian economic programme for a more orthodox macroeconomic strategy based on fiscal deficit reduction, relaxation of exchange controls and privatization (see Habib & Padayachee 2000; Hirsch 2005). The government took this decision unilaterally, bypassing tripartite institutions and declaring it 'non-negotiable', despite strong objections from its labour allies at COSATU, the main South African trade union confederation, who had been actively involved in drawing up the original programme for reconstruction and development. This in turn limited the scope for social spending, which decreased from 15.5% of GDP in 1996–7 to 12.7% in 2000–1 (Van Zyl & Van der Westhuizen 2003). Targeting was improved through measures such as the new child support grant that reached over 8 million poor children by 2007 (Lund 2007). However, the more ambitious social policy demands – e.g., for a universal basic income grant – put forward by COSATU and other civil society organizations went unheeded.

Failure to deliver social-democratic outcomes has led some observers to dismiss experiments with tripartism as window dressing. David Ost (2000), for instance, labelled the tripartite practices that emerged in Central and Eastern Europe in the 1990s 'illusory corporatism', arguing that they just offered symbolic labour inclusion in exchange for legitimizing the decline in wages and welfare benefits that accompanied market transition. However, his analysis fails to distinguish between cases where tripartism is weak, such as Poland, where trade unions are divided and government has often bypassed tripartite channels; and cases where tripartism is strong, such as Slovenia, where genuine negotiations and agreements have had a significant and continued impact on policies.

In the countries in our study, tripartite discussions have often been preoccupied with defensive issues such as unemployment, flexibility and competitiveness. But in this they are actually no different from European social pacts in the 1990s, which have been described as 'competitive corporatism' (Rhodes 1998, 2001) due to their focus on readjusting labour market regulations and welfare states in response to market pressures and increased vulnerability in the context of globalization.

Despite its limitations, this book argues that the impact of tripartism on economic reforms has not been trivial. Tripartite negotiations have enabled social actors to step in with policies to minimize dislocation, promote adjustment and bolster social protection at a time of extensive structural change. Some observers, indeed, see the current wave of globalization, and especially the sweeping changes taking place in the developing world, as analogous to the 'great transformation' European countries underwent in the nineteenth and early twentieth centuries when they became industrial societies and which Karl Polanyi analysed in his classical work.[10] As in the past, a steep social cost has often been attached to the expansion of the market, especially when the pace of change has been fast or when it has been accompanied by financial crises such as those that rocked many middle-income countries in the 1990s, from Latin America to East Asia, Russia and Turkey. By blunting neoliberalism, tripartism has helped society protect its fabric, preserving the social relations in which the economy is embedded – as Polanyi argued – and anticipating future countermoves against the disruption and insecurity associated with boundless change.

This protective function does not mean that countries had to sacrifice economic goals to tripartism. The strong economic performance of Slovenia and Singapore, the two countries with strongest forms of tripartism in our study, shows indeed that tripartite institutions and economic performance can be mutually supportive. As mentioned earlier, in the cases of these two countries – as well as during certain periods in Uruguay, another country in our study – tripartite wage policies served as a useful tool for macroeconomic management. The way this normally worked was, as in the European experience, through coordinated wage moderation. But Singapore presents an interesting episode in the late 1970s of a three-year wage hike that was engineered to promote economic upgrading by pushing producers to move onto more capital-intensive, higher value-added sectors. Another mechanism by which tripartism has likely contributed to economic growth is by fostering training and other active labour market policies that facilitate restructuring and raise the skills of the workforce. A third mechanism is conflict management. Dani Rodrik (1998), for instance, shows evidence that external shocks result in greater growth losses in countries with weak institutions to manage the distributive conflicts that these shocks trigger.

Tripartism has sometimes played an important stabilizing role during crises. For example, the 1998 social pact negotiated in the Republic of Korea helped assure the IMF and capital markets that the government would take resolute action against the Asian financial crisis, reducing uncertainty and contributing to a quick recovery. Tripartism in Singapore enabled a smooth response to the Asian financial crisis that minimized employment losses. Finally, tripartite consensus helped Uruguay in 2002 to restore public confidence in the banking system and avoid the social and political upheaval the financial crisis unleashed in neighbouring Argentina. Similarly, tripartism has helped reduce uncertainty and ensure governability during democratic transitions in countries like South Africa, Chile and Uruguay. These were delicate moments in the countries' histories in which political instability and social unrest could have triggered a downward economic spiral.

Sceptics would suspect such deals to come at a (high) price, since they would tend to view tripartism as a mechanism for insiders to protect narrow interests to the detriment of outsiders and of economic efficiency more generally. Thus, for instance, proponents of 'shock therapy' in post-communist transitions (e.g., Lipton & Sachs 1990) argued that swift unilateral action by government reformers was required in order to prevent reform losers – who tend to be concentrated and organized groups in contrast to more uncertain and diffuse winners such as consumers – from blocking or compromising market reforms. This view raises a valid issue to consider when evaluating the policy impact of tripartism but makes some assumptions that are problematic. One such assumption equates rent-seeking with state interventionism, ignoring the fact that liberalizing policies, such as privatization, may also generate rents and elicit rent-seeking behaviour (Schamis 2002). By rushing to privatize, reformers could actually be helping insiders that stood to gain from bargain asset prices, monopoly powers or weak regulatory frameworks in privatized industries. The point is that vested interests are not confined to the statist camp but are also present among pro-market forces. Likewise, tripartism cannot be assumed a priori to cater to narrow interests; the extent to which it does so will vary empirically depending on factors such as the representativeness and encompassingness of trade unions and employer associations (Olson 1982), their strategic orientation and their desire or ability to build broader coalitions including outsiders.

We find little evidence in the cases in our study of a downside to tripartism along these lines. The only possible exception may be labour legislation in South Africa, which business deems too rigid and largely responsible for massive unemployment. Some academic observers (Seekings & Nattrass 2002; Kingdon & Knight 2005) have proposed changes, such as ending the extension of bargaining council agreements to small firms, in order to encourage job creation in labour-intensive sectors. In their view, looking after the interests of the unskilled poor may require greater tolerance for low-wage work. However, Webster and Sikwevu cite in their chapter research to the effect that bargaining councils only cover 25% of employees, that flexibility has increased markedly through the rapid growth of labour brokers and a large proportion of black workers are in low-wage jobs, moving between the formal and informal sector. This is an issue of continued debate in South Africa (see also Standing, Sender & Weeks 1996; Bhorat, Lundall & Rospabe 2002; Hirsch 2005). Some observers may consider the success of public-sector unions in limiting the scope of privatization in Uruguay as another instance of insiders blocking socially beneficial reforms. Yet they did so outside tripartite channels by putting the question on the ballot in a series of democratic referenda, in which a large majority of the population voted to reverse specific privatization measures.

Summing up, strong tripartism had the effect of reducing the social impact of neoliberal reforms. It made economic reforms more equitable and politically sustainable, and was instrumental in improving socio-economic outcomes. The rest of the chapter develops this argument in three more sections: the first section places the study in the literature and discusses methodological issues and research design; the second section gives a brief overview of the case studies and the final section concludes.

1.2 Research approach and hypotheses

It is a widely recognized fact that Washington Consensus policies did not work as planned. There were multiple surprises, including the unexpected depth and length of the transition depression in the former Soviet bloc; the frequency of financial crises that also affected, as in East Asia, countries with solid macroeconomic fundamentals; and Latin America's weak economic growth despite extensive reforms. At the same time, star performers China and India had policies that were highly unconventional, with high levels of trade protection, lack of privatization, extensive industrial policies and lax fiscal and financial policies through the 1990s (Rodrik 2006).

What went wrong? One side of the debate (Burki & Perry 1998; Krueger 2004; Kuczynski & Williamson 2003) maintains that the Washington Consensus policy package was sound but incomplete. Countries did not always follow through consistently with all aspects of the reforms and not enough attention was paid to the role of institutions in economic development. The problem, in their view, was too little rather than too much reform. The way forward is therefore to deepen liberalization and complement it with 'a second generation of reforms' – e.g., improving financial regulation, the justice system, education and safety nets – to get institutions right and to crisis-proof economies.

The other side of the debate (Stiglitz 2002, 2004; Jomo 2005; Ocampo 2005; Rodrik 2006) questions instead the adequacy of the policy package and the role of the international financial institutions, particularly their management of crises. There was, according to this view, too narrow a focus on price stability at the expense of imbalances in other macroeconomic variables such as exchange and interest rates. Reforms paid insufficient attention to equity issues and to the economic case for policy interventions in markets, and followed a one-size-fits-all policy approach. The problem was too much too fast rather than too little reform. Liberalization was often hasty, making countries vulnerable to financial crises, leading to corruption and monopolistic practices in the case of privatization and to high unemployment in the case of trade. The way forward is for Washington Consensus critics to open up 'policy space' for developing countries to pursue counter-cyclical macroeconomic policies, industrial policies and social policies; allowing for diversity and experimentation in development strategies rather than pushing a laundry list of standardized institutional reforms.

Interestingly, the two camps emphasize the issue of governance, although in different ways. In the first case the accent is placed on *good governance* – i.e., rule of law, transparency, battling corruption – in line with the focus on institutional reform. In the second case the accent is on *participatory governance* – i.e., involving stakeholders in policymaking – aiming for policies that are grounded in a diagnosis of local economic conditions and reflect the priorities and social contracts of each country. Both aspects of governance have entered the IMF and World Bank agenda in recent years. Low-income countries, for instance, are required since 1999 to develop Poverty Reduction Strategy Papers

(PRSPs) in consultation with civil society and external development partners in order to qualify for debt relief and concession lending. The PRSPs lay out the country's macroeconomic, structural and social policies, programmes and resources needed, with a three-year time frame. The participatory approach aims to increase 'country ownership' of policies and to coordinate and align foreign aid to the priorities set by the countries themselves, but progress has been limited in moving towards these goals. A 2005 joint review by the IMF and the World Bank acknowledged that participation by domestic stakeholders has tended to be broad rather than deep, the scope of public debate has generally excluded the macroeconomic policy framework and related structural reforms, and government accountability has often been tilted towards external donors.[11] Critics see a 'new conditionality' at play beneath the surface of partnership and participation, although there is significant variation in the degrees of freedom for manoeuvre exercised by different countries (Gould 2005).

Governance was also a core theme of the World Commission on the Social Dimension of Globalization convened by the ILO whose final 2004 report *A Fair Globalization: Creating Opportunities for All* called for a more inclusive and democratic process of globalization:

> The current process of globalization is generating unbalanced outcomes, both between and within countries. Wealth is being created but too many countries and people are not sharing its benefits. They also have little or no voice in shaping the process.
>
> (Synopsis, x)

The problem, the report stresses, is not globalization as such but deficiencies in its governance. Rapid expansion of global markets has outstripped the parallel process of building the institutions that are necessary for the markets' smooth and equitable functioning. Moreover, global rules of trade and finance are largely shaped by powerful countries and players, while social considerations have been consistently subordinated to economic ones. The Commission warned against a looming crisis of legitimacy of political institutions, whether national or international, and underscored the urgent need to address the persistent imbalances in the workings of the global economy that are both 'morally unacceptable and politically unsustainable'.

There is a growing recognition (e.g., Bhagwati 2004; Bardham, Bowles & Wallerstein 2006; Rodrik 2007; Birdsall, De la Torre & Menesses 2008) that, in order to deflect political opposition to globalization, policies need to address people's concerns regarding equity, insecurity and fairness in both developed and developing countries. The specific formulas being proposed vary, ranging from measures such as adjustment assistance and compensation, increased social protection and redistribution, or labour and environmental standards, to opt-out mechanisms from global trade and finance rules that would allow countries flexibility to address domestic concerns. This current stream of work resonates with some of the themes raised by the earlier literature on the politics of economic adjustment (e.g., Nelson 1989; Haggard & Kaufman 1992; Haggard & Webb 1994; Bresser-Pereira, Maravall & Przeworski 1993), in particular the issue of reform sustainability. While this literature often shared the view of 'shock therapy' proponents that decisive autonomous state action is often required to initiate reform, it also stressed that reformers need to build broad political support from the major political parties and interest groups in order to sustain reform. This is typically done, this literature found, through compensation and packaging to dampen opposition by offering complementary concessions.

To recapitulate our discussion so far, several arguments have emerged in the context of the globalization debate in favour of greater inclusion of stakeholders in economic policymaking: (i) to balance social and economic considerations; (ii) to increase political sustainability of reforms and (iii) to increase country specificity and ownership of reforms.

The literature on European corporatism[12] provides, in turn, some clues as to what outcomes one may expect from tripartism. For these countries, the available evidence shows, for example, that centralized or coordinated collective bargaining systems – which are often associated with tripartism – generally improve the trade-off between inflation and unemployment. By producing wage moderation, these bargaining structures may also lead to lower unemployment, either directly or by moderating the impact of restrictive monetary policies implemented by independent central banks.[13] Also, various pieces of scholarship show that more centralized collective bargaining structures are associated with more compressed labour market earnings, and hence with greater equality in the distribution of incomes (Blau and Kanhn 1996; Wallerstein 1999; Rueda and Pontusson 2000; Moene and Wallerstein, 2003; Checchi and García-Peñalosa 2008). Looking more specifically at union participation in economic policymaking, Compston (1997) found it to be consistently associated with lower unemployment. As mentioned earlier, the European experience with tripartism in the post-war Keynesian era was built around a 'political exchange' in which unions committed to wage moderation in return for full-employment policies and comprehensive social protection.

Three hypotheses were extracted from these different literatures to guide our research on the role played by tripartism in economic reforms in the developing world:

- *Hypothesis one*: Tripartism produces economic reforms that reconcile efficiency and equity – e.g., moderating the pace of change, providing compensation for losers, reducing excessive income inequality, enhancing social protection
- *Hypothesis two*: Tripartism makes economic reforms more politically sustainable – e.g., signaling agreement on reforms, generating buy-in from key social actors
- *Hypothesis three*: Tripartism increases the manoeuvering room for national policymakers vis-à-vis international actors – e.g., governments can leverage domestic consensus around policies that deviate from external recommendations

These hypotheses were tested through case studies of eight countries from different parts of the developing world. The choice of a case study research design rather than a large quantitative study was motivated in part by the lack of systematic information on which to build indicators for the key variable, i.e., tripartism. For developed countries, the literature has built different quantitative indicators of corporatism (see Kenworthy 2000), mainly based on the degree of concentration and centralization of interest organizations and the degree of centralization and/or coordination of wage setting. More specific indicators of tripartism by Lembruch (1984) and Compston (1997) measure trade union participation in policymaking according to the incidence and policy scope of consultations and agreements – plus the scope of collective bargaining in Lembruch's case. More recently, Baccaro & Simoni (2006) have built two indicators of tripartism – government willingness to engage in negotiations and incidence of agreements – for two policy areas – incomes and welfare policy – by coding textual information from the *European Industrial Relations Review*, a monthly publication that regularly updates industrial relations developments in European countries. Unfortunately, no similar source exists for the developing world and the task of building indicators that span a large number of countries and different regions is complex and time consuming.

Moreover, the available literature tends to focus on the formal analysis of tripartite institutions without covering in much detail their functioning or the policy content of agreements. One can surmise from these accounts that tripartism is weak in most – but not all – developing countries and that more fine-grained information would be needed to assess its impact on economic reforms. A case study design seems well-suited to this task since it can rely on primary sources, in particular interviews of the three actors (government, trade union and employer association officials), to map out and reconstruct the tripartite negotiations and political dynamics surrounding different reforms.

The eight case studies cover four different regions: sub-Saharan Africa, East Asia, Central and Eastern Europe, and Latin America. For each region two cases were selected that exhibit contrasting forms of tripartism: one strong or, at least, relatively strong for that region, the other weak. The two countries are similar in other respects, in order to enhance comparability. The case studies were conducted by regional experts following a common research design. Each of the four chapters that follow covers the two cases together, drawing in broader comparisons with other countries in the region when appropriate. We had some difficulty in applying this research design to sub-Saharan Africa. South Africa stands out as a unique case of strong tripartism in the region, but it is also very different from its neighbours otherwise, in terms of both economic and institutional development. Zimbabwe seemed to be the most comparable case, given considerable similarities between the colonial past and developmental trajectories of the two countries, notably the shared history of racial segregation and white minority rule. However, the extreme weakness of tripartism in Zimbabwe, as well as the particularities of its current political regime, makes the comparison inherently asymmetrical, and this is reflected in the structure of the chapter.

Tripartism is not a simple yes/no binary variable but a matter of degree. Although many countries in the developing world have tripartite institutions such as labour relations councils or wage boards, quite often these institutions only function sporadically, are purely advisory, or operate within authoritarian contexts that restrict the autonomy of business and, especially, of labour organizations. In such cases, tripartism is likely to be too weak to have a significant impact on policymaking. The mere presence of tripartite bodies, or even the extent of their statutory prerogatives, cannot serve as a proxy for measuring the incidence of tripartism.

An important methodological issue for the study was how to operationalize this distinction between strong and weak tripartism. This is not a simple task since the construct has multiple dimensions: full freedom of association and collective bargaining, organizational strength of the labour movement, organizational structure of collective bargaining (more or less centralized), type of policy-making system (affording various degrees of private interests' involvement in policymaking), institutionalization of practices, and so on. As such, it becomes difficult to rank countries neatly on a weak–strong continuum, as some countries may be strong in one dimension (e.g., institutionalization of tripartite institutions) and weak in others (e.g., legal protection of freedom of association or organizational strength of the labour movement), and vice versa. All one can do with this kind of multidimensional construct is to be very explicit about the coding choices one makes. We identified five indicators that together can be used to gauge the strength of tripartism in a given country:

- scope of policy consultations and negotiations
- number of agreements reached
- scope of agreements
- continuity of practices
- strength and autonomy of labour representation

The first four indicators measure the incidence, breadth and fruitfulness of tripartite exchanges while the last one deals with underlying organizational conditions. The first indicator, the scope of policy consultations and negotiations, refers to the range of issues that are subject to tripartite discussion. These may be limited to a narrow policy area, such as labour market regulation, or cover a broader set of economic and social policies. The second indicator, the number of agreements reached, measures, in turn, the success of tripartite negotiations in producing concerted policies. The capacity to reach agreements is indicative of strong tripartism, in contrast with cases in which tripartism serves a purely advisory function or the actors fail to commit to joint decisions.

The third indicator, the scope of agreements, may seem redundant since the policy scope of tripartite discussions is already included. However, it helps us distinguish between cases in which issues are bundled into social pacts that span across – and involve trade-offs between – different policy areas, and cases with more circumscribed agreements. Bundling is the hallmark of classical European social corporatism, as well as the more recent experience with social pacts, and we take it as indicative of strong tripartism. An interesting contrast among our case studies is provided by South Africa, where the policy scope of tripartite discussions has been wide – with the notable exception of macroeconomic and incomes policy – but compartmentalized, and most agreements have focused on single policy issues. The fourth indicator, continuity of practices, is a proxy for institutionalization. This indicator may overlap with the second indicator, the number of agreements. But it is possible, for instance, that agreements are concentrated over a certain period of time and then tripartism is discontinued, or that tripartite discussions are a well-established practice but seldom result in agreements. The latter is the case, as we will see, in Uruguay.

Finally, the fifth indicator, the strength and autonomy of labour representation, looks at the underlying structure of interest organization. High union density and collective bargaining coverage are conducive to strong tripartism in contrast to cases where labour lacks the organizational muscle to have a real say in tripartite discussions. The level of legal union autonomy is also considered since authoritarian states often exert some measure of control over labour and place restrictions on freedom of association and collective bargaining. Low union autonomy is a factor, as we will see, in the case of Singapore where the main trade union organization has a symbiotic relationship with the ruling party.

As mentioned earlier, the cases selected for the study were Slovenia and Poland; Singapore and the Republic of Korea; South Africa and Zimbabwe; and Uruguay and Chile. Taken together, this set of cases reflects a wide range of variation in the independent variable. If placed along a spectrum, Slovenia would be at one end, as a case of strong tripartism, and Zimbabwe at the other end, as a case of very weak, almost non-existent, tripartism, while the others would fall at different points in between. South Africa, Singapore and Slovenia were all clear choices since they stand out as the strongest cases of tripartism in their respective regions. Uruguay was a less obvious choice for Latin America; there were no broad social pacts in Uruguay such as those that accompanied economic reforms in Mexico since the mid-1980s. However, Mexican trade unions had very little autonomy, as the state retained authoritarian controls over them (Burgess 1999; Bensusán 2000). Other countries, such as Chile, featured a one-time social accord, but tripartism in Uruguay was a more institutionalized and continued practice. Likewise, the Republic of Korea has experienced a one-time, although very comprehensive, social pact in contrast to continued tripartism in Singapore. Finally, Poland and Zimbabwe display weaker forms of tripartism than their regional counterparts in all five dimensions.

The dependent variable is the reforms themselves, i.e., their pace, sequence and content; rather than macroeconomic and distributive outcomes such as the level of unemployment, poverty or income inequality. Despite our efforts to match cases, multiple differences remain between countries – e.g., initial conditions, economic structure, country size – that can affect both the performance and the choice of reforms. The small n case study design does not allow us to sort out these factors; its heuristic power lies instead in providing detailed, contextually rich information on the ways in which tripartite negotiations have modified economic reforms and the environment for their implementation. It is only through this impact on specific policies that the chapters advance some tentative claims about the contribution of tripartism to socioeconomic outcomes.

1.3 Overview of the evidence from the case studies

This final section tries to synthesize key information from the case studies and thus draws freely from the chapters that follow by Sabina Avdagic (Slovenia and Poland), Sarosh Kuruvilla & Mingwei Liu (Singapore and the Republic of Korea), Gonzalo Falabella & Lydia Fraile (Uruguay and Chile) and Edward Webster & Dinga Sikwebu (South Africa and Zimbabwe).

Table 1.1 displays the different countries according to the strength of tripartism. The progression is from strong, on the left of the table, to weak, on the right, although the specific ordering of countries involves some measure of subjective judgement in weighing the different indicators. This applies especially to the countries in the middle of the table.

Table 1.2 complements this picture with two measures of the strength of labour representation – union density and collective bargaining coverage – which together with union autonomy constitutes one of the five indicators we identified earlier in order to gauge the strength of tripartism. Union density is measured both in relation to the nonagricultural workforce and to formal sector wage earners; the two numbers can be quite different in countries where self-employment and/or the informal sector are large. Note especially the gap between these figures in the cases of South Africa and Chile.

The first two countries on the left of the table, Slovenia and Singapore, may be considered cases of strong tripartism. Slovenia scores high in all five indicators considered, while Singapore scores high in all but the last one: strength and autonomy of labour representation. Incomes policy has been the building block of tripartism in both countries, as, with time, policy concertation has spread from wage setting into other areas.

Tripartism emerged in Slovenia in the context of increasing labour discontent in the first years of economic transition and was triggered by

Table 1.1 Key features of tripartism in the countries under study

	Slovenia	**Singapore**	**South Africa**	**Uruguay**	**Republic of Korea**	**Poland**	**Chile**	**Zimbabwe**
Policy scope	***	***	**	**	***	**	**	*
Number of agreements	***	***	***	*	*	*	*	*
Scope of agreements	***	***	**	*	***	*	*	*
Continuity of practices	***	***	***	***	*	*	*	*
Strength and autonomy of labour representation	***	*	***	**	*	**	*	*

Scale: * narrow/low ** medium *** broad/high

Table 1.2 Union density and bargaining coverage in the mid-1990s

	Slovenia	**Singapore**	**South Africa**	**Uruguay**	**Republic of Korea**	**Poland**	**Chile**	**Zimbabwe**
Union density								
% of nonagricultural workforce	32	13	22	12	9	27	16	14
% of formal sector wage earners	40	16	52	20	13	34	33	22
Collective bargaining coverage								
% of formal sector employees	100[a]	19[b]	49	22[c]	14	28[d]	13	25

Source: ILO, *World Labour Report 1997–8* and Visser (2003).
Notes: [a] Almost total coverage in Slovenia, according to the European Industrial Relations Observatory.
[b] But tripartite national wage council guidelines have strongly influenced wage levels in Singapore.
[c] Bargaining coverage has oscillated greatly in Uruguay; it reached almost 90% of private sector workers in 1985–92 and again from 2005 on, after tripartite wage councils were restored.
[d] Bargaining data for Poland is for 2002 from Lawrence & Ishikawa (2005).

a general strike against a government attempt to impose a wage freeze. A tripartite incomes policy started in 1994; two general wage agreements – for the private and the public sector – have been regularly signed since then in the Economic and Social Council and are complemented by collective bargaining at the industry and firm levels. Compulsory membership of companies in chambers of commerce, industry and crafts was introduced in order to ensure broad wage moderation; it is currently being phased out in favour of employer associations with voluntary membership. In addition to the general wage agreements, midterm social pacts that define directions of a wide range of policies – e.g., employment, social policy, health, housing, public finances – have been negotiated every few years. Tripartite negotiations of specific reform initiatives, such as those involving pensions, labour legislation and tax reform, have also taken place at the Social and Economic Council, which has functioned regularly in Slovenia. The autonomy and strength of labour representation is high; union density stands at around 40% of formal sector wage earners, collective bargaining coverage is almost universal and the power of trade unions has also been boosted by codetermination rights in the workplace.

Singapore began setting a tripartite incomes policy through the National Wages Council in 1972, as the government sought to maintain moderate wage growth in a tightening labour market. The council produces annual wage guidelines that are non-binding – except for provident fund contributions – but are officially endorsed and gazetted and have been widely followed (Lim & Chew 1998). Over time, tripartism has been extended into many other institutions and policy areas – e.g., social protection, development, productivity and standards, training, higher education – as well as ad hoc committees to devise solutions to emerging problems. The three actors consider it a key asset for the country.

Tripartism in Singapore is based on a symbiotic relationship between the National Trades Union Congress (NTUC) and the ruling People's Action Party (PAP), which started out back in the 1960s with a strong element of authoritarian control over labour. Nowadays, restrictions on freedom of association and collective bargaining remain in the books but many are not applied in practice and the unions have called for these outdated restrictions to be removed from the country's legislation.[14] Industrial relations are nonconfrontational and there have been only two recorded days of strike action since 1978.[15] The government, however, took swift action in 2004 in response to a high-profile dispute involving the more militant independent pilots union; it revoked the residence permit for one of its leaders and amended the law to exclude membership ratification of collective agreements.[16] NTUC, which represents about 97% of unionized workers, has direct access to the Cabinet, where its secretary general sits as a minister without portfolio; it has also developed a major role as provider of affordable goods and services through cooperatives – e.g., supermarkets, insurance, childcare and eldercare. But union density (16%), collective bargaining coverage (19%) and, especially, union autonomy are low.

A second group of three countries in the middle of the table, South Africa, Uruguay and the Republic of Korea, may be considered intermediate cases; they score high on some dimensions of tripartism but not on others. South Africa, the first case, is clearly stronger than the others, while the ranking of Uruguay and the Republic of Korea is less clear; it depends on the relative weight one assigns to the different indicators.

South Africa embraced tripartite practices during the democratic transition in the 1990s. The labour movement played a crucial role both in the struggle against apartheid and in the transition itself, which involved a widespread process of consultation between different sectors of society. In 1993, there were no fewer than eight multi-stakeholder forums deliberating over future policies in areas such as housing, electricity, job creation and trade. Tripartism started with the 1990 Laboria Minute, an agreement that stated that all changes in labour law would be negotiated with unions and employers, and a tripartite economic forum began working in 1992. After the 1994 elections, tripartism was institutionalized through the National Economic Development and Labour Council (NEDLAC). An important innovation is that one of the council's four chambers, i.e., the development chamber responsible for social policy and urban/rural development, expanded participation beyond trade unions and employers to include civil society groups representing the poor and marginalized. This chamber, however, has only played a limited role in practice, hindered by the weak organization of the community constituency.

NEDLAC discussions have covered a wide range of policies – e.g., labour legislation, employment, training, trade, industrial and competition policy, social policy – but not incomes and macroeconomic policy. Tripartism is well institutionalized and has functioned regularly in South Africa, producing a large number of agreements in different policy areas but not a broad social pact that would help build a shared economic vision for the country. As mentioned earlier, the government excluded its new macroeconomic Growth, Employment and Redistribution (GEAR) programme from negotiation in 1996 and it continued to do so at later attempts to reach a social pact such as the 2003 growth summit.

The strength and autonomy of labour representation is high in South Africa: union density stands at 52% of formal sector workers, but only 22% of the non-agricultural workforce; collective bargaining covers 59% of formal sector workers and union power is boosted by high mobilization capacity.

In Uruguay, tripartism is also linked to the democratic transition of the mid-1980s. It started with the National Programmatic Concertation (CONAPRO), a deliberative forum that brought together the country's main political parties and civil society organizations to discuss future policies before and after the 1984 democratic elections. This forum produced a series of proposals, including an agreement to repeal the labour legislation enacted during the military dictatorship and a statement of economic policy objectives that prioritized productive reactivation, employment expansion, progressive recuperation of wages and lowest pensions, control of inflation and income redistribution. From 1985 on, a tripartite incomes policy was implemented in the private sector through wage councils that set wages on an industry basis within a framework of coordination. The wage councils were discontinued in 1992, as government sought to increase wage flexibility to help firms adapt to MERCOSUR, and were restored in 2005 by the current leftist administration.

Tripartite institutions have been regularly at work in Uruguay since 1991–2 in the areas of training and employment, regional integration and social security; a more informal forum called National Compromise has met intermittently since 2005. There have also been frequent ad hoc tripartite consultations and negotiations covering issues such as labour legislation, employment, economic development and social policy, but these discussions have typically failed to produce accords. In 2002, there was tripartite consensus in the wake of the financial crisis, with unions accepting large job losses in the banking sector as part of the restructuring plan. The strength and autonomy of labour representation is fairly high: collective bargaining coverage has been extensive during the periods in which wage councils have been operative (about 90% of private sector workers in 1985–92 and approaching 100% in 2005–8) and although union density is not high (20% in 1993), trade unions have retained a high capacity to mobilize workers beyond their membership base. Labour has also used democratic referenda, which can be called for by collecting a certain number of citizen signatures, to exercise veto power over specific policy decisions.

The Republic of Korea's experience with tripartism is closely connected to the Asian financial crisis of 1997–8. There had been some failed attempts at policy concertation before, including consultations over labour legislation reform in 1996. In response to the crisis and the need for an IMF rescue package, the government created a new institution, the Tripartite Commission, which negotiated a comprehensive social pact in 1998. The pact was tied to a tough structural adjustment package and involved numerous agreements on a wide range of policies, including labour legislation, employment policy, social protection, wage policy and price controls, corporate governance, and bank and public sector restructuring. This was an accord that touched on many aspects of the economy; its implementation kept the commission busy in the following years. However, just three days after the pact was signed, delegates from one of the two main trade union organizations, the Korean Confederation of Trade Unions (KCTU), rejected the agreement and overturned its leadership in protest against provisions that allowed economic lay-offs and resulted in massive worker retrenchments.

Tripartism in the Republic of Korea was short-lived. The Tripartite Commission has continued to work but with many disruptions, as both trade unions – KCTU and the Federation of Korean Trade Unions (FKTU) – and the employers' association repeatedly left and re-entered. KCTU, which represents about 40% of unionized workers, left permanently in 1999. Despite high mobilization power, the labour movement is divided and relatively weak: union density (13% of formal sector wage earners) and collective bargaining coverage (14%) are low and highly concentrated in large firms.

Finally, the three countries to the right of the table; Poland, Chile and Zimbabwe, may be considered cases of weak tripartism since they score low on most indicators considered. Zimbabwe is distinct from the other two in that tripartism there is much weaker.

Tripartism in Poland emerged, as in Slovenia, in the context of growing worker discontent with the hardship associated with market transition. Facing a large wave of strikes, the government negotiated a tripartite pact on state enterprises in 1993, which provided for worker shares and union participation in privatized companies. This pact also phased out wage controls and led to the creation of a Tripartite Commission for Socio-Economic Affairs in 1994. Tripartism, however, has been undermined by deep political rivalry between the two main trade union organizations, Solidarity and The All-Poland Alliance of Trade Unions (OPZZ), which has resulted in frequent and prolonged interruptions of tripartite practices and government sidestepping of tripartite institutions. Whereas the commission has discussed a range of policies – e.g., labour legislation, employment, social policy, tax reform – it has only played a marginal role in policymaking. Labour representation was initially fairly strong in terms of union density (34% of formal sector wage earners in 1995) but then dropped considerably (to 12.1% in 2006) and has suffered from the high politicization and division among the two union centrals. Collective bargaining coverage was 28% in 2002.

Tripartism in Chile has its origins in the democratic transition of the late 1980s. It started with a social pact, the 1990 tripartite Framework Accord, right at the onset of the first post-Pinochet democratic administration. The accord made a general call to build a developed country that would benefit all citizens, expressing support for an open export economy, private enterprise, fiscal discipline, union rights, democracy and the combination of growth with equity, among other principles. It also included more specific agreements to raise the minimum wage and minimum pensions and to finance increased social spending with a moderate tax reform. The pact had a lasting effect in the sense that the government continued to apply over time both the general principles such as fiscal discipline and the more specific policies concerning the minimum wage and social spending. But tripartism was short-lived, as employers took on an increasingly hard line and finally decided to discontinue the annual tripartite setting of the minimum wage in 1993. No consensus was reached over labour reform, which failed to remove – even after successive attempts over the years – some of the restrictions on collective bargaining inherited from the dictatorship. There have been some multi-stakeholder discussions and agreements on education and, more recently, on pension reform, but tripartism was never institutionalized. The strength of labour representation is relatively low: union density is fairly high if measured as a percentage of formal sector wage earners, but lower if measured as a percentage of the non-agricultural workforce. The numbers for 1993 were 33% and 16% respectively. Collective bargaining coverage was low at 13% in 1995 and has continued to drop since then.

At the end of the spectrum, Zimbabwe represents a case of very weak, almost non-existing tripartism. Its origins lie in the economic crisis that engulfed the country in the mid-1990s and led to the creation of two tripartite bodies: the National Consultative Economic Forum (NCEF) and the Tripartite Negotiating Forum (TNF) in 1997–8. Representation in these bodies is, however, on a personal rather than a constituency basis, and meetings have been irregular. Tripartism has been seriously impaired by high levels of mistrust between the government and the major trade union organization, the Zimbabwe

Congress of Trade Unions (ZCTU), which has close ties to the political opposition. The policy scope of tripartite discussions has been limited to a few items such as the minimum wage and the negotiation of a series of ineffective price and incomes stabilization protocols. The high point of tripartism was a 2002 accord on labour reform, which was partly motivated by a desire to prevent land occupations from spilling over onto urban workplaces. However, as the political and economic situation has deteriorated in Zimbabwe, the government has become more hostile to the ZCTU. Labour representation is rather weak: union density is relatively high among formal sector wage earners (22%), and so is collective bargaining coverage (25%); however, union density is lower if measured in relation to the non-agricultural workforce (14%), and even lower if we consider that this is a country with a large agricultural sector.

Table 1.3 summarizes the influence of tripartism on different economic reforms and policies. It displays once again the countries from left to right according to the strength of tripartism as measured in Table 1.1 above. If one looks at the rows in this new table from top to bottom, it is possible to discern the policy areas in which tripartism has had greater and lesser impact across the range of cases. One can also see, comparing columns to the left and right, different patterns of impact in countries with strong as opposed to weak tripartism. Please note that a 'medium' score sometimes reflects a temporal dimension, e.g., incomes policy in Uruguay and the Republic of Korea, where the impact of tripartism is high but the policy has been limited to a certain period. The ensuing chapters give a detailed discussion of all the items in the table. Here we confine discussion to some general comparative remarks illustrated with examples.

Three general observations are in order. First, unsurprisingly, labour legislation and employment or active labour market policy are the two policy areas where tripartism has had widespread influence across the set of countries, and a high, or fairly high, impact in most of them. Second, the impact of tripartism on macroeconomic policy (through the incomes policy tool), social policy and taxation varies more across countries and tends to be higher in those with strong tripartism. Third, tripartism has had a low impact on privatization, trade and financial liberalization in most countries. These observations point to the conclusion advanced above that tripartism has not fundamentally altered the content of neoliberal reforms but has rather cushioned their social costs through a variety of compensatory policies. Let us take a closer look at the impact of tripartism on different policy areas.

Table 1.3 Impact of tripartism on reforms and policies

	Slovenia	**Singapore**	**South Africa**	**Uruguay**	**Republic of Korea**	**Poland**	**Chile**	**Zimbabwe**
Labour law reform	***	**	***	**	***	**	*	**
Employment policy/ Active labour market policy	***	***	***	***	***	*	*	
Macroeconomic policy/ Incomes policy	***	***		**	**	*	*	*
Social policy	***	***	*	**	*	*	**	
Tax reform	**	**		*		*	**	
Privatization	*	*	***		**	**		*
Trade liberalization/ Industrial policy	*	*	***	***			*	
Financial liberalization/ Bank restructuring				*	*			

Scale: (blank) no observed impact * low impact ** medium impact *** high impact

Table 1.3 shows that tripartism has had a strong influence on policy formulation in the area of labour legislation in almost all countries in our study. The exception is Chile where, as mentioned earlier, there has been a lack of consensus between unions and employers on how far to amend the labour code inherited from Pinochet, and successive reforms have been negotiated between government and opposition. In most cases, labour reform took place in the aftermath of democratization and its main thrust has been to strengthen worker rights – extending union organizing and representation rights previously restricted under authoritarian regimes and/or setting employment standards through new legislation – rather than to increase labour market flexibility. The 1998 social pact in the Republic of Korea combined both elements; on the one hand, it extended the right to unionize to teachers and public sector workers, allowed multiple unions and ended other legal restrictions on trade union activity; making it easier for firms to lay off workers and use temporary labour contracts, on the other. The issue of flexibility has become more prominent in recent rounds of reform, such as the 2002 labour reform in Poland (which was only supported by one of the two main trade union confederations) and, in a more limited form, the 2007 labour law amendments in Slovenia. In Singapore, the tripartite Economic Review Committee recommended amending labour law to increase working time flexibility; this was done in 2004 by allowing firms to seek exemptions from regulations under certain conditions set by tripartite guidelines. Another amendment in 2002 extended union representation to executives in retrenchment matters.

Employment promotion and, more specifically, active labour market policy is another area in which tripartism has had a strong influence on the formulation – and often also the implementation – of public policies in most of the countries in our study. This has been the case, for instance, in South Africa, where NEDLAC negotiated legislation in 1998 that created a National Skills Fund and a training levy for companies, together with the Employment Equity Act to address discrimination and provide advancement opportunities to those disadvantaged under apartheid. This has resulted in a substantial expansion of training efforts, although government reports problems in the governance of tripartite training and education authorities in some sectors. There is also a large-scale public works programme, which was given a boost by the 2003 tripartite growth summit. In Uruguay, the tripartite National Employment Board was created in 1992, right after the country joined MERCOSUR, to run a retraining fund in anticipation of the massive restructuring that the lowering of tariffs would bring about in some industries. This fund was financed by a training levy on workers, which was later shared by employers and complemented with state funds; its mandate was also expanded over time from the initial focus on laid off workers to include programmes for youth, rural workers, women and hard-to-employ groups.

Both Slovenia and Singapore stand out, as mentioned earlier, for their efforts in training and lifelong learning. Slovenia began shifting its employment policy focus in the mid-1990s from providing early retirement, unemployment benefits, and assistance to firms in financial difficulties – all policies aimed at cushioning the social cost of market transition – towards more active measures aimed at increasing employability and skills development. Most active measures involve education and training, but there are also incentives to hire targeted groups and public works programmes. Unions and employers have helped shape these policies through social pacts, which often include a chapter on employment policy, and through their day-to-day participation in the national employment office governing board. Eurostat data for 2004 show that Slovenia had a lifelong learning rate (measured as the share of the adult population aged 25–65 participating in education and training) of 17.8%; which was not only the highest rate among the new EU members from Central and Eastern Europe but also higher than the EU-15 average.

Singapore has long placed skills development high on the policy agenda. Starting in the early 1970s and especially after the push to move the economy into capital-intensive, higher value-added sectors at the end of that decade, the government made efforts to expand technical and higher education, developed technical training programmes in collaboration with foreign multinationals and instituted the Skills Development Fund, a training levy for companies set at 4% of the wage bill. In 1998, a new Manpower Policy was developed on a tripartite basis that involves integrated planning, lifelong learning and employability, national skills recognition systems, recruitment of foreign talent and improvements in the work environment. Tripartite task forces have devised policies to increase employment among women and older workers. An interesting tripartite initiative that started in 2005 involves a job redesign and training programme to upgrade productivity and pay in low-wage sectors such as security, landscaping and hotels. Another programme provides incentives for companies to redesign jobs, wage systems and work-time arrangements and to provide training in order to recruit older workers or re-employ retirees. The government has also begun to subsidize provident fund contributions for low-wage workers.

Tripartism has influenced macroeconomic policy through the incomes policy tool in a smaller set of countries. In Slovenia, centralized tripartite wage agreements since 1994 have aimed at controlling inflation and enhancing competitiveness by keeping real wage growth below productivity growth. The agreements have fostered wage compression by setting a higher increase for the minimum than for the base wage. This egalitarian function has also been present in tripartite wage council agreements in Uruguay. From 1985 to 1992 and, again, from 2005 on, the wage councils' role in that country has been to channel and moderate pent-up wage demands after periods of significant wage loss – the 1973–84 military dictatorship, the recession and financial crisis of 1999–2002. In contrast, incomes policy has not pursued wage compression in Singapore, where since the late 1980s tripartite guidelines have encouraged employers to move away from seniority-based pay systems and introduce a variable component in the form of year-end and monthly bonuses linked to company performance.

These bonuses came in handy during the 1998 Asian financial crisis, enabling companies to make rapid cost adjustments and prevent lay-offs. The national wages council recommended a 5–8% wage cut for 1998 and decided on another 10% cut in provident fund contributions in response to the crisis. A programme was set up to counsel companies on alternatives to retrenchments, such as sending workers for skills training or implementing a shorter work week. Similarly, the 1998 social pact in the Republic of Korea incorporated incomes policy provisions that helped companies weather the financial crisis together with measures to cushion the social costs of restructuring. The latter included, *inter alia*, the extension of the unemployment insurance scheme and large-scale public works and skills training programmes aimed at the unemployed. Reflecting these efforts, government spending on labour market policies increased from negligible levels in 1997 to 2¼% of GDP in 1998 and to 3¼% in 1999 (OECD 2000: 11).

The impact of tripartism on social and tax policy has been high in Slovenia, where social agreements have provided guidelines in areas such as housing and health care. Tripartite negotiations substantially altered the content of pension reform in 1999, when the government dropped its initial proposal to introduce a mandatory fully funded second pillar at the unions' behest. A negotiated tax reform in 2003 featured higher tax cuts for people with lower incomes, and labour managed to stop a plan to adopt a flat tax rate system in 2005. Singapore, on the other hand, has a fully funded mandatory pension system, the central provident fund, that was inherited from colonial times and is run by a tripartite board. The system, which also covers housing, education and health care expenses, is often subjected to adjustments that emerge from tripartite discussions. Tripartism also influenced the 1994 tax reform that reduced corporate and income taxes and introduced a value-added tax.[17]

Table 1.3 shows that the impact of tripartism on the core neoliberal reforms – trade and financial liberalization, and privatization – has been low in most countries in the study. The extreme case is financial liberalization, where the role of tripartism has been limited to the negotiation of bank restructuring plans in Uruguay and the Republic of Korea in the aftermath of financial crises. Trade liberalization has sometimes been the subject of tripartite discussions that have largely focused on the pace of implementation and on finding ways to minimize the associated social costs. In Slovenia, for instance, tripartite negotiations in 1995 led to the creation of a Solidarity Fund for covering severance pay and pay due to workers in firms undergoing bankruptcy. In Uruguay, a tripartite Sector Commission for MERCOSUR was established in 1991 to advise the government during negotiations on the tariff reduction timetable and to propose measures to facilitate restructuring in different sectors. As mentioned earlier, a tripartite National Employment Board was set up in 1992 to offer retraining to dislocated workers. In South Africa, there was tripartite involvement in preparing the country's offer to the WTO in 1993, including agreement on a tariff-reduction timetable, and in preparing subsequent negotiations of bilateral trade agreements. NEDLAC's Industry and Trade Chamber has regularly discussed industrial policies and negotiated a new Competition Policy Act in 1998.

Tripartism appears to be associated with a cautious, gradual approach to privatization. Slovenia, Singapore, South Africa and Uruguay, all cases of relatively strong tripartism, conform to this pattern and have retained a significant state presence in the economy. Nonetheless, except perhaps for South Africa, tripartism has not played a major role in this choice. The authors of the case study report that trade union opposition in South Africa slowed down and limited the scope of privatization and eventually led to a shift in government policy in 2004.

1.4 Conclusion

To conclude, we may briefly revisit the hypotheses that guided our study in light of the evidence from the case studies. These findings clearly support *Hypothesis one*, that relatively strong tripartism produces economic reforms that reconcile efficiency and equity. The mechanisms vary from country to country but they include different combinations of the following: efforts to reduce dislocation, to moderate the pace or limit the scope of structural change; measures to compensate losers and to promote adjustment through training and industrial policy; policies that bolster worker rights and social protection; efforts to reduce income inequality. Whereas tripartite negotiations did not fundamentally alter the content of market-oriented reforms, they brought attention to equity issues and mitigated their social costs.

The case studies also support *Hypothesis two*, that tripartism makes economic reforms more politically sustainable by signaling agreement on reforms and/or generating buy-in from key social actors. This may be true even in a case of weak tripartism such as Chile, where the 1990 Framework Agreement signalled labour's acceptance of the liberalized economy inherited from Pinochet as well as business's acceptance of increased social spending under democracy. The contrast between Slovenia and Poland helps illustrate this point: whereas government unilateralism in Poland has often resulted in protests by disgruntled groups, such as miners, that had to be settled through costly measures, unions in Slovenia gained through tripartism a stake in negotiated reforms that enhanced their sustainability.

Finally, there is little evidence in the case studies to support *Hypothesis three*, that tripartism increases the manoeuvring room for domestic policymakers vis-à-vis international actors. The only case in point is pension reform in Slovenia, where tripartite consensus was crucial for rejecting the World Bank's blueprint in favour of a different approach that was deemed more appropriate for local conditions. Uruguay took a similar stand against the Bank's recommendations but there the consensus over pension reform was built through the political process and tripartism only played a minor role. For Singapore and the Republic of Korea, the authors of the case study note that there is insufficient evidence to confirm or disconfirm this hypothesis.

One may conclude from these findings that strong tripartism can help countries negotiate globalization pressures and achieve a more socially balanced growth. From a policy perspective, the question then becomes: what explains the emergence of strong tripartism and what, if anything, can governments do to promote it? As stated earlier, this study focuses on the impact of tripartism on economic reforms, and was not designed to answer this question. We can therefore only venture a few tentative remarks on this topic in light of the case studies.

The first one concerns incomes policy, which has been the backbone of tripartite practices in both Slovenia and Singapore, the two countries with stronger forms of tripartism in our set, and has played a similar role in the European experience. This suggests that many conventional efforts to promote tripartism in the developing world through focused consultations on particular issues such as labour law reform, or through broader but essentially deliberative exercises such as the PRSPs, may be missing a key element required for their success. Governments may want to consider putting wages – and the concomitant discussion of macroeconomic policy parameters – on the table to encourage the emergence of social pacts.

A second remark concerns representation. Special caution is advised when extrapolating the findings from this study to low-income countries where the informal sector is typically very large, and trade unions and employer associations represent just a small fraction of the workforce. Strengthening tripartism in these settings may require the inclusion of other actors such as farmers and community organizations. But this brings additional challenges, as suggested by the weak performance of the development chamber in the South African case. Further research is needed on both the causes of strong tripartism and its effects in a broader set of developing countries.

Notes

1. We use the term developing countries loosely to include the so-called transition economies of Central and Eastern Europe as well as newly industrialized countries in East Asia – even though the most successful among these countries may by now have reached per capita income levels in line with those of the developed world.
2. Another term commonly used to refer to these practices is 'social dialogue.' But the concept of social dialogue, particularly as employed by the ILO or the European Commission, is broader. In addition to tripartism, social dialogue encompasses collective bargaining as well as any sort of interaction between labour and management at different levels of the economy – e.g., the firm, sector, region. The focus for this study is on peak-level tripartism, that is, on participation by trade unions and employer associations in national policymaking.
3. For a general overview of tripartism in the developing world see Fashoyin (2004). Regional surveys can be found in Casale (1999) and Kohl and Platzer (2004) for Central and Eastern Europe; Fashoyin (1998) for southern Africa; Campbell (2001) for East Asia; and García, Morgado and Rueda (2007) for Latin America.
4. The term 'Washington Consensus' was first coined by John Williamson in 1989 to refer to a list of ten policy recommendations for economic reform in Latin America that reflected the conventional wisdom within the US government and the international financial institutions at the time. The original list did not include capital account liberalization and stressed a

competitive exchange rate in contrast with the policies these institutions came to promote in later years (Williamson 2004).

5. *The Millennium Development Goals 2007 Report*, United Nations, NY, p. 7.
6. Calculating global inequality among individuals requires use of data from national household surveys that are often incomplete and differ in methods and definitions across countries; hence the conflicting estimates.
7. *World Economic Outlook October 2007 – Globalization and Inequality*, IMF, Washington DC, 2007, p. 158.
8. *World of Work Report 2008 – Income Inequalities in the Age of Financial Globalization*, IILS/ILO, Geneva, 2008, p. 1.
9. Decommodification refers to the extent to which workers are emancipated from the need to sell their labour power in the market for survival. Welfare states have variable capacity to decommodify. This capacity tends to be higher in social-democratic welfare states, where universal benefits granted on the basis of citizenship predominate, than in liberal welfare states, where modest benefits cater mainly to the poor while the state encourages market provision for the rest.
10. See the preface written by Joseph Stiglitz to the 2001 edition of Polanyi's book. This was also the general theme of the 2008 conference of the Society for the Advancement of Socio-Economics (SASE).
11. *2005 PRS Review: Balancing Accountabilities and Scaling Up Results*, The World Bank and International Monetary Fund, September 2005: pp. 26, 29–31, 43–5. http://siteresources.worldbank.org/INTPRS1/Resources/PRSP-Review/2005_Review_Final.pdf.
12. This literature tends to blend two different meanings of corporatism (Schmitter 1982): the first one refers to a particular structure of interest intermediation characterized by monopolistic, centralized and hierarchical organizations; the second one refers to policy concertation, what we call tripartism here. The distinction is important, especially since tripartism has spread in recent decades to countries with less concentrated, centralized and hierarchical forms of interest organization.
13. As to exactly which type of collective bargaining structure may be most beneficial, there is still controversy. Calmfors and Driffil's famous 'hump-shaped' relationship (1988) postulates that both decentralized and highly centralized bargaining structures have the best macroeconomic performance. Iversen (1999) has argued that, in an age of restrictive macroeconomic policies implemented by independent central banks, industry-level bargaining is the most efficient. In a recent econometric analysis, Baccaro and Simoni (2007) find that there is a monotonic negative relationship between bargaining coordination and wage militancy.
14. See the 2007 Annual Survey of Violations of Trade Union Rights in Singapore by the International Confederation of Free Trade Unions (ICFTU). http://survey07.ituc-csi.org/getcountry.php?IDCountry=SGP&IDLang=EN.
15. Ibid.
16. ICFTU, 2005 Annual Survey of Violations of Trade Union Rights in Singapore http://www.icftu.org/displaydocument.asp?Index=991222328&Language=EN.
17. See Jenkins & Khadka (1998) and NTUC news, 'When GST was introduced in Singapore…' December 4, 2002. http://www.ntucworld.org.sg//ntucunions/news/news_120402e.asp.

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2
Tripartism and Economic Reforms in Slovenia and Poland

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The establishment of peak-level tripartism has accompanied market transformations in virtually all countries in Central and Eastern Europe. With the main aim of preserving social peace while enhancing economic progress, these tripartite structures were to facilitate negotiation and deliberation between the government and organized labour and business over a wide range of reforms and socio-economic policies. While these institutions display a striking similarity in terms of their formal functions and responsibilities, their actual functioning and the impact on economic reforms have varied greatly. This chapter analyses the varied impact of tripartism on economic reforms and its consequences for socio-economic outcomes in Slovenia and Poland – these two countries can be characterized as cases of strong and weak tripartism respectively.

At the onset of transition both countries appeared as likely candidates to develop solid tripartite practices – Slovenia because of the legacy of self-management that had been unique among communist countries and Poland because of the role of the Solidarity union in the democratic transition. Yet it was only in Slovenia that tripartism played an important role in economic reforms. The purpose of this chapter, however, is not to explain the different functioning of tripartism, or the different choice of reforms and policies that these countries made. Rather, the aim is to provide a systematic evaluation of the role and impact of tripartism on economic reforms during the transition and to try to assess its contribution to socio-economic outcomes. The time frame under consideration is roughly the first 15 years of post-communist transformation. At the end of this period, both countries were already members of the European Union, and thus arguably no longer qualify as 'transition economies'.

As in the other chapters in this book, the cases of Slovenia and Poland are chosen to illuminate the contrast between well-functioning and poorly functioning tripartism between countries sharing similar, regional, socio-economic challenges. A host of factors – such as country size, economic structure, starting conditions and specific institutional legacies – limit the comparability of the two cases, in that they influence both the shape of the reforms and their socio-economic outcomes. The country-comparison is, therefore, not meant to serve as a basis for advancing causal arguments. Whenever an attempt is made to establish a causal link between the style of policymaking and the type of the reforms on the one hand, and the resulting socio-economic outcomes on the other, this is done primarily through the analysis of a single country-case. The chapter is organized as follows: section 2.1 provides a brief overview of the development of tripartism in the two countries, section 2.2 offers a systematic review of the role of tripartism in a number of specific reforms while shedding light on the surrounding political dynamics and section 2.3 focuses predominantly on Slovenia and represents a necessarily cautious attempt to assess the consequences of strong tripartism for specific socio-economic outcomes.

2.1 The development of tripartism in Slovenia and Poland

Like other countries in Central and Eastern Europe, both Poland and Slovenia established formal tripartite institutions for regular policy deliberation between the state and organized economic interests. In contrast to countries where such institutions were introduced at the very onset of transition to pre-empt potential conflicts (e.g., Hungary, the Czech Republic and Slovakia), tripartite councils in Poland and Slovenia were established only in 1994, in response to the weakening of support for economic reforms and rising labour discontent. Despite this similarity, however, the type and the politics of economic reforms, as well as the dynamics surrounding the establishment of tripartism in the two countries, differed considerably. One of the most evident differences with regard to the market reforms concerns their pace. While Poland opted for a shock therapy designed to ensure a swift transition to a free market economy, Slovenia settled for a more gradual approach to transformation. These choices reflected not only variation in the starting economic conditions but also differences in political alignments and patterns of party competition.

Poland's first democratic government inherited an economy in shambles. In 1989 the problem of shortages was pervasive, foreign debt reached

US$ 40 billion, budget deficit climbed to 10% and monthly inflation surpassed 50%. The government's response to the crisis was a comprehensive package of neoliberal reforms designed by Finance Minister Leszek Balcerowicz. The main goal of the reform package, scheduled to begin on 1 January 1990, was a fast inflation reduction and comprehensive liberalization, ensuring a withdrawal of the state from the economy. The core five components of the package were: fiscal consolidation by cutting enterprise subsidies, restrictive monetary policy through a domestic credit squeeze, an almost full price liberalization, a wage freeze and strict controls through a prohibitively high excess wage tax (*popiwek*) and the introduction of convertibility of the zloty by establishing a peg to dollar and permitting a large drop in the exchange rate. Even though these measures could have been expected to produce significant social costs, the design of a solid social safety net (apart from a system of unemployment benefits) and active labour market policies was not considered a priority and was left for later stages of transformation.

The choice of such a radical reform package was underpinned by two factors. First, the Solidarity government enjoyed extraordinary popularity: at the end of 1989 more than 80% of the population expressed confidence in the Mazowiecki cabinet and its reform plans. Neither the discredited communist successor party nor its trade union ally – the All-Poland Alliance of Trade Unions (OPZZ) – was in position to present a credible policy alternative.[2] Second, a majority of government officials had belonged to the union-led Solidarity movement in the 1980s, and many of them had served as union advisers. Moreover, the union leader Lech Wałęsa won the first presidential elections, while several high-level union activists obtained governmental posts and held seats in parliament. Such extensive political ties and the background of the joint struggle against communism helped the government elicit union support for its reforms. Consequently, both government officials and union leaders widely propagated the idea that only radical macroeconomic stabilization and liberalization could ensure economic progress and a clear break with the communist past.

The negative impact of the reforms on living standards, however, made such strong union support unsustainable. With price liberalization and subsidy cuts causing a large decline in real wages and a sharp increase in unemployment,[3] support for the government reforms had already plummeted to 30% by the beginning of 1991. This, in turn, initiated splits within the Solidarity movement, which led to its disintegration and the formation of several groups and parties whose infighting contributed to political instability and frequent government changes in the early 1990s.[4] To stop increasingly frequent strikes, the successive governments usually responded with ad hoc meetings with union representatives, thereby offering one-time payments or general promises to revise restructuring plans in particular sectors and enterprises. This strategy, however, proved untenable as the workers' grievances eventually grew into the largest wave of strikes in post-communist Europe. At the end of the summer of 1992 – when the magnitude of protests reached a peak and the Solidarity union officially supported the strikes – Hanna Suchocka's seven-party minority government finally proposed more comprehensive tripartite negotiations, which in 1993 resulted in a pact on state enterprises. In addition to several policy concessions to the unions (particularly with regard to privatization and wage controls), the pact included a resolution to establish a tripartite commission that was to ensure a more systematic incorporation of unions in the making of reform policies.

As in Poland, the establishment of tripartism in Slovenia was triggered by an increase in union mobilization; but the underlying political-economic dynamics differed in three crucial respects. First, anti-communist forces – grouped around the Democratic Opposition of Slovenia (DEMOS) coalition – emerged victorious in the first democratic elections in Slovenia. However, in contrast to the first Solidarity government, the DEMOS government was more internally divided and held only a slender majority in parliament. Moreover, its union ally – the Confederation of New Trade Unions of Slovenia (KNSS Independence) – was too small to provide the sort of protective umbrella for the reforms that the Solidarity union provided for the first democratic government in Poland. Simultaneously, two other newly established unions, Confederation of Trade Unions of Slovenia-Pergam (KSS Pergam) and Confederation of Trade Unions '90 of Slovenia (K-90), were determined to keep their political independence. Second, the communist successor union – the Association of Free Trade Unions of Slovenia (ZSSS) – remained the largest labour organization, covering approximately 70% of union membership. Due to the less repressive communist regime and self-management practices, as well as the immediate reorganization and depoliticization of ZSSS, this union was not as discredited as its counterpart in Poland. Given such a balance of power, the government was in no position to ignore union demands. Finally, while hyperinflation presented the most pressing economic problem and foreign debt imposed a considerable constraint, Slovenia embarked upon reforms with an economy that, on the whole, was more developed than in most transition societies. Having emerged from so-called market socialism – a fairly decentralized system in which market mechanisms were allowed to play a more considerable role in the economy – Slovenia was able to experiment with more gradual reforms.

Correspondingly, government policies were tailored to ease the expected transformational shock. The reforms entailed more lenient bankruptcy procedures and active assistance to enterprises and banks in need of rehabilitation. Even though such policies did not provoke redundancies as extensive as those in Poland, unemployment had nonetheless reached 8% in 1992. Moreover, while the government was open to softer restructuring policies, and a managed floating exchange rate regime, it announced its intention to control inflation primarily through a wage freeze. Unlike unions in Poland, which initially supported (or silently accepted) similar measures, ZSSS responded with a general strike that demonstrated their significant mobilizational capacity. This and several other strikes convinced the government to abandon the wage freeze and to accept union proposals to manage inflation via centralized collective bargaining. Following the December 1992 elections that brought to power a centre-left coalition led by the Liberal Democrats, the government initiated broader and more structured tripartite negotiations. These negotiations resulted in the first tripartite incomes policy package for the private sector, and paved the way for the establishment of the national tripartite Economic and Social Council (ESC).

Since its formal establishment, however, tripartism has functioned entirely differently in the two countries. In Slovenia, the government required compulsory membership of firms in the Chambers of Industry, Commerce, and Crafts, and simultaneously encouraged the formation of voluntary employers' organizations. Compulsory membership in the chambers was to be only a temporary measure, intended to ensure broad wage moderation via centrally bargained agreements. Two general collective agreements – for the private and public sector – have been

Table 2.1 Qualitative features of tripartism in Slovenia and Poland

	Slovenia	**Poland**
Policy scope	Broad	Narrow
Continuity of practices	Regular	Frequent interruptions, obstructed by politics
Number and scope of agreements	Extensive number, comprehensive policy scope	Modest number, narrow policy scope

regularly signed in the ESC, and their provisions further specified by sectoral and enterprise-level agreements. As a result, the coverage by collective agreements has been almost universal. This feature, in combination with relatively high unionization levels (around 40% in 2003) and codetermination rights, has turned the Slovenian system of industrial relations into the most coordinated one in Central and Eastern Europe. In addition to a series of annual income policy packages, the tripartite ESC has facilitated crafting of four broader, medium-term Social Agreements. These social pacts, which are usually valid for three years, define directions of a wide range of policies and specify the responsibilities of government and social partners in implementing the agreement.[5] Since its establishment, the ESC has functioned regularly and held 122 sessions in the first ten years of its existence. In this way, tripartism in Slovenia has been able to influence the shape of a range of socio-economic policies and reforms.

In contrast, the functioning of tripartism in Poland has been problematic since its inception. Unable to facilitate strong and efficient concertation, the Tripartite Commission has remained at the margins of policymaking, thus failing to influence the shape of major reforms. Despite a large number of working groups and committees in charge of monitoring developments in a number of policy areas, the Commission's work in practice has been focused predominantly on setting the minimum wage and the guidelines for maximum wage increases. While the statutory minimum wage is legally enforceable, the guidelines for wage increases have little regulatory power and influence over wage developments since wages are determined predominantly at the enterprise level. Sectoral or multi-employer collective agreements are rare and – when concluded – are limited to particular parts of the public sector (e.g., health, education and mining). In contrast to Slovenia, the Polish governments did little to support regular peak-level wage bargaining and social agreements. Employers' organizations have been slow to emerge, and until recently no systematic effort was made to ensure their adequate representation in the Tripartite Commission. Until 2001, employers were represented in the Commission only by the Confederation of Polish Employers (KPP), which comprises predominantly state-owned, state-controlled and some privatized large companies. Since then, three separate organizations representing private employers have gained seats in the Tripartite Commission. Overall, however, only 20% of enterprises – employing around 15% of the active population – are affiliated to employers' associations. The organizational weakness of employers is matched by even lower union density levels, which dropped from 70 to 80% at the onset of transition to 14% in 2003.

While such organizational characteristics are normally not conducive to strong tripartite concertation, the most important impediment to solid tripartite practices in Poland has been of a political nature. The extreme politicization of both the Solidarity union and OPZZ, and their formal ties with parties at the opposite sides of the political party spectrum, sustained inter-union conflicts that prevented broad-based agreements and undermined the functioning of tripartism. Both conservative and social-democratic governments capitalized on these ties as their respective union allies (and their parliamentary representatives) usually supported government policies. At the same time, the opposition unions tried to challenge government policies through parliamentary debates or by suspending temporarily their participation in the Tripartite Commission. Due to such political and ideological conflicts, tripartism has been punctured with frequent and prolonged interruptions. This continuous bickering came at a high price: it undermined the potential for union cooperation, and thus for the likelihood of concerted reforms and broader policy agreements. Thus, in contrast to Slovenia, Poland exemplifies a decentralized industrial relations system, where tripartism has been generally weak and unable to significantly influence public policies in a regular and systematic fashion. While more recently both Solidarity and OPZZ announced their intention to minimize their active involvement in high-level politics,[6] this has produced little practical change in the degree of coordination and the capacity to craft broader social agreements.[7]

The next section goes below the surface by providing a more detailed analysis of the role of tripartism in the formulation of specific reforms and policies in Slovenia and Poland.

2.2 The impact of tripartism on reforms and policies

Tripartism usually denotes a formal arrangement tailored to facilitate negotiation and consultation over a range of socio-economic reforms and policies. Table 2.2 provides a list of reforms that have been the most common subjects of tripartite deliberation in transition and developing countries, and indicates the degree to which such deliberation has influenced the shape of specific reforms in Slovenia and Poland. The remainder of this section provides a justification for this evaluation by providing a more detailed overview of the role of tripartism in these reforms in the respective countries.

Table 2.2 The impact of tripartism on specific reforms

Reforms	Slovenia	Poland
Macroeconomic policy; incomes policy	***	**
Trade liberalization; industrial policy	*	
Financial liberalization		
Privatization	*	***
Tax reform	**	*
Labour law reform	***	**
Employment policy, active labour market policy	***	*
Pension reform	***	**
Social policy	**	*
Health care reform	**	

Scale: (blank) no observed impact; * low impact; ** medium impact; *** high impact.

2.2.1 Slovenia

As Table 2.2 indicates, tripartism has played an extensive role in the formulation of public policies and reforms in Slovenia. In some areas, social partners have been regularly involved in policymaking. This is the case with incomes policy and various aspects of social and employment policies, which are a regular subject of tripartite negotiations. In other areas, tripartite negotiations were confined to a more limited period of time when particular reforms were being prepared, e.g., pensions, labour law and tax reforms. Among the reforms and policies outlined in Table 2.2, Slovenia's tripartism has had the strongest impact in three areas: incomes policy, pension reform and labour law reform.

Incomes policy is the area where the role of tripartism has been the most visible. Given the experience with hyperinflation that accompanied the disintegration of Yugoslavia at the end of the 1980s, the government was particularly interested in ensuring wage moderation.[8] As in Poland – where the stabilization programme entailed prohibitive taxes on wage increases, imposed by the government – the first government led by the centre-right DEMOS coalition attempted to introduce wage controls by fiat at the onset of the 1990s. However, unlike the Solidarity union that supported government reforms, the Slovenian unions led by ZSSS organized a warning general strike that brought the whole economy to a halt. Although lasting only a few hours, this strike revealed an exceptional mobilizational capacity of the unions and signalled to the government that the unions were capable of presenting a serious challenge to the unilaterally designed radical reforms. This action and a series of sectoral strikes and demonstrations that spread throughout the country added to the already plummeting popularity of the internally divided government, which was replaced in December 1992 by a centre-left coalition led by the Liberal Democracy of Slovenia (LDS) party. Even though the new government was more sympathetic to the idea of 'social market economy', the growing frequency of strikes and protests undoubtedly contributed to its resolve to actively pursue a consensual incomes policy.

In July 1992 the government proposed that a comprehensive tripartite agreement be negotiated, with the aim of achieving economic stabilization and social stability. Discussions that lasted for more than a year were complicated by disagreements between sectoral unions over an appropriate pay policy, as well as more general disagreements over broader public policies, such as tax and employment policy. While these disagreements made reaching a broad agreement difficult, and delayed signing of a comprehensive social pact (Social Agreement) until 1995, the government and social partners did manage to reach an agreement on pay policy in industry and trade for 1994. As part of this agreement, the unions accepted wage moderation in exchange for guarantees of solid job security and social protection, and the government's commitment to create the ESC – a tripartite peak-level institution – where agreements over incomes and other socio-economic policies were to be regularly negotiated and monitored.

This tripartite agreement provided a basis for a series of subsequent incomes policy agreements, the primary aim of which was inflation control. A common long-term goal of incomes policy agreements is to keep the real growth of gross wages below the rate of labour productivity growth by at least one percentage point. This type of wage control is to help reduce inflation and stimulate higher investment, and thus higher employment, and improved competitiveness and social security. Regularly negotiated incomes policy agreements entail explicit wage adjustment mechanisms for both base wages and the minimum wage for a given period. The euro–tolar exchange rate, domestic inflation rate and (more recently) the inflation rate in selected EU member states, are taken into account when setting guidelines for wage increases. An important characteristic of the incomes agreements is that the increase in the minimum wage is usually higher than that in base wages. In addition to the agreed guideline for wage increases, the minimum wage is topped up by a percentage equalling the annual growth in GDP. This measure has been consistently advocated by the unions and is designed to prevent poverty and minimize inequality by reducing the gap between the minimum and base wages. Other instruments, such as a recently designed detailed system of promotions in the public sector, were introduced to further improve wage distribution.[9]

These regular incomes policy agreements have become established practice in Slovenia and are regularly incorporated into law. Further specific details of these agreements are then determined through collective bargaining at the level of sectors. Given the obligatory membership of companies in the chambers of industry, trade and crafts, the coverage by these agreements has been almost universal. Consequently the negotiated incomes policy has played a key role in macroeconomic management in Slovenia.

The second area where tripartism has played a decisive role has been in the *reform of the pension system*. Under strong pressure from trade unions, these negotiations led to an agreement that departed significantly from the initial reform package proposed by the government. Indeed both social partners and academic observers consider pension reform to be the area in which the unions have most effectively used the tripartite channel to alter the shape and pace of planned reforms.[10]

Pension system problems were already evident at the onset of transition. A large increase in early retirement – and the widespread practice of purchasing insurance years that accompanied the process of enterprise restructuring in the early 1990s – contributed to the already worrisome pension expenditures. While the 1992 Pension and Disability Act (PDIA) tightened eligibility criteria for retirement somewhat, this minor adjustment did little to stabilize the pension system, which required a more comprehensive reform. However, as in most countries in Central and Eastern Europe, pension reform started relatively late. It was not until 1996 that the government – urged by the International Monetary Fund (IMF) and the World Bank (WB) whose estimates indicated a serious crisis of the Slovenian pension system – initiated a more fundamental reform.

In July 1996 Minister of Labour Tone Rop announced the government's plans,[11] and in November 1997 he presented a detailed proposal that, in line with the World Bank's recommendations, argued for setting up a multi-pillar pension system with a mandatory fully funded second pillar. In addition, the proposal entailed an equalization of eligibility conditions for men and women, the setting of the full pensionable age at 65 and a significant reduction of pensions for those who retired before 65. The government argued for a relatively fast transition to the new system.

This proposal served as a basis for tripartite negotiations in the ESC that started in January 1998 and were concluded only at the end of April 1999. The trade unions vehemently opposed the introduction of the mandatory second pillar and organized a number of protest actions, the largest of which – led by ZSSS – involved around 10,000 participants on 28 March 1998. Apart from the mandatory second pillar, the unions argued against the increase in the pensionable age (particularly for blue collar workers) and against gender equalization.[12] In parallel, the Ministry of Finance grew increasingly critical of Rop's proposal, warning about a large fiscal deficit that was likely to accompany the transition to the multi-pillar system. Under such pressures the government dropped the plan to make the second pillar mandatory, and proposed instead to introduce a voluntary, fully funded second pillar in a gradual way. The unions in turn supported this change, while calling for further negotiations over the reform of the first pillar.

In April 1999 the government and social partners finally signed the Social Agreement on the Reform of Pension and Disability Insurance. The resulting agreement differed considerably from the original proposal. As demanded by the unions, the reform was to be gradual; the second pillar was to be voluntary and supported by significant tax incentives; the pensionable age was to be 63 for men and 61 for women;[13] some categories of workers were to be exempted from penalties for earlier retirement; and the new basis for calculation of pensions was to be 18 'best years' (not 25, as suggested in the initial proposal).[14] The final outcome was therefore a compromise solution. One should keep in mind, however, that even though this compromise was crafted through tripartite negotiations, the demonstrated mobilizational capacity of the unions (and the public support that their actions generated) undoubtedly contributed to the government's decision to significantly alter its original reform proposal.

Another area where tripartite negotiations were of paramount importance was in the *reform of labour legislation*. Until 2003, employment relationships have been regulated by two main laws that were brought about shortly before the demise of Yugoslavia: the 1990 Slovenian Law of Labour Relationships and the 1989 federal Law on Basic Rights from the Labour Relationship. Since both laws left many provisions of the employment relationship to be determined by collective agreements, they made the conclusion of the latter obligatory, rather than voluntary. In doing so, these laws attracted a fair amount of criticism, both from the ILO and the EU's DG5. Reacting to this criticism and structural changes in the economy, the government proposed tripartite discussions on labour law reform.

In 1995, the government prepared a draft Law on Collective Agreements (LCA), which called for the establishment of a voluntary system of collective bargaining between trade unions and employers' organizations with voluntary membership (rather than chambers with obligatory membership). This draft, however, was put on hold until a new Law on Labour Relations (LLR) was adopted (EIRO 2002). The preparations and negotiations of the LLR took almost seven years and the new law (containing some 220 articles) was finally passed by parliament in April 2002. The unions and employers were divided over several points having to do with issues such as mandatory allowances paid to workers for years of service,[15] job security and the protection of workers (in particular of older and disabled workers) and the calculation of working time (i.e., paid 30-minute lunch break).[16]

Judging by official statements issued by the government and social partners on the day the final agreement was reached, the LLR was a compromise solution that confirmed the effectiveness of the ESC. The interviews undertaken by this author, however, suggest that social partners believe the law is relatively more favourable to union interests. The unions see the law (together with the pension act) as one of their biggest achievements.[17] The employers' associations, at the same time, find the LLR too rigid, complaining in particular about the allowances for seniority and the strong protection of workers that makes lay-offs of older workers extremely difficult.[18] Accordingly, since the 2004 elections brought to power a government much less inclined to union interests, employers have been lobbying for amendments that would make the labour law more flexible and supportive of their efforts to increase productivity and the competitiveness of the economy.

Following the adoption of the LLR, the government and social partners turned to negotiations of the LCA, in which the representativeness of employers' organizations in collective bargaining turned out to be one of the most contentious issues. The recent agreement between the government and social partners stipulated a three-year transitory period (until 2009) during which the participation of the chambers in collective bargaining was to be gradually phased out and replaced entirely with the employers' organizations, with voluntary membership.[19]

Apart from incomes policies and the pension and labour law reforms, tripartism has played a role in the formulation and negotiation of a number of other reforms and policies. For instance, tripartite negotiations have been particularly significant in the area of *social and employment policy*. The focus of these policies at the onset of economic restructuring was on early retirement, passive unemployment measures and support to enterprises in financial difficulties. Since the mid-1990s, however, increasing attention has been paid to *active employment policies* and various education and training programmes. While the government is the key actor in formulating these programmes, social partners can exercise influence over the role and shape of active employment measures during negotiations of Social Agreements, which regularly include a chapter on employment policy. In addition, through their representatives on the board of the national employment office – the Employment Service of Slovenia (ESS) – social partners participate in more regular discussions concerning the formulation and evaluation of different programmes.[20] In the short run, the aim of such programmes is to increase employability (in particular of hard-to-employ groups, such as persons older than 50, those with lower educational qualifications, disabled people, or people from families where both partners are unemployed) and contribute to reducing unemployment (especially long-term unemployment). The long-term goal of active measures is to increase social welfare and the overall competitiveness of the economy by investing in skill enhancement and programmes promoting lifelong learning.

These goals are an integral part of the Strategy for the Economic Development of Slovenia, adopted in 2001. The core pillar of the Strategy is the National Development Programme (NDP) for 2001–6, which defines reducing unemployment/increasing employment as one of five priority tasks. As part of the NDP, the government – in collabouration with social partners – has designed an extensive scheme of different programmes and subprogrammes for realization of these goals. In addition, several other strategic documents have been adopted since 1999: the National Programme for Development of the Labour Market and Employment (until 2006), the Employment Action Plan and the Programme of Active Employment Policy Measures. These documents outline a variety of education and training programmes, labour funds, programmes entailing incentives to employers to employ targeted groups, partial state funding for preserving jobs in less developed areas, and lifelong learning programmes including co-funding of the education and training of employees.

Similarly, tripartite negotiations have played a role in the ongoing reforms of the *health care and tax systems*. The Social Agreement for 2003–5, for instance, indicates that these reforms 'may only be carried out in agreement with social partners'. Since 2003, the government and social partners have held several talks over the design of the health care reform, the main aim of which has been to ensure greater solidarity in health insurance by strengthening the obligatory insurance system. Tax reform, on the other hand, has been a more contentious issue. Following tripartite negotiations in 2003, two laws on corporate and personal income taxes have been adopted. The Corporate Income Tax Act was to ensure impartiality of the tax system and contribute to the competitiveness of the economy. The aim of the Personal Income Tax Act was to raise 'the level of general incomes tax relief for all taxpayers' and to 'disburden particularly those in the lower income brackets'. Accordingly, the government and social partners agreed that redundancy pay would be exempt from tax, and established a guideline for a gradual increase of non-taxable earnings to the level of the established minimum income by 2007. These laws, however, have been increasingly criticized by the current centre-right government, which in November 2005 proposed a radical tax reform entailing the introduction of a flat tax rate and the abolishment of most tax allowances.[21] Employers' associations welcomed the government's proposal. The unions, at the same time, responded with the biggest demonstrations since the beginning of transition. Organized jointly by the four union confederations, the demonstrations held on 26 November 2005 in Ljubljana gathered about 40,000 union members (EIRO 2006). The unions stated that that they were not willing to enter into negotiations over the Social Agreement for 2006–9 should the government insist on the flat tax rate. In the end, the government withdrew the tax proposal, but both the employers' associations and the unions believe that 'the battle is still far from being over'.[22]

Tripartite discussions have also played a role in some other reforms, such as industrial policy, trade liberalization and privatization, but the impact of tripartism on the shape of these reforms has been much less determinative than in the areas discussed above. The law on privatization, for instance, was adopted in 1992 – i.e., two years before the formal establishment of the tripartite ESC. Even though the main privatization method has been employee-management buyouts, this particular reform was not an outcome of an explicit tripartite exchange or negotiations between the government and unions. Rather, the privatization law was an outcome of an academic and political debate that has been significantly influenced by a proposal prepared by Jože Mencinger, a distinguished professor at the University of Ljubljana and Minister of Economy and Deputy Prime Minister in 1990–1. In contrast to foreign advisors who advocated a swift, centralized privatization (especially the voucher method), Mencinger – like most domestic economists – argued that the legacy of self-management (as the most distinct feature of Yugoslav communism) provided a natural basis for a gradual and decentralized privatization. While the unions welcomed this idea, their role in the whole process was at best only indirect, since there was no major domestic opposition to Mencinger's proposal.[23] Consequently, management-employee buyouts were adopted as the primary method, and the voucher scheme only as secondary.

On the other hand, trade policy and particularly industrial policy, have often been subject to tripartite discussions, but it would be difficult to argue that the shape of these policies has been determined (or significantly influenced) by tripartism. Rather, tripartite negotiations have focused mainly on formulating mechanisms that would mitigate socially costly consequences of these policies. For instance, following a proposal made by the unions, tripartite negotiations initiated in 1995 led to the establishment of a special 'Solidarity Fund' which was incorporated into the law on bankruptcy and liquidation. This clause granted the employees of companies undergoing the bankruptcy procedure the right to a legally determined severance pay and pay due.[24]

Finally, policies and reforms having a more indirect influence on employment relationships, such as financial liberalization and the reform of the education system, have not been addressed in an explicit, systematic manner in tripartite discussions. On the whole, however, the scope of policy areas and reforms in which tripartite negotiations were decisive or important for the shape of the resulting policies has been broader than in most countries in Central and Eastern Europe.

2.2.2 Poland

In Poland, the impact of tripartism on the shape of economic reforms has been much more limited than in Slovenia. This is hardly surprising given government unilateralism and the swift adoption of a radical stabilization package in the early transition period. Unlike in Slovenia – where since 1994 tripartite deliberations have regularly influenced public policies and become a regular feature of policymaking – the influence of tripartism on economic reforms in Poland has been substantial only in relatively short periods, usually coinciding with an increase of social discontent or government instability. During such periods, tripartism proved crucial to several specific policy decisions, such as the 1993 amendment of the privatization law, the abolishment of wage controls via a tax on wage increases and the design of selective restructuring packages for specific enterprises and sectors.

Among the reforms outlined in Table 2.2, tripartite negotiations in Poland have had the strongest, albeit one-shot effect on *privatization* in the early 1990s. Unlike some other countries in Central and Eastern Europe, Poland has followed a multi-track approach to privatization. More than ten different privatization methods – ranging from direct sales, public offerings, vouchers, commercialization and liquidation to leasing and management-employee buyouts – have been followed over the years. Due to various political pressures and economic considerations, the 1990 law on privatization has been amended several times.

The 1993 amendment of this law came about through tripartite negotiations of the Pact on State Enterprises in Transformation. Although representing a broad-based compromise between the government and social partners that affected several policy areas, this agreement did not reflect the government's genuine commitment to strengthen tripartite deliberations in the policymaking process. Rather, as elabourated above, this was evidently an emergency response to a long-lasting and escalating wave of strikes that incapacitated the economy and undermined the stability of Suchocka's internally divided minority government.

Specifically, the government's decision to initiate the negotiations concealed a widening rift between different ministries over the appropriate content and form of such a pact, and more generally over the relative costs and benefits of tripartite negotiations. The strongest opposition to the idea of a social pact came from a group of neoliberal economists grouped around Marek Dabrowski at the Ministry of Finance. This group argued that the pact would endanger the reforms by enabling the unions and employers from state enterprises to jointly bargain for higher subsidies, tax cuts and lower interest rates. Similarly, Minister of Privatization Janusz Lewandowski was concerned that yielding to unions' demands would empower workers who could then try to stall the privatization process. However, as the escalation of protests increased the likely costs of ignoring union demands, a more pragmatic wing within the government eventually prevailed. The mandate to lead the negotiations was given to Minister of Labour Jacek Kuroń and Deputy Minister of Labour Andrzej Bączkowski – both of whom, as long-standing Solidarity activists, had a good reputation among the unions.[25]

Among several demands put forward by the unions at the outset of the negotiations, those that concerned privatization and incomes policy were central. With regard to the former, the unions demanded the right to be involved in the preparation of plans for the privatization of their enterprises, a portion of free and preferential shares for employees and union participation in the management of privatized companies.[26] While some in the government found these demands excessive, Kuroń argued that a more systematic involvement of unions in privatization would strengthen their stakes in the success of the transformation process and thus lower their incentives to mobilize against the reforms.[27] This argument eventually held sway. Given the approaching parliamentary elections, the government was keen to restore social peace and willing to cede to union demands in exchange for their support for the continuation of the reforms. The resulting agreement stipulated that

(i) employee representatives would, in agreement with management, draw plans for the privatization of their enterprise;
(ii) employees would be guaranteed participation in the management of privatized companies (both on the supervisory board and the board of directors); and
(iii) they would receive 10% of shares of their enterprise for free and the option to purchase an additional 10% at preferential prices.

Concerning the *incomes policy*, the unions demanded the institutionalization of free collective bargaining. Specifically, they argued for the immediate abolishment of the wage tax (*popiwek*) and the establishment of a formula for wage increases (equivalent to the sum of the rate of inflation and half of the GDP growth rate). Even though the Ministry of Finance argued that scrapping the tax on wage increases would create inflationary pressures, the government was evidently more concerned with securing social peace.[28] The outcome of the negotiations with regard to the wage tax was a compromise solution: the government and social partners agreed to gradually phase out the *popiwek* (with the immediate reduction from 500% to 300%, and its eventual abolishment by 1995). In addition, the general formula for average wage increases proposed by the unions was eventually adopted. The government agreed to establish a Tripartite Commission for regular negotiation of minimum wage and average wage increases, as well as consultation over relevant socio-economic policies.

Even though at the time the pact appeared to have brought significant concessions to the unions, its long-term impact on policies and reforms proved to be more limited than expected. Due to the sudden fall of the Suchocka government, legislation needed for the implementation of the pact was not adopted prior to the September 1993 elections, which brought to power the centre-left SLD-PSL (Democratic Left Alliance and Polish People's Party) coalition. While the new government implemented some important provisions of the pact – such as the abolishment of the *popiwek* and the establishment of the Tripartite Commission – it also amended significant portions of it, in particular in the area of privatization. While the new law on commercialization and privatization increased the proportion of free shares for employees from 10% to 15%, it significantly limited employees' management rights and empowered the government to commercialize enterprises without the consent of employees. The subsequent years witnessed a spontaneous change in the ownership structure of privatized companies, which strengthened the position of management and outside investors vis-à-vis employees. Also, several amendments to the privatization law have been passed since 1993, and most of them were not dealt with systematically in the tripartite commission. The overall result of this prolonged process is the emergence of direct sales as the primary method of privatization in Poland, and a steady decrease in the share of employee ownership in privatized companies.

The overall impact of tripartite negotiations on wages has also turned out to be much less important than some had expected at the time of the establishment of the Tripartite Commission for Socio-Economic Affairs. In contrast to Slovenia, tripartism has not become a key wage-setting institution. Instead, its role in wage setting has been confined to determining minimum wages and proposing legally non-binding recommendations for wage increases. Consequently, the company level has emerged as the dominant level of wage setting. The fact that centralized wage bargaining has not played a greater role in Poland is not surprising given the lack of legal enforcement of centrally determined wage guidelines, frequent political conflicts among social partners and an increasing portion of non-unionized companies.

To the extent that tripartism has had an impact on wage developments, this has been primarily through negotiations of the minimum wage, and even there its role has been only partial. It is only since 2002 that the minimum wage, which used to be set by the Minister of Labour and Social Policy, has been determined by tripartite negotiations. However, if no tripartite agreement is reached within a particular time limit, the government reserves the right to determine the level of the minimum wage by decree – a practice that was evident, for instance, during the negotiations over the minimum wage for 2005 (EIRO 2005). In addition, the 2002 legislation on the minimum wage included two important amendments. It stipulated: (i) a lower level of the statutory minimum wage for first-time entrants to the labour market for the first two years of employment, and (ii) a new mechanism for the adjustment of the minimum wage, which no longer linked its value to the expected expenditures for the lowest-earning households, but to the forecast inflation (EIRO 2002). These amendments were adopted by parliament despite strong opposition from the unions. Unlike in Slovenia, no effort to reduce the gap between the minimum wage and the average wage had been made prior to July 2005, when a new rule for the adjustment of the minimum wage was approved by parliament. In addition to the forecast inflation, the minimum wage is now to increase annually by two-thirds of the GDP growth rate until it reaches 50% of the national average wage

(EIRO 2005).[29] Tripartite discussions, however, have been much less successful in tackling widespread problems of non-payment or delayed payment of wages (EIRO 2004) and violations of the provisions of collective agreements with respect to the level of remuneration. In 2004, for instance, 61% of employers violated such provisions (EIRO 2005).

Tripartism has also played a role in the reforms of the labour legislation and the pension system, but its impact on the final shape of these reforms has been only limited. Prior to 2002, there had been little structured discussion of *labour law* in the tripartite council. The 1974 Labour Code was amended in 1996, but this was only a general amendment aimed primarily at cancelling some outdated provisions and adjusting others to the conditions of the market economy. It was not before April 2002 that the government proposed a more comprehensive reform. Having entered the office at a time of economic decline, the SLD-PSL-UP coalition argued that such a reform was crucial for reducing the problem of unemployment. In 2002 unemployment reached 19.8%, while the growth rate (which stood between 6 and 7% in the mid-1990s) collapsed to around 1% (EBRD 2004: 161). To counteract these problems, the government drafted a proposal that included a number of provisions aimed at reducing labour costs and making labour law more flexible. While the employers' organizations supported the government's proposal from the very beginning, the unions criticized most of the provisions as being detrimental to employees' interests.[30]

Given the sensitiveness of the issue, Minister of Labour Jerzy Hausner initiated discussions within the Tripartite Commission, which due to various political conflicts hardly functioned during the 1996–2001 period. The negotiations, however, soon revealed that reaching an agreement was unlikely. Some of the most contentious issues included the government's proposal to reduce considerably the basic overtime pay premium (from 150% to 50%), cancel severance pay in the case of dismissals in small companies, allow conclusion of a larger number of successive fixed-term contracts (from two to five) and cancel remuneration for the first day of sickness leave (EIRO 2002).

NSZZ Solidarity, in particular, showed a strong opposition to the reform and organized a large protest in Warsaw on 26 April 2002. However, OPZZ leader Maciej Manicki, as a long-standing political ally of the SLD, eventually gave a green light to most of the government's proposals. Consequently, the government stopped the tripartite negotiations and submitted the draft law to parliament, which adopted it largely without revisions (EIRO 2002). Proposals for further amendments to the Labour Code have since then been prepared by a group of experts and government representatives within a Labour Code Codification Commission, without discussions with social partners (EIRO 2005).

The impact of tripartism on *pension reform* has been also modest. As in Slovenia, a large increase in early retirement and disability pensions in the early 1990s placed a considerable burden on the pension system in Poland. Even though pension spending increased from 8.6% to 15.5% of GDP between 1990 and 1994, Polish governments were hesitant to propose a more comprehensive reform, especially in view of the 1992–3 strike wave.[31] Pension reform was finally initiated in 1994 when the Constitutional Court declared ad hoc changes of benefit formulae and indexation levels – mechanisms that had been frequently used to reduce the fiscal burden – illegal. What followed was a four-year-long period of preparations and intense debates that finally led to the adoption of a multi-pillar system inspired by the Chilean pension system and prepared with the active involvement of the World Bank. The new system consists of a reformed pay-as-you-go pillar; a mandatory, private, funded second pillar; and a reformed, voluntary third pillar.[32] Even though the reform was debated extensively, this debate was dominated by political parties and confined primarily to the lower house of parliament, rather than the Tripartite Commission.[33]

Tripartism did not play a role in this process prior to April 1997 when social partners expressed general support for the government's pension programme, entitled 'Security through Diversity'. Because the reform was started during the SLD-led government and completed by the coalition led by Solidarity Electoral Action (AWS), which introduced some changes in the original programme,[34] tripartite consultations were initiated once again in March 1998. It was only at this point that the unions objected to the government's programme, primarily with respect to the proposal to eliminate privileges available to certain occupational groups, such as miners. However, the government was able to secure union endorsement for the overall programme by offering a promise to negotiate a solution to the problem of occupational pensions before the summer of 1998. This issue was solved only at the end of 1998 when, following a protest by the Solidarity miners' union, the Senate decided to bring about a separate legal act that re-introduced the possibility of early retirements for miners via special 'bridging' arrangements. Overall, even though the tripartite exchange played a role in the reform of the pension system in Poland, it is evident that it did not significantly alter the original shape of the reform proposed by the government.

Tripartite exchange had little effect on the overall shape of *tax reform* and *employment policy*, even though these were occasionally subject to tripartite negotiations. Both issues, for instance, have been part of the 2003 negotiations of a Pact for Labour and Development. While social partners generally supported the proposal to reduce corporate taxes, they were unable to find an agreement on a wide range of other policy issues. Consequently, after nine months of debate, the government announced the failure of the negotiations.

With respect to the shape of employment policy, and particularly of active measures, tripartism has had little relevance. One of the main reasons for a limited impact of tripartism on *active employment policies* is related to the structure of employment services, which is the most decentralized in Europe. Following the 1999 reform of the regional and local governments, the National Labour Office was abolished and its responsibilities over employment programmes transferred to 16 regional and 338 district-level offices. The extreme decentralization prevented any attempt at nationally coordinated labour market policies. In 2003, the low efficiency of this system led the government to propose new legislation on employment promotion and labour market institutions, which reintroduced centralization, albeit only partially (EIRO 2003). Subsequent employment programmes, such as the National Employment Strategy for 2007–13, have been formulated by the Ministry of Labour with little input from social partners, even though a greater role is envisaged for social partners in the implementation of the plan.[35]

In 2004, tripartism was somewhat more relevant in formulating the National Plan for Social Integration aimed at reducing social exclusion and poverty (EIRO 2004). Finally, tripartism has had little systematic or direct effect on other policy areas specified in Table 2.2. However, by generating solutions to several problems of a more limited scope – such as the restructuring of several large companies, particularly in the mining sector – this institution has had at least an indirect effect on industrial policy.

2.3 Tripartism and socio-economic outcomes

Promoters of tripartism and social dialogue practices in Central and Eastern Europe, such as the International Labour Organization and the European Commission, generally assume a positive effect of this institution on a range of socio-economic outcomes. Apart from the generally accepted contribution of tripartism to preserving social peace during the difficult process of transition from a command to a market economy, a range of other positive effects have often been attributed to this institution. In general, its proponents emphasize that tripartite exchange has the potential to generate mutually beneficial policy solutions, ensure efficient and equitable reforms, make incumbents more accountable and turn labour unions into key stakeholders in the transformation process. Accordingly, beneficial policy consequences of regular and solid tripartite deliberation are at least implicitly assumed, if not explicitly stated. But while this assumption underpins much of academic and policy-oriented research on tripartism, little attention has been paid to empirically evaluating its policy consequences in Central and Eastern Europe. Has tripartism indeed contributed to better socio-economic outcomes? And which outcomes, if any, have been particularly influenced by this type of cooperation between the state and organized economic interests?

While these questions have rarely been addressed by analysts of tripartism in transition countries, this type of inquiry has long figured prominently in the empirical research on corporatism in advanced political economies. One of the central propositions of the corporatist literature in the 1980s was that the performance of economies can be enhanced by neocorporatist arrangements and centralized wage bargaining institutions. Since such institutions strengthen incentives for wage restraint (particularly where unions are encompassing), they were hypothesized to produce lower inflation and/or unemployment, and thus contribute to aggregate economic gain.

Much of subsequent quantitative research inspired by the corporatist perspective has tried to assess empirically whether and how tripartite neocorporatist arrangements might be conducive to enhancing various economic outcomes, such as macroeconomic performance or specific distributive policies. In line with the corporatist approach, a number of analyses have reported positive effects of corporatism on unemployment and inflation, and somewhat smaller positive effects on economic growth and investment. However, as most of these findings have not remained unchallenged, little consensus has emerged with regard to the actual contribution of corporatism to macroeconomic performance. Some have argued, for instance, that the effect of corporatism on performance outcomes is not straightforward but conditioned by factors such as the political orientation of the government, central bank independence or the proportion of unionized workers. Others, at the same time, have argued that corporatism has no effect on inflation and unemployment whatsoever.

But while generating consensus over the contribution of corporatism to macroeconomic performance has proved troublesome, positive effects of corporatism on certain distributive outcomes – such as low pay in equality and various redistributive programmes and policies – have been much less disputed. Since unions are generally interested in reducing pay differentials and securing more redistributive programmes, these are likely to be the most common concessions granted by employers and governments in exchange for unions' wage restraint. It follows that union participation in policymaking has the potential to generate policies aimed at reconciling efficiency and equity considerations.

General findings of this research suggest several relevant hypotheses with regard to the potential contribution of tripartism to socio-economic outcomes in Central and Eastern Europe. First, while the traditional assumption that corporatism generates low unemployment via real wage moderation has been challenged, most studies nonetheless indicate that corporatism has generally been associated with lower rates of unemployment, and in some cases with a lower misery index, i.e., the sum of unemployment and inflation rates.[36] This is so because a highly centralized and/or coordinated wage setting might render unemployment a less necessary tool of stabilization policy. In addition, tripartite arrangements might contribute to better employment outcomes by generating policies tailored explicitly to mitigate unemployment. Correspondingly, solid involvement of unions in policymaking might lead to more systematic efforts at cushioning negative consequences of industrial restructuring for employment – by means of active labour market policies, various employment programmes and measures entailing investment in skills and lifelong learning. It is thus plausible that a strong role of tripartism in policymaking might facilitate beneficial employment/unemployment outcomes, or better-combined effects of unemployment and inflation.

Second, drawing on the proposition about the impact of corporatism on distributive outcomes, we should expect tripartism to generate reforms that reconcile efficiency and equity. If this proposition were true, we would find reforms worked out via tripartite negotiations to be characterized by more careful and gradual sequencing – and to contain more comprehensive redistributive components, compensation measures and safety nets – than reforms designed unilaterally by the government. Given the nature of reforms in post-communism, this proposition should be particularly relevant to incomes policy, pension reforms and industrial restructuring. Where these reforms are formulated through tripartite negotiations, pay differentials should be smaller, the distribution of income more equal, safety nets more comprehensive and poverty less widespread.

Finally, building on the reasoning that underpins the hypotheses about positive policy consequences of tripartism, we can derive a more general proposition that tripartite consensus is likely to generate more sustainable reforms. Since reforms brought about through tripartite negotiations tend to accommodate interests of key social actors, they are likely to generate broad-based support from those whose mobilization against the reforms could threaten reform sustainability. This reasoning can be extended further: when broad tripartite consensus over particular reforms exists, policymakers might have more leverage vis-à-vis international financial institutions whose influence might otherwise lead to reform packages that prioritize speed and efficiency over safety nets and equity considerations.

It is important to recognize that the potential of tripartism to generate beneficial socio-economic outcomes and strengthen commitment to the reforms – as outlined by the propositions above – is likely to be significant only when these institutions play an actual role in the reform process. In other words, the formal existence of tripartism by itself does not mean that a consensual style of policymaking is realized, or even pursued. As shown by ample examples in Central and Eastern Europe – Poland being one of them – tripartism is often bypassed and reforms imposed by the government. In such cases, obviously, tripartism contributes little to socio-economic outcomes, whether they be positive or not.

Evaluating these hypotheses – in particular those that link tripartism to better socio-economic outcomes – through case studies faces several problems to do with the robustness of conclusions that a small-N analysis can provide. These concerns can be somewhat mitigated by relying on counterfactuals that gauge the extent to which particular socio-economic outcomes can be in fact attributed to tripartism, rather than to a range of other factors and developments (direct and indirect effects of policies that were not subject to tripartite negotiations). However, given the multitude of factors that simultaneously influence socio-economic outcomes, such as unemployment or poverty, this method permits us at best to advance plausible arguments about the consequences of different styles of policymaking. The remainder of this section does no more than that. It provides some evidence from Slovenia and Poland to assess the plausibility of the claim that tripartism contributes to better socio-economic outcomes.

2.3.1 Tripartism, macroeconomic performance and labour market developments

Inflation reduction was the main aim of the first incomes policy package, and a key component of all subsequent income policy packages and social agreements in Slovenia. Achieving this goal has been crucial for Slovenia's preparation for the ERM2 and the introduction of Euro at the beginning of 2007. Strict guidelines for wage increases were intended to ensure wage moderation, while the goal of keeping the growth of real wages below the rate of labour productivity was to contribute to inflation control.

Table 2.3 indicates that Slovenia has indeed made remarkable progress with regard to inflation control. In the first five years of transition, inflation was brought down from almost 550% to 13.5%, while in 2005 it stood at only 2.5%. Both policymakers and union activists in Slovenia tend to emphasize the role that the negotiated incomes policy has played in achieving this progress.[37] But while tripartite consensus on wage moderation has undoubtedly contributed to inflation control, the reduction of inflation cannot be attributed solely to tripartism. Indeed, as Table 2.3 indicates, inflation had been already brought down substantially by 1994 when the first incomes policy agreement was signed. This achievement was most likely a consequence of strict wage controls imposed through the government's stabilization programme and of the disciplining effect of the rising unemployment in the first half of the 1990s. Data for Poland support this conclusion for they suggest that similar results in reducing inflation and keeping it in check can be achieved without negotiated incomes policy (see Table 2.3). Prohibitive taxes on wage increases imposed by the Mazowiecki government at the onset of transition served to ensure wage discipline and reduce inflation by the mid-1990s. Unlike in Slovenia, where centralized and coordinated wage setting has served as the main tool of inflation control since the mid-1990s, wage moderation in Poland has been facilitated through the disciplining effect of high levels of unemployment.

Observable differences in the levels of inflation in the two countries notwithstanding,[38] both Poland and Slovenia show an extremely good inflation performance. But what clearly sets them apart is the level of social costs associated with such a performance. As Figure 2.1 shows, the misery index has been consistently higher in Poland than in Slovenia; the average sum of the inflation rate and the unemployment rate in the period 1993–2004 was 29.4 in Poland compared to 18.4 in Slovenia, and the difference seems to be widening since 2003. Thus, while both countries have managed to reduce inflation and ensure wage moderation, this stabilization has been achieved in a much more painful, socially costly way in Poland than in Slovenia.

Table 2.4 and Figure 2.2 reveal a striking difference in the unemployment rate in the two countries. While the unemployment rate in

Table 2.3 Annual inflation rate (%)

	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Poland	585.8	70.3	43	35.3	32.2	27.8	19.9	14.9	11.8	7.3	10.1	5.3	1.9	0.7	3.6	2.2
Slovenia	549.7	117.7	207.3	32.9	21	13.5	9.9	8.4	7.9	6.1	8.9	8.6	7.5	5.7	3.7	2.5

Source: UNICEF and Eurostat (2000–5).

Table 2.4 Unemployment rate (based on Labour Force Surveys) (%)

	1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Poland	14	14.3	13.2	12.3	11.2	10.5	13.9	16	18.2	19.9	19.6	19
Slovenia	9.1	9	7.4	7.3	7.1	7.7	7.4	7.2	5.9	5.9	6.6	6.1

Source: Eurostat (2005).

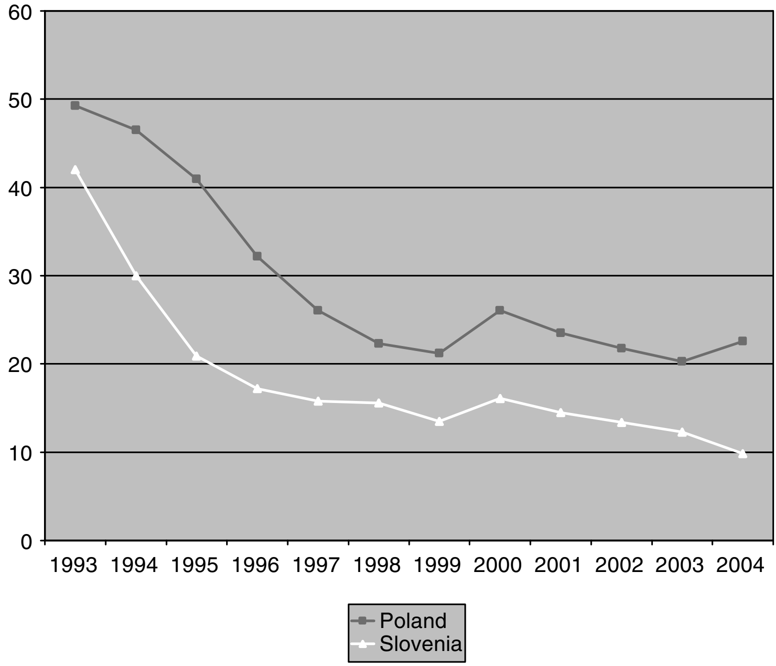

Figure 2.1 Misery index, 1993–2004
Source: Eurostat database.

Slovenia has been steadily decreasing since 1993, Poland's unemployment has been consistently high and increased rapidly during the late 1990s and early 2000s. From 1998 to 2002, the unemployment rate in Poland had almost doubled and reached near 20%, turning the country into the worst performer in the EU.

Table 2.5 shows some more recent, comparable data on the growth of real wages and productivity. It is evident that although Slovenia has managed to keep the growth of real wages behind the growth of productivity (albeit not always by 1% as planned by tripartite agreements), real wages in Poland have been lagging behind productivity by a higher margin. This seems to suggest that the better unemployment outcomes in Slovenia cannot be attributed solely to wage moderation ensured via centralized wage setting, and that other factors are likely to have contributed to the good unemployment performance. Among these, three factors appear to be particularly relevant: the employment protection legislation, the pace of the restructuring process and active labour market policies.

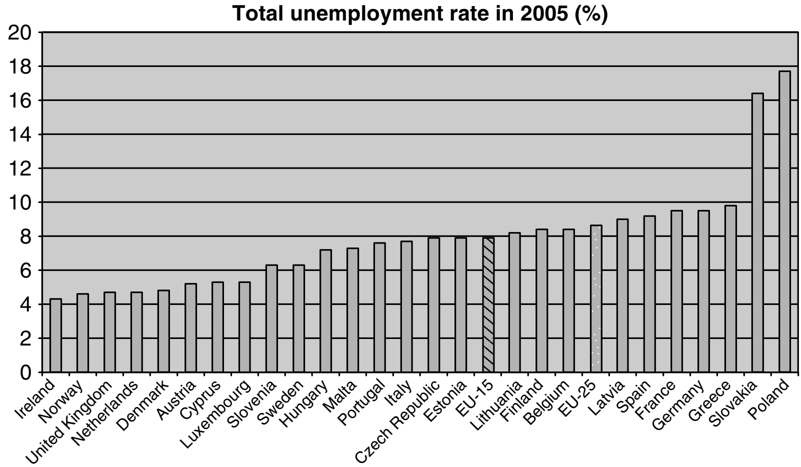

Figure 2.2 Unemployment in the EU countries

Source: Eurostat (2006).

Table 2.5 Real wages and productivity

	Slovenia		**Poland**	
	Real average wage growth (%)	**Productivity growth, (% per head)**	**Real average wage growth (%)**	**Productivity growth, (% per head)**
2002	2.1	3.9	1.6	5.2
2003	2.7	2.5	2.4	5.2
2004	2.4	4.5	0.5	5.5
2005	2.3	3.4	1.5	—
Average	2.4	3.6	1.5	5.3

Source: ETUC.

First, among Central and Eastern European countries, Slovenia has the most protective employment legislation, while Poland's legislation is among the most flexible. In 2000, the Employment Protection Legislation (EPL) index in Slovenia was 3.5, in Poland only 2.0, while the average for Central and Eastern Europe and the EU stood at 2.4.[39] While more recent data on the EPL index in Slovenia are not readily available, its value has undoubtedly decreased due to the flexibilization measures introduced by the 2003 amendment of the Labour Code.

Table 2.6 Initial conditions and reform progress in CEE

Country	**Initial conditions index**	**Liberalization index**		**EBRD transition indicators**	
		1989	**1997**	**1995**	**1999**
Poland	1.9	0.24	0.89	3.3	3.5
Slovenia	3.2	0.41	0.89	3.2	3.3
Czech Republic	3.5	0.00	0.93	3.5	3.4
Hungary	3.3	0.34	0.93	3.5	3.7
Slovakia	2.9	0.00	0.86	3.3	3.3
Estonia	–0.4	0.07	0.93	3.2	3.5
Latvia	–0.2	0.04	0.89	2.8	3.1
Lithuania	0.0	0.04	0.89	2.9	3.1

Note: The figure for initial conditions is a weighted average of indicators of the level of development, trade with other CMEA countries, macroeconomic disequilibria, distance from the EU, natural resource endowments, state capacity and 'market memory' denoting the number of years of the communist rule. The liberalization index (where 1 is max) is a weighted average of domestic market liberalization (weight of 0.3), foreign trade liberalization (weight of 0.3) and enterprise liberalization and banking reform (weight of 0.4). The EBRD transition indicator is a simple average of eight different indicators of the progress of reforms. Each indicator is scored from 1 (no market reforms) to 4 (conditions comparable to a western market economy).
Source: Ovin and Kramberger (2004).

This amendment notwithstanding, however, it is very unlikely that Slovenia's EPL index has been eroded to a level comparable to Poland.[40]

Second, the pace of the restructuring process initiated in the early 1990s has been slower and more cautious in Slovenia than in Poland. To a large extent, this difference can be attributed to political considerations of the governing elites in the two countries. Unlike in Poland, the first democratic government in Slovenia lacked a comparably strong popular support for radical reforms. A more cautious approach to restructuring in Slovenia was also facilitated by the relatively good initial conditions and the most liberalized economy among Central and Eastern European countries in 1989. By the mid-1990s, however, Poland had caught up in terms of liberalization (see Table 2.6), and by 1998 it had outpaced Slovenia in terms of the restructuring index (see Table 2.7). The latter index indicates a share of the workforce that would need to shift sectors to facilitate the attainment of the same structure of employment as in an average developed western European economy.

As Table 2.7 shows, the pace of restructuring between 1994 and 1998 was fastest in Poland and slowest in Slovenia. Interestingly, both countries had achieved a high rate of job creation in previously deficient

Table 2.7 Restructuring indices, 1994–8

	Restructuring Index, RI94	**Restructuring Index, RI98**	**Pace of Restructuring, PR=(RI94–RI98)/RI94**	**Job creation**	**Job destruction**
Poland	27.0	21.5	20.4	8.8	4.4
Slovenia	25.4	23.6	7.1	7.7	0.5
Czech Republic	20.5	18.5	12.9	2.7	4.8
Hungary	19.8	17.2	13.1	2.4	4.3
Slovakia	23.2	19.5	15.9	5.3	3.3
Estonia	20.0	18.1	9.5	1.7	8.2

Note: RI corresponds to the share (%) of the workforce that would need to change sectors so that a country can attain the same structure of employment as the average structure for Germany, the UK, Denmark and the Netherlands. The higher the index, the more restructuring needed for convergence. Since the restructuring indices for the Czech Republic refer to the shorter period (1994–7), PR was multiplied by 4/3 to make it compatible with other countries. Job creation and job destruction indices refer to the ratio (%) of jobs created in sectors with deficient employment and shed in 'old', unproductive sectors in relation to the level of employment in 1994.
Source: Mickiewicz (2003).

sectors during this period. However, it is evident that this progress in Poland was accompanied by a much higher rate of job destruction in 'old' sectors than in Slovenia. Comparable indices after 1998 are not readily available, but given the sharp rise in unemployment in Poland which accompanied a new wave of restructuring (see Figure 2.3), it is highly likely that the gap in the rate of job destruction between the two countries has widened further.

Finally, a comprehensive set of anti-unemployment policies – formulated or approved through tripartite deliberation – is likely to have contributed to Slovenia's good unemployment performance. These programmes have always figured prominently in the tripartite exchange. Since the second half of the 1990s, increasing attention has been paid to improving the ratio between active and passive unemployment measures. While this ratio equalled 1/3 in 1998, it was reduced to 1/1.5 by 2003. The main goal of active employment policy has been to: (i) reduce unemployment and increase employment; (ii) improve the unemployment structure by reducing the share of the long-term unemployed; and (iii) increase social inclusion of difficult-to-employ persons. Active employment measures consist of three broad types of measures tailored to facilitate the attainment of these goals: training, intervention programmes and public works. The first category – which has had the strongest emphasis in Slovenia – entails various education and training programmes to increase employability of the unemployed, as well as preventive measures focused on skill-upgrading for the employed. Intervention measures include job creation programmes that provide various tax and subsidy incentives for employers; encouraging them to employ, in particular, those with the worst prospects on the labour market. Finally, public works are jobs created by the government (usually in construction and cleaning) that most commonly target the long-term unemployed with low skills.

In 2003, nearly 80% of all registered unemployed participated in active employment programmes, most of them in education and training.[41] Among new EU member states, Slovenia invests the most in lifelong learning. In 2005, 15.3% of the adult population participated in education and training, compared to only 5% in Poland (Eurostat 2006). Figure 2.5 indicates that the share of those participating in various education and training programmes is higher than the average for EU-15, which places Slovenia ahead of countries such as Austria, Germany, Belgium and France.

The effectiveness of these measures has been evaluated positively by several agencies, including the Institute for Macroeconomic Analysis and Development (IMAD), the World Bank and the European Commission. Emphasis on training and the enhancement of skills in particular has been singled out as one of the key factors contributing to low unemployment and to the rising employment rates of all groups. Table 2.4 and Figure 2.3 reveal that since the establishment of tripartism in 1994 – which has played an important role in the formulation of several anti-unemployment measures – there has been a significant improvement in unemployment and employment outcomes. Data for 2004, for instance, indicate that, with the employment rate of 65.6%, Slovenia was close to achieving the 2005 employment targets (67%) as set by the EU Lisbon Strategy. With 61.3% of women employed in 2004, Slovenia has already reached the Lisbon goal for 2010, which sets the employment rate for women at 60%. In addition, data indicate the improvement in the structure of the unemployed, which has been specifically targeted by the active employment measures. A decrease has been evident in the share of the unemployed without vocational education, those older than 50, long-term redundant workers and those who lost their jobs due to bankruptcy.

As shown by Table 2.8, the total long-term unemployment has been in decline, and by 2004 was lower than the average figures for EU-25 and EU-15 (4% and 3.3% respectively) (Eurostat 2005). Data from the Employment Service and the Ministry of Labour in Slovenia reveal that the average time in unemployment has decreased from 32 months and 19 days in

2000 to 22 months and 22 days in 2003. The fact that the employment and unemployment rates have been showing positive developments even in periods that experienced a decline in economic growth (see Figures 2.3 and 2.4) confirms the importance of active employment measures.

This is in striking contrast to Poland, where unemployment and employment rates show a clear deterioration (see Table 2.4 and Figure 2.3).

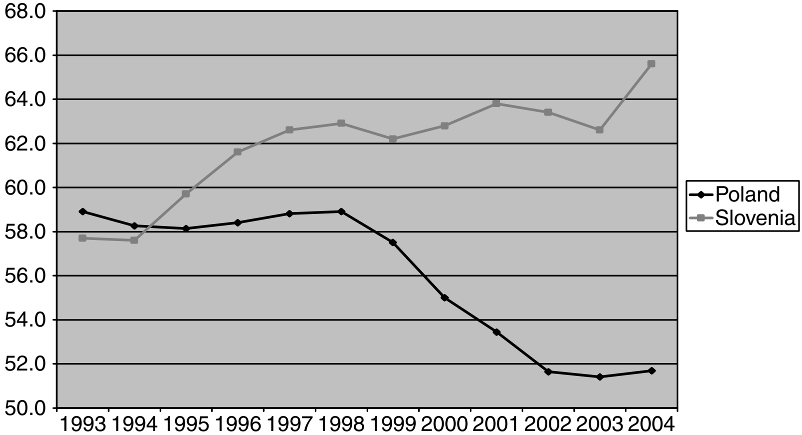

Figure 2.3 Total employment rate (%)

Source: Eurostat (2005); Data for Slovenia for 1993–5 from the National Statistical Office.

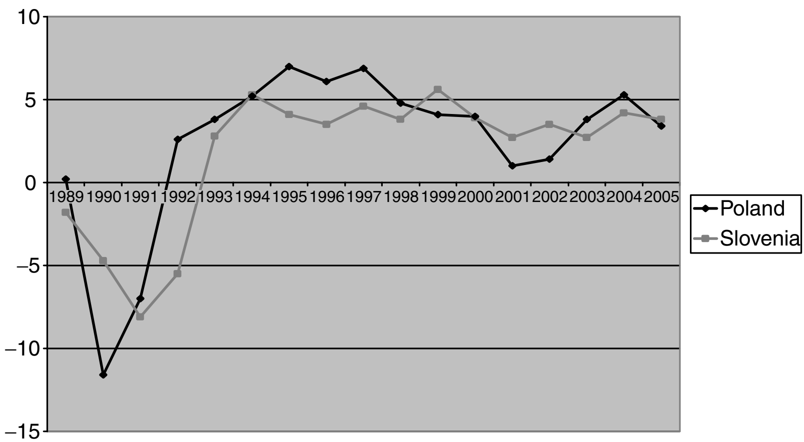

Figure 2.4 Annual GDP growth rate (%)

Source: EBRD (1994, 2000, 2003) and Eurostat (2005).

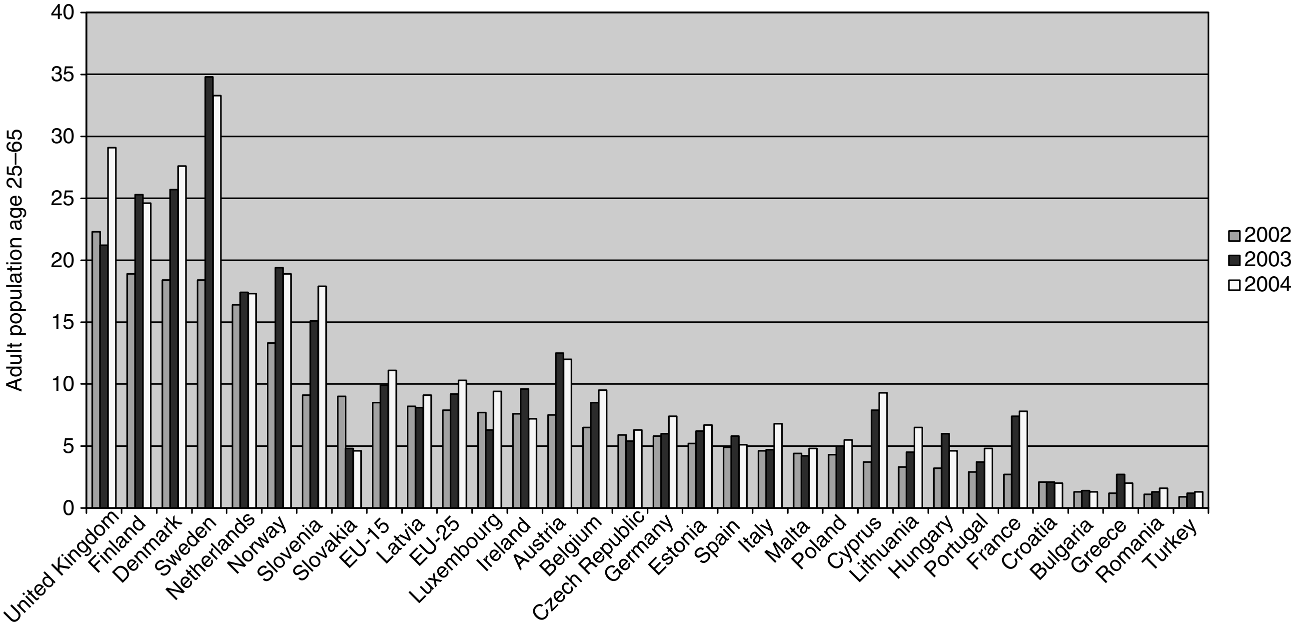

Figure 2.5 Lifelong learning, total

Source: Eurostat database.

Table 2.8 Total long-term unemployment rate (%)

	2000	2001	2002	2003	2004
Total long-term unemployment rate (12 months and more)					
Slovenia	4.1	3.7	3.5	3.5	3.2
Poland	7.4	9.2	10.9	11.0	10.3
Very long-term unemployment (24 months and more)					
Slovenia	2.7	2.6	2.3	2.1	1.8
Poland	3.1	4.0	4.8	5.2	5.0

Source: Eurostat (2005).

A short-lived improvement related to employment creation in the mid-1990s was most likely an outcome of output expansion that followed the early period of transformation characterized by massive job destruction. The problem, however, was that newly created jobs often required skills that the previously redundant workers did not have, and did not have enough opportunity to acquire while they were unemployed. Correspondingly, since 1998, firms have been trying to improve productivity primarily through lay-offs. These developments, in combination with the consequences of the Russian financial crisis and the loss of competitiveness, triggered a new wave of restructuring, particularly in heavy industry. The pace of restructuring has increased visibly in the coalmining and steel industry, sectors which – despite being inefficient and in need of downsizing – had been considered 'politically sensitive', and thus subject to more lenient restructuring practices and more extensive state support than other industries during the 1990s.[42] The increasing pace of restructuring undertaken largely through job destruction has in turn caused a sharp increase in unemployment. Between 1998 and 2002, Poland lost around 1.5 million jobs. As a result, in 2005, Poland was the worst performer in the EU, with the employment rates around 15 percentage points lower than the 2005 targets set by the Lisbon Strategy (Eurostat 2005).

While solid growth rates are usually referred to as key to employment creation, Poland has been experiencing a problem of 'jobless growth'. Despite the fact that the average rate of GDP growth from 1994 to 2004 was 4.4%, the total employment rate had declined from 58.3% to 51.7% (Eurostat 2005). Recent analyses suggest that one of the main reasons for the weak employment performance in Poland is the skill mismatch on the labour market, which could be lessened by increasing the effectiveness of active employment policies, particularly by increasing investment in education and training programmes. Unlike in Slovenia, where the majority of the unemployed participate in various training programmes and a large share of the population participates in lifelong learning, the level of investment in such programmes in Poland has been much lower. The share of the adult population participating in lifelong learning is among the lowest in Europe, and social partners have rarely been involved in the formulation of training programmes. Moreover, existing active employment measures appear to have been badly targeted, as the unemployed, low-skilled and older people seldom participate in programmes aimed at skill enhancement, and thus face a risk of a permanent exclusion from the labour market. The rising levels of long-term unemployment (see Table 2.8) – which is highest among low-skilled and older workers – accentuate these concerns. This puts in danger the long-term prospects of the economy since persistently high structural unemployment is an important impediment to economic growth, and thus to competitiveness.

2.3.2 Tripartism, distributive outcomes and social cohesion

The limited quality of data on inequality and poverty in transition countries makes it difficult to conduct a systematic comparative evaluation of the proposition that tripartism contributes to better distributive outcomes and social cohesion.[43] The available data, however, seem to provide sufficient empirical support for this proposition in the two countries analysed here. As elabourated in section 2.2, one of the central goals advocated by the trade unions in Slovenia was to determine the value of the minimum wage in order to ensure that those with the lowest income do not fall into poverty. For this purpose, the minimum wage negotiated in the tripartite council had to be equal or higher than the value of a 'minimum consumer basket'. The second goal related to the minimum wage – also consistently advocated by the unions and accepted through tripartite negotiations – has been to adjust the level of the minimum wage in a way that would minimize over time the gap between the average and minimum wages. The intended effect of such an adjustment mechanism is a more equal distribution of income. In addition, as discussed above, several active employment programmes have been tailored specifically to increase employability of those who face a higher risk of permanent exclusion from the labour market (low-skilled, disabled and older workers), and thus the risk of poverty.

While Slovenia had embarked upon market reforms virtually without poverty, what distinguishes its experience from most other transition societies (save for the Czech Republic) is that poverty rates have not increased significantly. In 1998, for instance, the absolute poverty headcount index (at PPP $4.30/day) was only 0.7%, which indicates the lowest level of poverty of the then EU accession countries.[44] In addition, Eurostat data for the period of 2000–3 also indicate a decline from 11% to 10% in the at-risk-of-poverty rate after social transfers. This rate – indicating the share of persons with a disposable income below 60% of the national median disposable income – is the lowest in Europe and significantly lower than the average for the EU-15, which was 15% in 2003 (see Eurostat 2005).[45]

Different types of income inequality measures are available for 1993 and 1998. All of them show a clear trend towards a more equal distribution of income: Gini coefficient (after social transfers) was reduced from 0.2696 to 0.2356; the 90/10 ratio from 3.38 to 3.22; and the 75/25 ratio from 1.83 to 1.77. The income quintile share ratio (i.e., the 20/20 ratio), used by Eurostat, shows a continuing trend towards a more equal distribution: from 3.2 in 2000 to 3.1 in 2003. These figures place Slovenia among the most equal societies in Europe, and are significantly below the average for the EU-25 and EU-15 where the 20/20 ratio stood at 4.5 in 2000 and 4.6 in 2003 (Eurostat 2005).

Obviously, these data are too spotty – they would need to be supplemented by other data, such as those on social protection levels, to allow conclusions to be drawn about the extent to which tripartism has been responsible for the improvement of the distributive outcomes in Slovenia.[46] However, certain agreements negotiated in the tripartite council suggest that the role of tripartism in reducing the risk of poverty and income inequality has not been irrelevant. Particularly significant in this respect are the agreement on the different adjustment mechanism for the minimum and average wages, the 1999 Act on Pensions which reduced the difference between the highest and lowest pensions from 4.8/1 to 4/1 and the 2003 Act on Personal Income Taxes which further reduced the burden on lower income groups.[47] Having strengthened the redistributive component in the tax system, the latter agreement in particular is in striking contrast with a trend observable in several Central and Eastern European countries that have decided to adopt flat tax systems.

Interestingly, even though employers' organizations tend to argue that the equity concerns in Slovenia (which underpin in particular the minimum wage adjustment) come at a cost of inefficiency and thus of a potentially lower investment,[48] available data show little support for this argument. At 45.3% of the average wage in the private sector, the minimum wage in Slovenia is certainly higher than in other Central and Eastern European countries. For instance, the minimum wage in Poland shortly before its EU accession was only 33% of the average wage (Eurostat 2003). However, the share of the GDP allocated for investment by the private sector in 2004 was 21.3%, which is not only significantly higher than in Poland (14.6%) but also higher than the EU average (17.1%) (Eurostat 2005).

For illustrative purposes, it is worthwhile noting that distributive outcomes in Poland – where the impact of tripartism on economic reforms has been much more limited – are particularly disturbing since both inequality and poverty have been increasing. In 1994, the Gini coefficient for labour income was 0.389 and for old age pensions 0.394; by 2002, it had increased to 0.421 and 0.423 respectively. The 20/20 ratio for 2000 and 2003 also shows an increase from 4.7 to 5 (Eurostat 2005). One should keep in mind, however, that the growing inequality of labour income signals not only unequal distribution of wages but also rising unemployment – a problem that has been particularly pronounced in Poland. The rising unemployment – and in particular an increasing share of the long-term unemployed (see Table 2.8) – is also the main cause of poverty in Poland. The latter has been increasing steadily, in particular since 1998, which corresponds to the sharply rising unemployment. While 13.1% of the population lived in poverty (according to the national definition) in 1998, this number had reached 16.6% by 2002. In 2001, those living in deep and extreme poverty (below PPP $5.50 and $4.30/day respectively) accounted for 8.6% and 3.2% of the population. These findings confirm the need for stronger attention to active employment measures and skill enhancement despite the more recent decline in unemployment, which is concomitant with high outmigration after Poland's accession to the EU.

2.3.3 Tripartism and reform sustainability

Overall, empirical evidence from Slovenia and Poland supports the hypothesis that solid tripartism facilitates more sustainable policies. As evidenced by the experience of both countries in the early 1990s, reforms designed unilaterally by the government proved unsustainable, even when – as in Poland – unions initially supported (or tacitly accepted) these reforms. Absent the broader consensus that characterizes negotiated reforms, adverse effects of the unilaterally imposed policies fuelled popular discontent and union mobilization, which in both cases prompted the government to reverse their wage policies and offer different institutional and policy concessions to trade unions.

Subsequent developments reinforce these conclusions by illuminating the different contributions of *strong* and *weak* tripartism to ensuring a broad-based support for the reforms in the two countries. The case of Slovenia suggests that where tripartism facilitates a solid incorporation of social partners in the policymaking process, unions tend to behave as 'stakeholders' in negotiated reforms, which in turn increases reform sustainability. On the whole, the unions in Slovenia supported the restructuring process because tripartite agreements provided comprehensive measures tailored to cushion its potentially adverse effects. For instance, education and training programmes, various incentives to employers to abstain from excessive lay-offs and selective support for particularly weak enterprises served as a sort of employment guarantee that was crucial to sustaining union support.[49] In addition, the mechanism of the negotiated wage adjustment that incorporates considerations about both inflation and productivity growth has proved important, for it convinced the unions that they would have a fair share in the fruits of economic growth.[50]

In contrast, the case of Poland – where tripartism has failed to provide for such a regular and solid incorporation of social partners in policymaking – reveals that reforms have often been challenged by those who felt excluded from their formulation and were likely to bear the largest burdens of such reforms. Examples include unions' protests against the government's unilateral amendments of the labour law in 2002 and the miners' protests against the government's reluctance to introduce 'bridging' arrangements in the pension law in 1998 (see section 2.2). A number of other protests in particular sectors and enterprises over the last ten years signal a low capacity of the ill-functioning and unproductive tripartism to ensure broad-based support for the reforms. Unlike in Slovenia, where centre-left coalitions had been dominant during the transformation, right and left governments have alternated in Poland since the first democratic elections. Consequently, the respective governments frequently relied on parliamentary support of their allied union to introduce necessary reforms, and bypassed the Tripartite Commission when these reforms were likely to be blocked by the union allied to the opposition parties. As the effects of such reforms often provoked protests from particular union sections, the government was impelled to settle these claims through costly and often inefficient measures.

Finally, the reforms of the pension system in the two countries suggest that tripartite consensus can also serve as a buffer against excessive influence of international financial institutions upon the shape of reforms. As elabourated above, such consensus in Slovenia was crucial for rejecting the World Bank's pension blueprint in favour of one that was considered more appropriate for local conditions. In Poland, in contrast, the government's reluctance to initiate tripartite negotiations early on strengthened the leverage of the World Bank, and provided it with a decisive influence upon the shape of the reform.

2.4 Conclusion

Given that a myriad of factors have an influence on socio-economic outcomes such as inflation, unemployment, inequality and poverty, determining a precise impact of tripartism on such outcomes is inevitably difficult. This is even truer of small-N analyses, the conclusions of which often cannot be extended beyond the studied cases. But while the generalizability of conclusions might be the Achilles' heel of such analyses, they can offer beneficial insights into the political dynamics influencing both the outcomes of the policymaking process and their socio-economic effects. By offering an in-depth analysis of the dynamics of particular reforms and their consequences in Slovenia and Poland, this chapter has sought to assess whether and how solid tripartism might have contributed to better socio-economic outcomes. Specifically, the chapter has probed three different hypotheses about the beneficial impact of tripartism on macroeconomic outcomes, distributive outcomes and reform sustainability. The following conclusions emerge from this analysis.

First, it is evident that stabilization and inflation control do not necessarily require centralized wage setting and negotiated incomes policies. Indeed, both Slovenia and Poland display a good inflation performance despite the different methods they have used to ensure wage moderation. Thus, looking solely at the inflation rates, it seems that the potential of tripartism to generate better macroeconomic outcomes is negligible. The picture looks different, however, if we consider unemployment rates and the overall level of social costs of the reforms as indicated by the misery index, which represents the combined measure of inflation and unemployment. With respect to this measure Slovenia clearly outperforms Poland. While the extent to which these results can be attributed directly to tripartism is debatable, the available evidence suggests its beneficial contribution in Slovenia through a particular combination of negotiated incomes policies, active labour market policies and employment protection legislation.

Second, the impact of tripartism on distributive outcomes seems to be less ambiguous. The record of tripartite exchange in Slovenia reveals a number of channels though which this institution is likely to have contributed to achieving a more equal distribution of income and ensuring low poverty rates. Among these, some are of particular relevance: the special adjustment mechanism for a gradual increase of the minimum wage, certain equity concerns incorporated in the pension and tax reforms and a number of active measures designed to increase employment and improve the employability of those facing the risk of permanent exclusion from the labour market.

Finally, evidence from Slovenia and Poland indicates a positive impact of tripartism on reform sustainability. Whether or not particular reforms were negotiated between the state and social partners has evidently affected the degree to which these reforms have proved to be sustainable and supported by trade unions – who are normally most likely to mobilize against policies generating material hardships.

Notes

1. I am grateful to Lydia Fraile and Lucio Baccaro for detailed comments on an earlier version of this chapter. I would also like to thank Dušan Kidrič, Alenka Kajzer and Tomaž Kraigher from the Institute of Macroeconomic Analysis in Ljubljana and Metka Štoka-Debevec and Katja Rihar-Bauk from the Slovenian Ministry of Labour, Family and Social Affairs for providing hard-to-find information and data. In addition to the interviews cited here, this chapter has been informed by the interview dataset of the project on 'Distributive Politics, Learning and Reform: National Social Pacts', funded by the European Union under the Sixth Framework Programme and part of the Integrated Project on 'New Modes of Governance'.
2. Despite its immediate reorganization and a membership level that in 1990 was higher than that of the Solidarity union (approximately 4.5 million compared to 2 million), the OPZZ was generally perceived as a communist collabourator, and thus largely discredited.
3. In 1990, real wages declined by about 25% and continued falling, albeit at a slower rate until 1993. In parallel, unemployment climbed from 0.1% in 1989 to around 14% in 1992 (EBRD 1994: 165).
4. By September 1993, five prime ministers had held office.
5. Policies regularly covered by such agreements include incomes, employment, social policy, health, pensions, housing policy, public finances and competition policy.
6. In large part, this has been triggered by the formation of the trade union forum (FZZ), a confederation that grew significantly by criticizing political strategies of Solidarity and OPZZ. In 2003, the FZZ reached the target of 300,000 members, which enabled it to gain representation in the Tripartite Commission.
7. This was evident, for instance, during the negotiations of a failed Pact on Labour and Development, initiated in 2003 by Minister of Labour Jerzy Hausner. Author's interview with Jerzy Hausner, Deputy Prime Minister and Minister of Economy, Labour and Social Policy in the second SLD-led government, Budapest, June 2005.

8. In 1989 annual inflation climbed to more than 1300 % (EBRD 1994).
9. The recently adopted Public Sector Wage System Act is expected to reduce the ratio of the lowest to highest public sector wage from 1/12.3 to 1/10 by 2008.
10. Author's interviews with Pavle Vrhovec, Executive Secretary, Union of Free Trade Unions of Slovenia (Zveza svobodnih sindikatov Slovenije, ZSSS), Ljubljana, April 2006; Drago Lombar, President, Independence, Confederation of New Trade Unions of Slovenia (KNSS – Neodvisnost, Konfederacija novih sindikatov Slovenije, KNSS), Ljubljana, April 2006; Nina Globočnik, Senior Legal Adviser, Slovenian Employers' Association (Združenje delodajalčev Slovenije, ZDS) and Igor Antauer, Secretary General, Slovenian Employers' Association of Crafts (Združenje delodajalčev obrtnih dejavnosti Slovenije, ZDODS). See also Stanovnik.
11. The government, formed after the 1996 elections, was a centre-left coalition of three parties: Liberal Democrats (LDS), the People's Party (SLS) and DeSUS (the pensioners' party). The government had a 54.4% parliamentary majority. As the strongest party, the LDS (and its vice-president Rop) was the main architect of the pension reform.
12. Among the fragmented political opposition, the United League of Social Democrats (ZLSD) supported the unions, and in particular ZSSS.
13. According to the 1992 PDIA, the full pensionable age was 63 for men and 58 for women.
14. The 1992 PDIA used the average of 10 best years as the basis for calculating the value of pensions.
15. These allowances amount to a 0.5% annual increase in salary.
16. Interviews with Dušan Rebolj, President, Confederation of Trade Unions of Slovenia Pergam (Konfederacija sindikatov Pergam Slovenije, Pergam), Ljubljana, April 2006; and Igor Antauer, ZDODS.
17. Interviews with Pavle Vrhovec, ZSSS and Drago Lombar, KNSS Independence.
18. Interview with Nina Globočnik, ZDS.
19. Interview with Urska Jereb, Legal Adviser, ZDODS, Ljubljana, April 2006.
20. Correspondence with Metka Štoka Debevec, Ministry of Labour, Family and Social Affairs, Directorate for Social Partnership, Ljubljana, 6 April 2006. The administrative board of the ESS has 13 members: representatives from the government, employers' associations and trade unions (4 each) and a representative of the ESS's workers' council. The ESS was established in 1996.
21. According to the government's proposal, personal income tax would amount to 20%, Value-Added Tax to 20% and corporate income tax to 15%. The proposal also entails the abolishment of the payroll tax on employers.
22. Interviews with Pavle Vrhovec, ZSSS and Nina Globočnik, ZDS.
23. Interview with Pavle Vrhovec, ZSSS.
24. Interview with Drago Lombar, KNSS Independence.
25. Interview with Tadeusz Kowalik, cofounder of the Union of Labour (UP), and member of the government's advisory Council for Socio-Economic Strategy, Institute of Economics, Polish Academy of Sciences, Warsaw, November 2002.
26. Interview with Ryszard Łepik, Vice-President, All-Poland Alliance of Trade Unions (Ogólnopolskie Porozumienie Związków Zawodowych, OPZZ), Warsaw, November 2002.

27. Interview with Jacek Kuroń, Minister of Labour and Social Affairs in the Mazowiecki and Suchocka cabinets, Warsaw, October 2002.
28. Interview with Wlodzimierz Pankow, Collegium Civitas, Centre for Eastern Europe and Central Asia, Warsaw, October and November 2002.
29. At the time this amendment was adopted, the statutory minimum wage equalled 35% of the national average wage.
30. Interview with Jerzy Hausner, Deputy Prime Minister and Minister of Economy, Labour and Social Policy in the second SLD-led government, Budapest, June 2005.
31. Interview with Wieszlawa Kozek, Institute of Sociology, University of Warsaw, October 2004.
32. People who were below 30 in 1999 were required to join the second pillar, those between 30 and 50 could decide between switching to the multi-pillar system or being covered only by the first pillar; and those over 50 were not to participate in the new system.
33. While unions participated in these debates (for instance, NSZZ Solidarity even made its own proposal for the reform of the pension system), this was mainly through their partisan ties and representatives in parliament rather than through tripartite negotiations.
34. One of the changes concerns the retirement age. The AWS – consisting of NSZZ Solidarity and over 30 small right-wing parties – insisted on differentiating between the retirement age for women and men (60 and 65 respectively), rather than adopting a uniform retirement age (62, as proposed by the previous government).
35. The main aim of the strategy is to reduce unemployment to 10–12% by 2013 by creating 1.5 million jobs.
36. A negative correlation between the degree of corporatism and Okun's misery index was found to be particularly robust before the 1990s. Subsequently, however, the impact of centralization/coordination of wage bargaining on economic performance has been much less clear-cut.
37. Interview with Metka Štoka-Debevec, State Undersecretary, Ministry of Labour, Ljubljana, May 2006 and Pavle Vrhovec, ZSSS.
38. Since 1994, inflation on average has been lower in Slovenia (8.6%) than in Poland (11.5%).
39. Constructed by the OECD, the EPL index indicates the strictness of regulations that constrain the employers' freedom to dismiss workers. The index is a weighted average of 22 indicators comprising different aspects of permanent employment, temporary employment and collective dismissals.
40. Some more recent calculations that follow the OECD methodology estimate that as a consequence of the adoption of the 2003 Labour Code in Slovenia the EPL index for regular employment has decreased from 3.4 to 2.9. At the same time, however, collective dismissals protection has increased from 4.8 to 4.9. Precise calculations on the impact of the new Labour Code on the third part of the cumulative EPL index, i.e., temporary employment protection, are not available.
41. The total number of participants in employment programmes in the period from 1992–2004 was 755,831, out of which 359,464 in education and training programmes for the unemployed. For a detailed overview of the different programmes, see http://www.ess.gov.si/eng/AnnualReport/lp04/Eng/Tables.htm.

42. The unionization rate in Poland has dropped dramatically since the onset of transition and it stands currently around 13%. The mining sector, however, has the highest unionization rates, which in some companies comes close to 90–100%. As evidenced by a comparatively high magnitude of strikes in this sector, miners' unions also display the highest capacity of mobilization.
43. Complete and comparable time series are hard to find, as these countries often used different methods and measurements for assessing the extent of poverty and inequality. At best, such data allow for discerning general trends within countries, and – in cases where the same measures are used – some static comparisons between the countries.
44. The same index stood at 0.8 in the Czech Republic, 3.8 in Poland, 8.6 in Slovakia and 15.4 in Hungary.
45. The same figure for Poland was 16% in 2000 and 17% in 2003.
46. At 24.6% of GDP in 2003, Slovenia's expenditure on social protection is the highest among the eight EU member states from Central and Eastern Europe. Even though significantly higher than the average for CEE-8 (18.3%), this figure is still lower than the average for EU-15 (28.3%) (Eurostat 2005). At 21.6% of GDP, Poland's expenditure on social protection is also above the CEE-8 average.
47. During the 1990s both Slovenia and Poland imposed a comparably heavy tax burden on labour. Their average tax wedge (the sum of personal income taxes and social security contributions as a proportion of total labour costs) was 48%, which is significantly higher than the average in transition economies (37.4%). However, what differentiates Poland both from Slovenia and most OECD countries is the lack of tax progression at the lower end of the income scale. Indeed, Poland's tax progression, within the range from 2/3 to 5/3 of the average wage, is the lowest among all OECD countries. Several analyses point out that reducing the tax burden on those who earn the least could lead to an increased supply and – because of the lower labour costs – demand for labour among the low-productive, the low-skilled and those with little professional experience.
48. Interviews with Nina Globočnik, ZDS; Igor Antauer, ZDODS; and Urška Jereb, ZDODS.
49. Interview with Pavle Vrhovec, ZSSS.
50. Interview with Dušan Rebolj, Pergam.

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3 Tripartism and Economic Reforms in Singapore and the Republic of Korea

Sarosh Kuruvilla and Mingwei Liu

3.1 Introduction

The purpose of this chapter is to examine the impact of peak-level tripartism on economic reforms in Singapore and the Republic of Korea. Specifically, it attempts to answer the question of whether tripartism alters the pace, sequence, mix or content of economic reforms or the environment in which the reforms are implemented. It also seeks to obtain evidence on the impact of tripartism on specific measurable outcomes.

Tripartism is defined as the consultation and negotiation of national policies between representatives of government, labour and employers' associations. Singapore and the Republic of Korea are the only countries in Asia where there has been some significant degree of tripartism. Yet there are important differences in the nature of tripartism in both countries. Tripartism varies not only in terms of its scope – the independence and representativeness of the actors, its degree of institutionalization and its continuity, but also in terms of its effect on various economic and non-economic reforms.

In order to examine the impact of tripartism on economic reforms and outcomes, we proceed as follows. In section 3.1, we present a very brief overview of economic development in both countries. Section 3.2 canvasses the historical development of tripartism in each country and outlines its main features. In section 3.3, we focus on specific cases of the effect of tripartism on reforms and outcomes. Note that these specific cases of the effect of tripartism on reforms or economic strategies are not perfectly comparable, as they occurred at different historical junctures in these nations' development, and reflect particular problems and issues faced by each country. Section 3.4 concludes.

Although the focus of this chapter is on the impact of tripartism on economic reforms in Asia, these two cases of Singapore and the Republic of Korea also permit us to argue that, on a more general level, broadly institutionalized tripartism permits smooth and continuous adaptation. The Singapore case demonstrates the importance of tripartism in shaping the country's ability to continuously adapt to different economic circumstances and shocks with relatively little disruption and relatively little deleterious effect on the well-being of its citizens. In contrast, less institutionalized tripartism, as seen in the Republic of Korea, represents a limited and temporary ability to cope at a critical economic juncture, in this case the Asian financial crisis. In the concluding section we speculate on the initial conditions that gave rise to different degrees of institutionalization of tripartism in the two countries.

This chapter draws from prior research, interviews with key observers and actors, and data from a variety of sources. While actual socio-economic outcomes such as growth, inequality and social protection are mediated by a number of variables – and hence are more difficult to link causally to tripartism – the cases that we examine in section 3.3 provide the basis for the argument that tripartism does significantly affect the content, mix, sequencing and outcomes of economic reforms. The next section examines the economic development history of these two countries.

3.2 Economic development in Singapore and the Republic of Korea

The economic development strategies of Singapore and the Republic of Korea have received considerable attention in prior literature, and it is not our intention to repeat that work here. We briefly review the development of both countries, highlighting major features. Those interested in further details must refer to the large list of published works on both countries' development strategies and policies. In particular, see Rodan (1991) and Huff (1987) for Singapore, and Amsden (1989) and World Bank (1993) for the Republic of Korea.

3.2.1 Singapore

In 1964 the GDP of Singapore was merely US$4.5 billion with an annual growth rate of 0.6% and GDP per capita at US$2453. However, over the past four decades Singapore has fundamentally transformed itself from a developing country into a developed one. By 2004, Singapore's GDP and GDP per capita had increased to US$102.5 billion and US$23,636, respectively. Moreover, the trade deficit of US$651 million in 1964 became a trade surplus of US$31,210 million in 2004 and the gross domestic savings rate increased from –74% to 48% during the same period.

The export-oriented industrialization (EOI) model adopted in the mid-1960s had led to a considerable economic expansion: GDP per capita doubled between 1965 and 1972, reaching US$5432. As the growth from EOI eased unemployment and Singapore became dependent on imported labour to fill shortages, the government began to shift its focus from unskilled, labour-intensive production to a relatively capital-intensive, higher value-added approach. The new strategy was characterized by a series of state interventions to discourage low-skill, labour-intensive production, on the one hand, and encourage capital-intensive, higher value-added investments, on the other. These interventions included significantly raising wage levels, introducing tariff revisions and restrictions on imported labour, providing generous tax and fiscal incentives for appropriate new investments, dramatically expanding and improving social and physical infrastructures and introducing direct government investments to stimulate favoured forms of production. Simultaneously, the state made efforts to produce high-skilled labour by restructuring and expanding educational and vocational institutions and articulating a skills development model that was closely tied to meeting the skilled worker needs of foreign investors.[1]

These policies led to increased productivity and increased foreign direct investment. Between 1973 and 1982, value-added per worker in manufacturing increased from about one-quarter to almost two-fifths, while foreign direct investment rose substantially from US$186 million in 1978 to US$1210 million in 1984. Apart from a consolidation of international capital in the petroleum, electronics and non-electrical machinery industries, investment in chemicals also emerged as significant, while investment in Singapore's comparatively low value-added, labour-intensive industries, notably textile and apparel, shrank substantially.

Since the mid-1980s, Singapore has entered a service-based economic development stage (Kuruvilla 1996) that derives largely from the growth in several service industries, such as transport and communications, banking and financial services, and ship repairs. In particular, the economic development goal was to establish Singapore as a 'financial supermarket', a regional center for sophisticated financial services. By 2004, Singapore had, to a certain extent, successfully realized its ambition as an advanced economy with a leading position in production and services; GDP per capita (PPP adjusted) was US$26,636.

It is important to understand the political context in which this rapid economic development has taken place. Although Singapore is a democracy, the ruling People's Action Party (PAP) has held a tight grip on power, through the legitimacy derived from producing economic gains for the population, and through the design of an electoral system that has effectively prevented the development of a coherent opposition. Furthermore, a highly technocratic government has promoted support for its policies through its effectiveness and through a series of very successful government public education campaigns designed by its psychological defense unit. Singapore's president for much of its development history, Lee Kuan Yew, had a low tolerance for dissent or criticism, although he promoted the consensual form of decision-making that has evolved into the tripartite model today.

3.2.2 The Republic of Korea

After the Korean War (1950–3), the Republic of Korea ranked as one of the poorest countries in the world and was almost entirely dependent on US aid. By 1960, after some of the damage of the war had been repaired, the Republic of Korea's GDP reached US$3.9 billion, while per capita GDP was only US$160. However, by 2004 the Republic of Korea had become a developed country, a member of the OECD, with a per capita GDP of US$14,136 and total GDP of US$679 billion. Also, the trade deficit of US$273 million in 1960 became a trade surplus of US$31,210 million by 2004.

We will briefly describe the Republic of Korea's economic development strategies here.[2] The country's unprecedented economic growth started in the early 1960s when the government shifted its development strategy from import substitution industrialization (ISI) to EOI by pursuing active, comprehensive policies of trade reform and export promotion. The EOI strategy resulted in rapid economic growth and structural changes, as well as increases in employment, income and savings. However, the forced expansion of exports led to a high and rising debt – equity ratio and distortions in firm internal decision making. And from the early days of the country's economic development, a relationship-based system developed among firms, banks and the government, which exists even today (Harvie and Lee 2003).

The 1970s witnessed a focus on higher value-added exports, and import substitution of intermediate inputs and capital goods. Massive investment programs were introduced to promote heavy and chemical industries (HCI). In particular, steel, heavy machinery, automobiles, industrial electronics, shipbuilding, non-ferrous metals and petrochemicals were classified as strategic. These industries received generous government support including tax incentives, subsidized public services, and preferential financing. During this HCI drive period, industrial conglomerates (*chaebol*) also experienced rapid growth and diversification leading to the rapid transformation of the South Korean industrial structure and to market concentration. As Harvie and Lee (2003) note, the share of manufacturing output of the 20 largest groups increased from 7% to 29% in 1972–82, and the ten largest *chaebols* accounted for 48% of GNP by 1980.

In the mid-1980s, the Republic of Korea's economic development focus shifted from HCI promotion to economic stabilization and liberalization. A series of measures were taken to promote trade and financial liberalization, market opening, the development of small and medium-sized enterprises and technological upgrading. The country's economic development during the 1980s and much of the 1990s has been remarkable, and only interrupted by the Asian financial crisis.

The political context in which much of this rapid economic expansion took place was clearly autocratic, with military dictatorships persisting until 1987. Given the lack of opposition, the government combined with selected private companies to provide the average South Korean with rapid increases in his or her standard of living. Democratization in 1987 has fundamentally changed this approach to governance, while the efficiency that marks South Korean governance is still apparent. Democratization has also resulted in the development of a stronger and more militant trade union movement, and the negotiation and enactment of new labour policies, including the establishment of a tripartite forum (the Korea Tripartite Commission) after the 1998 Asian financial crisis.

3.2.3 Summary

Both Singapore and the Republic of Korea have experienced remarkable economic growth, mainly through the employment of an EOI strategy since the 1960s, and have successfully transformed themselves from developing countries into developed ones. There are some commonalities in their paths. Particularly, both countries are good examples of state-led development. The state has played a strong role as facilitator, initiator and employer in the economic development process. In Singapore, the state's control over significant corporations (e.g., Singapore Airlines and Temasek) continues, while the Republic of Korea has embarked on privatization after the financial crisis.

A comparison of state-led development and market-led development is instructive here. Jeanette Park (2004) notes in comparing the Republic of Korea with Chile:

> To illustrate the comparative benefits of the state-led over the market-led approach, South Korea and Chile may be compared as two respectively prototypical countries. In the 1970s, South Korea was beginning the implementation of its state-led development policies, while Chile was pursuing its radical free market agenda under dictator Augusto Pinochet. Comparatively, the two ranked close in terms of economic and political development, with Chile probably slightly better off in terms of economic capacity. In 2002, thirty years later, South Korea's gross domestic product per capita (GDP) was nearly double that of Chile (US$19,400 vs. US$10,000) and Chile had a poverty rate about five times higher than that of South Korea (21 percent vs. 4 percent). More significantly, South Korea's current technological and industrial capacity is many times greater than Chile's, which actually experienced de-industrialization under the free-market-led policies. This dramatic difference between the two countries arose from South Korea's ability to improve its comparative advantage in the world market by building industries in sectors that were not necessarily comparatively advantageous at the time of development.

3.3 Origin and development of tripartism in Singapore and the Republic of Korea

3.3.1 Singapore

As Wong (2004) notes in her paper, tripartism is pretty well institutionalized in Singapore. Apart from the flagship tripartite National Wages Council (NWC), many statutory boards and institutions in Singapore have tripartite governance structures of varying intensity built into them. Tripartism is evidenced in the governance of key institutions such as the Economic Development Board (EDB), the Productivity and Standards Board (PSB), the Central Provident Funds (CPF), the Institute for Technical Education and higher educational institutions. As the General Secretary of the National Trade Union Congress (NTUC) and Minister without Portfolio in the Singapore government observed in a 2001 speech: 'Tripartism is a major competitive strength of Singapore which must be preserved and protected' (Lim Boon Heng 2001). He also noted that 'tripartism involving painstaking consensus building has enabled tough decisions and long-term development strategies to be implemented'.

Tripartism appears firmly ensconced in the national lexicon of Singapore. For example, the Minister of State for Education, Mr. Chan Soo Sen, noted in 2004: 'We have shown a unique spirit of solidarity and resilience through tripartism, with the government, employers and the labour movement working together, consulting each other, working out and implementing measures to restructure and reposition our economy, while aiming for win-win' (Ministry of Education 2004).

What accounts for the rise and continued popularity of tripartism in Singapore? We argue that an understanding of tripartism requires a historical perspective, particularly regarding the development of the relationship between the trade unions (now represented by the NTUC) and the ruling PAP in Singapore.

The political struggle between the communists and the British (Leggett 2005) was converted into a struggle between the leftists and the moderates within the PAP when it came to power in 1959. Wong (2004) notes that over half of the founding members of the PAP in 1955 were trade union members and 90% of the people present at its inaugural meeting were trade union members. The disagreements between moderates and leftists (over the merger with Malaysia) forced a split, with one faction forming a new political party, the Barisan Socialis (BS), headed by Lim Chin Siong. This faction involved about six of the top ten NTUC leaders and 12 out of 40 members of the Singapore assembly. The union leaders took 43 unions out of the NTUC to form a new labour federation, the Singapore Association of Trade Unions (SATU). By 1963, the battle lines were firmly drawn between the two parties (and the union federations). The PAP labelled the BS and SATU as communists.

When the PAP convincingly won the 1963 elections, it attacked these so-called communists, using the internal security ordinance to arrest many of their leaders in an operation famously known as Coldstore. The Registrar of Trade Unions refused to register SATU as a federation and refused to register various SATU unions. This administrative attack was devastating, as trade union membership declined from 189,032 in 1962 to 142,936 in 1963. With the elimination of SATU, the PAP proceeded to create a 'responsible' trade union organization through union restructuring and redefinition (Leggett 2005), sponsoring the NTUC. A former leftist, C. V. Devan Nair, brought many unions under the NTUC and into a coalition with the PAP (Leggett 2005). Ali Raza (1970) provides a more detailed account of these developments.

By 1965, the government, employers and the NTUC had signed the Charter for Industrial Progress (a forerunner of tripartism) that called for a concerted effort to raise productivity in the new export-oriented manufacturing industry. Joint productivity councils were established in every enterprise. The state exhorted the unions to restrict their demands for high wages, and in certain 'pioneer' industries, the government wanted them to sign three-year contracts rather than two-year contracts. Of a total of 130,000 union members in 107 unions, the NTUC accounted for 41 unions, but a majority of the members (100,000). Since the government had given 'moral, political, and financial support' to the NTUC, it expected 'good behavior in return'. This included active support for government efforts to lower costs to allow foreign employers a reasonable return on their capital, lest they should go elsewhere (Ali Raza 1970: 229). Prime Minister Lee Kuan Yew, in his opening speech at the fourth delegate conference of the NTUC in 1967, noted that foreign investment would go to places 'where unions are led by men who understand just how far they can go without crippling or killing the goose whose eggs they want' (Ali Raza 1970: 231).

The efforts to create responsible trade unions were buttressed by legislation that reflected the government's preoccupation with creating stability to attract foreign investment. The Industrial Arbitration Court (IAC) was established, with wide powers to 'cognize' collective bargaining agreements (and to refuse to 'cognize' agreements that were inimical to Singapore's competitive position), apart from having the final word on disputes. The employment act prohibited strikes while a dispute was under consideration by the IAC, and matters concerning transfers, promotions and job assignments were clearly established as management rights issues. The Industrial Relations Amendment Act of 1968 confined terms and conditions of service in a collective bargaining agreement to those prescribed as minima under the Employment Act of 1955. Stability had been achieved; the number of industrial disputes fell sharply, as did trade union membership.

The government, being the largest employer at that time (with 30% of the workforce), also ensured a cap on real wage increases. Meanwhile, it launched what is now known as the 1969 Modernization Seminar, which crafted the deal for labour-management collaboration and a shift away from adversarial industrial relations, and gave the NTUC a broader role in society beyond collective bargaining. Unions were strengthened with the government's agreement to permit 'dues check off' (Wong 2004). In later years, with government assistance, unions developed a major new role for themselves delivering services through the cooperative movement, which provides goods and services at affordable rates for workers – e.g., supermarkets, insurance, holiday homes, childcare, and eldercare.

As is evident from the above discussion, two issues are particularly important. First, the PAP was successful in carefully redefining the scope and purpose of trade unionism in Singapore through its intervention in the NTUC. As Ali Raza (1970) notes, as long as the PAP is in power, the NTUC can depend on the government for money, moral support and, in dire cases, de-registration of its rival unions. Second, there is the close connection between PAP leaders and NTUC leaders. NTUC leaders have consistently talked about the NTUC–PAP symbiosis (Leggett 2005). To what extent this is a 'meeting of minds' of 'equals' through the effect of the Modernization Seminar, or a direct subjugation of the NTUC by the PAP, is an open question. It is true that in later years the PAP has intervened in the NTUC's leadership issues, effectively replacing Lim Chee Onn as General Secretary in the early 1980s with Ong Teng Cheong who was more unitarist (Leggett 2005). A reading of the evidence, that follows in the case studies, shows that over the years the tripartite governance system has, in fact, reflected the interests of all three parties.

By the end of the 1960s and the early 1970s, the export-oriented industrialization program had borne fruit. Foreign investment was booming, and GDP had almost doubled from S$3970 million in 1968 to S$6279 million in 1971,[3] while unemployment declined from 7.3% to 4.8% (Chew and Chew 1998). With the economy almost at full employment, labour shortages arose in both skilled and unskilled arenas, although the government tried to ease the situation through the importation of foreign workers as well as encouraging people to work longer hours. The government was quite concerned that rising wages and labour shortages would check industrial growth. When these temporary measures did not work, and the tightness in the labour market made voluntary wage restraint on the part of the unions impossible, the government announced the formation of a tripartite wage forum to establish a national wage policy for the economy.

The National Wages Council (NWC) was established as an advisory body to the government and an income policy was formally introduced in February 1972. The general terms of reference of the NWC were (a) to assist in the formulation of general wage policy; (b) to recommend necessary adjustments in wage structure, with a view to developing a coherent wage system with long-term economic and social development; and (c) to advise on desirable incentive systems for the promotion of operational efficiency and productivity in various enterprises (Liang 1998).

The NWC is composed of five representatives of employers, five representatives of unions and four representatives of government. The government representatives include the permanent secretaries of the Ministries of Finance, Trade and Industry and Manpower; and the Chairman of the EDB. The Chairman of the NWC is a university professor (the first Chairman was Professor Lim Chong Yah, the current is Professor Lim Pin). Chew and Chew (1998) suggest that the NWC has nurtured the ideology of accommodation and cooperation in Singapore generally, and has helped promote the setting up of other tripartite institutions. More importantly, they claim that the NWC has promoted stable industrial relations. We will examine the NWC as one of the cases of tripartism in action in greater detail in the next section.

3.3.1.1 Characterizing tripartism in Singapore

Changing Scope: Tripartism in Singapore was limited in scope at first: 'The objective is to have an orderly annual wage adjustment, which takes the form of a real wage increase' (Yah 1998: 28). Over time, the objectives of the NWC have changed radically to reflect a broader view of its mandate (e.g., a focus on productivity and flexibility in the 1980s) and, in practice, the NWC has been used for various restructuring goals of the Singapore government (these are discussed in greater detail in section 3.3). Besides, tripartism has grown beyond the NWC to other institutions and currently its overall scope is wide, concerning all matters of economic and social development, and it has crept into common parlance on a day-to-day basis. As Wong (2004) notes, tripartism has permitted trade union participation in a number of other economic and industrial institutions. Notably, these are most of the important institutions governing economic and social development in Singapore. In addition, tripartism, and labour participation in *national* economic decisions, is legitimated by the appointment of the General Secretary of the NTUC as a minister without portfolio in the cabinet.

Clearly, Singaporeans see tripartism as having a broad scope. In an interview in 2001, Lim Boon Heng, former head of the NTUC and also a minister in the Singapore Cabinet, and a strong supporter of tripartism stated:

> Tripartite representation is the norm, as exemplified by key bodies such as the National Productivity and Quality Council and the National Wages Council, and in the composition of the Boards of Directors managing key economic agencies such as the EDB, JTC, the Productivity and Standards Board and its advisory committees. Through such participation and deliberations, we have introduced several new initiatives under the Productivity Movement. These included schemes to encourage better company welfare such as the Company Welfarism through Employers' CPF Contributions

> or COWEC Scheme; the institution of joint labour-management consultation committees; and encouraging company stock option schemes. At the workforce level, the labour movement has been in the forefront to encourage workers to train for employability and to work with management to focus on achieving business excellence through the Integrated Management of Productivity Activities Programme or IMPACT. The National Trades Union Congress (NTUC) even has a Productivity Department, actively promoting productivity. Three of my union colleagues serve on the PSB Board

It is clear that tripartism is alive and vibrant even today. In 1998, for example, the new Manpower Policy was developed on a tripartite basis. This policy involves integrated planning, lifelong learning and employability, national skills recognition systems, recruiting foreign talent, redefining partnerships, improved work environments and improved labour market information. Another example is the tripartite Job Recreation Program, announced by government in March 2005.

Encompassingness and Representativeness: The NTUC is the only labour federation in Singapore. It currently represents 63 unions (out of the 66 registered unions) consisting of 470,000 members and accounting for 97% of the labour movement. In that sense, it is broadly representative of the trade unions in Singapore. Whether it is broadly representative of labour and employees in Singapore is an open question, as Singapore's union density figures are quite low (less than 16%), with collective bargaining coverage figures hovering around 18% in 1995. The Singapore National Employers' Federation (SNEF) is the only employers' federation in Singapore that exists for the purpose of tripartite collaboration and representation on industrial relations issues, broadly defined. The current SNEF is the result of a 1980s merger between the National Employers Council and the Singapore Employers Federation. SNEF has about 1847 members, who employ over 450,000 people.

Continuity and Institutionalization: Tripartism has been in existence since 1972 in the form of the NWC and has only grown in prominence, as noted above. The number of institutions that are governed in some tripartite manner has also increased over time. Officials publicly (and continually) laud the advantages of tripartism, while important leaders speak about tripartism and the dividends that it has brought. It is a key concept discussed on almost every Singaporean institution website (labour, management and government). For example, on the website of the Singapore Manual and Mercantile Workers Union, one of the larger unions in Singapore, its secretary general, John De Payva writes: 'As

SMMWU, we actively promote tripartism to ensure a better standard of living for our workers' (www.smmwu.org.sg). And the website of the employers' SNEF states 'our key objective is to strengthen tripartism' (www.snef.org.sg). There is interaction between the tripartite actors on a regular basis in the various tripartite institutions and, as the evidence on the cases below suggests, tripartism has had an impact on national economic decisions. It is also clear that the government values it highly. During the dispute between Singapore airlines and their pilots in 2003, Acting Minister for Manpower Ng Eng Hen warned that the government had to protect the culture of tripartism (Asian *Labour* News 2003).

There are also a number of high-level tripartite 'task forces' to resolve current problems. For example, a tripartite committee has been studying ways to keep older Singaporeans in the workforce, as noted by Halima Yacob, a former Director of the Singapore Institute of Labour Studies and a senior member of NTUC. The positions of unions and employers were quite different on this issue. The unions argued that employers needed to change their attitudes towards the employment of older workers while employers countered that older workers needed to be more adaptable. Government chipped in S$30 million to provide incentives for employers to retrain older workers. The unions also argued that the retirement age should be increased from 62 to 64, which would give workers more time to contribute to their CPF pension savings. Although the employers were reluctant (they wanted to reduce wage costs), a compromise was reached: those workers over 62 who wanted to work until 64 were given the option to do so, and their case would be negotiated at the plant level. Most importantly, the employers agreed to the unions' demand for training of older workers. Another example is the tripartite committee on low-income workers. Tripartite solutions reached include a housing grant for first-time buyers, increased subsidies for childcare, and a special cash payment to low-income families (Halimah Yacob 2006).

In summary, tripartism is quite deeply institutionalized as a governance mechanism in a variety of national economic institutions.

3.3.2 The Republic of Korea

Although South Korean tripartism is very closely associated with the 1997–8 Asian financial crisis (this link is shown by the social pact of 1998), there has been a history of failed efforts to create tripartite dialogue in the Republic of Korea. The Economic Planning Board proposed a national wage council after the high wage increases of the post-democratization years, but this was not supported. Later, the Korean Trade Union Congress (KTUC), a precursor to the current Korean Confederation of Trade Unions

(KCTU), which was illegal at that time, proposed the formation of a National Economic and Social Council, which was formed and had a limited role, but did not address issues of wages. The presidential commission on industrial relations reform, established in 1996, invited the then illegal KCTU to join a tripartite process to discuss the future of labour law. This commission discussed various issues regarding labour law reform, but its recommendations were ignored by the government, which went on to craft its own legislation. The government's new labour law legalized multiple unions (although introduction of this reform was suspended for three years), allowed political activity by unions, removed the prohibition of third party involvement in industrial relations and legalized the KCTU as a union federation (with effect from 1999). However, the revised labour law did not please employers and unions. From the employer's perspective, it did not provide sufficient flexibility (particularly the right to retrench workers). For unions, the law did not go far enough in extending the right to freedom of association to groups such as teachers and government employees. This bypassing of the commission met with strikes and protests by labour leaders, leading to the decline of what was the first effort at tripartism in the Republic of Korea.

As is well known, the Asian financial crisis sparked a more serious effort to create a tripartite arrangement in the Republic of Korea. What started out as an exchange rate crisis mushroomed into a full blown macro-economic crisis, bringing to light a number of structural weaknesses in the South Korean economy, notably in terms of financial transparency, corporate governance and the need for labour market flexibility (Harriss 2002). When the Republic of Korea approached the IMF for relief, the IMF's structural adjustment plan involved the enactment of tight monetary-fiscal policies, reform of corporate governance and labour market flexibilization, among other things. Harriss (2002) suggests that 'President Kim Dae-Jung, in order to allow the rapid change in expectations of the role of the state in economic crisis to come from a social consensus, created the European style tripartite consensus'. It is fair to note that there are multiple views about the genesis of the social pact. Some observers suggest that it was largely the brainchild of President Kim Dae-Jung, while others suggest that it was mooted by the Korea Labour Institute and still others point out that the idea was also mentioned by leaders of the KCTU sometime earlier.

It is also important to understand the sequence of events and the different and changing motivations of the parties to support the social pact. When the idea was first discussed in January 1998, both KCTU and the Federation of Korean Trade Unions (FKTU) were broadly supportive of the idea of policy consultation to deal with the crisis. During the 25 days of discussion in January it gradually dawned on some KCTU leaders that an agreement that legitimized lay-offs would be difficult to implement, but they still agreed to the social pact. At the KCTU delegates meeting on February 6th, the delegates disagreed with the leaders and voted them out. The new leaders then led a wave of strikes to protest against the social pact.

Thus, the idea of a social pact, which was supported in general by the leaders of all the groups, was actually terrain that was highly contested within groups. During the period from February to August 1998, much intra-organizational conflict and debate ensued within employer and union federations. As Baccaro and Lim (2006) note regarding the KCTU, white-collar unions wanted to participate in the Tripartite Commission because they wanted a seat at the table regarding issues relevant to them, i.e., banking and public sector restructuring. Large-company unions from both FKTU and KCTU grew increasingly opposed given that labour market flexibility (and the ability to lay off) was already agreed upon. South Korean employers had no option but to join the tripartite agreement as they had no political support and were seen by many as one of the primary causes of the crisis (Harriss 2002). However, Lee (2006), a member of the Tripartite Commission, notes that the initial differential interests within the labour movement only lasted for some time.

3.3.2.1 Characterizing South Korean tripartism

Scope: The first tripartite agreement entered into during February 1998 was a social pact of far-reaching proportions. Harriss (2002) suggests that when the government of President Kim Dae-Jung established the Tripartite Commission it was initially conceived of as a forum for the exchange of views regarding how to move forward out of the crisis. In the words of a recent chairman, Dr Hong Shin, the commission was 'a social consensus-building institution grounded upon President Kim Dae-Jungs's national policies of the parallel development of democracy and market economy' (Harriss 2002).

However, in real terms, the social pact arrived at through this commission was extremely wide in scope. Although its focus was on five issues (preparation of a new framework for labour-management relations, an agreement on welfare, growth and employment, wage payments for full-time union officials, reducing working hours per week to 40, and eliminating unfair labour practices), the final agreement reached on February 1998 was far in excess of these narrow topics. The scope of the social pact covered all aspects of the economy. Table 3.1 provides a list

Table 3.1 Ten major agenda items in tripartite agreement

1.	Management transparency, corporate financial structure and business restructuring (corporate accounting, credit management systems, banking reform, restructuring of *chaebol*)
2.	Stabilization of prices (price controls of all kinds)
3.	Employment stabilization (employment insurance expansion, benefits, support for unemployed workers, job placement services, expansion of vocational training, job creation, redundancy)
4.	Extension and consolidation of social security
5.	Wage stabilization and enhancement of labour-management collaboration
6.	Protection of basic labour rights (works councils, teachers unions, political activities of trade unions, union structure, etc.)
7.	Enhancement of labour market flexibility (employment adjustment, lay-offs, retrenchments, contract workers, advance notification)
8.	Exports and international balance of payments improvement
9.	Other issues
10.	Agenda for social cohesion (corruption, money laundering, pardon for arrested labour leaders)

of the major topics, but it is important to note that each of these items had a long list of subtopics, over 90 in all.[4]

Continuity and Institutionalization: Despite the wide scope, South Korean tripartism does not appear stable or long lasting. Almost immediately after the agreement, the KCTU was unable to sell the pact to its delegates who voted against it by a huge margin of 184–8. The KCTU's top leadership was thus forced to resign from their leadership positions, and the federation commenced a wave of strikes in opposition to some of the pact's articles. The government reached an agreement with KCTU to restart tripartism in June 1998 (called the second Tripartite Commission), where the objective was to formulate detailed action plans on the various items in the social pact of February 1998. During this period, however, there was a steady increase in unemployment, from 2.5% before the crisis to 9% by the end of 1998 and early 1999.[5] In the 12 months preceding early 1999 the ranks of registered unemployed rose by 1.3 million (Lee and Lee 2002). In 1998 alone, the manufacturing sector shed almost 600,000 jobs (Lee and Lee 2002). Actual employment dropped by 2 million since the beginning of the crisis. As the crisis wore on, it became apparent to workers that labour was going to bear much of the adjustment costs, particularly as banks and some large firms restructured their businesses. The banking sector reduced their workforce by as much as 32%. Faced with the assault on jobs, the KCTU continued its wave of strikes and by early 1999 formally withdrew from the Tripartite Commission.

Meanwhile, the government had 'institutionalized' the South Korean Tripartite Commission through legislation. This form of institutionalization did not provide the commission with any greater legitimacy, however. The KCTU was still formally out of the Tripartite Commission and it was clear that the Korea Employers' Federation (KEF) was increasingly showing signs of wanting to sabotage the agreements. Harriss (2002) in his interviews with various members of the Tripartite Commission notes further that 'discussions within the tripartite commission apparatus indicated that the government's representatives had little respect for organized labour as an institution and even less tolerance for its representatives on the Tripartite Commission'. Thus, although the commission continued its work (with the KCTU absent) and reached several agreements, especially the Social Pact for Job Creation adopted in December 2003 (with detailed agreements on 55 different items), there was a sense that much of this was orchestrated by government with relatively little input from labour. The FKTU was involved, and its voice heard, but it played a relatively passive role.

Encompassingness and Representativeness: It is hard to call the Republic of Korea's Tripartite Commission representative. South Korean union density in 1997 was only 11.7%, while collective bargaining coverage was about 17%. However, this low level of union density masks some differences. Union density in firms employing less than 100 employees was only 1.1% in 2000, while union density at firms employing more than 300 workers was 70.9% (Lee and Lee 2002). Note that Baccaro and Lim (2006) report slightly different figures for union membership by size of establishment. But the general conclusion that South Korean unionism is a large-firm phenomenon is inescapable (Kuruvilla 2006).

Besides, since the KCTU was effectively out of the Tripartite Commission, a significant number of trade union members were not represented. Lee and Lee (2002) suggest that FKTU has 4501 unions representing 888,000 members approximately. The KCTU has fewer unions (1341) but they represent about 570,000 members. Thus, 40% of labour union members do not have their voices heard in the Tripartite Commission. The FKTU also opted out of the Tripartite Commission in 2005, effectively bringing its short life to an end. The September 5th meeting of the Tripartite Commission (its 37th meeting) was attended by no union representatives.

However, the saga is not over yet. Tripartism was revived, yet again, in April 2006. The Chairman of the Tripartite Commission opened a plenary session that was attended by the KEF, the FKTU and representatives of government (but not the KCTU), with an impressive agenda for the year. The commission's name was then changed to the Economic and Social Development Commission, which had its first plenary session in May 2007 (again, without the KCTU). The commission has produced in recent years a number of agreements on issues such as childcare for low-income workers, employment of older workers, employment insurance, industrial relations, collective bargaining and wage systems, health and safety, human resources development, competitiveness in manufacturing and management rationalization for public institutions.

From the perspective of representativeness, continuity and institutionalization, South Korean tripartism is considered by many to be a failed experiment. Harriss (2002) notes that at its inception, the Tripartite Commission worked well, since the country was in crisis, and the urgency for cooperative action was clear. However, as the crisis wore on, it became increasingly evident to organized labour that it was burdened with a large share of the adjustment. Others have argued that labour had relatively little voice in the evolution of labour policy, especially labour market flexibility since it was part of IMF conditionality. Joohee Lee (2004) argues that the prospects for the Tripartite Commission are not very bright, because it does not have an institutional and bargaining structure to support it. She argues that the success of the social pact will depend heavily on whether large-enterprise unions will comply with the promises made at the national level. However, she also notes that national and industry federations (such as the FKTU or KCTU) have always lacked authority over their member unions, especially in bargaining. Therefore, in her view, an essential building block of tripartism – an appropriate union and bargaining structure – is absent. B. H. Lee (2006) argues that weak union leadership, changing internal union politics and the lack of an appropriate structure is a key problem.

A key question that is raised by these developments is how we evaluate the Tripartite Commission's work and effectiveness. On the one hand, the KCTU is still out of the commission. On the other hand, the commission has completed several agreements that could be seen as beneficial for the long-term development and restructuring of the South Korean economy after the financial crisis. Thus, although tripartism is a failure when viewed from the perspective of representativeness, it is also important to examine the impacts of the Tripartite Commission – or rather, its effectiveness – in the context of the economic crisis, and the ability of the commission to generate policies that are beneficial to South Korean society (even if one union representing a significant minority of South Korean workers is absent). We turn to the issue of examining the connection between tripartism and economic restructuring in the next section.

3.4 The effect of tripartism on economic restructuring: Cases in Singapore and the Republic of Korea

3.4.1 Singapore: Cases of tripartism and economic restructuring

3.4.1.1 Singapore case 1: The 1972 oil crisis

Table 3.2 presents the basic macroeconomic picture before and after the oil crisis.

As Table 3.2 suggests, Singapore experienced the fate of all oil importers in the 1970s. The oil crisis impacted western economies in two ways (Euronavigator 2005): it severely exacerbated inflationary trends (the annual inflation rate in the UK soared to 20%) and it siphoned off part of the wealth of all oil-importing countries, causing enormous budget deficits. In western Europe, industrial production declined, impacting on traditional sectors such as textiles, shipbuilding and steel, and unemployment rose, although some countries managed better than others. Singapore was also hit by the crisis, with rising prices, especially of food, all of which was imported. In response, the NWC first shortened the collective bargaining agreements from the fixed 3–5 year span to 2–3 years, allowing some movement in wages. Further, the NWC recommended wage increases over and above what was agreed upon in the existing collective bargaining agreements. Both these actions allowed the injection of greater flexibility in the system, while compensating

Table 3.2 Macroeconomic conditions before and after the oil crisis

Year	Real GDP growth rate (%)	Unemployment rate (%)	Inflation rate (%)	Oil prices (US$ per barrel)
1972	13.3	4.7	1.9	1.9
1973	11.3	4.4	19.9	2.8
1974	6.8	3.9	22.2	10.4
1975	4.0	4.5	2.6	10.7
1976	7.2	4.4	–1.8	11.6

Source: Yah (1998)[6]

employees for the rises in prices. In addition, the NWC, as an emergency response, recommended a S$25 per month increase for every employee. Since the average wage in Singapore was approximately S$360 per month, this represented a 6% increase. Finally, in 1974, the NWC recommended a second extra increase using a S$40 + 6% formula, in effect an increase of 17%. Table 3.3 shows the impact of these effects. Although there were real wage declines in 1973 and 1974, they were not by much, and by 1975 there were increases in the real wage. Thus, workers' standards of living did decline in the aftermath of the oil crisis, but not by much, compared to the rest of the world, and real wages revived much faster as well.

3.4.1.2 Singapore case 2: Tripartism and economic restructuring

By 1978, the government's economic development policies had resulted in considerable economic growth. Unemployment had fallen from a high of 4.7% to 3.6%. Labour productivity was high, as was the balance of payments situation, with foreign reserves growing at 27% over the previous year. Foreign direct investment into Singapore continued to be high. The industrialization program was still labour intensive, however, and labour shortages were becoming apparent (Tan 1997). At the same time, Malaysia was becoming a preferred destination for low-cost electronics manufacture and China began opening up its southern coast to foreign investment in 1978. Furthermore, Taiwan and the Republic of Korea were also more competitive than Singapore in light industrial manufactures.

Under the circumstances, there was some degree of consensus among policy makers that economic restructuring towards higher value-added

Table 3.3 Wages during the oil crisis

Year	**Gross wage (S$)**	**Gross wage growth (%)**	**Net wage (S$)**	**Net wage growth (%)**	**Real gross wage (S$)**	**Real gross wage growth (%)**	**Real net wage (S$)**	**Real net wage growth (%)**
1972	368	—	328	—	828	—	694	—
1973	412	12.1	360	9.7	775	–6.5	635	–8.5
1974	488	18.2	424	17.7	749	–3.3	612	–3.7
1975	555	13.8	483	13.8	832	11	679	11
1976	581	4.7	505	4.7	887	6.6	724	6.6

Source: Yah (1998).

manufacturing was necessary (Yah 1998), since that was the only way to differentiate Singapore's competitive advantage from those of other South and East Asian nations. And this had to be done in ways that did not suddenly catapult Singapore into being a high labour cost nation either. There had been much discussion regarding the use of the tripartite NWC in economic restructuring, especially between the NWC's Chairman, Lim Chong-Yah, Albert Winsemis (Economic Advisor to the government), and the Chairman of the EDB, Mr Ngiam Tong Dow. It was only after 1976 that the NWC was able to direct its focus to economic restructuring (Yah 1998). This tripartite mechanism was employed to move the economy up to higher value-added production and investment.

In order to drive out low-cost investors and producers, the NWC recommended double-digit wage increases for 1979–81. Nyaw and Chan (1982: 461) describe this as follows: 'The NWC recommended wage increases of 20% and 19% in 1979 and 1980 respectively, apart from recommending additional productivity linked bonuses of 3% for good performers'. These high wage increases helped drive out low-cost producers (Rodan 1991: 145; Kuruvilla 1996). Simultaneously, the EDB granted generous fiscal and financial incentives to induce manufacturers to automate and engage in more capital-intensive investment. The government also increased the incentives for training, by establishing a skills development fund that required firms to contribute 4% of their wage bill, which could be recouped if they engaged in training. A key focus of the skills development fund was to encourage automation, mechanization and robotization, with the long-term objective of increased capital intensity. As Chew and Chew (1995) suggest, several policy changes were introduced to meet the needs of higher technology and capital-intensive investors. The education system was restructured in 1981. The new curricula emphasized secondary education, several vocational training institutes and polytechnics were opened and a new university (the Nanyang Technical University) was established to provide foreign investors with skilled labour (Begin 1995).

These high nominal wage increases did not translate into high real wage increases, since workers' take-home pay was only increased by 3–4% during the period of 1979 to 1981 (Yah 1998). Rather, the significant portion of the wage increases was siphoned into the Central Provident Fund (CPF). The employees' CPF contribution rate was increased from 16.5% to 18%, and then to 22% in 1981. The employers' contribution was also raised from 16.5% in 1978 to 20.5% in 1979.

The results of this movement into higher value-added industrialization, which began in 1980, are quite compelling. First, as Yong (1998) notes, capital input into the manufacturing sector grew at a phenomenal rate of 8.9% in 1980–5. Second, unit labour costs also grew steadily; real unit labour costs increased by 13.9% in 1980–5 (Yong 1998), forcing employers to increasingly substitute capital for labour. Third, labour productivity growth rates improved steadily during the 1980s, with an average growth rate of 5% during that decade (Tan 1997). And the growth in productivity accounted for 55% of economic growth rates, compared to 45% over the course of the 1970s. Fourth, the sources of new employment in the 1980s were very different from those of the 1970s. Professional, technical and managerial workers formed a larger percentage of the workforce in the 1980s, while blue-collar workers declined from 40.4% of the workforce in 1980 to 35.3% in 1988 (even if the percentage contribution of industry to GDP remained fairly constant during the same period). Finally, the available information on foreign investment suggests that higher-quality Japanese investments appeared, expanding the manufacturing of semiconductors, disk drives and computer assembly. The technological depth of foreign investments increased steadily, with many firms (e.g., Motorola) locating higher-end processes and research and development services in Singapore (Salih, Young, and Rajah 1988). For more detail on the human resources aspects of this transformation, please see Tan (1997) and Kuruvilla et al. (2002).

Economic restructuring of the type noted above is an imperative for every economy in Asia, since there is a limit to just how much they can compete with the newest low-cost arrival, China. And every country has struggled with this process of industrial upgrading. In the South Korean case, these struggles took place after democratization in 1987. The opening up of China led to the urgent need for industrial upgrading in Taiwan. Malaysia has been successful in upgrading its electronics industry, helped by a tight labour market and rapidly rising wage costs. All of these countries did make the transition to higher valued-added manufacturing, over a period of time. Yet none of these countries exhibited the relatively smooth transition made by Singapore, which was facilitated by tripartism. The starkest contrast is provided by the Philippines, where the absence of effective tripartite mechanisms (where unions have a significant voice) may have been the reason that the Philippines continues to be stuck in a low-cost competitive strategy. As Erickson, Kuruvilla, Ofreneo, Amante and Ortiz (2003) note:

> The adoption of an export-oriented industrialization strategy in the 1970s was also accompanied by several repressive policies in the

> industrial relations domain under the Martial Law period of President Marcos. Thus, globalization was associated with a decline in labor power and voice, and an increase in employer power with a focus on enhancing workplace flexibility in an era where the Philippines' competitive advantage was lower labor costs and an English-speaking workforce. The dual focus on export orientation and low labor costs forced an industrial relations regime that focused on the pursuance of lower costs and workplace flexibility. In the Philippine context, this invariably translated into efforts at increasing subcontracting, outsourcing, and union avoidance policies under an authoritarian regime. Although the more restrictive aspects of the martial law regime were lifted with the return to fully-functioning democracy after 1986, Philippine industrial relations policy has maintained a low-cost focus. While there have been changes in labor legislation and labor rights, the fundamental character of both competitiveness as well as labor relations has remained unchanged, and in fact, has tended towards the direction of further increases in employer efforts to generate more flexible practices.

Thus, the Philippines is a country that did not have a *mechanism* to move into higher value-added economic development strategy, which the tripartite institutions afforded Singapore, permitting a very smooth adjustment to second stage EOI.

3.4.1.3 Singapore case 3: Tripartism and the 1985–6 recession years

The 1985–6 period was a time of recession in much of Asia. In 1984, the economic growth rate was 8.3%, but this fell sharply to –1.4% in 1985. A number of factors were responsible for the recession. There was a regional recession, caused by declines in oil prices and the slowdown in international demand, leading to falling prices for primary products such as tin, rubber and palm oil. The decline in demand for semiconductors pushed Malaysia into a recession as well, and both the Republic of Korea and Taiwan were similarly hit. Finally, there was a slump in property prices in Singapore. At the same time, prior actions of the NWC such as the skills development fund levy (4% of the wage bill) and the high employer contribution to the CPF (25% in 1984) raised the costs of doing business for employers.

The government was faced with two options. On the one hand, the country could live with a budget deficit and lower interest rates in order to raise domestic demand, an option that was not very viable given the small size of the domestic economy (Yah 1998). The other option was to reduce costs based on the argument that reducing costs would increase international demand, but also perhaps raise domestic investment. The tripartite solution reached through the NWC was as follows. First, corporate income taxes were cut from 40% to 33%. Second, the employers' contribution to the CPF was cut from 25% to 10%. Third, the levy for the skills development fund was cut from 4% of the wage bill to 1% of the wage bill and an old payroll tax of 2% was removed. And finally, the NWC joined with the government to call for wage restraint. In 1986 and 1987, real gross wages declined by 3.9% per year. By 1987, real GDP growth had recovered to more 'usual' figures, i.e., 9.7%. In return for these reductions in 'costs', the parties agreed to wage restraint for the next 2–3 years.

Most Asian countries faced a similar recession in 1985–6. In Malaysia, nominal GNP fell by 12% in both years. Per capita GNP fell from US$2000 in 1984 to US$1600 in 1986. However, Malaysia's recovery from its recession began in late 1986, and improved commodity prices and strong growth in exports of manufactured goods led the recovery. The Malaysian government used the 1986–7 recession as a basis for economic restructuring towards higher value-added investment. The new investment regime significantly encouraged higher value-added export-oriented industries, skill development and technology upgrading. In the Republic of Korea, too, the 1985–6 recession only caused a decline in real wages for one year. Thus, the recovery process in much of Asia was swift and it is hard to argue that the tripartite actions during this recession in Singapore facilitated the recovery process substantially, although it is to be noted that Malaysia and the Republic of Korea did not have the same tools at their disposal. But recovery was led by a rebounding market for semiconductors. Hence, more research is necessary to tease out the independent effect of tripartism in Singapore during this adjustment period, given the absence of similar actions in both Malaysia and the Republic of Korea.

Yet, on the other hand, these changes served as a model for the creation of a longer-range flexible wage system that has enabled Singapore to react swiftly to crises. Although Singapore's economy was well on the road to recovery by mid-1987, the NWC continued to advocate wage restraint, and simultaneously continued to urge firms to accept the flexible wages policy. Essentially, the NWC was advocating a basic wage structure that provided for increases of up to 2 percent per year of service, an annual bonus of one month's pay and a variable bonus based on productivity. The key here was that wages should not increase faster than productivity growth, since this was essential for Singapore's competitiveness (Anantaraman 1991: 180–1). As will be apparent, the tripartite adjustment process during this crisis enabled the economy to react much better during the 1997 financial crisis, given the creation of a flexible wage system.

3.4.1.4 Singapore case 4: Tripartism and the Asian financial crisis

The impact of the Asian financial crisis is well documented.[7] In Singapore, the GDP growth rate plummeted from 8.5% in 1997 to –0.9% in 1998. Domestic consumption demand also weakened with plunging stock and property prices, falling incomes and job retrenchments; while domestic investment demand was affected by excess capacity, economic uncertainties and tight liquidity. Although Singapore had been at full employment since the 1985–6 recession and was experiencing a labour shortage, the unemployment rate rose to 4.4% by December 1998. Retrenchments and job losses were concentrated in manufacturing, commerce, and construction. The Singapore dollar depreciated against the US dollar by about 15%. However, the established tripartite arrangements also permitted a rapid response to the crisis.

First, in 1998, the NWC recommended wage cuts of 5–8% in the total wage for 1998, as compared with 1997. The guidelines recommended that the cuts should be achieved through the variable wage component. This was in addition to cuts in employers' CPF contributions from 20% to 10% (Singapore Yearbook of Manpower Statistics 1998:19). Thus, employers were essentially provided with a saving of about 15–18% on wage costs, which allowed them to maintain competitiveness without laying off too many workers. And, as several people argue, providing the employers with this 'cushion' helped them ride out the crisis and helped the economy recover quickly. Further, the NWC recommended that companies performing very well or very poorly could deviate from this guideline. Since most companies had completed their negotiations and granted wage increases in the earlier part of the year, the NWC recommended that employers make larger cuts in the variable component of wages (including annual bonus) to offset the higher increases granted earlier. Thus, most of the adjustment should be in the variable component of wages (not the basic wage and annual increment). Finally, the NWC held that employers should discuss with unions the quantum of the cut and how best to introduce it.

Interestingly, past tripartite decisions to flexibilize wages, with the goal of roughly 20–30% of wages being variable, helped in the implementation of the current decision – an important feature when evaluating the effects of tripartism. However, the 'uptake' on the flexible wages idea in Singapore had been relatively slow with only 47% of firms having adopted it prior to the crisis. And by 2000, the flexible component of wages had only reached 15–16%, up from 11% in 1997 (Channel News Asia 2004). The NWC had divided the variable portion into the annual variable component (normally the bonus paid at the end of the year) and monthly variable component (MVC) that was tied to productivity and profitability. This MVC was meant to give employers more flexibility and to save jobs in a downturn on a monthly basis, thus providing considerable relief to those companies that had adopted it.

Second, a tripartite panel, consisting of the three actors as well as the Economic Development Board and the Productivity and Standards Board, was created to examine the retrenchment issue (by the first quarter of 1998, 16,000 workers had been retrenched). The panel recommended the implementation of two programs: the Retrenchment Advisory program to advise employers on alternatives to retrenchment and the Employment Assistance program to assist retrenched workers in finding jobs quickly.

The Retrenchment Advisory program offered employers several options to avoid retrenchments, such as sending the workers for skills training and upgrading under the Skills Redevelopment Programme (SRP); redeploying the surplus workers to other work areas within the company; implementing a shorter workweek or temporary lay-off; and implementing the flexible wage system recommended by the NWC. In particular, the SRP was a win-win and a union initiative (Halimah Yacob 2006). To defray the costs of retraining workers, companies would be given training grants of up to 80% of their course fees, subject to a maximum of S$8.00 per trainee hour and a subsidy of absentee payroll up to 70% of the employees' salary, subject to a maximum of S$4.20 per hour. Thus, there was a clear incentive to send workers for training, assuring the company of a better-trained and more efficient workforce in the longer term. The government allocated a sum of S$50 million to the SRP fund to ensure that more people could be trained under the program.

The tripartite recommendation for a shorter workweek as an adjustment mechanism was also limited to a two-month period, and had a cap on the amount of wages that companies might pay during this period. Finally, the tripartite panel recommended that those companies using the temporary lay-off as a method of adjustment should not exceed one month, with the union to be consulted if it exceeded this duration (while the workers would be paid half their wages during the temporary lay-off).

The Employment Assistance program, on the other hand, took a number of different steps. First, the various agencies and companies agreed to pool their job vacancies to enable the Ministry of Manpower to provide a more effective job placement service to the retrenched workers. Note that the SRP program referred to above also played a key role in the matching of skills with requirements. Thus, a low-skilled retrenched worker would be referred to an employer with vacancies in higher-skilled jobs. If the employer found the worker suitable, the company would follow up with the NTUC's Skills Development Department to place the worker on SRP. The employer would qualify for the training grants and subsidy for absentee payroll provided under the SRP. The tripartite panel also recommended a broadcasting mechanism to facilitate the reemployment of a large group of workers affected by retrenchment: broadcasting the profile of the retrenched workers to a pool of potential employers. Thus, the two programs complemented each other effectively. The key result of these measures was that unemployment, which had reached 4.4% at the height of the crisis, was reduced back to 2.9% by December 1999.

Singapore's response was much more comprehensive than that of other countries. In the Malaysian case a new institution, called the National Economic Action Council, chaired by the Prime Minister, was created. It was a multipartite institution, with labour, via the two major labour federations involved, CUEPACS and MTUC. And it was clear that the MTUC's voice was heard; when the council announced a wage freeze and suspended collective bargaining over wages, the MTUC was able to convince the council to desist from this policy. The National Labour Advisory Council, a tripartite consultative body, drew up guidelines for retrenchment with a view to ensuring that the procedures were equitable, while highlighting alternatives to retrenchments (Campbell 2001). However, tripartism did not continue after the crisis. Tripartism was evident in Thailand during the crisis, in the National Wage Committee (which sets the minimum wage) and the National Labour Development Advisory Council. However, Campbell (2001) notes that tripartism in Thailand is only 'as strong as its constituent parts', and with a fragmented labour movement, and union density of about 2%, tripartism is not that effective. The crisis also briefly revitalized tripartism in the Philippines, a country with a highly fragmented labour movement. A national social accord was produced, but as Erickson et al. (2003) suggest, it was not very effective in keeping retrenchments low.

3.4.2 Summary

In summary, tripartism has had notable effects on the adjustment processes following economic downturns in Singapore. In addition, it has solved other specific problems. For example, when turnover due to labour shortages was very high, the NWC recommended not paying the year-end bonus (a legal requirement) to employees who resigned during the course of the year, which brought down the rate of job-hopping. The NWC has also been instrumental in raising the retirement age in Singapore. Perhaps the biggest contribution of the NWC is in the central reason for its formation: over the years it has created a much more flexible wage regime in Singapore.[8] Apart from these practical outcomes, it is also important to evaluate tripartism from the perspective of the overall flexibility and 'responsiveness' it provides the Singapore economy. Tripartism is one more lever that the government has to allow Singapore to adapt smoothly to changes in the economic environment. Thus, tripartism in Singapore clearly has had an impact in terms of efficiency.

However, we also argue that tripartism has had an equal impact on equity. This is best exemplified by the response to the Asian financial crisis (case 4), that shows Singapore's response was perhaps the most 'worker friendly' in Asia, in that it tried to minimize job loss and maximize retraining and employability. Moreover, there is tripartite influence in Singapore's 'welfare state'. The Central Provident Fund, which is managed by a tripartite board, provides a range of benefits. Each person has a CPF account that is composed of four subaccounts. The first subaccount can be used to finance a home, or finance education, or may be used for certain approved investments and insurance. The second subaccount is primarily for the purpose of old age provisions (pension). The third subaccount is a *medisave* account, to be used for hospital treatment, selected outpatient services, and catastrophic medical insurance; while the fourth subaccount is a retirement account that finances periodic payments to the individual after age 62. The provident fund system thus covers (partially in some cases) the following 'welfare' issues: old age benefits, retirement benefits, medical insurance, permanent disability benefits, maternity care, and survivor benefits. Work injuries are however covered by the employer (via an insurance system).

Singapore's social security system is an individualized defined contribution scheme, financed primarily through contributions by employers and employees. As the cases above have shown, the tripartite actors have often temporarily reduced the employers' contribution to the CPF to provide some cost relief in hard times (e.g., during the Asian financial crisis); but normally, roughly 30–40% of an employee's income is saved every month through the CPF system, as Table 3.4

indicates. The ratio of contributors to labour force was 70.9% in 1983 and 62% in 1999; the remainder being foreign workers, which account for nearly a quarter of the workforce, and the self-employed (Asher and Karunarathne 2001). Unions are now trying to insist that there is a need to enhance the return of the fund (currently, the fund guarantees a 2.5–4% return on its investments) and have for some time argued for increasing medical coverage.

It is important to note that over 90% of Singaporeans own their own homes, thanks to financing from the CPF system (they borrow from the CPF). As Ngian Tong Dow, Chairman of the CPG board said in 2000: ‘Many Singaporeans have used their CPF savings to buy their homes and today about 90% of Singaporeans own their own homes. We are one of the highest home-ownership nations in the world’. On the other hand, some authors like Asher and Karunarathne (2001: 9) argue that Singapore’s social security faces limitations, including ‘inadequate balances at retirement, lack of inflation and longevity protection, lack of survivors’ benefits, and virtual absence of tax-financed redistributive tier’.

Thus, the CPF system provides a system of welfare, with the added bonus that it promotes home ownership. It is a form of welfare that is very different from the prevailing ‘European conceptions of welfare’.

Table 3.4 CPF contributions in Singapore (as percentage of income), selected years

Year	**Employee contribution (%)**	**Employer contribution (%)**	**Total contribution (%)**
1968	6.5	6.5	13
1970	10	10	20
1972	11	15	26
1974	15	15.5	31
1980	18	20.5	38.5
1982	23	23	46
1983	23	25	48
1986	25	12	37
1991	23	17.5	40.5
1994	21.5	18.5	40
1997	20	20	40

Source: Nga (1998) p. 175.

In addition to the CPF system, tripartite governance of many different institutions has led to many positive trends in social issues over time. For example, unemployment has remained fairly steady after the spurt caused by the Asian financial crisis, averaging 4% in 1999–2004. During the period 1990–7, real wages increased by 4.7% annually (nominal wages increased by 7.2%), and per capita GDP increased in real terms by 5% (Singapore Department of Statistics 1998). While 90% of Singaporeans witnessed an increase in average household income during this period, the bottom 10% showed a decline of 1.8% (Singapore Department of Statistics 1998). However, that does not mean that these households are poor. Although there appears to be no one living below the national poverty line in Singapore, measures of relative poverty, a higher standard than the poverty line, indicate that it is low in Singapore. Roughly 340,000 people had a per capita household income of less than half the median income, of which 100,000 were children. This compares very well to the other 'rich' city state of Hong Kong, where 700,000 people are 'relatively poor'.

Income inequality has increased somewhat in recent years, however. In 1980, the Gini coefficient was 0.48. This declined to 0.43 in 1990, increased slightly to 0.44 in 1992 and remained steady at 0.44 until the Asian financial crisis (Singapore Department of Statistics 1998). But it then rose to 0.48 in 2000 (Singapore Department of Statistics 2002).

Another bit of evidence on the positive social impact of tripartism can be seen in the increase in training. The tripartite skills development fund, which forces employers to invest in training, has resulted in a steady increase in the training budgets of firms. Kuruvilla, Erickson and Huang (2002) report that each Singaporean employee had at least 40 hours of training per year in 1998, an increase from 34 hours in 1995.

Thus, we would argue that Singapore's tripartism, while rather unique when compared to the other examples in this volume, meets both efficiency and equity goals.

3.4.3 The Republic of Korea: Tripartism and economic restructuring during the Asian crisis

It is difficult to evaluate the effectiveness of South Korean tripartism in terms of its ability to mediate the nature, sequencing and policies connected with economic restructuring and reform, given that there was only one general agreement that was signed by all of the parties. Since then, the Tripartite Commission has largely been focused on 'fleshing out' different aspects of the agreement. During this process, the KCTU has mostly not participated in the commission and even the FKTU has shown variable enthusiasm regarding their participation. It is close to impossible to show a clear causal effect of the pact on important outcomes such as the sequencing, timing, intensity and outcomes of reform. What we hope to do in this section is to examine several different aspects of the pact and its implementation in order to assess the impact of tripartism. The evidence for different aspects we examine is, at best, circumstantial, and with some comparisons with 'shadow' cases, suggestive, but definitely not conclusive. Note further that while the South Korean tripartite agreement was very wide in scope, we are looking here at only some of its provisions. What these aspects show is some attempt at reconciliation of both efficiency and equity.

3.4.3.1 Pace of recovery and stability

The key argument here is that the February 1998 tripartite agreement in the Republic of Korea was important, in general terms, to the Republic of Korea's extremely quick recovery from the Asian financial crisis (despite the contentions that followed immediately after the agreement was signed). The 'V' shaped curve before and after the crisis has to do with the overall stability that the tripartite agreement brought; particularly as tripartite support signalled to foreign investors and the IMF that the South Korean government was serious in terms of various reforms. Tripartite support also ensured that the process of adjustment would be achieved with relatively little social unrest. Thus, the stability provided by the agreement was an important issue. Lee (2006) talks about the 'symbolic' meaning of the pact – arguing that it represented social consensus at a time when this was desperately needed.

There is considerable evidence that the Republic of Korea led the other countries in terms of the rapidity of GDP recovery, exchange rate recovery, and the building up of foreign reserves. Further, the Republic of Korea stopped drawing from the IMF and paid back its standby drawings nine months ahead of schedule. By the end of 2000, capital flows had reversed, with a net inflow of capital, and foreign direct investment had already started to recover in 1998. Most critically, by 1999, the GDP growth rate had climbed to 9.5%, consistent with the pattern before the crisis. It was 4.6% in 2004. The comparative picture is provided in Table 3.5 below.

The pace of economic recovery in the Republic of Korea has been widely attributed to the stability and commonality of purpose that the tripartite framework agreement provided. As Michel Camdessus, then head of the IMF, noted in a speech on December 2, 1999:

> We have learned that, when crisis strikes and a response is formulated, it is not just the *content* of a program that matters, but the degree of *support* for it. It need hardly be said that a program will work only if the country wants it to work; not just the government, but the people and organizations within the society. In short, we have seen the value of national 'ownership' of the policies, through a participatory approach that engages civil society in a constructive dialogue. The tripartite accord agreed by labour, business, and government in February 1998 was a landmark event in the Republic of Korea's recovery. Equally the unity that was established across interest groups and across regions in the early stages of the response to the crisis is an invaluable asset that should not be given up easily.
>
> (World Bank website).

3.4.3.2 Labour market flexibility and economic recovery

As several authors have argued, the tripartite agreement was a historic compromise that attempted to resolve many unsettled issues in the labour relations realm. One such issue that was settled concerned labour market flexibility. Under the agreement, employers are allowed to dismiss employees for urgent managerial reasons and needs. Transfers, mergers and acquisitions of business are regarded as urgent managerial reasons. The agreement also stipulates that companies should exert every effort to avoid the dismissal of workers. There are clauses regarding the method to be followed in such cases; for instance, discussions are to be held with the union regarding methods undertaken to avoid dismissal, employees and labour administration offices are to be given 60 days advance notice, rational and fair standards are to be used in how

Table 3.5 Per capita comparative GDP growth rates, before and after crisis

Country	**1996**	**1997**	**1998**	**1999**	**2000**
Thailand	5.5	–0.5	–9.9	1.0	5
Korea	7.1	5.0	–5.8	10.7	8
Indonesia	8.2	1.9	–13.6	–4.0	3.5
Malaysia	8.6	7.8	–6.1	0.9	—

Source: Horton and Mazumdar (2001).

employees are selected for dismissal, and employers are obliged to rehire dismissed workers if they need additional employees. What the agreement did was to legitimize lay-offs in big firms that had hitherto provided a high degree of employment security. The argument advanced by Koo and Kiser (2001) is that employers, acting on this agreement, began to lay off, and this helped them recover relatively quickly – and therefore, South Korean recovery is strongly linked to the tripartite agreement concerning labour market flexibility.

Employers do seem to have acted on this agreement almost immediately. There was a 20% reduction in employment between the fourth quarter of 1997 and the first quarter of 1999. Each quarter, roughly 400,000 South Korean jobs were lost. By the end of the first quarter of 1999, the workforce had declined from 21.1 million in 1997 to 19 million. The fall in employment is almost completely attributable to job losses in manufacturing and construction, which accounted for 90%; and retail trade and banking accounted for the balance (Kang, Keum, Kim and Shin 2001). Some 70% of those affected by job loss in manufacturing were regular workers, while the rest were temporary workers. On a comparative basis, the Republic of Korea and Thailand had the highest number of redundancies, with over a quarter of employers declaring an employment decrease of over 25%. Overall, the unemployment rate, which had showed an annual average of 2.4% in 1992–7, jumped to 8.4% during the first quarter of 1999. Similarly, the labour force participation rate declined from 62.2% that year to 58.6% in 1999. Clearly, therefore, employers took immediate steps to cut manpower. In addition, the tripartite agreement legalized the use of temporary workers.

Koo and Kiser (2001) argue that the reduction in labour costs helped companies with heavy debt to survive, at a time when commercial banks were in trouble and could not provide finance. They also argue that once the companies survived the crisis, their higher profits as a result of lower labour costs helped revitalize the equity market. The key is the evidence to back up this claim. Koo and Kiser suggest two different pieces of evidence. First, they cite data regarding employment costs per worker. Real employment cost per worker in the manufacturing sector decreased by 6.8% during the crisis, while at the same time real value-added per worker increased by 6.4%. Given the wage restraint (in fact a wage reduction, as many companies cut wages), productivity growth was faster than wage growth, resulting in a drop in unit labour costs of 28% from 1997 to 2000 (Koo and Kiser 2001). We use here a US Bureau of Labour Statistics Database to come up with similar results, which are summarized in Figure 3.1.

What Figure 3.1 shows is that South Korean companies obtained a very high degree of labour cost abatement during the financial crisis, compared to other countries. Koo and Kiser (2001: 33) also note that the 1998 wage cuts and job losses, which were on an unprecedented scale, were accomplished without the social conflict that could be expected in a nation with militant trade unions. Their claim that the reduction in costs and increase in productivity during the Asian financial crisis aided the more rapid recovery of many individual firms, appears persuasive. But it cannot be evaluated more quantitatively, given the various government actions that were also taken at the same time regarding capital, credit and equity markets. Clearly, employers took advantage of the employment flexibility provisions of the tripartite agreement, which provided them considerable financial relief. We argue that this policy, beneficial to employers but not beneficial for employment, is a symptom of the generally weaker form of tripartism in the Republic of Korea as compared to that of Singapore, where the adjustment policies were geared towards the preservation of employment.

3.4.3.3 Labour market policies

While labour market flexibility promoted efficiency there is much in the tripartite agreement that attempts to promote equity as well. The social pact in 1998 and the various agreements reached by the Tripartite Commission in the Republic of Korea have spawned a wide variety of

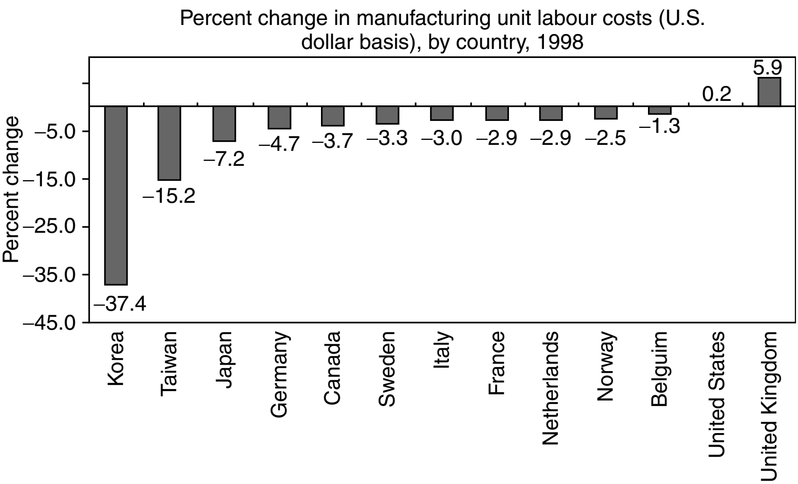

Figure 3.1 Percent change in unit labour costs

labour market and welfare programs, of a breadth, depth and intensity that has not been achieved by other countries affected by the crisis. Clearly, the items in the agreement reflect labour's voice in the process. This is perhaps the strongest case that can be made for tripartism affecting the mix and intensity of reforms, but the case is made with comparative evidence.

The range of labour market policies adopted as a result of the social pact is large and provided below. Specific details of these various provisions can be found in the tripartite social pact:

(a) expansion and improvements in the employment insurance system, including extension of coverage to workers in small firms and part-time workers
(b) support for retired and unemployed workers
(c) expansion of job placement services
(d) expansion of vocational training
(e) job creation policies
(f) extension and consolidation of the social security system
(g) reduction of working hours
(h) expansion of the national pension system
(i) expansion of public works programs

In contrast, countries such as Indonesia, Malaysia, Thailand and the Philippines do not have such a range of policies. For example, only Thailand and Indonesia embarked on public works programs, but not Malaysia or the Philippines. The Republic of Korea is the only country to have introduced an unemployment insurance program. The Republic of Korea also expanded severance pay programs. In the arena of vocational training, the Republic of Korea made the largest changes, with the largest amount of funding for those changes. The country has established labour market information systems through its employment security centers that have been used extensively by the population; and, finally, has provided more wage subsidies targeted at vulnerable groups such as women and youth. A comparative survey of the crisis-hit countries by Horton and Mazumdar (2001) clearly shows the Republic of Korea's leadership here, and no other crisis-hit country has embarked on such a long list of programs as that outlined above. Thus, the social pact certainly affected the nature (mix and intensity) of the reforms, and attempted to reconcile equity and efficiency.

Although the Republic of Korea's tripartite attempts to reconcile efficiency and equity are clear from a relative (comparative) standpoint, in absolute terms we must note that there are some limitations, such as the narrow coverage of the social security system. Whereas the proportion of wage and salary earners eligible for the Republic of Korea's Employment Insurance System increased to nearly 85% in 2004, the proportion of those actually insured was much lower, at 54.2% (Jones 2005). There has also been a large increase in the numbers of non-regular (temporary) workers, who accounted for 29.7% of employees in 2004 (Jones 2005). Although the Republic of Korea has done more for its workers than the other crisis-hit countries, it has not been able to reverse the negative impact of the Asian financial crisis on income inequality, which rose from 0.33 in 1995 to 0.38 in 2000.

3.4.3.4 Privatization and the pace of reform

We use this example to show that tripartism affects the pace of reform as well as the pace of recovery. In many other countries, tripartism has served to slow the pace of economic reform and restructuring, particularly in order to protect workers' interests. In the Republic of Korea, however, tripartism actually served to hasten the pace of privatization, and in that sense is a contrarian example.

Privatization of state-owned industries (SOEs) was not one of the nine major points in the country's 1998 tripartite social pact; but privatization has been under the purview of the Tripartite Commission, via its Special Committee on Public Sector Restructuring. This Committee has reached several agreements, such as the agreement on manpower reduction in the postal and communication sector (August 2000), and the agreement on the breakup of Korea Electric Power Corporation. What is clear, however, is that the Republic of Korea, since the Asian financial crisis, has embarked on privatization at a speed that far outstrips the other crisis-hit Asian countries.

As of March 1998, there were 108 SOEs in the Republic of Korea, employing 213,000 people and with budgets reaching 1000 trillion won. Collectively, these firms are responsible for about 8–9% of GDP. Most of these companies enjoy monopoly and market dominance. The South Korean government's approach to privatization has mostly emphasized government disinvestment. However, prior to the Asian financial crisis, efforts at privatization were not successful.[9] According to government data, there had been four rounds of privatization in 1968, 1980, 1987 and 1993. In 1987, the government stake in Korea Electric Power Corporation and Pohang Iron and Steel Co. were put up for sale in the open market, but these efforts failed to produce substantial results due to the sluggish stock market. In 1993, the government pursued the privatization of 58 SOEs and the consolidation of 10 SOEs, focusing on management accountability. The 1993 measure also failed to attain the intended goals, faced with stiff resistance from unions.

The Asian financial crisis and the consequent reforms that followed from the social pact (in capital markets, credit markets, equity markets and corporate governance), paved the way for pursuing public sector reform more aggressively. Although privatization was the bailiwick of the steering committee on privatization of SOEs in the Ministry of Planning and Budget, specific issues have been addressed by the Special Committee on Public Sector Restructuring of the Tripartite Commission, which provides a forum and a basis for tripartite input into these government decisions. The reform plan of the Ministry of Planning and Budget focuses heavily on four sectors: railway, power, gas and telecoms. Tripartite agreements have been reached on some aspects of manpower reduction in railways and the breakup of Korea Power's distribution business.

Furthermore, privatization and disinvestment of large-scale and very important companies have proceeded at a rapid pace in the Republic of Korea. The list includes such luminaries as Korea Telecom, Pohang Iron and Steel Co., Korea Heavy Industries, Professional Korea Chemicals, Korea Technology Banking Corporation, Korea Electric Power Corporation and Korea Gas. Thus, significant progress has been made in the case of eight out of 11 large SOEs in the Republic of Korea after the financial crisis.

The pace of reform in other countries has been much slower, although as in the Republic of Korea, privatization has been on the agenda for some time. Singapore, which had perhaps the largest share of its economy in the hands of government companies prior to 1985, has gradually and steadily privatized. Malaysia, with over 1156 SOEs in 1990 (a third of which were unprofitable), had only privatized 474 projects by December 2003. Thailand, with 59 SOEs at the time of the financial crisis (of which 22 were making a loss), has experienced significant delays, particularly with the Electricity Generating Authority of Thailand (EGAT). In Indonesia, there was a significant lack of support for privatization and it has been delayed since the beginning of the Iraq crisis.

Thus, what the Tripartite Commission has done in the Republic of Korea is provide a forum for the discussion of privatization and public sector reform, that has not been available to other countries. Yet the relatively spectacular progress on privatization in the Republic of Korea cannot be solely ascribed to the existence of a tripartite institution or mechanism. In addition, privatization has obviously had negative impacts on employment, so the labour movement has not been able to make its voice heard through the Tripartite Commission (remember that the KCTU had mostly not participated). But privatization has clearly helped the government and the management of those enterprises.

In summary, there is some support for the idea that the tripartite peak level agreement reached in the Republic of Korea was, in a general way, partly responsible for the relatively quick emergence out of the crisis; particularly in terms of the stability it provided, the sense of unified collective purpose it signified, and the resulting increase in confidence that it provided capital markets. The social pact clearly contributed to the speed of the recovery, for example, through the labour flexibility agreement that offered firms considerable fiscal relief, and through other efficiency enhancing mechanisms. On the equity side, compared to the other crisis countries, the tripartite agreement in the Republic of Korea produced a comprehensive set of labour market policies. Finally, it is important to note that it was critical in solving a number of outstanding labour law issues that have been in dispute for several years. As a result of the agreement, much of the building blocks of the South Korean industrial relations system are established and settled. Long-standing issues such as the bargaining structure (including industry level bargaining), the right of public sector employees and teachers to unionize and bargain, the ability of firms to lay off, multiple unionism and whether union leaders would continue to be paid by the employers were all settled through the Tripartite Commission although some issues are still contested. These have been contentious issues since the early 1990s.

The key negative aspect of South Korean tripartism is that the labour pillar it stands on is very weak, in that only one part of the labour movement supports it. Although there is an effort underway to revive the Tripartite Commission currently, it is not clear that the KCTU will join it (this depends heavily on internal union politics and the relative power of the moderates and the radicals). Thus, tripartism in the Republic of Korea is unstable, and not fully representative; yet it has some impact on the mix of economic reforms, and the pace of economic recovery. One final point is that, even though the KTUC is not participating, the Tripartite Commission is continuing its work, and reaching agreements about a range of issues (several of which are not directly related to labour interests) that are arguably good for South Korean society as a whole.

3.5 Conclusions

The purpose of this chapter is to examine the impact of tripartism on the nature, mix, timing, sequencing and outcomes of economic reform. In general, the case studies in Singapore provide fairly strong evidence of the impact of tripartism on economic reforms generally, and specifically on the policy mix. The examples from the Republic of Korea strongly suggest that tripartism does have an impact, especially in engendering a degree of stability when it is needed, and in the pace of reform as well as the policy mix. However, in the South Korean case there is an inherent difficulty in linking a one-time event to a broad range of continuing economic reform policies and outcomes.

The overarching question about the impact of tripartism on reforms included some specific research questions. The first question was whether tripartism makes reforms more sustainable and credible through buy-in from key social actors. The evidence from the Republic of Korea both confirms and disconfirms this hypothesis. On the one hand, tripartism definitely provided stability and facilitated a rapid economic recovery because of buy-in from all of the social partners. However, that buy-in was short-lived, as it was contested by one branch of the labour movement, raising questions about the continued credibility of various reform elements. The evidence from Singapore is completely consistent with this hypothesis, and over a long time frame.

A second research question (or hypothesis) was whether tripartism produces reforms that reconcile efficiency and equity. Evidence from both cases confirms this hypothesis quite firmly. The efficiency-enhancing labour flexibility policies in the Republic of Korea were balanced to some degree by equity-enhancing labour market and social welfare policies. In the Singapore case, the concerns with both efficiency and equity are apparent in the responses to various crises while the ability to reconcile efficiency and equity was facilitated considerably by the unique institutions in Singapore – specifically, the existence of the Central Provident Fund, and the deep institutionalization of tripartite decision making in many different spheres.

A final research question was whether tripartism increases manoeuvering room for national policy-makers vis-à-vis international actors. There is insufficient evidence in the two cases to confirm or disconfirm this question.

How best do we judge the tripartite experiences of Singapore and the Republic of Korea? Schmitter and Grote (1997) suggest that corporatist arrangements are known to result in non-inflationary wage settlements along with enhanced social safety net policies and stable taxes and spending arrangements. The basic goal of corporatist welfare policy is security and stability. This statement is based on the experience of several western European countries over the period of the 1970s to the 1990s. Whether the statement applies today in western Europe is highly debatable. Singapore is now as wealthy as the western European nations and meets several aspects of Schmitter and Grote's conception, such as the non-inflationary wage settlements, but on other dimensions (such as social safety net policies) does not. Yet Singapore has achieved a high degree of stability, a reasonably high degree of security via job growth, retirement benefits and labour market policies, and a high degree of flexibility. The Republic of Korea cannot claim to have achieved the high degree of stability and security suggested by Schmitter and its tripartite institutions are not stable. Harriss (2002) uses Katzenstein's argument to characterize South Korean tripartism as having 'failed to achieve the voluntary cooperative regulation of conflicts over economic and social issues through highly structured and interpenetrating political relationships between business, labour and government'. Singapore's experience is more consistent with Katzenstein's conception of corporatism.

South Korean tripartism, however, seems to conform more to Rodrik's view that democratic institutions contribute to short-term stability. Rodrik (1999) argues that democratic governance facilitates the development of institutions that produce greater short-term stability, ease adjustment to adverse shocks, and deliver superior distributional outcomes. Yet South Korean tripartism has actually contributed to a widening of income inequality (a consequence of firms adjustment policies that increased the number of temporary employees in many industries). Singapore, while consistent with Rodrik's short-term stability argument, evidences stability over the longer term as well, especially in that it has created a path to smooth adjustment to a series of economic shocks, and has done that fairly consistently over time.

Finally, there is the question of what conditions give rise to strongly institutionalized tripartism. Baccaro and Lim (2006) argue that social pacts evolve when governments lack the institutional and electoral resources to deal with the crisis unilaterally (when governments are weak). For such a pact to be stable, they argue that there must be strategic commitment on the part of the unions, and it is generally the moderate trade unions that support a pact. Continued stability, institutionalization, and replication of social pacts depend heavily, in their opinion, on sustained employer commitment as well. Thus, per their thesis, South Korean tripartism arose due to the presence of a weak government during a macroeconomic crisis. However, South Korean tripartism is unstable because not all unions supported it uniformly, and even employers began to lose interest after a while. Thus, the Republic of Korea fits well into Baccaro and Lim's (2006) argument, although Singapore does not. In the Singapore case, while the macroeconomic crisis in 1968 was an important impetus for the development of the tripartite arrangement, its institutionalization over time has been due to a strong government that has engendered employer and union commitment to tripartism.

Notes

1. See Kuruvilla, Erickson and Huang (2002) for a detailed account of Singapore's remarkable success in rapidly increasing the skills of its workforce.
2. See Amsden (1989); Harvie and Lee (2003); World Bank (1993) for more detailed accounts.
3. Note that these figures are in Singapore dollars, while the figures in Table 3.1 are in US dollars.
4. For a detailed listing of all sub-items, please see www.lmg.go.kr.
5. These data differ slightly from the data in Table 3.1. The data in Table 3.1 are annual averages, while these are monthly figures.
6. Here again, there are slight differences between Yah's figures and those in Table 3.1, especially for GDP and inflation rates. Given the lack of information on Yah's method of calculation, and on the source of his data, we are unable to reconcile these figures.
7. See Betcherman and Islam (2001) for a detailed account.
8. For a detailed examination of the impact of the NWC, see Yah and Chew (1998).
9. A detailed account of privatization in the Republic of Korea can be found in http://ftc.go.kr/data/hwp/apec200103.htm from where much of this information is taken.

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4
Tripartism and Economic Reforms in Uruguay and Chile[1]

Gonzalo Falabella and Lydia Fraile

4.1 Introduction

Latin America has undergone extensive economic reforms in recent decades. Following the debt crisis of the early 1980s, there was a major shift in development strategy away from import substitution industrialization and state interventionism, and towards more open economies and a larger role for the market. Washington Consensus policies were widely implemented across the region as most countries embarked on an ambitious programme of trade and financial liberalization, deregulation and privatization. These were followed by second generation reforms in areas such as state administration, education, pensions and social policy. This study examines the impact of tripartism on economic reforms; i.e., on the pace, sequence and content of reforms as well as the environment in which reforms are implemented. By tripartism we mean the consultation and negotiation of national policies between representatives of government, trade unions and employer associations.

Neoliberal reforms, and in particular first generation reforms, were generally designed in Latin America in a highly technocratic and insulated manner, with little input from stakeholders such as trade unions and employer associations (Teichman 2001; Schneider 2004; Forteza and Tommasi 2005). Quite often reforms also took the electorate by surprise (Stokes 2001). There were no clear-cut cases of strong tripartism in the region in the 1990s. Some countries did feature social pacts, but these tended to be of limited scope and duration. The main exception is Mexico, where a series of tripartite agreements from 1987 to 1997 helped bring down inflation through incomes policy and price controls and set the context for structural reforms (Ortega 2003). However, union autonomy was seriously impaired in this case by state-dominated, authoritarian corporatist institutions that gave the Mexican government much leverage over labour leaders while reducing their accountability to union members (Burgess 1999; Bensusán 2000).

This chapter focuses on Uruguay and Chile, two countries where one might have expected solid tripartite practices to emerge given the historical strength of their labour movements and the prominent role these movements played in the democratic transition in the 1980s. In fact, tripartism did emerge in both countries with the return of democracy but was short-lived in Chile and has failed to produce a broad social pact in Uruguay. Thus the contrast between the two cases is not as sharp as in other chapters in this book, which generally compare cases of strong and weak tripartism, although we find tripartism to be relatively stronger in Uruguay, with a more institutionalized, continued and fluid relationship between the actors. Both countries – and Chile in particular – are early reformers that started economic liberalization in the mid-1970s under military rule.

Tripartism began in Chile with a social pact, the 1990 Framework Accord, right at the onset of the first post-Pinochet democratic administration. It was signed by the new centre-left coalition government, known as the Concertation of Parties for Democracy, and the main trade union and employer confederations, the CUT (Unitary Workers' Central) and the CPC (Confederation of Production and Commerce). The accord made a general call to build a developed country that would benefit all citizens; expressing support for an open export economy, private enterprise, fiscal discipline, union rights, democracy and the combination of growth with equity, among other principles. It also included more specific agreements to raise the minimum wage and minimum pensions and to finance increased social spending with a moderate tax reform. The pact had a lasting effect; government continued to apply over time both the general principles such as fiscal discipline and the more specific policies concerning the minimum wage and social spending. But tripartism was short-lived. There was no consensus on labour law reform and employers decided to discontinue the annual tripartite setting of the minimum wage in 1993.[2] Afterwards, there was a sector agreement to reform education and some failed attempts at social dialogue.

Tripartism in Chile in the period from 1990 to the present has been weak, with limited one-time agreements and a low impact on economic reforms that started for the most part under the authoritarian military regime led by General Pinochet in 1973–89. Nonetheless these agreements were important for social, economic and political stability during a delicate democratic transition period, and were significant because they underlined certain strategic lines for long-term fiscal policy, social spending and education that were beneficial to the development of the country. On the other hand, unions obtained very little in terms of labour legislation, which today still inhibits the extension of collective bargaining and thus the distribution of economic gains. The neoliberal view of trade unions as special interests that interfere with the functioning of the market was widely held in Chile, not just among businesspeople but also in segments of the political and intellectual elite. This helps explain why, despite the importance of the 1990 Framework Accord, tripartism remained weak.

A majority of analyses of labour and economic policy in the Chilean transition (e.g., Epstein 1993; Weyland 1999; Barrett 2001; Haagh 2002; Sapelli 2002; Volker 2002) tend to underestimate the political limitations imposed by Pinochet's electoral laws, which lead to a drawn parliament composition whatever the election results, plus the control exercised by a few families on an economy still based on natural resources. Likewise, they underestimate the *trade unions' symbolic, legitimizing power,* as they are the only national mass organization in a poorly organized civil society such as Chile is still today. The trade unions have successfully influenced voting results beyond their rank and file, consistently supporting the centre-left government coalition – which will soon complete a 20-year rule – in every election since the 1988 plebiscite that ousted Pinochet. The government's policy towards labour has been moderate, however, as it tried repeatedly but unsuccessfully to reform the labour legislation inherited from the authoritarian regime under a blocked parliament. At the same time, it has introduced since the 1990s a series of *reforms of reforms* in education, health care and now pensions that are more in line with people's needs than the earlier reforms introduced under military rule.

In Uruguay, tripartism made its appearance in the democratic transition with the National Programmatic Concertation (CONAPRO), a forum that brought together the country's main political parties and civil society organizations to discuss future policies on the eve of the 1984 elections. This forum produced a series of proposals, including an agreement to repeal the labour legislation enacted by the military and an economic policy statement that prioritized reactivation and wage recovery, while keeping inflation under control. This led to the implementation of a tripartite incomes policy through wage councils that set wages on an industry basis within a framework of coordination. This policy, in place in 1985–92 and again from 2005 until the present, was fairly successful in bringing wage increases into line with macroeconomic objectives even though it did not involve, in either period, a formal peak-level accord. The government decided to interrupt the wage councils' rounds in 1992, seeking greater wage flexibility to help firms adapt to Mercosur (the Southern Cone economic integration pact). New tripartite institutions were then established to deal with regional integration, employment policy and social security, and they have played a significant role in policy formulation and implementation in these areas.

A broad social pact has proved elusive in Uruguay. And yet, there has been an almost continuous process of consultation and negotiation among the actors that has sometimes resulted in informal agreements – e.g., on incomes policy at key moments, and on bank restructuring during the 2002 financial crisis – and is underpinned by a fluid and respectful relationship. All three actors face internal difficulties with interest aggregation that have made it hard to reach an accord. First, every Uruguayan government from 1985 up to 2005 was a minority government supported by various factions of the two traditional catch-all parties that often took different tacks on policies. Second, employers are organizationally fragmented in multiple chambers – the Chamber of Industry and the Chamber of Commerce and Services are the two most important – and do not always hold a unified view. They are not hostile to unions, however, and have been open to social dialogue. Third, although there is a single union central, the PIT-CNT (Intersyndical Plenary of Workers-National Convention of Workers), internal rules derived from its anarchist tradition grant the central body very little control over member unions while giving small, more radical organizations disproportionate voice in leadership structures. Nonetheless labour has combined a militant discourse and high mobilization capacity with strong pragmatism and willingness to negotiate.

The impact of tripartism on economic reforms has been rather limited. Uruguay, like Chile, started reforms under the military, but these were mainly focused on financial liberalization as the country sought to become an offshore banking centre. Since the return to democracy, Uruguay has been a cautious reformer and economic reforms have been more gradual, heterodox and equity-minded there than in most of the region (Filgueira and Papadópulos 1997; Blake 1998; Forteza et al. 2003). This outcome, however, is only attributable in part to tripartism and has more to do with enduring support for statism and egalitarian values – a legacy of Uruguay's golden social democratic past that is shared by a wide swathe of the population and the political class.[3] The existence of direct democracy tools (referenda and plebiscites can be called in by collecting a certain number of citizen signatures) has also been a factor, enabling social groups such as unions and pensioner associations to exercise *veto power* over some reform decisions. Tripartism, on the other hand, has made an important contribution to social stability and governability at the delicate time of democratic transition and during the 2002 financial crisis that spilled over to Uruguay from Argentina.

The rest of the chapter is structured as follows. The next section covers in greater depth the development of tripartism in Uruguay and Chile since the return to democracy, comparing several dimensions of tripartite practices in the two countries. The second section analyses the impact of tripartism on different economic reforms and policies and looks briefly at socio-economic outcomes. The third section concludes.

4.2 Tripartism in Uruguay: Origins and evolution

Tripartism made its appearance in Uruguay in the 1980s through CONAPRO. This was a forum for dialogue between the country's main political parties, trade unions, employer associations and civil society organizations representing students, cooperatives and human rights groups. It started functioning shortly after the August 1984 Naval Club Pact, by which the military negotiated its exit from power with the democratic opposition, up to the inauguration of the newly elected democratic government in March 1985. CONAPRO was an expression of unity among democratic forces that sought to build consensus around a basic platform and to reduce conflict and increase governability at a delicate time of political transition. As in Chile, this was a negotiated transition, triggered in 1980 when the military lost a plebiscite to perpetuate its rule, and entailed a number of concessions to the outgoing regime, including the banning of certain candidates in the first election and impunity for past human rights violations. But none of the main political forces in Uruguay sympathized with the previous authoritarian regime, thus enabling a cleaner institutional break with it.

CONAPRO had multiple working groups, coordinated by an executive board that was composed of members of the main political parties. Decisions were taken by consensus and deliberations within working groups were confidential. They produced a multiplicity of agreements dealing with transition issues such as political prisoners and exiles, but also with policies such as social security, health and housing. These were, however, partial programmatic agreements that did not add up to a broad social pact. According to some observers, CONAPRO was a rather informal mechanism (ILO 1987: 93) that was more preoccupied with restoring the democratic system than with brokering a socio-economic accord between business and labour (Francés and Dieste 1985: 196). Nonetheless it produced three important agreements regarding labour matters. First, the parties agreed that the labour legislation and all restrictions on trade union activities imposed during the military dictatorship would be abolished. Second, they agreed that all public sector workers that had been dismissed for union or political reasons would be reinstated. Third, it was agreed that the purchasing power of wages would be gradually restored via adjustments every four months and in a manner consistent with the policy of bringing down inflation. This latter agreement was part of a document, signed in February 1985 by the top economists of the main political parties, which ended with these words:

> Any accord with the IMF should contemplate the following basic concerted objectives: productive reactivation, employment expansion, progressive recuperation of wages and of the lowest pensions, control of inflation and progressive income redistribution.[4]

The document thus presented a united domestic front in favour of a gradual stabilization approach with an eye to strengthening the position of the new democratic government in negotiations with the international financial institutions. Uruguay's democratic transition took place in the midst of the Latin American debt crisis. At the time of the 1984 election, the country was in a serious recession; GDP had contracted by 16.4% in 1982–4, the external debt reached 96% of GDP, the fiscal deficit was 9.4%, inflation 66% and unemployment 12.9%. Real wages had dropped by 30% in 1982–4 and 50% in the period of military rule from 1973 to 1984 (Rodríguez, Cozzano and Mazzuchi 2001). There was a broad national consensus, in this context, on the goals of economic reactivation and wage recovery, but different views were also present on how to pursue these goals: employers proposed to 'reactivate in order to later distribute' and the trade unions to 'first distribute and thereby reactivate' (Pérez del Castillo and Rosenbaum 1985: 390). This translated into union demands for large wage increases, which employers felt they were in no position to accommodate, and high levels of strike activity. Against this background, the labour relations working group within CONAPRO mediated conflicts and facilitated accords in several industries but failed to produce a general wage accord (Plá Rodríguez 1987).

The new democratic government of President Sanguinetti (1985–9) restored Uruguay's traditional collective bargaining institutions: the tripartite wage councils that had been in place in 1943–68, to channel and contain wage demands. It also struck an informal pact with the Communist Party to this end. The party, which had much ascendancy over the trade unions and strongly supported the political negotiations leading to the democratic transition, 'made every effort to secure worker restraint' (Valenzuela 1989: 455, 465). Rial (1988) talks of a 'negative integration' of the Left and the union movement at this juncture, as both maintained the rhetoric goal of radical change but adopted a reformist and negotiating practice in order to protect democracy.

The new wage councils were different from the old ones in some key respects. First, a peak-level Superior Wage Council (COSUSAL) was added on. The council was made up of representatives from PIT-CNT, the main employer chambers and the Labour Ministry. The Minister of Economy and Finance and the head of the Planning and Budget Office also joined in to present their macroeconomic objectives. The peak-level council discussed – and disagreed over – general wage guidelines to inform industry-level negotiations, decided on industry groupings and mediated conflicts. A second major difference was the far more active role government now played in the process, calling in all wage councils to simultaneous bargaining rounds, setting wage guidelines and threatening not to certify excessive agreements. These would only bind members of the signing organizations rather than apply to all firms and workers in that industry. Government also dictated wage increases for industries where councils failed to reach agreement, and skipped one of three bargaining rounds each year to set wages by decree. The new formula was semilegal but was accepted by the actors as a practical interim mechanism for managing pent-up labour demands during the democratic transition (Filgueira 1988).

The wage councils worked fairly well: real wages recovered part of the lost ground, growing by 26.4% in 1985–9 without accelerating inflation, and industrial conflict came down gradually (Rodríguez, Cozzano and Mazzuchi 2001: 37; Brezzo and Vispo 1988; Frenkel and Damill 1989). President Sanguinetti opened other issues for tripartite discussion, e.g., labour legislation, public sector bargaining and restructuring of state enterprises; but failed to get union support for a package deal. Some see this as a missed opportunity to create a more stable labour relations framework; one that would come back to haunt unions in the 1990s (Rodríguez, Cozzano and Mazzuchi 2001; Padrón 2005).

The wage councils were discontinued by President Lacalle (1990–4), who adopted a neoliberal discourse and tried, largely unsuccessfully, to accelerate market-oriented reforms. Employers put forward similar policy proposals in a document entitled 'Towards a Uruguay with a Future' produced by the main chambers in November 1989. The decision to remove the state from wage bargaining was in the electoral programme, but this change did not happen right away. Inflation and the fiscal deficit had increased in 1989–90 with the election cycle, and Lacalle first proposed a social pact to end wage indexation. Labour refused, noting that the inflation forecast the government had provided was too low, and wage increases were set by decree in June 1990. But it soon became clear that inflation was running higher than forecasted and the union approached government for further talks.

An informal agreement was reached in September 1990 to call back the wage councils, in order to correct the real wage loss incurred by the decree and to negotiate long contracts on the basis of an adjustment rate of 75% of past inflation (thus reducing indexation). The press reported this proposal as a social dialogue or 'social coincidence' between government and PIT-CNT while employers joined the negotiations with the sensation, in the words of one representative, of 'entering the soccer field at 30 minutes past halftime' (Finch 2005: 322). Government announced, however, that this would be the last round of wage councils. In 1992, as contracts expired, government issued a very low inflation forecast and refused to certify any agreements above that number. There were no more rounds afterwards. Uruguay had just joined Mercosur and it was thought that wage flexibility would help firms adapt to the new competitive pressures, a view shared by the next administration (Irrazábal, Davrieux interviews; ILO 1995: 152). In September 1990 Uruguay began using the exchange rate as an anchor to control inflation, which dropped from 129% in 1990 to 44% in 1994 and 4.2% in 1999. This policy, however, was not without cost as it led to currency appreciation and a loss of competitiveness.

New tripartite institutions were created in 1991–2 at the request of both business and labour. The Sector Commission for Mercosur (COMISEC) was established to assess the impact of tariff reductions on different sectors and propose measures to facilitate restructuring. The National Employment Board (JUNAE) was also set up in connection with Mercosur in order to run a retraining fund for dislocated workers. It was anticipated that Uruguay's integration into the regional trading block would lead to large job losses in manufacturing, and it did. The industrial sector's share of employment dropped from 24.2% in 1991 to 15.6% in 2000. The third new institution was the directory of the Social Provident Bank (BPS), the social security administration, which includes representatives of pensioners alongside those of workers and employers. These institutions have worked regularly over the years – COMISEC wound down as the integration process advanced – effectively engaging participants in policy design and implementation.

President Lacalle's drive to accelerate market-oriented reforms met strong opposition from labour. There were ten general strikes in 1990–4, three of them lasting 36 hours. In 1992, the unions called for a national referendum against privatization of the telephone company and won 72% of the popular vote. This derailed the privatization process, which had to follow a more limited and indirect path afterwards. It also helped labour preserve an important organizational basis in the public sector as union membership and collective bargaining coverage declined precipitously in the 1990s.

Unionization went down from 37.5% of wage workers in 1985 to 15.9% in 2000. Most of the decline took place in the private sector, from 34.7% in 1985 to only 8.5% in 2000. Without the wage councils, collective bargaining coverage dropped from 89% of private sector workers in 1990 to 28% in 2000 and to 16% in 2004 (Rodríguez, Cozzano and Mazzuchi 2001, 2004). The unions, however, retained high mobilization power beyond their membership base and played a prominent political role in opposition to reforms.

There were several attempts to reach a social pact in the following years. The first two major attempts took place during the second Sanguinetti administration (1995–9), which brought back a moderate and gradual approach to reforms. One was a two-and-a-half-year process of quiet tripartite negotiations over labour legislation that came close but ultimately failed to yield a new consensual framework for collective bargaining. There

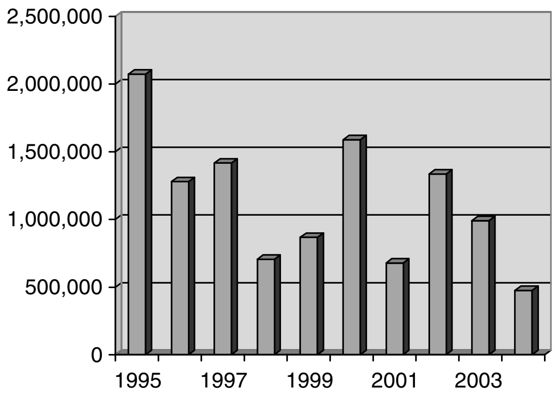

Figure 4.1 Uruguay: Strikes (days lost)

Source: (Rodríguez, Cozzano & Mazzuchi 2001, 2004).

were few discrepancies, the main stumbling block being disagreement over whether or not there was a general duty to bargain, which employers flatly refused. There was also dissent within the union camp, and negotiators failed to obtain support for their proposals from the larger leadership. As this negotiation faltered, a high-profile tripartite dialogue was launched by Alberto Volonté, the Foreign Affairs Minister and coalition partner to President Sanguinetti, who had played a key role in building political consensus around pension reform. The aim was a broad social pact on employment and competitiveness that would also cover labour legislation. However, with much media attention and elections on the horizon, both sides hardened their positions and the effort failed in mid-1998.

The next attempts at tripartism took place in the context of a deep recession and financial crisis in 1999–2002, which was largely the result of external shocks – i.e., devaluation in Brazil and crisis in Argentina, Uruguay's two main trading partners. GDP contracted by over 18% in 1999–2002, unemployment climbed to 17% in 2002 and the currency lost 94% of its value (ILO 2005). Moreover, Argentina's bank deposit freeze triggered a run on Uruguayan banks – about 40% of deposits were held by Argentines – which required a large financial rescue package from the international financial institutions.

Table 4.1 General strikes

Year	National strikes	Partial stoppages
1985	1	2
1986	2	4
1987	1	3
1988	2	5
1989	3	2
1990	1	5
1991	3	3
1992	2	4
1993	3	1
1994	1	3
1995	1	4
1996	1	4
1997	0	3
1998	0	4
1999	1	3
2000	2	2

Source: (Rodríguez, Cozzano & Mazzuchi 2001)

The Concertation for Growth emerged in this context as an initiative of several employer associations from the agrarian and small-firm sectors that, together with the trade unions, sought to engage the Batlle administration (2000–4) in a dialogue over ways to combat the economic crisis. Its highlight was a large mobilization in April 2002. The effort fizzled out, however, as devaluation and other policy measures brought relief to some of the sectors involved while more militant factions within the labour movement criticized the alliance with employers (Rodríguez, Cozzano and Mazzuchi 2002).

More successful were the negotiations to find a solution to the financial crisis that took place between the government, the main political parties, the banks, bank depositors and the bank workers' union. The union played a very active role in this process, first demanding negotiations and encouraging depositors to form associations, and then proposing alternatives to bank liquidation. It accepted a bank restructuring plan that involved large lay-offs, some as early retirement, others through a special unemployment fund. Juanjo Ramos, one of the union leaders involved, remarked: 'We cooperated even though we lost many jobs that we are still today fighting to recuperate; it is widely recognized that we lent a big hand' (Ramos interview).

In contrast to Argentina, Uruguay did not default on its debt (as the IMF had initially proposed[5]), showed high respect for existing contracts and managed to weather the crisis with remarkable social and political stability. Observers have highlighted the positive effect of the consensual approach and 'the very fluid dialogue the authorities maintained with all parties affected during the resolution of the crisis' (De la Plaza and Sirtane 2005). It should be noted, however, that this dialogue was limited to the issue of the bank run. There was no broad social pact to address the economic crisis at large.

Tripartism has been given a new impetus in recent years by the leftist administration of President Vázquez (2005–9), who restored the wage councils and launched a tripartite initiative called National Compromise, a forum to discuss ways to increase employment and competitiveness and to build a shared economic vision for the country. In light of past experience, Vázquez stressed in his opening speech that the aim of the initiative was 'neither a social pact, nor a truce', but to create space for dialogue and participation. The forum operates through tripartite committees on topics such as macroeconomic policy, tax reform and investment climate, which government calls in for consultation on the basis of a diagnostic document. A tripartite declaration was signed in December 2006, setting a modest job creation target of 35,000 for 2007 and establishing new committees, e.g., on the informal economy (at business' request), on state reform, on labour legislation and for various industries.

There is, however, growing tension among the actors as employers feel frustrated by government decisions regarding labour legislation that have been taken without tripartite support. The most controversial was a decision by the Interior Minister to rescind a decree that made it possible to send the police to end the occupation of a workplace during a strike. This triggered an increase in occupations, which were used in 25% of conflicts in 2005, then dropped to 19% in 2007 (Rodríguez, Cozzano and Mazzuchi 2007). Tripartite discussions have failed so far to produce a consensual solution to this problem. Employers oppose occupations in principle as contrary to property rights, while the other two parties view them as a modality of the right to strike that can be subject to regulation (government) or, preferably, self-regulation (unions) to prevent abuses. The Labour Ministry first proposed a law to address the issue but the idea was rejected by both business and labour and put off to further negotiations over the broader legal framework for collective bargaining. An interim decree has been challenged in court by employers. Other disputes involve laws on anti-union practices and subcontracting that were initiated by Parliament without tripartite consultation. Upon employers' request, tripartite negotiations led to subsequent modifications that did address some of their demands but were in their eyes insufficient to yield consensus. In this situation, employers are wary to legitimize through tripartism decisions they largely oppose.

Conflicts over labour legislation have hindered to some extent the functioning of the National Compromise. The wage councils, on the other hand, have worked well; successfully completing two bargaining rounds so far. They have caused a turnaround in collective bargaining coverage, which is almost complete now since rural workers have been included in wage council rounds. There has also been a large increase in unionization. Union membership nearly doubled in 2003–7, from 102,000 to almost 200,000 workers (Senatore and Zurbriggen 2007). The Vázquez administration has thus delivered key gains for its labour supporters, meeting long-held union demands such as the restoration of the wage councils. At the same time, it has followed a very prudent macroeconomic policy emphasizing fiscal discipline and investment promotion, issues that are dearer to employers. The union movement is indeed divided, with some currents strongly opposing government efforts to maintain a high primary budget surplus (nearly 4% of GDP in 2005–7) and pay back the debt.

In sum, tripartism has been alive in Uruguay since the return to democracy in 1985. Tripartite consultations and negotiations are frequent, and there are tripartite institutions in several policy areas that have functioned well. The relationship between the actors is fluid, even at times when their positions sharply differ. Informal contacts and negotiations have played an important part in this dynamic, as noted by observers (Bronstein 1989; ILO 1995; Wachendorfer interview). However, there have been few formal agreements and, in particular, no broad social pact that could signal the emergence of a shared economic vision for the country.

4.3 Tripartism in Chile

4.3.1 Agreements and their context

The 1990 Chilean tripartite accord is framed by 17 years of widespread repression under Pinochet (national human rights commissions have estimated 3000 people were killed, over 30,000 tortured and over 300,000 exiled), and by the cultural consequences of this rule of terror (Lechner 2002). In addition, there was the privatized free-market economy, a Constitution and Labour Plan institutionalizing it, a 'protected' democracy that precluded majority rule, military supervision over the State and Pinochet himself, who remained Army Commander in Chief until 1998 and thereafter senator for life.

Thus a few days into the democratic transition government of President Aylwin, an agreement was signed between his centre-left coalition government, the union and employer confederations, CUT and CPC. It represented an overall economic and political agenda regarding the need to build a transition to democracy, with support for an open export economy, union rights and the combination of growth and equity. Hence the chosen name of Framework Agreement, which had a long-term horizon, above and beyond other specific accords.

Paramount to this national agreement was the recognition of business' leading role in development, 'a bitter drink to swallow for signing unions', according to Martínez, the head of CUT, after 17 years of unrestricted economic and political repression. The agreement also included the classic employers' prerogative of 'running their business', recognized the role of the market 'in assigning resources', and emphasized an export economy, fiscal austerity and macroeconomic balance. On the other hand, it voiced 'protection for the neediest' and the state's 'leading, overseeing and superior role in the economy'. It also made a clear call to build a developed country for the benefit of all, by means of a basic tripartite consensus to promote investment, innovation, value-added primary exports, 'investments in the people' and a legitimizing role for trade unions and employer organizations (Cortázar 1993, Annex II).

The CUT's own transition platform covered all dimensions of an economic, social and political transition, in accordance with the political role it had played under the dictatorship (Falabella 1980; Falabella and Campero 1991). However, labour never imagined it would have to go so far to obtain so little in actual organizational terms, on behalf of a peaceful transition to democracy. CUT leaders Manuel Bustos and Arturo Martínez actually got cold feet and returned to their office, just across the Presidential Palace, when they were on their way to sign the agreement. But they went back and signed, as recalled by Bustos (Campero interview). Martínez acknowledged that they were strongly pressured by the incoming government coalition to sign: 'the military are moving into this transition with their full team'. From the side of (large) employers, CPC President Manuel Feliú later remarked that they accepted economic concessions to unions they strongly opposed, in order to maintain the overall economic reforms and the Labour Plan they had obtained under Pinochet.

The legislation that followed included a reform of labour law that recognized union rights for national and sectoral representation, increased redundancy payments from 5 to 11 months per year worked, raised the minimum wage by 24% and established minimum pensions and subsidies for the neediest families. It was thus a strong agreement in socio-economic terms, but mostly limited in organizational terms, as national unions won the right of representation but not of collective bargaining. This has perpetuated until now an atomized bargaining structure, and low levels of bargaining coverage and strike activity.

Collective bargaining coverage reached 18.2% of private sector wage workers in 1992 then dropped to 9.6% in 2004. Union membership went from 21.2% of private sector wage workers in 1991 to 15.6% in 2004. Official statistics exclude public administration employees, who are not allowed to unionize but have professional associations and engage in informal collective bargaining with government. If public sector workers are included, the unionization rate is a bit higher: 17.5% of wage workers in 2004.

A moderate fiscal reform that raised VAT by 2%, and rescinded corporate tax cuts made by Pinochet during the 1988–9 elections, was passed by Parliament with the support of all political parties following

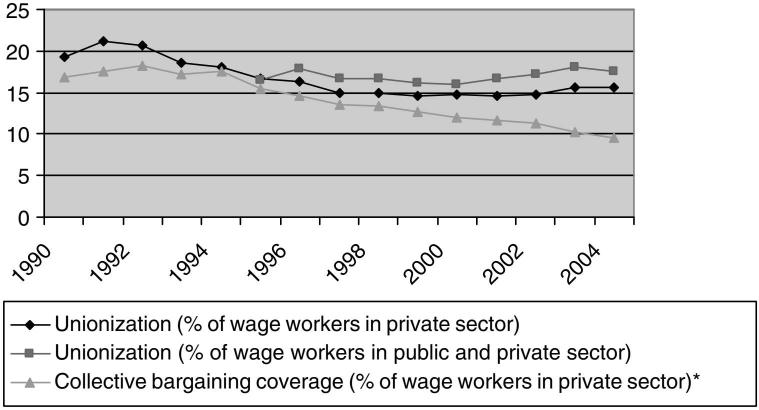

Figure 4.2 Chile: Unionization and collective bargaining coverage (%)

* Excludes domestic workers and includes workers in state enterprises

Source: Dirección del Trabajo, 'Veinte años de afiliación sindical y negociación colectiva en Chile. Problemas y Desafíos'. Cuaderno 29 (2006) and Compendio de series estadísticas.

the Framework Agreement. This was done in order to finance the increase in minimum pensions and social allowances, as well as other social spending needs in education, health care and housing. Both the minimum wage and VAT increases were renewed by tripartite agreements during the next three years of the Aylwin administration (Cortázar 1993), but were renewed solely by government and Parliament thereafter.

Why is this so? Business felt secured under the Framework Agreement and with a strong right-wing political opposition that, with only 1/3 of the electoral vote, could legally block in Parliament any non-consensual reform of Pinochet's labour laws and Constitution. Do employers in Chile recognize unions as a 'legitimate other'? Yes and no. Yes formally, according to the unquestioned Framework Agreement; no, whenever possible in the private sector (the historical case of US unions – Tronti 1976), as is the case with unions signing 'agreements' but only if employers are willing to do so.

Government and opposition have continued to renew the annual minimum wage increases in Parliament up to this day. This is the strong political base that allows the present analysis to call the Framework Agreement an 'all embracing accord permeating the whole transition period' in terms of political stability, economic growth and social spending. The real minimum wage grew steadily from a base index of 100 in 1989–90 to 199 in 2004 (see Figure 4.5) while public social spending increased from US$404 per capita in 1990–1 to $763 in 2002–3, and from 12.7% of GDP to 14.8% (CEPAL 2006).

Since the Framework Agreement, labour has consistently demanded the right to bargain at sector level and the elimination of the right of employers to replace striking workers. But it obtained only minor concessions such as the right to engage in national bargaining if plant unions agree to give up their own bargaining rights (Law 19.069 under President Aylwin in 1991) and a fine of US$150 to be paid by employers for every striking worker replaced (Law 19.759 under President Lagos in 2001). An important change took place as a result of President Frei signing an ILO convention on the right of state workers to organize – which was pending since the Aylwin administration – and the passage of an unemployment benefit law in 2001, mostly paid for by employers, with the 11 months' redundancy benefits still in effect. Every centre-left government since 1990 has introduced legislative proposals in this respect at presidential election times: in 1994 and 1999 to extend collective bargaining rights beyond permanent workers (Dirección del Trabajo 2000), in 2000 regarding sector bargaining (Frías 2002) and in 2005 to make employers coresponsible when subcontracting labour services. The latter proposal was recently passed into law but challenged in court by the right-wing opposition. Parliament has, for the first time, a (slight) government majority in both chambers because of a 2005 constitutional reform that eliminated Pinochet's designated senators.

While all three actors had significantly different bargaining power and weight in 1990, they all needed a political accord – more so than many specific negotiated demands – that would assure them room to govern, continue doing business and engage in collective bargaining. The reconciled centre-left coalition leaders, who had been strong rivals before the 1973 military coup, needed room to govern together under a framed economy, Constitution and Pinochet-led military. There was a fear among big business, right-wing politicians and the military of seeing their enormous political accomplishments obtained during the dictatorship (restricted democracy and the Labour Plan) overturned and their power diminished. Finally, the much-weakened unions hoped to reverse their fate and increase organization and bargaining levels. Added to this were the legitimate demands of a repressed and impoverished mass of people who had ousted Pinochet at the polls and had then won the 1989 presidential election.

Therefore, a strong and highly concentrated business class (three family groups) with low democratic credentials and a strongly assimilated neoliberal ideology (Campero 1984), a weakened pro-socialist, communist and Christian-democratic oriented union movement led by a united national board and a new strong (given Pinochet´s presidentialist Constitution) centre-left government of the same parties were the main transition actors of the 1990 Framework Agreement.

The second social accord involved education reform. Known as the Brünner Plan, it was signed by the teachers' union, government and all other stakeholders early in the Frei administration and paved the way for a consensual long-term plan to upgrade education, including private, Catholic, state-subsidized and municipal schools. It has maintained VAT at 19%, though this was reluctantly supported by right-wing parties in Parliament. For the teachers' union, this policy has meant accepting performance evaluations for members according to international standards, which erased some of the benefits from their hard-won 1990 statutory removal from the Labour Plan. Despite strong objections from the Communist party, which included the expulsion of the union president from the party, a rank-and-file referendum supported the evaluations. This was carried out after a tripartite visit to Ireland, Scotland and Cuba to study their evaluation system. The government–union alliance has brought governability during almost two decades of so-called reforms of reforms, i.e., steps to correct or fine-tune some of the market-oriented reforms inherited from Pinochet.

A new and similar national agreement has been under discussion by a government-nominated 80-member panel of experts and stakeholders, after mobilizations by high school students. An important but non-consensual agreement has been reached so far to end Pinochet's Education Constitutional Amendment (LOCE) that institutionalized the State's wholly subsidiary and merely economic role vis-à-vis private education. Another panel deals with university-level education.

These two agreements – the Framework Agreement for inclusive development led by private business investments and the sector accord to foster education as the main development axis of the country – were no minor events in the democratic transition period. They represent *strategic* and *long-term objectives* that have in fact permeated, according to their declared purpose, the *élan* of the period and its political ethos. In this sense, tripartism has had an important long-lasting policy effect. Despite the conflictive relations of the signing partners, none of them have at any point rejected these two agreements; and unions have backed the ruling centre-left coalition in all presidential elections since 1989.

4.3.2 Other attempts at social dialogue in Chile

Given the right-wing opposition's ability to boycott advances in labour legislation and socio-economic benefits, government has turned to various forms of tripartite 'conversational strategies' to unloose the class blockage of Chilean society by means of presenting limited enforceable agendas that bring the actors together under common objectives, hoping to overcome ideological prejudices.

During the Frei administration (1994–9), a Development Forum was set up among the same organizations that signed the Framework Agreement in order to develop a common medium- and long-term view of development. The forum had many ups and downs according to the head of its executive office, which was housed at the Economy Ministry (Muñoz 2000). Both government and the CPC were primarily motivated to bring together 'actors historically far apart' – as the Economy Minister commented at the time – while CUT felt differently: 'why discuss the future if there is at present total disagreement over main labour issues'? (Martínez interview). Martínez acknowledged that unions used the occasion to tell employers to their face what they were inhibited from saying when signing the Framework Agreement.

By 2000 all three actors had dismissed the forum's continuation, perhaps because it had reached its limited *conversational* goals. CUT objectives were not being met and employers thought that 'too many government officials were intruding into the debate', as the head of the CPC put it in a meeting we attended in 2001. The beginning of a recession in 1998, and the forum's lack of a binding agreement perspective from its very conception, ruled out any possibility of it continuing under the Lagos administration (2000–5). Former Minister García, who first facilitated these meetings under Frei and then refrained from supporting them under Lagos, has recognized such a lack of social participation as a key transition handicap (García 2006).

Likewise, at the beginning of the Lagos administration, the Labour Ministry established tripartite regional user committees in all 13 regions of the country with key labour and business sector representatives in order to diagnose bottlenecks in labour relations and advance solutions, but without any success. Similar government-led tripartite sector committees had already been operating in forestry under Frei and then in the agricultural and salmon export industries under Lagos, monitoring working conditions and basic needs for women seasonal workers. The Lagos administration came to an end with over 70% of popular support in opinion polls and a new climate in government–business relations, despite having inherited a mild recession, and despite the initial mistrust and unwillingness of large employers to deal with a president belonging to the same party as Allende.

In March 2007, President Bachelet encouraged the main leaders of CUT and CPC to advance negotiations on labour issues first by themselves, while considering the following proposals: national collective bargaining, as demanded by unions versus flexible labour relations, as demanded by employers; plus a government-proposed midway Danish 'flexicurity' model. Although by international standards Chile is considered one of the most flexible labour relations systems, leading Chilean newspapers and neoliberal economists blame labour market 'rigidity' for Chile's 5–6% (qualified as 'poor') projected GDP growth and the 6% (qualified as 'high') unemployment rate, and criticize the flexicurity project as too expensive.

Unions have also tried to advance with employers on their own. CUT agreed in 2005, without government participation, on a new relation with the main business organization, the CPC. The issue selected was training; an area the CUT thought would create collaboration and immediate spin-offs for both. However, concrete advances were nil. The head of CUT is more optimistic with the new CPC leader, who comes from the mining sector and has more experience dealing with unions, unlike the previous leader who came from banking 'and had more expertise in folding *peso* notes than in dealing with unions', as Martínez put it to El Mercurio (3/15/07, p. B10).

In conclusion, tripartism in Chile may be defined as weak in comparative terms. However, the 1990 accord featured a long-term perspective agreement to build a developed country that would benefit all citizens. Perhaps this is a sufficiently abstract and general statement, meaning everything and nothing is particularly binding. But the net result is that nobody is willing to renounce the accord and everybody seems quite proud of the fact that Chile was invited in 2007 to join the OECD team of 30 most developed countries.

Table 4.2 Key characteristics of tripartism

	Uruguay	**Chile**
Policy scope	Broad	More limited
Continuity of practices	Frequent, institutionalized	Irregular
Number and scope of agreements	Small, often informal, no broad social pact	Small, limited scope

We will end this section by summarizing the main characteristics of tripartism in both Chile and Uruguay along several key dimensions (see Table 4.2). As mentioned earlier, the contrast between our cases is less sharp than in other chapters of this book, since tripartism presents limitations in both countries. In Uruguay, a broad social pact never coalesced despite several explicit attempts and frequent processes of consultation and negotiation. These have covered a wide range of policies, although there is some variation across time in this respect. Tripartite institutions exist in several major policy areas and have functioned well. Tripartism is a common, well-established practice and is supported by a fluid relationship between the actors. In Chile, the initial Framework Agreement featured broad, general principles to guide development with a long-term perspective, but its specific content was narrow in scope. Tripartism has been discontinuous and is hindered by a conflictual relationship between business and labour. A blocked Parliament has inhibited main reforms of the political and labour laws of the Pinochet era.

4.4 Impact of tripartism on reforms and policies

Table 4.3 summarizes from a comparative perspective the impact of tripartism on the main neoliberal reforms and other policy areas which are often subject to tripartite discussion. The aim is to assess the extent to which tripartite negotiations have influenced the pace, sequence and/or content of reforms and the context in which reforms have been implemented in the two countries.

As mentioned earlier, Chile and Uruguay are in fact unusual in Latin America in that the process of economic liberalization started early in both cases, during the military dictatorships of the 1970s and the 1980s. In Chile, where neoliberal reforms under Pinochet were most extensive, the bulk of financial and trade liberalization as well as privatization, including privatization of pensions, health care and education, took thus place in the absence of political and union freedoms and prior to the period under study. This also applies to financial liberalization and, to a lesser extent, trade liberalization in Uruguay. Nevertheless democratic governments continued the process: deepening reforms in some areas, such as trade liberalization in both countries; initiating them in others, such as privatization in Uruguay; and fine-tuning or correcting previous reforms in yet others, such as social policy in Chile. The table refers to the period since the return to democracy, 1985 in Uruguay and 1990 in Chile.

Table 4.3 Impact of tripartism on reforms and policies

	Uruguay	**Chile**
Macroeconomic policy/incomes policy	**	*
Employment policy/active labour market policy	***	*
Labour law reform	**	*
Social policy	**	**
Tax reform	*	**
Privatization		
Trade liberalization/industrial policy	***	*
Financial liberalization/bank restructuring	*	

Scale: (blank) no observed impact * low impact ** medium impact *** high impact

A few words are perhaps in order, to clarify the intermediate scores. A low impact score is assigned when a given reform or policy is subject to tripartite discussion, but this discussion has little influence in shaping it or is limited to a narrow or collateral aspect; e.g., the minimum wage rather than wage policy at large in Chile, or bank restructuring resulting from financial crisis in Uruguay. A medium impact score is in turn assigned when the influence is larger but not quite strong or when it is strong but only in certain periods; e.g., incomes policy in Uruguay. The other two scores are self-explanatory.

4.4.1 Impact of tripartism in Uruguay

Regarding Uruguay, Table 4.3 shows two main groups of reforms and policies. The first group consists of reforms and policies where tripartism has had a relatively strong influence. These include macroeconomic policy during the periods in which an incomes policy has been in place, active labour market policy, labour law, trade opening/regional integration and perhaps social policy, given recent developments. Almost all of these are policy areas in which special tripartite institutions exist to channel participation by business and labour.

The second group consists of reforms and policies where tripartism has had no impact or low impact. These include areas such as education and tax reform, where there may have been some tripartite discussions, but these only played a minor role in the reform process. Within this low-impact group, there is, however, a subset of cases in which labour has been able to yield considerable influence outside tripartite channels, through democratic referenda. This is the case with privatization and pension reform where unions and pensioner associations have on several occasions called for a popular vote to reverse particular policy measures. We will also cover these cases, given their importance in understanding the peculiarities of the reform process in Uruguay.

Macroeconomic and incomes policy: Tripartism has had an impact on macroeconomic policy through the incomes policy tool in two different periods: from 1985 to 1992, and from 2005 to the present. In both cases, the tripartite wage councils successfully channelled pent-up wage demands after periods of intense purchasing power losses for workers, i.e., the military dictatorship of 1973–84 and the deep recession and financial crisis of 1999–2002. These were also periods with no or little collective bargaining, which resulted in great wage dispersion. Thus in addition to the primary objective of making wage recovery compatible with macroeconomic targets, incomes policy has sought on both occasions to reduce wage inequality by applying greater increases to the minimum wages within each sector.

The tripartite wage councils were restored in 1985 by the new democratic government after a long hiatus since 1968. They set wages on an industry basis with 48 councils operating in 1985–92, divided into subsectors. This resulted, for instance, in 141 sector contracts in 1990, covering almost 90% of private sector wage earners. There was also some bargaining at company level. Bargaining rounds took place initially every four months, then at longer intervals as one- and two-year contracts became the norm. Government proposed wage guidelines that acted as an anchor in negotiations and proved to be a flexible mechanism for gradually aligning wage increases with macroeconomic targets. Despite the absence of a peak-level agreement, the level of consensus was quite high. Brezzo and Vispo (1988: 438) report that over two thirds of contracts in the first two 1985 council rounds, 69% and 79% respectively, were signed by consensus between the three parties rather than majority vote. They also note that communication between peak-level employer and union officials was very fluid, 'to the point that, in many cases, a simple phone call could remove obstacles' (Brezzo and Vispo: 426).

The wage councils succeeded in containing wage demands and industrial conflict during the democratic transition years: real wages grew moderately and strike activity gradually declined, especially once contracts became longer and included peace clauses (Brezzo and Vispo 1988; Frenkel and Damill 1989; Rodríguez, Cozzano and Mazzuchi 2001). Uruguay did not experience hyperinflation, unlike her neighbours

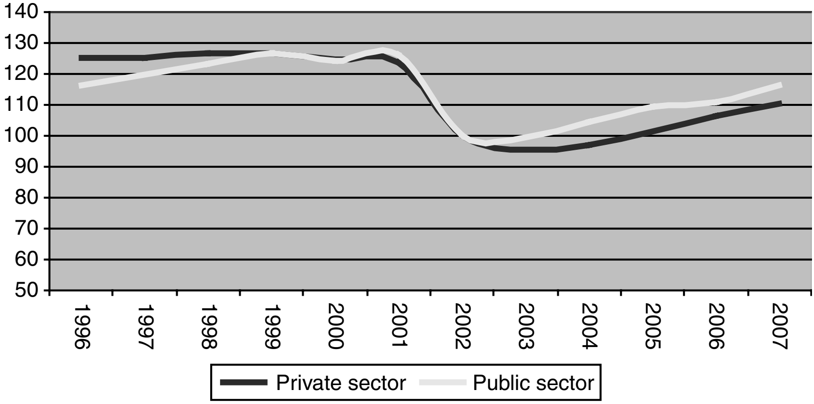

Figure 4.3 Uruguay: Real wages, December each year, base index December 2002 = 100
Source: Uruguay National Statistics Institute data

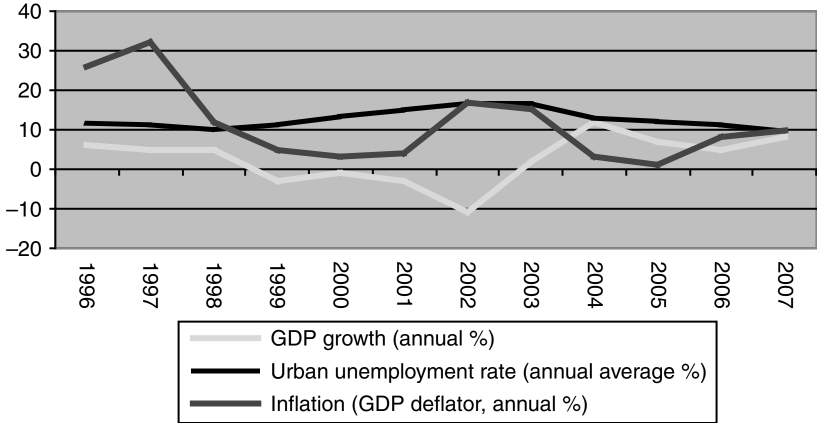

Figure 4.4 Uruguay: Main economic indicators 1996–2007
Source: World Bank, World Development Indicators data base, ILO. 2008

Argentina and Brazil, that faced a similar challenge in the 1980s to adjust to the debt crisis in a context of democratization and pent-up social demands. Attempts to draw up a social pact failed in both countries, where inflation reached four digits in the late 1980s and early 1990s despite a series of stabilization plans (see Frenkel and Damill 1989; Smith 1989; Bruno et al. 1991).

In 1985–92 real wages grew by 25.2%, recovering about half the ground lost under the military (Rodriguez, Cozzano and Mazzuchi 2001). Growth was higher in the private sector (40.4%) than in the public sector (7%), as governments sought to reduce the fiscal deficit. Inflation initially fell from 66% in 1984 to 57% in 1987 but then rose with the election cycle to 129% in 1990. President Lacalle then applied a stabilization package and inflation gradually fell in the following years.

A similar pattern of wage recovery can be discerned in 2005–7, once the wage councils were restored by the Vázquez administration following the deep 1999–2002 crisis. As in 1985, a peak-level tripartite council was established in 2005 to organize bargaining by industry and discuss government wage guidelines. It created 20 sector councils, which are divided into subsectors. There have been three bargaining rounds so far; the first one in 2005 had 181 sector contracts, the second in 2006 had 213, and the third one in 2008 had 221. Rural and domestic workers were included for the first time, approaching full coverage of formal private sector wage earners, and a framework agreement established a bipartite central council for collective bargaining in the public sector. The level of tripartite consensus was very high in the first two rounds: 92% of sector contracts were signed by unanimity in 2005 and 86% in 2006. Real wages recovered part of the ground lost during the crisis; whereas private sector real wages declined by 26% from December 1999 to April 2004, they had gained back 19% by April 2008.[6]

According to Notaro (2007), actual real wage increases were twice as high as the government-proposed general anchor, due in part to the fact that the wage guidelines stipulated larger increases for minimum wages within each sector and the national minimum wage and minimum wage for domestic workers were also raised significantly. This focus on improving the lowest wages is also present in the 2008 round. There was some fear that it would hurt employment but the labour market has performed well so far, in the context of a growing economy. Employment grew by 13.9% and private sector wage employment by 10.8% in 2004–7. The urban unemployment rate dropped to 9.5% in 2007 (and to 7.5% in 2008), while the urban workforce participation rate rose from 58.5% to 62.7% in 2004–7.

The wage councils have also been instrumental in reducing informality. INE data show a decline in unregistered work in urban areas from 41% in 2004 to 34% in 2007. Moreover, this policy of gradual wage recovery has been compatible with macroeconomic policy goals, both in terms of inflation control and achieving fiscal balance and debt reduction. In 2005 the strike index reached its lowest point since 1995 (the first year for which data is available), and then began to go up, especially in 2008, as unions pushed for greater wage increases in the last wage round before elections (Rodríguez, Cozzano and Mazzuchi 2007, 2008). Bargaining results are not yet available at the time of writing, but this round was more difficult than previous ones and involved more deviations from wage guidelines.

Trade liberalization and active labour market policy: Trade opening has taken place primarily through the Mercosur process and is the one area of economic reform that has enjoyed broad political and social support. Once Uruguay's two large neighbours, Argentina and Brazil, decided to move ahead with the project in 1990, the country had little choice but to join in or lose access to its main trading partners. As mentioned above, two tripartite institutions were established in 1991–2 in connection with this process: the Sector Commission for Mercosur (COMISEC) and the National Employment Board (JUNAE).

COMISEC's mission was to advice government during negotiations over tariff reduction timetables, and to assess the impact of regional integration and propose measures to facilitate restructuring. The commission met regularly and frequently and participated actively in crafting Uruguay's lists of exceptions, i.e., products that would not be subject to tariff-free treatment within Mercosur until the end of 1995, and those exempted from the common external tariff. Uruguay's internal exceptions list was the longest, in line with the country's small size and gradualist approach to reforms. This made trade reform more palatable in political terms, while limiting the scope for particular sectors to lobby (Bergara et al. 2006). COMISEC carried out studies with the IDB and the EU to diagnose competitiveness in different sectors and propose strategies for adjustment, e.g., through firm cooperation and technical assistance. It became less active as the regional integration process advanced.

JUNAE was established to run a retraining fund in anticipation of the massive restructuring that Mercosur would bring about in some industries. This fund was financed by a training levy on workers' wages (0.25%), which was later doubled with employers' contribution (0.25%) and complemented with limited state funds. Its mandate was also expanded over time from the initial focus on laid off workers receiving unemployment benefits to include workers at risk of losing their jobs due to restructuring and programmes for hard-to-employ groups (youth with low education, rural workers, women and the disabled) and microentrepreneurs. Tax deductions for companies providing training to their workforce were introduced in 1996 in order to promote lifelong learning. Through JUNAE, unions and employers have played a direct role in the design and implementation of training policies in Uruguay. They value this experience positively but point to the limited human and material resources assigned by the Labour Ministry to active labour market policy as a key constraint they have faced.

Mercosur has also developed some tripartite institutions at the regional level, such as the so-called Working Group 11, later 10, on Labour Relations. Uruguay has played a very active role within this group, particularly in the promotion of the 1998 Mercosur Social and Labour Declaration. The initial plan was for an instrument similar to the European Social Charter but negotiations resulted in a watered-down declaration of fundamental rights and principles – e.g., nondiscrimination, freedom of association and collective bargaining and the right to training and social security. Nonetheless this declaration is increasingly being applied by courts in member states (Ermida 2006).

Uruguay has diversified its export markets in recent years, significantly reducing its dependence upon Argentina and Brazil since the 1999–2002 economic crisis. A Bilateral Investment Treaty and a Trade and Investment Framework Agreement (TIFA) were signed with the US in 2004 and 2007 respectively, with trade union opposition.

Labour legislation: Uruguay is unique in Latin America in that it has almost no legislation on collective labour relations, which are governed by a few constitutional guidelines, ratified ILO conventions and informal practices and rules. The main exception is the 1943 Wage Councils Act, which regulates minimum sector wage setting but has indirectly shaped collective bargaining practices and bolstered trade unionism. The lack of legislation on matters such as union recognition, collective bargaining and conflict resolution reflects a historical tradition of trade union autonomy and non-interventionism on the part of the state (Bronstein 1989). Whereas the military dictatorship introduced a number of regulations and restrictions on trade union activity, this legislation was abolished with the return of democracy in 1985, as agreed by CONAPRO.

Tripartism thus had the effect of restoring the traditional, largely unregulated *status quo*. Later on, it contributed to maintaining this situation by enabling both unions and employers to exercise veto power over changes in labour legislation. Tripartite discussions and negotiations on this issue have recurred over the years. A key obstacle has been the trade union movement's resistance to any rules that impinge on its traditional autonomy or broach areas it considers subject to self-regulation, such as the right to strike. For example, in 1986 President Sanguinetti offered a law protecting against anti-union practices. The PIT-CNT rejected the proposal because it required union leaders to be elected by secret ballot, as requested by employers. The rejection was a matter of principle since all, or nearly all, unions already elected leaders that way (Rodríguez, Cozzano and Mazzuchi 2001: 78). Likewise, President Lacalle tried unsuccessfully in the early 1990s to regulate unions (their elections and decision-making criteria) and the right to strike (Filgueira and Papadópulos 1997). Another obstacle has been employers' refusal to accept legislation that would stipulate a general duty to bargain. This was, as we saw earlier, the main stumbling block in the 1996–8 negotiations of a new collective bargaining law.

The situation is now different, however, in that the Vázquez administration enjoys a parliamentary majority and has passed several labour legislation items without tripartite consensus. As mentioned earlier, this is a source of great frustration for employers. The 2005 law protecting against anti-union practices is a good example. This law was first approved by the lower chamber of Parliament without tripartite consultation. After business complained, the Senate suspended the process for 60 days and opened a quatripartite table (tripartite plus Parliament) with the proviso that if no agreement was reached in negotiations, the law would pass without modification.

Employers put forward several demands around the following main points: protection should be limited to union leaders and those creating a union, the burden of proof should not be inverted, there should be no registry of firms that engage in anti-union practices, reinstatement would only be acceptable if all these other conditions were met and small firms should be given the option of paying a fine instead of reinstating workers. They also made some demands regarding the issue of conflict mediation, which they wanted to negotiate together with this law. As the end of the negotiations approached, the Labour Ministry put on the table a compromise proposal: there would be two procedures, one for union leaders and those creating a union, and one for ordinary workers, and the burden of proof would not be inverted for the latter. Also, there would be no registry of infractors, and firms with less than five workers would have the option not to reinstate workers. Business rejected the proposal and the issue went back to the Senate. However, rather than just pass the law as it was, the Senate introduced modifications based on the Labour Ministry's compromise proposal.

After further negotiations with Congress, the final law reflected this proposal except that it did not allow small firms the option not to reinstate workers. The law was approved in December 2005 with strong business opposition. Employers feared that it would severely restrict in practice their ability to manage human resources and, in particular, to fire workers. But in the first year of application, there were only three cases brought to court based on this law and two of them were decided in favour of the company (Rodríguez, Cozzano and Mazzuchi 2006).

This example shows that even though no tripartite consensus was reached and the reform process started without tripartite consultation, later on negotiations were held in good faith and the outcome reflected efforts to accommodate, to some extent, the different interests at play. The 2007 subcontracting law, the other main piece of labour legislation passed to date, followed a similar pattern.

President Vázquez's more activist approach to labour relations seeks to compensate for the *de facto* flexibilization and deregulation of much of the labour market that took place in the 1990s. These changes occurred despite the absence of any major labour law reform, largely through the interruption of the wage councils (Ermida 2000; Rodríguez, Cozzano and Mazzuchi 2001, 2004; Zurbriggen et al. 2003). In the absence of a general duty to bargain, collective bargaining became decentralized and shrank in coverage, reaching only 16% of workers in 2004 – and this included a few sectors such as construction and urban transport where government decided to maintain a tripartite wages council.

Upon restoring the wage councils in 2005, government started tripartite consultations on a new legal framework for collective bargaining that would update wage council regulations and promote bargaining at the national, industry and company levels. Employers, however, exited this forum in protest over the 2007 subcontracting act. A draft law was later sent to Parliament but faces strong business opposition.

Privatization and pension reform: These are two policy areas where tripartism as such has played a limited role, but trade unions have been able to exercise considerable influence through direct democracy tools. In 1993, the telecom employees' union and leftist parties initiated a referendum to strike down core aspects of President Lacalle's 1992 Public Enterprises Law, including the partial privatization of the telecom company ANTEL. They won 72% of the popular vote, making it clear that public opinion was against privatization, and that the traditional parties were internally divided on this issue.

The vote limited the scope of privatization to a few cases, such as the harbour and the national airline, and led to a more gradual and indirect approach. Government began to use concessions for infrastructure, open sectors to private competition (e.g., insurance, long-distance and cell phone services) and promote joint ventures with the private sector for new undertakings (Forteza et al. 2003). The unions continued to hinder the process with the use or threat of referenda. In 2003–4 two more votes reversed policies that enabled the fuel company to enter joint ventures with foreign investors and allowed the privatization of water and sanitation services. At the same time, the main public enterprises underwent modernization plans in the 1990s that involved new investment and restructuring agreements with the unions. The fact that they are strong contributors to the Treasury presents, however, an obstacle to the liberalization of utility markets (Bergara et al. 2006).

Pension reform is another area where referenda initiated by pensioner associations, and backed by the PIT-CNT and leftist parties, played an important role. A referendum in 1989 on indexing pensions to the mean wage won 82% of the popular vote. This was a response to the erosion of the real value of benefits in the 1980s but it exacerbated the system's financial problems and added to the public fiscal deficit. President Lacalle tried four times in his mandate to reform pensions but failed (Filgueira and Papadópulos 1997).

The 1995 reform under President Sanguinetti involved intensive negotiations between different factions of the political parties. Unions and employers were invited to the meetings but only on a consultative basis, and played a minor role. Employers supported the reform and demanded lower payroll taxes. PIT-CNT opposed the reform, together with the main pensioners' association and the leftist parties' block, due to the introduction of a private individual capitalization pillar. The outcome was a gradual and moderate reform, based on a mixed system with a basic pay-as-you-go public pillar and a second individual capitalization pillar that is only mandatory for those under 40 and earning above a certain threshold. The public pay-as-you-go pillar remains dominant; it will account for 75% of benefits at the end of the transition, and the largest pension fund in the second pillar is state-owned. Parametric changes were also introduced setting the minimum retirement age at 60 for men and women, with 35 years of contributions. Other key elements were the introduction of work histories – which add transparency and reduce the scope for clientelism (Bergara et al. 2006) – and the beefing up of the Social Provident Bank (BPS) (Ramos 1999).

The possibility of a referendum against this law was anticipated by reformers who sought to deflect opposition with various features of the reform. It was also used to persuade those in favour of more radical changes. The World Bank was pressuring for greater privatization, along the lines of the Chilean model, but Uruguay stood its ground and turned to the IDB to finance the transition. The fact that the reform was the product of broad political consensus strengthened the country's position vis-à-vis external actors. Pensioner associations and the PIT-CNT tried unsuccessfully to call for a plebiscite.

Problems remain, however, in that the pension system still requires financial transfers from the state budget; and the overall welfare architecture doesn't match well the changing structure of social risk, with more insecure and informal jobs and the concentration of poverty among young, often single-parent families (Filgueira and Alegre, 2009). The Vázquez administration opened a social dialogue on social security in 2007–8 that involved stakeholders, political parties, and experts from local universities and international organizations. Unions and employers were active participants and the dialogue reportedly reached a high level of consensus.[7] It produced some general guidelines as well as more concrete proposals for immediate changes, such as reducing the number of contribution years required for a regular pension from 35 to 30 in light of the difficulty many people face in reaching this threshold;[8] addressing women's contribution gaps due to childrearing, and a reform of unemployment insurance. This process reflects a strategy of gradual and incremental changes in social security within a long-term horizon.

Another key recent reform endorsed by the dialogue concerns family allowances, which are now child benefits linked to school attendance and health controls and are no longer dependent on parent (formal) employment. This programme aims to reach by 2009 all poor children in the country at a cost of nearly 1% of GDP (Filgueira and Alegre 2009; see also Midaglia and Antía 2007). Participation in the BPS board – which is headed by Ernesto Murro, a former PIT-CNT expert – affords unions and employers the opportunity for continued input into the reform process. One can see, for instance, significant overlap between the new measures being proposed and the unions' 2004 Alternative Proposal on Social Security.

***Other reforms*:** Tripartism has only played a minor role in other important structural reforms such as the 1995 education reform under President Sanguinetti and the recent tax reform under President Vázquez. The education reform, which was headed by Germán Rama (a respected intellectual whose research at CEPAL had brought attention to social inequities in educational performance), was also heterodox when compared to reforms in other Latin American countries in the 1990s in that it followed a centralized, statist approach without including any element of privatization (Mancebo 2002; Lanzaro 2004). The teachers' union supported the reform in primary education where the aim was to universalize access to kindergarten for four- to five- year-olds and create full-day schools in poor neighbourhoods with additional services and resources. But in secondary education, where the focus was on extended hours and curriculum overhaul, the teachers' union strongly opposed the reform and hampered implementation. This is an example of how the PIT-CNT's decentralized structure sometimes fails to aggregate interests into a common strategic vision, to the detriment of tripartism.

In 2007 a major reform of the tax system aimed at increasing efficiency, equity and investment incentives. It introduced an individual income tax, eliminated 14 different taxes, reduced VAT (slightly) and corporate taxes and was accompanied by efforts to bolster the tax collection agency. Tripartism only seems to have played a minor role, even though the Economy and Finance Minister formally presented the reform proposal at the National Compromise forum. PIT-CNT demanded a higher income threshold for those to be exempted from the income tax, joint filing for couples and deductions for children. These demands were partially met in the reform and in adjustments made after the first year of implementation. Business' demands were more sector-specific; the main chambers were divided, for instance, about the proposed elimination of differences in payroll taxes. Unfortunately, there was no social pact that would signal tripartite agreement on a new fiscal contract.

Summing up, the impact of tripartism has varied over time in Uruguay, and was higher during the democratic transition years and the recent leftist administration. These are the two periods in which wage councils have been in operation and the policy scope of tripartite negotiations has been broader. There is also some variation across policy areas, with higher impact on those areas where there are special institutions for the participation of business and labour. The overall impact of tripartism has been limited, however, by lack of consensus on a number of important policy areas, as signified by the absence of a social pact. This lack of consensus is also internal to the actors, who often face difficulties in aggregating diverse interests and views.

The rather limited impact of tripartism on reforms and policies makes links to socio-economic outcomes tenuous. This is further complicated by the deep economic and financial crisis of 1999–2002, which stemmed in part from contagion and dependence on Argentina. We have examined above some outcomes related to incomes policy that suggest the tripartite wage councils have been a useful tool for macroeconomic management while allowing for wage increases, especially with regard to lower wages. Another issue to consider is whether Uruguay's gradualist approach to reforms and, in particular, the limited scope of privatization might have been costly in terms of reduced economic dynamism. GDP grew at an annual average rate of 4.1% from 1985 to 1998, significantly less than Chile's but not bad for Latin America. The average annual growth rate for the region was 2.9% in 1985–98 and 3.1% in 1999–2007. Uruguay posted a low 1.9% economic growth rate in 1999–2007 due to the large impact of the 1999–2002 crisis, when GDP shrank by 18%.[9]

Other indicators were pretty strong until the crisis. ILO data show that the urban unemployment rate remained high at an average of 9.7% in 1985–98, but the urban employment rate increased from 47.9% to 54.3% and urban workforce participation rose from 54.5% to 60.4%. CEPAL data show a reduction in poverty from 19.3% in 1986 to 9.4% in 1999, and also in income inequality, as measured by the Gini coefficient, from 0.49 in 1990 to 0.44 in 1999. Both rates were the lowest in the region. The 2002 financial crisis had a huge social impact, however. The urban unemployment rate reached 17% in 2002 and poverty soared to 20.9% in 2004. Since then, the economy and the labour market have been performing well as discussed above. GDP growth has averaged over 8% in the last five years, the urban unemployment rate fell to 9.5% in 2007 and the poverty rate to 18.1%. The Gini coefficient was 0.45 in 2005.

4.4.2 Impact of tripartism in Chile

As Table 4.3 indicates, the impact of tripartism on economic reforms and policies in Chile has been limited. Reforms will be presented in order of importance according to the impact of tripartism upon them. But first some words are necessary about the impact of tripartism on democratization. This impact is evident, not only in that there has been democratic stability in Chile since 1990, but also in the advances in institutionalizing a new role and status for the military. In 2005, the centre-left coalition government managed to bargain successfully with the opposition regarding the elimination of all remaining authoritarian bottlenecks of the 1980 Constitution. However, reform of the electoral and labour systems inherited from Pinochet is still pending, which indicates the limits of democratization. The union movement has fully supported the negotiations to end the binominal electoral system.

Above and beyond the costs paid by trade unions for signing the 1990 Framework Agreement, democracy is certainly the great gift they have offered their country, a fact that is widely acknowledged. It is indeed unclear what political path the authoritarian power block would have followed after losing the 1988 plebiscite and subsequent presidential election, if unions had not signed that accord and leftist parties had not given full support to the market-economy based democracy in 1990. Even so the military, with Pinochet as commander-in-chief up to 1998, made coup threats on two occasions in the early 1990s. Large employers, who had bought the country's main companies during the period of military rule at bargain prices and had subversively helped overthrow the Allende government, overcame their fear of expropriation and invested thoroughly. Finally, right-wing party leaders, who had also been involved in subversion against Allende and then became ministers under Pinochet, were called and came in to sign reforms with the centre-left democratic government time and again.

Tax reform: A key element of the tripartite Framework Agreement, as documented earlier, was the increase in VAT and the reinstatement of business taxes eliminated by Pinochet during the plebiscite and 1989 presidential elections in order to finance social spending. Also significant was the reduction of tax evasion through computerization and control, particularly the creation of a special unit to monitor big business tax evasion.

Even more important was the establishment of responsible fiscal policy, first as a practice and then instituted by law. Chile maintained a balanced budget and savings to be spent at economic downturns, as during the 1998 Asian crisis. Chile also institutionalized a long-term state revenue (savings) policy of copper reserves, well beyond the annual 1% structural fiscal surplus, in order to reach the horizon of a 'socially responsible state' that would cover basic needs regarding education, health care, universal pensions and housing by 2010.

Education, health care and pension reform: Pinochet enacted key social policy reforms, including the privatization of pensions, health care and education and the targeting of social assistance to the poor. Centre-left democratic governments have built on the initial modernizing aspects of these reforms or, in other cases such as health care and pensions, 'reformed the reforms' extending rights to meet people's needs. While not directly derived from tripartite agreements, these reforms were part of their spirit – that of development for all and of gradual change rather than revolution. But, except for education, the impact of tripartism was low.

Education reform started under President Aylwin with a special statute for teachers that freed them from the Labour Plan and gave them minimum rights and stability (tenure). Although the teachers' union called for a reversal of Pinochet's decentralization policy, government decided it had modern and democratic elements. President Frei passed a full-day school bill, replacing the half-day instituted by the military and strengthening teachers' curricula. As mentioned earlier, a tripartite education agreement was signed by all national strata and institutions (the Brünner Plan) in 1994, which paved the way for a consensual long-term plan to upgrade primary education. President Lagos extended obligatory education from 8 to 12 years and introduced new teaching methodologies and teachers' training. The system has managed to maintain 98% of upper strata children in school and as many as 87% of those in the lowest 5% rank. The budget has doubled from 4% to 8.6% of government spending in 1990–2006; university student numbers have multiplied by four and OECD achievement measurements are annually administered to monitor reforms.

President Bachelet has organized a National Advisory Panel of over 80 experts and stakeholders, including university and high school students, in order to upgrade the quality of education. A main goal was to change Pinochet's basic education law (LOCE), which can only be changed by a 2/3 parliamentary majority. Government has now sent a bill proposal that will further reform Chilean education by increasing funding and the state's supervisory role in the quality of education, while restraining the use of public funds for profit. A similar process is under way at the university level. This renewed reform process has resulted in a unanimous agreement to increase the quality of education through an annual increase in funds of US$650 million over the next four years, transferred from half of the annual 1% fiscal surplus and, more permanently, by using profits of copper export savings to train teachers and students abroad.[10]

As with education, the centre-left democratic government accepted Pinochet's decentralized model for health care despite strong opposition from doctors' unions and the Health Workers Federation. One key reason for maintaining decentralization was evidence coming from the only regional hospital that was kept under central state control that in no way reflected a more efficient or equitable administration. Although discussion on the need for health care reform started in 1990, it was not fruitful until 2005. The three main issues under discussion were granting power to the Health Ministry over the whole health system, establishing a solidarity fund for all citizens financed by public and private medicine and emphasizing preventive medicine. Even though the final outcome was opposed by doctors and workers of all kinds and resolved none of the three issues, it has gradually been accepted. In fact, the law that created AUGE, the National System Guaranteeing Sickness Coverage, was passed by the Christian-Democratic Party and the right-wing parties, with opposition from the leftist members of the centre-left coalition government and the health workers' union. By now it guarantees coverage for the 56 most common sicknesses, for all citizens, whether privately or publicly insured.

Pinochet's pension privatization was promoted by international agencies (WB, IMF) as a model to follow, and was actually copied in many countries. When President Bachelet won a landside election in 2005 based specifically on the promise that she would change this policy, international interest was attracted. The system was presented by the new government as needing reform, since it provided extremely high profits to the pension administrators while, according to projections, affording less than 50% of their members a minimum pension on retirement. The issue was analysed by a national panel formed by experts and stakeholders, including the CUT, that proposed a number of changes. A reform is being implemented in 2008 which aims to establish a permanent public pensions pillar financed by a special copper savings fund, parallel to the present private savings pillar based on individual funds (Larraín 2006). The new pillar provides a universal non-contributive minimum pension which complements the pensions received from the private system up to a certain threshold.

Finally, in regards to social assistance, the centre-left democratic governments have continued Pinochet's approach of targeting anti-poverty measures to needy families and local communities. The Aylwin administration created FOSIS, a programme focused directly on the poor, and enhanced the role of INDAP, a similar programme for rural areas; increasing social spending as part of a common agenda agreed with the opposition, as documented in our previous analysis of the 1990 tripartite Framework Agreement. President Lagos established the bridge programme *Chile Solidario* concentrating on the poorest segments. This programme was negotiated with the political opposition, which added different elements such as personalized counselling. President Bachelet has already innovated on a key issue, focusing poverty level analysis not on goods owned (TV, radio, and so on) but on real family income levels.

Unions generally added their social legitimacy to government policies, but their support was totally absent when it came to issues – including general social policy – that were beyond strict union interests such as the minimum wage. However, they have now fully supported the government pension reform initiative.

Labour law and active labour market policy: The centre-left democratic governments have consistently put forward during presidential election times the CUT's two basic demands: firstly to extend collective bargaining, particularly at the national and sector level and to include non-permanently employed workers (temporary, subcontracted and others), and secondly to end the employers' right to replace striking workers. This has shown labour that its demands have not been met because of the right-wing opposition's veto. It was only in 2006, after designated senators were finally eliminated, that government had for the first time a slight majority in both parliamentary chambers and was able to pass a pro-union law on subcontracting. However, this was the result of an electoral pact between Bachelet and the unions, not a tripartite agreement.

Macroeconomic and incomes policy: Pinochet's first monetarist adjustment programme, the so-called shock treatment in 1975, was the start of a policy designed to bring government spending into line with the reduced earnings that followed tax reductions and inflation control. However, the 1981–2 crisis and the massive protests that followed led to a more flexible and less monetarist economic policy, which started a new capital accumulation cycle. Nonetheless by the end of the decade an unbalanced fiscal trend once again emerged as a result of huge government spending during the electoral years of 1988–9 (with the plebiscite and presidential elections). A new wave of privatizations increased government revenues and spending; at the same time taxes were reduced (Ffrench-Davis 2001).

Now, in contrast, fiscal responsibility has been passed into law; strangely enough with strong opposition from neoliberal economists! Chile has become a creditor country that invests its surplus abroad to avoid internal economic distortions. This allows the possibility of financing programmes, such as universal basic pensions, to rebuild a 'socially responsible state'. Public social spending increased from 12.7% of GDP in 1990–1 to 14.8% in 2002–3 (CEPAL 2006). Per capita spending in health and education grew from 83.9 in 1990 (base 1970 = 100) to 108.3 by 1994 and 164.5 in 2002.

Regarding incomes policy, the 1990 Framework Agreement stipulated an increase in the minimum wage, a policy that has been continued by government with periodic adjustments based on forecasted inflation and productivity increases. As shown in Figure 4.5, the real minimum wage has experienced sustained growth, nearly doubling in 1990–2004.

Trade liberalization and privatization: On these matters there have been no tripartite agreements and hardly any union effort at negotiations except to oppose, through public statements, the privatization of water

Figure 4.5 Chile: Real minimum wage growth, base index 100 = 1989–90
Source: (Marinakis & Velasco 2006)

facilities under President Frei. Trade liberalization has also hardly been dealt with by unions, in contrast to the Pinochet period when unions joined with industrial businesses to oppose decreases in import tariffs. This lack of negotiation on such key policies and the development of a politico-technical approach by unions have been detrimental in extending their legitimacy, their *symbolic power*, before the country at large. President Lagos signed free trade agreements with the US, Europe, Central America, Perú, the Republic of Korea and New Zealand–Brunei–Singapore. President Bachelet has continued on, by advancing and/or signing treaties with China, India, Japan and Australia.

In sum, tripartism in Chile has been weak but has had lasting effects since 1990. It may be considered weak because there were only two agreements with limited immediate results; but these were all-embracing as they referred to strategic lines of long-term fiscal policy, social spending and education for the development of the country that have permeated the economy for all these years. In fact, none of the signing actors has ever dismissed the agreements, which clearly contributed to the consolidation of democracy. Tripartite impact on economic reforms and policies has been largely restricted to these three policy areas. Labour rights, on the other hand, have increased but core issues such as sector bargaining and collective bargaining for temporary workers – a majority in the seasonal food and retail economy, and present in most other industries – are still unsolved. Collective bargaining coverage is very low (under 10%) in the private sector, which represents a key distributive bottleneck.

Socio-economic outcomes are mixed. GDP growth has been strong, averaging 5.6% per year in 1990–2005, compared to 2.9% under Pinochet. Real wages, and even more so the real minimum wage, experienced sustained growth (see Figure 4.5). CEPAL data show a sharp decline in poverty from 38.5% in 1990 to 13.9% in 2006. Chile has today the highest human development index in Latin America (40th in world terms), followed by Argentina (46th) and Uruguay (47th) (UNDP 2008). On the other hand, income inequality has remained very high. According to MIDEPLAN (Ministerio de Planificación y Cooperación), the Gini coefficient was 0.57 in 1990 and 0.54 in 2006. Unemployment averaged 8.6% in the last decade (1996–2006). The employment rate rose moderately from 48.6% in 1990 to 50.5% in 2006, while workforce participation grew from 52.7% to 54.8% but is still below the regional average at 58.9% (ILO 2007).

A study of 15 years of centre-left coalition governments, focussing on the equity and efficiency question, was entrusted to a team of 100 academics and experts (Meller 2005). Topics included macroeconomics, integration into the world economy, employment and salaries, social development, health, education, income inequality, business regulatory frameworks, technological innovation and environment policies. In each case a counterfactual was added, based on simulated data drawn from presidential election proposals by right-wing coalition candidates. Although employment is the main difficulty found in the results of the centre-left administrations, the net benefit in terms of jobs and wages is still 10% higher than it would have been under an opposition government. In addition, the high economic inequality present in Chile today would most probably have been greater, and the country would have had poorer results in housing, health care and education (Valdés and Hicks 2002).

Larraín (2005) notes in a recent book the challenges Chile has faced in the last three decades. His conclusion is that, as political constraints from the Pinochet era are being lifted, it is society that is lagging behind in inequality relative to the present state of good health and performance of the economy, Chile's historic bottleneck. Moreover, there is strong research evidence indicating that it is good business for employers to support trade unions, as unionization sets the conditions for the establishment of strategic alliances with labour to compete in open world markets (Muñoz 2000). In the case of Chilean food production for export, for example, this could involve the negotiation of union bargaining rights, which are lacking today, in exchange for greater quality products. It could also include better returns for small producers, which implies an ability to negotiate within export chains; or, alternatively, government support for the development of associated small producer export boards. This is the case of New Zealand milk producers, who have become the most productive in the world (Falabella 2005). Perhaps re-editing the mid-1990s Productive Development Forums at national and territorial/chain cluster levels could be the most adequate mechanism in the quest for a more inclusive development path.

Two factors could inhibit this progressive agenda. One is the risk of 'state capture' by large (family) economic groups that have ensured their permanent access to decision making, as Larraín notes in his book.[11] Larraín, responsible for the office supervising finances and security companies, is a well-informed and reliable source on these matters, as is Felipe Lamarca, former president of SOFOFA, the industrial employers association, who managed one of the three main economic groups in the country and has plainly stated that 'Chile won't change until elites wean off the teat'.[12] The second obstacle is the fear of people's participation, which, in terms of the present study, simply means expanded collective bargaining.

4.5 Conclusion

We may conclude this analysis of tripartism and economic reforms in Uruguay and Chile by briefly examining the hypotheses that have guided this comparative research project in light of evidence from the two cases.

The first hypothesis stated that relatively strong tripartism produces reforms that reconcile efficiency and equity – e.g., moderating the pace of change, providing compensation for losers, reducing excessive income inequality and enhancing social protection. We find that tripartism has indeed inserted a concern for equity into the policymaking process in both countries. In Chile, the 1990 Framework Agreement initiated a policy of rising minimum wages and increased social spending, which was funded through a tax reform in order to preserve fiscal balance. The 1994 accord on education started, in turn, cooperation in an area that is crucial to improving social inequality. In Uruguay, the wage councils implemented an incomes policy that sought to align wage growth with macroeconomic stability while reducing wage dispersion through higher increases for the lowest wages. Tripartism restored labour rights restricted by the military dictatorship and applied a gradual tariff reduction within Mercosur for many sectors, allowing firms some time to adjust to the new competitive pressures. It offered training to dislocated workers and later extended active labour market policy to hard-to-employ groups. Tripartism has also been engaged in recent efforts to adjust the social protection system.

On the other hand, the different limitations tripartism exhibits in each country have reduced its ability to shape reforms and policies and, indirectly, socio-economic outcomes. In Chile, this is most evident in the inadequate recognition of collective bargaining rights that deprives workers of a key instrument for improving income distribution. In Uruguay, lack of consensus on key policy issues – as reflected in the absence of a social pact – has also reduced the impact of tripartism, especially during the periods in which there has been no tripartite wage setting.

The second hypothesis states that tripartism makes economic reforms more politically sustainable – e.g., signalling agreement on reforms and generating buy-in from key social actors. There is evidence in both cases to support this hypothesis. In Chile, the 1990 Framework Agreement did indeed signal labour's acceptance of the liberalized economy inherited from Pinochet, as well as business' acceptance of increased social spending under democracy. In Uruguay, tripartism has helped consolidate consensus in some areas such as trade opening/regional integration. More indirectly, it has reinforced gradualism in areas of disagreement, which arguably makes reforms less likely to be reversed. Beyond the sustainability of reforms, tripartism has made an important contribution to democratic stability and governability at the delicate time of political transition in both countries, and of financial crisis in the case of Uruguay.

Finally, we find little evidence in our cases in support of the third hypothesis that states that tripartism increases the manoeuvring room for national policy makers vis-à-vis international actors – e.g., that governments can leverage domestic consensus around policies that deviate from external recommendations. One possible instance is the 1985 CONAPRO economists' document that sought to strengthen Uruguay's position in upcoming negotiations with the IMF by showing consensus around a gradual stabilization approach. Uruguay did deviate from World Bank recommendations in the 1995 pensions reform but there was no tripartite consensus behind this reform.

Postscript

As this book goes to press, a new tripartite agreement has been signed in Chile, in May 2009, to avoid further unemployment in the context of the global financial crisis (unemployment has reached 9% as of March 2009). The accord contains measures to retain and retrain workers as an alternative to redundancies, funded by a joint financial effort and an increase in the unemployment insurance scheme created in 2001.

It also includes an especial training bonus for women heads of household and an extension of labour certification for skills learnt on the job. Parallel to this agreement, the national development agency has increased lending to small businesses through the banking system and the government has implemented a $4 billion countercyclical stimulus plan using its huge copper savings; an amount proportional, on a per capita basis, to that spent by the US Obama administration.

Notes

1. The authors wish to thank Guillermo Campero, Rafael Díez de Medina, Oscar Ermida, Patricio Frías, Jerry Hague, Cynthia McClintock, Oscar Muñoz, Verónica Oxman, Joe Ramos, Ian Roxborough, Jacobo Varela, María Luz Vega, Achim Wachendorfer, Daniel Weinberg and the staff at CINTERFOR-OIT for their comments and help with the study. Gabriela Morales assisted with data collection at Chile's Labour Authority.
2. Governments continued to negotiate minimum wage increases with unions and implement them through parliamentary agreements with the opposition.
3. In the early 1900s Uruguay became one of the first welfare states in the world under the banner of *battlismo*, the local political doctrine of President José Batlle, who advocated a strong economic role for the state and a middle-class country. Uruguay was known as 'the Switzerland of America' and enjoyed high prosperity up to the mid-1950s.
4. CONAPRO. Documento elaborado por los economistas de los 4 partidos políticos. El Marcador, doc. n. 4, CIPFE, Montevideo, February–March 1985. Downloaded from http://www.uc.org.uy/d0385b.htm.
5. Uruguay was first told by IMF staff that it would need to default and convert bank deposits into bonds in order to get help. The government, however, thought that this would ruin the country's reputation as a banking centre and worked out a different solution with the US treasury, which helped persuade the IMF and provided a US$1.5 billion bridge loan. See the account by former US Under Secretary of the Treasury John Taylor (2007).
6. Consejos de Salarios 2005–7, Ministerio de Economía y Finanzas, Ministerio de Trabajo y Seguridad Social, República Oriental del Uruguay. For more information see the document at www.mef.gub.uy/documentos/20080605-css.pdf.
7. 'Diálogo por la Seguridad Social: Ahora las leyes', La República, 12 April 2008. Available from http://www.larepublica.com.uy/politica/306872-dialogo-por-la-seguridad-social-ahora-las-leyes.
8. A study estimated that if the frequencies of monthly contributions in 1996–2004 were to continue into the future, only 21% of workers with social security records would reach the required 35 years of contributions at age 60, and 29% at age 65, in order to qualify for the standard pension. If the requirement were to be lowered to 30 years, the percentage of those qualifying would rise to 35% at age 60 and 41% at age 65. Note, however, that the

estimate is based on just eight years and includes a severe economic crisis. See Bucheli, Forteza & Rossi (2007).

9. Author's calculations based on the World Bank's World Development Indicators database.
10. Congress address by President Bachelet, 21 May 2006.
11. A UNDP study of the relations between the Chilean economic and political elite documents high levels of networking. See *El poder: ¿para qué y para quién?* (Santiago: PNUD, 2004). President Bachelet has introduced a bill regulating lobbying.
12. Interview published in the newspaper *La Tercera* on 9 October 2005.

List of interviews

Uruguay

José Balbo, Director National Employment Board (JUNAE), Montevideo, 27 October 2005.

María Dolores Benavente, economic advisor, Chamber of Commerce and Services, Board of Directors República AFAP (public pension fund), Montevideo, 26 October 2005.

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Jorge Bruni, Labour Vice-Minister, Montevideo, 3 November 2005.

Juan Castillo, PIT-CNT General Coordinator (since 1995), Montevideo, 31 October 2005

Alberto Couriel, Senator, Broad Front party, Montevideo, 28 October 2005.

Beatriz Cozzano, Director of collective bargaining (since 1992), former wage councils' coordinator (1990–2), Labour Ministry, Montevideo, 28 October 2005.

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Lalo Fernández, President Socialist Party, former leader of bankworkers' union, Montevideo, 3 November 2005.

Ariel Ferrari, workers' representative at the Social Provident Bank (BPS), Montevideo, 28 October 2005.

María Carmen Ferreira, former National Employment Director (2000–5), former National Labour Director (1995–2000) at the Labour Ministry. Montevideo, 27 October 2005.

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Fernando Pereira, Jorge Mesa, PIT-CNT leaders, Geneva, 15 June 2006.
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Rubén Villaverde, Jorge Mesa, Juanjo Ramos, Director Cuesta Duarte Institute and PIT-CNT leaders, Montevideo, 1 November 2005.
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Achim Wachendorfer, FESUR-Friedrich Ebert Foundation, Montevideo, 1 November 2005.
Daniel Weinberg, Director CINTERFOR/OIT. Montevideo, 25 October 2005.

Chile

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Guillermo Campero, Ministerial and Presidential Labour Advisor (1990–2005), April 2006.
Cristián Cox, main technical official in charge of reforms, Education Ministry (1990–2006), May 2006.
Raúl de la Puente, President State Employees Association, May 2006.
Rodrigo Egaña, Undersecretary of the Presidency Ministry and Head of the State Modernization Programme during President Lagos (2000–5), May 2006.
Hernol Flores, former leader of the 'Group of Ten Unions', June 2006.
Patricio Frias, Head of Research Labour Relations, Labour Authority, Labour Ministry, May 2006.
Ricardo Ffrench-Davis, CEPAL, April and October 2006.
Alvaro García, Minister of Economy (2000–2), July 2001.
Carmen López, main Ministerial advisor in Health Reform (1990–2006), May 2006.

Arturo Martínez, President of CUT, June 2006.
Oscar Muñoz, Professor, University of Chile, May 2006.
Verónica Oxman, advisor Labour Minister (2000–5), April 2006.
Jorge Pávez, President National Teachers' Association, May 2006.
Rafael Pereira, Director Legal Office, Labour Authority, Labour Ministry, May 2006.
Jaime Ruiz-Tagle, main government analyst on pensions, Presidency Ministry, May 2006.
Hernan Sommerville, head Employers Confederation CPC (2004–6), April 2006 (participant in ILO Panel).
Esteban Soms, Head Planning and Social Network Territorial Management, Social and Planning Ministry, May 2006.
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5
Tripartism and Economic Reforms in South Africa and Zimbabwe

Edward Webster and Dinga Sikwebu

5.1 Introduction

This chapter compares two very different experiences with tripartism in Africa in the last two decades: a weak advisory model in Zimbabwe and a strong negotiating model that emerges out of the struggle for democracy in South Africa. The latter is actually a case of '*tripartism plus*' in that participation in policy consultations and negotiations involves not only representatives of government, trade unions and employer associations but also a fourth partner made up of community organizations representing the poor.

South Africa stands out as a unique case of strong tripartism in sub-Saharan Africa, with well-institutionalized practices and a track record of agreements dealing with various policies. We show that tripartism in South Africa has had an important impact on the content, pace and sequence of economic reforms in three broad areas: (a) the restructuring of the labour market (including labour legislation, training and other active labour market policies to promote employment and address racial inequality in the workplace); (b) trade liberalization and competition policy; and (c) privatization. Tripartism resulted in significant buy-in in these areas of policy implementation, improved the quality of the final policy and deepened democracy by channelling discontent through established institutions. However, reaching a broad 'social pact' has proved elusive and the impact of tripartism in other key areas such as social policy and macroeconomic policy has been small or non-existent.

In contrast to South Africa, the extremely weak nature of tripartism in Zimbabwe makes the comparison inherently limited even though there are considerable similarities between the colonial pasts and developmental trajectories of the two countries, notably the shared history of racial segregation and white minority rule.

Central to South Africa's democratic transition was the mobilizing power of trade unions and the relationship they were to develop with employers. A key moment in the transition was the Laboria Minute, a tripartite agreement signed in 1990 that no changes would be made to the labour market without the acquiescence of business and labour. In recognizing their interdependence in creating a new labour regime in the post-apartheid era, this tactical alliance laid the foundations for meaningful social dialogue in South Africa. In Zimbabwe, by contrast, the struggle for liberation in the 1970s was fought largely in the countryside with little mobilization of the relatively small industrial working class. The modest attempts at tripartism in the 1990s, which emerged in the context of economic reform, were eroded after President Mugabe's first defeat at the polls in 2000. Instead of social dialogue prefiguring political dialogue, as happened in South Africa, the state became increasingly authoritarian and embarked on a systematic campaign of repression of the opposition. This prepared the way for an elite pact between a largely intransigent regime and a seriously divided and weakened opposition. This pact is unlikely to be sustainable in the long term.

The central role played by tripartism in the transition to democracy in South Africa is the most striking conclusion to emerge from this comparison with Zimbabwe. The South African transition was marked by a range of institutional innovations that arose from social dialogue and laid the foundations for political change. These institutions originated in the stalemate that emerged in the early 1990s as civil society was in many instances able to block unilateral restructuring of the economy by the apartheid state and employers. The institutions created new rules of the game, compelling the key social actors – government, organized labour, business and community-based organizations – to bargain over liberalization by negotiating and concluding organized on major economic and social policies.

The long sustained resistance by labour weakened the apartheid regime and persuaded both employers and, eventually, government that a negotiated political compromise was desirable and feasible. By contrast, Zimbabwe failed to build through social dialogue a tradition of negotiations that could have helped break the growing political impasse after 2000.

The chapter is divided into three sections, which reflect in their length the asymmetric nature of the comparison. The first section examines the origins and evolution of tripartism in South Africa, its impact on the policymaking process and on socio-economic outcomes. It ends by identifying a number of challenges facing tripartism in South Africa that, if not met, could undermine the achievements of the past two decades. The second section briefly analyses the emergence of a fragile tripartite process in Zimbabwe, rapidly overtaken by the consolidation of an authoritarian state that destroys the economy and makes social dialogue irrelevant. The third section concludes.

5.2 Tripartism in South Africa

5.2.1 The origins, structure and function of tripartism in South Africa

A crucial feature of the South African transition was the widespread pattern of consultation that emerged before, during and after the democratic elections of 1994. Some have described this as a negotiated revolution, to capture the pervasive culture in which all major societal decisions were subject to the widest possible consultation between the widest possible constituencies (Adam and Moodley 1993). In part this was a reaction against South Africa's authoritarian and statist past, but it was also a philosophical underpinning of the transition, a process that prioritized reconciliation of former combatants and opposed societal interests. This is best exemplified in the way in which the 1994 election results themselves were a product of negotiation rather than straightforward arithmetic.

The result was a proliferation of multi-stakeholder forums, where different parties and organizations came together to deliberate over future policies and block any unilateral restructuring by the apartheid state. In June 1993, there were no less than eight national negotiation forums dealing with a range of socio-economic issues such as housing, electricity, trade, public finance, job creation and drought. The Congress of South African Trade Unions (COSATU) was centrally involved in these forums. There were also meso-level initiatives in the mining, automotive, clothing and textile industries that brought together employers, trade unions and government in a search for acceptable sectoral policies (Patel 1993; Hirschsohn, Godfrey and Maree 2000).

Labour was the best organized and the single most powerful constituency in the anti-apartheid resistance. Its protest action played a key role in the chronic crisis that precipitated the democratic transition and its economic and social policies supplied the core of ideas for the African National Congress' (ANC) 1994 electoral agenda, i.e., the Reconstruction and Development Programme (Adler and Webster 2000).

The development of tripartism in South Africa can be divided into two phases – a phase that coincides with the initial stages of political liberalization (1990–4), and the period after the establishment of the first democratic government (1995–2006).

5.2.1.1 The first phase of social dialogue initiatives (1990–4)

The emergence of tripartism in South Africa can be traced back to the establishment of two policymaking institutions, namely the National Manpower Commission (NMC) and the National Economic Forum (NEF). The NMC was a tripartite statutory consultative body on labour relations and labour market issues set up in 1980 by the Wiehahn Commission, a commission whose objective was to 'restructure industrial relations with a view to incorporating and controlling African workers' (Bonner and Webster 1979: 11). As a result, the NMC was boycotted throughout the 1980s by the two major black labour federations, the National Council of Trade Unions (NACTU), with a membership of 300,000 members, and COSATU, with a membership of 1,750,000, due to its unrepresentative structure (Schreiner 1991). However, the legal recognition of black trade unions recommended by the Wiehahn Commission brought about greater interaction between labour and business leaders in the realm of collective bargaining and other industrial relations activities.

Faced by growing disorder on the shop floor, many companies began searching for common interests with organized labour, yielding a series of bilateral negotiations that culminated in a tripartite agreement, the Laboria Minute in 1990 (Webster and Adler 1999). This accord between the main labour federations, the employers' federations and the Department of Labour stated that all future labour laws would be considered by employers' bodies and the trade union movement prior to being put before Parliament. Furthermore the unions agreed to participate in a reconstructed National Manpower Commission and labour rights were extended to those previously excluded from the industrial relations system, including farm and domestic workers, as well as public servants.

The Laboria Minute was a crucial – though little appreciated – moment in the transition to democracy (Webster and Adler 1999). In part, the agreement was itself made possible by the transition: by the late 1980s, labour repression was not an option for the apartheid government, which was already engaged in secret talks with the African National Congress (ANC). The Laboria Minute was the first example of a major policy issue being addressed by means of a negotiated compromise between the state and representative institutions. Furthermore the Laboria Minute was struck prior to pact-making on the political, military, and constitutional aspects of the transition. 'It set up a practice of tripartism, giving labour an institutionalized voice, enabling it to shape the broader transition agenda; as important, it prevented labour's fate being determined solely in a constitution-making process between political forces' (Webster and Adler 1999: 360).

The NEF – the second tripartite policymaking institution, launched in October 1992 – was a response to labour's demand for an end to unilateral restructuring of the economy. The trigger was the introduction of a regressive Value-Added Tax (VAT) in 1991. The largest union federation in the country, COSATU, mobilized a broad coalition in opposition to the new consumer tax. Since its formation in 1985, COSATU had been aligned with the African National Congress (ANC) and the South African Communist Party (SACP), the 'triple alliance' that was formally inaugurated after the unbanning of political organizations in 1990. This mobilization led to a two-day national strike where more than 3 million people stayed away from work on November 4–5, 1991.

Through their struggles over VAT, it became clear to labour leaders that merely delaying the new tax would not protect worker interests in the face of unilateral restructuring. Furthermore, their limited success at the NMC motivated them to seek a new general forum where economic and social policy could be debated and negotiated in a more systematic way. The NEF was a non-statutory 'consensus geared co-operative body' whose aim was to focus 'on both economic structure and distortions therein as well as socio-economic needs' (NEF 1992: 2). A number of factors made its creation possible. Firstly, there was the fact that negotiations on a new political dispensation had begun. As expectations and anxieties grew about the future, political negotiations that were underway on a new Constitution opened new areas for discussion between different sectors. The second factor was the growing working relations between union and business leaders. The NEF operated as a tripartite forum between 1992 and 1994, and attempted to strike agreements on a number of contentious issues. However, the outcomes were modest:

> agreement on a revised offer to GATT – which was crucial in shaping thinking around the need for a new industrial policy; overturning a government decision to raise the petrol price; agreement on parameters for a public works programme and disbursement of money to organisations applying to run programmes.
>
> (Friedman and Shaw 2000: 204)

As the 1994 elections approached, the imperative became blocking and delaying the actions of the apartheid government until an ANC-led government could come to power. In sum, the NEF was essentially a transitional arrangement that emerged in the context of an illegitimate government where negotiated agreements nonetheless had to be reached between the state, capital and labour. After the elections, its status was uncertain. Significantly, the key architects of COSATU's NEF strategy were now either in ministerial positions or were serving as advisers to government. Taking advantage of their positions – and in the absence of any serious opposition to social dialogue – they proposed the merging of the NMC's labour law and labour market agenda with the macroeconomic concerns of the NEF (Jayendra Naidoo, quoted in Webster, Gostner and Nkadimeng 1999). The impetus for this new structure was given further strength by a series of study tours sponsored by the ILO (Gostner 2000). These study tours took key labour and business leaders to a variety of socio-economic councils in Europe.

5.2.1.2 The second phase of social dialogue (1995–2006)

The new body, the National Economic Development and Labour Council (NEDLAC) was established through an Act of parliament in 1994. Importantly, the Act expanded the traditional tripartite nature of these institutions to include a fourth constituency labelled the community, made up of civil society groupings representing the poor and marginalized. The central idea underlying this model was to prevent a narrow corporatist arrangement between the 'Big Three' (Bird and Schreiner 1992: 28–9).

NEDLAC's central objective is for the four mandated constituencies to reach consensus and conclude agreements on economic and social policy. The NEDLAC Act also makes provision for three constitutional structures: the Executive Council, the Management Committee, and the Four Chambers on Labour Market, Trade and Industry, Public Finance and Monetary Policy, and Development. Government, business and labour are represented in all NEDLAC structures, while the community constituency only occupies seats in the Development Chamber, the Management Committee and the Executive Council. The community constituency consists of four key organizations: the Women's National Coalition, the South African Youth Council (SAYC), the Disabled People of South Africa (DPSA) and the South African National Civic Organisation (SANCO). However, it has been weakly organized and struggles to survive financially, partly because many NGOs – which are crucial to civil society organization – are de facto excluded from the chamber because they do not fit the membership criteria (Baccaro 2006: 197). In deciding admission of community organizations NEDLAC considers whether:

- the applicants represent a significant community interest on a national basis
- the organization has a direct interest in development and reconstruction
- the organization is constituted democratically and has a constitution which provides for a democratic decision procedure
- the organization is able to seek mandates from its membership in regard to the resolutions and policies of the council (NEDLAC Constitution Clause 9.9, RSA 1994)

The appointment of a community constituency coordinator with a budget to employ researchers has led to the possibility of the community constituency playing a more influential role in the future (Interview: Steyn 16 June 2006).

5.2.2 Impact of tripartism on reforms and policies in South Africa

5.2.2.1 Macroeconomic policy

The first agreement to be adopted in April 1993 in the long-term working group of the NEF focused on measures to increase levels of investment and savings, closing the foreign trade gap and reforming South Africa's labour market to promote job creation and productivity. These measures, in particular employment creation, were seen as crucial for 'the generation of high and sustainable growth' after negative growth in the 1980s (NEF 1993: 1). However, the real challenges facing social dialogue were to emerge later over macroeconomic policy.

In February 1996 a business think-tank, the South African Foundation, released its Growth for All document, promoting economic deregulation, dramatic reductions in the deficit, trade liberalization, privatization, lower corporate taxes, and increased labour market flexibility to be achieved through dual labour market policies (South African Foundation 1996). Soon after the business document was published, COSATU released an alternative plan, Social Equity and Job Creation, proposing a redistributive fiscal policy based on a strongly progressive tax system to redirect spending towards social services for the poor, and an active industrial policy to develop the manufacturing sector, along with social adjustment measures to cushion against the social costs of restructuring the economy. This became the common position in the NEDLAC Labour Caucus (Labour Caucus 1996).

With these sharply diverging documents in the public domain, the pressure was on government to release its macroeconomic framework. The issue of a shared economic vision had been formally tabled in NEDLAC in March 1996 and it was expected that the policy would be subject to social dialogue (NEDLAC 1996a). Instead, the Minister of Finance, Trevor Manuel, released the document Growth, Employment and Redistribution (GEAR) in Parliament and announced that it was 'non-negotiable'.

GEAR put forward ambitious targets. It aimed to achieve 'a fast-growing economy which creates sufficient jobs for all workseekers'. It envisioned redistribution of income, the provision of sound services to all, the achievement of 6% GDP growth, and the creation of 400,000 jobs per annum by the year 2000 (Department of Finance 1996). The controversial aspect of the plan was the means identified to achieve these goals. Its integrated strategy highlighted fiscal deficit reduction, gradual relaxation of exchange controls, reductions in tariffs, tax reductions to encourage private sector (and especially foreign direct) investment, and restructuring of state assets (privatization).

Business accepted the bypassing of NEDLAC 'because the strategy was largely, though not entirely, consistent with its own views' (Parsons 2001: 156). However, this was not the case with the ANC's Alliance partners, COSATU and the South African Communist Party (SACP), who were angered both by the content – which they now saw for the first time – and by the government's assertion that it was 'non-negotiable'. The lack of consultation led to ongoing tensions on how to deal with GEAR; some felt that the policy should be given a chance and the government should not be attacked during a currency crisis; others wanted to oppose the policy. 'The debate became so shrill that people walked away from it' (quoted in Webster and Adler 1999: 368). Indeed, some in COSATU now feel, with hindsight, that they should have taken the government to the Constitutional Court for breaching the NEDLAC Act which requires that government seek consensus on economic and social policies before policies are tabled in Parliament (Interview: Coleman 12 April 2006).

GEAR's bypassing NEDLAC had profound implications for the Public Finance and Monetary Policy Chamber. As line Ministers experienced GEAR's fiscal restraint and the implications that this policy had for government social delivery programmes, consensus over social policies became more elusive. As will be described later, a broad-based COSATU-led coalition failed to win support from government for their proposals for a Basic Income Grant (BIG) and most social policy interventions were driven outside of NEDLAC by specific government departments. With the exception of briefings on the budget by the Ministry of Finance, little business was conducted in the Public Finance Chamber. This state of affairs was to continue until 2000, so that this period became characterized as the 'lost five years' (Interview: Coleman 12 April 2006; NEDLAC Annual Report 2004/5: 55).

This refusal to engage with the social partners over macroeconomic policy confirmed an earlier policy decision in which the redistributive recommendations of the ANC-initiated research group – Macroeconomic Research Group (MERG) – were never adopted. By late 1993, the ANC had made a number of concessions to macroeconomic orthodoxy. They accepted a clause in the constitution that guaranteed the independence of the Reserve Bank and retained its conservative Governor, Chris Stals. They also agreed to retain Derek Keys, the apartheid Minister of Finance.

Almost ten years later, President Thabo Mbeki called for a tripartite growth summit in the context of sluggish economic growth rates (see Figure 5.1). Opening Parliament on 8 February 2002, Mbeki announced that

> [t]his year, the government will further increase its focus on the issue of achieving higher rates of growth and development. This will include promotion of domestic and foreign investment, trade promotion, a social accord and the convening of a growth summit.
>
> (Mbeki 2002)

The idea of the summit had been suggested in the Presidential Working Group on Labour, one of many informal groups where government meets with different stakeholders (SALB 2003: 22). After a year of preparatory negotiations and consultation, the Growth and Development Summit met under the auspices of NEDLAC in June 2003. It adopted a vision that committed NEDLAC constituencies 'to social dialogue and working together to address the economic and development challenges our country faces' (NEDLAC 2003: 27). The summit also adopted numerous agreements aimed at:

- creating jobs and cutting unemployment by half by 2014 through public investment initiatives; expanded public works programmes; employment generating sector strategies; local procurement; small enterprise promotion and support for cooperatives
- increasing aggregate levels of fixed direct investment through measures such as the extension of contractual saving to more employees

and more relaxed lending for low-cost housing, small enterprise and cooperative development
- accelerating equity through broad-based Black Economic Empowerment programmes; promotion of equity at the workplace; access to basic services; extension of social protection; enhanced literacy and training programmes
- promoting local economic development through social dialogue at local level; simplified tender procedures for small firms; local procurement; improvement of municipal infrastructure and linking local economic development plans with sector strategies.

Although these agreements were hailed as significant, post-summit assessment by different social partners was less enthusiastic. The first major weakness is that the summit did not deliver the social accord on growth that President Mbeki had spoken about (Makgetla 2003: 30). Instead, government refused to review its current policies and repackaged them for the summit. Business convenor Parsons noted, for instance, that government baulked at having macroeconomic policy and HIV/AIDS on the agenda of the summit (Parsons 2003: 22).

5.2.2.2 Trade, industrial and competition policies

South Africa's trade reform programme in the 1990s can be divided into two phases: first the removal of non-tariff barriers and tariff reductions whose highpoint was the country's offer in the Uruguay Round of multilateral negotiations; and secondly, the bilateral process aimed at concluding free trade agreements between South Africa and other regions of the world. In both phases, the government involved labour and business in the formulation of its negotiating positions.

Between July and December 1993, a tripartite NEF task team went line by line through South Africa's offer to the WTO and reached agreement on a tariff phase-down timetable, the rationalization of tariff lines and the removal of quantitative restrictions on imports (Hirsch, 2005: 127–8). South Africa committed itself to a 10-year phase-down period where the end-state after liberalization would be six tariff categories at rates of 0%, 5%, 10%, 15%, 20% and 30%. This range meant that at one extreme one would have no protection for mining commodities and non-motor transport equipment at the end of the implementation period; while at the other extreme tariffs on clothing would come down from about 74% in 1994 to 30% (Cassim 2006: 63–4).

With tariff reform having been concluded within the NEF, NEDLAC's Trade and Industry Chamber became preoccupied with industrial policy-related issues that the government had initiated or was planning to introduce; such as support for small firms, a review of the Regional Industrial Development Programme, Spatial Development Initiatives, and support for industrial innovation and firm competitiveness through a programme known as the Workplace Challenge Initiative (NEDLAC Annual Report 1997: 9–11; Dickinson 2005).

The only trade-related agreement to be concluded in the first years of NEDLAC was on social clauses. In June 1995, labour tabled within the Trade and Industry Chamber a discussion document that called for a direct link between market access and commitment to human and workers' rights. The eventual consensus within NEDLAC was that the best way to ensure that liberalization did not undermine human and workers' rights was through the ratification of ILO Conventions and through a pursuance of the idea of social clauses within the multilateral trading system. The government agreed to propose to countries with whom it was entering into trade treaties 'a side-letter to trade agreements, or a memorandum of understanding jointly committing the contracting parties to ratifying and observing the core ILO Conventions, and collaborating at the multilateral level to achieving the same' (NEDLAC 1996b:3). This watered-down agreement gave the social partners a limited but potentially significant voice over the social conditions under which trade liberalization occurs (Gostner 1997).

The second phase of South Africa's trade reform programme came with the initiation of bilateral trade negotiations in the mid-1990s. The two key free trade agreements that came before NEDLAC were the Trade Development and Cooperation Agreement between the European Union and the Southern African Customs Union (SACU), and the Southern African Development Community (SADC) Protocol. Although business and labour participated in the Trade and Industry Chamber negotiations on these two agreements, they also made attempts to influence the outcomes outside of NEDLAC. Companies with business interests in Europe were keen to use both formal and informal means to influence government. Business within NEDLAC undertook an independent analysis of tariff lines to determine sensitive sectors (NEDLAC 1997). The Department of Agriculture also established a forum to exchange technical inputs in the negotiations. The forum initially included government, farmers and large export companies; labour joined in later on (Bilal and Laporte 2004: 17–18). COSATU also tried to influence the outcome of the negotiations through presentations made to Parliament, in which it raised issues about the inadequacy of the processes of negotiations and consultation and noted the lack of adherence to the 1996 NEDLAC agreement on social clauses in both treaties (COSATU 1999b: 18). In its submission on the SADC Protocol, COSATU argued that the 'regional trade Protocol should have been preceded by regional industrial and development strategies' (COSATU 1999b: 4). This assertion echoed the union federation's contention that the South African government was rushing ahead with trade liberalization instead of developing a coherent and overarching industrial policy.

Throughout the 1990s, the labour movement fiercely contested the government trade reform strategy, particularly its tariff reduction timetable. As early as 1996, a year after South Africa's commitments to the WTO became effective, COSATU's textile and clothing union affiliate held the first protest actions. Unions claimed that government was reducing tariffs faster than agreed in the Uruguay Round. Minister Alec Erwin, former trade unionist and then Minister of Public Enterprises, denied this and felt that labour's accusation was a 'cheap polemic' and a misunderstanding of what was agreed in the NEF and South Africa's offer to the WTO (Interview: Erwin 12 April 2006). In their assessment of the EU–SACU negotiations Bilal and Laporte (2004: 22) argue that the use of outside channels contributed to a de facto erosion of NEDLAC's role.

In response to the above problems, NEDLAC concluded in 2004 an agreement known as the South African Trade Policy Framework: Principles and Guidelines for NEDLAC Consultations, which stipulates that

> trade policy must be constructed at a national level and framed within a broad development strategy that encompasses, amongst other things, policies to limit job loss and promote job creation, reduce inequalities in incomes and wealth, promote local economic development and spatial balance, stabilise macro-economy, promote appropriate industrialisation, strengthen domestic regulatory frameworks, promote education and skills development, and establish social policies.
> (NEDLAC 2005a: 1)

The framework agreement also presents NEDLAC as the primary forum for discussion on trade policies, and there has been improvement in the way consultations and negotiations have taken place around more recent talks on free trade agreements with Mercosur, China and the United States. COSATU's trade coordinator attributes this change to campaigns that the unions have waged since the early 1990s. She also feels that there was recognition on the part of trade negotiators that social dialogue strengthened instead of weakening their hand in the negotiating table (Interview: Van Meelis 24 March 2006).

An example of successful engagement in tripartite dialogue is the passing of the Competition Policy Act in 1998. Chief among the motives behind the new law was the desire to reduce the very high level of market concentration, considered by many to be a barrier to making South Africa internationally competitive. The policy process began in 1997 when the Minister of Trade and Industry appointed a task team to draft the bill. The team was faced with the difficult task of reconciling social needs (employment creation, redistribution and consumer protection) with global competitiveness (productivity and economic growth). The NEDLAC process resulted in substantial agreement between the parties, although business and labour recorded some areas of reservations and disagreements with aspects of the bill.

The outcome of the process was that government won 'buy-in' from labour and business to its new Competition Policy and obtained a better quality product. In the words of a NEDLAC official:

> Business and labour's participation added value to the policy since they sensitised government to their own needs and interests and the quality of the business team also helped a lot during the process because it included experts and lawyers who were able to table some of the unanticipated technical issues which were not taken into consideration by government policy makers.
>
> (Quoted in Webster, Gostner and Nkadimeng 1999)

In return for labour's support for the new competition policy the Competition Commission has to inform labour of mergers, and government can intervene to prevent companies abusing their dominant position (Roberts 1999).

5.2.2.3 Labour law reform and active labour market policies

The NEDLAC process was first put to the test in February 1995 when a new Labour Relations Act (LRA) was tabled in the Labour Market Chamber, based on a negotiating document devised by a legal drafting team appointed by the then Minister of Labour, Tito Mboweni. The bill proposed far-reaching changes to the industrial relations system including extending union organising and representation rights while greatly strengthening the right to strike and legalising picketing. Employers and unions deadlocked within the first month of discussions, and labour embarked on a campaign of mass action over the next two and a half months to support its demands, particularly for centralized, industry bargaining and the outlawing of scab labour. In July the NEDLAC parties announced a 'breakthrough' that enabled the social partners to reach consensus. The agreement was produced after 149 hours of formal meetings, plus late night 'conversation groups' or what later came to be called the Committee of Principals (Webster, Gostner and Nkadimeng 1999).

The new law was passed by Parliament in September 1995 marking the first fundamental break with the industrial relations system established in the 1920s and culminating some seven years of informal meetings, social protest and public debate.

Another difficult negotiation involved the Basic Conditions of Employment Act (BCEA). In February 1996 the Department of Labour published a Green Paper on Employment Standards that was discussed for six months in the Labour Market Chamber. Agreement could not be reached around two key labour demands – both of which had cost implications – the 40-hour week and six months' maternity leave, with four months paid. As a result of this deadlock, the Department of Labour took the initiative and published a draft bill in October 1996 inviting further public comment and negotiation at NEDLAC. COSATU responded in February 1997 by declaring a dispute in terms of section 77 of the LRA and announced a programme of escalating mass action. Negotiations ended again in an impasse, leading to a national strike in June 1997 and intermittent calls from the labour leadership to take the bill to Parliament. This happened in October 1997 after the Minister decided that 'sufficient consensus had been reached in NEDLAC'. The process took nearly two years to complete, by which time both business and labour were critical of the way the government dealt with it. Instead of the Ministry of Labour tabling a policy framework discussion document, they chose to table the actual legislation. The parties were then logically channelled into concentrating on legal phrases and 'the process became technical and legalistic' (Parsons, NEDLAC business convenor, quoted in Webster, Gostner and Nkadimeng, 1999: 9). In the event, labour compromised over its initial demand for a 40-hour week, in return for government resisting employer demands for greater flexibility in working hours between sectors. Importantly, the 'trade-off' in this case was not in NEDLAC, but in the Alliance between the ANC and COSATU. As the employer representative remarked:

> The BCEA favoured labour rather than business. It was initiated by government in the first instance but, as discussions become more

> intense, the process was driven by government and labour through bilateral meetings. So we were not surprised by the Act because the ANC is in alliance with COSATU and thus in the end labour agreed more with the Act than we did.
>
> (Quoted in Webster, Gostner and Nkadimeng 1999: 15)

The other two major pieces of legislation that were introduced in the 1990s as part of the new government's strategy to restructure South Africa's labour market were the Employment Equity Act (EEA) and the Skills Development Act (SDA). These two pieces of legislation, which were introduced in 1998, have as their aims the development of an extensive training system for employees and the provision of measures to advance within the workplace those that were disadvantaged under apartheid. The EEA also deals with unfair discrimination on the basis of race, gender, sexual orientation, age and a number of forms of discrimination.

Unlike the LRA and the BCEA, these two laws did not lead to serious disagreements within NEDLAC. In fact, business 'gave the Employment Equity Act 100% support while disagreeing with 10% of the Skills Development Act' (Interview: Van Vuuren 3 April 2006). These disagreements were around the National Skills Fund, future increases in the skills levy which employers were obliged to pay, and the demarcations of Sectoral Education and Training Authorities (NEDLAC 1998b: 2–3). At the launch of the National Skills Development Strategy in February 2001, government set a target to reach 15% of workers by March 2005. The target was already surpassed by a large margin in March 2004 (Department of Labour 2005: 40–2).

The compromise struck in 1995 over the Labour Relation Act was fragile in that employers felt that they had made too many concessions. Not surprisingly, the issue of labour law reform was soon revisited. Opening the new Parliament in June 1999, South Africa's new head of government, President Thabo Mbeki, announced the state's intention to amend some provisions of the labour laws enacted in the previous five years. In his speech Mbeki referred to the 'actual or perceived impact on investment and job creation' of the country's labour laws. He identified probations, remedies for unfair dismissals, retrenchment and some aspects of the BCEA, as areas to be considered in the review. The Minister of Labour embarked on a process of consultation and, after initial submissions by labour and business, tabled within NEDLAC in July 2000 proposals to amend the LRA, BCEA and the Insolvency Act. The amendments proposed new measures aimed at addressing the concerns of small businesses within bargaining councils, stringent rules for extending agreements to non-parties, speedier dispute resolution mechanisms, different dismissal procedures for probationers, reduced compensation for dismissals, and the possibility to award costs against 'frivolous' referrals to the Commission for Conciliation, Mediation and Arbitration.

At a national congress of COSATU in September 2000 it was decided to oppose the amendments and go on a three-day general strike if they were not withdrawn. Labour saw these amendments as 'an attack on organized workers and an attempt to unravel what was achieved in the first five years of the democratic government' (Interview: Coleman 12 April 2006). An impasse was reached within NEDLAC. Of particular concern for labour was the fact that employers were already bypassing established labour rights through the introduction of non-standard employment relationships (Theron et al. 2005).

With stakes so high a series of bilateral negotiations began. COSATU engaged in talks with its allies, the ANC and SACP. The labour component within NEDLAC decided to take the impasse over the amendments to the Millennium Labour Council, a business–labour bipartite body formed in July 2000 after a number of joint study tours on social dialogue in Europe:

> For the first time since the introduction of democracy in 1994, labour met with the key captains of industry and explained to them the implications of unravelling what had been agreed within NEDLAC. We told them that endorsing the amendments would be nothing less than scrapping the compromises struck in the first half of the 1990s. (Interview: Coleman 12 April 2006)

After a series of meetings between January and May 2001, and a fact-finding mission to the ILO in Geneva, a tentative agreement was reached within the Millennium Labour Council. This agreement was then the basis for consensus in NEDLAC. It gave workers in a workplace that employed more than 50 people the right to strike over retrenchments, amended the initial government proposal for dismissal of probationers for poor work performance and incompatibility, and accepted a narrower test of compliance compared with other workers when dismissing employees on probation. In addition, the agreement dealt with the extension of bargaining council agreements. In place of the stringent conditions for extension that government called for, it inserted a requirement for bargaining councils to produce an annual report for NEDLAC on how they were dealing with obstacles that confronted small businesses when implementing labour laws. The agreement also changed government's proposed amendments on possible variations of the core rights in the BCEA (Norton, Roskam, and Taylor 2002).

Van Vuuren, then Chief Operating Officer of Business Unity South Africa (BUSA), saw this accord as an indication of the 'maturity of social dialogue in South Africa. The fact that business and labour could agree on what was undoubtedly a package of controversial amendments is proof of what talking to each other can achieve' (Interview: Van Vuuren 03 April 2006). The result was that the modified amendments were accepted by both labour and business and became part of the LRA in 2002.

5.2.2.4 Privatization

The first parastatal to be sold was ISCOR, an iron and steel corporation that was prioritized in 1989 during the apartheid period. The next significant privatization took place in 1991, when government sold National Sorghum to a consortium of black business people (Hentz 2000: 201). None of these privatization and restructuring plans were subject to negotiations with unions that represented black workers (Interview: Godongwana 06 March 2006). It is this lack of consultation that triggered labour's opposition to privatization. Trade unions and their members were also convinced that one of the aims of privatization was to denude the state before the democratic election. The first negotiations on restructuring of parastatals took place within the NEF in 1992 when the apartheid government attempted to privatize abattoirs. The union strongly argued that this form of restructuring had to be negotiated with all stakeholders. One of the agreements in the first plenary of the NEF in 1993 was to stall the sale of abattoirs (National Economic Forum 1993: 11).

In 1995 the new democratic government announced its intentions to privatize key state enterprises. The unions organizing the workers in the parastatals demanded the right of negotiating the terms of restructuring (Von Holdt 2005: 418). After intensive discussions, both parties agreed to a National Framework Agreement on restructuring of state assets. The agreement stipulates that all specific instances of restructuring must be negotiated between government and relevant parties according to broad principles. Restructuring would not be done at the expense of employment and a social plan would be negotiated in case of job losses (Government of South Africa, COSATU, NACTU and FEDUSA 1996).

With a framework agreed at the national level, negotiations on sectoral and parastatal levels began in earnest. The focus was on the four largest parastatals – Telkom, ESKOM, Transnet and Denel. According to the government official responsible for coordination of the tasks teams, the enterprise restructuring committees were vital for the exercise (Interview: Montana 10 April 2006).

Three parallel developments took place immediately after the signing of the framework agreement. Firstly, the government included the restructuring of state-owned assets as one of the elements in its GEAR strategy. Secondly, COSATU began internal discussions to clarify its position on restructuring state assets. According to a leading union official at the time and one of labour's negotiators, 'COSATU quickly realized that a principled opposition to privatization was unsustainable and therefore sought to identify key areas in the economy that that had to remain in state hands' (Interview: Godongwana 06 March 2006). In a central executive committee meeting held on 12–13 September 1996, COSATU agreed that 'assets which should never have belonged to the state sector' could be sold. The federation conceded that some state-owned enterprises may require the involvement of the private sector for an injection of capital and new technology. The Executive Committee identified the following areas as the sectors which the state has to keep in its hands – health, education, transport, electricity, housing, water, state forests, municipal services, roads, post offices and telecommunication services (COSATU Press Statement 1996b). And thirdly, government produced White Papers for different sectors and began to restructure a few state enterprises (Mostert 2002).

Although government consulted and involved labour in the formulation of many of the policies adopted, the issue remained controversial and was often opposed by trade unions. As early as 1995, railway workers embarked on a wildcat strike when it was announced that the transport parastatal was to be sold (Von Holdt 2005:418). In 1998, trade union members went on a strike protesting against the corporatization of ESKOM (COSATU 2000: 75). When implementing the framework agreement, unions soon found out that it was not enforceable against management of the different enterprises. Legal advice that COSATU sought towards the end of the 1990s advised the federation on how legally impossible it was to bind management at the level of parastatals to what was an agreement between national government and the labour movement (Interview: Hassen 9 March 2006). COSATU also felt that in many cases management ignored the accord (COSATU 2000: 74).

It was in this context of union opposition and growing criticism from the private sector on the slow progress of parastatal restructuring, that the government released in August 2000 a document called An Accelerated Agenda towards the Restructuring of State Owned Enterprises with concrete proposals for key state enterprises. In response, COSATU launched an anti-privatization campaign challenging the government view that privatization is the best way to achieve efficiency, and that regulation, shareholder compacts or subsidies can ensure adequate services for the poor (COSATU 2001: 4). Between July 2001 and October 2002, COSATU launched two general strikes against privatization. Labour was determined to shift the government's position on restructuring of state assets.

A clear example of successful opposition by labour is that of Spoornet, the state-owned freight and passenger company. In a careful analysis of negotiations, Von Holdt shows how the transport trade unions successfully opposed the government's privatization proposals by demonstrating how they would create an unsustainable rail business and undermine socio-economic development (Von Holdt 2005: 413–34). Not long thereafter, government shifted its focus from privatization of state enterprises to regarding them as important strategic assets through which it can drive job creation, development and economic growth. Not only had social dialogue impacted on the pace and sequence of economic reform. It had decisively shifted its content by convincingly demonstrating that the government proposals were an ideological choice rather than one based on economic analysis (Von Holdt 2005: 433–4).

5.2.2.5 Social policy and tax reform

These are two policy areas where the impact of tripartism has been low. The Development Chamber in NEDLAC, which is charged with social policy as well as urban and rural development, had a later start than the other three chambers. Its first obstacle was to appoint a representative community constituency. Once this was achieved it struggled to focus its work programme within 'extremely' broadly defined terms of reference (NEDLAC 2005b: 37).

The social policy agenda began to take shape in 1998, when COSATU commissioned research on the social security system and set up a reference team that included Viviene Taylor, later to chair the Taylor Committee (Makino 2004). The research concluded that over 13.8 million people in the poorest 40% of South African households did not qualify for any social security transfers because they did not have members receiving unemployment insurance benefits or social grants. As a result, COSATU began a campaign for a Basic Income Grant

(BIG),[1] which it proposed at the October 1998 Presidential Jobs Summit as a policy alternative to the government's existing approach to social security (Makino 2004: 14). In 2001, a BIG Coalition was formed among various civil society groups, which later handed the Taylor Committee a memorandum calling for its introduction. As Makino (2004: 25) argues, 'it makes sense for COSATU to support a BIG, because the introduction of a BIG would indirectly benefit its members by reducing their burden of supporting the unemployed and poor within their households or through remittances to other households'. The BIG Coalition tried again to promote the idea at the 2003 Growth and Development Summit, where the social partners agreed to promote public works and community service programmes, especially aimed at youth.

The most decisive impact of social dialogue in this area has been on HIV/AIDS policy. The decision to roll out anti-retroviral treatment has a protracted and contentious history (Leclerc-Madlala 2005). In 1997 a campaign began to convince the South African government to provide anti-retroviral drugs to people living with HIV/AIDS. Four years later, in June 2001, the government responded by piloting a Prevention of Mother-to-Child Transmission Programme at selected sites.[2] Six months later the NGO Treatment Action Campaign (TAC) secured a ruling by the Constitutional Court to expand the programme. Government appealed the ruling, but it was upheld in 2002. A few months later TAC secured through NEDLAC a national framework agreement for the prevention and treatment of HIV/AIDS. In February 2003, government and business asked for more time to assess the cost of an expanded treatment programme and withdrew from the agreement. But as Leclerc-Madlala (2005) concludes, by the end of 2003 government had given in to the TAC's call for civil disobedience as well as international pressure, and presented its HIV/AIDS Operational Plan.

In regards to tax policy, the establishment of the first peak-level tripartite forum of the transition, the NEF, was triggered by protests over the introduction of VAT in 1991. Although labour and its allies did not win their demand for the scrapping of the new tax, items that account for common expenditures in low-income households were zero-rated from 1994 onwards (Friedman and Smith 2004: 43). Another outcome was the setting up of the Katz Commission to give effect to the provisions of the 1993 interim Constitution of the Republic of South Africa, which called for equality in taxation (Vivian 2006: 76). This commission produced nine reports and in many ways was a guide to post-apartheid tax reform. Among its recommendations was the capping of total taxation to 25% of GDP, the maintenance of tax neutrality where no preferential incentives are given to particular economic sectors, introduction of a capital gains tax, introduction of a unified rebate system and the scrapping of different tax tables for married men, working women and single persons.

However, most of the tax reform measures did not go through tripartite negotiations. In part this was due to the non-functional nature of NEDLAC's Monetary and Public Finance Chamber. Since 1997, COSATU has refused to participate in parliamentary financial hearings arguing that in the absence of the power of Parliament to amend 'money bills', the exercise of submitting comments on the budget is pointless. COSATU, together with the South African Council of Churches and the South African NGO Coalition have hosted independent pre-budget workshops as part of their annual People's Budget Campaign. These workshops, and the publicity that arises around them, have had an important but indirect (and unacknowledged) impact on the treasury.

5.2.3 Tripartism and socio-economic outcomes in South Africa

Both the founding documents of the NEF and the NEDLAC identified economic growth, social equity and the removal of perceived distortions in the economy as main objectives of tripartism. How then has tripartism impacted on these outcomes?

5.2.3.1 Macroeconomic performance

The 1996 introduction of GEAR outside of NEDLAC robbed the country of the opportunity to develop a growth strategy through negotiations. Government also kept macroeconomic policy outside the agenda of the 2003 Growth and Development Summit. Tripartism had thus no direct impact on macroeconomic policy and outcomes throughout this period. There has been, furthermore, no discussion of an incomes policy aimed at coordinating the movement of prices with that of wages or tying wage increases to productivity growth.

Tripartism could still have a more indirect impact on economic growth and employment through policies such as trade reform, export finance guarantee schemes, supply-side measures, regional industrial development programmes, competition policy and promotion of small enterprise development that were tabled at NEDLAC. These policies constituted, in the eyes of the South African government, the core of a 'pro-growth strategy' (Cassim 2006: 56).

However, economic performance fell short of government targets (see Figures 5.1 and 5.2). Whereas GEAR set a target of 4.2% annual GDP growth for 1996–2000, actual growth averaged only 2.5% per year in those four years. Unemployment climbed to 30% in 2002 as labour force participation rose faster than job creation. This is a very high rate of unemployment and it becomes even higher if discouraged workers are included. The situation has improved somewhat in recent years with stronger economic growth (5% in 2004–7) and decreasing unemployment.

While there has been no attempt at a tripartite incomes policy, the issue of wage increases has been hotly debated in the last ten years in South Africa. In its modelling exercise, GEAR made a policy assumption that put wage settlements on par or less than changes in prices. With rates of inflation falling in the period 1996–2000 and with levels of wage settlements remaining above the Consumer Price Index (see Table 5.1), the system of collective bargaining has come under criticism, with claims that it has contributed to inflationary pressure and a loss

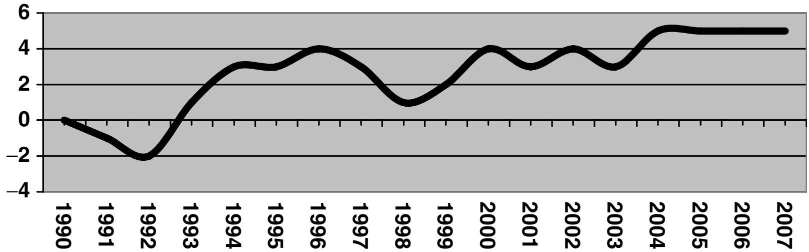

Figure 5.1 GDP growth (%)

Source: World Bank, World Development Indicators database

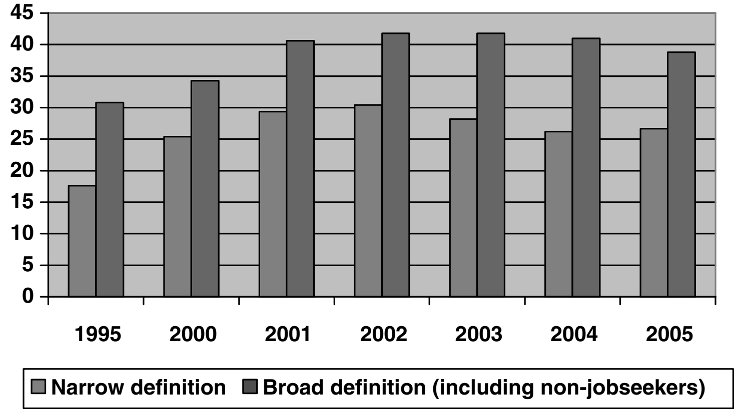

Figure 5.2 Unemployment rate (%)

Source: Development Policy Research Unit. University of Cape Town

Table 5.1 Levels of wage settlement (LWS) against Consumer Price Index (CPI), **1990–2003**

	90	91	92	93	94	95	96	97	98	99	00	01	02	03
CPI (%)	14,2	15,4	13,9	9,7	8,9	8,7	7,4	8,6	6,9	5,3	5,3	5,7	10,1	6,0
LWS (%)	17,4	16,1	12,0	10,0	10,0	11,5	9,9	9,7	8,6	8,3	7,4	7,4	8,0	8,9

Source: Levy and Kelly 2004: 34

of jobs. Indeed, some observers argue that in South Africa unions have created wage differentials greater than those usually experienced in other countries and have consequently reduced employment by an estimated 6.3% (Mahadea 2003: 33).

However, in a study on wage effects of unions and bargaining councils, Butcher and Rouse (2001: 3) disputed the estimates that African union members earn about 20% more than non-members. They argued that African workers who are non-members in sectors covered by bargaining councils receive a premium of 6% to 10% when agreements are extended to non-parties of such councils.

Missing in the debate over wage effects on employment is the rise in the number of 'the working poor', i.e., people who are not able to escape poverty through employment. Using a poverty line of $2 a day, Casale, Muller and Posel (2004: 1000) found a significant increase in the number of 'working poor', which doubled from 900,000 to more than 2 million between 1995 and 2003.

5.2.3.2 Labour market developments

Another hotly debated issue in South Africa is whether the new labour legislation passed in the 1990s has created a rigid labour market that inhibits job creation. Unhappy with not succeeding in amending labour law in 2000, President Mbeki announced in his State of the Nation address in February 2005 that a comprehensive review of the regulatory environment faced by small and medium businesses would be undertaken with 'the aim of introducing a simpler and streamlined system for all businesses'. Research was commissioned and presented at a round table with the social partners in April 2006. The research confirmed the concept of 'regulated flexibility' that underpins the fundamentals of the labour relations system and suggested a number of relatively minor amendments to the current legislation to deal with some of the 'rigidities in the South African labour market' (Cheadle 2006; Benjamin and Gruen 2005; Godfrey, Maree and Theron 2006). The latter included revising the dispute resolution system, where a tendency to 'over-proceduralise' results in long delays (Levy and Venter 2006), and exempting the small business sector from some of the statutorily entrenched procedures by introducing a separate code of good practice for small business (Cheadle 2006: 30). Bargaining councils, research revealed, have a limited impact on collective bargaining as they only cover 25% of employees. Furthermore, they do not adequately represent small business (Godfrey, Maree and Theron 2006).

Of particular concern for trade unions is the de facto highly flexible labour market that has emerged through the rapid growth of the labour broker sector since the passage of the LRA. This is illustrated in the graph below.

This de facto flexibilization has led to the increased differentiation of the South African labour market into three major zones – a core of formal sector employees with more or less stable employment relations, a zone of casualized workers with less stable employment relations, and a peripheral zone made up of workers whose main source of livelihood is through informal sector activities (Webster and Von Holdt 2005: 27). Claims by government that two million jobs had been created between 1995 and 2002 hide the fact that most of these jobs are in the non-core and peripheral zones of the labour market. 'Liberalisation', argue Von Holdt and Webster, 'has polarised the labour market by increasing the resources of some of the 6.6 million people in the core while at the same

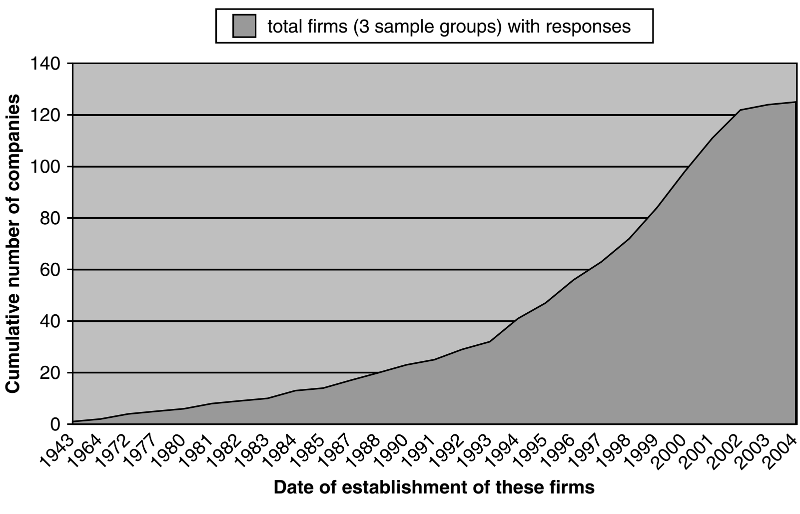

Figure 5.3 Rapid growth of the broker sector in the past ten years

Source: Theron et al. 2005

time reducing the resources of the 3.1 million in the intermediate category of the non-core (or atypical work) and those in the periphery, consisting of the 2.2 million workers in informal work and the 8.4 million unemployed'. This is graphically illustrated in the diagram below.

The impact of labour market policies and regulations on employment creation is an ongoing and unresolved issue in South Africa. Recent comparative research on Argentina, Brazil and Mexico concludes that changes in labour regulations did not seem to have influenced employment generation in these countries. De facto flexibilization took place regardless of whether protective regulations were dismantled or not (Marshall 2004).

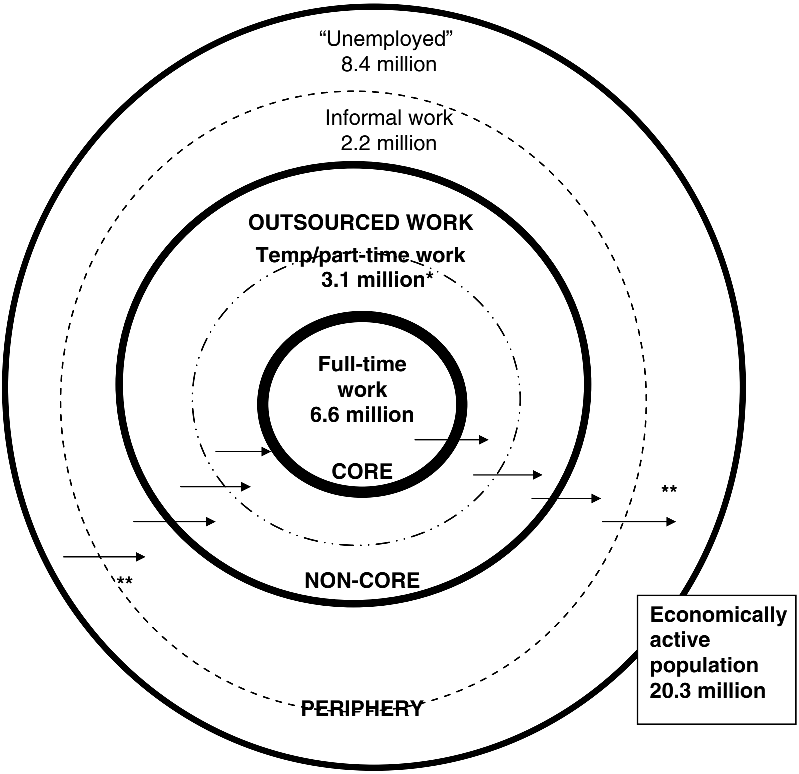

Figure 5.4 The flexible worlds of work

Notes: The arrows represent the movements of workers between the different 'worlds of work' with movement from the periphery and the non-core into the core difficult to achieve. *From these figures it is not possible to distinguish between temporary, part-time and outsourced work

Source: Webster & Von Holdt (2005: 28)

An offshoot of growing unemployment is the prolongation of strikes that follows the use of unemployed workers as replacement or 'scab' labour. The proportion of strikes where replacement labour is used has increased from 36% in 2003 to 45% in 2004 and to 50% in 2005 (RSA 2005: vii). The use of scab labour was a contributory factor in the bloody two-month strike of security workers that erupted in April 2006. Indeed it is the view of some scholars, as the quotes below suggest, that the interests of the employed and unemployed are in contradiction with each other:

> The economic growth path has not been conducive to creating jobs for low-skilled people. It was clearly the case that the apartheid state encouraged capital-intensive growth, thereby boosting average wages while reducing the demand for unskilled, low-wage labour. Increased competition from low-wage developing countries in the 1980s and 1990s has eroded the profitability of ultra-labour-intensive sectors, and the pursuit of a 'high-productivity-now' growth path by the post-apartheid government continues the bias against unskilled labour, albeit in a slightly different form (Nattrass 2001). Secondly, labour market institutions – in particular industrial-level bargaining, which extends wage-agreements to those workers and firms not party to the agreement – serve to reduce the wage dispersion (Nattrass 2000b). Together, these mean that the interests of the unskilled unemployed, especially, are not being promoted by the state's labour market, trade and industrial policies. In this sense at least, there is a conflict of interest between the employed and the unemployed.
>
> (Seekings 2003)

A recent study challenges the argument that the extension of bargaining councils to non-parties has a negative impact on employment (Godfrey, du Toit, Maree and Theron 2009). Pointing to comparative evidence that centralized collective bargaining produces consistently lower inflation and unemployment, the authors recommend tripartite collective bargaining at the national level with NEDLAC as the most suitable vehicle through which this could take place.

The constituencies in NEDLAC's Development Chamber dispute that post-apartheid labour market policies further entrench a schism between employed and unemployed workers. Using 2004 official statistics, members of the chamber argue that there is a relationship between the two groups of workers, with 47% of black workers earning below R1000 a month and a number of workers moving between the formal and informal sectors. It is for this reason that the community constituency in NEDLAC is calling for a 'single regulatory framework incorporating the entire labour market with the extension of protective measures to all workers in both formal and informal employment' (Interview: Steyn 16 June 2006).

5.2.3.3 Distributive outcomes and the social crisis

At a Gini coefficient of 0.67 in 1991, the new South Africa inherited one of the most unequal societies in the world. Whether inequality has narrowed or deepened over the past 15 years remains a matter of dispute.[3] What is striking is the significant increase of intra-race inequality. The percentage share of African income in the bottom two quintiles dropped by about two-thirds, while that of the top decile rose by about two-thirds (Gelb 2003: 6).

A key mechanism for the racial redistribution of wealth is Black Economic Empowerment (BEE), a policy designed to promote black ownership and control of the economy that has tended to affect a small proportion of the black population. For example, in 2003, 70% of the total empowerment deal value involved at least one of the six BEE heavyweights, while R30 billion of the increase in black-controlled market capitalization on the Johannesburg Stock Exchange was largely driven by three companies (Southall 2006: 193). While, clearly, BEE is making a few black people very wealthy, it is worth noting that at R200 billion the value of empowerment deals remains a small proportion of total private sector assets of R5 trillion. Furthermore, much of the R200 billion is locked in debt (Ensor 2006). According to some sources, around 80% of the deals are now 'under the water' as the BEE beneficiaries are unable to repay the debt on their shares – at least not in the prescribed time (Cronin 2009: 13).

In an attempt to offset the criticisms of BEE as benefiting only a small elite, the government introduced a broad-based BEE bill in 2003 that was first presented in NEDLAC. The Department of Trade and Industry also produced a code of good practice, which defines BEE as the economic empowerment of all black people including women, workers, youth, people with disabilities and people living in rural areas, through diverse but integrated socio-economic strategies that include, but are not limited to: (a) increasing the number of black people that manage, own and control enterprises and productive assets; (b) facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises; (c) human resources and skills development; (d) achieving equitable representation in all occupational categories and levels in the workforce; (e) preferential procurement; and (f) investment in enterprises that are owned or managed by black people (Department of Trade and Industry 2004: 11). The Act also proposes sector charters to be negotiated at sector level, a process that has now become widespread.

The 2005 Human Development Report shows that South Africa is experiencing Human Development Index (HDI) reversals (UNDP 2005). South Africa's downward slide of 35 places in the period 1990 till 2003 reflects the country's income inequality, declining life expectancy due to the AIDS pandemic, and inadequate education system. In spite of the declining quality of life, the South African state spent 49% of its budget on social services in 2002 – including education (20%), health (11%), social security and welfare (14%), housing and other social services (4%) (Gelb 2003: 15). Indeed, the rate of social assistance as a percentage of GDP is considered to exceed the average of developed countries in western Europe (Gelb 2003).

South Africa has attempted to fulfil its redistributive goals mainly through public expenditure (Van der Berg 2001). Social spending, which has been a redistributive measure since the mid-1970s, is now used as a tool to eradicate income inequality. A central mechanism is income transfers to the poor. The 2005 budget allocation increased the child support grant for children under the age of 14 to R180 per month, the foster care grant to R560 per month, and the pension payout to R780 per month.

A key feature of the grants system is the disability grant, which is being increasingly used to assist those living with AIDS. UNAIDS estimates HIV prevalence in South Africa at 24.1% among the 25–65 age group, one of the highest rates in the world (Booysen and Van der Berg 2005). The International Treatment Preparedness Coalition estimates that there are about 5.5 million people living with HIV/AIDS in South Africa. Of these, approximately 200,000 are children (ITPC 2005). An unintended consequence of the current system, Nattrass (2005) suggests, is that the social grants paid out to those living with HIV/AIDS create a conflict between benefiting from the South African welfare system and complying with anti-retroviral treatment. The grant paid to HIV sufferers is part of a disability grant to those who are too sick to work and forms as much as 49% of the income of the households of the unemployed in certain communities (Nattrass 2005: 15). Compliance with anti-retroviral treatment leads to a loss of this income when sufferers reach a level of health that deems them capable of finding work.

The system of social grants has been criticized as 'premised on full employment' (Nattrass and Seekings 1997). In other words, there is no social support for the unemployed, 'social assistance is provided only for those too old to work (the pension), too young to work (the child support grant) or too sick/disabled to work (the disability grant)' (Nattrass 2005: 3). Furthermore, as Makino (2004: 24) observes, 'the impossibility of achieving full employment, or even the significant reduction of unemployment at least in the short to medium term, was at the bottom of the recommendation of the introduction of a BIG by the Taylor Committee'.

The depth of the social crisis caused by poverty has led the government to acknowledge that the state would have to redistribute resources actively in an effort to overcome inequality. This new thinking in government is organized around the concept of 'two economies'. In his 2003 State of the Nation address, President Thabo Mbeki described the division as a 'structural fault': the one is modern and relatively well developed; the other is characterized by underdevelopment and an entrenched crisis of poverty.

This change in discourse provides an important rationale for shifts in government strategy, such as the announcement of an expanded public works programme (EPWP) which is intended to create one million temporary jobs over a five-year period, and the recent shift in emphasis from privatization to the state's role in stimulating economic activity. The idea of two economies provides a dramatic and accessible image for describing the deep divisions in South African society that are the legacy of apartheid, and for explaining the necessity for large-scale redistribution of resources in order to tackle poverty and inequality. It provides the basis for a substantial discussion of the broad developmental needs of South African society, in place of the narrow discussion of competitiveness and investor confidence that prevailed under GEAR (Webster and Von Holdt 2005: 36). The resignation of President Mbeki in September 2008, and the appointment of a new president seen to be sympathetic to this redistributive shift, opens up the possibility of a more explicit pro-poor growth path in the coming decade.

5.2.4 Challenges facing tripartism in South Africa

It is clear from our analysis that the impact of tripartism on the reform process in South Africa has been uneven. Indeed all of the social partners have shown some ambivalence towards tripartism. The ambiguity of government was clearest when it bypassed NEDLAC over GEAR and declared it 'non-negotiable'. Business and labour, at different moments, have also shown ambivalence towards NEDLAC. At times, business has preferred direct lobbying, while labour has put pressure on its allies in the Triple Alliance.

For some, this ambiguity arises out of what is seen as the abuse by labour of Section 77 of the LRA, which allows for parties to declare a dispute over socio-economic reform and, provided they follow the prescribed procedure, engage in strike action. Others, such as the former Minister of Public Enterprises, feel that issues that should be resolved at industry level through collective bargaining get sometimes put on the national policy agenda of NEDLAC (Interview: Erwin 04 April 2006). Another view held, for instance, by the overall business coordinator for NEDLAC, is that the value of NEDLAC as a 'sounding board' is undermined by social partners who 'see the forum as a place to negotiate agreements line by line' (Interview: Parsons 03 April 2006). Social partners have expressed considerable frustration with the time-consuming nature of tripartism. But delays are to some extent inherent to a process that is aimed at building consensus, and expediency may also have its costs. As former Minister Erwin puts it, 'the implication of unilateralism is that you may reach policy decisions that are poorer' (Interview: Erwin 04 April 2006).

Concern has also been expressed over the capacity of the social partners to engage in policymaking. Business, labour and the community constituency all face time constraints. It has been estimated that NEDLAC consumes as much as 40% of some of the key negotiators' time, often undertaken in addition to normal work duties (Gostner and Joffe 2000). Currently NEDLAC only has a budget of 12 million rand (roughly US$1.1 million).

Finally, NEDLAC has been criticized by others on the basis that it undermines the sovereignty of Parliament. This point was made in 1997 by the South African Institute of Race Relations, which portrayed as undemocratic the current requirement that economic and labour legislation be referred to NEDLAC prior to its tabling in Parliament. This criticism assumes that, were NEDLAC not to exist, Parliament would be able to legislate on economic and social matters without being obliged to seek the support of business and labour. It also misunderstands the idea behind NEDLAC, namely that it is complementary to the parliamentary process. Social dialogue is an attempt to go beyond Parliament to build a broad social consensus by incorporating the 'special interests' of key institutions of civil society in policy formulation. However, since late 1999, NEDLAC has made considerable efforts to strengthen relationships with Parliament by meeting with their parliamentary counterparts. Furthermore, the chairs of the relevant portfolio committees participate in some NEDLAC activities. These links are aimed at improving information flows between the two institutions and building Parliament's awareness of NEDLAC.

In spite of the unevenness of the impact of tripartism on the reform process, it is clear that tripartism contributes to the sustainability of reforms. In part this is because social dialogue is a multi-layered process that takes place at micro-, meso- and macro-levels. The result is that the range of actors consistently shifts; sometimes dialogue is tripartite, often it is bipartite. What is innovative in South Africa is the institutionalization of multipartite social dialogue. Importantly the arena in which social dialogue is conducted is multifaceted. In the case of South Africa, we saw the emergence in 2000 of a bilateral body, the Millennium Labour Council, as a response to the difficulties of creating a shared economic vision. The government has also initiated new forums through the creation of bilateral Presidential Working Groups, such as the forum between government and labour, government and organized business and government and the agricultural sector. Of particular significance is the existence of a parallel negotiation forum, the political alliance between COSATU, the ANC and the South African Communist Party.

Of course this does not mean that the agreements reached between the social partners are not contested. Agreements are compromises and as such constitute a provisional consensus that, when circumstances change, can be challenged. The compromise reached in 1995 on the basic architecture of labour relations continues to be constantly questioned by the social partners. Neither does this mean that all economic and social policies are equally effectively subject to social dialogue. The clearest case is macroeconomic policy where the social partners missed an opportunity, both in 1995/1996 and in 2003, to negotiate a broad social pact, a package deal with trade-offs across different economic and social policy issues that would have reflected consensus on a growth strategy. This remains to this day a key challenge facing tripartism in South Africa.

In 1999, at the NEDLAC Annual Summit, Jacob Zuma, then Deputy President of South Africa, called on the social partners to conclude a 'tough employment accord'. This was echoed by the overall labour convenor at NEDLAC, Ebrahim Patel:

> We need to forge a common vision on economic policy. Building a shared vision is a difficult process, with gains today and retreats tomorrow. However difficult, we need to achieve consensus, because this is at the heart of our jobs and equity challenge.
>
> (NEDLAC Annual Report 1999: 3)

5.3 Tripartism in Zimbabwe

This section analyses the experience with tripartism in Zimbabwe. As mentioned earlier, there are considerable similarities in the colonial histories and developmental trajectories of South Africa and Zimbabwe, notably their shared history of racial segregation and white settler minority rule. Although the two countries had in the 1980s the most diversified economies in sub-Saharan Africa, Zimbabwe is a small, predominantly rural economy compared to South Africa. Furthermore, in South Africa, with a far larger industrial working class, the labour movement played a central role in the struggle for liberation whereas in Zimbabwe both the competing Zimbabwe African People's Union (ZAPU) and especially the Zimbabwe African National Union (ZANU) had stressed instead the guerrilla struggle in the countryside.

Zimbabwe's transition to democracy came in 1980, before the implementation of structural adjustment. For the better part of the 1980s, the post-independence government of President Mugabe used economic nationalism and protectionist policies inherited from the Rhodesian white settler regime (Skålnes 1993). The first attempts at tripartism took place in the 1990s, in response to the social tensions released by economic restructuring. However, unlike in South Africa, Zimbabwean attempts at tripartism failed to generate a rich experience of negotiations that could have helped break the growing political impasse after 2000.

5.3.1 The origins, structure and function of tripartism in Zimbabwe

In Zimbabwe, there are two peak-level tripartite forums; the National Economic Consultative Forum (NECF) and the Tripartite Negotiating Forum (TNF). Both forums were launched in the 1990s: the NECF in 1997 and the TNF in 1998. The major trade union federation – the Zimbabwe Congress of Trade Unions (ZCTU), with a membership of 250,000 – does not participate in the NECF, having withdrawn from the forum in 1999.

The origins of tripartism in Zimbabwe lie in the economic crisis that engulfed the country in the mid-1990s. Despite having adopted the Economic Structural Adjustment Programme (ESAP) in 1991, which abolished subsidies, exchange controls and import licensing, economic growth hovered around 1.2% in 1991–5. Budget deficits remained above 10%, while inflation and the trade deficit soared. ESAP caused serious social tensions. Zimbabwe experienced food riots in 1993 and 1995 and rapid deindustrialization, in textiles (–64%), metals (–35%), transport equipment (–31%) and clothing (–28%) between the late 1980s and 1994 (Bond and Manyanya 2003: 35). This deindustrialization and concomitant loss of jobs thrust the ZCTU to the centre of mobilization against ESAP (Raftopoulus 2001: 18), leading to a chilling of relations between the labour movement and the ruling party, the Zimbabwe African National Union Patriotic Front (ZANU-PF).

For the first eight years of ZCTU's existence, relations between the trade union body and the ruling party had been very close (Schiphorst 2001). Formed through ZANU-PF and government initiatives in 1981, the ZCTU enjoyed exclusive rights as the channel of communication between government and workers. In return for its support for ZANU-PF, government gave the union seats on advisory tripartite bodies such as the Labour Advisory Board, the Wages and Salaries Advisory Board and the Retrenchment Committee. ZCTU General Secretary Wellington Chibebe confirmed this cosy relationship (Interview: Chibebe 27 September 2005).

However, conflict arose in the 1990s first over ESAP and then over the 1992 Labour Relations Amendment Bill, which gave works councils the right to conclude agreements that superseded industry-wide agreements, dropped the official policy that recognized one union in a sector, limited the right to strike, gave the Minister of Labour the right to intervene in trade union affairs and signalled the intention of the state to withdraw from the wage-setting machinery established in the 1980s (Madhuku 2001: 114–26). After some rapprochement, a new wave of strikes broke out in 1996 among public sector workers, which were followed by university students and workers in other sectors (Dansereau 2001: 405–6). ZCTU also organized a national general strike against the rising cost of living. But the worst came on 14 November 1997 when the Zimbabwean dollar lost 74% of its value in four hours. Inflation soared from around 15% in September 1997 to 45% by the end of 1998 and food riots swept the country (Bond and Manyanya 2003: 38). It is in this context that meetings between government, labour and business began to take place to find a way out of the crisis. No less than 39 consultative meetings took place between the end of 1996 and July 1997 (Ng'ethe 2004: 3), leading to the establishment of the NECF in 1997 and later the TNF.

The origins of the NECF lie in the ZCTU, which adopted at its 1995 congress a document called Beyond ESAP: Framework for a Long-Term Development Strategy in Zimbabwe beyond the Economic Structural Adjustment Programme that proposed a tripartite economic development council (Schiphorst 2001: 125). In 1996 a tripartite delegation travelled to South Africa to study NEDLAC. The delegates from government, business and labour went back to Zimbabwe 'convinced of the need to set up a statutory and constituency-based ZEDLAC' (Interview: Chibebe 27 September 2005*)*. However, Zimbabwe established instead an advisory council, where representation is on an individual basis and not on the basis of a constituency. Lovemore Matombo, the ZCTU president, cited the form of representation as the main reason for the labour union's withdrawal from the NECF in 1999 (Interview: Matombo 8 March 2006).

Since its formation, the NCEF has functioned as both an advisory body and a platform for social partners and policymakers to share perspectives (Interview: Kitikiti 16 March 2006). Legally, it operates as a voluntary association with no statute that underpins its existence. For the first three years, the NECF was housed in the President's Office and financed through government grants. In 2000 it moved to its current premises and a fulltime secretariat runs the body. The African Capacity Building Foundation, the Zimbabwean government and the United Nations Development Programme (UNDP) fund the NECF's current activities.

The second social dialogue body is the Tripartite Negotiations Forum (TNF) established in 1998 as a complementary forum to the NECF. The latter is a consensus-seeking body while the former is where issues of negotiations that emerge within the NECF are dispatched (Interview: Kitikiti 16 March 2006; Interview: Mudyawabikwa 16 March 2006; Interview: Matombo 8 March 2006). Since its creation, issues such as fuel prices, review of minimum wages, and fiscal and monetary policy, have been discussed at the TNF. To deal with skyrocketing prices, the TNF has in the past concluded three prices and incomes stabilization protocols where government, labour and business committed themselves to manage the movement of prices and incomes. In 2001, the TNF produced a draft pact known as the Kadoma Declaration in which all the partners committed themselves to 'address the totality of macroeconomic problems, including the country risk factor' (TNF 2003: 1). However, none of these initiatives have been successfully implemented. In addition, there have been negotiations in the TNF on labour laws, the law on Export Processing Zones and the establishment of a Productivity Centre. Whatever agreements are reached, are passed on to Cabinet as recommendations. The Minister of Public Service, Labour and Social Welfare chairs the forum. The Employers' Confederation of Zimbabwe (EMCOZ) coordinates business participation. The three labour federations – ZCTU, Zimbabwe Federation of Trade Unions (ZFTU) and the Apex Council of public sector unions – represent workers. The Consumer Council of Zimbabwe (CCZ) is an observer (Interview: Mufukare 28 March 2006).

High levels of mistrust have bedevilled the workings of the TNF. The ZCTU withdrew from the forum in 1999 when the government banned general strikes. After a brief return, it left again after government announced fuel price hikes on the eve of signing a prices and incomes stabilization protocol. Some question the ZCTU's commitment to social dialogue because of the federation's links with the opposition party, the Movement for Democratic Change (MDC). 'Because of their vows to remove the current regime from office, ZCTU is reluctant to conclude agreements that will provide legitimacy to the present government' (Interview: Mudyawabikwa 16 March 2006). There is also a problem of ad-hocism as the TNF meets irregularly, sometimes only once in a year. In part this arises from the fact that the TNF exists through 'a gentlemen's agreement and not through legislation' (Interview: Matombo 8 March 2006). The fact that the body has no permanent structure certainly affects its capacity to meet regularly.

In summary, two different models of tripartism have emerged in Zimbabwe and South Africa in the 1990s. In Zimbabwe we see a very weak, advisory tripartite model which is not based on constituencies and has limited success in producing agreements. In South Africa we see a statutory multipartite negotiating body that has resulted in a large number of agreements in different policy areas but no overarching social accord coordinating macroeconomic and labour market policies.

5.3.2 Impact of tripartism on reforms and policies in Zimbabwe

Given the advisory nature of social dialogue institutions in Zimbabwe, the impact of tripartism on economic reforms has been very limited. Two policy areas have come up for negotiations: labour law and incomes policy (Interview: Mudyawabikwa 16 March 2006). The issue of privatization was also a subject of discussion, although very obliquely

Table 5.2 Key features of tripartism in Zimbabwe and South Africa

	Zimbabwe	**South Africa**
Policy scope	Narrow	Broad
Continuity of practices	Irregular	Regular Statutory
Number and scope of agreements	Very limited	Large number but no broad social accord

(Interview: Mufukare 28 March 2006). In its design of the macroeconomic framework adopted in the early 1990s, the state did not involve labour (Schiphorst 2001: 139). Employers from the Confederation of Zimbabwean Industries (CZI) had an opportunity to participate in review committees that led to the adoption of ESAP. Table 5.3 summarizes the impact of tripartism on major reforms and policies in both Zimbabwe and South Africa since the 1990s.

5.3.2.1 Labour law reform

The first round of reform took place in 1992 with the Labour Relations Amendment Bill. Towards the end of the 1980s, the paternalistic system of labour relations, where government determined wages, had come under attack from both labour and business. Trade unions felt that the minimum wage rates that government prescribed were not on par with inflation, while employers saw state involvement in wage determination and retrenchments as curtailing their prerogative to determine pay levels and the ability to 'hire and fire'. A consensus between labour and business that the state should withdraw from wage determination emerged (Sachikonye 1993: 255–6). In 1987, a tripartite committee was established to consider possible amendments to Zimbabwe's labour laws. A tentative agreement seemed to have been reached when in 1989 the Minister of Labour issued a press statement scrapping what was agreed in the tripartite committee, citing as reasons for his actions the appearance of the details of the agreement in the media. In April 1992 the government, without consulting labour and business, rushed through its amendments to the LRA. The ZCTU strongly objected and wrote an open letter to President Mugabe appealing to him not to sign into law the new amendments. The amendments became law in December 1992 (Schiphorst 2001: 181).

Table 5.3 Impact of tripartism on reforms and policies

	Zimbabwe	**South Africa**
Macroeconomic policy; incomes policy	*	
Trade liberalization; industrial policy		***
Labour law reform; active labour market policy	**	***
Privatization	*	***
Social policy		*
Tax reform		

Scale: (blank) no observed impact * low impact ** medium impact *** high impact

The second round of reform took place between 2001 and 2003, when government introduced new amendments to the LRA. Two things prompted the changes. Firstly, there was the need to make Zimbabwe labour legislation compliant with ILO Conventions 87 (freedom of association) and 98 (collective bargaining), and secondly, to find a solution to a possible spilling over of the conflict around land onto the shopfloor (Interview: Nupen 7 October 2005). Immediately after the land occupations of 2000, a government-backed Zimbabwe Federation of Trade Unions (ZFTU) emerged as rival to the ZCTU and threatened to occupy factories where it had disputes with employers (Interview: Nupen 7 October 2005).

Unlike in 1992, negotiations on the proposed changes took place this time within the TNF, under the stewardship of the ILO. In many ways, the 2002 Labour Relations Amendment Act reversed some of the measures introduced in 1992. The new law reinstated the supremacy of national agreements over workplace-based settlements. It also ensured articulation between unions and workplace-based workers committees. Labour applauded the new changes and 'for the first time in Zimbabwe's history one found clauses in an Act of Parliament that had been taken straight from labour's submissions' (Interview: Madhuku 26 September 2005).

5.3.2.2 Incomes policy

Besides labour law, the TNF has been preoccupied, the few times it met, with finding agreements between social partners on prices and incomes. There have been three Prices and Incomes Stabilisation Protocols; each with a duration of three to six months (Interview: Mudyawabikwa 16 March 2006). When these interviews were conducted, a new draft protocol was being finalized. In the draft, government agreed to reduce the budget deficit to less than 5% of GDP and to reduce inflation to 80% by the end of 2006. Labour promised to 'actively promote industrial peace and harmony', while employers committed themselves 'to police, monitor and ensure compliance to price management' (TNF 2006: 3–4).

Tripartite incomes protocols were short-lived, with each party blaming each other for targets not being met. Instead of inflation going down, it skyrocketed out of control while the currency and the economy eventually collapsed.

The growing tension between the union movement, civil society groups and the MDC, on one hand, and the government and its increasingly militarized politics, on the other, brought social dialogue to a standstill.

Tensions had escalated into full-blown violent confrontation by February 2000, when the ZANU-PF was first defeated at the polls in a constitutional referendum vote. This defeat was the trigger for the consolidation of Zimbabwe as a populist–authoritarian state openly violating human rights.

The increase in state violence intensified in 2000 with the invasion of commercial farms by self-described veterans from the war of liberation against settler colonialism. It was consolidated when government created an auxiliary youth militia and then went on to weaken the ZCTU by physically attacking its leaders and creating a rival trade union federation (Saunders 2007: 184–6). Attempts to revive tripartite decision-making in the context of a seriously weakened labour movement and a business sector in rapid decline were bound to fail, clearing the way for a path of unrelenting repression, including abductions and torture, of all opposition (Human Rights Watch 2006).

In spite of this repression, the MDC was to win the March 2008 elections, but President Mugabe was unwilling to give up his 28-year rule of the country. By January 2009 there were signs that the political stalemate could be broken when Morgan Tsvangirai reluctantly agreed, under intense pressure from leaders in the Southern African Development Community (SADC), to enter the cabinet as Prime Minister. He had hoped that key cabinet posts, such as Home Affairs, would be in MDC hands, but Mugabe was not willing to make substantial concessions. Tsvangirai announced the outcome Interim Unity Government as an 'equal partnership' but many commentators declared it a 'journey to oblivion' and 'political suicide'. For MDC critics, the Unity Government confirmed their growing belief that its leaders were committed to nothing more than an 'elite transition' that would leave working and poor Zimbabweans increasingly marginalized.

5.4 Conclusion

The central role played by tripartism in the transition to democracy in South Africa is the most important conclusion to emerge from this comparison with Zimbabwe. The long sustained resistance by labour in South Africa weakened the apartheid regime and persuaded employers and, eventually, government that a negotiated political compromise was desirable and feasible. The compromise became possible when all the parties shared a common perception of stalemate and were willing to accept a suboptimal solution to the impasse. The existence of tripartite structures gave the parties access to institutional arrangements that allowed bargained agreements to be reached. Both labour and business were able to represent their constituencies effectively and were able to mobilize and restrain members according to their organization's strategic and tactical vision. A key moment in this process was the tripartite agreement signed in 1990, the Laboria Minute, stating that no changes would be made to the labour market without the acquiescence of business and labour. This agreement prefigured the political compromise that was to follow in 1994 when South Africa formally established a political democracy. The Laboria Minute recognized the interdependence of labour and business and the value of a negotiated political compromise in post-apartheid South Africa. By contrast, Zimbabwe failed to build through social dialogue a tradition of negotiations that could help break the growing political impasse after 2000. Instead, the state became increasingly authoritarian and embarked on a campaign of systematic repression of the opposition.

While tripartism has contributed to making reforms sustainable, our two case studies show how difficult it is in sharply divided countries to have consensus on a shared economic vision and to strike social accords similar to those struck in Europe in the 1990s. In the case of South Africa, as early as 1996, there were calls from the Presidential Labour Market Commission for a Growth and Employment Accord. However, this goal has been elusive and remains a key challenge for tripartism in South Africa.

The South African experience shows that tripartism had an important impact on the content, pace and sequence of economic reform in three broad areas: the restructuring of the labour market, trade liberalization and competition policy, and privatization. Tripartism improved the quality of decisions by allowing the input of business and labour and built political bases of support for economic reform. The negotiation process drew all parties into identification with the proposed reforms making them more sustainable in the long run. Furthermore, consultation has helped consolidate democratic institutions. This point is central. Many critics see the strikes that take place through the Section 77 clause of the LRA as undermining democracy. Quite the opposite is the case. By engaging in peaceful protest, the actors are signalling to their constituents that they are autonomous organizations. Tripartism assumes a pluralistic society where autonomous groups with divergent interests recognize each other's existence while promoting their own distinctive views (Trebilock 1994).

In the words of the Chief Operating Officer of Business Unity South Africa BUSA,

> Social dialogue is vital for balancing market needs, on one side, and the social needs of the broader society, on the other. Without social dialogue the market can overrun social needs or vice versa. Without social dialogue we could have gone the Zimbabwean route.
> (Interview: Van Vuuren 2006)

Notes

1. Labour proposed that every citizen would receive a grant of R100 per month. Those earning over R2000 per month would pay back the amount they receive as a tax. People earning over R5000 per month would pay back double what they receive as a 'solidarity tax'.
2. The delay was partly due to the fact that President Mbeki had convened in 2000 a Presidential Advisory Panel on AIDS that included two internationally renowned 'dissident' scientists, Peter Duesberg and David Rasnick. This move confirmed that the view of the presidency contradicted worldwide agreement on the scientific basis of HIV/AIDS. As a result, confusion and disagreement over AIDS policy grew both within and outside government (Leclerc-Madlala 2005).
3. The 2003 UNDP Human Development Report for South Africa stated that the Gini coefficient had risen to 0.63 in 2001 as inequality was worsening, while the 2005 Human Development Report states that South Africa's Gini coefficient fell to 0.59 in 2000. Gelb (2003) estimates it at 0.57 in 2003.

List of Interviews

Zimbabwe

1. Dr Lovemore Madhuku (26 September 2005 – Harare): Constitutional Law lecturer and Chairperson of Zimbabwe's National Constitutional Assembly (NCA) – a coalition of citizens groups, labour movements, churches, business, student, youth groups, women and human rights groups formed in January 1998 to campaign for constitutional reform.
2. Professor Lloyd Sachikonye (26 September 2005 – Harare): Head of the Department of Agrarian and Labour Studies, Institute of Development Studies – University of Zimbabwe.
3. Mr Wellington Chibebe (27 September 2005 – Harare): General-Secretary of Zimbabwe Congress of Trade Unions (ZCTU).
4. Mr Sam Moyo (27 September 2005 – Harare): General-Secretary of Zimbabwe's National Engineering Trade Unions (NETU).
5. Messrs Limpho Mandoro and Frederick Amakye Parry (28 September 2005 – Harare): ILO Southern African Office – Harare.

6. Mr Charles Nupen (7 October 2005 – Johannesburg): Project Director, ILO Project for Prevention and Resolution of Conflict, Southern Africa.
7. Mr Sven Schwersensky (6 March 2006 – Johannesburg): Country Director, Friedrich Ebert Stiftung (FES).
8. Mr Lovemore Matombo (8 March 2006 – Johannesburg): President of Zimbabwe Congress of Trade Unions (ZCTU).
9. Mr Nicholas Kitikiti (16 March 2006 – Harare): Executive Secretary of the National Economic Consultative Forum (NCEF).
10. Mr Poem Mudyawabikwa (16 March 2006 – Harare): Director responsible for social dialogue within the Ministry of Public Service, Labour and Social Welfare.
11. Mr Doug Verden (27 March 2006 – Harare): Zimbabwe's Chamber of Mines.
12. Mr Sudhir Chitale (27 March 2006 – Harare): Country Director, Zimbabwe's World Bank Office.
13. Mr John Mufukare (28 March 2006 – Harare): Executive Director – Employers' Confederation of Zimbabwe (EMCOZ).
14. Mr Themba Ndebele (29 March 2006 Harare): Zimbabwean businessman and member of Zimbabwe's National Chamber of Commerce (ZNNC).

South Africa

1. Mr Enoch Godwangana (6 March 2006 – Pretoria): Former trade unionist involved in negotiations of the National Framework Agreement (NFA) on restructuring of state assets.
2. Mr Ebrahim-Khalil Hassen (9 March 2006 – Pretoria): Senior researcher at the National Economic Labour and Economic Development Institute (NALEDI) and labour advisor on public sector restructuring.
3. Mr Jayendra Naidoo (17 March 2006 – Johannesburg): Former Director of the National Economic Development and Labour Council (NEDLAC).
4. Ms Tanya van Meelis (24 March 2006 – Johannesburg): Trade Policy Coordinator with the Congress of South African Trade Unions (COSATU) and labour negotiator in the Trade and Industry Chamber of NEDLAC.
5. Mr Vic van Vuuren (3 April 2006 – Johannesburg): Chief Operating Officer of Business Unity South Africa (BUSA).
6. Professor Raymond Parsons (3 April 2006 – Johannesburg): Overall coordinator for business within NEDLAC.
7. Minister Alec Erwin (4 April 2006 – Pretoria): Former trade unionist and present Minister of Public Enterprises with South African government.
8. Professor Estian Calitz (5 April 2006 – Stellenbosch): Former Director-General in the Ministry of Finance.
9. Mr Lucky Montana (10 April 2006 – Pretoria): Deputy Director-General in the Department of Transport and previously Director responsible for the National Framework Agreement (NFA) on restructuring of state assets within the Department of Public Enterprises.
10. Mr Neil Coleman (12 April 2006 – Johannesburg): COSATU Parliamentary Officer and former convener of the Labour Caucus within NEDLAC's Public Finance and Monetary Policy Chamber.
11. Mr Ibrahim Steyn (16 June 2006 – Johannesburg): NEDLAC Development Chamber Coordinator.

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