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Industrial Relations and Welfare States. The Different Dynamics of Retrenchment in  
Germany and the Netherlands

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## Abstract

Proceeding from an historical-analytical reconstruction of the development of collectively negotiated benefits in the Netherlands and Germany, the article investigates the role and function of industrial relations as a provider and financial supporter of welfare. It is argued that social policy based on collective agreements strongly influences contemporary retrenchment policies. Discussing the literature on retrenchment policies, the paper suggests regarding unions and employers as collective actors, which both support retrenchment by offering financial and organisational resources to governments in their attempts at welfare delegation. The conclusion for the study of comparative welfare retrenchment is to move beyond its focus on analysing the political behaviour of the actors involved and to systematically include industrial relations in its frame of reference. Research should take into account patterns of the institutionalisation of labour relations at company level, traditions of government support for collectively negotiated benefits, and differences in the relative development of public and collectively negotiated benefits.

## *Introduction*

Since Paul Pierson's 'Dismantling the Welfare State?' the study of retrenchment has become the main focus of comparative welfare state research. It is often argued that even Scandinavian and Continental welfare states are gripped by measures of privatisation (Esping-Andersen, 1996a: 335; Veen and Trommel, 1999; Lindbom and Rothstein, 2004: 7; Alber, 2003: 63). The literature claims that markets increasingly determine individual well-being in dismantled welfare states (Shalev, 1996: 1). In his recent analysis of the 'Transformation of the Welfare State', Gilbert (2004: 5) characterises the contemporary restructuring of welfare states as the 'triumph of capitalism'. Pierson (1994: 15) concludes that retrenchment will lead to more residual welfare states, in which the market mechanism will gain importance. In short, studies on retrenchment often define retrenchment as government decisions in favour of markets.

Adopting this approach, the recent literature offers two arguments for the explanation of retrenchment policies. First, retrenchment is equated with reform-resistant trade unions and market-glorifying employers. Second, research has adopted a role-of-the-ballot-perspective (see Manow, 2001a: 148-149). It is often taken for granted that trade unions oppose private solutions and favour the status quo in public welfare. On the other hand, employers are viewed as agents of the market and as forerunners of a neo-liberal attack on Fordist legacies. In consequence, the literature conceives of unions as veto-players in welfare state reforms and employers as supporters and lobbyists of parties aiming to strengthen the market forces. Research is strongly inspired by Pierson's 'new politics thesis', which argues that the fear of electoral defeat motivates political parties to bargain with trade

unions in order to achieve their political support for retrenchment measures and to avoid being blamed for cuts in public programmes.

Empirical evidence from the Dutch and German welfare states shows an expansion of collectively negotiated benefits, thus a strengthening of the self-regulative role of the collective bargaining partners in welfare issues. Taking these developments into account, I suggest a broader view of retrenchment policies through reconsidering the role of labour relations.<sup>1</sup> This view is based on the argument that, in societies with *cooperative* labour relations, retrenchment does not necessarily or exclusively imply that governments decide in favour of markets as an alternative provider of welfare. In these societies, private alternatives to public benefits may not only be offered individually by the market but also be supplied through collective agreements reached by trade unions and employers (on which point, see also Ebbinghaus, 2005; Streeck, 2005; EIRO, 2004; Rein and Schmähl, 2004). These agreements might offer organisational and financial resources for welfare and thus be able to support governmental retrenchment policies; conversely, governments might be interested in devolving welfare responsibilities from the state to collective labour relations, and not to the individual.

The self-regulative role of collective bargaining partners might change the direction of welfare development to a more solidarity-based system, rather than a full market-oriented system, of welfare provision. Since this might also be a way of avoiding blame, the aim of this article is to amend and enrich the 'new politics thesis'. The influence of unions and employers in welfare reform may not only be shaped by their integration in political decisions but also be associated with their preferences and strategies in collective bargaining. Under certain conditions – which

are worth specifying – retrenchment may prove more of government decision against markets than one in favour of them. This perspective leads to the crucial role state actors play: through regulative policies and tax incentives, the state may provide both a supportive and a redistributive role for collectively negotiated benefits.

The cases of Germany and the Netherlands contain important lessons for our understanding of how industrial relations affect the development of welfare states. In both countries, cuts in public welfare programmes go hand in hand with the transfer of the financing and regulating of welfare to collective bargaining. This delegation is possible because both labour relation systems offer opportunities to conclude industrial agreements on welfare issues. In both countries, collective bargaining institutions are cooperative and organised at the sectoral level. They are encompassing, providing the coordination and organisation necessary to set standards. As the state has the power to declare collective agreements generally binding for workers not covered by collective contracts (*erga omnes* extension), collectively negotiated benefits have the tendency to resemble public benefits. However, the Dutch unions and employers are much more supportive of offsetting cuts in public benefits through collectively negotiated welfare provision than the German social partners and, within Dutch trade unions and employers, there are fewer forces opposing delegation.

Based on a historical reconstruction of the development of collectively negotiated benefits, the article explains this different dynamic of welfare provision through collective agreements by reference to different patterns of institutionalisation of labour relations at company level, different traditions of

government support for collectively negotiated benefits, and differences in the relative development of public and collectively negotiated benefits.

This paper is divided into four parts. In the first section, I review the retrenchment literature and give an account of the conditions under which unions and employers' associations conclude industrial agreements on social benefits. The second and third sections describe the development of collectively negotiated benefits in the Netherlands and Germany. In the last section, I present my conclusion. Here, a brief comparison with the United States underscores my argument of bringing labour relations back into welfare research.

### *The Analysis of Retrenchment*

Despite the diversity of conceptual and theoretical claims in studies of retrenchment (Green-Pedersen and Haverland, 2002) three basic arguments can be found in the literature. First, most studies define retrenchment as cuts in public welfare programmes, which will result in residual welfare states because the cuts undermine the redistributive aims of social policy. Second, the literature claims that variations in welfare state retrenchment are to be explained by the effects of political institutions and the behaviour of political actors (Pierson, 1996: 152; Myles and Pierson, 2001). Third, research interprets the residual welfare state, by implication, as a result of the power failure of constituencies of public welfare programmes, mainly of trade unions.

In his influential book on welfare state reform in Britain and the United States, 'Dismantling the Welfare State?', Paul Pierson has suggested that welfare states move

towards a more residual role. Pierson (1994: 17) concludes that retrenchment describes 'policy changes that either cut social expenditure, restructure welfare state programmes to conform more closely to the residual welfare state model, or alter the political environment in ways that enhance the probability of such outcomes in the future'. Following Titmuss's distinction between institutional and residual welfare states, Pierson (1994: 15) conceives the residual welfare state as 'more reluctant to interfere with market mechanisms.' 'Residual welfare states,' he claims, 'reject comprehensive services, and prefer state subsidisation of private services to public provision' (Pierson, 1994: 15).

Concerning the growing role of the private sector in the provision and financing of welfare in times of retrenchment, the literature mainly focuses on private benefits delivered by the market. Pierson (2001) suggests analysing retrenchment policies in terms of three dimensions: re-commodification, cost containment and recalibration. He defines re-commodification as those measures which dismantle 'those aspects of the welfare state that shelter workers from market pressures' (Pierson, 2001: 422), cost containment as cuts in social expenditure and 'resistance to significant tax increases' (Pierson, 2001: 424) and recalibration as the rationalisation and updating of welfare programmes in line with changing goals and societal demands.<sup>2</sup> It is important, however, to note that the move of welfare states towards the private provision of welfare can embrace different kinds of development. It could mean that states place greater responsibilities on individuals to secure their own welfare by means of private insurance schemes. But the private provision of welfare could also be organised by actors that are collective by nature, i.e. families, non-profit organisations, trade unions or employers' associations. Despite this diversity in

private alternatives to public welfare, most studies are premised on Pierson's (1998: 556) claim that retrenchment reforms lie on a continuum of the status quo to full liberal retrenchment, that is to a full market-oriented system of provision.

Conceiving retrenchment policies as government decisions in favour of markets, many studies seek to explain them by drawing attention to political conditions which promote or hinder these decisions. The literature explains retrenchment in terms of Pierson's 'new politics thesis'. This thesis argues that welfare retrenchment follows a different logic to welfare expansion.<sup>3</sup> In explaining retrenchment, it emphasises 'the role of supportive interests groups and, ultimately, voters' (Pierson, 1996: 144). Pierson's argument concentrates on the electoral mechanism downgrading unions to one interest group among many. Unions may or may not influence welfare state reform by punishment at the polls, depending on whether or not they are able and powerful enough to defend welfare benefits and entitlements. The fear of electoral defeat motivates politicians to bargain over welfare state reform with those players who might oppose reform or protect the welfare state.<sup>4</sup> According to Pierson's 'new politics thesis', recent welfare state research sees the 'real job' of unions as pressing political parties into maintaining the status of public welfare, whereas business organisations are conceived as fighting for neo-liberal party political agendas. Recent research focuses mainly on political variables – thus the interplay of government, parties and interest groups in the political system, or the behaviour of governments, unions and employers in the political and state arena. Approaches, which focus on factors outside the political arena, such as structural and institutional changes in labour relations, are rare. (See as an exception:

Ebbinghaus, 2005; Hemerijck and Manow, 2001.) In other words, most studies adopt a political science approach which defines political science very narrowly.

This article questions this narrow political science approach. The study of retrenchment ought to move beyond the analysis of political conditions that promote or hinder government decisions in favour of markets. Welfare retrenchment is not only a shift of welfare states to more market-oriented systems but also a process of delegation of the financing and regulating of welfare to actors who are collective by nature. Collectively negotiated benefits offer politicians a means of avoiding blame by creating a mechanism of compensation for unpopular cuts in public programmes. Through collective bargaining, trade unions and employers may help to make major cutbacks more acceptable to employees. They may decrease the electoral costs of retrenchment for governments. The blame might be diffused; however, not by incorporating the agreement of veto players (Myles and Pierson, 2001: 306) but by including collective bargaining. All in all, collectively negotiated benefits may facilitate retrenchment by 'lowering the visibility of reforms' (Pierson 1996: 177), an effect which Pierson (1996: 177) mainly links to the design of political institutions.

This wider approach has implications for judging public policies and the role of social partners. First, with respect to public policies, we have to integrate those state measures in the analysis by which governments support collectively negotiated welfare, specifically legislation in labour, tax and social policy law, which enables unions and employers to conclude industrial agreements on social benefits. As Hacker (2004: 245) points out with regard to retrenchment policies in the United States, these policies are 'largely overlooked' by Pierson because his conception of

the welfare state is 'relatively narrow'. According to Hacker (2004: 245), Pierson focuses on 'authoritative changes in existing social welfare programmes', leaving regulation and tax policies that govern private benefits aside. Second, with respect to social partners, we have to include the behaviour of trade unions and employers' associations in the industrial arena.

From this perspective it follows that the study of retrenchment requires not only considerations about causal connections between *formal political institutions* and the shift to more market-oriented systems but also claims about how *different industrial relation systems* affect delegation processes and whether, why and how governments encourage welfare transfer to collective bargaining. This requires an empirical analysis of unions' and employers' preference formation regarding the public-private mix in welfare provision. To obtain welfare benefits, unions and employers may actively lobby governments to pass legislation on public welfare programmes or they may also bargain with each other (Rein and Rainwater, 1986).

Under what conditions do employers and trade unions transfer occupational welfare schemes to collective bargaining, thereby possibly taking on board state attempts at delegation? The following comparison between the Netherlands and Germany will reveal that both unions' and employers' decisions on collectively negotiated benefits have been strongly influenced by three factors: firstly, by the development of labour relations at company level; secondly, by government support for collectively negotiated benefits which are the result of different traditions of state involvement in industrial relations; thirdly, by the relative development of public and collectively negotiated welfare benefits. These three factors help to link collective

bargaining to social policy issues by affecting collective bargaining partners' preferences in welfare provision. They enable collective agreements to provide and finance welfare benefits within the market–state nexus.

All in all, the historical reconstruction of the development of collectively negotiated benefits in the Netherlands and Germany shows that the literature of welfare retrenchment needs to be linked to literature on the effects of workplace relations on collective bargaining (Rogers and Streeck, 1995; Thelen, 1992), to research on state involvement in industrial relations (Traxler, 1999; Crouch, 1993) and to studies which analyse interdependencies between public and private social policies (Ebbinghaus, 2005, 2000; Béland and Hacker, 2004; Manow, 2004; 2001b; 2000; Mares, 2003; Hacker, 2002; Swenson, 2002; Ebbinghaus and Manow, 2001; Rein and Turner, 2001; Shalev, 1996; Esping-Andersen, 1996a, 1992).

### *The Netherlands*

Workplace relations are strongly influenced by the codetermination right of employees. Works councils, and union attitudes towards works councils, differ widely across countries (Streeck, 1995; Rogers and Streeck, 1995). The Netherlands and Germany reveal these differences. Whereas the Dutch works councils were paternalistic and controlled by employers until the 1970s (Visser, 1995; 1993), the German works councils were established as institutionalised employee representatives from the outset. There are also differences in the unions' attitudes towards works councils. Whereas the German unions regarded them as rivals in

representing workers' interests at plant level, Dutch unions conceded the workplace to the employer (Visser, 1995: 101), neglected the firm as a place of activity (Windmuller, 1969: 402) and concentrated their demands on participation in employer decisions at an industrial level (Windmuller, 1969: 72). Because legislation to establish representative councils was only introduced in the 1970s, Dutch unions had virtually no shop-level or worksite structure through which they could attempt to influence the personnel policies of individual enterprises or their working conditions (Windmuller, 1969: 399).<sup>5</sup> In what follows, I argue that the retarded development of employee representation at company level facilitated a consensus between unions and employers to reach collective agreements on welfare. Because Dutch government encouraged these industry-wide collective agreements on welfare through regulatory policies, tax incentives and *erga omnes* extension of collective agreements, collectively negotiated industrial social policy has become institutionalised as a complementary scheme to state social policy. In addition, Dutch employers and unions have been traditionally inclined to negotiate on welfare issues because collectively negotiated benefits have advanced public programmes and have been recognised as an equivalent to public schemes initiated by Dutch government.

The first national collective agreement was reached in 1914. It was the result of an employers' initiative, which sought to control product prices by controlling wages (Toren, 1996: 52).<sup>6</sup> Employers accepted industrial agreements not only as a means of controlling prices; they also used them as instruments to prevent the creation of industry boards of employee representation, which Catholic and Protestant unions demanded (Ven, 1948: 47). Additionally, they transferred company-based welfare schemes to industrial agreements. Dutch employers favoured collectively negotiated

benefits instead of company-based welfare schemes and so removed the latter from competition between firms.

Whereas state social policy lagged behind most other European countries – universal social welfare programmes were not introduced in the Netherlands until the 1960s (Cox, 1993: 205) – collective agreements provided welfare before the coming of the social insurance system and ensured continued welfare after the passing of the insurance laws (Leeuwen, 1997: 77). Unions and employers had already started to integrate benefits in their industrial agreements in the 1920s. Industrial agreements covered not only child allowance and sickness provisions paid by employers but also pension provisions (Trampusch, 2005a). This development of industry-wide welfare schemes has been pushed by the state in two ways: on the one hand by legislation in labour law, which extended coverage of collectively negotiated benefits, and on the other hand by legislation in social insurance law, which recognised collectively negotiated benefits as an equivalent to public benefits (Trampusch, 2005a). The development of sectoral pension schemes was especially propelled by government support. Because collective agreements normally have a duration of only two or three years, while the accrual of a pension may take up to 40 years, government introduced a law in 1949 which made participation in a sectoral pension scheme mandatory (Heiden-Aantjes, 2004: 132). Through this measure, the sectoral pension agreements became a complementary scheme to public pensions. In sum, the Dutch welfare state began life with a commitment to a public-private mix, and not to public dominance (Rein and Schmähl, 2004: 3), as was the case in Germany.

After World War II, the Dutch collective bargaining system was centralised. Government unilaterally ruled on wages and, through the creation of tripartite and bipartite consultation boards, made unions and employers co-responsible for the macro-economic development of the Netherlands (Visser and Hemerijck, 1997). Through centralised income policies, government connected labour relations with social policy in four ways. First, between 1952 and 1965 there were ten wage rounds that served social policy purposes. In these rounds, wage increases represented compensation for new or increased social insurance contributions (about which, see Trampusch, 2005a). Second, unions accepted wage restraint not only to reconstruct the destroyed Dutch economy but also to obtain pension benefits paid by the employer. Employers and unions set great store by creating sectoral supplementary pension schemes, which were administered by both. Third, government declared collective agreements on supplements to public sickness, unemployment, and disability benefits binding. Fourth, government subsidised industrial agreements on welfare issues. Contributions to the sectoral or company pension schemes were made tax-deductible (Heiden-Aantjes, 2004: 132).

In the 1980s, the scope of subjects negotiated at industry level expanded. Originally, this expansion was set in motion by the 1970s' collective agreements on the so-called *vakbondstientje*, by which employers subsidised the unions' work (Trampusch, 2005a). Employers' contributions were collected in common industrial funds, which were created in nearly every branch. In the early years, unions used this money for the training of their members and officials. However, at the end of the 1970s and in the wake of growing unemployment, the funds were converted into funds for training and education for all the employees of a branch and, later, into

funds for labour market policy for both the employed and unemployed (Trampusch, 2005a). Deals providing wage restraint in return for welfare were of importance for this development. This is highlighted in the study of Denys and Aalders (1996) on the development of the Dutch vocational training funds. They conclude: '[T]he employer offered a 2 per cent wage increase, the trade unions demanded 3 per cent and as a compromise they concluded an agreement involving a 2.25 per cent wage increase and the founding of a sectoral vocational training fund (*Opleiding en Ontwikkelingsfond*), to which employers as well as employees pay 0.15 per cent of the wage sum' (Denys and Aalders, 1996: 277).

Several studies and surveys undertaken by the Dutch Labour Ministry show that, since the 1980s, unions and employers have successfully negotiated welfare benefits in vocational training, labour market policy and early retirement, and as top-ups of public benefits in sickness, unemployment and disability (about which, see Trampusch, 2005a). In this context, the devolution of welfare from the state to the collective bargaining system is used as a mechanism of blame avoidance by Dutch government. Two pieces of evidence support this devolution hypothesis. First, government has strengthened its funding of collectively negotiated benefits (Cox, 2001: 484-485), signalling that political leaders have intentionally shifted welfare responsibilities from the public to the private sector, while employees have been compensated for cuts in social insurance benefits. Second, unions and employers have reached agreements on wage restraint; instead of wage increases they have both preferred collectively negotiated benefits 'to plug the holes government poked in the safety net' (Cox, 2001: 484). On the employers' side, these deferred wages have further satisfied their interest in managerial control; on the unions' side, they have

revitalised their organisational resources and created union security. Today, 14 per cent of FNV's income is covered by the money of the sectoral welfare funds (FNV Bondgenoten, 2003: 1). All in all, the collectively negotiated benefits satisfy the interest of all three actors: government interest in retrenchment, and unions' and employers' interest in stabilising their own organisations against the potentially destabilising effects of the decentralisation of the collective bargaining system. Despite being 'losers in the fight over social protection' (Cox 2001: 484) through public programmes, unions have also benefited from the strategy of deferred wages: by stabilising their role in collective bargaining through the creation of industry-wide welfare schemes and the introduction of new issues like training.

### *Germany*

Whereas in the Netherlands we can discern a steady co-evolution of benefits based on industrial agreement and benefits provided by social insurance schemes, German unions and employers have, until recently, preferred a statist strategy. During the formative phase of labour relations, unions opted for public welfare and did not define benefits as an element of wage and pay negotiations. On the other hand, employers used company-based welfare schemes as an instrument against trade union activity at the workplace. Why did German unions and employers remain so inert and sceptical about benefits provided by industrial agreements? Below I argue that, besides the lack of government support and of state intervention in collective bargaining (due to the principle of *Tarifautonomie*),<sup>7</sup> the development of labour relations at company level has been decisive in the retarded development of

promoting welfare through industrial relations. The parallel emergence of the collective bargaining system, on the one hand, and representative works councils, on the other, has caused regular conflicts among employers and unions over company-based welfare schemes. Neither employers nor trade unions have considered social benefits to be the subject of industrial agreements. Especially since World War II, both have preferred state social policy as it has helped to stabilise the system of wage coordination. Trade unions have additionally followed a statist strategy in order to counteract the aggressive use by employers of company-based schemes. All in all, and as result of these specific developments just outlined, a 'stable division of labour between the bargaining autonomy of unions and employers (*Tarifautonomie*), on the one hand, and government social policy, on the other' (Streeck and Hassel, 2004: 102) evolved in Germany, which made the social partners relatively reluctant to conclude collective agreements on welfare issues.

Keen to forestall the further development of the revolutionary works councils movement and the mass strikes that followed World War I, in 1920 the Social Democratic government institutionalised representative works councils with rights and responsibilities affecting both worker representation and consultation and cooperation with management (Rogers and Streeck, 1995: 14-15). This reform in German labour relations not only established from the outset a dual structure of interest representation, namely works councils and unions, but also the co-determination rights of works councils in the administration of company-based welfare schemes. In Germany, the collective bargaining system and representative works councils evolved simultaneously in terms of their organisation. The involvement of works councils in the administration of company-based social

benefits caused conflicts over company-based welfare schemes between unions and works councils, on the one hand, and between unions and employers, on the other.

During the Weimar Republic, the elites of the most important industry, namely heavily cartelised iron and steel producers, were opposed to collective bargaining, unions and public social insurance schemes (Weisbrod, 1978: 246-298). Additionally, heavy industry feared unionisation of the workplace by the works councils. To prevent union involvement in the managerial control of firms, to weaken workers' loyalty to unions and to oppose state social policy, the iron and steel producers expanded company-based welfare schemes (Trampusch, 2004). Through these schemes the large companies sought to keep the unions away from the shop floor. However, works councils that co-managed company-based welfare schemes questioned the unions' legitimacy to negotiate wages and labour conditions at industry level. This controversial development of labour relations at company level clearly motivated unions to adopt a statist strategy in social policy. With the help of the universal welfare state solution, which the Bismarckian insurance system offered them, trade unions sought to thwart the inegalitarian effects of company-based welfare schemes.

German unions considered neither mutual insurance nor collectively negotiated benefits as useful instruments of union activity. This negation of mutual insurance and collectively negotiated benefits was also a result of the negation of these benefits by the state: in contrast to the Netherlands, the social legislation of Bismarck did not integrate union mutual insurance in the social security system but discriminated against union funds (Linden, 1996: 35; Manow, 2001b: 25). In addition, unlike the

Netherlands, Germany belongs to the group of early welfare states in which legislation on social insurance schemes suppressed the development of private insurance schemes (Manow 2004).

After World War II, because of the Allied *Entflechtungsordnung* (deconcentration decree), cartelisation was no longer available as an instrument of market control for German business, with the result that employers became less opposed to (coordinated) collective bargaining and state social policy (Manow, 2000: 12-18). In the 1950s, both labour market partners developed a preference for state social policy because public welfare programmes helped to stabilise the system of wage coordination which had evolved and which firms in the export-oriented, but very vulnerable, metal-working sector used to prevent wage increases if firms in the protected sectors followed workers' aggressive wage demands (Manow, 2000). Although employers recognized the benefits of social insurance schemes, they did not refrain from using company-based welfare schemes strategically in their interaction with unions. Immediately after the currency reform (*Währungsreform*) of 1948, firms reconstructed their company-based welfare schemes, mainly with regard to pensions. In the 1951 wage round (Hesse) and in the 1954 wage round (Bavaria), employers offered company-based welfare schemes to weaken workers' loyalty to the unions' bargaining strategy of an expansionary wage policy, which had been formulated by Viktor Agartz (Trampusch, 2004: 234). And, during the 1960s and 1970s, employers in the chemical industry especially, maintained their huge company-based welfare programmes (Markovits, 1986: 319; Schudlich, 1982), which were co-managed by the works councils.

In the 1970s, the ongoing firm-specific syndicalism pressurised the chemical union in particular into reviving its deliberations on *betriebsnahe Tarifpolitik*, which were originally formulated in the mid of the 1950s and intended to make the union's collective bargaining strategy more company-based. In the 1971 wage round, the union demanded that additional bonuses (*13. Monatsgehalt*) should be regulated by an industrial agreement. However, the works councils of the Big Three opposed the union bargaining strategy and convinced workers not to strike. In consequence, the IG Chemie lost the strike (Schudlich, 1982: 149-150).

The lost strike, which was the last strike in the chemical industry to date, induced the leaders of the union and of the employers' association to change their strategies. On the one hand, the union offered itself as a co-administrator of company social policy, taking its costs into account in its wage demands; on the other hand, employers – fearing the union's loss of control over wage bargaining – offered the union a social partnership at the industrial level (Trampusch, 2004: 240-241). The result was that, ever since the mid-1970s, labour market partners in the chemical industry have concluded various collective agreements which create a link between welfare and wage (see Trampusch 2005b; 2004), signalling that the chemical union has been willing to accept a link between welfare policy and wage bargaining and thus to help absorb the cost of social policy through wage concessions (Wiesenthal, 1987: 198). By contrast, IG Metall, the politically and economically more important union, has steadily continued to formulate its wage policy with no consideration for social wage demands, in order to stabilise firm profits and employment in the export-oriented automotive sector (where most of its members are employed) through generous state social policy programmes (Trampusch, 2005b; Streeck, 2003a,b).

When, in the mid-1980s, the labour market partners in the chemical sector concluded a collective agreement on financing the early retirement of older workers (Trampusch, 2005b: 209), it was as a result of the IG Chemie approach that an institutional venue for financing and regulating early retirement policy developed within the German collective bargaining system – under the auspices of sectoral collective agreement (Trampusch, 2005b: 204). In 1996 and 2000, the strategy of the chemical union to create a link between welfare and wage culminated in collective agreements on part-time retirement, and then, in 2001, in industrial agreements on pensions, which affected both the chemical and the metal working industry. (On this point and the following, see Trampusch, 2005b.)

The emergence of these sectoral collective agreements on welfare has not just been the result of practices in the chemical industry but also a government response to the crisis of the Bismarckian welfare state, which grew more intense in the 1990s. The agreements were encouraged by pension reforms, through which the government reorganised its social policy: instead of regulating and financing pensions (and early retirement) as part of social insurance, it transferred costs to collective bargaining through subsidising collectively funded pensions. The government now supports the industrial agreements through direct public payments and tax deductions, but with regard to both pensions (*Altersvorsorge*) and part-time retirement (*Altersteilzeit*) a collective bargaining agreement is a precondition for securing governmental support for such plans (*Tarifoarrang*). Thus, as in the Netherlands, unions and employers support government social policy reforms by offering industrial relations as an alternative institution for welfare provision. And, as in the Netherlands, the collective agreements almost balance the benefit reductions

enacted by government, since they “top up” regular public benefits. However, in contrast to the Netherlands, collectively negotiated benefits are a short-term phenomenon and far less a result of the repeated practice of trading wages against welfare.

### *Conclusion*

The Netherlands and Germany are similar welfare states (Kersbergen, 1995: 56; Esping-Andersen, 1996b: 84; Ebbinghaus, 2005: 89) with similar industrial relations systems at the sectoral level (Ebbinghaus, 2005: 89; Hemerijck and Manow, 2001: 218). According to Traxler (1999), both the Netherlands and Germany pertain to the group of countries with strong legal provisions for industrial relations. However, they also have very different patterns of institutionalisation of labour relations at company level, different traditions of government support for collectively negotiated benefits, and different traditions in the relative development of public and collectively negotiated benefits. The paper argues that these differences have influenced the different dynamics of collectively negotiated benefits in the two countries.

In the Netherlands, the collective bargaining system at sectoral level was institutionalised a long time before the co-determination rights of employees became a reality at company level. Whereas industry-wide collective agreements progressed rapidly, both unions and employers opposed the introduction of employee representation in firms. In addition, the government renounced legislation on co-

determination. In consequence, the firms remained in the hands of the managers. Class politics did not evolve in companies. Employers had no incentive to use company-based welfare schemes as a means to ward off unionisation at this level. Unions conceded the workplace to the employer, and employers abandoned the use of company-based welfare schemes instead of promoting them. In general, labour relations at company level were less controversial between the labour market partners. The less adversarial labour relations at company level went hand in hand with the development of welfare benefits as a definite element of wage and pay negotiations. Already before World War II, social welfare was part of collective agreements. This consensus between employers and unions on collectively negotiated benefits was strongly supported by government measures in labour law, as well as in social security and tax law. Government paved the way by declaring collectively agreements binding, offering tax inducements and ideologically encouraging developments. The strategy of the labour market partners to conclude collective agreements on welfare schemes was additionally reinforced by the fact that these agreements advanced the formation of the social insurance scheme.

The German case is the opposite of the Dutch story. Since the formative phase of labour relations, firms have been co-managed by labour and huge public welfare programmes have advanced collectively negotiated benefits. The non-development of collectively negotiated benefits during the formative phase of labour relations was strongly influenced by the early institutionalisation of representative works councils, which countered the employers' interest in managerial control and caused not infrequent conflicts among unions and employers. In the Weimar Republic, iron and steel producers used company-based welfare schemes as weapons in their battle

against unions, collective agreements and state social policy. Through company-based welfare schemes the large companies sought to keep the unions away from the workplace. On the other hand, the unions preferred state social policy and did not demand collectively negotiated benefits. After World War II, a consensus on welfare provided by industrial relations evolved in the chemical industry. This coalition was caused by the fear of both unions and employers that the unions might lose ground within the collective bargaining system. In Germany, antagonism between employers and trade unions over the role of works councils left them unwilling to work together on welfare issues through collective bargaining, even though the collective bargaining system, which is similar to the Dutch one, might have left them capable of negotiating agreements on welfare issues. Both labour market partners followed the statist strategy in social policy, in order to stabilise their wage policy strategies. For trade unions, state social policy, additionally, was a way of counteracting the firm-specific segmentalism, followed by works councils' and employers' collaboration in company-based welfare schemes. In contrast to the Dutch government, the German government refrained from supporting the financing and provision of welfare by collective agreement. However, by the end of the 1990s and in the wake of the crisis in the Bismarckian public pension system, the German government was much more supportive of collectively negotiated benefits. It has since used tax incentives and the legal mechanism of *Tarifvorrang* to delegate the provision and financing of pensions to collective bargaining partners.

Both cases support the general argument that cooperative labour relation regimes might sustain retrenchment policies by providing welfare through industrial agreements. If governments have cooperative labour relation regimes at their

disposal, they may encourage the delegation of welfare to collective bargaining, and, hence, use collective agreements as an instrument of blame avoidance vis-à-vis the electorate in times of public cutbacks. Whereas most studies on welfare state retrenchment focus mainly on the role of unions and employers as *political actors* in the decision-making affecting cuts in public programmes, the comparative analysis of the Dutch and German case suggests that the analysis of welfare state reform might be enriched by examining the *self-regulative role* unions and employers may at times adopt through providing welfare on the basis of collective agreements.

With respect to the question of the effect of different industrial relation regimes on retrenchment policies, it is interesting to compare the Dutch and German cases, with their cooperative labour relations characterised by sectoral bargaining, to the United States, which has voluntarist, decentralised and fragmented labour relations (Ebbinghaus, 2005). In his analysis of social policy retrenchment in the United States, Hacker (2002) points out that the interplay between public social programmes and private, employer-based benefits (often negotiated with unions) has changed under retrenchment conditions, thereby influencing the strategies of welfare state reformers (cf. Béland and Hacker, 2004). Hacker (2004) differentiates between four different modes of policy change and retrenchment, depending first on the institutional features of decision-making (veto players) and, second, on a policy's specific characteristics (level of discretion, weak/strong support coalitions). In doing so, he shows that 'the role that private benefits play in a particular policy area ... influences the reform strategies that opponents of the welfare state adopt' (Hacker, 2004: 258). As I argue in this paper, against the background of the Dutch and German cases, he too emphasises that there exist 'alternative ways of providing social welfare

goods and services' and that private social benefits need to be considered to understand retrenchment politics (Hacker, 2002: xiii).

However, while the line between public and private social benefits is reorganised by retrenchment policies in all three countries, in the Netherlands and Germany the shift in emphasis from public to private does expose social policy to different political dynamics than in the United States. In the United States, where unions are weak and many private benefits are granted at the will of the employer, retrenchment has taken the form of unilateral employer retreat (Hacker, 2002; 2004), thereby leading to market liberalisation. In the Netherlands and Germany, the cooperative collective bargaining regime involves a more complex public-private mix (thus not outright market liberalisation) because, as a result of the cooperative collective bargaining systems, welfare states can reform in other directions than outright market liberalisation.

In addition, the divergent development of collectively negotiated benefits in the Netherlands and Germany points to quite different dynamics of retrenchment (and, hence, different patterns of public-private mix) *within* Continental welfare states, which need to be examined further. Small differences in otherwise similar welfare states institutions and industrial relations can greatly affect contemporary change in the provision and financing of welfare, by strongly affecting actors' preferences in the proper public-private mix. Therefore, it is very unlikely that Germany would be able to copy the Dutch way of welfare state restructuring one-to-one. Future research on welfare retrenchment should analyse how institutions of state social policy (and labour relations) structure actors' preferences in the public-

private mix. This argument has recently been put forward by Béland and Hacker (2004) in their analysis on health and old-age insurance in the U.S.

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<sup>1</sup> By founding my analysis on interdependencies between industrial relations and social policy, I follow recent findings that politicians' concern for employer interests and sectoral cross-class coalitions play a central role in the development of welfare states (Mares, 2003; Hacker, 2002; Swenson, 2002).

<sup>2</sup> Equally, Pierson (2001: 426) defines recalibration as a quite diffuse category, including both the introduction of private benefits and the establishment of pay-as-you-go insurance systems like the German long-term care insurance.

<sup>3</sup> Pierson stresses that 'expanding social benefits was generally a process of political credit claiming' (Pierson, 1996: 144) whereas 'welfare retrenchment is generally an exercise in blame avoidance' (Pierson, 1996: 145).

<sup>4</sup> Pierson also notes that, as co-signatories to a 'new social pact', unions allow governments to shift the blame for retrenchment on to unions (Myles and Pierson, 2001).

<sup>5</sup> The Works Council Act of 1950, which was passed with union support (Windmuller, 1969: 408), only introduced paternalistic councils controlled by employers. Representative councils were not introduced until 1979, when a law was enacted which removed the employer from the chair of works councils.

<sup>6</sup> Because, unlike German industry, the Dutch economy was barely cartelised (Holst, 1932: 10), employers could not control prices through cartels but only through collective bargaining.

<sup>7</sup> *Tarifautonomie* denotes the right of trade unions and employers and their organisations to negotiate wages and employment conditions independently without state intervention.